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FINANCIAL



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***"Sure, we need affordable housing — just so long as it doesn't come at the expense of unaffordable housing..."***

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Starting in the early 2000s, Canadian housing went on a run for the ages, with the average national price of a home rising fivefold. It was an era that converted masses of Canadians to real estate evangelists who poured their savings into the market and began treating their homes as retirement funds.

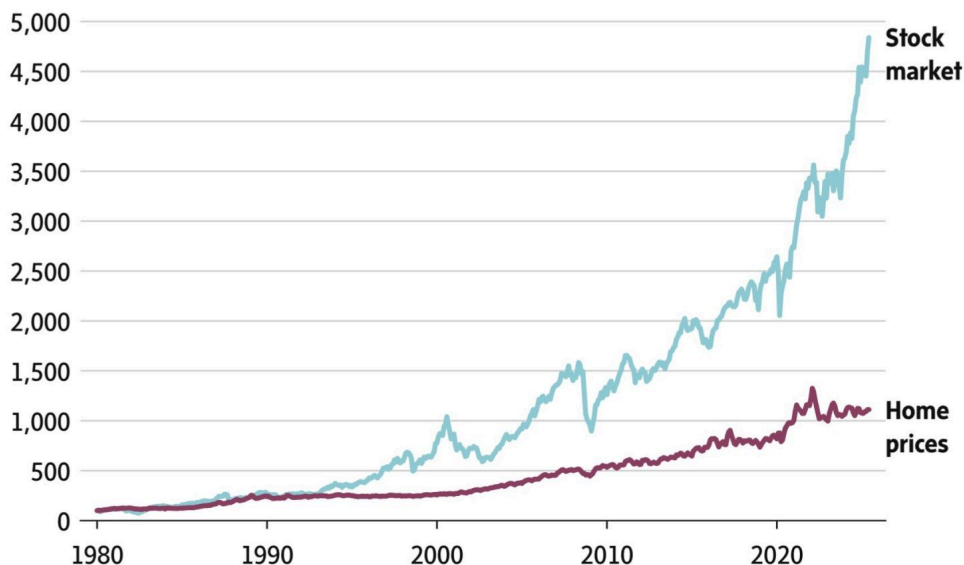
A speculative mindset toward housing was reinforced by the market's incredible resilience over a two-decade streak. Unlike U.S. housing, Canada's market didn't go bust in the global financial crisis – an episode precipitated by U.S. subprime lending and vast mortgage securitization that we managed to mostly dodge.

Canadian housing soon took on a global profile as one of the world's most overpriced markets. But the more the predictions of its demise didn't come true, the more Canadians were seduced by the fortunes that could be made in real estate. This led people to believe that maybe this is a permanent fixture.

But as a pure investment case, housing was never as strong as it seemed. Even with the 25 year bull run, relative to the stock markets housing has underperformed. Since 1980, the average Canadian house has risen at an annualized pace of 5.5 per cent, using historical data from CREA. By contrast the S&P/TSX Composite Index over the same time generated a return of 8.9 per cent a year, after factoring in reinvested dividends, while the S&P 500 has averaged 12.2% over this same time period.

## Housing vs. the stock market: No contest

Canadian stocks have widely outperformed home prices over the long term. (S&P/TSX Composite Index, including dividends vs. national average home prices. Index: Jan. 1980=100)



THE GLOBE AND MAIL, SOURCE: INVESTING.COM, CANADIAN REAL ESTATE ASSOCIATION

There are lots of good reasons for owning a home including the security that you might not have as a renter. There's the benefit of forced savings of regular mortgage payments, and the upside of leverage, since you can benefit from the appreciation of the home's whole value, not just your down payment. But as a pure investment case, housing was never as strong as it seemed.

As a numbers-based organization, we look at the math and can conclude that outside of a home (or cottage), where considerations of family -and family time together (priceless) outweigh all other things, holding a globally diversified portfolio of securities represents the best way to build wealth over time.

And best of all, unlike homes where lime-green shag carpeting, wood walled panelling or wallpaper (any wallpaper) still feature, money never goes out of style.

Thanks for reading!

Martin

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