CANOPUS INVESTMENTS Limited

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

P O Box 101 662
North Shore Mail Centre
Auckland
New Zealand

Phone: +64 9 444 8055
+64 9 444 8056
Fax: +64 9 444 8059
Websites: www.canopus.co.nz
www.debentures.co.nz

Investment Directions **15 October, 2009**

"Opportunities to outcomes"

In this Issue

1. Overview

New Zealand officially emerged from recession in the June quarter with a minimal GDP growth of 0.1% after five negative quarters. The Reserve Bank of New Zealand now intends to remove or consolidate temporary emergency liquidity facilities established during the Global Economic Crisis. Despite lessons from the recession and probable negative legislative changes, the country's age-old obsession with rental property investment again seems likely to dominate the recovery while productive investment remains starved of funding. Banks demand much higher interest rates for business lending than property investment. House building consents at 1165 for August were the highest since September 2008, but still low by historical standards.

The massively important US housing market continued to eke out small price rises in July. A further round of foreclosures resulting from Adjustable Resetable Mortgages (ARM's) is expected to restrain any significant US house price increases for the remainder of 2009. US banks also face potential major losses from commercial real estate loans but these problems have been well flagged. Their impact remains to be seen.

A US Federal Reserve spokesman has said the Fed will tighten monetary policy just as quickly as it was loosened when the time is right, but for now deflation remains the greater threat. The official Fed Funds target rate of 0 – 0.25% should remain in place well into 2010.

Australia became the first G20 country to raise base interest rates following the Global Economic Crisis with a +0.25% lift to 3.25% on 7 October – adding to the margin over New Zealand still on 2.5% and providing further impetus for AUD strength. NZD should continue to ride AUD coat tails up with respect to other currencies but soften against the Aussie. Strong commodity prices, both hard and soft, are supportive of both economies. New Zealand's current account deficit narrowed massively in June quarter to a low $612m. Reserve Bank of New Zealand has limited resources to influence direction of the NZD. Any attempt at market manipulation is doomed to failure and could cost the RBNZ dearly if ill-timed.

In addition to global "risk appetite", consumer confidence is now playing a part in currency and equity market performances as willingness of public to spend is seen as a key economic recovery driver in the developed economies. Growing consumer confidence in New Zealand helps explain only minor depreciation of NZD vs AUD despite the growing interest rate differential in favour of the AUD. Weak consumer confidence in the US is contributing to the USD decline.

Asia is rebounding strongly from its export slump during the GEC, with China expected to grow 8.2% this year and 8.9% next. India is expected to grow 6% this year while Asian developing countries gain 3.9%.

USD and GBP look particularly weak as the UK Government seeks to hock off assets to assist budgeting and central banks worldwide move new foreign currency holdings largely to the Euro and Yen. In explaining UK's 50B Pound emergency pledge, Bank of England Governor Merv King said RBS and HBOS came within hours of failure last October. Massive funds would have been frozen with disastrous consequences for the UK economy.

For equities the current US reporting season is pivotal with real positive earnings and outlooks necessary to consolidate strong recoveries already recorded and lay the platform for further rises. To date October has been kind as early US corporate reports meet or exceed expectations.

Exchange Traded Funds covering equities and commodities have recently developed some red and yellow flags at the short end but intermediate and longer term trends remain overwhelmingly green.

The IMF has again raised its 2010 world growth forecast, this time to 3.1% from 2.5% and adjusted 2009's contraction downwards from -1.4% to -1.1%. Globally unemployment, a lagging indicator, is still rising.

Keeping our finger on the pulse of major leading indicators:

	Latest	Sep 09	Aug 09	Jul 09	Jun 09	May 09	Apr 09
3 month LIBOR	0.284%	0.35%	0.48%	0.48%	0.66%	1.02%	1.19%
TED Spread (points)	22.049	17.938	22.073	30.39	41.749	52.643	89.15
VIX equity volatility	23.01	25.61	26.01	25.92	26.2	30	36
US Leading Economic Indicators			+0.6%	+0.9%	+0.8%	+1.2%	+1.0%
Japan LEI			+2.9%	+3.5%	+2.5%	+3.4%	- 3.1%
Eurozone LEI			+1.8%	+1.6%	+1.3%	+1.7%	+1.6%
Australia LEI				+0.7%	+0.6%	-0.6%	+0.3%
United Kingdom LEI			+0.9%	+0.5%	+1.1%	+1.0%	+0.7%
China LEI				+1.43%	+1.7%	+1.6%	+1.4%
US Money Market Funds $T	3.446	3.429	3.560	3.636	3.666	3.766	3.799

