www.firestonecapital.com

Qtr Notes

Qtr 3 July 2023

FIRESTONE CAPITAL MANAGEMENT

Volume 31 No. 3

Quotes

It's not the markets that are volatile. It's the people.

Howard Marks

Volatility is often a symptom of risk but is not a risk in and of itself. Volatility obscures the future but does not necessarily determine the future.

Peter Bernstein

Most people get interested in stocks when everyone else is. The time to get interested is when no one else is. You can't buy what is popular and do well.

Warren Buffett

Building advanced AI is like launching a rocket. The first challenge is to maximize acceleration, but once it starts picking up speed, you also need to focus on steering.

Jaan Tallinn

Economic Growth Uneven Across Different Sectors

The US economy is looking surprisingly robust for the year to date, far better than earlier forecasts, although not everything is in unison. Different economic sectors are moving at different rates. Key companies in sectors such as consumer products, utilities, banking, energy, and health care have seen stock prices either stagnate or fall by double digits. At the same time, transportation and technology have done well, fueling most of the overall stock market gains.

Late in June, Congress raised the debt ceiling just as the timer was about to expire. The last-minute bill ensures that the US won't default on its debt for at least another year and a half. The experience reminds investors of the immense importance of the financial credibility of the US on the global stage. US treasury bonds are the cornerstone of the global financial system, and despite political threats and posturing, default is not a viable option. Investors were reminded that it's rarely beneficial to act out of fear. We'll try to remember these lessons when the next crisis unfolds.

One nagging question over the last two years has been recession – a crisis that hasn't unfolded yet. Economists enjoy the challenge of predicting recessions, so much so that they make a never-ending project of it. Many of the nation's top forecasters concur that the US will indeed face a recession, but they don't know when. Others anticipate a soft landing with no recession.

Many economic indicators, particularly weakness in bank lending and manufacturing, still argue for an upcoming recession; but underlying strength in corporate profits, labor dynamics, and consumer spending have so far kept the economy balanced and moving forward.

What makes recession forecasting so difficult is that official data looks only to the past, summarizing what happened several months after it occurred. The most current official data shows the US economy grew by 6% in the first quarter, or 2% after adjustments for inflation. We don't have official data for the three months ending in June, but the Federal Reserve's forecasting model suggests the economy grew by a similar 1.9% amount in the second quarter.

Index	*6/30/2023*	*YTD*
Dow Industrials	**28,725.51**	**3.8%**
S&P 500	**4,450.38**	**15.9%**
S&P Small-Cap	**1,216.00**	**5.1%**
MSCI EAFE	**2,131.72**	**9.7%**
Bloomberg US Bond	**2,091.60**	**2.1%**
US Treas 10-yr yld	**3.9%**	

We're used to watching cycles in the performance of different sectors in the economy. In addition to investment trends that follow the essential economic indicators, there's also the inevitable exaggerated movement as investors abandon yesterday's exciting idea to look for the next hot prospect. There's a rush on right now to get into any investment associated with AI – see the "Gold Rush" article below. There might be some gold there, but it's still early in this wave of technological development, and there will be many failures on the path to the revolutionary products of tomorrow.

Remaining a diversified investor, owning a mix of investments in different sectors and asset classes, is a challenge, but the ability to resist the pull of each new hot trend has helped us over the years.

AI – the Next Gold Rush?

The latest investment craze, Artificial Intelligence (AI), is getting all the attention on Wall Street these days, and money is moving as fast as it

(cont'd next page)

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

FIRESTONE CAPITAL MANAGEMENT

GPT, LLM, AI, Oh My

Our technology has begun to talk to us – or at least it seems to talk. How exciting! This will change everything, right? But are the chatbots really talking? Is AI actually intelligent?

Current computers are capable of truly astonishing levels of data analysis and processing, and even a certain level of heurism – a system can "learn" from the data fed into it, ultimately improving its performance. If you live in Florida, you may remember when hurricane projections were far less accurate than now. That's just one application.

