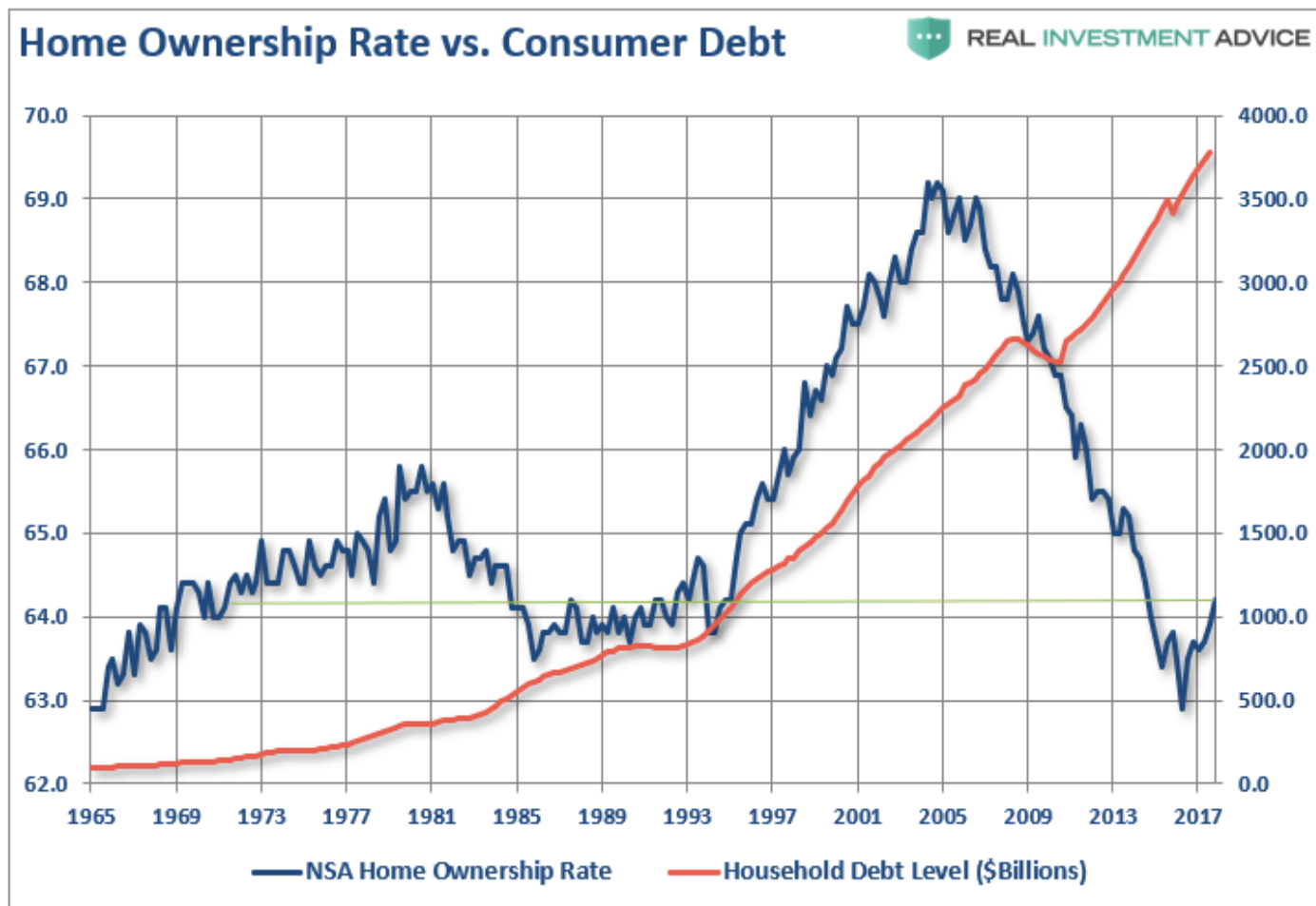




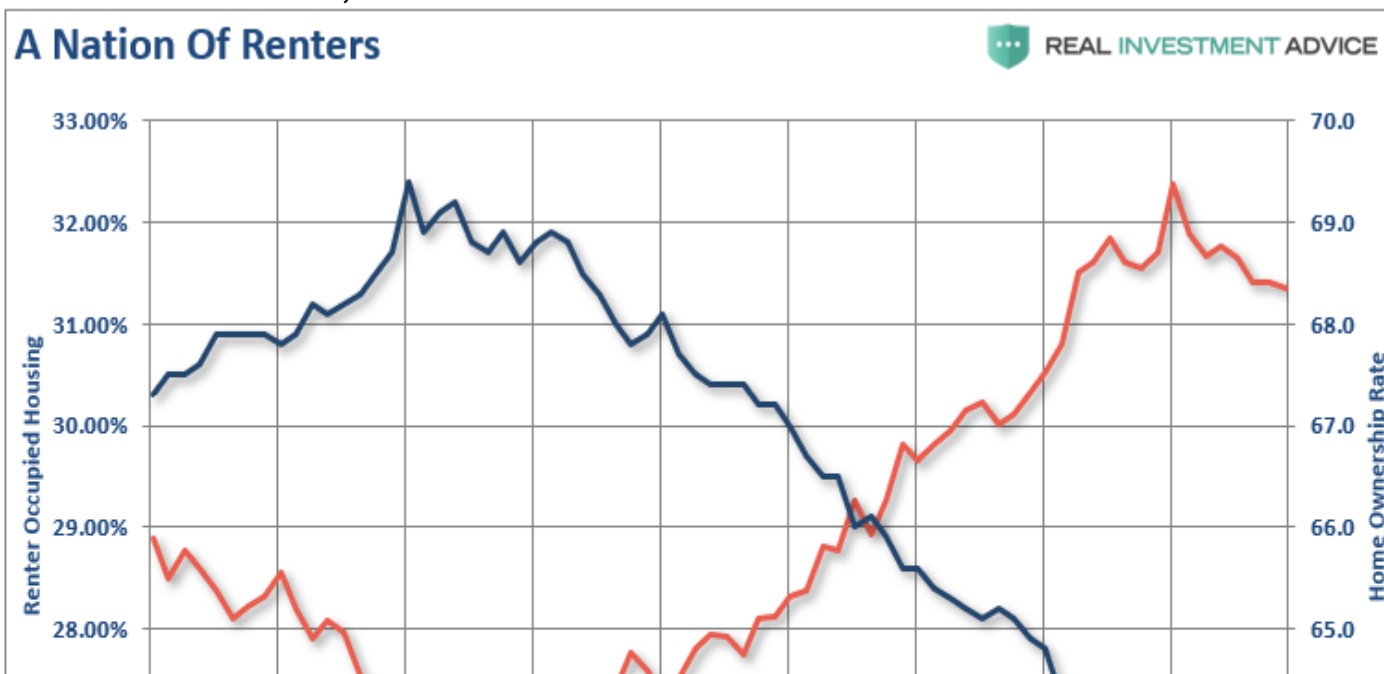
*?The psychological factors are harder to assess. People aren't flipping condos for sport the way they were during the bubble when mortgages were available to anyone regardless of whether they had income or assets. **Yet it seems there's a widespread desire to own assets ? stocks, bonds, and real estate ? regardless of price.**•It's not an obviously happy mania, where people are motivated by promises of great wealth. • **It's more like a need to be an asset owner in an economy that continues to hurt workers without college degrees and becomes more automated.**•Nevertheless, the price insensitivity of many buyers is enough to cause concern.?* - John Coumarios

It is an interesting comment and John is correct. •Low rates, weak economic growth, cheap and available credit, and a need for income has inflated the third bubble of this century.

