FatTailMEDIA

CATHERINE CASHMORE'S
CYCLES, TRENDS & FORECASTS

INSIDE THIS ISSUE

The Roaring 2020s!
Timing the Peak of the 2020s Real Estate Cycle

By Catherine Cashmore

'*Never before have such fortunes been made overnight by so many people*,' said American journalist and statesman Edwin LeFevre in his narrative of the 'Roaring 1920s.'

It was the '*get-rich-quick*' era.

Many were still suffering from the previous depression in 1920.

But regardless, the notion was that anyone could become a millionaire overnight from speculation on Wall Street.

> '*Only the hardiest spoilsports rose to protest that the wild and unchecked speculative fever might be bad for the country…*
>
> '*The money lay in stacks in Wall Street, waiting to be picked up. You had to be an awful deadhead not to go get some.*'
>
> Historian Paul Sann, *The Lawless Decade*

The Roaring Twenties led us to the peak of the post-war real estate cycle in 1929.

> '*In January of 1929… there was no one to look over the edge of the cliff and note how far it was down to the bottom of the canyon.*'
>
> Stewart Holbrook, *The Age of the Moguls*

The '*bottom of the canyon*' was the worst economic downturn in the history of the industrialised world.

It lasted from 1929–39.

By 1933, 15 million Americans were unemployed and nearly half the country's banks had failed.

If you listened to my interview the other week with Fred Harrison, you would have heard us discuss the Roaring Twenties.

Importantly, the remarkable similarities to the current real estate cycle and the *Roaring* 2020s.

I mentioned it first to readers in April 2020's edition of *Cycles, Trends & Forecasts*.

The point at which the COVID-panic had destroyed markets globally.

The media touted that we'd be in a recession at least as bad as the Great Depression.

However, the similarities to the 1918–20 Spanish flu and what became known as 'The Lost Depression' between 1920 and 1921 were far greater.

A 100-year cycle (*more on this in future updates*).

The Spanish flu produced lockdowns on the same scale as we experienced in 2020.

Source: George Harrison — News reports from the 1920s Spanish Flu pandemic

Governments were quick to take advantage with a tyrannical power grab that no one would have imagined months before.

Source: George Harrison — Pictures from the 1918/19 Spanish Flu pandemic

This depression was worse in many respects than the Great Depression.

Notably:

- It came mid-way through the post-war real estate cycle. It was the 'mid-cycle' downturn.
- The real estate market did not crash. It continued to rise throughout — just as it has throughout the COVID mid-cycle panic.
- It was followed by one of the most robust recoveries of any recession between 1899 and the Great Depression. A 'V' shape recovery — just as we're experiencing today.

Notable was the technological revolution that followed.

It was this that fuelled the Roaring Twenties.

- Televisions were invented.
- Homes were connected to the electrical grid and indoor plumbing.

- The first cross-Atlantic flight was successfully navigated.
- Cars and electrical manufacturing took hold.
- Jukeboxes were invented.

The list goes on.

The transformation led to a sharp rise in productivity.

- It forever changed the size and living arrangements of households and workplaces.
- Women achieved a new level of independence. Awareness of 'women's issues' started to change society in ways that benefited women.
- There was huge expansion in credit and construction.

All societal changes that bear similarities to what we see happening today.

As I said back in April last year:

> '*And with technology being the only option to connect with people in the current pandemic, it won't be surprising to see a similar trend following in 2021.*'

The Real Estate Boom of the Roaring Twenties

The mainstream labelled the Roaring Twenties as merely a stock market bubble.

(Similar to the 1973 land price bubble that was written out of history in favour of the story of the OPEC crisis.)

Few understand, however, that the Roaring Twenties had much more in common with the 1880s *worldwide* land boom that caused utter devastation into the 1890s depression.

Land is where the money on Wall Street was ultimately settling.

In the US, it was termed 'The Florida Land Boom' — however, it extended across much of the nation.

Between 1921 and 1929, lending on real estate in the US increased by 179%, and urban prices more than doubled.

