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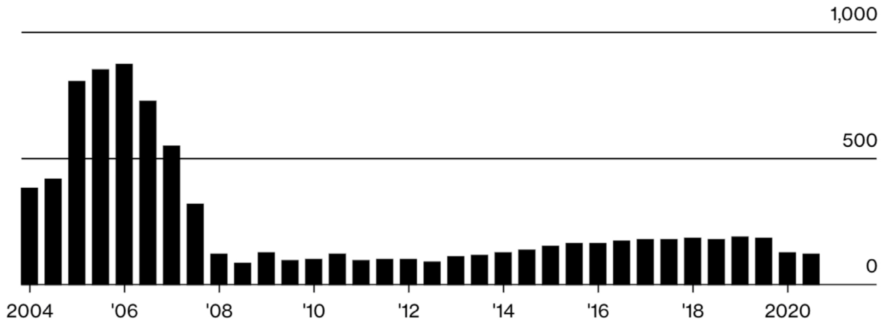
BOOMING HOME SALES

Mortgage Credit Availability Index

Semiannual



Data: Mortgage Bankers Association

Arguably the wildest consequence of the recent pandemic is the remarkable price boom in the U.S. housing market—which, some might remember, went spectacularly bust in the 2008-9 Great Recession collapse. Today, half of all houses put on the market are purchased in less than a week, often for more than the asking price. One recent poll found that most buyers admitted to bidding on homes they'd never seen in person. Home prices are at record highs; inventories are at record lows. More than half of homes on the market have been selling above the asking price—which is so far above the previous record that the statistic is simply offered in isolation. The average home price, as measured by the S&P CoreLogic Case-Shiller 20-city index, rose 13.3% in a single month, following a 12% jump the previous month.

One driving factor is historically low mortgage rates, around and sometimes below 3% currently. Investors have also stepped in; they bought 17% of all homes in April, and some might relable them speculators who believe (as many did in the runup to 2008) that prices have nowhere to go but up—forever.

But beyond that, prices have been driven up by simple economics and the laws of supply and demand. The number of homes for sale fell 21% recently, near a record low that dates back to 1982. New home construction has been slow due to a severe lumber shortage, and we are still feeling the effects from 12 years ago, when the Great Recession knocked the construction industry back on its heels. At the same time, millennials—many of them too financially-constrained to have bought houses at normal interest rates—are storming into the housing market, ending forever the trope of boomerang kids living in their parents' basement.

Does all this signal another housing bubble? Are we now destined to live through another Great Recession when a housing bubble bursts? Fortunately, there are a few checks and balances on the current boom that were not in place back in 2006-7 when the seeds of the Great Recession were planted. For one thing, lenders are no longer handing out mortgage loans like candy, with zero documentation. Today's lending standards are higher even than the requirements of the Dodd-Frank act of 2010, which was passed in response to the financial crisis. Loans today are generally smaller in proportion to house values, and leverage is down on owners' balance sheets. You can see the difference in the accompanying table; today's mortgage credit availability looks nothing like it did during the previous residential housing boom years.

That doesn't mean that housing prices won't collapse at some point in the future. One possible trigger would be a sudden rise in mortgage rates, which would cool demand significantly. But even that wouldn't trigger defaults; according to the Mortgage Bankers Association, just 0.1% of mortgage loans issued this year are tied to adjustable rates. That's compared to about 60% during the bubble years of the mid-2000s.

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PROTECTING ELDER AMERICANS

There have been reports that so-called "elder abuse" in a financial context is on the rise, costing elderly Americans an estimated $36 billion last year alone. By one estimate, roughly one in three older Americans has been scammed in the past five years—what an official at the Institute on Aging calls "an elder financial abuse epidemic." Sadly, only one in 44 elder abuse cases are ever reported—the victimizers regard stealing from older Americans as a low-risk crime.

There is now a whole dark infrastructure of schemes to fool people in the early stages of dementia into parting with their money, including investment scams aimed at people with marginal retirement assets who want to boost their income, and pop-up messages on websites that trick the victim into downloading a virus that sends personal information to the scammers. Seniors are often targeted by fraudulent telemarketing calls, including solicitations for nonexistent charities or a frantic phone call saying that a beloved relative is stranded and needs money wired to him.

