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*Frank*ly Speaking©

Welcome to the Q3-2023 issue of *Frank***lySpeaking**©, now in its 31st 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

Here it is, mid-2023 and we are still asking if the pain of the bear market in equities and fixed income from 2022 is behind us.

Granted, the first half of 2023 brought some relief to investors' portfolios, but uncertainty remains high.

Will the Fed finally pause rate increases and declare victory in its war with inflation?

Will the long fight over the debt ceiling put handcuffs on fiscal policy going forward?

Are more surprises lurking in the financials of regional banks?

These concerns, and more, are weighing on our minds as we head into the second half of the year.

Amid all this uncertainty, the forecasters who were bearish at the beginning of 2023 are, for the most part, doubling down on their dire market predictions.

Are they correct this time?

It's hard to know the level of conviction associated with these predictions. Rather than listening to the siren song of storytelling in the form of another market forecast to inform the construction of their portfolio, investors might be better served by building a resilient portfolio that doesn't depend on a forecast.

How well are 2023 market forecasts holding up? To the frustration of many market experts, equity markets exhibited strong performance in the first four months of 2023, with heavily beaten-down tech stocks leading the way.

Despite generally strong showings, fears of a recession and a corresponding equity market sell-off continue to dominate investor conversations.

These conversations are motivated in part by the still-inverted yield curve, with the two-year Treasury note trading at a 0.77% positive spread to the 10-year note.

Research indicates that an inverted yield curve is a powerful predictor of future recessions.

Specifically, all things equal, the expectation of an easing of future monetary policy still contains a recession signal.

That was evident first and foremost where interest rates, yields and inflation expectations were once again the key drivers of the stock markets,

This is where the U.S. and Europe split paths.

In the U.S., inflation concerns culminated at the end of May. Implied inflation expectations for the 10-year Treasury Inflation-Protected Securities (TIPS) which fell from 2.9% to below 2.6% at one point.

As a result, expectations about the level of the Fed funds rate at the end of 2022 also fell slightly over the month for the first time in ten months.

Thanks to verbal interventions by U.S. Federal Reserve (Fed) members, market concerns about a 0.75% hike by the Fed also faded.

In Europe bund yields told a different story, rising in May.

Since the European Central Bank (ECB) apparently noticed the threat of inflation even later than the Fed, market expectations also differed.

The market expected the ECB to raise interest rates by 120 basis points at the end of May, a rise from an expectation of around 90 basis points at the beginning of the month.

Given that Eurozone inflation rose to 8.1% in May, we can assume inflation could still climb higher.

The fact that interest rate expectations in the U.S. somewhat stabilized and that real yields no longer rose, probably helped equities, as did the fact that volatility across equities, bonds, and currencies also peaked at the beginning of May.

Globally, the energy sector once again led the way with a price increase of 12.7%, hardly surprising given the further 12.4% increase in the price of Brent crude.

Oil is likely up due to China's gradual Covid easing and EU oil sanctions against Russia.

In addition to oil stocks, financials also did quite well in May, with the S&P Financials up by 2.6%.

The mix of declining inflation expectations, high inflation figures, worsening growth concerns and spikes in volatility also left their mark on alternative investments.

Gold and silver fell by 3.1% and 5.4%, respectively, but that was nothing compared to the slump in crypto assets.

Their cumulative market value fell by about 17% and individual "currencies" lost more than 50% of their value.

Above all, the fact that so-called stable coins were unable to maintain their ("guaranteed") value against the dollar probably damaged confidence in this asset class considerably. Just another reason we do not subscribe to investing in crypto assets.

Mortgage Rates Continue to Rise

MCLEAN, VA, July 6, 2023 (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 6.81%.

The 30-year fixed-rate mortgage (FRM) averaged 6.81% for the week ending July 6, 2023 up from the previous week when it averaged 6.71%. A year ago, at this time, the 30-year FRM averaged 5.30%.

The 15-year FRM averaged 6.24%, up from the previous week when it averaged 6.06%. A year ago, at this time, the 15-year FRM averaged 4.45%.