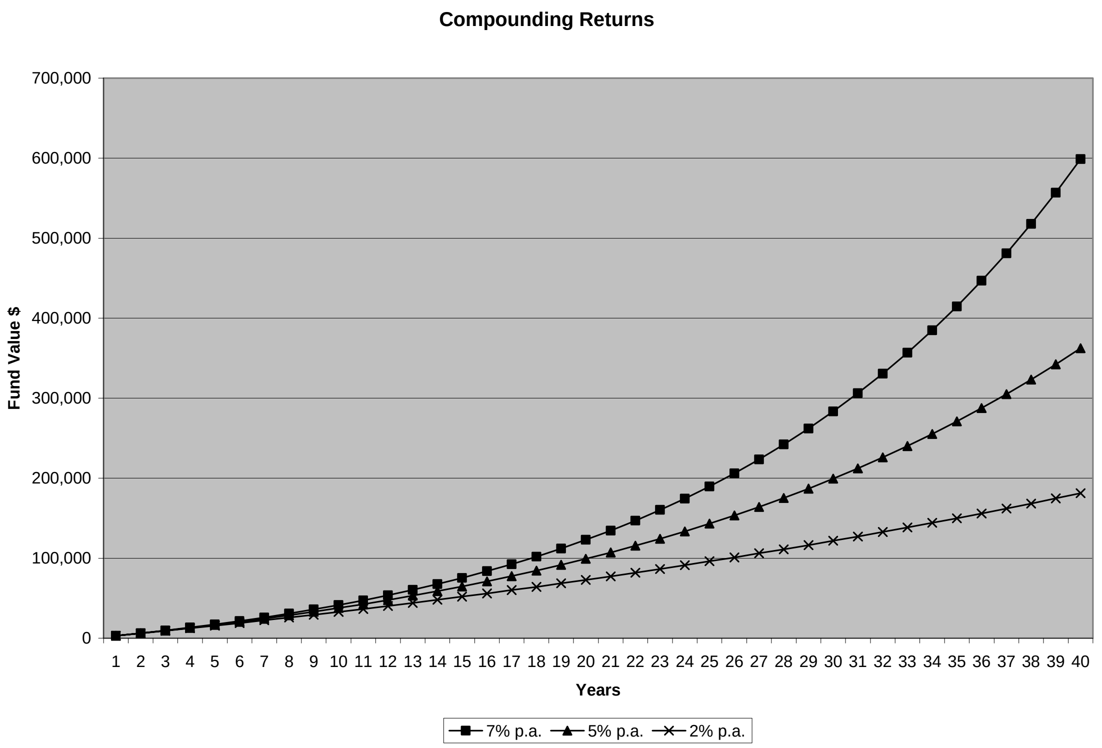
2. Kiwisaver – vital to dump bad fund managers

As a long term retirement savings program for most members, achieving ongoing profitability from your Kiwisaver fund manager is overwhelmingly important in determining the value of your fund at termination – and hence your quality of retirement.

The Kiwisaver scheme has now been in operation for just over two years – during one of the worst sharemarket collapses of all time and through the consequent strong recovery. Different commencement dates of the various funds can make comparison of returns during the actual market decline invalid but all funds claiming to be "balanced" or "growth" will have a large allocation to equities and should have participated in the strong recovery, regaining a useful portion of losses suffered earlier.

Unfortunately an examination of Kiwisaver fund manager results show this has not always been the case with some high profile fund providers achieving virtually nothing for their members while collecting big fees. Losses incurred during the crash have not been recovered to any appreciable extent leaving contributors reliant on government and employer subsidies to show some savings growth.

The chart below highlights the huge difference just a few percentage points of investment return will make to the final value of a fund where contributions from all sources total $3000 per year, over a period of 40 years. A constant return of 7% p.a. results in a final value of *more than three times* the same contributions earning only 2% p.a. - which a Kiwisaver fund provider could get by just putting your money in the bank. Over the past six months some fund managers have managed to do even worse than that – while equity markets blossomed 30% - 50%!



Investors finding themselves in one of these non-performing 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/investment_advice.html#Vital , including information on how to evaluate your own Kiwisaver fund provider's performance.

