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Comments on Financial and Economic Developments



Up until July 19, international equity markets held up well, to the surprise of many. Ultimately worries about the US sub-prime mortgage market took over and the persistent weakness in the US corporate credit markets could no longer be ignored. A sign

of the times is the sharp decline in the share price of leveraged buyout firm Blackstone Group LP. Blackstone is now this year's worst-performing initial public offering.

The S&P/TSX reached a high of 14,646.82 on July 19, but lost in excess of 6% during subsequent trading sessions. What we had witnessed was the early stages of a particular phenomenon: the effects of disappearing equity like BCE. Dozens of billions of dollars will need to be reinvested, which leads to a broadening of the market. BCE in particular had been for the longest time a mainstay in many (not only conservative) portfolios, and it is no small challenge to replace such a holding.

Since short-term cash remains unrewarding and the bond market looks uninspiring, finding suitable equity replacements seems to be the only alternative for many investors. Given the experience with the Canadian dollar in recent years, reinvestment opportunities will be looked for first and foremost in the Canadian market, especially now that most "experts" have turned bullish on the Canadian dollar and the press celebrates every further advance of the loonie.

In financial markets, August is usually a fairly uneventful month. Alas, with recent terrorist attacks in the UK, nothing can be taken for granted any longer. Chances are that, come early fall, portfolios will be reexamined. Hopefully by then we will also have some more conclusive inflation data. In the meantime, enjoy the hot summer days and maybe treat yourself to an interesting yet relaxing book such as we propose in our book review.

By Rolf Spielmann, CFA

European news

9.1 million

That's the number of customers who joined British cell phone group Vodafone in the 1st quarter, bringing its total number of subscribers to 232 million. The group's sales also grew 7.5% to €12 billion. Although Vodafone's expansion policy targeting emerging countries appears to be paying off – it recently acquired Hutchison Essar, the 4th largest operator in India, which has 30.8 million customers as at the end of June – Western Europe still accounts for four-fifths of its total sales.

Source: lemonde.fr

Forecasting

Listening to a panel of leading financial market forecasters is part informative, part confusing and mostly entertaining. This is not to take away anything from the panelists. Usually they are very well prepared, they have track records, they represent leading firms and without exception they are smart people, highly educated and widely traveled. Why then are their views, even short-term views, often country miles apart?

We recently had an opportunity to listen to such a distinguished panel and we walked away with the sound knowledge that over the next twelve months equity markets will either rise 15% or fall 15% unless they remain basically unchanged, which is also quite possible. We also now know with certainty that in one year's time gold will trade at \$500 per ounce or in excess of \$1,000. And the US dollar? It stands to decline sharply, unless of course it rallies sharply; it could also, however, trade fairly close to today's levels.

The point we are trying to make is that nobody has the benefit of a crystal ball. What struck us is that three of the four panelists had sound arguments supported by equally sound economic models. The fourth panelist, whose day job is to be an active investment manager, took the occasional small sip from his glass of red wine and had the courage to question many of the assumptions of the other panelists. We know for a fact that it was not the wine speaking — his glass was not large enough for that — but more his courage and the curiosity to challenge what most presume has to happen in the future because everybody else thinks so too.

It is not that he wished to shock the audience with bearish predictions, but he was the only one who does not expect either smooth sailing or the sky to be the limit. No goldilocks scenario with him! He does not, for example, question the ongoing demand for Canada's natural resources, but questions how much is already (over) discounted in today's equity prices and in the value of the Canadian dollar. He does not downplay the drag on the US dollar of America's growing external debt, but dares to ask if the US dollar's depreciation over the past years is not already accounting for this

fact. He does not argue that gold is a valuable commodity, but wonders if demand can possibly be strong enough to propel it to even higher prices.

It takes courage to offer and defend a view that differs from majority market beliefs. This said, the fact that this panelist displayed such courage makes him not only a remarkable man but also highly desirable as an investment manager. As he stated, there are already investment managers in today's market for whom the high tech meltdown is something they only know from hearsay. There is no substitute for experience and the courage of independent thinking. We know of more than one successful manager who in the short run occasionally pays a price for this, but in the long run they always end up on top.

Those are the only managers of interest to us! We don't mind a manager who underperforms during a quarter if he exited or entered the market too early, but we cannot afford to invest our clients with a manager who is caught flatfooted when everybody else is caught flatfooted. Economic models are wonderful things, but courage, curiosity and independent thinking beat most economic models most of the time! Beware of those who tell you that the market MUST move in a certain direction. As we all (eventually) learn the hard way, the market feels no obligation to one analyst or another.

