



Blue Bridge Wealth Management Consultants Inc.

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Comments on Financial and Economic Developments

For several months now, market analysts have been discussing two questions: can the run-up in US real estate prices be called a bubble? And if so, has the bubble burst?

Opinions related to the existence of a bubble vary widely, and in all fairness, both sides have put forth interesting arguments. Some say that the increase in prices that we have witnessed is nothing more than an adjustment to years of unusually low price appreciations. Others claim that much of the run-up in prices resulted from a speculative fever that caused investors to try to flip properties the way they traded high-tech shares during a different bubble not so long ago.

"... the interest rate on 30-year mortgages is higher than the increase in home prices."

Wherever the real truth lies, there are signs of weakness in the US housing market. For the first time in 5 years, the interest rate on 30-year mortgages is higher than the increase in home prices. In addition, the futures market predicts a decline in home prices in coming months.

What this means is that the new reality for homeowners could be one where mortgage costs exceed the level of price appreciation, to the extent that, over time, the mortgage will be higher than the value of the underlying property. Lenders cannot look kindly on such developments, which means that financing

and refinancing properties could become considerably more difficult in years to come. In light of the fact that much of the spending boom in recent years was fuelled by the creation of real and not-so-real wealth in the real estate sector, one must consider the consequences of this potential negative wealth effect.

Climate Change and the Insurance Industry

Looking back over the past summer, with its heat waves and cold spells, and droughts in some areas and an abundance of precipitation in others, one cannot help but wonder how the insurance industry deals with climatic change.

"... many investors have an exposure to the health of insurance companies."

Many investment portfolios contain shares in one or more property insurance companies, which means that many investors have an exposure to the health of insurance companies.

In addition, most of the people who read this newsletter are property owners themselves, and they expect solid insurance coverage for the premiums that they dutifully pay every year. Besides, we would all like to understand the reasons behind rising insurance premiums.

Climate change has always been an integral part of the evolution of our planet, but the current concern is that human activity is altering the earth's climate in a non-random manner. More importantly, it appears that there is an acceleration in the rate of human-induced climate change.

Understanding these changes is a formidable challenge for the insurance industry, but a necessary one in terms of its survival. Failure to understand these changes would make it impossible to calculate risks, which means that insurance premiums would be either too high or too low. In other words, they would either be too costly for companies and individuals to afford, or they would not be high enough to protect the financial stability of the insurers.

Insurance risk related to severe but low-frequency weather on an annual basis is different from the risk related to the long-term consequences of lasting climate change.

Short-term weather phenomena such as hurricanes occur with a certain degree of regularity, and therefore, insurance companies can calculate the potential exposure with a reasonable degree of accuracy. In the case of hurricanes for example, actual and projected losses seldom vary to an extent that causes major long-term problems for insurance companies.

"... the insurance industry might find itself exposed to potential catastrophic losses."

However, if climate change becomes unusually variable over prolonged periods of time, the insurance industry might find itself exposed to potential catastrophic losses.

In light of this, the industry has a vested interest in finding ways to pinpoint real and potential future risks, and insurers may step to the forefront when it comes to finding ways to reduce the risks of climate change attributed to human activities.

Preventing or reducing losses benefits insurers, but it benefits their customers even more, which puts the insurance industry in an excellent position, not only in terms of

educating its customers about risks related to climate change, but also in terms of enforcing a high level of compliance with new rules.

One way of doing this is to promote and reward low-carbon approaches in business activities through the application of lower insurance premiums. On the other hand, companies that are unwilling to comply with requirements on a timely basis can be punished through the application of prohibitive insurance premiums, or even with the threat of withdrawal of their insurance coverage.

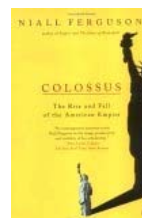
Faced with a direct vested interest in the geologic and atmospheric changes that affect the Earth, the insurance industry finds itself thrust into a position of leadership with respect to understanding our climate. It can act as an educator, and it has the power to punish those who refuse to do their part to minimize climate change.

"... without insurance, companies will not be able to operate."

For the insurance industry, the issue of being pushed into a leadership position is secondary to the issue of sheer survival. If it becomes potentially too costly to insure certain risks, insurance companies will not underwrite them, and without insurance, companies will not be able to operate.

Everything is connected, and everyone must play their part, either voluntarily or involuntarily! Leadership is essential, and the commercial interests of shareholders might prove to be even more of an incentive than government initiatives.

