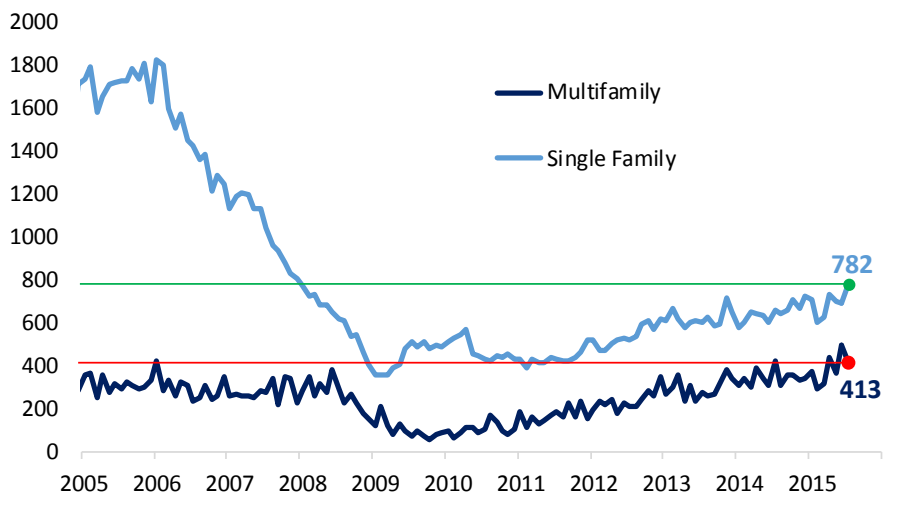




## Housing Breakout

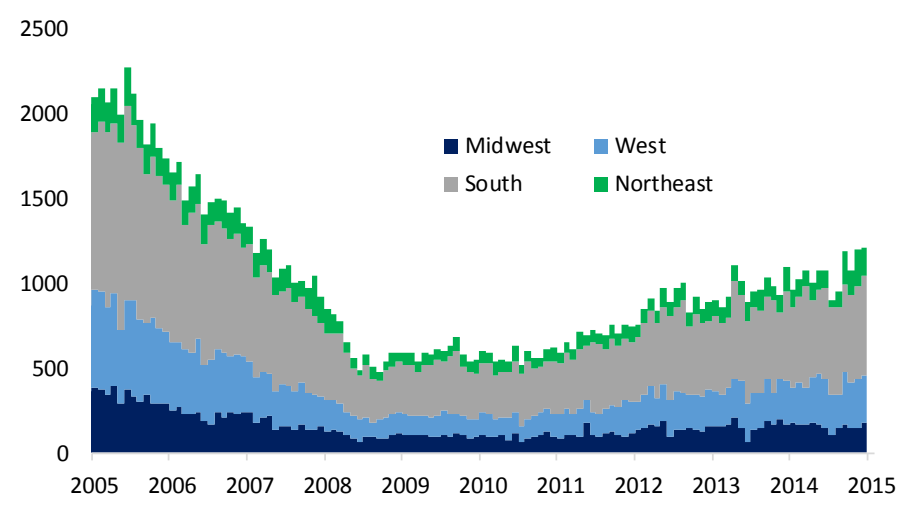
We've been big housing bulls for a long time (our earliest true bullishness on the sector dates to early in 2014, when we wrote a [Long Term Housing Outlook](#)). Seventeen months later, the demographic, economic, and other long-term drivers we expressed enthusiasm for are still in place, and are starting to be borne out in economic data and the market. We continue to like housing, and one of our recent picks in [the Bespoke 50](#) (AMWD) continues to surge after we mentioned it in [Barron's](#) (note: paywalled link). Today, we'll conduct a comprehensive review of today's housing starts and permits data before presenting some technicals on homebuilder ETFs and a stock screen of possible housing plays.

Single vs Multifamily Housing Starts ('000s, SAAR)



Tuesday's starts data showed robust residential investment (relative to the tepid pace of the last few years) in July; indeed, single family starts hit their highest level since 2007 as total starts printed 1.206 million (at a seasonally adjusted annual rate) for the month. Multi-family starts pulled back from previous highs but remained strong at a 413K annual pace. Please note that 2-4 unit starts are not shown at left. Expectations were for a 1.18 million SAAR print versus 1.174 million last month (revised upward by 30,000 to 1.204 million on today's release). As we mentioned in [our recap](#) on the blog, single family starts are now up an incredible 19% year-over-year in the United States. We'll get into some of the weaker aspects of the data

