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

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Investment Directions

18 September, 2009

"Opportunities to outcomes"

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1. Overview

Although a broad consensus exists that the global recession is in retreat, much negativity still exists – especially in the semi-literate blogosphere. In New Zealand construction activity is still falling, particularly in residential building, but major construction firms such as Fletcher Building should be major beneficiaries as government infrastructure spending kicks in.

Despite predictions of the Global Financial Crisis changing the financial world forever, the recession appears not to have altered some behaviours at all. Little evidence exists that rampant avarice amongst the Wall St elite has moderated, where Barack Obama's appeals to bailed out bankers for responsibility towards taxpayer funding resemble the proverbial herding of cats. The US Securities Exchange Commission announces an investigation into "trading huddles" where favoured broker clients are said to be given short term tips counter to long term advice provided to ordinary clients. In New Zealand the recession may be just fading but already local banks and willing borrowers seem happy to reignite speculative property prices at the expense of productive investment.

As Prime Minister John Key effectively rules out any capital gains tax on property, widespread acceptance of and confidence in capital markets becomes an essential recovery component if real Gross Domestic Product gains are to be achieved. Such confidence could be instilled, in some

measure at least, by granting private investors access to high quality IPO floats on the NZX, after many years of being handed just the “rusty buckets” destined to destroy savings in short order.

In currencies, international attention focuses on potential further weakness of the US dollar. Those central banks having engaged in massive credit creation (formerly printing money, now known as “Quantitative Easing”) to fight the global recession, are reportedly developing strategies to exit or withdraw stimulus to avoid potential inflation. To date, effective means of withdrawing stimulus cash have yet to be explained and no timetable even suggested, so further weakness in the subject currencies can be expected. Markets expect USD to be the main victim but British Pounds, Euro and maybe even the Japanese Yen should suffer from the same malaise to some extent. The risk here is that *everyone* expects the US dollar to decline – a classic situation the market loves to confound.

Commodities traded in US dollars and commodity based currencies such as the NZD, AUD and Canadian dollar should continue to gain despite the strong recoveries in oil and metal prices already recorded this year. In the face of such strong international tides, the Reserve Bank of New Zealand has little scope to “knock the top off the dollar” – short of engaging in the same large scale credit creation seen elsewhere. That possibility brings its own dangers of lowered credit ratings, higher debt servicing costs and even charges of currency manipulation. Renewed farmer and exporter cries for RBNZ intervention as the Kiwi again tests high USD .70’s, will likely go unanswered this time round.

Reduced commodity demand from China and Asia in general seems the only real possibility of limiting upward pressure on commodity and commodity-linked currencies in the mid term. Any reduction in purchases is likely to prove only temporary as Chinese growth continues apace and Japan, the world’s second largest economy, officially emerges from recession with GDP up 3.7% in the June quarter.

RBNZ kept the Official Cash Rate on 2.5% on 10 September, expecting to keep it low until late 2010. A further OCR reduction as a desperate attempt to curb the Kiwi, cannot be ruled out – but would likely meet with little success.

Keeping our finger on the pulse of major indicators:

	Latest	Aug 09	Jul 09	Jun 09	May 09	Apr 09	Mar 09
3 month LIBOR	0.295%	0.48%	0.48%	0.66%	1.02%	1.19%	1.26%
TED Spread (points)	16.518	22.073	30.39	41.749	52.643	89.15	99.103
VIX equity volatility	23.42	26.01	25.92	26.2	30	36	43
US Leading Economic Indicators			+0.6%	+0.8%	+1.2%	+1.0%	- 0.3%
Japan LEI			+3.1%	+2.3%	+3.4%	- 3.1%	- 3.7%
Eurozone LEI			+1.6%	+1.4%	+1.7%	+1.6%	+0.1%
Australia LEI				+0.9%	-0.2%	+0.3%	+0.5%
United Kingdom LEI			+0.7%	+1.0%	+1.0%	+0.7%	-0.9%
China LEI			+1.4%	+1.7%	+1.6%	+1.4%	+1.2%
US Money Market Funds \$T	3.543	3.559	3.634	3.664	3.764	3.798	3.834

This month I have added leading economic indicators for China, sourced from the OECD rather than the US Conference Board which doesn’t have an equivalent available. Hence basis of preparation for Chinese figures may be quite different from the others, but month to month comparison for China should provide an indication of economic direction within the major non-OECD economy.