(Beginning in November 2022, they no longer publish fees/points or adjustable rates.)

The PMMS is focused on conventional, conforming, fully amortizing home purchase loans for borrowers who put 20% 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 stated that mortgage rates continued an upward trajectory again this previous week, rising to the highest percentage point year to date.

He also noted that the upward trend is being driven by a resilient economy, persistent inflation, and a more hawkish tone from the Federal Reserve.

And that these high rates combined with low inventory continue to price many potential homebuyers out of the real estate market.

Social Security Rules for Divorcees

Social Security claiming rules are complicated and so is divorce.

When you combine the two, Social Security claiming rules for divorced spouses can be very frustrating.

If you are at least 62 years of age, unmarried and divorced from someone who's entitled to Social Security retirement or disability benefits, you may be eligible to receive benefits based on his or her record.

Most importantly, rule number one is you must have been married to your ex-spouse for 10 years or more.

It doesn't matter if your ex has remarried. If you are currently single, you may be able to collect benefits as an ex-spouse, and it won't reduce the benefits that your ex or your ex's new spouse collects.

If you remarry, you can't collect benefits on your former spouse's record unless your later marriage ends by annulment, divorce, or death.

The rules for claiming survivor benefits after the death of an ex-spouse are different.

If you are entitled to benefits on your own earnings record and as an ex-spouse, you can collect benefits on your ex's earning record only if they are larger than your own retirement benefit. People who were born on or before Jan. 1, 1954, may have additional claiming options.

Divorced individuals may be able to claim benefits as an ex-spouse, even if their former mate has not filed for Social Security, if the couple had been married for at least 10 years and divorced for at least two years, and both ex-spouses are at least 62 years old.

If a claimant delayed claiming benefits beyond their full retirement age, their retirement benefits would grow by 8% per year up to age 70 but spousal benefits would not.

Spousal benefits are only worth the maximum amount if claimed at their full retirement age. Spousal benefits do not earn delayed retirement credits.

If a claimant's ex dies first, they would be eligible for survivor benefits on their ex's earnings record. Survivor benefits are worth 100% of what the deceased worker was collecting or entitled to collect at time of death, including any delayed retirement credits.

If an ex-husband claimed his benefits before his full retirement age, the surviving spouse would receive a reduced benefit, but possibly more than he received when he was alive.

There is a special widow's minimum benefit rule that states a survivor who's at least full retirement age at the time of claim would receive the higher of what the deceased worker was claiming or 82.5% of the deceased worker's full retirement age amount.

In this case, if the ex-husband claimed his benefits at 62, he would receive 70% of his full retirement age amount, however, if he died and his ex-wife was at least full retirement age at the time, she would receive 82.5% of his benefit.

Social Security claiming rules for divorced spouses have many exceptions.

Although remarriage nullifies an ex-spouse's ability to claim spousal benefits on a living ex, an ex-spouse who remarries at age 60 or later is still able to claim survivor benefits, even if she or he is married to someone else at the time.

And as a reminder, spousal benefits while your ex is alive are worth up to 50% of his or her full retirement age benefits.

Alternately, survivor benefits after your ex dies are worth 100% which means your ex is worth twice as much dead as alive!

Discussing Inheritance With the Kids

Difficult to downright awkward question? Should you tell your kids how much they'll inherit?

To tell or not to tell, that is the question facing parents regarding the amount of their kids' inheritance.

The Great Wealth Transfer is now underway. According to the latest findings from the New York Life Wealth Watch survey, 15% of American adults will receive an inheritance in the next decade.

The study shows that adults expecting an inheritance anticipate receiving an average of $738,724.23.

That's not too shabby a sum if they can keep it, of course.

Unfortunately, the survey also shows that only 42% of adults who expect to receive an inheritance feel very comfortable financially handling the new wealth that will be passed down.

They are, however, feeling the impacts of inflation, as 58% of adults expecting an inheritance say inflation will have a medium-to-large impact on the sum.

We are in a chaotic economic environment.

