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The Solari Report

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U.S. Housing Markets with Dr. Zinnia Mukherjee





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C. AUSTIN FITTS: It's my pleasure to welcome to this *Solari Report* Dr. Zinnia Mukherjee, who is a visiting professor at Connecticut College and is a scholar at the American Institute of Economic Research, of which I'm a member and have great respect for. One of the reasons I asked Zinnia to join us on the *Solari Report* is, if you look at her research and study and the scope of her economics, it's very appropriate, especially for the kind of conversation we want to have about housing. She has done a lot of work on environment and natural resources and what I would describe as the ecology of place and the economics of place.

She's worked with the State of Connecticut and the Department of Economic and Community Development, and looked at it from many different, the kind of aspects you do when you do that. She's also studied and worked on housing as well as on global trade. So this is an economist who can go from the macro to the micro and back to the micro, and one of the things that most interested me, is that she has said in her presentations before that she focuses on the microeconomic implications, and what it means to you and me, which is always what I like to bring it down to. So with that, Zinnia, welcome to the *Solari Report*, and thank you so much for joining us.

DR. ZINNIA MUKHERJEE: Well, thank you so much, Catherine, for giving me this opportunity. I'm very happy to talk to you.

C. AUSTIN FITTS: Well, you've lived on several continents. So you've grown up and lived and studied in India, came here, and so you've seen housing from many different perspectives, and I find Americans to be surprisingly insular. So one of the things I was delighted to was to have a scholar who has contemplated housing personally and professionally from many different points of view.



DR. ZINNIA MUKHERJEE: Yes, I did grow up in India, and I have lived in the U.S. for the last nine years. I have been to Europe several times. I've family living in Europe right now. So yes, I have looked at housing choices across continents, actually. Yes, I have –

C. AUSTIN FITTS: So tell us a little bit about your work, your focus, why you do what you do.

DR. ZINNIA MUKHERJEE: Okay. Well, I am what one would call an applied micro economist. So my work involves using economic theory and economic data to understand the effect of individual and household choices on economic outcomes. Also, I study how government policies affect individuals like how a particular environmental policy is going to affect firms or how a political housing policy is going to affect an average American family. So that's what I look at.

Why I do what I do is basically that I'm an economist because I'm very much interested in understanding human behavior. I believe good lives are built on good choices. So economic outcomes such as the growth of an economy depends on the choices made by each individual in the economy, which would include healthy household or the families or the businesses and the government. My interests lie in understanding what kind of opportunities and information allows people to make choices for themselves and people around them that would lead to positive economic outcomes. So that's where my interests lie in.

C. AUSTIN FITTS: Well, good. I'm a great believer that the power of choice and habit contributes enormously to results, and when we look around the world and we see something that we don't like, the first question to ask is: well, what am I doing and how am I contributing and how can I change? So this is perfect. You just did a big overview of the U.S. housing market for the institute that you published in May. I know that that was a significant investment of time and research. Maybe if you could tell us about that and what conclusions you came to.

DR. ZINNIA MUKHERJEE: Absolutely. I was actually looking at the general health of the general recovery of the housing market, and it looks pretty



positive right now. The housing market is one of the biggest sectors in the community, and one of the reason it's so important is that it links to many other markets. So when the housing market starts recovering, it's actually a really positive sign for the economy; that means the other markets that's linked to the housing market will also start to recover soon. So the good news is that we see a pretty steady recovery at this point. And I was looking at the case Shiller Pricing Indexes for the last several months now, and it seems this recovery is pretty much national. I mean some regions probably are doing a little better than others, so if you look at the prices, housing prices are going up in Atlanta, and it's probably a little steeper than in New York City, but that's okay. As long as there is city recovery, it's good news for us.

But I was also – for that particular overview that I had done last month, kind of cautious about pointing out that– while we are recovering, it is important to fully try and understand what's driving this recovery. If it's simply that there's a lot of money floating in the economy that's pushing the housing prices up or are we seeing a genuine growth? So it's just my idea for that study was to simply be alert to the causes of this recovery. That will help us to understand where we are actually heading as an economy.

