Information and Advice on the NZ Sharemarket from Securities Research Company's . . .

Market Analysis

Issue No. 324 P.O. Box 34-162, Auckland June 8, 1999.

Inside Market Analysis

Editor and Research Director: James R Cornell (B.Com.)

Summary and Recommended Investment Strategy.

We expect the NZ stockmarket to rise over the next twelve months owing to favourable Fundamental, Technical, Monetary *and* Economic indicators. The outlook for the Australian stockmarket is also favourable (although Fundamental and Economic indicators are only neutral). Remain fully invested in shares - especially *under-valued, neglected, smaller* company shares.

Investment Outlook.

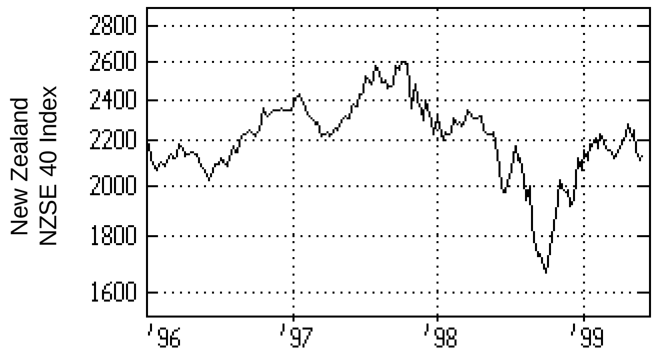
The outlook for the NZ stockmarket is favourable with our **Primary Trend Model** at **79%**. This bullish Forecast is the result of favourable Fundamentals (NZ shares are *under-valued* relative to most other world stockmarkets), favourable Technical indicators (i.e. the stockmarket *trend* is upwards), favourable Monetary conditions (interest rates are low, having fallen significantly over the last year) *and* a favourable Economic situation (i.e. economic conditions are depressed, but showing signs of recovery).

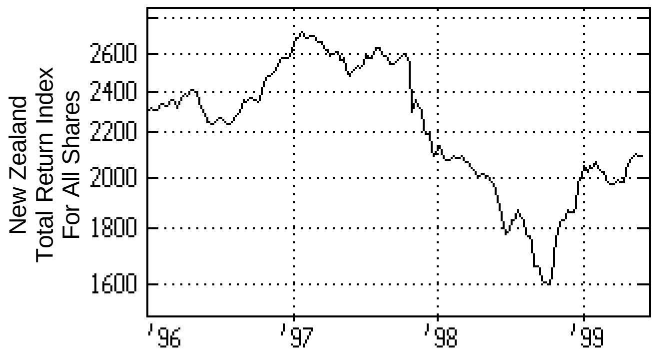
Contrary opinion investors will also be pleased to learn that several subscribers questions why we invest 40% of our portfolio in NZ shares (another 20% is in Australia and 40% invested internationally - mainly in Asian stockmarkets at this time). “Why invest so much in NZ when it has under-performed Australia (and the United States) over the last decade?” they asked. Unfortunately, the *answer* to that is a long, involved discussion that will have to wait for another time.

The important point here is that when investors are ready to “give up” on the NZ stockmarket ever recovering (in favour of investing their money in something that is *performing* - perhaps US internet stocks??) then we have probably reached the *point of maximum pessimism* - and share prices could go straight up from here.

Despite this pessimism by some longer term investors, we have noticed interest in the stockmarket is increasing among the general population. That is a healthy development, and if it continues then the NZ stockmarket could perform well over the 2-3 years. Ultimately, it *could* lead to *too much* interest and a 1986-87 type boom and bust. But we shall *start* worrying about that *next year*.

Our **Short Term Trend Model** of the NZ stockmarket is **Bullish** at **75%**, while “International Investor” predicts a reasonably favourable **61%** probability of the Australian stockmarket rising over the next twelve months.





Performance Forecasts

"**Performance Forecasts**" are computer generated predictions of the relative future price performance of a company's shares over the next three to six months. Performance Forecasts are calculated for **every** listed NZ share (except Investment Trusts) on a rating scale using the letters "A" (Highest potential for capital appreciation over the next 3-6 months), "B" (Above Average), "C" (Average), "D" (Below Average) and "E" (Lowest). These predictions are NOT buy or sell recommendations, but can be useful to help time planned purchases or sales, or to identify shares worthy of further study and analysis.

