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Forecast Dinner Draws Top Economists; Opinions Mixed on Prospects for Recovery

CFALA's 2010 Economic and Investment Forecast Dinner drew a large crowd at the Omni Hotel, where three highly respected economists presented differing views on the outlook for the economy and markets.

Two of the three, Komal Sri-Kumar, Ph.D, Chief Global Strategist of Trust Company of the West; and Robert Arnott, Chairman of Research Affiliates; were decidedly gloomy. While more optimistic overall, the third, Tom Higgins, Ph.D, Chief Economist at Payden & Rygel Investment Counsel, expects sub-par economic growth with the jobless rate remaining elevated for several more years. All are concerned about the possibility of surging inflation down the road.

Payden & Rygel and Barclays Capital were lead sponsors for the well-attended event, which was organized again this year by CFALA member George Dennis. The panel discussion was moderated by Donald Straszheim, Ph.D., Senior Managing Director and Head of China Research for ISI Group.



Jobs Well Done — George Dennis, at left, was chair for the forecast dinner again this year, with Don Straszheim handling the moderator duties.



Looking Ahead — A large crowd turned out for the 2010 Economic and Investment Forecast Dinner, where the panelists were divided about prospects for the economy and the markets.

“I do not believe the economic recovery is going to be up, up and away,” Sri-Kumar said. “This is going to be a double-dip recession, with housing prices dropping again and leading us back down. Also, because of high unemployment, we are not going to see a resurgence in consumer spending. Consumers who are about to lose their jobs are not going to increase their spending, and consumer expenditures are 71% of GDP. You can't make that up with inventory buildups and government spending.”

Although some commentators are seeing signs of economic strength, Arnott isn't persuaded.

“There's a lot of wishful thinking in the reporting on the economic statistics,” he said. “We see substantial evidence that the economy is deteriorating at a slower pace, but the evidence of an economic recovery is pretty limited. Tax receipts at the IRS for the fourth quarter were down 9% from the fourth quarter of 2008, which sure doesn't sound like a recovery. The deficit situation is deteriorating, and it's much worse than people realize, because it doesn't take into account off-balance sheet items, GSEs and unfunded liabilities like Social Security and Medicare obligations.”

Higgins agreed that consumer spending and therefore economic growth will remain restrained.

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Komal Sri-Kumar



Rob Arnott



Thomas Higgins

“For the U.S. economy, we expect sustained growth, although it will probably revert to more sub-par than what we saw in the fourth quarter of 2009,” he said. “Trend growth will probably be closer to 2% to 2.5% annualized, as opposed to the 3% to 3.5% we saw before the financial crisis. Households are paying down their debts, which means they have less to spend on other things. That ceiling on economic growth is going to last for perhaps as long as the next decade. We’re going to have to get used to a different speed limit.”

Both Sri-Kumar and Arnott expect higher interest rates a year from now.

“Short-term rates are going to stay too low for too long and that in turn is going to spur inflation near the end of 2010 or early in 2011,” Sri-Kumar said. “The Fed’s recent decision to raise the discount rate does not change my thinking here,” he added. “Maintenance of low short-term rates is going to cause bond yields to rise. The 10-year yield is about 3.6%. I think it will be 4.5% to 5% one year from now.”

Arnott is particularly concerned about mounting debt and the prospects of higher inflation.

“Debt is not what people perceive it to be,” he said. “It crossed 80% of GDP to much hand-wringing, but if you add in state and local GSEs, the true public debt is 140% of GDP. Add in household and corporate debt and it’s 560% of GDP, which is not only the highest in the world but also the highest any country has ever

seen. Although we expect a benign interest rate environment for the next six to 12 months, when inflation kicks in, which it could over a 12 to 24-month period, I think it’s going to be scary.”

Despite their concerns, all three economists see long-term opportunities in the markets.

“If the Obama Administration changes its policies drastically, I see U.S. equities as very well-placed for the future,” Sri-Kumar said. “But that requires a complete rethink toward helping the private sector rather than bashing specific institutions.”

“In any economic environment, there are interesting places to invest,” Arnott said. “Among those we see are emerging markets debt, inflation-linked TIPS, and at some stage, commodities.”

