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A financial forecast regarding the stock market and residential and commercial real estate

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Even though only minimal price appreciation was achieved in 2006 (as compared to prior years), real estate will remain a large asset on consumer balance sheets in 2007.

How often are our forecasts or projections different than actuality? I was recently watching the New Orleans Saints beat the Philadelphia Eagles to advance to the National Football Conference (NFC) championship game and wondered who in their right mind would have predicted that the Saints would be going to the NFC Championship game in the 2006 season after an abysmal 3 wins and 13 losses in 2005. I often find the same type of deviations in financial forecasting and as I mentioned last year, my background and credentials could probably afford me the title of financial expert, but I do not have a problem admitting I have been wrong on many occasions because several factors that are out of my control affect the economic climate year to year. Also, I am in the real estate mortgage and investment business and I will always try to point out the positives of investing in this sector just as the New York Times often places a positive spin on liberal views while the Wall Street Journal often places a positive spin on conservative views.

Since this is my second "go around" at a forecast in this publication, it gives me the opportunity to grade my results from last year.

Stock Market

Last year I predicted that the days of exponential growth via the stock market were over and we should see a moderate 5% growth in the DOW throughout 2006 thereby finishing slightly above the 11,000 barrier. My forecast looked pretty solid until August 2006 and then oil prices stabilized, recession worries lessened as positive economic data flooded the airwaves and the Federal Reserve stopped raising interest rates. The DOW finished at 12,463 amounting to a 16% gain for the year. Gains in small cap funds were equally as lucrative. In 2007, many expect the bull market to continue, however, my outlook is not as optimistic. History has taught me that double digit growth in a very short period of time, coupled with a significant increase in the level of risk by the average investor, are signs of a "pull back." Therefore, I believe the DOW has a better chance of no growth than double digit growth in 2007.

The NASDAQ should probably fare a little bit better again as I predicted last year. The ever-changing face of technology should again provide an added push to the technology laden NASDAQ in 2007 and the 9.5% gain in 2006 and should be achieved again in 2007.

Residential Real Estate

Last year, I forecast that the 30 year fixed rate mortgages which were at an affordable 6.25% would remain at the level if not lower in 2006. Even though there was upward pressure towards the middle part of 2006, current national rates are slightly below 6.25% and with a current inverted treasury yield curve (short term yields are higher than long term yields), I expect the same type of affordable level in 2007. Rest assured that borrowers with ARM products in the hunt for a 30 year fixed rate product will have the chance to lock in at a relatively reasonable rate throughout 2007.

According to the office of the chief economist at Freddie Mac, the annualized housing price growth rate dropped to approximately 2% in the 4th quarter of 2006 resulting in annual price appreciation of a paltry 5.2% for 2006. According to the Long Island Board of Realtors, the median price of a house in the Long Island/Queens area was in the mid/high 400s by the end of 2005 and approximately the same in 2006 as predicted. However, the Queens median increased slightly to 500K at the end of 2006. Housing sales on the other hand dropped approximately 10% nationally.

Sellers will continue their reluctance to reduce housing prices, so look for a slightly moderate pull-back in sales nationally in 2007 fueled again by a more conservative approach by buyers/borrowers as they will have more choices.

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Commercial Real Estate

I projected that the prime rate would be stable in 2006 and after four .25% increases in the first half of the year, stability followed for the 2nd half of the year. The current prime rate of 8.25% has a favorable probability of being reduced because the Federal Reserve should lower the Federal Fund Rate during 2007 given the inverted yield curve. On the other hand, long terms rates could increase instead, but let's hope for the former.

According to Morningstar, commercial real estate funds were a Wall Street top performer in 2006 returning an impressive 34% on average, more than double the return on the DOW. This should be a signal to the private investor that you can still find lucrative commercial real estate investments with favorable cap rates and positive cash flows with 15% to 20% down. However, you may need to spend a little more time with due diligence efforts and/or broaden your horizons to different geographic locations.

The continual and growing influx of immigrants into the country will always provide a demand for commercial rental space and housing especially in the Northeast.

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