The Rise of Technology in the Housing Sector

The widespread accessibility of internet and smartphones has revolutionized consumption patterns over the last decade. Entrenched institutions have been disintermediated in rapid fashion. Yet the most visible markers of change, such as the shrinking of retail mall space and the metamorphosis of drug store chains, account for only 3-4% of the annual pre-tax expenditure of the average U.S. consumer. The most meaningful share of the consumer wallet belongs to housing outlays, as the chart below demonstrates.

The home holds great significance, not only as the basis of one’s daily environment, but in its long-standing importance as a significant balance sheet asset and store of wealth. Despite the sizable addressable market and the critical importance of the home, the consumer experience around home purchasing patterns remains the last frontier with regard to disruptive technology.

The experience of home ownership and maintenance comes with pain points that are ripe for transformation. Transparency, efficiency and value are principles the internet has conditioned the consumer to expect. However, in the traditional housing complex, which remains localized and fragmented, opacity is abundant thereby meaningfully taxing consumer bandwidth on both the budgetary and time fronts.

Why Advent?

- Over 23 years of global investment experience and a robust research platform makes it well positioned to navigate the convertible and high-yield asset classes.
- Convertible bonds’ embedded options provide exposure to volatility and can benefit from an increase in market gyrations, both up and down.
- Advent’s institutional expertise in managing convertibles and high yield is accessible to individual investors through the AdventConvertible and Income Fund (AVK).

On the left hand side of the chart, the areas for low satisfaction meaningfully overlap with the initiatives being rolled out by innovative technology companies such as Zillow, which aims to create a more seamless home buying and selling experience. The company is developing a digital offering so that sellers can receive electronic, all-cash offers within days, and it expects to offer such services across 26 markets nationally by mid-2020. On the buy side, Zillow’s core business consists of a database for prospective buyers to compare properties and contact local agents at the click of a button. The company has even taken the step of acquiring a mortgage lender to create a continuous interface for the buyer. Zillow has executed this mission by growing their online offering, which has been funded by the issuance of over $2 billion of outstanding convertible bonds.

Once a home is purchased, renovations and maintenance also rate unsatisfactorily by the consumer. A considerable convertible issuer, Interactive Corp, aims to facilitate the electronic bidding and offer process on staple home services such as plumbing, HVAC, and landscaping. Further down the service provider funnel, time consuming decorating and home furnishing paradigms are being modernized. Wayfair, another $2 billion convertible issuer, has created tools that allow for online interior design and room planners, as well as a streamlined return process for unwieldy furniture.

Convertible bonds have an extensive history as the security of choice for nascent, first mover companies with innovative strategies and large addressable markets. Convertibles may offer certain advantages when investing in such cutting-edge concepts. They are typically issued with a low coupon. In lieu of a higher rate, the bondholder owns an embedded call option on the company’s equity, which, subject to certain conditions, can be exercised at the holder’s election. The downside of this instrument may potentially be reduced because it provides a yield and is accompanied by the obligation of principal repayment at maturity in a going concern scenario. The security may provide potential upside participation as these growth concepts come to fruition as fully scaled operating models, and may potentially become lynchpins of tomorrow’s housing ecosystem.
As of 10.31.2019, securities of the companies referenced in this material make up the following allocations to AVK’s portfolio: Zillow Group, 0.51%; IAC/InterActiveCorp, 0.86%; and Wayfair Inc., 0.40%.

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Net asset value (NAV) is the value of all fund assets (less liabilities) divided by the number of common shares outstanding. Market price is the price at which a fund trades on an exchange. Shareholders purchase and sell closed-end funds at the market price, not NAV. A closed-end fund's premium/discount valuation is calculated as market price minus NAV, divided by NAV.

General Risk Warnings Investments in fixed-income instruments are subject to the possibility that interest rates could rise, causing their values to decline. High yield and unrated debt securities are at a greater risk of default than investment grade bonds and may be less liquid, which may increase volatility. Convertible securities may not be suitable for all investors. Although all markets are prone to change over time, the generally high rate at which convertible securities are retired (through mandatory or scheduled conversions by issuers or through voluntary redemptions by holders) and replaced with newly issued convertibles may cause the convertible securities market to change more rapidly than other markets. For example, a concentration of available convertible securities in a few economic sectors could elevate the sensitivity of the convertible securities market to the volatility of the equity markets and to the specific risks of those sectors. Moreover, convertible securities with innovative structures, such as mandatory-conversion securities and equity-linked securities, have increased the sensitivity of the convertible securities market to the volatility of the equity markets and to the special risks of those innovations, which may include risks different from, and possibly greater than, those associated with traditional convertible securities. A convertible security may be subject to redemption at the option of the issuer at a price set in the governing instrument of the convertible security. If a convertible security held by the fund is subject to such redemption option and is called for redemption, the fund must allow the issuer to redeem the security, convert it into the underlying common stock, or sell the security to a third party. As a result of the conversion feature, convertible securities typically offer lower interest rates than if the securities were not convertible. During periods of rising interest rates, it is possible that the potential for capital gain on convertible securities may be less than that of a common stock equivalent if the yield on the convertible security is at a level that would cause it to sell at discount. Also, in the absence of adequate anti-dilution provisions in a convertible security, dilution in the value of the fund’s holding may occur in the event the underlying stock is subdivided, additional securities are issued, a stock dividend is declared, or the issuer enters into another type of corporate transaction which increases its outstanding securities.

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