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

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Investment Directions **16 November, 2009**

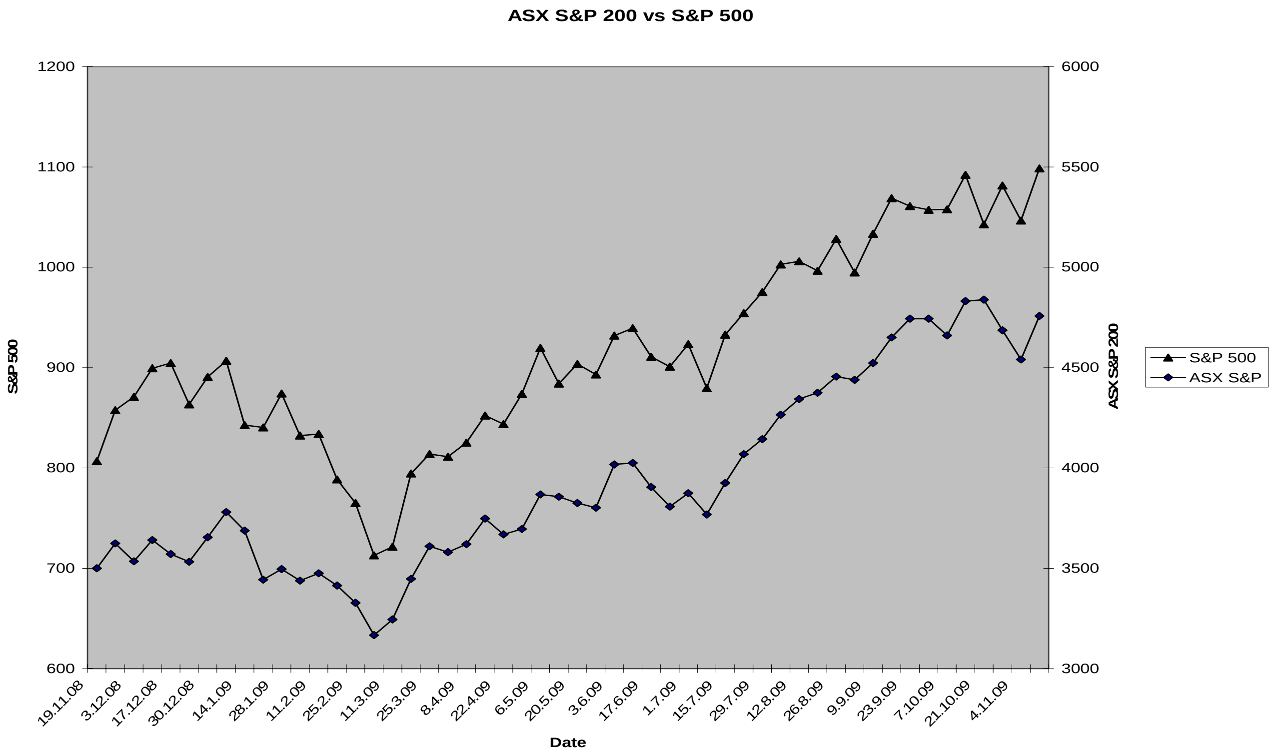
"Opportunities to outcomes"

In this Issue

1. Overview

Australasian equity markets became a little disconnected from Wall Street during early November, failing to match new highs as set by US markets, but nevertheless recording good performances as corporate results and forecasts generally met expectations. US equities rallied on better than expected third quarter earnings but evidence of improved profitability based on growth rather than cost cutting has yet to be entrenched. Strong results from majors, Apple, Google and Yahoo helped sentiment. S&P earnings estimates have been revised upwards from $16.52 to $17.10 per share and should go higher in coming months. The DJI finally surpassed the big psychological barrier of 10,000 during October.

