



# Blue Bridge

International Wealth Solutions  
& Family Office Services

Newsletter  
January 2012

## Blue Bridge team wishes you a Happy New Year 2012



*BLUE BRIDGE and its partners will support the HEC MONTRÉAL team in the 44th EDHEC Sailing Cup- April 13-21, 2012, La Rochelle, France*

### EDITORIAL

European Union more fragile than ever

*By Minh Nguyen*

**Read the article p.2**

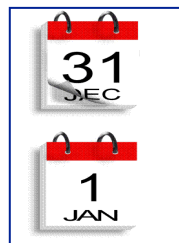


### FEATURE ARTICLE

2011/2012

*By Rolf Spielmann*

**Read the article p.3**



### ECONOMY

South America, the new El Dorado for private equity

*By Alain E. Roch*

**Read the article p.4**

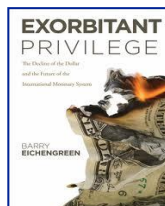


### BOOK REVIEW

Exorbitant Privilege

*By Barry Eichengreen*

**Read the article p.5**



### MARKET WATCH

Selection of Financial & Economic Indicators

**Read the article p.6**





EDITORIAL

## European Union more fragile than ever

When these lines were written, December was not yet over, but it is unlikely that the year-end stock market rally materialized. The U.S. market will have ended the month at nearly the same level as in late November, after entering December on the wrong foot.

Yet again, attention was focused on Europe, with another summit (now almost a weekly event) being held to find a way out of the crisis. This time, it was the United Kingdom's turn to create a commotion, isolating itself from the rest of Europe by vetoing a new treaty. The European Union is looking now for a rescue plan without the participation of the British, who are reduced to the role of observers. Clearly, there will be no easy solution to the current problems.

To end the year on a positive note, we should mention that the U.S. economy has proven more resilient than expected. Positive job and real estate numbers enabled the markets to end the month on an encouraging note.



As regards your portfolios, we took a small position in gold during the month. The aim here is to provide some protection in case of negative scenarios while diversifying our broad overweight position in cash.

With respect to currencies, we mentioned last month that we had cut hedging on the U.S. dollar, given our views on the euro, and that we would reassess our positioning when the EUR/USD ratio would be close to our goal of 1.30. This goal was reached during the month, and we converted some U.S. dollars to accounts with very high exposure when the rate was below 1.30. However, given the weak rise of the euro after its sharp drop, we will not immediately return to hedging, and we are maintaining a high U.S. dollar exposure.

I want to take this opportunity to thank you for the confidence you have shown during an emotion-filled year, and to wish you a prosperous 2012.

**Minh Nguyen, CFA**  
**Chief Investment Officer**  
**BLUE BRIDGE**





FEATURE ARTICLE

# 2011/2012

2011 was a year of European summit meetings, and the many agreements reminded me of a smoker who forever smokes one last cigarette. The intention to quit is there, but the will is missing and ultimately the bad old habits are never broken.

European politicians have shown good intentions, but empty words will always be empty words, and those using them should not be surprised that they lose their credibility. The political will to carry through on the good intentions was sadly missing. There was always a reason to postpone a decision, or an implementation, by a year or two, today never seemed the right moment. No wonder then that nothing worthwhile was achieved. As to breaking bad old habits, you don't turn, by a civil servant's stroke of a pen in Brussels, a happy Greek into an industrious German. When do we collectively stop having the illusion that a European is a European, hence that all nations and cultures think and act alike?

Opinions about what to expect in 2012 vary widely, and while not all are negative, few are outright positive. A highly respected European economist has long told me that a lot of important work is being done behind the scenes at the central bank level. While politicians throw around empty words, central bankers are quietly working on preventing the worst and finding solutions for the future.

