

# **CANOPUS INVESTMENTS Limited**

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

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## **Investment Directions**

**17 July, 2009**

*"Transforming opportunities into outcomes"*

### **In this Issue**

- 1. Overview – leading economic indicators continue to improve**
- 2. New and Current issues**
- 3. Equities**
- 4. Fixed Interest and Finance Companies**
- 5. Securitised Property**
- 6. KiwiSaver – important update**
- 7. Reference Portfolio Review**
- 8. Investment Strategy**

### **1. Overview**

Short term direction of global sharemarkets will be led by quarterly reports and outlooks from the US corporate reporting season just commencing. First up, aluminium giant Alcoa exceeded market expectations on 8 July by announcing a smaller loss than predicted, giving the share price an immediate boost. Overall, results are expected to be grim but a pattern of "less worse than expected" results would see the DJIA stabilize at least and even make some headway if outlooks improve also. Goldman Sachs' quarterly result above expectations gave the market in general, and financials in particular, a strong boost on 15 July. Big question marks remain over the depth of the US housing recession and the level of assistance the US Government may be called on to provide for individual states in financial strife – California being the prime example. Nevertheless, a series of unexpectedly disastrous corporate results or some other unforeseen calamity would be needed to wipe out recent gains and throw us back to another February-like collapse.

After sharp rallies during March, April and May, equities took a beating during June, accentuated further into July, mainly on World Bank revising global GDP growth downwards, and reported global unemployment figures rising faster and further than previously forecast. But unemployment

represents a “coincident”, not “leading” economic indicator. By the time unemployment starts to decline and world growth emerges, markets will have long-since reacted to the trend and the best equity investment opportunities will have passed.

For the record, while the World Bank revised global GDP growth down from -1.7% to -2.9% (2009) and from +2.3% to +2.0% (2010), the OECD revised its own membership forecast upwards from -4.3% to -4.1% (2009) and +0.1% to +0.7% (2010).

Keeping our finger on the pulse of major indicators:

	Latest	June 09	May 09	April 09	March 09
3 month LIBOR	0.5050%	0.66%	1.02%	1.19%	1.26%
TED Spread (points)	33.764	41.749	52.643	89.15	99.103
VIX equity volatility	29.02	26.2	30	36	43
US Leading Economic Indicators			+1.2%	+1.0%	- 0.3%
Japan LEI			+0.8%	- 3.1%	- 3.7%
Eurozone LEI			+1.9%	+1.6%	+0.1%
Australia LEI			+0.7%	+0.1%	+0.4%
United Kingdom LEI			+1.0%	+0.7%	-0.9%

Available data indicates global economic conditions and outlook continued to improve to the end of May, with interest rates and ratios – hence credit availability – continuing to improve since then. Equities volatility however, has taken a turn for the worse (increased) in July as doubts over the outlook for global recovery and harsh unemployment figures reflected in sharemarket indices. Much interest now centres on whether positive leading economic indicators from major economies can be sustained into the current conditions.

In general, coincident economic indicators from the major economies remain in negative territory, although improvements show up there as well.

With official interest rates practically on hold world wide and likely to remain so well into next year, and with new doubts emerging over world economic growth and unemployment, both the US dollar and Japanese Yen have gained from renewed risk aversion. Australian and New Zealand dollars suffered as expected, but remain only a few cents off recent highs. Expect the commodity currencies (e.g. AUD and NZD) to remain volatile as risk aversion waxes and wanes on a daily basis.

Surprisingly high demand at the recent US Federal Bond auction helped support the USD as banks moved to lock in low interest rates. G8 failed to mention replacing the Greenback as the global reserve currency – perhaps because Chinese President Hu had to hurry home to manage rather more pressing problems. Clearly the USD is not dead with stability possible in the near term. Longer term USD strength or weakness should be determined by how the Obama administration handles eventual withdrawal of stimulus funds, should this become necessary to avoid inflation. Efforts to promote IMF Special Drawing Rights (SDRs) as an alternative remind one of bygone attempts to make Esperanto the international language – a failure because of no home base.

