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Feature Article
Government bonds or equity

By Rolf Spielmann

The always insightful Leigh Pullen of QV Investors Inc in Calgary in a newsletter explained where he sees developing global problems. He ended his reflections by expressing that, "We trust that clients will stick with us."

We all have our own views on the future and face the same uncertainties; the crystal ball broke long ago. For responsible money managers...

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European Observer
Europe's revenge?

By Luc Granger

The significant event in Europe in July was European investors' renewed optimism in risky markets, but one time does not make it the norm. Even though most asset managers are issuing statements tempered with a good dose of caution, this shift in psychology deserves some attention. The good news comes from sovereign bond markets, in particular Portugal, Italy, Greece and Spain (PIGS).

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Book Review
Why GM Matters

William J. Holstein
2009 Walker & Company

Instead of a book review, a few thoughts about a book which maybe should not have been written. At the height of the fears that a collapse of the US car makers would drag the North American economies into a deadly downward spiral, I came across "Why GM Matters", by William J. Holstein. Published in 2009 it outlines what GM brings to America, and the devastating damage its disappearance would have.

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Market Watch
Selection of Financial and Economic Indicators

Index	DJ I	DJ Transp	Nasdaq	SP500	S&P500	NIKKEI	EURO50
July 31	10465.94	4422.94	2254.70	1101.60	11713.43	1124.83	
Monthly var.	7.72%	10.36%	6.90%	6.88%	3.71%	8.02%	
Year-to-date	0.36%	7.89%	-0.64%	+1.21%	-0.07%	-3.73%	
Year-over-year	14.11%	23.55%	13.96%	11.56%	8.59%	8.28%	

Index	FTSE	DAX	CAC40	SMI	NIKKEI	EURO50
July 31	5258.02	6147.97	3643.14	6200.78	9537.30	2742.14
Monthly var.	6.94%	3.06%	5.82%	3.94%	1.65%	6.56%
Year-to-date	-2.86%	3.20%	-7.45%	-5.27%	-9.57%	-7.56%
Year-over-year	14.10%	15.30%	6.33%	4.20%	-7.91%	3.94%

Commodities	GOLD	COPPER	CRUDE	WHEAT	LUMBER	CER
July 31	1183.70	331.20	78.89	661.50	209.00	274.35
Monthly var.	-4.88%	13.21%	4.85%	37.74%	-2.11%	6.12%
Year-to-date	8.00%	-0.94%	-1.20%	20.66%	-10.30%	-3.56%
Year-over-year	24.01%	26.36%	14.13%	14.84%	5.56%	6.56%

Currencies	SCA	£	€	¥	SAU
July 31	1.0265	86.4500	1.3050	1.5700	0.9060
Monthly var.	3.57%	2.21%	6.70%	5.05%	7.66%
Year-to-date	1.95%	7.14%	-8.93%	-3.94%	0.89%
Year-over-year	4.82%	8.71%	-8.45%	-6.07%	8.37%

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Government bonds or equity?

The always insightful Leigh Pullen of QV Investors Inc in Calgary in a newsletter explained where he sees developing global problems. He ended his reflections by expressing that, "We trust that clients will stick with us."

We all have our own views on the future and face the same uncertainties; the crystal ball broke long ago. For responsible money managers it is therefore an uphill battle to convince clients of the solidity of their arguments. And all too many investors prefer to look at the short-term, wishing to invest on the basis of what is known today, forgetting that tomorrow must be different, for there is neither continuation nor predictability. And while this is unsettling, we can nevertheless look at, and get guidance from, certain facts.

Mr. Pullen states that debts create the preconditions for excessive volatility, and that low interest rates and deficit spending give a false sense of prosperity. He argues that contrary to the US government's view that consumption equals salvation, it is instead the core of the problem. True, low interest rates have brought temporary benefits, emphasis being on temporary, but when we study reports that half the Canadians who now approach retirement have no idea where the money for their retirement will come from, we instinctively know that the problem in the US is either as big or likely bigger. Where will the consumption power come from in the future?

