



SPECIAL CANADA

EDITORIAL

We continue the world tour we started in January and dedicate this newsletter to Canada.

The world turns faster than ever and the first half of this year has brought a number of surprises: political upheavals, natural disasters, unstable exchange rates etc. Transformations are deep and fast, making planning difficult.

It is in Canada where we find political, economic and financial stability and a promising future. From our headquarters in Montreal we share with you our view of the future.

Alain E. Roch
President & CEO
BLUE BRIDGE



FEATURE ARTICLE

Ô Canada

by Rolf Spielmann

As Canadian elections go, the recent one was a bit more exciting, but the outcome all the same. Much was promised by all parties, thus within a few years the number of broken campaign promises will expand considerably. Canada is indeed a spoiled nation, able to afford to spend hundreds of millions of dollars on elections nobody wants or needs. (...) [Read more p.2](#)

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FEATURE ARTICLE

Ô Canada

Global powers rise and global powers collapse. We all know of the great empires of the past, the British and the Mongols each at one time controlling about 33 million square kilometers, the great Chinese empires, the Romans, the Ottomans, all of them distant memories.

And although the US is not referred to as an empire, it falls into the category of the biggest powers of all times, for while it does not occupy untold millions of square kilometers, it directly and indirectly controls much of what happens in this world. Its military might is unmatched and so is its economic reach. English is the universal language of commerce. While every great trading nation has adopted the metric system, America stubbornly measures in inches and feet, for it does not need to follow the main stream.

And yet as we type these lines we wonder if the foundations of this power are still strong. After the collapse of communism, it was hardly imaginable that we could ever ask such a question, for the American system had won, and seemingly there was no looking back. Yet 22 years after the fall of the Berlin Wall, there is an eerie feeling that America is on a decline and that this decline might be terminal. There is a new power emerging, it is called China. It is already the second largest economy and whilst for years to come its armed forces cannot compete with the US's might, their build up is fast and furious, for China has the means and the determination to become THE world power.

Shaky finances have ruined many nations. Throughout history, debasing the currency has been a favourite way to postpone the inevitable, but the very word debasing explains the weakness upon which such an approach is based.

And when we look at the way America neglects its finances, we cannot help but wonder how much longer it will take before the house of cards collapses.

Charging Canadians \$5.50 to cross the border will unlikely make a dent to the huge US budget deficit and whilst the theory of extending tax breaks to stimulate the economy has its merits, the deficits continue to grow nevertheless. Using unrealistically rosy forecasts to "reduce" future deficits is a poor way to control ones finances. The latest budget proposal is laughable, particularly since nobody believes that it will ever be passed. For the optimistic American, the day of reckoning will never come. But optimism only goes so far.



China in the meantime is fast accumulating wealth in the form of American (and European) debt. During my life time I have seen the US move from being the largest creditor nation to being the largest debtor nation. And the trend has not stopped, indeed it has accelerated. By holding so much of US debt, China increasingly gains leverage over the US and whilst this has not had any dire consequences so far, it would be unrealistic to assume that the Chinese do not have a long-term design in mind. Follow the money, look at what China buys, and where it buys and how much it buys. Look how China has started to protect its supply lanes, unfortunately far too little is written about this. China has huge problems, but it has a plan, it has the means and it has time.

America has huge problems, but it appears to live off the glory of the past. Never count America out, its ingenuity and entrepreneurship are legendary. But also hope that America will learn to understand that it has stumbled badly and that only a determined effort will let it regain its equilibrium.

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





ECONOMY



Canada: investment opportunities, from coast to coast

Canada, a Commonwealth member, is a federation founded in 1867. It has developed since then alongside its sole neighbour, the United States, with 90% of Canada's population of 34 million living within 160 kilometres of the Canada-U.S. border. Canada has the second-largest landmass in the world, behind only Russia, and it covers an area of nearly 10 million square kilometres. At first sight, Canada matches the impression held by foreigners, that of a vast territory with a winter that can be far from gentle. It is true that there are plenty of large natural spaces, but there is also a substantial and flourishing economy, propelled in the last few years by worldwide demand for raw materials.

This phenomenon has been reflected in Canada's equity markets, which have provided an annualized yield of 8.38% in the 10 years ended December 31, 2010, one of the strongest performances among developed countries.

The S&P/TSX Composite Index, the headline index for Canadian equities, has advanced similarly, with the energy, materials and financial services sectors accounting for more than three-quarters of the index. Canada's banks have always been major players in the economy. The six largest banks are tightly regulated by the government, which demands that they take a more cautious approach than that in other, more liberal, markets. This prudence enabled them to get through the latest economic crisis far more easily than their peers elsewhere, pushing them near the top in rankings of the world's most solid financial institutions.

The energy and materials sectors have benefited enormously from the rise in demand for raw materials over the past decade. In Canada, energy is represented mostly by companies operating in the oil industry, especially the oil sands, as well as in natural gas.

Canada ranks second worldwide in proven oil reserves, after Saudi Arabia, and is the third-largest natural gas exporter by volume. In both instances, Canada is the largest supplier to its American neighbour, with one-quarter of U.S. oil imports and nearly 90% of its natural gas imports flowing across the northern border.

Like energy, the materials sector has also been surging. This sector is represented largely by gold mining companies, but the country also has major deposits of diamonds, iron ore, copper, coal and other minerals. The predominance of raw materials combined with the solidity of Canadian banks has made the S&P/TSX Index an effective way to gain exposure to emerging markets while benefiting from the stability of a developed country.

