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## **The Black Plague of Real Estate = The King Kong Depression**



### **Preface**

**A**s the many super long term cycles of various frequencies converge upon us during this period, we witness many historical events unfold with major social and economic impact that these will be written about for centuries to come. Governments are impotent in stopping the invisible force and can only feed the fire. The worse is yet to come.

### **Comments**

Suggestions, criticisms, accolades of what a genius I am, gifts and donations can be sent to the following address:

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# **The Black Plague of Real Estate = The King Kong Depression**

**W**hy bother traders about real estate? We are facing dire circumstances ahead, with consequences mankind has long forgotten and the more people understand the events, hopefully, the intensity upon individuals can be reduced.

I must depart from my proprietary technical analysis methods and discuss the fundamental analysis. I have found over the years that using both technical and fundamental analysis is much more convincing than technical analysis alone.

## **Real Estate Is A Leading Indicator of Depressions.**

A stock market drop does not create economic depressions. A depression is always preceded by a drop in real estate prices. Historically, real estate values and construction have usually peaked 1-2 years before major depressions. The next depression is anticipated to be a King Kong size depression - larger than 1929. In comparison, it will likely make 1929 look like a recession. The 1929 depression had unemployment reaching 25%. The coming depression will have unemployment higher than 25% and can reach 50%.

I know real estate. In the 80's, I was one of the few real estate investors buying foreclosure properties. The typical auction had the lender, the auctioneer and me bidding against the bank. Rarely were there other bidders at the auction. I was one of the few criss-crossing the country just before of the savings and loan crisis and the formation of the RTC. When the RTC was created, they invalidated transactions with troubled savings and loans, including my pending \$100 million in transactions. If only there was frequent flier miles back then. You'd probably recognize a few properties I've negotiated. I got out of real estate because I saw a major bubble few investors understand. This time is different from the 1980's.

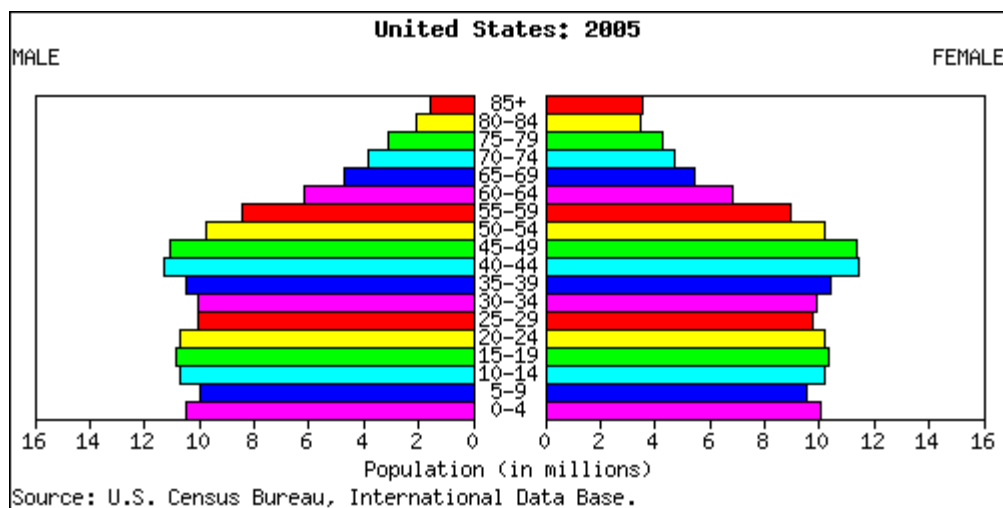
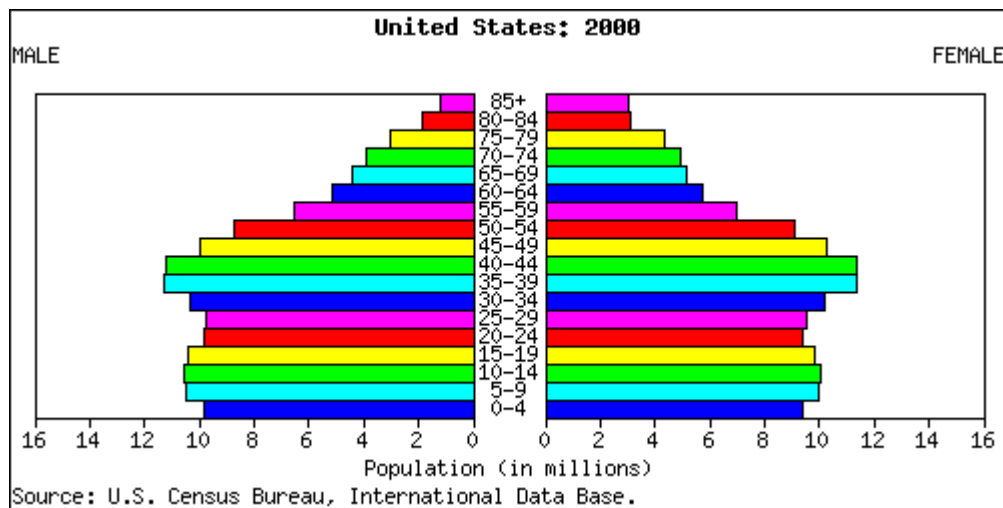
Today people mistakenly blame the banks, derivatives, Freddie Mac, Fannie Mae, politicians, Obama's Acorn and SEIU bullying banks to lend to the poor, but the analysis is wrong. The problem with mistakenly placing blame means they believe their cause of the problem can be fixed, and the economy can be fixed, and everything will return back to normal. The taxpayer's money is being wasted on Keynes theory and its father Marxist policies.

