

**Today's Notes:**

**1... Home Sweet Home**

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As I have written many times, home ownership is by far the most important asset class to American wealth post WW II. That asset class, a wealth creator and store of value has been damaged and, as the New York Times noted Monday, it will require years to bottom and recover. How will the average home-equity loan dependent American create and store wealth without his annual 10% housing gain? The deflation of this mega housing bubble is only beginning. The stock market has also been unforgiving for at least a decade. The massive wealth destruction in the housing industry will now percolate across the US economy with an even hand. The labor market will continue to be a victim as well.

Analysts had expected poor housing sales numbers yesterday. However they were much worse than we had expected. They declined 27.2% from June to a 3.83-million-unit annual rate. For single family existing homes this was the lowest sales rate in 15 years.

The poor existing home resale numbers were significant. We believe they signal the beginning of a second leg down in GDP growth for the US economy. We recently wrote on the demise of the middle class. The cherished and promised goal of every American and Canadian has been home ownership. This has been so ingrained in the American psyche that one's home became the primary asset in the wealth portfolio and also critical in retirement.

Even in 2008, after the credit crisis had impacted the US, Americans believed that housing would rise from the ashes and increase value at 10% per year. That cannot happen until the mountain of bad debt, underlying the average American home, is written down to reflect real value.

The yield on the 10 year Treasury bond suggests that housing sales should be booming. Rates have seldom been this low. Three years ago today the 10 year T-bond was yielding 4.4%. This AM it is yielding 2.5%. Likewise the 30 year Treasury bond yield has formed a major top and is trading at a yield of 3.56%. The story is the same across the yield curve. Indeed interest rates pegged to Treasury yields seem to be signaling the big dip into another recession. Three years ago the 30 year bond was trading at 4.8% still a very low yield to pay for 30 year money.

It is clear that the housing market has not benefited in this low interest rate opportunity. But a 30 year yield of 3.6% hardly makes the bond market a great long term investment opportunity for wealth creation and maintenance. Many think this bond market is becoming a bubble. We cannot see any real possibility of significant interest rate increases in the near to intermediate term.

But it certainly has been a wonderful decade for the strategy we have oft proposed, a barbell with gold at one end and Treasuries at the other. The wealth creation in this strategy from 2000 to date has been tremendous.

Gold still has much upside as more of the system's debt unwinds.



You would expect with interest rates and hence mortgage rates this low that mortgage apps and home resales would be booming. In fact we are witnessing the impact of asset deflation. Housing prices are now expected to fall another 10% in the coming year.

NAR Chief Economist Lawrence Yun tried to put the best possible face on July's grim data. *"Consumers rationally jumped into the market before the deadline for the home-buyer tax credit expired. Since May, after the deadline, contract signings have been notably lower and a pause period for home sales is likely to last through September," he said [in a statement](#). "However, given the rock-bottom mortgage interest rates and historically high housing affordability conditions, the pace of a sales recovery could pick up quickly, provided the economy consistently adds jobs."*

We don't believe Mr. Yun's forecast for one second. Neither do the world's capital markets. It is difficult to see how the economy can add jobs concurrent with further declines in house prices. The two effects interact.

World markets didn't much like the sales news from the US housing segment either. Take a look at yesterday's global market returns. These are not particularly good times for equity investors anywhere.

It is becoming increasingly difficult for governments worldwide to provide plausible solutions. In fact the only solution is the one that the Austrian School of economics has been advocating for years. All debts must be paid or defaulted. There will be winners and losers and ultimately a new economy shall emerge from the chaos. The sooner we all realize this and cease printing to forestall foreclosures and bank failures, the sooner the economy can right itself. It will however be a long and tortuous road to economic revival. No one wants to experience another economic catastrophe. Yet the government, with all its reelection tactics now has on a road to serfdom not the road to freedom.

Dow World Index	212.94	-2.71	-1.26%	■	
Sydney All Ords	4,418.40	-42.00	-0.94%	■	
French CAC	3,491.11	-62.12	-1.75%	■	
German DAX	5,935.44	-75.47	-1.26%	■	
Euro Top 100	214.29	-3.61	-1.66%	■	
London FTSE	5,155.95	-78.89	-1.51%	■	
Hang Seng	20,658.71	-230.30	-1.10%	■	
Tokyo Nikkei	8,995.13	-121.56	-1.33%	■	
Toronto 300	11,557.35	-161.28	-1.38%	■	
CDNX Composite	1,456.85	-18.50	-1.25%	■	

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