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*Frank*ly Speaking©

Welcome to the Q3-2021 issue of *Frank***lySpeaking**©, now in its 29th year. The purpose of this newsletter is to keep you informed of current issues and global events that could impact your finances. Please feel free to share your thoughts with us, as we welcome your comments.

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In This Issue

Economic and Market Commentary

Despite widespread worker shortages, the U.S. economy added 850,000 jobs in June amid declining COVID-19 cases, a reopening economy, states lifting restrictions and increasing vaccinations.

Other measures of labor-market slack, such as the labor-force participation rate, or the unemployment rate rising to 5.9%, also remain far from compatible with the Fed's goal of maximum employment.

Those measures again confirm grounds for Fed officials to remain committed to their highly expansionary monetary policy even as other elements of the report have the potential to heat up the discussion regarding wages and inflation, the other key elements guiding Fed policy.

For quite some time now, unreliable evidence has been pointing to a shortage of available skilled labor which has been misinterpreted as difficult labor-market conditions.

Recent reports have indicated that a certain degree of tightness, reflected in moderately increasing average hourly earnings, has been particularly evident in industries associated with the economic reopening.

The question that arises is whether there is a sustainable shift in wage dynamics, or just a temporary discrepancy between the potential number of employees unwilling to go back to work, for one reason or another, and the increasing hiring needs of companies.

While there is no straightforward answer to this question, a combination of generous fiscal support during the pandemic, ongoing extended unemployment benefits and some pandemic-related distortions to everyday life have played an important role.

A recent survey indicated that many people are still hesitant to return to work because of fears of the virus. Approximately 48% want to be vaccinated and 35% want all their co-workers to be vaccinated.

Another possibility is that people have used the time off during lockdowns or spent working at home, to question their previous career path, eventually leading to the decision to take a new direction in their lives. Some may now be seeking other opportunities.

The good news is that, for about a third of the population, the resulting lower supply of labor in some industries, the pandemic has turned out to be an opportunity to improve their lives.

That figure shows high levels of personal savings which means people may have more scope to make life changes. And for the other two-thirds, the findings highlight still more need for the vaccination campaign to get the job done and guarantee a safe return to work.

An additional piece of the puzzle could be that we are experiencing an adjustment in wages that has been lacking for some time and the current situation is enabling people to obtain higher wages which is another implication of a high turnover rate.

The overall mixture of motivations is likely to imply further wage pressures soon. This pressure should fade out as more and more people feel comfortable returning to work, whether it be to their former job, improved wages, or something new.

Inflation should follow a similar path to wages. The current friction in labor markets will increase prices, as will disrupt global supply chains and increase prices for raw materials. All these factors should be temporary.

What we are witnessing now is fiscal intervention on a scale not seen before in peacetime, a wartime level of intervention, supported by highly accommodative monetary policy. Once those massive fiscal impulses fade, inflation should return to its normal dynamics.

The view that inflation will be transitory does have its risks. There could be a renewed escalation of the trade war with China, for example, or potential radical changes to economic policy targeting ecological sustainability.

These changes might not be rooted in domestic policy-setting. A first move toward a global minimum corporation tax of 15%, as just recently agreed upon by the Group of Seven (G7), demonstrates that powerful global forces are driving change these days.

While acknowledging these risks, economist continue to forecast that inflation will eventually recede over the next 12-18 months, but the new balance for inflation might be somewhat above the levels experienced before the pandemic.

Temporary effects from pent-up demand, the return to work and the reallocation of labor might last longer than initially thought.

Some production of critical infrastructure like microchips might be repatriated and now well-established forms of telecommunications have the potential to increase productivity, warranting somewhat higher wages and therefore prices.

Eventually, those effects should generate a healthy level of inflation, consistent with labor markets at maximum employment.

The belief that transitory inflation will not disappear quickly, however, does not change the expectation that the Fed will remain quite satisfied about money.

One of the Fed's favorite measures of inflation, inflation expectations, remains well within the Fed's comfort zone and therefore can be described as well anchored.

The Fed is progressing further toward a discussion of tapering in late summer. Most likely it will hint that the economy is making "sufficient progress" toward their goals during the Jackson Hole Symposium in late August.

Actual tapering, however, is unlikely to start before late 2021 or early 2022, followed by a first-rate hike in 2023.

