



# Qtr Notes

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## The End of an Era

*"Life is short. Opera is long."*

As of the end of March 2024, Jack Firestone, the founder of Firestone Capital Management, has retired from his decades of work in financial planning and asset management.

His wife Marsha has likewise retired from her 50-year career as a pottery and ceramics artist.

We at Firestone will miss his energy, his enthusiasm, and his dedication to our clients, not to mention the sounds of opera drifting down the hallway from his office.

Jack and Marsha are moving to Tysons, VA, where they will be closer to family.

## 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-2024](http://firestonecapital.com/fcm-form-adv-2024)

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

## A Strong Beginning to 2024

The economy continued its expansion in the first quarter of 2024. By early estimates, adjusted for inflation, GDP has grown over 2% since the beginning of the year. The Federal Reserve noted in March that "economic activity has been expanding at a solid pace, job gains have remained strong, and the unemployment rate has remained low." The threat of incipient recession has faded for now.

Corporate revenues and profits are growing too. Coupled with rising investor optimism, this has driven most stock markets to record highs. Is it all good news, clear skies, and easy sailing from here? No, but investors should cheer the market's resilience and be reminded the economy consistently enjoys more ups than downs.

Balancing out the optimistic mood, we note that stock market valuations aren't cheap, the housing market is slowing, and there are signs of excessive exuberance in financial markets around such developing trends as AI. Inflation has slowed but not vanished, and higher prices are stretching consumer finances. Noting such reasons for concern, we continue to prefer long-term growth assets such as stocks, and view a mix of money markets, US treasuries, and high-quality corporate and municipal bonds as important diversification for portfolios.

Where are interest rates headed, and what should investors do about it? According to the Federal Reserve, there could be as many as three interest rate cuts before the end of the year, which would cause rates to fall from 5.5% to 4.75% or below by the end of 2024. Should this happen, investor bond positions should perform well through the rest of this year.

Falling interest rates are likely to be good news for stock investors in the years ahead, but can cause some initial turbulence. Central banks often begin to cut interest rates only after they see signs that the economy needs help, and the medicative

Index	3/31/2024	YTD
Dow Industrials	39,807.37	5.6%
S&P 500	5,254.35	10.2%
S&P Small-Cap	1,344.66	2.0%
MSCI EAFE	2,349.41	5.1%
Bloomberg US Bond	2,145.23	-0.8%
US Treas 10-yr yld	4.2%	

benefits of lower interest rates take time to set in. Interest rates have been steady since July 2023, so we should expect some turbulence when the Fed acts.

Market traders may feel inclined to make bets on exactly when, how fast, or how far the Fed moves from here, but long-term investors will be better served by balancing their portfolio allocations to match their personal long-term goals.

## Check Writing Available for IRAs

In the past, IRA distributions have typically been handled in the form of direct transfers from your Schwab IRA to a destination account of your choosing (another Schwab account or an external bank account), or by means of a physical check sent by Schwab to your address of record.

This has proved convenient for most situations, as tax withholding is generally included in these distributions. However, some clients, especially those who use their IRAs as a source for charitable donations, can benefit from greater flexibility.

Accordingly, Schwab is now offering check writing as an option for most IRAs. The IRA account must be a traditional IRA, Roth IRA, SIMPLE IRA, or SEP-IRA. Check writing is not available for inherited IRAs. The IRA account must be enrolled in this program; the option is not provided as a default.

The new feature is expected to be of particular use for making charitable contributions from an IRA. Qualified charitable distributions can be made

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## Safety in Numbers: Deepfakes Get Deeper

What is a deepfake? For most of us, we think of it as a particularly dirty political trick: a video is posted showing some public figure stating views opposite to their actual beliefs. This ugly offspring of disinformation and fancy video editing became another reason to fact-check anything found online.

It's become something more than that now. It's becoming more common, it's personal, and it's dangerous.

Current technology can now create a plausible audio fake with only a few minutes of the recorded voice, while a deepfake video can be made from a single photograph.

In a Zoom meeting with the C-suite executives at your firm, you're instructed to transfer company funds. Sounds unlikely? In 2023, a Hong Kong company lost \$25 million to this type of elaborate fraud.

Your phone buzzes: it's your son, or your mother, or your spouse, who has been robbed, or kidnapped, or badly injured. It *sounds* like your family member: the call may even seem to be from their phone.

It's a scammer. Your loved ones are safe. But to make certain, you must hold back your worry and panic and contact them directly, using a different means. A few years ago, this would have been a text or an email, and easier to question and check. Now, it's terrifying.

## Check Writing from IRA Accounts

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from your IRA if you are over age 70½, subject to an annual total limit of \$105,000. These donations are counted as part of your Required Minimum Distribution (RMD) for each year, but are not taxable income, as a regular RMD is.

Certain important considerations must be kept in mind when writing checks from an IRA:

- Schwab **will not withhold any federal or state taxes** from the distribution. Unless the check is a qualified charitable donation, it will be included in your taxable income. Your tax advisor should be kept aware of these distributions.
- Distributions by check are included as part of your Required Minimum Distribution (RMD) for each year, and will be reported to you and to the IRS on Form 1099-R.
- Distributions are made from the cash in the IRA account. Most IRA assets under our management are invested, so before you write a check from your IRA, contact us to make certain the funds will be available when you want them.
- Distributions by check are logged **when the check clears**, not when you write the check. If a check is written to a charity in December, and the charity does not deposit it until January, the funds will be counted as part of the *next year's* distributions. Accordingly, if your donation was part of your RMD, and you write a check that has not been cashed by December 31 of that year, you will have fallen short of your annual requirement and will be liable for IRS penalties. For this reason, IRA checks to charity should be written earlier in the year.

Caveats aside, the new feature may be an excellent choice for some clients, depending on your tax circumstances and gifting plans. We would be glad to discuss the suitability of this new option with you.

## New Reporting Requirement For Small Businesses, LLCs and S Corporations

The US Treasury department has created a new reporting requirement for many small businesses.

The directive comes from the Financial Crimes Enforcement Network (FinCen), the bureau of the U.S. Treasury that deals with anti-money-laundering efforts.

In addition to small businesses, the reporting requirement applies to limited liability companies and Subchapter S corporations that have been established to hold investments, rental real estate properties, or shared interests in other assets, such as boats or planes.

The FinCen will require a form to be filed which outlines who has a beneficial interest in the business entity. The required form can be found on the FinCen website at [foiefiling.fincen.gov](https://www.foiefiling.fincen.gov).

For businesses established before 2024, these forms must be filed by 12/31/2024. Failure to file can result in significant financial penalties. Clients with LLCs or S corporations should discuss this requirement with their attorneys or CPAs.

## Reconsidering I-Bonds

Back in 2022, many investors eagerly purchased Series I bonds from the US Treasury. Inflation was red-hot, and the bonds were generating a guaranteed interest rate of 9.6%. But inflation has now pulled back, interest rates have changed, and the return outlook on I-bonds is not nearly as attractive. The return was nice while it lasted, but in most situations it's time to move on.

Currently, interest rates are over 5% for short-term treasuries, CDs, and money market funds, any of which can be owned directly in a brokerage account. If you purchased I-bonds in 2022, you should strongly consider redeeming the bonds and transferring the cash to a higher-yielding investment.

The interest on I-bonds is tax-deferred, so redeeming these bonds is a taxable event, unless the money is used for qualified education expenses. It's advisable to set a reminder when you redeem your bonds, so the income will be properly reported next year. The Treasury does not mail out 1099s, so the following year (2025, for 2024 tax reporting) you will be required to log into your account and download the statement to give to your CPA.