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## EDITORIAL

In early July, we predicted we would see a particularly volatile summer on the exchanges. August exceeded all our expectations. You would have to go back to October 1987 to find as high a level of volatility over a three-month period. Denominated in euros, the MSCI Europe, CAC 40, S&P 500 and MSCI World indices fell respectively -10.194, -11.266, -5.616 et -7.226.

The month began with a political saga in the United States over raising the debt ceiling. It continued with the curious downgrading of U.S. debt by the S&P rating agency. There followed the publication of economic data that caused stock markets to tremble. From our standpoint, slow or even stagnant growth remains the most likely scenario, even though the possibility of recession grew during the course of August. We believe investors had overestimated economic growth and the market potential for stocks by focusing solely on low and unattractive bond rates.

In concrete terms, this has resulted in some changes to our clients' portfolios. Since late May, we had slowed or even halted stock investments for most of your portfolios and had been more aggressive in bond implementation.



Toward mid-August, as the markets hit bottom, we invested a small percentage in stocks for our clients whose portfolios were broadly underweight in stocks. For clients with heavy exposure to stocks, we reduced percentage holdings in them.

Over the coming months, we will be watching the markets for attractive entry points as opportunities arise.

Based on the outlook for bond rates to remain low and traditional safe havens such as gold at unprecedented levels of appreciation, we will be suggesting alternatives during the coming months. These investments offer the chance to take part in private placement projects that offer protection against inflation while generating superior returns. With this environment of uncertainty, we will remain focused on our strategy while continuing to fulfil our mandate of capital preservation.

**Minh Nguyen, CFA**  
Chief investment officer  
**BLUE BRIDGE**



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FEATURE ARTICLE

# Commodities

In 1995 I believe it was that in an editorial the *Wall Street Journal* declared Canada “a honorary member of the Third World”. The Canadian dollar, or Northern Peso as it was then called, was trading at around 1.40 and worse was still to come. But underneath and almost unperceivable, a huge change took place. Deng Xiaoping’s credo “to grow rich is glorious” was taken seriously by millions of Chinese. The country’s socialist market economy started on its way to stun the world and change it profoundly. And one of the big winners was, and is, and likely will remain, commodity-rich Canada.



While China’s appetite for commodities was soon tremendous, this demand became staggering when rapid economic growth spread to India and other Asian countries. From crude oil to cement, from iron ore to copper, from soybeans to cattle, demand grew almost by the day. While the developed world stagnated, China and India, accounting for a combined 38% of the world’s population, enjoyed growth in the 10% range, and was it not for the need to tame inflationary pressures, they might have grown, and grow, faster still.

What better way to wake up countries like Canada, Australia, Brazil, all first rate commodity producers, capable of satisfying a growing demand. It took a while for investors to catch on since the commodity

market was called dead more than once during the 70s and 80s, with only reckless speculators occasionally trying to corner a market. Commodities were not where you wanted to be as an investor, reason while most missed the turnaround and the emergence of a bull market.

While the US have become ungovernable, Europe must deal with austerity measures and Japan only grows because of devastating natural disasters, resource-driven economies benefit from the fact that in all likelihood Chinese and Indian growth will continue in the 8.5-9.5% growth range. This is ample incentive to improve infrastructure and to build new one, to invest more in exploration technologies and transport, to reoriented political alliances and to invite foreign investors. The commodity boom, like any boom, will not develop at a constant speed and a bumpy road here and there must be expected. But overall the emergence of a growing middle class in Asia will maintain the demand for commodities at an elevated level, high enough to support prices at profitable levels. One problem commodity producers face is that their resources might fall into foreign hands, but knowing this makes it a process which can be controlled.

As an old commodity trader I remember when we sold wheat and corn on reports that a cloud had appeared on the horizon, and we bought them back when the cloud dissipated. Today’s market is more rewarding because the challenge is to satisfy a growing demand. Huge investments will be required, and this will continue to favor countries like Canada. The commodity boom is far from over. The Wall Street Journal no longer considers Canada a second Mexico. As to a dollar being called a Peso...the American dollar increasingly qualifies for that dubious distinction. Commodities made a big difference!

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





ECONOMY

# Libya's post-Gadhafi economic challenges

Libya is preparing to write a new chapter in its history after the fall of Colonel Moammar Gadhafi, who has been in power for 42 years. The Transitional National Council, the rebels' political arm, must re-establish security and develop the country's enormous potential.

The cries of joy and displays of euphoria leave little doubt: the Gadhafi era is over. The former "Supreme Guide," who fought his own people for six months, is joining Zine El Abidine Ben Ali and Hosni Mubarak on the list of dictators overthrown in 2011. Like Tunisia and Egypt, Libya faces the greatest of challenges: getting back on its feet. After winning the war, the rebels must win the peace and get the economy moving again. This is looking difficult: at the end of four months of war, the Organization for Economic Cooperation and Development was predicting in early June that the economy would recede by 19% in 2011, followed by 16% growth in 2012. Half a year of fighting (the number of deaths remains unknown) and a slowdown – or brutal halt – in certain economic sectors such as oil are going to leave their mark.



But as Sylvain Rolland noted in a recent article in the French newspaper *La Tribune*, Libya does have some things going for it. With a public debt equal to just 3.3% of GDP, the country is one of the least indebted in the world and should emerge from a recession in 2012 without long-lasting effects on its public finances. With its great oil wealth, as well as substantial natural-

gas resources, which are at a very early stage of exploitation (there is just a single gas pipeline, leading to Italy), Libya should attract massive foreign investment, especially from France and Italy. The absence of a well-developed transportation system (there is no railway line, for instance), the weakness of the tourism sector and a lack of infrastructure should provide room for sustained growth.

