

Approaching the Redline



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A Stronger Economy

- Creates jobs
- Labor shortage
- Wage increases
- Higher inflation
- Higher interest rates



Key Issues in 2017

- Economy still has a lot of energy left
- Tax policy changes bullish for jobs and the market
- Reduced regulation good for many industries
- Infrastructure spending unlikely to happen
- Will immigration policy changes constrict labor supply?
- New global trade policies could raise cost of imports
- Fed wants to raise interest rates making dollar stronger
- Monetary policy in Europe and Japan keeps rates low
- Will labor shortage create wage inflation?
- Will inflation expectations increase interest rates?
- New bull market for single-family housing
- Oil and gas industries are rebounding

Tax Reform

House Ways and Means Committee “Blueprint”

Three tax brackets: top is 33%

Larger standard deduction

Larger child/dependent tax credit

Eliminate AMT

Improving the EITC

Encourage charitable giving providing real tax incentive

Reform provisions for retirement savings

Eliminate the estate tax

Individuals deduct 50% of dividends/interest/capital gains from stocks/mutual funds

Stop overtaxing Made in America products

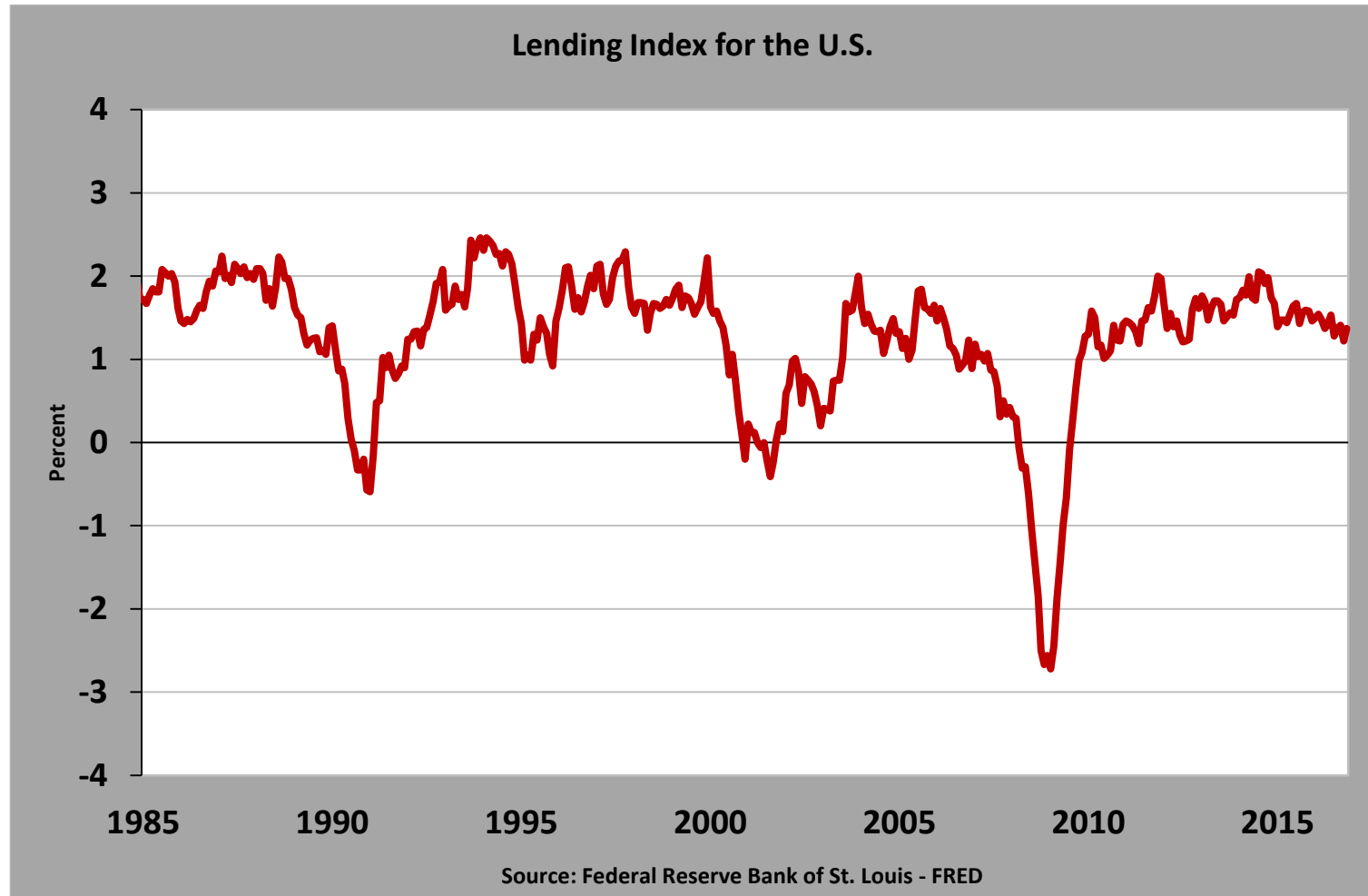
Lower corporate tax rate to 25%

Allow full and immediate write-offs on new investment

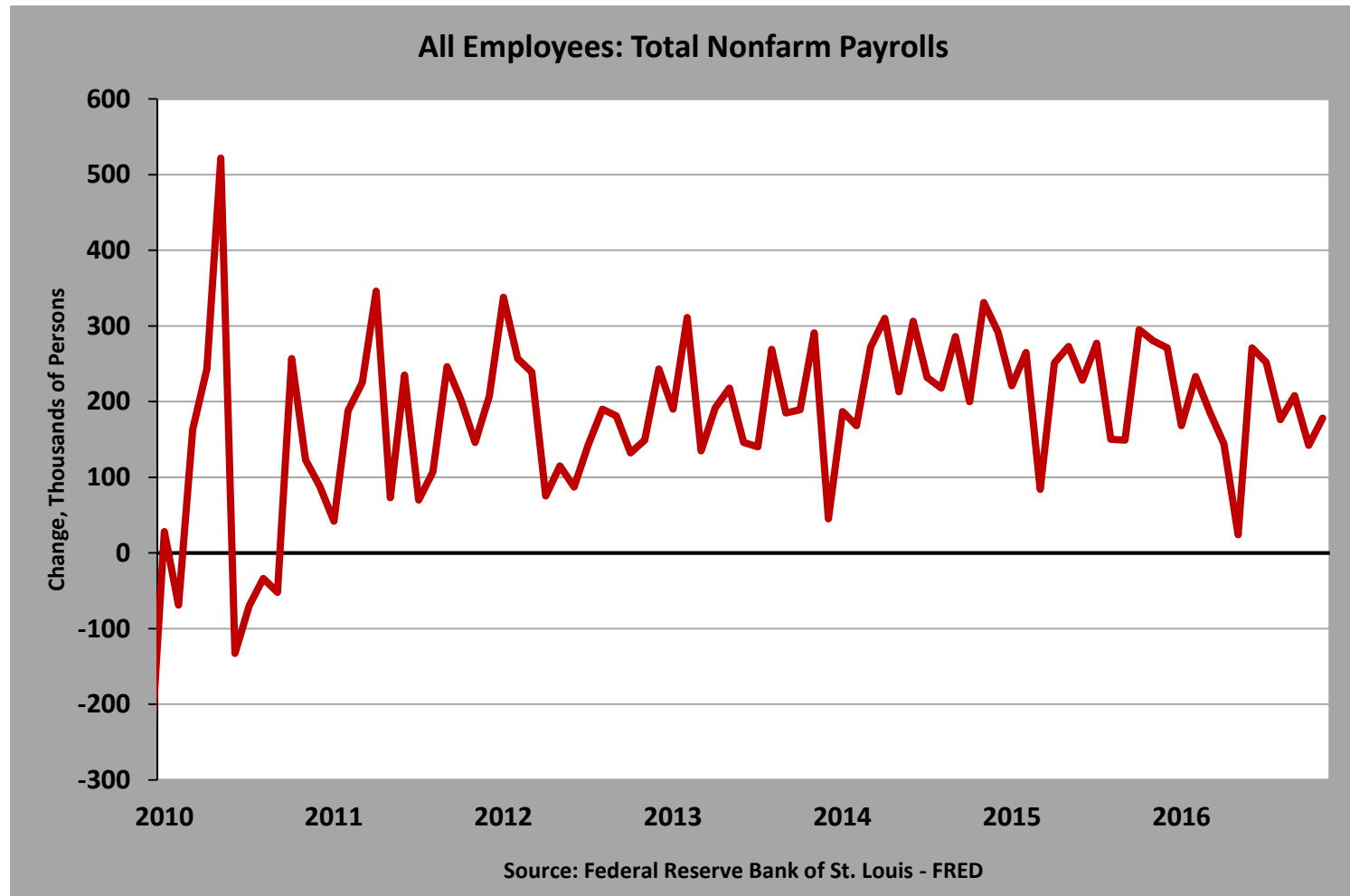
Lower the corporate tax rate to 20%

Shift to a territorial system of corporate taxes

U.S. Leading Index of Economic Indicators