Housing Starts By Region (SA, '000s): Last 10 Years



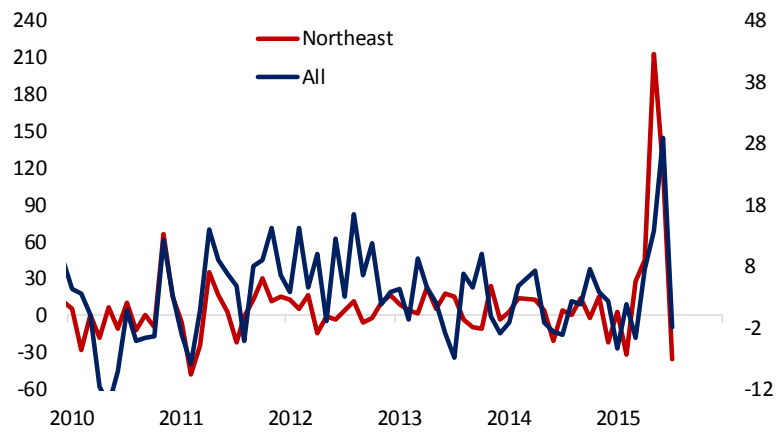
on the next page, but above we update our chart of the geographic distribution of starts. As shown, the West and the South Census regions continue to dominate starts data, driven by cheaper land, higher population growth, and less restrictive building policy in aggregate.



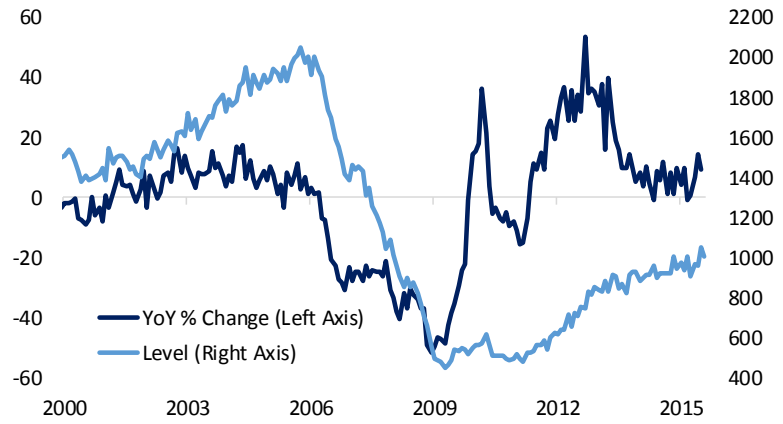
The disappointing aspect of the report was permits, where a massive surge in Northeast permit issuance over the last few months to take advantage of New York State tax breaks expiring in June reverted. Economist expectations were primed for a permit rate of 1.228 million SAAR, but the actual figure was only 1.119 million. The 16.3% MoM drop in permits was driven by a 60% decline in the Northeast despite an *increase* versus June for single family. This was the impact of the tax incentives, as we show in the chart at above right. Ex-Northeast, permits continued to grow over 9% per year. The level of activity (chart at middle right) is also robust, and similar to national single family starts sits at levels that haven't been reliably reached since 2007.

While the collapse in Northeast permitting suggests that permits activity for multi-family units in the region will continue to be a weight on permit growth over the coming months, we would note starts should be less impacted. The MoM decline in Northeast multifamily units (-171,000 SAAR) belies the fact that over the last three months there were drastically lower conversion ratios for permits in the region. If we see a "catch up" over the coming months for starts, the 167,000 (SAAR) boost to starts from units permitted but not started in April, May and June. We may not get that "feed through" next month, and in fact would very much doubt it, but when half of multifamily structures in a region that have been permitted aren't started, one can expect ground to be broken at elevated levels in short order.

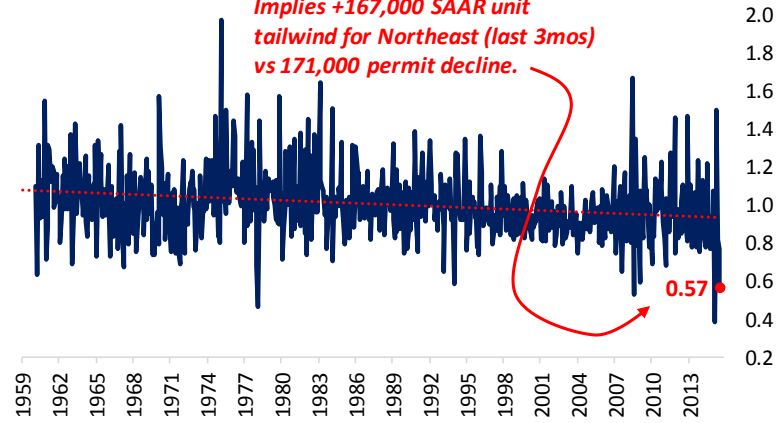
### Permits (SA, QoQ Annualized)



