
*Turning Point Analytics utilizes a time-tested, real-world strategy that optimizes the client's entry and exit points and adds alpha. TPA defines each stock as Trend or Range to identify actionable inflection points.*

*"In the short run, the market is a voting machine, but in the long run, it is a weighing machine." - Benjamin Graham*

# WORLD SNAPSHOT – COMMENTS & CHARTS Wednesday, April 28, 2021

General comments first and macro tables at the bottom. *Links for Explanations of Technical terms at the bottom of the report.*

**THIS IS NOT A HOUSING "BUBBLE"**

Pundits are continually warning about home prices and berating the FED for its role in setting up a bubble. In Barrons' Randall Forsyth's 4/28/21 article entitled The Housing Market Looks Like a Bubble. It's Time for the Fed to Worry, he wrote, "In the case of housing, however, the Fed is helping to feed the buying frenzy in many markets, which has been supercharged by the effects of the pandemic and the desire to have room to work at home….. *Strong housing and mortgage activity argues against the Fed effectively subsidizing a sector that is near bubble territory."* *https://www.marketwatch.com/articles/the-housing-market-looks-like-a-bubble-its-time-for-the-fed-to-worry-51619524804?mod=mw_latestnews*

**TPA disagrees and has been telling clients since March 2020 that the housing market would remain strong and that the Pandemic would create a surge of demand for homes**. In this article, TPA will show the following:

1. **There is a long-term supply problem stemming from a decade of underbuilding during the financial recession.**
2. **COVID-19 has permanently changed the living and working patterns of Americans**
3. **Households are at the lowest levels of debt to disposable income in 40 years**
4. **The very long-term pattern of home price appreciation is well-established**
5. **Rents are very high, making the alternative to buying unattractive**
6. **Homeownership is historically low already**

In March, just as the Pandemic was getting started and the stock market began to weaken, TPA stated that "house prices will remain stable for the long-term." TPA wrote:

> *"There will be an economic impact to countries, businesses and people from the current crisis, but it may be constructive, at this time, to take a historical perspective when it comes to housing. In recent history, it has been rare that a downturn in either the stock market or the economy has had a long-term detrimental impact on home prices. The one time in the past 30 years when the economy and stocks coincided with a*

*long term serious decline in house prices was 2008-2009. Of course, in that case, it was the housing market and the ramifications of its downfall that caused the economy and stocks to weaken; not the other way around."*

In May 2020, TPA wrote:

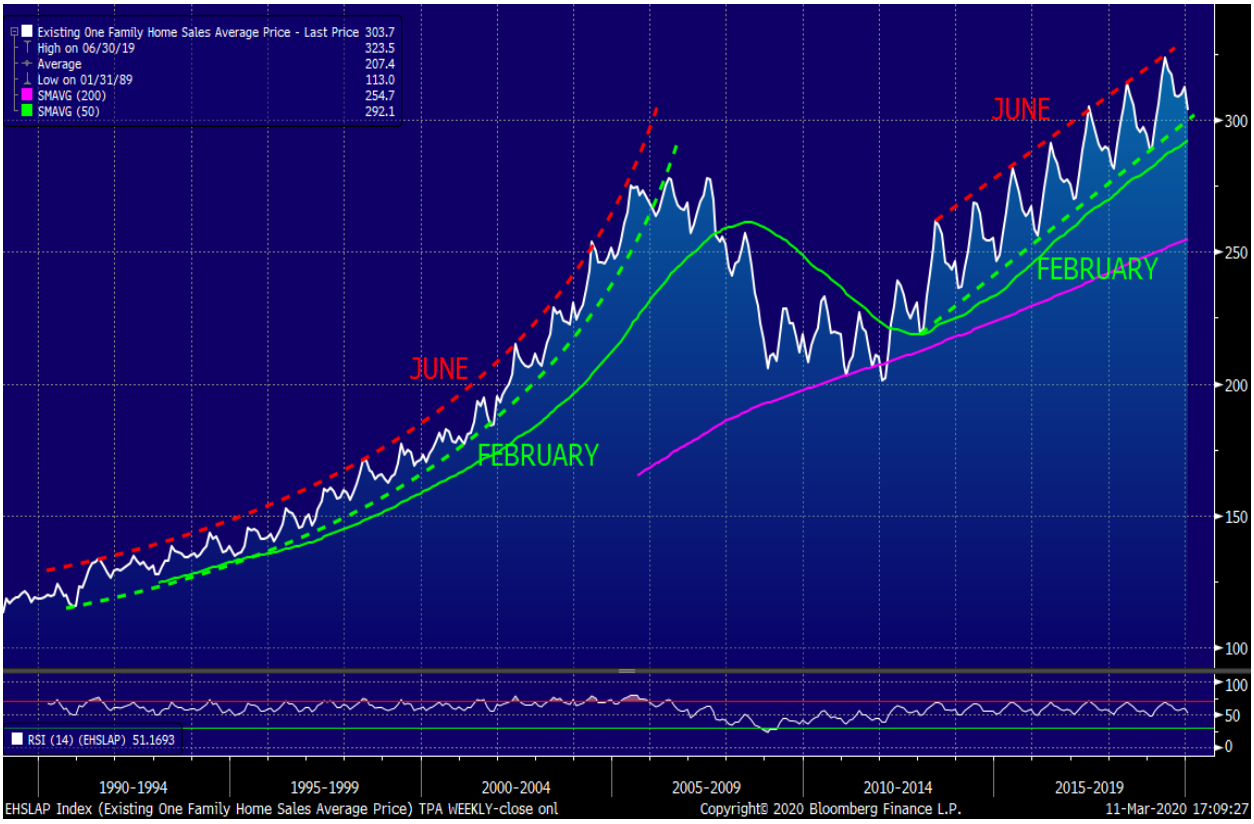
*"TPA sees the multi-decade historical pattern for home prices repeating"*