By 1930, land values in Manhattan — including the total value of building plans — made up around 10% of the total value for 310 cities in the US (Manhattan included) during the same period.

A staggering figure considering Manhattan at the time only contained 1.5% of the US population.

The wealth that flowed to landowners was immense.

Thousands of new banks set themselves up in outlying areas.

> '*...(they) were either operated by real estate promoters or exhibited excess enthusiasm to finance a local real estate boom*'
>
> Elmus Wicker, *The Banking Panics of the Great Depression*

There was an explosion in the value of construction that would not be equalled until the boom-and-bust era of the late 1980s.

The construction boom in NYC had a lot to do with a 1920 law that made sure property taxes fell **only** on the land.

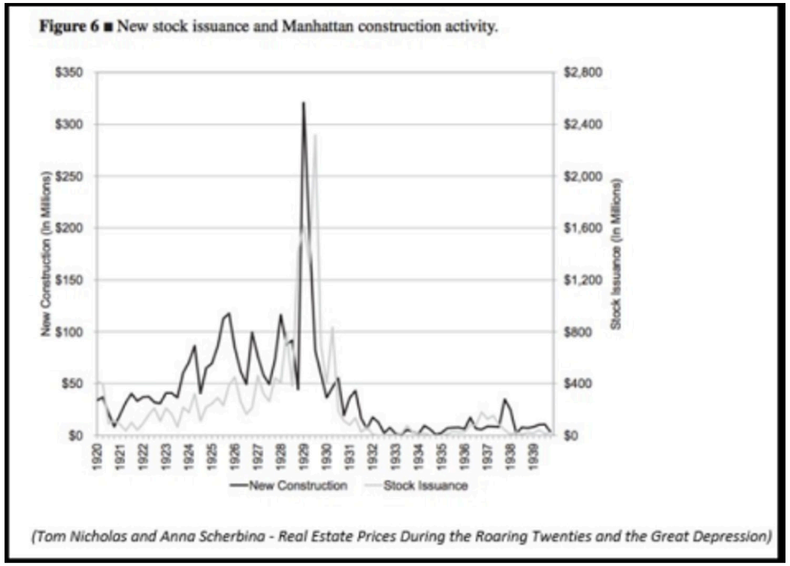
Not the buildings.

This exempted new housing construction (but not the land values) from the property tax from 1920 until the end of 1931.

It was know as 'The Al Smith Law' — for the New York governor who sponsored and signed it. The writings of Henry George had greatly influenced him.

Removing taxes from buildings has a remarkable effect on construction — encouraging big developers to build for-profit and discouraging land bamking.

As a result, the NYC population grew much faster — percentage -wise — than that of comparison citiesm from 1920-40 (and for a while after that).



(Tom Nicholas and Anna Scherbina - Real Estate Prices During the Roaring Twenties and the Great Depression)

Source: Tom Nicholas and Anna Scherbina — Real Estate Prices During the Roaring Twenties and the Great Depression

Marking the peak of the 1920s land bubble was the completion of the tallest building in the world.

The Empire State Building.

Source: findingtheuniverse.com/ empire-state-building-guide/

It took just 13 months to complete.

- It used 58 tonnes of steel,
- 60 miles of water pipe,
- 17 million feet of telephone cable and
- Appliances to burn enough electricity to power the New York city of Albany.

It stood a quarter of a mile high.

'The tallest building in the world created by man' proudly declared former governor of NY, Alfred Smith. (See side box.)

medicinal ball had breakfast with Mr. Hoover and other members of the Hoover party. He also had lunch with them.

WORLD'S TALLEST BUILDING OPENED SMITH PRESIDES

Roosevelt and Walker Join "Al" in Empire State Ceremonies; Hoover Has Part in Program.

NEW YORK, May 1—(AP) Alfred E. Smith formally presented to the public today his outstanding achievement as a private citizen—the Empire State Building.

On the site of the old Waldorf-Astoria Hotel, at Thirty-fourth Street and Fifth Avenue, it reaches nearly a quarter of a mile in the sky, in the words of former-Gov. Smith "the tallest thing in the world today created by the hand of man."

