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QtrNotes

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A Year-End Financial Planning Checklist

The end of the year is an excellent time to review your beneficiary designations and revisit your charitable giving. In addition, your checklist may include other items, depending on your age, your employment status, and your personal circumstances.

Have you retired? Are you over age 70½?

- Open enrollment for Medicare supplement plans runs from October 15 to December 7.

- If you have any retirement accounts or IRAs that are not managed by Firestone, be certain that you take your Required Minimum Distribution from these accounts.

- If you are over age 59½ but under 70½, consider taking a penalty-free IRA distribution.

Are you employed?

- Contribute the maximum amount to your retirement accounts (401k, 403b, IRAs), as well to your Health Savings Account, if you have one.

- If you have a Flexible Savings Account, use those funds before the plan year ends.

- Depending on your income and tax situation, you may want to consider a Roth IRA conversion.

We are always happy to work with you and your CPA to determine the best financial course for you. Give us a call!

Consumption Up, But Manufacturing Under Pressure

The US economy began 2019 at a spirited pace, but growth has slowed from over 3% at the start of the year to 2% by June, a level economists expect will be maintained until the end of the year. The hot summer is over, and with autumn, economists and weather people agree that a cooldown is upon us. A key question is whether the US economy be able to sustain slow growth, or whether a recession will take hold.

Index	9/30/2019	YTD
Dow Industrials	26,916.83	15.4%
S&P 500	2,976.74	18.7%
S&P Small-Cap	947.72	12.2%
MSCI EAFE	1,889.35	9.9%
Bloomberg US Bond	2,120.95	8.5%
US Treas 10-yr yld	1.7%	

The bulk of economic activity is in personal spending, and for now, the US consumer is still strong. More Americans are employed today than at any other point in US history, and the unemployment rate remains near record lows. Wages are rising modestly across the country, bringing consumers more discretionary income. Falling interest rates have provided fresh opportunities for homeowners to cut interest payments on debts and for renters to become homeowners.

However, international trade concerns have had considerable domestic impact. Trade wars and generally weak global economic activity have caused US exports to shrink this year. Farmers have needed $28 billion in federal subsidies this year to offset lost sales to China. US industrial companies are slowing production, although overall corporate profits are still expected to grow this year.

The mixed messages from the economy are reflected in mixed messages within the markets. The stock market is focusing on the strong consumer economy, while the bond market is responding to the underlying weakness in the manufacturing sector and the possibility that the economy is not as strong as it appears. Flight to safety and negative interest rates abroad have created soaring demand for US Treasury and corporate bonds, which pushes interest rates down (great for borrowers, but not so good for investors). The unusually elevated demand for bonds has caused an "inverted" yield curve, an unusual state where short-term investments yield more than long-term bonds. This abnormality typically signals that bond investors believe recession risks are elevated and that the Federal Reserve should step in to provide stimulus.

It's not just the bond market that's looking to the Fed to provide more support. President Trump has taken an unusual (though not unprecedented) role in demanding the Fed to do more. At their last meeting, the Federal Reserve cut short-term interest rates by 0.25%, leaving the official short-term bank lending rate at 1.75%. The President has suggested the official interest rate ought to be negative, which sounds absurd, although Europe and Japan already have more than 16 trillion dollars of debt paying negative interest. It's unlikely but not impossible that the US might see negative rates. We don't recommend speculating on that.

This year has been a lesson for investors of how the prices of both stocks and bonds (which typically move in opposite directions) rose sharply. Diversification is still paramount. There are few opportunities or asset classes that seem unquestionably cheap. We recommend that investors shouldn't bet too aggressively on any single scenario.

Health Savings Accounts

Medical expenses are climbing faster than ever, adding an extra level of worry to retirement planning. An often overlooked resource is the Health Savings Account (HSA), which can be

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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

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Health Savings Accounts

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used for long-term tax-advantaged health care savings, especially if the funds aren't needed for current expenses.

An HSA is available to anyone whose health insurance qualifies as a High-Deductible Health Plan (HDHP). Like a 401k, contributions to the account are made on a pre-tax basis, providing immediate tax savings by reducing taxable income. Withdrawals are tax-free as long as the funds are used for qualified medical and dental expenses.

