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For the week of Aug 30, 2010 --- Vol. 8, Issue 35

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**Forecast for the Week:** A consumer's perspective on the job of economic recovery.

**View:** Summer's not over... take a last-minute vacation with these travel tips!

## Last Week in Review ▶

**"It all depends on how we look at things."** Those words by Carl Jung describe the importance of perspective... which is exactly what last week's economic reports on home sales require! Existing Home Sales were reported well below expectations and a significant 27% decline from last month. As you can see in the chart below, New Home Sales were also ugly - coming in well below expectations and at the lowest reading on record. But as Carl Jung said, let's take a step back and gain a wider perspective about how we look at those reports... and what they mean!

With all due respect, the actions from the Washington academics are invariably filled with unintended negative consequences. The First Time Homebuyer Tax Credit is a good example. It's now clear that the tax credit has done more harm than good...all at an enormous cost to those who pay taxes. Here's why: The tax credit simply rewarded those who were already going to purchase homes, as well as those who moved up the timing of an inevitable purchase. But now... the "sugar rush" is over, and the void remains. Worse yet, potential buyers are feeling reticent to make a move after "missing out" on the free money. The obvious problem that remains within

our faltering economy is the job market. Yet the focus from Washington has been elsewhere. And it can be argued that each landmark passage of reforms - from aviation to healthcare to financial - has made job creations more challenging.

But eventually we expect some better decisions to come out of Washington. This, along with time, will help the housing market and overall economy recover - making for a good long-term buying opportunity in today's market. Remember, the best investors buy during the most pessimistic times.

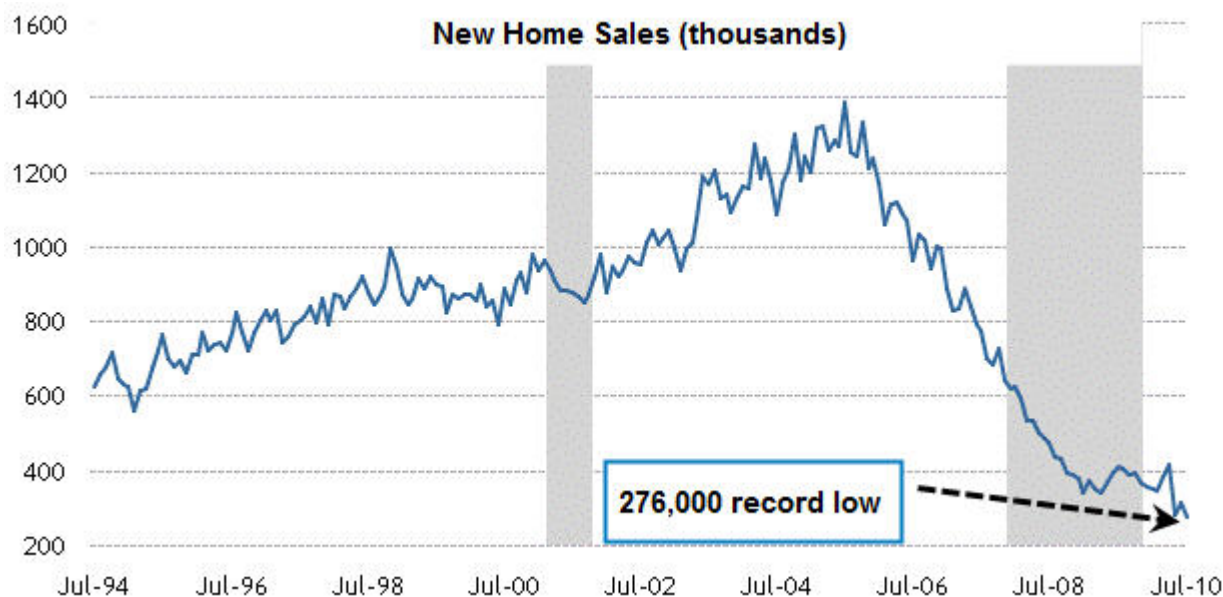
To highlight this - as well as give us better perspective and some hope towards the future - here's something that was recently pointed out by Dennis Gartman, a well-respected market analyst. Back in 1992, an article in Time Magazine included this passage:

***"The US economy remains almost comatose. The slump already ranks as the longest period of sustained weakness since the Depression. The economy is staggering under many 'structural' burdens, as opposed to familiar 'cyclical' problems. The structural faults represent once-in-a-lifetime dislocations that will take years to work out. Among them: the job drought, the debt hangover, the banking collapse, the real estate depression, the health care cost explosion and the runaway federal deficit."***

It's amazing how eerily similar the picture from 1992 compares to today. We all know that the period following 1992 included terrific growth and opportunities in the economy, stock market and housing. If history repeats itself, which it often does, this could point to much better days in the future with opportunities in the present.

