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# Qtr Notes

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FIRESTONE CAPITAL MANAGEMENT

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## Retirement Account Contribution Limit Increases for 2023

**IRA Account Limits:**
(Traditional and Roth)
Under age 50: $6,500
Age 50 and over: $7,500

**401(k) Account Deferrals:**
Under 50: $22,500
50 and over: $30,000

Limitation on total 401(k) contributions from all sources (employee, employer, profit-sharing):
Under 50: $66,000
50 and over: $73,500

**SIMPLE IRA Accounts:**
Under 50: $15,500
50 and over: $19,000

**SEP IRA Accounts:**
(for the self-employed)
$66,000 (any age)

## 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-2023

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

## Markets Adjusting to Bank System Worries

Inflation dominated the story in 2022. Higher prices and supply-chain constraints impacted goods and services across the globe. In response to rapidly rising inflation, the US Federal Reserve aggressively hiked interest rates, causing both stock and bond prices to fall. The drop of 13% in bond prices over the course of a single year is unprecedented.

| Index | 3/31/2023 | YTD |
|---|---|---|
| Dow Industrials | 33,601.15 | 1.4% |
| S&P 500 | 4,124.51 | 7.4% |
| S&P Small-Cap | 1,182.71 | 2.2% |
| MSCI EAFE | 2,092.60 | 7.7% |
| Bloomberg US Bond | 2,109.41 | 4.4% |
| US Treas 10-yr yld | 3.4% | |

Market prices were highly volatile last year, but the economy proved resilient. Corporate profits, jobs, and economic levels all rose in 2022, and have continued to do so in 2023. Markets gained confidence going into this new year and by February, stocks had rallied 10%. In the weeks that followed, however, markets pulled back as several companies, specifically in the technology and financial sectors, announced layoffs.

Then the news broke that Silicon Valley Bank and Silvergate Bank were in trouble. Whenever trouble arises within the banking system, investors worry. To support the system and consumer confidence, regulators quickly stepped in to guarantee all deposits at the affected banks and provide assurances the rest of the banking system remained strong.

The Treasury and Federal Reserve's quick action amounted to hundreds of billions in aid to banks, and leaves room for much more still. This level of support served to remind the markets that governments remain prepared to offer stimulus in massive scale as needed, even during this period of elevated inflation.

With some signs that inflation is beginning to ease, as well as the recent turbulence in the financial sector, and the Federal Reserve is nearing the end of its interest rate hiking cycle. Interest rates on many bonds have largely stopped rising and some (such as the benchmark 10-year Treasury) have come down to last year's level. The market will benefit from more stable interest rates, but companies and the banking system are still in the process of adjusting to last year's hikes.

A recession may still be in the cards, and new financial stresses may emerge; but recession has been a recognized possibility for over a year, and corporations have had time to start planning. Corporate profits are still anticipated to grow this year, but we are monitoring for potential weakness later this year. Overall, the system remains resilient to handle occasional setbacks, and there are other tailwinds that will push it forward in the years to come.

## Your Treasuries Matured – Now What?

Six-month treasury bills briefly reached a high of 5.35% in early March. For nervous investors, treasuries paying around 5% looked like a perfect hiding place after a rough 2022. They made great sense: inflation was still high, but coming down; the Fed was poised to keep raising rates, but slowing down; banks were stingy with interest on checking or savings accounts; and stock and bond markets were still shaky. Investors were happy to lock in a government guarantee for six months, hoping to renew at even higher rates after more Fed increases. Longer-term rates were materially lower than the six-month rates, so staying with shorter-term investments was appealing.

For about six to nine months, it all worked perfectly. Then the news broke about Silicon

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## Safety In Numbers: To Click or Not to Click?

At any given moment, somewhere in your inbox, there's an email (or several) with a link that will damage you if you click on it.

Which one is it? How do you know it's dangerous?

At the same time, as more of our shopping, banking, and other activity is performed online, there are emails and texts that are part of your regular and necessary day-to-day business.

How do you know it's safe?

It's safest if you never click on anything at all, but that just isn't practical. In addition to basic scrutiny (odd phrasing, grammar, etc.), ask yourself about any of these emails or texts:

**Did you expect it?** Or did it come out of the blue?

**Is it trying to rush you?** Phishers will try to make you worry or panic, claiming that the matter is urgent.

**Can you confirm it?** A legitimate business should include a phone number, website address, and other information. If you have an account with the sender – Amazon, PayPal, your bank, the airline, other service providers, etc. – skip the click and log into the website directly.

At Firestone, we use a secure service called SafeSend to transfer documents over email, using – you guessed it – a link that you click. With any email from us, you should always feel free to call and confirm!

## Treasury Bonds

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Valley Bank, and the Fed is back to providing support and liquidity to the system once again. The market is pulling interest rates back down in anticipation that the Fed will pivot sooner, given the banking situation.

Five percent was nice while it lasted, but what to do now? The big lesson here is that while those treasury opportunities soothed a short-term fear, investing in six-month tranches does not replace a long-term strategy. With US inflation currently at 6%, a Treasury bill paying 5% is still a slide backwards, even though it's a safe slide. And even as inflation retreats, the interest rates on Treasury bonds will also sink.

When we construct a client portfolio, we have to target a rate of return that keeps client wealth moving forward. To accomplish this, we first look to a mix of high-quality, low-cost, and tax-efficient investments that provides diversified market exposure: large US companies with a national or global footprint; high quality dividend-paying companies with strong balance sheets; value funds with a tilt towards more stable businesses. Then we add a pinch of small and mid-size companies for higher growth potential, and a dash of foreign stocks, because while the US makes up about 60% of the investible markets, it only makes up about 4% of the world population. Lastly, we include a mix of fixed income positions to balance out the equity side as needed.

It's too easy to forget, but 2022 was the latest reminder that not every fancy investment will shine. The faster investments rise, the harder they can fall – or just turn illiquid altogether and force investors to wait it out, with bated breath. We believe that with the right portfolio, there is sometimes an art to doing nothing, and letting the diversification hold its stance.

While we will never know which crisis is coming next, what we have experienced is that given time, sound portfolios seem to make it through whatever the markets throw at them. If you really want to get ahead of rising costs, when that next US treasury matures, keep in mind that at some point soon, that long-term money will need to be invested back into a long-term portfolio.

## The Banking Crisis – Is Schwab OK?

With the swift fall of Silicon Valley Bank, the stock prices of most financial enterprises, especially regional banks, were hammered. Since Schwab owns a bank, its stock price was not immune from the rout. This has worried some of our clients, since Schwab is our primary partner for holding client assets. But clients' custodial assets – your investment holdings in your Schwab accounts – were not endangered by the drop in Schwab's own stock price.

Bank stock prices, including Schwab, fell amid concerns that the banks' own corporate earnings would take a hit, as account holders seeking higher returns drew cash balances from the banks' cash sweep accounts. The money wasn't necessarily leaving Schwab, but was being invested in short-term bonds and higher-yielding money market funds, which are much less profitable for Schwab.

The key weakness that toppled SVB and Silvergate Bank was spiraling liquidity problems. Liquidity is not a concern for Schwab, according to CEO Walt Bettinger. Schwab manages its liquidity far more cautiously, and Mr. Bettinger has confirmed that Schwab could meet requests for 100% of its cash deposits without selling any long-term assets or triggering the spiral that felled the high-flying tech banks.

Schwab is one of the giants in the brokerage space. The company has 34 million account holders and $7.4 trillion in client assets, and remains one of the best custodians for the investments of independent advisors. We remain entirely confident in our choice of Schwab as a custodian for your assets.