Book Review



Champagne: *How the World's Most Glamorous Wine Triumphed Over War and Hard Times*

By Don & Petie Kladstrup
Harper Perennial, 2005

For summer reading, may we suggest a book on champagne. As the cover states, this is the story of "How the world's most glamorous wine triumphed over war and hard times." In fact, it is really more of a history book, it is a captivating story and a testament to the courage of the Champenois in protecting their eponymous beverage.

Surely the most remarkable chapter of the story of champagne is how the people of the region survived the onslaught of armies, with World War I having inflicted the worst damage. The proud, ancient city of Reims endured 1,051 consecutive days of unrelenting bombardment during which 98% of the city was destroyed, including its famous cathedral where France had previously crowned its kings and queens. The courage and determination of the people is gripping in view of the tribulations they endured. It is ironic but not surprising that through the ages Champagne's aggressors at no time deprived themselves of a steady supply of this fine wine, importing it through neighboring countries in times of war.

When indulging in this book, expect to be carried away to another time and place. In fact, we strongly encourage you to read it whilst sipping a glass of champagne, but also remind you that the fine product you are privileged to be consuming is the result of centuries of hard labor, tragic events and a peoples' determination. How often do we get to enjoy something so special that it had to be defended at all cost?

Water: the blue gold of future generations...

If all industrial, agricultural and personal needs are taken into account, every human being on the face of the Earth uses 2,700 litres of water a day...

Water is becoming and increasingly rare commodity; underground reserves are rapidly shrinking and some countries no longer have enough water to produce the food they need...

And it's not just the quantity of blue gold that is at stake; there are also major problems surrounding water quality and delivery infrastructures...

BLUE BRIDGE tries to raise its clients' awareness of these issues by introducing them to water-related funds, chosen specifically because they invest



in water purification, distribution and irrigation. These are investment opportunities, to be sure, but they also allow our clients to do their part to promote the sustainable use of this very precious asset.



distribute.

As a way translating into action our commitment to water-related issues — its quality, protection and accessibility — BLUE BRIDGE supports the United Nations' *Water for Life* program. To increase public awareness of this program, artist Maryo Thomas has created an original work to enhance the bottles of water that BLUE BRIDGE is pleased to

Selection of Financial & Economic Indicators

Index	DJ Ind	DJ Transp.	Nasdaq	S&P500	S&P/TSX
July 31	13211.99	5030.02	2546.27	1455.27	13868.63
Monthly var.	- 1.47%	- 1.35%	- 2.19%	- 3.20%	- 0.27%
Year-to-date	+ 6.01%	+ 10.30%	+ 5.42%	+ 2.61%	+ 7.44%
Year-over-year	+ 18.12%	+ 14.82%	+ 21.75%	+ 13.99%	+ 17.14%



Index	FTSE	DAX	CAC40	SMI	Nikkei
July 31	6360.10	7584.14	5751.08	8885.04	17248.89
Monthly var.	- 3.75%	- 5.28%	- 5.02%	- 3.52%	- 4.90%
Year-to-date	+ 2.24%	+ 14.96%	+ 3.78%	+ 1.13%	+ 0.13%
Year-over-year	+ 7.28%	+ 33.48%	+ 14.81%	+ 11.88%	+ 11.59%

Commodities	Gold	Copper	Crude Oil	Lumber	CRB
July 31	679.30	365.50	78.21	279.00	324.15
Monthly var.	+ 4.36%	+ 5.94%	+ 11.03%	- 0.25%	+ 2.78%
Year-to-date	+ 6.39%	+ 28.25%	+ 28.11%	+ 4.10%	+ 5.50%
Year-over-year	+ 5.02%	+ 2.38%	+ 5.19%	+ 2.20%	- 7.33%



Currencies	\$CAN	¥	€	£	\$AU
July 31	1.0670	118.6500	1.3680	2.0305	0.8520
Monthly var.	- 0.19%	+ 3.69%	+ 1.11%	+ 1.12%	+ 0.47%
Year-to-date	+ 8.49%	+ 0.34%	+ 3.60%	+ 3.70%	+ 7.92%
Year-over-year	+ 5.66%	- 3.53%	+ 7.13%	+ 8.73%	+ 11.23%

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When it comes to financial matters, everybody knows well that information is the sinews of war, but few people have the time to inform themselves. So, how to follow the financial markets and accordingly facilitate one's investment-making decisions? www.go-bourse.com is one of the answers. The purpose of this Web site is to facilitate the access to international financial information's. Themes include the economy, the stock markets, fiscal matters, actual and new products, currencies, and the art of investing.

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