In its observation tower, beneath the burnished metal dirigible mooring mast that glows in the spring sun-

Source: rarenewspapers.com

The Empire State Building had 2.1 million square feet of rentable space.

However, it opened on 1 May 1931, 75% **empty**.

4

Office space in New York increased 51% during the Roaring Twenties.

The higher up the office, the higher the rents.

Thus, everything above the 41st floor of the Empire State building sat vacant.

It became the butt of jokes.

Dubbed ‘*The Empty State Building*’.

It didn’t turn over a profit until the 1950s.

Raskob (its builder), who, in 1929, had penned the famous article ‘Everybody Ought to be Rich’ by investing in ‘*America’s booming corporate economy*’ fell deep in the red.

At this point, I don’t need to tell readers how many similarities there are in this real estate cycle (the *Roaring* 2020s) to what investors experienced in the Roaring Twenties.

In equities and real estate — it promises to rival anything we have seen previously.

The Roaring 2020s peak

A cluster of the ‘tallest’ buildings will mark the peak this time:

- Hyundai Global Business Center — the tallest in South Korea **due to be completed in 2026**.
- Thai Boon Roong Twin Trade Center — the tallest building(s) in Cambodia and the tallest twin towers in the world **due to be completed in 2025**.
- Rise Tower — the tallest building in Latin America **due to be completed in 2025**.
- Jeddah Tower — the tallest building in the world **if/when completed in 2026**.
- Green Spine — the tallest building in Australia **due to be completed in 2026**.

The list goes on...

But to take advantage of this boom, you absolutely must have a stake in land.

Remember!

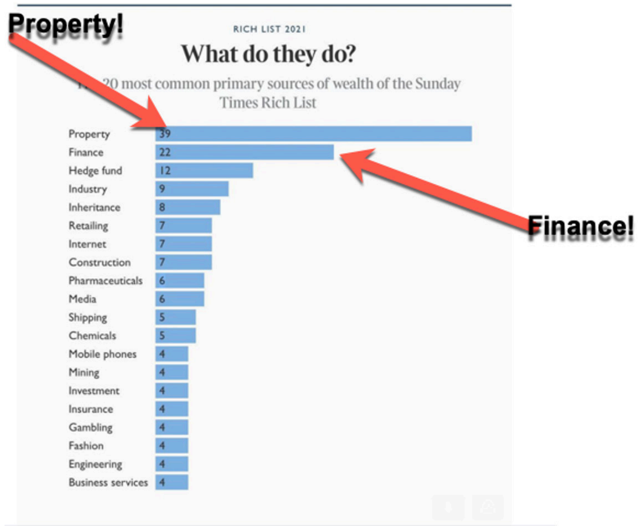
Property is the core of the global financial system.

It is, by far, the largest asset class.

Our economic system’s ‘twin drivers’ are rising land values, and the bank created credit that backs it.

This is true the world over.

It is here that the rich store their wealth.



Source: Sunday Times Rich List

The timing to the roadmap from here I laid out in your September 2020 monthly edition.

Let me summarise what it tells us in the context of the above information.

The peak of the Roaring Twenties real estate cycle was at the end of the decade.

However, it doesn't mean that the forecast peak for this cycle — the *Roaring 2020s* — will extend past the date we have already forecast.

That is a real estate and equities peak in 2025/6.

If you look back at your September 2020 monthly edition — 'Mind, Blown: The Secret Behind the 18-Year Real Estate Cycle — Part II' — I explain how to time the peak of the real estate cycle precisely.

I won't go into all the details here.

Only to say that the peak of the Roaring Twenties real estate cycle came right on time! At the end of that decade. Very close to the lunar standstill, as explained in your September 2020 monthly edition.

The next point on our radar, according to the 18.6-year cycle, is mid-to-late 2025 into 2026.