Inflation and higher interest rates continue to make credit card debt a challenge, compounded by unexpected expenses and a lack of emergency savings. Even those who are set to receive an inheritance in the next 10 years do not feel entirely confident managing it.

The survey reported that 71% of those who anticipate receiving an inheritance state it will be from their parents or guardians, followed by 21% from a spouse.

When asked what they intend to do with their newfound wealth, 37% stated they will pay off existing debt, 35% will supplement their retirement savings, and 26% intend to preserve the inheritance with the intention of passing it down.

Financial and legal professionals need to make sure their clients' children understand the longevity risk associated with retirement assets and inheritances.

If parents haven't amassed substantial wealth during their lifespan, health care expenses and overall life costs will play a critical role.

A longer life could potentially use up a major portion of their assets.

On the other hand, individuals with higher net worth and effective planning more than likely have appropriate insurances and assets in place to manage the risk of longevity, enabling them to pass their wealth on to their children despite living longer.

Generally, only a few people openly discuss with their children what they're likely to inherit.

The usual explanation is that they don't want their kids to rely on the money and neglect their own savings. They also want their children to learn the value of hard work and financial independence.

Another interesting fact is the inheritance is received when individuals need them the least, typically in their 50s or 60s.

Inheritances benefit grandchildren the most as they are usually in their 20s or 30s. and most choose not to rely on the inheritance, unless it is expected to be substantial, to ensure they stay on track with their own financial goals, regardless of their parents' circumstances.

What is becoming more and more common is discussions about the purpose of their wealth and giving now when it might be more helpful to their children as opposed to at death.

If you are choosing to not treat all your children equally in your will, consider the importance of explaining your reasoning to them to dispel hurt feelings and future discord between family members.

We encourage an open dialogue between you and your children and moreover, be as forthcoming as is comfortable for them, stressing the fact that all things may change as a result of longevity risk and the possible need for assistance or elder care.

Is Inflation here to stay?

Only a few months ago, inflation rates in Western countries passed their high point and have been falling continuously ever since, however, core inflation is showing a concerning degree of persistence.

Inflation still exceeds 5% year-on-year in both the U.S. and the euro area which raises the question of whether inflation will fall back to the target of 2% in the foreseeable future or whether there are structural drivers that will keep inflation persistently on a higher level.

The D's (demographics, decarbonization, digitalization, deglobalization) are being used to justify why inflation should remain at 3%, 4%, or even higher for many years to come but there are reservations about this view.

First, the impact of these drivers seems to be overestimated and, in some cases, it is not even clear whether the correlation is positive or negative.

Second, these drivers only explain why relative prices must change.

They do not explain why all prices, or the inflation index, should rise faster than in the past, which is what higher inflation is all about.

Although structural forces of various kinds are at play, monetary policy has the power to contain inflation.

Many of the analyses that focus on structural inflationary forces ignore the influence of monetary policy on inflation.

After all, according to 1976 Nobel Laureate Milton Friedman, inflation is always and everywhere a monetary phenomenon.

However, this raises the legitimate question of whether monetary policy can act as decisively as it would like to, given the high indebtedness of governments and banks.

In other words, how does debt fit into the equation?

Labor shortages and wage pressure trends are frequently cited in the current debate on inflation. There is a legitimate argument that they are behind the rise in inflation.

With the retirement of the baby boomers from working life and the entry of a sparse younger work force into the labor market, the working-age population is shrinking, either in absolute terms, as in large parts of Europe or Asia, or in relative terms, as in the U.S.

This aging process is having a twofold impact. First, due to increased life expectancy, the proportion of older people in society is rising. They no longer work but continue to consume.

Secondly, with increasing age, consumption is shifting more toward services, which cannot be imported and must be produced in the country itself.

The constant, or even increasing, demand for labor coupled with declining labor supply puts workers in a better bargaining position and should lead to rising wages.

It can be argued that aging, and even more so, old societies are less dynamic for the inflation-dampening effect of demographic developments.

