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*Frank*ly Speaking©

Welcome to the Q4-2017 issue of *Frank***lySpeaking**©, now in its 25th 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

The U.S. economy is continuing to move forward, with growth running somewhat above potential. Labor markets are on the mend and are moving back near full employment. Inflation has fallen short of expectations this year and although some of the slippage seems due to temporary factors, not all can be so easily dismissed.

Looking ahead, sound fundamentals should help to keep the economy on track to a healthy healing and eventually more once we reach full employment.

While there has been minimal progress in returning inflation to target, it is more likely to resume amid tightening labor markets and still-anchored inflation expectations. That progress may take longer and seems somewhat less assured than previously anticipated.

The economic expansion remains largely void of the kinds of excesses and imbalances that have predicted sharp slowdowns or recessions in the past.

The private sector has not overindulged and the overheating pressures that have historically prompted an aggressive and ultimately recession-making tightening from the Fed are not present. Barring an unanticipated shock, the general census is this expansion still has legs.

Financial conditions remain supportive for both households and businesses overall. Although real household income growth has moderated, there have been improvements in net worth, manageable debt, especially debt service, elevated confidence and firm labor markets should all help support consumer spending.

Business investment, which has been a persistent laggard in this recovery, has shown signs of improving, with further gains likely to surface with improved confidence, pent-up needs for capital spending and the prospect of corporate tax reform.

The fundamentals for a continued recovery in the housing sector remain generally favorable and better global growth and the recent slippage in the dollar may help net exports.

There is also the prospect for fiscal support at the federal level, although not quite the size or scope that some had anticipated following the election.

Despite the political dysfunction in Washington, regulatory reform appears to be a far reach, however, economist still see a better-than-even chance that some modest tax cuts or reform will get enacted and possibly more infrastructure spending. This would likely to be beneficial to growth in 2018.

It's not like the economy needs a big dose of demand-side stimulus right now. In fact, with full employment not far off, such stimulus could be counterproductive, increasing the risk of overheating and financial excess. These are the kinds of imbalances that can make recession more likely, in part by encouraging the Fed to tighten more aggressively.

What the economy does need is help on the supply side and policies to boost potential growth giving the expansion extra running room. That's the only way that a material acceleration in activity can be sustained now that the economy is close to full capacity.

Policies that might help include corporate tax reform, reductions in marginal tax rates, increases in infrastructure spending, education and skill training, efforts to enhance competition and flexibility in markets and a streamlining of regulation.

But progress here is likely to be marginal at best, perhaps sufficient to ease but not fully offset other structural drags on potential growth.

There are also worrisome warnings on the policy front. The dangers of protectionism and immigration restriction still loom and if realized, might endanger potential growth and the expansion itself.

Similarly, in the unlikely event that big fiscal stimulus were to be enacted, unaccompanied by entitlement reform, it would likely worsen the government's long-term debt trajectory, even under optimistic assumptions about how reform might boost potential growth. This could, over time, tend to crowd out productive private investment, to the detriment of potential.

All told, nobody is expecting a supply-side miracle, although potential growth may pick up a bit in coming years as productivity rebounds from unusual weakness. This could be supported by a strengthening of business investment and as tight labor markets encourage some more people back into the labor force. These additions are likely to be incremental.

It is true that productivity can surprise sharply to the upside as few anticipated the surge in the late 1990s, but we'd caution against building that in any base case.

In reference to labor markets, there may still be a little room to reduce slack by reducing the ranks of involuntary part-time workers and those sitting on the sidelines, but these pools have already been drained substantially and are getting pretty shallow.

Even though full employment seems close at hand, labor costs continue to show only modest signs of acceleration, suggesting that overheating pressures are not imminent.

Also, while job growth is still comfortably above the pace consistent with trend demographics, it has moderated a bit. Although further cooling will ultimately be needed, it doesn't have to be abrupt or dramatic.

