Stock Market Gains Far Outpace Real Estate

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A house is a place of worship, not an investment opportunity or a retirement plan.

Stock market gains surpass real estate by a wide margin—homeownership is a spiritual opportunity, not a source of capital accumulation. Historically, housing prices in the United States have increased only slightly more than the rate of inflation.[1] In comparison to the housing market, the stock market has been more volatile, generating more booms and busts. However, in return for bearing greater risk, stock market investors have received higher profits.

Based on the Case-Shiller index, housing prices grew at an average annualized rate of only 3.7% from 1928 to 2013. In contrast, stocks generated an annualized return of 9.5% within this timeframe. The post-1999 era has been particularly challenging for the stock market—2 massive meltdowns occurred within a relatively short space of time (Table 1). However, even within this unfavorable period (2000-20), a diversified stock portfolio produced an annualized return close to 9%, while housing prices only rose by about 4% per year (Table 2 and Figure 1). (All price and return data are in nominal terms in this report)

Table 1 Historical Home Price Changes and Returns for Stock Portfolios

Year	Home price index	All Stock Portfolio	Balanced Portfolio
2000	8.71%	3.06%	5.09%
2001	8.02%	3.88%	4.10%
2002	8.04%	-9.34%	-5.79%
2003	9.37%	45.37%	38.91%
2004	12.50%	20.92%	18.57%
2005	14.17%	10.99%	9.85%
2006	6.81%	22.16%	19.31%
2007	-1.93%	2.57%	3.69%
2008	-8.83%	-39.07%	-30.55%
2009	-9.45%	34.66%	28.25%
2010	-2.62%	21.00%	19.13%
2011	-3.75%	-3.23%	-0.45%
2012	1.25%	17.56%	15.44%
2013	9.60%	24.92%	20.13%
2014	6.58%	12.02%	11.82%
2015	4.56%	-4.35%	-3.57%
2016	5.08%	15.76%	13.65%
2017	5.80%	16.46%	14.45%
2018	5.79%	-10.06%	-8.48%
2019	3.46%	23.98%	21.70%
2020	6.04%	10.33%	10.28%

Home price index = S&P/Case-Shiller U.S. National Home Price Index, Index Jan 2000=100, Annual, Not Seasonally Adjusted

All stock portfolio includes large cap stock index, large cap value index, small cap value, real estate investment trust (REIT) index, and emerging market index, equally weighted.

Balanced portfolio : large cap stock index, large cap value index, small cap value, real estate investment trust (REIT) index, emerging market index, and 10-year treasury bond, equally weighted.

Sources: Federal Reserve Economic Data, available at https://fred.stlouisfed.org/series/CSUSHPINSA; Enlightened Investing available at http://www.biodynamictheology.com/yahoo_site_admin/assets/docs/Final_Enlightned_Investing_2020.18195037.pdf

[1] However, there have also been long periods of time when real estate has failed to keep up with inflation. The world's foremost housing expert (Robert Shiller) noted that home prices actually declined for the first half of the 20th century [adjusted for inflation].

As shown in Table 2, an investment of $10,000 in stock portfolios (columns 2 and 3) more than quintupled, exceeding $58,000 in 2020. In contrast, the housing market has not been a good provider of capital gains. An investment of $10,000 towards a home purchase would only grow to about $23,000—less than half that of the stock portfolios.

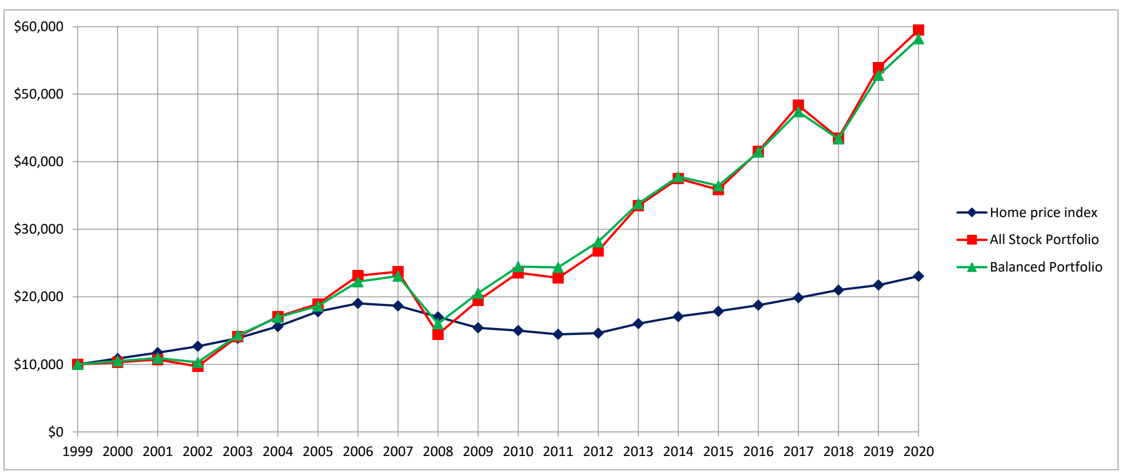
Table 2 Growth of $10,000 Invested in Stock Portfolios and Real Estate

