Volume XXVI
Number 3

Personal Financial Profiles, Inc.
EST. 1989 • FINANCIAL PLANNING... A CRITICAL INVESTMENT IN TIME™

3rd Quarter
2018

Printed on Recycled Paper

*Frank*ly Speaking©

Welcome to the Q3-2018 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.

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

In This Issue

Economic and Market Commentary

The US economy is moving forward with economic momentum remaining strong and growth continuing to run above potential.

Labor markets are near or slightly above full employment and are continuing to tighten and inflation has returned close to the Federal Reserve's target.

The near-term outlook remains bright. The economic expansion, already the second-longest on record, is showing little sign of wear, reinforced by sound domestic fundamentals, fiscal stimulus and the lagged effects of easier financial conditions.

Economists forecast growth to remain above potential with possible moderation, leading into next year, enough to tighten labor markets modestly further and help solidify inflation's move back near the Fed's target. A material inflation overshoot remains unlikely given well-anchored inflation expectations and the reduced responsiveness of inflation to changes in slack.

There are several risks to this outlook. The tightening of financial conditions this year, while modest and not nearly enough to change the positive outlook much, especially since it has been anticipated that current financial conditions would gradually shift to providing less support as the Fed reduced policy accommodation, bears watching.

Trade front frictions have been intensifying with actual and prospective retaliatory trade restrictions between the US and key trading partners, e.g., China, North American Free Trade Agreement members, and the European Union are increasing.

Although the direct macroeconomic effects still seem likely to be small, there are risks of more adverse effects from financial markets and/or business confidence that cannot be ignored.

Finally, the U.S. faces a slight, medium-term risk of overheating. The longer growth remains above potential and the further labor markets tighten beyond full employment, the greater the risk is from inflation pressures and the kind of broader-based financial and economic excesses that have often presaged economic slowdowns.

Even though this is not perceived as an imminent threat, it is a possibility that lingers in the background.

The coast looks reasonably clear for now. Households continue to benefit from sound finances, elevated confidence and firm labor markets. Higher energy prices may dampen purchasing power, but they'll also support the domestic energy sector.

Conditions remain favorable for business, supported by elevated confidence, tax reform and still-supportive financial conditions, although in some areas increased leverage has begun to stretch finances a bit and an uncertain international trade environment could hamper exports and deter investment.

The fiscal stimulus is adding to demand and should continue to do so at least into 2019. The boost would likely be greater but effective tax rates have not come down all that much and the economy is near full employment.

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 creating the kinds of excesses that make recession more likely, in part by inducing the Fed to tighten more aggressively.

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 of the tax plan that might help on this front, like the recent regulatory changes, but these kinds of supply-side benefits are hard to estimate and take time to come to fruition.

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

The looming specter of protectionism could also undermine potential growth. So far, the trade restrictions are too small and concentrated to have much adverse macro impact.

But if they are the beginning of a broader trade war, their harmful effects would be amplified.

That's not a general expectation, but recent news on the trade front has not been encouraging, with the US broadening its trade focus to more countries and industries.

Even if the worst case is averted, some trade restrictions are likely to remain and, together with a less open immigration policy, are counterproductive for long-term growth.

Without a substantial improvement in the economy's potential, it will be hard to sustain recent rates of growth now that the economy's spare capacity has largely been absorbed.

With labor markets close to full employment, if not even slightly beyond, wages will continue to accelerate, but only modestly, dampening fears about imminent overheating.

If labor markets tighten further, as expected, wage pressures will continue to build and it will reinforce the move of inflation back to the Fed's target.

Recent inflation readings suggest we are headed in the right direction and defused fears of an imminent inflation spike.

Inflation has edged back close to target, 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.

Additionally, the recent rise in energy prices have provided a temporary lift as well but fears of an inflation surge seem overblown given inflation expectations and the generally weakened responsiveness of inflation to diminished slack.

Fed policymakers remain on track to reduce and eventually remove policy accommodation.

With both of their dual-mandate objectives in sight and the outlook suggesting growth will remain above potential for a while, policymakers are increasingly confident that this is the proper course.

There is concern that failing to move policy at least back to neutral, if not a shade beyond, would risk fueling the kinds of excesses and imbalances that might necessitate a more abrupt and potentially destabilizing policy tightening later. In other words, easing the foot off the monetary accelerator now and perhaps before long even gently tapping the brakes, make it less likely the Fed will have to slam on those brakes later.

However, there are still reasons for the Fed to tread lightly. For one, the neutral rate is likely to remain below historical norms, albeit edging up from post-crisis lows, suggesting that it won't take as many rate hikes as in the past to restore a neutral stance.

Moreover, though inflation is back near target and does not seem in danger of sharply overshooting, given that it has run too low for years.

It is important that it returns to a minimum of 2% and remains there for a while to ensure that 2% is viewed not as a ceiling but as the symmetric target it truly is and that expectations remain firmly anchored near the Fed's objective.

