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THE EDUCATED INVESTOR

A GUIDE TO RETIREMENT PLANNING

Should I wait for Real Estate prices to crash before I buy a house? Here are 3 simple reasons why this housing downturn is nothing like 2008

Two years in, this decade has already brought a global pandemic, record-setting inflation, rising interest rates and a country more divided than ever before.

So why not a housing crash too?

Americans who lived through the 2008 crisis may be watching the red-hot market starting to cool and getting flashbacks. And for prospective homeowners, it might be appealing to put your plans on pause until the market bottoms out so you can snag a house at a great price.

But experts say there are good reasons to believe that however this shakes out, it won't be a return to 2008 — which will no doubt be a relief to anyone whose apple bottom jeans and boots with the fur have been long put away in storage.

1. Lenders stopped being so lax

Blame it on the banks. A huge contributor to the housing crisis in 2008 was dicey lending practices within the financial industry. Years of deregulation made it easier — and more profitable — to hand out risky loans.

The Dodd-Frank Act, which was signed into law in 2010 aimed to prevent that by increasing oversight in the industry.

While the act's effectiveness has been called into question over the years, it has undoubtedly forced lenders to be stricter about their lending practices, which means far fewer borrowers are likely to land in hot water.

The median credit score of newly originated mortgages was 776 in the first quarter of the year, according to the Federal Reserve Bank of New York. But nearly

70% of new mortgage holders had a credit score of 760 or more.

The New York Fed added in its quarterly analysis that, "credit scores on newly originated mortgages remain very high and reflect continuing high lending standards."

2. Homeowners are doing fine

The onset of the pandemic could have been catastrophic for the housing market if millions of homeowners had no choice but to default on their loans.

Fortunately, mortgage forbearance programs allowed struggling borrowers to pause their payments until they could get back on their feet. And it worked: by the end of March, the share of mortgage balances 90-plus days past due remained at 0.5% — a historic low.

And compared to 2010, when delinquencies on single-family homes hit a 30-year high of 11.36%, the rate was just 2.13% in the first quarter of 2022.

On top of that, rising home prices has translated into increased equity for homeowners. In total, mortgage holders now have $2.8 trillion more in tappable equity compared to a year before, according to Black Knight, a mortgage technology and data provider. That's a 34% increase and more than $207,000 in additional available equity per borrower.

3. There's still plenty of supply

"It's not always as simple as supply and demand — but it almost always is," host Dave Ramsey said on The Ramsey Show earlier this month.

Ramsey says the major issue in 2008 was there was a "tremendous oversupply because foreclosures went everywhere and the market just froze." The crisis wasn't down to the economy or interest rates, it was "a real estate panic."

In comparison, now, there's a huge demand and a shortage of supply. But the Federal Reserve's efforts to dampen demand by raising interest rates is starting to work. And new housing is starting to slowly come on the market as well. What Ramsey says we're seeing now is a softening in the rate of increase of prices, but he doesn't anticipate they'll go down like they did in 2008.

Title: Should I wait for real estate prices to crash before I buy a house? Here are 3 simple reasons why this housing downturn is nothing like 2008
Source: https://www.yahoo.com/video/wait-real-estate-prices-crash-200500170.html
Author: Sigrid Forberg

Not All Recessions Are Created Equal

Investors are currently grappling with the question of whether the recent rise in interest rates will lead to an economic slowdown (soft landing) or an economic recession (hard landing). While the odds of a recession by year-end are increasing, we believe it will likely be less severe than recent recessions due to the buoyancy provided by prior COVID stimulus programs as well as the strong labor market.

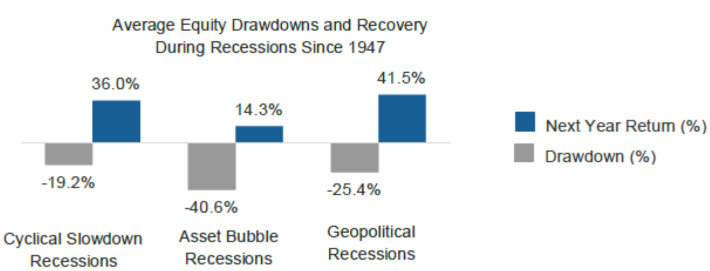
What Constitutes a Recession?