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**Next Page read,**

**"New Home Sales Hit a Record Low in July 2010"**



Speaking of revisiting the past... back in 1985, the Kansas City Royals faced the St. Louis Cardinals in the World Series. This was known as the "I-70 Showdown" World Series, as I-70 is the route that connects both cities, and the road along which fans traveled between both stadiums. Lately, there's been another I-70 Showdown, between Kansas City Fed President Thomas Hoenig and St. Louis Fed President James Bullard. And interestingly enough, both Fed Presidents spoke at the ongoing Jackson Hole Symposium, which was hosted last week by the Kansas City Fed. Hoenig kicked off things with his opening speech Thursday night. While he has clearly been the most vocal Fed inflation hawk - calling for an increase in the Fed Funds Rate to at least 1% ASAP to prevent future inflation - his opening remarks were mellow.

The next morning, it was St. Louis Fed President Bullard's turn at the plate. While Bullard has been quite the inflation dove of late - calling for the Fed to do more to prevent deflation - his remarks were rather surprising. He stated that he doesn't see a double dip recession, despite the economy being a bit softer. He further commented that he expects reasonable growth during the second half of this year and for the economy to be back on track during 2011. Those are pretty positive comments from a man who actually went right from stage to an appearance on CNBC, where he went on to state his most surprising comment, which was that the Fed has done as much as they will do for the Mortgage Backed Securities (MBS) market.

The main event came when Fed Chair Ben Bernanke was up. In his comments Friday morning, he appeared to dismiss the deflation scenario, stating it wasn't much of a risk as the Fed has the tools to combat deflation. Those tools include more purchases of longer-term securities - and when you take this comment along with what Bullard said previously about MBS, it looks like the Fed may lean their purchases towards longer term Treasuries. This incestuous relationship between the Fed and the Treasury gives the US a license to print money at low rates, which will almost certainly end with an inflation problem down the road.

Another tool would be lowering the interest paid on excess reserves, which may influence banks to lend out that money; however, much like pushing on a string, this has been difficult to do.

A final tool would be signaling that the Fed will keep short-term interest rates close to zero for longer than what the market currently expects, or for an "extended period." Some are looking for the Fed to give clarity as to when they'll look to raise rates, such as an unemployment rate that dips to "x" level. But the Fed does not appear to want to be handcuffed to such a trigger, as economic circumstances contain so many moving parts.

***LOOKING FORWARD TO THIS COMING WEEKEND, THE LABOR DAY HOLIDAY IS ALREADY UPON US. THAT MEANS SUMMER IS QUICKLY COMING TO AN END, BUT THERE'S STILL TIME TO TAKE A WELL-DESERVED, LAST-MINUTE VACATION. CHECK OUT THE MORTGAGE MARKET GUIDE VIEW BELOW FOR TRAVEL TIPS THAT CAN HELP YOU GET AWAY YET THIS SUMMER.***

## **Forecast for the Week**

This week, we'll get a read on the consumer perspective of the economy, with reports on **Personal Income** and **Personal Spending** Monday as well as the **Personal Consumption Expenditure (PCE) Index**, which is the Fed's favorite gauge of inflation. Those reports will be followed by a report on **Consumer Confidence** on Tuesday.

Manufacturing will also be in the news Tuesday with the **Chicago PMI**, which surveys more than 200 Chicago purchasing managers about the manufacturing industry and is a good indicator of overall economic activity. The **ISM Index** is due out the day after that. This is the king of all manufacturing indices and is considered

the single best snapshot of the factory sector.

We'll also see the first employment report of the week on Wednesday morning with the **ADP National Employment Report**, which comes just a day before the **Initial Jobless Claims** report on Thursday. Initial Jobless Claims fell 31,000 in the latest week to 473,000, below the expected 485,000. And while that is still bad, at least for one week it broke a bad trend of consecutively higher readings.

But the big news of the week is expected on Friday, when the Labor Department releases the **official Jobs Report** for August. With so much of the economy in a holding pattern because of unemployment concerns, the markets will definitely be paying attention to this report.

**Remember: Weak economic news normally causes money to flow out of Stocks and into Bonds, helping Bonds and home loan rates improve, while strong economic news normally has the opposite result.** As you can see from the chart below, Mortgage Bonds weren't able to close above resistance last week.