In line with the advent of temporally higher inflation, there is good progress to report. The gross-domestic-product (GDP) growth projections for 2021 has been raised to 7.2% year-over-year (Q4/Q4).

The economy has proven more resilient to Covid-19 than was generally expected, helped by the extraordinary level of stimulus and fast progressing vaccinations.

What remains in question is the longer term, when monetary stimulus is tapered, and the government starts to address a fiscal deficit expected to exceed 15% of GDP this year.

The bottom line is the pandemic bills will eventually have to be paid.

Mortgage Rates Inch Down

MCLEAN, VA, July 1, 2021) (GLOBAL NEWSWIRE) - Freddie Mac (OTCQB: FMCC) today released the results of its Primary Mortgage Market Survey® (PMMS®), showing that the average 30-year fixed-rate mortgage averaged 2.98%.

The 30-year fixed-rate mortgage (FRM) averaged 2.98% with an average 0.6 point for the week ending July 1, 2021, was down from the previous week when it averaged 3.02%. A year ago, at this time, the 30-year FRM averaged 3.07%.

The 15-year FRM averaged 2.26% with an average 0.7 point, down from the previous week when it averaged 2.34%. A year ago, at this time, the 15-year FRM averaged 2.56%.

The 5-year Treasury-indexed hybrid adjustable-rate mortgage (ARM) averaged 2.54% with an average 0.3 point, up slightly from the previous week when it averaged 2.53%.. A year ago, the 5-year ARM averaged 3.00%.

As of January 1, 2016, the PMMS no longer provides results for the 1-year ARM.

(Average commitment rates should be reported along with average fees and points to reflect the total cost of obtaining the mortgage).

The PMMS is focused on conventional, conforming, fully amortizing home purchase loans for borrowers who put 20 percent down and have excellent credit.

Average commitment rates should be reported along with average fees and points to reflect the total upfront cost of obtaining the mortgage. (Borrowers may still pay closing costs which are not included in the survey.)

Sam Khater, Freddie Mac's Chief Economist remarked, "Economic growth remains steady and is bolstering more segments of the economy."

Reopening the Economy

As the economy reopens the lasting differences will begin to reveal themselves.

As stores, restaurants, schools, offices, other indoor public spaces and travel across the country transition from closure or restrictions to open with entry, we will begin to see some of the lasting behavior changes post- vs. pre-pandemic.

It was always expected that vaccines would restore things back to some level of normal, but the key question is what will normal be?

One viewpoint was that nothing would be different upon vaccination, but another was that the pandemic and its trials and innovative triumphs would change things, producing distinct differences that would mark the beginning of a new era.

Distinct differences are appearing in the early days of the post-pandemic period.

The biggest change is the substitution of commuting, business travel and working in an office to digital communication and connectivity.

It can never fully displace in-person relationships, but digital connectivity will forever be a large and necessary part of interaction.

Now it's all about internet retailing, digital entertainment, digital payments, digital endorsements, digital contracting and digital health exams, treatment and monitoring.

It means that every individual in a household needs one or more computing devices.

A more digital world enables a greater spaced physical world and a rebirth of the suburbs and overlooked cities.

It also provides more time by reducing commutes and travel. More space and time make home more time for family, cooking, entertainment, exercise, quality of life or even just doing more work.

People have become more aware of their health and wellness. Many baby boomers retired, and many young people have left the bigger, crowded cities.

Fiscal and monetary policy are probably the key policies for investors, but regulation, trade, and geopolitical issues are also at play.

The U.S. relationship with China is uncertain and so is the future of globalization.

Great uncertainty remains for normal real interest rates and when they begin to climb.

Deficits that exceed GDP growth, real interest rates that are well below neutral and double-digit growth rates of cash in circulation suggest inflation could stay above the Fed's target.

We will continue to monitor legislation from Congress this summer and see how the U.S. dollar and bond markets react.

Inflation is uncertain and accordingly the outlook for real interest rates remains uncertain as it is unknown if and what actions the Fed will take to curb inflation.

Although low and stable mortgage rates have kept the housing market booming over recent months, a deterioration in affordability and for-sale inventory has led to a market slowdown.

Traditional vs Roth IRAs

Traditional and Roth IRAs both offer tax breaks, but not at the same time. Here is how they differ.

