



THE BOOM - BUST ALERT



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"There is always a bull market raging somewhere on this planet" - Byron King

HIGH NOON. High-Stakes Showdown.

Part II.

By Joe Average,

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The Flight to Safety Begins?

German Property Funds Hit By Panic.

"Fund companies and financial advisers have warned of an atmosphere of panic and hysteria as a third German open-ended property fund was closed (within two months) after a run of withdrawals.

KanAm, a Munich-based asset manager...froze its US fund after heavy outflows... it had been forced to close its core Euro 3.2 billion global Grundinvest fund after Euro 700 m of withdrawals in 24 hours.

... (a) rating agency sell recommendation, itself triggered by the company's connection with a US real estate investment trust with accounting troubles, was responsible for its crisis."

FINACIAL TIMES January 20th 2006.

The seeds of panic were sown when *"on December 13, Deutsche Bank shocked the German banking world by freezing the \$US7.2 billion fund. The bank made its unprecedented move after investors were spooked by its decision to conduct an unscheduled revaluation of the fund.*

Since that could only mean a sharp markdown of the underlying assets, investors crowded bank branches to redeem their shares.

Freezing the fund is practically the equivalent of a bank closing its doors to a mob of frantic depositors, and the result has been alarm in the German banking community about the reliability of the country's \$US 105 billion property-fund industry... "If a second one closes, then there could be a run,"...

German bankers fear a major write-down may shatter fragile investor confidence, creating a domino effect. Other real estate funds might also be forced to close and liquidate their assets, probably with big losses.

The big flaw with the funds is that they promise investors liquidity, but are themselves tied up in illiquid assets such as shopping centres or industrial parks."

Bloomberg (AFR January 5th 2006).

*Underline added for emphasis.

Meanwhile, some worrying signs are beginning to emerge from China (now officially the world's fourth largest economy having recently overtaken Great Britain and France).

A Home Boom Busts.

“Shanghai’s hot housing market has fizzled after a run-up fed by speculators, threatening a significant part of China’s economy.

American homeowners wondering what follows a housing bubble can look to China’s largest city. Once one of the hottest markets in the world, sales of homes have virtually halted in some areas of Shanghai, prompting developers to slash prices and real estate brokerages to shutter thousands of offices.

Recent home buyers are suing to get their money back. Banks are fretting about a wave of default loans.

“The entire industry is scaling back,” said Mu Wijie, a regional manager at Century 21 China, who estimated that 3,000 brokerage offices had closed since spring. Real estate agents, whose phones wouldn’t stop ringing a year ago, say their incomes have plunged by two-thirds.”

Don Lee, Los Angeles Times, January 8, 2006.

The U.S. Real Estate Bubble.

As the biggest ever American and global property booms shows signs of exhaustion, the debate about “What happens next?” becomes ever more heated and more contentious.



The Optimistic View...Prices Will “Plateau”.

Mike Shedlock (www.globaleconomicanalysis.blogspot.com) tells us that *“All of these housing cheerleaders sound just like Yale professor Irving Fisher, who just before the stock market crash in 1929, declared that stocks had reached “a permanently high plateau”.*

At the top of the list in believing the “permanently high plateau” theory is David Seiders, the chief economist for the National Association of Home Builders. He expects another record year this year (2005), even as the industry begins to hit “the plateau we’ve been watching and waiting for.”

Also chiming in on the permanently high plateau theory is Erik Bruvold of the San Diego Regional Economic Development Corp. in the San Diego News article, “Housing economists raise yellow flag over San Diego”.

“Mr Bruvold predicted a flattening in prices rather than a dramatic falloff. Already, the inventory of homes on the market is growing and sales prices are lower than asking prices. ‘I think we’ve hit a plateau,’ Bruvold said. ‘I would not refer to it as a turning point.’

“David Berson, chief economist of Fannie Mae...also seems to be giving some credence to the ‘plateau theory’... ‘prices may simply slow for a period of slow or no price gains.’

“David Seiders (has also) said, ‘I think the biggest risk would be for investors not only to stop investing, but to move those units back onto the market in large volume, ... that could create a bigger problem.”

“Mish” Shedlock replies to this last statement thus:

*“Yes Mr. Seiders, the phenomenon is called **supply shock**. **When speculators start to bleed money, and it’s obvious that home values are falling these speculators will indeed dump their supply. Panic selling?”***



The Pessimistic View...Prices will Crash.

Housing bubble's burst could cost 1 million jobs and cause a recession, experts say

"A downturn in housing could mean more than 1.3 million jobs lost, Goldman Sachs Group Inc. predicts, bumping up the national unemployment rate by 1 % and the unemployment rate in house-mad California by 2%. Those numbers don't include likely job cuts in housing-dependent businesses, such as banking, furniture and building materials.

The Center for Economic and Policy Research predicts worse, saying a bubble burst would mean the loss of 5 million to 6.3 million jobs.

The housing run-up has financed consumer spending, creating more than \$5 trillion in bubble wealth, the center estimates. Consumers have used "cash-out" mortgages to pay for everything from new kitchens to college tuition.

"House prices are at the mountain top," Zandi (Mark Zandi, chief economist at www.Economy.com) said. "All roads lead down. It's just a question of how steeply."

Ellen Simon, Associated Press, San Diego Union Tribune, Nov. 11, 2005.

Doug Thorburn's (www.DougThorburn.com) excellent article on "The Real Estate Bubble" describes how...

"...even lenders are beginning to run scared...At least one large mortgage lender, National City, has purchased credit protection on loans held in its portfolio. According to National City, 53 metropolitan areas, which account for almost a third of the total U.S. housing market, are "extremely [over 30%] overvalued."

BusinessWeek online (www.businessweek.com) ran a piece on December 19, 2005 entitled:

Bubble, Bubble – Then Trouble

"Psssssffffft. That's the sound of the air finally leaking from the real estate bubble in Loudoun County, Va. Since 2000 it's been the nation's fastest-growing county, where eager homebuyers always seemed to outnumber happy sellers. Until now.

What's happening in Loudon is a rapid shift in psychology – a classic sign of a market turn. The buoyant optimism that fuelled speculation and expectations of ever-rising prices is now succumbing to the fear of being left standing when the music stops. Real estate, the hottest play of the century in Loudoun, is rapidly cooling.

Jim Williams, executive vice-president of the Northern Virginia Building Industry Assn., knew the "feeding frenzy" had gotten out of hand when a waiter in a restaurant he frequents confided that he had bought four houses on spec. "I'm sitting looking at him and thinking even with tips... he must be dying on the vine."

Loudoun's real estate community insists the market is merely reverting to a more normal state.

There's another explanation, says insurance agent Joe Kelly ... "They ran out of stupid people."

Dr. A Gary Shilling, writing for John Mauldin's www.investorinsight.com , believes ***"that a 20% decline in house prices nationwide is not a wild forecast, and may be optimistic. Indeed, a 29% fall would be needed to get house prices back in line with rents and 35% to restore balance with the CPI... And remember that markets overshoot on the downside just as they do on the upside."***

The Italians have a saying... **che sera, sera ... what will be, will be.**

I guess we'll all be the wiser a little further down the track,

All the best, Joe.

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