

>: Is Buffett Buying Homebuilding Stocks Already?

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Editor's Note: Mr. Munson is back! For you longtime *Tycoon Report* readers, you'll recall this story from our early years. But this time there's a twist: Charley's predicting a housing market rebound. And he's got Warren Buffett in his corner ... or does he?

THERE'S USUALLY ONLY ONE TO A VILLAGE ...

No, I'm not talking about the village idiot.

Nor am I talking about the village moron.

Today I happen to be talking about the village "Munson."

Not quite familiar with the term? Let me explain:

In my group of friends, the village "Munson" is the kind of guy who ...

ALWAYS spills ketchup on his shirt, no matter how hard he tries not to.

ALWAYS bets on the wrong horse, even though he personally knows the owner of the racetrack.

NEVER made a penny in the stock market, but SWEARS up and down that he told everyone he knows (including you) to buy Microsoft at the IPO ...

PLAYS lotto every single day of his life, and truly thinks it's his "lucky day" if he wins back HALF of what he paid for the tickets.

Yep, you know exactly who I'm talking about - the good-hearted guy you love like a brother, even though you won't let him ANYWHERE NEAR your baseball card collection.

Usually there's only one Munson to a village.

But as luck would have it, I happened to grow up right next door to an extended family of them.

And though I'll never go to a Yankee game with him again, I can honestly say that I became best friends with one of them. I'll call him Charles.

For almost 15 years, like clockwork, Charles has called me every single day the stock market moves by 100 points or more.

It started back in 1987 ...

We were literally cleaning lettuce heads from the highway (his father was a trucker and had an accident with a load of produce) when, between shouted obscenities from the passing motorists, we heard the news - the DOW had cracked 500 points.

Maybe it's some weird Dr. Phil type thing that involves his father (who is no longer a truck driver), lettuce, and me, but from that point on it was habit.

In 1998, he called me on the day of the Asian meltdown and told me to sell every stock I owned and go into business with him. Fortunately, I declined the business invitation and decided to buy stocks. Within weeks I was up over 60% just on my blue chips!

In early 2000 - on the very day AOL bought Time Warner - Charles called me up and said, "Dylan, this market is going right to 20,000!" I immediately hung up the phone and sold every stock I owned. You know what happened next.

From September 2001 to the Iraq war in 2003, Charles argued with me almost every single day, telling me to "get out of the business" because there was "no future in it."

I knew that what really bothered him was that I was on Wall Street when it happened. But with the market selling at 16 times earnings, nothing was going to stop me from getting paid.

I even pleaded face to face with his parents. I told them that opportunities like this don't come along very often. But they're Munsons - they had no

idea what I was saying.

Of course I trounced the averages in 2003, gaining 66% on my money versus 23% or so for the S&P 500.

Yup, so it wasn't such a surprise that Charles called me just Friday to discuss the market's 125 point drop.

What was a surprise was that instead of calling about the market drop, he was calling about a particular stock.

And what we discussed is chocked full of lessons for individual investors.

Here's how it went down:

MY FRIDAY 4:01 PM (ON THE DOT) CALL WITH CHARLEY "MUNSON"

MUNSON (curiously, excitedly): What's Up Chief?

ME (reading an email): Nothing much, what's up?

Long Pause. Silence.

MUNSON (sounding concerned for my well being in the face of such "devastation"): You OK?

ME (getting annoyed): Yeah, why wouldn't I be? The market dropped less than 1% dude. That's nothing.

MUNSON (cutting me off/not interested in what I'm saying): Did you hear that Buffett is buying Hovnanian Enterprises (SYM: HOV)?

ME (resigned to my lot in life as his friend): Yeah Charley I did. What's your point?

MUNSON (suddenly dead serious): I just loaded the boat. Bought the stock at \$16. It's now at \$16 1/2.

I could tell he was very proud of his "big" win. Once a Munson always a Munson.

ME (asking for it): Why on Earth did you do that? It was just a rumor dude. Throughout my entire career I don't think one of those "Buffett's buying stock in XYZ" rumors has EVER been true!

MUNSON (completely ignoring me): I'm bullish. I think the builders have bottomed. The housing market's gonna rebound next year. If you get in now you'll make a killing.

It was clear he was quoting the National Association of Realtors or another group who has an interest in stabilizing the market.

ME: But Charley, every builder I read about these days is saying that they don't know where the bottom is, and they're all announcing bad earnings. Look at DR Horton (SYM: DHI), Beazer Homes (SYM: BZH) and even Home Depot (SYM: HD). Everyone involved in that business is watching their business suffer.

MUNSON (really trying): If things are so bad, why does Carl Icahn have a \$22/share bid on the table for WCI Communities (SYM: WCI)?

He had me there for a moment. The truth is that I was never really sure why Icahn made that play.

ME (proud of my comeback): But WCI stock is at \$12.95. If the Street thinks the Icahn bid is for real, why is it trading almost \$10 below his offer price?

MUNSON (uninterested in reason): But I'm convinced WCI will trade higher and I'll be above water on that position soon too.

Wow. Did he just admit that he owned WCI also? This was getting crazy. It seemed as though he was just cherry-picking facts to justify his pre-determined viewpoint. And I didn't even bring up what was happening with Bear Stearns (SYM:BSC) and what some folks are calling the "sub-prime meltdown."

ME (taking the time to actually explain it): Think about it this way Charley ...

Real estate has returned, on average, 25% per year for the past five years or so. That's double its average annual rate of return for the past 100 years. If history is any judge, that means that real estate prices will return to their long-run average rate of return.

To do that, one of two things has to happen. Either real estate prices have to fall dramatically, OR they go sideways for a decade or so. And to me it