The ability to innovate and adapt decreases with age. When there is less innovation, there are fewer relative prices to adjust.

High inflation rates are usually found in countries that are developing dynamically. GDP growth and inflation rates are usually positively correlated. Over long periods of time, increases in populations have been accompanied by rising inflation rates.

What Is Artificial Intelligence (AI)?

Artificial intelligence (AI) refers to the simulation of human intelligence by software-coded heuristics.

It is based on the principle that human intelligence can be defined in a way that a machine can easily mimic it and execute tasks, from the simplest to those that are even more complex.

In 2022 AI was introduced into the mainstream through widespread familiarity with applications of Generative Pre-Training Transformer.

The most popular application is OpenAI's ChatGPT. The widespread fascination with ChatGPT made it synonymous with AI in the minds of most consumers.

The ideal characteristic of artificial intelligence is its ability to rationalize and take actions that have the best chance of achieving a specific goal.

A subset of artificial intelligence is machine learning (ML), which refers to the concept that computer programs can automatically learn from and adapt to new data without being assisted by humans.

Deep learning techniques enable this automatic learning through the absorption of

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huge amounts of unstructured data such as text, images, or video.

When people hear the term artificial intelligence, the first thing they think of is robots that wreak havoc on Earth. But nothing could be further from the truth.

Artificial intelligence is based on the principle that human intelligence can be defined in a way that a machine can easily mimic it and execute tasks.

Researchers and developers in the field are making surprisingly rapid strides in mimicking activities such as learning, reasoning, and perception, to the extent that these can be concretely defined.

Some believe that innovators may soon be able to develop systems that exceed the capacity of humans to learn or reason out any subject.

AI is being used in the healthcare industry for suggesting drug dosages, identifying treatments, aiding in surgical procedures and patient maintenance.

Other examples of machines with artificial intelligence include computers that play chess and self-driving cars. In chess, the end result is winning the game. For self-driving cars, preventing a collision.

Artificial intelligence also has applications in the financial industry, where it is used to detect fraudulent activity in banking and finance.

Applications for AI are also being used to help streamline and make trading easier. This is done by making supply, demand, and pricing of securities easier to estimate.

Artificial intelligence can be divided into two different categories: weak and strong.

Weak artificial intelligence embodies a system designed to carry out one job, such as Amazon's Alexa and Apple's Siri. You ask the a question, and it answers it.

Strong artificial intelligence systems are systems that carry on the tasks considered to be human-like.

These tend to be more complex and complicated systems programmed to handle situations where they may be required to problem solve without having a person intervene.

Since its beginning, artificial intelligence has come under scrutiny with a fear machines will become so highly developed that humans will not be able to control them. Other fears are that machines can be weaponized.

Artificial intelligence can be categorized into one of four types.

Reactive AI which uses algorithms to optimize outputs based on a set of static inputs to learn or adapt to novel situations producing the same output given identical inputs, i.e. computer games.

Limited memory AI can adapt to past experience or update itself based on new observations or data. Often, the amount of updating is limited, and the length of memory is relatively short.

Theory-of-mind AI are fully adaptive and have an extensive ability to learn and retain past experiences. These types of AI include advanced chat-bots that could fool a person into believing the AI was a human being.

Self-aware AI, become aware of their own existence but experts believe that it will never become conscious or "alive".

AI is used to make weather and financial forecasting, to streamline production processes, and to cut down on various forms of redundant cognitive tasks such as tax accounting or editing.

Frankly Funny

The patient looked a little worried when the doctor came in to administer his annual wellness exam, so the first thing the doctor did was to ask whether anything was troubling him.

"Well, to tell you the truth, Doc, yes," answered the patient.

"You see, I seem to be getting forgetful. I'm never sure where I put the car, or whether I answered a letter, or where I'm going, or what it is I'm going to do once I get there. So, I really need your help. What can I do?"

The doctor thought for a moment, then answered in his kindest tone, "You could pay me in advance."

Please make a note of the new address, 10100 W Sample Road, Suite 201, Coral Springs, FL 33065.