

Few words are slipperier than ‘ethos’ to grasp.

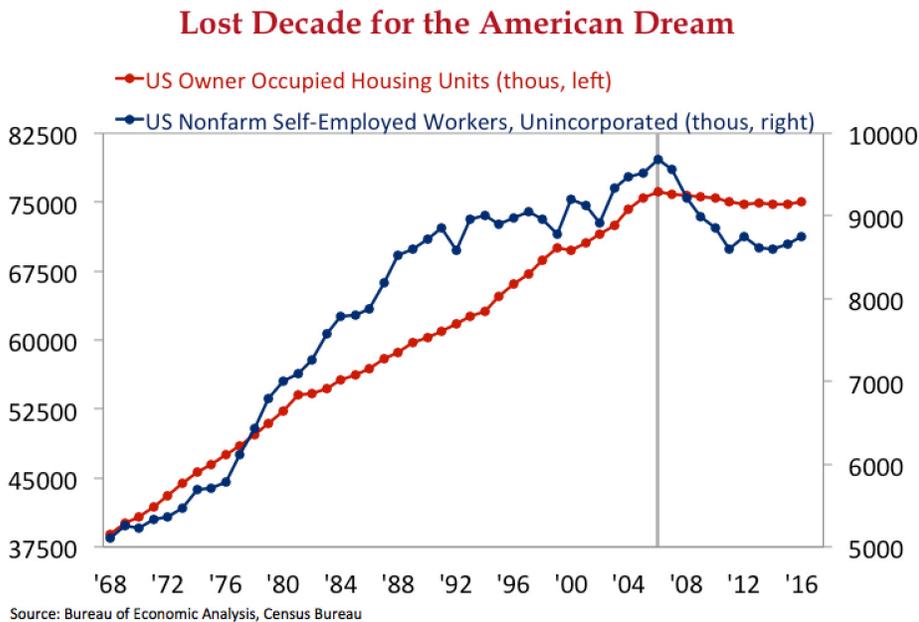
Even the best translation of the word – essence – is hard to get your arms around. Perhaps that is why so many of us were blissfully unaware until recently that the very essence of the American Dream was slipping through our fingers. Though the phrase, which captures the very, yes essence, of the American thirst for adventure, dates back to the hopes and spirit that emboldened prospectors to ‘Go West,’ those who first engaged in California Dreaming, it was James Truslow Adams’ popularization of the term that cemented the ideal into our collective psyche.

“But there has been also the American Dream, that dream of a land in which life should be richer and fuller for every man, with opportunity for each according to his ability or achievement. It is a difficult dream for the European upper classes to interpret adequately, and too many of us ourselves have grown weary and mistrustful of it. It is not a dream of motor cars and high wages merely, but a dream of social order and in which each man and each woman shall be able to attain to the fullest stature of which they are innately capable, and be recognized by others for what they are, regardless of the fortuitous circumstances of birth or position.”

It is sweeter still, in the annals of our proud U.S. history that these words were written in 1931, during the thick of the most ravaging economic devastation this country has ever known. And still hope defeated despair, reigning supreme, inviting the lowliest of street urchins to achieve greatness in this country of endless possibilities. Were that only still the case today.

The housing crisis has long stopped commanding headlines. According to **ATTOM Data Solutions**, the new parent company of RealtyTrac, default notices, scheduled auctions and bank repossessions slid to 933,045 last year, the lowest tally since the 717,522 reported in 2006. Is the final chapter written? Not if you live in judicial foreclosure states such as New York, New Jersey and Florida where 'legacy' foreclosures take years to clear. At the end of last year, 55 percent of mortgages in active foreclosure were originated between 2004 and 2008. Factor in what's still in the pipeline and one in ten circa 2006 homeowners will have lost their homes before it is all said and done.

That helps explain one part of the chart below which was generously shared with me by one Dr. Gates. Longtime readers of these missives will recognize the nom de plume of my inside-industry economic sleuth. His first take on this sad visual, was that, "The heart of the American Dream has stopped beating." Did that stop your heart as it did my own?



As you can see, after a steady 40-year build, owner-occupied housing has stagnated and sits at the lowest level since 2004. This has sent the homeownership rate crashing to 63.4 percent, the lowest since 1967. It would be nice to think that things were looking up for would-be homeowners. But it's difficult to be overly optimistic when the local newspaper reports that house flipping in the Dallas-Ft. Worth area rose 21 percent in 2016, seven times the national rate.