US Money Market Funds have been added since, as we saw in last month’s study, a strong negative

correlation between MMF total assets and the S&P 500 has been demonstrated – at least during the Global Economic Crisis. As MMF assets have decreased, S&P 500 has risen and visa versa. Hence flow of MMF asset funds may provide a valuable leading indicator to S&P 500 direction.

With positive indicators across the board, little fundamental case can be made for abandoning equities just now, despite recent strong gains and nervousness over the traditional volatile September- November quarter.

2. New and Current issues

- 2.1 Equitable Mortgages Series Five and Six – closing soon
- 2.2 Marac Finance - Special – 7%, 12 months, Government Guaranteed
- 2.3 Liontamer Combi Series 6. Combi 4 holders offered reinvestment option
- 2.4 Man AHL Alpha (AUD)
- 2.5 Man OM-IP 3AHL – coming soon
- 2.6 GoldmanSachs JBWere Trans Tasman Equity Unit Trust

2.1 Equitable Mortgages Series Five and Six

These offers will close on 30 September at midday, so please have all applications in to Canopus at least one day prior to the closing time.

Equitable Mortgages, as a qualifying entity carrying a S&P BB rating, has announced it intends to apply for approval under the Crown Retail Deposit Guarantee Scheme Extension as soon as practicable. The extended guarantee is scheduled to terminate on 31 December 2011.

Investments in the Debentures are predominantly invested in the Equitable Property Mortgage Fund, a fund of funds enabling Equitable to diversify investments over a large pool of first mortgage securities.

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 of 31 July 2009 there were no charges ranking equally or ahead of this charge.



Key points of the issue:

- Equitable Mortgages Limited has a guarantee under the New Zealand Government Deposit Guarantee Scheme (currently scheduled to terminate on 12 October 2010).
- Interest rate of 6.50% p.a. is highest 12 month deposit rate listed on the New Zealand Debentures Exchange carrying full term Government Guarantee.
- Minimum investment per series \$10,000.
- Maximum investment is \$500,000 for Series 5 and \$50,000 for Series 6.
- Fixed interest rate is compounded quarterly or distributed on a monthly or quarterly basis.
- Nil application fee on applications lodged through Canopus Investments Limited.

- This is a limited offer. Apply to Canopus Investments for a firm allocation.
- Offer closes at 12 Noon, 30 September 2009

To request a firm allocation of this issue and to receive an Investment Statement please contact Canopus Investments Limited without delay by email, info@canopus.co.nz or telephone (09) 444 8055 or [download the Investment Statement and application form by clicking here.](#)

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>.

2.2 Marac Finance - 7% p.a., 12 month Secured Debenture Stock with Government Guarantee

Since the introduction of the New Zealand Deposit Guarantee Scheme MARAC has operated a clear strategy to avoid deposits with a maturity immediately prior to the scheme's scheduled expiry in October 2010. Marac's interest rates have reflected this strategy along with their drive to attract longer term funds.

MARAC currently has less than \$40m maturing in August, September and October 2010 combined, out of a retail book of circa \$900m. This previous approach enables MARAC to now raise funds in that period without creating a 'maturity cliff'.



Key Points of the issue:

- Crown Retail Deposit Guarantee applies for full term.
- Interest paid or compounded quarterly.
- Minimum investment \$1000.
- Offer closes 30 September 2009.
- Restricted offer - not being advertised to the general public.
- Any Canopus investors wishing to participate in the offer should contact Canopus Investments Limited immediately.

