A Great Time to Invest in Socks

by Steve Brown

You may have noted that recently we reported a large number of people in a John Hancock survey, in fact 55% of investors, think it is a good time to invest in socks. You may have missed it or chalked it up to errant spell checking or thought to yourself - "These guys may be onto something and I had better go long Argyles." What we meant to say was that the study found it was a good time to invest in stocks.

Speaking of socks, its origins go back to the beginnings of humans. Socks were fashioned from whatever material was available and served to protect and keep one's feet warm. One of the reasons feet get so cold is that the foot is the heaviest producer of sweat in the body and when you get cold it gets sort of icy. In fact, an average sized foot produces about a pint of sweat per day (gross). Considering that most of us have two feet, that's about a quart of perspiration every day (double-gross). While you ponder that slightly disturbing concept, we examine the other part of the Hancock study that said 67% of investors think it is a good time to invest in or own a home and only 18% think it's a good time for bonds.

It makes sense that investors might look to houses as an investment with the drop in prices in recent years and prices rebounding in many markets. Big buyers are more than dabbling and inventories have dropped like a stone nationwide. That got us wondering just how much prices dropped from the peak and how much have they recovered? We will use the Case Shiller US National Home Price Index to serve as a nationwide measure. If we go back to the beginning of the housing boom, it takes us to Q1 of 1998. The Case Shiller Index then was 86.39. Over the course of the cycle, it increased to 189.47, or a 119% increase at the peak in Q2 of 2006. The low point saw the index drop to 124.06 in March of 2012, a drop of 34%. Currently the index sits at 146.32, about 23% below the peak but still 70% above the beginning of the cycle. Houses are less expensive than they were, but prices have also increased substantially since 1998 and may still be above the longer term trend line. So, are they a good investment or not - we leave it to you to ponder.

Investors' second choice in the survey, stocks, are far closer to their all-time highs. The indices have pulled back in the wake of the DC nonsense, but are still within reach of their all-time high as measured by the DJIA of 15,677 in Sep 2013. Given that comparison, home prices seem more reasonable.

The survey shows very few think bonds are a good investment right now. Interest rates remain low and volatility is running rampant. Since the Fed announced its decision not to taper right now and Congress got its act together temporarily, yields have tanked like a stone in the water. The good news for banks issuing deposits is that bank CD rates have also seen a slide.

What is missing from all of this discussion is risk. Stocks are often considered the most risky investment, but real estate can carry even greater risks. Real estate almost always requires a significant sized investment, probably more than an investor would ever put into one stock, and this increases the risk exponentially. Houses are also illiquid and they may or may not sell when money is needed most or when the market is optimal.

Community bankers are a great resource for customer advice so go out and talk to your clients. Help your customers understand the risks and rewards of what they do and let them know you are standing by to help further if they want it. Finally, as we close, with winter just around the corner, and regardless of the market environment, it's probably a good idea to sock some money away in socks just to keep your feet warm and toasty.

BANK NEWS

Settlement Near

JPMorgan Chase has reportedly reached a preliminary record $13B deal to settle federal civil probes by the DOJ into alleged fraudulent sales of mortgage bonds and other mortgage related matters.

Good News

A new survey from American Express finds 54% of small business owners are making capital investments this year vs. 49% last year at this time. Meanwhile, 35% said they planned to hire vs. 29%.

Growth Reduced

Bank of America has cut GDP growth expectations 15% for 1Q to 2.8% from 3.3% prior to the Congressional fight over the budget and debt ceiling. It also expects the 4Q to be 2.0%.

Millionaires

Credit Suisse research finds of the 1.8mm millionaires created in the past year, 94% were created in the US. Other countries in order were France (287k), Germany (221k) and Italy (127k). Meanwhile, Japan took the biggest hit as more than 1mm went away amid country struggles. The report also finds that while millionaires equal less than 1% of the world's population, they control 41% of all wealth.

Banking Pressure

Spain, Europe's 4th largest economy, is still struggling to get a handle on its banking crisis. Spanish banks have reported the 6th straight monthly increase in bad loans in Aug reaching a record 12.1% of total debt (the highest since statistics have been collected in 1962). The country is also struggling with a 26% unemployment rate as it gets set to host the Olympics in 7Ys.