

Glory! Glory! Hallelujah!

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Those who watched the 2004 Tour de France bicycle race were undoubtedly taken by Lance Armstrong's incredible feat, winning the event for a record-breaking sixth consecutive year. He remains the best prepared, the most focused and hardest working of the two hundred competitors. That is not to say that he is the most talented for as every veteran coach and fan can attest, many of the most gifted athletes consistently underperform as they lack the will to win. This too is the case for many senior executives and politicians!

World-class performers never take anything for granted. They have knowledgeable mentors to help steer them in the right direction. They are very disciplined and are more than willing to follow the mundane strategies required to be great. Closing the gap between current status and what is possible requires attention to detail, perseverance and, most importantly, setting goals. Rather than rest on their laurels, they continuously explore ways to improve. They embrace the chance to learn more about themselves and the competition. They are not afraid to lose, and always seek to raise the bar. If they plan and execute as well as they might, they know they are bound to win. Those who follow the example set by the likes of Lance Armstrong will inevitably bask in glory, the result of an unerring commitment to excellence!

FURTHER REGULATION IS NOT THE ANSWER

As investors know full well, by the time the mighty bull market of the 1990s had run out of steam, a great number of corporate executives, directors, auditors, management consultants, lawyers of every stripe, investment bankers, and research analysts, were condemned for having exploited gaps in the regulatory structure in providing investors with misinformation that drove many unsuspecting souls to overpay for stocks – Nortel Networks Corp. being the ultimate such example. Despite the most stringent laws in history, the regulators were incapable of containing the frenzy. In fact, the incidence of financial fraud was more pronounced and widespread than ever before. All of which suggests that other factors are to blame and further regulation, like the Sarbanes-Oxley Act, is not the answer.

As I and others see it, the U.S. Federal Reserve Board's overly easy monetary policy was misguided. Rather than usher in a period of higher productivity that would constrain inflationary pressures, interest rates were driven below what the stock market could truly bear, causing demand for equities to skyrocket. Believing that the regulatory framework offered protection, investors were more than willing to assume inordinate risks. The investment dealers, who catered to the craving by publishing and promoting glowing

research reports, made pots and pots of money. Amid the euphoria, more than a few CEOs made a fortune from this once-in-a-lifetime opportunity by cashing out all their stock options. It will now be up to the courts to determine which of these people should be charged with fraud.

In the meantime, and for the foreseeable future, reputations of everyone involved in the investment industry will remain suspect, as will the policies of the various and sundry securities commissions, to say nothing of that of the chairman and the U.S. Federal Reserve Board and the governor of the Bank of Canada. As such, CEOs would be well advised to take full charge of their company's investor relations programme, employing only the most credible of advisors to lend a hand to accelerate the process of re-establishing credibility with investors, large and small. The task at hand will not be easy. Persistence will be required to gain ground on one's competitors and the stock market averages. It will not happen by chance!

A HOUSE OF CARDS

Up and until 1975, North American investment dealers charged a substantial fixed-rate commission for their stock-trading services. Their goals were reasonably aligned with that of their investor clients. Most were proud to provide objective research commentary. The analysts were handsomely rewarded for making the right calls.

The advent of negotiated rates, the authorities aiming to eliminate price collusion, changed the way business was done. Discount brokerages emerged and prospered, forcing full-service firms to find other ways to quench their greed.

This resulted in a dramatic increase in the number and size of new issues and initial public offerings through the 1980s and 1990s, which helps to explain how so many outfits with little or no fundamental value or earnings came public, causing a feeding frenzy on Bay and Wall streets. As day-to-day stock trading fees fell, the analysts quite naturally gravitated to the more lucrative investment banking side of the equation, causing a move away from unbiased research. The Chinese wall of silence, in place to avoid the illegal use of inside information, was breached. As it crumbled, corruption flourished.

Many research analysts began to recommend only those companies in which their respective firm had, or hoped to have, an investment banking relationship. By the late 1990s, this practice was entirely out of control, to the point where the only stocks to be downgraded were of those outfits unwilling to play the game!

It got to the point where senior executives would leak inside information to a few key analysts, who in turn would adjust their earnings forecast so that the corporation would appear to beat the consensus estimate by a penny or two a share. In this sense, the repeal of fixed-rate commissions hurt the market by taking away the incentive for sell-side analysts to make well-researched and accurate recommendations on their own.

These clandestine relationships are proof enough that corruption was taking place. Eventually, however, the cyclical nature of the stock market kicked in. After a long run up in stock prices, a substantial pullback could not be avoided. Subsequently, a number of bought-deal financing and mutual fund trading scandals have come to light, uncovering undeniable wrongdoing. History has plenty of examples of these very same dynamics at work – all driven by trumpery, tyranny and human tendency to bend the rules. This time around, it is no different.