He looks at government debt and expresses his opinion that the companies he invests in are, as a whole, better managed than the governments issuing bonds. That governments are lousy managers is known to all of us, yet we put blind faith in their ability to repay their debt. Is this not wishful thinking? Does it not make sense to

invest, as Mr Pullen states, in companies selling TV programs and groceries, and cheese and internet connections, and band-aids and insulin and electricity, because people will need that stuff tomorrow? He owns companies which will be in business regardless of the macro outcome.

If one goes to the bottom of it, one is likely to conclude that equity and even bond investments in well-managed companies are safer and more reassuring than buying government bonds, no matter how high are the ratings given by unreliable rating agencies. It is a question of perception. We prefer to find safety where there is none, and we overlook the obvious because corporations have to fend for themselves in order to survive. But that is where their strength is, they do not have the privilege of spending themselves out of trouble by devaluing their credit.

It is ironic that a proven investment manager needs to ask for his client's trust and patience. There should be more of Leigh Pullen's kind in this world, who might not always be right, but are courageous enough to look beyond the obvious and protect client money where real, and not perceived, protection is found.

By Rolf Spielmann, CFA
Senior Vice President of BLUE BRIDGE®





Europe's revenge?

(Translated from French)

The significant event in Europe in July was European investors' renewed optimism in risky markets, but one time does not make it the norm. Even though most asset managers are issuing statements tempered with a good dose of caution, this shift in psychology deserves some attention. The good news comes from sovereign bond markets, in particular Portugal, Italy, Greece and Spain (PIGS). The recent auction of Spain's debts was over-subscribed more than threefold. The spread of Spain's 10-year OAT [government bonds] has now returned to its pre-crisis level. The prospect of Greece defaulting by renegotiating its debt if the primary fiscal balance (excluding the cost of debt service) were to be back in the red, is cautiously deemed to be the best possible solution.

In spite of the criticisms levelled against the European stress tests, the markets remained relatively transparent in the end; the shares of major European banks had soared by the end of July. Indeed, the end-of-a-world (end of the European monetary adventure) outlook is becoming less likely. As a sign that times are changing, some European asset managers are predicting that most inquiring eyes will now be focusing on the U.S. federal debt.

There are still many uncertainties about global growth. These uncertainties appear at the highest levels of world economic governance in the very enlightening contrasts in the opinions of Ben Bernanke and Jean-Claude Trichet with regard to the exit strategy.

Mr. Bernanke, the U.S. Federal Reserve Chairman, feels that fiscal support is required in the short-term as the recovery has not been as robust as expected. He says, however, that a more stringent policy should be implemented in the medium and long terms in order to enable the Government to meet all its obligations.

According to his article published in the *Financial Times*, Mr. Trichet, President of the European Central Bank, feels that from now on fiscal policy must focus on a rapid return to sound public finances. This opposition reflects two very different opinions of the economy. According to the Fed Chairman, the U.S. economy is still in serious trouble and appears unable to independently find its

own way to stable growth. This is translated by still-fragile employment dynamics, a real-estate market that is still struggling and weak consumption. The shifts in the U.S. economy are not strong enough to return to lasting and self-sustaining growth. Economic policy therefore has a major role to play in such a situation. It must remain adaptable in order to facilitate the conditions required to restart growth and to generate more favourable dynamics.

In this analysis, the concern is that by leaving the economy without strong support at this juncture in the cycle, unemployment will rise and the economy will be unable to react in case of a negative shock. Mr. Trichet has an entirely different take on the economy: his view is based on the idea that it will be able to find its way back to balanced growth independently and endogenously. The economy is emerging from a deep crisis and is rediscovering its usual mechanisms and, as such, a fiscal policy that is overly accommodating may delay this return to balance. His proposal is therefore to position all economic policy instruments in a configuration that will jumpstart growth again. Policies must be co-ordinated. Fiscal policy is rather restrictive, while the monetary policy is still overly accommodating.