## **The Problem Is The Demographics! The Black Plague of Real Estate**

### **1347 to 1351 The Black Death**

The Black Death that struck Europe between 1347-1351, also created a economic pandemic. Estimates vary widely between 30% to 60% of Europe was killed. 100 million of the estimated 450 million worldwide population was killed. This created an economic earthquake forcing the end of serfs and the beginning of wages for the common man sowing the seeds of capitalism. This caused a collapse in revenue and the introduction of personal taxes. This caused the first tax rebellion in England.

The depopulation that happened in 1347 is similar to what is occurring today. The underlying factor of the economy is consumers spending money.



Once you are born, what you are going to buy at a specific age is predictable. For instance, as a baby, you will need diapers. You will need school supplies during your wonder years (or should I say troubled childhood). You will be buying cars beginning from about high school. You need college tuition and eventually you will buy a home at a certain age. After your parents have an empty house its time to downsize (emptynester) move into smaller house or condominium and save for retirement. Eventually they may need nursing care, a wheel chair perhaps, and eventually a coffin and a grave. So you see, your life cycle and what you buy is very predictable.

- People spend the most when they reach between 45 to 49.
- People save the most between 35 and 44 and again between 50 and 74. Most of us buy the largest house at age 43.
- People born between 1939 and 1943 bought homes between 1982 and 1986.
- People born between 1945 to 1947 bought homes between 1988 and 1990.
- The largest generation in history, the 78 million or about 1/3 of the population, the "Baby Boomers" were born between 1946 and 1964 is responsible for the biggest boom in housing history between 1993 to 2000.
- After age 49, spending decreases in housing and furniture.