With upward earnings revisions underpinning markets, US equities can be viewed as a hedge against the sliding US dollar and potential inflation, alongside US dollar-traded commodities such as gold and crude oil. Markets remain unconvinced the US Government and Federal Reserve will be capable of effectively withdrawing the vast amounts of stimulus cash necessary to prevent serious inflation in the medium term. Measures being considered include "Reverse Repo's", sale of US Government securities direct to public, payment of interest on excess bank reserves and raising the overnight bank lending rate. However, no action seems likely before late 2010. With a massive 2009 fiscal deficit of US$1,420 Billion, 3 times the 2008 figure, and low interest rates, the US dollar is still headed downwards.



The important US property market remains in trouble, with house prices unexpectedly declining in August. US commercial property values continue to decline as unemployment climbs (now 10.2%), cutting demand for retail space, offices and residential apartments. However, these are generally lagging indicators as far as the overall economy is concerned. US GDP rose to an annual rate of 3.7% in Q3, faster than expected, benefiting from the ocean of stimulus cash and rebuilding of inventories.

RBNZ left the Official Cash Rate at 2.5% on 29 October but RBA lifted the Australian rate to 3.5% on 2 November. A less hawkish tone from Australia saw the Kiwi rise against the AUD despite the increasing rate differential. The New Zealand OCR should remain low well into 2010. BoE and ECB kept British and Euro rates on hold respectively. The US Federal Reserve target Federal Funds rate remains at 0 – 0.25%.

Strong rises in Fonterra's online milk powder auction price have helped underpin the Kiwi, potentially feeding billions into the economy, but negative news such as the massive funding blowout in New Zealand's Accident Compensation Corporation and hasty passage of an economy-damaging Emissions Trading Scheme are ignored for later reckoning. For now the NZD is absorbing everything thrown at it. The RBNZ is unlikely to intervene in the currency market to any appreciable extent – it simply doesn't have the foreign currency reserves to buy and sell in the amounts required to have any lasting effect. Overall the currency story is still one of US dollar weakness rather than NZD strength.

China's Q3 growth of 8.9% p.a. largely met expectations of 9%, with benefits derived from increases in both domestic and export demand. Concern remains over when the Chinese Government will start to wind down stimulus to avoid inflation. Currently, tightening is expected in mid 2010.

Keeping our finger on the pulse of major leading indicators:

	Latest	Oct 09	Sep 09	Aug 09	Jul 09	Jun 09	May 09
3 month LIBOR	.2725%	0.29%	0.35%	0.48%	0.48%	0.66%	1.02%
TED Spread (points)	22.0785	23.6014	17.938	22.073	30.39	41.749	52.643
VIX equity volatility	23.36	30.69	25.61	26.01	25.92	26.2	30
US Leading Economic Indicators			+1.0%	+0.4%	+0.9%	+0.8%	+1.2%
Japan LEI			+2.4%	+2.9%	+3.5%	+2.5%	+3.4%
Eurozone LEI			+1.2%	+1.8%	+1.6%	+1.3%	+1.7%
Australia LEI				+1.8%	+1.0%	+1.1%	-0.6%
United Kingdom LEI			+1.0%	+0.9%	+0.5%	+1.1%	+1.0%
China LEI			+1.67%	+1.70%	+1.94%	+1.7%	+1.6%
US Money Market Funds $T	3.335	3.370	3.429	3.560	3.636	3.666	3.766

After a hiccup in equities volatility towards the end of October and early November indicated a temporary increase in risk aversion, leading indicators have now turned positive again across the board.

2. New and Current issues – 8% p.a. Government Guaranteed

2.1 South Canterbury Finance – 8% with NZ Government Guarantee
2.2 Man OM-IP 3AHL – *closes Friday 20 November*
2.3 Goodman Property Trust Senior Bonds
2.4 Mint Asset Management New Zealand Australia Real Estate Investment Trust
2.5 Man AHL Alpha (AUD)
2.6 GoldmanSachs JBWere Trans Tasman Equity Unit Trust

2.1 South Canterbury Finance Limited

South Canterbury Finance

Key points of the issue:

- 8.00% p.a. interest rate
- NZ Government Retail Deposit Guarantee applies for full term
- Maturity date 11 October 2010
- Nil application fee on applications lodged through Canopus Investments Limited

Download the Investment Statement and application form by clicking here http://www.debentures.co.nz/SCF_IS.pdf or contact Canopus info@canopus.co.nz or telephone (09) 444 8055 for a copy.

