Louis Paquette's

EGS EMERGING GROWTH STOCKS

"Finding Extreme Value in Small Caps"

April 2007 Issue No. 3-07 *www.EmergingGrowthStocks.ca* Prices as of April 12, 2007

April Issue Excerpts: * "*The Secret*" *To forecasting the economy* * *Investing in Water*

Introduction

No, I'm not referring to the latest pop-psychology fad making the rounds on the day time talk show circuit (this feel-good DVD called "*The Secret*") but an amazingly brilliant method of forecasting the long term direction of the economy and markets. Some would say you shouldn't try to time the market. But I'm sure most subscribers would agree that getting the big picture right, the major secular trend - is half the battle of investing. Riding the commodity boom since 2001 for instance has been highly profitable. And while there is reason to believe that commodities have another decade or longer to run, certainly some easy gains are gone, and I am always searching for new major trends to watch out for. I mentioned two of those last Issue; the Renewable Energy theme, and the US Housing sector decline. I clumsily breached a third major long term trend with that brief movie review of *Children of Men*. Well I have corrections from that, plus an epiphany to share with subscribers about how such a downtrend will unfold.

Concerns about a long term secular decline ahead

For some time now, I've been concerned, in spite of current record low unemployment and soaring stock markets, that for demographic reasons alone, the good times are going to come to an abrupt end and then reverse. Health care and pension entitlements alone will overwhelm government revenues resulting in huge dislocations. But I wasn't quite sure how to breach the subject, how to qualify it and on the timing.

So about a year ago I set about to review all the most recent books on this subject as part of my search for answers. Most were heavy in detail, short on revelations. I found one however that was unique on a number of counts. For one, it didn't drown the reader in useless detail. This tiny paperback is a mere 54 pages long and could be read in a sitting. I also found the author's background interesting in that he was an outsider to the sector - not a financial guru, but a one time engineer. I had no problem with that, as this provides a lack of previous bias which might even be an advantage.

Single indicator drives economy - and it's not interest rates?

Most important and unusual, was the single minded premise of the book - that the entire economy, including every major economic turn this past century could be predetermined by a single indicator. Further, this indicator or driver of the economy had squat to do with interest rates, but with demographics. While the conclusions he was reaching dovetailed with my own, I had a hard accepting this new radical economic theory.

I "knew", or at least I thought I knew, that economies are impacted by a multitude of factors, rather than a to mention, inflation, government policy and most important, interest rates, right? After all, wasn't it true that an inverted rate curve has preceeded just about every major recession? According to this guy, all of those other "factors"; interest rates, wars, famines or public policy - these aren't causes of recessions - they are mere results of another single driver of economic growth.

That was about six months ago and after reviewing this once again, for the life of me, I can't come up with a reason why this author's model isn't spot on. Until I do, I plan to incorporate these conclusions into our strategy, just as I do seasonality and therefore need to share this with subscribers. Think about it - if you knew a system that told you well in advance whether the economy will be growing or shrinking, wouldn't that be valuable?

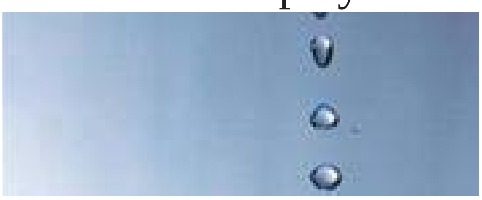
Surprising predictions

The book's model reaches some surprising conclusions as well:

- The good times to last until 2012
- Dow could reach 26,000 before a "catastrophic" economic depression lasting 12 years begins in 2013.

Sound interesting? Turn to our book review for the complete story.

Water a hot commodity, but how to play it?



On the subject of investing themes, we have to include water. The world faces a critical shortage of potable water. The question is how to invest in it. For those who agree but are unsure where to begin, I've got some ideas.

First, for a top down overview, read the excellent article in **The National Post** on April 7th about investing in water - "*Like water in the bank*" freely posted at: *www.canada.com/nationalpost/financialpost/story.html?id=bf36a304-a2e7-4b05-bf32-cb9646a1e72f*.

The problem with investing in the sector is that much of it is owned by large utility companies. Then there's G.E. again that makes the filtration systems for the utility companies. But this wouldn't be a pure play, nor does it provide the kind of leverage that small and micro caps which we seek out can. So we also have a couple of suggestions of early stage micro cap water related companies trading under a dollar; one that treats it, another that conserves it.

THE MARKETS

Well, markets have shrugged off the Shanghai correction. Looking back now, it was exactly like the last half dozen air pockets over the past three years. With the TSX all the way back to record territory and the Venture Index closing in on new highs once again, I get less enthusiastic about committing cash to the market. Given this is also the time of year the Venture is supposed to make a seasonal high, along with Gold, I don't any reason to get real bullish here. Notice how none of the stocks we've mentioned in the past few months have been mineral related.

We make an exception with *XXX* because I realize some subscribers may be on the hunt for cheap juniors regardless of my concerns about seasonality and this one appears to be cheap at this juncture for what you're getting.

Corrections

A couple from the movie review of *Children of Men*; first, the replacement fertility rate is not 1.2 children per couple as stated. Right numbers, wrong order. Of course, couples need to have and average of *2.1* children to sustain the population - one to replace each of them, plus another per ten couples or so for those who don't make it to adulthood. Second, I actually understated the situation when I stated the fertility rate was *approaching* the replacement rate. The latest census reports released since last Issue actually show the Canadian fertility rate has fallen to only 1.5 per couple, well below the replacement rate. In other words, without massive immigration, Canadian society would be shrinking, moving a step closer towards the ultimate demographic nightmare - a world without children.

Which I must say, is a concept I am still getting used to. I never had too much use for them. Until I got old and wise enough to realize, they are the future.

To obtain a complete copy of the April 2007 Issue (US$11) which includes our book review of a novel economic forecasting model and three new stock picks (all trade only on the TSX Venture exchange) visit ***www.emerging-growthstocks.ca/****. Order this week and we'll include the previous Issue with two Renewable Energy picks.*