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

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Investment Directions **26 July 2015**

"Analysis to action; opportunities to outcomes"

In this Issue

1. **Overview** – Global equities rally in mid-July as "Grexit" avoided and Chinese markets receive stabilising "management" from central bank, only to fall again with commodities slump. New Zealand OCR lowered to 3.00% with further cuts expected while Reserve Bank of Australia moves to more stable OCR outlook. Bank of England joins US Fed by predicting start of UK interest rate rises towards end of 2015. Economic data suggests more share market weakness in short term.

2. **Equities** – Westpac completes sell down of BTIM shares to eligible shareholders. Australian Prudential Regulation Authority sets higher reserve capital ratios against mortgages for major banks. Third Fisher Funds listed investment company, Marlin Global, issues free warrants.

3. **Interest rates, bonds and debentures** – Deposit rates follow falling OCR down. Latest investment rates from major deposit taking institutions.

4. **Strategy** – Despite low deposit rates, portfolio cash being held on call or short term deposit awaiting better opportunities. Income portfolio on track for 7.2% p.a. income after fees and after tax. Growth portfolio unit gains 4.11% for June quarter, 10.53% for first half of calendar year.

The Dawn mission to Ceres was overshadowed by the high profile New Horizons flyby of Pluto during July. See latest, amazing images of Pluto at http://www.nasa.gov/mission_pages/newhorizons/main/index.html

Dawn is spiralling down to its third mapping orbit of Ceres and should be in place during August, ready to resume sending data and clearer images back to Earth. See latest reports at http://dawn.jpl.nasa.gov/news/news-detail.html?id=4633

1. Overview

In the event, Greece and its creditors reached agreement during July on widespread reforms to the Greek economy in exchange for a three-year bailout package of up to €86B, enabling Greece to stay in the Eurozone and make overdue payments to the IMF. Prime Minister Tsipras' weird brinkmanship referendum backfired badly, doing nothing to strengthen his bargaining hand as he had claimed it would and costing the country dearly in even tougher conditions. Leading up to the agreement, Greek banks were forced to close and supposed financial whizz, Finance Minister Yanis Varoufakis, lost his job. Euro negotiators had had enough of his abuse. Under the agreement, Greek VAT has widely increased from 13% to 23%. Banks have been able to reopen but services are limited and capital controls remain in place. As per New Zealand's Open Bank Resolution policy, Greek bank depositors now risk losses should a bank face insolvency, but Greek depositors are protected to the tune of €100k. Unlike other PIIGS nations which accepted the need for reform earlier and can now access international funding markets on their own at favourable rates, recalcitrant Greece has again been locked out and remains dependent on IMF, ECB and European Union support. Greece can no longer prevaricate over reforms. Creditor nations should now consider relief for what remains as an unsustainable debt load. Dire predictions by doomcasters, that other heavily indebted Eurozone states would "follow Greece out of the Eurozone" thus causing its destruction, proved baseless. Why anyone would want to follow the example set by Greece remained unexplained by these "experts".

Global equity markets welcomed the news, adding to strength gained in early July from some favourable US corporate earnings reports for the March quarter. But the rally soon reversed as US blue chip results fell short of expectations and commodity prices fell across a broad range including crude oil, copper and gold.

US Fed Chair, Janet Yellen, told the US Senate Banking Committee that the Fed is still on track for higher short term rates this year as the US labour market and broader economy improve. Attention will focus on her policy decision, scheduled for 29 July, as to whether that objective remains viable.

In China, the Shanghai Composite Index fell 29% from its peak of 5166 on 12 June to 3687 on 3 July – just three weeks later. In 11 months from 11 July 2014, the Index rose 152% powered by a massive increase in margin lending which reached approximately 2.3T Yuan during June. That figure declined 40% during the rout as margin traders were forced to unwind positions and now looks to be nearer 1.4T – still too high but moving in the right direction. Chinese authorities moved to stem the fall by banning trading in over 1300 stocks, lowering interest rates and easing regulations enabling insurance companies to buy blue chips while financing direct purchase of smaller company shares. Investors holding > 5% of a company were forbidden from selling within the next 6 months and IPOs have been suspended. To date the Shanghai index has recovered 11.5% to 4108. Hopefully the exercise has provided a steep learning curve for both Chinese authorities and investors. For those not directly and adversely affected the outcome so far is positive, but whether a major sharemarket can really be "managed" back to health in this manner remains to be seen. Volatility expectations for the Chinese markets have fallen sharply. Chinese markets appear to be stabilising at levels well above a year ago.

Broader stimulus measures employed to assist Chinese sharemarkets included $40b for new infrastructure in "needy" areas and allowing the Yuan to decline versus the US dollar.