Home price index column excludes expenditures on property taxes, insurance, interest, and repairs

Year	Home price index	All Stock Portfolio	Balanced Portfolio
	$10,000	$10,000	$10,000
2000	$10,871	$10,306	$10,509
2001	$11,744	$10,706	$10,940
2002	$12,688	$9,706	$10,306
2003	$13,877	$14,110	$14,316
2004	$15,612	$17,062	$16,975
2005	$17,823	$18,938	$18,648
2006	$19,038	$23,134	$22,248
2007	$18,671	$23,730	$23,070
2008	$17,023	$14,460	$16,021
2009	$15,413	$19,471	$20,548
2010	$15,010	$23,560	$24,479
2011	$14,448	$22,800	$24,370
2012	$14,629	$26,805	$28,134
2013	$16,034	$33,483	$33,798
2014	$17,088	$37,508	$37,794
2015	$17,866	$35,877	$36,446
2016	$18,775	$41,533	$41,422
2017	$19,863	$48,367	$47,406
2018	$21,013	$43,502	$43,386
2019	$21,741	$53,932	$52,800
2020	$23,054	$59,500	$58,228
Annual Growth	**4.1%**	**8.9%**	**8.8%**

Source: Author's calculations, based on Table 1.

Figure 1 Stock Returns Far Surpass Home Price Appreciation



Source: Table 2

Rising property prices are barely enough to compensate for all the expenses of owning property. Real estate purchases require significant upfront expenditures for the down payment, "earnest money", inspection for structural defects, and transactions costs that include commission charges, title fees and other documentation. The money used to cover these upfront expenditures would earn a higher return if it were invested in a diversified stock portfolio.

Substantial interest costs accrue over the course of the loan period. Indeed, in the initial years, most of the monthly mortgage payment goes toward paying interest rather than principal. The owner will eventually build equity. However, this benefit must be weighed against a relentless stream of ongoing expenses in the form of property taxes, insurance, and routine maintenance and repairs.

Consider, for example, a property purchase of $300,000 with a 10% down payment and a fixed 30-year mortgage rate of 4.125%. Over the life of the mortgage loan, the total interest paid is $241,580.[2] Property taxes start out at roughly $2,400 in the first year and would grow over time, as historical evidence indicates. Insurance costs are initially $1,000 per year. Even if the homeowner never files a claim, premiums rise. If we impose an absolutely unrealistically generous assumption that property taxes and insurance never rise, the combined costs would total $102,000 over the life of the 30-year mortgage. The bottom line is that when interest, taxes, and insurance are added to the principal costs, the homeowner would have to sell the house for more than double the amount he paid, just to break even. This calculation excludes the routine costs of ongoing maintenance and dealing with ordinary household wear and tear.

Moreover, residential property is expensive to sell, and not just because of commission charges. Prospective buyers require various home improvements and enhancements. If an individual sells the house "as is", he or she will most likely receive a lower price. Real estate prices are location-specific, and a fixed residence is of course immobile. Since it is anchored to one geographical spot, at any given point in time only a relatively small group of potential buyers for the property may exist. For some areas, buyers can be virtually nonexistent over prolonged periods. The value of a house is held hostage to the fortunes of one county or even one neighborhood. This "investment" essentially ties the owner to the economy and government policies of one narrow locality. Property owners are exposed to risks stemming from sharp increases in state and local taxes, plant closures and / or businesses leaving the area in search of more favorable locations.

It is often the case that mortgage payments account for at least half of living expenses—real estate purchases may sharply reduce the ability to build large emergency savings reserves. With little savings to fall back on and continued obligations to make large mortgage payments, unemployment may cause financial ruin. If a homeowner defaults on the mortgage, the bank forecloses on the property. A small number of foreclosures reverberate throughout a neighborhood or locality, resulting in lower property values for the other homes in the area. Thus, even residents that have dutifully continued to pay their mortgages must endure losses in home equity, as was the case during the 2008-financial crisis. Moreover, due to depressed property values, a homeowner may not be able to sell their residence if he or she receives an offer for a better job in a different location. With limited options, he remains firmly under the control of his current employer.

[2] Source: https://www.nerdwallet.com/mortgages/mortgage-calculator/calculate-mortgage-payment, accessed on July 8, 2021.