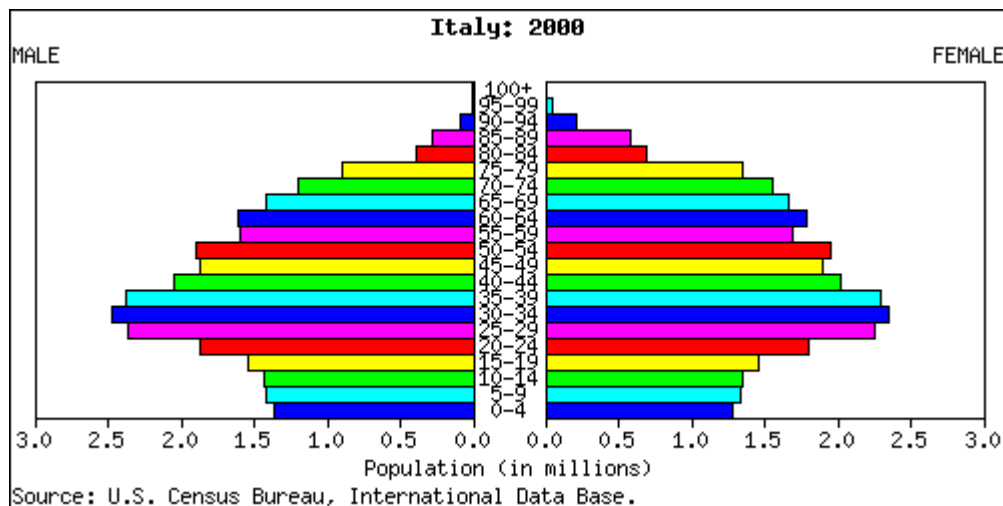
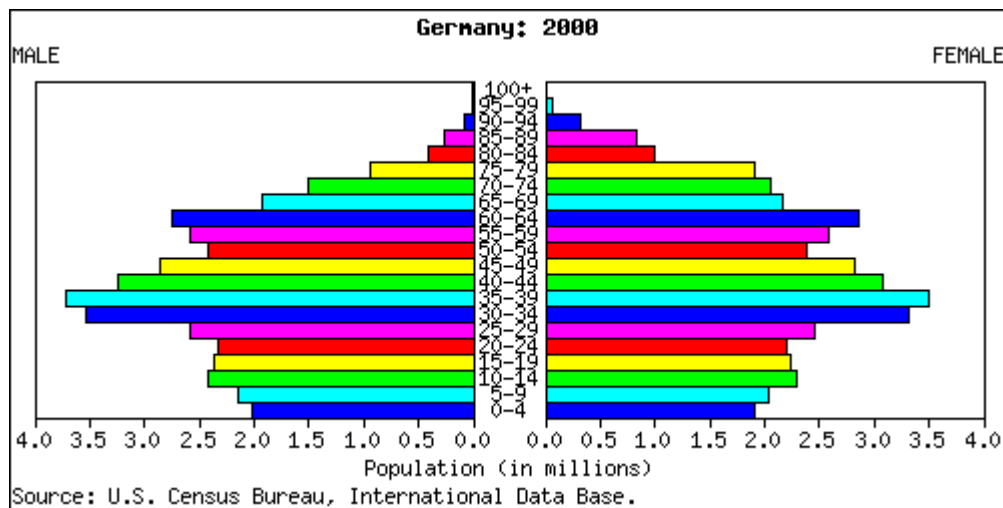
The baby boomers will reach their peak in earning and spending between 2006 and 2010. Baby boomers control over 45 trillion dollars of assets.

