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For the week of Dec 17, 2007 --- Vol. 5, Issue 51

### Last Week in Review ▶

**"LIFE IS NEVER BORING...BUT SOME PEOPLE CHOOSE TO BE BORED." Wayne Dyer** Yet even if Traders had wanted to be bored last week, the financial markets had other plans. Volatility reigned supreme, with large swings throughout the week in Stocks, Bonds, and home loan rates — **and once the smoke cleared, home loan rates were slightly worse than where they began the week.**

What caused all the volatility? You name it — continuing concerns on the liquidity and stability of the financial markets; the Federal Reserve at work, cutting the Fed Funds and Discount Rates by .25% and the opening of a new auction facility; a red hot Retail Sales Report; and last but certainly not least, the Producer and Consumer Price Indices both showing inflation to be much higher than expected.

The big mover was the Fed rate cut of .25%, which was a disappointment to the financial markets, as a deeper cut was hoped for. The reaction was very negative for stocks, as the fear of a recession amidst the current credit crunch grows. There are increasing concerns that the Fed is not getting ahead of this problem.

But it is not an easy job for the Fed because they may be fighting a possible recession with a hand tied behind their back...this is due to higher levels of inflation. Surely inflation is still at reasonable levels, but even a little stronger inflation can take a major toll on our lifestyle over time. High levels of inflation have caused unrest, revolt, poverty and wars. It is possible that the Great Inflation of 1920 in Germany eventually led to WWII. During that time, prices rose over an almost unimaginable 1000 times a year! Savings were wiped out and imagine this...the cost of a loaf of bread went from 20 Marks to 20,000 to 20,000,000. And in Mexico, hyperinflation caused a crisis in the peso that has led to extreme levels of poverty. Of course, the US is nowhere close to this type of problem, but inflation is a very serious issue. And with the current rate of inflation in the US ticking higher and towards the upper range of acceptable limits, additional Fed cuts would push inflation even higher. So should the Fed risk a recession to protect against inflation or move to avoid recession and risk inflation? This will likely be one of the hotter economic topics of 2008.

So the week was certainly far from boring — and the volatility may just continue ahead. Yet overall, home loan rates continue to be at very low levels — so if you, or a client, friend, family member or neighbor have been contemplating a refinance or home purchase — now is the time to start making plans. Although the holiday season is a busy time, I am glad to make time for you and your referrals. And even if you don't have a home loan need at the present time — it's always wise for us to examine your overall debt structure and financial goals, just to ensure that you are positioned in the best possible way.

**AND SPEAKING OF PLANNING...WHAT WOULD YOU DO IF \$64,000 LANDED IN YOUR LAP TOMORROW? YOU MIGHT HAVE A FEW IDEAS IN MIND INVOLVING A TROPICAL HOLIDAY — BUT WOULD YOU REALLY KNOW WHAT TO DO IF YOU SUDDENLY CAME INTO AN INHERITANCE? THAT'S THE QUESTION OF THE DAY — SO DON'T MISS THIS WEEK'S MORTGAGE MARKET VIEW.**

### Forecast for the Week ▶

As we head into the week before the Christmas holiday, several economic reports are ready and waiting to be unwrapped a little early. Tuesday will bring a look at the housing market via Housing Starts and Building Permits; Thursday holds a final reading on third quarter GDP and the Philadelphia Fed Manufacturing report; but the biggest package of all will arrive on Friday morning, the Personal Income and Spending report with its imbedded read on Core Inflation with the Personal Consumption Expenditure index — which also happens to be the Fed's favorite measure of inflation.

As you can see in the chart below, Bonds are presently dancing on a nice floor of support at the 50-day Moving Average — and if it holds during the coming week, this will help home loan rates stay stable, and perhaps improve. **But if the news of the week has the scent of inflation, Bond prices could fall lower below the floor of support, which would cause home loan rates to rise.**

**Chart: Fannie Mae 5.5% Mortgage Bond (Friday Dec 14, 2007)**



[The Mortgage Market View... ▶](#)

### THAT'S THE \$64,000 QUESTION...

Most people won't inherit millions of dollars, but according to the AARP, the median amount of today's inheritance is about \$64,000. While that's not enough to provide financial security for life, it's still a lot of money and requires careful planning before deciding what to do with it. So therein lays the question — if you receive an inheritance — what should you do?

**Step One...Do Nothing:** Remember, this is an emotional time. You may have lost a loved one, you're receiving a sizable chunk of money, and your judgment may be clouded by emotion. Rather than make a decision you regret later, take some time to step back and think. In the meantime, put the money in a money market or savings account that will keep it safe, and allow you to access when you're ready.

**Check the Tax Laws:** Some inheritances are tax free, but some are subject to federal and state taxes. Make sure that you diligently record everything that you inherit and the date that you inherited it. Most important, seek advice from a tax professional before you decide what to do with the inheritance — you don't want to spend

money that you don't actually have. And if you need a referral to a great tax pro — just get in touch with me.

**Stick to Small Wishes:** Many people dream of a vacation home or taking a luxury cruise around the world. Receiving an inheritance may make those dreams seem within reach. Often, however, they're not realistic for your overall lifestyle and budget. So keep the splurging to a small gift for you or your family. Keep the big picture in mind for the rest of the money.

**Invest as Usual:** Don't gamble your inheritance away on a high-risk investment that doesn't make sense. Instead of thinking of it as “found money” or looking for a big score, treat it like the rest of your investments. Work with a professional advisor to determine which options and risk-level make sense, based on your entire portfolio and future plans — and feel free to contact me for a referral to a great financial pro.

***Remember, even a small inheritance deserves careful planning and consideration. This isn't a time to be swayed by emotions. Talk to a professional, make a plan, and stick to it. And if you'd like to talk about your own financial strategies and plans that might allow YOU to leave a great inheritance for your own heirs, just let me know. We can review your own debt structure and financial goals, and work with other great professionals to help make that dream a reality.***

**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 December 17 – December 21**

	Date	ET	Economic Report	For	Estimate	Actual	Prior	Impact
Mon.	December 17	08:30	Empire State Index	Dec	21.0	10.3	27.4	Moderate
Tue.	December 18	08:30	Housing Starts	Nov	1190K		1229K	Moderate
Wed.	December 19	08:30	Crude Inventories	12/4	NA		-722K	Moderate
Thu.	December 20	08:30	Gross Domestic Product (GDP)	Q3	4.9%		4.9%	Moderate
Thu.	December 20	08:30	Chain Deflator	Q3	0.9%		0.9%	Moderate
Thu.	December 20	12:00	Philadelphia Fed Index	Dec	8.0		8.2	HIGH
Fri.	December 21	08:30	Personal Income	Nov	0.5%		0.2%	Moderate
Fri.	December 21	08:30	Personal Spending	Nov	0.5%		0.2%	Moderate
Fri.	December 21	08:30	Personal Consumption Expenditures and Core PCE	Nov	0.2%		0.2%	HIGH
Fri.	December 21	08:30	Personal Consumption Expenditures and Core PCE	YOY	2.0%		1.9%	HIGH
Fri.	December 21	10:00	Consumer Sentiment Index (UoM)	Dec	74.3		74.5	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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