

- **P.1 Comments on Financial & Economic Developments**
- **P.2 Industry consolidation...**
- **P.2 European news : The worst-case scenario**
- **P.3 Book Review: Sugar, A Bittersweet History**
- **P.4 Selection of Financial & Economic Indicators**

Comments on Financial and Economic Developments



Where does one turn to... when there is no longer anything to hold on to, when fear runs rampant?... when a stock like Toyota trades below book value?... when all you know is that staying in the market is disastrous in case of a complete meltdown and that

the consequences of leaving the market will be equally disastrous if there isn't a complete meltdown... when the world we have known since WWII disappeared with the blink of an eye and the shapes of new structures are still shrouded by fog? What happened during October left no one untouched. This is only the very beginning of the fallout, and yet during our recent travels we compared the fancy streets in Montreal, to those of Geneva, Paris and London. They all had one thing in common- plenty of prime retail space to let.

"...Financial institutions hired the very brightest, alas all too many of them had lots of brains and little experience..."

The financial sector had enjoyed a tremendous boom, and a boom is invariably followed by a bust. The magnitude of wealth destruction was and is unimaginable and I do not recall even one professional doomsayer predicting the wipe-out of storied financial institutions. Greed won over healthy skepticism as the desire to generate ever larger profits for the sake of obscene bonuses triumphed over prudence. Financial institutions hired the very brightest, alas all too many of them had lots of brains and little experience. And as the profit machine

turned ever faster, irrelevant financial platitudes became the new gospel.

"...The risks they had assumed became impossible to analyze even to those who had concocted the investment instruments..."

Amongst those who foresaw problems, many took solace from the belief that financial institutions had become too large to fail. That, as it turned out, was the wrong assumption. True they were too large, but in the sense that they had become unmanageable and their business became impossible to understand. The risks they had assumed became impossible to analyze even to those who had concocted the investment instruments. And the rating agencies were all too generous in assigning AAA ratings.

Bleak as everything looks today, the end of the financial system has been predicted more than once and each time the world did not end. Maybe the situation is direr today than it has ever been, but the authorities seem better prepared and more willing to deal with the problem. Some great companies continue to make good money and one day, somebody will have the courage to step in and take advantage of the low valuations. When will this happen, no one knows but it's a good bet that eventually it will happen.

By Rolf Spielmann, CFA

Industry consolidation ...

Looking back over my 40 years in investment markets, at times I cannot help but feel a bit bewildered about the names of companies now traded on stock exchanges. Many of the grand old names of 30 or 40 or 50 years ago are nothing but faint memories, companies which looked like market leaders and impenetrable fortresses have long ago been swallowed up by more nimble competitors or company raiders who carved them up into smaller pieces. Look what happened (and still happens) to the automobile industry, where chances are that in five years from now a new wave of industry consolidation will have completely changed that landscape once again.

This brought me back to my 1957 commercial aircraft edition of the "Work Traffic Booklets". I started to count the number of large airframe manufacturers. Fifty-one (51) years ago, the UK had no less than 14 commercial airframe manufacturers; the US had 7; France had 6 and Sweden, Spain and the Netherlands were also represented. Western Europe thus had no less than 23 airframe makers — today it has one. Of the seven in the US, some left the industry, some were forced out, and ironically, the one with the least attractive models in the forties and early fifties, Boeing, swallowed the others. One airplane, the Boeing 707, changed the entire industry, not only in the US but worldwide. While Douglas executives enjoyed their Martinis at lunch time with the comforting knowledge that their DC-6 and DC-7 models would forever control the global markets, technology changed and their market collapsed overnight. Within a couple of years they were close to bankruptcy and they never recovered.

And so it went with the 23 European airframe manufacturers which had to a large degree relied on WWII know-how and technologies. The UK companies eventually were consolidated into British Aircraft which today has been reduced to being a supplier to Airbus. The French enjoyed a temporary success with the elegant Caravelle, and together with the British undertook the prestigious but financially devastating venture of building the Concorde. Saab commercial aircraft in Sweden, CASA in

Spain and Fokker in the Netherlands were never able to capture a sustaining market share.

The moral of the story is that one should never fall in love with any one particular stock. One should constantly examine if a company can not only keep up with its competitors but gain an extra advantage. Being a market leader is never a guarantee for survival and certainly not a guarantee for good financial performance. While GM was still outselling Toyota, Toyota's market capitalization was about twenty times that of GM. The behavior of the Douglas executives was a prime example of what can happen if one rests on his laurels. And the reliance of the "big three" on gas-guzzlers was almost guaranteed to turn into a disaster. GM and Ford are market leaders in Europe in fuel-efficient, well-engineered, well-built and very attractive cars, and yet for some reason none of their own leading technology was exported to North America.

European news

"Europeans should not be overly confident and should prepare themselves for the worst-case scenario."