In October 2020, TPA reiterated its positive stance on Home Builders:

*Home Builders see gains as people started the exodus from cities to suburban and rural areas. This means a transition from renting to buying in an already tight housing market.*

**ANNUAL HOME PRICE CYCLE** - TPA pointed out repeatedly that the really important pattern to pay attention to was the long-term cycle that showed that the house price annual cycle is a low in February and a high in June (chart below). In other words, March is not the time to be negative on house prices.

**U.S. AVERAGE HOME PRICE – 1989-2020**




**RENTS AT HIGHS** – in THE March 2020 report, TPA also pointed out that rents were at historic highs making owning a home very attractive. "The average increase in rent has been 58.58%, while the median household income has only increased by 39.32% in the same period [past decade]"

## Rent, Home Price and Median Income Increases This Decade

| City | Average Rent 2019 | % Change Average Rent | Median Home Price 2019 | % Change Median Home Price | Median Household Income 2019 | % Change Median Household Income |
|---|---|---|---|---|---|---|
| Los Angeles | $2,527 | 65% | $774,000 | 96% | $64,036 | 36% |
| Phoenix* | $1,113 | 71% | $256,148 | 144% | $59,406 | 41% |
| San Diego | $2,225 | 54% | $610,000 | 79% | $81,637 | 36% |
| San Jose | $2,697 | 74% | $975,000 | 124% | $115,862 | 51% |
| Jacksonville* | $1,098 | 46% | $171,790 | 41% | $55,626 | 22% |
| San Francisco | $3,680 | 70% | $1,300,000 | 95% | $115,185 | 61% |
| Seattle* | $2,124 | 77% | $716,475 | 95% | $95,818 | 59% |
| Denver* | $1,660 | 85% | $430,500 | 104% | $70,086 | 55% |
| Washington, D.C.* | $2,235 | 31% | $663,175 | 60% | $87,333 | 43% |
| Portland | $1,536 | 59% | $365,000 | 67% | $74,924 | 59% |
| Las Vegas* | $1,111 | 49% | $267,818 | 93% | $54,914 | 8% |
| Baltimore | $1,266 | 32% | $115,000 | 26% | $52,275 | 36% |
| Tucson | $893 | 40% | $189,065 | 44% | $44,768 | 23% |
| Sacramento | $1,439 | 69% | $347,000 | 128% | $66,672 | 43% |
| Mesa* | $1,085 | 76% | $262,400 | 112% | $59,703 | 33% |
| Long Beach* | $2,103 | 57% | $585,000 | 89% | $63,150 | 23% |
| Atlanta* | $1,474 | 65% | $251,125 | 98% | $66,979 | 61% |
| Virginia Beach* | $1,221 | 21% | $265,219 | 18% | $78,985 | 23% |
| Colorado Springs* | $1,187 | 72% | $297,249 | 64% | $66,964 | 34% |

*the last sales data available is from 2018; 2019 value is the 2018 value adjusted by the Consumer Price Index (CPI)
"% Change" refers to the decade evolution between 2010 and 2019
Median Household Income in 2019 is based on CPI-adjusted 2018 data

