

- **P.1 Comments on financial & Economic Developments**
- **P.2 Competitive devaluations**
- **P.3 Book Review: *Dupuis Frères, le magasin du peuple***
- **P.3 European news : *Contracts for France in Morocco***
- **P.4 Selection of Financial & Economic Indicators**

Comments on Financial and Economic Developments



Market volatility is remarkable enough, but the dreaded triple "SH" (Short Sharp Shock) has yet to be experienced.

Unfortunately, the probability that we *will* experience triple SH has not diminished with the persistent anxiety over credit problems, and the potential fallout cannot be properly measured even by today's market language of algorithms, a language in which everything is presumed to be measurable — and thus predictable and controllable — but in which the underlying assumptions are often expedient rather than correct or realistic.

After the nice, extended, run we have had in equity markets, how would investors react if, for whatever reason, we were to enter a prolonged bear market? The process would likely resemble Dr. Elizabeth Kübler-Ross' five stages of grieving, which begins with denial, then anger, bargaining, depression and, finally, acceptance. In the case of a fall in the market, the initial denial and anger would likely lead to a protracted period of bargaining, fueled by brokers' recommendations that stocks are now cheap, forgetting that a correction in the value of overpriced equities does not necessarily make them an interesting purchase. Indeed, even after a significant price decline they often remain overly expensive compared to their intrinsic value.

We note with dismay how the investment community lures investors back into the market after even a mild correction. Instead of questioning the selfish motives of the industry, many investors eagerly lap up the good news

that stocks can now be bought at bargain prices. Advice to investors is often divorced from ethics, as evidenced by the way some "high-quality" financial instruments were sold to the public. Such instruments declined sharply in value the very moment the market experienced its first hiccup. Why? Because the instruments contained high-quality debt issues, but also lots and lots of low-quality and junk issues — some of them were nothing short of toxic. That is not what was stressed in the marketing material, of course, and many a trusting but naïve investor paid the price for it.

Only the sellers, it seems, can indulge in the final phase of acceptance, since they have earned exorbitant fees on what they have sold to the public, and although they occasionally get their knuckles rapped by the SEC because too many corners have been cut, the larger firms have only to deliver a cheque to the SEC and then go their merry way until the next fine, which will be settled in the same way. Smaller firms, however, cannot afford this modus operandi and either have to quit the business or spend veritable fortunes on compliance. We know of one very successful firm that simply threw in the towel once the cost of compliance threatened to become larger than the earnings of the firm. This situation is not something that improves the quality of the marketplace, and regretfully additional procedures, rules and regulations are little more than a lawmaker's consolation.

By Rolf Spielmann, CFA

Competitive devaluations

Compared to previous decades, we hear less about competitive devaluations, but on the other hand, US pressure on China, for example, to increase the value of the Yuan remains very strong. In the case of the US, the hope is that a currency realignment via stronger overseas currencies (which equals a lower US\$) will help to correct the US trade deficit.

In a recent issue of Current Issues, published by the New York Fed, Linda Goldberg and Eleanor Wiske Dillon review the impact of a competitive dollar depreciation and conclude that it would bring few advantages.

Three reasons are mentioned. Firstly, since US imports are almost entirely invoiced in US dollars, the price of imported goods does not change for a considerable period of time following a change in currency values. Secondly, exporters to the US wish to remain competitive, so they will absorb a good portion of the currency loss. Thirdly, the price of imported goods includes very high US marketing and distribution costs, denominated in US\$, which insulate the price of imported goods.

"...Of all countries, the US enjoys the largest use of its currency in import and export invoicing..."

Of all countries, the US enjoys the largest use of its currency in import and export invoicing. 92.8% of import invoicings and 99.8% of export invoicings are done in US\$. In contrast, the percentages for Germany and its Euro invoicings are 35.9% and 24.1% respectively. When the authors look at the rate of currency exchange "pass-through", which is the degree to which a change in the value of a country's currency induces a change in the price of the country's imports and exports, they report that for all OECD countries a 1% change in the exchange rate will, on average, generate a 0.64% change in import prices over the course of a year. The percentage rate for the US, however, is a mere 0.42%.

"... a dollar devaluation brings limited advantages ..."