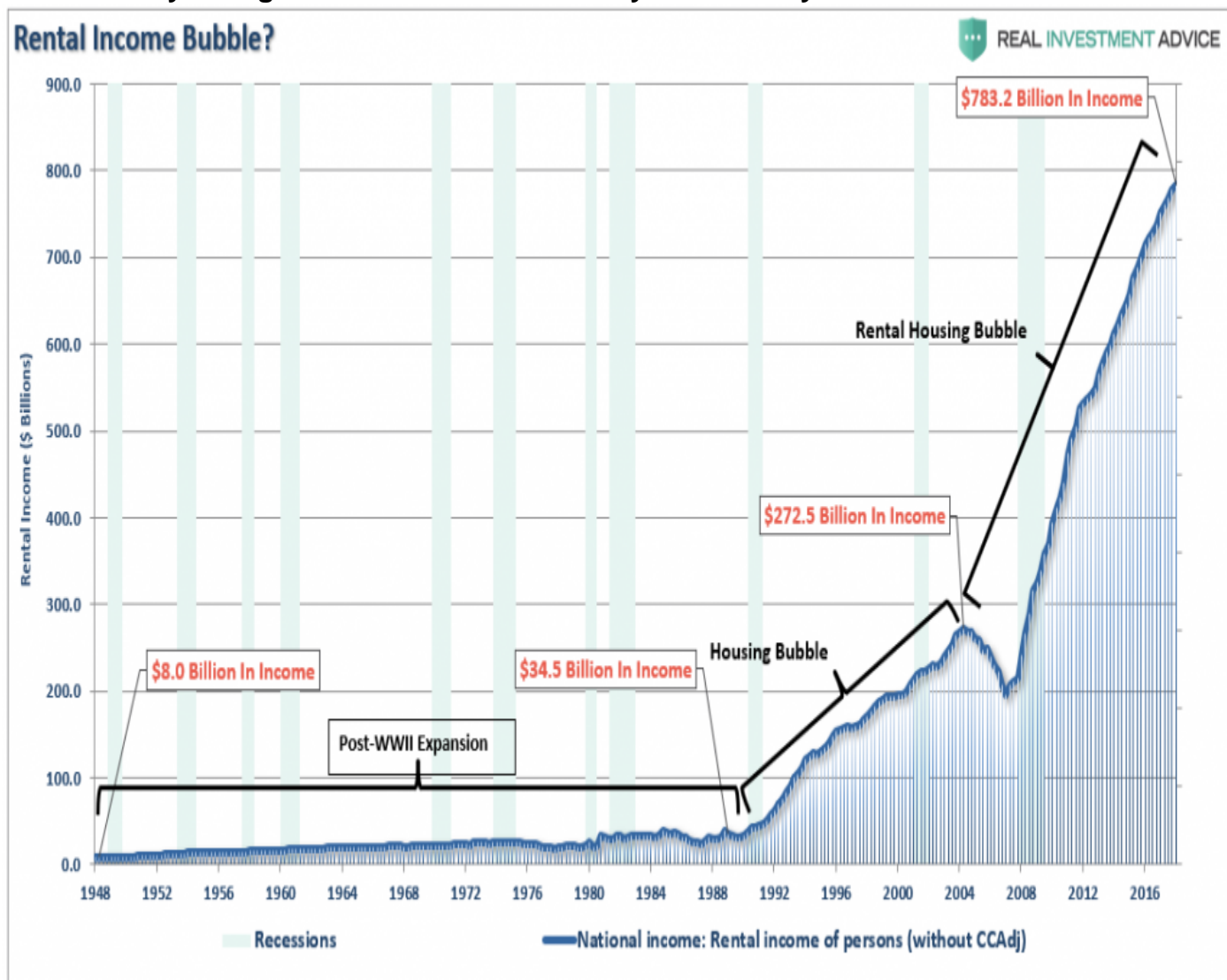
But when it comes to housing, as I was digging through [the employment data yesterday](#), I stumbled across the "rental income" component which is included in national compensation. When I broke the data out into its own chart, I was a bit surprised. Let's step back for a moment to build a bit of a framework first. While there has been much speculation about a resurgent "housing boom" in the economy, **the data suggests something very different which is that housing has simply become an asset class for wealthy investors to turn into rentals. As the ?Buy-to-Rent? game drives prices of homes higher, it reduces inventory and increases rental rates.** This in turn prices out *first-time home buyers* who would become longer-term homeowners, hence levels of homeownership rates first seen in the 1970's. (Also, note surging debt levels are supporting higher homeownership.)