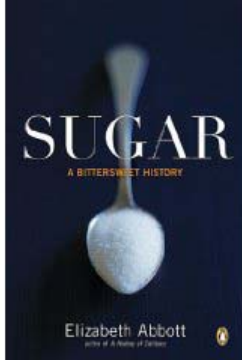
Dominique Strauss-Kahn, Director-General of the International Monetary Fund (IMF), made the statement to the German daily newspaper *FAZ* during an interview on the current financial crisis. He did, however, acknowledge that *"the European banks also experienced losses resulting from their exposure to securities linked to the United States real estate market, [but] overall they are in a better position than the American financial institutions."* Speaking of the IMF's role in this crisis, Mr. Strauss-Kahn explained that there is "no demand at the moment to provide loans because up to now none of our member countries have been confronted with a balance-of-payments crisis."

Source: lemonde.fr



Sugar, A Bittersweet History

By Elizabeth Abbot
Penguin Canada 2008



In a previous newsletter we had talked about a book called *Salt; A World History*. Another terrific book, in the same league is *Sugar: A Bittersweet History*. It is a true eye opener that contains a wealth of knowledge. The desire to produce affordable sugar to everyone resulted in an unimaginable human tragedy, wiping out entire local populations and civilizations and changed lush islands into barren lands. Hurricanes regularly devastate Haiti. This year unfortunately was no exception. This poor island would not be punished so hard had it not lost almost all of its forests to sugar plantations.

The author, Elizabeth Abbot has presented us with a very detailed, well researched book written in a style which makes it difficult to put down. In part 1, she describes how sugar was once a luxury, available only to the richest of the elite who would sometimes arrogantly show their wealth by wasting it. The middle and lower class also wanted to have access to this delicious sweet tasting substance. The "proletarianization of sugar" as the author puts it, led to a profound transformation of the Caribbean Islands, Brazil, and Louisiana etc. The author objectively tells the gut wrenching story. Sugar did indeed become abundant and so cheap that it became uneconomical to produce it. In response to this overproduction, plantation owners produced even more sugar by squeezing the last drop of blood out of their slaves, men, women and children.

The human cost of producing sugar could not be ignored forever and eventually consumers accepted that the sugar they enjoyed had been the product of tremendous human suffering. The slave trade was eventually abolished, forcing plantation owners to find more economic ways of growing sugar. This however was a long, difficult and bitter struggle.

The sugar lobby has always been well organized and aggressive. Ms. Abbott explains how sugar was turned into something even more desirable, be it via soft drinks, candies, chocolate etc. Sugar was presented as an aphrodisiac and as a cure for all kinds of illnesses. That was before the link to diabetes, obesity and black rotting teeth could no longer be ignored. The sugar lobby still remains powerfully active to this day as the battle over sugar or corn based ethanol continues.

This book will lead the reader from the oriental delight that sugar once was, to the present day's production of the wide variety of sugar added processed consumable food and to the possible uses that sugar it might have in our future. It is a thorough, well-written book, and we recommend it highly!

Selection of Financial & Economic Indicators

Index	DJ Ind	DJ Transp.	Nasdaq	S&P500	S&P/TSX
October 31	9324.69	3885.83	1720.95	968.74	9780.12
Monthly var.	- 14.06%	-15.82%	- 17.35%	- 16.83%	- 16.79%
Year-to-date	- 29.70%	-14.98%	- 35.11%	- 34.02%	- 29.27%
Year-over-year	- 33.06%	-20.83%	- 39.81%	- 37.48%	- 33.13%



Index	FTSE	DAX	CAC40	SMI	Nikkei
October 31	4377.83	4987.97	3487.07	6153.21	8576.98
Monthly var.	- 10.70%	-14.46%	-13.52%	- 7.54%	- 23.83%
Year-to-date	- 32.20%	-38.17%	-37.89%	-27.48%	- 43.97%
Year-over-year	- 34.87%	-37.80%	-40.37%	-31.78%	- 48.76%

Commodities	Gold	Copper	Crude Oil	Lumber	CRB
October 31	723.70	187.65	67.82	188.60	268.39
Monthly var.	-17.13%	-34.95%	-33.07%	- 7.55%	-22.25%
Year-to-date	-13.45%	-38.04%	-28.78%	-19.40%	-24.93%
Year-over-year	- 9.00%	-45.97%	-28.26%	-17.46%	-23.54%



Currencies	\$CAN	¥	€	£	\$AU
October 31	1.2105	98.50	1.2745	1.6090	0.6645
Monthly var.	-13.74%	+ 7.38%	- 9.42%	- 9.51%	-15.89%
Year-to-date	-21.90%	+11.70%	-12.71%	-18.96%	-24.19%
Year-over-year	-28.44%	+14.64%	-12.01%	-22.60%	-28.74%

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.

