

>: Real Estate Market to Bottom in 2008?

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Teeka Tiwari's stimulating September e-mail on Real Estate solicited input on the health of the real estate market. My view, as a full time equity trader is overtly bearish.

The bear market in residential real estate should continue for a minimum of 12 to 18 months. Even perma-bulls J.P. Morgan and Goldman Sachs are predicting home prices to drop 20% from their 2006 peak. Industry maven Gary Schilling suggests a 25% fade.

The stated income adjustable rate loans, the creative negative amortization loans, the infamous teaser rate ARM's and zero down mortgages are valid only when home prices are appreciating 10% a year versus depreciating 10% annually.

Quantitative implications for the housing downtrend to continue are;

1. New construction crested at 2M homes per year. Now starts are at 1.4M and should slide to 1M early in 2008.
2. Between January and June 2008 the bulk of ARM's will reset, nearly \$500 billion worth. In the first 6 months of 2007 only \$195 billion reset. This will drive more mortgage holders into foreclosure.
3. Unsold inventory is at a 9 month supply and soon to be 11 months. A five-year average is 4 to 5 months.
4. Homebuilder cancellation rates have averaged 18 to 20% over the last 5 years and now stand at over 40%.

How can we tell when a bottom is reached? They do not ring a bell at the top or the bottom. XHB, the SPDR S&P Homebuilder electronic traded fund may furnish clues. Utilizing a weekly candlestick reinforced by a monthly candlestick chart, I will look for a bullish reversal pattern. Examples may be a bullish harami, a morning star, a bullish engulfing, a hammer or rising tree method patterns.

Between now and this time next year will be an opportune time to procure residential real estate at or near a multi year bottom. The trading characteristics of XHB and ITB (iShares DJ US Home Construction ETF) as well as individual homebuilder stocks (those that have not filed for

bankruptcy protection) may identify a bottom.

Plus there is the quantitative measure of observing blood in the streets to signify a near bottom in the real estate market!

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