	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
A. Barnett Ltd	C	114	0.55	NE	3.9
AMP Limited	B	2045	0.73	18	1.0
AMP NZ Office	D	99	6.42	44	6.7
Advantage HDS	C	181	1.15	NE	Nil
Affco Holdings	E	21	0.05	NE	Nil
Air New Zealand	A	318	0.58	12	6.3
Akd Int Airport	B	282	7.67	29	2.6
Apple Fields	C	15	2.06	NE	Nil
Aquaria 21	E	13	N/A	NE	Nil
Baycorp Hold	A	540	9.58	37	3.7
Brierley Invest	D	54	0.56	NE	8.3
Broadway Ind	D	30	0.07	NE	Nil
CBD New Zealand	C	79	5.82	12	Nil
CDL Hotel NZ	D	34	0.57	17	3.3
CDL Investments	E	25	1.75	11	11.9
Cap Properties	C	53	N/A	6	20.8
Carter Holt	B	212	1.28	71	3.8
Cavalier Corp	B	356	0.66	13	10.5
Cedenco Foods	B	80	1.89	9	Nil
Ceramco Corp	B	150	0.69	20	5.0
Col FS Property	C	96	N/A	14	10.7
Col Motor Co	A	220	0.22	9	9.2
Colonial Ltd	B	700	0.88	18	0.8
Contact Energy	B	328	N/A	30	4.0
Corp Invest Ltd	E	79	0.87	16	5.7
Cue Energy Ltd *	N/R	6.5	2.11	NE	Nil
DB Group	D	240	0.36	10	10.0
Dairy Brands	E	29	1.33	NE	Nil
Damba Hold Ltd	C	50	0.59	NE	Nil
Design Textiles	C	34	0.27	8	13.2
Donaghys Ind	C	127	0.35	NE	8.2
Dorchester Pac	B	71	0.66	10	8.4
East'n Equities	D	45	0.15	NE	10.0
Ebos Dental & S	A	540	0.66	15	7.5
Ernest Adams	D	163	0.45	33	Nil
Evergreen	D	44	N/A	NE	Nil
FC - Building	C	278	0.35	8	7.5
FC - Forests	D	94	1.68	NE	Nil
FC - Energy	C	465	1.69	16	5.1
FC - Paper	D	150	0.39	NE	3.0
Fernz Corp Ltd	B	575	0.61	17	4.7
Fisher & Paykel	C	580	0.81	19	4.6
Force Corp.	C	57	2.66	12	10.5
Fruitfed Supp	A	130	0.27	15	8.0
Goodman Fielder	B	182	0.63	15	4.8
Grocorp Pacific	D	15	0.78	NE	Nil
Guiness Peat	C	155	1.51	11	1.2
Habitat Group	C	6.6	5.32	NE	Nil
Hallenstein G.	B	255	0.97	16	9.4
Hellaby Hold.	B	200	0.73	7	10.4
Heritage Mining*	N/R	5.0	N/A	NE	Nil
Horizon Energy	B	675	2.31	19	5.6
IT Capital Ltd	B	18	7.06	NE	Nil
Ind Newspapers	B	685	0.87	18	5.0
Infratil Aust.	D	94	N/A	59	2.3
Infratil NZ	B	145	8.67	10	5.9
Infratil Int'l	D	38	N/A	32	Nil
J Boag & Son	E	66	0.40	16	3.7
JF China Region*	N/R	62	N/A	NE	2.0
Kingsgate Int'l	E	17	0.77	12	Nil
Kiwi Developmnt	D	36	N/A	NE	Nil
Kiwi Property	C	103	7.08	11	10.0
LWR Industries	C	120	0.37	10	13.7
Lion Nathan Ltd	C	435	1.32	18	4.2
Lyttelton Port	C	167	3.20	13	5.6
Mainfreight Grp	C	150	0.52	15	5.5
Manor Inns Grp	E	11	0.23	NE	Nil
Max Resources*	N/R	13	N/A	NE	Nil
Metro. LifeCare	C	185	1.80	17	4.8
Michael Hill	B	305	0.83	16	4.6
Mid-Cap Index*	N/R	193	N/A	NE	Nil
Mr Chips Hold	D	58	0.59	22	15.4