To request a firm allocation of this issue and to receive an Investment Statement please contact Canopus Investments Limited without delay by email, info@canopus.co.nz or telephone (09) 444 8055 or [download the Investment Statement and application form by clicking here.](#)

2.3 Liontamer Combi Series 6 – Combi 4 holders offered reinvestment option



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 Lontamer 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. See more details under our Strategy section.

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 Lontamer Combi Series 6:

- Nil Entry fee on applications made through Canopus Investments Limited.
- Because of continued pricing volatility, Lontamer 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 Lontamer.
- Exit fee. 2% prior to maturity and for all repurchases at or after maturity.
- Investments in Lontamer 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 Lontamer Commodities Index (i.e. 1.3 times the rise)
- Term 5 years
- Index: Lontamer 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 Lontamer Commodities Index ¹ (i.e. 0.9 times the rise).
- Term 6 years
- Index: Lontamer 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, Lontamer 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.](#)

2.4 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/manahlalalpha/index.cfm?page=keyfacts&r_id=CANOPUS&CFID=682401&CFTOKEN=57794096 or Contact Canopus info@canopus.co.nz for an investment statement or telephone (09) 444 8055.

2.5 Man OM-IP 3AHL – coming soon

Latest capital protected fund from Man Investments Australia in OM-IP series based on the Man AHL trading program. Details available soon at the New Zealand Debentures Exchange http://www.debentures.co.nz/hedge_funds.html.

Contact Canopus info@canopus.co.nz for an investment statement or telephone (09) 444 8055.

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. Commodities

Historical ratios and prices are out of kilter with those ruling just now, e.g. base metal prices with respect to stock levels and crude oil with respect to natural gas. Big factor is now cash from central banks' quantitative easing (effectively new money creation) and lots of it, seemingly finding its way into commodities and equities, driving prices up and up. Commodity price drivers are Asian demand, worldwide restocking of inventories and major fund buying as hedge against inflation and/or decline in the US dollar. Markets seem skeptical of central banks' ability to withdraw large quantities of stimulus cash when required, to avoid inflation.

Gold and silver continue rising on expectations of calls for more liquidity injections at the next G20 meeting – especially from UK Prime Minister Gordon Brown – and, by implication, continued decline of major currencies, especially the US dollar. All commodities traded in US dollars should benefit. Strong recent rises make metals vulnerable to a pull back but the longer term outlook for all metals, precious and industrial, is still upwards.

Crude oil prices remain rather static as both the US driving and hurricane seasons pass and OPEC restrains production. Outlook is for possibly lower crude in the short term but picking up with renewed demand. Natural gas prices are very low at present but expected to rise soon as future contract months are selling at large premiums to spot and near-month prices.

US Department of Agriculture reported huge crops of soybeans and corn as expected, but this announcement was already built in to prices, leading to an expectation that grain prices may have bottomed for the mid term.

4. Equities

Global equities entered a new round of buying in early September, based on improving economic outlooks boosted later by improved US manufacturing output and Federal Reserve Chairman Ben Bernanke's surmising that the recession is likely over. Funds and individuals caught with large cash holdings have been heavy buyers, afraid of being left behind. Short covering must still be playing a role but should have decreased in significance compared with just a few months ago.

The question now is just how far can the rally go and will it be subject to another October bust? P/E ratios are of little help - with the current S&P 500 P/E around an entirely unsustainable 140 based on

trailing earnings that include massive write-offs and losses from the December 2008 quarter. Once these figures roll out of the equation, S&P 500 P/E ratios should return to a more respectable 20 -30 level, but still above the long term median of 15.7.

Locally the story is similar. Although many leading companies have declined to provide profit guidance for the current year, analyst's projected P/E's for our top performing portfolio companies are still quite modest despite recent strong rises e.g. FBU 16, TOL 17, TSE 13, LEI 19, BHP 22, OIC 11, SKC 15.

