Home Building Sector Investment Risks

By: www.ProfitableInvestingTips.com.

Berkshire Hathaway just announced investments in three home builders. The fact that Buffett's company is investing in DR Horton, NVR, and Lennar ought to be an indication that these are good long-term investments. We say that because Buffett's preferred length of time to hold a stock is forever. However, there are home building sector investment risks to consider when putting money into stocks in this sector. The first thing we did when considering these stocks was to look at their long-term performance.

Buffett Invests in DR Horton, NVR, and Lennar

Reuters reports that Berkshire Hathaway has invested recently in **three home builders**. This information comes from a regulatory filing by the company at the end of June 2023. This news comes as **existing-home sales** have fallen to a seven-month low. An expected rationale for investing in companies that build homes is the currently high demand. This is, however, a short-term reason to buy these stocks. How do home builders do over the long term?

Home Builders As 20-year Investments

We went to Google Finance and pulled up stock info for DR Horton, NVR, and Lennar. If these are good long-term investments their stock prices over the years should reflect that. DR Horton sold for $15 a share twenty years ago this month and sells for $108 a share today. It has a 0.92% dividend yield. NVR sold for $460 a share twenty years ago this month and sells for $5,855 today. It does not pay a dividend. Lennar sold for $34 a share twenty years ago this month and sells for $112.20 today. It has a 1.34% dividend yield. All of these stocks fell badly during the Financial Crisis and recovered. They fell during the Fed rate hikes until about a year ago and recovered. All of these stocks are more valuable today than they were twenty years ago. Their appreciation over two decades is comparable to the S&P 500.

Ups and Downs of the Housing Market and Long Term Investments

The risk of investing in home builders is clear when you look at the stock price of a company like DR Horton during the Financial Crisis, Covid-19 crash, or during the first months of current Fed rate increases. All three times the bottom fell out of the stock and then it recovered. The first take-home lesson is that you appear to need to stay invested to make sure that you make money with home builders. The second take-home lesson is that the US needs homes. Thus when the bottom drops out of the housing market it always comes back. These are the best investments when the economy is in a recession and stock prices have tanked.

Investing in Industries Related to Home Building

It takes a lot of materials to build a home. Thus folks that sell cement, lumber, siding, HVAC units and more prosper when more homes are being built. So do realtors. Companies like Trane Technologies rise and fall in similar fashion to home builders as does Owens Corning. Because such companies supply materials and

equipment for all construction they have a broader range of customers. In virtually all cases the same things apply to suppliers as to home builders. You need to stay invested to ensure profits and they are generally good investments during the depths of a recession when prices are depressed.

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