	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
NMFM Asia Inv. *	N/R	85	N/A	NE	Nil
NZ Experience	D	9.5	0.72	NE	Nil
NZ Invest Trust*	N/R	408	N/A	NE	2.0
NZ L Leathers	A	275	1.18	18	8.1
NZ Oil and Gas *	N/R	33	1.43	9	7.6
NZ Petroleum Co*	N/R	0.9	0.34	NE	Nil
NZ Refining Co	C	1520	1.50	15	6.6
NZ Rural Prop.	D	100	3.39	30	Nil
NZ Salmon Co	E	19	N/A	NE	Nil
Nat Property Tr	C	99	6.23	12	10.1
National Mutual	C	304	3.39	16	3.5
Natural Gas	C	159	1.82	12	10.3
Newmarket Prop.	D	56	3.86	NE	17.0
Nobilo Wines	D	80	N/A	15	5.6
Northland Port	C	121	1.02	16	8.0
Nuhaka Forestry	C	1070	N/A	NE	Nil
Nuplex Indust	B	298	0.93	23	5.3
Opio Forestry	D	53	N/A	NE	Nil
Otter Gold Mine*	N/R	86	0.55	4	Nil
Owens Investmts	C	141	0.20	20	10.6
Ozzy (Tortis)*	N/R	214	N/A	NE	Nil
PDL Holdings	C	500	0.20	7	11.9
Pacific Retail	B	143	0.21	12	6.3
Paynter Hold	E	13	0.19	NE	Nil
Port Tauranga	A	525	8.69	34	3.7
Ports Auckland	C	525	4.15	17	5.1
Progressive Ent	B	226	0.23	26	3.3
Property F Ind.	D	80	6.26	15	8.1
Pure NZ Limited	D	16	N/A	NE	Nil
Qest (Enerco)	C	570	2.32	14	4.5
Radio Otago Ltd	A	480	1.58	18	4.4
Radio Pacific	A	640	1.76	14	3.5
Reid Farmers	C	54	0.41	8	11.1
Renaissance	B	45	0.10	12	Nil
Restaurant Brds	B	135	0.55	14	6.6
Revesco Ltd*	N/R	25	N/A	NE	Nil
Richina Pacific	D	63	0.09	NE	Nil
Roller Int'l *	N/R	120	0.47	NE	Nil
SE Utilities	C	88	1.49	9	13.6
Sanford Limited	A	460	1.37	21	3.9
Savoy Equities	C	7.5	2.37	NE	Nil
Scott Tech. Ltd	A	235	1.91	17	6.4
Seafresh Fish.	D	13	0.40	NE	Nil
Shortland Prop.	D	59	5.70	11	10.6
Shotover Jet	D	68	0.85	44	Nil
Sky City Ltd	B	750	3.07	23	5.8
Sky Network TV	E	288	5.01	NE	Nil
South Port NZ	C	83	0.82	10	9.4
Spectrum Res.*	N/R	2.5	N/A	NE	Nil
St. Lukes Group	B	193	3.28	8	8.6
Steel & Tube	C	167	0.37	12	12.5
Strathmore Grp	D	26	5.57	NE	Nil
Summit Gold Ltd*	N/R	13	N/A	74	Nil
Tag Pacific Ltd	D	14	0.31	11	5.1
Tasman Agric.	C	75	2.47	8	4.4
Taylors Grp Ltd	C	111	1.42	28	5.4
TeNZ *	N/R	100	N/A	NE	Nil
Telecom Corp	B	840	4.29	18	8.2
Tourism Hold.	C	224	0.99	28	Nil
Trans-Tasman	E	41	1.38	NE	Nil
Trans Alta NZ	C	207	1.01	15	7.0
Tranz Rail Hold	C	300	0.63	8	8.5
Trust Power Ltd	B	402	3.59	25	5.4
United Networks	C	600	2.08	14	8.2
Warehouse Group	C	715	1.35	26	2.9
Waste Mgmt NZ	A	900	4.59	33	1.8
Williams Kettle	B	210	0.31	28	8.5
World Index Fd *	N/R	170	N/A	NE	Nil
Wrightsons Ltd	D	34	0.08	7	14.5
Zuellig NZ	E	74	0.19	NE	2.0
Ave of 142 Coys	C	218	0.51	21	4.6

