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Comments on Financial and Economic Developments



The Lure of Gold

As the price of Gold trades around the \$1,000 level, one must remember that on January 21, 1980 the spot price reached \$850, meaning that today's price, inflation adjusted, is far from the peak

we had seen 29 years ago. The circumstances were different of course. What drove the price during that period were speculation and an attempt to corner the precious metals markets, and not a deep economic crisis.

"...today's price, inflation adjusted, is far from the peak we had seen 29 years ago..."

For those of you who were around during the 1960s, you may recall that the price of the Gold was fixed at \$35/ounce. Financial strains developed and the Gold standard broke down in 1971. Not surprisingly, by 1972 the monthly average price had risen to \$58, in 1973 to \$97 and in 1974 to \$159.

This brings me back to a time when I was a young foreign exchange trader and my Canadian bank sent me to Northern Germany in 1974 to hone my skills at a fine private bank. The bank was known for its excellent precious metal trading department and I wanted to learn more about Gold trading. The trader that was to train me was a most pleasant 60 year old man who taught me a lot.

One evening, this same trader invited me to his home for supper and to my delight his wife served a hearty German meal which we washed

down with ample beer, wine and schnapps. After supper he said he had something to show me and so I followed him to his room. He lifted the cover and under his bed I saw boxes and boxes filled with Gold coins—a sight straight out of a fairy tale. Gold by that time had appreciated by over 400% and I suggested that it might be time to sell his collection. "No", he said to me, "*in coming years Gold will climb upwards to \$1,000 per ounce.*"...And so it has.

Sometimes I wonder if his liver lasted him, long enough to see the prices of the early 1980s, in any case I wonder to this day what he knew that others did not. Leaving the bedroom I asked him if he was scared that his gold might be stolen. He answered, "*You are the only one who knows about this Gold, and if it gets stolen, I will know where to find you.*" And so...I waited 35 years before telling this story.

By Rolf Spielmann, CFA

What if...

Whenever we are in London we make it a point to pick up a copy of *The Spectator*. It advertises itself as “champagne for the brain” and indeed it is always a stimulating and thought-provoking read. In a recent article, Matthew Parris summarizes some of Mr. Phil Mason’s fascinating odds and ends and curious facts of history and politics, some of which are surely worth repeating. Mr. Mason is a Whitehall civil servant who collects interesting and fascinating historical facts. Let’s look at some of these—all taken from Mr. Parris’ article:

- Is Alaska part of the United States because—in 1867 Tsar Alexander II had overspent on a big naval expedition and was temporarily but acutely short of cash?
- Is our belief in the potency of spinach due entirely to the misplacing of a decimal point when in 1870 a German scientist assessed the vegetable’s iron content?
- Would Hitler have risen to power if his father had not been convinced by his relatives to change the family name from Schicklgruber to Hitler? Heil Schicklgruber . . . somehow not very catchy . . . although it surely would have been a blessing for all of mankind had the Schicklgrubers kept their name.
- Would Tony Blair have had an early chance, or even a chance, to lead the Labor Party if John Smith, the leader at the time had not suddenly and unexpectedly passed away?
- What if millennia ago a rogue iceberg had not delivered surprised penguins to the equatorial Galapagos?
- What if James Cadwick, one of the pioneers of nuclear science who meant to be a mathematician, had not joined the wrong queue at Manchester University and was enthralled by Ernest Rutherford, who interviewed him?
- What if Ronald Reagan’s application to join the Communist Party USA in 1938 had not been refused?

- What if two business partners who in 1939 purchased a clutch of hotels to start a chain did not find it too expensive to scrap the neon sign of a hotel called Sheraton?
- What if the nurse who heard Einstein’s last words had understood German and could have recorded his last thought?
- What if in 1816 the young Dr. René Laennec had not felt too shy to burrow his ear in the too-generous bosom of a naked lady patient, and modestly inserted a rolled-up newspaper instead? Astonished by the amplification, he spread the news and the stethoscope was born.

Historical tidbits are always fascinating. There was a likely cause that gave the edge to the exhausted and distracted Napoleon to help win the Battle of Waterloo. But that cause is not for a newsletter like ours to repeat!

European news

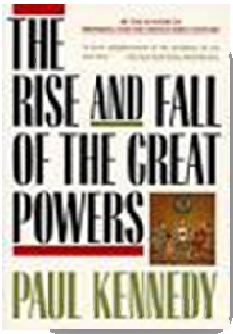
“We are roughly in agreement on almost doubling this facility.”