China released its gold reserve figures on 17 July, the first time since April 2009, revealing a total of 1658 tonnes now compared to 1054 tonnes in 2009 - less than expected by many observers who believe the true figure is much higher. China is thought to be hoarding gold to add credibility to its attempt to have the Yuan included in the IMF's Special Drawing Rights composition and as a step towards having the Yuan accepted as an international reserve currency. Further Chinese gold buying is expected.

Gold in US dollars declined again in July and US futures and options positions turned net short for the first time since records began in 2006. On the surface this indicates a broad belief that even lower bullion prices lie ahead. Clearly the market is heavily bearish. In the past gold has exhibited one of the highest "contrary opinion" values for reversal of all commodities and we could well see the same again. The price looks to have further to decline before that point is reached but once it occurs the reversal is likely to be in the form of a quick, sharp dip to a new low and then a sharp rebound. In terms of the declining New Zealand dollar, gold has gained 10% over the past year.

New Zealand's OCR was lowered to 3.00% on 23 July as was widely expected. In its statement the RBNZ adopted a more aggressive downward bias in response to falling dairy prices and persistently low CPI inflation. More reductions can be expected this year. Rather perversely the NZ dollar rose at the announcement. The currency normally is expected to fall with a lower OCR and even lower outlook. However, this time it seems, many traders were heavily short, speculating on a 50 bps cut, but the RBNZ delivered only 25, resulting in a scramble to cover short positions. The resulting “short squeeze”, to buy back losing short positions, most likely provided upward momentum.

A massive A$57.6B of new home approvals in 12 months should see 200,000 new dwellings (including 50% apartments) built across Australia in the next 12 months, helping to limit house price rises by exceeding expected demand. But high demand for central city living is expected to keep prices buoyant in central and beachside Sydney plus Melbourne since much of the new construction will be out in the suburbs.

Two Australian banks, ANZ and CBA, have raised borrowing rates for property investors as the median price for a house in Sydney passes A$1m. The idea will likely be picked up by, if not imposed on, their New Zealand subsidiaries. Banks would rather see extra revenue accruing to themselves than have further lending restrictions imposed by regulation as the RBNZ and Government try to target ever-rising Auckland house prices.

Market sentiment in Australia is turning towards a more stable OCR outlook rather than more cuts as unemployment steadies around 6% and business confidence rises in all sectors except mining, reaching its highest level since September 2014.

In contrast the New Zealand OCR outlook remains negative, raising the likelihood of a weaker NZD versus AUD. The NZ dollar continues to decline vs the Greenback as dairy prices continue to fall. Growth in lending, mortgages in particular, may dampen RBNZ willingness to lower the OCR as far as the market expects. Lending has increased rapidly over the year to 31 May, particularly for mortgages, up +5.4% year on year, an increase of $1.5B. A similar reaction to lower interest rates is reported from Australia.

Bank of England Governor, Mark Carey, says UK interest rates could start to rise “at the turn of the year”. The official rate has been 0.5% for 6 years but could reach 2% “in the medium term”. The UK is now added to the US as economies expecting interest rates to start rising in the next move –even as NZ and Australian rates are falling.

Keeping our finger on the pulse of major Leading Economic Indicators (LEI) and other leading data:

	Latest	Jun 15	May 15	Apr 15	Mar 15	Feb 15	Jan 15
3 month LIBOR (end of month)	.29250	.28175	.28275	.27875	.27075	.26160	.25460
TED Spread (points)	.26	.27	.27	.27	.24	.25	.23
VIX equity volatility	13.74	18.23	13.84	14.55	15.29	13.34	20.97
US LEI		+0.6%	+0.8%	+0.6%	+0.4%	-0.2%	+0.2%
Japan LEI			-0.1%	+0.0%	-0.4%	-0.1%	-0.1%
Eurozone LEI			+0.3%	+0.5%	+0.6%	+0.6%	+0.2%
Australia LEI			+0.2%	-0.3%	+0.0%	+0.7%	+0.4%
United Kingdom LEI			-0.4%	+0.3%	+0.2%	+0.7%	+0.2%
China LEI		+1.0%	+1.1%	+1.5%	+0.2%	+1.4%	+0.6%
US Money Market Funds $T	2.649	2.618	2.615	2.582	2.634	2.692	2.702
US Gov. 10 year T-Bond (%)	2.271	2.335	2.095	2.046	1.93	2.00	1.68
Foreign holdings of US T-Bonds $B			6134.8	6137.3	6175.9	6162.8	6217.9
Margin debt, NYSE (US$ millions)		504,975	499,143	507,153	476,381	464.933	444,836
US M2 Money Stock (US$B)		11,982	11,938	11,895	11,846	11,820	11,701
Velocity of Money US M2					1.501		
CNN Fear and Greed Index	9						
Forward P/E S&P 500 (12 month)	17.82	17.81	17.89	18.05	17.62	17.55	17.01
Trailing P/E S&P 500 (12 month)	21.18	21.52	21.47	20.98	20.52	20.53	19.71
Total Put/Call options ratio CBOE	1.40	1.10	1.15	1.05	1.13	1.01	1.10
S&P 500 Share Index	2079.65	2063.11	2107.39	2085.51	2067.89	2104.50	1994.99

