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*Frank*ly Speaking©

Welcome to the Q4-2021 issue of *Frank***lySpeaking**©, 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.

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In This Issue

Economic and Market Commentary

The U.S. economy has had its foot on the gas pedal since its sustainable reopening that began this past spring, with economic growth forecasts consistently revised higher amid elevated consumer confidence and improving activity metrics.

Given the resilient macroeconomic backdrop, the equity market was full speed ahead as the S&P 500 notched its seventh consecutive month of positive returns in August.

However, given the multitude of critical economic, political, and monetary policy events this month, this near-term gridlock should not lead to a premature end to the bull market. Rather, strong fundamentals suggest that patience will see the economy and equity market regain their speed as we go into 2022.

The fundamental factors supporting the continuation of the bull market far outweigh the short-term risks.

First, the Federal Reserve (Fed) confirmed an above-trend economic growth for the year ahead as it raised its 2022 GDP forecast from 3.3% to 3.8%.

Second, the streak of above-average earnings growth should continue through next year, with the projection of 15% earnings growth nearly double the average over the last 15 years.

Third, equity valuations, albeit high from a historical perspective, remain attractive relative to bonds.

And finally, companies are continuing to engage in shareholder-friendly actions.

At the Jackson Hole Symposium, Fed Chairman Powell continued to be transparent as he announced that economic conditions warranted the tapering of asset purchases, likely before year end.

Investors immediately looked to the September Federal Open Market Committee (FOMC) meeting for additional guidance and clarity.

As expected, the Fed continued to exercise caution due to the Delta variant and reiterated the definition between tapering and tightening (e.g., raising interest rates), an incredibly important distinction for markets to embrace.

Regardless of whether the official tapering announcement comes in November, as anticipated, with the first reduction in December, it is important to remember that the current pace of purchases is for emergency-use only and that an accommodative Fed will continue to be a tailwind even as quantitative easing is dialed back.

Senate Republicans strongly oppose the Democrats' proposed legislation that would tie the debt ceiling increase with emergency funding for natural disasters and Afghan refugees.

But as partisan as politics have become, cooler heads are expected to prevail and avoid a government shutdown and the first ever debt default.

It is important to dismiss the myth that a hostile government shutdown would result in a dramatic decline in equities.

Since 1980, there have been 15 shutdowns, with the median shutdown lasting a mere three days and while the S&P 500 declines in the week preceding the closure, the S&P index has rallied over 3%, on average, in the 30 trading days following.

The Delta variant temporarily slowed economic momentum, but limited shutdowns prevented a repeat of the catastrophic decline experienced last year.

While the Fed lowered its 2021 GDP projection for the first time in a year, the economy is still on pace for the best year of growth since 1984 as progress indicators remain elevated even during this surge.

The S&P 500 flirted with its first 5% pullback in more than 10 months in September, which would have ended the second longest stretch over the last 25 years.

While the equity market rebounded and quickly erased most of the decline, we continue to exercise caution in the near term, especially as we enter the seasonally weakest part of the year.

However, given continued robust economic growth and no signs of a recession, our bias is to hold existing equity exposure or add opportunistically on weakness.

It is important to avoid panic selling for two key reasons. First, we are currently in a seasonally weak period, which is followed by the seasonally strongest time of year, mid-October through year end.

And second, it historically takes 2 months to recover from a 5-10% pullback and ill-timed decisions can be detrimental to a portfolio.

In summary: The Federal Open Market Committee signaled that, if the economy continues to progress, a moderation in the pace of asset purchases may soon be warranted and would be most likely announced at the November policy meeting.

Officials have lowered their expectations of 2021 GDP growth to 5.9% versus 7.0% in June and raised their inflation forecasts to 4.3% versus 3.4% in June. They expect inflation to fall back to 2.2% in 2022 and 2023.

While the Fed is far from raising short-term interest rates, expectations of lift-off were moved forward.

Finally, politics are having a lesser-than-normal effect on markets and we would note that the lack of a market reaction could prolong the politicking, as previous market pressure has been a forcing mechanism on Congress to resolve disputes.

Mortgage Rates on the Rise

MCLEAN, VA, Sept. 30, 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 3.01%.

The 30-year fixed-rate mortgage (FRM) averaged 3.01% with an average 0.7 point for the week ending September 30, 2021, up from the previous week when it averaged 2.88%. A year ago, at this time, the 30 year FRM averaged 2.88%.

The 15-year FRM averaged 2.28% with an average 0.6 point, up from the previous week when it averaged 2.15%. A year ago, at this time, the 15-year FRM averaged 2.36%.

The 5-year Treasury-indexed hybrid adjustable-rate mortgage (ARM) averaged 2.48% with an average 0.3 point, up from the previous week when it averaged 2.43%.. A year ago, the 5-year ARM averaged 2.90%.

