Twitter Thread by Ky Nguyen

Ky Nguyen
@keywinhomes

That is a long post, but well written. Real estate is a claim on the future prosperity or ruin of a geographical location. Real estate intrinsic values is its ability to generate cash or similar costs to rent in that area. Intrinsic value is above zero in most cases.

@ReformedTrader Ironically enough, the location that benefits most from property ownership are places where rising living costs expand faster than rising middle income wages. Deflationary areas are hostile to property ownership as price is falling make collateral and borrowing difficult.

@ReformedTrader Homes are bought using leverage with agencies loan subsidies by the governments. As long as you have fixed rates, the costs of living expenses for your housing is set for 30 or 15 years which allow family to budget. Wealth can be accumulate over time as asset and income risen.

@ReformedTrader Time passed, real estate become detach from intrinsic values. Monthly mortgage rocket pass incomes and growth in the area. Quick money into real estate turn into a landmine. The 2007 fiasco could have been better or worst, but the free market is effectively dead as an ideology.

@ReformedTrader At the time, investors attack the institutional that vulnerable to the MBS and structured derivatives linked to real estate bubble risks. Since many financial institution owned the agencies MBS, defaulting on these security means downward spiral for M1 and M2 in developed nations

@ReformedTrader The Gov and Fed fearing total collapse of the system bail out by effectively nationalizing the GSEs and back stop all the MBSs issued by them. Other thing deem non essential like LEH were left to rot. However, the financial institutions contagion effects are underappreciated.

@ReformedTrader In the end, the AIG bailout send clear message that Fed will do whatever it take to protect the system. Plan economy is the motto of the day, up to now . For traders, betting on system destruction is suicidal, but betting on system survival owning bail out assets means wealth.

@ReformedTrader Fed when facing difficult decision, will behave in a sandbox, and play within set of rules. Fed have lots of options, but often theirs choice is limited to a fews in order to avoid bad outcomes. The next step forward will be helicopter money and direct market intervention via BLK

@ReformedTrader If necessary Fed bankroll the equity market by buying junks, equity, and supplying liquidity necessary to maintain leverage positions in vulnerable financial institutions. What wrong with bailing out the fews while leaving the mass poor and restless? Soviet Union style collapse.

@ReformedTrader @threadreaderapp unroll