CANOPUS INVESTMENTS Limited

Investment Advice Sharebroking Managed Funds Fixed Interest Property Company Formations Trade Mark Registration

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Investment Directions **26 January, 2009**

Overview

After hitting an all time high of 465 basis points during the height of the credit freeze on 10 October last year, compared to its long term average of 30 – 50, the "TED Spread" is now back around 100, indicating a significant thaw in interbank lending. TED Spread measures the difference between the interest rate on 3 month US Treasury Bills (virtually "risk free") and the 3 month London Interbank Offered Rate (Libor), the rate at which banks lend unsecured US dollars to each other. Hence TED Spread is regarded as a useful measure of perceived risk in the global economy, traditionally moving in the opposite direction to share market indices and regarded by many as a leading indicator of forthcoming share market direction.

If the TED Spread can hold or even push lower, perhaps we will see improvement in the share indices later this year, but short term the markets can expect another pounding as global economic malaise strikes at corporate profits, dividends and employment. Banks in particular look set to endure another round of weakness. Revelations of further major bank losses should come as no surprise but this quarter may be pivotal in revealing whether central banks finally have a real handle on the extent of the financial crisis and the scale of additional support needed to shore up the international banking system. Questions over ultimate effectiveness of bailout funding and worthiness of recipients are bound to arise. Taxpayers will want their dollars spent on real moves to relieve the crisis such as buying in distressed mortgages – not acquisitions and big bonuses.

The broader measure Conference Board Indicators have yet to turn positive but the next report, due 26 January, is awaited with interest.

2008 commenced without expectations of the drama to follow. 2009 opens with expectations of worse to come. Historically the unexpected carries most impact.

Liquidity wars continue. This month the Bank of England cut its official rate to 1.5%, reportedly the lowest since the Bank's inception in 1694. European Central Bank cut the base Euro rate to 2% on 15

January. US Treasury Bills have struggled off their December lows of zero % but the rise looks unconvincing. RBNZ is expected to clip the OCR another 1% to 4% 29 January, with more cuts to follow before benefits start to show. New Zealand inflation dropped sharply to 3.4% for the year ended December '08 thanks largely to big declines in oil and petrol prices, down from 5.1% for the September year. Recent fuel price increases don't augur well for the trend to continue.

Interest Rates and Finance Companies

Deposit rates as shown at http://www.debentures.co.nz/2YearDebentureStock.pdf continue to fall but rate of decline is slowing. Investors should be aware of factors likely to provide upward pressure on rates over the next 12 months rather than expecting deposit rates to slavishly follow OCR reductions:

1. The New Zealand Government will be forced back to borrowing in order to meet proposed infrastructure stimulation spending and tax cut promises. For those billions it will be in competition for limited funds – and will have to pay for them through higher interest rates.
2. Banks and corporates, unable to find or rollover offshore debt, should go to the market with even more unsecured bond issues, having to offer attractive rates to offset their lack of Government Guarantee.
3. Finance companies, benefiting from the Government Deposit Guarantee, currently have more funds coming in than they can effectively use but many report high quality lending opportunities are starting to emerge. Even a very modest upturn in activity could see finance companies once again actively seeking funds as demand grows and expiry of the Government Retail Deposit Guarantee approaches. Possible extension of the Government Deposit Guarantee seems unlikely to alter the trend.
4. A number of listed blue chip companies, now selling at bargain basement prices, offer prospective dividend yields above current fixed interest returns. Those companies able to maintain past dividend rates offer the rare triple treat of good income, prospective capital growth and possible tax imputation credits. Traditional income seeking investors may well be persuaded away from fixed interest – at least in part.

Hence expect OCR pressure to produce further limited deposit rate declines in the short term, but upward pressures might well dominate later in the year.

Managed Funds

Liontamer founders, Laetitia Peterson and Janine Starks have repurchased the entire Liontamer structured products business from KBC Asset Management NV after parent, Belgium-based KBC Bank, decided to review non-core operations outside of its home markets owing to global turmoil in the banking sector. KBC Asset Management NV bought a 51% share of Liontamer in 2007.

