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Forget market timing, buying a house is about life timing

By Garry Marr, The Financial Post June 9, 2010

'You know, you're making the biggest mistake of your life. The housing market is going to fall." I got this great piece of advice from another journalist at the Financial Post, who has since left the newspaper, after buying my first home. Not exactly the type of thing you want to hear after taking on huge debt and making the biggest financial decision of your life.

Lucky for me, I didn't heed that advice about Toronto's red-hot real estate market -- in 1998.

I'm not going to say I made a shrewd business decision 12 years ago, or even six years later when I bought a larger house.

For me, it wasn't a case of not following what turned out to be bad advice from a fellow business journalist. Nor was it about trying to time the market.

I was simply following the same pattern as most Canadians: I got married and decided to stop renting and buy something. Later came the need for a bigger home when the second kid was on the way.

Which brings us to today. The supply of housing is rising fast as people try to list their homes for sale before the market "crashes." This is happening at the same time that demand is starting to wane.

Economists and even the real estate industry, are all predicting a correction -- the only argument being how severe it will be.

So, the question for anyone buying is: should you wait? Don Lawby, chief executive of Century 21 Canada, thinks the strategy of waiting for a crash is not going to work during this economic cycle.

"For a market to crash, you have to have people who are desperate to sell," says Mr. Lawby.

"People will [only sell] if they can't afford their mortgage or they don't have a job." He doesn't see a decline in prices, "unless you are predicting that mortgages will renew at a hefty premium -- which is not the case -- or a whole bunch of people are going to lose their jobs." Mr. Lawby believes neither will happen.

And, he adds, you are really into a risky game if you are timing the market. "A house is a home. If all you are doing is looking at it as an investment -- that's what happened the last 15 years -- it's not just that. It's a place to live and a place to raise a family," says Mr. Lawby.

Even Benjamin Tal, a senior economist with CIBC World Markets, who, last month, said in a report that Canadian housing is 14% overvalued, has doubts about playing the market. But he suspects that's exactly what some Canadians will do.

"Is there a sense that prices will go down and people will wait? I think it might be an issue," says Mr. Tal. "It won't be the main reason [people don't buy], but it will happen at the margins.

The fact that people sell at the peak and wait to buy is a normally functioning market." But even if you do make the right call on housing prices, it could end up backfiring on you in other ways. For example, if interest rates rise fast enough, any gains you make on price could be erased by interest charges, says Mr. Tal. Edmonton certified financial planner Al Nagy says you need to think of your house the way you think about any long-term investment.

"Whether it's an investment for use in your retirement or a house to live in, it's a longterm thing. The timing becomes less critical than it would be if it is a speculative [investment]." And he says making a call on the housing market is as tricky as any other investment call.

"It's very rare you catch the bottom. You can't let the market dictate when it's time to buy. The time to buy is when you can afford it," saysMr. Nagy.

I'm not sure that philosophy would fly with my former colleague, but the problem with timing the market is: what if your timing is off?

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