A major obstacle to global recovery is still falling US house prices – still the world’s largest economy by far. US savings rate has shot up as consumers and homeowners pay off debt, but US mortgages “past due” are still rising and so are mortgagee sales. The UK housing market is reportedly stabilizing with prices, mortgage approvals and time to sell all said to be improving, but the UK economy shrank an unexpectedly large -2.4% in the March quarter, the worst since 1958.

In New Zealand the housing market continues gradual improvement with sales recovering 9% in

June after a 14% loss in May. The monthly figures are highly variable but sales are now 40% up on lows of last year, supported by lower mortgage rates and some easier lending terms. House building permits rose +3.5% in May after +12% in April, but are still down -26% on May 2008. The property cycle indicator, combining volume, price and time to sell, swung positive for the first time since late 2007. Increasing unemployment is expected to limit more rises in the near future.

NZ's current account deficit narrowed for the year ended 31 March 2009, to \$15.2B or 8.5% of GDP, as imports fell faster than exports. Employer hiring expectations turned from deeply negative last quarter to positive, the first rise in 2 years. Inflation has plunged to just 1.9%. NZ posted its biggest trade surplus for 15 years in May at \$858m, 21.7% of exports, also due to large monthly drop in imports and a moderate increase in exports. The annual trade deficit declined to \$3b, the lowest in 5 years. However the recession continued with the economy shrinking 1% for the year. Manufacturing fell 7.2% in the March quarter alone. Moodys downgraded the Australasian banking system to negative watch but says that banking systems in both countries remain sound. Fitch has cut New Zealand's long term sovereign credit rating outlook to negative – which, theoretically at least, should tend to constrain any NZD rise and underpin interest rates. But these two opposing factors could easily cancel each other out, producing little discernible effect overall.

## 2. New and Current issues

- 2.1 Liontamer Australia Series 1
- 2.2 Equitable Mortgages Series Four 6.25% pa., Government Guaranteed
- 2.2 GoldmanSachs JBWere Trans Tasman Equity Unit Trust
- 2.4 Pathfinder Commodity Plus Fund

### 2.1 Liontamer Australia Series 1 – Australian sharemarket fund



Like most economies, Australia has been significantly affected by the global downturn and the local sharemarket has in turn fallen dramatically - as at the end of May 2009 the S&P/ASX 200 Index is down around 40% from its peak in 2007. However, Australia is known as the 'lucky country' for good reason. It is abundantly rich in natural resources and superbly located close to the world's factory floor, Asia. The Australian government has acted swiftly to implement a comprehensive stimulus package backed by the lowest cash lending rates in its history – all measures designed to help Australia rebuild sustainable economic growth over the coming few years. Liontamer believes that over the medium term Australia could provide a strong recovery story.

Key features of Liontamer Australia Series 1:

- **Nil Entry fee for applications through Canopus Investments Limited.**
- Closing date 9 August, 2009. The offer may close early or be extended.
- No annual management fee charged by Liontamer.
- Exit fee. 2% prior to maturity and for all repurchases at or after maturity.
- Investments in Liontamer Australia Series 1 are available to residents of New Zealand, or a country other than Australia to whom it is lawful to make the offer.

- Early bird interest. Application Amounts received during the period of the Offers will be deposited on your behalf with a bank or other financial institution selected by New Zealand Permanent Trustees Limited and will earn Early Bird Interest until two Business Days before the Issue Date. Early Bird Interest will be calculated on a daily basis from the date on which the Application Amount is received in cleared funds to two Business Days before the Issue Date. Any Early Bird Interest earned by you during the period of the Offers after deduction of any withholding tax will be applied towards purchasing additional Units in the Trust. Any surplus after rounding will be donated to the humanitarian organisation, World Vision.

