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*Frank*ly Speaking©

Welcome to the Q4-2018 issue of *Frank***lySpeaking**©, now in its 26th 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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Economic and Market Commentary

The US economy is cruising right along without any apparent stumbling blocks.

Growth is continuing to run above potential, labor markets are near full employment and continuing to tighten and inflation is back near the Federal Reserve's target, without overshooting its goal.

The near-term economic outlook remains bright with the economic expansion, already the second-longest on record, still displaying little sign of weakening, reinforced by sound domestic fundamentals, fiscal stimulus and still-accommodative financial conditions.

With these fundamentals securely in place, growth is expected to remain above potential into 2019. It, more than likely, will not be as strong as the current trend, but enough to continue tightening labor markets and help solidify inflation's move back to target.

A near-term material inflation overshoot remains unlikely, at this time, given the well-anchored inflation expectations and the decreased responsiveness of inflation to changes in slack.

There are several risks to this favorable outlook. The first is on the trade front, where the status and the ultimate outcome remain uncertain.

There's been potential resolution in the NAFTA negotiations, with a tentative deal reached with Mexico and Canada. The new accord will be named the US-Mexico-Canada Agreement, or USMCA.

Although the tentative accord imposes some restrictions that may impede efficiency relative to current arrangements, it is preferable to the disruptions that would accompany a dissolution of NAFTA.

Similarly, the US and the European Union seem to be moving toward an accommodation, however, on the China front, the US has announced another round of tariffs on $200 billion of goods at a 10% rate to start with then rising to 25% in 2019. China is planning some retaliation.

Even though the direct effects on the US are likely to be modest, we cannot dismiss the potential for a temporary rise in inflation and a slight drag on growth with additional risks of more adverse effects in the financial markets and/or business and household confidence.

Protectionism can further weigh on efficiency and potential growth over time.

The US also faces a future risk of a classic, late-cycle, overheating/Fed-tightening induced slowdown.

The longer growth remains above potential and the further labor markets tighten beyond full employment, the greater the risk that inflation will eventually move materially above the Fed's target.

Economist do not see this as an imminent or unavoidable threat. The economy still seems largely devoid of these kinds of imbalances and soft landings have happened before.

At some point the economy will have to slow back to potential, and possibly below for a while. This is likely to happen by 2020 or at latest 2021, at which time the cumulative effects of tightening financial conditions and a weakening of fiscal stimulus will start to impact the economy.

In the near term, the outlook looks reasonably clear. Households continue to benefit from sound finances, elevated confidence and firm labor markets.

For businesses, conditions remain broadly favorable, supported by high confidence, tax reform, strong profits and still-supportive financial conditions. In some areas increased leverage has begun to stretch finances a bit and an uncertain international trade environment could hamper exports and discourage investment.

The fiscal stimulus is adding to demand and should continue to do so at least into next year.

The increase would be larger but effective tax rates have not come down all that much and the economy is near full employment.

We are entering a period where fiscal multipliers tend to be smaller because there are few pent-up demands to be vented and less room to accommodate them without pressuring capacity constraints and pushing up interest rates.

At this point in the cycle, the economy doesn't need demand-side stimulus. In fact, it could be counterproductive, boosting near-term growth but increasing the medium-term risk of overheating and the kinds of excesses that make slowdowns more likely.

To counter this risk, the economy needs help on the supply side with policies to boost potential growth and thereby afford the expansion extra running room.

There are elements in the new tax plan that might help on this front, as may recent regulatory changes, but these kinds of supply-side benefits are of uncertain magnitude and timing.

Even under optimistic assumptions about continuing growth effects from the tax package, the fiscal changes are almost sure to worsen the government's long-term fiscal challenges, likely necessitating more federal borrowing that could eventually crowd out private, productive investment.

Also, trade restrictions can damage efficiency and erode the gains that trade brings via specialization and comparative advantage.

No one is expecting a supply-side miracle. Although potential growth may be improving somewhat, as productivity rebounds from unusual weakness, these additions are apt to be incremental and partly offset by trade and immigration restrictions.

Short of a substantial improvement in the economy's potential, it will be hard to sustain recent rates of growth now that spare capacity has largely been absorbed.

Labor markets seem close to full employment already and still gradually tightening.

Wages continue to accelerate only modestly. If labor markets tighten further, as expected, wage pressures will likely continue to build incrementally.

All these events should help strengthen the move of inflation back to the Fed's target.

It is close already, as some temporary restraints have faded, as the effects of diminished slack and gradually accelerating labor costs are making themselves felt and as inflation expectations have remained generally well anchored.

There is little sign that inflation is about to take off; in fact, the most recent reading was a bit softer.

We believe that concerns about an imminent inflation surge are overblown given the tame inflation expectations, the strengthening of the dollar and the generally reduced responsiveness of inflation to diminished slack.

Fed policymakers are continuing to be on track to reduce and eventually remove what they see as a still-accommodative policy stance. It is, however, becoming less accommodative and will likely be acknowledged as such as the funds rate approaches neutral.