	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
A.G.L.	C	955	2.30	15	4.3
AAPT	C	480	2.45	NE	Nil
AMP Ltd	D	1680	0.71	17	1.1
AMP Office Trt	E	113	N/A	NE	Nil
AMP Shop Centre	E	120	N/A	NE	Nil
ANZ Bank	B	1133	1.46	15	4.6
APN News Media	A	264	1.90	18	4.0
Advance Prop	C	143	7.14	12	8.1
Amcor Ltd	B	844	0.89	21	4.5
Amway Asia Pac	D	1610	N/A	NE	Nil
Aristocrat	A	1155	2.95	43	1.2
Aust Stock Exch	C	1015	N/A	NE	Nil
Austrim Ltd	C	288	8.17	63	4.0
BRL Hardy Ltd	A	645	1.83	23	2.0
BTR "A"	D	508	N/A	NE	Nil
Bank of W.Aust	B	340	4.85	14	4.9
Boral Ltd	C	253	0.58	34	3.0
Brambles Ind.	B	4120	2.27	38	1.8
C & W Optus	C	298	4.53	NE	Nil
C'wth Prop Off.	E	94	N/A	NE	Nil
C.S.R. Ltd	B	431	0.66	13	5.3
CSL Limited	C	1288	4.61	38	1.4
Cadbury Sch.	D	2110	N/A	NE	1.6
Challenger Int.	B	742	N/A	NE	Nil
Coal & Allied	A	1500	1.62	11	6.7
Coca-Cola Bev.	E	294	N/A	NE	Nil
CocaCola Amatil	B	620	1.68	33	3.1
Cochlear Ltd	B	1170	6.30	44	1.3
Coles Myer	C	826	0.45	24	2.9
Colonial Ltd	C	570	1.06	22	2.6
Com'wealth Bank	B	2517	3.05	21	4.1
Com. Inv. Trust	E	92	N/A	NE	Nil
Computer Share	A	1368	N/A	NE	0.3
Crown Ltd	C	88	0.69	13	Nil
David Jones	C	154	0.42	19	4.5
E.R.G.	A	253	2.22	36	0.4
Email Ltd	B	285	0.33	16	4.9
Fairfax (John)	C	410	2.80	NE	2.3
Faulding (F.H.)	B	860	0.67	19	2.3
Flight Centre	A	750	0.39	33	1.5
Foodland Assoc	C	1050	0.25	20	4.4
Foster's Brewin	C	447	3.34	35	2.5
Futuris Corp.	B	208	0.35	9	3.6
GIO Australia	E	364	0.81	NE	6.0
GWA Internat'l	B	277	1.44	19	4.0
Gandel Retail T	C	109	N/A	15	7.4
General Prop Tr	D	247	9.11	14	7.7
Ges Internat'l	A	123	0.81	51	0.8
Goodman Fielder	C	148	0.60	13	5.1
Guinness Peat	B	126	2.49	11	0.4
HIH Insurance	D	167	0.23	9	9.6
Hardie (James)	C	390	1.11	NE	3.8
Harvey Norman	B	1250	N/A	69	0.4
Hills Motorway	D	423	9.29	NE	Nil
Hoyts Cinemas	B	205	1.21	16	2.0
Incitec	C	555	0.68	19	3.8
Infrastructure	B	142	6.34	7	7.0
Jupiters	B	362	1.49	23	3.6
Lang Corporatio	C	445	1.56	NE	Nil
Leighton Hold	C	591	0.51	15	4.4
Lend Lease Corp	B	2060	1.51	14	5.2
Macquarie Bank	A	1790	3.47	17	3.8
Mayne Nickless	C	537	0.59	17	5.6
Mirvac Property	C	155	8.49	13	7.3
Mobile Com.	C	1260	N/A	NE	Nil
Nat'l Mutual	D	249	3.29	21	3.5
Nat'l Mut. Prop	C	119	N/A	16	6.4
Nat'l Aust Bank	B	2600	1.49	19	3.9
Nat'l Foods	B	275	0.72	18	3.8
News Corporatio	B	1336	5.12	NE	0.2
One Tel Ltd	B	121	6.86	NE	1.7
Orica Ltd	C	875	0.70	20	5.7
Orogen Minerals	C	163	2.95	13	4.0
PBL	B	980	4.31	10	4.9
PMP Communicat.	A	302	0.67	13	6.8
Pacific Dunlop	C	261	0.38	15	5.4
Pacific Group	B	595	1.33	38	2.7
Perp Trust Aust	A	2360	6.05	32	2.2
Pioneer Int'l	B	371	0.88	18	5.1
Prime Indust.	C	72	8.64	9	8.6
Property Income	C	117	7.86	12	8.8
Q.B.E. Insur.	C	598	0.84	23	4.3
Q.C.T. Resource	C	79	0.54	11	8.9
Qantas	B	440	0.63	16	3.1
Rio Tinto Ltd	B	2259	1.48	12	2.5
Rothmans Hold	B	1420	0.57	15	6.0
Rural Press Ltd	A	510	1.24	13	2.4
Schroder Prop.	C	238	8.29	14	7.7
Seven Network	C	470	1.85	75	4.4
Silex Systems	C	500	N/A	NE	Nil
Simsmetal Ltd	A	702	0.39	13	5.1
Smith (Howard)	B	1165	0.87	34	3.4
Smorgon Steel	E	238	N/A	NE	Nil
Sonic Health	A	420	3.53	46	2.1
Southcorp Ltd	B	646	1.45	25	2.8
Spotless Group	B	400	0.55	23	3.4
St George Bank	B	1076	1.48	29	4.8
Star City Hold.	C	161	1.10	37	Nil
Stockland Trust	C	344	5.96	14	7.2
Suncorp-Metway	B	880	0.68	16	5.0
TAB Ltd	C	295	2.30	30	Nil
Tabcorp Holding	B	1152	3.67	29	3.3
Telstra	B	765	4.39	25	1.8
Ten Network	C	224	0.85	76	13.4
Transurban Grp	C	180000	N/A	NE	Nil
Tyndall Aust.	A	276	5.63	21	2.2
United Energy	B	236	1.44	65	7.3
Village Road.	C	270	0.99	14	3.7
Wesfarmers Ltd	B	1420	1.26	20	4.6
West Aust News	B	541	3.43	16	6.7
Westfield Hold.	C	900	7.03	43	1.2
Westfield Trust	C	307	9.56	17	6.7
Westfield Amer.	D	150	3.64	15	6.2
Weston (George)	C	690	0.55	19	2.8
Westpac Banking	B	1029	1.79	15	4.2
Westpac Prop Tr	C	157	6.37	8	8.2
Wills (WD & HO)	A	608	0.44	18	4.9
Woolworths Ltd	C	520	0.19	21	3.3
Ave of 1217 Coys	C	318	0.37	22	2.5

