BLACKMONT

CAPITAL™

Free liquidity shots… last call!

Thursday, December 13, 2007

We now focus on the next set of events that will influence the final reflationary drive before true Armageddon sets in. If you thought subprime was mindnumbing then like the song says… ' You ain't seen nothing yet" (BTO)

We recently appeared, on Bloomberg Television, noteably on the 9th & 23rd of November to happily declare the worst of the subprime crisis as being over. The liquidity crunch, we experienced since February is just now beginning to demonstrate concrete negative economic impact.

As phase two approaches, I see massive unwinding of "past bets" in early 2008, from both institutions and individuals. This credit cycle has taken on biblical proportions and will later come to be known as the SUBCRIME crisis.

The recent overture from central banks to offer a "temporary term auction facility" has the trademark of Mr. Bernanke's creativity in channeling funds directly to its intended recipients. I credit him for that.

I predict the narrowing of the Libor rate over the Fed funds rate will be too congested and this will suggest partial victory at easing tight lending conditions. The Fed funds rate will therefore head down to 3.5% by summer.

Most participants underestimate the power of the Fed to reliquify bank balance sheets and are short financials "en masse". Sentiment is largely negative and hence overall valuations are very attractive. One should not be surprised if financials lift off like helium balloons. We had moved from 40% cash early in the year to a recent 20% cash position. Our sector weighting is entirely opposite to what we held early on. Namely energy and metals holdings have been replaced by large cap global US banks and broker/money managers.

As our previous article "Why financial air raids are about to start" specifies… unwinding of positions will graduate from hedge funds to pension funds. Positions levered at an average 3 times assets will be marked to market. Debt downgrades will lead to sell-outs. Money repatriation, along with credit default swap reduction will ultimately result in high real rates. If you thought subprime was problematic, well, think again.

— Yves Lamoureux, Investment Advisor, Blackmont Capital Inc.

1250 René-Lévesque Blvd. West, Suite 4215, Montreal, Quebec H3B 4W8
T: 514-937-3250 • 877-925-2850 • www.blackmont.com