### Ex-Northeast Permits



### Northeast Permit Conversion Rate (Month - Month)





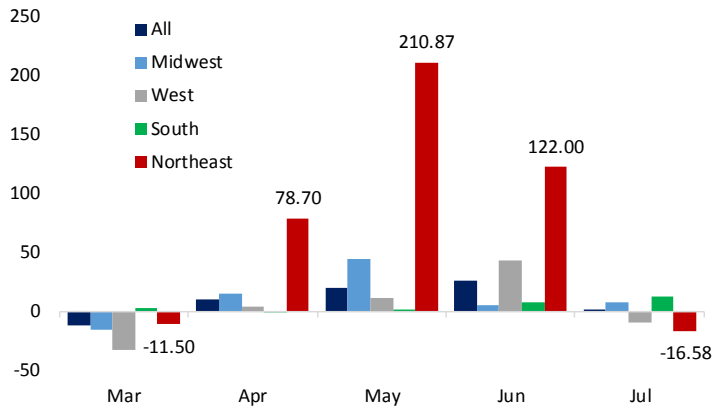
The feed-through from Northeast permits may take some time though; for instance, looking at starts on a QoQ annualized basis, there was a sharp deterioration in the Northeast.

Nationally, stripping away the effects of seasonal adjustment, total starts are up 11.2% YoY; again, that was driven by new highs for single family, as we showed on page one.

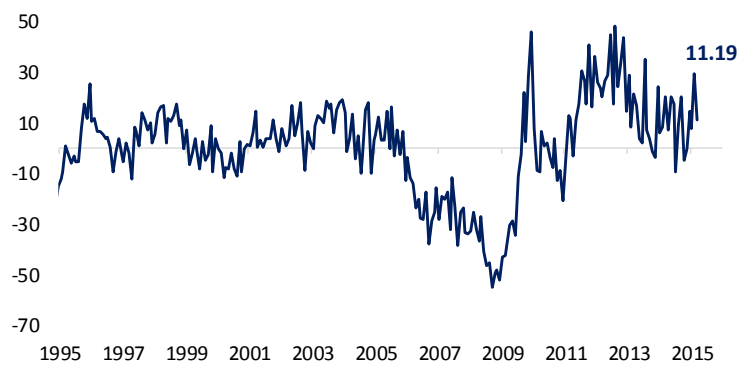
Our final chart for the monthly housing supply breakdown is below, showing the conversion-implied starts (permits one month previously) to actual starts. We use five-year averages for the chart below, but the data is similar over a longer time-frame. As shown by the chart, permits are implying a significant drop in starts next month, and while we would expect a month-over-month decline next month, latent permitted starts from the Northeast should keep the temporary crash implied below from being fully realized.

A final point on all of this housing data: +19% YoY housing starts is simply not consistent with anything short of 3% RGDP growth for the quarter. We expect that the current consensus around low growth in Q3 is just wrong, and that Q2 could see notable upward revisions.

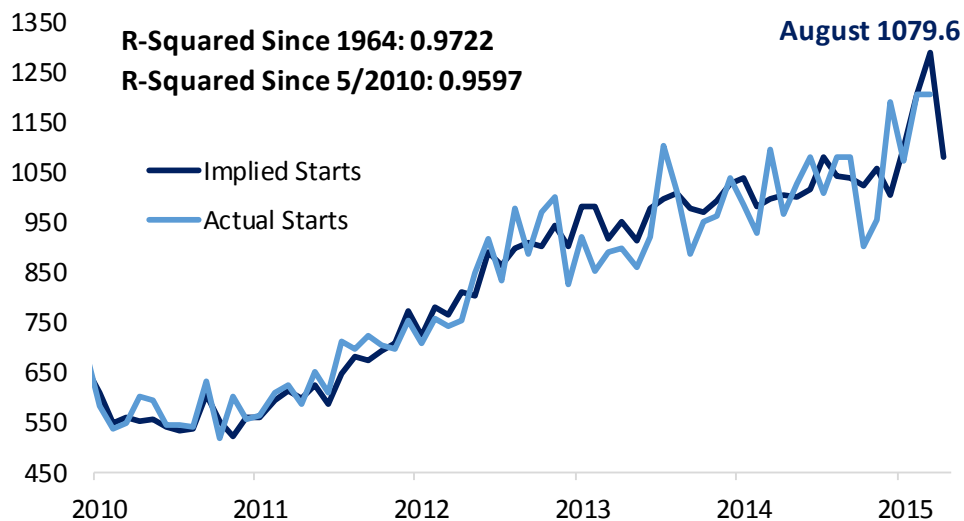
### Housing Starts (SA, QoQ % Change)



### Housing Starts (NSA, YoY % Change)



### Housing Starts (SA, '000s)





As far as market implications go, both the XHB and ITB ETFs (which track homebuilding-related names and home builders more specifically, respectively) are in the process of significant breakouts to new highs, as shown in the stock charts below. From a technical perspective, a move to new highs like this is constructive. While we might consider waiting for a consolidation period to add, both housing-related ETFs look like they're on solid footing for further gains here.