With the Fed's dual-mandate objectives in sight, the outlook suggesting growth will remain above potential for a while and overall financial conditions are not expected to tighten much.

Policymakers are increasingly confident that this is the proper course because keeping policy accommodative too long would risk encouraging the kinds of excesses that might necessitate a more abrupt and potentially destabilizing tightening.

A flattening yield curve, by itself, will not likely reassure the Fed. The curve is nowhere near an inverted position that preceded past downturns, especially when adjusting for expectations of where the economy is headed over the next year or two.

If short-term forward spreads were to invert and there was a real fear that these conditions could cause a recession from overheating or economic and financial excesses, then Fed lenience might worsen the excesses and increase the risk of recession down the road.

Similarly, approaching the neutral rate, by itself, will not likely halt the process. There is considerable uncertainty about exactly where neutral is and if the economy continues to perform well as rates rise, estimates of the neutral rate are likely to rise.

Overall financial conditions, more than just the level of short-term rates, matter for the economic outlook and these conditions have not tightened much.

If risks of overheating and/or financial/economic excesses were to build, we believe the Fed would take the funds rate into preventive territory and policymakers would tread carefully.

Though the neutral rate will not overly constrain them, they won't ignore it entirely, aware that achieving a given policy stance can likely be accomplished at lower levels of short-term rates than in previous cycles.

Even though inflation is back near target, it does not seem in danger of overshooting and given that it has run too low for years, it is important that it return to 2% and stay there for a while to ensure that 2% is viewed not as a ceiling but as the symmetric target it truly is.

How policymakers balance these competing arguments will depend on how the outlook evolves. Our base-case scenario will likely keep policymakers inclined to gradually remove policy accommodation.

We are likely to have further rate hikes, in addition to the 25 basis points rise we had at the September FOMC meeting, followed by a series of gradual moves taking the funds rate back to 3% to 3.25% by the second half of 2019.

This coupled with a cumulative balance sheet reduction approaching $1 trillion should move policy back to a neutral, if not slightly restrictive, stance.

Our financial markets are continuing to be supported by the strong underlying economic backdrop, but worried about trade tensions.

Although these tensions could persist for a while, in the near term, the overall macro backdrop should remain broadly supportive of risk assets with a slight weight on US Treasury prices.

In the long run, markets may begin to worry about the sustainability of the current sweet spot of the economic cycle in the US.

The longer growth stays above potential, the tighter labor markets will become and the more the Fed hikes, the greater the risk that financial markets turn more cautious and increasingly aware that the most favorable phase of the economic cycle for financial assets may be behind us.

Mortgage Rates Jump For Fifth Straight Week

MCLEAN, VA, Sept 27, 2018) - Freddie Mac (OTCQB: FMCC) today released the results of its Primary Mortgage Market Survey® (PMMS®), showing that mortgage rates in the past week surged to their

highest level in over seven years.

The 30-year fixed-rate mortgage (FRM) averaged 4.72% with an average 0.5 point for the week ending Sep 27, 2018, up from the previous week when it averaged 4.65%. A year ago, at this time, the 30-year FRM averaged 3.83%.

The 15-year FRM averaged 4.16% with an average 0.5 point, up from the previous week when it averaged 4.11%. A year ago, at this time, the 15-year FRM averaged 3.20%.

The 5-year Treasury-indexed hybrid adjustable-rate mortgage (ARM) averaged 3.97% with an average 0.3 point, up from the previous week when it averaged 3.92%. A year ago, the 5-year ARM averaged 3.13%.

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

Sam Khater, Freddie Mac's chief economist, reported the 30-year fixed-rate mortgage rose for the fifth consecutive week to 4.72%, a high not seen since April 28, 2011, when it was 4.78%.

He noted the robust economy, rising Treasury yields and the anticipation of more short-term rate hikes caused mortgage rates to move up and that it was encouraging to see that prospective buyers are having a little more success, despite higher borrowing costs.

With inventory constraints and home prices starting to ease, purchase applications have now trended higher on an annual basis for six straight weeks.

He also noted that consumer confidence is at an 18-year high and job gains are holding steady, two factors that should keep demand up in coming months.

Subsequently, home shoppers will likely deal with even higher mortgage rates at the same time.

Source: Freddie Mac Primary Mortgage Market Survey® - September 27, 2018

Dying Intestate

Singer-songwriter Shirley Goodman wrote the hit song "Shame, Shame, Shame." The lyrics went on to say, "shame on you." One of the greatest singer-songwriters of our time and an all time favorite, Aretha Franklin, died without a will and her estimated $80 million estate could be in jeopardy. Shame on her advisors.

Deeply private in life, Aretha Franklin's estate will be laid bare for all to see, as according to court documents, she died without having a will or trust in place.

Documents filed by her four sons in Oakland County Probate Court acknowledged the absence of a will and named themselves as parties interested in her estate.

The relevant clause reads: "The decedent died intestate and after exercising reasonable diligence, I am unaware of any unrevoked testamentary instrument relating to property located in this state…."