Existing Liontamer capital protected funds will not be affected but the current offer, Fallen Angels Series 2, will be withdrawn and all subscriptions returned to applicants along with accumulated "early bird" interest. Announcing the decision, Liontamer said they were unable to lock in the minimum participation rate of 90% at present owing to low prevailing interest rates and extreme market volatility in the banking sector. To extend the offer period would require re-issuance of the prospectus and investment statement to reflect shareholder changes and then achieving the minimum 90% participation rate could still not be assured.

Fallen Angels Series 1 is not affected and remains on track for a re-estimate of its starting index early in February.

How low can banking stocks go?

Liontamer's "Smart Start" feature will see the base level of Capital Protected Fallen Angels Series 1 Index recalculated early in February. The Index was set at 100 on 23 July, 2008, consisting of 16 major international stocks considered by Liontamer and KBC Bank to have been oversold at that time, half being major banks and financials. The first recalculation, early in November 2008, saw the index fall to about 65% of its starting value but since then the continued global financial crisis, including Bernard Madoff's giant Ponzi scam, has left the financials reeling. By my calculation the index now stands at under half its opening value, with original shareholder value in two of the components, Fortis and Bank of Ireland, nearly wiped out. Terms of agreement between the fund asset provider and Liontamer apparently provide for substitution of any component that disappears completely. The next recalculation is due early in February and, should this prove to be the lowest of the three results, will become the base index level for the Fund. Even a modest recovery of the index over the next five years could then see investors achieve outstanding results.

Liontamer Global Series 6 carries the same "Smart Start" protection feature in addition to capital protection.

Investors hoping to access the financial sector at historically low levels via Fallen Angels Series 2 will be disappointed but other attractive investment options exist.

A number of well-performed managed funds require only very modest initial investments, enabling investors to access a wide spread of top shelf international and local companies at very low prices. Contact me to discuss your requirements.

Equities

Despite January's sharp falls, major sharemarkets remain above their November lows. Was December's rise just another bear market rally or do present lows offer the last chance to get in at firesale prices? Although some supposed leading indicators look promising and so much bad news has already been discounted, a string of nasty and unexpected profit downgrades from major corporates should keep the lid on market indices in the short term. One would have to think the international banking sector has reached its nadir by now.

Contact Energy has forecast an after tax profit decline of 20% – 23% for the 2009 year, claimed to be the result of extreme weather variations in the South Island and transmission restraints, particularly reduction of power cable transfer capacity between the North and South Islands. Without an efficient grid such variations in supply and demand cannot be balanced by transferring cheaper power north or south to where it is needed. Recent high rainfall and reduction of aluminium smelting at Tiwai Point have seen southern hydro lakes spilling water and power generation decreasing while Contact has been obliged to sell electricity at a loss elsewhere in the country.

Skepticism has been aired over Contact's motive in announcing the profit downgrade well after the drivers should have been known to Directors. Could another takeover attempt be in the offing? Nevertheless, it does seem clear that neglect of New Zealand's vital infrastructure during the boom years is coming home to roost. Grid operator Transpower is not due to commission a new Cook Strait link until 2012. Until that time we will just have to hope for favourable weather in both Islands. Hopefully this project will benefit from the new Government's "fast forward" infrastructure plans.

Contact’s earnings over 2006, 2007 and 2008 have been consistently just above 40 cents per share, with dividends rising from 26 to 28 cents per share. A reduction of 23% would bring earnings down to around 31cents per share, meaning nearly all after tax profits would need to be paid out to shareholders just to maintain last year’s dividend. Possibly directors will view 2009 as one-off exceptionally poor year and maintain the 2008 dividend – but odds would be against it. Interim dividend, due for announcement in February, will attract much interest. Last year it was 11 cents per share.

In any case, Contact is not a high yielding stock and is not suitable as an income prospect at this time. But after the initial knee jerk fall of -9.6% to 660 cents, expect share price growth to resume.

NZX listed Cynotech Holdings, covered in our last issue, has since provided written advice and instructions to Convertible Preference shareholders concerning conversion of the Convertible Preference Shares to ordinaries, enabling preference shareholders to take advantage of both the preferential and ordinary dividends over the next few months. Cynotech appears to be capable of maintaining its current annual dividend of 1 cps, giving a yield of 6.25% at a share price of 16 cents. Returns from Cynotech are now exceeding the market, in contrast to many larger companies hid hard by economic woes.