C. AUSTIN FITTS: Well, I've been trying for the last year. I work as an investment advisor, and I travel a lot in the United States, and what I see is tremendous – I'm not talking as someone studying the statistics, but just from being on the ground, tremendous divergence between places. In Texas, where the oil patch is strong, or in San Francisco where the technology is going relatively strong, prices and the market is unbelievably strong, but then I live in a rural area. And of course the housing bubble only reached us for the last couple of months. So– and there's been no – literally no change- or if there is, it's not noticeable.

So I see just on the ground a fair amount of divergence. And one of the things is the market that seems to be doing well, among other things, has

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significant institutional buying. We've had a sort of different institutions come in and accumulate a fair amount of rental – single-family properties for rentals, and that seems to have had an effect on the market. And what I can't tell is between those institutional investors and the foreclosure inventories, what's going on because between those two things you can get a fair amount of swing in the marketplaces. And I don't know if you had a chance to look at and I think you did look at the foreclosure inventories, didn't you?

DR. ZINNIA MUKHERJEE: I did look at it, a little bit, actually. Catherine, my understanding is that we should see steeper recovery or a sharper recovery in areas where there's more heavy production activities. Now you just mentioned about the oil areas in Texas or maybe the technology areas in California. If those industries were actually doing well, that means you would see housing growth in the vicinity. That means that they're probably hiring more people who would need a rise in demand for housing. So people who are actually building houses would have more of an incentive to start the production of houses in those areas.

So the most important thing to recognize, at least from my perspective as an economist, is to recognize how closely linked all these markets are. You see what's happening. So Silicon Valley doing great business right now means they're hiring a lot of computer engineers. They need houses. So homeowners would have a good chance to sell their homes in those areas.

C. AUSTIN FITTS: Right. I'm not that as familiar and I'm out of date with the housing statistics. Can you see who's buying and who's selling?

DR. ZINNIA MUKHERJEE: Well, right now, and I was looking at some recent data, one of the interesting things that's pointed out in the data now is that there's a lot of multi-unit housing being built after the recession. That's a single unit. But both are rising, actually. Both numbers are actually going up, but you see more – proportionately more multi-unit houses being built right now. So a question is: do we see a shift in the approach to thinking about home ownership right now?



C. AUSTIN FITTS: When you say multifamily, you mean small apartment buildings or duplexes?

DR. ZINNIA MUKHERJEE: Yes, it includes small apartment buildings where you have a set of apartments that are like single homes with a large garden or something like that.

C. AUSTIN FITTS: Right. Well, I certainly see –

DR. ZINNIA MUKHERJEE: It doesn't actually have a lot to offer in terms of picking where they could live—there may have been some shift in the way people are now looking at home ownership. They still want to own a home, but they're more willing to share a big building with somebody else, another family, let's say.

C. AUSTIN FITTS: Well, one of the things – I used to work in the government in housing – I concluded, and I'll ask your opinion on this because you're much more current, is that essentially a lot of Americans have believed that owning a home was a good investment. And historically, if you look at the success of that investment, most of it came from either the increase in the cost of the average home, number one, monetary inflation or, two, the fact that as the federal credit went into promoting homeownership, the average size of the home grew. And one of the big questions I think about a lot is— are we continuing that process of having relatively large homes, or are we going to now start into a world where maybe as credit is not available to housing we start to shrink the size of the house? What's happening to the size of the house?

DR. ZINNIA MUKHERJEE: Well, that's an excellent question, and I think that's actually at the core of the entire housing market story. Yes, I mean homeownership has always been a key part of the American dream, right? And I personally think buying a home is a very good decision. I mean it is typically the largest asset an average family owns, so it provides a deep sense of security. But the problem – or I shouldn't call it a problem, but the key question is how big of a home do I need, and what am I trying to satisfy? Is it a need or a want? And that totally depends on the individual preference. It could be that the preferences of Americans



have actually changed over the years.