Share

RENTCafé®

https://www.rentcafe.com/blog/rental-market/market-snapshots/renting-america-housing-changed-past-decade/

**PANDEMIC CREATED A PERMANENT LONG-TERM CHANGE IN WORK AND LIVING PATTERNS –** In the March 2020 report, TPA stated that the world has changed and that change would create huge demand for housing

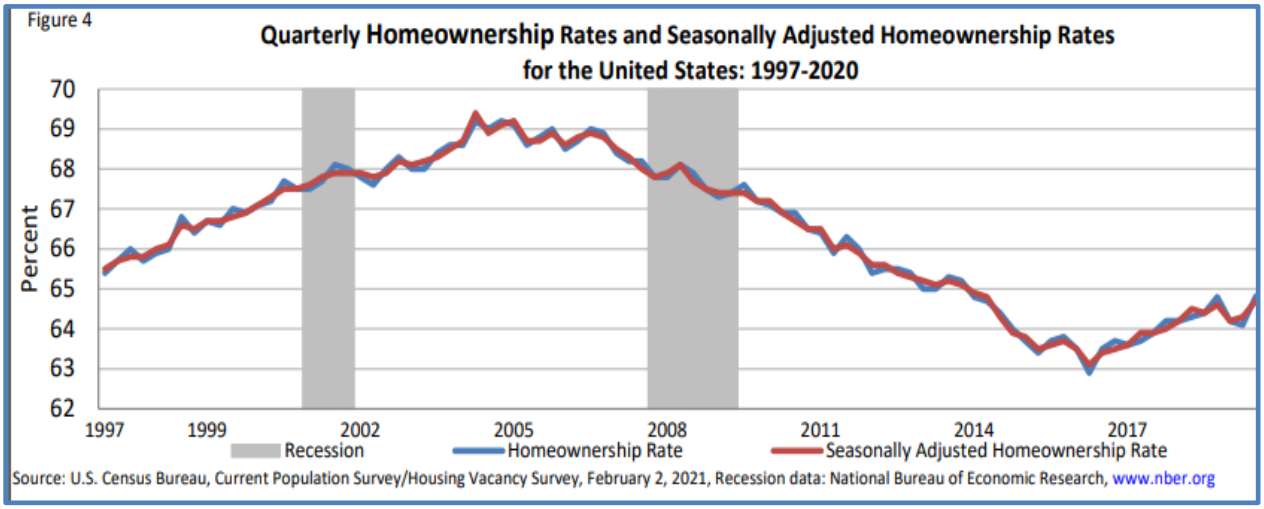
> *"The final reason why the current crisis will not stall prices has to do with the nature of housing in cities versus outside cities. …**Since there are less rentals away from cities, that will also increase demand for buying single family houses. This unforeseen demand will keep demand for homes high and prices moving higher."***

***The current shortage in homes will be with us for many years.*** The table below shows U.S. housing starts and population for the 14 years from 2007 to 2020. In the 35 years before 2007, the average annual housing starts in the U.S. were 1.59 million. Using the annual housing starts from 2007 to 2020 and the 35 year average, the cumulative deficit was over 7.5 million homes. To compensate for this deficit, housing starts would have to average 3.1 million per year for the next 5 years. The highest annual housing starts, since 1970, was in 1972: 2,357,000. So, the odds of housing starts in any 1 year, let alone 5 years in a row, being over 3 million are very, very low. Using 2.357 million as the annual housing starts going forward, it would take until 2030 or 10 years to erase the deficit.

