

# Lehman enters talks on sale

BLOOMBERG

**L**ehman Brothers Holdings Inc. entered into talks with potential buyers of the securities firm after **Moody's Investors Service** said Thursday the company must find a "stronger financial partner" and the shares plummeted.

The U.S. Treasury and the Federal Reserve have been working with Lehman on a sale, and a deal may be announced may before Asian markets open Monday, a person with

knowledge of the matter said. The government isn't likely to contribute money, the person said. Bankers from other firms were reviewing Lehman's books Thursday, according to people with knowledge of the situation, who declined to identify potential acquirers.



Richard Fuld

Without a "strategic arrangement" in the "near term," Lehman's credit-ratings may be downgraded, Moody's said Wednesday after the New York-based investment bank announced the biggest loss in its 158-year history. A downgrade could increase Lehman's borrowing costs and deter others from trading with the bank. Lehman, led by chief executive Richard Fuld, fell 42 per cent in New York trading Thursday, ceding its spot as the fourth-biggest U.S. securities firm by market value to **Raymond James Financial Inc.** in St. Petersburg, Fla.

"While the number of potential acquirers at this point is very few, Moody's action certainly raises the spectre of takeout, potentially at a very low price," said Merrill Lynch & Co. analyst Guy Moszkowski in a report Thursday.

**Bank of America Corp.** is among the possible buyers, the Wall Street Journal reported, citing unidentified people. Spokespeople for Lehman and Bank of America declined to comment.

Michele Smith, a spokeswoman for the Fed, declined to comment on Lehman earlier Thursday. Treasury is "monitoring markets," and is "in regular contact" with market participants, spokesman Jennifer Zuccarelli said.

Lehman fell \$3.03 to \$4.22 at 4:15 p.m. in New York Stock Exchange composite trading.

"The likely solution is that someone will bail it out and at this rate it may be for a nominal sum," said Simon Maughan, a London-based analyst at MF Global Securities Ltd. "The market is not going to give Lehman time to get on with its plan."

Asked Wednesday whether he'd consider selling the firm, Fuld didn't rule it out.

"I have always said that if anybody came with an attractive proposition that made it compelling for shareholder value, that would be brought to the board, discussed with the board and evaluated, and that has not changed," Fuld said on a conference call with analysts.

## After six years of unsustainable growth, prices have run smack into the affordability wall

REPORT BY SAL GUATIERI OF BMO CAPITAL MARKETS ECONOMICS



Calgary's housing market is one of three in Canada to experience a price drop between July 2007 and July 2008.

# New house prices post worst record in 12 years

Decline of 0.3% comes after years of stunning gains

MARIO TONEGUZZI  
CALGARY HERALD

**N**ew house prices in the Calgary census metropolitan area decreased in July from the previous year, one of only three markets in the country to see a decline, according to Statistics Canada.

The federal agency, in releasing its New Housing Price Index on Thursday, said the Calgary area saw new house prices drop by 0.3 per cent in July 2008 from July 2007, the worst performance in 12 years.

In Edmonton, the year-over-year change was the worst in 23-years at a negative 5.3 per cent.

"Markets in these cities continue to adjust after experiencing record price increases in the last two and a half years," said Statistics Canada.

Nationally, the rate of increase in new housing prices continued to ease in July for the sixth consecutive month. The growth rate of the index has been on a downward trend since September 2006, mainly due to the softening of the market in Western Canada, said the federal agency.

And a report to be released today by Sal Guatieri, senior economist with BMO Capital Markets Economics, says Canada faces the prospect of lower house prices in the year ahead similar to many other countries — the United States, Britain, Ireland, Spain, France and Australia.

"After six years of unsustainable growth, prices have run smack into the affordability wall," says the report. "De-

NEW HOUSING PRICE INDEX	
July 2007 to July 2008 % Change	
Canada	2.7
Calgary	- 0.3
Regina	29.6
St. John's	24.3
Saskatoon	13.1
Halifax	7.3
Winnipeg	7

Source: Statistics Canada

mand is sagging, listings are at record highs, and prospective first-time buyers are choosing to rent rather than own."

