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Qtr Notes

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FIRESTONE CAPITAL MANAGEMENT

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Quotes

Forty years ago, in 1982, the total market capitalization of all the stocks in the world was $2.7 trillion. On January 3, 2022, a single US stock – Apple – reached a total value of $3 trillion, becoming the largest capitalized individual stock in history.
Source: Worldbank.org

The man who is a bear on the future of the United States will always go broke.
J. P. Morgan

Las Vegas is busy every day, so we know that not everyone is rational.
Charles Ellis

Successful investing is anticipating the anticipations of others.
John Maynard Keynes

Form ADV Annual Offer

Each year, the SEC requires that we notify clients when we have updated our disclosure brochure, known as the Form ADV Part II. You can download the updated document from our website by typing the following URL into any browser: firestonecapital.com/fcm-form-adv-2022

If you would like a copy sent to you directly, please call our office. We will be happy to mail or email you one.

Economic Growth In Spite of Ukraine War

The war in Ukraine continues, with its burden of human and economic costs. Further escalation is feared, but peace negotiations are still possible. Growth forecasts have been cut worldwide, but most countries' economies are expected to continue growing this year. Russia, where GDP is expected to fall by roughly a third, is an obvious exception.

As 2022 began, inflation was starting to replace COVID as the dominant economic concern. During the first quarter, inflation hit 8%, the highest in 40 years. Russia's invasion of Ukraine in late February caused a further spike in commodity prices, which will continue to increase in the coming months. The consensus estimate for US GDP growth is 3%, a hair lower than what was anticipated before the spike in commodity prices. While an economic slowdown or recession are possible, we see positive signs in strong corporate profits and improving jobs data, as the unemployment rate has fallen to 3.6%.

Rising inflation is still a concern. Economists expect a peak around mid-year, cooling off in the final months to end close to 4-5% for the year. At its March meeting, the Federal Reserve was finally forced to act to quell inflation, raising interest rates from 0 to 0.25% and signaling that more hikes would be forthcoming.

Peeling back the layers of the bond market, two stories are gaining traction. The first is that the Fed is serious about cutting inflation and believes the economy is resilient enough to absorb higher interest rates. The second is that the high inflation of today will probably not last much beyond this year, and interest rates could come back down in the future.

Index	*3/31/2022*	*YTD*
Dow Industrials	**34,678.35**	**-4.6%**
S&P 500	**4,530.41**	**-4.9%**
S&P Small-Cap	**1318.54**	**-5.9%**
MSCI EAFE	**2,181.63**	**-6.6%**
Bloomberg US Bond	**2,215.38**	**-5.9%**
US Treas 10-yr yld	**2.3%**	

Bond prices have been falling in anticipation of additional rate hikes, but today, most bond yields have risen back to where they were before the pandemic stimulus. Bonds are now priced so that upcoming rate hikes won't come as a surprise. We anticipate prices will remain stable through the remainder of the year. If the economy weakens, we could see bond prices rise and provide support to the portfolio when needed most.

As we look to position portfolios, we are aware that short-term risks are high. Our base case is for the economy to keep growing this year. Even though odds of a recession have increased and can't be ignored, we remind ourselves that investing always involves risks. We can only expect long-term growth by accepting short-term risks. Recessions aren't that rare and corrections are inevitable; long-term investors have endured, survived, and gone on to profit after all of them. In the last 10 years, markets have fallen at least 10% in eight instances. Some years, stocks have experienced a correction of 20% or more and still recovered quickly.

After robust returns for the last two years, in the first quarter of 2022 the market has already suffered a 13% correction and regained part of those losses. Investors who are patient and allow long-term optimism to outweigh short-term anxiety should do well.

Moving Forward

The coronavirus pandemic led to a prolonged exposure to stress and isolation, worldwide increases in mental health issues, and a devastating loss of life. We spent two years of our lives wondering when, if ever, "things would go

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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

Safety in Numbers: We Are Already At War

When Russia invaded Ukraine in February, computer security experts did not rush to the barricades to defend their systems. They were already on the front lines.