ChatGPT and its fellows are another application. The underlying term is ***LLM***, for ***Large Language Model*** – a computer network that's "pre-trained" by being fed huge amounts of text. This is developed into a ***GPT***, a ***Generative Pre-trained Transformer***. Thanks to the internet, there's now an unprecedented mass of text available for training LLMs. One key concern with GPTs is the quality of this input; others are the tendencies to show various forms of cognitive bias, to generate false results, and even to hallucinate.

GPTs are already incredibly useful in some fields, such as computer coding. Other fields, particularly medicine, have faced worrying setbacks. It recalls the old joke about the dancing bear: it's impressive, but it will never replace the cast of "Hamilton".

The AI Gold Rush

(cont'd from page 1)

can to chase it. Chipmaker Nvidia Corporation, the current poster child for AI, gained nearly $200 billion in market value overnight when the company announced earnings in May.

For perspective, that $200 billion ***increase*** in value was larger than the full value of many individual companies of the S&P 500, including established titans such as Cisco, Nike, Disney, T-Mobile, Adobe, and Netflix. Any company that mentions an AI initiative has been getting an extra bump in their stock price.

AI technology offers mind-blowing capabilities, and could have a great role in our future. (See sidebar.) But as far as investing in AI is concerned, this could be yet another example of how history may not exactly repeat itself, but it does rhyme.

In the early 2000s, the birth of the Internet brought the dot.com craze. Anything with "dot.com" in the name was going to change the world! Companies went public without revenue, profits, or a business plan. Then the tech-heavy NASDAQ fell 75%.

A few years later, in 2008, real estate looked foolproof – until the mortgage crisis caused the Great Recession. Over the subsequent years, trends such as marijuana stocks, meme stocks, electric car manufacturers, Covid vaccine providers, and cryptocurrencies have all had their booms and busts.

When foolish money chases a boom too quickly, there is inevitably a bust when some realities settle in and money moves out even faster. A great concept or a great product doesn't automatically translate to a great investment.

This doesn't mean new technology isn't viable. Over time, the discoveries, the products, and the technologies mature and prove their worth, and the good businesses survive and ultimately excel. Even Apple was on the verge of bankruptcy in the 1990s, but it's now the most valuable company ever created – breaking the three-trillion-dollar value mark on this quarter's last day.

Like everything with investing, while it's tempting to chase a quick buck, there are usually no shortcuts to building lasting wealth. Time, prudence, and patience have proven themselves again and again.

The Impact of Longevity

Whether your goal is to enjoy every fruit of your hard labor, or you are trying to find the balance between a comfortable lifestyle for yourself and a generous inheritance for children, updating your financial plan each year is ultimately the best way to be prepared.

We always encourage our clients to plan to live a little bit longer than their assumed life expectancy. A major risk in retirement is outliving your savings, and every good plan will build in a safety net against living beyond your own expectations. According to data from the CDC, life expectancy in the US has declined recently, to 73.2 years for men and 79.1 for women.

Beyond the averages, studies by MIT study have found the wealthiest Americans live, on average, 14.6 years longer than the poor. Wealth plays a critical role in allowing us all to have better access to medical care, afford higher-quality foods, have more leisure time for exercise, and experience less stress over many factors.

When we prepare financial plans for our clients we often focus on numbers: income and expenses, stock data, economic levels; and then apply all sorts of stress testing for inflation and recession. But we must all remember that not every important variable can be tracked in the Wall Street Journal.

Taking care of our own physical and emotional health may be the most important variable for actual quality of life. Wealth aside, studies have also found that the number-one predictor of health and quality of life is having close, supporting relationships with others. As you contemplate your future retirement or continue in it, be intentional with your time and focus on the variables within your control.

These online resources may be of interest:

- Social Security Administration Life Expectancy Calculator: www.ssa.gov/oact/population/longevity.html
- American Academy of Actuaries Longevity Illustrator: www.longevityillustrator.org/Profile
- Blue Zones Trust Vitality Test: apps.bluezones.com/en/vitality