As with many listed investment companies, the Fisher stable of Kingfish, Marlin and Barramundi tend to reflect related indices of the markets in which they operate plus a discount factor which historically widens in downturns and reduces as markets rise. On this basis, at 48 cents, Marlin offers the best value with a 40% discount to NAV of 79.91 cps.

Telecom has reportedly written off millions more of shareholders’ funds in closing its failed online shopping portal “Ferrit”. New Zealand’s largest listed company has a savage history of destroying investor wealth. Although outperforming the market over the past few weeks it would take a leap of faith to think this long term dog could yet become the market darling.

Are share markets finally developing immunity to the continuous onslaught of negative news? Every day media commentators vie for most dramatic headline predicting yet greater doom and gloom in relation to housing, retailing, unemployment, banking, commodities, world GDP, China, the US, emerging markets, race horses or whatever you may have. Bad news sells. Despite all this, major indices such as the Dow Jones, S&P 500 and FTSE 100 have not yet repeated the extreme volatility or lows of November and December last year. Technically at least, the charts look more promising. Chances are we’ve already seen the bottom but don’t expect a quantum recovery while major corporate profit downgrades still loom.

Current issues featured this month

Something of an hiatus this month with the withdrawal of Liontamer Fallen Angels Series 2 (see Managed Funds for details):

1. GoldmanSachs JBWere Trans Tasman Equity Unit Trust
2. Marac Cash Pie Fund
3. New OM-IP fund

1. GoldmanSachs JBWere Trans Tasman Equity Unit Trust

A fund with an excellent track record and well placed to achieve strong gains from a sharemarket recovery. Managed by Goldman Sachs JBWere Asset Management (NZ) Limited, based in Auckland, the Trust invests in listed companies or companies that intend to list in Australia and New Zealand with the intention of achieving capital growth in rising share markets and protecting capital in flat or falling markets. The Fund is actively managed (not an index fund) and provides access to a portfolio of carefully selected Australian and New Zealand shares which may include some of the larger listed companies such as Contact Energy, Fletcher Building and BHP Billiton.. Annualised growth over the 5 years to 31 August 2008 was 18.44% p.a. For a copy of the latest report contact Canopus.

Key Features of the GS JB Were Trans Tasman Equity Unit Trust:

- Established September 1998
- Low minimum initial investment NZ$2000
- Low minimum additional investment NZ$1000 or NZ$250 with regular savings plan
- Entry fee discounted from 3% to 1.0% by Canopus Investments Limited
- Management fee 1.0% per annum
- Fund size NZ$30.5 million
- Fund rating, Fundsource 5 star
- Registered as Portfolio Investment Entity (PIE)
- New Zealand dollar denominated – not currency hedged
- New Zealand domiciled – no foreign investment tax complications

For an investment statement and application form contact Canopus info@canopus.co.nz or download from http://www.debentures.co.nz/TTEUT_IS.pdf

2. Marac Cash PIE Fund

Two investment products utilising the PIE structure to provide investors with a competitive cash return and significant potential tax savings, depending on the individual's tax rate:

Key features:

- Marac Call PIE, 7.00% p.a. on call. Income earned daily and compounded monthly.
- Marac Term Deposit PIE, fixed 6.75% p.a. for 12 months, interest paid or compounded quarterly.
- Current rates available until 31 January 2009.
- Marac PIE fund has no fees.
- Minimum investment $1000.
- No guarantee under NZ Government Deposit Guarantee Scheme, but the Marac PIE Fund invests exclusively in Marac Finance Limited Debenture Stock.
- No brokerage or entry fee charged on applications made through Canopus.

Contact Canopus info@canopus.co.nz for an investment statement and application form.

3. New OM-IP AHL-based fund expected soon

Man Investments Australia is expected soon to launch a new capital protected OM-IP hedge fund based solely on the AHL Diversified trading program which underlies the OM-IP 220 series and many other successful OM-IP funds. Man's existing fund also based solely on this program, Man AHL Diversified (AUD) Limited, produced an outstanding result of +35% for the year ended 31 December 2008, a year destined for financial infamy with major sharemarket indices plunging -30% to -50%.