New Jobs Created Each Month

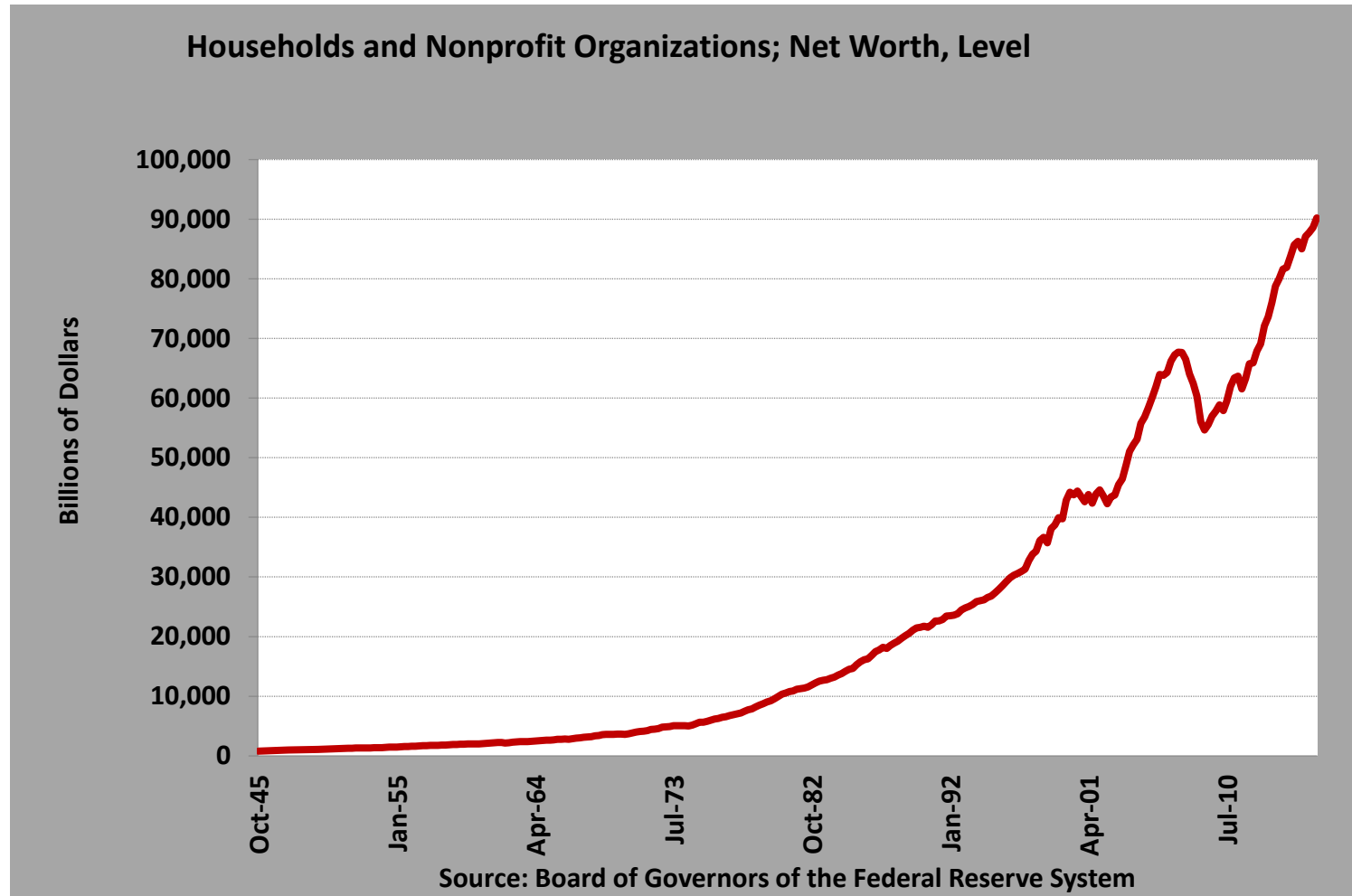


Average Hourly Earnings

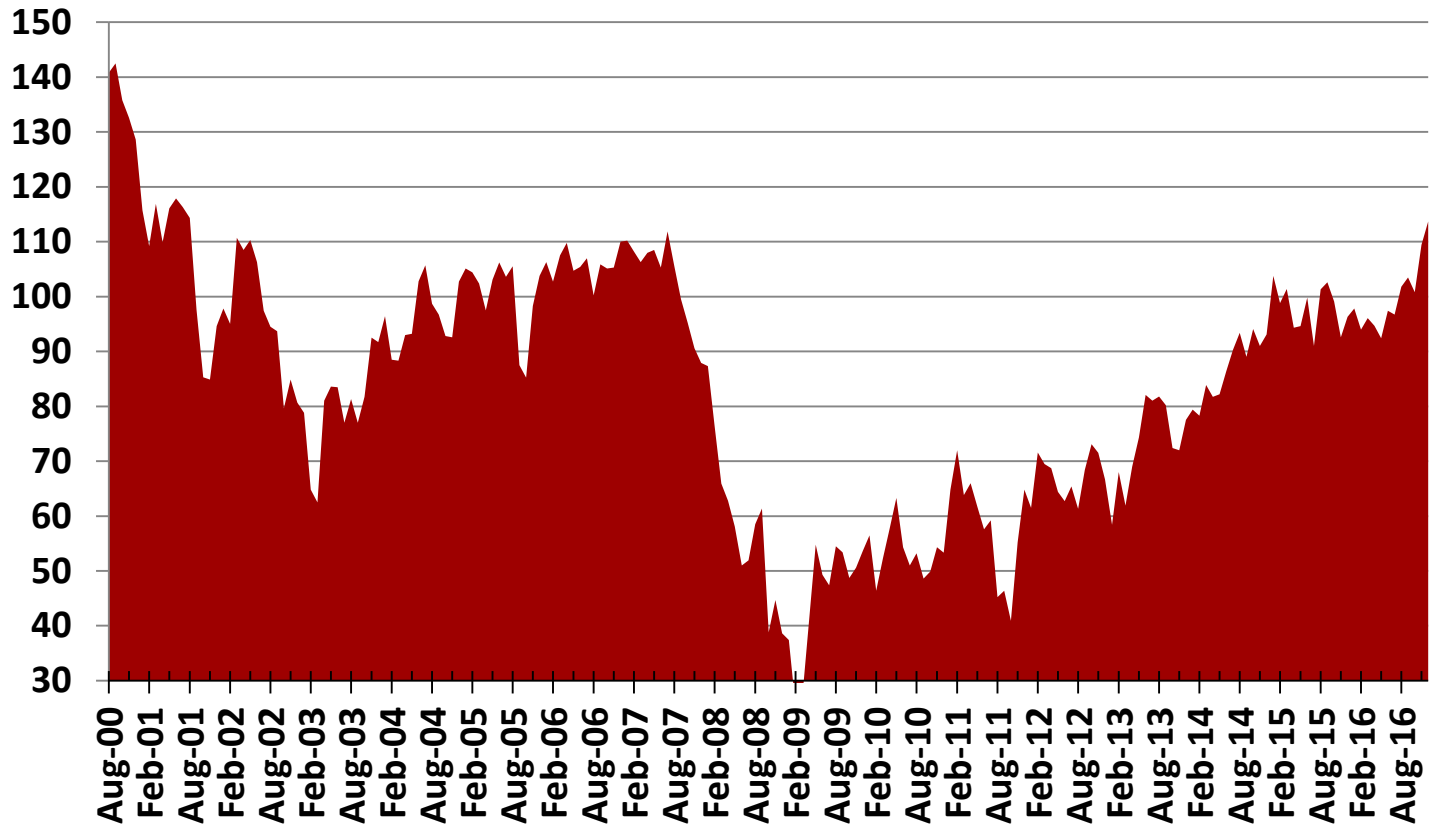
Annual Rate of Change



Household Net Worth Recovering After Stock Market Rally



Consumer Confidence Index



Source: The Conference Board

Small Business Outlook

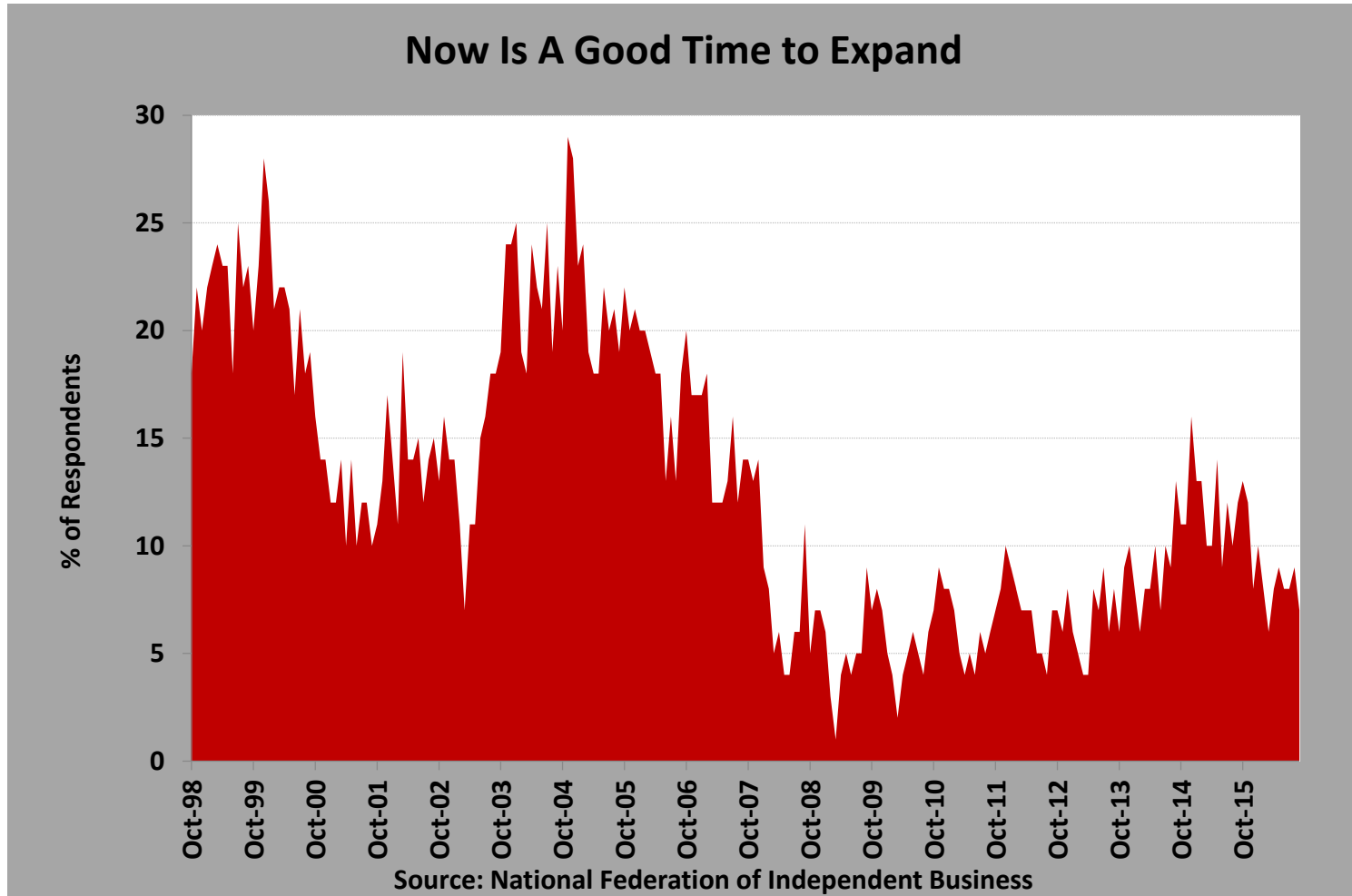
“Planning To Hire People In The Next 3 Months”



Source: National Federation of Independent Business

Small Business Outlook

“Now Is A Good Time To Expand”



Corporate Hiring Plans

Next 6 Months

Q4-16 **Q3-16** **Q2-16** **Q1-16**

More Jobs	35%	27%	29%	29%
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Less Jobs	30%	36%	35%	38%
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Source: Business Roundtable