Russia's cyberwar against Ukraine and the rest of the world has been raging for years. From malware to ransomware to weaponized misinformation, every country in the West has been hit with both direct and ancillary attacks. The recent call from the White House for increased vigilance against internet threats should be heeded; in fact, the nature of the threats and our best essential defenses (anti-malware, caution when clicking, phishing awareness, etc.) are already known. The only change on this front is our recognition of the relentless severity of the enemy.

One new wave of threats has emerged as a by-product of war: a new deluge of online profiteering, in the form of fake charities and bogus fund-raising events and organizations. Phishing campaigns and charity scams started only one day after the tanks rolled into Ukraine.

Many of us have donated to refugee relief efforts and humanitarian causes. If you want to make any donation, be absolutely certain you're sending your funds to a legitimate organization. Vet your chosen charity before you send anything.

Moving Forward

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back to normal." Now, as pandemic restrictions are loosened and people shift their approach to accepting COVID-19 as a manageable part of everyday life, we're making our way out of the fog and into the next phase of life.

People are traveling, visiting and celebrating with family and friends, planning and taking vacations, attending concerts and sporting events, and eating at their favorite restaurants. Kids are back in schools, and many governments have eased or ended mask mandates as the surges subside. As we've learned, it's important to remain grateful, focus on the things we can control, and let go of events and circumstances outside of our influence.

We cannot control the stock market or predict its next turn; we cannot control taxes or government spending, interest rates or fiscal policy; and we cannot control how world leaders behave. We focus on the things we can control: how much we save and spend, how we contribute to society and our families, and how we plan for the future. We can ensure how we spend our money is adding value to our lives, while finding meaningful activity. We make plans to retire to something, not just from something. On your behalf, we at Firestone continue to focus on your asset allocation and tax strategies, low-cost investment choices, and the readiness of your long-term planning.

Practicing gratitude does not solve all of life's woes, but if the last two years have taught us anything, it's the worth of our awareness of the important things in life that bring meaning, comfort, and joy.

Planning the Second Half of Retirement

We joke that retirement can be divided into three stages; "go-go, slow-go, no-go." In our sixties and seventies, we remain active, spend money, travel. As the years pass, things tend to slow down: our mobility may be impaired, health may deteriorate, and activites gradually become curtailed.

There are basically two ways to plan for the second half of retirement. Option A consists of proactively making choices that best suit our desires. Option B consists of being forced into solutions imposed by our circumstances because we waited too long to make our own choices.

Many of us hope to remain in our homes until we're carried out, although we may choose to downsize. As health and mobility become issues, some plan to hire the necessary aides to remain in place. But costs are high; and even if you can afford it, there are challenges in finding and retaining good staff, keeping up with maintenance, and having family oversee everything.

For those wishing to plan ahead, Continuing Care Retirement Communities (CCRC) may be a viable solution. A CCRC is a community offering independent living, with access to higher levels of care as medical needs progress. As you age in a CCRC, if you require assistance with the activities of daily living (ADLs), increasing levels of care can be provided, including fully-skilled nursing and memory care, as part of the available services. This allows residents to "age in place."

Generally, there are two types of communities. Some communities are simply monthly rentals. Others require a substantial fee on entrance (much like buying a home, but not owning it). When you die or leave the community, you or your estate will be repaid between 75% and 90% of this initial payment. There are also monthly fees which cover a wide range of expenses including meals, utilities, parking, activities, gyms, etc. When you add up all the expenses of running your own household, the costs may be the same or less.

Most communities require entering residents to be medically and financially qualified. Joining a community is usually recommended when retirees are healthy and active, able to make new friends and participate in the offered activities.

Demand for these communities is soaring and many have multi-year waiting periods, so it's best to plan well ahead. With the first of the baby boomers already in their mid-seventies, pressure on the retirement care system is increasing.

If you would like more information on CCRCs, we would be happy to talk with you about options.