



LACY BAAHETH  
& ASSOCIATES

**February 18, 2017**

**The Real Estate Market**

# Credentials

**Lacy Baaheth & Associates**

**BROKER/Owner**

**Established 2008**

**(Licensed for 18 years)**

**One of 11 Real Estate Commissioners for State of Louisiana**

**Member of Baton Rouge Association of Real Estate Brokers (BRAREB)**

**Past President of BRAREB**

**National Award: 2012 Realtist of the Year (NAREB)**

**Member of National Association of Real Estate Brokers (NAR)**

**Member of Professional Business Network (PBN)**

**Licensed in Louisiana and Mississippi**

**Right-of-Way and Relocation Agent for Louisiana and GBR**

**2016 Louisiana Real Estate Commissioner**

## **Professional Designations:**

**Accredited Buyer Representative (ABR)**

**Graduate's REALTORS Institute (GRI)**

**Vendor Resource Management (VRM)**

**Certified Distressed Property Expert (CDPE)**

**Certified Veteran Housing Counselor**



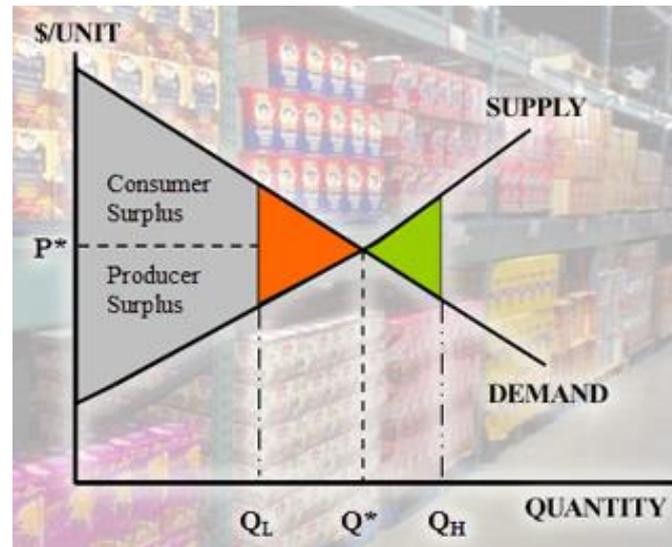
# “THE MARKET”

- ⦿ Defined as: the overall state of Real Estate based on supply and demand
- ⦿ Analyze Cycles
- ⦿ Predict Cycles
- ⦿ Leading Indicators
- ⦿ 4 Phases
- ⦿ Where are we today?
- ⦿ Participation



# THE MARKET

- Supply and Demand
- Psycholigically and Emotionally Driven
- Complicated
  - General Economic Condition
    - Location
    - Type
    - Consumer
  - Particular Niche
    - Single Family Housing
    - Investment Property
    - Multi-family Property
    - Commercial Buildings



# STRENGTH OF THE MARKET

The **MOST IMPORTANT QUESTIONS** to Help to  
Analyze and Predict Market Cycles

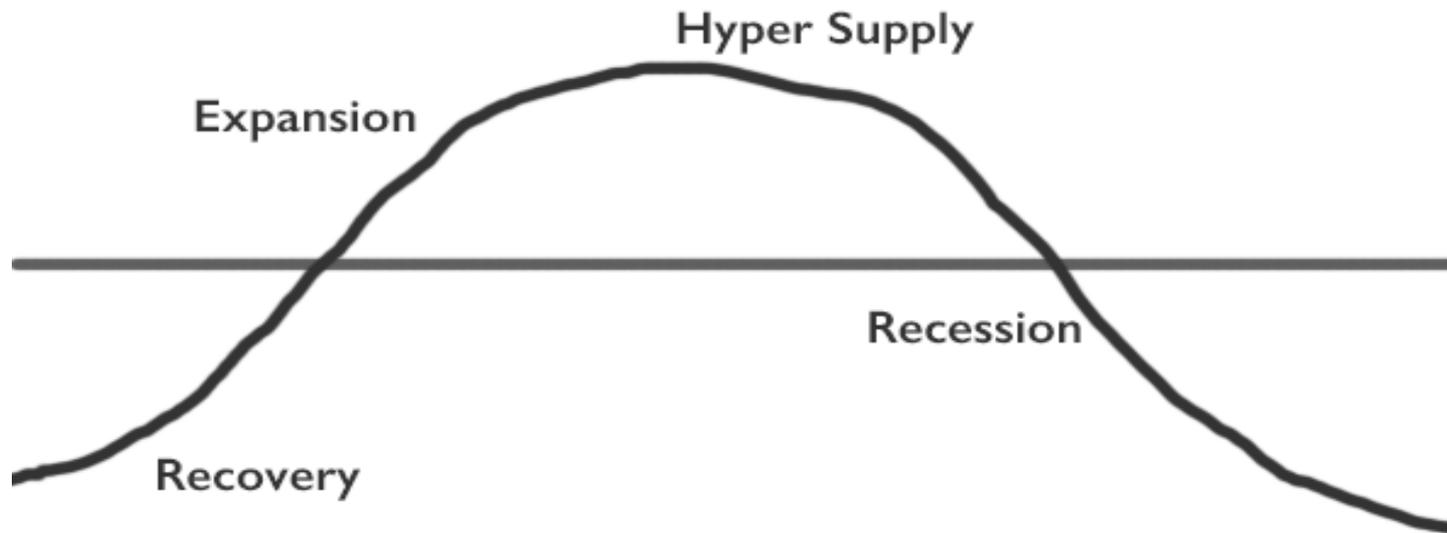
- ◉ **WHERE** is it strong?
- ◉ For **WHOM** is it strong?
- ◉ **WHAT** type of Real Estate is strong?



# THE REAL ESTATE CYCLE

## ◎ 4 PHASES

- Phase 1: Recovery Spring
- Phase 2: Expansion Summer
- Phase 3: Hyper Supply Fall
- Phase 4: Recession Winter



# PHASE 1: RECOVERY

## Spring Time

- ◎ RECOVERY from WINTER (Phase 4)
- ◎ RECOVERY from Downturn
- ◎ RECOVERY from Free Fall

REPRESENTED BY:

High Unemployment

Home Foreclosures

FEAR in the General Population



# PHASE 2: EXPANSION

## SUMMER TIME

- ⦿ EXPANDING # of Businesses
- ⦿ EXPANDING Businesses (size)
- ⦿ EXPANDING Housing Market (start of)

## REPRESENTED BY:

- ⦿ HIGHER Property Pricing
- ⦿ LOWER Supply of Property
- ⦿ CONFIDENCE of the General Population



# PHASE 3: HYPER SUPPLY

FALL

- ◎ HYPER-Prices
- ◎ HYPER-Building Projects
- ◎ HYPER-Market - “BULL Market”



REPRESENTED BY:

- ◎ Sky-Rocketing Prices
- ◎ Over-Development
- ◎ Rising # of Vacancies
- ◎ OVER-CONFIDENCE



# PHASE 4: RECESSION



## COLD-COLD WINTER

- ◉ Market Collapse
- ◉ DECREASING # Businesses
- ◉ DECREASING Businesses (size)
- ◉ Property Owners Drowning (under water)

## REPRESENTED BY:

- ◉ RISING Unemployment Rate
- ◉ Decreased Rents and Increased Vacancies
- ◉ FEAR



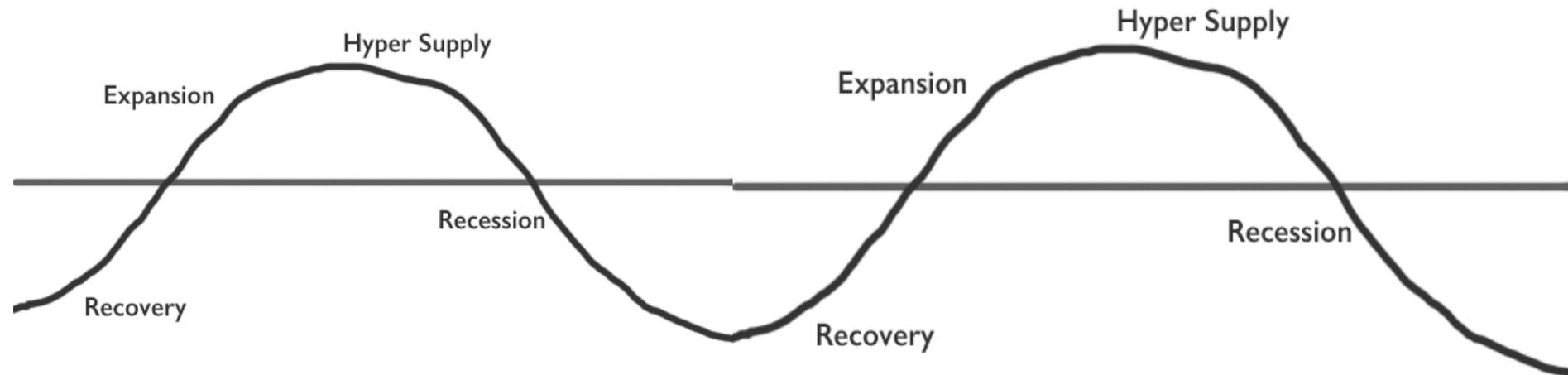
# PHASE 4: RECESSION

## THE SAVVY INVESTOR

- ◎ PLAY VERY IMPORTANT ROLE
- ◎ PREVENT MARKET COLLAPSE



# THE REAL ESTATE CYCLE



Fred E. Foldvary – “The Depression of 2008”

18-Yr Cycle

1989 – 2007

2007 - 2025

# WHERE ARE WE TODAY?

- ◎ Ask the important questions
  - WHERE is it strong?
  - For WHOM is it strong?
  - WHAT type of Real Estate is strong?
- ◎ Many factors can affect “The Market”
  - Interest Rates
  - White House
  - War
  - ....AND, Of Course



# “NATURAL DISASTERS”

- ARTIFICIALLY inflate
- ARTIFICIALLY deflate
- INSTANT Phase Shift
- INSTANT Multi-Phase Shift



