government policies. Washington lawmakers and regulators can completely alter the landscape of certain industries just by revising critical rules.

Overpriced: *ITT Educational Services, Inc.* (ESI). The for-profit education company had a spectacular run over the past decade in offering adult-education classes and online courses that eliminate the need for expensive facilities and overhead. The company experienced such strong growth that its stock trounced the S&P 500 by an average of 12 percentage points annually over the past 10 years. Right now, the stock may seem like a bargain because of a pullback over the past year, but the for-profit education industry is locked in a battle with the US government. Senate hearings revealed deceptive marketing practices within the industry, high default rates on student loans and low student-graduation rates. That has led the US Department of Education to propose new, stricter regulations for the government loans that many students rely on to help pay for ITT's offerings.

A better buy: *CIT Group, Inc.* (CIT) provides commercial financing and loans to small and midsized companies. The Federal Reserve's determination to keep its influential overnight federal funds interest rate at near-zero levels has helped the entire banking industry. That's proving especially helpful to CIT, which declared bankruptcy in 2009. CIT eliminated a large chunk of its debt, almost $11 billion, and emerged from bankruptcy with one of the more solid balance sheets among its competitors. Recently, CIT was charging its business customers an interest rate of 9.5% for an average loan. The company's cost of financing its remaining debt is about 7%, which leaves it a net revenue spread of only about two percentage points. As CIT continues to pay off its costly debts and raise fresh money through bank deposits, I expect the net revenue spread to double over the next two to three years, dramatically boosting CIT's earnings. *Recent share price:* $42.17. ■■

SPECIAL REPORT

Now Is the Time to Buy a House!

Here's why...

Mike Castleman, Sr. ■ Metrostudy

Yes, there are plenty of skeptics today when it comes to talk of a housing recovery, and granted, they have a lot of evidence to fuel their doubts.

US housing prices have continued to slide this year, falling to levels that are one-third lower than the peak in July 2006 and wiping out gains for nearly the past decade, according to a survey of 20 major metro areas.

This persistent and frightening trend has encouraged many would-be home buyers to postpone their purchases until the real estate market stabilizes. It has driven the percentage of home owners down to 66.4%, compared with a peak of 69.2% in 2004, a big drop for that industry. And it has led many housing analysts to urge caution because they expect home values to drop by as much as another 8% or more this year.

But the naysayers are making a mistake—and I can prove it. This is a great time to buy, and here's why...

CONSTRUCTION PLUMMETS

The housing market, like all markets, is based on supply and demand. And while foreclosed homes and short sales (sales of homes for prices below the homes' outstanding mortgage amounts) do continue to create a well-publicized supply glut in certain areas, that's a regional problem, not a national one.

Meanwhile, there's an aspect of today's housing supply story that is true in most of the US and that is being ignored—construction of new homes has fallen to historic lows. As of early 2011, there were fewer than 80,000 new homes either under construction or vacant and for sale in the 19 states that my company covers, a fraction of the more than 340,000 new homes five years ago.

With so few new homes coming onto the market, most regions are not suffering from what would normally be considered an *oversupply* of housing—they're suffering from tremendous *underdemand,* which puts downward pressure on prices. Potential home buyers aren't buying for three reasons...

They have lost their jobs and can't afford to buy now...or they are concerned about their job security.

They worry that home prices will continue to fall and don't want to tie themselves to a declining asset.

They want to buy but can't get a mortgage because lenders have tightened their requirements.

The first of those reasons already is easing—the job market is, very slowly, starting to trend back up.

There are good reasons to be optimistic about the second as well—for one, rents are rapidly climbing relative to home-ownership costs. In an increasing number of regions, the monthly cost of renting now exceeds the cost ▶

Bottom Line/Personal interviewed Mike Castleman, Sr., CEO and cofounder of Metrostudy, a Houston-based consulting company that has tracked and analyzed housing-market information for more than 35 years. The company has 500 inspectors monitoring housing projects in nearly 50,000 subdivisions across the country. Metrostudy maintains the largest database of primary housing-market information in the US. www.Metrostudy.com

Drug Specialist

John L. Lewis IV

Aegerion Pharmaceuticals, Inc. (AEGR), which issued its first shares to the public in October, has developed the drug *lomitapide* for a rare genetic disorder called *homozygous familial hypercholesterolemia* (HOFH) that causes severely elevated cholesterol. The drug already has FDA approval for another rare lipid disorder. It also is being tested for *familial chylomicronemia,* in which patients have 15 times normal triglyceride levels. The medicine is expensive and could capture at least half of a billion-dollar-a-year market.

