



Bulletin ■

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Comments on Financial and Economic Developments

By Rolf Spielmann, CFA



The mantra in investment markets has been for some time that risk is good. While risks have always been present in investment circles, the danger to our environment, since no major negative event has happened in the last few years, is that risk has become almost...riskless.

The collapse of Amaranth Advisors in 2006 may even have added to the notion that today's financial markets can effortlessly absorb any event at any time. As a result, more than ever money is chasing riskier and riskier investments and, until an accident happens, such activity gets rewarded.

"hardly a surprise to those who had taken the time to study how careless certain lenders had become..."

Unfortunately reality has a tendency of catching up with excessive risk taking. The recent implosion of sub-prime lenders in the US mortgage market was hardly a surprise to those who had taken the time to study how careless certain lenders had become as real estate prices soared.

"...It seems to have been forgotten that real estate prices can also decline..."

The new instruments that were developed to let borrowers participate in the never-ending appreciation of their real estate holdings was nothing short of mind-boggling. The fact that real estate prices can also decline seems to have been forgotten.

When such a reputable bank as HSBC is forced to announce that its bad mortgage provisions would likely be \$1.76 billion — or 20% higher than expected — the assumption is that there must be an awful lot of red ink out there just waiting to surface.

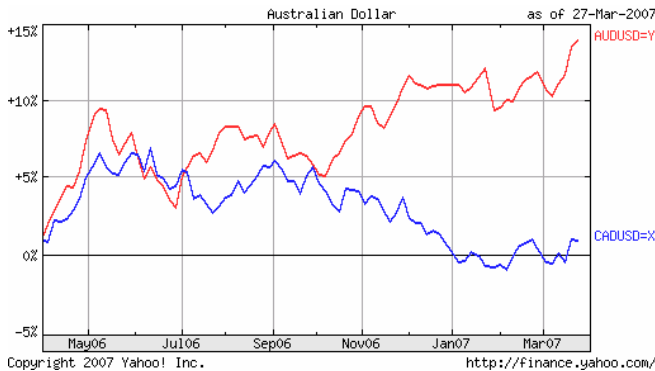
The value of the US mortgage market is currently around \$8.4 trillion. Of this, about \$1 trillion is classified as sub-prime debt. Such debt is highly susceptible to lower real estate prices and higher interest rates. This is the kind of thing that can create a snowball effect and is hardly good news for the economy and for excessive risk-takers.

"...Risk, after all, might not prove riskless, and in a realistic world, risk must always be compensated..."

Investors would be correct to question the level of risk they have assumed in their investments. In other words, they should question the limits of the so-called Goldilocks era. Risk might not prove so riskless after all, and in a realistic world, risk must always be compensated.

The Clash of Emotions

The Canadian and Australian dollars, both of them commodity currencies, have moved in different directions in the recent past. It is likely that one of the reasons relates to what Dominique Moïsi, in the January/February 2007 edition of Foreign Affairs, refers to as The Clash of Emotions.



In his essay, Mr. Moïsi describes a Western World that is trapped in a culture of fear. Europe must come to terms with an invasion by poor people from the south and the east, unfavourable demographics and the integration of other cultures, while the US is obsessed with security issues.

“..The Arab and Muslim world finds itself trapped in a culture of humiliation...”

The Arab and Muslim world, on the other hand, finds itself trapped in a culture of humiliation. It has been in decay for many centuries, its conflict with Israel is unresolved, it is one of globalization’s losers and is falling further behind the winners, the West and East Asia.

“...Asia displays a culture of hope...”

Asia, however, displays a culture of hope. China is back as a world power. India for the first time in its history has stepped onto the world stage, and while certain regional political problems remain, attempts at reconciliation are made with some former enemies.

“...The proximity of Australia to the culture of hope is likely a reason why its currency has outperformed the Canadian dollar...”

The proximity of Australia to the culture of hope is a likely reason why its currency has outperformed the Canadian dollar. Yet Canada still has much going for itself. Fiscally, it remains the most responsible G-8 member and there are reasons to believe the country will stick to its policy of fiscal responsibility.

Canada’s importance as a secure supplier of energy to the US cannot be underestimated, especially with Russia seeking both revenue and power from the use of its largest resource, Venezuela playing a game of brinkmanship and the Middle East remaining a potential powder keg.

If raw material prices continue to remain soft and as long as the Canadian dollar remains relatively weak, massive takeovers of Canadian corporations cannot be ruled out. For American corporations, it might make sense to own more of their Canadian subsidiaries outright. And, lest we forget, the Chinese have a huge appetite to secure future supplies.

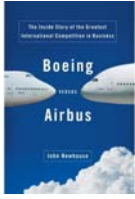
The commodity bull market is likely going through a correction. Jim Rogers mentioned that in all the commodity bull markets he has studied, the shortest lasted 15 years and the longest 23 years.

“...between 1999 and 2002 the Bank of England sold about 60% of its gold stock at a small fraction of today’s price...”

