

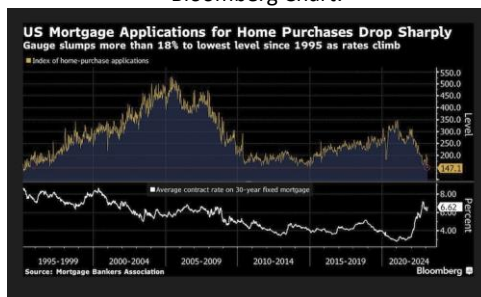
Real Estate & Gravity

Post COVID the real estate market went vertical and prices spiked like we've never seen before. People were leaving the cities and getting away from other people so the value of real estate outside of massive metropolitan areas went through the roof, pure supply and demand imbalance. There was a lot of emotion as well, many thought if they stayed in the city they would die from the virus. I was amazed watching this happen live, absolutely blown away at what prices people were paying for real estate. People were in bidding wars, waiving inspections and appraisals and in general, acting fiscally foolish. The last time it was like this was in 05-07 with slopy lending standards from banks and we know how that ended.

There was a shortage of homes for people to buy that were on the market as people fled the cities, so values skyrocketed. Fast forward a few years to today and now we have lived through the most aggressive interest rate increases in history and the associated mortgage rates have tripled from the all time lows. Real estate values have come down some, the insanity of bidding wars and waiving inspections is mostly a thing of the past. We still have a tight real estate market not because there are too few homes, but too many people now own multiple homes and they can only live in one at a time. Will people sell the country homes now that they've moved back to the cities? I'm sure many will but not all of them, some enjoy the country and the burbs and can afford them so they'll leave it alone.

We know I love data, so let's see what the data says about the real estate market today. First we have mortgage rates in the 6-7% range vs 2-3% in 2020 so fewer people are borrowing for sure. We still have cash buyers so they'll continue to operate with cash alone.

Bloomberg Chart:



Continued page 2, Real Estate & Gravity!

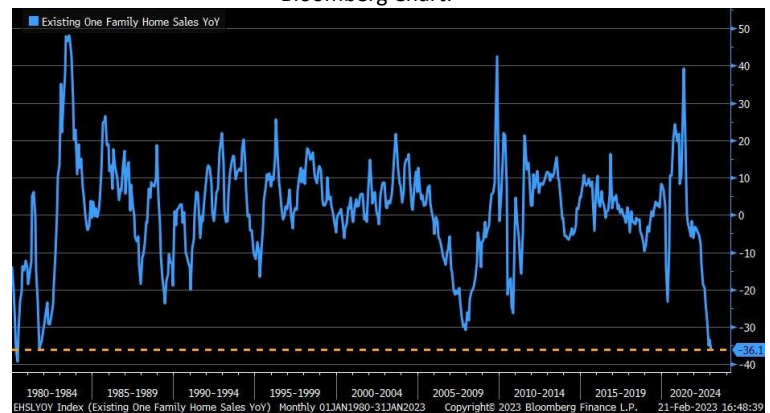
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Real Estate Transactions

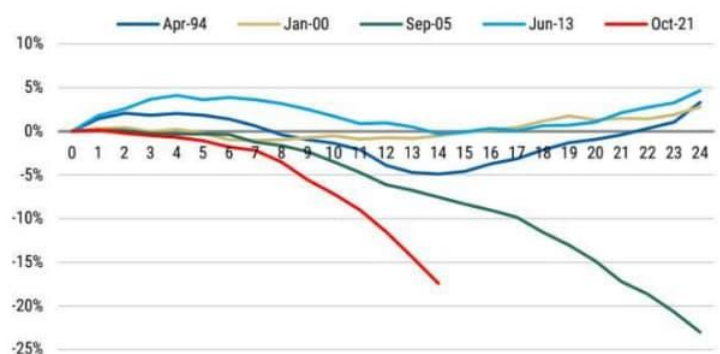
We normally try to mix up our topics a lot here, but this is such an important and timely topic we're devoting two large articles to real estate this month. Single family home sales are slowing in a big way, like we haven't seen in 40 years. The index is now at levels we haven't seen since 1984. It's a very logical conclusion to what has happened in the past few years and this data speaks clearly to where things are likely going moving forward.

Bloomberg Chart:



The home sales rate is falling faster than it did in the big financial crisis of 2005. Here is a comparison of today, which of course is only partially played out, to other tough times for real estate.