“We think there are opportunities in fixed income as well as equity markets,” Higgins said. “But people are going to have to lower their investment expectations, because lower economic growth means lower profit growth.

Last year was a very low quality rally. We think this year will be more of a high quality rally, and we favor large-cap names that pay dividends.”

CFALA Experts Are Quick Resources For Reporters

MEDIA

CFALA members with expertise in a wide variety of subjects are available to speak with members of the of the Southern California media by going to the experts page of the CFALA news-room.

The CFALA experts list includes respected analysts, portfolio managers and researchers who are willing to respond to reporters on short notice to provide quotes, perspective and useful background information on developing stories.

Among the many topics covered by CFALA

experts are behavioral finance, defined contribution investing, distressed assets investing, U.S. equities, international equities, forensic economic analysis, hedge funds and alternative investments, hedge fund and investment adviser compliance, investing for non-profits, investment management, mortgage and asset-backed securities, mutual fund investing for individuals and 401(k) plans, neuro-economics, retirement plan investing, single stock exposure solutions, valuation for tax and financial reporting, value investing, and wealth management.

USC Team Makes Strong Showing In CFA Challenge Contest

A team of undergraduates from USC's Marshall School of Business recently took second place in the Chartered Financial Analyst Challenge, a competition that pits students from different universities against each other as they analyze the prospects for a publicly traded company.

"It was an excellent performance, particularly since the members of the Marshall team were all undergrads and the opposition were all grad students," said Dr. Larry Harris, a Marshall faculty member and CFALA board member who helped advise the students. CFALA and the Marshall School have a long history of cooperation in assisting those who wish to become Chartered Financial Analysts. Faculty advisors Julia Plotts and Dr. Zekiye Selvili from Marshall's finance department were the primary coaches for the team, which included Siddharth Ramakrishnan, Xiaolin Gong, Carly Olson and Henry Pfirrmann.

"Our undergrads are so strong," Plotts said. "All four have had a lot of summer internship experience and leadership experience. They have worked in a financial services environment where they were doing this type of analytic work."

Plotts noted that the students upped the ante by choosing to prepare an equity research report on OpenTable, the popular online restaurant reservation service, although she and Dr. Selvili had cautioned them that because the



High Performers — From left to right: Siddharth Ramakrishnan, Dr. Zekiye Selvili, Xiaolin Gong, Rhonda Reid (organizer of the challenge), Henry Pfirrmann, Carly Olson, Dr. Larry Harris.

company is less established, forecasting is more difficult. "It shows how creative these students are," Plotts said.

The Marshall foursome bested graduate students from the University of California Irvine and the University of San Diego in the finals, finishing second to the Executive MBA team from Wharton. The contest was held in Las Vegas.

The Marshall Case Team is a student club comprised of about 40 students, mostly seniors, who compete in four-person teams in eight official case competitions each year. In these competitions, students analyze a real-world business problem under timed conditions and present their case to a panel of industry and academic judges. The Marshall Case Team had an unprecedented three first-place wins last academic year during competitions in Singapore, Denmark and Canada.

CFALA Awards CCEE \$20,000 To Fund 2010 Capital Markets Contest

CFALA has provided a \$20,000 grant to the California Council on Economic Education (CCEE) to help sponsor the 2010 Capital Markets Contest. This is the 6th consecutive year that CFALA has provided its support to the Capital Markets Contest, using funds raised at the society's 2010 Economic and Investments Forecast Dinner.

"The participatory nature of the Capital Markets Contest enables students to learn basic economic principles through stock trading and financial analysis, and challenges them to draw conclusions and provide recommendations for addressing national economic issues," said

CFALA President Ken Yee. "This innovative contest ignites interest in economics and awakens students, many of them from lower-income neighborhoods, to the opportunities available in the investment industry. We are thrilled to support CCEE in this endeavor."



The Capital Markets Contest is a three-month educational program that promotes interest in economic education, honors high-achieving students and showcases outstanding high school economics programs. Students from throughout Southern California are drawn in through a 10-week stock trading contest, with teachers (continued on page 4)

from participating schools choosing a team for the finals, which this year will be held May 27 at the Los Angeles branch of the San Francisco Federal Reserve. Each team then submits an essay to the grading panel prior to the final, and the combined score from the essay and oral presentation determines the winner. The top three teams receive cash prizes and trophies, with the winner earning a trip to New York City to visit the New York Stock Exchange and the New York branch of the Federal Reserve.