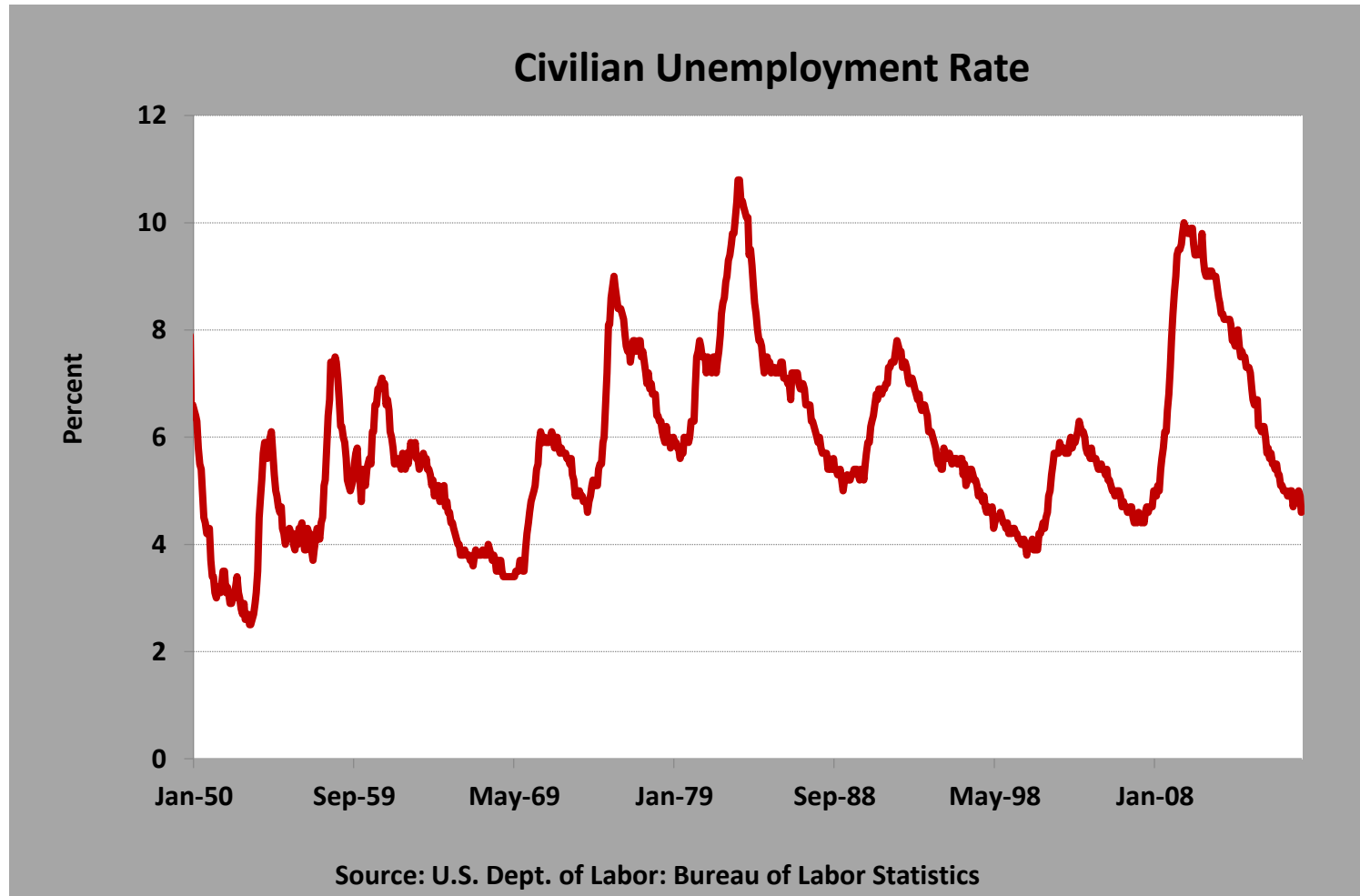
Job Openings in America

Looking for Workers

Total Job Openings	5,534,000
Construction	205,000
Manufacturing	322,000
Trade, Transportation, Utilities	1,048,000
Professional & Business Services	926,000
Education & Health Care	1,205,000
Leisure & Hospitality	700,000
Government	512,000

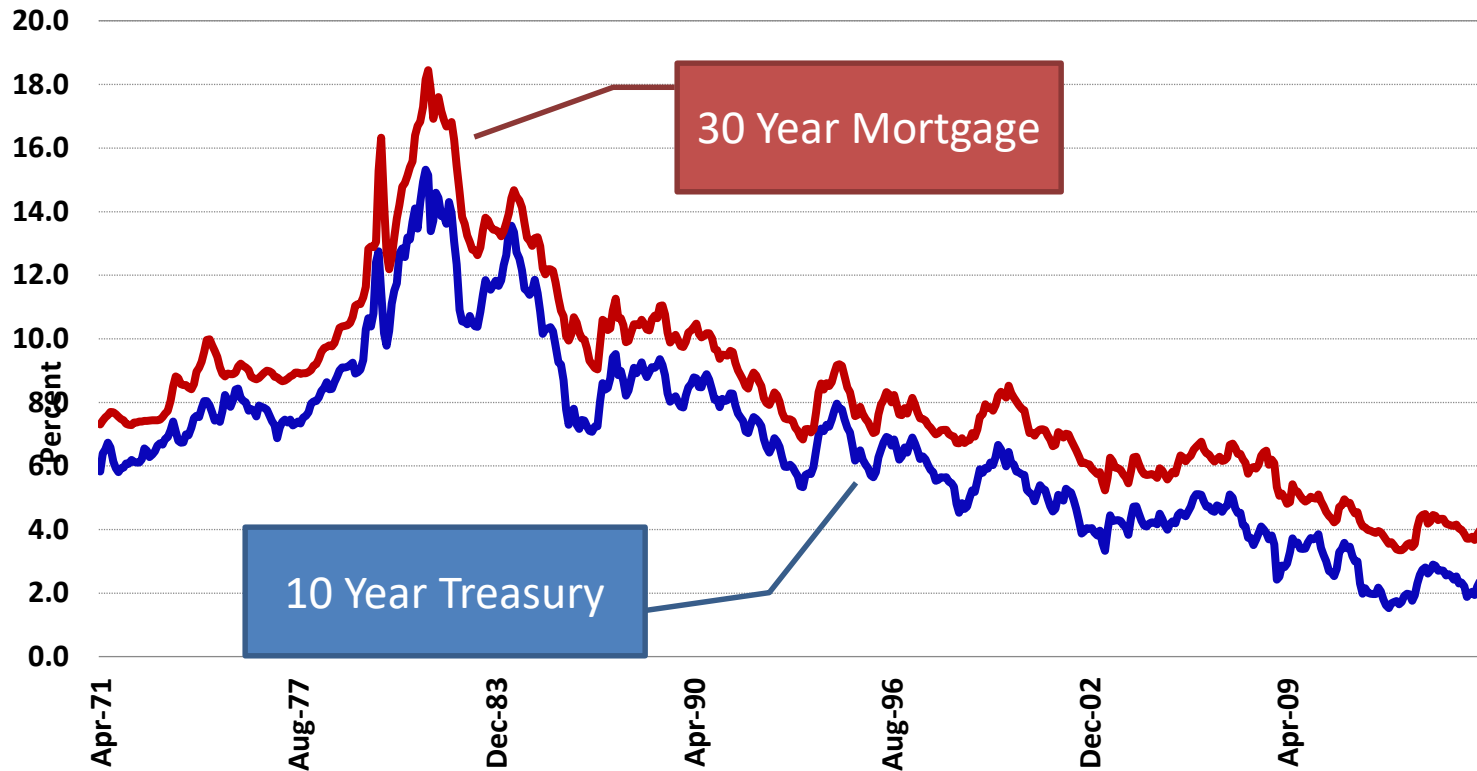
Source: Bureau of Labor Statistics
BLS release on Dec. 7, 2016

Civilian Unemployment Rate



Interest Rates

The 30-Year Mortgage and the 10-Year Treasury Bond



Source: Board of Governors of the Federal Reserve System/FRED

What Can Keep Inflation in Check?



