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Welcome to the Q1-2021 issue of *Frank*ly**Speaking**©, 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.

Most of all, when you are finished, be ecologically correct and recycle. Share it with a friend. Thank you for your continued support.

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Economic and Market Commentary

Shortly after the UK gave emergency authorization to a Covid-19 vaccine, the U.S. Food and Drug Administration (FDA) followed suit and the first vaccine shots have been administered, both in the UK and the United States.

We believe that this marks only the beginning of the end of the pandemic and there is still a long and a challenging road ahead.

The initial amount of vaccine shots available will be limited and most of the population may have to wait until the middle or end of 2021.

Other promising vaccine candidates, currently awaiting authorization, will not change this. Furthermore, it is probably safe to assume that a large-scale project like the roll out of a new vaccine is likely to encounter some hiccups along the way.

The labor market is showing signs of moderation. The U.S. Bureau of Labor Statistics reported another decline in the November headline unemployment rate to 6.7% from 6.9%, but only 344,000 new jobs were created in the private sector.

Total nonfarm payroll employment also declined by 140,000 in December and the unemployment rate was unchanged at 6.7%.

The high correlation of the service sector to the negative forces of the pandemic has been the main driver. Hiring in services, especially restaurant workers and retail sales help, dropped to 289,000 from 770,000.

Additionally, weaker hiring in manufacturing and a fall in jobs in the government sector are adding momentum to the downbeat picture.

U.S. retail sales are projected to fall by as much as 4% in December, according to consulting firm Berkeley Research Group (BRG). The top driving factors include earlier holiday shopping in October and November, rising Covid-19 cases nationwide and dropping consumer sentiment.

This view might well be largely shared by the U.S. Federal Reserve (Fed). The Fed Chair, Jerome Powell, emphasized in the December Federal Open Market Committee (FOMC) meeting that the outlook remains highly uncertain.

While welcoming the emergence of vaccines, he downplayed their likely impact in the truly short term but expects that vaccines should enable the economy to perform strongly only in the second half of 2021.

The updated Summary of Economic Projections therefore do not indicate a change of Fed policy in the medium run.

Despite more optimism on growth and employment in 2020 and 2021, inflation is forecasted to remain below the 2% target.

Only by 2023 are inflation and unemployment forecasts at levels that most likely reflect what the Fed would currently see as a full recovery. There was a wide range of growth expectations for 2021 among the participating economists.

Overall, however, most economists judge the risks to gross-domestic-product (GDP) growth broadly balanced, though some still see them weighted to the downside.

Our take, given the short-term uncertainties, is that the Fed will remain in a reactive mode, standing ready to act should financial conditions deteriorate. An increase of asset purchases or maturity extension remains in the cards if the situation requires it, as Powell hinted during the FOMC press conference on December 16.

Fiscal spending restraint is unlikely from the new administration with a single party in control of Congress and an economy so injured by the pandemic.

Additional economic support and stimulus programs are likely within the first 100 days, including more assistance for those unemployed, state andlocal government agencies and medical response.

More stimulus checks to households and grants to businesses are likely, but perhaps on a greater need basis than before.

It is projected that this expected additional pandemic spending could exceed an additional 1 trillion U.S. dollars, bringing total 2020-2021 pandemic spending to over 4 trillion dollars or 20%+ of gross domestic product (GDP).

This crisis spending is before the new administration and Congress explore new programs ranging from infrastructure investment to stronger social safety nets and

more entitlements.

Spend now and tax later, or until the bond market objects, will probably be the advice of President Elect Biden's economic advisors.

The bond market will assess how effective this spending promotes strong economic growth versus waste and the credibility of backing off crisis spending and/or hiking taxes in the future to restore fiscal health.

Interest rates might move higher on inflation expectations, if the Federal Reserve (Fed) is not clear in its commitment to limit inflation's climb, or on higher real interest rates if budget deficits burden the savings pool.

Kicking the fiscal can down the road does not necessarily lead to high inflation if the Fed eventually acts to contain inflation when it gets to target.