In the '60s the American dream would be about owning a home. Right now, the American dream is about owning a very large home, and that comes with a serious cost, and it is totally connected with individual preferences, but it's also connected with how easily money is available in the economy, how easily I can borrow to buy a five-bedroom house when I only need a three-bedroom house and how alert the consumer is or the buyer is to his own personal situation. How well can I predict my income changes over the next 10-15 years? What's my financial situation right now? How much of a down payment I can put in at this point? I mean, maybe the requirement is just ten percent, but I would probably be in a better position for the long run if I could put in, say, 35 percent. But if I can get that – get a very large home with just the down payment, I'm going for it.

So it totally depends on how, as I have said, easily money can come to you, and also what you actually want for yourself. It's not thinking need, but the ability to distinguish between needs and wants is very critical. But if you really have a large family, you will probably need a large home. But if you're just three people, you probably don't need a mansion.

C. AUSTIN FITTS: Well, one of the things that I think has contributed to the American psychology on that was, historically, that most people who got a big home made more money. In other words, with inflation pushing housing up, it made sense to stretch and get something bigger because then it would be a better investment. And that's an historical situation which may not translate to the future, particularly because it's not just size; the question is how appropriate is the infrastructure to the nature of the economy going forward? So if you're in a big house in Connecticut it costs a lot to heat during the winter.

DR. ZINNIA MUKHERJEE: Yes.

C. AUSTIN FITTS: And so stretching an environment where the value of the price – where the price of homes are just going down, and you have to



spend more for maintenance, suddenly what made sense historically doesn't make sense now.

DR. ZINNIA MUKHERJEE: Absolutely. I totally agree with that. I absolutely agree with that. And it's critical to understand the total cost of homeownership for you. It's not just a down payment or not just the mortgage payments. It is also the maintenance, how easily you can sell it when the time comes, and also there is something called the opportunity cost of homeownership, which simply means that the more money you're putting in your house, the more money you're taking away from something else, like would you be able to send your child to stay here or afford the tuition at Harvard? So these are real costs that people must and need to consider.

Now, you did mention about the fact that people with large homes made more money. Now, the question is, is why do they own large homes? Is it because their incomes were high in the first place, or the fact that they owned large homes implied that they are rich people? It's both ways. Something that has actually changed in the United States significantly over the last three or four decades is how easily you can go to buy a home. It's become very easy. I mean I'm not talking the reason for the recession, but even before then it was very easy. I mean you have all these foreclosure stories, et cetera. It's simply because it was very easy. It has become extremely easy to borrow money.

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C. AUSTIN FITTS: Right. Well, there are two things going on there. It was easy to do in terms of accessibility. But the other thing is we've been in a very long-term downtrend in interest rates. And one of the things I've focused a lot in the last few months in the *Solari Report* is the fact that interest rates have been coming down for years, and now we face a situation where it's hard to fathom that they could come down much more, and they may start to rise. And many Americans have not seen that for decades, and now there's going to be a very big change.



DR. ZINNIA MUKHERJEE: Exactly. I mean I completely agree with that. I mean the Fed has been very active with its monetary policy over the last three to four years. So there have been concerns all around what's going to happen right now with the floating in the economy. Prices are going to rise, and how long can they possibly keep the interest rate down? I mean the Fed had been targeting a certain rate of interest, but how long can you go with this?

C. AUSTIN FITTS: And it's interesting; I'm of the belief that they can go rather long on it. It was funny when your speech, last year at the institute, you said – you were talking about interest rates, and you said something about keeping it down for a few years or 50 and I cracked up. But I think they can go a while now. What's interesting is if you look in the last 30 days, we saw rates start to sneak up just a little bit. Same thing happened at the beginning of the year. But if you look at the impact on, say, real estate rates which were down almost 10 percent, we saw a lot of the aggregators aggregating smaller rental property and shelving their IPOs so you could see real fear and hysteria in the real estate market, and you thought, "Oh, Lord. For this tiny change, look at the fear and panic. Can you imagine what happens if we get a real drop in interest rates.