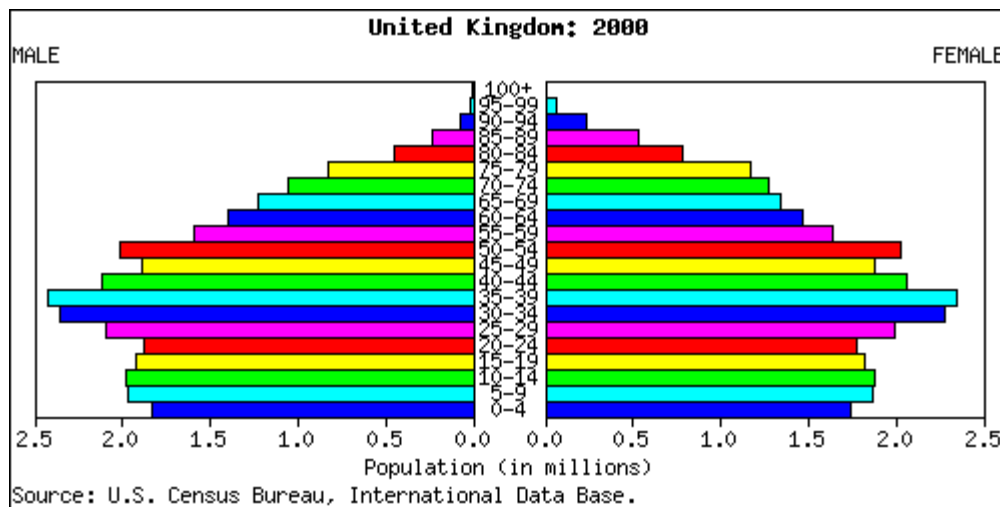
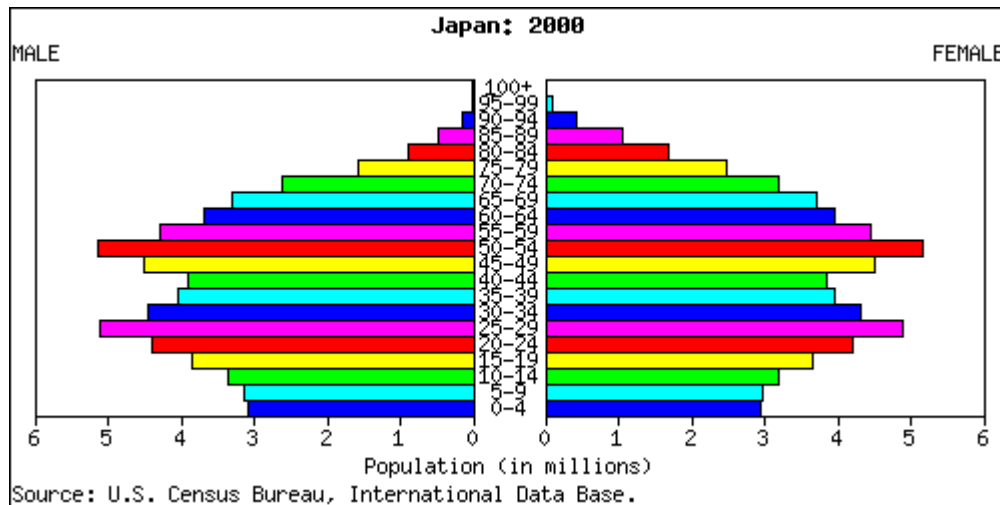
After 2010 there will be a crash in prices because simply the demand from the generation following will be nil due to its size.

Note: The demographic graphs in this report is available for the United States and other nations at <http://www.census.gov/ipc/www/idb/informationGateway.php>.

I've previously pointed out that I place the primary blame to the birth control pill producing the awkward demographics of the major industrial nations. The poorer nations unlikely to use the pill have a normal pyramid shape. You could see the bubble coming 20 years ago. The one political move that could have significantly reduced the effect was to offer economic citizenship to any foreigner who purchases real estate with cash, to fill in the gaps in demographics, but it is much too late to fix the problem. The demographic picture now is worse than 1929 and therefore, I expect a worse depression. The Marxist and Keynesian policies of the Obama administration will only make economic impact worse.

All industrial nations having the largest gross domestic product like the United States, Japan, China, Germany, Italy, United Kingdom has a diamond shape. This diamond shaped demographics is why you should expect... **The King Kong Depression**



