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Qtr Notes

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Firestone's Privacy Policy and Form CRS:

Every year, Firestone includes a copy of our Privacy Policy in your quarterly report packet. This month, you will also find a new disclosure document in your report packet: the Customer Relationship Summary or Form CRS.

The SEC has directed all investment advisors to prepare and distribute this form to make certain that you have clear and detailed information about our service offerings, fees, compensation, disciplinary history, and potential conflicts of interest. Although most of this information was already included in our other disclosure documents, the Form CRS gives a prominent position to the most important points.

Form CRS also includes suggestions for starting points for questions to ask your advisor. Please feel free to contact us at any time with these or any other questions.

Principles for Successful Investing in Uncertain Times

If the last six months have taught us anything, it is that devastating events can come out of nowhere. As the largest public health crisis in a century began to make its impact known late in February, our portfolios felt the immediate effects. The stock markets panicked, collapsing by nearly 35% in a matter of days. The rebound from the March 23 lows has been just as abrupt. A sudden descent into recession was accompanied by record unemployment, and a truly unprecedented vista of uncertainty ahead.

Left to their own devices, individual investors without a long-term horizon frequently make irrational and emotional decisions that can derail their plans. Successful investing is goal-focused and carefully planned. Investors who fail are those who react to market fluctuations and immediate events. Some investors may get lucky; some short-term trading gambles may pay off; some people may time an investment perfectly; but history shows us that diversification and asset allocation are the key drivers of performance and the most reliable strategy for successful investing.

Many years ago, we established Firestone Capital Management's *Principles for Successful Investing*, which we introduce to clients early in the relationship and often review during times of crisis and heightened market uncertainty. As we look in the rear-view mirror at the tumultuous first half of 2020, it is encouraging to see that our principles and core investment philosophies continue to stand the test of time.

- **Volatility is normal; don't let it derail you.** Market swings are inevitable and unpredictable. We cannot predict the performance or general direction of the stock market over the short term. Stock market moves do not always make perfect sense. The market can move suddenly and rapidly, without any warning.

Index	6/30/2020	YTD
Dow Industrials	25,812.88	-9.6%
S&P 500	3,100.29	-4.0%
S&P Small-Cap	831.89	-18.5%
MSCI EAFE	1,780.57	-12.6%
Bloomberg US Bond	2,361.53	6.1%
US Treas 10-yr yld	0.7%	

- **Tune out the noise.** A recent study by the American Psychological Association found that two-thirds of Americans experience ongoing stress about the future of our country. The constant consumption of news, heightened by the 24/7 information cycle, was determined to be the largest contributor to this angst, now called "headline stress disorder." It is important to focus on the most *relevant* information, not the most recent or most vivid, especially when it comes to investment news.
- **Avoid emotional biases by sticking to a plan.** Investor behavior supersedes all other variables when it comes to successful investing. Our goal is to ensure our clients find a strategy they can stick with when times are tough. We focus on controlling what we can: asset allocation, taxes, fees, and estate design. We plan well and we stick to the plan.
- **Think long-term, and remember you are a lifetime investor.** As we mentioned in our March 9 market update mailing, every time selloffs have occurred throughout history, the market has always recovered … *always*. The reasons and circumstances surrounding the most recent market crash are different this time, but they're different every time.

Although we're looking through a dirty windshield, we know crashes always come to an end. Markets recover, economies eventually grow again, and people continue to live their lives. We'll be with you every step of the way.

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2020 RMDs Suspended

One of the lesser-known provisions in the Coronavirus Aid, Relief, and Economic Security (CARES) Act, passed in March, is the ability to suspend Required Minimum Distributions (RMDs) for 2020 for IRA accounts and some retirement plans. This was included in the bill because markets were severely depressed at that time. RMDs are calculated based on account balances for December 31, which would force larger withdrawals than seemed reasonable or sustainable.

