

## >: Investing in Homebuilders: What to Do Now That the Government is on Our Side

*Tuesday, January 29, 2008 / Wall Street Strategies*

Tuesday the 22nd was a big day for homebuilders, and the economy as a whole for that matter. The Federal Reserve's emergency 75 point rate cut and the White House's economic stimulus plan tells us the government refuses to watch the U.S. economy suffer any longer. As we all know, the housing market is the main culprit for our current economic slowness, and that is why the announcements made on Tuesday have sent homebuilders' stocks flying higher than any others. As seemingly one of few bullish homebuilding analysts, even I was surprised to watch Homebuilders such as KB Home and D.R. Horton appreciate over 20% in only a week, even with Monday off. Now that on aggregate, homebuilders have broken through some major technical resistance points investors are surely wondering if these stocks have finally made a reversal and if they are going green from here on out. I would advise investors that homebuilders are looking good now, but not to get too excited. The government did not take such bold action because the economy is fine and dandy, after all.

In general, federal rate cuts take 6 to 12 months to filter into the economy, and while the 75 point cut will take some time to be felt, the Fed's earlier cuts are starting to take effect. At the end of this month, the Fed is likely to cut rates even more. One other important development is that part of the White House's proposed economic stimulus package asks for the maximum loan limits of lending giants Fannie Mae and Freddie Mac to be raised from \$417,000 to \$729,750. This will make an abundance of more affordable loans available, and will help to alleviate tightened credit standards. Mortgage rates are already a great deal lower at just over 5% on average. In the last two weeks we have seen a large spike in mortgage applications as borrowers seek affordability. This is a good sign, as it shows consumers are actively steering away from foreclosure. All in all, the government has taken us a little closer to the end of the housing debacle.

The long term outlook of homebuilders appears bullish right now, but do not take that statement to mean that stocks will appreciate in a straight line from now on, or that the housing meltdown is over; there are a couple of important ideas to remember if you are an investor (or potential investor) in homebuilders: 1) We very well may see continued awful housing data, from falling prices to continuing foreclosures before any kind of recovery occurs. 2) Action in homebuilders' stocks are reflective of expectations, not the current conditions in the marketplace.

I reiterate that the long term outlook appears bullish but right now may not be the ideal time to invest; nevertheless, a year from now homebuilders' stocks should have appreciated a great deal from this point. A turnaround in housing is nearly impossible to pinpoint, as the management teams of several major homebuilders refuse to give guidance on even the next quarter. Realistically, however, recovery is possible between mid-2008 and mid-2009. This is a large time span, I know, but keep in mind homebuilders' stock prices could turn around several months before it actually happens. Large dips in homebuilders' prices will be profitable entry points for a year-long investment.

On a final note, investing into homebuilders in these conditions is not for the faint of heart, nor the ill-informed. If you are considering an investment, stay nimble and be prepared to be un-phased by stretches of red. For those who are brave, the outlook is green on the other side.

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