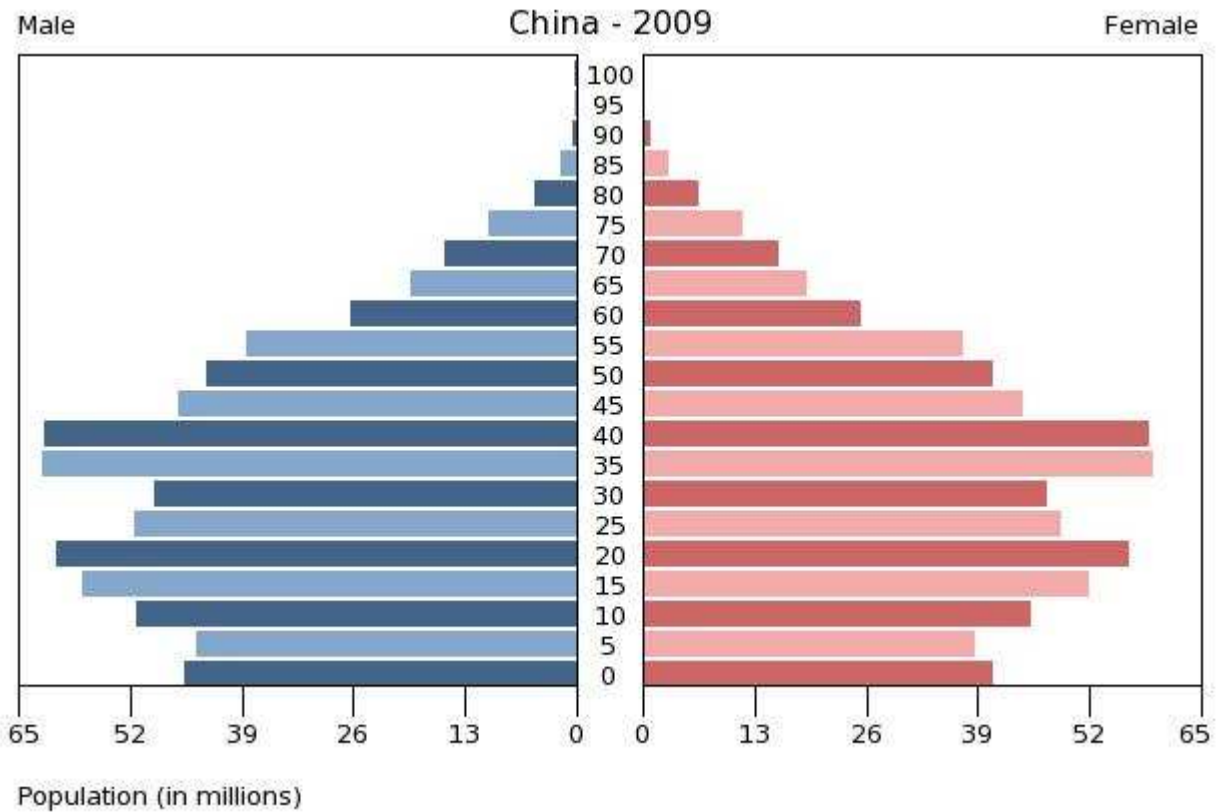


The birth control pill produced the **diminishing demand** for housing from the smaller supply of buyers in the home buying ages. From the end of the Baby-Boomer's housing boom in 2000, the real estate industry's struggle with sales created "no-doc" loans to induce sales. Bank of America introduced loans for illegal immigrants. The banks were only happy to oblige the demands of Obama's ACORN for easy loans. Investment bankers created derivatives.

Since everybody just simply just loves sex, common sense would have you believe that the population chart should be more of a pyramid shape instead of diamond shaped.