A recession is frequently defined as two consecutive quarters of negative real gross domestic product (GDP) growth. However, there are additional criteria to consider when determining whether a slowdown might actually be a recession. According to the National Bureau of Economic Research (the official arbiter of identifying recessions in the US), other criteria include declines in real income, employment rates, industrial production, retail sales, and consumer spending.

Not All Recessions Are the Same

The National Bureau of Economic Research has identified 12 recessions in the US since 1947. These recessions and recoveries have taken various shapes and sizes, but they generally fall into three categories:

- Asset Bubble Recessions such as the 2008 housing "bubble burst" are caused by asset prices that rapidly outpace their fundamentals, which eventually causes the bubble to burst. This can lead to financial crises and result in steep declines in equity markets.
- Geopolitical-Driven Recessions are based on events such as the oil embargo of 1973-1974. On average, geopolitical recessions tend to be the shortest in duration because of their event-driven nature. For example, the COVID recession, which was caused by a government-mandated shutdown of the economy, lasted only 2 months.
- Cyclical Slowdown Recessions can occur when there is a shift in demand and supply. This type of recession is often the least extreme compared to its peers. An analysis of the 12 US recessions since 1947 shows cyclical recessions tend to have milder drawdowns (average -19.2%) and strong recoveries (36%) in the 12 months following the end of the recession.



Source: Bloomberg and National Bureau of Economic Research.

The Bottom Line

Recessions are unavoidable. Even while the odds of a recession are increasing in 2022, a recession is unlikely to be as deep as the financial crisis in 2008 because of the CARES Act, Coronavirus Relief Act, and American Rescue Plan Act, strengthening the balance sheets of households and businesses.

The US government typically delivers fiscal stimulus during a recession to help jumpstart the economy. Most of the direct stimulus in response to the COVID recession benefited consumers after the recession ended in April 2020 and resulted in stronger consumer and corporate balance sheets compared to previous economic cycles. While inflation is clearly reducing the strength of those balance sheets, the labor market remains incredibly strong, which may help reduce the magnitude of a potential recession.

Finally, recessions don't last forever, and neither do bear markets. Markets tend to rebound from bear markets over the subsequent 3 to 5 years, which means for most investors it makes sense to stick to their long-term investment plans.

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Is a Recession Needed to Tame the Bear?

There's a "hurricane" coming for the US economy. Headlines from titans like Jamie Dimon, JPMorgan Chase CEO, have fueled predictions about the next recession. This has clearly spooked investors, who are left wondering how to shield themselves from the challenges that may lie ahead. If another recession is looming, will the markets not recover until the recession has ended? While it's impossible to predict what is going to happen next, we can learn from history. Let's take a look at the differences between a bear market and a recession, and how stocks have performed during a recession.

A simple definition of a recession is two consecutive quarters of negative Gross Domestic Product (GDP) growth[i]. While this does not meet the full scope of a recession, as defined by the National Bureau of Economic Research (NBER), it does provide a guideline. To date, we have only seen a single quarter of negative growth in 2022, so technically a recession has not yet started. Economic statistics are backward-looking, so it will take some time before the NBER declares the economy in an official recession.

A bear market, on the other hand, is associated with the stock market and is defined as a 20% decline in prices from its last peak. The stock market tends to be forward-looking and often starts going down before the economy turns south and similarly starts turning back up before the recession ends. This is evident by looking at the S&P 500 performance from market highs to lows from the start to the end of a recession.

- Since 1953, the US has experienced 11 recessions, during which, on average, stocks did worse before a recession began than during the recession itself[ii].
- Since 1953, the stock market, on average, peaked six months before the start of the recession and incurred most of the losses during that period[iii].
- Looking at the market recovery, in all but the technology crash of 2001, the market on average bottomed three months before the recession ended, with significant positive returns from the lows to the end of the recession[iv].

