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QtrNotes

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FIRESTONE CAPITAL MANAGEMENT

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End-of-Year Reminders

- Medicare enrollment for existing enrollees runs from October 15th to December 7th. This is a good time to review coverages and make changes, if necessary.
- Self-employed business owners have until the end of the year to establish a solo 401k for the year and make employee contributions to the plan.
- IRA owners over age 72 must take their Required Minimum Distribution (RMD) by the end of the year. Contact us at Firestone if you have any questions about your RMD.
- Finalize your contributions to your Health Savings Account, if you have a high-deductible health plan. The limits are $3,600 for self-only coverage and $7,200 for family coverage.
- Review and finalize employee contributions to retirement plans by the end of the year.
- Complete your charitable donations for the year.
- Review your tax withholding and make modifications if necessary.

The Waiting Game

The days are long, but the years are flying by. Parents understand that exact feeling, and we've all shared it ever since COVID-19 changed our lives back in early 2020. As we wait for life to return to what we remember as normal, we focus so much on the problems of the day and the worries of tomorrow that we risk missing the underlying growth we make each day. Today, over a year and a half since the pandemic started, we are especially mindful that time is marching on.

Amazingly, the economy and the markets have been booming through much of the pandemic. While that is good news, investors' attempts to justify today's stock prices and to estimate where they will go from here are often in vain.

As we work on figuring out where planning and portfolios could go from here, the world seems to have slowed down to a crawl. For guidance, we look at where things stand today, and it seems that many of the variables are on the verge of resolution, so we keep waiting.

Here are some brief thoughts on some of the issues currently holding our attention:

POLITICS: Most time-critical is for Congress to raise the nation's borrowing capacity, the so-called debt ceiling, by October 18th. Raising the debt ceiling does not fund new programs: it's a mechanism to continue to finance money already spent and pay for programs already enacted. It has become typical for the debt ceiling issue to be used as a bargaining chip over broader policy, which this year includes the current debate on tax changes, plus the yet-to-be-agreed details of major infrastructure packages.

TAXES: Early glimpses of potential changes include a new 25-28% rate for corporations (the old rate of 35% was cut to 21% in 2017), a new 3.8% tax on pass-through corporate income, a return to the 39% top bracket for high earners, an increase in the maximum capital gains tax to 25%, and a lower unified credit for large estates.

Index	9/30/2021	YTD
Dow Industrials	33,833.32	10.6%
S&P 500	4,307.54	14.7%
S&P Small-Cap	1,331.69	19.0%
MSCI EAFE	2,281.28	6.2%
Bloomberg US Bond	2,354.86	-1.6%
US Treas 10-yr yld	1.5%	

Tax changes are being fiercely debated, and strong lobbying efforts will push back on the most dramatic changes that have been suggested.

EARNINGS: Corporate earnings have been robust and are expected to keep rising, thanks to a combination of strong consumer spending, cheap financing, and improving profit margins.

INFLATION: Prices have been increasing; the question is, how much higher and how much longer? The Fed keeps insisting it is temporary, but high demand continues, with lingering supply chain disruptions. To quote Federal Reserve Chairman Powell, "inflation is elevated and will likely remain so in coming months before moderating."

Commodities that were in short supply at the beginning of the pandemic are facing shortages again. Production of computer chips required for autos and all kinds of other necessary goods are still backlogged. Ships bringing cargoes from Asia are stuck waiting in long queues; there aren't enough trucks and drivers in many places to move unloaded goods to their final destinations.

Service industries are having problems attracting enough workers, putting pressure on wages to increase before vacancies can be filled. A general increase in real income, in turn, would allow consumer spending to grow across the board.

INTEREST RATES: The Fed remains committed to supporting the economic recovery for as long as necessary. Interest rates are expected to stay near

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Smart Phone Safety

As daily online usage shifts to phones, more malware gets developed for phones. Android is the favorite target for cell phone malware, but Apple hasn't been forgotten.

What are the risks on your phone? Many of them are the same as on a computer – emails with malicious links or attachments, websites that target mobile browsers, texts with embedded links to a malicious payload. Phones also have their own unique vector for malware: malicious apps.