Unfortunately, it will take a goodly number of years to wring all the excesses out of the system. It will not happen over night. In the next while CEOs will have to learn anew how to play the game to the advantage of the shareholders at large, and not just a few favourite institutional investors and their selfish selves. It is also high time the investment industry cards took the game of dealing with other people's money a lot more seriously, though it may take a substantial jail term or two to get them to sit up and pay closer attention to their investor clients' best interests.

TAKING A POLITICAL TURN TO THE RIGHT

If you have not already noticed, investors and voters in the main have an uncanny ability to foresee the future. They are willing to pay up to own shares in the industry-leading companies and tend to elect the more capable politicians. Recent turns of events prove my point. Let me explain and expound on my premise. As I see it, today's thrust is aimed at getting back to basics by having us all take a political turn to the right.

WHAT DO THE LIBERALS AND CONSERVATIVES STAND FOR?

Canadians and Americans use these terms indiscriminately, yet we rarely agree on what they really mean. Traditionally, liberals believe they are the major creative force in politics. When lacking ideas, they simply adjust the dial to "values" to shore up self-esteem. They believe in serving one's country. Conservatives, they say, believe in serving oneself. They say they are virtuous and the rest of us are not!

Liberals believe they can thrive through government connections, and still be loved by the voters whose money passes through their hands. Up until very recently the majority of Canadians have been willing to go along with them for the ride. The results of the latest federal election would suggest that a change in attitude is being called for. I have my doubts that the prime minister and his Liberal cohorts have the wherewithal to get on with what needs to be done to satisfy the electorate. The same holds true as to the Democrats in the United States.

With only 135 seats, twenty shy of a majority, the Liberals cannot single-handedly pass any piece of legislation. Paul Martin will have to consult with all of the opposition parties about the initiatives he values to ensure the necessary support. Yet it is in no party's best interests to defeat the government in quick order. After all, the other political leaders, particularly Stephen Harper, need to get about and state their case in clear and concise terms long before they threaten the country with yet another federal election. They also need time to build their organizations and refill their party's coffers.

PAUL MARTIN IS ON A SHORT LEASH

Though many credit him for being an effective minister of finance, I very much doubt Paul Martin will prove to be a great prime minister. Rather than having a vision for the country as a whole, he seems to be preoccupied with how best to spend the federal surplus on social programmes. Corporate executives and investors would much prefer that the funds be used to cut taxes, reduce the national debt, and encourage long-term investments aimed at narrowing the productivity gap vis-à-vis the U.S., thereby improving our standard of

living. As such, his standing within the business community has suffered measurably since he came to power late last year.

When you consider that 20 percent of Canadians pay 80 percent of all the taxes, it is little wonder most politicians promise to tax the rich and not the poor. What many fail to understand is that the few successful entrepreneurs amongst us tend to reinvest their savings, creating even more high-paying jobs and greater wealth for everyone who crosses their path. Governments, on the other hand, are unproductive and all too often waste money. The National Gun Registry is proof of what I speak. The fact that Tax Freedom Day fell on June 28 in 2004 is frightening stuff. If we Canadians are not careful, by next summer we will be working for governments for more waking hours than for ourselves.

So I say it is high time we cut out the corruption in government, did away with superfluous programmes, batted down the hatches and made better use of the taxes we pay to all levels of government. A case in point, is the absolute hash the Liberal government has made of the helicopter file. Having spent more than \$450 million in penalties to get out of the original contract, it has now decided to buy the wrong make, chosen for reasons of political optics, rather than military might – not to mention that the fleet will be barely half the size of that considered to be appropriate by the Conservative government eleven years ago. One can only hope that the company that lost out is successful in suing over the “rigged” contract. Given the amount of backpedalling going on in Ottawa these days, perhaps our military leaders will eventually get the helicopters they were hoping for. In any event, the court case should go a long way to proving to the mandarins in government that it is imperative they stop wasting both their time and our money!

Furthermore, if we are going to boost our spending on the Canadian armed forces, let us do so in consultation with the U.S. We would be far more effective if we stuck to what we can do best. We can never match their muscle – so why pretend to be all things to all people.

WE MUST GET MORE INVOLVED

Generally speaking, we Canadians spend little time and energy being involved in the election process. In fact, the percentage of eligible voters to cast a ballot has steadily declined over the years. In the year 2000 federal election only 60 percent of us did so. Unfortunately, 70 percent of those under thirty failed to exercise their most fundamental democratic right. Though the tallies for the 2004 federal election are yet to be made public, this disappointing trend likely remained intact. That is truly lamentable, for rarely have Canadians been offered a broader or better range of political choices.

This cynicism is more often rooted in apathy than anger. Yet every government policy ultimately manifests itself in the lives of individual men, women and children. So a wilful decision not to vote is not a political stance. It is intellectual and civic laziness dressed up as such.