| AVERAGE HOUSING STARTS FOR 35 YEARS WAS 1,590,832 (1970-2006) | | | | | | |
|---|---|---|---|---|---|---|
| | 1,590,832 | | | | | |
| YEAR | HOUSING STARTS | ANNUAL HOUSING | CUMULATIVE DEFICIT | POPULATION | POPULATION CHANGE PER | CUM POP CHANGE |
| 2007 | 1,355,000 | -235,832 | -235,832 | 301,000,000 | 2,000,000 | 2,000,000 |
| 2008 | 905,500 | -685,332 | -921,165 | 304,000,000 | 3,000,000 | 5,000,000 |
| 2009 | 554,000 | -1,036,832 | -1,957,997 | 307,000,000 | 3,000,000 | 8,000,000 |
| 2010 | 586,900 | -1,003,932 | -2,961,930 | 308,000,000 | 1,000,000 | 9,000,000 |
| 2011 | 608,800 | -982,032 | -3,943,962 | 311,000,000 | 3,000,000 | 12,000,000 |
| 2012 | 780,600 | -810,232 | -4,754,195 | 313,000,000 | 2,000,000 | 14,000,000 |
| 2013 | 924,900 | -665,932 | -5,420,127 | 316,000,000 | 3,000,000 | 17,000,000 |
| 2014 | 1,003,300 | -587,532 | -6,007,659 | 318,000,000 | 2,000,000 | 19,000,000 |
| 2015 | 1,111,800 | -479,032 | -6,486,692 | 321,000,000 | 3,000,000 | 22,000,000 |
| 2016 | 1,173,800 | -417,032 | -6,903,724 | 323,000,000 | 2,000,000 | 24,000,000 |
| 2017 | 1,203,000 | -387,832 | -7,291,557 | 325,000,000 | 2,000,000 | 26,000,000 |
| 2018 | 1,249,900 | -340,932 | -7,632,489 | 327,000,000 | 2,000,000 | 28,000,000 |
| 2019 | 1,587,000 | -3,832 | -7,636,322 | 329,064,917 | 2,064,917 | 30,064,917 |
| **2020** | **1,670,000** | **79,168** | **-7,557,154** | **331,002,651** | **1,937,734** | **32,002,651** |
| 2021 | 3,102,263 | 1,511,431 | -6,045,723 | | | |
| 2022 | 3,118,097 | 1,511,431 | -4,534,292 | | | |
| 2023 | 3,118,097 | 1,511,431 | -3,022,862 | | | |
| 2024 | 3,118,097 | 1,511,431 | -1,511,431 | | | |
| 2025 | 3,118,097 | 1,511,431 | 0 | | | |
| *Source: Census Bureau* | | | | | | |

**Homeownership is also still low, which adds to demand.** The homeownership rate across the country has never fully recovered since the Great Recession. During the period between 2009 and 2014, the homeownership rate significantly decreased in the U.S. The level of homeownership has yet to return to the highs that occurred prior to the Great Recession (chart below). As of 2019, the homeownership rate was estimated to be 64.1%, roughly in line with its level over the past three years. It's an improvement from the recent low of 63% set in 2015, but it was still well below the record highs of over 69% in 2005-2006.

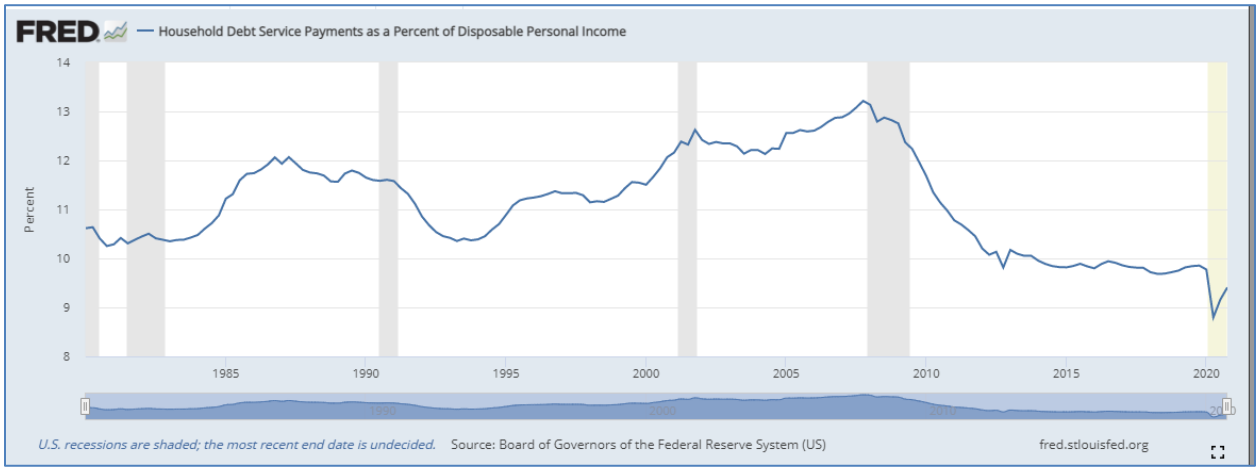
**HOMEOWNERSHIP – 1997-2020**




*https://www.census.gov/housing/hvs/files/currenthvspress.pdf*

**Household debt levels are not only not high, they are at 40 year lows** - Some argue the previous level of homeownership may have been unsustainable. People worry that high levels of ownership precede high levels of delinquencies and foreclosures. However, some of the regulations that followed the housing crisis, including the ability-to-repay rules, put the housing and mortgage industries on a much more stable foundation. In addition, consumers are in a far better debt load situation today than they were in 2007. The Household debt to disposable income measure in the 4th quarter of 2007 was 13.21%, whereas it fell to a 40-year low of 8.79% last year.