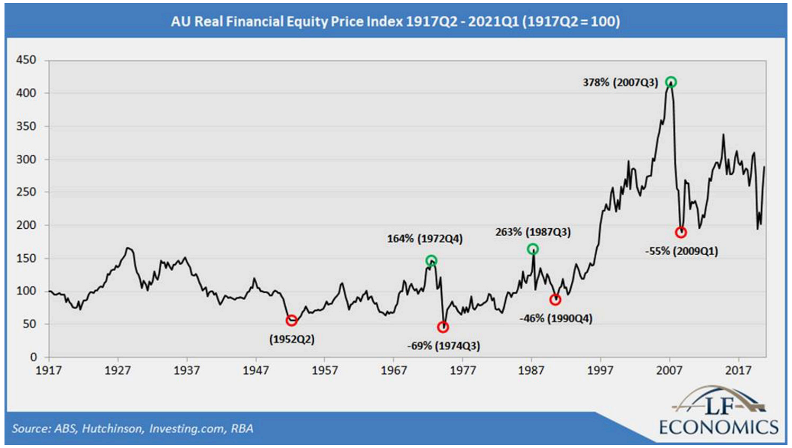
This date will be very close to the peak for the current cycle.

Equity buyers

Equity prices also correlate with the peaks marking the lunar standstill.

History shows there is a very rapid rise in equity prices in the four–five years before the peak is reached.

This is demonstrated on the chart below put together by Philip Soos (LF Economics).



Source: Philip Soos (LF Economics)

The peaks in the equity market are highlighted in green.

The troughs in red.

Right now, we're looking at around four years of solid financial equity gains from 2021–25.

Note that the last peak was in 2007 in the 3rd Quarter (Q3).

Add to that 18 years and it takes us to a peak in 2025 Q3.

This is valuable knowledge to have so far in advance!

Callum is keeping you up to date with the best knowledge on how you can take advantage of this.

Real estate buyer's guide to the second half of the cycle

The second half of the cycle historically tends to be stronger than the first.

We're seeing this play out now.

Smaller capitals (by population) and regional cities do better in the second half than the first.

Several things contribute to this:

- The severity of the previous downturn has been forgotten.
- Banking regulations loosen.
- Real estate spruikers promote 'regional' hotspots.
- Buyers priced out of the inner suburbs ripple outwards.

The same pattern is evident in other countries.

For example, between 2000 and 2007, property prices in all the UK regions grew twice as much as they did in Greater London.

Affordability constraints were pushing buyers and investors further afield.

I showed in your monthly December 2020 edition which states were going to attract the greatest gains.

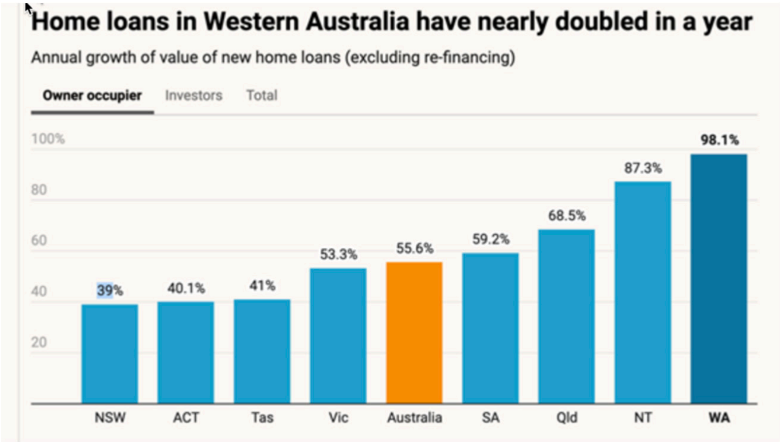
This was done using the CAPE charts put together by Philip Soos (LF Economics).

You can review the charts in that edition here.

The findings are summarised as follows:

- Western Australia and the Northern Territory are forecast to have the biggest increases in land inflation. The gains may push past the forecast 2025/26 peak.
- Queensland is showing strong gains ahead of South Australia, Tasmania, and the ACT.
- Sydney is likely to slow or stagnate after a strong initial run (into 2022/23).
- Melbourne is in a similar position to Sydney. However, because it has a range of more affordable options, gains may continue at a slower pace through to the end of the cycle.