### SPDR S&P Homebuilders ETF (XHB): Last Year



### iShares U.S. Home Construction ETF (ITB): Last Year





Finally, below we present a screen of stocks that we think are likely to benefit from further acceleration in housing. We took stocks from 12 industry sub-groups geared to US home and apartment construction, including names from the Materials, Industrials, Consumer Discretionary, and Financials sectors. We then screened for names that had positive EBITDA margins and a *Bespoke Stock Score* in the top quartile of the 80 names we pulled based on the industry sub-group screen we did. The results are below, along with some basic stats about each name and a fairly comprehensive list of attributes that we think may be helpful in identifying quality names. We would also note that while XHB (+5.6%) and ITB (+8.2%) are surging, average returns over the past five days are lower for this group (+2.6%), meaning they might have better, less overbought entry points than the ETFs themselves. We would note that this screen is definitely meant as a starting point for further research, not a comprehensive buy list.

### Housing Plays Screen: Description and Market Data

Ticker	Name	Size	Sector	Sub-Industry	Price	Avg Daily Volume (mm)	1 Week Return (%)
EME	Emcor	Small Cap	Industrials	Construction/Engineering	48.40	0.29	1.14
JLL	Jones Lang Lasalle	Mid Cap	Financials	Real Estate Services	176.92	0.31	-1.35
DHI	DR Horton	Large Cap	Consumer Discret.	Homebuilding	31.71	4.82	7.93
GFF	Griffon	Small Cap	Industrials	Building Products	17.06	0.19	-1.61
AOS	Smith (A.O.)	Mid Cap	Industrials	Building Products	71.13	0.60	1.61
HELE	Helen of Troy	Small Cap	Consumer Discret.	Household Appliances	91.43	0.25	0.42
WD	Walker & Dunlop	Small Cap	Financials	Thriffs & Mortgage Finance	24.66	0.38	1.21
HW	Headwaters	Small Cap	Materials	Construction Materials	21.37	0.54	1.96
ETH	Ethan Allen	Small Cap	Consumer Discret.	Home Furnishings	31.25	0.23	1.69
UFPI	Universal Forest Prod.	Small Cap	Industrials	Building Products	64.50	0.11	2.48
PGTI	PGT	Small Cap	Industrials	Building Products	13.13	0.38	0.54
MAS	Masco	Large Cap	Industrials	Building Products	28.31	4.03	4.46
LEN	Lennar	Large Cap	Consumer Discret.	Homebuilding	55.96	2.84	8.77
PHM	PulteGroup	Large Cap	Consumer Discret.	Homebuilding	21.97	5.48	6.91
RYL	Ryland	Small Cap	Consumer Discret.	Homebuilding	47.52	0.71	6.81
MDC	MDC	Mid Cap	Consumer Discret.	Homebuilding	31.00	0.69	5.16
ROCK	Gibraltar	Small Cap	Industrials	Building Products	18.67	0.11	-2.99
CBG	CBRE Group	Large Cap	Financials	Real Estate Services	37.69	1.55	-2.10
WHR	Whirlpool	Large Cap	Consumer Discret.	Household Appliances	180.40	1.02	5.21
TPH	Tri Pointe	Mid Cap	Consumer Discret.	Homebuilding	15.43	1.57	4.08