Be smart about your apps. Google and Apple constantly monitor their stores to identify and remove malicious apps. But some bad players do get through. Apps from unofficial sources don't get this extra scrutiny at all.

Before you install an app from any source, check its online profile. If the app is new with few reviews, or is a cheap knockoff of a popular item, think twice.

Keep your devices updated – including updating your apps! App and operating system updates, like Windows updates, often include safety features and patches for vulnerabilities.

There are also apps to scan phones for malware, and ad blockers for mobile browsers. Just make sure you've got the right one: one of the most successful malicious apps was branded "Ads Blocker", and distributed as an anti-malware app.

The Waiting Game

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zero for at least another year. We expect the Fed to begin slowing ("tapering") its monthly bond purchases, a program which has helped stimulate the economy for the past decade.

INTERNATIONAL POLITICS: China is now the world's largest economy, and recent instability in their real estate and energy markets has impacted global markets. China and the US also continue with tense negotiations and positioning on tariffs, intellectual property, and global leadership.

COVID: Last but not least, what started it all remains present today. With more than 700,000 deaths in the US alone, each surge in cases brings renewed anxiety. Increasing vaccination rates and decreasing severity of new cases give us hope. Trends seem to be improving, and we are doing our best to remain optimistic.

How does all this noise affect our investment process and long-term strategy? In a nutshell, it doesn't: if your long-term goals haven't changed, your investment strategy shouldn't either.

Donor-Advised Funds

In most cases, a taxpayer must itemize deductions for their charitable gifts to be tax-deductible. (The 2020 CARES Act offered a special non-itemized deduction benefit for contributions up to $300; the benefit has been extended, with some tweaks, for the 2021 tax year.) If you do itemize deductions, a valuable tool for your charitable giving is the Donor-Advised Fund.

A Donor-Advised Fund (DAF) is a dedicated gifting account administered by a third party, where donated assets are held in your name as the donor, until dispersed to the qualified charitable organizations of your choice. Use of a DAF can greatly streamline your giving and simplify both record-keeping and tax filing.

Your contributions to a DAF are tax-deductible in the year they are made, even though the money may be not dispersed to a charity until a later date. This allows you to choose the timing for large charitable donations for when it will provide the most benefit to all parties. An ideal time for DAF contributions is in any year when your income is higher than usual, or you have substantial capital gains from the sale of a business or other assets.

Contributions are typically made with cash, marketable securities, or bonds. With certain DAF sponsors, contributions can include IPO stock, restricted stock, private equity, and even private business interests or real estate. Once within the DAF account, non-cash assets are sold, and the money can be reinvested via investment options offered by the DAF.

Assets contributed to a DAF, including any increase in value after the gift has been made, are irrevocable: the funds must be dispersed to one or more qualified charities. DAF platforms are structured to help with making grants and gifts, and provide security for asset transfers to designated organizations.

When non-cash assets are contributed to a qualified charity, your tax deduction is not based on the price you originally paid for the asset: it will be the market value of the asset at the time of the donation – which can be considerably more. And you won't owe taxes on the capital gains. This is far more tax-efficient than selling an asset and donating the cash proceeds, and also increases the amount that the charity will receive.

A DAF can be an excellent vehicle for this type of gifting: although assets can be donated directly to some charities, smaller charitable organizations cannot usually manage non-cash donations. Even if you don't itemize your deductions, a DAF may be a good option if you have highly appreciated non-cash assets, especially assets gifted to you, as gifted assets can have a very low tax basis.

DAF accounts are offered by many providers, often in partnership with major custodians such as Schwab and Fidelity. Schwab Charitable, an independent 501(c)3 organization, partners with the Charles Schwab Corporation for its investment management, administrative, and recordkeeping services. If you open a DAF account through Schwab Charitable and have brokerage accounts at Charles Schwab, all your investments can be managed in one place.

Before opening a DAF account, review your options; most custodians charge record-keeping and administrative fees, which can vary widely. And be sure to consult with your tax adviser, especially if you're planning substantial giving, to maximize the benefits both for your taxes and for the recipient charities.