



Playing Ball in the Later Innings

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AMERICAN LEAGUE		NATIONAL LEAGUE	
W	L	W	L
30	13	15	15
31	12	14	16
32	11	13	17
33	10	12	18
34	9	11	19
35	8	10	20
36	7	9	21
37	6	8	22
38	5	7	23
39	4	6	24
40	3	5	25
41	2	4	26
42	1	3	27
43	0	2	28
44	0	1	29
45	0	0	30

Since 1945, there have been 11 economic cycles

- The average recession has been 11.1 months
- The average expansion has been 58.4 months

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- The average expansion has been 58.4 months.
- As of April, the current expansion is 82 months.

Since 1945

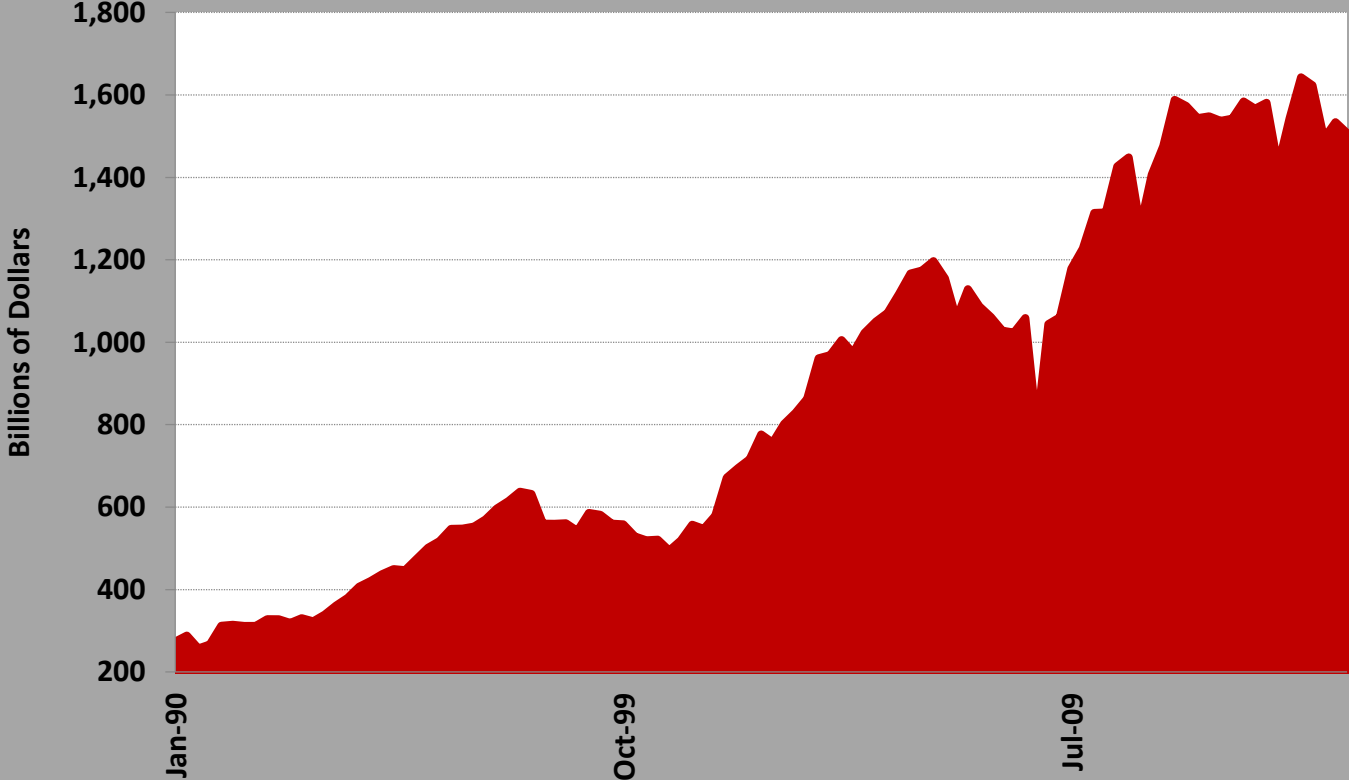
Longest U.S. Economic Expansions

- Mar 1991 to Mar 2001 120 months
- Feb 1961 to Dec 1969 106 months
- Nov 1982 to Jul 1990 92 months
- Jun 1938 to Feb 1945 80 months
- Nov 2001 to Dec 2007 73 months