### Housing Plays Screen: Stock Scores and Fundamentals

Ticker	Bespoke Stock Scores				2016	T12M	T12M EBITDA	T12M Sales
	Fundamental	Technical	Sentiment	Total	EV/EBITDA	PE	Margin	Growth
EME	90.48	86.21	57.48	78.06	7.30	19.18	5.45	0.12
JLL	90.48	65.52	72.58	76.19	11.38	18.39	11.69	21.70
DHI	80.95	65.52	81.59	76.02	9.29	16.66	10.45	28.21
GFF	71.43	86.21	63.01	73.55	8.86	25.62	7.93	6.44
AOS	47.62	100.00	67.46	71.69	11.58	27.48	15.73	9.39
HELE	61.90	82.76	67.53	70.73	12.62	19.96	13.96	9.72
WD	80.95	72.41	58.38	70.58	13.60	10.63	50.07	13.08
HW	71.43	65.52	70.83	69.26	10.72	64.21	17.02	12.65
ETH	80.95	82.76	43.13	68.95	7.78	21.54	11.27	1.06
UFPI	85.71	65.52	54.23	68.49	8.16	20.40	5.34	7.69
PGTI	80.95	82.76	41.23	68.31	9.18	26.45	15.31	28.03
MAS	90.48	65.52	48.11	68.03	10.34	26.06	12.08	4.26
LEN	71.43	79.31	52.88	67.87	10.76	17.67	12.52	31.08
PHM	57.14	82.76	61.10	67.00	9.33	14.82	13.94	2.51
RYL	76.19	79.31	45.19	66.90	8.25	14.14	11.97	22.16
MDC	61.90	93.10	45.23	66.74	8.32	21.85	5.31	0.84
ROCK	71.43	82.76	44.63	66.27	10.23	25.44	-4.46	4.17
CBG	80.95	51.72	65.15	65.94	9.93	24.64	11.99	25.96
WHR	80.95	51.72	63.62	65.43	7.27	16.58	8.73	5.88
TPH	71.43	62.07	58.57	64.02	8.42	17.53	11.49	33.65



As far as market reaction today goes, the S&P 500 briefly flashed positive around 11:00 AM following the strong housing data, but sold off to afternoon lows, closing down 26 bps. Bonds sold off throughout the day despite a brief rally on the back of the housing data, with the ten year closing up 2.5 bps to yield 2.193%. The curve steepened as front end bonds sold off but moved less than the long end. Ahead of CPI tomorrow, breakevens were mostly unchanged, off slightly at the ten year point. In commodities, oil rallied throughout the day to close up 1.27%, while other industrial commodities had a less impressive session as copper closed down 1.64%. Gold was flat while silver got absolutely smoked, down 3%. That was the single largest move in the gold/silver ratio since July 7th when gold gained 3.7% versus its tarnishable cousin. US credit was mostly wider on the day as CDX HY widened by 4.8 bps and high yield cash moved wider by 5 bps on weak breadth for bonds that traded.

As far as US equities go, the breadth was a fair bit weaker than the move with 62% of the S&P 500 lower on the day and only one sector higher (Consumer Discretionary, fueled by homebuilders). The Russell sold off much harder, off 83 bps as it rejected overhead resistance right from the open in the form of its 200-DMA. Since large-caps bottomed versus small caps on June 25th, the big boys have outperformed more speculative small caps by about 5.4%. On a year-to-date basis, large caps are only up 1% versus small caps.

Overnight, focus will be on Japanese data, with Eurozone balance of payments and construction spending releases also providing some interest. Tomorrow, US CPI data will loom large. We would note that the month-over-month change in core CPI last year that is dropping off was +0.1% (+0.0979% unrounded) so a relatively modest move higher (+0.18%) MoM will take core CPI to +1.9% YoY. To get to +2.0% YoY for core, we would need to see a +0.28% MoM move; that would be the highest since January of 2013 and looks unlikely, although hypothetically possible.

Economic Data: Int'l Overnight, US Today					
Time	Release	Period	Estimate	Reading	Last
n/a	NZ Dairy Auction Avg Winning Price/ton (\$)	18-Aug	--	1974.2	1815.3
n/a	NZ Dairy Auction Whole Milk Powder/ton (\$)	18-Aug	--	1855.9	1590.1
8:30	Housing Starts ('000s SAAR)	Jul	1180	1206	1174
8:30	Building Permits ('000s SAAR)	Jul	1228	1119	1343
16:30	API Crude Oil Inventories (mm bbls)	Jul	--	-2.3	-0.847
19:50	Japan Trade Balance (bn JPY)	Jul	-53.0	--	-69.0
20:30	Australia Westpac Leading Index MoM	Jul	--	--	0.0%
0:30	Japan All Industry Activity Index	Jun	+0.4%	--	-0.5%
2:00	Machine Tool Orders YoY (Final)	Jul	--	--	+1.6%
4:00	ECB Current Account SA (bn EUR)	Jun	--	--	18.0
5:00	Construction Output MoM	Jun	--	--	+0.3%
7:00	MBA Mortgage Applications	14-Aug	--	--	+0.1%
8:30	CPI YoY	Jul	+0.2%	--	+0.1%
8:30	Core CPI YoY	Jul	+1.8%	--	+1.8%
8:30	Real Avg Weekly Earnings	Jul	--	--	+1.8%
10:30	DoE US Crude Oil Inventories (bbls, '000s)	14-Aug	-354	--	-1682
14:00	Minutes for July 28-29 FOMC Meeting				



# Closing Charts & Tweets

## Popular Tweets From @bespokeinvest on Twitter

"Strong showing from single family housing starts in July; up 12.8% m/m and 19.0% y/y. \$ITB \$XHB" - 8:48