For those who can afford to suspend their distributions, there are substantial planning and tax advantages. Even better, if you have already taken part or all of your RMD and can afford to do so, you can reverse the withdrawals by paying the funds back into your retirement account.

Because RMDs are taxed as normal income, this can translate into substantial tax savings: a $500,000 retirement account requires an annual withdrawal of about $20,000, more if you are older. With a 25% marginal tax rate, your tax liability could be reduced by $5,000 or more if you live in a high-tax location.

The IRS has given taxpayers until August 31, 2020 to reverse RMD withdrawals already taken this year. If we have not already contacted you about this, please give us a call.

Wall Street vs. Main Street

COVID-19 created a worldwide health crisis, which in turn led to an worldwide economic crisis as governments shut down all nonessential activities to limit the spread of the virus. By March 23rd, the S&P 500 had dropped almost 35% from its peak in mid-February. Since that time, the index has rebounded to within 10% of its all-time high.

The rapid rally in the markets may seem perplexing, given that forecasts from the Federal Reserve Bank estimate a whopping 48.5% decline in GDP (gross domestic product) for the second quarter. A double-digit unemployment rate, rising infection and hospitalization rates, and faltering attempts at reopening the economy all paint a frightening picture of how much pain this pandemic is inflicting on the world.

It would seem justified for stock prices to remain at severely depressed levels. Instead, stocks have recovered most of their value, and the losses that remain are within the normal range of fluctuation we generally see every few years. Why does the market seem so normal, even confident, when the world is facing such a unique crisis?

The market has always been, and remains today, a forward-looking pricing vehicle. This truth is simply harder to swallow at a time when the immediate pain is so severe. Based on data and assumptions we can reasonably make today, economists expect the initial economic healing process to take some 18 months. GDP and corporate profits are expected to recover in full, and set new highs again by 2022.

Early signs of renewed economic activity are being tracked through government statistics as well as newer Big Data tools, monitoring how consumers reengage with the economy. Restaurant booking apps like Open Table, travel apps like Booking.com, and data from Apple and Google are expanding the ways we can monitor how quickly Americans are getting back to regular habits. Aggregate data from May and June saw strong reacceleration in retail spending.

We are already seeing pauses and setbacks in the reopening, especially in Texas, California, Arizona, and Florida. Americans may be eager to return to old habits and spending patterns, but many hurdles remain. The virus is not yet contained, and we still do not have a vaccine. We must all remain patient and vigilant.

We expect that the path to recovery will be bumpy. The Federal Reserve and Washington will continue to take extreme measures to support the economy. Further additional stimulus is likely in the form of sorely needed infrastructure projects, financial help for states and cities to maintain services, and additional small business assistance. Looking out 18 months, and given the heft of government support, stock markets are pricing for a future that looks better than the present.

Mortgage Rates and Refinancing

There are drawbacks to low interest rates. But if you are considering purchasing a home at this time, you are in luck. The 30-year mortgage rate for personal residences is hovering around 3.5% for home buyers with good credit. We have even seen rates as low as 3%. With rates this low, it may pay to look into refinancing an existing mortgage.

The key question is how long you plan to stay in your home. If you're likely to move in the next few years, it's probably unwise to pay thousands of dollars in closing costs just to lower your rate. But if you plan to stay for at least a few more years, refinancing may make sense. As a rule of thumb, you should consider running the numbers if you can lower your rate by .5% or more.

It's important to understand that the savings from refinancing comprises two parts: the cash savings from a reduced monthly payment, and the long-term difference in the amount you will end up paying over the life of the mortgage. A key variable is how long a term the new loan has: you may refinance for a longer or shorter time as well as for a lower amount. Extending the loan period can save on monthly cash flow, but leave you paying more in total interest over the life of the new loan. Alternately, refinancing for a shorter period *and* a lower rate might not greatly change your monthly payments, but can potentially save you thousands in total interest.

If you need help weighing the pros and cons of refinancing, please reach out and we will be happy to run the analysis.