So I agree that cost of capital has had a tremendous impact across the board in this market, and we need to remember when we approach it as an individual we have the wind at our back, and that may not be true in the future. Who knows what's going to happen? But it could cause a huge change.

DR. ZINNIA MUKHERJEE: And the other thing is that Ben Bernanke's term might be over, and we'll have a new person coming here. So will the Feds still continue with the same approach to monetary policy or can we expect a shift in that approach itself? So right now it's somewhat of an important phase, a transition phase for the economy as a whole.

C. AUSTIN FITTS: Right. There's been what I've seen as much tighter conditions for individuals in terms of getting mortgage finance, much, much tighter. So I don't see that accessibility for many people, and it's a combination of several things, but one is that incomes are under far



more pressure. My question, one that kind of played a major turn in the housing market is that you could see an increase in housing purchases that is driven by Americans taking money out of stock and bond funds and putting it – saying, "Okay, I'm going to buy or I'm going to invest in real estate." But for a really broad based recovery, you need incomes to hold or rise, and I don't get any indication that we're seeing that, but I would defer to you.

DR. ZINNIA MUKHERJEE: No, I completely agree with this. You mentioned about people taking money out of stocks and bonds and putting it in a house. But for that, you need to have a sufficiently large portfolio of stocks and balances. And that's more difficult for a younger person or a first-time homeowner to have. So for the most important indicator or one of the most important indicators should be informed growth in your industry and income uncertainty in your industry. This varies across industries. It varies by age. It varies by region. So it's critically important for a person who's planning on buying a home to fully understand his or her personal financial situation.

C. AUSTIN FITTS: Right.

And the sector that I'm in because as the sector goes, so goes me.

DR. ZINNIA MUKHERJEE: Yes, exactly. That's probably the main one. When people decide to fire economists, I'll be jobless.

I have to plan for that as well. And I mean one of the things I've been interacting with colleagues, friends over the years, and obviously because of my training as an economist, I'm alert to this. I think I'm more alert to this. It really matters not just how well you are trained in your profession, but what industry you are actually in and understand and use the Bureau of Labor Statistics' income data for your industry to understand what is the growth potential in your industry. You might have a degree from a very high-ranked Ivy League school, but if you're in or your choice of profession is such that there is an income bar, which is not really all that high, then you need to plan for that, or if you are in an industry where that's accustomed to, say, a very high level of



unemployment rate or fluctuations to income volatility, then you must plan for that because that's going to affect everything, not only the cost of homeownership, how stressful it is going to be for you, but also how much money you can put in the other part of your financial portfolio.

So understanding your situation is critical. Having no down payment today means you are less susceptible to future income uncertainty. But for that, you need to have a lot more money today. So timing is very important when you actually decide to buy the house. Timing is important for market conditions, the price you get, but it's also important for your situation in your life and how well you understand your needs in the coming years. So for example, you're planning on having a large family. That means more children, more cost for taking care of your family, and that's absolutely fine, but the more you plan for it, the better you are in a situation on life.

C. AUSTIN FITTS: I want to come back to this idea of opportunity cost, which I think is a very good one. It's a very good way of approaching a decision on buying or selling a house, just thinking of your opportunity cost. And I wanted to bring up two things. I'm usually in Switzerland once a year, and I'm always struck as to how many of the Swiss see housing as consumption as opposed to investment. We're in America. People look at owning a home as an investment, not consumption. And I find it's very useful when you look at the idea of purchasing a house and what kind of house you purchase and how you go about doing it to put on both hats: is this an investment, or is it consumption? And if it's consumption, what would I buy and how would I do it, versus if it's an investment what would I buy and how would I do it?