Going back in time, the Liberals and Conservatives always won 90 percent of the popular vote, sometimes more than 99 percent. After the most recent election it is more like 33 to 33, and 33 percent for the NDP and the Bloc Québécois combined. If this four-party free-for-all works, it might prove to be a real-life endorsement for a change from the current first-past-the-post to proportional representation, whereby minority governments would become a permanent fixture of Canadian political life.

As one who has been in both the political and corporate camps, and despite the imperfections of the current electoral system, I firmly believe that a majority government is the better and more cost-effective way to govern. Giving voice to too many bleeding hearts will inevitably sour the brew. The politicians' steadfast refusal to allow bank mergers to occur is proof of what I speak!

May I also suggest that given as a thriving, confident, assertive, francophone Québec has been achieved within confederation, Quebecers have the best of all worlds. They understand intuitively that a split with Canada would not improve their lot and could conceivably make it substantially worse. As such, it is very unlikely that they will seek a mandate to pursue their quixotic project. Therefore, I would take all threats of separation as nothing more than posturing: nothing more than trying to have their cake and eat it too!

Given Stephen Harper's strong showing in the debates and Paul Martin's lack of focus at the time, you have got to wonder what happened to turn the tide back in favour of the scandalous Liberals over the cautious Conservatives in the most recent federal election. After all there was a point in time when the pundits were leaning towards a Conservative minority government seeking the confidence of the House of Commons.

As I see it, Paul Martin panicked and reverted to the tried-and-true practice of Alberta bashing. This time the bogeyman was "Two-tiered, U.S.-style health care", where the "rich man can jump the line". Not that Albertans fell for the ruse, but apparently many simple folk in Ontario did! Never mind that their home province has far more private, for-profit health care than any other province, including Alberta!

Even so, no party would wish to take the blame for putting us through yet another election so soon after the last, including the Bloc Québécois. As such, the next few months are likely to resemble a game of chicken, the winner depending on the issue and the parties' ability to position themselves as the voice of reason, advancing the national interest, knowing when to call the other's bluff. Paul Martin has consistently mishandled the Québec file. By contrast, Stephen Harper has ice water in his veins. He is a shrewd political strategist, impossible to rattle, his approach to the national unity file vindicated on more than one occasion. If a Bloc Canadien is necessary, he would be the better choice as prime minister. Time will tell if we need him to fill this vital role. Hopefully Canada will not be held to blackmail in the meantime.

Notwithstanding, the political landscape of Canada is on the verge of historic change – radical, permanent, and mostly for the better. Eight decades of almost constant Liberal rule is about to come to a crashing end. Whereas previous Conservative leaders had no higher ambition than to govern in a Liberal way, Stephen Harper wants to break the mold. He is a supreme political animal, determined to destroy the one-party system and set Canada on a two-party track. Rather than advancing his own agenda, he will strive to entrench the Conservatives as permanent contenders for power.

The arrival of the Bloc Québécois in 1993 removed any possibility of the clear-sweeps the Liberal party enjoyed during the Trudeau era. In this past election they not only lost the nationalist vote, they have also lost the support of the federalists, who have parked their votes with the Bloc but are poised to go with Conservatives at the next chance to do so. Stephen Harper knows better than to go after the Québec nationalists in coalition with the traditional base of Western populists – as Diefenbaker and Mulroney did – as it is inherently combustible, as subsequent events were to prove in both cases. Instead, he will aim to gain the support of federalists in Québec, as Canada's natural governing coalition

has always included the federalist option in Québec, not the nationalist one. The virus of special status – distinct society, deux nations, call it what you may – has been expunged from the Conservative party platform. Though the Liberals are likely to follow suit in time, I very much doubt that such will come to pass during Paul Martin's reign.

Times are also a-changing in Ontario. The immigrant vote is no longer reliably Liberal. Newer generations are strongly entrepreneurial; many hold staunchly conservative views on social issues, such as the definition of marriage. Philosophically speaking, the province is shifting westward, absorbing the free-market tendencies of Western Canada. Though the Liberals were intensely interested in establishing a beachhead in the West, knowing that Canada's political and economic centre of gravity is steadily moving that way, the anti-Alberta campaign of the past election has likely killed any such dreams for decades to come.

With these changes will come the dismantling of many sacred programmes, the machinery of the federal Liberal's perpetual rule. The pork barrel will be overturned for the good of everybody. There will also come an unwinding of the various regional development agencies and other institutions dispensing funds and favours to friends of the government. If you are a proud Canadian, please step forward and get involved in the process leading to a better focused and more prosperous Canada.

IN CONCLUSION

Canadians have much to do to get our nation and its people headed in the right direction and firing on all cylinders. The sooner we follow Lance Armstrong's lead, the sooner we will make it to the promised land. Glory! Glory! Hallelujah!