Nationally the Bullish Outlook Continues

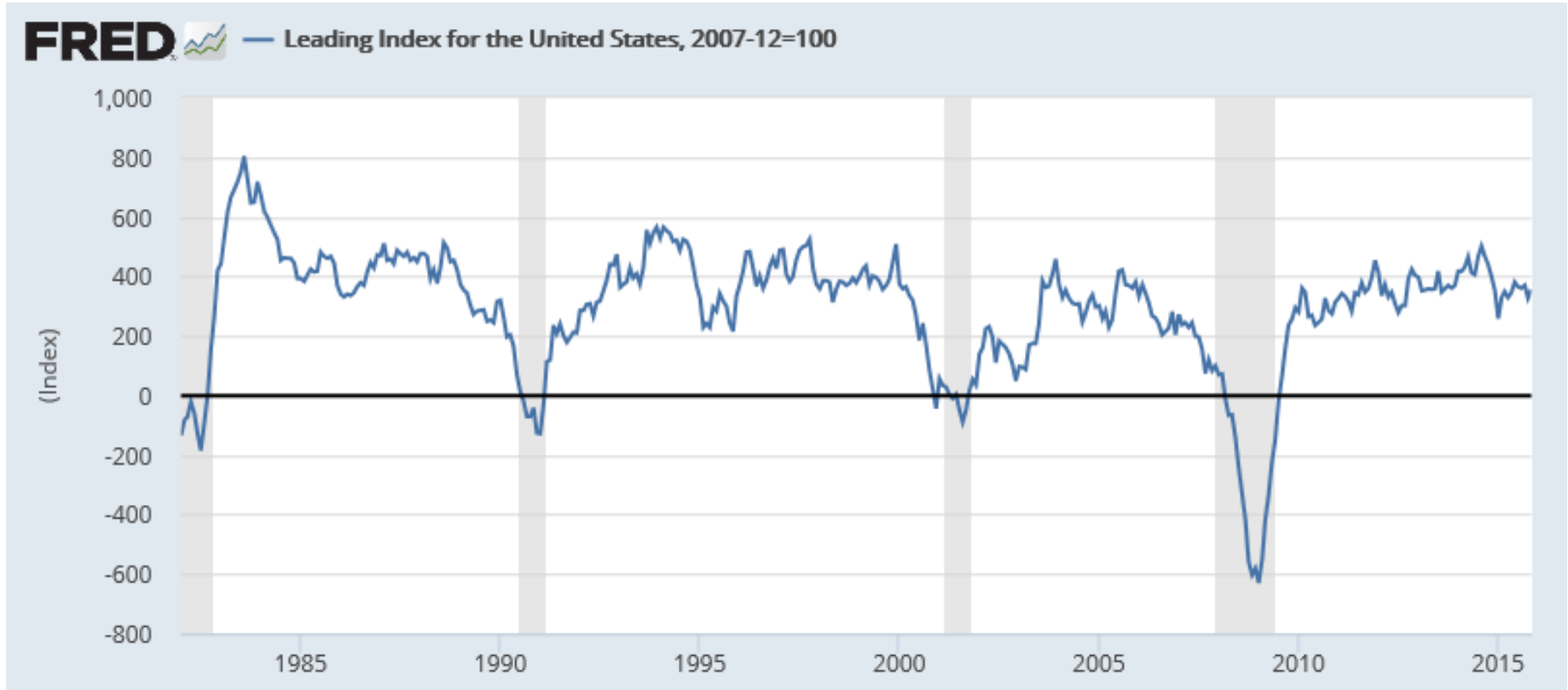
Corporate Profits Flat

Corporate Profits After Tax with Inventory Valuation Adjustment (IVA) and Capital Consumption Adjustment