## Avoiding reprisals

Inside Libya, the fall of the Gadhafi clan should lead to an in-depth reorganization of the economy. Even more than in Tunisia with the Trabelsi family, all of Libya's economic levers were pulled by the Gadhafi family, explains Mathieu Guidère, a French researcher and author of the book *Le Choc des révolutions arabes* (Éditions Autrement, 2011). Gadhafi's children had been at the controls of every economic sector, including oil, infrastructure, telecommunications, media and weaponry. Nothing could be built, no business could be purchased and no contract signed without dealing directly or indirectly with the regime, which amassed huge amounts of cash, the author says.

But getting the economy running again also depends on re-establishing security promptly. U.S. President Barack Obama and Catherine Ashton, the European Union foreign affairs representative, have urged the Transitional National Council to act with a sense of responsibility and avoid reprisals.

The Libyan issue will be the subject of a United Nations summit in the coming week to support the country's transition to democracy.

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

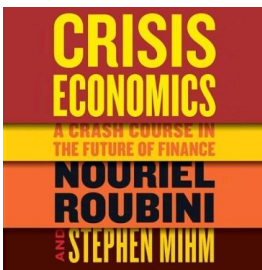




## BOOK REVIEW

# Crisis Economics: A Crash Course in the Future of finance

Ten years ago, Nouriel Roubini's dire economic forecasting earned him the moniker "Dr. Doom." Now, he's hailed as "the man who foresaw the Great Recession." Back in 2006, before a skeptical audience of IMF experts, he predicted, in detail, what was in store for the U.S. and world economies. Today, this professor of economics (at New York University, among others) believes that peripheral eurozone countries will abandon the euro for national currencies within five years: the debt crisis currently weakening the eurozone, he says, highlights the flaws in this monetary union and its too-rapid expansion into "high-risk nations."



*Crisis Economics: A Crash Course in the Future of Finance* is Mr. Roubini's latest book, written with Stephen Mihm, a professor of economic history and writer for the *New York Times Magazine*. The co-authors explain how financial cataclysms are as ancient and as pervasive as capitalism itself, analyzing past events and mapping out future scenarios while formulating a number of recommendations on how to avoid a repeat of a crisis as violent as the one we are now in the midst of.

First of all, they suggest that traders' compensation be pegged to their average performance over several years, and that they be paid bonuses not in cash, but using some of the

securities that they themselves create. They call for increased moralizing of the world of international finance.

Furthermore, Mr. Roubini believes that rating agencies should exist solely for the purpose of rating debt instruments. The ratings sector, he continues, should be opened up to competition, to counterbalance the existing agencies' worldwide influence and avoid the panicked market movements that sometimes follow ratings announcements.

Bank capital should be better defined and structured, Mr. Roubini advises, going so far as to suggest doing away with the major banks. Likewise, banks should not be forced to hold a set percentage of capital, but be allowed to use a dynamic system that would permit variations over time, depending on expansion or recession years.

Lastly, no book co-written by "Dr. Doom" would be complete without a few of his hallmark end-of-the-world scenarios. They include the potential collapse of the dollar, the eurozone breakup, and a budget crisis in Japan.

## **Crisis Economics: A Crash Course in the Future of Finance**

Nouriel Roubini  
Stephen Mihm  
Penguin Edition



## MARKET WATCH

## Selection of Financial &amp; Economic Indicators

Index	DJ Ind	DJ Transp.	Nasdaq	S&P500	S&P/TSX	MSCI World
August 31th	11613,50	4666,61	2579,46	1218,89	12768,70	1211,22
Monthly var.	-4,36%	-9,98%	-6,42%	-5,68%	-1,37%	-7,26%
Year-to-date	0,31%	-8,62%	-2,77%	-3,08%	-5,02%	-5,37%
Year-over-year	15,96%	13,19%	22,02%	16,16%	7,18%	12,08%

Index	FTSE	DAX.	CAC40	SMI	NIKKEI	EURO50
August 31th	5394,53	5784,85	3256,76	5528,52	8955,20	2302,08
Monthly var.	-7,36%	-19,22%	-11,49%	-4,41%	-8,93%	-13,87%
Year-to-date	-8,57%	-16,33%	-14,40%	-14,10%	-12,45%	-17,57%
Year-over-year	3,24%	-2,37%	-6,70%	-10,55%	1,49%	-11,96%

Commodities	GOLD	COPPER	CRUDE	WHEAT	LUMBER	CRB
August 31th	1825,00	420,00	88,95	791,50	248,50	342,61
Monthly var.	12,18%	-6,30%	-7,14%	10,58%	-1,07%	0,15%
Year-to-date	28,55%	-5,37%	-2,68%	-0,35%	-22,34%	2,95%
Year-over-year	46,08%	23,95%	24,01%	15,42%	20,28%	29,68%

Currencies	\$CA	¥	€	£	\$AU
August 31th	0,9790	76,6000	1,4370	1,6235	1,0695
Monthly var.	-2,46%	0,52%	-0,03%	-1,10%	-2,73%
Year-to-date	1,71%	5,67%	7,48%	4,07%	4,44%
Year-over-year	8,12%	8,81%	13,33%	5,83%	20,03%

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