If we consider, for example, that between 1999 and 2002 the Bank of England sold about 60% of its gold stock at a small fraction of today’s prices, then we might conclude from Jim Rogers’ statement that the bull market can run until anywhere between 2016 and 2025.

Goldman Sachs noted in November that dollars committed to such instruments as their GS Commodity Index and the Reuters Commodity Index should grow in 2007 from \$70 billion to \$110 billion. That would be an almost 60% increase. Investors remain interested in commodities — maybe more so than today’s market seems to tell us!

Book Review



Boeing versus Airbus

By John Newhouse
Alfred A. Knopf
2007

Airbus and Boeing, the two remaining large airframe manufacturers have been, and are fighting a fierce battle for supremacy, a battle that makes a fascinating story. It is also a battle in which airlines do not wish to see a clear winner, for this would mean the end to competition and an escalation in the cost of airframes.

In his book, John Newhouse describes a "seesaw battle between the world's two remaining manufacturers of big airliners; mighty Boeing and the arrivist Airbus, both massive corporations and emblems of national pride."

Airbus managed to soar ahead of Boeing in recent years, only to be caught making many of the errors Boeing had made. Bad luck and mismanagement caused Airbus to fall behind Boeing in 2006, even though it was building very good airplanes at a lower cost than its rival. The book not only talks about building airframes, but examines the role engine

manufacturers play, the mismanagement by the major US carriers, the arrival of low-cost airlines and the immense influence leasing companies have.

It discusses outsourcing and the transfer of technology to mostly Asian countries, and it examines the question of how much longer airframes will be built in North America and Europe.

This is of great importance to any traveller, for the cost of building today's airplane is naturally reflected in tomorrow's ticket price. And the big question remains as to which direction the airline industry will take: will it favour a super jumbo like the A380 or a smaller airplane like the Boeing 787? Both manufacturers have invested billions betting on their respective views on the future of air travel. One company will come out the winner, but only time will tell which one.

This book is to be recommended to anyone wishing to increase his or her general knowledge of aviation, and the insights Newhouse gives will undoubtedly enhance your next trip. Such information may even provide an opening for your next in-flight conversation...

Tax Planning for Real Estate Investments in Canada by Foreign Investors

By J-P. Riverin and S. Labrecque, Gowling Lafleur Henderson



Canadian real property is now more than ever a favoured type of asset for Canadian and foreign investors, especially those from the European Union for whom the strength of the local currency compared to the Canadian dollar only adds to the appeal of the Canadian real estate market.

Whether the purchase of real estate is intended for personal use, for speculative purposes, for generating long-term lease revenues or for carrying on business, tax implications abound, each of which may affect the return on such a real estate investment, particularly in the case of non-resident of Canada. Accordingly, careful tax planning, suited to the particular needs and circumstances of the investor, becomes a key component in order to adequately manage the risks that are inherent to such an investment.

If you would like to read the whole article, you may visit our website www.bluebridge.ca under the section « in the news ».

Selection of Financial & Economic Indicators

Index	DJ Ind	DJ Transp.	Nasdaq	S&P500	S&P/TSX
March 30	12354.35	4810.70	2421.64	1420.86	13165.50
Monthly var.	+ 0.70%	- 1.09%	+ 0.23%	+ 1.00%	+ 0.92%
Year-to-date	- 0.87%	+ 5.49%	+ 0.26%	+ 0.18%	+ 1.99%
Year-over-year	+ 11.21%	+ 5.31%	+ 3.50%	+ 9.73%	+ 8.66%

Index	FTSE	DAX	CAC40	SMI	Nikkei
March 30	6308.00	6917.03	5634.16	8976.99	17287.65
Monthly var.	+ 2.21%	+ 3.00%	+ 2.14%	+ 2.13%	- 1.80%
Year-to-date	+ 1.40%	+ 4.85%	+ 1.67%	+ 2.18%	+ 0.36%
Year-over-year	+ 5.76%	+ 15.86%	+ 7.92%	+ 11.89%	+ 1.34%

Commodities	Gold	Copper	Crude Oil	Lumber	CRB
March 30	669.00	314.60	65.87	240.50	316.98
Monthly var.	- 0.64%	+ 15.03%	+ 6.69%	- 5.02%	+ 1.48%
Year-to-date	+ 4.78%	+ 10.39%	+ 7.90%	- 10.26%	+ 3.16%
Year-over-year	+ 14.99%	+ 27.73%	- 0.80%	- 25.98%	- 4.74%

Currencies	\$CAN	¥	€	£	\$AU
March 30	1.1535	117.85	1.3355	1.9685	0.8085
Monthly var.	+ 1.37%	+ 0.51%	+ 0.91%	+ 0.23%	+ 2.60%
Year-to-date	+ 1.07%	+ 1.01%	+ 1.14%	+ 0.54%	+ 2.41%
Year-over-year	+ 1.20%	- 0.13%	+ 10.24%	+ 13.36%	+ 12.92%

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