And one of the reasons I bring that up is I do everything I can to encourage my subscribers to be resilient in their home. In other words, when I look at a home, I think; "What can I invest in this home to permanently bring down my expenses? Can I build a well? Can I grow my own food? Can I install energy on an economic basis if I have the capacity to do that? These kinds of investment, rather than worry about getting a stock with a dividend that might get taxed, will just put your money in something that will permanently reduce your expenses, if you



can? And so when I look at the purchase of a home, I look at it much more creatively in terms of what will my cost be over the long-term and how can I use owning a home to reduce those costs permanently?

DR. ZINNIA MUKHERJEE: Well, that's actually an excellent point. Well, a house, from my perspective, is both consumption and an investment decision at the same time. When you are actually living in the house, you're basically consuming it. So when you're putting money in your house to bring down the total cost of home ownership over the years, you're doing it even as the homeowner while consuming the house, but you're still investing in it to bring down the total cost of homeownership. You can also look at it more as an investment choice if you are, say, renting out a part of your property. It doesn't have to be that way, but the most important thing to focus on is; do you have things under control as a homeowner, whether you're consuming it or whether you're investing it for some additional source of income?

Now, you mentioned something about comparisons with putting the money in stocks and bonds versus your home, right? And that's actually an important comparison, and it directly addresses the opportunity cost issues that we talked about earlier. So one thing I would be alert to is to pay attention to how long you will be actually spending in that particular home. So – and Americans, my understanding, or people in America tend to be quite mobile. In five or six years you might switch jobs. So if it's going to be a home that you're going to spend the next decade or so at least, then, yes, it's definitely worth it. It makes perfect sense to invest a lot, bring down the cost of homeownership.

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And in the past, people were probably less mobile. They stayed with the same company for 20 years or so. They just moved on to higher ranks but within the same company. Right now, people are switching jobs more frequently. They want more diversification on their CD, et cetera. So it is critically important to recognize and plan ahead of how many years you can expect to stay in the home. If – okay, you don't go for the



entire ten years, but you're still spending seven years. That's fine. But if you plan on moving within three years, then would you be better off putting the money in a stock or a bond or some kind of financial instrument than putting a lot of money in the same home that you're going to sell after three, four years?

C. AUSTIN FITTS: Right, because it's so illiquid, or it can be so illiquid.

DR. ZINNIA MUKHERJEE: Yes, exactly. You want to keep it in a more liquid form, absolutely.

C. AUSTIN FITTS: One of the most impactful presentations I ever saw was at the National Multi-Housing Council executive meeting, and a professor from the University of Maryland who'd invested enormous amounts, his whole work – his whole life's work was tracking time, and how homeownership or apartment rental impacted somebody's time. In other words, how much more time did a homeowner have or a renter have for not owning a home. And it's all very statistical and with an enormous amounts of statistics. And basically what it came down to was that a homeowner spent 20 hours a week taking care of his/her home and a renter had those 20 hours, watching TV the majority of the time. So he advised all the landlords to just go out and get great cable and forget about it.

I was really struck; I listen to you talking about opportunity costs. One of the biggest opportunity costs is, in fact, your time and the time it takes. And so maybe you could just say a few words about that part of the opportunity cost.

DR. ZINNIA MUKHERJEE: Well, that's absolutely true. I agree with that, and I kind of believe this statistics that you just mentioned about spending 20 extra hours on your home. When you own a particular home, you have a certain emotional attachment to it. You care for it like it's a part of your life. So you probably will be investing more time and money into the home simply because you own the home and it is yours. You might not



care as much about a rental property as long as it meets your comfort needs, et cetera.

So yes, 20 hours per week is a lot of time, something that can be used to improve your overall quality of life. But that in itself doesn't really speak too much to whether you should own a home or not. But it speaks more to at what time or what stage in your life you should actually buy the home.

C. AUSTIN FITTS: Okay.

DR. ZINNIA MUKHERJEE: So if you're a young person, say you're 28, 32, there's no reason to jump in and be a first-time homeowner because the U.S. statistics says everybody must buy a home by age 33. I mean this is just an illustration. Buying a home, and even selling it, should never be an impulsive decision. There will be an emotional connection to it, but just think through the situation. So when you're actively making the decision to buy a home you have to consider the size of the home you want to buy. So you need to factor in how much time you're going to spend per week taking care of the home.