Recommended Investments

Apple Fields has received approval for all of the re-zoning sought to enable it to proceed with its residential land developments - resulting in the share price rising 66.7% over the last month! However - before anyone gets too excited - Apple Fields now needs to obtain the funds for development (hopefully not from a share placement that dilutes shareholders' net asset values or by selling off the best properties too cheaply) or find joint venture partners (on terms that will benefit Apple Fields and its shareholders) and then develop, sub-divide and sell the residential sections (at a profit - after management costs and directors' fees) and *then* (hopefully) use the profits to pay shareholders a dividend or make a return of capital. Even then there is no chance that we will ever actually show a profit on our original investment!

We rate Apple Fields a "Hold" as the shares still trade at a huge discount to net asset value and the price may rise by further large *percentage* amounts (from their current low base). However, this company doesn't seem to be very good at making money for its *public investors* - so we recommend against investing any additional money in these shares!

CDL Investments has spent $3,470,000 on three land acquisitions. A 7.5 hectare site at Munroe Road (750 metres from the company's **Highfields** sub-division in Auckland) will be sub-divided next summer to make about 88 residential sections. A further 1.3 hectare elevated site adjoining Highfields will be developed into 22 premium residential sites. These two purchases will boost the company's diminishing Auckland land holdings. A 3.5 hectare site on Don Buck Road, Massey will be held for eighteen months (until new zoning is expected to become operative) and then sub-divided into lower priced sections.