3. New and Current issues

3.1 Liontamer Combi 6 – commodities fund
3.2 Man OM-IP 3AHL
3.3 Man AHL Alpha (AUD)
3.4 GoldmanSachs JBWere Trans Tasman Equity Unit Trust

3.1 Liontamer Combi Series 6

Liontamer Combi Series 6 provides access for investors to the 19 most commonly traded commodities in the energy, agriculture, precious metals, industrial metals and livestock sectors. Supply, demand and price of these resources are critical to the world's recovery from what has become a severe global recession.

An exposure to commodities can act as a hedge against inflation, provide portfolio diversification and offer good returns over time. The global recession has deflated commodity prices well below their 2007 highs as demand for goods and services has dropped. Many emerging markets (particularly India and China) require vast amounts of resources to build infrastructure and fuel their development during a time of rapid industrialisation and increasing consumer wealth. The global slowdown saw a sharp decrease in commodity production as demand decreased. As the recession fades and demand rebuilds, any lag in production will create pricing pressures.

Investors in Liontamer Combi Series 4, which commenced in October 2007, are being offered the opportunity to reinvest all or some of their Combi 4 funds into Combi Series 6 at nil switching fee.

Combi Series 6 provides investors with the choice of two different investment strategies to benefit from the growth in value of a diverse basket of commodity goods.

Key features of Liontamer Combi Series 6:

- Nil Entry fee on applications made through Canopus Investments Limited.
- Because of continued pricing volatility, Liontamer has a limited tranche of funds that have been secured at this time. To secure a firm allocation of units contact Canopus without delay.
- Closing date 16 October 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 Combi Series 6 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 Offer will be kept on deposit and earn a competitive market rate of interest which is used to purchase additional units of the relevant unit type for you.

Unprotected Units:

- No capital protection at maturity. The units are exposed to any falls in the Index. For each 1% fall there is a 1% loss.
- Growth: 130% of the rise in the Liontamer Commodities Index (i.e. 1.3 times the rise)
- Term 5 years
- Index: Liontamer Commodities Index [1].
- Minimum investment NZ$5000. This is a New Zealand dollar denominated investment.
- Early maturity feature - none.
- Liquidity. Unit holders can request an early exit for any reason based on the current value of the assets in the fund (this could be above or below $1.00) less a 2% exit fee. The restrictions for Protected Units do not apply to the Unprotected Units.

Protected Units:

- 100% capital protected at maturity *.
- Growth. 90% of the rise in the Liontamer Commodities Index [1] (i.e. 0.9 times the rise).
- Term 6 years
- Index: Liontamer Commodities Index [1].
- Minimum investment NZ$5000. This is a New Zealand dollar denominated investment.
- Early maturity feature. If the financial instruments underlying the Protected Units reach a value of $1.60 per unit within the first three years, Liontamer will seek to sell the financial instruments and the Protected Units will mature early. This provides a way for investors in the Protected Units to exit if there is exceptional performance.
- Liquidity. This is a hold-to-maturity investment but early exits are available on a quarterly basis at the discretion of Liontamer. Capital protection and the formula for returns only apply at the end of the term. See the Investment Statement for details.

* Capital protection at maturity only applies to the Protected Units and means you will receive back 100% of the combined amount invested and early bird interest (earned during the offer period) less any entry fee charged (up to 3%, nil on applications made through Canopus) and any exit fee. Capital protection only applies at maturity. Early withdrawals may result in investors receiving back significantly less than they put in, due to market movements, the exit fee and the fund's establishment costs. There is a more detailed description of capital protection in the Investment Statement and the limited circumstances when capital protection may not be available. Capital protection does not apply to the Unprotected Units.

[1] Liontamer Commodities Index: Final Index levels are averaged monthly in the last year for both unit types. Averaging will protect you from any sharp falls in the Index; however in a rising market averaging lessens returns.

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

3.2 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.

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.

3.3 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.

3.4 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

4. Commodities

Last months comments remain relevant. All commodities quoted in US dollars should show appreciating prices as USD wanes but in stronger currencies many commodities have remained static or shown major declines. Gold in NZD has fallen 24% since March, handing big losses to New Zealand dollar based funds and portfolios with significant allocations to the metal. NZD gold price trend is now marginally positive as gold rises a little faster than the US dollar falls

Oversupply of natural gas in the US has provided a cheaper alternative energy source to oil and gasoline and helped restrain the rise in crude oil prices. US crude stocks are down but distillate stocks are high and refining margins low, keeping pressure on crude oil prices even in USD terms. Over the past month, natural gas prices look to have started a recovery, potentially removing a cap on crude oil prices.