Below Graph Source: Beaumont Capital Management. Staying the Course During Turbulent Times. June 2022.

Start of recession	End of recession	S&P 500 peak prior to the start of the recession (months)	Return from peak to start of the recession	S&P 500 bottom before the end of the recession (months)	Return from base to end of the recession
7/1/1953	5/1/1954	6	-8.8%	8	20.7%
8/1/1957	4/1/1958	12	-3.3%	3	4.9%
4/1/1960	2/1/1961	8	-8.4%	4	15.7%
12/1/1969	11/1/1970	12	-14.0%	4	14.0%
11/1/1973	3/1/1975	10	-8.8%	5	28.7%
1/1/1980	7/1/1980	3	-0.6%	0	0.0%
7/1/1981	11/1/1982	7	-5.4%	3	26.5%
7/1/1990	3/1/1991	1	-1.4%	4	20.7%
3/1/2001	11/1/2001	6	-18.4%	-16	-22.4%
12/1/2007	6/1/2009	6	-3.6%	3	28.3%
2/1/2020	4/1/2020	1	-0.2%	0	0.0%
Average		6	-6.6%	3	12.4%

Conclusion

In conclusion, the economy is not the stock market even though the two are linked over time. As a reminder, the stock market reflects future expectations for the economy, so stocks can move up during a recession or down when the economy is expanding. No one knows with precision when the start and end of the next recession will be, but we do know that both recessions and bear markets don't last forever.

iGross Domestic Product (GDP) is the value of all goods and services produced by the economy.
iiForbes. How stocks perform before, during and, after recessions may surprise you.
iiiBeaumont Capital Management. Staying the Course During Turbulent Times. June 2022.
ivBeaumont Capital Management. Staying the Course During Turbulent Times. June 2022.

August Special Days & Holidays

(Family Fun Month)

2nd- National Watermelon Day

4th- Coast Guard Day &

Chocolate Chip Cookie Day

6th- Taxpayer Appreciation Day

7th- Sister's Day & Friendship Day

8th- International Cat Day

14th- National Financial Awareness Day

17th- Nonprofit Day

19th- World Humanitarian Day

21st- Senior Citizen Day

24th- National Waffle Day

25th- National Park Service Day

Bloomin' Onion Bread

INGREDIENTS:

- 1 unsliced loaf sourdough bread
- 12-16 ounces Monterey Jack cheese, thinly sliced
- 1/2 cup butter, melted
- 1/2 cup finely diced green onion
- 2 teaspoons poppy seeds

SERVINGS: 10

PREP TIME: 25 Min

INSTRUCTIONS:

1. Preheat oven to 350 degrees.
2. Cut the bread lengthwise and widthwise without cutting through the bottom crust. This can be a little tricky going the second way but the bread is very forgiving.
3. Place on a foil-lined baking sheet. Insert cheese slices between cuts. Combine butter, onion, and poppy seeds. Drizzle over bread. Wrap in foil; place on a baking sheet. Bake at 350 degrees for 15 minutes.
4. Unwrap the bread and bake 10 more minutes, or until cheese is melted.

Sources: https://www.the-girl-who-ate-everything.com/bloomin-onion-bread; Produceforkids.com

The Sudoku Section

								5
			1		8			3
					9		8	
8		5					7	
7				1	3			4
	4		5					
5			6	8	4		9	
1	7			9				
		9		7				6

9	6	8	4	3	2	7	1	5
2	5	7	1	6	8	9	4	3
3	1	4	7	5	9	6	8	2
8	3	5	9	4	6	2	7	1
7	9	2	8	1	3	5	6	4
6	4	1	5	2	7	8	3	9
5	2	3	6	8	4	1	9	7
1	7	6	3	9	5	4	2	8
4	8	9	2	7	1	3	5	6

The answers

Source: http://www.printmysudoku.com