

RE Weekly Update

A lot of noise in the market related to the US real estate market. The analysts seem to pick numbers out of the air related to 1) home sales dropping, 2) housing prices appreciating across the country, 3) construction permit picking up, 4) house inventory at a low, 5) foreclosure, or the shadow inventory slowing, 6) legislation related to security qualified mortgage quality standards, and 7) government purchase of GSE, mortgage related bonds. More important than data points from a single period is the context from which the data is derived. A lot of noise, but they all seem to create a thesis from a slanted, biased perspective, in order to propagate, push their agenda. It's like a pendulum swinging back and forth, refuting and confirming each other's views, if it is advantageous. Without looking at the raw data by oneself, all conclusions will be tainted by the views which are engraved by the handlers of the raw data, or the analysts and PMs.

This theme of **VALUE TRAP vs. POOR DUE DILIGENCE** is a nail biting process, which may take years for validation, or reproof. Is this real estate investment really going to pay off, or did I make a mistake in my research and chose a wrong investment decision? Personally, I think the secular real estate market is improving, but the underlying fundamentals for a full-on, 100% recovery is not addressed yet, because the economy has structural issues, which no legislation, or monetary policy can address. By structural issues, I mean net importing, zealous defense spending, a service oriented economy that has failed to create more jobs, higher cost of goods as a result of importing goods, which will only worsen as import partners tighten the grip on the supply chain (i.e. China, Asia), and the greater reliance on foreign capital to stabilize the economy via Treasury purchases. Bottom line, investors and average Americans are the buyers and sellers of homes. If they don't make income or their cost of living increases, then house ownership is useless. The alternative is renting. Ownership is futile unless unemployment goes down, financial markets stabilize (meaning Europe and China stabilize, which is highly contentious), and growth is firmly demonstrated in the economic numbers.

It is frustrating to see a dichotomy between the dooms day, Zerohedge, independent bloggers, vs. the large sell side research and mass media. I can't tell what is right and wrong. I mean, I know the issues and the potential appreciation through an investment right now, but I lack the conviction to rally family members to invest in real estate because what if a few months down the line, Europe erupts, or the US "recovery" never materializes, and poop hits the fan again?