"Another 2 crosses of the 50-DMA for the S&P 500 this week, crossed above yesterday, back below today. Go figure. \$SPY" - 14:54

"S&P 1500 Homebuilder group now up 10% since last Monday. \$ITB \$XHB \$AMWD" - 15:07

"Target (\$TGT) reports tomorrow morning. Stock has traded higher on its last 6 earnings reaction days" - 15:36

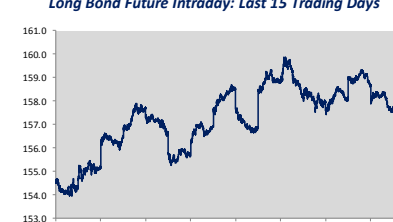
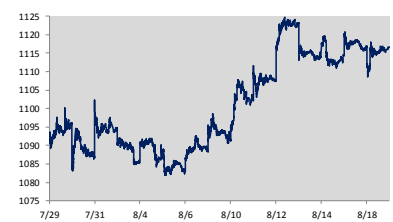
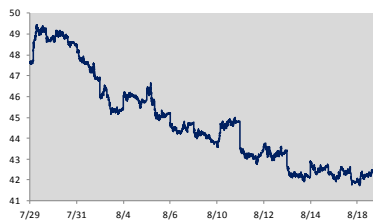
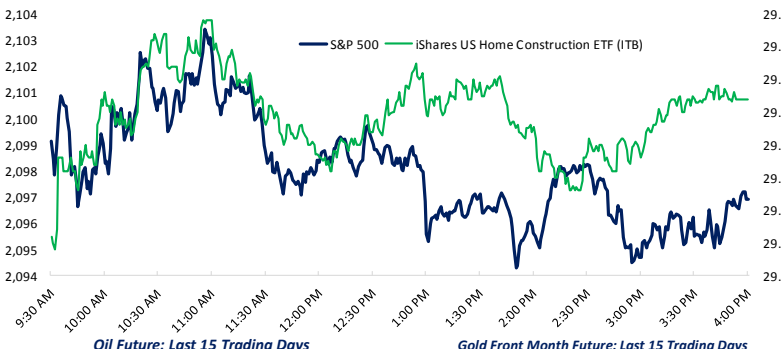
"Staples (\$SPSL) also reports tomorrow AM. Has only risen on 3 of its last 15 quarterly earnings reaction days" - 15:41

"\$SHAK has been up 5%+ in AM each of the last 3 trading days, only to fade hard each afternoon." - 16:36

## S&P 1500 Biggest Movers

Price (%)		Volume vs Historical Avg (%)	
Most Up	Most Down	Most Up	Most Down
NPBC 16.76	CC -8.74	NPBC 2665.13	CABO -90.66
PVA 7.81	CENX -8.67	OCR 538.23	THOR -86.50
TJX 7.22	FRAN -8.52	HAIN 476.89	BGFV -76.78
FN 7.15	IDTI -8.01	FN 347.55	NTCT -76.12
WCG 6.99	HAIN -6.92	MHO 312.65	WST -74.99
LL 5.95	ANF -6.26	TJX 311.45	NFBK -73.77
SLH 5.90	SWKS -5.75	URBN 310.32	DEPO -73.48
SZMK 5.58	REX -5.63	FRAN 310.32	IRDM -73.03
ITG 5.48	CECO -5.30	DKS 264.31	PVA -71.80
DNR 5.45	CLD -5.30	PDCO 257.16	TW -71.76
GIFI 5.24	PSEM -5.28	TECD 253.56	GFF -71.08
CCRN 4.44	HHS -5.27	EL 241.83	PLCM -70.37
CBR 4.19	BNED -5.18	DGII 240.30	TRAK -69.81
MGLN 4.12	TECD -5.18	WMT 219.44	ITT -69.59
LDR 3.97	ZUMZ -5.06	ANF 215.68	DST -69.28

