

# The Low-Cost Housing Economic Stimulus

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In every economic recovery following a recession, investors will miss opportunities because they fail to both anticipate the recovery and to participate in the subsequent expansion. At ICON, we believe investors often miss out because they spend their time looking for a recovery and expansion that has characteristics similar to the previous recovery and expansion. Investors often fail to recognize that each economic recovery and expansion is unique and one recovery is rarely similar to the next.

During the 1970s, the United States was plagued by high inflation and shortages of oil, metals, and other natural resources. By contrast, the subsequent expansion of the 1980s and its attendant stock market boom was characterized by low inflation and oil prices that, during one 18-week period beginning in late November 1985, dropped over 65%—from nearly \$32 to almost \$10 per barrel. In the 1990s, the expansion was heavily driven by technology, a sector which would later experience its own unique bust. By the early 2000s, many investors kept asking, “When is technology coming back?” Incorrectly thinking the recovery and expansion of the 2000s had to look like the technology-driven recovery and expansion of the 1990s, many investors missed the opportunities before them.

The market expansion we experienced in the 2000s was not, in fact, driven by technology. It was instead led by home building and supported by careless lending and an insatiable global demand for mortgage-backed securities. With developing nations like India and China undergoing a massive infrastructure boom, domestic home building only added to the global demand for steel, concrete, lumber, metals, adhesives, and other necessary materials, putting upward pressure on prices. Many of these products are manufactured in emerging countries, and our demand for these materials hurt our trade deficit and weakened our currency.

We believe the U.S. economy is in recovery mode. This recovery, moreover, should turn into an expansion that will be very different from the last one - although we think it will likely be given a boost from the step-child of the last expansion: excess housing. Housing is the single largest after-tax expense facing the vast majority of Americans. If we could design the foundation for a healthy, sustainable economic expansion, the first thing we would create is cheap housing. We have that today, compliments of hedge funds, developers, and financial institutions that have written off their mistakes.

Whether an individual is preparing to rent, purchase, or refinance a home, housing expenses today should take less of a bite out of one’s budget, leaving greater discretionary income for things like consuming and investing. In our view, low-cost housing is like a tax reduction or stimulus for other spending and investing.

Low-cost housing is a gift from the prior decade. Families looking for more space, individuals looking to relocate, and retirees intent on moving to Florida, Las Vegas, Arizona, and elsewhere should have more spending money because of cheaper housing. Armed with this economic stimulus, while we cannot yet say what the prevailing theme will be, we anticipate another expansion will follow closely on the heels of this recovery. ☺

### EACH RECOVERY IS UNIQUE



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