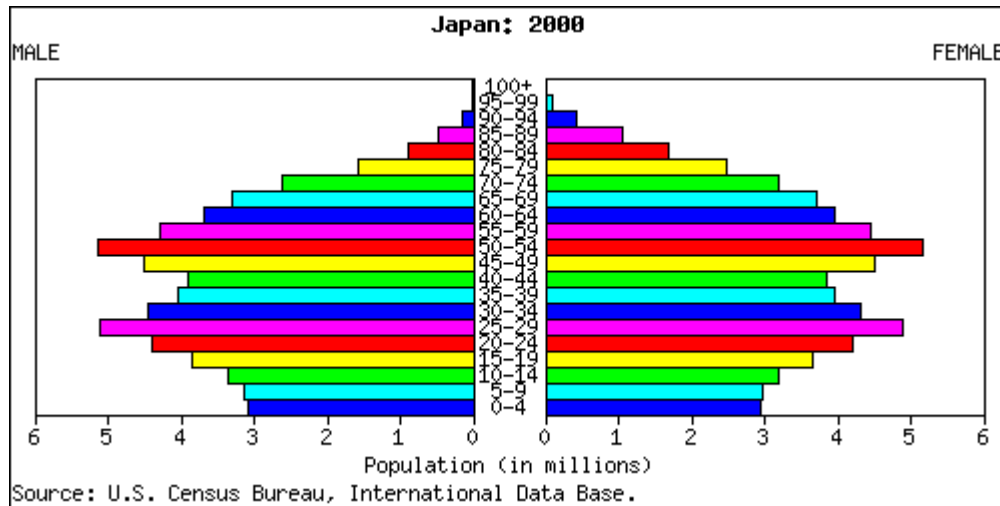
**China's Bubble.**

Many economists believe China can overtake the United States as the world power. This will be difficult because China's one child policy has also produced an ackward pyramid and will soon join the other industrial nations into the world depression suffering. The elderly who used to rely on their children as a safety net will have no safety net.



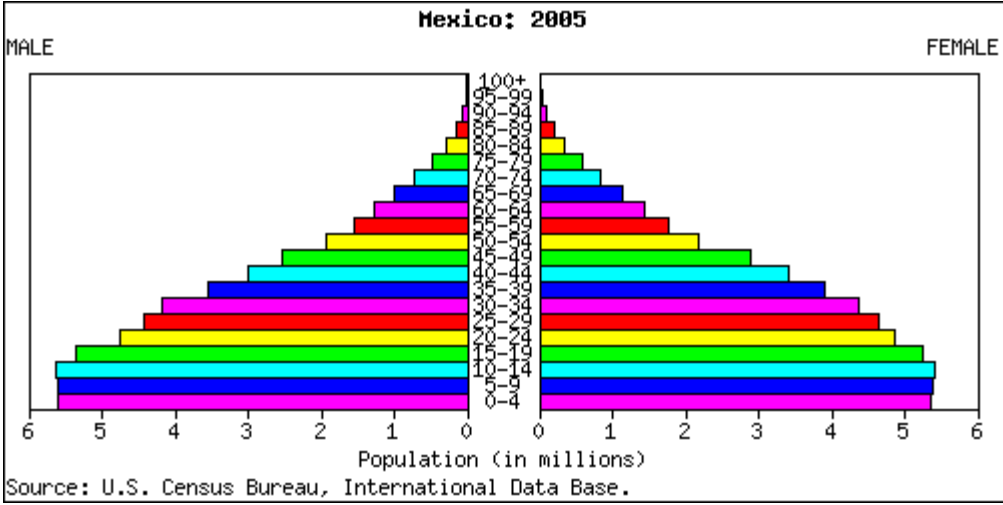
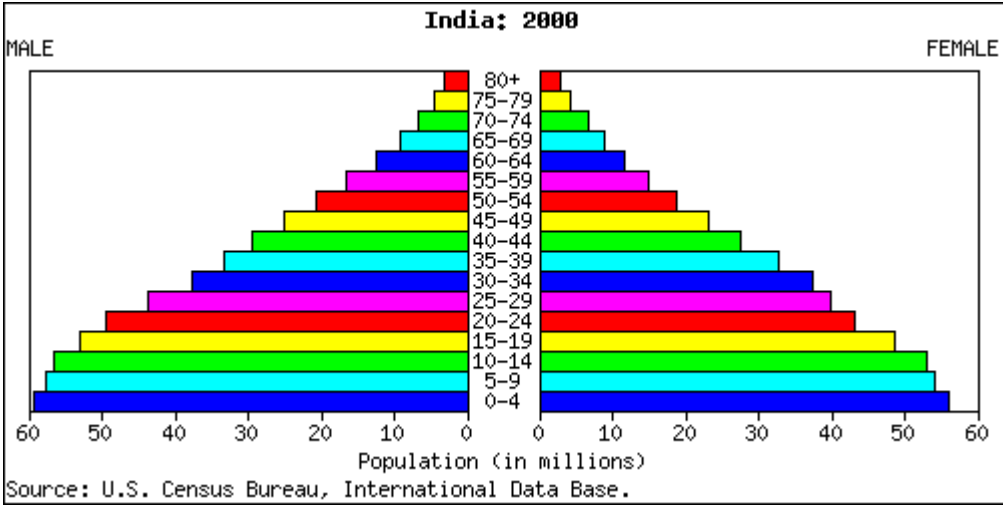
### Japan's Second Depression

Look once again at Japan's demographic chart, which is a little different from the United States. One group is a little older and another large group is a little younger.



