

- **P. 1 PIIGS, everywhere!**
- **P. 2 Fool me once shame on you, fool me twice shame on me**
- **P. 3 Complexity and collapse**
- **P. 4 Selection of Financial & Economic Indicators**



PIIGS, everywhere!

There was a moment of reckoning earlier this year when Greece could no longer hide its deteriorating fiscal situation. As was to be expected, there was surprise, outrage, misinformation and there was much confusion. The EU has been talking about fixing Greece's problems ever since. The straightjacket called Euro does not fit all countries!

Headlines scream about the problems in the PIIGS countries, Portugal, Ireland, Italy, Greece and Spain. Yet those are not isolated cases, public finances are strained in many countries, and the fact that little ink is wasted on them does not mean that those problems are not equally important. The US dollar is currently in favor again, after it had been hammered because of worries about the huge and rising public debt. The fact that the IMF confirms that the US is sitting in the same boat as Greece should be a reason of grave concern, alas right now Greece gets the headlines. But for how long before attention turns once again to the US?

Closer to home, David Lisbona of Nellie Capital wrote in the March 17, 2010 edition of the Suburban: *A recent analysis by the Quebec Ministry of Finance suggests that the province has one of the most heavily indebted economies in the industrialized world. The total debt was calculated as 94% of Gross National Product based upon methodology used by the*

Organization of Economic Cooperation and Development. These were just the headlines. If one digs deeper into a report of the Montreal Economic Institute, you discover that our regulatory burden would make a Soviet bureaucrat blush in that every year Quebec companies must meet 459 types of administrative formality consisting of requests for administrative authorization, registrations and production of reports. Such formalities are conducted more than 17 million times and most of these requests are tax related.

Interesting: Most requests being tax related means that we must be overtaxed, and yet we run one of the highest debt levels in the world. It should be relatively easy to put 2 and 2 together, excess bureaucracy and shortage of productivity. Needless to say that one cannot fill in endless forms and write numerous cheques and produce goods and services all at the same time.

Quebec of course is not alone, this is a common problem. Sadly everybody is fully aware of it and nobody dares to do anything about it. In the March/April issue of Foreign Affairs (see Book Review), Niall Ferguson writes about Empires on the Edge of Chaos. In his sobering article he shows that a complex system can go critical at any moment. A complex adaptive system is in big trouble when its component parts lose faith in its viability. We must remember that, for we take far too many things for granted!

By Rolf Spielmann, CFA
Senior Vice-President of BLUE BRIDGE™

Fool me once shame on you, fool me twice shame on me

Looking back at the global equity markets since the financial crisis of 2008, we can only be impressed by their recovery. From their low on 9th March 2009 to the end of April, the S&P 500 reported a rise of +75%, while the MSCI World and the MSCI Emerging Market rose respectively by +74% and +103%.

As stated in previous newsletters, this impressive recovery is partly the result of the accommodative monetary policy implemented by most central banks across the world. While central banks in developing countries have started to progressively withdraw these accommodative policies, the central banks of most developed countries have kept them in place. For example, the Federal Reserve has maintained the federal funds rate at 0 to 0.25%, the European Central Bank's rate at 1 % and the Bank of England's rate at 0.5 %.

Only 10 years ago we experienced a market downturn similar to the 2008 crisis. From the mid 1990's, the equity markets, fueled by the dot.com frenzy, reached a bubble state. The S&P 500 went from 460.68 in January 1995 to 1,469.25 in January 2000, i.e. reporting a gain of +219%. In early 2000, this bubble burst and triggered the start of a downward market until October 2002. Over this period, the S&P 500 went from 1,520 to 801, reporting a decline of (-47.3%).

At that time, one of the factors that eventually stabilized the markets was the low monetary policy conducted by central banks. The Federal Reserve, then under the stewardship of Alan Greenspan, started to reduce the federal funds rate in early 2001, to reach 1% in June 25, 2003. The rate was maintained at this level until June 30, 2004.

Last week the Federal Open Market Committee (FOMC) confirmed that it "will maintain the target range for the federal funds rate at 0 to 0.25%." The FOMC mentioned also that it "anticipates that economic conditions, including low rates of resources utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period."

The federal funds rate has been at this target range since December 16, 2008. This is not without consequences. We can see that this low rate is already distorting the asset allocation of investors, particularly

private investors with a low-risk profile. The reason is that these investors are traditionally invested primarily in money market instruments and fixed-income bonds. The yield they receive currently has been extremely low.

This environment is an incentive for these low risk investors in search of better returns to increase their equity exposure and even to consider riskier investments such as emerging markets and commodities. We believe that this risk-taking trend, which should benefit the markets, may over time prove harmful to these conservative investors who could end up being burnt again.



As a result of costly economic stimulus packages, declining tax revenues and expensive social benefits, the state of the public finance in most developed countries has worsened over the recent years. It is interesting to note that during the early 2000's the public finance of developed countries tended to be in much better shape. For example, US debt held by the public was 34.7% of GDP in 2000. It reached 36.2% in 2007 and finally jumped to 53% in 2009¹.

