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Provided to you Exclusively
By **Foster Weeks**

Foster Weeks
Mortgage Specialist
Guarantee Mortgage
Office: 415-441-5050
Cell: 415-819-0534
Toll Free: 888-768-5626
E-Mail: fweeks@gmwest.com



For the week of May 21, 2007 --- Vol. 5, Issue 21

Last Week in Review ▶

HEY SKINNY! Last week, Steroid-pumped Stocks kicked sand in the face of the 97-pound weakling Bond market, and **home loan rates worsened by about .125% across the board.** What happened?

Here's the story - money invested out in the financial markets generally flows back and forth between Stocks and Bonds. This means that when Stocks are doing well, money is flowing out of Bonds as investors move their "safe" holdings into what they hope are winning positions in the Stock market. On the other hand, when the Stock market takes a turn for the worse, money flows right back out of Stocks and right back over into "safe haven" Bonds. This happens over and over, and is true on a large and small scale; from individual investors on up to massive institutional investors...the mindset is exactly the same.

As the Stock market has rocketed higher in recent days, investors want to get in on the action, and that money has to come from somewhere...and that's right, it's coming from Bonds. And when money is pulled out of Bonds, it means that Bond prices worsen, and home loan rates move higher like they did last week.

What should have helped Bonds was a friendly Consumer Price Index report, showing that inflation appears to be moderating. Inflation is the arch-enemy of Bonds, which deliver an investor a fixed return - the value of which is eroded by inflation. But just like the 97-pound weaklings wimpy friend at the beach, the good news on inflation wasn't strong enough to help Bonds or home loan rates regain their legs.

SPEAKING OF THE BEACH...EVER SEE THOSE DUDES GOING AROUND WITH METAL DETECTORS, AND WONDER JUST WHAT THEY'RE UP TO? MIGHT BE SEEKING OLD WAR RELICS, OR PERHAPS A VALUABLE COIN - BUT YOU WON'T NEED A MACHINE TO FIND A NEW COIN THAT'S WORTH ROUGHLY 50 TIMES IT'S FACE VALUE DUE TO A MINT ERROR. IT COULD BE IN YOUR POCKET RIGHT NOW, SO DON'T MISS THIS WEEK'S MORTGAGE MARKET VIEW.

Forecast for the Week ▶

What's in store for the week ahead? First, a short - but relevant - history lesson. World War I was sometimes called the "War of the Trenches", because of the unique way that ground battles were fought. A long trench was dug by each opposing force, and they would fight between the two trenches, using the trench itself for cover as needed. Whichever side won that particular battle would advance forward, taking over their opponent's trench and proceeding to fight forward. Now - look at the chart below, and imagine you are in a hot air balloon, looking down over a WWI battlefield. C'mon, use your imagination.

You can see that the 200-day Moving Average has been a very tough "trench" held firmly by the Bond Bulls, who have kept Bond prices above this level for the past nine months running and subsequently, kept home loan rates low. But just this week, the Bond Bears have finally penetrated and defeated this tough trench. And as Bond prices have fallen, home loan rates have risen. And in the past, this particular trench - the 200-day Moving Average - has been a real tough one to beat. In fact, last time Bond prices fell below this level, it took an eighteen month battle to win the trench back, and help home loan rates improve!

This means that the overall trend for home loan rates doesn't look too positive in the coming months, unless some very Bond-friendly news makes its way to the front lines. And with a thin economic calendar in the week ahead - don't expect any significant improvements in the near term.

Chart: Fannie Mae 5.5% Mortgage Bond (Friday May 18, 2007)



The Mortgage Market View... ▶

HAIL TO THE CHEF!

Oops...meant to say "Chief!" Errors are common, but generally not for the US Mint. Because they rarely make a mistake, their recent mishap is causing the value of some newly minted - yet flawed - coins to skyrocket.

The United States is honoring our nations Presidents by issuing Dollar coins, which feature their images. And as a side bonus, the US also saves money, because coins stay in circulation longer than paper currency - yet it remains to be seen if we will adapt to clunky coins instead of paper in our pockets. The new coins will feature four different Presidents each year, appearing in the order in which they served, beginning in 2007 with Washington, Adams, Jefferson, and Madison. The Dollar coins will be unique in design with each having the name and likeness of the President, the term of office, and a number indicating the order in which the President served. Additionally, the standard inscriptions traditionally found on the face of coins have been moved to the edge. The inscriptions "E Pluribus Unum (out of many, one)", "In God We Trust", the year of minting, and the mint mark have all been moved to the edge of the coin.

And with any big change to design...there is always room for error. Sure enough, some of these new coins will quickly come off the market, because the US Mint made a mistake. The value of these rare coins is now up 5000%, and still climbing.

Here's what happened. The U. S. Mint placed a significant, but undisclosed, amount of new dollar coins into circulation without the inscriptions around the edge. These \$1 coins are now worth \$50 a piece to collectors! That's right, fifty times the actual face value. Obviously, something went wrong during the six-step process to allow this to happen. Here's the procedure:

Blanking - The U.S. Mint buys strips of metal rolled in a coil that are about 13 inches wide and 1,500 feet long. The coil is fed through a blanking press which punches out round disks called blanks.

Annealing, Washing and Drying - The blanks are then heated in an annealing furnace to soften them and then run through a washer and dryer.

Upsetting - The blanks go through an upsetting mill to raise the edges of the coins.

Striking - Coins go to the coining press and they are stamped with the designs and inscriptions.

Inspecting - Press operators use magnifying glasses to spot-check struck coins.

Counting and Bagging - Coins are dropped into bags, sealed shut, and held in a vault until shipped to the Federal Reserve.

Nabbing one of these could turn a tidy profit for you with an even greater price tag in the future. But be careful - The US Mint has issued a warning on their website that scam artists are actually grinding the rims of Presidential \$1 Coins to remove the inscriptions, then marketing them as US Mint "error coins".

In Philadelphia or Denver, you can actually take a fascinating tour of a US Mint location. To learn more - or take a virtual tour - click here: [Tour the US Mint](#)

The Week's Economic Indicator Calendar ▶

Remember, as a general rule, weaker than expected economic data is good for rates, while positive data causes rates to rise.

Economic Calendar for the Week of May 21 – May 25

Date	ET	Economic Report	For	Estimate	Actual	Prior	Impact
Wed. May 23	10:30	Crude Inventories	5/18	NA		1061K	Moderate
Thu. May 24	08:30	Durable Goods Orders	Apr	1.0%		3.7%	Moderate
Thu. May 24	08:30	Jobless Claims (Initial)	5/19	315K		293K	Moderate
Thu. May 24	10:00	New Home Sales	Apr	860K		858K	Moderate
Fri. May 25	10:00	Existing Home Sales	Apr	6.10M		6.12M	Moderate

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**Foster Weeks
Guarantee Mortgage
1860 Lombard St
San Francisco, CA 94123**

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