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For the week of Oct 27, 2008 --- Vol. 6, Issue 44

Last Week in Review ▶

"JUST ANOTHER MANIC MONDAY..." The Bangles. And last week wasn't just another manic Monday, as the markets were wild the entire week. During the past two months in the stock market, there have been 19 trading days with a 3% move. It had previously taken 6 years to see 19 days with a 3% move.

Bonds and home loan rates began the week with a strong rally on news that the world's largest Bond Fund, PIMCO, raised its stake in Mortgage-Backed Securities to its highest in over seven years. Also helping Bonds and home loan rates break above important technical levels were poor earning reports by companies like DuPont, Texas Instruments, Merck, Wachovia, and Boeing.

However, the gains were short lived as both Stocks and Bonds worsened on Friday after heavy selling took place in Asia and Europe. The waves of panic selling started in Japan due to weak earnings reported by Sony and Samsung, then spilled over into the UK as Britain's economy shrank for the first time since 1992, signaling a recession.

And while a strong sell-off in Stocks would typically cause money to flow into Bonds, helping Bonds and home loan rates improve, there is currently a bit of a departure from the normal "see-saw" trading you may typically see between Stocks and Bonds. This is occurring because securities must be liquidated to raise capital. In an effort to offset margin calls, all securities are being cashed in. Additionally, fear from individual investors, where people throw in the towel and want to get out of the market, is creating massive redemptions from fund managers. **Despite the continued volatility and massive action of the last week, Bonds and home loan rates ended the week very close to where they began.**

FORGETTING TO CHANGE YOUR CLOCKS CAN CAUSE A MANIC MONDAY WHEN DAYLIGHT SAVING TIME COMES AROUND! CHECK OUT THIS WEEK'S MORTGAGE MARKET VIEW FOR SOME FASCINATING FACTS ON THIS YEAR'S DAYLIGHT SAVING TIME.

Forecast for the Week ▶

This week, several scheduled items could cause some more manic movements in the markets...and the biggest of all could be the Fed Policy Statement and Rate Decision that will come on Wednesday, following the wrap of the Fed's regularly scheduled Federal Open Market Committee meetings. Remember: The Fed joined with other central banks from around the world and cut their benchmark Fed Funds Rate earlier this month to help restore confidence to the financial markets. The Fed is widely expected to cut its benchmark rate again this week, and some people are wondering if the Fed could go where it has never gone before and bring the rate below 1%.

Other important reports to note this week include Wednesday's Durable Goods Orders, which is a measure of how many "durable" or non-disposable goods have been purchased during the previous month, and Thursday's Gross Domestic Product (GDP) Report, which is the broadest measure of economic activity. Also, on Friday we will get the details on the Fed's favorite gauge of inflation, the Core PCE (Personal Consumption Expenditure) data, from the Personal Income report. Each of these reports will be telling, given the growing talk of recession.

Before all of this, there will also be housing news in store with Monday' New Home Sales Report. Last week, we learned that Existing Home Sales jumped to a thirteen-month high as foreclosures continue to drive down home prices, and it will be important to see if a similar trend is occurring with New Home Sales.

If the economic news this week is dismal, Bonds and home loan rates may be the beneficiary and find some improvement...but the words and actions of the Fed are likely to be the primary driver for interest rate action this week. As always, I will be watching closely and would welcome your calls with any questions you may have on your own situation, and how the changes of the week may impact you.

Chart: Fannie Mae 6.0% Mortgage Bond (Friday Oct 24, 2008)



[The Mortgage Market View... ▶](#)

Turning Back the Hands of Time

The sun is about to set on another season of Daylight Saving Time. In case you hadn't noticed, Daylight Saving Time (DST) began earlier last spring and ran longer into this fall. But, alas, all good things must come to an end...and this year Daylight Saving Time ends Sunday, November 2nd.