In their conclusion that a dollar devaluation brings limited advantages, the authors write that "with import prices rising only modestly from their pre-depreciation levels, US consumers have little incentive to reduce their demand for imports significantly or to seek out comparable goods produced at home. The unresponsiveness of US import prices to a dollar depreciation suggests that any substantial trade balance adjustment achieved through exchange rates must come instead from a reduction in export prices."

That is not exactly the tone from Capitol Hill!

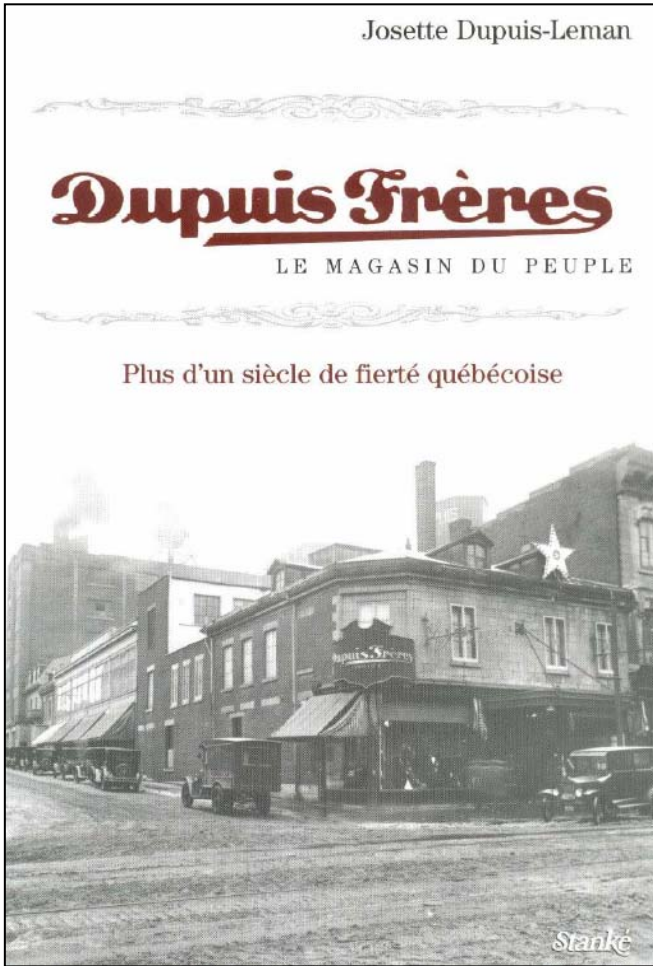
European news

More than 2 billion euros in contracts for France in Morocco

France recently signed civil and military contracts in Morocco valued at a total of at least 2 billion euros. The largest is for the design, manufacturing, operation and maintenance of a very-high-speed rail (TGV) link between Tangier and Casablanca. That project alone is valued at 2 billion euros, half of which will go to three French companies: Alstom, the Société Nationale des Chemins de Fer (SNCF) and the Réseau ferré de France (RFF). Alstom also signed a 200-million-euro contract in power generation to participate in equipping the future Ain Béni Mathar power plant.

Source: lemonde.fr





Dupuis Frères: le magasin du peuple

By Josette Dupuis-Leman
Stanké, 2001

More than a century of Québec history is recounted in this book as it delves into the saga of the Dupuis family and the epic story of the Dupuis frères' Montréal department store.

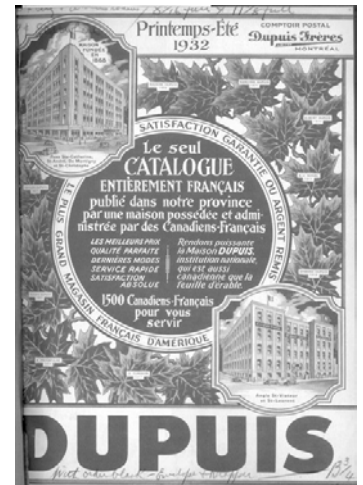
When you read it, you will understand what led to the emergence of a new Québec middle class and witness the rise of a new type of visionary, innovative and determined Québec entrepreneur, the first of the current generation of businessmen and -women at the helm of the corporate Québec jewels that include Cirque du Soleil, Juste pour rire, Couche-Tard and Bombardier.