Finally, financial conditions have begun to tighten a bit, hinting that the Fed may be starting to get some traction in controlling what has been a key tailwind to growth.

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

We continue to believe that further modest tightening of labor markets and financial conditions, coupled with clearer evidence that inflation has returned to target and is staying there, but not overshooting, will keep policymakers inclined to remove policy accommodation, although not aggressively.

That scenario is apt to include not only continued balance sheet reduction, but also further rate hikes, with the next 25 basis points likely at the September Federal Open Market Committee (FOMC) meeting, followed by a steady pace of moves beyond that, taking the funds rate back to 3% or so by late next year.

An economic backdrop of solid growth and close-to-target inflation remains broadly favorable for risk assets with a slight weight on Treasury prices.

Increasing trade frictions raise some caution flags and concerns about sustainability still loom over the horizon.

The longer growth stays above potential and the tighter labor markets become, the more the Fed will hike rates and the greater the risk that financial markets adopt a more cautious, "too much of a good thing", mentality.

Mortgage Rates Continue Slide

MCLEAN, VA, July 5, 2018) - Freddie Mac (OTCQB: FMCC) today released the results of its Primary Mortgage Market Survey® (PMMS®), showing that mortgage rates over the past week maintained their recent slide.

The 30-year fixed-rate mortgage (FRM) averaged 4.52% with an average 0.5 point for the week ending July 5, 2018, down from the previous week when it averaged 4.55%. A year ago, at this time, the 30-year FRM averaged 3.96%.

The 15-year FRM averaged 3.99% with an average 0.4 point, down from the previous week when it averaged 4.04%. A year ago, at this time, the 15-year FRM averaged 3.22%.

The 5-year Treasury-indexed hybrid adjustable-rate mortgage (ARM) averaged 3.74% with an average 0.3 point, down from the previous week when it averaged 3.87%. A year ago, the 5-year ARM averaged 3.21%.

(Average commitment rates should be reported along with average fees and points to reflect the total 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, stated that, after a rapid increase throughout most of the spring, mortgage rates have now declined in five of the past six weeks.

He noted that the run-up in mortgage rates earlier this year represented not just a rise in risk-free borrowing costs, but for investors, the mortgage spread also rose back to more normal levels by about 20 basis points. This could be good news for buyers as mortgage rates may have a little more room to decline over the very short term.

Khater added, "Although the current economic expansion is in its 10th year, residential single-family real estate was initially slow to recover.

Now, backed by the demographic tailwind provided by millennials reaching the peak age to buy their first home, the housing market should have some room to grow going forward."

Source: Freddie Mac Primary Mortgage Market Survey® released July 5,2018.

Tips for Preventing Fraud

With minimal risk and the potential for significant rewards for fraudsters, cybercrimes and fraud are a constant threat.

Cybercrime and fraud are serious threats and constant vigilance is key. While Personal Financial Profiles plays an important role in helping protect your assets, you can also take action to protect yourself and help secure your information.

This checklist summarizes common cyber fraud tactics, along with tips and best practices. Many suggestions may be things you're doing now, while others may be new.

We also cover actions to take if you suspect that your personal information has been compromised. If you have questions, we're here to help.

Cyber criminals exploit our increasing reliance on technology. Methods used to compromise a victim's identity or login credentials, such as malware, phishing, and social engineering, are increasingly sophisticated and difficult to spot.

A fraudster's goal is to obtain information to access your account and assets or sell your information for this purpose. Fortunately, criminals often take the path of least resistance.

Following best practices and applying caution when sharing information or executing transactions makes a big difference.

We recommend safe practices for communicating with us. Keep us informed regarding changes to your personal information.

Expect us to call you to confirm email requests to move money, trade, or change account information.

You can establish a verbal password with our firm to confirm your identity or request a video chat.

Additionally, our custodian, Charles Schwab and Company, takes your security seriously and leverages protocols and policies to help protect your financial assets.

Below are actions you can take to reinforce their efforts and resources to assist you in keeping your account safe:

Confirm your identity using Schwab's voice ID service when calling the Schwab Alliance team for support.

Use two-factor authentication, which requires you to enter a unique code each time you access your Schwab accounts.

While there, review the Schwab Security Guarantee, which covers 100% of any losses in any of your Schwab accounts due to unauthorized activity.

What you can do is to be aware of suspicious phone calls, emails, and texts asking you to send money or disclose personal information.

If a service rep calls you, hang up and call back using a known phone number.

Never share sensitive information or conduct business via email, as accounts are often compromised.

Beware of phishing and malicious links.

Urgent, legitimate looking emails are intended to tempt you to accidentally disclose personal information or install malware.

Don't open links or attachments from unknown sources. Enter the web address in your browser.

Keep your web browser, operating system, antivirus, and anti-spyware updated and activate the firewall.

Do not use free/found USB devices. They may be infected with malware. Turn off your Bluetooth when it is not needed.