Soft agricultural commodities also seem to have passed recent price troughs and look set to improve as global economies strengthen and emerging economies in particular demand greater quantity and quality of food products. For New Zealand, probably the only economy with a significant dependence on milk powder prices, the news is good – another reason for the strong Kiwi.
Last call for Liontamer Combi 6 commodities fund. Contact Canopus info@canopus.co.nz for an investment statement or telephone (09) 444 8055 or download the Investment Statement and application form by clicking here.

5. Equities

Pyne Gould Corporation rights ended worthless as earlier shareholders, apparently unable to afford the new 6:1 issue, dumped shares and rights at any price. Head shares are trading just above the new issue price of 40 cents. At the end of trading about 34 million rights to new shares were still on offer indicating that underwriters will be obliged to take up some slack, but 34 million represents only about 5% of the new shares to be issued. Any selling by underwriters could put downward pressure on the share price immediately following the issue. Further out, success of Pyne Gould Corporation's new direction depends on finance company Marac achieving a banking licence. With dead wood property development loans removed from Marac and the company capitalised to meet banking requirements, this does seem possible.

Notably, directors and senior managers have been to the fore in supporting the PGC issue through on-market purchases of pre-entitlement shares as well as rights – always a good sign.

Barramundi has announced a further 1:2 issue of free warrants, exercisable at 75 cents up to 27 October 2011, effectively replacing the existing warrants that will expire worthless on 26 October this year. Record date for the issue is 23 October. However, only shareholders will receive the new warrants. Those holding only the existing warrants will miss out unless they exercise these warrants at the specified $1 price by 26 October but with Barramundi shares currently selling at 76 cents on market, no sense attaches to that option. Barramundi seems to have under-estimated a "fair target" exercise price at 75 cents, placing the new warrants "in the money" before they're even issued and effectively underwriting at least some market value after listing. Nevertheless, shareholders will be pleased and the company can look forward to eventually seeing new capital from exercise of the new warrants, replacing lost opportunity from the worthless 2009 ones.

Barramundi was the hardest hit of the three listed Fisher investment companies during the 2007/09 crash. Although already up over 100% from its lows of March, Barramundi remains way below its high of 119 cents and still offers access to a carefully selected portfolio of smaller listed Australian shares at a 12% discount to valuation. Australia is recognised as the developed economy least affected by the Global Economic Crisis, the first to recover and possessing a strengthening currency. Barramundi does not currency hedge and so New Zealand investors will enjoy any rise of the AUD unit with respect to the NZ dollar. A new overly-generous dividend policy to distribute 2% of NAV per quarter should allow shareholders to access part of their investment near valuation. Hopefully this will not negatively impact the share price. Eventually the Company should be able to expand further with the injection of new capital, with growth of new investment selections justifying the dilution of capital -providing past investment success can be repeated.

For a truly ignorant appraisal of the issue, purporting to pass for financial journalism, see the article “Fish hooks lurking in Barramundi warrants” – clearly penned by those with no knowledge of the Company, warrants or markets. Link available on request – but I don’t intend to publish it here.

Information available to date indicates new planned Initial Public Offerings (IPO’s) for Myers and Kathmandu appear to hold little benefit for new shareholders. Attempting to capitalise on renewed consumer spending in both Australia and New Zealand, existing private equity fund owners seem intent on realising substantial profits for themselves at newcomer’s expense by flicking on their own shares at high prices. These floats look destined to join the sorry history of NZX-listed IPO’s stretching back many years, accessible to the public, which have only delivered losses and costly experience to private investors.

6. Fixed Interest and Finance Companies

All eyes remain on South Canterbury Finance for now – expecting a new prospectus and capitalisation plans. Although reporting a lower June year loss at $50.4m rather than the $69m earlier flagged, it looks as if main shareholder and rich-lister Allan Hubbard will be called upon to front up with considerably more assistance than his contributions already made to date. Market speculation is for a new cornerstone shareholder to emerge, either directly into South Canterbury or via a float or partial sale of Hubbard’s investment vehicle Southbury Group which holds all the capital of South Canterbury. Either way Hubbard’s influence over South Canterbury looks set to be diluted but he could still emerge as effectively the dominant shareholder. Having survived the finance company sector crisis well, South Canterbury now has a number of issues to be addressed resulting from its step into property development, related party lending, loss of investment grade rating and consequent loss of funding lines. While the Company lacks a registered prospectus, South Canterbury is unable to access new debenture investment funds. A new prospectus is expected “soon”.