The easiest way to start saving for retirement is through an IRA, but which type of account you choose can make a big difference in just how much money you will receive when you are no longer working.

Traditional IRAs and Roth IRAs are the two most popular types of retirement accounts, but they have considerable differences that any investor should consider before choosing which to open.

With traditional IRAs, you delay paying any taxes until you withdraw funds from your account later in retirement.

With Roth IRAs, however, you pay taxes upfront by contributing after-tax dollars and later in retirement your withdrawals are tax-free, as long as your account has been open for at least five years.

Generally, traditional IRAs are most effective if you expect to be in a lower tax bracket when you retire, while Roth IRAs are best for those in a lower tax bracket today.

The latter is most likely better for younger investors who are early on in their careers and thus planning to have more income and a higher tax rate when they retire.

Beyond just tax implications, however, there is more to consider when choosing between a traditional IRA and a Roth IRA from their rules around withdrawing early, to their contribution limits and their eligibility requirements.

IRAs stand out as an effective way to save for retirement because of the tax breaks we mention above, but that is not their only benefit.

The biggest perk of an IRA is that you will not pay taxes on any of the investment gains you have made over the years which could save you substantial dollars when you start making withdrawals.

IRAs are easy to set up, are readily accessible and offer total flexibility for your investment choices. You can set up automatic contributions into your IRA from your checking or savings account, which makes investing for your future one less thing to think about.

If you already have a 401(k) plan through your employer, an IRA may be an effective way to supplement your retirement savings.

Overall, the rules around withdrawing early from an IRA are more lenient with Roth IRAs than with traditional IRAs.

Traditional IRAs: If you withdraw funds from your traditional IRA before age 59 ½, you are taxed at your current income tax rate, and you may be charged a 10% early withdrawal penalty fee.

Roth IRAs: Withdrawing from your Roth IRA before age 59 ½ depends on whether it is your contributions or your earnings that you're tapping into.

Withdrawing contributions from your Roth IRA at any age is tax- and penalty-free. Withdrawing earnings prior to age 59½, however, could incur a 10% early withdrawal penalty and may be subject to income taxes like with a traditional IRA.

Roth IRAs also offer a unique perk that traditional IRAs do not: First-time home purchases, college expenses and birth or adoption expenses, up to certain limits, count as exceptions to the early withdrawal penalty.

Traditional IRAs and Roth IRAs have the same contribution limits, which are adjusted each year.

For 2021, your total contribution limit to both traditional and Roth IRAs is up to $6,000 if you are under 50, and up to $7,000 if you are 50 or older.

Traditional IRAs also offer a helpful perk that Roth IRAs do not: Your contributions into a traditional IRA can be deducted from your taxes each year, up to certain limits.

This essentially means you get rewarded for putting money into your retirement account since the contributions help reduce the amount you owe in taxes.

You cannot make a deduction if you have a retirement plan at work and your income is $76,000 or more as a single filer or head of household, $125,000 or more as married filing jointly, or you or your spouse have a retirement plan at work and your income is $10,000 or more and married filing separately.

If you and your spouse do not have a retirement plan at work, you can make a full deduction up to the amount of your contribution limit.

Traditional IRAs and Roth IRAs differ when it comes to who can open an account. Traditional IRAs: Anyone can contribute regardless of how much money they earn.

Roth IRAs: There are income limits that restrict high earners from opening and contributing directly to a Roth IRA.

The income limits for Roth IRAs in 2021 are as follows:

Married filing jointly or qualifying widow (er): Not eligible if your modified adjusted gross income is $208,000 or more.

Single, head of household or married filing separately and you did not live with your spouse at any time during the year are not eligible if your modified adjusted gross income is $140,000 or more.

Married filing separately, if you lived with your spouse at any time during the year are not eligible if your modified adjusted gross income is $10,000 or more.

There is a backdoor Roth IRA strategy for those who do not qualify under the income limits. This loophole allows people to make indirect contributions to a Roth IRA.

Travel Scams to Watch Out For

A senior citizen, age 78, walked into the Rapid City, S.D., Regional Airport in April with a ticket to St. George, Utah. She was on her way to visit a dear friend, but never got there. The airline check in employee broke the bad news that her $398 ticket was for a nonexistent flight.