If you have a three-bedroom house, let's say, with a small garden that might meet your basic needs, that's much easier to manage than you having a six-bedroom house with a sprawling green. You need to take that into account. A rental apartment or a rental house might not be as large. So it is true that, whether you're a homeowner or you're a renter, that might affect the time you're putting into taking care of the house, but it's also true the size of your house will actually determine how much money – or how much time and also money you have to spend taking care of that house.

C. AUSTIN FITTS: There's the whole explosion of this movement in tiny homes, and when you listen to the people who are involved in living in, buying and building tiny homes, what they talk about the most is their time savings; how little time it takes them to take care of their tiny home.



DR. ZINNIA MUKHERJEE: Absolutely. I mean I was in Switzerland last week. And I was in Zurich, and they were talking about the same things. I mean homes in Europe they're not as big as American homes. I mean they kept saying that when you go to America everything looks so big, and they get that impression primarily by looking at the large houses. But large houses mean more down payment, more long-term interest payments, more everything, more time. And I think this is not so much as an economist, but as an individual. I think it's very critically important to recognize what is it that makes me happy in my life: an extra bedroom or a nice walk or something like that? Yeah, so the more you know yourself, the better decisions you can make for yourself, I guess.

C. AUSTIN FITTS: Let's turn to changes in policies because, of course, one of the greatest challenges in trying to figure out if you want to buy or sell a home is thinking about what different government and tax policies. I live in a tiny rural community, and I have two properties and a commercial property. And, I know you're going to laugh at this, my combined county and city property taxes are less than \$500.00.

DR. ZINNIA MUKHERJEE: Wow.

C. AUSTIN FITTS: And my feeling is if they triple them, I can still afford it and it was one of the reasons I chose to live where I live because I just didn't want to be at the mercy of some cities, where if they double your property taxes, it's going to \$50,000.00 a year. So I didn't want to be at the mercy of what might happen with increased local and state and federal debt. And I was concerned that my house be an avenue of liability into carrying that debt. But maybe let's just talk a little bit about what the changes in government policy might be how that might affect homeownership.

DR. ZINNIA MUKHERJEE: Well, my general understanding is, after this recession, they'll try to tighten the markets a little bit and try to provide more financial stability to the economy. We have the BASL III amendments coming and the general sense is that, in the future, if you're buying a home, people might have to qualify under more stringent



buying conditions.

C. AUSTIN FITTS: Right. I think so.

DR. ZINNIA MUKHERJEE: And that would be induced through government policy.

C. AUSTIN FITTS: When they were going through the budget debate on this last cycle, if you look historically, you've seen two things really fuel the housing market. One is the infusion of government credit, and as you said, during the last sort of bubble, the terms and conditions of getting that federal credit was very easy, but then you also had the tax deduction for the mortgage interest. And there are times you've seen the Congress over the last 20 years sort of discuss that mortgage deduction, and of course then the homebuilders and the realtors all go crazy, and it goes down again.

“There are times you've seen the Congress over the last 20 years sort of discuss that mortgage deduction, and of course then the homebuilders and the realtors all go crazy...”

But this last time around, it was raised more seriously than I had anticipated, and I think one of the questions I have is; as they downsize the GSEs, and BASL III roles then are the mortgage interest deductions and guarantees going to get harder to get? I know there are recent headlines that FHA is financially struggling because they've been a bigger and very generous part of the market. In addition to the problems with the guarantees, could the interest deduction be on the table? That's a big question mark in my mind, and I don't know the answer.

DR. ZINNIA MUKHERJEE: Well, to be honest, even I don't know the answer. But even if it comes up in discussions I think that that's going to take some time for that to actually happen because that has been a big part of U.S. housing policies and has encouraged people to own homes and go for a 15- to-30-year mortgage loan period. So the tax deductions off your mortgage payment, that is critical.



