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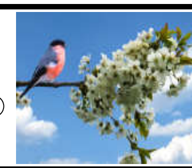

Welcome to the Q2-2023 issue of *Frank***lySpeaking**©, now in its 31st year. The purpose of this newsletter is to keep you informed of current issues and global events that could impact your finances. Please feel free to share your thoughts with us, as we welcome your comments.

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 U.S. economy is sending mixed messages and several leading indicators are shifting. The manufacturing sector is contracting, bank lending standards are tightening, companies are shedding temporary staff and hours, profit margins are compressing, and the Treasury yield curve is very inverted.

In contrast, many important comparable indicators were stronger than expected in recent months.

Consumer spending, headline job growth, wage inflation and price inflation all surprised to the upside in early 2023.

The Fed remains laser-focused on cooling the labor market and winning its inflation fight, so resilience in these key areas pressures the Federal Open Market Committee (FOMC) to consider rate hikes even into stresses in the banking system.

A very restrictive monetary policy stance and the difficulty of cooling the labor market without causing a large rise in unemployment leads us to conclude that a U.S. recession is more likely than not in the year ahead.

Economist Milton Friedman, an American economist and statistician who received the 1976 Nobel Memorial Prize in Economic Sciences for his research on consumption, famously noted "that monetary actions affect economic conditions only after a lag that is both long and variable."

The current cycle follows this principle. We have seen the most aggressive tightening by the U.S. Federal Reserve (Fed) since the early 1980s, yet payroll gains have averaged 407,000 over the first two months of this year and consumer spending growth is running close to trend.

European and Chinese growth have also surprised positively. The energy shock from the Russia/Ukraine war was supposed to throw Europe into recession over the northern winter, but growth has remained positive.

The unusually warm winter has boosted economic data in the U.S. and Europe, but there are also fundamental factors at play.

Consumers in both regions are benefiting from falling energy prices, job gains and improving real incomes. China is bouncing back following the easing of COVID-19 lockdowns.

It would be unwise, however, to sound the all-clear on the global growth outlook. Those long and variable lags are still very much in play.

Historically, it has taken an average of about two and a half years after the Fed's initial rate hike for a recession to commence. The first hike in this cycle was in March 2022.

The collapse of Silicon Valley Bank (SVB) in mid-March highlights the dangers from aggressive central bank hikes.

SVB's main problem was its large holding of long-duration bonds, which lost value as bond yields rose through 2022.

It bears little resemblance to the bank failures during the financial crisis in 2008 which were mostly due to losses on mortgage-backed securities.

The Federal Reserve Board announced the Bank Term Funding Program in March 2023, which offers loans of up to one year in length to banks, savings associations, credit unions and other eligible depository institutions pledging U.S. Treasuries, agency debt, mortgage-backed securities, and other qualifying assets should prevent SVB's problems from flowing onto other banks.

This was initiated to help mitigate the dangers caused by rapid monetary tightening.

The economic data resurgence combined with the threat of financial sector instability leaves central banks with difficult choices.

High inflation means more rate hikes are likely but worries about financial stability is reason for moving cautiously.

The banking system shock should also act as a form of monetary tightening through tighter lending standards.

The Fed is expected to initiate one to two more 25-basis-point rate hikes in the next few months.

Every cycle is different, but this one stands out because of the pandemic, which disrupted supply chains and pulled forward goods demand during the lockdowns.

Labor markets tightened quickly due to worker shortages caused by early retirement, increased long-term illness and lower immigration.

Large government support packages meant U.S. consumers were sitting on more than $2 trillion of additional savings when lockdowns were eased in late 2021.

Add on the energy shock from the Russia/ Ukraine war and the result is an inflation spike that has been larger and more persistent than most forecasters anticipated.

The current forecast is for a mild recession in the United States likely in the next 12-18 months.

The inverted yield curve is the indicator that most clearly signals recession risk.

The current negative spread (inversion) between the 10-year and 2-year Treasury yield means that bond investors think the Fed has tightened by so much that interest rates will be lower in the future.

Strong household and corporate finances are likely to limit the downturn to a mild recession.

A mild recession, however, implies that the cycle will be a headwind for equity markets as earnings and economic indicators deteriorate.

It is a more favorable environment for government bonds, which should provide investors with good diversification potential.

Mortgage Rates Decrease For Third Consecutive Week

MCLEAN, VA, March 30,2023 (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 6.32%.

The 30-year fixed-rate mortgage (FRM) averaged 6.32% for the week ending March 30, 2023 down from the previous week when it averaged 6.42%. A year ago, at this time, the 30-year FRM averaged 4.67%.

The 15-year FRM averaged 5.56%, down from the previous week when it averaged 5.68%. A year ago, at this time, the 15-year FRM averaged 3.83%.

(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 economic uncertainty has continued to bring mortgage rates down.

He also noted that declining rates have brought borrowers back to the market over the last several weeks, but, as the spring homebuying season gets underway, low inventory remained a key challenge for prospective buyers.