Trade Weighted U.S. Dollar

Trade Weighted U.S. Dollar Index: Major Currencies



Source: Board of Governors of the Federal Reserve System



What Can Keep Inflation in Check?



Deflationary Impact of Strong Dollar

American cost to buy 4,000,000 yen Toyota

FRED Number of yen to get \$1



With yen at 77 to the dollar,
car costs \$51,948

With the yen at 120 to the dollar,
car costs \$33,333

Investor Impact of Strong Dollar

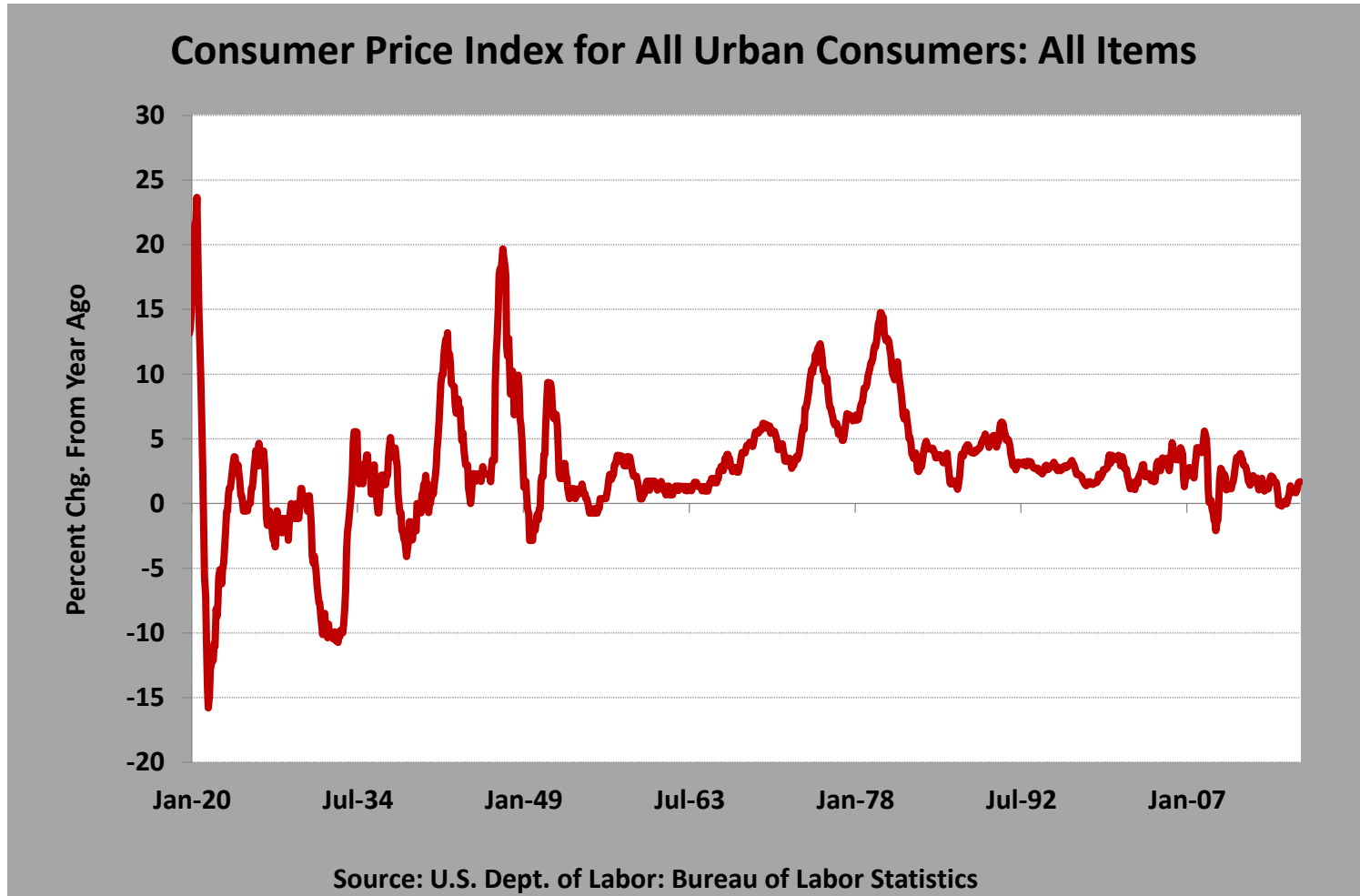
Mexican cost to buy \$1 million building in U.S.



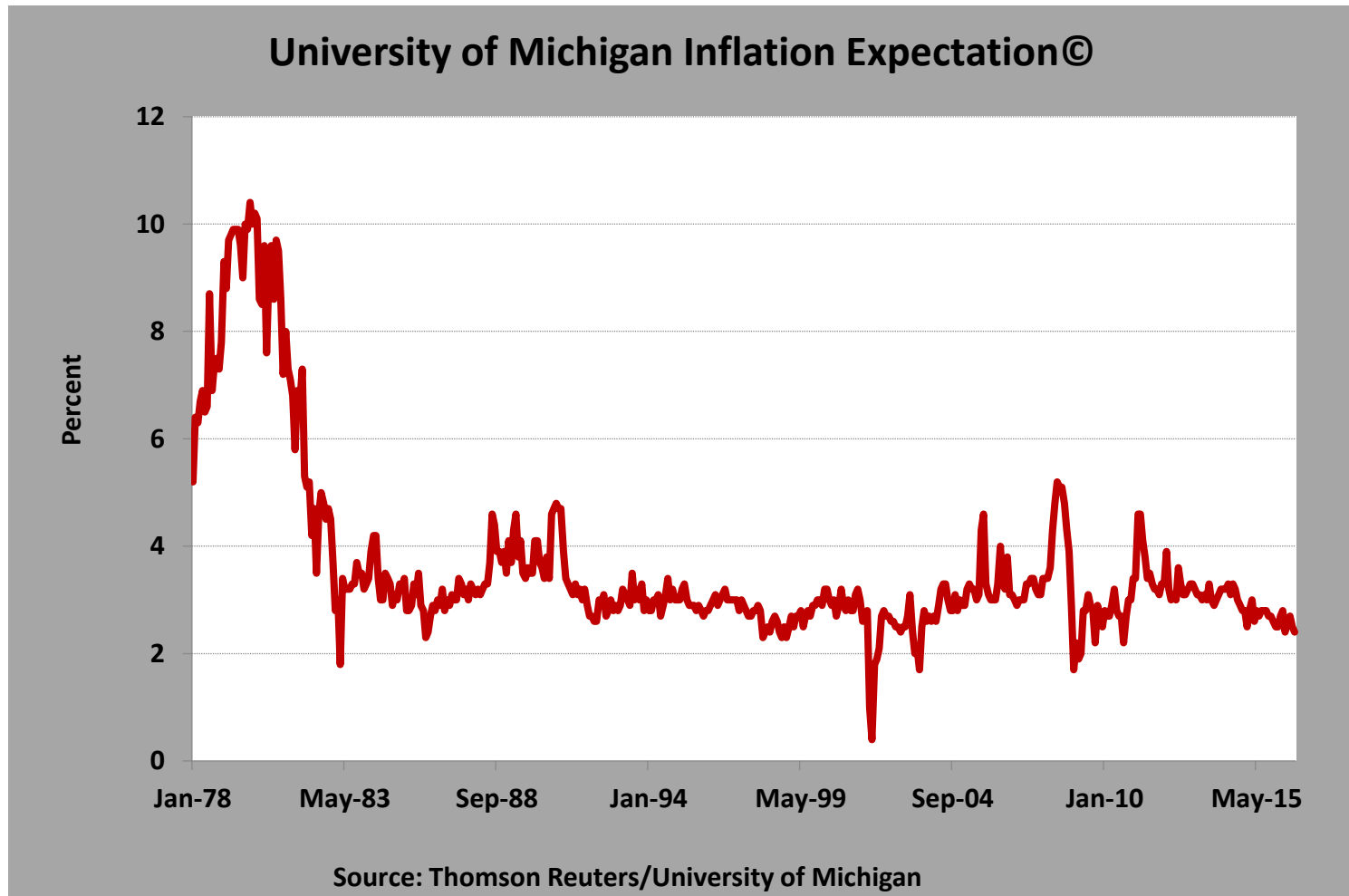
With peso at 12 to the dollar,
building costs 12 million pesos

