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Top Strategists at CFALA 2012 Economic & Investments Forecast Expect Massive Debt Deleveraging, Housing Challenges, Opportunities Overseas

LOS ANGELES – Investors should anticipate a challenging year in 2012, three top strategists told attendees at the 10th annual Economic and Investments Forecast Dinner presented by the CFA Society of Los Angeles (CFALA), with debt deleveraging, ongoing pressure on the housing market, and difficult conditions accompanied by possible opportunities in regions outside the United States.

The forecast dinner, held Wednesday at the Omni Hotel in downtown Los Angeles, was organized this year by CFALA's Kerry Gawne. This year's event attracted many notable sponsors, with Barclay's Capital and Payden&Rygelbeing the major underwriters. The forecast dinner, whichover the past decade has featured some of the investment industry's most respected analysts, is part of CFALA's mission of improving the quality of financial decision-making throughout society.

Although 2011 was a volatile and tumultuous year, David Rosenberg, Chief Economist & Strategist at Canada's GluskinSheff, said 2012 may be even more challenging.

"The coming year promises to be one of transition: politically in the United States, financially in Europe, and economically in China," said Rosenberg, who was named Economist of the Year for 2011 by Fortune Magazine and ranked most accurate forecaster for 2011 by MSNBC.

"The global economy is going to endure the mother of all deleveraging cycles as we move through 2012. The dominant focus for investors will remain capital preservation and income orientation. Tactical asset allocation will need to be emphasized at least as much as longer-term strategic considerations."

Expectations that the recent sharp recession would be followed by a snapback recovery have not materialized, Rosenberg said.

> "Due to the severity of the financial collapse, unprecedented fiscal and monetary stimulus was brought to bear, followed by a strong and noisy consensus that,

due to the magnitude of the ‘Great Recession’ the subsequent recovery would be awesome — much like stretching on a rubber band and letting go,” he said. “But we didn’t get the rubber band. Instead, what we got was the proverbial‘pushing on a string’.”

As 2012 proceeds, Rosenberg said, “the global economy is going to endure a significant deleveraging cycle – one that will affect most if not all parts of the developed world. It will be accomplished by some combination of default and write-downs, debt repayment and rising savings rates. All this promises to be very deflationary and we will have to invest with that prospect in mind, and all the behavioral, political and social shifts that are bound to ensue.”

Rosenberg listed eight areas of behavioral change to watch for:

1. Frugality on the part of the global consumer (living within our means; retirement with dignity)
2. Austerity on the part of sovereigns (spending cuts/tax reform)
3. Nationalism (an umbrella for protectionism and isolationism: mean reversion for globalization).
4. Political movement along the ideological and fiscal spectrum (from gridlock to change)
5. Geopolitical change (wars, elections and regime changes)
6. Changes in inflationary/deflationary expectations
7. Changes in growth expectations
8. Changes in asset allocation preference (fund-flows/de-risking)

Although investors have been enthusiastic about housing stocks recently, the housing crisis is far from over, said Laurie S. Goodman, a member of the Fixed Income Analysts Hall of Fame who is a Senior Managing Director at Amherst Securities Group, LP. In fact, solving the housing crisis requires creating between 3.8 million and 5.8 million units of housing demand over the next six years, she said.

“We currently have between eight and 10 million homes in jeopardy of default over the next six years,” Ms. Goodman said. “That total includes borrowers who are already delinquent, borrowers with re-performing loans – those are borrowers who used to be delinquent and are now current but still have a higher chance of defaulting – and borrowers who are likely to default because they are under water.”

Future supply resulting from defaults plus new construction will account for between 1.83 million and 2.16 million units annually, Ms. Goodman said, but annual demand is anticipated to be only about 1.2 million units, leaving an oversupply of between 0.63 million and 0.96 million units per year.

“Although the median family’s ability to buy looks as good as it has been in a generation, credit availability is very tight,” she said. “So we have a huge supply and demand imbalance. There are essentially two solutions. We need to transfer some of that supply from current owners to investors who will then rent out the units, and we need to have principal reduction on a very large scale, which in turn will reduce the supply of units coming onto the market."

Ms. Goodman previously was head of Global Fixed Income Research and Manager of U.S. Securitized Products Research at UBS and predecessor firms, and spent 10 years in senior fixed income research positions at Citicorp, Goldman Sachs, and Merrill Lynch. She was also a Senior Economist at the Federal Reserve Bank of New York.

Also speaking was Paul J. Hechmer, Founder and Chief Investment Officer of del Rey Global Investors, LLC. With more than 18 years of investing experience, Hechmer is a recognized thought leader in the investment management community. Before launching del Rey, he was a Founding Member, Executive Managing Director and Portfolio Manager at Tradewinds Global Investors, managing at the peak approximately $25 billion in their flagship International and Global equity products.

"Our investing universe at del Rey can broadly be broken into three geographies – Europe, Asia ex-Japan, and Japan – and as we enter 2012, all three face perilous circumstances," Hechmer said.

"Europe's currency and debt problems are now obvious and it's likely either in a recession or going into one. Our best guess is that central banks around the world will pitch in to bring stability by underwriting European nations' liabilities in the near-term thereby giving their leaders time to address their problems in an orderly fashion. In Asia, the primary concern is the slowing of the Chinese economy which could quite possibly experience a hard landing. That would have major ramifications not just in China and Asia, but globally. And Japan's aging economy just continues to shrink year in year out - they seem to be in a perpetual recession.

"So all of these regions present big risks," he said. "But the flip side of risk isopportunity, and since valuations in each of these markets have come down significantly in recognition of these risks, we believe there are buying opportunities – on a selective basis. One way to navigate risk is through diversification, so we focus on remaining very diversified across all of these markets."

Founded in 1931, the CFA Society of Los Angeles (CFALA) is a network of investment management professionals that works to disseminate useful financial information and increase awareness of the value of the Chartered Financial Analyst (CFA®) designation, which is intended to lead the investment profession by setting the highest standards of ethics, education, and professional excellence. Additional information is available at www.cfala.org.

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