Banking Crisis 2023

Beware of the Ides of March, indeed! In recent years, capital markets faced unique events during March, each time leading many investors searching for shelter, literally and figuratively.

March of 2020 brought COVID-19 lockdowns, March of 2022 brought the Russian invasion of Ukraine into focus, and this year March brought the events of the Silicon Valley Bank (SVB) failure.

Let's start with, this is not a repeat of the 2008 global financial crisis (GFC). Today's banking "crisis" is far less severe than 2008, and it's not systemic.

The quality of overall bank assets and capital ratios are dramatically better. The central banks are now coordinating globally to offer banks daily access to the capital they need to operate smoothly.

SVB failed because of a mismatch between its short-term depositors, who were withdrawing assets, and its longer-term assets, mostly U.S. Treasuries, that had dropped in value as interest rates increased.

The banking system will almost certainly get more oversight and regulation. Much of this oversight will likely be focused on regional banks.

There will be investment opportunities within regional banks, but each bank will need to be evaluated on a case-by-case basis, not as a group.

More cash deposits are moving from regional banks to money market funds as clients look for higher returns on their investments without substantial risk.

Money market funds have been the biggest beneficiary of the failure, with over $286 billion of inflows in March which has brought money market balances to the highest level on record.

Bigger banks are also benefiting according to the Federal Deposit Insurance Corporation, as flows to the largest 25 banks increased by $120 billion.

So, who are potential winners in this scenario?

There will be many opportunities in income, especially fixed income and dividend paying equity.

Most favorable are investment-grade and sovereign debt, while the outlook for emerging market local currency debt also looks promising.

Non-U.S. equity is apt to be attractive as China reopens and Europe shows more resilience than expected.

Private credit will also be one of the beneficiaries. In the aftermath of the regional banking turmoil, private credit will likely replace some current regional bank loans.

Economists believe the current market disruptions may present the most attractive investment opportunity for private debt since the GFC.

Retirement Study

An 85-year ongoing Harvard study on happiness found the #1 retirement challenge that no one talks about is what really makes us happy in life?

The researchers gathered health records from 724 people from all over the world, asking detailed questions about their lives at two-year intervals.

As participants entered mid- and late-life, the Harvard Study often asked about retirement.

Based on their responses, the number one challenge people faced in retirement was not being able to replace the social connections that had sustained them for so long in the workplace.

It concluded that retirees don't miss working, they miss the people.

When it comes to retirement, we often stress about things like financial concerns, health problems and caregiving.

People who fared the best in retirement found ways to cultivate connections, yet, almost no one talked about the importance of developing new sources of meaning and purpose.

One participant, when asked what he missed about being a doctor for nearly 50 years, answered: "Absolutely nothing about the work itself. I miss the people and the friendships."

Another participant had a similar feeling. After retiring as a high school teacher, he found it hard to stay in touch with his colleagues.

He said that it was wonderful to help someone acquire the skills they needed for success but teaching young people was what started his whole process of exploring.

Taking on hobbies might not be enough. For many of us, work is where we feel that we matter most, to our workmates, customers, communities, and even to our families, because we are providing for them.

One participant had been abruptly forced into retirement by changes at his factory. He suddenly had an abundance of time and energy.

He started volunteering at the American Legion and Veterans of Foreign Wars. He put time into his hobbies, but something was still missing.

At age 65, he told researchers that he needed to work. Nothing too substantial, but he was learning that he loved being around people. He noted that to retire happy, you need to invest in your relationships now.

His realization teaches us an important lesson not only about retirement, but about work itself:

We are often shrouded in financial concerns and the pressure of deadlines, so we don't notice how significant our work relationships are until they're gone.

To create more meaningful connections, ask yourself, who are the people you most enjoy working with, what makes them valuable to you and do you appreciate them?

What kinds of connections are you missing and how can you make them happen?

Is there someone you'd like to know better and how can you reach out to them?

At the end of the day, notice how your experiences might affect your sense of meaning and purpose.

It could be that this influence is, on balance, a good one. But if not, are there any small changes you can make?

A former university administrator told the study in 2006 that she wished that she had paid more attention to the people and less to the problems.

Every workday is an important part of our personal experience, and the more we enrich it with relationships, the more we benefit. Work, too, is life.

Source: Robert Waldinger, MD, professor of psychiatry at Harvard Medical School, director of the Harvard Study of Adult Development, and director of Psychodynamic Therapy at Massachusetts General Hospital and Marc Shulz, PhD, associate director of the Harvard Study of Adult Development, and a practicing therapist with postdoctoral training in health and clinical psychology at Harvard Medical School.

Understanding Extended Care

Addressing the potential risks of extended-term care expenses may be one of the biggest financial challenges for individuals who are developing a retirement strategy.

Seventy percent of people over age 65 can expect to need extended care services at some point in their lives.

So, understanding the various types of extended care services, and what those services may cost, is critical as you consider your retirement approach.

Extended care is not a single activity. It refers to a variety of medical and non–medical services needed by those who have a chronic illness or disability, most associated with aging.

Extended care includes necessary assistance with all the activities of daily living.