# WHERE ARE WE TODAY?

## ◉ NATIONALLY

- Phase 2: EXPANSION
- New Construction is INCREASING
- Unemployment Rate is Decreasing
- CONFIDENCE in the General Population



## ◉ LOCALLY

- Phase 2: EXPANSION
- Phase 4: RECESSION to Phase 1: RECOVERY

■ **Market** Driven by FEAR and CONFIDENCE

■ **TIME** OF THE SAVVY INVESTOR

■ **Sellers** Sell & Investors Buy

**MY OBSERVATIONS and MY PREDICTIONS**



# My Observations

OCT 2016

## ⦿ Increase

- Home Values
- Rental Rates
- Construction Costs
- Blighted Properties
- Investment Properties

## ⦿ Decrease

- Homes for Sale
- Homes for Rent
- Home Values



# My Projections

OCT 2016

- Population Shift
- Seller's Market
  - Fewer concessions for Buyer
    - Less Seller-contributed closing costs
    - Negotiations for repairs and maintenance
  - All Cash Offers
  - Quick Closings
  - Multiple Offer Situations
  - Owners attempting to navigate sales alone
  - Rising Investment Purchases (**WHY?**)
  - Rental Market Value Increase (**WHY?**)



# What the Industry is not Doing

OCT 2016

- LREC
  - No additional Disclosure Documents
  - No Changes in Processes
- Real Estate Appraiser's Board
  - No addition Documents required
  - No Changes in Process
- HUD
  - No additional Documents Required
  - Not changing their processes
    - **Lenders can/may add additional overlays**



# OTHER CHANGES OCCURED

## ◎ PSYCHOLOGICALLY

- Mind Shift in Average Home Buyer
- Mind Shift in Home Seller

## ◎ EMOTIONALLY

- “Buyers Buy with **EMOTION**...
- Sellers Sell with **LOGIC**”

## ◎ FINANCING

- 203 K - Rehab Loan
- 203 (h) - Disaster Recovery Loan

## ◎ “THE MARKET”

- Not **Empathetic** to BUYERS



# TYPES OF INVESTMENTS

## ◎ LONG-TERM

- Land Purchases
- Income Producing - Income Supplement
  - Rentals
  - Retirees
  - Generation X and Y

## ◎ SHORT-TERM

- Flipping



# FLIPPING

“THE DEVIL IS IN THE DETAILS”

## ◎ GOOD TEAM MEMBERS

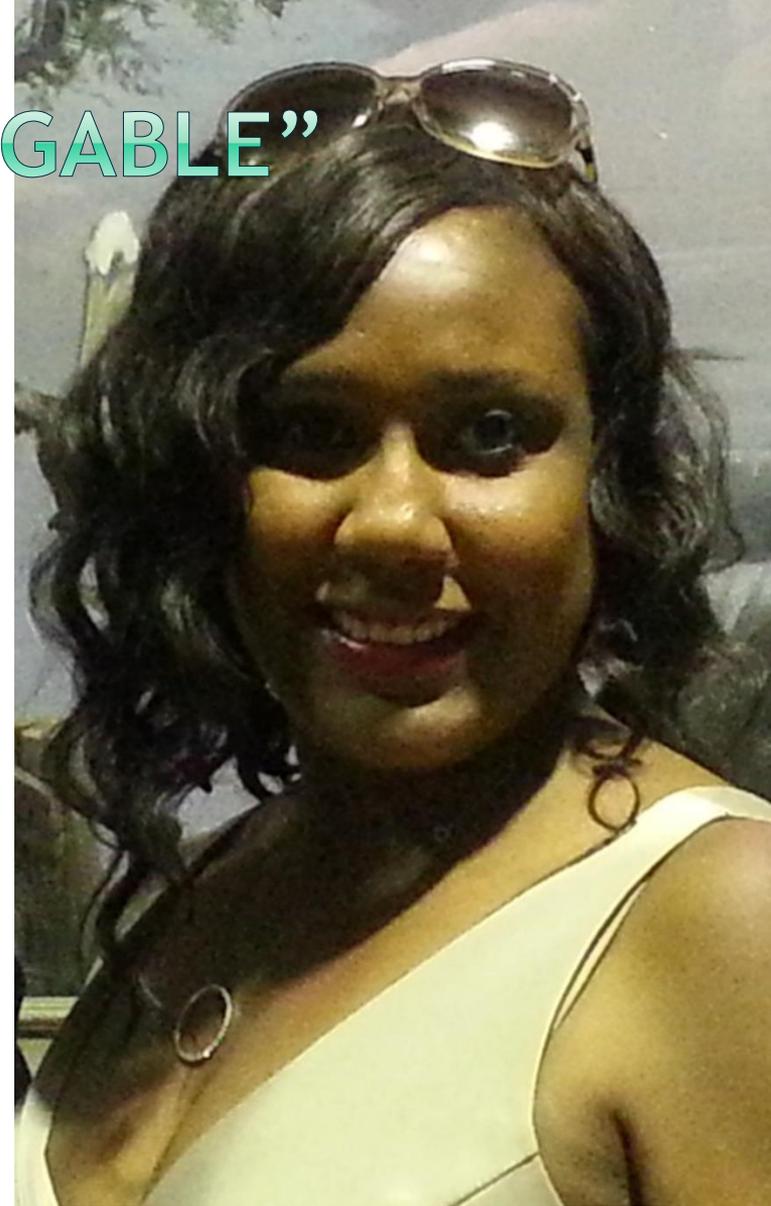
- REALTOR®
- CONTRACTOR
- LOAN REPRESENTATIVE
- GENERAL MAINTENANCE
- TITLE ATTORNEY
- CPA
- INSURANCE AGENT
- SU COB
- YOU!
- REALTOR®



**AND...YES...I AM HERE TWICE**

# A GOOD & “KNOWLEDGABLE” REALTOR®

- ◉ UNDERSTAND TOTAL COSTS
- ◉ HAVE RELATIONSHIPS
- ◉ HAVE FAVOR
- ◉ BE FLEXIBLE
- ◉ HELP DEVELOP YOUR GOALS
- ◉ HAVE A GOOD REPUTATION
- ◉ HAVE EXPERIENCE
- ◉ UNDERSTAND FINANCING
- ◉ AVOID PITFALLS



**LACY BAAHETH**  
**& ASSOCIATES**  
Real Estate Sales & Property Management

# Insurance/Flood Insurance Overview

Adj. Professor Sherman Pittman,  
College of Business,  
Southern University, Baton Rouge  
&  
Chairman of the Board,  
Gulf States Insurance Association

- What is flood insurance?
- Two types of flood insurance coverage

- Three most important facts about your flood insurance policy
  - Contents Coverage
  - It is not a valued policy
  - It is not a guaranteed replacement cost policy

- What is covered by Flood Insurance and what is not?

# Creating Neighborhood Developers

Donald R. Andrews

## Business Cycles

### What is the 'Business Cycle'

**The business cycle is the fluctuation in economic activity that an economy experiences over a period of time. A business cycle is basically defined in terms of periods of expansion or recession.** During [expansions](#), the economy is growing in real terms (i.e. excluding inflation), as evidenced by increases in indicators like employment, industrial production, sales and [personal incomes](#). During recessions, the economy is contracting, as measured by decreases in the above indicators. Expansion is measured from the [trough](#) (or bottom) of the previous business cycle to the peak of the current cycle, while [recession](#) is measured from the peak to the trough. In the United States, the [National Bureau of Economic Research \(NBER\)](#) determines the official dates for business cycles.

### BREAKING DOWN 'Business Cycle'

According to the NBER, there have been 11 business cycles from 1945 to 2009, with the average length of a cycle lasting about 69 months, or a little less than six years. **The average expansion during this period has lasted 58.4 months, while the average contraction has lasted only 11.1 months.**

**The business cycle can be effectively used to position one's investment portfolio. For instance, during the early expansion phase, [cyclical stocks](#) in sectors such as commodities and technology tend to outperform. In the recession period, the defensive groups like health care, [consumer staples](#) and [utilities](#) outperform because of their stable [cash flows](#) and [dividend yields](#).**

As of January 2014, the last expansion was determined to have commenced in June 2009, the period when [the Great Recession](#) of 2007-09 reached its trough (technically, that recession began in December 2007).

**Expansion is the default mode of the economy, with recessions being much shorter and less common. So why do recessions occur at all? While economists' views differ on this subject, there is a clear pattern of excessive speculative activity evident in the latter stages of expansion in many business cycles. The 2001 recession was preceded by an absolute mania in dot-com and technology stocks, while the 2007-09 recession followed a period of unprecedented speculation in the U.S. housing market.**

The average length of an expansion has increased significantly since the 1990s. The three business cycles from July 1990 to June 2009 had an average expansion phase of 95 months – or almost 8 years – compared with the average recession length of 11 months over this period. While some [economists](#) were hopeful that this development marked the end of the business cycle, the 2007-09 put paid to those hopes.

Recessions can extract a tremendous toll on [stock markets](#). Most major equity indexes around the world endured declines of over 50% in the 18-month period of the Great Recession, which was the worst global contraction since the 1930s Depression. Global [equities](#) also underwent a significant correction in the 2001 recession, with the [Nasdaq](#) Composite among the worst-hit as it plunged almost 80% from its 2001 peak to 2002 low.