#### Unprotected Units:

- **Please note that unprotected units are subject to limited availability. For a firm allocation, contact Canopus Investments without delay.**
- Capital protection. None. In the event that the Movement in the Index is negative at maturity, your capital will be reduced on a 1 for 1 basis with the fall in the Index. Your capital is fully at risk.
- Return. 160% of any positive Movement in the Index (i.e. 1.6 x the rise in the Index); and 100% of any negative Movement in the Index (i.e. 1.0 x the fall in the Index).
- 5 years
- Minimum investment NZ\$5000. This is a New Zealand dollar denominated investment.
- Early maturity feature - none.
- Liquidity. Quarterly exits are available, but you should bear in mind that you may get back significantly less than you invested and you will incur an Exit Fee of 2%. This is intended as a hold-to-maturity investment and the formula of returns only applies at maturity. There are no restrictions on the value of the unit price prior to maturity. The price will reflect the value of the Assets of the Fund at the time of exit.

#### Protected Units:

- 100% capital protected at maturity.
- Return. 100% of any positive Movement in the Index (i.e. 1.0 x the rise in the Index).
- 6 years
- Minimum investment NZ\$5000. This is a New Zealand dollar denominated investment.
- Early maturity feature. If the Assets of the Fund corresponding to the Protected Units reach a value of \$1.60 within the first three years of the relevant Investment Period, Liontamer will seek to arrange the termination of those Assets of the Fund and, if so, your Protected Units will be repaid.
- Liquidity. Quarterly exits are available, but you should bear in mind that you may get back significantly less than you invested and you will incur an Exit Fee of 2%. This is intended as a hold-to-maturity investment. Capital protection plus the Index Linked Return only apply at maturity. Early exits are only possible at a maximum value of \$1.00 (less the exit fee), unless exceptional circumstances exist; for example death or financial hardship. In exceptional circumstances, if the Assets of the Fund equate to a Unit value above \$1.00, this higher amount, less the exit fee, can be paid.

Please refer to the investment statement for full details of the investment.

Contact Canopus [info@canopus.co.nz](mailto:info@canopus.co.nz) for an investment statement or telephone (09) 444 8055 or [download the Investment Statement and application form by clicking here.](#)

## **2.2 Equitable Mortgages Limited Special Offer – 6.25% p.a. NZ Government Guaranteed – “Series Four”**

Equitable Mortgages Limited is making a limited special offer of secured debenture stock entitled “Series Four”. This limited issue is proving popular and is expected to be filled within 2 -3 weeks. This is the top secured debenture rate available on the New Zealand Debentures Exchange carrying the NZ Government Retail Deposit Guarantee for the full term.

Key features of the issue:

- New Zealand Government Retail Deposit Guarantee applies for full scheduled term.
- Fixed maturity date 15 September 2010.
- 6.25% p.a. interest rate – top debenture stock rate available on NZ Debentures Exchange with full term NZ Government Guarantee.
- Limited issue - \$10 million being sought in total.
- Interest may be compounded quarterly or paid quarterly or monthly.
- Minimum application \$10,000, maximum \$500,000.
- Issue will close when filled.
- Nil application fee on applications lodged through Canopus.
- Applications will only be accepted when made on the application form that accompanies the Investment Statement.

Investments made in the debentures are predominantly invested in the Equitable Property Mortgage Fund, a fund of funds that invests in a diversified portfolio of registered first mortgages over commercial, industrial and residential property.

Debentures are secured by a fixed charge security over the whole of the assets and undertakings of Equitable Mortgages Limited in favour of the trustee, Trustees Executors Limited. As at 31 May 2009 there were no charges ranking equally or ahead of this charge.

To request a firm allocation of this issue and to receive an Investment Statement please contact Canopus Investments Limited without delay by email, [alan@canopus.co.nz](mailto:alan@canopus.co.nz) , telephone (09) 444 8055, or by fax on (09) 444 8059.

You can also download a copy of the Investment Statement and application form from [http://www.debentures.co.nz/Equitable\\_IS.pdf](http://www.debentures.co.nz/Equitable_IS.pdf)

For full details of the New Zealand Government Retail Deposit Guarantee Scheme, visit the New Zealand Treasury website <http://www.treasury.govt.nz/economy/guarantee> .