2.2 Man OM-IP 3AHL

Latest capital protected managed futures fund from Man Investments Australia in OM-IP series based on the Man AHL trading program.

Nil application fee on applications lodged through Canopus Investments Limited

Applications close Friday, 20 November, 5 pm Sydney time.

Download the prospectus and application form from http://www.maninvestments.com.au/manomip3ahl/adv/canopus or contact Canopus info@canopus.co.nz or telephone (09) 444 8055 for a copy.

2.3 Goodman Property Trust Senior Bonds

GMT Bond Issuer Limited, a wholly owned subsidiary of Goodman Property Trust, is offering $150m of investment grade rated bonds to repay bank borrowings, diversify its sources of debt funding and extend the average term of its debt facilities. Security is first ranking over Goodman Property Trust premium assets with a book value of $1.14B. Security is shared equally, and on a pro rata basis, with the lenders under Goodman Property Trust's main bank facility. GMT Bond Issuer Limited intends to list the Bonds on the NZX Debt Market and an application has been made to the NZX.

Key terms of the offer are as follows:

- Opening date Monday 16 November 2009
- Closing date Thursday 10 December 2009
- Maturity date 19 June 2015
- Interest coupon: the higher of 7.75% or 200 bps over the relevant Swap rate* to be set on 14 December
- Interest payments: semi-annual on 19 June and 19 December with initial interest paid to original subscriber
- Issue price NZ$1.00
- Minimum application NZ$5000 and NZ$1000 thereafter
- Rating BBB+ by S&P
- Nil application fee on applications lodged through Canopus Investments Limited

*The relevant swap rate relates to an interpolated 5.5 year rate taken between the 5 and 7 year swap rate plus the 200 bps margin to be set on 14 December.

Allocation of the bonds will be made on a first come, first served basis. Please notify your request to Canopus without delay.

To receive a copy of the Investment Statement and application form, contact Canopus info@canopus.co.nz or telephone (09) 444 8055.

2.4 Mint Asset Management New Zealand Australia Real Estate Investment Trust

PIE registered New Zealand Unit Trust predominantly investing in property companies and trusts listed in New Zealand and Australia. MANZREIT provides access to a portfolio of major property trusts and companies in a sector just starting to emerge from the Global Economic Crisis.

Key points of the issue:

- Objective return gross 90 Day Bank Bill Rate + 3% p.a.
- Total return asset class providing a combination of income and growth
- Liquidity – no restriction, open ended fund
- Unit pricing daily
- Actively managed, currency hedging at manager's discretion
- Minimum investment NZ$5000, $2000 each subsequent investment
- Nil entry fee on applications lodged through Canopus Investments Limited

Download the Investment Statement and application form from http://www.debentures.co.nz/Mint_IS.pdf or contact Canopus info@canopus.co.nz or telephone (09) 444 8055 for a copy.

2.5 Man AHL Alpha (AUD)

New fund from Man Australia structured as a unit trust, based on the AHL Alpha Program and allowing investor to choose between distribution of annual profit or reinvestment. Fund is available only to New Zealand and Australian residents.

For full details of the Fund and access to the PDS and application form, follow this link http://www.maninvestments.com.au/manahlalpha/adv/canopus or Contact Canopus info@canopus.co.nz or telephone (09) 444 8055 for a copy.

2.6 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$24.1 million
- 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

3. Kiwisaver – fee farming rort - vital to dump bad fund managers

I have dumped my Kiwisaver fund provider after a prolonged abysmal performance provided ample evidence this provider is incapable of any meaningful funds management. Having fully participated in the global sharemarket collapse from October 2007 to March 2009, costing me dearly, my Kiwisaver fund provider was then unable to gain any growth at all during the strong market recoveries across nearly all asset classes over the last seven months.

