



# BLACKMONT

CAPITAL™

## The Resolution Not to Trust Corporation... Subsidizing the next wave of defaults

September 14, 2007

What is being played out today has all of the similarities of the Savings and Loans fiasco of the 80's. Back then the US Government created The Resolution Trust Corp mandated to liquidate primarily real estate assets and mortgage loans. Such a government owned management company will have to be recreated to bail out the financial sector again.

Players should absorb losses made on the wrong side. The small investor plays by that rule so should Wall Street.

The economy continues on its path of growth. Why then cut rates if not for the chorus of helpless bankers and hedge funds that want more money to speculate. **Cutting interest rates now is tantamount to giving free drinks at an AA meeting.** We did write about the structure of risk early in the year as being priced too low. This is probably where we distance ourselves from the army of cheerleaders befuddled by recent gyrations in the market and their beloved goldilock economy. Rate cuts will allow more risk taking. Where is the price stability that central banks must ensure if they cut rates? Since all of the talk is about subprime and commercial paper did anyone notice oil at 80\$ and wheat at a 26 year high ?

The opportunity lies in owning hard assets. **You can now find ETFs that trade the individual commodity or the index itself.** You substitute financial demand of stocks for real consumption. This idea in the retail world has been very slowly gaining acceptance. Smart money however has been faster to react.

The bullion held by streetTrack Gold ETF has surged to a record high of 506.7 tonnes. This occurred while gold was going sideways. This probably indicates that it is gaining popularity as a diversifier of portfolios and that the added size opens up the market for increasingly bigger players. Gold is in fact the laggard in this cycle. Our sentiment indicators are at rock bottom. Every dip this year has been accompanied by strong commercial supports. Gold should be expected to perform well. We did notice the worry, not shared by us, on the US dollar. I believe that some currencies might have been exchanged for some gold recently. One force to be aware of is the greater influence of sovereign wealth funds. Their behavior might be completely different than momentum- chasing hedge funds.

As Olivia Newton-John would say "Let's get physical."

— Yves Lamoureux, Investment Advisor, Blackmont Capital Inc.

*The comments and opinions expressed in this letter are the result of work done by Yves Lamoureux. They may differ from the opinion of Blackmont Capital Inc. ("BCI") and should not be considered as representative of BCI, belief, opinion, or recommendations. The statements and statistics contained herein have been prepared by sources we believe to be reliable but we cannot represent that they are complete and accurate. This material is published for general information only. BCI assumes no liability for financial decisions based on this information. Readers should obtain professional advice before applying any ideas mentioned to their own personal situation to ensure their individual circumstances have been properly considered. BCI is an independently owned subsidiary of CI Financial Income Fund. CI Financial is a Canadian owned diversified wealth management firm, publicly traded on the TSX under the symbol CLX.UN. Blackmont Capital Inc. is a member of CIPF and IIROC.*