The poor state of public finances raises two issues. Firstly, public pockets are not endless and eventually governments will have to tighten their belt and cut spending. This is already starting in many European countries. Ireland, Spain and Portugal have already taken preemptive steps to reduce public spending. Greece obviously is being forced to deal with this problem. The issue here is the potential impact of reduced public spending on the still fragile recovery of these economies. Secondly, if these countries were to experience another economic slowdown, would they have the resources to conduct the policies required to put them back on track again?

**By Gwennolé Le Blevenec
Lepercq, de Neuflyze & Co**

¹ Sources: Congressional Budget Office; Office of Management and Budget





FOREIGN AFFAIRS

Published by the Council on Foreign Relations

Complexity and Collapse

By Niall Ferguson

March/April 2010

As mentioned in the introduction, Professor Ferguson wrote a sobering piece on how little it takes to push a civilization or an empire over the brink. Sadly history repeats itself and few lessons have been learned from past collapses. Prof. Ferguson quotes the British philosopher Henry St. John who wrote that "the best instituted governments carry in them the seeds of their destruction: and, though they grow and improve for a time, they will soon tend visibly to their dissolution. Every hour they live is an hour the less that they have to live."

This is not an article to frighten, it is written to give us a better understanding of what is an inevitable process. John Lloyd Stevens wrote of Mayan cities that "Here were the remains of cultivated, polished and peculiar people, who had passed through all the stages incident to the rise and fall of nations, reached their golden age, and perished."

We should not take such words lightly. Professor Ferguson explains that disruptions can happen at almost any time and that it is impossible to anticipate the timing, just as a single grain of sand can cause a pile to collapse. He therefore suggests that debating the stages of decline may be a waste of time – that it is a precipitous and

unexpected fall that should concern policymakers and citizens. He reminds us that alarm bells should be ringing as the US moves from record deficit to record deficit and he states that while the fiscal numbers cannot erode US strength on their own, they can work to weaken a long-assumed faith in the United States' ability to weather any crisis.

What is crucial is the shift in sentiment. He writes that one day, a seemingly random piece of bad news-perhaps a negative report by a rating agency-will make the headlines during an otherwise quiet news cycle. Suddenly, it will not just a few policy wonks who worry about the sustainability of US fiscal policy but also the public at large, not to mention investors abroad. One could add that when this happens, recent events in Greece will in comparison be nothing more than a tempest in a teapot.

Not convinced? As Professor Ferguson reminds us, it is not yet 20 years that we witnessed the sudden destruction of the Soviet Union, and with it the Soviet Imperium disappeared almost overnight. That is one lesson of history we should be able to remember!



Selection of Financial & Economic Indicators

Index	DJ I	DJ Transp.	Nasdaq	S&P500	S&P/TSX	MSCI World
April 30	11008,61	4670,92	2461,19	1186,69	12210,70	1198,56
Monthly var.	1,40%	6,77%	2,64%	1,48%	1,44%	-0,16%
Year-to-date	5,57%	13,94%	8,46%	6,42%	3,96%	2,58%
Year-over-year	34,78%	48,56%	43,32%	35,96%	30,95%	34,21%

Index	FTSE	DAX.	CAC40	SMI	NIKKEI	EURO50
April 30	5553,29	6135,70	3816,99	6616,82	11057,40	2816,86
Monthly var.	-2,22%	-0,29%	-3,95%	-3,73%	-0,29%	-3,90%
Year-to-date	2,59%	2,99%	-3,03%	1,08%	4,84%	-5,04%
Year-over-year	30,86%	28,65%	20,80%	26,62%	25,25%	18,59%

Commodities	GOLD	COPPER	CRUDE	WHEAT	LUMBER	CRB
April 30	1180,70	335,35	86,15	503,00	291,50	277,71
Monthly var.	5,94%	-5,63%	2,85%	8,41%	1,50%	1,60%
Year-to-date	7,71%	0,21%	8,56%	-7,11%	42,20%	-2,00%
Year-over-year	32,72%	64,67%	69,09%	-6,24%	81,06%	24,88%

Currencies	\$CA	¥	€	£	\$AU
April 30	1,0179	93,8500	1,3294	1,5274	0,9243
Monthly var.	-0,22%	-0,44%	-1,58%	0,63%	0,82%
Year-to-date	3,31%	-0,88%	-7,19%	-5,43%	2,93%
Year-over-year	14,73%	4,88%	0,49%	3,29%	27,33%

Alain E. Roch, MBA

President | alain.roch@bluebridge.ca

Rolf Spielmann, CFA

Senior Vice President | rolf.spielmann@bluebridge.ca



Blue Bridge Wealth Management Consultants Inc. | www.bluebridge.ca

1800 McGill College Avenue, Suite 2108, Montreal (Qc) H3A 3J6 Canada
Tel. +1 514 845 9165

Blue Bridge is an independent wealth management consulting firm that provides investment advice to high net worth individuals.

The information contained in this report is not guaranteed in any manner whatsoever. It is for information purposes only, and does not constitute a recommendation to buy or sell stocks, bonds, currencies, and/or any other values. This newsletter cannot be reproduced in any way and/or for any purpose without the express authorization of Blue Bridge Wealth Management Consultants Inc.

