MONEY HOUSE

Chris Munson
SVP and Managing Director US Sales and Operations, The Moneyhouse
NMLS #169716
8751 Commodity Circl Ste 17 Orlando, FL 32819

Office: 407-255-2047
Mobile: 704-957-5053
cmunson@moneyhouseus.com

The Day Ahead: Why So Many People Have Been So Wrong

Who has the mic? Who's wielding the pen? Whose opinion are you digesting as you build your sense of what "they" think is going to happen? If you're familiar with the adage about history being **written by the victor**, then you're already pretty close to picking up what I'm putting down.

The widely circulated variety of financial and economic discourse (CNBC, Bloomberg, The Fed, and the economists and analysts that support them) takes place **almost entirely** in one hemisphere of the socio-economic universe. Face it, if you have time to care about what a bunch of people are saying on the internet and TV about money, you have enough of it to care about.

The bar for entry into my special imaginary realm of ignorance is shockingly low. Let's use the most recently reported median income in the US: **around $51k** for an entire household. If you're writing loans for a living, or considering buying/refi'ing, you don't get a lot of exposure to "the other half." That doesn't make them any less real though, and their reality will now be the global economy's undoing.

American society has retrenched hierarchically. By that, I mean that those with the most means have been most able to make sure they **never get screwed again** like they did in 2008-ish. In the process of retrenching, we hurt each other.

Let's say that the proverbial piñata is only filled by communal candy donations from all the attendees of a party (It's a metaphor for the economy!) If something drastically threatens your access to candy and in a way that you never expected, it's only human nature to **grab as much candy as you can** when the piñata breaks.

The **unforeseen result** is that the kids that aren't as good at grabbing the candy experience an undue burden. Before too long, the big, candy-grabbing experts find themselves with far fewer little friends helping to fill the piñata.

The piñata certainly broke in the post-crisis era. The Fed couldn't even begin to appreciate the plight of the smaller kids because--like the rest of us--they were getting their intel from folks whose families were over that $51k waterline. Sure, this is a bit of an oversimplification, but I stand by the underlying thesis: the opinions and decision-making of those in power are **drastically over-informed** by the experience and worldview of those above

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.81	-0.01
10 YR Treasury	4.9176	-0.0123
30 YR Treasury	5.2847	-0.0235

Pricing as of: 11/2 7:58AM EST



Average Mortgage Rates

	Rate	Change	Points
Mortgage News Daily			
30YR Fixed	7.27%	-0.02	0.00
15YR Fixed	6.92%	-0.03	0.00
30YR FHA	6.90%	-0.01	0.00
30YR Jumbo	7.55%	0.00	0.00
7/6 SOFR	6.78%	-0.10	0.00
30YR VA	6.91%	-0.01	0.00

Rates as of: 10/30

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the waterline.

Because of the widespread lack of understanding of the big picture, it **didn't** seem like a foolish error at the time for the Fed to essentially feed the big, fast kids steroids and send them a signed copy of "Effective Candy Grabbing 101." Surely, they thought, if we strengthen those at the top enough, the prosperity will have to spill over to the masses, right? Surely, if the country's biggest banks and financial institutions are **rocking the casbah**, they'll have to hire some help for their sexy parties, no?

Actually, they have hired some help. Meanwhile, they also bought up the helps' distressed and/or undervalued real-estate (I'm looking at you 2010-2012!) and promptly began renting it back to them for more than their initial mortgage payment. As the financial crisis continued to spit out **more would-be borrowers** without the credit, income, or desire to own a home again (or in the first place), rents naturally did the only thing they could do and the big kids were merely keeping pace with the other big kids by raising rents.

The crisis made the upper half of society completely forget about the plight of the lower half. Until then, those at the top generally understood you can only reach the **highest levels of wealth** by standing on the backs of those beneath you. If their backs are broken, you can only get so high. Wealthier people were so busy retrenching and listening to the analysis of other wealthier people that they forgot it takes poorer people for wealthier people to keep getting wealthier. That's why so many people have been so wrong.

If you were **paying close enough attention** to the Fed in 2015, you could see this realization start to set in as Yellen increasingly mentioned "wealth inequality." Remember, the Fed's duties are twofold: employment and price stability. The only way for wealth inequality to enter into that equation is to conclude the disenfranchised masses can't turn the crank on the economic engine if they're not well-enough off.

Incidentally, this thesis is also the reason that so many people will **CONTINUE** to be so wrong about why things are moving the way they are. At this point, we're not even seeing the true fallout from the "piñata incident" over the past few years. That's coming--right about the time that this long term chart is scheduled to make its next stop at the lower end of the range.



Yellen **probably won't even broach** the wealth inequality topic today when she delivers her congressional testimony. But she will certainly be forced to discuss the fact that Fed had said quite a lot about "4 rate hikes" in 2016 whereas markets are currently pricing-in zero.

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