Read more: [Business Cycle Definition | Investopedia](#) <http://www.investopedia.com/terms/b/businesscycle.asp#ixzz4Yxv1CEDm>  
Follow us: [Investopedia on Facebook](#)

## Phases of the business cycle

- 1 [Recovery](#) – when real output increases.
- 2 [Prosperity](#) – Economy Grows at its Potential Full Employment and Price Stability
- 3 [Economic Boom](#) -fast economic growth which tends to be inflationary and unsustainable.
- 4 [Economic Contraction](#) when the growth rate falls and the economy heads towards recession
- 5 [Recession \(Bust\)](#) – when there is a period of negative economic growth, and real output falls.
- 6 [Depression](#) – When Unemployment Exceeds 10 percent

## U.S. Business Cycle 1929 Until Now

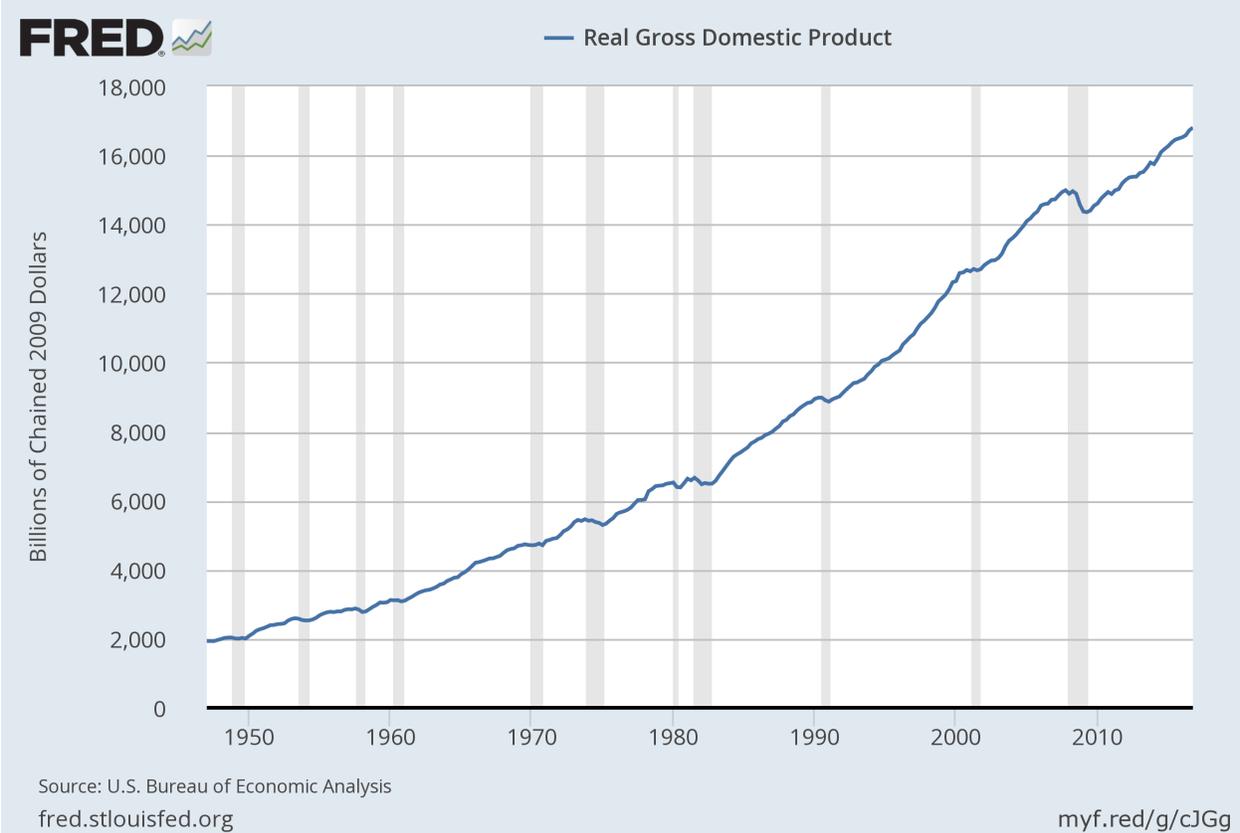
Cycle	Duration	Comments
<b>Bust</b>	Aug 1929 - Mar 1933	<a href="#">Stock market crash</a> , higher taxes, <a href="#">Dust Bowl</a> .
<b>Boom</b>	Apr 1933 - Apr 1937	<a href="#">FDR</a> passed <a href="#">New Deal</a> .
<b>Bust</b>	May 1937 - Jun 1938	FDR tried to balance budget.
<b>Boom</b>	Jul 1938 - Jan 1945	World War II mobilization.
<b>Bust</b>	Feb 1945 - Oct 1945	Peacetime demobilization.
<b>Boom</b>	Nov 1945 - Oct 1948	Employment Act. Marshall Plan.
<b>Bust</b>	Nov 1948 - Oct 1949	Postwar adjustment
<b>Boom</b>	Nov 1949 - Jun 1953	Korean War mobilization.
<b>Bust</b>	Jul 1953 - May 1954	Peacetime demobilization.
<b>Boom</b>	Jun 1954 - Jul 1957	Fed reduced rate to 1.0%.
<b>Bust</b>	Aug 1957 - Apr 1958	Fed raised rate to 3.0%.
<b>Boom</b>	May 1958 - Mar 1960	Fed lowered rate to 0.63%.
<b>Bust</b>	Apr 1960 - Feb 1961	Fed raised rate to 4.0%.
<b>Boom</b>	Mar 1961 - Nov 1969	JFK stimulus spending. Fed lowered rate to 1.17%.
<b>Bust</b>	Dec 1969 - Nov 1970	Fed raised rate to 9.19%.
<b>Boom</b>	Dec 1970 - Oct 1973	Fed lowered rate to 3.5%.

<b>Cycle</b>	<b>Duration</b>	<b>Comments</b>
<b>Bust</b>	Nov 1973 - Mar 1975	<a href="#">Nixon</a> added wage-price controls. Ended <a href="#">gold standard</a> . <a href="#">OPEC oil embargo</a> . <a href="#">Stagflation</a> .
<b>Boom</b>	Apr 1975 - Dec 1979	Fed lowered rate to 4.75%
<b>Bust</b>	Jan 1980 - Jul 1980	Fed raised rate to 20% to end inflation.
<b>Boom</b>	Aug 1980 - Jun 1981	Fed lowered rates. For more, see <a href="#">Historical Fed Funds Rates</a> .
<b>Bust</b>	Jul 1981 - Nov 1982	Resumption of 1980 recession.
<b>Boom</b>	Dec 1982 - Jun 1990	<a href="#">Reagan</a> lowered tax rate and boosted defense budget.
<b>Bust</b>	Jul 1990 - Mar 1991	Caused by 1989 <a href="#">Savings and Loan Crisis</a> .
<b>Boom</b>	Apr 1991 - Feb 2001	Ended with bubble in internet investments
<b>Bust</b>	Mar 2001 - Nov 2001	2001 Recession caused by stock market crash, high-interest rates
<b>Boom</b>	Dec 2001 - Nov 2007	<a href="#">Derivatives created housing bubble in 2006</a>
<b>Bust</b>	Dec 2007 - Jun 2009	<a href="#">Subprime Mortgage Crisis</a> , <a href="#">2008 Financial Crisis</a> , the Great Recession
<b>Boom</b>	Jul 2009 - Now	<a href="#">American Recovery and Reinvestment Act</a> and <a href="#">Quantitative Easing</a>