However, there is still risk that overly expansive fiscal policy, brings significantly higher real interest rates. If overnight rates stay too low for too long, the curve will steepen.

The ascent in Treasury yields started on January 6, 2021 and should be slow, but it could quicken if deficit spending is excessive.

Federal Reserve actions have a fundamental influence on long-term inflation, but not on long-term real interest rates.

If the Fed attempts to fight rising real yields from fiscal excess or rising yields from rising inflation expectations risk with more asset purchases, it would likely further raise inflation expectations and inflation risk and eventually could cause a vicious upward rate spiral.

Mortgage Rates Hit a New Record Low

MCLEAN, VA, January 07, 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 2.65%, the lowest rate in the survey's history which dates back to 1971.

The 30-year fixed-rate mortgage (FRM) averaged 2.65% with an average 0.7 point for the week ending January 7, 2021 down from the previous week when it averaged 2.67%. A year ago, at this time, the 30-year FRM averaged 3.64%.

The 15-year FRM averaged 2.16% with an average 0.6 point, down slightly from the previous week when it averaged 2.17%. A year ago, at this time, the 15-year FRM averaged 3.07%.

The 5-year Treasury-indexed hybrid adjustable-rate mortgage (ARM) averaged 2.75% with an average 0.3 point, up from the previous week when it averaged 2.71%. A year ago, the 5-year ARM averaged 3.30%.

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, “A new year, a new record low mortgage rate.”

He added that, despite a full percentage point decline in rates over the past year, housing affordability has decreased because low rates have been offset by rising home prices.

The forces behind the drop-in rates have been shifting over the last few months and rates are poised to rise modestly this year.

It is feared that the combination of rising mortgage rates and increasing home prices will accelerate the decline in affordability and further squeeze potential homebuyers during the spring home sales season.

Required Minimum Distribution Changes

You cannot keep retirement funds in your account indefinitely. Generally, you had to start making withdrawals from your IRA, SIMPLE IRA, SEP IRA, or retirement plan account when you reached age 70½.

However, due to the changes made by the SECURE Act, if your 70th birthday is July 1, 2019 or later, you do not have to take withdrawals until you reach age 72.

The Required Minimum Distribution (RMD) is the minimum amount you must withdraw from your account each year. You can withdraw more than the minimum required amount and any withdrawals will be included in your taxable income.

The RMD rules discussed below apply to traditional IRAs, SEP IRAs, SIMPLE IRAs, 401(k) plans, 403(b) plans, 457(b) plans, profit sharing plans and other defined contribution plans.

Roth IRAs do not require withdrawals until after the death of the owner.

The RMD for any year is the account balance as of the end of the immediately preceding calendar year divided by a distribution period from the IRS's Uniform Lifetime Table.

A separate table is used if the sole beneficiary is the owner's spouse who is ten or more years younger than the owner.

If your IRA or retirement plan account was inherited from the original owner, you use the RMD the account owner would have received in the first year.

For the year following the owner's death, the RMD will depend on the identity of the designated beneficiary.

For individuals or employees with accounts who die prior to January 1, 2020, designated beneficiaries of retirement accounts and IRAs calculate RMDs using the Single Life Table Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs).

For those whom the original account owner died January 1, 2020 or after and are eligible designated beneficiaries which include a surviving spouse, a minor child of the deceased owner, disabled or chronically ill individual or any other person who is not more than 10 years younger than the deceased account holder, have the option to take RMDs based on their life expectancy.

If you are not an eligible designated beneficiary, or trust or other entity, you must withdraw all assets from the inherited IRA within 10 years.

Under the 10-year rule you can withdraw from your inherited IRA assets at any time, in any amount within the 10-year time frame.

You must withdraw all assets by December 31 of the 10th anniversary year of the IRA owner's death to avoid RMD penalties.

If the distribution is from a qualified retirement plan, the plan document will establish the RMD rules, and the plan administrator should provide the beneficiary with his or her options.

The options for the RMD pay-out period may be as short as 5 years, or as long as the life expectancy of the beneficiary.