To regain investor confidence South Canterbury, New Zealand’s long established and largest privately owned finance company, needs to sort out its capital and funding requirements quickly. The Company is covered by the Crown Retail Deposit Guarantee Scheme and will need to accept the cost of inclusion of the Guarantee extension to 31 December 2011 in order to attract large scale public subscriptions again. Provided South Canterbury retains at least a BB rating from S&P it will remain eligible to apply for the extension.

Time to expiry of the existing Government Retail Deposit Guarantee Scheme is now just over 11 months. 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
PGG Wrightson	3 months	4.60%	$10,000	quarterly
PGG Wrightson	6 months	5.40%	$10,000	quarterly
PGG Wrightson	9 months	5.50%	$10,000	quarterly
PGG Wrightson	10 months	5.60%	$10,000	quarterly

Debenture deposit rates are tracking sideways as shown in our benchmark two year chart at http://www.debentures.co.nz/2YearDebentureStock.jpg , reflecting the continued lack of lending being undertaken in this sector as finance companies continue to hoard cash. Most expect to be ineligible to apply for the Extended Government Retail Deposit Guarantee Scheme but Standard and Poors delivered a surprise by awarding minor finance company Avanti Finance a long term rating of BB-, just one notch below that required for a finance house to be eligible to apply for coverage by the Crown Retail Deposit Guarantee Scheme Extension. We may yet see more "BB" (or better) rated companies than the four or five originally expected to qualify. It does look as if the great majority of operating finance companies will be compressed into just a very few rungs on the ratings ladder.

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.

7. Reference Portfolio review

One of our best quarters ever. Our diversified reference portfolio recorded another strong three months to the end of September as equity markets surged again on growing confidence that the Global Economic Crisis was easing. Those slow to recognise the signs clambered to get on board while disbelieving bears were forced to cut losses by covering short positions. Reference Portfolio Unit value grew by 17.7% in 3 months to stand at $1.2167, giving us a total growth of 35.44% since the low point in February. Top performers were Transfield +79.86%, Leighton Holdings +50.58%, Barramundi +47.51%, National Property Trust +32.43% and Opus International Consultants +31.58%.

Worst performers were Cynotech –13.79%, OM-IP 220 Series 9 -7.03% and Infratil -2.33%.

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 11.5% (including all establishment costs) over the four months to 30 September. To see chart, go to http://www.canopus.co.nz/Unit_Value_Client.jpg .

6. Investment Strategy

The current outlook for an early recovery, higher interest rates and benefits flowing from Asia means Australian investments appeal for both growth and currency reasons in the medium term. Although our major ASX listed shares, purchased deep in the crash, are showing huge returns to date, they will be held for now. Where practical, spare cash will be held in our AUD account.

The last few months demonstrate how important it is to hold a spread of equities in your own name. Apart from avoiding high “wrap” fees, holding some local individual equities in your own name gives direct access to dividends, imputation credits, cash issues and special share purchase plans that can provide essential portfolio gains and tax benefits. Direct investor ownership also enables quick action when necessary. Investors whose equity investments are held solely through managed funds and “Wrap” platforms can often miss out on important shareholder offers. However, holding some investments via managed funds does provide diversification into regions or asset classes where the private investor may have difficulty gaining information or access. Where managed funds investing offshore are NZ based, taxation issues for the private investor may be greatly simplified.

After the sharp run up are equities about to make major correction? Fundamentals suggest a period of consolidation more likely than a severe sell-off. Although markets regularly swing between “over bought” and “over sold”, further rises just now would see equities entering “over bought’ territory until corporate earnings outlooks improve or a market retracement makes equity values attractive once more. If markets make it through the December quarter without major damage, the New Year could well bring a new round of enthusiasm for equities.

Income seeking investors should keep deposits short and within the Government Guarantee while possible. More institutions than earlier seemed likely may soon qualify to apply for coverage by the Crown Retail Deposit Guarantee Scheme Extension, as more finance company ratings are released.

A diversified portfolio approach offers the best opportunity to achieve good income while maintaining good security. Income opportunities exist across the major asset classes of fixed interest (including government stock, corporate bonds and debentures), equities and listed property.

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.

Regards,

Alan King
Canopus Investments Limited
Email: alan@canopus.co.nz
Tel: +649 444 8055

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

Please note - you have been sent this newsletter by post because Canopus does not have an email address for you on record. If you would like to receive “Investment Directions” by email, please send your email address to info@canopus.co.nz

Receiving “Investment Directions” by email ensures you will receive important investment information in a timely manner.

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