She booked her trip through an online travel agency website that looked legitimate. The only red flag was the fine print on page 5 of her ticket saying she could not contest the reservation once purchased.

When a family member checked online, she traced the website to a travel agency with an unbelievably bad history with the Better Business Bureau. Fortunately, her credit card company investigated and has agreed to refund her money.

As more Americans venture out of pandemic isolation after being vaccinated and head for long-awaited vacations and reunions with family and friends, they are enticing the appetites of scam artists who target travelers, says Lois Greisman, director of the Federal Trade Commission's Division of Marketing Practices.

Here's how experts say you can avoid five current travel scams.

1. Free or Rock-Bottom Deals
Phone calls, emails and postcards with enticing travel offers look tempting, but the deal is way under the value of the trip.

Avoid this scam: Simply walk away from any deal that seems too good to be true. And if a company asks you to pay with a prepaid gift card instead of a credit card or debit card, it is a scam. Always work with a trusted travel agency or company that has a long, proven history of offering travel opportunities.

2. Rental-Car Cons
Several travelers alerted AARP this spring to fake rental-car-company scams. Crooks set up phony customer service numbers online that look just like those of major rental-car companies. When you call, they take your money and personal information, then leave you stranded.

Avoid this scam: Before you call or click to reserve a car, verify that you are calling

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the real customer service department, or that you are on a legitimate rental-car-company website.

3. Third-Party Websites for TSA Pre-Check and Global Entry Programs
Look-alike websites are popping up that claim to help you renew or enroll in the U.S. Transportation Security Administration (TSA) PreCheck or the U.S. Customs and Border Protection's Global Entry program that speed you through airport security for a fee. But these sites are trying to con you out of money and personal information.

Avoid this scam: Travelers interested in enrolling in or renewing TSA PreCheck should start the process by going to the official government website, tsa.gov.

4. Disappearing Vacation Rentals
Scammers capitalize on the popularity of vacation properties rented out on legit sites like Airbnb and Vacation Rentals by Owner by offering online or via social media properties that don't exist, don't belong to them or don't measure up to the gorgeous photos.

Avoid this scam: Keep all your interactions with a vacation property's owners on the website of legitimate companies. A request to take your conversation off the site is a sign of a likely scam. If a property has few reviews or seems too good to be true, search the address online, or check it on Google Maps.

5. Airport and Hotel Wi-Fi Hacks
Connecting to public Wi-Fi gives savvy hackers easy access to your personal information.

Avoid this scam: Use your smartphone's hot spot to connect to the internet more securely. Or invest in a virtual private network (VPN), a service that encrypts your data to keep unscrupulous hackers from stealing sensitive information online. A VPN costs about $30 to $100 per year.
Source: AARP Fraud Watch, June 2021

U.S. Housing Market Boom or Bust

2021 has seen an exceptionally strong real estate market. Buyers are driving up home prices and leading homes to sell quickly.

Some buyers are making offers without seeing the property and foregoing contingencies to win bidding wars in the highly competitive housing market.

Record-low mortgage rates have sparked the increase in demand, especially among millennials, however, they are encountering a shrinking supply of available homes.

The latest market trends, seen in May/ June, point to a shift in real estate activity, implying that we may have passed the peak of this hot housing market, which is good news for home buyers.

The market is still heavily skewed toward sellers, but we may be seeing the first signs of a return to a more balanced real estate market.

With increased supply, home price growth will gradually moderate, but a broad price decline is unlikely.

The housing market will continue to attract buyers as a result of the drop in mortgage rates, which have fallen below 3%,

Frankly Funny

There was an elderly couple who in their old age noticed that they were getting a lot more forgetful so they decided to go to the doctor who advised them to write things down so they wouldn't forget.

They went home and the wife asked her husband to please get her a bowl of ice cream.

"You might want to write it down," she said. The husband replied, "No, I can remember that you want a bowl of ice cream."

She then asked him for some whipped cream and a cherry on top and told him to "Write it down." Again he said, "No, I can remember you want a bowl of ice cream with whipped cream and a cherry on top."

So, he goes to get the ice cream and spends an unusually long time in the kitchen, over 30 minutes.

He comes out to his wife and hands her a plate of eggs and bacon. The wife stares at the plate for a moment, then looks at her husband and asks, "Where's the toast?"