It could be argued that paying rent does not build equity. The counterargument is that real estate purchases require expenditures for property taxes, insurance, and interest. These expenditures do not build equity. If the overriding objective is to build equity, the superior method of achieving that goal is to save money by renting—invest the money that would have been spent on taxes, interest, and insurance in the stock market.

As explained in Enlightened Investing, the key determinants of long term capital accumulation include the seemingly obvious strategy of maintaining a high savings rate, coupled with disciplined investments in a portfolio of broadly diversified stock indexes. There is no substitute for austerity. No amount of financial speculation or machinations will circumvent the need to eliminate credit card debt and save. Stock trading is different from investing because the former is a type of gambling. Instead, we focus on investing, which entails systematically purchasing and holding diversified funds that hold thousands of stocks.

Stocks are often characterized (incorrectly) as illusory paper assets that are inferior to hard assets such as real estate, and precious metals and other commodities. Far from being illusory, stock purchases provide partial ownership of a corporation—you actually own a piece of a business. Although stocks provide us with a share of the profits generated by publicly traded companies in the economy, they also expose an investor to considerable risk and volatility because that is simply the nature of business.

Through diversification, one can avoid unnecessary risks. When individuals invest in a total stock market index, they have achieved a high degree of diversification because they own a piece of every publicly traded company based in the United States. Of course it is not necessary for an individual to make separate purchases of thousands of different stocks—imagine the exorbitant commission costs. Indexed portfolios that contain all of the publicly traded stocks in the U.S. economy can be purchased from reputable mutual fund companies (e.g. Vanguard) for as little as 0.07 percent in annual fees, which is much less than an investor would pay to buy and hold a large list of thousands of stocks, and substantially lower than the commission charges for buying a home.

The total market index is dynamic. Companies compete intensely with each other. Firms that are stronger and more efficient drive the weaker firms out of business while also driving them out of the total market index. New companies are born, and if they are successful, then they enter the total market index and replace the dying companies. The index does not remain static. The total market index is analogous to a living species in which firms that are stronger replace those that are weaker. The index is self-cleansing.

An investor need not attempt to predict which firms will be winners or losers because that determination will be made by the dynamics of competitive interactions which forces weaker firms out of the total market index. In the long run, the total stock market index is driven higher along a strong upward trend because of survival of the fittest—the maximum loss for the weaker firms is that their stock prices will drop to zero, while in contrast the upside potential of the winners is enormous. A combination of limited downside and almost unlimited upside potential means that on average, the total stock market index trends higher.

The stock market is the single best performing investment class over the long run. For example, in 1974 the Dow Jones Industrial Average closed at 616. In 2011 the Dow climbed to 12,217. In 2020, the Dow closed at about 30,600. However, the path from Dow 616 to Dow 30,600 has not been a smooth, straight line. This period from 1974-2020 has been incredibly turbulent, marked by massive geopolitical and economic crises. The calamities that have occurred over the past 46 years have not prevented the stock market from marching higher and higher. Stock market crashes, being part of the process of creative destruction, are to be expected. Whenever the market collapses, it always recovers and goes on to attain new highs. If an individual had remained invested in the market from 1974-2020, the upward trend from Dow 616 to Dow 30,600 would have generated substantial wealth, despite all of the horrible events that occurred over this period.

The author of this article is indeed a homeowner. Years ago, he told his employer that he was buying a house. The boss responded by saying, "Good. Now you are saddled". However, the boss was not aware that the employee was saving about 50% of his after tax income, even after the home purchase. The ability to save allowed systematic investments in stocks and bonds, which were the principal driving force leading to growth in equity.

Homeownership is more appropriately utilized as a spiritual opportunity, not an investment, or a means of extracting financial gains.

> ***The best process for making the home pleasant is Krishna consciousness. If one is in full Krishna consciousness, he can make his home very happy because this process of Krishna consciousness is very easy. One need only chant Hare Krishna, Hare Krishna, Krishna Krishna, Hare Hare / Hare Rama, Hare Rama, Rama Rama, Hare Hare, accept the remnants of foodstuffs offered to Krishna, have some discussion on books like Bhagavad-gita and Srimad-Bhagavatam, and engage oneself in Deity worship. These four will make one happy***.
> [Bhagavad-gita, Chapter 13, Texts 8-12, purport]

A devotee's austere life may result in an accumulation of material assets. Yet, he lives very simply, as his assets are designated or reserved for distributing religious principles throughout the world. The glory be to Krishna, for no individual can be independent of the Supreme Controller.

Abstract
Stock market gains surpass real estate by a wide margin. When viewed purely in financial terms, homeownership is not a rational choice, particularly in comparison to alternative investments that generate higher returns. Indeed, homeownership is an impediment to the accumulation of material capital. A house is more appropriately utilized as a spiritual opportunity—a place of worship, not a means of extracting financial gains.