C. AUSTIN FITTS: So if that changes, it could have a dramatic impact.

DR. ZINNIA MUKHERJEE: It – I would expect it would have a dramatic impact on homeownership, both the number of homes you own or the size of homes you own. You have to struggle against that. But it's going to take a little while. And this is not for any material or data or anything. It's just from me and I think it would take a little while to come around. But yes, I think it's best to be alert to what changes are happening and be mentally prepared for that. Would you still own the home you own right now if you didn't have those tax deductions? That's the question.

C. AUSTIN FITTS: Right. Okay, so let's look at the generations. Because you're a youngster you can speak to the younger generation. I just read an article about how the heavy student loan load means that younger people are pushing back homeownership much more than other generations. Is that the case?

DR. ZINNIA MUKHERJEE: Yes, yes, and I mean I was looking at U.S. customer debt before and after the recession by categories, and the student loan debt is pretty high. It is something that has actually gone up even after the recession. So that is a major question. And as for advice for young – say, younger generations, I would say just get the math right. That's critically important. And also, like this is not, so much directly about homeownership per se, but it's also a general question that the person must face or will face as they plan the road ahead. The loan that you are taking to get a certain degree might not guarantee the particular income that you want. So it's critically alert – or critically important to pay attention to the fact that the money you're putting into educating yourself isn't going to bring the money you need to build a good life for yourself. That could also include owning a home. So I think good planning is critical in this case.

C. AUSTIN FITTS: Okay. So let me stop you because I think that is one of the best pieces of advice I've ever heard, quote, "Get the math right."

Now let me just explain, because I'm not sure that people listening really understand this, so I want to drill down. I would say that every time I



have purchased a home in America, just me, I have been much more blasé about pro forming the future numbers and the impact on my time than I think I should – if I could go back and do it all over again, I would have the Excel spreadsheet, and I would look hard at every time and every hour of time, and if I had done that, I think I would have been much smarter. It was funny. I bought, when I was in New York, a big coop on Park Avenue, and for two years, every morning at 3:00, I would get up and do cash flows and sweat in a panic: how am I going to do this? And it would have been much better to do the Excel spreadsheet ahead of time instead of 3:00 in the morning as I was in a panic about how I was going to meet my mortgage payment.

So I think it is both an investment and consumption. And I think looking at the impact in terms of your time and your dollars going forward, and not just in your current circumstance. So please don't do a variable rate mortgage, guys, but if you do you need to understand what could happen if interest rates rise a lot. Now let's talk about the older generation for a second. Is the older generation holding onto their homes, or are they downsizing and moving to rentals? What's happening with the older generation?

DR. ZINNIA MUKHERJEE: Well, to be honest, Catherine, I don't have too much information on that. But as to the older generation itself, I would say that they probably would want to take advantage of the current low interest rates. If you're in a position in life where you would be better off to refinance your home, talk to a professional. See if you can save a few extra bucks. Pay off your mortgage early and enjoy your retirement. So that's critical.

C. AUSTIN FITTS: So I just have to ask you: do you own your own home?

DR. ZINNIA MUKHERJEE: I don't, but I'm considering doing the same thing that I'm telling other people to do.

C. AUSTIN FITTS: This is going to be – I predict- one of the most thought-out purchases in Connecticut.



DR. ZINNIA MUKHERJEE: I hope so. It better be that one. But there's one thing I really would like to mention is that, get professional help if you think you need to. And I'll tell you why I think that's great, because I have a PhD in economics, but there's nothing in my graduate classes that taught me to be a good investor necessarily. So we understand the basic theory how market works, but even and after spending ten years in school, there is nothing that inherently might make you the next Warren Buffett. So if you need to go and talk to someone who knows more about this issue, do not delay or do not hesitate. There's nothing wrong with it. I mentioned get the math right. I know when I buy the home I'll need help, but there's no help in getting the math right myself. I know about everything –

C. AUSTIN FITTS: One of the things I always encourage people in my network who are looking at this is to go talk to somebody who's done it many times. So many people know, have a friend or somebody who's not only owned and bought a lot of homes but also invested in them. And real estate's one of those areas where there is 1,000 things, and one of them can kill you. It's scary.