## The Tale of The Tape: S&P 500 vs iShares US Home Construction ETF (ITB)

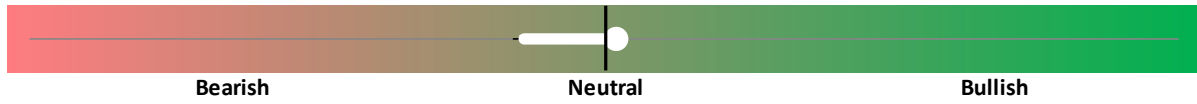


## Key ETFs (1 Day % Change)

Ticker	Name	Change	Last 6 Mos
SPY	S&P 500	-0.29	
IJH	S&P 400	-0.50	
IJR	S&P 600	-0.59	
DIA	Dow 30	-0.21	
QQQ	Nasdaq	-0.51	
IWB	Russell 1000	-0.26	
IWM	Russell 2000	-0.80	
XLF	Financials	-0.08	
XLB	Materials	-0.65	
XLE	Energy	-0.37	
XLI	Industrials	-0.18	
XLY	Cons. Cyclical	0.09	
XLP	Cons. Staples	-0.50	
XLV	Health Care	-0.14	
IYZ	Telecom	-0.63	
XLK	Technology	-0.52	
XLU	Utilities	-0.24	
GDX	Gold Miners	-1.80	
XME	Metals & Mining	-2.80	
XRT	Retail	-0.32	
XHB	Homebuilders	1.24	
IYR	US Real Estate	0.08	
KRE	Regional Banks	0.02	
IWD	Russell 1000 Value	-0.28	
IWF	Russell 1000 Growth	-0.22	
VXX	VIX	1.01	
AGG	Total Bond Mkt	-0.18	
TLT	20+ Yr Treasuries	-0.79	
MUB	Muni. Bonds	-0.14	
LQD	Invest. Gr. Bonds	-0.38	
JNK	High Yield Bonds	-0.03	
BKLN	Senior Loan	0.04	
GLD	Gold	-0.02	
SLV	Silver	-2.80	
USO	Oil	1.15	
UNG	Natural Gas	-0.76	
VT	Total World	-0.51	
CWI	World Ex-US	-0.75	
VEA	Developed Mkts	-0.78	
EEM	Emerging Mkts	-1.08	
EZU	Eurozone	-0.84	
DXJ	Japan JPY Hdg'd	-0.54	
EWZ	Brazil	0.76	
FXI	China	-2.09	
EWT	Taiwan	-2.29	
EWK	Hong Kong	-1.92	
EWJ	Mexico	-0.29	



## Bespoke Market Timing Model: 8/18/15



Sentiment	Indicator	Current Level		Average S&P 500 Performance (%)		
		Direction	vs Historical	One Week	Two Weeks	One Month
CBOE Call Volume	1.3	↓	-1.3	0.08	0.34	0.90
NYSE Up vs Total Volume (%)	50.7	↑	0.0	-0.05	-0.39	-0.63
Nasdaq Up vs Total Volume (%)	48.5	↓	-0.4	0.13	0.12	0.37
Index vs Equity PC Ratio	0.0	↓	-1.8	0.29	0.84	0.87
VIX 50-Day ROC (%)	-9.8	↓	-0.4	0.08	0.28	0.56
VIX 10-Day ROC (%)	6.1	↑	0.3	0.37	0.53	0.84
Investors Intelligence Bullish (%)	40.2	↓	-1.0	0.09	0.21	0.86
Investors Intelligence Bearish (%)	18.6	↓	-0.9	0.11	0.22	0.90
Inv Intell. Bull Bear Spread	21.6	↓	0.0	0.24	0.48	1.43
AAll Bullish (%)	30.5	↑	-1.0	0.18	0.34	0.42
AAll Bearish (%)	36.2	↓	0.3	0.08	-0.07	0.37
AAll Bull Bear Spread	-5.7	↑	-0.7	0.02	0.49	0.21
<b>Overall Sentiment</b>		↓	<b>-0.6</b>	<b>0.10</b>	<b>0.31</b>	<b>0.70</b>
<b>Technical</b>						
S&P 500 10-Day Avg. Spread (%)	0.3	↑	0.1	-0.03	0.05	0.39
S&P 500 50-Day Avg. Spread (%)	0.1	↑	-0.1	-0.08	-0.04	0.27
S&P 500 200-Day Avg. Spread (%)	0.9	↑	-0.1	-0.41	-0.46	-0.62
S&P 500 Monthly ROC (%)	-0.8	↑	-0.3	0.05	0.27	0.46
S&P 500 Weekly ROC (%)	0.6	↑	0.2	-0.13	-0.07	0.26
S&P 500 Quarterly ROC 1 (%)	-1.4	↓	-0.4	0.35	0.38	0.76
Group 10-Day A/D Line	6.0	↓	-0.1	-0.02	-0.03	-0.19
Group 50-Day A/D Line	62.0	↑	0.1	0.10	0.28	0.79
S&P 500 10-Day A/D Line	463.0	↑	0.5	-0.15	-0.08	0.30
S&P 500 50-Day A/D Line	835.0	↑	0.2	-0.01	0.13	0.41
NYSE TRIN Index	1.0	↓	-0.7	-0.22	-0.08	0.20
<b>Overall Technical</b>		↑	<b>-0.1</b>	<b>-0.03</b>	<b>-0.03</b>	<b>0.30</b>
<b>Fundamental/Monetary</b>						
Corporate Spreads (10-Day ROC)	6.0	↑	0.4	0.15	0.39	0.53
Corporate Spreads (50-Day ROC)	26.0	↑	0.5	0.17	0.38	0.79
High Yield Spreads (10-Day ROC)	17.0	↓	0.3	0.04	0.31	0.41
High Yield Spreads (50-Day ROC)	97.0	↓	0.6	-0.10	0.05	-0.59
S&P 500 P/S Ratio	1.8	↑	1.8	-0.40	-0.44	-0.80
S&P 500 P/E Ratio	18.6	↑	0.4	-0.06	0.19	0.45
S&P 500 P/B Ratio	3.1	↑	1.3	-0.30	-0.42	-0.56
Yield Curve (50-Day ROC)	-5.6	↑	-0.1	-0.02	-0.01	0.19
Yield Curve (10-Day ROC)	-1.9	↑	-0.1	0.16	0.39	0.56
<b>Overall Fundamental</b>		↑	<b>0.6</b>	<b>-0.02</b>	<b>0.19</b>	<b>0.41</b>
<b>Bottom Line</b>		↑	<b>-0.1</b>	<b>0.05</b>	<b>0.20</b>	<b>0.41</b>
<b>Average S&amp;P 500 Performance (All Days)</b>				0.10	0.19	0.38