Right now, lending data give evidence that the above forecasts are right on track!



Source: Greg Jericho

It shows a boom in the value of home loans taken out in March.

In Western Australia, it is nearly double the amount taken out in March last year!

The Northern Territory is following close behind — and South Australia is also showing large increases.

Sydney, although booming now, is at the bottom of the list.

Historically, it tends to top out early in the cycle due to affordability constraints.

One of the cities we forecast would be harder hit following the COVID panic is Melbourne.

It certainly played out last year, with the intensive lockdowns in Victoria.

Right now, the lending data still points toward a bullish cycle for Melbourne.

However, the Andrews government could be about to put a stop to it.

Higher land taxes and stamp duties are on the way.

$2.7 billion worth of new taxes to be levied on property owners.

It's summarised as follows:

- A premium stamp duty on property transactions above $2 million.
- Land tax on property investments increasing by 0.25% for holdings between $1.8 million and $3 million, and 0.30% in excess of $3 million.
- A new windfall gains tax for properties whose value is boosted by a council rezoning. (To apply to properties where the value is boosted by more than $100,000, with a 50% tax on windfalls above $500,000.)

Stamp duty is a terrible tax.

It places a large penalty on moving home — reducing turnover.

The effect on the market (from many international studies) is to lower property prices by the exact value of the tax.

Land tax is a good tax.

It discourages land banking and encourages building activity (just as it did in NY in the 1920s).

However, it should only be implemented if taxes are stripped from the productive sector as compensation!

As it is, it's not going to assist Victoria's economy to get out of strife.

Increased land taxes alone will dampen land prices, however.

It's going to undoubtedly drive property investors to other states in the short term.

We'll see a pullback in Melbourne's property market and price growth could plateau in the not-too-distant future.

But remember! Everything you see now we forecast throughout 2020!

- The boom in Perth (and other smaller states)
- The potential pullback in Sydney and Melbourne
- Strong equity market gains into the second half of the cycle and the *Roaring 2020s*

We'll continue to aim to give the best guidance to the cycle as we move through this year and beyond.

But for now, over to Callum!

Best wishes,

Catherine Cashmore,
Editor, *Cycles, Trends & Forecasts*

From One Truck to a $100 Million Net Worth!

By Callum Newman

You know our mantra here at *Cycles, Trends & Forecasts*.

The next five years should see the global economy boom with record demand.

Part of this prodigious uplift should equal high commodity prices!

And what do we see around us?

The global switch to electric vehicles and renewable energy is firing record forecast demand for commodities such as lithium, nickel, copper and iron ore.

It's a key reason our favourite property market is Perth.

All this mineral wealth creation and job opportunities are going to show up in higher land prices.

But the WA opportunities don't end there...

They're going to play out on the share market too.

This month we're going to back a homegrown WA entrepreneur that began as a boilermaker's apprentice...and is now worth nearly $100 million!

The man that began with one truck and now has 110!

Meet Murray Leahy. His company, **MLG Oz Ltd [ASX:MLG]**, recently floated on the ASX. It currently trades for around $1.35 and has a market cap of $190 million.

MLG Oz is a Western Australian mining service business whose two key commodities are gold and iron ore...just when both are booming!

Iron ore is currently more than US$180 a tonne, and gold is around AU$2,400 an ounce.

At these prices, every producing miner in WA will be doing everything they can to ship out as much as they can...as fast as they can.

And that's very good news for MLG. It's a business that's built around producing mines.

It makes money on volume and the full operational spectrum of a working mine.

See this summary here:

Source: MLG OZ

The more miners need crushing, screening, haul and export…the more services and equipment MLG can offer.

The outlook for future WA mining looks strong out to 2024. There's *at least* $17 billion worth of new mines due to start up between now and 2023.