Trading for the first four *(Continued on Page 4)*

Portfolio of Recommended Investments

CURRENT ADVICE	Company	Code	Initial Recommendation - Date -	Initial Recommendation Price	Performance Forecast	Issued Shares (mil.)	Volatility Ratio	Price/ Sales Ratio	Price/ Earnings Ratio	Gross Dividend Yield	Recent Share Price	Cash Dividends Rec'd	Total Return %
	NZ Shares												
HOLD+	Air New Zealand "A"	AIRVA	08/10/96	257*	A	566.8	0.9	0.58	12	6.3	318	54.0	+45%
HOLD	Apple Fields Limited	APF	10/03/92	237	C	29.2	2.1	2.06	NE	Nil	15	10.0	-89%
BUY	CDL Investments Ltd	CDI	12/01/99	25	E	169.5	2.0	1.75	11	11.9	25	2.0	+8%
BUY	Cavalier Corporation	CAV	05/12/95	312	B	36.0	0.9	0.66	13	10.5	356	79.0	+39%
BUY	Colonial Motor Company	CMO	10/11/92	150	A	30.9	0.9	0.22	9	9.2	220	179.8	+167%
HOLD+	Designer Textiles Ltd	DTL	12/01/99	47	C	29.7	1.9	0.27	8	13.2	34	1.0	-26%
BUY	Fernz Corporation Ltd	FER	11/02/97	505	B	145.7	0.8	0.61	17	4.7	575	42.0	+22%
BUY	Fruitfed Supplies Ltd	FSL	09/02/93	210	A	12.1	1.1	0.27	15	8.0	130	51.0	-14%
HOLD	Michael Hill Int'l Ltd	MHI	11/06/91	46*	B	38.6	0.8	0.83	16	4.6	305	45.5	+662%
HOLD+	Nuplex Industries Ltd	NPX	11/02/97	350	B	54.6	1.0	0.93	23	5.3	298	16.0	-10%
HOLD+	Owens Group Limited	OWN	12/03/91	47*	C	56.3	1.1	0.20	20	10.6	141	59.3	+326%
HOLD+	PDL Holdings Ltd	PDL	13/02/96	810	C	13.4	0.9	0.20	7	11.9	500	113.0	-24%
HOLD+	Radio Otago Limited	ROT	12/03/91	111*	A	4.4	0.5	1.58	18	4.4	480	74.0	+399%
HOLD+	Radio Pacific Limited	RPA	08/12/92	205	A	8.7	0.6	1.76	14	3.5	640	105.0	+263%
HOLD	Renaissance Corp	RNS	13/08/96	96	B	23.5	1.8	0.10	12	Nil	45	5.0	-48%
HOLD	Richina Pacific	RCH	03/11/95	119*	D	72.2	1.5	0.09	NE	Nil	63	11.9	-37%
HOLD	South Port New Zealand	SPN	13/02/96	120	C	32.4	1.1	0.82	10	9.4	83	29.8	-6%
HOLD+	Tourism Holdings Ltd	THL	14/07/92	179*	C	56.6	1.0	0.99	28	Nil	224	51.7	+54%
HOLD	Wrightson Limited	WRI	13/01/98	83	D	139.7	1.8	0.08	7	14.5	34	6.3	-51%
	Australian Shares (in Aust cents)												
BUY	Abigroup Limited	ABG	09/03/99	265	C	47.1	0.5	0.21	7	4.9	243	6.0	-6%
HOLD+	Atlas Pacific Ltd (1)	ATP	14/05/96	73	D	49.4	1.9	7.93	NE	Nil	17	Nil	-77%
HOLD+	Biron Corporation Ltd	BIC	12/04/94	178	B	21.6	1.7	0.90	11	10.0	20	9.0	-84%
BUY	Central Equity Ltd	CEQ	09/02/94	154	B	81.7	0.5	0.76	8	6.9	189	51.0	+56%
BUY	Data#3 Limited	DTL	09/02/99	285	A	13.2	1.0	0.38	13	4.4	260	5.5	-7%
HOLD+	E.R.G. Limited	ERG	10/10/95	152*	A	200.9	0.5	2.22	36	0.4	253	6.0	+70%
HOLD+	Flight Centre	FLT	11/08/98	308	A	80.9	0.3	0.39	33	1.5	750	13.0	+148%
HOLD	Hancock & Gore	HNG	15/07/97	125*	C	46.5	0.6	0.61	11	5.5	141	7.8	+19%
BUY	PMP Communications	PMP	09/02/99	309	A	253.0	0.4	0.67	13	6.8	302	10.4	+1%
BUY	Thakral Holdings	THG	10/11/98	65	C	489.6	1.0	1.46	11	8.7	60	2.6	-4%
BUY	Toll Holdings	TOL	08/09/98	240	A	46.3	0.3	0.29	18	2.5	555	18.0	+139%
BUY	Vision Systems	VSS	10/11/98	690	B	11.9	0.3	0.71	7	3.9	670	14.0	-1%