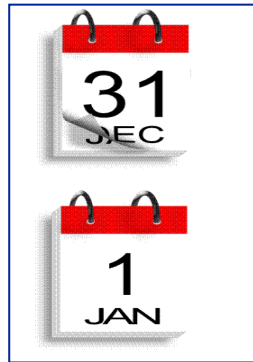
Former German Chancellor Helmut Schmidt, in a speech toward year-end, reminded his

countrymen that the historical responsibility of Germans obliges the country to acknowledge that Europe is worried about the growing strength of Germany and that it will take many generations for Europeans to feel truly at ease with Germany. He reminded Germans that they have reason to be thankful for the way the victors of World War II helped them get back on their feet and he warns Germany not to use its leadership role to dominate Europe, but to use it to unify Europe.

At this critical juncture he felt it necessary to remind Germany of the historic role which has been imposed upon it. Thus when it comes to the question how Germany should react to save what can be saved of the Eurozone, for Helmut Schmidt there are no alternatives: He says that Germany must do whatever it takes to assure the survival of the Eurozone and ultimately the European Union.

Helmut Schmidt does not acknowledge a Euro crisis. He refers to the ongoing talks about the breakup of the Eurozone as idle talk. The longer I reflected upon it, the more I realized that Schmidt is right, Germany has no other choice but to guarantee the survival of Europe as we know it today. This will not diminish the volatility which we must expect, but it means that once the dust settles, there will still be a Euro.

The Eurozone will be severely tested in early 2012 as it must deal with hundreds of billions of bond rollovers. The first few months of 2012 will likely bring increased volatility, but it is too early to prepare the eulogy for the Euro.



**Rolf Spielmann, CFA**  
**Senior Vice President**  
**& Chief Strategist**  
**BLUE BRIDGE**





ECONOMY

# South America, the new El Dorado for private equity

As Christine Lejoux wrote in a recent article published in *La Tribune*, South America is the new El Dorado... The economies in the region's countries are buoyant and capital investment operations are soaring. Last year alone, in 2010, their value rose by 404%.

One geographic zone that is posting growing success with capital investment funds is South America. In the second quarter, approximately 10% of acquisitions made by European private equity funds specializing in buy and build strategies — which consist of boosting investments through external growth — focused on South American companies, according to a study by capital investment firm Silverfleet. Britain's Apax acquired Brazilian financial services group Banco Confidence de Cambio for \$500 million (€370 million) while Scandinavian enterprises Industri Kapital and Nordic Capital bought out the Brazilian industrial equipment manufacturer Pentec Industrial and the Colombian ambulance firm Grupo Emi respectively.

### Direct equity investment in funds

To accelerate their development in South America, some funds take a more direct approach by acquiring an interest in local competitors. U.S. company Blackstone, for instance, acquired 40% of the Brazilian fund Pátria Investimentos a year ago. This was followed by Highbridge Capital (JP Morgan Chase group) becoming the majority shareholder in Gavea Investimentos, the fund created by Arminio Fraga, the former governor of Brazil's central bank.

### Economic growth in the region expected to reach 4.5% in 2011

Private equity firms are very interested in Latin America because, according to the International Monetary Fund, the region's economy is expected to grow by 4.5% this year, while the economies of North America, Europe and Japan will post an average growth of only 1.6%. In addition, the business climate is calmer than those of other emerging regions and countries, such as Russia, and the political climate is especially favourable to capital investment.



### A pillar for fund diversification

According to a study conducted by Ernst & Young, 2011 could therefore mirror the success of 2010, a year in which private equity deals in Latin America soared by 404% to \$6.6 billion. Latin America is no longer a niche investment for funds; it is rather a veritable pillar of diversification for their portfolios.