Book Review



Colossus: The Rise and Fall of the American Empire
By Niall Ferguson
Penguin Books
2004

In light of recent political changes, Niall Ferguson has updated this excellent and rather provocative book. Professor Ferguson is the Laurence A. Tisch Professor of History at Harvard University, and a resident faculty member of the Minda de Gunzburg Center for European Studies. He is also a Senior Research Fellow of Jesus College at Oxford University, and a Senior Fellow of the Hoover Institution at Stanford University.

Even for history buffs, *Colossus* contains a great many insights that Ferguson analyzes in his own peculiar way. He has been known to turn the tables on comfortable assumptions, and he proves that once again with this book.

There are four chapters under the title "Rise", followed by four chapters under the title "Fall". Both sections are intriguing, both are well researched and explained, and both are worth thinking about.

"... America goes out of its way to deny that it is an empire."

Can the United States be called an empire? Ferguson believes that it always has been, but that America goes out of its way to deny that it is an empire. Assuming then that America is a (reluctant) empire, some of the key questions in this book deal with how empires should and should not behave, and whether their existence is really necessary.

The author states: "I believe the world needs an effective liberal empire and that the United States is the best candidate for the job." This being the case, Ferguson suggests that America should stop denying the obvious, and instead invest its energies and resources into being the undisputed world leader that it is.

"... over the course of history, many empires have appeared, and as many have disappeared."

Although America has no peers at the present time, Ferguson reminds us that, over the course of history, many empires have appeared, and as many have disappeared.

Will America be different? Can America be different? Will it fall before its time?

"... America suffers from three deficits, which are economic, manpower and attention."

Ferguson argues that, for all its might, America suffers from three deficits, which are economic, manpower and attention. Although he sincerely hopes that these deficits can be overcome, he is not so sure that the attention deficit can be conquered.

The author urges us to imagine the consequences of the end of the American empire. As with the fall of any other empire, some would rejoice and some would be saddened and frightened. However, life would go on. It must!

What is the Definition of ... Hostile Takeover?

Takeover attempts are not always welcomed, and sometimes, they are strongly resisted by the targeted company. In such a case, we refer to it as a hostile takeover.

"... sometimes the targeted company is looking for a 'White Knight' ..."

In these situations, an open tender offer by an acquiring company or by a corporate raider, as the case may be, is strongly opposed by the target company's management and Board of Directors. Lengthy legal battles can result, and sometimes the targeted company is looking for a "White Knight" to fight off the acquiring firm. We will look at the definition of "White Knight" in our December newsletter.

Selection of Financial & Economic Indicators

Index	DJ Ind	DJ Transp.	Nasdaq	S&P500	S&P/TSX
October 31	12080.73	4726.61	2366.71	1377.95	12344.59
Monthly var.	+ 3.44%	+ 6.13%	+ 4.79%	+ 3.15%	+ 4.96%
Year-to-date	+ 12.72%	+ 12.64%	+ 7.32%	+ 10.39%	+ 9.59%
Year-over-year	+ 15.72%	+ 23.88%	+ 11.62%	+ 14.16%	+ 18.59%

Index	FTSE	DAX	CAC40	SMI	Nikkei
October 31	6129.20	6268.92	5348.73	8569.72	16399.39
Monthly var.	+ 2.83%	+ 4.41%	+ 1.88%	+ 1.71%	+ 1.69%
Year-to-date	+ 9.08%	+ 15.91%	+ 13.44%	+ 13.00%	+ 1.79%
Year-over-year	+ 15.27%	+ 27.18%	+ 20.56%	+ 21.74%	+ 20.53%

Commodities	Gold	Copper	Crude Oil	Lumber	CRB
October 31	606.80	334.55	58.34	243.80	305.14
Monthly var.	+ 0.43%	- 3.45%	- 6.95%	+ 0.74%	- 0.12%
Year-to-date	+ 17.26%	+ 64.64%	- 4.42%	- 32.09%	- 8.04%
Year-over-year	+ 30.49%	+ 85.19%	- 2.52%	- 21.48%	- 3.50%

Currencies	CAD	YEN	EURO	£	AU\$
October 31	1.1225	117.00	1.2765	1.9075	0.7745
Monthly var.	- 0.49%	+ 0.93%	+ 0.67%	+ 1.87%	+ 3.96%
Year-to-date	+ 3.44%	+ 0.85%	+ 7.86%	+10.87%	+ 5.59%
Year-over-year	+ 4.95%	- 0.52%	+ 6.51%	+ 7.77%	+ 3.61%

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

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