If the beneficiary is the spouse of the owner, the spouse can also choose to treat the IRA as his or her own. Therefore, if the distribution is from a qualified plan, the beneficiary should contact the plan administrator.

Good news, beginning in 2022, there will be a somewhat smaller RMD from your IRA and company retirement savings plan because, on November 6, 2020, the IRS released new life expectancy tables that are used to calculate RMDs.

A smaller RMD means less taxes and more retirement savings that you can retain for tax-deferred growth. Of course, you can always take more than your RMD if you wish.

Failure to take your full RMD can result in a penalty equal to 50% of the amount not taken, although the IRS will often waive that penalty.

Filing Final Tax Returns for the Deceased

When a family member passes away, there are many decisions that need to be made. Dealing with all the emotions, the last thing anyone thinks about is taxes. Unfortunately, that is not an option.

If the departed family member earned a taxable income during the year in which they passed, then federal taxes may be owed. The executor or a survivor must, therefore, file a final federal income tax return Form 1040.

Similarly, if the deceased individual had a sizable estate or assets that might generate income in the future, the estate may owe taxes. Additionally, federal estate tax forms pertaining to the decedent's estate may also need to be filed.

If you find yourself in this situation, we strongly suggest you consult a professional with tax expertise to avoid any federal tax penalties.

The Internal Revenue Service (I.R.S) gives you until April 15 of the year following the taxpayer's death to file a final 1040 form.

If the deceased was married, a surviving spouse has the option to file a final joint federal tax return for the last year in which the deceased lived.

If you file the return online, the I.R.S. provides instructions on all this. If you are filing a paper return, you must write "Deceased," the decedent's name, and the date of death at the top of the 1040 form.

An appointed personal representative and/or surviving spouse must sign this return per I.R.S. guidelines.

If a refund is due, you may need to file a Form 1310 (Statement of Person Claiming Refund Due a Deceased Taxpayer).

If the estate is large enough, Form 706 (the United States Estate Tax Return) is due to the I.R.S. within nine months of the death of the deceased, with a 6-month extension permitted.

The individual federal estate tax exemption is currently $11.4 million, so an estate smaller than $11.4 million may not be faced with estate taxes unless the deceased individual made substantial monetary gifts before their passing.

When the decedent's estate has an executor or administrator, they must sign the return for the decedent. For a joint return, the spouse must also sign. Alternately, a survivor of the deceased can file the return.

If an estate generates more than $600 in gross yearly income within 12 months of that taxpayer's death, it will also be necessary to file Form 1041 (U.S. Income Tax Return for Estates and Trusts), usually by April 15 of the year after the year in which the individual died.

Should 100% of the income-generating assets of the deceased be exempt from probate, the need to file Form 1041 is removed.

Estates required to file Form 1041 should consult a tax professional.

Lastly, there are some cases where expenses paid before death can be deductible. Under certain circumstances, part of the cost of treating a final illness may be deducted on the deceased's final federal tax return.

A death in the family can take a heavy toll. In the event of such a tragedy, the last thing you may want to do is deal with the related financial issues.

Contact us, we are here to help and can guide you to the proper professionals.

Is Covid Forever?

Public health officials and infectious disease experts have said there is a high likelihood that Covid-19 will become an endemic disease, meaning it will be present at all times, though likely at lower levels than it is now.

The CEO of Covid-19 vaccine maker Moderna warned that the coronavirus that has brought world economies to a standstill and overwhelmed hospitals will be around "forever."

Moderna CEO Stephane Bancel appeared to agree Wednesday that Covid-19 will become endemic, saying "SARS-CoV-2 is not going away."

"We are going to live with this virus, we think, forever," he said during a panel discussion at the JPMorgan Healthcare Conference.

Health officials will have to continuously watch for new variants of the virus, so scientists can produce vaccines to fight them, he said.

Researchers in Ohio said they've discovered two new variants likely originating in the U.S. and that one of them quickly became the dominant strain in Columbus, Ohio, over a three-week period in late December and early January.