Source: <https://www.thebalance.com/causes-of-the-business-cycle-3305804>

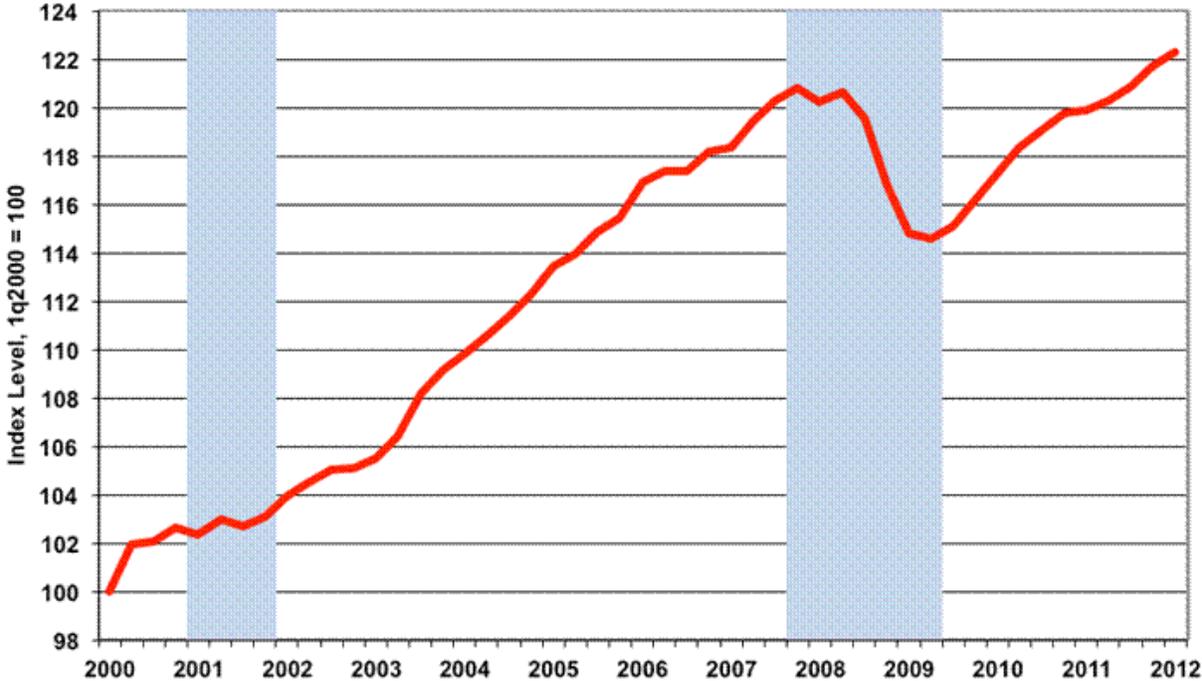
# Real GDP US Economy

Shaded Areas Are Recessions



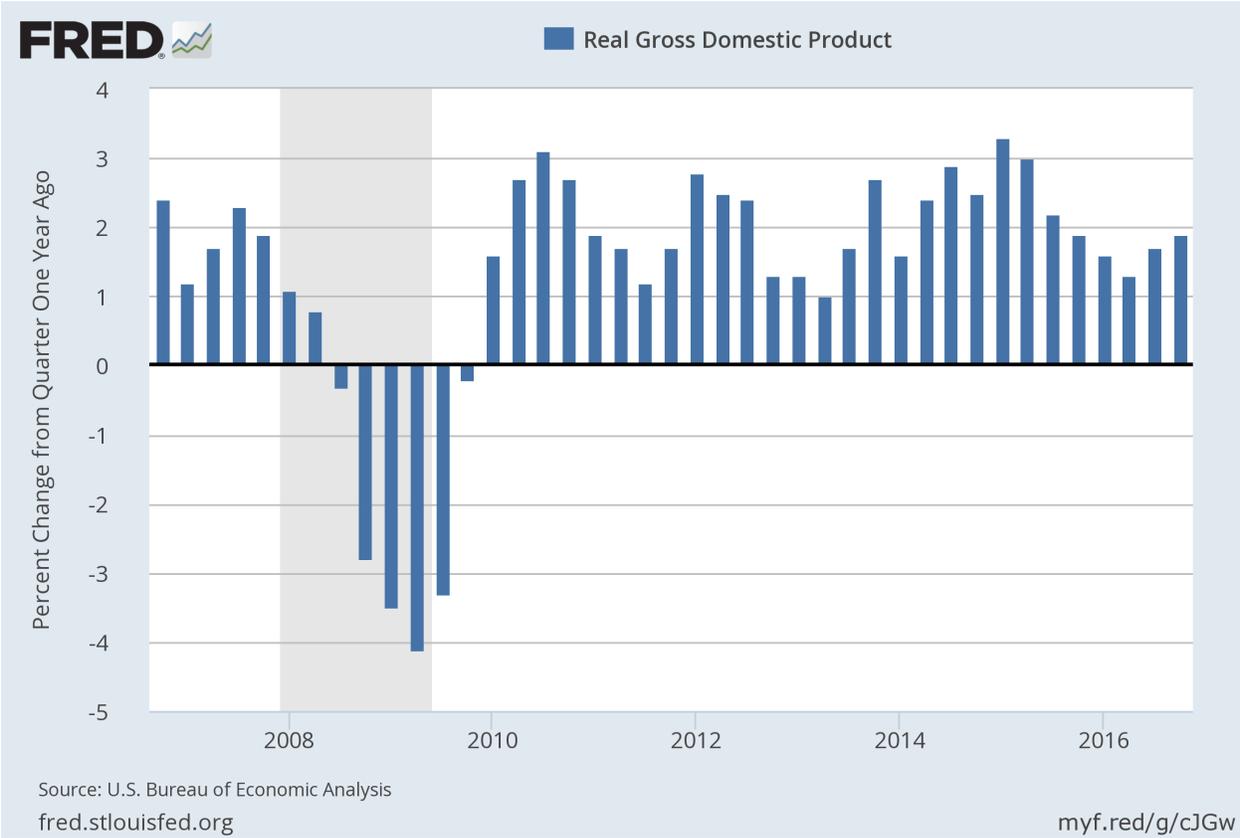
# Real GDP US Economy 2000 to 2012

Headline Real GDP (Quarterly Index Level)  
Through 1q2012, Seasonally-Adjusted (SGS, BEA)

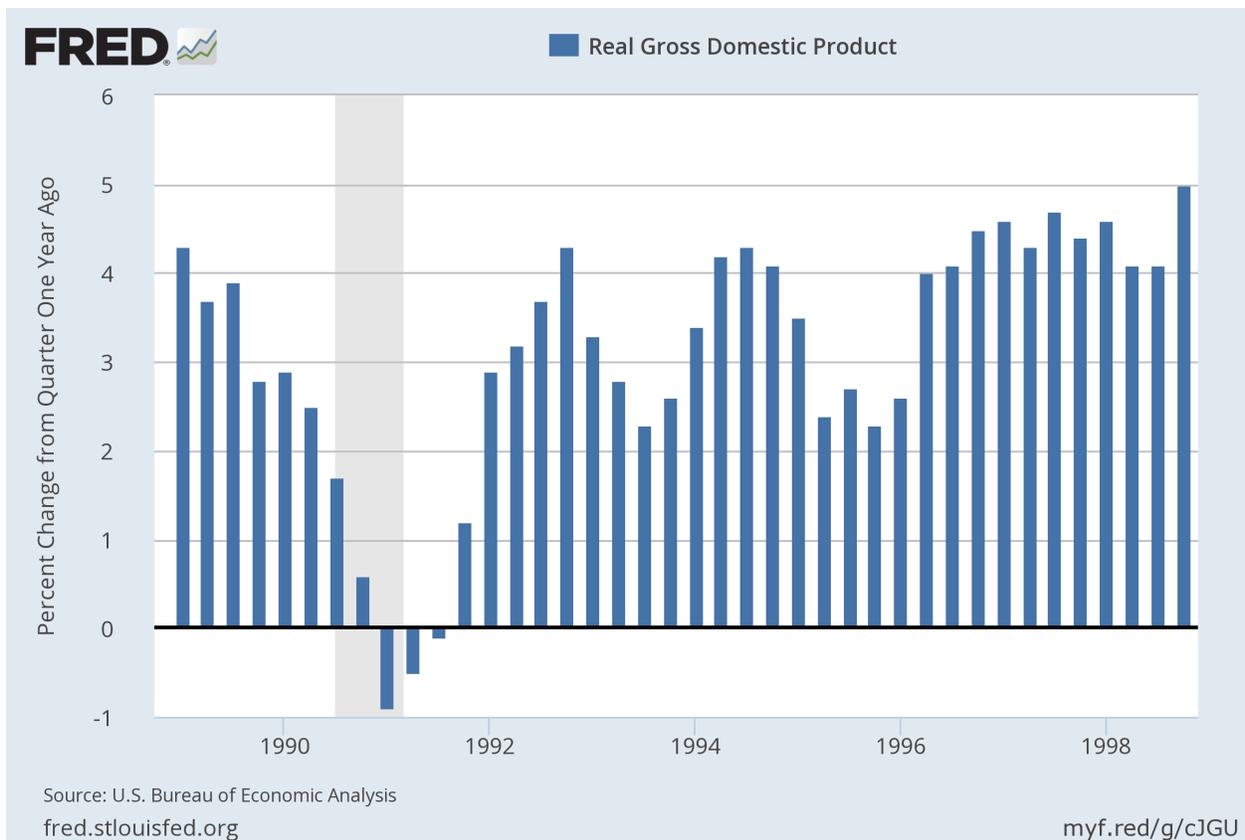


# Growth Rate US Economy

## Average of 2 Percent Growth



## Growth Rate US Economy Average of 4 Percent Growth



## *Beyond Shocks: What Causes Business Cycles?*

At its forty-second economic conference in June 1998, the Federal Reserve Bank of Boston brought together national and international policymakers, financial market participants, academics, economists, bankers, and businessmen to consider what makes economies rise and fall. **A key motivation for investigating the causes of business cycles and recessions was to evaluate the recent and widespread hypothesis that business cycle fluctuations have been permanently dampened.**

### *Conclusion*

Finally, and most important, policymakers should understand that they cannot prevent every recession, but they should concentrate their efforts on averting **The Big Ones**, such as the Great Depression.

The proceedings, Conference Series No. 42, will be published at the end of the year. Information about ordering this volume will be included in the next issue of this *Review* and will also be available on the Bank's website at <http://www.bos.frb.org>.

*Source: Jeffrey C. Fuhrer and Scott Schuh*

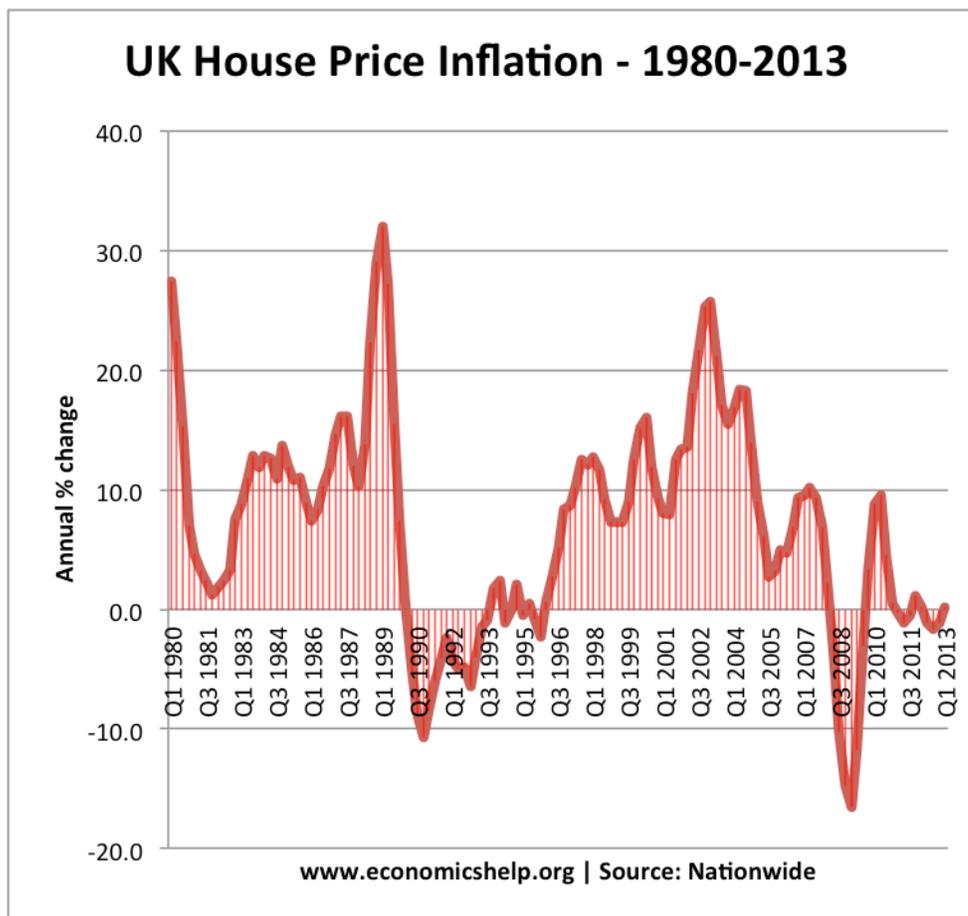
*November/December 1998 New England Economic Review*

# Causes of business cycle

Tejvan Pettinger March 5, 2016 economics

## Causes of business cycle

- Changes in house prices



- 
- A rise in house prices creates a wealth effect and leads to higher consumer spending. A fall in house prices causes lower consumer spending and bank losses. ([house prices and consumer spending](#)) In the late 1980s, the boom in house prices caused an economic boom. The drop in house

prices in the early 1990s was a significant factor in causing the recession of 1991-92.