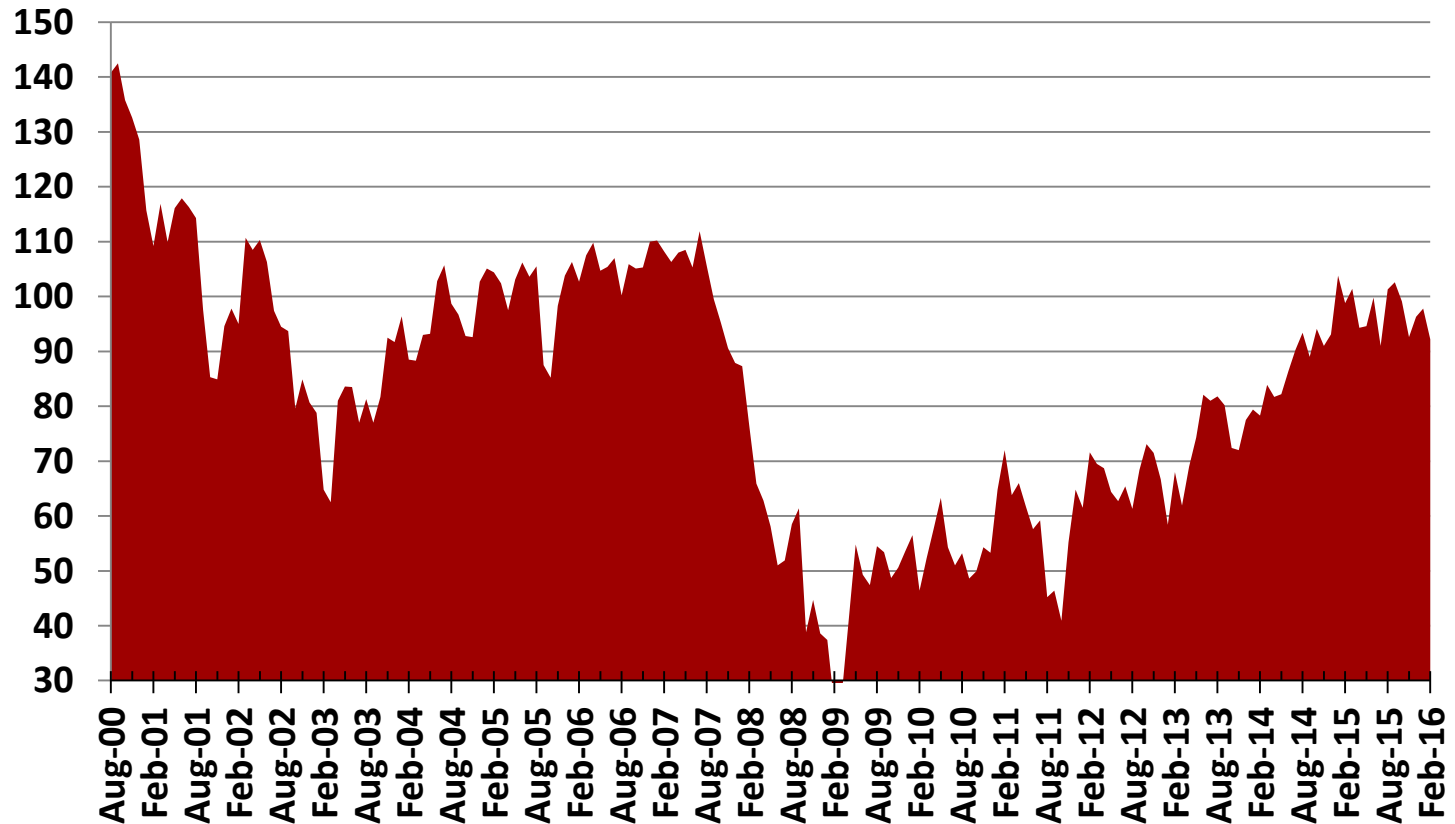


Source: U.S. Dept. of Commerce: Bureau of Economic Analysis

U.S. Leading Index of Economic Indicators



Consumer Confidence Index



Source: The Conference Board

Small Business Outlook

“Planning To Hire People In The Next 3 Months”



Corporate Hiring Plans:

Next 6 Months

Q4-15 Q3-15 Q2-15 Q1-15

More Jobs **35%** **33%** **34%** **40%**

Less Jobs **34%** **32%** **26%** **23%**

Source: Business Roundtable

Job Growth in the 21st Century

	<u>2000</u>	<u>2015</u>	<u>Change</u>
TX	9,929,387	12,494,350	2,564,963
CA	16,033,179	17,798,614	1,765,435
FL	7,565,981	9,153,264	1,587,283
AZ	2,410,581	2,959,518	549,937
VA	3,522,865	4,051,908	529,043
NC	3,986,151	4,495,473	509,322
GA	4,071,557	4,549,951	478,394
WA	2,901,492	3,343,992	442,500
CO	2,294,408	2,718,698	424,290

Mythical Chimera

- Something that exists only in the imagination and is not possible in reality.



Mark Dotzour's Chimera:

Winning the Masters with an 15 Handicap



Japan's Chimera:

Quantitative Easing in a “New Dimension”

On Apr 4, 2013 BOJ will buy
50 trillion in JGB and 10 trillion
in Nikkei ETFs

Plan to double the monetary
base from 135 trillion yen
to 270 in two years.

Government Pension
Investment Fund will cut
holdings of government bonds
from 60% to 35% to increase
demand for stocks.

“This is taking monetary easing
into an entirely new dimension.”

H. Kuroda, Governor BOJ



Chinese Chimera: The Shanghai Stock Exchange

Shanghai Composite Streaming Chart



Plunged 30% in three weeks in June 2015.

- You can buy, but you can't sell.
- Please borrow money to buy stocks.
- Half of all shares are suspended from trading.
- Declared war on “foreign puppet masters” and vicious short sellers.



Shanghai Stock Exchange

European Chimera:



I can help countries that are heavily in debt by loaning them even more money.

“The Governing Council is willing and able to act by using all the instruments available within its mandate if warranted in order to maintain an appropriate degree of monetary accommodation. “

Draghi, November 3, 2015

Bad News Lifts US Stocks

The Dow jumped 322 points or 3% to 11,176 as a new round of bleak economy data buoy investor hopes that Mr. Bernanke will step in with some sort of monetary stimulus.

