www.firestonecapital.com

QtrNotes

Qtr 1 January 2019

FIRESTONE CAPITAL MANAGEMENT

Volume 27 No. 1

Quotes

The only value of stock forecasters is to make fortune-tellers look good.
Warren Buffett

The individual investor should act consistently as an investor and not as a speculator.
Ben Graham

You get recessions, you have stock market declines. If you don't understand that's going to happen, then you're not ready, you won't do well in the markets.
Peter Lynch

The four most dangerous words in investing are: "this time it's different."
John Templeton

Spend your money on the things money can buy. Spend your time on the things money can't buy.
Haruki Murakami

2018: The Year in Review

After several years of mostly benign market swings, 2018 was a disappointing year for investors. Historically, bear markets occur every three to five years; over the long term, diversified investors are better off riding through the swings rather than trying to time the market.

2018 started on a strictly positive note, proceeded to fluctuate up and down, and ended with a thud. Over an extended period, the stock market reflects the health and wellness of the economy; but fluctuations in a specific year tend to mirror investor psychology, rather than reflecting shifts in the economy. 2018 was a perfect example of this behavior. The economy expanded by nearly 5% (3% excluding inflation), 2.5 million people joined the workface, corporate profits skyrocketed 27%, yet stocks ended the year down.

Even though stock prices aren't reflecting the current economy, there is reason for concern that they might forecast a coming recession. The Great Recession of 2008-09 and its bear market are vivid in our memories, because they were the most recent. But in spite of the severity of these events, both the economy and the stock market recovered and moved onward to new highs. All of us at Firestone have lived through many recessions during our professional lives. We understand that disciplined diversification and rebalancing are the keys to surviving the downturns and thriving during the recoveries.

The US economy is likely to slow down in 2019, but it won't come to a grinding halt. A recession is not necessarily inevitable, primarily for the following reasons: leading economic indicators continue to point to a growing economy; consumer spending continues to increase; the US government is expected to keep pumping money into the economy; the Federal Reserve is expected to take a more cautious approach to raising rates in 2019.

Index	12/31/2018	YTD
Dow Industrials	23,327.46	- 5.6%
S&P 500	2,506.85	- 6.2%
MSCI EAFE	1,719.94	-16.1%
Bloomberg US Bond	2,046.60	0.0%
US Treas 10-yr yld	2.7%	

With stocks on the rocks in 2018, what was the reaction in the bond market? Bonds rallied at year's end as stock investors got spooked, but overall it was a difficult year for bond investors too. Bonds faced headwinds throughout the year as the Federal Reserve raised rates four separate times. Bond prices declined, but increasing interest payments helped offset most of the drop.

This raises the question: if bonds aren't risk-free, why not just own cash? Despite weakness in 2018, bond investors have earned better returns than cash over the past two-plus years and beyond. Cash occasionally shines, but bonds win most of the time. Bond holders should expect to earn more interest in the year ahead, with less pressure and fewer rate hikes expected from the Fed.

Looking overseas, the US economy isn't slowing in isolation: international economies are also showing signs of cooling off. Auto manufacturing declined in Germany, denting growth across Europe. Japan has struggled with a series of natural disasters this past year, slowing their economic growth. China's economy is under pressure from tariffs on imports into the US. Across the world, there are signs that growth will slow, but prospects for long-term investors have improved. Valuations

(cont'd next page)

1501 Venera Ave., Suite 310
Coral Gables, Florida 33146
305.669.2119
www.firestonecapital.com

jack@firestonecapital.com
carol@firestonecapital.com
carlos@firestonecapital.com
anthony@firestonecapital.com

FIRESTONE CAPITAL MANAGEMENT

Safety in Numbers:

Freeze out identity thieves

The massive Equifax data breach in 2017 gave us a genuine bonus: credit freezes are now free, and easy to implement. Who do you know who might need one?

Do you have children or grandchildren?

According to the 2012 Child Identity Theft Report, children are 35 times more likely to be subject to identity theft than adults. From the hacker's point of view, a child's stolen identity is even more valuable than an adult's; since children aren't (usually) using their own credit histories, it may be years before the theft is noticed. But for the same reason, there's little or no downside in setting up a credit freeze for your child.

A freeze can – and should – be implemented as soon as your newborn has a Social Security Number. If you have legal guardian status or Power of Attorney for an incapacitated adult (including an aging parent whose affairs you are handling), consider freezing their credit as well.

You can't freeze the credit file of a child 16 years or older, but they can set up their own credit freezes, and lift the freeze when it's time to apply for college loans, credit cards, car financing, etc. In the current environment of digital connectivity and vigilance, it will be an essential life skill for them to learn.

2018 In Review

(cont'd from page 1)

for international stocks that were attractive at the beginning of the year are now even more appealing. US stock valuations have also improved, but remain priced at a premium compared to overseas markets.

We are being vigilant, reviewing all portfolios and staying mindful of the risks and opportunities in the years ahead. We have been preparing portfolios for a potential economic slowdown by continually rebalancing. Where risks in stocks have grown too large, we are taking profits off the table. Where cash reserves are too low, we are increasing liquidity. Each portfolio is unique, but our goal is for each of you to be positioned to meet your lifestyle and spending goals in 2019 and beyond, however great or lousy the new year's headlines turn out to be.

The Government Shutdown

As of January 1st, the US government remains closed for the second week in a row. As much as we are discouraged and disgusted to be in this position, we note that the federal government has shut down more than 20 times in the last 40 years, starting back in the Reagan administration. The longest government shutdown to date occurred in 1995, during President Clinton's administration, and lasted 21 days.

The current shutdown is expected to end as soon as the opposing sides negotiate a compromise on border security, the central bone of contention in the current dispute. A compromise will be found on this specific spending issue, but our nation will have much larger budget battles to fight. Rising deficits and debt balances will be a central focus in the years ahead and will lead to more heated debate.

Gaining Confidence in Your Budget

For investors with retirement and other financial goals, market pullbacks can be disconcerting. But since no one can control market fluctuations, it makes sense to focus instead on the things you can control. Clients often say that they have no idea where all their income goes. Getting a handle on current spending helps you improve your financial confidence, prepare to meet pre-retirement goals, and figure out what you will need to have after retiring.

A common misconception is that you will need 70-80% of your pre-retirement income in retirement. But this ballpark figure doesn't factor in your work-related expenses, or the possibility that you may have paid off your mortgage and other debts before retiring, or your current retirement savings rate. If you are currently saving 20% of your income for retirement, you have already been living on the remaining 80%.

At the same time, working less gives you more time for spending, especially on travel, so current spending is the best starting point for planning. Many tools are available to help track spending: most banks and credit card providers have online tools to show your spending by category for the past year.

Here are some areas to consider:

Fixed Expenses:

- Housing/home maintenance
- Food
- Transportation
- Utilities
- Health care

Discretionary:

- Dining out
- Shopping/clothes
- Personal care and fitness
- Gifts and charitable giving

Travel and Fun:

- Travel
- Entertainment
- Hobbies

As everyone is reflecting on 2018 and making New Year's resolutions, evaluating expenses is a good way to keep on track to meet your current financial goals and prepare for the future. We can't control the headlines, volatile markets, or many of the everyday stress points in our lives, but understanding and having control of your spending plan can empower you and boost your confidence as well as keeping your financial house in order.