- **Interest rates.** Changes in the interest rate affect consumer spending and economic growth. For example, if interest rates are cut, this reduces borrowing costs and therefore increases disposable income for consumers; this leads to higher spending and economic growth. However, if the Central Bank increase interest rates to reduce inflation, this will tend to reduce consumer spending and investment, leading to an economic downturn and recession.
- **Consumer and business confidence.**

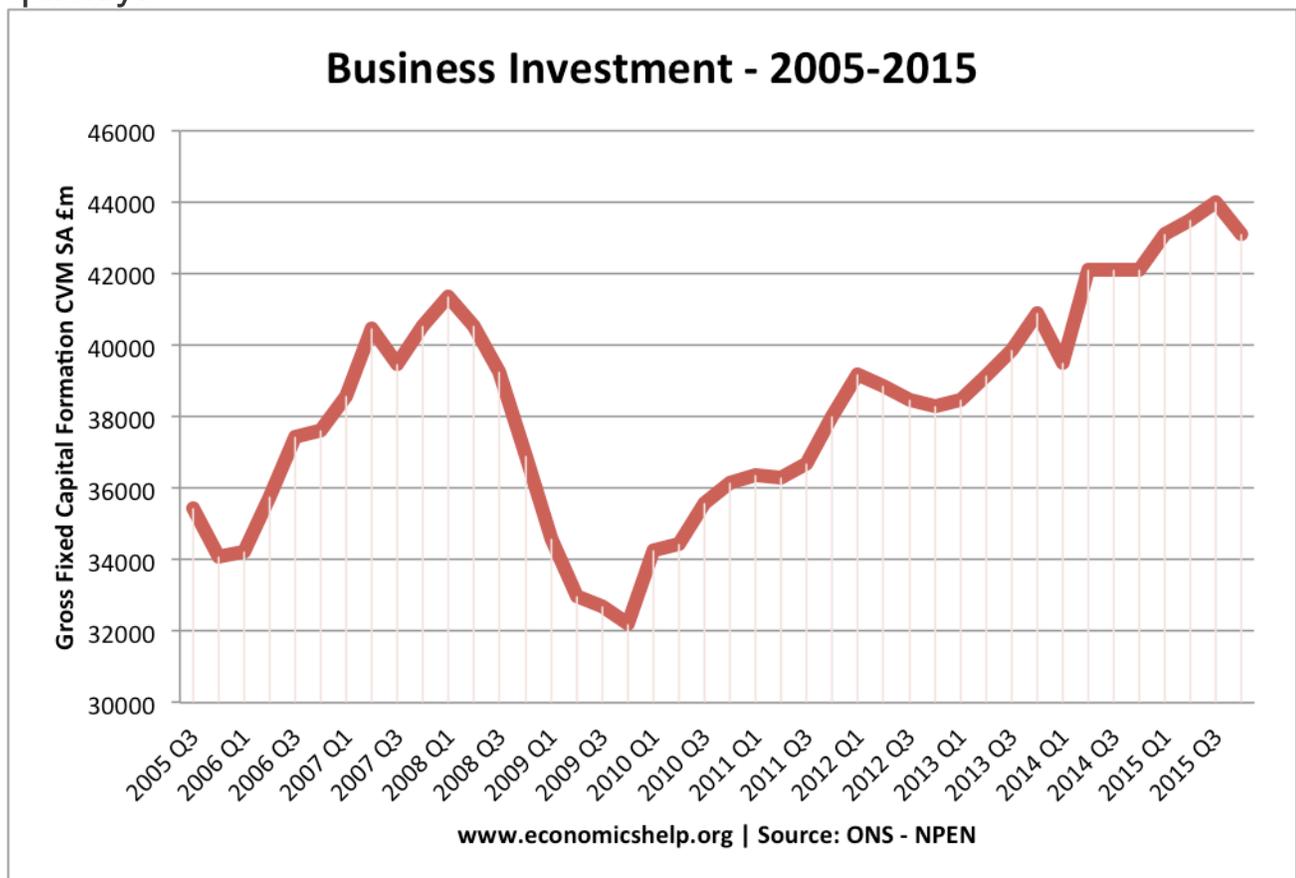


- 
- 
- Fall in confidence in May 2008, contributed to deepest recession for a considerable time. People are easily influenced by external events. If there is a succession of bad economic news, this tends to discourage people from spending and investing making a small downturn in to a bigger recession. But, when the economy recovers this can

cause a positive bandwagon effect. Economic growth encourages consumers to borrow and banks to lend. This causes higher economic growth. Confidence is an important factor in causing the business cycle.

- Investment.

This states that investment depends on the rate of change of economic growth. If the growth rate falls, firms reduce investment because they don't expect output to rise as quickly.



- 
- Drop in business investment caused by lower growth and credit crunch made the recession deeper. This theory suggests investment is quite volatile and small changes in the rate of growth have a big effect on investment levels.

- **Inventory cycle.** Some argue that there is a natural inventory cycle. For example, there are some 'luxury' goods we buy every five years or so. When the economy is doing well, people buy these luxury items causing faster economic growth. But, in a downturn, people delay buying luxury goods, and so we get a bigger economic downturn.

## Causes of Recessions

The business cycle can go into recession for a variety of reasons, such as:

- **Falling house prices causing negative wealth effect and lower consumer spending**
- Credit crunch causing an increase in cost of borrowing and shortage of funds
- Volatile stock markets and money markets undermining business and investment confidence.
- Higher interest rates – causing lower spending and investment.
- Tight fiscal policy – higher taxes and lower spending.
- Appreciation in the exchange rate.
- See: [causes of recessions](#)

## Is the business cycle inevitable?

**Some economists argue that the business cycle is an essential part of an economy. Even downturns have their role to play as it tends to 'shake-up' the economy and weed out 'inefficient' firms and creating greater incentives to cut costs and be efficient. However, this view is controversial, and other economists argue that in a recession, even 'good efficient' firms can go out of business leading to a permanent loss of productive capacity.**

# The Real Estate Market Cycle

## How to use Real Estate Trends to Predict the Next Housing Bubble

Teo Nicolais

*The next major bust, 18 years after the 1990 downturn, will be around 2008, if there is no major interruption such as a global war."*

— Fred E. Foldvary (1997)

## THE DURATION AND FREQUENCY OF THE REAL ESTATE CYCLE

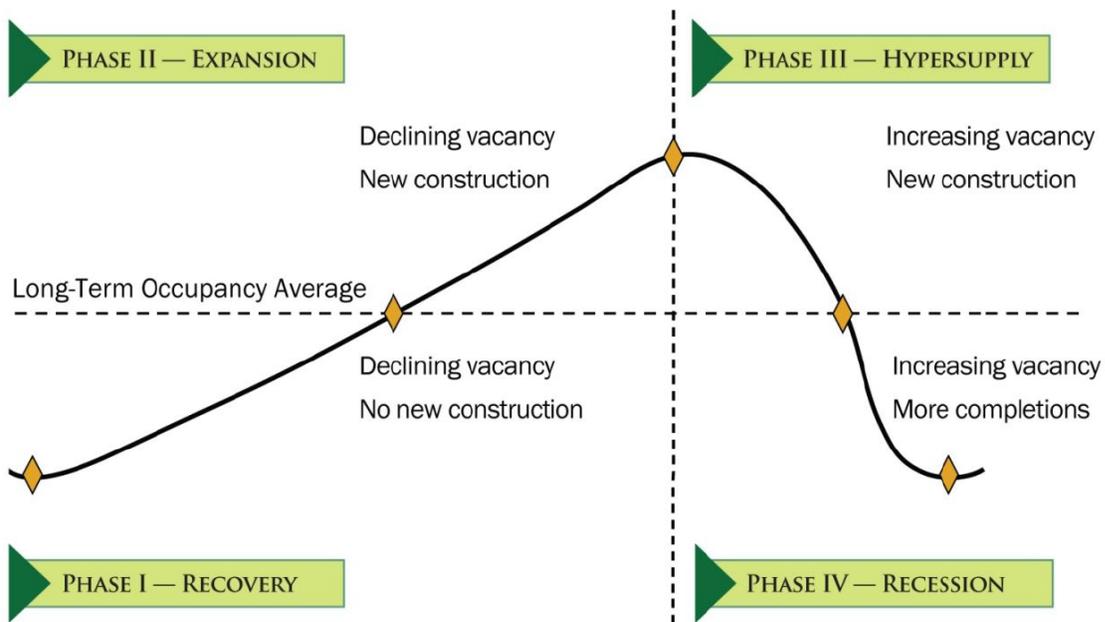
**Perhaps the most stunning aspect of the real estate cycle is not its inevitability but rather its regularity.** Economist Homer Hoyt, through a detailed study of the Chicago and broader US real estate markets, found that the real estate cycle has run its course according to a steady 18-year rhythm since 1800.