In all, 193,000 properties nationwide were flipped for a quick inside-12-months profit last year, a 3.1 increase to a nine-year high. Moreover, the median age of a flipped home rose to a two-decade high of 37 years, about double the median age of homes flipped before the crisis hit. That translated into a median gross profit of \$69,624 on a median selling price of \$189,900 in 2016, a neat 49.2 percent margin, the highest on record. Awesome! That is, unless we're still talking about the American Dream. But then maybe homeownership isn't all it's cracked up to be.

At least you can still hang a shingle in this country. Right?

You may note that the decline in self-employed is appreciably more dramatic than the fade among the ranks of owner-occupied homes.

You see, it took more than even the cruelest recession to wipe out two decades of ingenuity, to decimate a trend, to shift a culture. Think of the financial crisis as merely the initial catalyst, the first nail in the coffin.

Then came access to capital, which was dealt a once in a century body blow. Seemingly overnight, credit cards and home equity lines of credit disappeared as a source of operating income. Arguably these two growth governors spread the lack of wealth evenly across the country. But it was the heartland that suffered the most as the number of community banks in the six years ending 2013 sank by 14 percent. Federal Reserve data found that this shrinkage resulted in a 40 percent decline in the number of people with access to community banks. (No, Dr. Bernanke, zero interest rates do not benefit the little guy. They just make it cheaper to borrow for those who have never and never will lose their entree to the credit markets.)

Note that neither 'Dodd' nor 'Frank' were mentioned in that last paragraph. The awful Act did indeed further impinge access to credit, but let's say that falls under a different heading, the most insidious of the plagues unleashed on small businesses.

To that end, it's the last nail in the coffin, the one that's left behind the most difficult stain to eradicate, as we are beginning to find out the hard way as the GOP tears itself asunder on the public stage. Of course, we speak of the imposition of a regulatory burden that knows no precedent. It's all but inconceivable to fathom an additional \$100 billion in annual regulatory costs but that's the reality, the legacy of the last administration.

More than anything else, even the Federal Reserve's assigning of the have's and have not's among us, this suffocation of the ability to succeed that raised the hackles of middle-income Americans, bitter that they've lost the right to what once was every American's birthright. The hope is that the nascent rebound off 2014 lows in self-employment continues as red tape is rightly slashed back to where it belongs, that is countries where capitalism doesn't exist, that the 40-year low in new business formation is squarely in the rearview mirror. The prayer is that recession is not around the corner, an unwelcome development that would undo what little progress has been made.

“My hope is for our current President to turn this tide. Lord knows the last President didn’t do anything to get us back on track, and neither did the Fed,” Dr. Gates observed. “At least we still have baseball, hot dogs and apple pie.”

It goes without saying, ‘tis the season for all three of those National Treasures. Thank you, Dr. Gates.

As for yours truly...shall we dispense with the niceties for just a moment? Like it or not, part of what’s happened in housing is a natural Darwinian outgrowth of the ridiculous zero interest rate policy that’s set profit-seeking scavengers on one another. What we’re witnessing is a mere reflection of a world in which rational investments have been whittled down to nothing.

Still, might we at least raise an eyebrow to the schadenfreude that’s infected the housing market? Should we truly take pride in crowding out those who would rather own than rent a home in the name of hard-to-come-by profits in a low rate world? And what good have we done, allowing our feckless politicians to snuff out a proud history of entrepreneurship that put our country on the map? Will the one percent be capable of lifting all boats, or even care to do so, in order to reestablish our national pride?

It was later in life that James Truslow Adams placed a punctuation mark on his written legacy with the following:

“The American dream, that has lured tens of millions of all nations to our shores in the past century has not been a dream of merely material plenty, though that has doubtlessly counted heavily. It has been much more than that. It has been a dream of being able to grow to fullest development as man and woman, unhampered by the barriers which had slowly been erected in the older civilizations, unrepressed by social orders which had developed for the benefit of classes rather than for the simple human being of any and every class.”

No more elegant words were ever written to ensure our ethos would never be endangered. And yet it is at risk of extinction today. It is high time we stand up for what is rightly ours and take back the American Dream for one and for all.

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