Markets have so far recovered about 43% of their losses from the 2007 peak (easily taking out the 38.2% Fibonacci figure beloved of Elliot Wave theorists). Full recovery in the mid term is too optimistic and would require S&P 500 to retain a high P/E of 35 – 40 even after the December 2008 roll off. A 50% S&P 500 recovery to the 1120 mark would place the S&P 500 P/E near a more realistic 28 at the end of 2009 based on current earnings projections.

Nervousness as October approaches is understandable but historically the month has actually delivered quite strong results during times of recovery. However, we can be sure that bargains are now few and far between and will get even more so if indices keep rising.

At the time of writing Pyne Gould Corporation has still to announce its capital raising plans. Uncertainty over the targeted capital amount, delays, announced losses in associates and unknown method of capital raising have combined to collapse PGC's share price to just 23% of its pre-crash level. In the absence of a new major cornerstone shareholder, any request to existing shareholders will have to be heavily discounted and highly dilutionary as we have seen with the likes of Fisher and Paykel Appliances and Allied Farmers. Purchasing PGC shares on spec pre-announcement is risky but a good opportunity could arise once the capital raising details have been released. PGC apparently still intends to establish Marac Finance as a registered bank and will need a large capital injection to do so.

How long can Telecom hang on as our biggest listed company? Plagued by a history of poor management decisions writing off vast amounts of shareholder wealth, bad industrial relations, vulnerable to Government interference and regulation, Commerce Commission investigations and less regulated but well organized competition, Telecom now faces major uncertainty over its ability to participate in the Government's \$1.5B broadband network construction – something that should be Telecom's bread and butter. Coupled with poor PR over CEO Paul Reynold's massive payout, even the paltry 11% share price recovery since March looks generous. Not a share to be entertained.

Market minnow Cynotech looks to have made a mess of its capital raising efforts aimed at providing funds to enable finance arm, Budget Loans, to recommence lending. Issuing bonus preference shares to existing shareholders, listing them on the NZDX and then expecting new investors to pay \$1 for a return little above what the BNZ was offering at the time was doomed to failure. Last traded price for the prefs was 65 cents, a current yield of 14.2%. However, Cynotech has the ability to put the experience behind it and develop an alternative strategy. Cynotech may still be a useful spec but for now it simply lends credence to the old definition of a long term investment being a short term one gone wrong.

5. Fixed Interest and Finance Companies

The New Zealand Government's Crown Retail Deposit Guarantee Scheme is set to be extended to 31 December 2011, but only institutions with a rating of BB and above will qualify. Application is optional but despite punitive fees, status accorded to qualifying entities should see all entitled finance companies applying. Hence the finance company sector will separate into distinct "have" and "have

not” factions for the next two years at least. Status accorded to “haves” should live on after final expiry of the scheme.

Approved finance companies will be in a position to offer much lower deposit rates supported by Government guaranteed security while others will need to offset substantially higher borrowing costs (deposit rates) by charging higher loan rates. In addition to Reserve Bank supervision, all finance companies will need to meet stringent new capital adequacy requirements, providing a greater safety net for investors.

So far our benchmark 2 year deposit rate chart at <http://www.debentures.co.nz/2YearDebentureStock.pdf> and debenture stock yield curve at <http://www.debentures.co.nz/YieldCurve.pdf> do not yet reflect a significant stratification of the finance company sector, but new charts may be required once the two factions are clearly established.

Time to expiry of the existing Government Retail Deposit Guarantee Scheme is now just over 12 months. Top finance company current debenture stock rates with full term Government Deposit Guarantee are:

Issuer	Term	Rate p.a.	\$ Minimum	Interest Payment
Marac	3 months	4.50%	\$1000	quarterly
Marac	6 months	5.50%	\$1000	quarterly
NZF Money	9 months	4.60%	\$10,000	quarterly
PGG Wrightson	10 months	4.90%	\$10,000	quarterly
Marac	12 months	7.00%	\$1000	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.