**U.S. HOUSEHOLD DEBT TO DISPOSABLE INCOME – 40 YEARS**




https://fred.stlouisfed.org/series/TDSP

For all of the reasons mentioned above, home demand will continue to be very strong and house prices will not come down.

**TO SUMMARIZE:**

1. **There is a long-term supply problem stemming from a decade of underbuilding during the financial recession.**
2. **COVID-19 has permanently changed the living and working patterns of Americans**
3. **Households are at the lowest levels of debt to disposable income in 40 years**
4. **The very long-term pattern of home price appreciation is well-established**
5. **Rents are very high making the alternative to buying unattractive**
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## TPA MARKETSCOPE EXPLAINED

Market timing is not a complete investment strategy in and of itself, but should be utilized as a tool for successful investing. Knowing when stocks are at extremes can present investors with opportunities and help them to avoid pitfalls. The TPA Marketscope uses a set of carefully watched indicators to assess if the market is at or near extremes. When the market is oversold, risk-return favors buying and not selling and when the market is overbought, risk-return favors selling and not buying.

The seven indicators below were developed after years of observation and the extreme limits used have historically been levels that mark short-term and medium-term inflection points.

**Indicators explained:**

- **Short term market score** – is a daily analysis of the S&P500 relative to the normal distribution using the 2 standard deviation Bollinger Band. TPA then adjusts the score by the amount of overbought or oversold as measured by RSI.
- **Percent stocks above or below the 2 standard deviation Bollinger Band** – Bollinger Bands identify ranges using standard deviations away from a moving average. They, therefore, measure volatility (the width of the band) and extremes (using normal statistical distributions). In a normal distribution, 2 standard deviations identifies 96% of all occurrences. As a stock reaches the extreme of the 2 standard deviation Bollinger Band, it becomes more probable that the price will regress back to the mean. TPA has found that historically market reversions are very likely when 40% of stocks are above or 60% of stocks are below the 2 standard deviation Bollinger Band.
- **Percent stocks above the 50DMA** – when a large number of stocks (85%) are trading above their 50DMA, the market is at an overbought extreme. When a small number of stocks (15%) are trading above the 50DMA, the market is oversold.
- **Percent stocks RSI above 70 or below 30** – RSI is a measure of the speed and size of a recent move in a stock or index; the greater the price move and the quicker that move has taken place, the higher RSI. TPA has found that historically market extremes occur when 30% of stocks are trading above RSI 70 or when 55% of stocks are trading below RSI 30.
- **Percent stocks 50DMA>200DMA** – This is a longer-term measure of extremes. An uptrend is defined when short term prices consistently trade above longer-term prices. An example of an uptrend is Last > 20DMA > 50DMA > 200DMA. Technically, a long-term uptrend is defined by the 50DMA trading above the 200DMA. TPA has found that historic oversold extremes occur when 22% or less stocks are trading 50DMA>200DMA. The overbought extreme has become trickier since it has been declining since 2010 as a small number of TECH stocks have garnered an increasingly large percentage weighting in the S&P500. Currently, the extreme is approximately 40% to 50% of stocks trading 50DMA > 200DMA.

**TPA notes that not all of these indicators are equally consistent. Clients should use the "Historical Importance" comments to determine the weight they will assign to each alert.**

CLICK ON LINKS BELOW FOR TECHNICAL INDICATOR EXPLANATIONS:

***ASCENDING - DESCENDING TRIANGLE***
***BASING-TOPPING-CONSOLIDATION***
***BREAKOUT (Breakdown)***
***CHANNEL & RANGE***
***DIRECTIONAL MOVEMENT INDEX (DMI)***
***DOUBLE BOTTOM or DOUBLE TOP***
***MACD-MOVING AVERAGE CONVERGENCE-DIVERGENCE***
***MOVING AVERAGES***
***RELATIVE STRENGTH & PEER STOCK PERFORMANCE***
***REPEATING PATTERNS***
***RSI-RELATIVE_STRENGTH***
***SUPPORT, RESISTANCE, BREAKOUT, BREAKDOWN***
***TREND***

**ALWAYS REMEMBER: No strategy exists in a vacuum – always evaluate the relevant sector & market.**

***Over 80% of portfolio performance is determined by sector and market forces (Ibbotson & Kaplan study – January/Febuary2000)***

***Turning Point Analytics Disclaimer***

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