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For the week of Oct 29, 2007 --- Vol. 5, Issue 44

Last Week in Review ▶

THINGS COULD BE WORSE...much worse. While last week's news showed some weakness in housing and a few assorted economic reports, the Stock market seemed to fare pretty well with good reports recently from big bellwethers such as Apple and Microsoft. **And home loan rates were stable to slightly improved for the week overall.** But let's look back in time to exactly 78 years ago today, October 29th, 1929.

This day saw such crushing damage for the Stock market that it lives in history as "Black Tuesday", and is generally thought of as the day that sent the US into the Great Depression, where unemployment rates rose to a whopping 25%. Imagine one out of four of your neighbors, friends, and family members all being unemployed! So while last week's readings on housing, manufacturing and general consumer sentiment came in a bit weaker than expected - things could certainly be much worse.

And many of the soft economic reports helped confirm the market's general belief that the Fed will again cut the Fed Funds Rate at their upcoming meeting. But what will this mean for home loan rates? Read on to find out what even the media consistently seems to get wrong.

ONE THING YOU WON'T WANT TO GET WRONG IS EXAMINING THE OPPORTUNITY TO INVEST IN A 401K...BUT DO YOU KNOW WHAT KIND TO SELECT? THERE ARE SOME NEW OPTIONS THAT MAY BE AVAILABLE TO YOU - SO DON'T MISS THIS WEEK'S MORTGAGE MARKET VIEW.

Forecast for the Week ▶

They say to be careful what you wish for...and with Halloween just around the corner, kids aren't the only ones wishing for a "treat". This Wednesday, October 31st, The Fed will decide if the financial markets will get a treat of their own with another cut to the Fed Funds Rate. It is very fitting that the decision on whether or not the Fed cuts rates happens on Halloween, because the "treat" may be a bit "tricky".

A Fed rate cut typically helps the economy and the stock market, but inflation hating Bonds and home loan rates usually have a negative reaction to a cut. This was evident last month, when the Fed's .50% cut sent Stocks soaring, but caused Bonds and home loan rates to worsen.

So should the Fed deliver another cut, Stock prices should enjoy a nice start to November, which is already historically the best performing month for Stocks since 1990. But it isn't a party for all, as rates on savings accounts will decline and home loan rates will likely blip higher. Additionally, Adjustable Rate home loans may be more in vogue, as the initial start rates will offer bigger discounts compared to Fixed Rate options.

A look at the chart below shows that Mortgage Bond prices are almost exactly where they were before the last

Fed cut in September. Notice how Bond prices dropped right after the cut, which caused home loan rates to worsen. **And should the Fed cut on Wednesday, it is quite possible that in response, home loan rates will worsen once again.**

Chart: Fannie Mae 6.0% Mortgage Bond (Friday Oct 26, 2007)



The Mortgage Market View... ▶

A NEW 401(K) OPTION...

Last year, Congress authorized a new twist to the standard 401(k) plan that most employers offer. The new option, called a Roth 401(k) is just what it sounds like, a blend of the standard 401(k) and a Roth IRA.

So what's the difference?

As opposed to the standard 401(k) plan, where the initial contributions are not taxed, but your future withdrawals will be taxed, the Roth 401(k) allows for the opposite, which means that your contributions will be taxed today, but your withdrawals will not be taxed.

Of course, you do not pay tax on either type of account on an annual basis, as opposed to the capital gains taxes that are imposed on investments held outside of retirement accounts.

Which is the better option?

First and foremost - regardless of which option you choose - it is always a good plan to be investing for your retirement, especially when you are able to achieve tax benefits as a result.

You can select the best option for you by anticipating if your tax rate will be higher when you retire than it is today. If you are younger and just starting your career, it is likely that your current tax rate is lower than it will be in your retirement. Conversely, if you are in the height of your earning years, the reverse is probably true--your retirement income will likely be lower than your current earnings. The wild card is that the government may change the existing tax brackets by the time you retire.

So will taxes 20, 30, 40 years from today be higher or lower than current rates? While no one has a perfect crystal ball, and wanting to avoid a political discussion about economics, it would probably be safer to assume that taxes will be higher in the future than they are today. And if taxes withheld from your retirement are less, then it will give you more to spend.

Availability

At this time, only about 20-25% of employers are offering the new type of plan, but the number of participating companies is expected to grow steadily - so ask your human resource department about it if you are interested. Also, note that any payroll match that you receive from your employer will be based on the standard 401(k) plan and be taxed at withdrawal.

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 29 – November 02

Date	ET	Economic Report	For	Estimate	Actual	Prior	Impact
Tue. October 30	10:00	Consumer Confidence	Oct	100.0		99.8	Moderate
Wed. October 31	08:30	Gross Domestic Product (GDP)	Q3	3.1%		3.8%	Moderate
Wed. October 31	08:30	Chain Deflator	Q3	2.1%		2.6%	HIGH
Wed. October 31	08:30	Employment Cost Index (ECI)	Q3	0.9%		0.9%	HIGH
Wed. October 31	09:45	Chicago PMI	Oct	53.0		54.2	HIGH
Wed. October 31	10:30	Crude Inventories	10/26	NA		- 5288K	Moderate
Wed. October 31	02:15	FOMC Meeting					HIGH
Thu. November 01	08:30	Jobless Claims (Initial)	10/27	325K		331K	Moderate
Thu. November 01	08:30	Personal Consumption Expenditures and Core PCE	YOY	1.7%		1.8%	HIGH
Thu. November 01	08:30	Personal Consumption Expenditures and Core PCE	Sept	0.2%		0.1%	HIGH
Thu. November 01	08:30	Personal Spending	Sept	0.4%		0.6%	Moderate
Thu. November 01	08:30	Personal Income	Sept	0.4%		0.3%	Moderate

Thu. 01	November	10:00	ISM Index	Oct	52.0	52.0	HIGH
Fri. 02	November	08:30	Non-farm Payrolls	Oct	90K	110K	HIGH
Fri. 02	November	08:30	Unemployment Rate	Oct	4.7%	4.7%	HIGH
Fri. 02	November	08:30	Hourly Earnings	Oct	0.3%	0.4%	HIGH
Fri. 02	November	08:30	Average Work Week	Oct	33.8	33.8	HIGH

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