The extra month that we enjoyed was actually the result of the Energy Policy Act, which was enacted by Congress back in 2005 and first went into effect last year. Originally, the bill was written to extend Daylight Saving by two months, but some very verbal opponents fought the change. Farmers say that DST has a negative impact on their livestock in general--as it is tough for them to adapt to the time change, and they consequently produce less milk, eggs, etc. Because DST is not followed uniformly around the world, airlines claim that it might mean many missed international flight connections. Additionally, TV and Cable stations argued that they would lose viewers and advertising revenue, simply due to less time spent in front of the television because of more time spent outdoors in daylight.

So a compromise of one additional month of DST was reached. However, Congress did retain the right to revert back to the old dates if the change proves to be widely unpopular, or if the energy savings aren't significant.

Why is Daylight Saving Time Longer?

Despite the concerns listed above, Americans overwhelmingly like Daylight Saving Time. There is simply more sunlight in the evenings to enjoy the outdoors and get things done. Additionally, there may be emotional

benefits, as we typically feel better with more daylight.

Plus, additional hours of daylight can help save energy on a national scale. Less electricity is needed, as fewer lights are turned on as early in the evening...and with energy costs so high, even a small amount of savings is very welcome.

And brighter is safer - studies have shown that the DST shift reduces traffic accidents. An increase in accidents in the dark mornings is more than offset by the evening decrease in accidents, due to the increased visibility gained with more sunlight. Halloween is also arguably safer. Child pedestrian deaths are four times higher on Halloween than any other night of the year. By extending Daylight Saving Time, however, trick-or-treaters are able to spend an extra hour gathering treats while it's still light out. Candy manufacturers are happy too, as they've lobbied for years to have DST extended through Halloween.

A study by the US Law Enforcement Admin also determined that crime is consistently lower during DST, with violent crimes down as much as 10% to 13%. For many crimes, like mugging, darkness is a factor--so more light in the evening hours reduces these types of crimes.

Falling Back... Manually

Since DST has been extended, you'll want to double-check all of your electronic devices and confirm that the time is correct. Although you may be accustomed to your computer and maybe even your digital clock in your car automatically updating, the recent change of dates for Daylight Saving Time may require that these devices be manually changed, as they now may NOT be ready to update to the correct time on the correct date!

So keep an eye on your electronic devices and remember to change your clocks on Sunday, November 2nd as we turn back the hands of time once again!

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 October 27 – October 31

	Date	ET	Economic Report	For	Estimate	Actual	Prior	Impact
Mon.	October 27	10:00	New Home Sales	Sept	450K	464K	452K	Moderate
Tue.	October 28	10:00	Consumer Confidence	Oct	54.0		59.8	Moderate
Wed.	October 29	08:30	Durable Goods Orders	Sept	-0.5%		-4.5%	Moderate
Wed.	October 29	10:30	Crude Inventories	10/25	NA		3182K	Moderate
Wed.	October 29	02:15	FOMC Meeting					HIGH
Thu.	October 30	08:30	Jobless Claims (Initial)	10/25	473K		478K	Moderate
Thu.	October 30	08:30	Gross Domestic Product (GDP)	Q3	-0.5%		2.8%	Moderate
Thu.	October 30	08:30	GDP Chain Deflator	Q3	4.0%		1.1%	HIGH
Fri.	October 31	08:30	Employment Cost Index (ECI)	Q3	0.7%		0.7%	HIGH
Fri.	October 31	08:30	Personal Income	Sept	0.1%		0.5%	Moderate

Fri. October 31	08:30	Personal Spending	Sept	-0.1%	0.0%	Moderate
Fri. October 31	08:30	Personal Consumption Expenditures and Core PCE	Sept	NA	0.2%	HIGH
Fri. October 31	08:30	Personal Consumption Expenditures and Core PCE	YOY	NA	2.2%	HIGH
Fri. October 31	09:45	Chicago PMI	Oct	49.7	56.7	Moderate
Fri. October 31	10:00	Consumer Sentiment Index (UoM)	Oct	67.0	57.5	Moderate

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As your trusted advisor, I am sending you the *MMG WEEKLY* because I am committed to keeping you updated on the economic events that impact interest rates and how they may affect you.

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