Bottom line, inflation remains the missing link, the one piece of the cyclical puzzle that has yet to fall into place, the one area where the economy has not met, or exceeded expectations. In fact, recent inflation readings have clearly been disappointing.

Although some of the slippage is due to temporary factors, not all of it is and progress in returning inflation to target has clearly stalled.

Inflation progress is expected to resume, as some of the temporary restraints on inflation fade, as the effects of diminished slack and gradually accelerating labor costs make themselves felt and as inflation expectations remain generally well anchored near the Fed's target. But this process may be more gradual than originally anticipated.

Fed policymakers are feeling a bit of tension between the two sides of their dual mandate. The labor market seems to have recovered nearly in full and continues to tighten, but inflation remains below target and has taken a step backward lately.

Fed policymakers have been willing to look through the recent slip in inflation, believing it will prove temporary and have focused more on the continued firming of labor markets. But if inflation doesn't show some signs of picking back up, policymakers may find themselves in an increasingly uncomfortable position, more reluctant to move preemptively.

The rationale for reducing policy accommodation is very straightforward. The economy seems mostly to have completed its cyclical healing and retains a solid, above-trend momentum.

Maintaining an accommodative policy stance would run the risk of encouraging the kinds of excesses, in both labor and financial markets, that might necessitate a more abrupt and potentially destabilizing policy tightening later on.

In other words, easing the foot off the monetary accelerator now makes it less likely the Fed will have to slam on the brakes later.

Also, it's not as if the steps taken so far have weighed too heavily on the economy or financial markets. In fact, despite 100 basis points of rate hikes, the prospect of reductions in the Fed's balance sheet and still more hikes to come, overall financial conditions haven't tightened at all.

They have actually eased a bit, reflecting ongoing strength in equity markets, narrow credit spreads and some reversal of dollar appreciation, hardly signs that the Fed is endangering the expansion.

Finally, some of the recent slippage in inflation does appear due to temporary forces and given that inflation often lags and still seems to respond to changes in slack, albeit in a more diminished way than in past eras, the case for some pre-emptive removal of policy stimulus remains.

But there are also ample reasons for the Fed to tread carefully. For one, even though interest rates are quite low by historical standards, the neutral rate appears to be lower, suggesting that policy might not be all that accommodative and that it won't take much more in the way of rate hikes to restore a more neutral stance.

Not all of the recent inflation weakness can be attributed to temporary factors which is especially worrisome because inflation has been running below target for years. If it doesn't return to 2% or higher for a while, people may come to doubt the Fed's commitment to the 2% objective, viewing it instead as more of a ceiling rather than the target that it is intended to be. That could make achieving the target more difficult.

How policymakers will balance these competing arguments depends on how the economic outlook evolves.

We feel that conditions will continue in a way that keeps policymakers striking a middle ground, with a gradual balance sheet reduction and further modest rate hikes.

Specifically, there were hints of a formal plan on balance sheet reduction at the September FOMC meeting following a gradual path, with the Fed slowly tapering the pace of reinvestments of both Treasuries and Mortgage Backed Securities.

The effects of balance sheet policy on financial conditions will be something the Fed considers when setting the funds rate and when to begin balance sheet normalization, but is not a sign that the Fed intends to step up the pace of overall tightening.

To reinforce that message, policymakers paused the rate-hiking process at the September FOMC meeting.

It is expected that they will most likely resume that process in December and follow up with another rate hike sometime in the first half of 2018.

Those moves seem a bit less certain than before the recent softness in inflation and will require that labor markets continue to improve and signs that inflation is beginning to move back up.

Financial markets are continuing an upbeat tone. The risk-on trade has been encouraged by a more positive global economic cycle exhibiting less downside risks.

Even though some central banks are moving to reduce accommodation and others are expected to do so soon, there has been minimal pressure on risk assets, as people seem to view the policy shift as a healthy response to an improved outlook, rather than a threat.

The consensus for a base-case economic outlook is broadly supportive of risk assets and with a slight weight on Treasury prices. We must caution that a lot of the good news has already been priced in to this forecast.

