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Best on the Street (A Special Report): 2008 Analysts Survey --- Home Construction & Furnishings

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AMID THE WORST housing downturn in decades, 2007 was a dismal year for home builders. The year also was marked by false signals that the market would soon recover, which made it difficult for many analysts to make winning calls.

The No. 1 analyst in the sector, **Paul Puryear** of Raymond James & Associates, was unflappable. "Our message . . . has been to stay away" from stocks of home builders, says Mr. Puryear. Raymond James is a wholly owned subsidiary of Raymond James Financial Inc.

The 59-year-old Mr. Puryear says the oversupply of homes coupled with still-high prices was a recipe for disaster. He kept a sell rating on most of the builders through 2007. One, Dominion Homes Inc., fell 93% through the end of year. Mr. Puryear says Ohio-based Dominion, which was experiencing problems before many other builders, was his canary in the coal mine. "We watched what happened to Dominion and said that's probably going to be a picture of the U.S.," he recalls.

Levitt Corp., Pulte Homes Inc. and Standard Pacific Corp. were among other builders that had steep declines while he rated them a sell last year.

This January, he upgraded many of the builders to hold from sell, after the Federal Reserve cut interest rates and Congress signaled it would take bold steps to stabilize the housing market. He says the call was intended as advice to short sellers, investors who bet on share-price declines, to anticipate a rebound. Indeed, the Dow Jones U.S. Home Construction Index, which includes many large home builders, has shot up about 16% since the start of the year.

But Mr. Puryear says the rally may be short-lived. "The picture will be driven by what comes out of Washington, and what comes out of Washington is unpredictable," he says.

His top pick for this year is luxury builder Toll Brothers Inc. He believes it will be easier for high-end buyers to obtain mortgages amid the credit-market turmoil.

Chris Hussey, 43, of Goldman Sachs Group Inc. captured the No. 2 spot with well-timed sell calls and by staying neutral on most of the group. A former home builder, he correctly anticipated that worried investors would dump shares in companies with large holdings of land in hard-to-understand, off-balance-sheet arrangements.

With a sell rating on Lennar2 Corp. in late January, he captured the Miami builder's more-than 65% plunge through the rest of last year.

Mr. Hussey expects home sales and prices to be depressed for the remainder of 2008. His top pick for this year is MDC Holdings Inc., which he says will prosper quickly when the market improves because it has relatively little debt.

No. 3 analyst Carl Reichardt, 43, of Wachovia Corp.'s Wachovia Capital Markets, kept hold ratings on most companies, even last summer when the builders looked like bargains. Mr. Reichardt foresaw that their assets would lose value as land prices fell. He had a sell rating on Orleans Homebuilders2 Inc. through May, capturing a 59% slide in the company's shares.

His top pick for 2008 is Ryland Group2 Inc., which has been able to generate large amounts of cash to pay down debt and prepare for the recovery.

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