The average house price in major markets rose 78 per cent from early 2002 to late 2007. The report says Canadian prices increased more than twice as fast as income and since peaking in late 2007, the prices have trended moderately lower.

"Canadian house prices will likely decline moderately further to restore better value," says the report. "The brisk housing tailwind of recent years will likely reverse course, damping economic growth in the year ahead."

Across the country, contractors' selling prices for new homes rose 2.7 per cent between July 2007 and July 2008, a slower pace than the year-over-year increase of 3.5 per cent in June.

On a monthly basis, prices rose 0.1 per cent between June and July.

In Calgary and Edmonton, on a monthly basis, prices dropped by 0.2 per cent.

"Housing continues to cool markedly," said Douglas Porter, deputy chief economist with BMO Capital Markets Economics, in a research commentary.

Porter said the annual year-over-year increase in Canada was the slowest pace since 2001 and down from a peak of 12.1 per cent year-over-year

just two years ago.

For the Calgary area, the year-over-year price change was 9.8 per cent from July 2006 to July 2007. The annual rate of new house price growth in the Calgary area peaked at 60.6 per cent in August 2006.

The Calgary CMA includes the city, Airdrie, the Municipal District of Rocky View, Chestermere, Cochrane, Irricana, Beiseker and Crossfield.

Regionally, prices rose at the fastest pace in Regina, which led the nation with a year-over-year price increase of 29.6 per cent, down from its record increase of 34 per cent in April of this year. St. John's was next at 24.3 per cent.

Only Calgary, Edmonton and Victoria (0.1 per cent) experienced year-over-year decreases.

Charmaine Buskas, senior economics strategist at TD Securities, said July's national figures are "yet further evidence that the housing market in Canada continues to cool."

"Looking ahead, there is scope for further correction, in line with a normal housing cycle."

Thursday's housing report followed three others so far this month that show how dramatically the Calgary real estate market has cooled. Total housing starts in August plunged by 60.3 per cent compared with a year ago in the Calgary area, according to Canada Mortgage and Housing Corp.

As well, residential building permit value in the City of Calgary is down 35 per cent to \$1.2 billion compared with a year ago. And the Calgary Real Estate Board reported the average MLS sale price for a single-family home in Calgary fell by more than nine per cent in August compared with a year ago, while the average condo price dropped by just over 10 per cent.

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WITH A FILE FROM CANWEST NEWS SERVICE

## IN BRIEF

From Herald News Services

### Relatives sued in alleged scam

**DIAMONDS** • Several family members of a man from Prince Albert, Sask., who faces charges in a diamond mine scam are being sued in Texas.

The lawsuit is the latest twist in what is being called the largest penny-stock fraud in history. Urban Casavant, the 51-year-old former CEO of **CMKM Diamonds Inc.**, was charged by the United States Securities and Exchange Commission (SEC) in April.

CMKM's lawyer Bill Frizzell alleges in court documents that Carolyn Casavant, Urban's wife, was issued more than \$4.8 million in company payments. Victor Casavant reportedly gained more than \$740,000 while Ron Casavant, who was active peddling the penny stock at car races, was issued cheques for \$290,000, the documents state.

Casavant and several American cohorts are alleged to have conspired to illegally sell billions of shares of unregistered CMKM stock.

### Trade surplus slides to \$4.9B

**ECONOMY** • Canada's trade surplus fell to \$4.9 billion in July from a revised \$5.6 billion the previous month as import growth outpaced exports, Statistics Canada said Thursday.

Exports increased 2.2 per cent to \$44.3 billion in July. "The value of exports has been on the rise throughout 2008, largely reflecting rising export prices," Statistics Canada said.

Imports rose 4.6 per cent to \$39 million. "Import prices have been on an upward trend for the past nine months, while volume movements have been trending upward since April 2008," the federal agency said.

Exports to the United States — Canada's main trading partner — rose 3.1 per cent to \$34.2 billion in July, while imports advanced eight per cent to \$25.3 billion. That resulted in a trade surplus of \$8.9 billion with the U.S., down from \$9.7 billion in June.

For the first time since October of last year, energy product exports — like oil and natural gas — declined 1.5 per cent to \$12.8 billion.