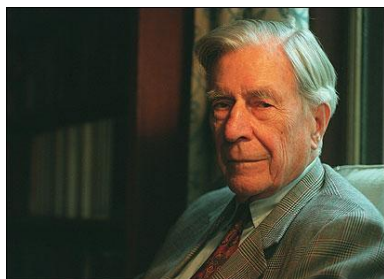
Unlike the fairly concentrated equity markets, the Canadian economy is highly diversified, with services predominating, accounting for 76% of GDP, spread across the consumer, business services, healthcare and technology sectors.

While raw material prices are at peak levels, with no guarantees against a decline, Canada's long-term outlook remains promising, with a relatively young and highly educated population as well as substantial natural resources in mining as well as forest products. Over the coming decades, other opportunities will also be worth watching – including fresh water reserves, which will be a significant issue in the 21st century, as will a future commercial marine route through the Arctic if climate warming is confirmed.

Minh Nguyen, CFA
Chief investment officer
BLUE BRIDGE



BOOK REVIEW



John Kenneth Galbraith: A Canadian economist still relevant today

You are invited to discover (or rediscover) the Canadian-American economist John Kenneth Galbraith. He was an economic advisor to U.S. presidents from Franklin D. Roosevelt to Lyndon B. Johnson, and including John F. Kennedy. His thinking and analyses remain highly relevant today and can help us understand the key issues of our time.

Mr. Galbraith first attracted attention in 1955 with his book *The Great Crash*, about the stock market collapse of 1929. But it was with *The Affluent Society* (1958) that the author truly rose to prominence. He was surely the first economist to study the evolution of the consumer society in depth, and what he found, behind the façade of euphoria, were worrisome signs that would become commonplace 10 years later in the United States and Europe: the creation of artificial needs to feed the machine of production, inflation, excessive buying on credit, increased dependency on “things”...

The New Industrial State, published in 1967, confirmed the originality and scope of Mr. Galbraith’s views on the American economic system. Resolutely turning his back on the then-trendy treatises on economic policy that droned on about the laws of the market, he stated that the new “model” across the Atlantic was that of the “technostructure”—a word that before long was on everyone’s lips.

In a subsequent work, 1979’s *The Nature of Mass Poverty*, he challenged the classical policies of aid to developing countries in the form of capital or technical assistance: “The remedy included the

diagnosis,” he wrote. “Having vaccine, we identified smallpox.” For Galbraith, the real tragedy was that the poor become accustomed to to their condition: “While poverty may be cruel, a never-ending and ever-failing struggle to escape from it would be even more cruel.” Therefore we should first help those who help themselves—the minority who do not resign themselves to their fate—and promote endogenous, self-centred development of poor nations. That way, the minorities act as the levers.

In the 1990s, Mr. Galbraith made a foray into anthropology with *The Culture of Contentment* (1992), in which he expressed concern at the fact the majority of the voting public was affluent. As such, despite the 13% of U.S. citizens who live below the poverty line, the politics of “contentment” could prevail for many years to come, even under a Democratic president.

A decade later, he put pen to paper to once again lambaste the system of liberal thinking, in *Lies of the Economy* (2001). He wrote that financial and political pressures as well as the trends of the moment colour the truth as governments see fit, so that a particular truth does not necessarily have any relationship to reality.

In 2006, this great visionary passed away at the age of 97. As a witness to the entire breadth of the 20th century, John Kenneth Galbraith deserves to be read, or re-read, by anyone who wants to decode the economy of the 21st century.



MARKET WATCH

Selection of Financial & Economic Indicators

Index	DJ Ind	DJ Transp.	Nasdaq	S&P500	S&P/TSX	MSCI World
May 31	12569,80	5469,55	2835,30	1345,20	13802,90	1354,61
Monthly var.	-1,88%	-0,82%	-1,33%	-1,35%	-1,02%	-2,45%
Year-to-date	8,57%	7,10%	6,88%	6,96%	2,68%	5,83%
Year-over-year	24,00%	26,14%	25,62%	23,48%	17,34%	25,45%

Index	FTSE	DAX.	CAC40	SMI	NIKKEI	EURO50
May 31	5989,99	7293,69	4006,94	6554,71	9693,73	2861,92
Monthly var.	-1,32%	-2,94%	-2,43%	0,23%	-1,58%	-4,96%
Year-to-date	1,53%	5,49%	5,31%	1,84%	-5,23%	2,47%
Year-over-year	15,45%	22,29%	14,24%	3,84%	-0,77%	9,64%

Commodities	GOLD	COPPER	CRUDE	WHEAT	LUMBER	CRB
May 31	1535,50	419,00	102,93	785,75	250,10	350,06
Monthly var.	-1,75%	0,12%	-9,45%	-1,93%	-4,14%	-5,53%
Year-to-date	8,16%	-5,60%	12,61%	-1,07%	-21,84%	5,19%
Year-over-year	26,07%	34,58%	38,35%	71,65%	9,21%	37,39%

Currencies	\$CA	¥	€	£	\$AU
May31	0,9675	81,4500	1,4430	1,6465	1,0690
Monthly var.	-2,27%	-0,43%	-2,57%	-1,41%	-2,51%
Year-to-date	2,86%	-0,31%	7,93%	5,54%	4,39%
Year-over-year	7,28%	10,69%	17,32%	13,24%	26,51%

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