Peaks in Land Value Cycle		Peaks in Construction Cycle		Peaks in Business Cycle	
	Interval (Years)		Interval (Years)		Interval (Years)
1818	--	--	--	1819	--
1836	18	1836	--	1837	18
1854	18	1856	20	1857	20
1872	18	1871	15	1873	16
1890	18	1892	21	1893	20
1907	17	1909	17	1918	25
1925	18	1925	16	1929	11
1973	48	1972	47	1973	44
1979	6	1978	6	1980	7
1989	10	1986	8	1990	10
2006	17	2006	20	2008	18

*Source: Fred E. Foldvary, "The Depression of 2008"*

With just two exceptions (World War II and the mid-cycle peak created by the Federal Reserve's doubling of interest rates in 1979), the cycle has maintained its remarkable regularity even in the decades after Hoyt's observation.

## Market Cycle Quadrants



Source: Mueller, *Real Estate Finance*, 1995.

### The First Indicator of Trouble

The delineation point between expansion and market hyper supply is marked by the first indicator of trouble in the real estate cycle: **an increase in unsold inventory/vacancy.**

### The Second Indicator of Trouble

The transition from hyper supply to recession is marked by the second indicator of trouble in the cycle: **occupancy falls below the long-term average.**

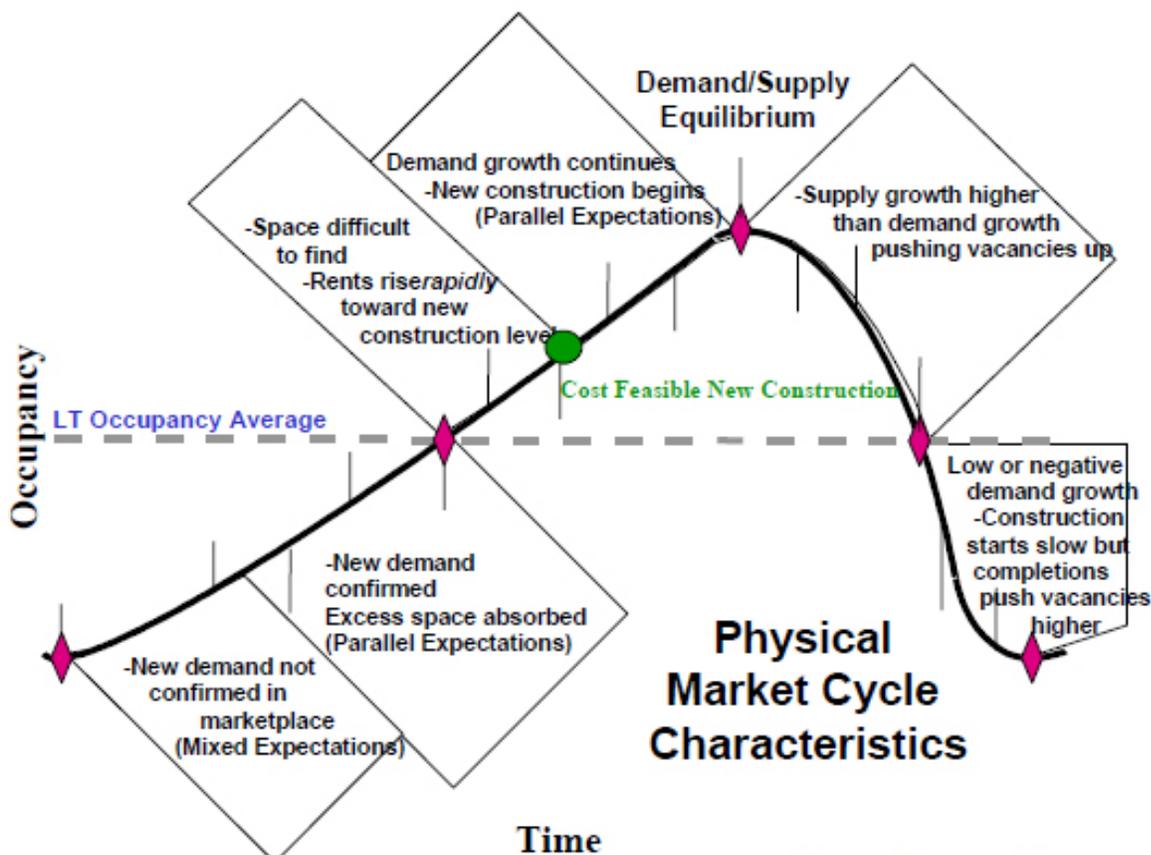
New construction stops, but projects started in the hyper-supply phase continue to be delivered. The addition of surplus inventory leads to lower occupancy and lower rents, which significantly reduces revenue for landowners.

## The Third Indicator of Trouble

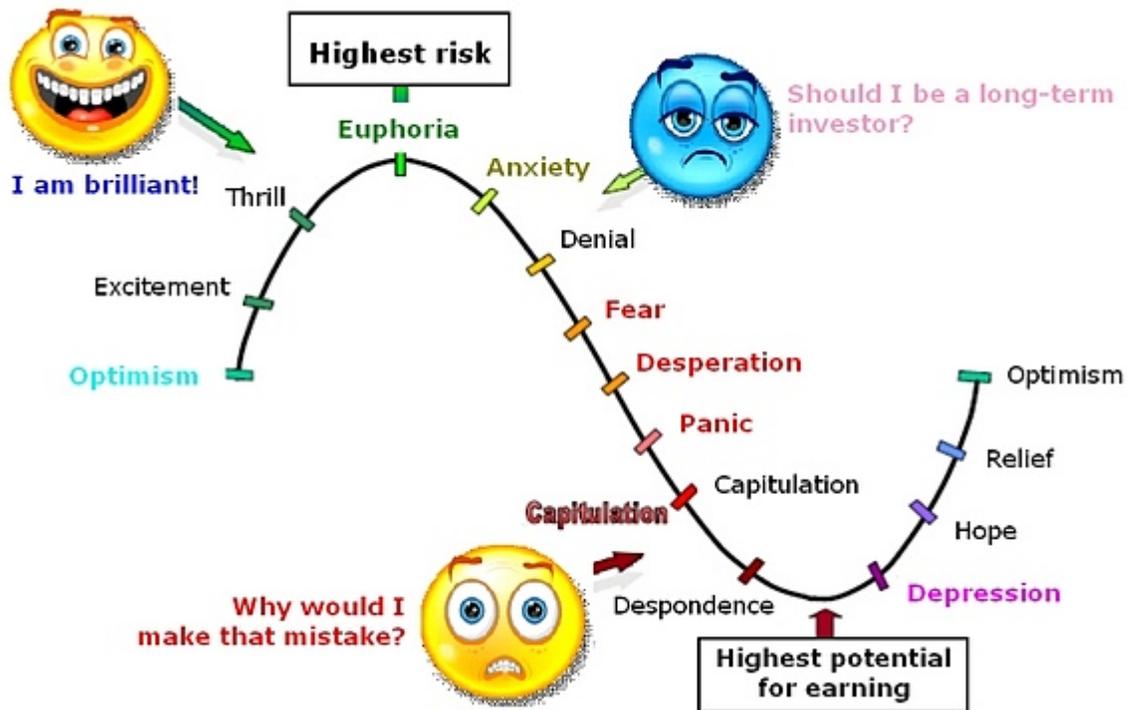
Finally, investors must watch for the third indicator of trouble: **an increase in interest rates.**

The increases in prices throughout the broader economy that accompanied the expansion and hyper-supply phase will, sooner or later, force the Federal Reserve to fight inflation by increasing interest rates.

The good news is that this halts any developers still forging ahead in hyper-supply mode because the increase in borrowing costs makes new developments financially unfeasible.



Source: Mueller, Real Estate Finance, 1995

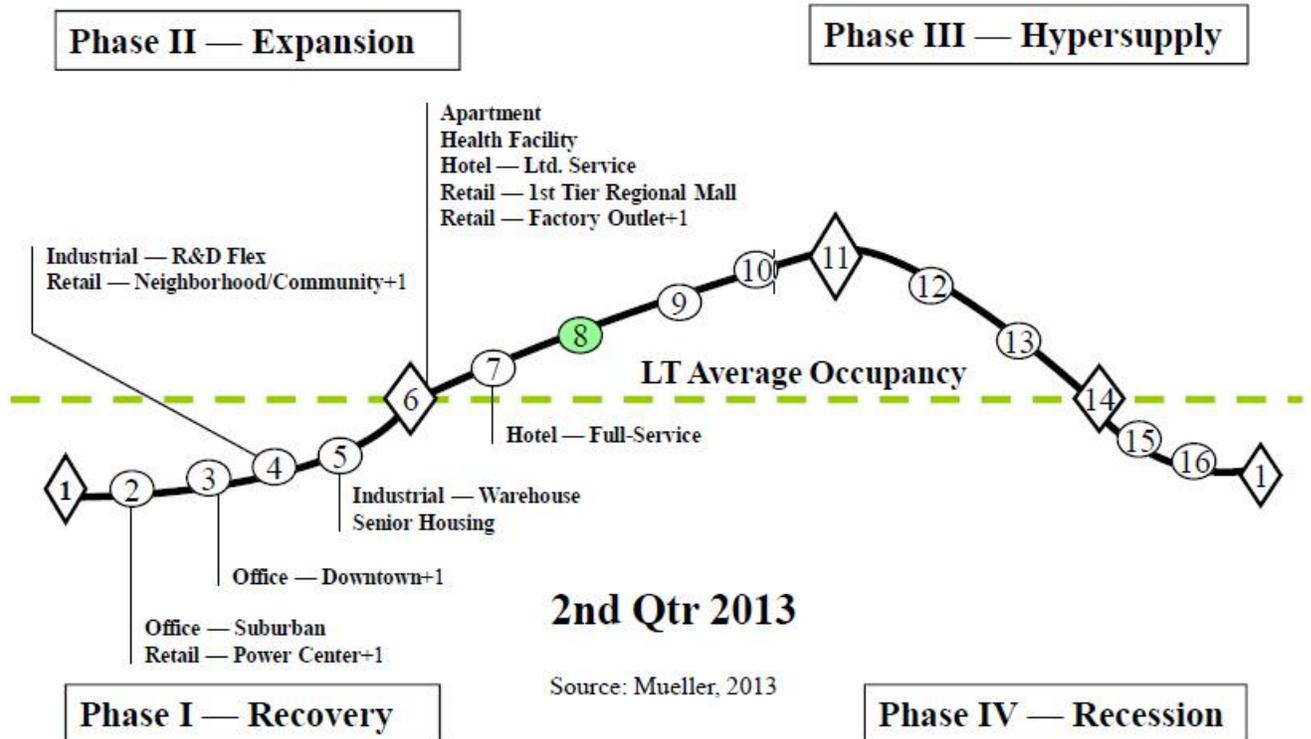


## WHERE ARE WE NOW?

It's important to remember that the Great Recession was not caused by an unexpected event. To those who study the real estate cycle, the crash happened precisely on schedule. It was painful, but it inaugurated the next iteration of the real estate cycle.