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% down and have excellent credit. Borrowers may still pay closing costs which are not included in the survey.

Sam Khater, Freddie Mac's Chief Economist, stated that mortgage rates rose across all loan types this week as the 10-year U.S. Treasury yield reached its highest point since June.

He added that many factors led to this increase, including the Federal Reserve communicating that it will taper its support of the capital markets, the broadening of inflation and emerging energy supply shortages which compound other labor and materials shortages.

Khater continued that mortgage rates were expected to continue to rise modestly which will likely have an impact on home prices, causing them to moderate slightly after increasing over the last year.

Time to Taper?

A recent survey of market participants shows they expect the Federal Reserve to announce a reduction in its $120 billion in monthly asset purchases in November and begin to taper in December.

The Fed is expected to cut purchases each month by $15 billion. The initial rate hike is not expected until the end of next year.

In early August, just before the spread of the Delta variant became a concern, many forecasted the announcement would come at the October meeting.

However, a minority of respondents now believe it will happen in October, compared to a majority who forecast a November announcement.

There are several who believe the Fed is taking risks with inflation that would be costly to reverse while providing no benefit to job creation.

One of the concerns is that the market still forecasts no rate hikes until the end of 2022.

In fact, expectations for rate increases have eased since the more positive days in the spring when the reopening gathered steam.

Back in April, the survey showed expectations for two quarter-point rate hikes next year. Now, just one is fully priced in.

That could be because respondents cut their growth forecast for the year largely as a result of the spread of the Delta variant.

When Will Inflation Normalize?

Without political interference, the Fed will likely stick to its long-term inflation target of 2%, with tolerance for above that near-term and has the tools to achieve that target.

Some believe that inflation is likely to significantly and persistently over-shoot the Fed's target due to supply side challenges.

Supply side challenges can be seen as a risk to slowing real growth more so than accelerating inflation.

This is because if commodity, labor, import, and other costs rise and are passed on to consumers on essentials, it will result in consumers having less money to spend elsewhere.

Consumers will be forced to tap into savings or borrowings to keep real spending unchanged if prices rise.

A wage-price rise would require growth in the money supply to sustain and cause excess reserves held at the Fed by the banks to start dropping to support the increase demand of cash in circulation.

If this occurs, the Fed would be forced to raise overnight rates or sell assets.

That said, there would be political risks facing the Fed in achieving its mandate, as well as the Fed's own concerns about risking recession by fighting inflation too aggressively.

Social Security Trust Fund to be Depleted

The Social Security trust fund, created to help pay future retirement benefits is projected to run out of money in 2034, one year sooner than previously predicted.

This is a result of the economic fallout from the Covid-19 pandemic.

The Social Security Board of Trustees released its annual report on the long-term financial status of the Social Security trust funds, projecting that the combined asset reserves of the retirement, survivor and disability programs would be depleted within 13 years, one year sooner than had been forecast in the previous year's report.

If this should occur, Social Security would only be able to pay 78% of projected benefits, this down from the 79% projection in the 2020 report.

The Old Age and Survivor Insurance (OASI) trust fund and the Disability Insurance trust fund are separate entities, however, the report presents information that combines the reserves of these two trust funds to illustrate the actuarial status of the Social Security program.

The 2021 trustees report is the first view of the impact of the Covid-19 pandemic on

Social Security's financial status.

The previous report, issued in April 2020, didn't reflect the job losses and resulting reduction in payroll tax collections caused by the pandemic. Additionally, involuntary retirements of older workers may have prompted them to claim Social Security benefits earlier than they had planned.

Social Security will continue to play a critical role in the lives of 65 million beneficiaries and 176 million workers and their families during 2021.

In 2021, the total annual cost of the program is projected to exceed total annual income for the first time since 1982 and is expected to remain higher throughout the 75-year projection period. As a result, asset reserves are expected to decline during 2021.

Social Security's cost has exceeded its noninterest income since 2010.

The report cautioned that there is an unusually large degree of uncertainty associated with the eventual effects of the Covid-19 pandemic and future projections could change significantly as more information becomes available.

During 2020, an estimated 174.8 million people had earned income covered by Social Security and paid payroll taxes, down from 178 million in 2019.

During the early months of the recession, more than 22 million Americans have filed for unemployment benefits, resulting in a sizable drop in payroll tax collections.

What's Behind the Housing Boom and can it Last?

Low inventories and an exodus from major cities helped lead to a housing boom but how long will the high demand last and what does it mean for future homebuyers?

The housing market emerged red-hot from the pandemic, with the median U.S. home price hitting a record $363,300 in June 2021, up 23.4% from the previous year.

This robust housing recovery is driven by long-term demographic trends, as well as strong earnings and household balance sheets, rather than just a temporary pull-forward of demand.