The history of the Dupuis clan, which arrived in Canada in 1651, is marked by the deportation

of the Acadians in 1755 and their repatriation in the early 19th century. It was in 1864, in the middle of an economic recession, that Euphrasie Richard-Dupuis, a courageous widower with eight sons and a daughter, set up a humble needle-and-thread business that was to become a department store, a jewel on Sainte-Catherine Street in downtown Montréal.

Customers were never refused for any items relating to art, decorating and the modern comforts: in addition to imports from England – woollen blankets, tweeds, fabric sold by the yard – there was ladies' and children's clothing, china, silverware, crystal and copperware, silks and trinkets from France as well as leathers and religious items from Italy.

Local history would have it that the oldest son crossed the Atlantic five times in three years to acquire provisions for the small business – a true feat in those days. Inspired by the Parisian department store Le Printemps, the Dupuis clan introduced avant-garde “merchandising” principles – Montréal's first escalator was installed in their store; 1921 saw the introduction of the Dupuis mail order catalogue and in 1928, a telephone ordering service was introduced.



For the record, Edmond Archambault set up a sheet-music business and Omer DeSerres founded his hardware store on Sainte-Catherine Street, not far from the Dupuis store.

Dupuis Frères closed its doors on January 28, 1978, but, like the author of the book – Josette Dupuis-Leman – we would like to emphasize that the DUPUIS name is not forgotten; the store has not been replaced ... and it never will be!

Selection of Financial & Economic Indicators

Index	DJ Ind	DJ Transp.	Nasdaq	S&P500	S&P/TSX
October 31	13930.01	4907.96	2859.12	1549.38	14625.00
Monthly var.	+ 0.25%	+ 1.48%	+ 5.83%	+ 1.48%	+ 3.73%
Year-to-date	+ 11.77%	+ 7.63%	+ 18.38%	+ 9.24%	+ 13.30%
Year-over-year	+ 15.31%	+ 3.84%	+ 20.81%	+ 12.44%	+ 18.47%



Index	FTSE	DAX	CAC40	SMI	Nikkei
October 31	6721.60	8019.22	5847.95	9019.57	16737.63
Monthly var.	+ 3.94%	+ 2.01%	+ 2.31%	+ 0.96%	- 0.29%
Year-to-date	+ 8.05%	+ 21.56%	+ 5.53%	+ 2.66%	- 2.83%
Year-over-year	+ 9.67%	+ 27.92%	+ 9.33%	+ 5.25%	+ 2.06%

Commodities	Gold	Copper	Crude Oil	Lumber	CRB
October 31	795.30	347.30	94.53	228.50	351.01
Monthly var.	+ 6.04%	- 4.40%	+ 14.53%	- 8.05%	+ 4.74%
Year-to-date	+ 24.56%	+ 21.86%	+ 54.84%	- 14.74%	+ 14.28%
Year-over-year	+ 31.06%	+ 3.81%	+ 62.03%	- 6.28%	+ 15.03%



Currencies	\$CAN	¥	€	£	\$AU
October 31	0.9425	115.40	1.4485	2.0788	0.9325
Monthly var.	+ 5.23%	- 0.48%	+ 1.61%	+ 1.55%	+ 5.09%
Year-to-date	+ 19.17%	+ 3.07%	+ 9.69%	+ 6.17%	+ 18.11%
Year-over-year	+ 16.04%	+ 1.37%	+ 13.47%	+ 8.98%	+ 20.40%

Alain E. Roch, MBA | President | alain.roch@bluebridge.ca

Rolf Spielmann, CFA | Senior Vice President | rolf.spielmann@bluebridge.ca

Blue Bridge Wealth Management Consultants Inc. | www.bluebridge.ca

1800 McGill College Avenue, Suite 2108, Montreal (Qc) H3A 3J6 Canada

Tel. +1 514 845 9165

Blue Bridge is an independent wealth management consulting firm that provides investment advice to high net worth individuals.

The information contained in this report is not guaranteed in any manner whatsoever. It is for information purposes only, and does not constitute a recommendation to buy or sell stocks, bonds, currencies, and/or any other values. This newsletter cannot be reproduced in any way and/or for any purpose without the express authorization of Blue Bridge Wealth Management Consultants Inc.