## Bespoke Market Timing Model - Explained

Sentiment	Current Level			Average S&P 500 Performance (%)		
	Indicator	Direction	vs Historical	One Week	Two Weeks	One Month
CBOE Call Volume	1.7	↑	0.6	0.13	-0.22	-0.44
<b>Overall Sentiment</b>		↑	<b>0.3</b>	<b>0.14</b>	<b>0.16</b>	<b>0.28</b>
<b>Bottom Line</b>		↑	<b>0.3</b>	<b>0.12</b>	<b>0.21</b>	<b>0.27</b>
<b>Average S&amp;P 500 Performance (All Days)</b>				0.12	0.24	0.50

The **Bespoke Market Timing Model** is a compilation of some widely (and not so widely) followed market indicators. While most investors have one or two indicators they rely on, we all recognize that no indicator by itself is correct all of the time. With this in mind, we set out to create a series of indicators from multiple disciplines in order to see what the 'crowd' of indicators are telling us. Just as no individual is bigger than the market, we contend that no single indicator is more accurate at forecasting the market than the sum of them all. What follows below is an explanation of the various fields in our report.

**Indicator:** Current level of the given indicator. In this example, CBOE call volume is 1.7 times CBOE put volume.

**Direction:** Change in the indicator (positive or negative) over the last week. In this example, calls relative to puts have increased during the last week.

**vs Historical:** This field measures the distance in standard deviations that the indicator is currently at versus its average over the last five years. In the above example, the volume of calls relative to puts is 0.6 standard deviations above its historical average.

**Indicator:** Current level of the given indicator. In this example, CBOE call volume is 1.7 times CBOE put volume.

**Average S&P 500 Performance:** This field displays the average performance of the S&P 500 following previously occasions when the indicator was at similar levels to the present. Values highlighted in green indicate the two indicators for that group which are predicting the biggest gains, while indicators highlighted in red highlight the indicators which are signaling the most negative returns going forward.

**Overall Scores:** Averages all the indicators for a given category. In the example above, overall sentiment is 0.3 standard deviations from its long-term average. At similar levels in the past, the S&P 500 has gone up an average of 0.14% over the next week, 0.16% over the next two weeks, and 0.28% over the next month.

**Bottom Line:** This line shows the average of all the indicators in the study. In the example above, the aggregate level of all the indicators is currently 0.3 standard deviations above the historical average, and based on prior experiences, the S&P 500 has gone up an average of 0.12% in the next week, 0.21% in the next two weeks, and 0.27% in the next month. Values highlighted in red indicate returns that underperform the S&P 500 over the entire period covered (regardless of the indicator level), while green highlights indicate that they outperformed the overall average S&P 500 performance.

**Average S&P 500 Performance (All Days):** This line measures the average historical performance of the S&P 500 over all periods for one week, two week, and one month time frames. These levels are then compared to the average level the indicators are predicting in the next two weeks, and 0.27% in the next month. Values highlighted in red indicate returns that underperform the S&P 500 over the entire period covered (regardless of the indicator level), while green highlights indicate that they outperformed the overall average S&P 500 performance.

**Average S&P 500 Performance (All Days):** This line measures the average historical performance of the S&P 500 over all periods for one week, two week, and one month time frames. These levels are then compared to the average level the indicators are predicting.