## **2.3 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.. For a copy of the latest report contact Canopus.

Key Features of the GS JBWere 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, Fundsourc 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](mailto:info@canopus.co.nz) or download from [http://www.debentures.co.nz/TTEUT\\_IS.pdf](http://www.debentures.co.nz/TTEUT_IS.pdf)

## 2.4 Pathfinder Commodity Plus Fund

The Fund invests in securities designed to track the benchmark index (which is the Deutsche Bank Liquid Commodity Index Mean Reversion Plus Access denominated in US\$). The Fund targets 100% hedging into NZ\$.

Cost efficient access to the growth potential of world commodities. Seeks to reduce periods of negative return by allocating between commodities and cash investments in response to market conditions.

Key features:

- Open ended fund – no set closing date
- Minimum investment NZ\$25,000
- Entry fee discounted 50% to 1.5% by Canopus Investments Limited.
- Monthly liquidity.
- No capital protection.

Click this link for the Investment Statement and application form [Pathfinder Commodity Plus Fund](#) or contact Canopus by email [info@canopus.co.nz](mailto:info@canopus.co.nz) or telephone (09) 444 8055.

## 3. Equities

In a bold move to allow shareholders in Fisher Funds' listed investment company **Kingfish Limited** to realise some of their investment at near asset value, rather than accept the persistently large market discount, now around 25%, Kingfish proposes to pay out 8% of NAV per year spread over quarterly payments, resulting in a high yield of around 10% p.a. on current share prices. A dividend reinvestment scheme will operate for those wishing to reinvest in more KFL shares. The first such payment is timed for September this year. KFL hopes to regain the 19% increase in NAV per year it achieved up until the 2007 crash hit, enabling payments to be made from realised assets and dividends received. As a PIE entity, distributions should be tax free for many shareholders. Potential downside is that if strong growth cannot be restored and many shareholders opt to receive the payment, KFL may be obliged to sell assets at disadvantageous prices to meet distribution requests, depleting capital and restricting growth. If most shareholders choose to reinvest, then the number of

shares on issue could increase rapidly, again restricting growth in NAV per share.

Uptake of the plan will be monitored before deciding if similar plans would be appropriate for sister companies **Barramundi** and **Marlin**.

**Marlin** shareholders have been advised of one shareholder's attempt to gain support for conversion of Marlin into an unlisted managed fund, with the intention of increasing withdrawal values to Net Asset Value. However, the unlisted managed fund structure would be much more costly to operate and potentially restrict growth opportunities as capital may well be diverted to redemptions rather than investment. At least this proposal should not even be considered until the Kingfish distribution scheme has been introduced and its acceptance evaluated for possible application to Marlin.

Things are looking up for **Infratil** – highly leveraged but should be able to reduce debt significantly as offers being received for 32% owned Energy Developments Limited in Australia and recent share price rise making exercise of options at \$1.62 attractive, \$110m of which is underwritten in any case. IFT also has option to sell back poorly performing Lubeck Airport in Germany to the City of Lubeck from which the holding was purchased.

Market minnow **Cynotech's** share price appears not to have suffered too harshly (yet) from its clumsy attempt to raise capital for renewed finance company operations through a poorly presented perpetual "Capital Securities" issue at 9.25% p.a. yield. Chances of useful funds being raised are minimal, leaving the company to count costs and find an alternative source. Risk tolerant investors could watch for a buying opportunity on likely share price weakness as potential sellers outnumber buyers 10 to 1. Other parts of the business appear to be performing satisfactorily.

#### 4. Fixed Interest and Finance Companies

Uncertainty over future of the Government's Retail Deposit Guarantee Scheme continues to push debenture stock deposit rates higher at the longer terms while short term, guaranteed deposit rates remain stable or even reduce, as shown by our Debenture Stock Yield Curve at <http://www.debentures.co.nz/YieldCurve.pdf>

Treasury, the Reserve Bank and Government are taking an inordinately long time to announce the future of the Crown Retail Deposit Guarantee Scheme, making investment decisions difficult for savers and future planning virtually impossible for non-bank deposit taking institutions. While future of the scheme remains in doubt, non-bank deposit takers have no option but to hoard cash for liquidity purposes, restricting their significant potential to assist with an economic recovery.