The CNN Fear and Greed Index is a combination of seven factors that reflect investor confidence, displayed as a number between 1 and 100, with low numbers indicating extreme fear and high numbers indicating extreme greed. Contrarian investors would seek to invest during extreme fear and sell or avoid buying during times of extreme greed. The very low “extreme fear” value of 9 at present is even less than the low of 12 reached at the height of the Global Financial Crisis on September 8, 2008. Historically the index is very volatile and correlation with the S&P 500 tends to be more as a coincident indicator rather than a predictive one. However, extreme values can provide a useful input into short term market analysis.

Leading economic indicators for the US and China eased off in June but remain strongly positive.

Margin debt on the NYSE remains highly elevated but looks to have plateaued for three months, in contrast to the massive margin trading spike that developed and then collapsed in China, taking the Chinese sharemarkets with it. Despite relative stability, high NYSE margin debt remains a major threat to share markets – just as it did in 1929 and as just demonstrated in China.

The Put/Call ratio has reached an extraordinarily high value of 1.40, indicating professional traders are moving strongly to insure portfolios against a market decline.

2. Equities

Westpac Bank (ASX:WBC), on 16 July, completed its capital-raising sell down of **BTIM** shares **(ASX:BTT)** to eligible shareholders on the register at 11 June 2015. Westpac will retain about 31% of BTIM after the offer. Investors who applied for the maximum allocation received 92.4% of their request. We expected a substantially higher level of scaling but “catastrophic”, “devastating”, “crisis” and “calamitous” news out of Greece and China –according to mainstream media – apparently put many eligible shareholders off, leaving more for those willing to apply irrespective of daily media hyperbole. At close of business on 24 July the BTIM shares, issued at A$8.20, were selling for A$9.86. The shares are expected to pay a cash dividend yield of 5% - 5.5% for the 2016 financial year, based on the issue price.

The Australian Prudential Regulation Authority (APRA) has set increased reserve ratios that the four major banks, plus MacQuarrie Bank, must hold against house mortgages, increasing the risk-weighted capital retention requirements from an average of 16% to 25%. The targeted banks are expected to raise capital reserves through retaining more profits which could impact their ability to maintain dividend growth at past rates. But alternative capital-raising options exist including sale of assets (e.g. Westpac partial sale of BTIM), cash issue of shares to existing shareholders at a discounted rate (e.g. NAB) and dividend reinvestment plans. The new APRA requirement was at the lower end of expectations but implementation by mid-2016 was sooner than expected.

Increased certainty introduced by the announced measures and slightly easier terms than feared generally saw bank share prices advance.

In keeping with other Fisher Funds listed investment companies, Kingfish and Barramundi, **Marlin Global (NZX:MLN)** on 26 June announced an issue of free warrants in the ratio of 1:4 (minimum 500) to shareholders on the register at 13 July 2015. Each warrant gives the warrant holder the right, but not the obligation, to subscribe for one additional Marlin share on the exercise date of 5 August 2016. The exercise price will be $0.88 less the amount of any dividends declared during the period leading up to the exercise date. The final exercise price is likely to be around $0.80 cents per share. At close of business on 24 July, MLN was trading at $0.90. Net asset value (undiluted) as at 21 July was $1.0247.

3. Interest rates, bonds and debentures

Heartland bank dealt depositors a double whammy of interest rate reductions within four days during July, knocking 10 bps off their 6 month and 12 month specials on 13 July and then, just 4 days later on the 17th, shaving another 15 bps off the 12 month rate to complete a 25 bps fall to 4.05% from 4.30% at the start of the month.

Fisher and Paykel reduced rates by 15 bps for terms up to 18 months and 10 bps for longer terms. Liberty

Finance reduced its longest term deposit rate by 45 bps. UDC reduced deposit rates by up to 25 bps at various terms.