WSJ August 24, 2011

Dow surges 217 points after signs of lackluster economic data have reduced the odds of an interest-rate increase by the Fed this year.

WSJ October 16, 2015

Dow soars more than 300 points because ECB Draghi says it will do more QE if needed.

WSJ October 23, 2015

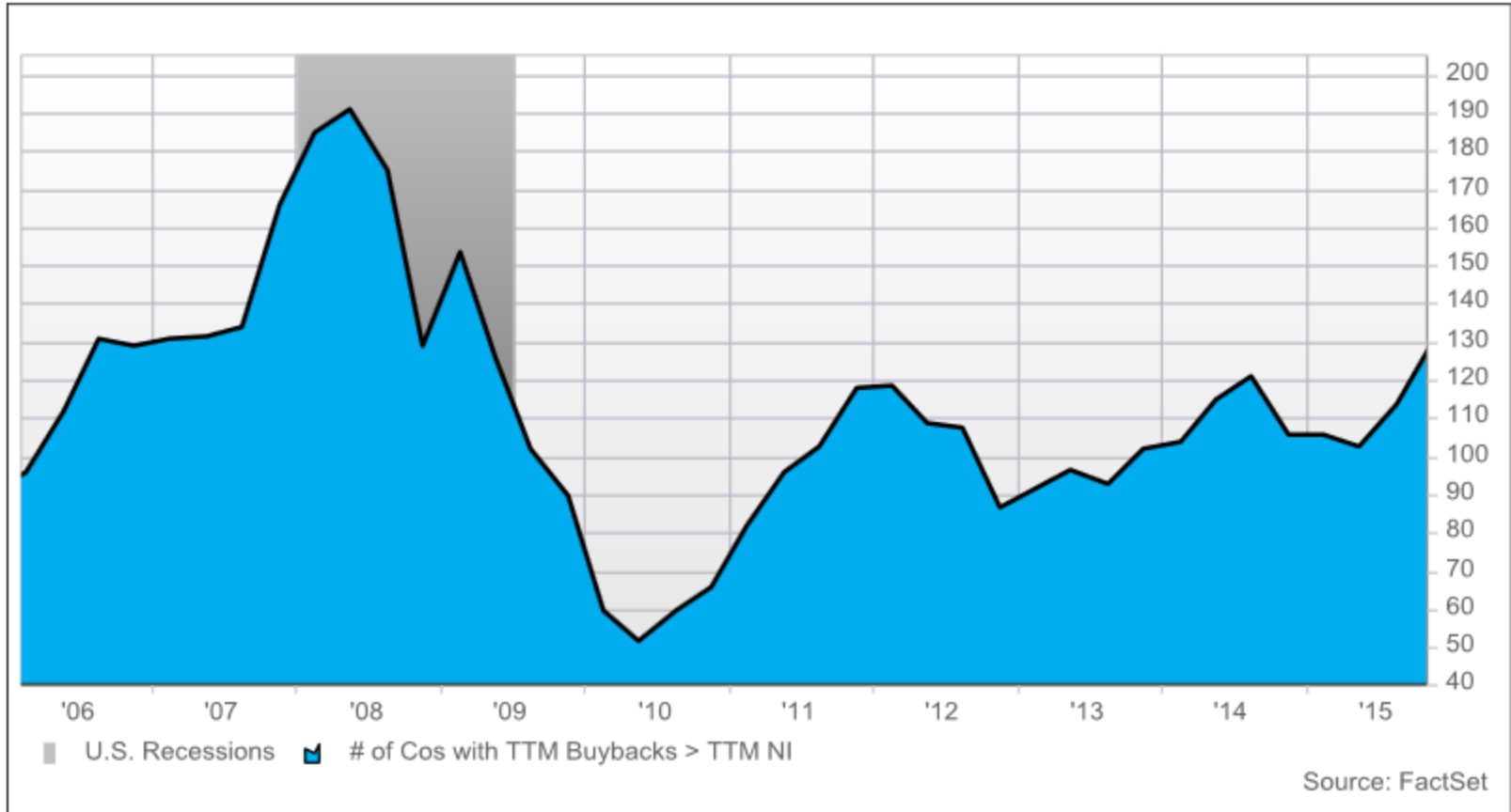
U.S. Stock Market “Investors”

High-frequency trading now accounts for more than half of all stock trading volume in the US as banks, hedge funds and institutional investors seek to gain an edge...”