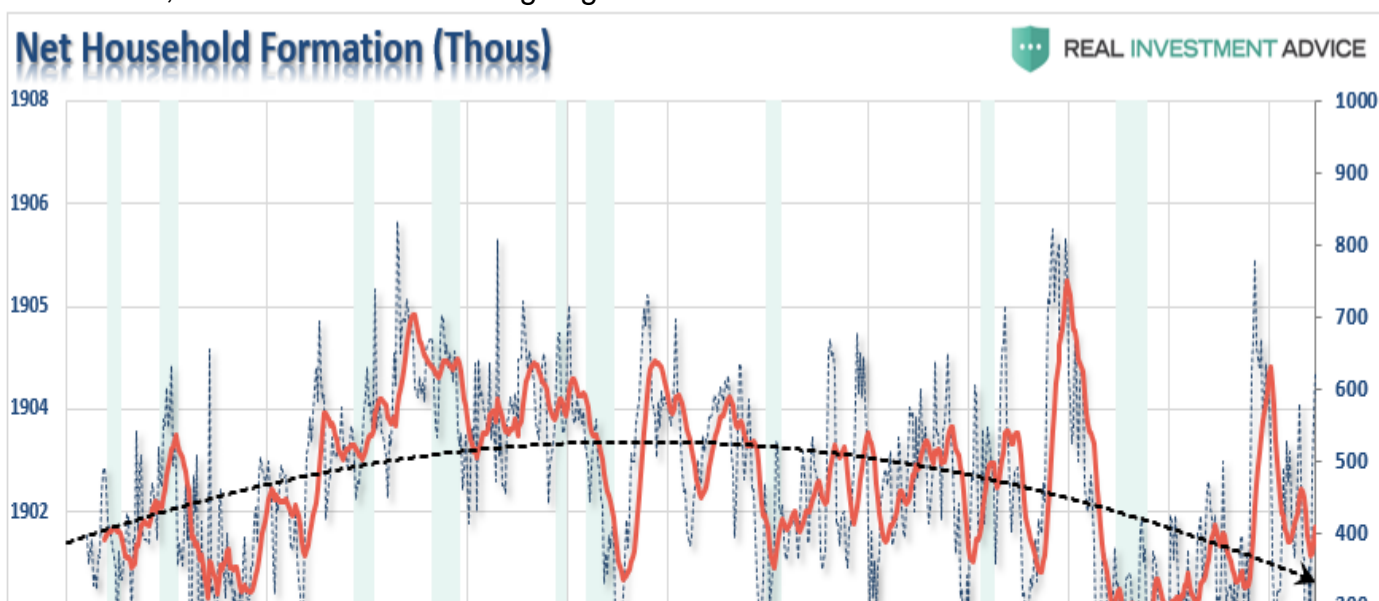
The chart below shows the number of homes that are renter-occupied versus the seasonally adjusted homeownership rate. As noted above, **with owner-occupied housing at the lowest levels since the 1970's, "renters" have become the norm.**



The surge in "renters" since the financial crisis, due to a variety of financial reasons, has pushed rental income to record levels of nearly \$800 billion a year. Given the sharp surge in incomes, it is not surprising that multifamily home construction and "buy to rent" continues apace in the economy for now. **For investors, it has become an alternative asset class with increasing asset values and income yielding well above the current 10-year Treasury rate.**



With roughly a quarter of the home buying cohort either unemployed or underemployed and living at home with their parents, the ability to create households has become more problematic. **The remaining members of the home buying, household formation, contingent are employed but at lower ends of the pay scale and are choosing to rent due to budgetary considerations.** This explains why the 12-month moving average of household formation, used to smooth very volatile data, is near its lowest levels going back to 1955.



The risk to the "renter nation" bubble is a rush for the exits? by the herd of speculative buyers turning into mass sellers. With a large contingent of homes being held for investment purposes, if there is a reversion in home prices a cycle of liquidation could quickly occur. Combine that with the onset of a recession, and/or a bear market, and the problem could well be magnified. Of course, it isn't just the liquidation of homes that is an issue but the inability to find a large enough pool of qualified buyers to absorb the inventory. Just something to think about as you catch up on your weekend reading list.