In attempting to justify such a pathetic performance, my provider then published a chart purporting to show one of his funds in a favourable light compared to a few other carefully selected fellow dregs of the overall Kiwisaver scheme. However, my Kiwisaver investments, 50% allocated to the published fund, show nothing like the chart published. At 20% below the claimed result, my returns are way below even the very worst of the others. The other 50% of my fund must have achieved an astoundingly negative result if the published chart is to be believed!

An explanation on my “personal page” claims poor performance is likely the result of unfortunate timing of contributions, but a quick check confirms that the bulk of my personal contribution occurred during February 2009, near the bottom of the trough and ideally timed to catch the rebound. Again, my other funds must have achieved an unbelievably negative result to produce a total 30% loss to date - with virtually nil gain achieved during the strong bull market recovery.

How and why is this possible? Enter “Fee farming” in the financial vocabulary. Under the current Kiwisaver scheme nothing prevents inept fund managers from just bucketing member contributions into a bulk “Bit of Everything” fund, hoping market variations will even out with some growth being achieved over time. The fund then appears to be operated without any underlying strategy or active management – allowing our privileged fund manager to just sit back and rake in the fees for little effort and no responsibility. Fund member interests may be ignored but the fee gravy train continues unabated – back to the 80’s - “Money for Nothing, Chics for Free”.

Other investors also finding themselves in the unfortunate position of having joined one of these disastrous Kiwisaver funds need to act quickly in their own interests by changing to a competent fund provider without delay. Unrecovered losses at the beginning of a long term savings program have serious consequences later on. Continued poor performance compounds the problem to a disaster.

Contact Canopus info@canopus.co.nz for more information and advice.

See our full Kiwisaver article here http://www.canopus.co.nz/kiwisaver_advice.html , including information on how to evaluate your own Kiwisaver fund provider's performance.

4. Equities

After some indecision during October, equity markets have regained positive momentum following results and outlooks generally up to or exceeding expectations, both here and overseas. Despite the strong gains since March, forecast Price/Earnings ratios for many of our major companies are still not excessive e.g.

Forecast P/E	30.6.2010	30.6.2011
FBU	16.9	12.1
SKC	15.1	13.8
ORG	23.2	19.3
CEN	19.7	17.4
FRE	15.5	13.1
BHP	19.8	14.0

Watch for earnings revisions, up or down, to indicate future individual share and market direction.

Following a successful capital raising, Pyne Gould Corporation should enter the NZX Top 50, well up the list, making it an acceptable investment for some trusts and a necessary component of index tracking funds. More upside should be possible, especially if the re-financed corporation is able to achieve its aim of becoming a listed bank, based on subsidiary Marac Finance. Associate PGW has yet to announce its full capital raising intentions but Chinese company Agria has already committed to a 13% stake. Although controversial, the holding could potentially open the massive Chinese market to PGC and PGW products and services.

Infratil has sold assets, including a 90% stake in Lubeck Airport in Germany and its stake in Auckland International Airport, as part of a strategy to raise funds for an intended purchase, in conjunction with the New Zealand Superannuation Fund, of Shell assets in New Zealand. The consortium has reportedly entered the final phase of due diligence for a purchase that could include 17.1% of New Zealand Refining plus distribution and retailing businesses. IFT shares remain depressed while such a large change in direction is contemplated, but could well improve on confirmation of the deal.

Fletcher Building expects to pay dividends totaling 28 cps in 2010. FBU is in a strong position structurally and financially to benefit as local and global economies improve. New Zealand reportedly now faces a housing shortage as immigration rises, banks loosen lending purse strings and property listings drop. Now New Zealand's largest listed company by capitalisation, FBU is definitely a core portfolio stock with greater potential.

New Zealand investors are soon to be asked to support more Initial Public Offerings as new companies seek an NZX and/or ASX listing. Theoretically, listing of a company's shares is intended to provide access to capital for expansion and growth as well as providing an avenue for private investors to obtain or dispose of holdings as they see fit. Large holdings are often traded "off market".