MLG's existing client base includes premium mining companies Northern Star, Ramelius Resources, Fortescue Metals and Western Areas.

These are long-life, low-cost mines that should generate business for MLG for years to come.

Another strong endorsement of the company is that multimillionaire mining heavy-hitters Chris Ellison and Bill Beaumont invested in the Initial Public Offering.

Chris Ellison is a billionaire from the rise of his company Mineral Resources. Bill Beaumont joined gold company Northern Star when it was a junior stock and turned into a world gold $13 billion behemoth.

CEO Murray Leahy also retains a 50% stake in the business. That means his interest remains aligned with yours.

However, MLG Oz isn't just a 'normal' mining services business…

The 'secret portfolio' inside MLG

All of the above makes a nice investment case for the stock as is. But MLG is not just a one-trick pony.

One of the big themes we've covered here at *Cycles, Trends & Forecasts* since 2020 is the booming demand for silica sand and construction materials.

Here's the 'secret portfolio'…

MLG owns four strategic quarries in Western Australia, located close to the gold mining hubs it services.

This gives them a competitive advantage to supply the nearby miners at lower cost than their competitors.

These quarries can also produce silica sand — the driving thematic behind the strong rise in our recommendation **VRX Silica Ltd [ASX:VRX]**.

These quarries also give MLG a potential angle into supplying the WA civil construction industry.

Western Australia's current infrastructure investment plans forecasted in 2020 is a record $5.7 billion spend.

The federal government announced this month an additional $1.3 billion for WA.

The WA premier boasts that the state has never seen so much investment.

That's good news for MLG — who can look to diversify more heavily into this area.

Combined, the civil and mining spending due in WA over the next five years should give MLG's earnings a powerful tailwind.

Right now the market is sceptical that the current commodity boom can be sustained.

Here at *Cycles, Trends & Forecasts*, we expect a huge mining boom over the next five years and the second half of the real estate cycle.

That gives you an opportunity to acquire a stake in this strategic business that can monetise it the whole time.

Don't forget to look down as well as up

There are risks to this idea.

One is that WA is showing signs of labour shortages for skilled staff.

This could raise costs for MLG and hurt their earnings outlook or make it difficult for them to service existing or new clients.

Another is that the company is currently highly dependent on two commodities for its revenue: gold (82%) and iron ore (14%).

Should either — or both — of these sectors enter substantial bear markets, then MLG could lose business or momentum.

It's also possible that we have misread the exciting outlook for the mining sector and it enters a severe downturn.

Mining services can be a 'boom bust' industry because of these swings. MLG has net debt of $22 million that could become more difficult to service under this scenario.

Any earnings miss around the upcoming full-year results (forecast from MLG's Initial Public Offering document) could see the stock punished severely and the market lose trust in management's guidance.

What is that?

The company forecasted a Net Profit After Tax of $15 million at the time of its prospectus. These results refer to the financial year ending 30 June.

That puts the stock on a price-to-earnings (P/E) ratio of about 12 times and a dividend yield of around 2–3% if a 50% payout ratio is used.

That doesn't look unreasonable in today's market.

Industry peer **MAAS Group Holdings Ltd [ASX:MGH]** currently trades on a P/E ratio of 88! **Imdex Ltd [ASX:IMD]** is also a mining services company. It trades on a P/E of 46.

MLG also plans to grow its future earnings by expanding around Australia, possibly using a strategic acquisition.

The market should like that should it eventuate.

This is one reason I regard the above risks as less acute the more time you're prepared to give MLG.

As above, every indication is we remain early in a cyclical upswing that will likely last all the way into our expected economic peak in 2026.

However, due to the current uncertainty around WA's labour market, I suggest beginning to dollar-cost averaging your way into MLG Oz now, rather than taking your normal full position from the get-go.

Dollar-cost average means buying a small, regular parcel of shares, say every quarter, to slowly build up a long-term stake in a business with bright prospects over the long term.

I'm sure in time you'll be glad you did.