Economy & Fed

- **The Labor Market Isn't So Tight** by [Caroline Baum via MarketWatch](#)
 - **Six Lies On Trade** by [Dean Baker via Real World Economics Review](#)
 - **The Trade Deficit Isn't A Problem, But Shows A Problem** by [Nathan Lewis via Forbes](#)
 - **Trumpism, If Not Trump, Is Here To Stay** by [Tyler Cowen via Bloomberg](#)
 - **Why Aren't Wages Rising Faster** by [Robert Samuelson via RCM](#)
 - **States Unprepared For Next Downturn** by [Mike Shedlock via Mishtalk](#)
 - **Tax Cut Bill Triggers \$437 Billion In Stock Buybacks** by [Matt Egan via CNN](#)
 - **The Markets And The Fed** by [Scott Sumner via The Money Illusion](#)
 - **The Orange Swan Returns** by [Doug Kass via Real Clear Markets](#)
 - **Fed Could Avoid An Inverted Yield Curve, But Won't** by [Brian Chappatta via Bloomberg](#)
 - **The Must Read Quote On Social Security's Future** by [Sean Williams via Motley Fool](#)
 - **Employers Will Do Anything For Workers - Except Pay More** by [Michael Hiltzik via LA Times](#)
 - **Trade Wars Are Bad** by [Tari Whiting via The Washington Times](#)
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Markets

- **BofA: Biggest Concern For Rest Of The Year** by [Tyler Durden via ZeroHedge](#)
 - **The Corporate Bond Market Is Getting Junkier** by [Danielle Dimartino-Booth via Bloomberg](#)
 - **Just One Word Of Investment Advice** by [Shawn Langlois via MarketWatch](#)
 - **What The World's Biggest Investor Thinks Markets Will Do** by [Matthew Heimer via Fortune](#)
 - **The Goldilocks Stock Index** by [Dana Lyons via The Lyons Share](#)
 - **Headwinds Vs Tailwinds** by [Liz Ann Sonders via Charles Schwab](#)
 - **What's Driving Bank Stocks** by [Simon Constable via WSJ](#)
 - **Value Investing: Is Life Imitating Art** by [Seth Levine via The Integrating Investor](#)
 - **Investing Lessons From Top Poker Player** by [Larry Swedroe via Advisor Perspectives](#)
 - **Will Investors Know If There Is A Trade War?** by [Mark Decambre via MarketWatch](#)
 - **A "Market About Nothing"** by [Rob Isbits via Forbes](#)
 - **Bear Market? What Will You Do About It** by [Mark Rzepczynski via Disciplined Systematic GM Views](#)
 - **Low Unemployment Signaling A Recession** by [Howard Gold via MarketWatch](#)
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Most Read On RIA

- **The Myth Of Buy And Hold Investing - Part VI** by [L. Roberts, M. Lebowitz & J. Coumarianos](#)

- Is The Fed's New Yield Curve "Professional Grade/" [by Michael Lebowitz](#)
 - Buffett's Moats Are Breached [by Doug Kass](#)
 - Some Questions On Employment & Wages [by Lance Roberts](#)
 - Savings Lessons From A Baseball Players Contract [by John Coumarianos](#)
 - FOMO Overrides FOLM [by Lance Roberts](#)
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Research•/ Interesting•Reads

- Stock Markets Think US Is Winning Trade War [by Wolf Richter via Wolf Street](#)
 - The Job Guarantee, "Make Work" & FDR [by Lambert Strether via Naked Capitalism](#)
 - You Are So Money [by Scott Bell via I Heart WallStreet](#)
 - The Road To Serfdom - 7 Things You Might Not Know [by Jon Miltmore via FEE](#)
 - What Smart People Do With Their Money [by Mitch Tuchman via MarketWatch](#)
 - How The War With Japan Started [by Macromon via Global Macro Monitor](#)
 - Retirement Risk: Divorce [by Annie Nova via USA Today/CNBC](#)
 - The End Of The Brexit Illusion [by David Frum via The Atlantic](#)
 - Public Pensions: The Ultimate Ponzi Scheme [by IBD](#)
 - The Ponzi Economy Will Lead To The Next Crisis [by John Hussman via Hussman Funds](#)
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?Risk comes from not knowing what you are doing." - Warren Buffett

Questions, comments, suggestions ? please [email me](#).