All too often, NZX IPO's are aimed primarily at providing rich pickings for existing owners, likely to be a private equity fund and able to capitalise on a buoyant market. The history of IPO floats on the NZX in which private investors can actually acquire shares is dreadful with private investors having lost heavily in many cases over the ensuing months and years. I can name a dozen without even trying. Shares in good quality IPO's gravitate to large institutions, managed funds and significant broker clients. Private investors need to consider any IPO against the following criteria:

- Are existing owners selling out or staying committed to the business?
- Will new capital raised be used to benefit the business through expansion, debt repayment etc. or used to benefit former owners?
- What will be company gearing (debt/equity ratio) after the float?
- Are large institutional investors interested in the float?
- What financial forecasts are given in the prospectus and are they believable?
- Is the new company a "one shot wonder" – i.e. does it just produce one product or service? History of these operations is particularly poor.
- Do the directors have real and sound experience in the sector or have "big names" been appointed just to add credibility?
- Is the enterprise likely to suffer political interference by being viewed as a "strategic asset" in future?
- Do you even know how many shares you will get for your money? Has a share price been set or does it depend on a "book build" process?
- If the shares are readily available –why?

Big retailer Myers has just listed in Australia following a private equity sell-out IPO, with private investors suffering a loss of 4.5% so far. Kathmandu, another private equity bail out, listed on the NZX and ASX last Friday at a premium of just 4.2%. I wouldn't hold my breath for more.

New IPO floats in the pipeline or subject to market speculation for the next few months include:
BioVittoria – IPO underway
Synlait Milk – IPO planned
DNZ Property Investments – under way
South Canterbury Finance – market speculation
Hirepool – possible
REDgroup – book retailers - possible
Craig-Morrison and Co. - infrastructure fund - possible

Expect more.

Purchasing established listed shares directly off the market can often be a much better investment than buying into an IPO. Past results are not a reliable indicator of future performance – but they're a lot better than a glossy prospectus.

Market minnow Cynotech Holdings has just received notification of a proposed takeover offer from Cynotech Securities Group Limited, Chairman Allan Hawkins' private investment company. Details of the offer are not yet known but notice to shareholders is expected about 10 December. Cynotech, a promising little company specialising in recovering debts from failed finance company ledgers, lost its way after a clumsy attempt to raise capital via a doomed capital securities issue. Lack of resources and unwillingness of other major shareholders to support a cash issue could well be drivers for the takeover bid from Hawkins. Cynotech needs more capital to re-enter the lending scene via its finance company Budget Loans.

5. Fixed Interest and Finance Companies

Time to expiry of the existing Government Retail Deposit Guarantee Scheme is now just over 10 months. Two companies have made special offers timed to mature just inside the scheduled expiry date of 12 October 2010. Top finance company current debenture stock rates with a minimum deposit of $10,000 or less and with a full term Government Deposit Guarantee are:

Issuer	Term	Rate p.a.	$ Minimum	Interest Payment
Marac Finance	3 months	4.75%	$1,000	quarterly
South Canterbury	6 months	6.00%	$100	quarterly
Marac Finance	6 months	6.00%	$1000	quarterly
Marac Finance	9 months	5.50%	$1000	quarterly
PGG Wrightson	10 months	5.65%	$10,000	quarterly
Equitable Mortgages	11 Oct. 2010	7.00%	$10,000	quarterly
South Canterbury	11 Oct. 2010	8.00%	$100	quarterly

For the full range of finance company debenture stock deposit rates see 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 or call (09) 444 8055 for more information.

Debenture interest rates, as shown by our 2 year benchmark rate at http://www.debentures.co.nz/2YearDebentureStock.pdf have been quite steady for 6 months now and the yield curve at http://www.debentures.co.nz/YieldCurve.pdf has flattened a little from the steep curve of last year, centred on expiry of the Crown Retail Deposit Guarantee scheduled for 12 October 2010. The transition to longer maturity rates is easing as larger companies anticipate participation in the extended guarantee scheme and also some smaller companies – such as BBB-rated Oxford Finance – achieve eligibility.

South Canterbury Finance continues making slow but steady progress with its capital-raising plans. A new $75m funding facility from PGC's George Kerr has been used to partly repay the US private equity line of US$100m, with the balance to be repaid over the next five months. Flush with funds from its major capital raising, PGC owns New Zealand's other large private finance company Marac, sparking speculation about a tie up between the two. However, such speculation has so far been dismissed by both camps.