With the peso at 20 to the dollar,
building costs 20 million pesos

Inflation Rate

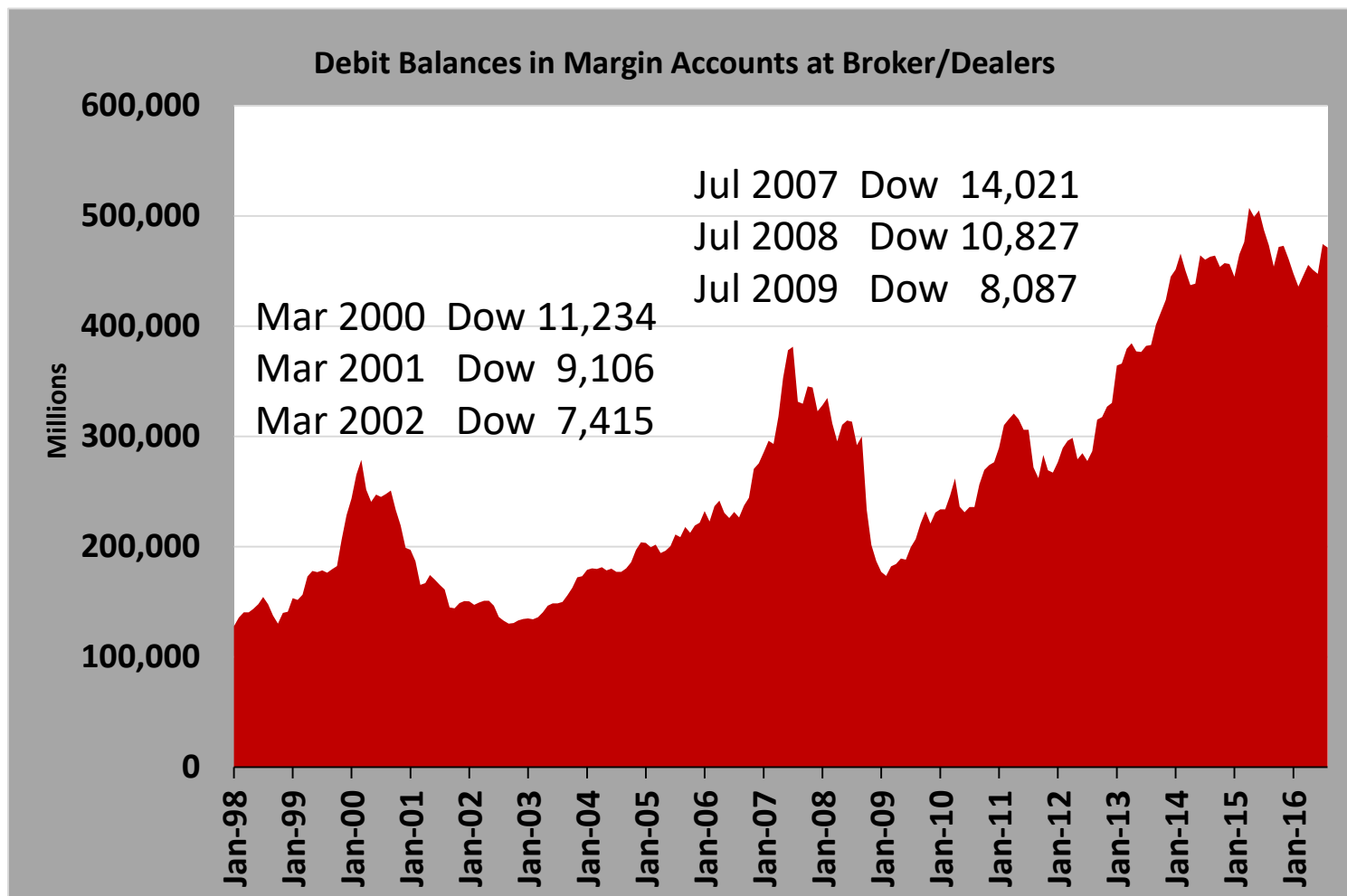


University of Michigan Inflation Expectations Survey



Margin Debt

Debit Balances at Broker/Dealers



Source: Standard and Poor's

"All the News
That's Fit to Print"

The New York Times

Late Edition
New York Today: increasing clouds.
High 52-57. Tonight: cloudy, breezy,
showers likely. Low 31-37. Tomorrow,
showers ending. High 55-65. Yesterday:
High 48, low 48. Details on page B6.

VOL. CXXXVII... No. 47,298

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NEW YORK, TUESDAY, OCTOBER 20, 1987

34 cents (except 15 cents South New York City,
except on Long Island)

30 CENTS

STOCKS PLUNGE 508 POINTS, A DROP OF 22.6%; 604 MILLION VOLUME NEARLY DOUBLES RECORD

U.S. Ships Shell Iran Installation In Gulf Reprisal

Offshore Target Topped a Base for Gunboats

By STEVEN V. ROBERTS

Source: The New York Times

WASHINGTON, Oct. 19 — United States naval forces struck back at Iran today for attacks on American-registered vessels and other Persian Gulf shipping by shelling two connected offshore platforms that American officials said were a base for Iranian gunboats.

A few hours later, a naval commando detachment boarded a third platform five miles away and destroyed radar

A Huge Blow to the Five-Year Bull Market



Does 1987 Equal 1929?

WORLDWIDE IMPACT

Black Monday October 19, 1987

MANHATTAN • • • • • SPORTS FINAL

DAILY NEWS

NEW YORK'S PICTURE NEWSPAPER

Tuesday, October 20, 1987

PANIC!

Dow plunges through floor — 508 pts.
6 PAGES OF COMPLETE COVERAGE BEGIN ON PAGE 2

BERNIE GETS 6 MONTHS

Five years probation on gun charge Story on page 5

TIME THE CRASH

After a wild week
on Wall Street,
the world is different

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Monday, October 19, 1987. The New York Stock Exchange is in a shambles, in record time the Dow Jones has plummeted a stupendous 500 points. Stock holders panic as orders start back to back. Phone lines jam as the wave of terror spreads throughout the nation. Black Monday has begun...

