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Growth and Income from Home Improvement Stores (sent 4/11/21)

The housing market is cyclical. Sometimes it is hot and other times it's not. Stocks focused on the housing market, like home builders, are also cyclical so the long term investing thesis is hard to justify. Look at graphs of the biggest home builders, like Pulte Group, Inc. (PHM), and you'll see a big peak in 2005 followed by a long trough. In fact, home builder stocks did not recover their 2005 price until this year. Seventeen years to get back to even. There is obviously money to be made but I do not want to track the cycles, jumping in and out, to buy low and sell high. I'd rather buy and hold forever.

What is my preferred way to invest in the vast housing sector? All the houses built during housing booms need maintenance for decades. Home maintenance is not cyclical, it's constant. I like to invest in what I know and I know the routine of schlepping to Home Depot and Lowe's all too well. And, I know the parking lot and carts are always full.

Home Depot is the largest company in this sector. It's share price has been growing steadily for decades. The housing crisis was barely a blip for Home Depot's stock price. When people stopped building new homes they kept fixing up the old ones. A great thing about Home Depot is that it also caters to builders and captures that growth too. Home Depot has outperformed the S&P for over 20 years and pays you $6.60 (2%) per share in dividends just to sit tight.

Lowe's is 60% smaller by market cap but just as well known if only because you drive past a Lowe's every time you go to Home Depot. It is also a Dividend Aristocrat meaning it has paid and increased its dividend every year for 25 years. This places it among other reliable dividend payers like Johnson and Johnson, McDonalds, and Walmart, even though its dividend is lower than Home Depot's at 1.24%.

As a smaller company Lowe's may be able to grow more or faster than Home Depot. Lowe's 52-week stock appreciation is 106% vs. Home Depot 61% suggesting the market expects higher growth. This is supported by Lowe's higher earnings and revenue growth. The companies have similar valuations and both are near 52 week highs due to the housing boom and overall stock market performance. I like Home Depot for steady growth and income but it could be wise to also include Lowe's in a portfolio for potentially higher price appreciation. The US population is growing and so is the inventory of new and aging houses. This will fuel steady growth in home repair purchases.

I write Stock Musings for fun and to learn more about investing. This should not be construed as stock advice or recommendations. I am an ametur who enjoys investing, research, and writing with no training in finance, stock analysis, or related fields. I may own stocks discussed.

Company (Ticker) Market Cap	52-Week stock price change	Dividend per share (%yield)	Revenue growth (TTM)	Net Profit margin (TTM)	3 yr return	5 yr return	10 yr return
Home Depot (HD) 336.0B	61.4%	6.60 (2.11%)	20%	9.7%	79%	135%	767%
Lowe's (LOW) 138.9B	105.8%	$2.40 (1.24%)	24%	6.5%	135%	154%	705%
Vanguard S&P 500 Index Fund ETF (VOO)	56.5%	5.30 (1.43%)	--	--	53%	97%	204%

*Data as of April 9, 2021.