If you remember, Japan already had a real estate bust in 1990. Real estate prices dropped suddenly by 30% and is recovering. Japan will go bust once again and into depression.

India, Mexico, Brazil is pyramid shaped, and so are most nations in Africa and Asia. These will likely be the strongest survivors, with India, the second largest population emerging as the most likely to survive and prosper.



Whether or not you agree with the birth control pill scenario or blame it on wars, is irrelevant now that a real estate bubble appears to have finally burst in 2006. November 26, 2009 we had news Dubai was asking for restructure of its massive real estate loans. The bubble is obviously not over, and continues to deflate real estate prices worldwide.

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## What's News—

Business & Finance

World-Wide

Stocks snapped a three-day losing streak as strong housing data and comments from a Fed official sent investors back into the market. The Dow industrials gained 132.79 points, or 1.3%, to 10450.95, a high for 2009. The dollar fell and gold rose to a seventh exchange record in a row. **C1**

The Treasury sold \$44 billion in two-year notes with a yield of 0.802%, the lowest yield on record achieved in a two-year auction. **C3**

HSBC has told retail clients to remove their small holdings of gold from its New York vault so the bank can make room for more lucrative institutional customers. **A1**

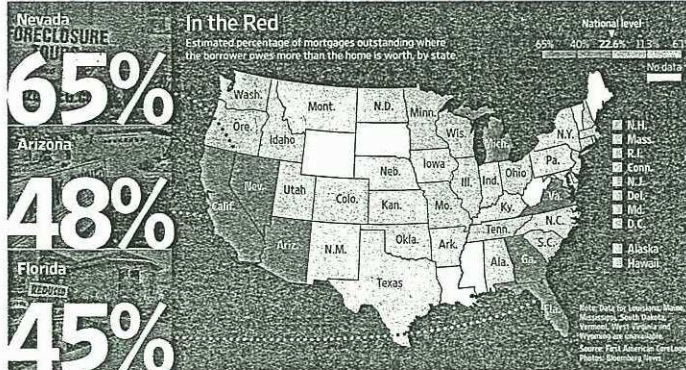
Some federal officials are pressing the U.S. pay czar to ease up on AIG compensation cuts for 2010, according to

Obama convened a council to reach an Afghan strategy. The White House said the president could use an evening meeting to lock in a decision on whether to commit tens of thousand of new U.S. forces to the war. Bombings and shootings killed 12 people across Afghanistan, including four U.S. troops and three children. **A16**

Pakistan's army fought militants for control of a district near the Afghan border, killing 18 of them.

Congressional Republicans have started probing climate scientists whose hacked emails suggest they tried to squelch dissenting views. **A9**

Greenhouse gases in the Earth's atmosphere reached record levels in 2008, the U.N. weather agency said.



## 1 in 4 Borrowers Under Water

A November 24, 2009 article in the [Wall Street Journal](#) reported 23% of borrowers have houses worth less than the mortgage balance. There is too much momentum and the train is impossible to stop.

The big question now is...

### Where is real estate going from here?

In short down, Down, DOWN! Real estate should continue down and hit bottom in **24 years...** until it gets to **near zero**.

The demographic problem cannot be corrected. We can't fight it. The government's attempt to prop up homeowners and real estate prices is foolishly ridiculous and will only make the problem worse and introduce other problems. We can only understand the worst is not over and adjust to it.

### How Low Is Low?

To give you an idea of how dramatic real estate prices can collapse, consider the panic of 1837 that became a national depression. Real estate purchased for \$11,000 an acre in 1836 sold for less than \$100 in 1840.

