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QtrNotes

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FIRESTONE CAPITAL MANAGEMENT

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End-of-Year Reminders

Before December 31st:

Review and finalize contributions to retirement plans and Health Savings Accounts. If you're self-employed and do not have a 401(k), you have until year-end to set one up.

Finalize charitable donations and annual gifts.

Review your tax withholding and modify if needed.

IRA owners over 73 must take their Required Minimum Distribution. (If we manage your IRA, we're taking care of this for you.)

Medicare Enrollment

2024 Open Enrollment for Medicare runs from mid-October through December 7th.

It is important to look at your coverages for 2025 during the Medicare Open Enrollment period, and make sure you are enrolled in the Medicare Part D plan that is best for you.

You can learn more about these benefits and review your options at medicare.gov, starting in early October.

If you'd like help reviewing your coverage, we can recommend local consultants, or you can book a Zoom meeting with a national specialist at askchapter.org.

Markets and the 2024 Election

The stock market historically dislikes uncertainty, and a looming presidential election inevitably stirs concerns among investors and the public. As we approach the 2024 election, this uncertainty is compounded by economic factors such as inflation, interest rate adjustments by the Federal Reserve, and ongoing global challenges, including geopolitical tensions and supply chain disruptions. Given this landscape, it's reasonable to anticipate increased market volatility in the coming weeks. History reminds us that such volatility is typically temporary.

Index	*9/30/2024*	*YTD*
Dow Industrials	**42,330.15**	**12.3%**
S&P 500	**5,762.48**	**20.8%**
S&P Small-Cap	**1,422.09**	**7.9%**
MSCI EAFE	**2,468.66**	**10.4%**
Bloomberg US Bond	**2,258.17**	**4.5%**
US Treas 10-yr yld	**3.8%**	

Allowing political dynamics to influence your long-term investment strategy can be risky. Over multi-year timeframes, stock market performance appears largely unaffected by party affiliation. Government policy undeniably influences markets, but a myriad of other factors also apply, including consumer behavior, technological advancements, and international developments. The shifting power dynamics in Congress can also complicate policy implementation, making it essential to monitor both the White House and legislative trends.

If the election outcome has you feeling anxious about your financial future, focus on what you can control: your spending, saving, and income strategies. For our part, we remain focused on the aspects we can manage, such as asset allocation, tax implications, and portfolio rebalancing. In the wake of recent market fluctuations, we've been diligently reviewing portfolios, taking profits where appropriate, and realigning investments to meet preferred allocations. We're also ensuring adequate cash reserves and short-term bond allocations for retirees who are drawing from their accounts. For those in the accumulation phase, current market volatility can present opportunities to invest strategically.

As long-term investors, our commitment to a diversified global asset allocation strategy remains steadfast, designed to endure periods of uncertainty. Once the election results are in, we will reassess our investment, financial, and estate planning strategies to align with any new developments.

In the meantime, try to filter out the election noise and focus on your financial goals. Your participation in the election process this November is vital.

Fed Rate Cut May Begin New Cycle

They finally did it: late in September, the Federal Reserve cut interest rates 0.5%, beginning a new cycle of monetary policy.

As we try to guess what this new cycle of policy will look like, we look to prior interest rate cycles for clues. Over the past 25 years, Federal interest rates have tended to move up and down in waves, sequential periods of rising or falling rates. Should this pattern persist, the Fed's initial rate cut is likely to be just the start of a cycle where rates continue dropping in the months and year to come. Bond investors have been expecting the Fed to reach this point, and have long been aware of the previous pattern of rate cycles. As such, many bond prices and rates didn't change materially with the news of the first cut.

To answer the question of why the Fed cut interest rates, we first look to employment and inflation, the Federal Reserve's explicit areas of responsibility. The economy continues to add new jobs each month, but the pace is slowing:

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Safety in Numbers: Data Breach Deluge

The headline: MASSIVE DATA BREACH! The email: "Your information was found on the dark web." The letter: "We regret that your personal information may have been exposed during a recent breach of our system."