Explains the challenging goals that face all the investors and dealers of the real New York Stock Exchange, looks up to five other investors to test their own financial fitness as you borrow up to five million dollars from the bank, invest the money as you choose in up to 20 real stocks currently trading on the Exchange. Evaluates personal daily reports, anticipate market trends, identify market patterns and place your orders.

Do you know what it takes to be a long-term successful investor?
The only way to be sure is to experience BLACK MONDAY!

KEYPUNCH



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KEYPUNCH



Rate Hikes Prior to Black Monday October 19, 1987

September 1984 11.500 %
December 1986 5.875 % Lowering rates for two years

Jan 5, 1987 tiny increase to 6.00%
Apr 30, 1987 half percent increase to 6.50%
May 22, 1987 quarter percent increase to 6.75%
Sept 4, 1987 half percent increase to 7.25%
Sept 24, 1987 tiny increase to 7.3125%

Oct 19, 1987 Black Monday:
Dow falls 22.6% in one day

Black Monday October 19, 1987

Rate hike regime lasted eight months.

Rate was increased five times.

Rate increased by a total of 1.50%

Then the stock market collapsed.

Rate Cuts After Black Monday October 19, 1987

Oct 19, 1987

**Black Monday:
Dow falls 22.6% in one day**

Oct 20, 1987

Fed rate was still 7.3%

Nov 4, 1987

half percent decrease to 6.8%

Jan 28, 1988

small decrease to 6.6%

Feb 11, 1988

small decrease to 6.5%

Mar 30, 1988

quarter percent increase to 6.7%

Dec 31, 1988

nine more rate hikes to 8.7%

Black Monday October 19, 1987

Rate cut regime lasted four months.

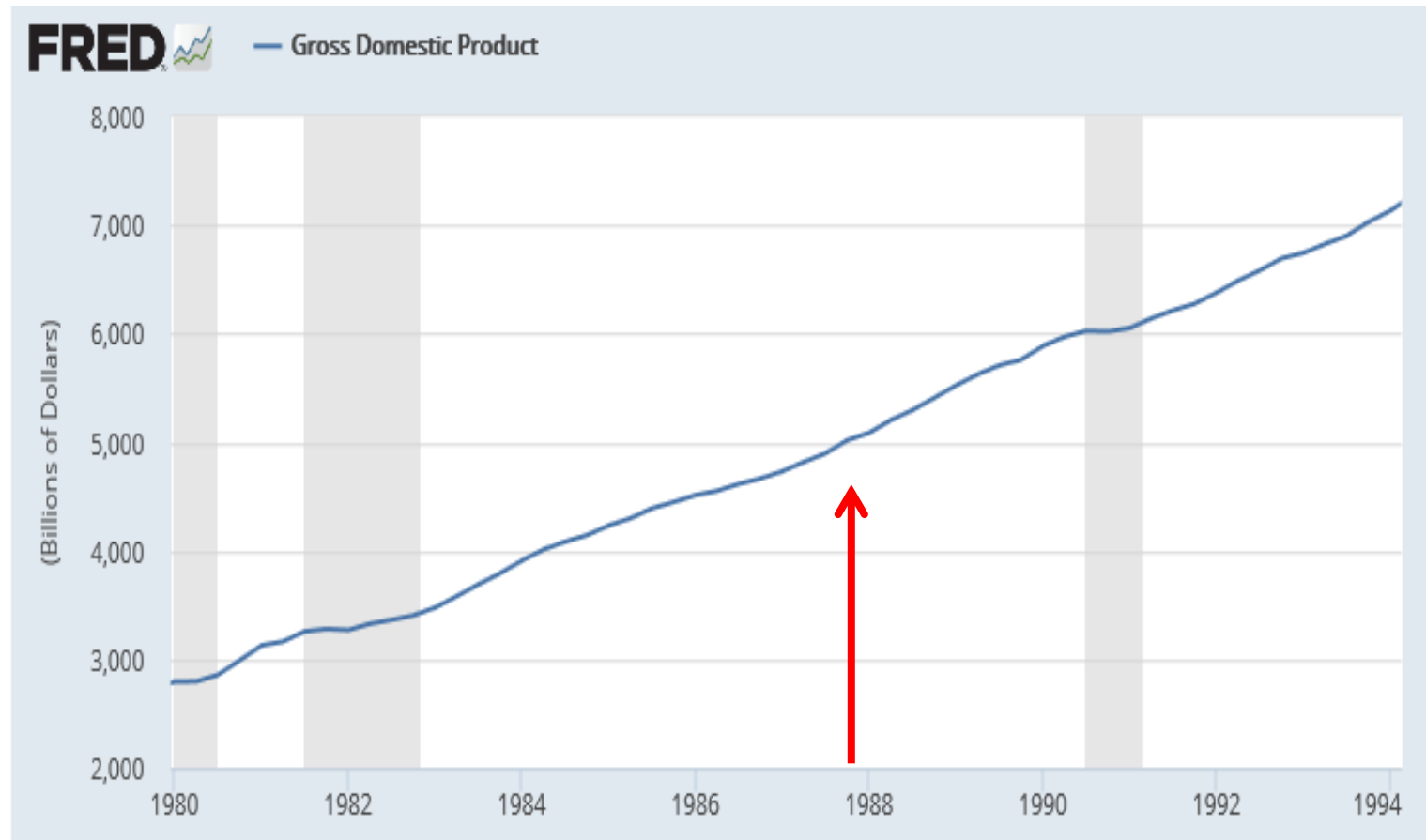
Rate was cut four times.

Rate was cut by a total of .80%

Rate increases resumed
four months after the crash.

Dec 01, 1987 the more rate hikes to 8.75%

Impact of Black Monday on the Economy



CRE Continues to Shine

[MY ACCOUNT](#)[WHAT WE OFFER](#)[WHY TIAA](#)[SUPPORT](#)

TIAA Real Estate Account QREARX [Manage Portfolio](#)

VARIABLE ANNUITY FUND [Prospectuses](#) [Fund Fact Sheet](#)

For principal risks, click on prospectus link.

Unit Value

\$382.00

AS OF CLOSE 01/13/2017

Day's Change

▲ 0.0110 (0.00%)

Portfolio Net Assets

\$24.30B

AS OF 12/31/2016

Estimated Annual Expenses ?