“We are very grateful to CFALA for their efforts in raising funds to support the Capital Markets Contest,” said CCEE Executive Director Jim Charkins. “Their success with this program is a tribute to their outstanding leadership and the dedication of their members to California students.”

Why the CFA Designation Matters

When you place the CFA designation after an investment professional's name, your audience knows that this person is an expert in the field of financial analysis and investment decision-making. Using the CFA designation means that you're quoting a professional who has passed the industry's most rigorous exams and has made a personal commitment to always put the interests of investors first.

EXPERTS

Volunteers Are What Makes CFALA Work

Here are three members who were recently honored by the society for their contributions:

Monica Erickson

The annual dinner at which candidates are recognized as CFA Charterholders is the culmination of a lot of hard work for them. It's also a lot of work for Monica Erickson, CFA, who organized last year's highly successful event.

A CFALA member since 1997, Monica is an analyst in the Global Developed Credit Group of DoubleLine Capital LP in downtown Los Angeles. Among her activities at CFALA, she chaired the organization's annual dinner for 2009. The December soiree drew about 150 attendees to the Cicada restaurant, famous for its Art Deco opulence and located in one of L.A.'s landmark buildings. That will be a tough act to beat, but Monica also has responsibility for the 2010 dinner.

“I enjoy volunteering for CFALA,” Monica says. “There comes a time in your life when you feel you have to give back a little and do things for other people. It's also rewarding to meet the new people who are becoming part of our group and to work with people outside the scope of my daily professional environment.”

A 1993 summa cum laude graduate of University of Southern California with a B.S. in Finance, Monica served as



an analyst at Froy Revy for 15 years and Trust Company of the West for two years before joining Doubleline.

Brian Brady

Attracting new members to CFALA is the mission of Brian Brady, CFA, who co-chairs the Membership Committee with Doug Achtemeier. With the financial crisis impacting membership, Brady and Achtemeier have had to work hard to bring

new members aboard. One effort is the “MBA Tour”, where Brady and other volunteers educate students on the many benefits of belonging to CFALA. Another initiative centers on a new membership category recently approved by the society's board of directors.

“We're going to allow qualified individuals from other allied professions to become associate members,” Brady explained. “For example, lawyers or accountants or perhaps financial planners who have an interest in what CFALA does will now be able to attend our events without having to obtain the charter. We think it will help us increase membership and bring some new people into the group.”

A portfolio manager in Northern Trust's Westwood office, Brady has been active in

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CFALA since joining the society three years ago. In addition to his membership work, he also belongs to the Private Wealth Management Committee and Applied Behavioral Finance Group.

Mark Morski

When CFALA recently decided to hire a new accounting firm to do the regular annual review of the society's books, they got a hand from someone who knows quite a bit about that kind of work. Mark Morski, CFA, is a controller at Kayne, Anderson Capital Advisors, LP in Century City.



“I assisted the Finance Committee in selecting a new firm by making contact with five or six firms and giving them our requirements,” Morski explained. “Once we received the bids, I gave the Finance Committee a table showing what the different firms were offering to help in making the decision. Once the Board had made its selection, I contacted the firms letting them know of CFALA’s decision. Going forward, I will be the liaison between the Finance Committee and the accounting firm, reporting on their progress as they complete the review of our financials and the preparation of our tax return.”

In addition to his work with the Finance Committee, Morski has also served as a mentor to candidates studying for the CFA exams.

Morski, a Michigan native, did his undergraduate work at UCLA and also has an MBA from USC.



The CFALA Mission

Established in 1931, the CFA Society of Los Angeles (the Society) is a network of investment management professionals in the greater Los Angeles area, CFA Society of Los Angeles is a member society of CFA Institute.

The mission of the Society is to provide access to information, expertise and personal interaction to further members’ professional development and to promote the value of the profession and the CFA designation.

The Society strives to fulfill this purpose as:
A local Forum bringing together people, knowledge and practical experience

A respected Partner with other organizations for the purpose of serving mutual interests and the meaningful exchange of ideas

A Premier Source for professional resources and development

A powerful Voice representing ethical standards of practice and the interests and value of the profession.



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