The extended time being taken by authorities to reach a conclusion indicates a simple rollover of the existing scheme to match Australia's 3 year scheme has been rejected in favour of a more permanent and comprehensive scheme – or no continuance at all. If the latter applies, then an announcement could have been made much earlier than now.

Our benchmark 2 year deposit rate chart at <http://www.debentures.co.nz/2YearDebentureStock.pdf> shows a continuing small rise in deposit rates outside the Government Guarantee period while bank deposit rates for the same term remain stable.

Time to expiry of the Government Retail Deposit Guarantee Scheme is now 14 months. Top finance

company current debenture stock rates with full term Government Deposit Guarantee are:

Issuer	Term	Rate p.a.	\$ Minimum	Interest Payment
Marac Finance	3 months	4.50%	\$10,000	quarterly
NZF Money	6 months	4.60%	\$10,000	quarterly or at maturity
Fisher& Paykel	9 months	4.75%	\$ 1,000	quarterly, +0.25% loyalty bonus
PGG Wrightson	10 months	4.90%	\$10,000	quarterly
FAI Finance	12 months	6.35%	\$ 1,000	quarterly, monthly
Equitable Mortgages	14 months	6.25%	\$10,000	quarterly, monthly

For the full range of finance company debenture stock deposit rates see [http://www.debentures.co.nz/debenture\\_stock.html](http://www.debentures.co.nz/debenture_stock.html)

Applications will only be accepted when made on the application form that accompanies the investment statement for each issue. Contact Canopus for a copy of the Investment Statement [info@canopus.co.nz](mailto:info@canopus.co.nz) or call (09) 444 8055 for more information.

South Canterbury Finance expects to keep its BBB- investment grade rating according to CEO Lachie McLeod as major shareholder Allan Hubbard stands willing and able to contribute additional equity if required, to compensate for any further loan impairments. Although having its investment grade rating confirmed, South Canterbury was placed on negative watch by S&P with factors of concern being the increased level of related party lending and property related loans, including \$45m to the dairy farming sector. Allan Hubbard has committed \$40m in new equity so far. In the 2008 NBR “Rich List”, Allan Hubbard was ranked in place 13 with assets estimated at \$650 million.

South Canterbury expects to report a pre-tax loss of about \$37m for the year ending 30 June 2009 after making provision of \$58m for doubtful loans, with a return to profit of about \$20m expected for June 2010. The bottom line loss is South Canterbury’s first since the Great Depression in 1934. The company is New Zealand’s largest privately owned finance company with total assets of approximately \$2.3 billion and equity near \$236 million. Liquidity from cash and listed bonds is put at \$228m.

Apart from Allan Hubbard, South Canterbury has several other potential sources of new equity which the Company is expected to pursue over the next six months, including merger or acquisition, a new cornerstone shareholder or a public float via an IPO and Stock Exchange listing.

Under the Reserve Bank Amendment Act 2008, South Canterbury, along with other finance companies, is now subject to Reserve Bank supervision. New rules, currently being considered, are expected to severely limit related party lending by non-bank deposit taking institutions. South Canterbury will be obliged to comply.

Although some easing has occurred since the announcements, longer term South Canterbury Secured Bonds carrying first ranking security, are still selling at yields up to 16% on the NZDX.

## 5. Securitised Property

In explaining South Canterbury Finance’s provisioning and loss, CEO Lachie McLeod noted that the property development sector had basically gone stagnant over the past three months, with a “lack of

buyers and activity”. The statement seems to be in concert with other anecdotal and observational evidence that this sector in particular has yet to see any “light at the end of the tunnel” and will be one of the last to emerge from recession.

Listed property trusts, although not primarily property developers, have also been hard hit by falling property values as vacancies rise, rents diminish and capitalisation rates climb. Maintaining debt to equity ratios within prudent levels and banking covenants will most likely require additional capital raising or more asset sales into an already weak market, right across the sector.