Similarly, even though some sort of tax cuts and/or reforms still look likely to be enacted in the U.S., the scope and reach may be disappointing, especially compared to what was expected.

Mortgage Rates Rise

MCLEAN, VA, Oct 5, 2017) - Freddie Mac (OTCQB: FMCC) today released the results of its Primary Mortgage Market Survey® (PMMS®), showing the 30-year mortgage rate ticking up to its highest rate in six weeks.

The 30-year fixed-rate mortgage (FRM) averaged 3.85% with an average 0.5 point for the week ending October 5, 2017, was up from the previous week when it averaged 3.83%. A year ago, at this time, the 30-year FRM averaged 3.42%.

The 15-year FRM averaged 3.15% with an average 0.5 point, up from the previous week when it averaged 3.13%. A year ago, at this time, the 15-year FRM averaged 2.72%.

The 5-year Treasury-indexed hybrid adjustable-rate mortgage (ARM) averaged 3.18% with an average 0.4 point, down from the previous week when it averaged 3.20%. A year ago, the 5-year ARM averaged 2.80%.

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

Sean Becketti, chief economist at Freddie Mac, stated that rates ticked up this week after holding steady the previous week. The 10-year Treasury yield rose 8 basis points, while the 30-year mortgage rate increased 2 basis points to 3.85%.

The Equifax Data Breach: What to Do

If you have a credit report, there's a good chance that you're one of the 143 million American consumers whose sensitive personal information was exposed in a data breach at Equifax, one of the nation's three major credit reporting agencies.

Here are the facts, according to Equifax. The breach lasted from mid-May through July. The hackers accessed people's names, Social Security numbers, birth dates, addresses and, in some instances, driver's license numbers.

They stole credit card numbers for about 209,000 people and dispute documents with personal identifying information for about 182,000 people. Additionally, they stole personal information of people in the UK and Canada.

There are steps you can take to help protect your information from being misused. Go to www.equifaxsecurity2017.com. This site is not controlled by the FTC.

To find out if your information was exposed, click on the "Potential Impact" tab and enter your last name and the last six digits of your Social Security number.

Your Social Security number is sensitive information, so make sure you're on a secure computer and an encrypted network connection any time you enter it. The site will tell you if you may have been affected by this breach.

Whether or not your information was exposed, U.S. consumers can get a year of free credit monitoring and other services.

The site will give you a date when you can enroll. Write down the date and come back to the site and click "Enroll." You have until November 21, 2017 to complete enrollment. You also can access frequently asked questions at the site.

Here are some other steps to take to help protect yourself after a data breach: **Check your credit reports from Equifax, Experian, and TransUnion**, for free, by visiting annualcreditreport.com or calling 877-322-8228. Accounts or activity that you don't recognize could indicate identity theft. Visit IdentityTheft.gov to find out what to do.

Consider placing a credit freeze on your files. A credit freeze makes it harder for someone to open a new account in your name. Keep in mind that a credit freeze won't prevent a thief from making charges to your existing accounts.

Monitor your existing credit card and bank accounts closely for charges you do not recognize. If you decide against a credit freeze, consider placing a fraud alert on your files.

A fraud alert warns creditors that you may be an identity theft victim and they should verify that anyone seeking credit in your name really is you.

Enroll in online and mobile banking for all of your bank and credit card companies.

Sign up for transaction alerts for all of your credit and debit cards. Set customized text or email reminders to stay on top of your accounts.

Change passwords regularly and never share your user name, password or security questions with anyone.

If possible, file your taxes as soon as you have the tax information you need, before a scammer can. Tax identity theft happens when someone uses your Social Security number to get a tax refund or a job. Respond right away to letters from the IRS.

Source: Division of Consumer & Business Education, Federal Trade Commission.

2017 Social Security COLA Changes

The 2017 Social Security Cost of Living Adjustment (COLA) could get wiped out by Medicare costs, but higher-income retirees' health insurance costs might remain the same.