If you don't believe real estate can go down to near zero, go to ebay.com or realtor.com and look at the current prices of Detroit, Michigan. You can find many houses selling for under \$1000. In Detroit, it was Marxist Democrat policies that drove the middle-income and rich out and prices down. A beaten up old car costs more than a house! Politicians changed the demographics in Detroit for the worse.

This reminds me of a man who was nearly bankrupt. He bought a bunch of these cheap houses, had them insured by different insurance companies and set them on fire. It was in the old days when insurance companies didn't share casualty information with each other, so he got away with it. The point is these houses were worth more burnt to the ground.

There are new real estate gurus on television telling you this recession is the biggest opportunity. These boneheads are ignoring the demographics and leading sheep to the slaughter. Everything you may have learned or can learn about real estate is no longer the rule for the future. A million dollar home now, can sell for about \$10,000 in the next 24 years.

Back in 1830, an acre of land sold for \$100 an acre. A hundred years later, during the Great Depression, an acre of land sold for 30 cents. This cycle made a low in 1934, a recovery into 1937 and a final bottom in 1955. The full cycle took 26 years after the 1929 stock market crash. In 1955 GIs returning from World War II triggered the real estate recovery.

In the next year, real estate prices should recover somewhat, then continue back down. This is not a time to regain confidence, but it will be the last chance to exit real estate. Prices will not recover to the old high prices. For those who want or need to remain in real estate, a 30 year fixed rate mortgage is mandatory. A FHA mortgage has the most lenient terms when homeowners are facing foreclosure, more lenient than FNMA.

When real estate prices continue its decline, there will be an insurmountable pressure to eliminate the availability of the 30-year fixed rate mortgage. A 30-year mortgage is only sensible when prices are stable or increasing. **The 30-year fixed rate mortgage can be the next dinosaur.**

Yin-Yang. Newton's law of motion. "For every action there is an *equal and opposite reaction*."

**Government will come to the rescue and feed the fire and fan the flames.** Some state governments has made illegal the sale-lease back, option to buy, allowing homeowners to stay in the home, with the chance to one day buy the house back. But now, here comes Fannie Mae to the rescue and has adopted a sale, lease back option to buy... the very same structure some states have outlawed. Massachusetts have made it illegal for anyone to profit from a restructuring. Julius Ceasar declared interest payments made in the past as payments towards principal. Such intervention only freezes lenders from making new loans and the collapse continues. Government is powerless, and can only feed the flame.

### **Interest Rates**

So many times I've read so called "economists" predict a bust in real estate when Alan Greenspan start to raise interest rates.

People mistakenly believe interest rates drive real estate sales. This too is false. In the 80's I've sold houses with 18% interest rates. I'd expect political pressure to reduce interest rates to near zero. There will be an opposing reaction. Interest rates does not matter when prices are declining.

### **First Law of Money - Money Avoids Danger**

When real estate prices implode, government will face a declining real property tax base and pressure will mount for revenue. New York politicians ignorant of the laws of money refused to reform and raised tax rates and the "equal and opposite reaction" was millionaires moved out of New York, decreasing the revenue even further. People are moving out of the United States entirely by the hundreds of thousands, further feeding the fire of less real estate buyers and increasing the supply of houses and deflating prices further.

With a long written history of thousands of years, it is still foolish to believe government has established an economic plan. Listen to Ben Bernanke and Timothy Geithner and it is easy to conclude they are Monetarist. Obama believes in Marxism and using Keynes economics to reach his view of

economic justice, wealth distribution. Government reformation is not going to happen and we are set for the irreversible World's Greatest Depression.

I make no money with this. My critics hate me and threaten me. They are in denial, trying to protect the status quo, protecting their political and economic views, trying to make money on real estate seminars. Who would you believe?

Cycles exist. Cycles are predictable. Cycles cannot be interrupted. Cycles cannot be stopped.

The real estate bust will continue until the next generation reached their spending peak.

I will see you at the projected bottom in 2033 - when the demographic charts look better.

