

Will the Dow Jones follow the Housing Sector?

For the past year and a half, we've been telling you about the problems in the housing market. At the same time, television personalities, national politicians, and housing CEO's, have taken the other side of the argument, and have stated the problems reached their bottom in the first quarter, the problems have been contained, and to quote a famous songster: "*Don't worry, be happy.*"

Yesterday, Countrywide Financial (\$30.50 as of 7/24/07) CEO Angelo Mozilo, described the current housing situation as cataclysmic and approaching levels not seen since 1929. Bill Gross, the manager of the largest bond house in the world, next to the U.S. Government, said the contagion in sub-prime had hit the high-yield market like an earthquake measuring eight on the Richter Scale. Bear Stearns (\$129.85 as of 7/24/07) shut down two hedge funds that were strictly involved with mortgage lending and declared them basically worthless. Investors at Bear Stearns were given the news that \$1.00 had become \$.01. The life-saving deal between Cerberus and Daimler-Chrysler (\$89.45 as of 7/24/07), which will affect thousands of people and billions of dollars, is running into problems because of the effect of mortgage problems on interest rates. Beazer Homes (\$16.79 as of 7/24/07) is being investigated by the FBI and SEC for fraudulent and unethical lending practices and 401k violations. Do you get the point?

The sub-prime mess as we've been preaching ad nauseam, is not contained, has not hit bottom and is not just a minor nuisance. The repercussions from adjustable-rate mortgages, record delinquencies and foreclosures, and pyramiding of debt by investors could have dire consequences. So, contrary to the songster's lyrics: "*Worry, and don't be happy.*"

It's not **will** the Dow Jones follow the housing sector, it's **when**. (Maybe the answer is sooner rather than later.)

Till next time,

Bill

P.S. – A thought to ponder. Seventy-five percent of the world's oil reserves are found in just seven countries: Saudi Arabia, Iran, Iraq, Kuwait, United Arab Emirates, Venezuela, and Russia. Very comforting!

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