Here are some recent developments and their potential impact on the housing market:

- Strong demand should persist, despite flattening out. Increased demand began to emerge pre-pandemic.
- Millennials began to have children, which is typically the catalyst for moving into a single-family home.
- During the pandemic, demand surged. Trends to move out of urban centers and into single-family housing accelerated.
- Demand for new homes (reflected in homebuilder sentiment) has come down slightly but remains near historically high levels.
- Home supply has become constrained.
- The inventory of for-sale homes continues to be near all-time lows.
- Rising costs are causing homebuilders to be more cautious when they take requests for new homes.
- Building materials are becoming more expensive, particularly lumber. In addition, some homebuilding components have been in short supply, including windows, millwork and appliances.
- Labor shortages and longer wait times for municipal authorities to approve lot permits and entitlements have also contributed to longer build cycle times.
- Because builders don't want lead times to get overly extended, which would possibly result in lower margins, they're deliberately slowing down orders in line with the pace of production.
- Declining affordability is a possible headwind. Supply constraints have led to the widely reported conditions of bidding wars for existing homes, where homes are selling well above asking price.

These conditions lead to buyer fatigue where potential buyers absorb sticker shock on new home prices and often fail in multiple bidding wars.

While the recent rapid increase in home prices has dominated the discussion of the housing market, higher prices are at least partially offset by a move to lower the cost in suburbs or smaller cities and towns.

The National Association of Realtors (NAR) projects the duration of the housing upcycle will be longer than consensus expectations, supported by strong fundamentals, the tight supply of new and existing homes and continued secular demand from the millennial age regiment.

They continue to monitor mortgage interest rates, which have remained range-bound and could be a wild card.

More broadly, NAR further recognizes that since housing is an important driver of economic growth, a stronger housing market could help support the continued macroeconomic expansion and lift financial markets.

Source: National Association of Realtors as of June 30, 2021

Filing Final Tax Returns for the Deceased

When a family member passes away, there are many decisions that need to be made and many emotions to handle. The last thing anyone thinks about is taxes.

Unfortunately, even the deceased can't escape taxation. If the departed family member earned taxable income during the year in which they died, then federal taxes may be owed.

An 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.

Federal estate tax forms pertaining to the decedent's estate may need to be filed Form 1041, Form 706.

In reference to income taxes, the Internal Revenue Service generally gives you until April 15th 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 IRS provides instructions on all of 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 IRS guidelines.

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

In reference to estate taxes for an estate large enough, Form 706 (the United States Estate Tax Return) is due to the IRS within nine months of the death of the deceased, with a 6-month extension permitted.

The individual federal estate tax exemption is $11.7 million for 2021, so an estate smaller than $11.7 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, in IRS terminology, an "appointed personal representative", they must sign the return for the decedent. For a joint return, the spouse must also

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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

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 15th 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.

The information in this article is not intended as tax or legal advice. It may not be used for the purpose of avoiding any federal tax penalties. Please consult a professional with tax expertise if you find yourself in this situation.

2022 Social Security Cost-of-Living Adjustment

The Social Security Administration announced that Social Security and Supplemental Security Income (SSI) benefits for approximately 70 million Americans will increase 5.9% in 2022.

The 5.9% cost-of-living adjustment (COLA) will begin with benefits payable to more than 64 million Social Security beneficiaries in January 2022.

Increased payments to approximately 8 million SSI beneficiaries will begin on December 30, 2021.

The Social Security Act ties the annual COLA to the Consumer Price Index increase as determined by the Department of Labor's Bureau of Labor Statistics.

Some other adjustments that take effect in January of each year are based on the increase in average wages.

Based on that increase, the maximum amount of earnings subject to the Social Security tax, taxable maximum, will increase to $147,000 from $142,800.

Social Security and SSI beneficiaries are normally notified by mail starting in early December about their new benefit amount.

Most people who receive Social Security payments will be able to view their COLA notice online through their personal my Social Security account.

You can create or access your existing Social Security account online by going to www.socialsecurity.gov/myaccount.

Information about Medicare changes for 2022, when announced, will be available at www.medicare.gov.

For Social Security beneficiaries receiving Medicare, Social Security will not be able to compute their new benefit amount until after the Medicare premium amounts for 2022 are announced.

Source: Social Security Press Release October 13,2021

Frankly Funny

An elderly gentleman was telling his friend a story about his day but prefaced it with, "I know I shouldn't have done this, but I am 83 years old and I was in the McDonald's drive-through this morning when the young lady behind me leaned on her horn and started mouthing something because I was taking too long to place my order."

"So, when I got to the first window, I paid for her order along with my own."

The cashier must have told her what I had done, because as they moved up, she leaned out her window and waved to me and mouthed "Thank you," obviously embarrassed that I had repaid her rudeness with kindness.

When I got to the second window, I showed the cashier both receipts and took her food too.

Now she had to go back to the end of the queue and start all over again.

Note to self: Don't blow your horn at old people, they have been around a long time.

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