Dispose of old hardware safely by performing a factory reset or removing and destroying all storage data devices.

Do not visit websites you don't know, (e.g., advertised on pop-up ads and banners) and log out completely to terminate access when exiting all websites.

Don't use public computers or free WiFi, unless you have installed a WiFi privacy software.

Norton has an inexpensive application called Norton WiFi Privacy. Use a personal WiFi hotspot or a Virtual Private Network (VPN).

Hover over questionable links to reveal the URL before clicking. Secure websites start with "https," not "http.

Be cautious when accepting "friend" requests on social media, liking posts, or following links and limit sharing information on social media sites.

Assume fraudsters can see everything, even if you have safeguards.

If you think you may have been compromised, call our office at 954-755-8647 or 239-598-9141.

Additionally, you can also call your Schwab Alliance team immediately at 800-515-2157 so that they can watch for suspicious activity and collaborate with you on other steps to take.

IRS Approves Back-Door Roth IRA

The long-running debate on whether a back-door Roth is legal is over.

The IRS Tax-Exempt and Government Entities Division reported that the back-door Roth method, which involves contributing to a traditional IRA and then converting to a Roth IRA, is allowed under the law.

Specifically, a Congressional Conference Report for the Tax Cuts and Jobs Act reported that, although an individual with AGI exceeding certain limits is not permitted to contribute directly to a Roth IRA, the individual can contribute to a traditional IRA and convert the traditional IRA to a Roth IRA.

Noted retirement tax expert and author Ed Slott, CPA, stated that the IRS is there to interpret the tax law as written by Congress.

It was further noted that this was a gray area only because Congress did not specifically state that the transaction was legal which led some to fear the IRS would per-

Personal Financial Profiles, Inc.
EST. 1989 • FINANCIAL PLANNING…A CRITICAL INVESTMENT IN TIME™

2801 University Drive
Suite 201B
Coral Springs, FL 33065
Phone: 954.755.8647
Fax: 954.755.6863
Email: fpugliese@pfprofiles.com

1415 Panther Lane
Suite 356
Naples, FL 34109
Phone: 239.598.9141
Fax: 239.598.9121
Email: dmaggio@pfprofiles.com

VISIT US ONLINE @ WWW.PFPROFILES.COM

ceive this an illegal step-transaction .

Congress finally clarified the law back in December 2017 and the IRS officially approved the back-door Roth and they had no plans to challenge it for those who qualify.

It turns out that IRS just didn't like the words back-door or workaround when it came to tax law. They were considered red flags.

The reason the back-door Roth evolved was because of the income limits for making a contribution to a Roth IRA.

Since there are no income limits on Roth conversions or on contributions to traditional IRAs, the strategy was to first contribute to a traditional non-deductible IRA and then convert those funds to a Roth IRA, bypassing the Roth IRA contribution limits.

The funds go into the Roth as a Roth conversion, not as a Roth contribution.

Not everyone qualifies for the back-door Roth. You still have to be eligible to make a contribution to a traditional IRA, which is the first step in the back-door Roth process.

Qualifying for a traditional IRA contribution means having earned income, except for a non-working spouse if filing a joint return with a spouse having the earned income and not being over age 70½, since traditional IRA contributions cannot be made for the year one turns age 70½ or later years.

Additionally, keep in mind that the pro-rata rule applies, which means that part or all of the back-door Roth conversion might be taxable if there are other traditional IRA funds, including SEP and SIMPLE IRA funds.

The once-per-year 60-day IRA rollover rule does not apply to Roth IRA conversions.

Liability Risks of Social Media

The risks that social media introduce to your business are generally not new risks, but conventional risks that are delivered in a more modern way.

To help manage the risks presented by social media use by your business, you should create a social media policy for your company and develop one for employees using social media for their job and another for employees using social media in their personal lives.

Don't create your policy in a vacuum. Rely on the diverse talents of your employees. Limit social media to designated spokespersons for better control over messaging. Train all employees on your social media policy.

These risks may be covered by your existing business liability insurance, provided through a rider on your current policy, or obtained through the purchase of specialized coverage.

Speak with your insurance agent to learn how to make sure you are adequately protected against the business risks of social media.

Frankly Funny

There was an elderly couple who noticed that they were getting a lot more forgetful, so they decided to go to the doctor. The doctor told them that they should start writing things down, so they didn't forget.

They went home and the lady asked her husband to get her a bowl of ice cream. "Write it down," she said. "No, I can remember that you want a bowl of ice cream." She then told him she wanted whipped cream. "Write it down," "No, no, I can remember: you want a bowl of ice cream with whipped cream."

Then she asked for a cherry on top. "Write it down," and again he said, "No, I got it. You want a bowl of ice cream with whipped cream and a cherry on top."

He goes to get the ice cream and spends an unusually long time in the kitchen. When he comes out he hands her a plate of bacon and eggs. The wife stares at the plate for a moment, then looks at her husband and asks, "So, where's the toast?"