SiRuDo Realty, LLC
10 West 40th Street
Savannah, GA 31401
912-232 8686

www.sirudorealty.com

Quarterly Newsletter
January 2008

Welcome

Dear Readers,

Another year went by swiftly.
I want to take this opportunity to wish all of you and your families the best for 2008. Rather than focus on how the latter part of 2007 unfolded itself, I decided to focus on how I think the future will look from a housing market perspective and more importantly from an economical point of view.

Enjoy,

Nick Doms

Table of Contents

The Housing Market

If the latter part of 2007 is to be considered a bad experience for the housing market, I am afraid that 2008 will be a hard lesson to be learned.

When children blow up balloons and then let it fly, we all know from our physics class that the balloon does not hit the ground until all the extra air has been released.
The same applies to the housing market.
For the next year we will see that we are still in the process of letting all the air out of the market.

The question is: are we willing to do that?

The second allegory I will make here, before I give you my analysis is this.

When we know we are falling, we should realize that the fall is not over until we hit the bottom. Once we reach bottom, we know that we can deal with the pain, but we also know that we have solid ground underneath our feet. Meaning, we can start climbing up again.

We are still in the process of falling and we will have to accept that, if we want to shorten the pain and be able to recover afterwards.
The housing prices are still above reasonable fair market value, independent of what real estate agents tell their clients.

I foresee a further decline in housing prices of at least 10% of current values before investors can be attracted again to revive the market.
In between, two things will need to happen.

1) Buyers, looking for a primary residence, should continue to pursue their intentions if and when they can afford a standard loan and are in a position to do so.
2) Lenders should continue to provide opportunities to such buyers based on credit scores and documentation.

My advise to investors is dual in purpose.

From a pure investment perspective, I would not recommend to enter the housing market at this point in time unless you have the means and purpose to do so and hold on to it for at least five years.

Secondly, if you already have investment property, I would recommend you invest in it rather than buying new property.
However, the second option also means that you will have to stabilize the rental market while the housing bubble runs its course.

We are at the risk of creating a “double whammy”.
Knowing now how the housing market got affected by the sub-prime loans and restructured CMO market, we should be aware of the fact that if and when we use the rental market to offset certain realized and unrealized losses stemming from such, that we will create a longer lasting problem and one we will not be able to turn around.

If however we can sustain the fall and pain, we will recover sooner and faster.

ND – 01/15/08

Economic Outlook

I have commented before on the actions of the Federal Reserve and what short or long term impact this may have on the economy.
When on Tuesday January 22, 2008 the Federal Reserve cut interest rates by 75 Bp, they lost all credibility. In addition, they cut interest rates again by 50 Bp during their regular FOMC meeting.

This has a clear effect on the economic outlook, how the Federal Reserve reacts to it and what that ultimately means for all of us.

Here is a summary of events that occurred in one week:
Friday January 18, 2008 Henry Paulson gives a speech to assure everybody that the American economy is slowing but there is no sign of a recession.
Tuesday January 22, 2008 the Federal Reserve cuts interest rates by 75 Bp prior to an official FOMC meeting. This has never happened before and the last time the FOMC, during a regular scheduled meeting, cut the Fed Funds rate this drastically was in 1984.
Again, everybody was assured that there was not really a recession, just an economic slowdown.

The same day, we receive the GDP figures for the fourth quarter of 2007 that show economic growth diminished from 4.9% in the third quarter to a mere 0.6% in the last quarter.
Anybody can debate whether to call that a “slow growing economy”, but I will call it a clear recession.

Consumer spending, which is the backbone of our economy, has gone down and will continue to go down as we see food prices continue to go up in 2008. As mentioned before, oil prices can and will go where they need to be, as adjusted for inflation, but a dramatic increase in food prices will ultimately determine how deep the recession will be.
In 2007, we have witnessed an increase of 20% in dairy food prices: eggs, milk, cheese and butter. These are products every American family purchases on a daily basis.
Today, we see a price increase in meat products, wheat products and soybean products and this is just in the first month of the new year.
It is a trend we will unfortunately continue to see throughout 2008.

While I welcome a stimulus package that provides most Americans with an immediate tax rebate, I wonder whether Americans will spend the money to revive the economy, or whether they will use the cash to pay credit card bills.

My thoughts are that most American families will use the money to pay bills, in which case an economic revival story is not in our near future.

But, having said that, it does not mean that our long-term future is really bleak.
I think we have an opportunity here as well, if we follow some simple rules and we learn our lesson.

We come out of a period of rapid growth that provided a lot of wealth to most of us through low employment, sustainable GDP, high corporate earnings and high exports.
All economies are cyclical events; so today we are on a downturn.
Let’s accept it, weather through it and make sure we can sustain growth again afterwards, but in a very controlled way.

If we can live with the gain, we should also accept the pain.
Today and this year may be painful to most of us, but it will also build the future gains for all of us.

To summarize my thoughts, I would say this:
Sit tight.
Watch the recession happen and allow it to pass.
Things will look better in 2009 and 2010.

ND – 01/31/08

SiRuDo Realty, LLC
10 West 40th Street
Savannah, GA 31401
912-232 8686

www.sirudorealty.com

Quarterly Newsletter
January 2008

Global Perspective

The global economy increasingly becomes more important in the sense that we have to continue to watch what is happening around us. While I can make an argument that the American economy is important, because it affects us directly, the global economy and growth will continue to affect us more going forward.
There is no turning back and our only choice is to move forward together.
Remember the sandbox? It belongs to the world and we will have to learn how to play in it, if we choose to still play.

It is a given that the global economy will have to slow down to a sustainable growth level that keeps inflationary pressures under control from a long-term perspective.
South America will continue to grow in 2008 but not at the 7% rate we saw in 2007.
Europe will see a slow down and will probably see its growth go down from 5% to 3% in this year.
Japan will experience a moderate growth but at a very slow pace.
China will have to bring its exponential growth of 11% annually under control if it wants to continue to become the largest economic power.

How do we achieve this sustainable growth level?

In the last few months we have seen official visits from our Treasury Department, our Federal Reserve and our Cabinet members to Europe, China, Japan and Saudi Arabia.
The only quest so far has been to tell all of them what to do for the benefit of America:
-The ECB should lower interest rates to protect the USD from falling lower.
-The BOE should do the same.
-The BOJ should not raise interest rates for the same reason.
-OPEC should increase their output to stabilize the oil price.
-China should de-peg the Yuan-Renminbi to slow their economic growth.

The trend I am following here is that we continue to tell others what to do. However, what we don't realize is that we don't ask, we tell.

This is after all the world's sandbox.
We should learn how to play nicely, instead of trying to impose on others to do for us what we are not capable of doing ourselves.
If one day we wish to lead, then we should lead by example not intimidation.

After all, we invented globalization in 1945. We woke up the little tiger cup (China) and embraced the Sari in 1991, so let's make sure we are capable of playing with both of them in our own playground. The playground we wanted to invent so badly.

We play nicely and things will look great for all of us.
We bully and we'll get punished for it in the long run.

We live in precarious times and with things that are all new to us.
A global economic recession is not in the making.
What is truly in the making is a global economic expansion.
That, in and of itself, comes with benefits and consequences.

ND – 01/30/08