

>: How YOU Can Turn a \$4 Trillion Dollar Loss into Huge Profits...

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I DON'T TRY TO TIME ASSETS, I TRY TO PRICE THEM.

That's why I'm the wrong guy to ask if you want to know which direction I think the market is headed.

The way I see it, stocks aren't intangible pieces of paper that trade up or down with the wind. I look at them as a fractional piece of a business: once I determine what the business is worth the majority of my time is spent "stalking" it. But what I'm stalking is price, and so far during my career that means that I've seen truly great opportunities only a handful of times each decade.

So far my career has been like going to the grocery store and only seeing one item on sale for 50% off. If it's an item I need, like shaving cream, I'm so thrilled I have the opportunity to buy it at such a great discount, I usually load up.

But boy is that changing!

The way the market has been trading these days, I feel like each and every single item in the grocery store of corporate America is being marked down - by 10% each week! It won't be long before they open the doors and I'm skipping down the aisle loading as many money-making assets in my cart as I can possibly hold!

That's why I know that when the history books are written, these days will be referred to as "The Great Old Days"...

The days when most people forgot that the other side of the panic coin is OPPORTUNITY...

The days when most of America forgot what every experienced farmer knows - that every decade has a couple drought years. Sure, this "drought" may be longer than the last one or the one before that. But never once does it cross your mind that it might never rain again. You just wait it out and use it as an opportunity to add to your land.

[**Editor's Note:** Learn how to trade options and take advantage of the current bear market.

[Sign up now for Chris Rowe's free options course exclusively for Tycoon Report readers.](#)]

Where the Real Value Is...

Speaking of "adding to your land"...

I don't talk much about real estate these days because our resident housing guru Ethan Roberts is about as smart of a guy as I know on the subject I'm about to discuss with you.

But over the years, friends have asked me countless times to let them know when housing prices look good again. I suspect many of you reading this are in the same boat my wife and I are in - we've been waiting on the sidelines for years waiting for prices to come back to reality.

Every time I've been asked the question, I've always responded with: "It'll be hard to find the time to call everyone back when I'm about to buy. But if you really want to know, sign up for The Tycoon Report and I promise I'll write about it when the time is right."

Well, for those of you who asked, the time is now right: With the value of home equity in the country dropping from \$20 trillion to \$16 trillion, an unprecedented 20% drop in a little over a year. Since much of that \$4 trillion has come from hard hit states like Florida and California, I'm starting to see prices that were unheard of just months ago.

As I mentioned before I don't time assets, I price them. So in no way, shape or form am I calling a "bottom" on the housing market. What I'm saying is that if you know how to value your home, then this is a time when you want to start getting your bids ready and wait for the house you want to fall into your price range.

Don't you just value a home based on "Comps" (Comparable Sales)? No. During the past few years, I've seen too many people do very irrational things at very expensive prices and the last thing I want to do is have a bad decision influence my decision-making.

...And How to Value It

I use several tools to "price" a house, but one that many people seem to really appreciate is the **Price to Income Ratio (P/I)**.

Remember back when housing prices were actually based on incomes? When a lender actually verified to check to see if the borrower made enough

money to pay the loan back? Well, you could bet your bottom dollar that after the destruction caused by the housing crisis, those old fashioned rules are gonna come back quicker than you could say "Worst Crisis Since the Great Depression."

Here's how it works: Assuming a borrower has decent credit and the necessary down payment, she will get a mortgage that generally won't exceed 28% of her income. 28% of the income of a person who earns \$50,000/year is \$14,000 or \$1,166.66 per month (\$14,000/12 months).

Assuming that for every \$100,000 she borrows she has to pay back \$665/month, she'll be able to borrow roughly \$175,000 (\$1,166.66 monthly loan/\$665 per month for every \$100,000 borrowed).

Including her down payment of \$25,000, the total price of the home is \$200,000 (\$25,000 down payment \$175,000 mortgage). Thus, her Price to Income Ratio is 4 (\$200,000/\$50,000 Income).

Below is a table of Price to Income Ratio's from 1985 - 2002 in selected states across America.

In Florida, for example, statewide average annual income is approximately \$48,000 (www.census.gov). The median P/I ratio of 3.04 would imply that the median house in Florida sold for \$145,920 between 1985 - 2002. Because states are so large and diverse, a statewide P/I ratio can be misleading. I make the following adjustments personally:

1. Income by Zip Code Adjustments

: Not all areas of the state have the same income. In Palm Beach County, for example, annual income can be as high as \$125,000 in some zip codes. The median P/I of 3.04 for Florida would imply that median sale price for homes in that zip code would be \$380,000 (\$125,000 x 3.04).

2. Neighborhood Adjustments

: Feel free to add a premium or a discount to the P/I ratio based on other factors important to you. For example, if you are comparing two zip codes you may want to adjust the P/I a bit higher for the zip code with higher annual income, schools, parks, etc.

3. House Adjustments: Of course every house is different and unique and you can rationalize an adjustment based on factors important to you.

Before I depart, let me leave you with the following words of caution: you may be shocked at the difference between what prices are still selling for relative to what they are worth. Keep in mind that it takes time for markets to adjust, especially a market where it seems most sellers are pricing their homes to what they owe on their mortgage, not to what the house is actually worth.

[Editor's Note: Tycoon Readers, what do you think about the housing market right now? Time to buy? Not just yet? Leave your comments by clicking the button below.]

Ratio of Home Price to Personal Income per Capita (1985-2002)

State	Median	Trough	Peak
Connecticut	5.41	4.47	7.84
New Hampshire	4.68	3.98	6.63
California	6.76	5.96	8.57
Massachusetts	4.97	4.34	6.60
New Jersey	5.25	4.48	6.77
New York	4.54	3.83	5.60
Texas	2.48	2.20	3.59
Louisiana	2.56	2.42	3.53
Alaska	3.26	2.48	4.07
Mississippi	2.28	2.21	3.15
Maryland	4.01	3.62	4.69
Delaware	3.62	3.33	4.14
Colorado	2.60	2.19	3.18
Virginia	3.47	3.04	3.87
Georgia	2.76	2.58	3.25
Arizona	3.53	3.38	4.17
Arkansas	2.22	2.13	2.84