Existing home sales falling faster today than during the GFC



Thanks to Equifax for the chart

Now with interest rates being where they are, how do real estate prices compare on a relative basis? When rates go up prices go down as the average consumer can still afford the same monthly payment. Not so much lately, but it won't last so it's unique and a clear outlier on the historical data plot but means reversion is a real thing.

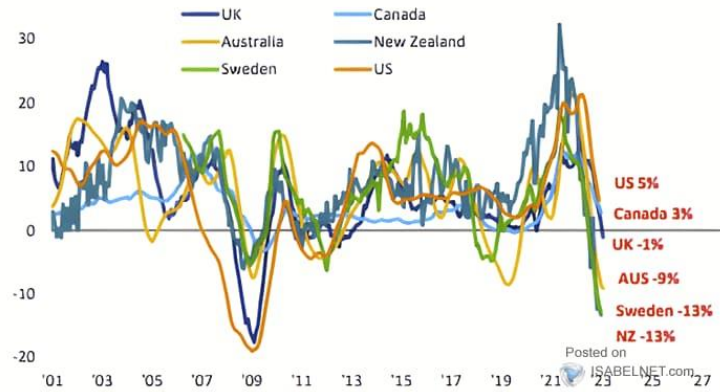
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Real Estate & Gravity! (cont'd from page 1)

Is it just an American phenomenon or is it global? I'd say this data points to global.

Chart 5: Housing markets globally are cracking

YoY change in residential housing prices (%)

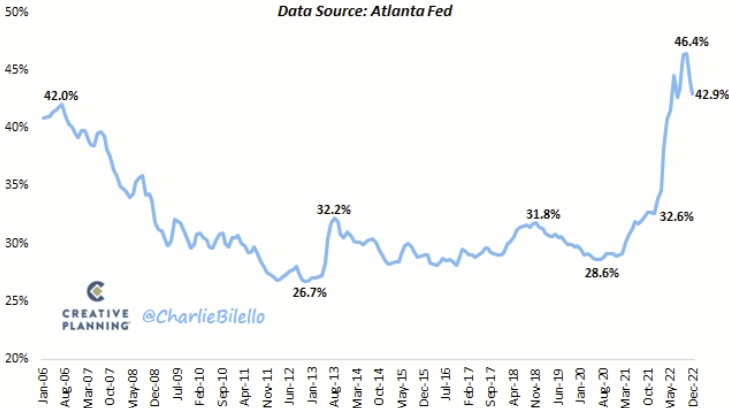


Source: BofA Global Investment Strategy, Bloomberg

For those not paying cash, the affordability of a home has never been more difficult. Today we're seeing the average American pay 42.9% of their income for housing payments. Just a couple of years ago pre pandemic it was 28.6% of income. This acts like a tax so people are squeezed in their monthly bills. Add to this the inflated costs of food, fuel and other basic necessities and people are justifiably cautious about spending money, they want security.

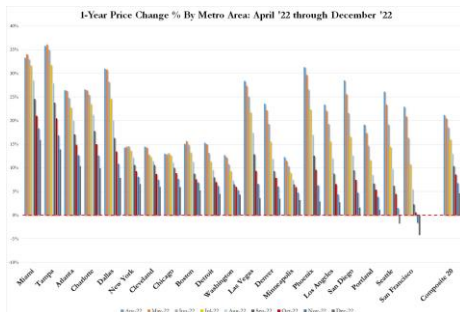
US Median Housing Payment as % of Median Income
(Note: Payment includes P&I, Taxes, Insurance, PMI)

Data Source: Atlanta Fed



Is it just around us in CT, CA or GA? No it's everywhere here is the national look. Price gravity will be coming soon.

Thanks to NARA for the chart:



The World's Largest Cities

The USA may be large geographically, but we're much smaller population wise compared to China and India. Here is a quick look at the largest cities in the world as measured by population. Being around some large cities in America often we tend to think of what we're near as large metro areas. For me, New York, Boston & San Fran are the big cities we frequent the most. Let's see where they fall, or don't fall, on our list of global metro areas that are the most concentrated areas of humans on the planet.