Overall, Bonds and home loan rates ended the week near where they began, which is at historically great levels for homebuyers or homeowners looking to refinance. If you're curious how you or someone you know can benefit from these levels, please contact me today to discuss your unique situation.

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**Next page read:**

**Chart: Fannie Mae 3.5% Mortgage Bond (Friday, August 27, 2010)**

**Mortgage Bonds were unable to close above resistance last week but received support from the 25-Day Moving Average.**



[The Mortgage Market Guide View...](#)

## Last-Minute Vacations

Labor Day Weekend is fast approaching and if you think it's too late to head out of town for the weekend, think again. Here are some great tips for planning an adventure, last minute or otherwise.

### Be flexible

In order to pull off a last-minute vacation you need to be flexible with your schedule, your destination, and your service providers. Rigidity in any of these areas can easily translate into paying increased costs.

### Have a game plan

Taking a last-minute vacation doesn't mean you shouldn't have a game plan. Start

looking for deals during the middle of the week, as most airlines file their Web specials on Tuesdays and Wednesdays. If possible, concentrate on flights departing from major hub airports. And when booking your trip, be sure to include a Saturday-night stay.

## **Search diligently**

There is no shortage of great websites for purchasing discounted airfares and hotel rooms. Check out:

- [Bookingbuddy.com](http://Bookingbuddy.com)  
Here you can enter your search for a flight, hotel, car rental or cruise and compare the prices offered by various sites ([Expedia](http://Expedia), [Travelocity](http://Travelocity), [Orbitz](http://Orbitz), etc.) with the click of one button.
- [Lastminute.com](http://Lastminute.com) and [Lastminutetravel.com](http://Lastminutetravel.com)  
These sites post some great last-minute deals, as well as options for your not-so-last-minute traveling.
- [Tablethotels.com](http://Tablethotels.com)  
This site can help you find great prices on hotel rooms around the world.

## **Don't forget about travel agents**

Many travel agents will purchase bulk deals, giving them access to better prices. It's definitely a good idea to make a few calls as part of your search.

## **How about a cruise?**

Cruises can make for great last-minute vacations, especially if you live near a port of embarkation, and do not require a plane flight. Generally speaking, the price of a cruise includes your travel, lodging, food and much of your entertainment. While some additional charges will apply depending on the cruise, it is a fantastic option that allows you to see many destinations for a lower cost.

## **Timeshares**

Timeshare condos, rented directly from the owner, can offer some tremendous savings as well as more bang for your buck. While it does require diligence and common sense on your part, eBay is a great place to start your search.

***When it comes to booking a trip, last minute or otherwise . . . Be flexible and search diligently. The deals are out there, so go out and find them! And have a wonderful upcoming Labor Day weekend.***

### **Economic Calendar for the Week of August 30 - September 3, 2010**

**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 August 30 - September 03**

<b>Date</b>	<b>ET</b>	<b>Economic Report</b>	<b>For</b>	<b>Estimate</b>	<b>Actual</b>	<b>Prior</b>	<b>Impact</b>
Mon. August 30	08:30	Personal Income	Jul	0.2%	0.2%	0.0%	Moderate
Mon. August 30	08:30	Personal Spending	Jul	0.3%	0.4%	0.1%	Moderate
Mon. August 30	08:30	Personal Consumption Expenditures and Core PCE	Jul	0.1%	0.1%	0.0%	HIGH
Mon. August 30	08:30	Personal Consumption Expenditures and Core PCE	YOY	NA	1.4%	1.4%	HIGH
Tue. August 31	09:45	Chicago PMI	Aug	57.5		62.3	HIGH
Tue. August 31	10:00	Consumer Confidence	Aug	50.0		50.4	Moderate
Wed. September 01	08:15	ADP National Employment Report	Aug	13K		42K	HIGH
Wed. September 01	10:00	ISM Index	Aug	53.3		55.5	HIGH
Thu. September	08:30	Productivity	Q2	-1.6%		-0.9%	Moderate

02							
Thu. September 02	08:30	Jobless Claims (Initial)	8/28	475K		473K	Moderate
Thu. September 02	10:00	Pending Home Sales	Jul	0.0%		- 2.6%	Moderate
Fri. September 03	08:30	Non-farm Payrolls	Aug	-120K		- 131K	HIGH
Fri. September 03	08:30	Unemployment Rate	Aug	9.6%		9.5%	HIGH
Fri. September 03	08:30	Hourly Earnings	Aug	0.1%		0.2%	HIGH
Fri. September 03	08:30	Average Work Week	Aug	34.2		34.2	HIGH
Fri. September 03	10:00	ISM Services Index	Aug	53.2		54.3	Moderate

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