Next year, typical retirees could see their expected COLA for 2018 virtually wiped out by a big jump in Medicare premiums. But premiums for many higher-income clients could remain the same as 2017 because of the "hold harmless" provision which was designed to protect most retirees from a net decline in Social Security benefits from one year to the next.

Although it is still more than a month away from the official 2018 COLA announcement, the latest Consumer Price Index (CPI) for August suggests that Social Security benefits could increase by about 1.8% next year.

COLAs are based on increases in the CPI-W, which is a calculation that measures price inflation for urban workers from the third quarter of the prior year to the corresponding third quarter of the current year.

The Social Security Administration will make its official announcement about next year's COLA in October.

With anticipated higher oil prices over the next few weeks due to disruptions caused by Hurricanes Harvey and Irma, it could well go higher.

The anticipated 1.8% increase would be a substantial increase over this year's trivial 0.3% COLA, which followed the zero percent increase in 2016 benefits and would make it the largest COLA since 2012 when benefits rose by 1.7%.

The hold harmless provision prevents the annual increase in your Medicare premi-

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ums from exceeding the dollar amount increase in your Social Security benefits only if you are one of the 70% of enrollees who have Medicare part B premiums deducted directly from their Social Security benefits.

The remaining 30% of Medicare enrollees are not protected by the hold harmless provision.

They include people who are not collecting Social Security benefits because they are not eligible, such as some public-sector employees, or because they want to delay benefits until they are worth more at an older age. New enrollees in Medicare are also not covered by the hold harmless provision.

Additionally, high-income seniors, defined as individuals with a modified adjusted gross income (MAGI) over $85,000 or married couples with joint incomes over $170,000, are not protected by the hold harmless provision. MAGI includes adjusted gross income plus tax-exempt interest. Medicare premiums for 2018 are based on 2016 tax returns.

People who enrolled in Medicare before 2016 paid about $104 per month for Medicare Part B premiums which covers doctors' fees and outpatient services.

Because there was no Social Security COLA in 2016, there was no increase in their Medicare Part B premiums.

In 2017, Social Security benefits increased 0.3%, boosting the average benefit by about $5 per month and capping Medicare Part B premiums for protected beneficiaries at about $109 per month.

In contrast, new enrollees in 2017 pay the new standard Medicare Part B premium of $134 per month.

This year, high-income retirees pay the standard monthly premiums of $134 per month plus a monthly surcharge ranging from $53.50 to $294.60 per person. Additionally, surcharges of up to $76 per month also apply to Medicare Part D prescription drug plans.

The 2017 Medicare trustees report projects Medicare Part B premiums will remain at $134 per month next year. An official announcement about Medicare premiums for 2018 will be made this fall.

If the Trustees projections are correct, people who are already paying $134 per month and many high-income retirees who pay a monthly surcharge, would continue to pay the same Medicare Part B premium next year. However, the highest-income retirees could pay even more due to new increased income tiers that will take effect in 2018.

To be covered by the hold harmless provision in 2018, you must have your Medicare Part B premiums deducted from your Social Security benefits beginning no later than November 2017 and continuing through at least January 2018 and you must not be currently paying a high-income surcharge.

Frankly Funny

On my way to lunch the other day, I noticed an elderly gentleman sitting on a park bench sobbing his eyes out. I stopped and asked him what was wrong and was there anything I could do..

He told me he had a stunning 22-year-old wife at home who rubs his back every morning and then gets up and makes him pancakes, sausage, fresh fruit and freshly ground coffee.

'That's great', I said, 'So, then why are you so upset?'

He told me that she made him homemade soup for lunch every day and his favorite biscuits, then cleaned the house and watched sports TV with him for the rest of the afternoon.'

I asked him again why he possibly could be so upset.

He went on to say that she made him a gourmet meal for dinner with wine and his favorite dessert and then they would cuddle until the small hours.

Totally baffled, I asked again, 'Well then, why in the world would you be crying?'

He sobbed uncontrollably, 'I just can't remember where I live.'