



THE MORTGAGE PROFESSIONAL'S BEST FRIEND....THE WEEKLY STOCHASTIC

The mortgage industry is uniquely dependent on the level of interest rates for its volume. Barring unusual and anomalous economic activity (e.g. the collapse of the entire housing sector), a relatively high interest rate environment cinctures activity, while a low one expands it. In the main, professionals are accustomed to vetting and analyzing fundamental variables in order to arrive at actionable conclusions about interest rates. Non-farm Jobs, CPI, New and Existing Home Sales, Building Permits and Housing Starts, the Consumer Confidence and Sentiment Indices to name a few. Few, however, direct their attention to the auspicious benefits to be derived from technical analysis; to wit, the determination and direction of the level of interest rates through technical or completely non-fundamental inputs. Most persons involved in the investment community have at the very least a superficial knowledge of such elementary graphics such as line, point and figure or candlestick charting. Others more sophisticated in the art of technical analysis are familiar with more complicated studies as Moving Average Convergence Divergence (MACD), Relative Strength (RSI) and Directional Movement (ADX/DM), etc. But after many years in the trenches of technical analysis, it is this commentator's unwavering opinion that the most powerful and prognosticative technical tool for interest rate discovery is the Slow Stochastic (SS). A more detailed tutorial may be found at www.stomaster.com/stolet2.htm. That informative recitation will bring you up to speed in the ways of this unique technical tool and imbue you henceforth with the rallying cry:

THE STO DON'T LIE!!

THE ULTIMATE LOCK-IN STRATEGY

Stochastic analysis of interest rate direction can be an invaluable tool vis a vis advising clients of the best time for locking in the rate for purchases and refinances. A simple strategy for achieving optimal results can be implemented by following the Weekly Stochastic for the 30 year Treasury bond. The chart above clearly evinces the periodicity of this Sto since June, 1992. Note that the peaks and troughs of the Weekly Sto occur at 8-12 week intervals on the average, the former indicating when rates are relatively low (prices relatively high) and ready to upturn and the latter when they are relatively high (prices relatively low) prefatory to a downturn. As a mortgage professional, you would be specifically interested in the critical and transitory time frames when rates are relatively low and likely to move higher. These windows of opportunity are represented on the above chart by letters A through X, the peaks of the Weekly Sto when % K (the red line) crosses below %D (the blue line.) It is patently clear that if an individual were to purchase, but more likely refinance, at a stochastic high turning point, and presuming that his/her previous refinance was at a higher rate, then the lock-in of the lowest possible rate attained by the marketplace for the entire interest rate cycle would have been guaranteed. When secularly higher interest rates eventually prevail due to the inevitability of their cyclical nature, those adhering to this facile strategy would come away smelling with the sweet *percent* of the proverbial rose.