**Alain E. Roch**  
President & CEO  
BLUE BRIDGE



## BOOK REVIEW

# Exorbitant Privilege

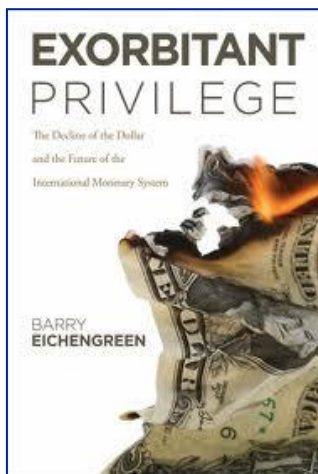
## The Rise and Fall of the Dollar and the Future of the International Monetary System

by Barry Eichengreen

For more than half a century, the U.S. dollar has been not just America's currency, but the world's. Nearly three-quarters of all hundred-dollar bills circulate outside of the United States. The dollar holdings of the Chinese government alone come to more than \$1,000 per Chinese resident. This dependence on dollars -- by banks, corporations and governments around the world--is a source of strength for the United States. One critic of U.S. policies has called the leeway that the dollar affords America its "exorbitant privilege."

In the face of high unemployment, record federal deficits, and the larger fallout from the financial crisis and Great Recession, will this soon be a privilege lost? With the advent of the euro and China's renminbi, some say that the dollar may soon cease to be the world's standard currency. In *Exorbitant Privilege*, economist Barry Eichengreen counters this argument, challenging the presumption that there is room for only one true global currency. He traces the rise of the dollar to international prominence over the course of the 20th century, illustrating how the greenback dominated internationally in the second half of the century for the same reasons,

and in the same way, that the US dominated the global economy. Analyzing the changes that lie ahead, Eichengreen warns that the dollar will only lose its preeminent status in international currency if the U.S repeats the mistakes that led to the financial crisis, and fails to put its fiscal house in order. *Exorbitant Privilege* emerges as a challenge to those who warn that the dollar is doomed as well as to those who regard its continuing dominance as inevitable.



Eichengreen's previous books include *Globalizing Capital: A History of the International Monetary System*, *Global Imbalances and the Lessons of Bretton Woods*, *Golden Fetters: The Gold Standard and the Great Depression*, and *Financial Crises and What to Do About Them*. He has written for the *Financial Times*, *Wall Street Journal*, *Foreign Affairs*, and other publications.

*Barry Eichengreen is an American economist and professor of economics and political science at University of California, Berkeley, where he has taught since 1987. Mr. Eichengreen is a expert on the international monetary and financial system, both historically and currently.*



## MARKET WATCH

## Selection of Financial &amp; Economic Indicators

Index	DJ Ind	DJ Transp.	Nasdaq	S&P500	S&P/TSX	MSCI World
December 31st	12217,56	5019,69	2605,15	1257,60	11955,10	1182,59
Monthly var.	1,43%	1,49%	-0,58%	0,85%	-2,04%	3,76%
Year-to-date	5,53%	-1,70%	-1,80%	0,00%	-11,07%	-7,61%
Year-over-year	5,53%	-1,70%	-1,80%	0,00%	-11,07%	-7,61%

Index	FTSE	DAX.	CAC40	SMI	NIKKEI	EURO50
December 31st	5572,28	5898,35	3159,81	5936,23	8455,35	2316,55
Monthly var.	1,21%	-3,13%	0,16%	5,02%	0,25%	-0,60%
Year-to-date	-5,55%	-14,69%	-16,95%	-7,77%	-17,34%	-17,05%
Year-over-year	-5,55%	-14,69%	-16,95%	-7,77%	-17,34%	-17,05%

Commodities	GOLD	COPPER	CRUDE	WHEAT	LUMBER	CRB
December 31st	1566,80	343,60	98,83	652,75	247,10	305,30
Monthly var.	-10,13%	-2,15%	-1,19%	6,31%	12,52%	-2,46%
Year-to-date	10,36%	-22,59%	8,13%	-17,82%	-22,78%	-8,26%
Year-over-year	10,36%	-22,59%	8,13%	-17,82%	-22,78%	-8,26%

Currencies	\$CA	¥	€	£	\$AU
December 31st	1,0209	77,0200	1,2945	1,5512	1,0222
Monthly var.	-0,88%	0,80%	-3,80%	-1,07%	-0,18%
Year-to-date	-2,50%	5,15%	-3,18%	-0,56%	-0,18%
Year-over-year	-2,50%	5,15%	-3,18%	-0,56%	-0,18%

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