## The Most Egregious Bane of Over-Consumption; Housing

How is that possible?? How could the near sanctimonious belief that buying a home, which is encouraged by every parent, teacher, and statesman as a wonderful "investment", be flawed?? As in many beliefs, we've carried a "good thing" WAY to far…! We're now peaking from another government empowered "Ponzi" scheme in housing speculation mania. It appears now as though we've managed to create the largest housing bubble in the history of the Republic.

**What is "good" about buying a house?**

1. Gradually gaining possession of what is typically the largest single durable good purchase in our lifetime.
2. Having pride of "ownership" and the natural self-interest in maintaining or even enhancing the value of your property.
3. Capitalizing upon on our government's desire to continually debase our currency (inflation). Assuming your mortgage has an attractive low fixed rate, then the creditor holding your mortgage will lose long term as you enjoy repaying the loan in cheaper dollars. In the graph below the difference (not shown) between the "Inflated Value…" dark green line and the "Classic "30-Yr" Mortgage…" light green line represents the increasing equity the homeowner will gain as payments are made.

**What is "bad" about buying a house historically?**

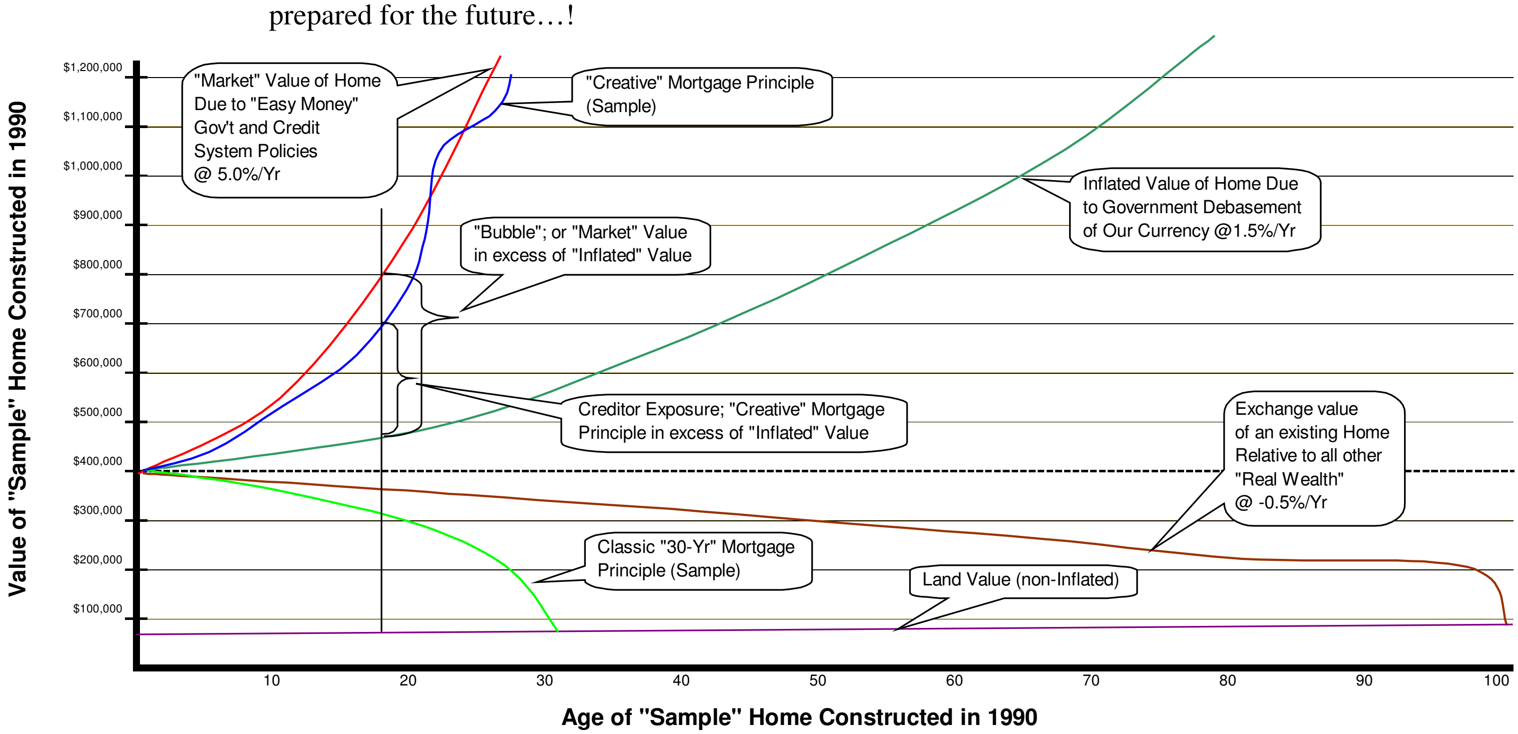
1. Very little, unless you're planning to move frequently such that the purchase and sale transaction costs outweigh the benefits of ownership.