AMP NZ Office Trust (APT) has just announced a property portfolio devaluation of 5.15% over the past three months bringing the year’s decline to 15.24% for the year to 30 June 2009. APT is NZ’s largest listed commercial office investment trust with assets concentrated in only a small number of large office blocks. The Trust recently raised \$201.3m from a rights issue at 65 cents per unit, reducing gearing for loan covenant purposes to approximately 20.5%, well within the 40% loan covenant limit. However, further serious property devaluations could result in a need for additional capital that the Trust would have little prospect of raising through property sales as the market for this class of property is effectively dead – and likely to remain so for some time. Quite possibly the Trust would have to approach shareholders for even more capital via another rights issue – then watch the unit price tumble.

Current Unit price is 72 cents against a NTA of about \$1.00. This is one to watch for possibly a very attractive entry opportunity.

The whole sector needs watching as similar opportunities could well develop in regard to other listed property trusts – all of which face similar problems to a greater or lesser extent.

## **6. Kiwisaver – important update**

Update. Australia and New Zealand have reached agreement allowing workers from each country to transfer superannuation savings home. New Zealanders who have had compulsory superannuation deducted from wages in Australia will now be able to have those deductions transferred to their KiwiSaver accounts.

A number of investors and potential investors have requested KiwiSaver investment statements but have so far not returned the completed application form.

The logic of KiwiSaver is compelling. No other investment comes close. The sooner you return the application form the sooner you will participate in this “once in a lifetime” opportunity.

KiwiSaver’s major advantages:

- Open to all permanent New Zealand residents under the age of 65.
- All members, including children under 18, receive the standard \$1000 kick-start from the Government.
- There is no cost to join and babies can be signed up as soon as born.
- Even if you or your child make no additional contributions, at age eighteen your child will be entitled to investment returns from the initial \$1000 compounding up to 18 years, plus, from age 18 on:
- Government matching contributions up to \$20 per week (\$1042.86 per year).
- Employer contribution of 2% salary minimum for employees.

- A first home subsidy of up to \$5000.
- Entitlement to withdraw all your own contributions, employer contributions and investment returns to put towards a first home (or subsequent home in some circumstances).

Canopus Investments Limited is an accredited agent for the Huljich KiwiSaver Fund, one of the top performing KiwiSaver funds to date. For full details of the Huljich KiwiSaver Fund, contact Canopus for a copy of the Investment Statement [info@canopus.co.nz](mailto:info@canopus.co.nz) or call (09) 444 8055 for more information.

## **7. Reference Portfolio Review**

Strong equity markets in March and April enabled our diversified Reference Portfolio unit value to recover 16.1% to stand at \$1.0431 on 30 June despite nil or negative contributions from securitised property, commodities and managed futures. Over the quarter the NZX 50 gained 10.58% while the ASX 200 improved 18.25%.

Selectively broadening our equity holdings over the past eight months at favourable prices during the crash enabled us to participate in a number of attractive Share Purchase Plans, particularly Fletcher Building at an issue price of \$5.35 versus \$6.44 at 30 June.

Top performers for the quarter were Barramundi +33%, Marlin +36%, Leighton Holdings +26%, Fletcher Building (Share Purchase Plan) +20%, Liontamer Fallen Angels Booster Units +31%. Worst performers were Sky City -6% and Origin Energy -7%. St Laurence Property Development Fund failed to make a quarterly distribution during June – its first failure since inception, once again highlighting the dismal state of property development.

Flat equity markets during June followed by sharp declines in the first half of July saw our unit value drop, only to reverse upwards again to exceed the 30 June level as US markets gained heart from better than expected quarterly earning figures.

