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The Day Ahead: Turkey Causing Road Rage; Another Look at Moving Average Misdirection

I found myself driving in the truck for more than an hour yesterday evening--long enough to hear the news cycle repeated several times. During that time, I was emphatically warned about this "new" and "surprising" issue of Turkey's financial crisis. Apparently this has the potential to send shockwaves through global financial markets.

Other people get **road rage** when other drivers are less than courteous, or due to ridiculous traffic perhaps. I get road rage when news radio misses the mark on financial market movers. I explained this to the officer that pulled me over for ostensibly making menacing gestures toward other drivers. He was going to give me a ticket anyway until I pulled out the laptop to put together the following chart for him. After he saw it, he apologized for MY inconvenience and I was on my way.



MBS & Treasury Market Data

	Price / Yield	Change
MBS UMBS 5.0	99.37	+0.02
MBS GNMA 5.0	99.93	+0.02
10 YR Treasury	3.9068	+0.0029
30 YR Treasury	4.1960	+0.0028

Pricing as of: 9/1 7:34PM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30 Yr. Fixed	6.43%	+0.02	0.00
15 Yr. Fixed	5.95%	0.00	0.00
30 Yr. FHA	5.82%	+0.02	0.00
30 Yr. Jumbo	6.62%	0.00	0.00
5/1 ARM	6.28%	-0.01	0.00
Freddie Mac			
30 Yr. Fixed	6.35%	-0.51	0.00
15 Yr. Fixed	5.51%	-0.65	0.00
Mortgage Bankers Assoc.			
30 Yr. Fixed	6.44%	-0.06	0.54
15 Yr. Fixed	5.88%	-0.16	0.68
30 Yr. FHA	6.36%	-0.06	0.85

To my surprise, the same cop pulled me over again a few minutes later. This time, I wasn't in trouble. He just had a follow up question. He was wondering if the cross of the 50-day moving average below the 100-day moving average was significant for any reason and if he should consequently be floating his loan. I told him:

	Rate	Change	Points
30 Yr. Jumbo	6.75%	+0.07	0.39
5/1 ARM	5.98%	-0.27	0.65

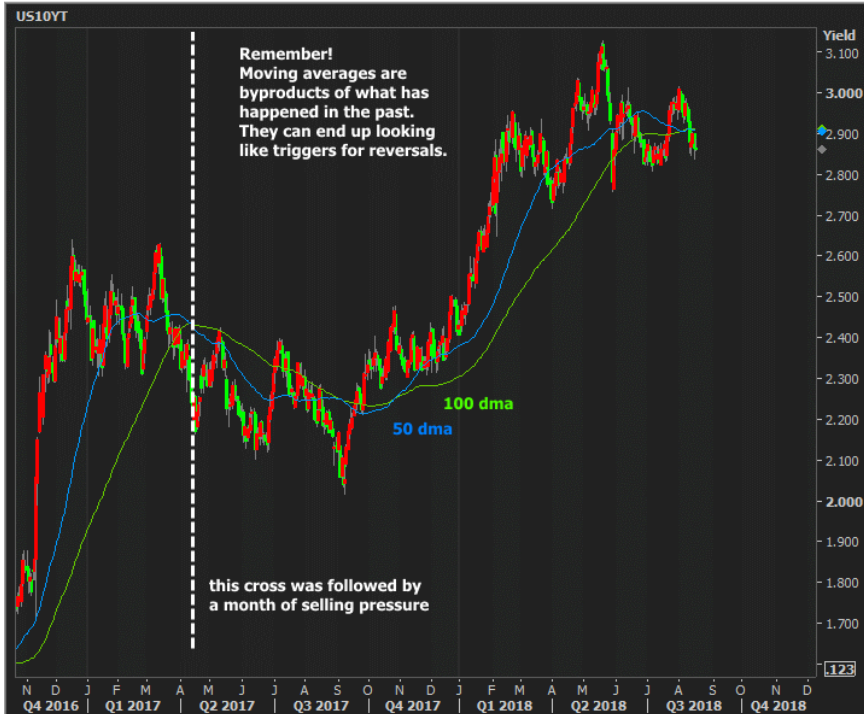
Rates as of: 8/30

Very good question! Here's basically what I

Moving averages are **byproducts** of market movement that has already happened. Occasionally, they form certain patterns that result in slightly higher-probability outcomes, but we're talking about a few percentage points past 50/50, at best--not enough to affect lock/float decisions.

Additionally, the conventional wisdom regarding moving averages is that a cross of a shorter-term average through a longer-term average suggests continued momentum in that direction. Strikingly, the traders who move markets actually use such wisdom as a **contrarian** indicator. In other words, they are wolves who are happy to take the sheeps' money.

Case in point, in the following chart, the only other solid example of the 50-day crossing below the 100-day resulted in a month of rates moving HIGHER. Now... the armchair analyst could point at that example and say that rates ended up going lower after that month, but that doesn't do the average originator or borrower much good unless they have time to burn. Even then, those eventual gains **weren't** guaranteed by some technical eventuality from several months earlier. If anything, put more stock in simple trendlines, like the one seen at the top of the following chart.



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thank you for coming to website. Having been a loan officer for 20+year...I know first hand how important it is to stay on top of the news and event that effect mortgage rates, regulation, and program guidelines. Let this web site be a resource for you.

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