WSJ July 30, 2009

Stock Buybacks Proliferating

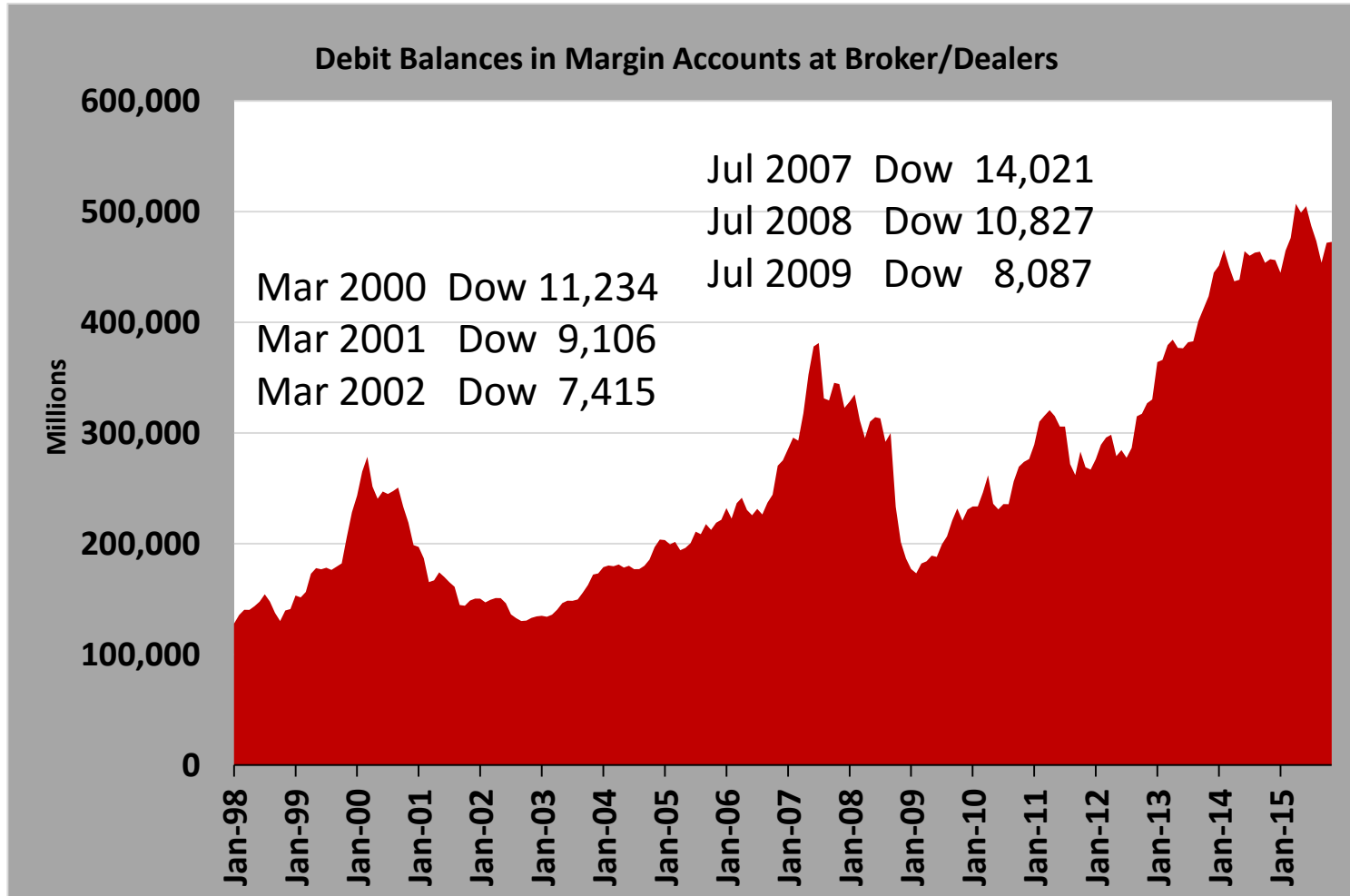
Number of Companies with TTM Buybacks Exceeding Net Income



