



FOCUS ON THE RACE: Blue Bridge and HEC MONTREAL in the "Course Croisière EDHEC"



The HEC Montréal team finished first in the international ranking and fifth in the overall ranking at the 43rd annual Course Croisière EDHEC, the world's biggest student sporting event, held from April 9 to 16 at Lorient, in Brittany, France.

BLUE BRIDGE agreed to be HEC Montréal's primary sponsor in the EDHEC sailing cup for 2011 and for several years to come. We sought immediately to bring the students co-sponsors that are likely to help them meet both their sporting goals and professional goals.

BLUE BRIDGE succeeded in bringing together seven Montréal companies that exemplify the dynamism of the Canadian economy:

- **Les Affaires** weekly business newspaper
- **MPS** oil services company
- **DeGrandpré Chait Lawyers**
- **Kanata Tremblant** Luxury Mountain Resort
- **A-Polo Communications** agency
- **PriceWaterHouseCoopers** audit services
- Boutique Nautique **30 Degrés**

"We set out to create a synergy between students at HEC Montréal and large Canadian companies," stated Alain E. Roch, BLUE BRIDGE President and CEO.

"We are here to prove to them that the wildest dreams can come true if you put in the effort needed to make it happen. All these young people have outstanding potential. This experience shows them the effectiveness of teamwork, a taste for perseverance and the pleasure of fulfilling one's ambitions."

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FEATURE ARTICLE



The trouble with banks

They surprised us a few years back, those good old reputable banking institutions, seemingly more solid than the rock of Gibraltar and definitely beyond reproach. True, maybe the yearly bonuses they paid to their executives were a tad exaggerated, but only by a few dozen millions. Who cared as long as the ATM faithfully spit out the 20 dollar bills!

But reality has a nasty way of catching up. All those investments into unproven instruments that nobody understood and everybody bought produced a superior return on paper only. And when American house prices became so overvalued that the last buyer walked away, the bubble promptly burst and the reverberations were felt around the globe, for only a few banks and pensions funds had been able to resist the Siren song. And then along came Bernie Madoff who had enjoyed the trust of more than one fine banker!

And so the tax payers had to rescue the banks. Some of the bailouts went smoothly and some, as in the case of Ireland, brought a nation to its knees. Central banks kept some banks alive when they should have died, and ultimately this not always succeeded.

Today we try to get a better understanding of where the risks to the financial system are, and as importantly how big those risks are.

Stress tests can play a useful role because they provide a quantitative measure of the vulnerability of the financial system to certain risk factors. Macro prudential stress tests give us insight by creating a picture which is based on a forward-looking macroeconomic perspective, a focus on the financial system as a whole, and a uniform approach to the assessment of risk exposures across institutions. More value can be added if tests are performed regularly and their results are analyzed over time.

But stress tests are as good as the assumptions in the tests. They can be designed for most institutions to look solid, or they can be designed to scare the wits out of everybody. Since neither is in the common interest, a middle way is found, but this is often more an expression of the desired result than a true test in a real world. If we need to be reminded of how easy it is to overlook the obvious, we only need to look at where Tokyo Electric built its Fukushima Dai-Ichi power plants.

How much confidence can we today have in our banking institutions? Surely more than a few years ago, but are the banks as safe and solid as they wish us to believe? Likely not.

But since we all depend on a functioning financial system, let us hope that in the future common sense will prevail more than it has in the past. And let's continue to run stress tests!

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





ECONOMY

Foreign capital inflows endangering Asia

Economic clouds are gathering over Asia. In its latest report on the Asia-Pacific, the International Monetary Fund (IMF) evaluates growth at 7% in 2011 and 2012 in the region that is the engine driving the world economy. China and India in particular should see growth of 9.5% and 8% respectively over the next two years. Meanwhile, the World Bank has just revised its growth forecast for China upward, to 9.3% this year and 8.7% next year.

But both institutions see a number of dangers that could put this fast-growing region in jeopardy. The IMF notes that inflows of foreign capital, drawn by returns higher than those available in Europe and the United States, constitute a major cause for concern.

South Korea, India and Indonesia have taken measures to stem these inflows and to limit appreciation of their currencies, in instances of floating exchange rates, or to slow the rise in inflation through the money supply, where rates are fixed. Inflation is feeding the risk of overheating against a backdrop of higher food and energy prices, the IMF warns, noting that inflation in China climbed to 5.4% in March, its highest level in over two-and-a-half years.