South Canterbury has now appointed three new independent directors and registered a new prospectus, offering secured debenture stock with the Government Guarantee, at 8.00% p.a. The Company had about $46m held in trust awaiting the new prospectus. How much of that will be reinvested remains to be seen. South Canterbury intends to apply for the Crown Retail Deposit Scheme Extension, providing an amended Government guarantee out to 31 December 2011, but first has to meet all eligibility criteria. Chairman, rich-lister Allan Hubbard says "Further announcements will be made as we evolve our restructuring and recapitalisation plans." He intends to stand down as Chairman within a year. CEO Lachie McLeod says SCF intends to wind back its loan book from $2.3b to $1.5b over the next 18 months, moving away from property loans to concentrate on its traditional areas of plant and equipment, consumer and rural lending.

More capital raising is expected in the coming months, likely to involve one or more new and major shareholders, possibly followed by a public IPO float early next year.

6. Investment Strategy

To date the feared October/November sharemarket malaise has not struck, leaving diversified portfolios holding on to gains from the preceding six months – and obliging many a financial guru to return silently to the mountain top. I often wonder if these fellows actually act on their own advice. Probably not, but it *would* perpetuate the impoverished guru syndrome.

Positive factors for equities in the near term include upwards earnings revisions, reasonable forward P/E ratios and the traditional Christmas/New Year rally. Negative factors include lingering doubts over the global economic recovery, eventual higher interest rates and the real possibility of serious inflation further out. However, as noted in our equities section, shares can actually serve as a hedge against inflation and significant central bank interest rate rises seem some months away yet – with the exception of Australia.

Appearance of numerous IPO floats could also be seen as negative – with these issues tending to surface as markets move into overbought territory. Comfort could be taken from the fact that the rush hasn't really started yet. I don't expect to be participating in many – if any.

It now makes sense to take a few profits where justified while still remaining solidly invested. We may yet see a few more share purchase plans and cash issues that will almost certainly provide better returns than any IPO. Our standing sell order on Freightways has just been struck at $3.22. The share purchase plan shares were issued at $2.44 on 5 June.

Our Reference Portfolio Unit Value Chart can be seen at http://www.canopus.co.nz/Unit_Value.jpg .

Although only started in May and not fully invested until the end of June (missing the steep rises of March, April and May), a new client diversified portfolio was able to capture good gains giving a unit value growth of 15.04% (including all establishment costs) over the five months to 31 October. To see chart, go to http://www.canopus.co.nz/Unit_Value_Client.jpg .

A strong New Zealand dollar opens up good opportunities for diversification into international equities for those underweight in the sector. Unless you have the time, skill and resources to undertake your own international equities research, managed funds offer a much less risky avenue. Unhedged international equities funds, New Zealand domiciled, can easily add this asset class to a portfolio and offer significant advantages by way of professional research, potential currency gains, PIE tax advantages and personal taxation simplification.

Income seeking investors should keep deposits short and within the Government Guarantee while possible. The current 7% and 8% p.a. offers from Equitable Mortgages and South Canterbury Finance respectively provide some opportunity for diversification at good rates within the current Government Guarantee. By October 2010, the full range of finance companies participating in the Extended Crown Retail Deposit Guarantee Scheme will be known, providing further Government guaranteed deposits out to 31 December 2011. All those companies eligible are expected to apply for coverage under the extended scheme as the acclaimed status and ability to attract deposits will surely outweigh the hefty government fees.

Nevertheless, income investors should keep an eye on the day when no Government deposit guarantee exists at all and take early action to compile a low risk, higher return investment portfolio as opportunity allows. Such a portfolio could include major listed equities showing good yields, investment grade bonds and debentures plus listed and maybe unlisted property securities.

Canopus can advise on personal investment portfolio allocations but please contact me sooner rather than later. Compiling an effective investment portfolio takes time.

Contact Canopus now for personal investment advice. An initial advisory interview is free.

Regards,

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

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