City	City Population
Tokyo, Japan	37.5M
Delhi, India	28.5M
Shanghai, China	25.5M
San Paulo, Brazil	21.6M
Mexico City, Mexico	21.6M
Cairo, Egypt	20.0M
Mumbai India	19.9M
Beijing, China	19.6M
Dhaka, Bangladesh	19.6M
Osaka, Japan	19.3M
New York, NY	18.8M
Karachi, Pakistan	15.4M
Buenos Aries, Argentina	14.9M
Chongqing, China	14.8M
Istanbul, Turkey	14.7M
Kolkata, India	14.7M
Manila, Philippines	13.5M
Lagos, Nigeria	13.4M
Rio De Janeiro, Brazil	13.3M
Kinshasa, DR Congo	13.2M
Guangzhou, China	12.6M
Los Angelas, CA	12.5M
Moscow, Russia	12.4M
Shenzhen, China	11.9M
Lahore, Pakistan	11.7M
Bangalore, India	11.4M
Paris, France	10.9M
Bogota, Colombia	10.6M
Jakarta, Indonesia	10.5M
Chennai, India	10.5M
Lima, Peru	10.4M
Bangkok, Thailand	10.1M
Seoul, South Korea	9.9M
Nagoya, Japan	9.5M

Only two American cities top the list of global population centers. I'm blown away it's very interesting to see how spread out America is. I had no idea Pakistan had such large cities nor did I know that Tokyo is the largest city in the world. It makes sense China and India top the list as those two countries combined have 3 of the 8 billion people on the planet. We have small towns around us with 10,000 people. That's a building in a large city.

Noteworthy News!!!

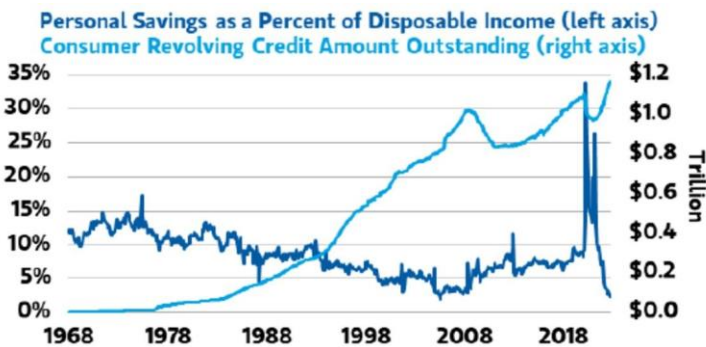
- Congratulations to Rick Pergola on his recent retirement!
- Congratulations to Rick Cornish on his new job!
- Congratulations to Vicki Urso on her recent retirement!
- Our condolences to the Demsey family on the passing of Scott, a wonderful man, brother, father, husband, person, friend, and business owner
- Our condolences to the Fellows family on the passing of Linda, a wonderful woman, wife, mother, grandmother, person and friend.
- Our condolences to the Pinet/Dishman families on the passing of Marge, a wonderful woman, wife, sister, aunt, person and friend.
- Our condolences to the Sage family on the passing of Russel Sr, a wonderful man, husband, father, grandfather, brother and friend.

Question & Answer

Ask any financial question you have, and we'll address it here.

Q: Are people still saving at record rates?

Not so much here in America anyway. They were doing a great job when the pandemic hit and there was nothing to do. Since the world reopened and the government dished out a pile of cash, then they went back to their spendthrift ways. Here is a chart showing how personal savings is way down and revolving credit debt (credit card debt) is way up. Not a great picture of the average consumer heading into a recession!



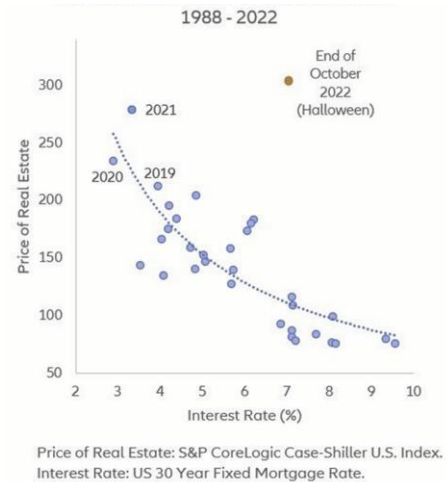
Source: Bloomberg as of Sept. 30, 2022

Now here is just the personal savings rate alone!