South Canterbury Finance has suspended accepting deposits while it produces a new prospectus in response to its S&P rating downgrade to BB+, plans for new capital raising and reviews the Government’s Retail Deposit Guarantee Extension. South Canterbury is eligible to apply for approval under the Extension. A new prospectus is expected towards the end of September. Major shareholder and rich-list member Allan Hubbard has executed a \$25m underwriting agreement for specific non-performing loans at book value. South Canterbury has appointed two new independent directors and is in talks with a syndicate of five US private investors who are entitled to request repayment of their US\$100m investment as a consequence of the S&P rating downgrade to BB+. A public float and listing of South Canterbury on the NZ Stock Exchange remains a possibility but Allan Hubbard should remain in a strong position.

Instant Finance has repaid the last of its remaining debenture holders and will rely on wholesale funding to continue its finance company operations. Treasury declined Instant Finance’s application for approval under the current Deposit Guarantee Scheme and the Company believes this competitive disadvantage means that it would be unable to successfully source funding through a further debenture issue. Instant finance remains one of the few finance companies currently advertising for business in an “as usual” manner.

Oxford Finance has reopened its debenture book to new investments with debenture stock being guaranteed by both the parent company (electricity lines company Electra Limited) and the New

Zealand Government under the Crown Retail Deposit Guarantee Scheme. Oxford Finance has retained a high level of reinvestment.

OPI Pacific Finance has been placed in receivership by the Trustee following an order for liquidation of the Australian parent company Octaviar, issued by the Supreme Court of Queensland. Conditions of the moratorium approved by investors last year will now be set aside. One would expect the receiver to write to investors soon, outlining new strategy and recovery implications.

6. Investment Strategy

Equities remain in sharp focus. Despite reasonable fundamentals and outlook, human nature could trigger a sharp reversal at short notice as we move towards October. Apart from a few very special situations, good opportunities in the market are increasingly hard to find.

Strong equity markets over the past five months may entice a few new IPO floats destined for listing on the NZX. Such floats, in which private investors can actually purchase shares, have an appalling record of destroying shareholder wealth and should be avoided like the plague. There remains a possibility that some State Owned Enterprises may be partially or even fully floated as the Government seeks to fund its massive deficit. In the past, where SOEs have avoided being skinned and gutted by an initial majority shareholder before being on-sold, ex-SOEs have been sound investments. Examples include Contact Energy, Opus International Consultants and Capital Properties (since taken over and delisted). Hopefully the New Zealand public will be given a fair opportunity to participate in initial floats. This would certainly help to implant the measure of confidence in local capital markets that Government seeks.

So, from an investment strategy point of view, we are happy to be mainly observers of equities for now.

The Canopus Reference Portfolio unit value chart can be seen at http://www.canopus.co.nz/Unit_Value.pdf

Listed property trusts still carry the risk of further write downs in property values and decreasing rental incomes. Also, the trusts would not be immune to a general equities market reversal. There could be some excellent investments in this sector towards the end of the year.

Income seeking investors holding Government Guaranteed investments maturing within the next 12 months should now be considering a strategy to maintain income with good security after termination of the current Retail Deposit Guarantee Scheme on 12 October 2010 and its extension to 31 December 2011.

In general, deposit interest rates should trend upwards over the next year as the Government attempts to fund its huge deficit and termination of the initial Government Retail Deposit Guarantee Scheme approaches. An added factor could be major reserve banks overseas starting to restrict credit to head off inflation. Investors should benefit by keeping deposit terms short – 2 years or under.

A diversified portfolio approach offers the best opportunity to achieve good income while maintaining high 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 - do not wait until the last

minute before seeking assistance as compiling a high quality investment portfolio takes time.

Contact Canopus now for personal investment advice.

And here's a fellow who really knows how to find the best investment advice.....

<http://www.youtube.com/watch?v=Loi-cTSQy2Q>

Regards,

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

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