0.89%

52 Week Range

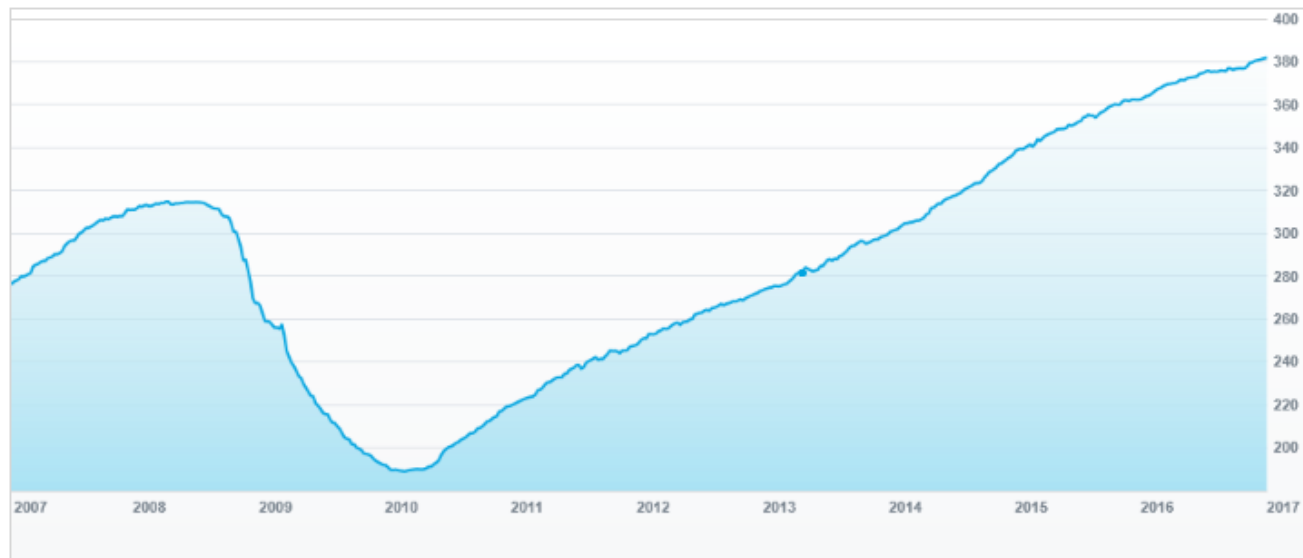
\$362.2666 – \$382.0738

01/20/16 – 01/05/17

[Profile](#)[Performance](#)[Charting](#)[Portfolio](#)[Management Team](#)[1 Month](#)[3 Month](#)[6 Month](#)[1 Year](#)[3 Years](#)[5 Years](#)[10 Years](#)

CHART TYPE ▾

Date: May 06, 2013 Close: 282.84



The Housing Market

Pew Survey on Housing

December, 2016

“A solid majority (72%) of renters say they would like to buy a home in the future.”

Source: Pew Research Center December 15, 2016
In a Recovering Market, Homeownership Rates.....

Pew Survey on Housing

December, 2016

“A substantial portion of the ongoing falloff in homeownership reflects fewer renter households transitioning to homeownership, rather than homeowners being forced out of the market through foreclosure or other financial difficulty.”

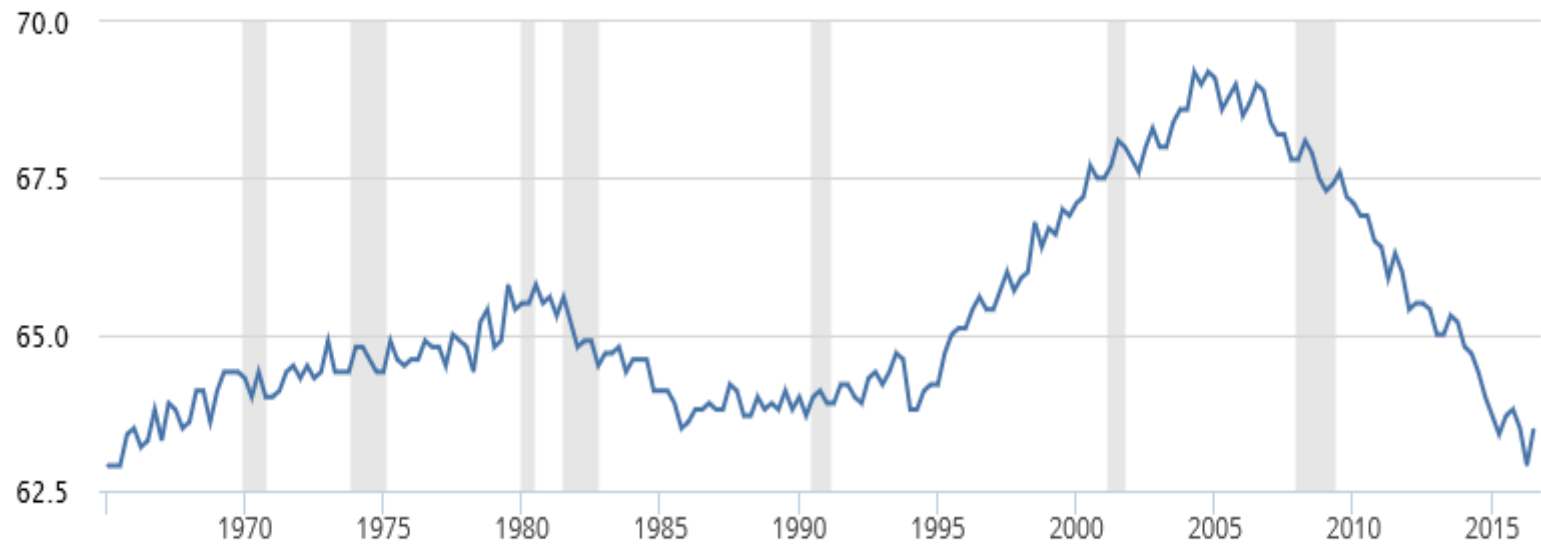
HO Rate for households headed by adult younger than 35

1982 41.2%

2016 35.2%

Source: Pew Research Center December 15, 2016
In a Recovering Market, Homeownership Rates.....

Homeowner Rate in America Since 1965



Source: Census Bureau

Declining Homeownership Across the Age Spectrum

Head of Household	HO Rate 1994	HO Rate 2016
<35 years	37.3%	35.2%
35-44 years	64.5%	58.4%
45-54 years	75.2%	69.1%
55-64 years	79.3%	74.9%
> 65 years	77.4%	79.0%

Source: Pew Research Center December 15, 2016
In a Recovering Market, Homeownership Rates.....

Collapse of the Subprime Market

Percent of
new mortgages

2008	11.1%
2009	5.6%
2010	3.8%
2011	3.6%
2012	3.1%
2013	4.6%
2014	5.0%
2015	5.0%
2016	5.0% estimate

Source: Equifax Inc.

Collapse of the Subprime Market

Average First Mortgage Loan Amount in 2016

\$240,000

Average Subprime First Mortgage Loan in 2016

\$160,000

Source: Equifax Inc. for loans originated in Mar/Apr/May 2016

The Cost of Mortgage Regulation

“Since the housing crash, borrowers with excellent credit scores have increasingly dominated the market and lending to those with low credit scores has all but ceased.”

Source: Pew Research Center December 15, 2016
In a Recovering Market, Homeownership Rates.....

Lack of Down Payment

Total Financial Assets for Renter Households

Household Age	Median Financial Assets	
	2004	2013
<35	\$3,300	\$3,000
35 to 44	\$4,400	\$3,100
45 to 54	\$4,900	\$3,600
55 to 64	\$4,800	\$2,100
>65	\$2,500	\$4,000

Source: Federal Reserve Survey of Consumer Finances

The Investment Climate

- U.S. college endowments lost 1.9 percent for the year ended June 30, 2016.
- In the prior 12 months, they saw an average gain of 2.4 percent.
- The 10-year average fell to 5 percent.
- This is well below the median 7.4 percent return they expect to earn over time.

Poor performance was attributed to international equities, energy and natural resources, commodities and hedge funds. Hedge funds were among the worst performers with a 4 percent loss.

The Investment Climate

Best performers for endowments:

Private equity real estate with 7.1 percent return

Private equity investments with 4.5 percent return

Fixed income bonds with 3.6 percent return.