Data breaches may not actually be getting more frequent: rather, laws have been stiffened requiring companies to notify people whose personal information they've mishandled. So we're hearing about it more. But what to do? The answer is the same whether you've gotten one of those letters or not. First: don't panic. Second: do what you can. Third: keep doing it.

Credit Freeze. If you don't already have your credit frozen at all three agencies, do it now. If you have minor children, freeze their credit too. You'll have to unlock your credit temporarily if you need to apply for a loan or credit card; it's easy and fast. The credit bureaus know how to help you – it's what they do all day.

Monitoring Services. Free offers abound: at the credit bureaus, or your bank or credit card company – not to mention those sheepish letters notifying you of a breach.

Opt Out. A key feature in one of the biggest breaches to be reported this year was what *wasn't* there: data on people who had opted out of data collecting. That "no" button may be your new best friend.

Federal Reserve Cuts Rates

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the unemployment rate reached a low of 3.4% in 2023 and has risen to 4.2% over the past year.

As employment has cooled, so has inflation, which peaked two years ago and has fallen to about 2.6% at present. From the Fed's perspective, the higher interest rates helped slow inflation without severely damaging employment and pushing the economy into recession. With some success at hand and inflation temporarily at bay, the Fed is now reversing policy. Anticipated additional cuts will be aimed at stimulating corporate activity and preventing further weaking of employment data, as long as inflation doesn't cause any additional surprises.

Inherited IRAs and the 2020 Secure Act

In 2020, the Secure Act made broad changes to the handling of IRA accounts inherited by most non-spousal beneficiaries in 2020 and after.

The new ruling was so complex and confusing that the IRS has issued several rounds of guidance and clarification on the Act, with the most recent coming out earlier this year. Fortunately, with each clarification, the IRS has offered an amnesty, so that no penalties are levied on any errors caused by the confusion. 2024 is expected to be the final year for this penalty waiver.

The key change in the law is that the "stretch" IRA rule, which allowed IRA beneficiaries to draw down the inherited account over their lifetimes, has been replaced with the 10-Year Rule: most beneficiaries, other than spouses, must withdraw the entire balance of the account by the end of the 10th year following the death of the original account owner.

In addition, if the original account owner had begun taking annual required minimum distributions (RMDS), the beneficiary must also take annual RMDs. Roth IRAs have no annual RMD, so inherited Roth IRAs are exempt from annual distribution requirements; however, the entire account must be emptied by end of the 10th year.

Some exceptions apply: "eligible designated beneficiaries" other than spouses may still use the "stretch" rules. These include minor children, the disabled or ill, and non-spousal beneficiaries less than 10 years younger than the decedent (such as siblings and partners). Spouses retain their right to roll inherited IRA assets over into a standard IRA account in their own name.

This new rule applies in particular to all adult children inheriting retirement accounts from parents or grandparents. For a young adult inheriting a large IRA from a parent, the tax consequences can be substantial, and strategic planning is essential to avoid a massive and unanticipated tax liability on the 10th year. For IRA accounts with a trust as the designated beneficiary, the rules are even more complex.

If you have any questions about your IRA beneficiary arrangements, or about your inherited IRA, please feel free to ask us.

Small Business FinCen Report Due Soon

We reported on this earlier this year, and now the timeline to act is down to the last quarter: there is a new reporting requirement for many small businesses. This includes LLC and S corporations established to hold investments, rental real estate properties, or shared interests in other assets such as boats or planes.

The Financial Crimes Enforcement Network, or FinCen, the Treasury bureau dealing with anti-money-laundering efforts, now requires a form outlining beneficial interest in these business entities. For businesses established before 2024, forms must be filed by 12/31/2024. For businesses formed during 2024, the timeline is much shorter. Failure to file can result in significant financial penalties.

The required form and filing support can be found at: fincen.gov/boi. Filing your BOI (beneficial ownership information) report is free.

Clients with LLCs or S companies should discuss this requirement with their attorneys or CPAs. Business owners may receive unsolicited emails touting their filing services, and offering a link for you to "register". Some of these are legitimate third-party companies; many are scammers offering look-alike pages, or just trying to steal your information. It is best to go directly to the website listed above, and avoid all third parties altogether.