The difference between the two central banks' analyses is the economy's ability to return to satisfactory growth independently. More generally, it is worth noting that discussions on economic policy in both the U.S. and Europe are revolving around the economies' ability to rediscover sustainable expansion dynamics after a period of intense turbulence.

The risk of an error in fiscal policy will remain the sword of Damocles that threatens recovery in Europe. Indeed, an overly restrictive policy may stall the engine of the current weak growth for a long time. In addition, the exit strategy is strongly linked to competitiveness outside of Europe and therefore its exchange rate.

Thus, on the European markets, it will likely be a major feat to surpass the highest levels achieved last spring and this caution is evident in the asset allocations of diversified flexible European managers whose shares still remain below the 20% mark today.

**By Luc Granger, Founding associate
Intuitae Family Office**





Why GM Matters

Inside the Race to Transform
an American Icon

William J. Holstein
Walker & Company
2009

Instead of a book review, a few thoughts about a book which maybe should not have been written. At the height of the fears that a collapse of the US car makers would drag the North American economies into a deadly downward spiral, I came across "Why GM Matters", by William J. Holstein. Published in 2009 it outlines what GM brings to America, and the devastating damage its disappearance would have.

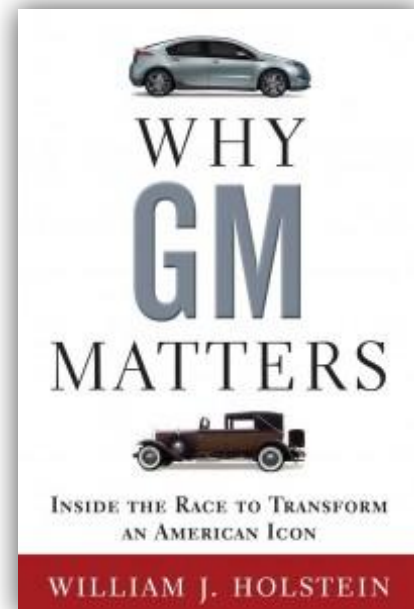
It turns out that GM and Chrysler went on life support, but are we really worse off? When I look at the new cars on the streets I cannot help but think that the crisis was positive in some ways. Ford, in particular, now builds cars that are pleasing to the eye and which are, technically quite advanced. GM is trying its best, while Chrysler shines with the discounts it offers to car buyers. It appears that the goal is no longer to build the most mediocre car, but a car that people enjoy driving and are proud to own.

"Why GM Matters" contains a lot of nostalgia, but little concern for a world which has profoundly changed and left the old GM way of building cars far behind. Consumers had spoken long ago, but car manufacturers chose to ignore them. Writing this book was, therefore, similar to writing a book about the superiority of electric typewriters. In their time, those were magnificent machines, but who would be inclined to purchase one today? We all moved on, took advantage of what technology has to offer, and because of it we became more productive. Why then did productivity gains not matter to the car manufacturers?

It is not to deny that GM did come up with interesting ideas, ONSTAR comes to mind, but that alone does not make it the cornerstone of

the American economy. When looking at American versus Japanese or European cars, I was always reminded of calculators. Yes, calculators. They had to be big, they had to be heavy, and they had to make an awful lot of noise; now, that was considered to be a good and reliable calculator. When electronic calculators were introduced in the mid 60s, they were not big, they were light and they made no noise. It took some time to get used to that, for the rattling of a calculator had something reassuring about it, one knew that calculations were being performed, one could hear that and have no doubts about it. The silent calculator was scary at first, for how can something be trusted to work if it does not make any noise? But in no time we realized that it was not noise that assured us of a correct result, but silent electronics which did everything a thousand times faster.

The GM as we knew it a couple of years ago no longer matters, and no amount of nostalgia will change that. And for this we should be grateful!



Selection of Financial & Economic Indicators

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