ACTION TO TAKE:
BUY MLG Oz Ltd [ASX:MLG]. Recent price $1.33. Buy-up-to $1.40. Be patient. Liquidity is modest in this stock. We will place a 25% stop-loss on this idea.

Where to be invested now

It's been a reasonably quiet period for the *Cycles, Trends & Forecasts* buy list.

Let me tell you...that's a good thing! It's been a tough market for many lately.

Afterpay has lost 40% since its 2021 peak. Kogan is down 50%. The 'WAAX' group — Wisetech, Appen, Altium and Xero — has lost at least 20%.

We made a great gain of 80% on MAAS Group in the same time frame. Our other stocks have mostly managed to hold a line against the current pressure.

However, we have seen some recent weakness in our high flier **VRX Silica Ltd [ASX:VRX]**. It's going through a lengthy consolidation phase as it finalises all its necessary permits and approvals.

Now looks like an opportune time to take the gain from our investment last year.

ACTION TO TAKE:
Sell shares of VRX Silica Ltd [ASX:VRX].

We are getting close to the end of the current financial year. That means I continue to suggest you accumulate stock in our dividend payers like **HomeCo Daily Needs REIT [ASX:HDN]**, **Abacus Property Group [ASX:ABP]**, and **National Storage REIT [ASX:NSR]**.

The yields are also very compelling relative to bank deposits currently.

If you're looking for income and are prepared to back the cycle long term, selling pressure like we've seen this month is the time to take advantage.

However, we are moving **Vicinity Centres [ASX:VCX]** to a HOLD.

Melbourne's latest coronavirus outbreak is likely to set back its CBD assets again that is still recovering from last year's disruption.

I don't think we need to panic. But better momentum is found elsewhere right now.

I'm also raising the 'buy-up-to' price on our 'nonbank' lender **Resimac Group Ltd [ASX:RMC]** to $2.50.

If you don't yet have a position here, I urge you to give it some thought.

The real estate cycle calls for an expansion in credit.

Resimac is well placed to capture more market share here and drive its share price higher. It also pays a modest dividend of 1–2%.

Rest assured, all our current positions are sturdy businesses to own in these volatile times...and we know they have the real estate cycle tailwind at their back.

It's an exciting time to be positioned for what's to come.

Best wishes,

Callum Newman,
Editor, *Cycles, Trends & Forecasts*

Cycles, Trends & Forecasts Buy List

Stock	Ticker Symbol	Entry Date	Entry Price	Current Price	Stop Price	Gain %	Recommendation
Real Estate Cycle Plays							
ABACUS PROPERTY GRP	ABP.AX	28 Mar 2021	A$2.780	A$3.010	A$2.333	8.27%	Accumulate
ACROW FORMWORK	ACF.AX	23 Dec 2020	A$0.375	A$0.360	A$0.308	-2%	BUY
Cedar Woods Pty	CWP.AX	28 Sep 2020	A$5.700	A$7.040	A$4.940	26.93%	HOLD
HomeCo Daily	HDN.AX	29 Apr 2021	A$1.320	A$1.365	A$1.035	3.41%	Accumulate
NATIONAL STORAG	NSR.AX	28 Aug 2020	A$1.885	A$2.080	A$1.414	12.47%	Accumulate
RESIMAC GRP	RMC.AX	26 Nov 2020	A$1.940	A$2.400	A$1.775	24.95%	HOLD
Stockland	SGP.AX	30 Oct 2020	A$3.850	A$4.660	A$3.107	23.97%	Accumulate
VICINITY CEN	VCX.AX	26 Feb 2021	A$1.640	A$1.575	A$1.108	-3.96%	Accumulate
The Silica Explosion							
Seven Grp Hldgs - Registered	SVW.AX	01 Jul 2020	A$17.760	A$20.350	A$18.053	17.06%	HOLD
VRX Silica	VRX.AX	01 Jul 2020	A$0.098	A$0.255	A$0.055	160.2%	SELL

Last Updated: 28/05/2021

Note: Portfolio prices update daily. Generally, the 'current price' will reflect the closing price of the prior trading day

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