Bloomberg Chart

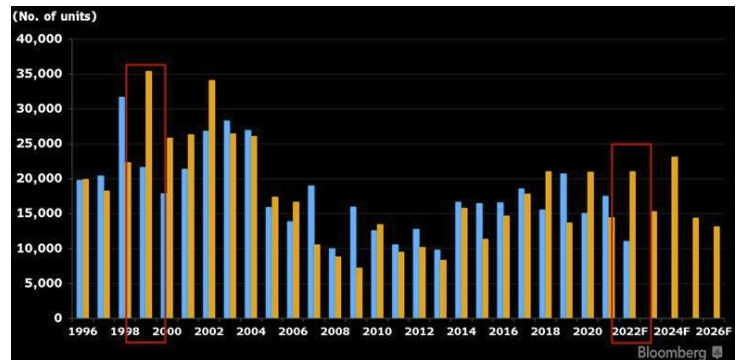


Real Estate Transactions! (cont'd from page 1)



Thanks to Case Schiller & FRED for the Data

Now let's move onto spec housing. This is when a builder builds a house to standard specifications. This is where the "spec" comes in, these houses are built without a buyer on hand, with the assumption that the buyer will come as this is what most people want. Now isn't the time to be in the spec house business, the last time we saw this big of a divergence between builds and solds was in 1999, followed by 4 tough years of sales. The sales in 2000-2002 were at much lower than asking prices so many baths were taken here.

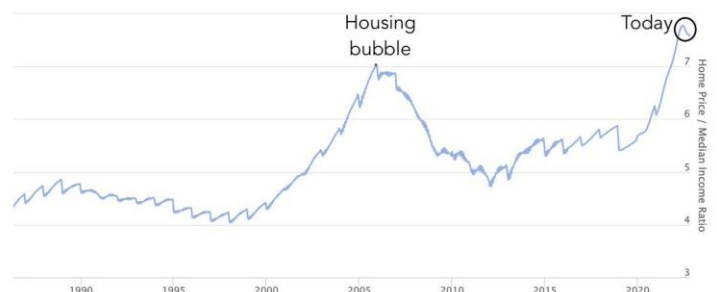


Bloomberg Chart

Lastly, the price to income ratio is at all time highs This is never sustainable.

Thanks to Charlie Biello for the chart

Home Price / Median Income Ratio



Money Quiz



This month's challenge is on population shifts. From 1980-2022 Nevada has seen the largest population surge, up 296.98% What state has seen the slowest growth in the country? Winner gets lunch on us at Chick-Fil-A! 😊
 USAF:pop:80,22

Connecticut's Worst Disaster

The flood of 1955 instantly comes to mind when we think of bad weather events here in the Nutmeg state. Growing up and living in the valley and seeing all of the historical pictures of all of the Naugatuck River towns decimated isn't something we'll ever forget. Seeing and living near all the dams that were built following the flood of 1955 has an impact on the thought process we all share in thinking this may well be the worst disaster in our history. When we dig into the history books it turns out the worst disaster in Connecticut's 350-year history is the Hurricane of 1938.

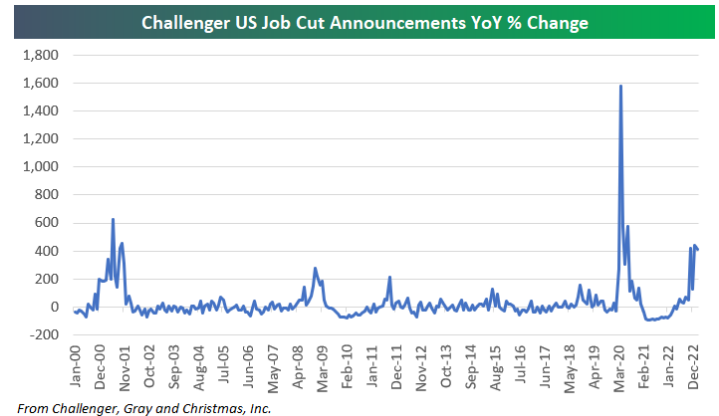
In 1938 on the autumn solstice the hurricane hit land in East Haven. It was so strong after the dust settled once beachfront cottages were found 2 miles inland. It's hard to fathom pushing a house 2 miles inland and is mother nature showing her fury. Katherine Hepburn's Old Saybrook summer home was destroyed, and she was lucky to escape with her life.