Source: FACTSET Buyback Quarterly December, 2015

Margin Debt

Debit Balances at Broker/Dealers



Source: New York Stock Exchange

Global Stock Markets

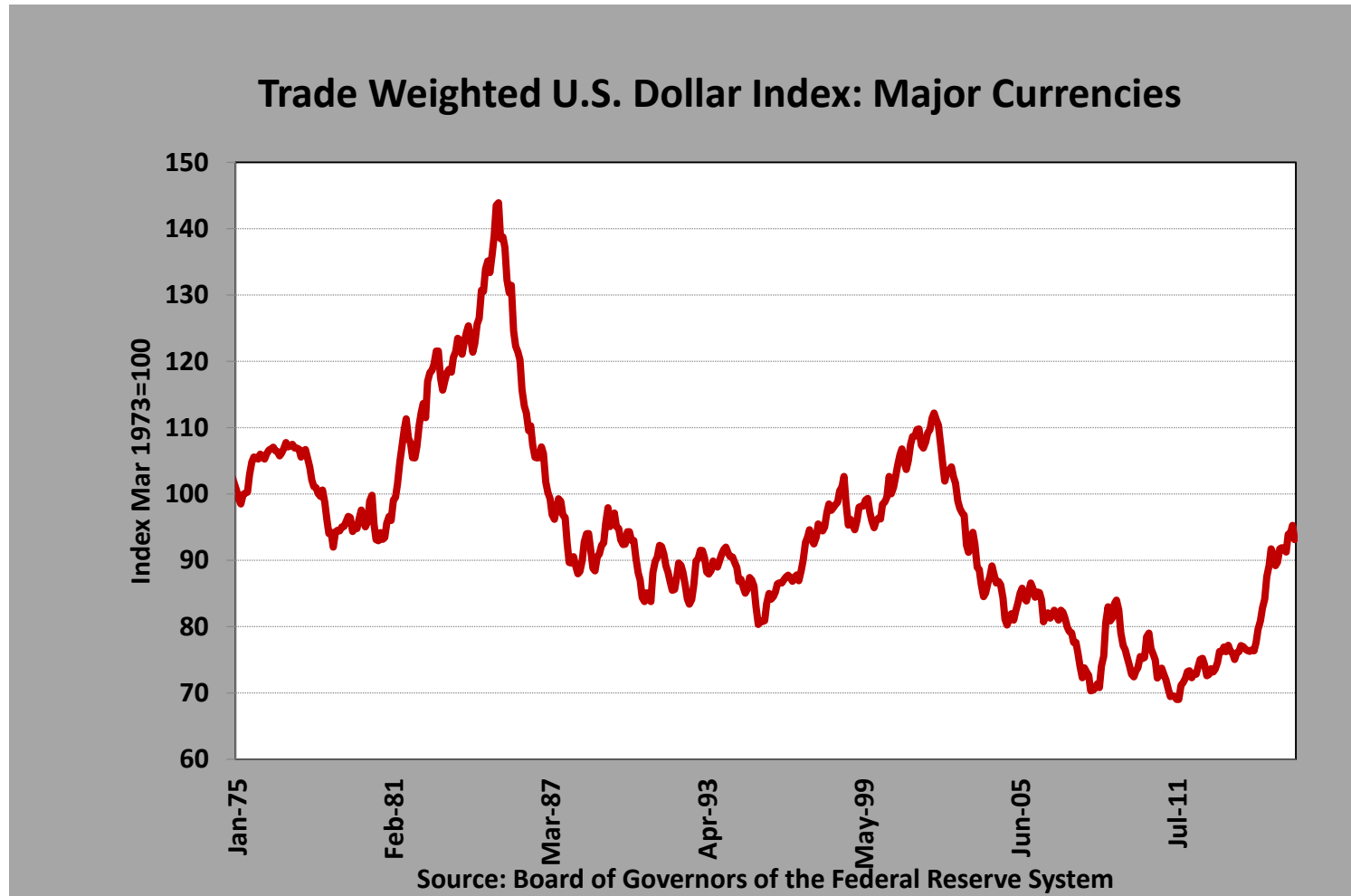
“Overall, it is hard to avoid the sense of a puzzling disconnect between the markets’ buoyancy and underlying economic developments globally.”

- Bank of International Settlements June 30, 2014

“I would highlight that equity-market valuations at this point generally are quite high.”