European Union nations are planning to double to 50 billion euros an emergency loan fund for Eastern Europe, which is struggling with serious financial problems as a result of the economic crisis. This emergency facility, to reassure Eastern European countries (non-euro zone members only), had already been doubled in December to 25 billion euros from 12.5 billion. Hungary and Latvia, both having payment problems because of the financial crisis, have already tapped the emergency fund for a combined total of more than 10 billion euros provided jointly by the EU and the International Monetary Fund. Romania is currently negotiating a similar loan for 20 billion euros, although it is unclear what portion would come from the EU.

Source: lemonde.fr



Book Review



The Rise and Fall of the Great Powers

By Paul Kennedy
Random House 1987

Someone insisted that I read *The Rise and Fall of the Great Powers* and to make sure that I did,

he bought me the book. A history book published in 1987? Why waste precious time reading it—hasn't the world changed fundamentally since then?

Indeed it has—more than most people could have imagined. Yet the author, Paul Kennedy, quite accurately outlined in his book what would happen in the future, and why it would happen. To help us understand, he brings us back to the Ming Dynasty, examines the Muslim World, gives much thought to the functioning of the Habsburg's bid for mastery, examines the seemingly never-ending European wars between 1660 and 1815, explains why industrialization favoured some nations and continents (Europe and North America) and outlines the changes brought about by the Great War and World War II.

A book published in 1987 and read at the end of December 2008—how ironic are the author's repeated references to GM as a gigantic corporation. Maybe this in itself summarizes the book and makes the reader understand that the world never stands still. He describes each power and each empire that went through the same stages: economic rise, military expansion, overextension, over indebtedness, economic decline followed by military decline. The similarities to today's world are, frankly, mind-boggling. As to GM, yes it was still a gigantic corporation in 1987, and it took government intervention to keep it alive a mere 21 years later.

Throughout the book, the reader cannot help but make a correlation between what happened in the past to what we're experiencing right now. The world has one undisputed super-power, one that within a lifetime has moved

from being the largest creditor to being the largest debtor nation; has a declining industrial base; is involved in more than one war; guarantees the safety of friendly nations around the globe; has a political leadership that is increasingly shaken by corruption and scandals and has shown gross incompetence in recent years. Throughout this book one reads the same story over and over again. The only difference is the time, the name of the dynasty or power, and the names of the main actors.

In his conclusion, Paul Kennedy refers to one of history's great statesmen (or manipulator, depending on your point of view), Otto von Bismarck. Von Bismarck observed that powers are traveling on the stream of time, which they can neither create nor direct, but upon which they can steer with more and less skill and experience. Read this book and you will understand what Bismarck expressed. You will better understand today's and tomorrow's world. Paul Kennedy does indeed describe how powers emerge and why they ultimately fail.

Selection of Financial & Economic Indicators

Index	DJ Ind	DJ Transp.	Nasdaq	S&P500	S&P/TSX
Mar 31	7608.92	2684.08	1528.59	797.86	8720.39
Monthly var.	+ 7.73%	+ 7.40%	+10.94%	+ 8.54%	+ 7.35%
Year-to-date	-13.30%	- 24.12%	- 3.07%	-11.67%	- 2.97%
Year-over-year	-37.95%	- 43.89%	- 32.93%	-39.68%	- 34.63%



Index	FTSE	DAX	CAC40	SMI	Nikkei
Mar 31	3923.14	4084.76	2807.34	4927.43	8109.53
Monthly var.	+2.51%	+ 6.27%	+3.88%	+ 5.05%	+ 7.15%
Year-to-date	-11.46%	-15.08%	-12.76%	-10.97%	- 8.47%
Year-over-year	-31.15%	-37.49%	-40.36%	-31.79%	- 35.26%

Commodities	Gold	Copper	Crude Oil	Lumber	CRB
Mar 31	920.70	184.75	49.36	172.40	220.40
Monthly var.	- 2.52%	+20.36%	+10.40%	+17.28%	+ 4.17%
Year-to-date	+4.51%	+32.01%	+14.79%	+ 1.53%	- 0.18%
Year-over-year	- 0.09%	- 51.77%	- 51.42%	- 22.38%	- 43.03%



Currencies	\$CAN	¥	€	£	\$AU
Mar 31	1.2605	99.0000	1.3282	1.4346	0.6950
Monthly var.	+1.21%	- 1.41%	+ 4.85%	+ 0.21%	+ 8.80%
Year-to-date	- 3.40%	- 8.97%	- 4.86%	- 1.60%	- 1.42%
Year-over-year	-22.83%	+ 0.75%	- 15.83%	-2 7.71%	- 23.81%

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