The newspapers offer lurid stories of how scammers convince seniors that they've won a big sweepstakes contest; all they have to do is pay duties and taxes in order to get the payout. $25,000 later, the scammers have stopped answering the emails, and of course the sweepstakes payout never arrives. In other cases, a scammer would get hold of seniors' personal information, forge their names and open fraudulent bank accounts, siphoning retirement dollars until there was nothing left.

In a financial context, a broker might suddenly appear in the picture and start high-commission trading in unsuitable investments, or talk the victim into taking out a loan on the home in order to increase the amount of commissions that could be generated. (This, of course, is called 'churning,' and it is not always clear when trading crosses the line to become an illegal activity—especially if the broker has gotten the customer to sign a document he or she may not understand.)

Many times, the abuse is an inside job; a caretaker or new 'friend' will appear on the scene and convince a retiree to give them power of attorney control over the finances, change their will or 'help them out' with increasing payment amounts. It is not uncommon for family members to be the perpetrators. In a recent case, the children of a wealthy widow joined a brokerage firm, took control of their mother's investment account and set about churning it to turn her money into their commissions. The mother had to go to court to get back control of her own (diminished) finances.

The red flags are easy to state but not always easy to spot: unusually frequent or unexplained withdrawals from a retiree's bank account, ATM withdrawals by an older person who has never used an ATM card, new "best friends" accompanying an older person to the bank, suspicious signatures on checks or outright forgery, bank statements that no longer go to the customer's home, a caretaker, relative or friend who suddenly begins conducting financial transactions on behalf of an older person

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without proper documentation, and altered wills and trusts. Jewelry or other personal belongings may be growing legs and leaving the home.

In some cases, a friend or relative might notice that the elderly person refuses to make eye contact when asked about these issues, and experiences shame or reluctance to talk about the problem.

The American Bankers Association offers some basic tips that might help retirees protect themselves, like: never pay a fee or taxes to collect sweepstakes or lottery "winnings," and never rush into a financial decision; instead, ask for details in writing and get a second opinion. Pay bills with checks and credit cards instead of cash to keep a paper trail, and if something doesn't feel right, back off. Feel free to say 'no.' After all, it's your money.

If relatives notice any of the warning signs, they should immediately investigate, and if they need assistance, they can contact Adult Protective Services in their town or state. And they should report all instances of elder financial abuse to the local police, who routinely investigate and prosecute fraud cases.

The bottom line here is that there are many people who can't be trusted with an elder person's finances. Perhaps the best protection is to find, in the elder person's personal circle, a son or daughter who unequivocally has the retiree's best interests at heart. In the professional world, attorneys and financial planners or investment advisors registered with the Securities and Exchange Commission are required to adhere to a fiduciary standard, which means putting the interests of the person they're advising ahead of their own interests at all times. (Brokers and 'vice presidents of investments' who work at brokerage firms are not required to live up to this high standard of care.) For those who can no longer protect themselves, there should be others willing to step in and provide that safety.

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READING RENAISSANCE

People are reading more, and we're not just talking about tweets and instant messages on their phones. The Publishing Perspectives organization's most recent report shows that sales of print books in the United States were up 29 percent over the same quarter in 2020—which means over 205 million books were sold, the highest volume of print sales since 2004. The biggest winner was adult fiction, up 35 percent, to 39 million units sold. Interestingly, after the political fallout that resulted when the Seuss estate pulled six titles from its Dr. Seuss catalogue, sales of Dr. Seuss books nearly doubled in the first quarter of this year.

But printed books don't tell the whole story of this new reading renaissance. Ebooks—that is, books loaded onto a smart device—experienced 17% gains in the year's first quarter.

Among the biggest sellers (aside from Dr. Seuss) were, in the adult fiction category, *Where the Crawdads Sing*, by Delia Owens and *American Dirt* by Jeanine Cummins. Popular adult nonfiction titles: *Too Much and Never Enough* by Mary L Trump, and *How to Be an Antiracist* by Ibram X. Kendi. Also notable was a juvenile fiction book entitled *The Bad Seed* by Jory John.

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2021 SECOND QUARTER INVESTMENT MARKET REPORT

The U.S. investment markets continued to defy gravity in the second quarter of the year, closing out the month of June—and the first half of 2021—at new record highs. This is the fifth consecutive quarter where the U.S. markets posted gains.