-Janet Yellen, Fed Chairman on May 7, 2015

Trade Weighted Exchange Index: Major Currencies



Low Interest Rates Around the World

German 2-year -.46

German 5-year -.25

German 10-year .30%

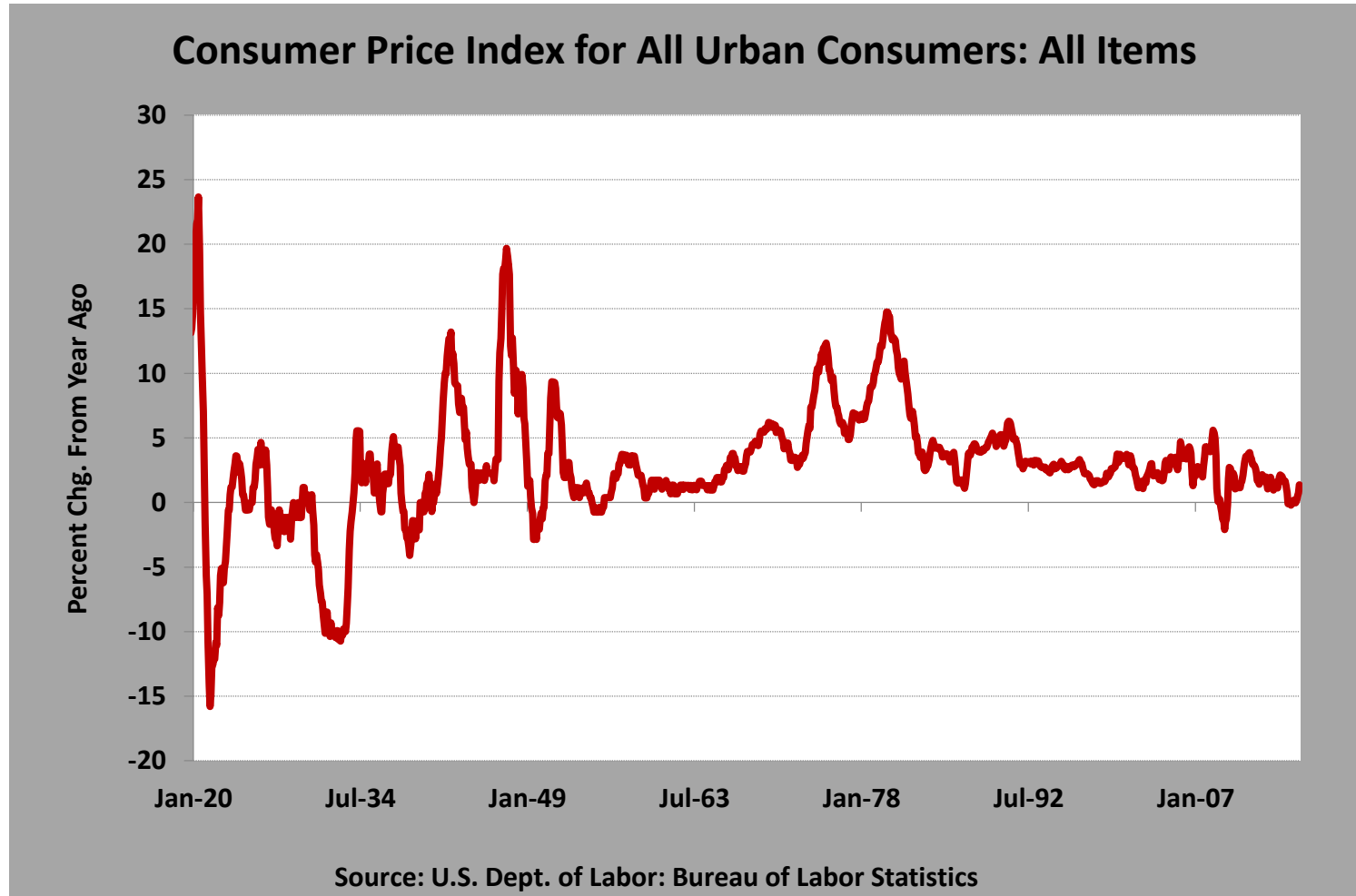
Swedish 10-year .61%

Dutch 10-year .40%

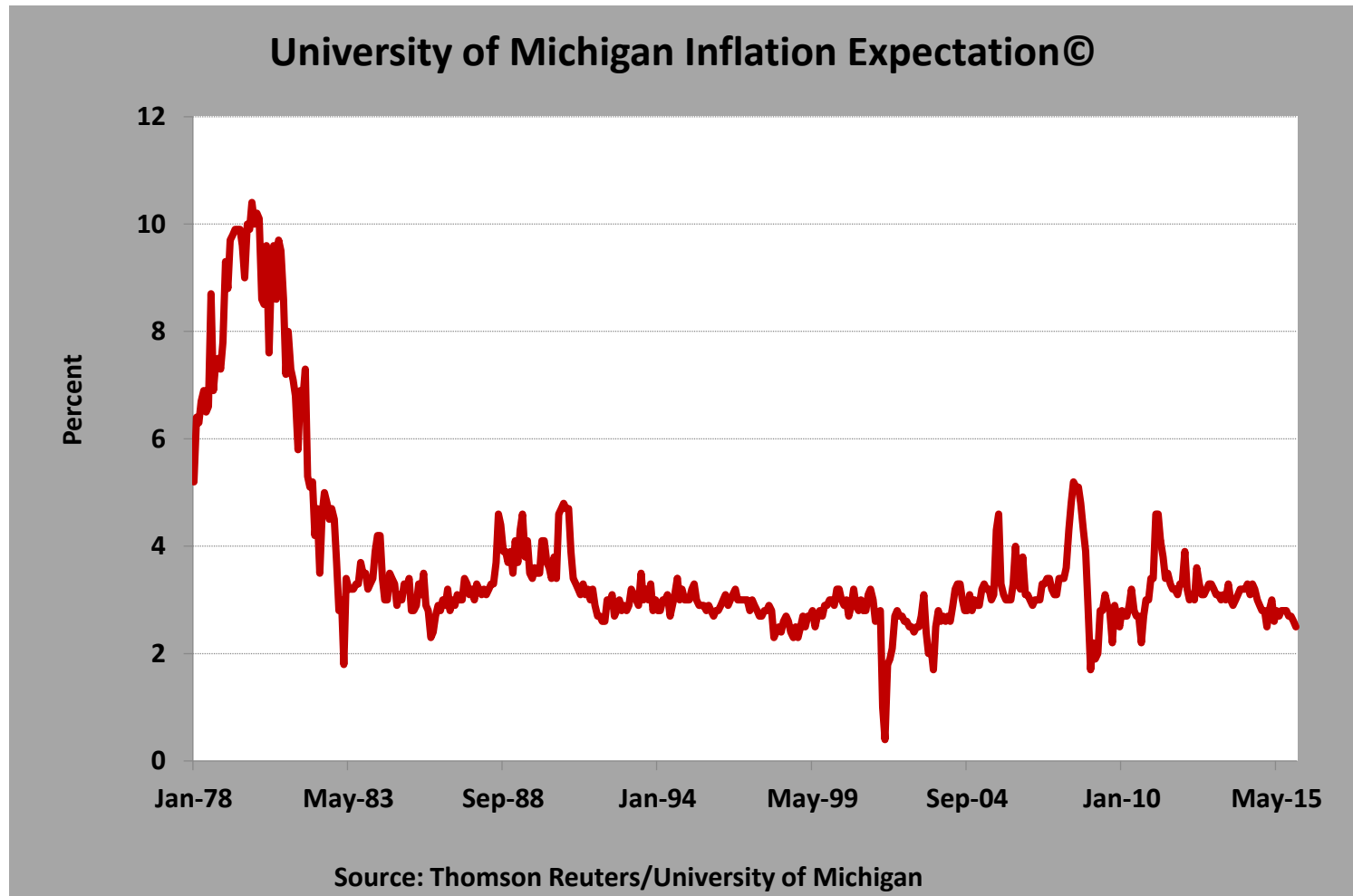
Swiss 10-year -.34%

Japanese 10-year -.09%

Inflation Rate Remains Low



University of Michigan Inflation Expectations



The Energy War Escalates

ارامكو السعودية
Saudi Aramco



Saudi Arabia

Saudi Arabia has announced it will raise domestic petrol prices by more than 50 per cent for some products.

Prices will increase for electricity, water, diesel and kerosene, after the country posted a deficit of \$135 billion in 2015.

The 2015 deficit is the highest in the history of Saudi Arabia, which relies on oil for 90 per cent of public revenues. Contemplating selling a portion of ARAMCO to raise money.

The IMF has warned Riyadh that failure to cut spending and implement reforms will eat up the country's fiscal reserves in just five years

The Investment World Today

- Europe, Japan and China barely hanging on, even with massive printing of money.
- Commodity prices in a four-year free fall is hammering countries all over the world

Canada, Mexico, Brazil

Russia, Iran, Saudi Arabia

Australia

African oil exporting countries

Investment Themes for 2016

- Mortgage rates unlikely to increase above 4 percent
- Home price appreciation to continue in most markets
- Currency declines will reduce foreign purchases of US real estate from Russian, Canada and Mexico.
- Anti-corruption policy in China could reduce Chinese purchases of US real estate