## **8. Investment Strategy**

Equity markets look to be starting a second leg up to the recovery started in March, boosted by better than expected quarterly US corporate earnings and improving global leading economic indicators, including a resurgence of growth reported from China. Many chartists will regard the crossing of the short term 50 day moving average over the long term 200 day moving average in late June/early July as defining the start of a new bull market. However, in contrast to high trading volumes in March and April, current volumes are still only average, indicating caution still prevails. Increasing volumes are needed to confirm the direction. The downward channel of June and July has been firmly broken on the upside, but markets don't go just one way so expect a bout of profit taking before long.

Liontamer Fallen Angels Series 1 deserves special mention owing to the likelihood that this fund will, before long, reach the early maturity trigger level of \$1.60 and be terminated. My calculations show the current level as being about \$1.37. Experience suggests that when one has enjoyed a good run in one particular asset or asset class, trying to squeeze the goose further can be detrimental. But

each case has to be judged on its merits. Those trying to build on the exceptional gains of commodity fund Lontamer Combi 1 which matured in August 2007 at \$3.21, by reinvesting in commodities at that time, would have been severely disappointed to see their windfall evaporate again as commodities crashed along with everything else. Fallen Angels Series 1 primarily targets financial stocks which led the world into recession but now lead in the recovery as well. Should the fund mature early and one believes still more life exists in financials, particularly banks, then returned monies could be reinvested in a similar fund or individual financial shares to “let the profits run”. Any doubts though and the opposing adage becomes paramount – “leave a bit for the next guy” - i.e. take the profit and look elsewhere.

Which brings us to Lontamer’s current offering, Australia Series 1. With a whopping 160% multiplier on the Unprotected Units, this fund has the potential to rival Lontamer’s best returns – BUT - capital protection has been sacrificed to achieve this high multiplier. Beneficial features include ongoing liquidity and no cap on returns so a unit holder can choose to exit early, but the 160% multiplier only applies at maturity. With the worst of the markets apparently behind us, many investors consider this trade off worthwhile. The first tranche of Unprotected Units has been fully subscribed. Investors wanting to purchase Unprotected Units in Lontamer Australia Series 1 should contact me without delay to obtain an allocation as I still have just a minimum reserve from the first tranche and a further tranche is planned.

For those wanting to take a more conservative approach, Protected Units in Lontamer Australia Series 1 can be applied for in the normal manner. No pre-allocation needs to be requested. Closing date for applications is 7 August.

With our equities allocation largely in place now we will limit any purchases only to any exceptional opportunities that may come along. Lontamer Australia Series 1 may fit the bill.

So where will the next opportunities arise? As a sector, property has to be an obvious choice, particularly those good quality listed property trusts in a sector currently being pummeled. As an investment class listed property trusts are something of hybrids – exhibiting some characteristics of property and some of ordinary shares. Hence there may be some correlation of returns between the trusts and equities, a situation disliked by many direct property investors. Overall though, listed property trusts have generally proven capable of producing returns just as good as directly owned property over the long term, with far less hassle and far greater liquidity. Watch this space.

Income investors wanting the full Government Guarantee cannot go past the Equitable Mortgages “Series Four” special 6.25% p.a. debenture currently on offer - but expected to be fully subscribed in 2-3 weeks.

Those wanting to purchase listed corporate bonds off the NZDX now or in the future should take early steps to set up the necessary share trading account before making a Stock Exchange purchase request. A surprising number out there don’t realise that a share trading account is essential for such purchases (and sales) to be made. Contact Canopus to open an account now.

A number of poorly structured investments have been brought to market recently. Some have already been withdrawn through lack of support and others may well go the same way. Promoters of these issues don’t seem to understand the new investment realities at all. I don’t bother to cover these in “Investment Directions” or list them on Debex.

For all expressions of interest, investment statements and application forms, contact Canopus [info@canopus.co.nz](mailto:info@canopus.co.nz) . Indications of interest do not involve an obligation of any kind.

Canopus offers a flexible investment advisory approach covering a broad range of assets and asset classes with payment based on fees, commissions or a combination of both to suit the investor. Contact Canopus [info@canopus.co.nz](mailto:info@canopus.co.nz) or telephone 09 444 8055 for more information or to arrange an initial discussion free of charge.

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

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