U.S. officials are racing to distribute doses of both vaccines, but it will likely take months before the U.S. can vaccinate enough people to achieve herd immunity, meaning the virus won't have enough new hosts to spread. Still, Bancel said he expects the U.S. will be one of the first large countries to achieve "sufficient protection" against the virus.

There are already four coronaviruses that are endemic across the world, but they are not as contagious or deadly as Covid-19, according to the World Health Organization. ***Source: CNBC.com 2021-01-13***

Better Understanding Market Volatility

The COVID-19 outbreak has put tremendous pressure on stock prices, prompting some investors to sell positions blindly and indiscriminately at a time when the entire market is trending lower.

Worried investors believe that this time is different.

When the market drops, some investors lose perspective that downtrends, and uptrends, are part of the investing cycle.

When stock prices break lower, it is a good time to review common terms that are used to describe the market's downward momentum.

First, there are pullbacks, which represent the mildest form of a selloff in the markets, typically event driven.

The next degree in severity is a correction. If a market or markets retreats 10% to 20% after a peak, you are in correction territory and you are likely on guard for the next stage.

And then there is a true bear market where the decline is 20% or more since the last peak.

These are all normal stages of the investing cycle.

When stock prices are trending lower, some investors may second-guess their risk tolerance. But periods of market volatility can be the worst times to consider portfolio decisions.

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Pullbacks and corrections are relatively common and represent something that we experience from time to time, often several times over the course of a decade.

Bear markets are much rarer, but you will likely ask yourself how this bear market is going to affect you.

That is a good question, but it is something that you will not fully understand until it is over. The average bear market lasts 146 days for the Standard & Poor's 500.

The solution is to develop a retirement strategy formed with a financial professional that has market volatility factored in, addressing ever changing market conditions.

Our job is to determine the cause of the volatility. Then determine if it is event driven or a true breakdown in fundamentals and finally, implement any changes necessary to help mitigate risk, protecting your investment and making you feel more comfortable.

Benefits of Working in Retirement

Retirement has been portrayed as an ending, a grand exit from your years in the workplace. But the rules are changing. Labor force participation among those aged 65-74 is predicted to reach 32% by 2022.

As the Boomer generation ages, more people are viewing retirement as an opportunity to enjoy the rewards of work in a whole new way.

Working during retirement helps maintain mental agility as you learn new skills. Staying engaged in work helps build mental muscle, which can lessen the risk of developing dementia and Alzheimers and ward off the signs of aging.

Staying active during retirement years is crucial for continued health. Whether you choose to work full time or volunteer a few days a week, engaging in some form of work will keep your body moving and give you opportunities to stay balanced, strong, and healthy.

Besides the obvious extra income, working during retirement may allow you to delay taking Social Security benefits. For every year you wait to take Social Security, your benefits can increase by an average of 8% annually. Finding a strategy that works for you can truly pay off.

Studies have shown that a sense of purpose has been found to lengthen lifespan and quality of life. Working on something you care about, starting a new business, or mentoring others in the workplace can ward off depression and provide a healthy sense of fulfillment and direction in your later years.

One of the risks associated with retirement is increased isolation, which in terms of its impact on your health, has been equated with smoking nearly a pack of cigarettes a day. Working with others reduces this risk, giving you a chance to build connections and enjoy meaningful interactions.

Frankly Funny

An overconfident, self-proclaimed, somewhat obnoxious, genius makes a bet with his, according to the genius, not so brilliant, friend.

His challenge is that for every question he asks that his friend does not know the answer, the friend will have to give him $5.

On the other hand, if the not so brilliant friend asks a question that he cannot answer, he will give him $5,000.

The friend agrees and the genius then asks, "How many continents are there in the world?" The friend does not know and hands over the $5.

The not so brilliant friend then asks. "What animal stands with two legs but sleeps with three?"

The genius tries and searches extremely hard for the answer but gives up, admits he lost and begrudgingly hands over the $5,000.

He then asks. "By the way, what was the answer to your question?"

The not so brilliant friend hands over $5.

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