Everywhere you looked in a diversified portfolio, you saw gains in the second quarter. The Wilshire 5000 Total Market Index—the broadest measure of U.S. stocks—gained 6.49% in the second quarter, up 15.36% since January 1. The comparable Russell 3000 index is up 15.11% for the first half of the year.

Looking at large cap stocks, the Wilshire U.S. Large Cap index has gained 8.42% in value in the recent quarter, and is now up 15.45% in the first six months of 2021. The Russell 1000 large-cap index finished the first half of the year with a similar 14.95% gain, while the widely-quoted S&P 500 index of large company stocks rose 8.17% in the second quarter, to post a 14.41% return so far this year.

Meanwhile, the Russell Midcap Index gained 8.14% is up 16.25% so far in the year, posting a remarkable 62.03% gain since this time last year. The Wilshire Mid Cap index gained 7.40% in the quarter, for a 15.64% gain on the year.

As measured by the Wilshire U.S. Small-Cap index, investors in smaller companies, experienced a 5.09% gain in the second quarter, which brings the total return up to 16.66% this year. The comparable Russell 2000 Small-Cap Index is up 17.54% in the year's first six months. The technology-heavy Nasdaq Composite Index gained 11.25% in the second quarter, and is sitting on a 12.73% gain so far this year.

International investors saw their stocks rise over the second quarter, but not with the same bullish intensity that we're experiencing in the U.S. The broad-based EAFE index of companies in developed foreign economies gained 4.37% in the second quarter, for a 7.33% return for the first half of the year. In aggregate, European stocks were up 6.37% for the quarter, gaining 10.11% for the first half of the year, while EAFE's Far East Index has returned just 1.47% so far in 2021. Emerging market stocks of less developed countries, as represented by the EAFE EM index, gained 4.42% in dollar terms in the second quarter, and finished the first half of the year with a 6.46% gain.

Looking over the other investment categories, real estate, as measured by the Wilshire U.S. REIT index, posted a 12.84% gain during the year's second quarter, and is up 22.78% since January 1. The S&P GSCI index, which measures commodities returns, gained 14.67% in the second quarter, and is now up a remarkable 30.90% for the year. The energy and metals component of the index, which is influenced by the jump in oil prices, is up 37.62% so far in 2021.

In the bond markets, the rates on longer-term securities jumped from historically low rates to simply low rates. Coupon rates on 10-year Treasury bonds are yielding 1.465%, while 3 month, 6-month and 12 month bonds are still sporting barely positive yields. Five-year municipal bonds are yielding, on average, 0.51% a year, while 30-year munis are yielding 1.57% on average.

Five consecutive quarters of gains! All-time highs becoming a routine part of the news cycle! Have the markets banished volatility altogether?

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2021 SECOND QUARTER INVESTMENT MARKET REPORT

Of course, the answer is no. This investment climate is not unprecedented (the late 1990s come to mind), but the current investing climate is clearly far from normal. Stock market investing always comes with a certain amount of risk, even if the risks are sometimes temporarily hidden from view.

Just a week ago, there were widespread concerns that the economy was about to experience higher inflation; a 5% single month increase in the Consumer Price Index was the highest jump in 13 years. Investors were startled, to the extent that the U.S. Federal Reserve Board felt compelled to put out a statement saying that it expected the gain in consumer prices to be merely 'transitory.' Apparently investors took the Fed economists at their word; a quick drop in 10-year Treasury yields, when converted to the mathematics of bond market expectations, signals an expected inflation rate of 2% or less. Of course, the biggest investor in Treasuries at the moment (to the tune of $120 billion a month) is the Fed itself, so this may be an example of a government agency fulfilling its own prophecy.

But elsewhere, there doesn't seem to be any obvious cause for alarm. Hiring and consumer spending are rising, and small business owners' confidence has bounced back above its pandemic lows. Congress is about to pass some kind of a stimulative infrastructure bill, and interest rates remain low. Corporate earnings are projected to come in at record levels by the end of the year.

Of course, that doesn't mean we couldn't hit some rough patches in the second half of the year. Investor sentiment can be tricky, and bull markets have a tendency to end unexpectedly. The new variants of COVID-19 are an unknown factor, and eventually the government will have to stop juicing the economy with ever-greater amounts of money. We ought to be able to enjoy the gains we've experienced so far in the year without trying to project them out into the unknown future.

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