Not only was the Connecticut shoreline decimated, but many parts of the interior of the state were hammered as well. The storm continued north into Massachusetts and Vermont. Along the way portions of Middletown, Hartford and Rockville were completely underwater. People evacuated their homes and businesses and falling trees destroyed cars and buildings while blocking streets and roads. 5000 buildings were destroyed, and 25,000 homes were damaged. This was a very long time ago and hopefully we'll never see a repeat of this. Here is Middletown just after the storm.



How do Consumers Feel?

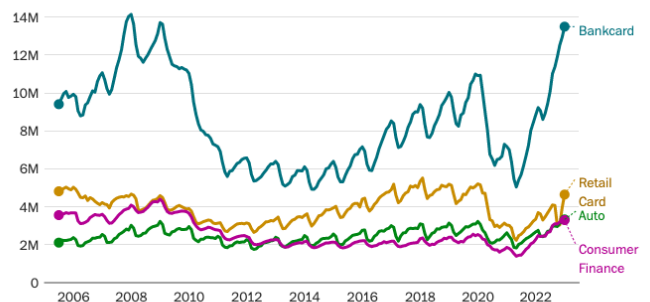
Consumers are cautious I would say at this point. 2023 isn't off to a great start and the consumer is being squeezed by higher prices everywhere, mostly as a result of fuel prices and too much printing of money. The number of job cuts coming out isn't great for people's feeling confident economically that's for sure. Here is where the job cut growth is, looking eerily like 99 & 08, the Covid surge is an outlier we'll never see again.



The savings rate is way down and people are justifiably worried about their future fiscal security. We've got a lot of poor leadership around the globe today where the political class is more worried about gaining power than making things better for everyone. This has been pretty well tolerated by financial markets worldwide but will not be forever. Could this era be the breaking point for fiscal folly of the political class? Once markets reject the idea that a country can monetize its debts forever the gig is up. It may never come, Japan has been monetizing their debt for over 30 years now. If there is a rejection to the central bank Ponzi scheme it likely hits first in Japan or China, but only time will tell. Not only is the consumer not saving well again, but the debt levels are sky high. We're seeing data as illustrated in the chart below that shows debts are climbing fast and almost at levels from the Great Recession. If you're behind on car payments, the repo man is coming!

Delinquent consumer loans by type

Auto loan delinquencies are at a record high. Credit card and consumer finance loans are at the highest since 2009-2010 after the Great Recession.



Not seasonally adjusted

Source: Moody's Analytics, Equifax

THE WASHINGTON POST

Inspirational Quotes

- Sometimes the biggest accomplishment in life is to find yourself, Luisa Fernanda Cicero
- The strength of a team is each individual member, the strength of each member is the team, Phil Jackson
- No one can whistle a symphony, it takes a whole orchestra to play it, H.E. Luccock
- The world is full of magic things, patiently waiting for our senses to grow sharper, W. B. Yeats
- In the midst of winter, I found there was, within me, an invincible summer, Albert Camus
- Your vision will become clear only when you look into your own heart, Carl Jung
- Either you run the day or the day runs you, Jim Rohn
- Action speaks louder than words, but not nearly as often, Mark Twain
- It always seems impossible until it's done, Nelson Mandela



We can piece the puzzle together and make your money work for you!

Kids Corner

Do your kids and grandkids have a love of reading? I hope so and if not, perhaps we can give them that gift and instill it as part of their being? For those who love to read and do it often, It's a game changer. Information is power and the more we read the more information we have and the better we'll make decisions and live a better life.

I'm a readaholic (made up word) so our kids always saw me reading nonstop, reading at home, reading at work, reading in the car, reading on the couch, reading on the computer, reading on my phone, and I guess for us it was as simple as monkey see monkey do. They were also taught to read a lot they just did it and in time it just became part of who they are. I remember vividly while they were still very young and we at the dinner table it was a comical scenario. When the girls were young Cup would complain because all three of us were at the table reading books.

There are a plethora of benefits to reading, it can help strengthen your brain, it's exercise for the brain so the more you do it the stronger it gets. Brain connectivity is increased the more you read, which allows for more information to flow through it henceforth. Reading builds your vocabulary, it increases your ability to empathize. It helps prevent age related cognitive decline and it reduces stress. I can't think of any reason not to read and read an awful lot. Let's make it a point to be sure our loved ones are lovers of reading!

If anyone you love or care about would benefit from receiving our newsletter, tell us who they are and they will be included on our mailing list. They'll certainly appreciate you thinking about them and having their best interests at heart!

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