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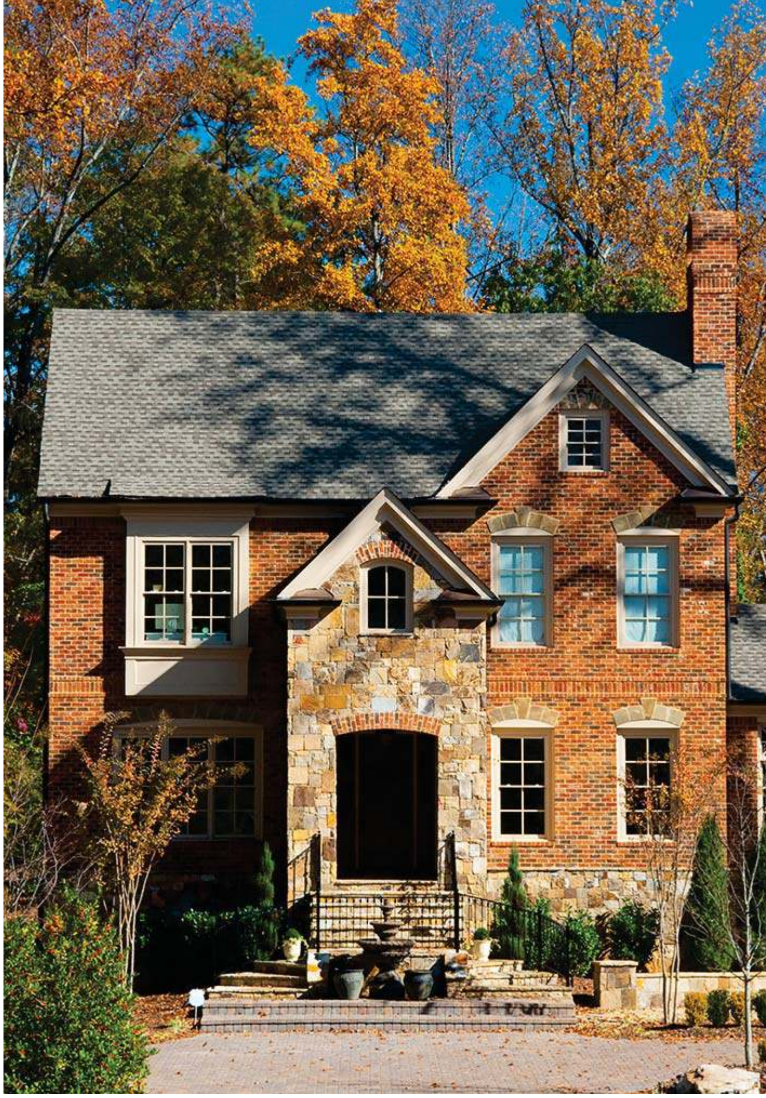
NEW HOME SALES HIT 10-YEAR HIGH



It's the American dream; to own a home, and maybe some property and make it your own. The past decade and a half has borne witness to a rollercoaster ride in the values of homes in many parts of the country.

New home sales sank to a 6-year low by February of 2007, falling to an annualized pace of 848,000 units.
That was down four percent from January of that year. That number also represented an 18.3 percent drop from the year earlier figure. Problems had also showed up in the sub-prime mortgage sector that month with tightening credit.

These figures helped to push the broad stock market indexes lower. Ironically, it had been new home sales in 2004 and 2005 that had helped contribute to a more robust economy those years.

This year has been a real departure from 2007. September saw an annually-adjusted rate of 645,000 units in new home sales. October did not disappoint and sales jumped another 6.2 percent. Septembers sales were already the highest in 10 years. Sales jumped 18.7 percent over year earlier figures. In real numbers, October's sales represented a seasonally-adjusted rate of 685,000 units.

The strong sales figures are a direct result of a strong job market and historically low mortgage rates. The big jump in sales are also an indicator of consumer confidence, since a home is most people's largest purchase.