Today, real estate markets across the country have largely transitioned from the recovery to the expansion phase. Nationally, Mueller's estimate of the relative position of each asset class is as follows.

## National Property Type Cycle Locations

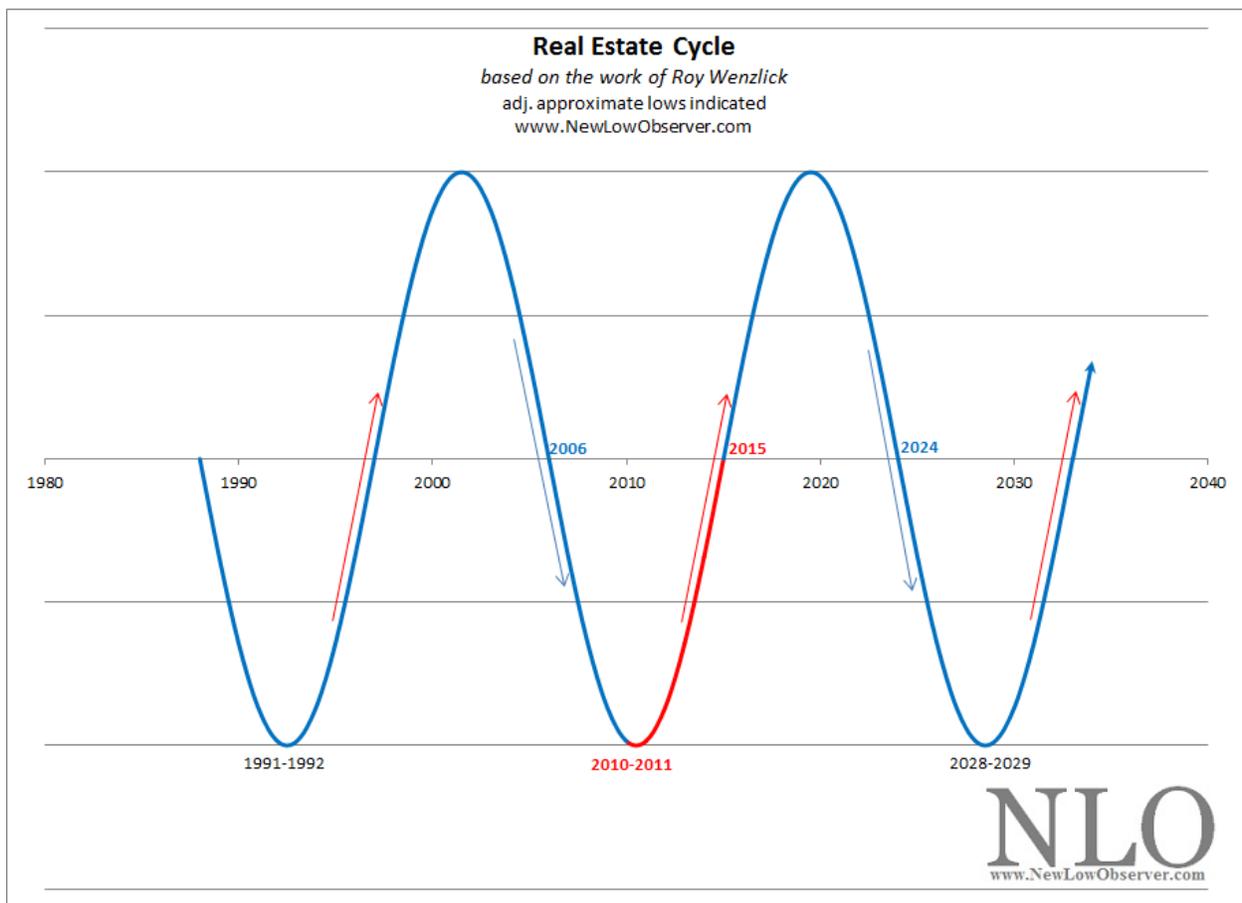


For many cities and asset classes the expansion phase is well under way. According to Glen Mueller, Boston, New York, Denver, and San Francisco, for example, are already experiencing incredibly tight rental markets and robust new construction in apartments.

**Those who lived through the financial crisis of 2008 will (we hope) always be wary of the next major crash. If George, Harrison, and Foldvary are right, however, that won't happen until after the next peak in 2024.**



## Example of 18 Year Cycle



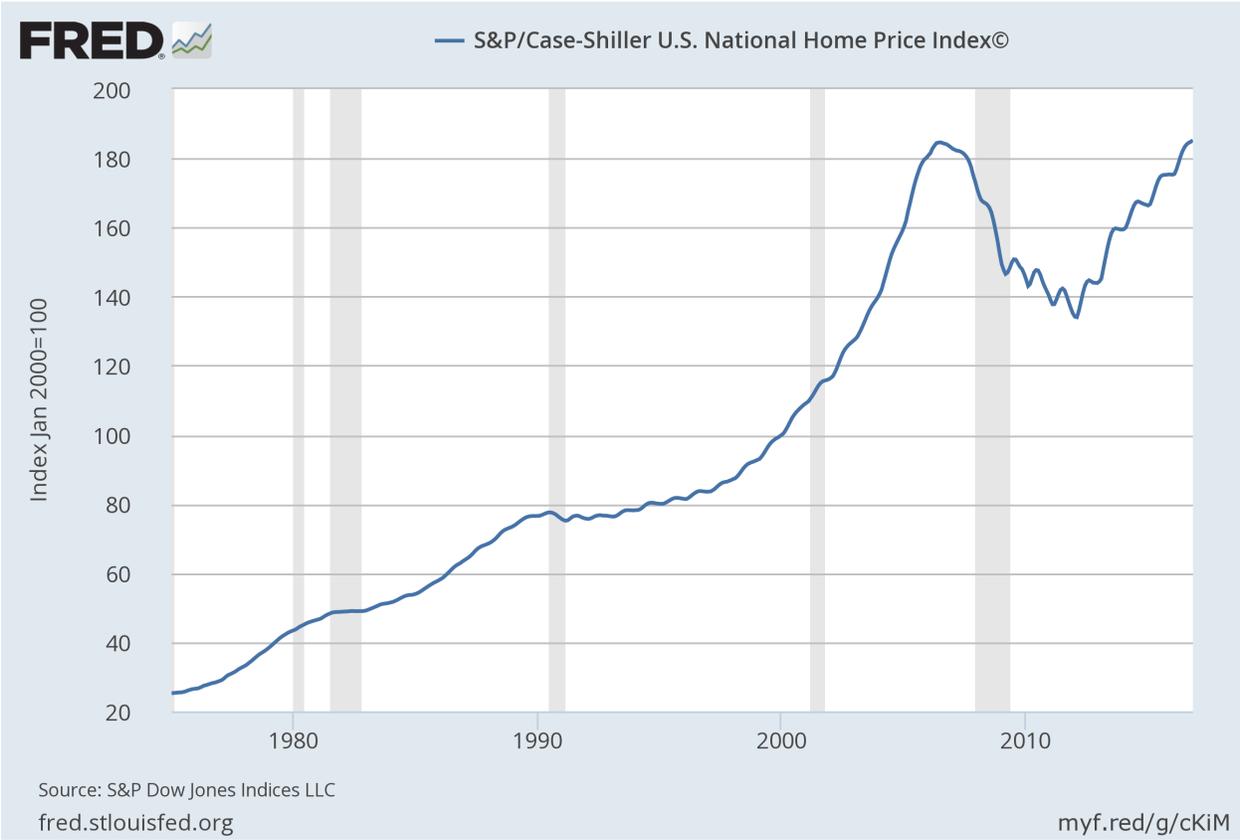
<http://www.newlowobserver.com/2015/09/real-estate-cycle-analysis/>