Things like help dressing, bathing, using the bathroom, or even driving to the store.

It also includes more intensive therapeutic and medical care requiring the services of skilled medical personnel.

Extended care may be provided at home, at a community center, in an assisted living facility, or in a skilled nursing home and is not exclusively for the elderly; it is possible to need extended care at any age.

Extended care costs vary state by state and region by region. The 2021 national average for care in a skilled care facility, for single occupancy in a nursing home, was $108,405 a year.

The national average for care in an assisted living center, for single occupancy, was $54,000 a year.

Home health aides cost a median of $27 per hour, but that rate will substantially increase when a licensed nurse is required.

Often, extended care is provided by family and friends. Providing care can be a burden and the need for professional assistance will increase with age.

Individuals who would rather not burden their family and friends have two main choices for covering the cost of extended care. They can choose to self-insure, or they can purchase extended care insurance.

Many self-insure by default, simply because they haven't made other arrangements. Those who self-insure may depend on personal savings and investments to fund any extended care needs.

In many cases, those resources will run out and family members may have to provide support to continue care.

The other approach is to consider purchasing extended care insurance, which can cover all levels of care, from skilled care to custodial care to in-home assistance.

When it comes to addressing your extended care needs, you will have to select a strategy that may help protect your assets, preserve your dignity, and maintain your independence.

If those concepts are important to you, consider your approach to extended care.

Social Security The Elephant in The Room

For most Americans, Social Security has represented nothing more than some unavoidable payroll deduction with the positively cryptic initials of "FICA" and "OASDI" (Federal Insurance Contributions Act and Old Age, Survivors and Disability Insurance).

It hinted at a future that seemed both intangible and far away.

For others, they find themselves at a time of drawing on the promise that was made with those payments.

As the growing number of seniors become eligible for retirement benefits, questions and concerns abound.

Some question if Social Security is financially healthy and how much would their income benefit be?

Everyone wants to know how to maximize their benefits for their spouse and themselves.

Most important is when should you begin taking Social Security?

Answering these questions may help you derive the most from your Social Security benefit and potentially enhance your financial security in retirement.

Before you can answer these questions, you have to acknowledge the elephant in the room.

The Social Security system has undergone periodic scares over the years that have inevitably led many people to wonder if Social Security will remain financially sound enough to pay the benefits they are owed.

This is certainly a reasonable concern.

Social Security was created in 1935 during Franklin D. Roosevelt's first term. It was designed to provide income to older Americans who had little to no means of support.

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The country was mired in an economic downturn and the need for such support was strong.

Since its creation, there have been three basic developments that have led to the financial challenges Social Security faces today.

The number of workers paying into the system, which supports current benefit payments, has fallen from just over 8 workers for every retiree in 1955 to 2.8 in 2021. That ratio is expected to fall to 2.3 to 1 by 2038.

A program that began as a dedicated retirement benefit later morphed into income support for disabled workers and surviving family members.

These added obligations were not always matched with the necessary payroll deduction levels to financially support these additional objectives.

Retirees are living longer. As might be expected, medical technology and our understanding of healthy behaviors have led to a longer retirement span, potentially placing a greater strain on resources.

Beginning in 2010, tax and other non-interest income no longer fully covered the program's cost.

According to the Social Security Trustees 2022 annual report, this pattern is expected to continue for the next 75 years and the report projects that the trust fund could be exhausted by 2034, lacking any changes.

Social Security's financial troubles are real, but the prospect of its failure seems remote.

There are numerous ways to stabilize the Social Security system, including, but not limited to, increasing payroll taxes which, depending on the increase, could add years of life to the trust fund.

Raise the retirement age, which has already been done in past reforms and would save money by paying benefits to future recipients at a later age.

By taxing Social Security income for retirees in higher tax brackets, the tax revenue could be used to lengthen the life of the trust fund.

Rather than raise benefits in line with the Consumer Price Index (CPI), policymakers might elect to tie future benefit increases to the "chained CPI," which assumes that individuals move to cheaper alternatives in the face of rising costs. Using the "chained CPI" may make cost of living adjustments less expensive.

Reform is expected to be difficult since it may involve tough choices, but with Social Security playing such a key role for so many retired Americans, lawmakers are expected to come together and find solutions.

Source: 2023 FMG Suite, LLC.

Frankly Funny

A man buys a parrot and brings him home, but the parrot starts insulting him and gets really nasty, so the man picks up the parrot and tosses him into the freezer to teach him a lesson.

He hears the bird squawking for a few minutes, but suddenly, the parrot is quiet.

The man opens the freezer door, the parrot walks out, looks up at him and says, "I apologize for offending you, and I humbly ask your forgiveness."

The man says, "Well, thank you. I forgive you.

The parrot then says, "If you don't mind my asking, what did the chicken do?"

WE MOVED!

After more than 34 years in the same Coral Springs location, we have relocated the offices of Personal Financial Profiles, Inc. effective April 3rd.

Our new offices are only 1.2 miles away, so give us a call and stop by to see our updated location.

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

Our phone numbers and email addresses remain the same.