Contact Canopus info@canopus.co.nz if you would like to receive a copy of the prospectus when available. Applications will not be accepted unless made on the application form that accompanies the prospectus.

Commodities

Commodities including crude oil, copper and aluminium now sell at massive discounts to prices ruling just a few months ago as demand falls and stockpiles rise. Exploration and production are being wound down or closed worldwide. The supply taps cannot be turned on again easily once demand starts to increase, meaning a whole new price cycle is likely to commence.

Investors interested in adding these cyclical commodities to a portfolio have a number of investment avenue options. Contact me to discuss.

Kiwisaver

Unrivalled benefits of the Kiwisaver scheme make this an essential starting point for new investors and an important diversification for all others meeting eligibility criteria.

Most Kiwisaver funds, particularly "balanced" and the more aggressive "growth" funds, have a large exposure to equities resulting in lower valuations over the past year but which should see investor value rise again quite rapidly in a general share market recovery. With shares so low at present, now is a good time to open a Kiwisaver account or contribute any outstanding amount needed to make up the $1042 investor contribution eligible for the Government "tax credit" subsidy.

Canopus can assist with advice and information regarding the Kiwisaver Scheme, including how to open an account.

Contact Canopus: info@canopus.co.nz

Portfolio review

Little good news to report for the December quarterly portfolio review - said to be the worst sharemarket quarter for over 50 years. Our model portfolio declined 13% over the quarter, a somewhat better performance than the ASX 200 down -21% and the NZX 50 down -15% during the same period. Losses from our exposure to equities have been mitigated to some extend by diversification into capital protected products and the well performed OM-IP hedge funds.

Over the year to date, (9 months), our model portfolio has declined -16%, compared to the ASX 200 on -30% and the NZX 50 on -23%. Some fund managers would claim this as an "out performance" of +10.5% over the combined average ASX/NZX loss of -26.5%!

Debex website development

Mentioned in our last newsletter, but maybe still causing some confusion, please note that the Debex website has had a minor makeover, renaming the Debenture Stock Primary Market page to http://www.debentures.co.nz/debenture_stock.html . Please bookmark the new page for easy access. A Cash PIE fund page has been added at http://www.debentures.co.nz/pie_funds.html and the secondary markets consolidated onto one page at
http://www.debentures.co.nz/secondary_market.html

Strategy

Fresh sharemarket falls during January cause us to concentrate even more intensely on major corporate shares selling at firesale prices. Defensive large-cap companies able to maintain dividends and in sectors likely to benefit from fiscal stimulus packages deserve attention - Contact and Fletcher Building being two obvious examples in New Zealand with the ASX offering broader scope. Smaller companies in vital service sectors such as Ryman Health should also be considered. Expect rough justice to be served on those announcing unexpected profit and dividend downgrades – and there are still some to come – so keep a good portion of powder dry. Any purchases should be small, staggered and highly selective. Particularly watch out for investment and property writedowns that could savage reasonable looking operating profits.

Now is a good time for us to be topping up our Kiwisaver contributions to the maximum $1042 per year, eligible for the Government “tax credit” subsidy. At a 100% Government subsidy, nothing beats this.

Income-seeking investors wanting to participate in new fixed interest issues carrying the Government Deposit Guarantee or corporate bond issues offering higher rates and liquidity but no Government Guarantee, should advise me of their requirements as soon as possible. Well priced issues are likely to close fully subscribed almost as soon as they open, offering investors little chance to think about it. Providing an indication of interest, including likely dollar investment amount, does not commit an investor to accept any offer which may be available, but does help Canopus estimate requests to the issuer for an allocation.

Diversification remains vital to any income or growth portfolio. Although limited in number, today’s featured issues offer diversity across equities, fixed interest and commodities. Check them out again.

For all expressions of interest, investment statements and application forms, contact Canopus info@canopus.co.nz

Regards,
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Financial Adviser Disclosure Statement available on request, free of charge.

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