Importantly, HSA funds belong to you: the account remains your own if you change jobs or retire. Unlike a Flexible Savings Account, there is no "use it or lose it" hitch, so the funds can accumulate and grow as a long-term tax-protected investment. HSA accounts can be inherited, although if the beneficiary is not your spouse, the account bequest will be taxable.

Contribution limits to an HSA in 2019 are $3500 for individuals and $7,000 for families: a family in the top tax bracket could save $2590 in taxes annually by contributing to an HSA. An additional $1000 catch-up contribution can be made between ages 55 and 65. If the money is invested and left to grow when medical expenses are relatively low, an HSA can grow to be a significant source of tax-free funds for health care expenses.

There are some caveats. Your individual health insurance plan must be a High-Deductible Health Plan (with an annual deductible exceeding $1,400 for an individual or $2,700 for families, and out-of-pocket expenses capped below $6,900 or $13,800 for families). This type of plan may not be a good fit for you, especially if you have current high medical expenses: the tax benefits of an HSA may not outweigh the burden of the large deductible. Another major downside to an HSA is the burden and complication of account maintenance. Most important, if HSA funds are used for anything other than qualifying medical and dental expenses, taxes and penalties apply, especially for withdrawals under age 65.

To open an HSA, contact the person who manages your employer's health insurance plan, or, if self-employed, your tax advisor. If your employer's plan doesn't offer an HSA option, you can still open one on your own with certain banks and insurance companies. We suggest researching your options, but major providers include Livelyme.com, Sterling HSA, and Bank of America. Unfortunately, Charles Schwab does not offer HSA plans.

HSAs aren't for everyone, but an HSA can provide a powerful savings vehicle in addition to the usual retirement plans, offering immediate tax savings, tax-free investment growth, and tax-free withdrawals for future medical expenses.

Don't Just Do Something, Sit There

Blaring headlines! Anxious announcers on TV! Alarming tweets! What should investors do? Sometimes, the best answer is "nothing."

Under the flood of data from the 24/7 information cycle, it's natural to want to do *something*, anything, especially when the message to act is so emphatic. Brokerage ads feature people trading from their home offices, trading from taxis, always connected. As investors, we constantly seek information we can act on to make good decisions. We like to think that the goal of news media, especially the business channels, is to inform. But ratings and ad revenues are the real driving forces. News shows constantly feature scrolled warnings of the next potential threat, a crucial alert you might miss if you don't stay tuned in. Reassuring messages might prompt the viewers to switch off, take a walk, play golf or read a book.

In addition to the constant barrage of overlapping and conflicting messages and the atmosphere of unending alarm, there's another pitfall for the deluged investor: the trap of "immediacy." Our brains are wired to give the highest importance to the most recent information and the most vivid stories. Did the recent hurricane coverage make you want to buy a generator, even if you don't live in hurricane country? Does the latest tweet about trade talks create the urge to buy or sell stocks?

Focus instead on the most relevant information, not the most recent or most vivid. Make a plan and stick to it. Work with your financial advisor to outline your goals and set priorities. Match the time horizon of your portfolio to your goals. If your financial goals reach 20, 30, 40 years into the future, you don't need to be distracted by the current month's returns.

The best choice for an investor may be inaction, but this is still an active choice. Choose to ignore the hype and tune out the noise. You'll get more rest, and your portfolio will benefit.

Safety in Numbers: Who's Watching?

A recent New York Times article shone a spotlight on Big Data and the proliferation of internet tracking. Just how much of your personal day-to-day activity is being watched, tracked, recorded, and sold? Who is watching, and who is buying?

It's an unfortunate truth that everything you do online is subject to tracking by the very software you use to do it. Your phone or tablet, browsers, search engines, websites – each has its own set of background processes, recording and sharing your data.

Some of this is necessary, even vital: these essential data transfers are what make the internet function. Some of it pays for the internet: the commercial heart of the online world is the buying and selling of ad space on websites.

Of course, a great deal of it is neither essential nor desirable. Ads are notorious vectors for malware and spyware. Social media websites are huge repositories of sensitive personal data, with poor track records on how the information is used and who is allowed to access it.

But most browsers support ad blockers, and nearly every browser, device, or website has privacy settings that can control at least some of this exposure. Plus, there's the most powerful privacy control of all: your own choice of what you post, and where.