The World Bank, which fears the effects of fast-rising prices in China, emphasizes the risk of a real estate crisis that could significantly slow down the construction industry and that would have a major impact on the economy and banks' balance sheets. It adds that a turnaround in real estate markets would affect local governments, which are responsible for much of the investment in infrastructure and are major clients of the banking system.

Energy dependence

An added danger for China, says the IMF, is that the country is also highly dependent on the Middle East and North Africa for its oil supplies.



So is Japan, for which the organization, not surprisingly, is revising its 2011 growth forecast downward to 1.4% from 1.6% because of the March 11 earthquake that ravaged the country. But starting in 2012, growth in Japanese gross domestic product should climb to 2.1% due to reconstruction spending, the IMF asserts.

Last Thursday, Tokyo announced a 15.3% drop in industrial production between February and March, the sharpest decline ever recorded by Japan. It also announced an 8.5% weakening in household consumption compared to the same period last year.

Unemployment remained stable in March, at 4.5%. The government noted, however, that figures for North Eastern Japan have not yet been included.



Alain E. Roch, MBA
President & CEO
BLUE BRIDGE

BOOK REVIEW

Banquiers & économistes face à la crise

(Only in French)

Crises have proliferated in the last 20 years with the liberalization and deregulation of financial markets. These repeated financial calamities, while different in many respects, share some common characteristics.

However, the crisis of 2007–2010, with its serious and prolonged nature, its worldwide scope and the reactions it stirred, had specific attributes that merit in-depth study.

Four French researchers have joined together to take a close look at it, working under the direction of Hakim Ben Hammouda, currently Director of the Institute for Training and Technical Cooperation at the World Trade Organization.

Two main questions shape their work:

Banquiers & économistes face à la crise:

- What was the banking system's exact role in the outbreak and spread of the crisis?
- From a theoretical standpoint, why were economists unable to foresee an event of such magnitude?

As regards solutions for emerging from a crisis, one of the challenges raised by this initial crisis of globalization is that it requires thinking globally whereas, by necessity, action is first and foremost local.



This collective work constitutes a major contribution to the thinking under way on reshaping the banking framework and establishing new regulations that can deal with outbursts of credit and of financial adventurism. It also casts new light on economists' difficulties in apprehending the crisis and its scope, and on the means of renewing economic thinking.

Banquiers & économistes face à la crise
Only in French edition

Hakim Ben Hammouda, Pierre Berthaud, René Sandretto, Ahmed Silem
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MARKET WATCH

Selection of Financial & Economic Indicators

Index	DJ Ind	DJ Transp.	Nasdaq	S&P500	S&P/TSX	MSCI World
April 29	12810,54	5514,87	2873,54	1363,61	13944,79	1388,62
Monthly var.	3,98%	4,06%	3,32%	2,85%	-1,21%	4,02%
Year-to-date	10,65%	7,99%	8,32%	8,43%	3,73%	8,49%
Year-over-year	16,37%	18,07%	16,75%	14,91%	14,34%	15,86%

Index	FTSE	DAX.	CAC40	SMI	NIKKEI	EURO50
April 29	6069,90	7514,46	4106,92	6539,70	9849,74	3011,25
Monthly var.	2,73%	6,72%	2,95%	2,86%	0,97%	3,45%
Year-to-date	2,88%	8,68%	7,94%	1,61%	-3,71%	7,82%
Year-over-year	9,30%	22,47%	7,60%	-1,17%	-10,92%	6,90%

Commodities	GOLD	COPPER	CRUDE	WHEAT	LUMBER	CRB
April 29	1562,90	418,50	113,67	801,25	260,90	370,56
Monthly var.	8,94%	-2,31%	6,64%	4,98%	-14,12%	3,10%
Year-to-date	10,09%	-5,71%	24,37%	0,88%	-18,47%	11,35%
Year-over-year	32,56%	24,57%	32,02%	59,29%	-15,15%	33,43%

Currencies	\$CA	¥	€	£	\$AU
April 29	0,9460	81,1000	1,4810	1,6700	1,0965
Monthly var.	2,52%	2,52%	4,59%	4,18%	6,10%
Year-to-date	5,02%	0,12%	10,77%	7,05%	7,08%
Year-over-year	6,80%	13,63%	11,27%	9,26%	18,48%

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