New home sales make up approximately 11 percent of all home sales. The inventory of new homes around the country at the end of October was 4.9 months; the lowest of the year. Seventy-seven percent of that inventory are homes under construction or yet to be constructed. A six-month supply is considered in the industry to be "healthy."

The northeastern U.S. was the big winner, with sales increasing by 30.2 percent from September to October. The other big winner has been the Midwest, where sales increased 17.9 percent over October.

These figures were followed by the West, which saw in increase of 6.4 percent and the South, where sales were up 1.3 percent.

The increases have been seen three months in a row. This, despite a setback in building activity earlier in the year, because of Hurricanes Irma and Harvey. Milder weather in October helped home sales in October. This factor may have been of particular significance in the Northeast and Midwest.

Larger Budgets

The biggest increases were in high-end homes with values of $750,000 or more. Sales of these more expensive properties increased 400% over a year earlier and represented 7 percent of all new home sales.

The average price of new construction homes increased to $400,000 in October.

Some of the influences that builders are dealing with that dictate the locations of new development are land availability, labor costs and lumber prices.

If corporate tax cuts stimulate the jobs market even more, the sales of new homes may continue to be strong.

LARGE CAP STOCKS OUTPERFORMING SMALL CAPS; WHY?

Big companies, big products, big sales should be the maxim for 2017. Companies like Apple, Amazon, Google (Alphabet) and Facebook have seen profits soar and double-digit gains in their stock prices as their market values have become gargantuan. Amazon's CEO, Jeff Bezos, has become the richest man in the world this year as a result.

In 2016, from November 8 to year end, the S&P 500 grew by 5.0 percent while the Russell 2000 returned 13.9 percent. In October of this year, the S&P was up 2 percent while the Russell 2000 had lost a percent. Year to date, through November 10, the Russell 2000 is up less than nine percent this year. Contrast that with the S&P 500, which through mid-November, has grown by more than 15 percent.
From November 4, 2016, through November 26, 2017, the S&P has not fallen 3 percent in any day. The CBOE Volatility Index (VIX), a measure of market expectations for near-term volatility as measured by S&P 500 stock index options prices, hit an all-time low on November 24.

The Russell 2000 is an index of approximately 2,000 small-cap stocks that are part of the Russell 3000 Index. The average weighted market capitalization of those companies is about $1.3 billion. The S&P 500 Index, on the other hand, is an index of 505 stocks of companies with market capitalizations of at least $6.1 billion. It is one of the most cited benchmarks of the U.S. stock market.

So, why the discrepancy in performance between these large company and smaller company stocks?

The 30 largest stocks in the S&P, at the beginning of the year, have accounted for 50 percent of the index's gains through mid-November.

In addition to the previously mentioned stocks, this groups includes Microsoft, Berkshire Hathaway, Exxon and Johnson & Johnson. Because of gains in these stocks, as well as those tech company leaders, the overall performance has been remarkable.

Because of the explosive performance of many of these mega-sized tech firms, the performance of the large cap domestic sector, in comparison to it's small-cap brethren is a study in contrasts and a reversal of some previous trends.

This trend has been most notably in the sector that includes the massive large-cap tech stocks. Other sectors have not fared as well. When you compare the Russell 2000 Index to the S&P Utilities Sector instead, you find 12-month returns, through August 3, with the small caps significantly ahead. (17.5 percent vs. 8.5 percent).

Large Caps as a Haven

There has also been a flight to quality and safety since the 2008 financial crisis. That meant that many more investors redirected funds to large cap stocks. This shift represents many geo-political uncertainties that have seen investors remain in equities but shift their weighting to larger company stocks.

While large-cap companies will benefit greatly by a corporate tax cut, small cap companies would benefit by tax reform as well. The small-cap companies would also benefit by deregulation, although that appears to be showing up first in job numbers more than stock performance.

Washington may hold to key to the current trajectory of all markets. Only time will tell.

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About the Author

K Richard Douglas has worked in the financial services industry for 26 years, with an additional 10 writing about financial and economic topics. He’s a former series 9, 10, and 26 registered principal and series 6, 7, and 63 registered representative. Richard has held many financial service industry designations, especially in the retirement planning and compliance mechanism areas.