Current deposit rates, % p.a., quarterly interest payments:

Issuer	$ min	Call	3mth	6mth	9mth	12mth	18mth	24mth	36mth	48mth	60mth
F&P Finance	1000	3.40	3.70	4.25	4.45	4.55	4.65	4.75	4.85	4.95	5.05
F&P Finance	25,000	3.40	3.85	4.40	4.60	4.70	4.80	4.90	5.00	5.10	5.20
Heartland Bnk	1000	4.10*	3.55	4.00	3.90	4.05	4.00	4.05	4.15	4.20	4.30
Heartland Bnk	20,000	4.10*	3.65	4.00	4.00	4.05	4.10	4.15	4.25	4.30	4.40
Liberty Fin.	5,000		3.95	4.55	4.85	5.20	5.55	5.80	6.40	6.40	6.30
Liberty Fin.	20,000		4.10	4.70	5.00	5.35	5.70	5.95	6.55	6.55	6.45
Liberty Fin.	100,000		4.15	4.75	5.05	5.40	5.75	6.00	6.60	6.60	6.50
UDC Finance	5000	3.20	3.50	3.70	3.80	3.85	3.95	3.95	3.95	4.00	4.15
UDC Finance	100,000	3.70	3.50	3.75	3.85	3.90	4.00	4.00	4.00	4.05	4.15

*Heartland Direct Call Account

Heartland Bank occasionally offers existing depositors a small margin above normal rates for certain terms. Check with Canopus for their latest specials.

For the full range of debenture stock interest rates and credit ratings visit Debex at
http://www.debentures.co.nz/debenture_stock.html

Canopus advisory clients receive a full rebate of any brokerage paid on term deposits. This can add up to 0.5% per year to the deposit rates tabulated above.

Contact me for copies of investment statements and application forms alan@canopus.co.nz
or telephone 09 444 8055. No brokerage is payable by investors on applications made through Canopus.

4. Strategy

After an initial relief rally in mid-July on calmer situations in Greece and China, sharemarkets resumed volatility on the downside in the last half of the month, causing US and Australian indices to give up virtually all their strong gains from the first quarter of 2015. New Zealand's NZX 50 fared better, managing a 5.2% gain over the same period.

Figures from our data table in Section 1 point to more downside in the immediate future. Although a severe reversal is not indicated, markets usually over-react on both the upside and downside. Hence now is more a time to be reserving investment funds for better opportunities ahead while not being pressured into selling high quality securities intended for long term holding. We do not expect to be participating in bond markets during the present climate of low coupon rates and low market yields. Opportunities to add core blue chip equities to portfolios at reasonable prices may present themselves as equity markets decline further.

Poor dairy auction prices have evoked yet more dairy industry calls for yet more OCR cuts with some economists predicting three cuts in calendar 2015. Concern that lower interest rates will fuel Auckland house prices may cause the RBNZ to move less than the market expects as it tries to engineer inflation back to its 2% target. Either way, investors face still lower deposit rates in the short term but should see a reversal later in 2016 as both the US and UK lead the world in rate rises. Hence our strategy for now is to suffer low interest rates by keeping surplus funds on call or short term deposit, avoiding low yielding bonds but remaining willing to pick up special opportunities in equities and out-of-favour listed property as they arise.

We were pleased with our BTIM purchases from the Westpac sale, with the new portfolio additions showing a gain of 20% in three weeks and prospective dividend yield of 5% - 5.5%.

First quarter results from our published income portfolio show the portfolio owner is on track to earn an annual income yield of about 7.2% for the 2015/16 year, after fees *and* after tax at the owner's prescribed rate, based on the amount saved. Funds are effectively on call. On top of that the portfolio should show modest capital growth in a challenging year.

Our published diversified growth portfolio recorded a unit price increase of 4.11% for the June quarter while major share indices lost ground or stayed level at best. The S&P/ASX 200 fell 7.4% over the three months to 30 June. For the first half of calendar year 2015, unit growth has been 10.53%, including income reinvested. Again, results are after fees *and* tax at the portfolio owner's prescribed rate with funds effectively on call.

Click this link to see charts http://www.canopus.co.nz/investment_advice.html#returns

Please note that I cannot make application for new issues of bonds or shares, trade securities on your behalf or provide personal investment advice unless you have a sharebroking account opened through Canopus.

Contact me if you would like to open an account alan@canopus.co.nz or telephone 09 444 8055.

To discuss building a diversified, low volatility personal investment portfolio designed to produce income, growth or a combination of both, contact me by email at alan@canopus.co.nz or telephone 09 444 8055.

Please note – Canopus does not pool investor funds. Each Canopus investor is treated as an individual with a personal customised investment portfolio being built to suit the investor's requirements. Investments are registered in your own name greatly enhancing returns, security and transparency while providing access to valuable special issues and minimising management fees. Individual voting rights attached to securities are retained by the investor. Uncommitted portfolio cash is held in the investor's own personal bank account with full online banking facilities. High liquidity of investments means the investor has ready access to funds if needed. Ultimately, the investor remains in control of the portfolio.

Regards,

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