Additionally, Franklin's niece, asked to be appointed as the estate's personal representative.

There's no indication that any of the parties are in conflict at this time and, at least for the moment, the family seems to be on the same page, which is vital with potentially large estates.

Franklin's exact net worth is unknown, but it's estimated to be roughly $80 million and includes the rights to several of her hit songs which will have to pass through intestacy and the court system.

That being said, even if family strife is avoided, the complete lack of wealth transfer planning on Franklin's part will likely result in Uncle Sam taking a huge tax bite out of that figure.

An interview with Franklin's long-time entertainment lawyer, Don Wilson, didn't paint a particularly optimistic picture. "I was after her for a number of years to do a trust," he said. "It would have expedited things and kept them out of probate and kept things private."

Wilson continued, "I just hope Franklin's estate doesn't end up getting so hotly contested. Any time they don't leave a trust or will, there always ends up being a fight. "

Whether these fears come to fruition remains to be seen; however, what is certain is that Franklin should have followed her own advice and taken some time to think about what your trust will be about.

If you do not have a current will or trust, please contact us to discuss your options.

Additionally, if you do not have an estate attorney, we can provide you with a list of qualified specialists for your review.

What Is Probate?

Both the lawyer and the executor are entitled to fees from an estate, in addition to court costs, appraiser's fees, and other expenses.

Many people have heard they should avoid probate, but few understand what probate is and how the process works.

Probate is the legal process that wraps up a person's legal and financial affairs after their death.

During the probate process a person's property is identified, cataloged and appraised.

Additionally, probate makes certain any outstanding debts and taxes are paid. It can be a complex process, filled with very specific legal requirements.

If someone dies without a valid will, the probate court sees that the deceased person's assets are distributed according to the laws of the state.

If someone dies with a valid will, the probate court is charged with ensuring the deceased person's assets are distributed according to their wishes.

Probate takes time, from a few months to more than a year. If there is a will and any of the heirs chooses to contest the document, the process can take a lot longer.

Probate can be expensive. Even though it is capped in some states, costs may reach 5% or more of the estate's value. That's calculated on the gross value of the estate, before taxes, debts and other expenses are paid and if the process is challenged, the legal costs can rise.

Finally, probate takes place in a public court which makes everything a matter of public record. There is no privacy. Anyone can find out exactly how much was left behind and to whom.

If you have any concerns for your heirs' privacy, you will need to take steps to manage the probate process.

Every estate will pass through probate following the owner's death. Probate can be a public process that exposes all your assets, or it can be managed to include as little information as possible.

When preparing your estate documents, consider how you want the courts to han-

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dle your personal finances after your death.

Certain assets can be structured so they may not have to go through probate.

Specifically, property held in a trust, jointly held property (but not common property), death benefits from insurance policies (unless payable to the estate), property given away before your death, assets in a pay-on-death account and retirement accounts with a named beneficiary can avoid probate. *Source: 2018 FMG Suite.*

Retirement Facts

Over two-thirds (70%) of current workers expect to work for pay during retirement, but only twenty-six percent of all retirees have actually done so.

Retirement can mean a lot of different things to someone facing retirement.

To some, it could be a time to travel and spend more time with family members, or it might be a time to start a new business or begin a charitable endeavor.

Regardless of what approach you intend to do in your retirement years, here are some things about our future that might surprise you.

Between now and the end of the next decade, another 10,000 baby boomers will turn age 65 every day. That's roughly one person every 8 seconds.

In 2016, the latest year for which data is available, people aged 65 and older accounted for 15% of the US population.

By 2060, the age 65 senior population is expected to represent more than 25% of all Americans.

The first person to ever receive a Social Security benefit was a Cleveland streetcar motorman who received a one-time, lump-sum payment of 17¢ in March 1937.

You couldn't even afford to upgrade to the "biggie fries" if that were today.

Ernest Ackerman worked one day under Social Security. He earned $5 for the day and paid a nickel in payroll taxes. His lump-sum payout was equal to 3.5% of his wages.

Only 64% of retirees say they are actually confident about having enough money to live comfortably throughout their retirement years.

Nine of ten adults, aged 65 years and older, say they have taken at least one prescription drug in the last 30 days.

In 2017, 67% of all retirees depended on Social Security benefits as a major source of their income.

The average gross monthly Social Security benefit at the beginning of 2018 was $1,404.

People are living longer. There were 32,000 people over the age of 100 in 1980. There are more than 76,000 today. Eighty-percent of them are women.

Last, but not least, 26% of workers today say they intend to keep working until age 70 and beyond and 10% say they don't intend to retire at all.

Frankly Funny

Bob was a quiet single average guy, living at home with his father and working in the family business.

He discovered that he was going to inherit a fortune when his sickly father died. So, he decided he needed a wife to share his fortune.

One night at an investment meeting he spotted the prettiest woman he had ever seen.

"I may look like just an ordinary man," he said to her, "but in just a few years, my sickly father will die and I'm going to inherit over $200 million."

Impressed, the woman obtained his business card and a short time later, became his stepmother.

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