**What is "bad" about buying a house today that is overpriced, too expensive, and too large? Plenty!**

1. "Overpriced" means we are currently in an extreme "bubble". In the graph below the magnitude of the "Bubble…" is shown in brackets identifying the difference between "Market" value and "Inflated" Value on the "sample" home. Further, in a new study by Merrill Lynch economist, David Rosenberg [1], the contrast is drawn between a historic period with no "bubble", and the more recent "bubble" formation period (1996-2005): "…From 1955 to 1995, home prices rose with inflation, or basically 0% in real terms. Since 1996, home values have risen 45% in real terms. End result: a $5 trillion increase in housing-bubble wealth…"
2. "Too expensive" means many who are purchasing homes would not be able to qualify for them were it not for the extraordinary "easy money" Central Bank policies that ensure ample "liquidity" for the extremely flexible and creative mortgage originators and brokers. This phenomenon is indicated in the graph bracket showing "Creditor Exposure…", which compares the blue "Creative Mortgage…" line with the dark green "Inflated Value…" line.
3. "Too large" means we are quietly building "McMansions" in the remote suburbs that will require more energy resources to heat and cool as well as transport us to and from them in our daily commutes and travel needs.
4. Ironically, while we are all marveling at our huge beautiful mansions out in the country, we have dramatically weakened our U.S. capitalistic "economic engine" going forward. The large houses require more energy to heat and cool as noted. They will also require more carpet or tile when replacement is in order, more paint, etc. These greater MAINTENANCE and operating expense needs resulting from the excessive size compete for resources with our "goods and service" producing U.S. "economic engine" going forward. If we are spending all of our oil driving to the house in the country and natural

gas to heat it, we will be faced with a much more costly prospect of supplying our businesses with the same scarce resources.

5. By channeling resources into this excessive misdirected over-consumption we have NOT, by default, channeled them into enhancing our “economic engine” (U.S. businesses) in the form of more R&D, Capital Goods, and infrastructure that can produce, through advanced efficiency, tradable Goods and Services we desperately need to combat our pathetically deficient balance of trade, and continue serving our own needs.
6. *One of the greatest misconceptions in the American mindset today is that houses create wealth.* Houses DO NOT CREATE WEALTH..! They just sit there and decay (see #1 above). An unfortunate byproduct of this mindset is the lack of savings. Why save when you can simply stretch-qualify into (and, hopefully, hold onto) a “McMansion” that will bring you riches into retirement as it creates all the wealth you will ever want to satisfy your dreams? In reality, if the resources were directed into businesses via savings rather than consumed in the construction and maintenance of houses, we would be much better prepared for the future…!




**Conclusion …and What to Do?**

Housing construction is now into the final “oversized”, “overpriced”, speculative, rampant blow-off stage. When the “dust settles” real lower housing valuations will become visible via deflated prices, or inflated (debased) currency, or a combination of both. What to do?

- If you plan on moving soon (e.g. moving into a smaller house for retirement), do it now while long term interest rates are still low. You will get the best price for your current home and enjoy low interest payments that will likely be paid back via cheaper dollars.
- If you plan on “stretch-qualifying” via a creative “teaser” no-interest, or ARM, or “option-payment” loan into a new, more expensive, larger house further away from work out in the suburbs, … think twice. I would strongly advise against it…!

References:


1) David Rosenberg, Merrill Lynch Economist, “Affordability Stretched” 2005; Barron’s On Line.