## Example of Implementation of Business Cycle Strategies

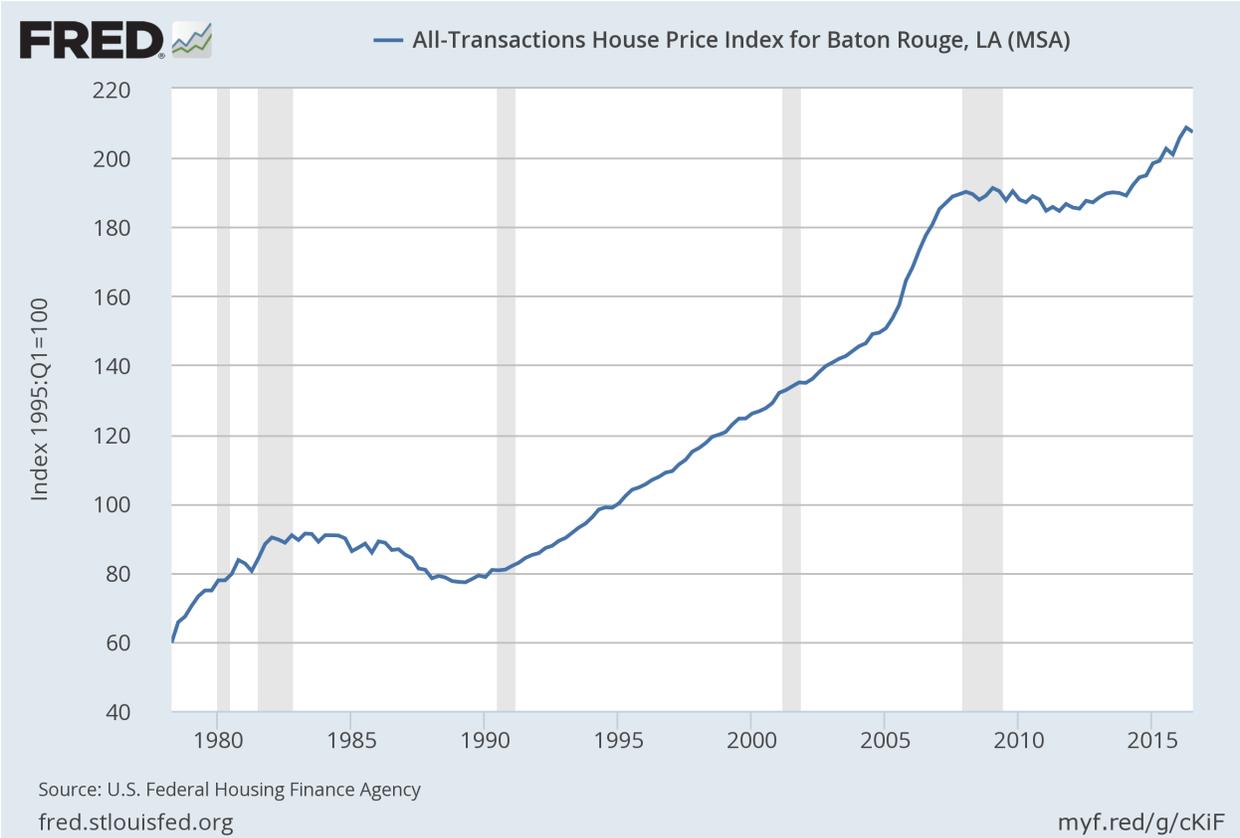
Real Estate Cycle AuxohomesTV

<https://www.youtube.com/watch?v=6EyOPm19mxl>

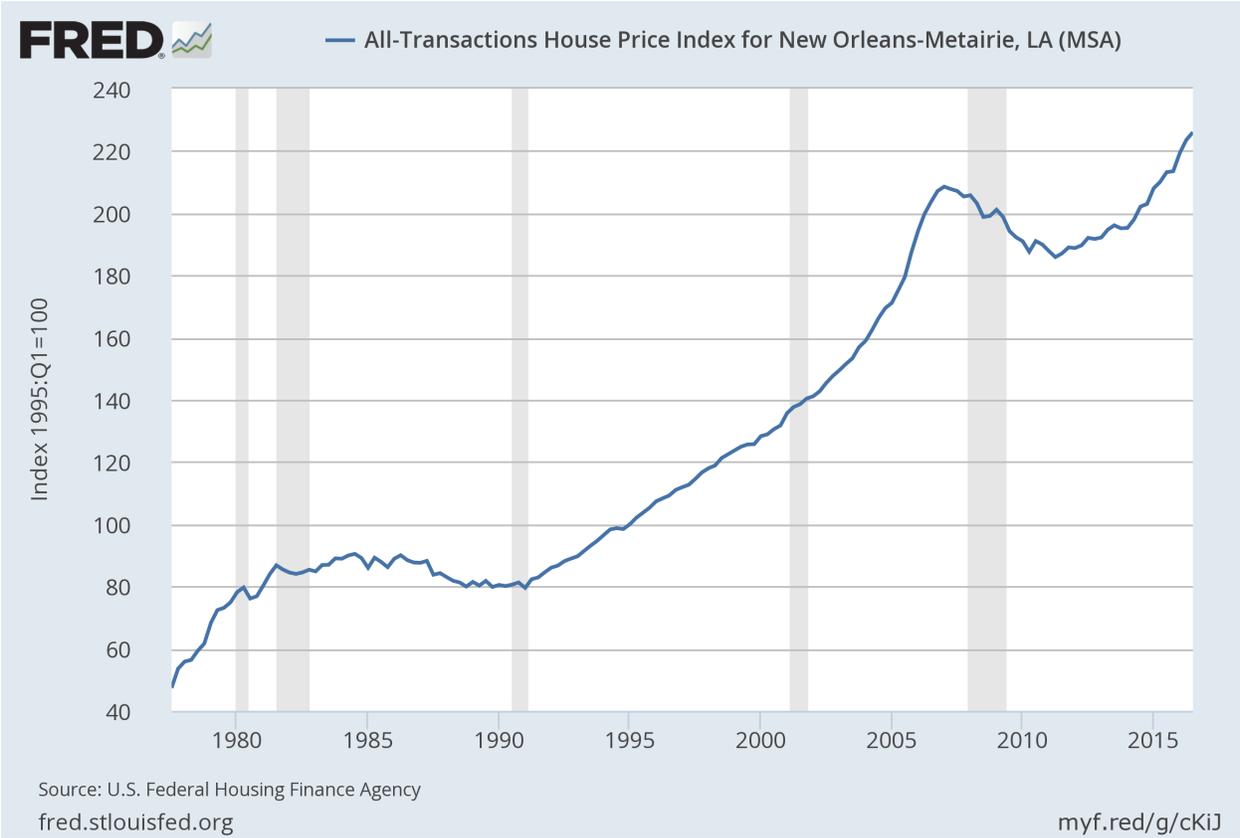
# Housing Price Index United States



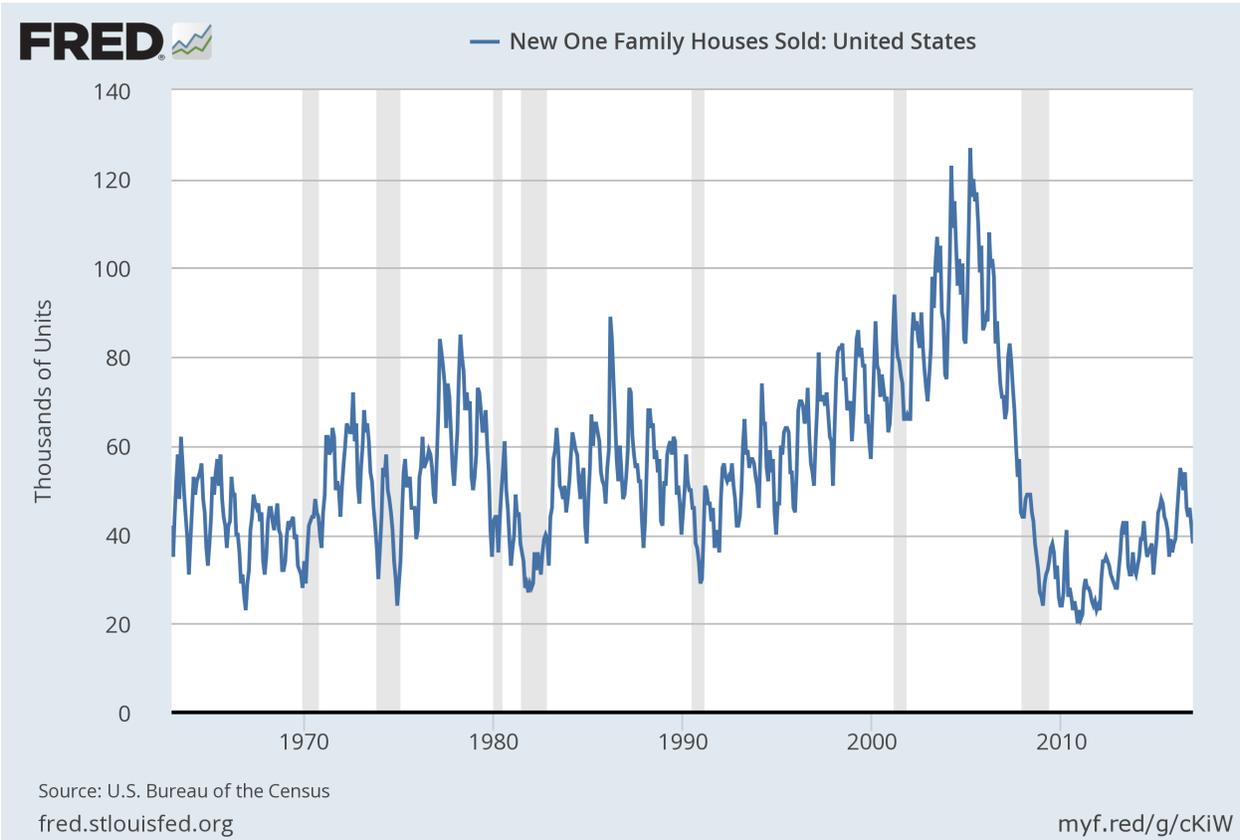
# Housing Price Index Baton Rouge



# Housing Price Index New Orleans



# Monthly Housing Sales U.S.



## References:

### Information for Business Cycles Lecture February 18, 2017

Free Textbook on Economics

[http://www.textbooksfree.org/Economics 9 The Business Cycle.htm#. Business cycles describe the fluctuations in business activity over time.](http://www.textbooksfree.org/Economics%209%20The%20Business%20Cycle.htm#.Business%20cycles%20describe%20the%20fluctuations%20in%20business%20activity%20over%20time)

The Business Cycle McNeal Lehrer Report

<https://www.youtube.com/watch?v=rFyXrFKt5Gw>

Real Estate Cycle AuxohomesTV

<https://www.youtube.com/watch?v=6EyOPm19mxl>

Causes of the Business Cycle

<https://www.thebalance.com/causes-of-the-business-cycle-3305804>

The Commercial Real Estate Show PWC Emerging Trends in Real Estate

[https://www.youtube.com/watch?v=Lbtlem\\_D2Gg](https://www.youtube.com/watch?v=Lbtlem_D2Gg)

Regenerating Neighborhoods with Cultural Heritage: Jeffrey Morgan Real Estate Development Boston

<https://www.youtube.com/watch?v=xkjEzYg1PwU>

Center on Budget and Policy Priorities

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