So you have to be very thorough, and talking to somebody who's been through the wars can help you do the kind of planning you need to do to really get it to work because if you do that planning, it's all about risk management. You do that planning and you can really come out way better than if you didn't.

DR. ZINNIA MUKHERJEE: Absolutely, I totally agree with that. And you can always learn from your friends' mistakes. And you can learn from the good choices and bad choices. You don't want to repeat the bad ones, but you really want to do the good ones even better.

C. AUSTIN FITTS: Right. That's why I love Excel spreadsheets and checklists, and the more you study and research all the different things that can go right or wrong and how it contributes to it, whether it's as an investment or consumption, and your time because I think the most important thing is going to be as you have said: what am I trying to accomplish in this lifetime, and what is the opportunity cost? What's this going to take



away? I only have so much time and resources. Is this where I want to put it?

Well, let's talk a little bit about your work and the institute because I think the institute is one of my go-to sources for information on different planning and questions. So maybe if you could tell us a little bit about your work in the institute and how we plug in and how we stay current and how we use all the resources available.

DR. ZINNIA MUKHERJEE: Absolutely. Well, as I already mentioned, I try to focus on micro-oriented studies, and I write for AIER on those topics. I've written on things like education and labor market outcomes; how education affects not only your level of income throughout your entire lifetime, but also how education secures you against unemployment rate, even during terrible recessions like the previous one. So this is one thing I've worked on. I've already written a few times on housing. I've written on the connection between developing economies and the United States.

I've done a little bit on trade issues as well, but, because I'm a micro economist, I try to look at the issue from the perspective of an average American family, and my efforts go to connecting it, with like something you can discuss at the dinner table at home, how it affects you. So even if I'm talking about something, let's say monetary policy, which I don't do normally and if I had to do that, I would focus on how do I relate it to an individual. So that's basically what I do for AIER. I write on those kinds of issues. Another topic I have written on recently is about tax issues; corporate taxes, United States versus other OECD countries and what it means for a tax reform in the future.

“I've done a little bit on trade issues as well, but, because I'm a micro economist, I try to look at the issue from the perspective of an average American family...”

So these are some the topics I have actually written on. I am always available through e-mail; Zinniamukherjee@AIER.org. And just write to me or feel free to contact me anytime you need my comments on



anything.

C. AUSTIN FITTS: Okay. I do want to mention that I'm a member of the institute, and it's pretty easy to join. And there's a wealth of financial planning. I always recommend and, I don't have it off the top of my head, but there's one book on financial and legal, all the things you need to do to not get in real trouble, and the information on healthcare proxies and planning for those is really good. Anyway, there's a wealth of information at the institute, which is AIER.org.

Well, Zinnia, I can't thank you enough. And I hope that your decision whether to buy or not and which house to buy is the wisest you could possibly do.

DR. ZINNIA MUKHERJEE: Thank you so much. Thank you.

C. AUSTIN FITTS: Because I know our subscribers' decisions will be wiser for your presence in their lives. So I can't thank you enough for joining us –

DR. ZINNIA MUKHERJEE: Well, thank you so much. I'm very grateful.

C. AUSTIN FITTS: – on the *Solari Report*.

DR. ZINNIA MUKHERJEE: Thank you.

C. AUSTIN FITTS: Thank you. Have a great day.

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Nothing on The Solari Report should be taken as individual investment advice. Anyone seeking investment advice for his or her personal financial situation is advised to seek out a qualified advisor or advisors and provide as much information as possible to the advisor in order that such advisor can take into account all relevant circumstances, objectives, and risks before rendering an opinion as to the appropriate investment strategy.