Fiscal year: December. *Earnings per share:* 2012 est./$1.60...2011 est./–$1.67...2010/–$5.

John L. Lewis IV is president of Gardner Lewis Asset Management, Chadds Ford, Pennsylvania, which manages $3.5 billion.

Food Powerhouse

Cliff Remily

McDonald's Corporation (MCD) is the world's largest restaurant chain, with more than $24 billion in annual sales. It gets two-thirds of its revenue outside the US. Investors' worries about increased food prices have hurt the stock, but McDonald's responds well to economic challenges. It had positive sales results for stores open a year or more during the recession and has enough cash to remodel hundreds of locations per year for a more comfortable feel. Its dividend of $2.44/share/year yields 3% and is secure.

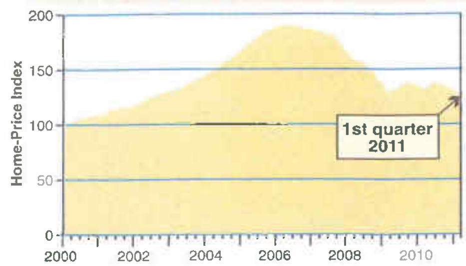
Fiscal year: December. *Earnings per share:* 2012 est./$5.61...2011 est./$5.12...2010/$4.60.

Cliff Remily is co-portfolio manager of the $9.1 billion Thornburg Investment Income Builder Fund (TIBAX), Santa Fe, New Mexico.

***Bottom Line/Personal*'s experts** have beaten their respective benchmarks over the most recent five-year period or longer. We ask each contributor to choose one stock that he/she thinks has significant appreciation potential over the next 12 to 24 months.

CHARTS: NASDAQ

Home prices are down to mid-2002 levels



Source: S&P/Case-Shiller survey of 20 major cities

▶▶ of owning, which makes buying a house more attractive. Real estate might no longer be widely regarded as a guaranteed source of investment profits, but most people still conclude that owning makes sense, once they see that the cost of renting nears or exceeds the cost of owning.

The big sticking point inhibiting a home-price rebound is the availability of mortgages. Lenders currently are offering attractive terms to only extremely qualified borrowers with credit scores of 740 and higher. The reason isn't the lenders—it's the government. My firm has heard the same message again and again from mortgage lenders across the country—federal bank regulators are warning them to be stingy with mortgage loans. Government-subsidized programs such as Fannie Mae and Freddie Mac have severely tightened their lending policies as well.

MORTGAGES ARE KEY

The housing market will rebound strongly when the federal government starts to encourage rather than discourage making mortgage loans. Despite the government's current policies, I think that there's an excellent chance that that will happen within the coming 12 to 18 months. Why? Next year is an election year. The president is no doubt aware that his odds of reelection improve dramatically if unemployment falls significantly before the conventions early next September. The most effective way to significantly reduce unemployment is to increase home construction, which in normal times provides huge numbers of jobs...and the most effective way to boost home construction is to make it easier for would-be buyers to obtain mortgages.

Besides, even if the bears are right and home values have an additional 10% or so to fall, this still is a good time to buy—at least for those who can obtain attractive mortgages in today's tight lending environment. Mortgage rates currently are so low that locking them in likely will offset any remaining real estate price declines, assuming that you intend to live in the home for five years or longer.

Let's say you decide not to buy a home this year because you are afraid that real estate values will continue to decline...and let's say you're right, and prices drop by another 10%. If today's extremely low interest rates climb by just one percentage point, your monthly mortgage payment on a 30-year fixed-rate loan won't be any lower despite the 10% lower purchase price. If interest rates climb significantly more than one percentage point, your monthly mortgage payments will be higher—even if you are correct and home prices do continue to fall.

SOME REGIONS REBOUND

The real story in real estate is regional.

Best bets: According to a study that my firm conducts, home prices already have stopped falling and even have begun rising in numerous markets, including Charlotte, North Carolina...South Florida...Austin, Houston, Dallas/Fort Worth and San Antonio, Texas...Nashville...Boise, Idaho...and Phoenix.

Homes in southern California and the Virginia/Maryland suburbs of Washington, DC, appear poised to skyrocket. Demand for homes in those regions is virtually guaranteed to exceed supply once the current difficult lending environment is behind us because of their excellent long-term employment prospects and tight land-development restrictions.

However, in individual neighborhoods still burdened with large numbers of short sales and foreclosures, any significant housing rebound still could be a ways off. ■■