- New federal transparency rules on cash purchases will reduce foreign buying demand in the US
- Foreign pension funds have strong appetite for US CRE
- Japanese REITS have strong appetite for US CRE

Investment Themes for 2016

- Europe, China and Japan printing money with little result
- Emerging market countries experience inflation & recession
- No American inflation until year after oil price bottoms
- A couple of meaningless rate hikes by the Federal Reserve
- GDP ambles along at a tepid 2% growth rate

CRE Pricing Outlook

- In 2015, hedge funds lost more than 3% on average.
- The S&P500 returned 1.4%, including dividends
- The Dow was down 2.2% and the S&P was down .7% for 2015.
- Hedge funds restricting investor redemptions
- Third Avenue halts redemptions, increasing selling pressure in junk bonds.
- China selling US Treasury bonds and still our yields continue to fall.
- Forget the BRIC countries.
- Increased JREIT purchases as part of BOJ QE campaign.
- “We are in an environment where very few of the classic, liquid, safe assets have provided much protection whatsoever.” WSJ
1/8/16

Pension Interest in CRE

Nov 2011: CALSTERS back off \$2.5 billion allocation to commodities. Since 2007, they have lost 13% in the sector.

Oct 2014: CAPERS raises its real estate allocation to 11%, requiring another \$7 billion in property

Dec 2014: San Francisco pension plans to increase its real estate allocation from 8% to 17%.

Feb 2015 : Norway's Government Pension Fund plans to increase its real estate allocation from 1.3% to 5%.

APR 2016: The New York City Employee's Retirement System has voted to sell its investments in hedge funds and not make any more.