### Casino developer eyes Vietnam

**PUBLIC OFFERING** • Canadian casino company **Asian Coast Development Ltd.** is considering a \$1-billion US initial public offering in Hong Kong in the next two years to fund its plans for a mammoth gambling resort in Vietnam.

The Vancouver-based company will not be rushed into raising further capital and is eyeing a possible IPO as one of several ways to help fund its \$4.2-billion five-hotel project in the developing Southeast Asian country, a spokesman said.

An IPO on the Hong Kong stock exchange would come only "if the market conditions are right," he added in a telephone interview.

Recently, investors in Hong Kong have been betting against the casino sector, and the appetite for a casino IPO in the immediate future would be "not strong," said Billy Ng, an analyst with JPMorgan in Hong Kong. An IPO would be "close to impossible" in the near term, he added.

Asia-Pacific is the world's fastest-growing gambling region, according to accountants PricewaterhouseCoopers.

### Loonie slides to lowest in a year

**CURRENCY** • The Canadian dollar fell Thursday to its lowest level in more than a year, providing a likely benefit to export volumes and easing some of the pressure on manufacturers.

But falling energy export prices and a weakening Canadian dollar risk driving the country's trade account into deficit if labour productivity and U.S. consumer demand do not pick up in the coming months, economists say.

"The sharp correction in the Canadian dollar will provide some relief for the beleaguered manufacturing sector, but will also put some pressure on import prices," Douglas Porter, deputy chief economist at BMO Capital Markets said.

The Canadian dollar fell 59 basis points to 92.89 cents US Thursday, its weakest level since August last year. The loonie last traded at parity with the U.S. dollar on July 18 of this year.

# Billions set to flow into tax-free accounts

ERIC BEAUCHESNE  
CANWEST NEWS SERVICE  
OTTAWA

“Socking money away is becoming a bigger priority for Canadians”

CIBC WORLD MARKETS REPORT

**C**anadians — rich and poor, and young and old — will stash a projected \$20 billion in the coming year and \$15 billion over the next five years into a new tax-sheltered saving plan, which offers something for everyone, a major bank investment house projects.

"Socking money away is becoming a bigger priority for Canadians, and that trend will likely lead to a huge uptake in the Tax Free Savings Account plan which will be introduced to Canadians in January 2009," CIBC World Markets said in a report Thursday.

However, survey results released by another major bank, ING Direct, reveal most Canadians still know nothing or very little about the new savings

vehicle announced by the federal government in its 2008 budget.

Further, the selling point of the new savings vehicle, that all the earnings generated in the account and all withdrawals are tax-free, may hold no interest for many Canadians, as many didn't even know they were supposed to pay tax on the interest earned in their existing savings accounts, and many never have.

The CIBC World Markets report, meanwhile, suggests Canadians will soon start paying a lot more attention to

their savings accounts, and what they're earning in them and getting out of them.

The two reports were issued amidst further evidence that growth in the value of what is most Canadians' largest investment, their homes, is slowing, and that the value of registered pension plan holdings has actually shrunk.

Separate Statistics Canada reports Thursday showed that the increase in new home price increases have slowed to a seven-year low, while holdings in employer pension plans, hit by a falling stock market, have suffered their first loss in six quarters, suggesting Canadians' RRSP holdings are shrinking as well.

"The TFSA will kick in exactly when many Canadians are making the transition from passive savers to active savers," said Benjamin Tal, CIBC economist and author of the report, which projects the \$15 billion that will be put

into the new savings plan over the coming half decade will generate \$2 billion in cumulative tax savings.

Economic changes are driving Canadians to rethink their savings habits for the first time in 20 years, he said, noting that over the past two decades, the extended period of low interest rates, modest inflation, slow income growth and soaring home prices, along with a greater reliance on the equity in their homes, have reduced the pressure on Canadians to save, leading to a dramatic drop in the savings rates.

"But now, the levelling off in house prices is stripping households of one of their most important means of savings," Tal said. "And just when Canadians are ready to go back to old fashioned savings behaviour, the introduction of the TFSA will provide them with an additional tool to raise their active savings."

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