The average Total Return (i.e. both Capital Gains/Losses plus Dividends received) of all current investments from initial recommendation is +62.3%. This is equal to an average annual rate of +24.7%, based upon the length of time each position has been held.

The average annual rate of gain of ALL recommendations (both the 31 current and 99 closed out) is +34.5%, compared with a market gain of +15.0% (by the SRC Total Return Index).

CURRENT ADVICE is either Buy, Hold+, Hold, Hold- or Sell. Hold+ indicates the most attractive shares not rated as Buy. Hold- indicates relatively less attractive issues.

* Initial Recommendation Prices adjusted for Share Splits, Bonus and Cash Issues.

(1) Atlas Pacific notes (ATPG) last traded at 20 cents.

Recommended Investments *(Continued from Page 3)*
months of this financial year are "all ahead of budget and the strengthening of the NZ economic environment and low interest rates augur well for the residential property market and our business".

CDL Investments is a *smaller* listed company, operating in a volatile, but potentially very profitable business (i.e. residential property development). We believe that economic conditions are favourable for the company and that the share price is under-valued. A "Buy" for capital appreciation - not to mention that very high 11.9% gross Dividend Yield!

Colonial Motor Company has completed the acquisition of a Wellington Mazda dealership, and the expansion of the Colonial Motor/Ford Motor joint venture dealer network in Auckland to include three Mazda dealerships and Mazda NZ as a shareholder. No value or other details have been given on these transactions.

Designer Textiles is to acquire (subject to shareholder approval) **Moller Textiles** for $10 million in cash. Details of Moller Textiles' current level of revenue and profits have not yet been disclosed but will probably be announced prior to shareholders voting on the acquisition. However, net assets being acquired are $6.2 million with goodwill at $3.8 million. Designer Textiles plans to partially fund this acquisition with money from the unconditional sale of a property in Brisbane.

Moller Textiles, which is a major curtain supplier specialising in "ready made" curtains, has been owned by the Moller family for 27 years and will continue to operate with its existing management. This sector of the curtain market is growing and Designer Textiles will be able to provide additional manufacturing capacity to Moller without the need for additional investment in fixed assets. Inter-company manufacturing will also better utilise existing production facilities, and there are potential cost savings in merging administration.

Aided by this acquisition, Designer Textiles is forecasting tax paid profits "in excess of $3 million" (10 cents per share) from sales of over $60 million in the year to June 2000.

We downgraded Designer Textiles to a "Hold" after an overseas institution dumped 1,600,000 shares on the market at prices as low as 26 cents. As expected, re-selling by investors who bought from that institution kept Designer Textiles' share price weak and they drifted back to 28 cents by early May. We are now upgrading Designer Textiles shares to a "Hold+" as this acquisition will increase the size of the group's business and improve profits and growth potential.

Fernz Corporation has sold its remaining NZ fertiliser investment, a 40% shareholding in **BOP Fertiliser**, for $75.3 million. 20.1% of the company was sold to **Norsk Hydro Asia** and 19.9% to **BOP Co-op Fertiliser** (which now owns 79.9% of the company). Fernz Chemicals will continue to import raw materials from major international suppliers, but has no investment in fertiliser manufacture or marketing.

Fernz has also entered a strategic alliance with **Merial** which is the world's largest supplier of Animal Health products. Merial will take over the marketing and distribution of Animal Health products in Australasia, while Fernz will continue manufacturing and product development. This arrangement will also allow Fernz to focus on its Crop Protection business.

Fernz subsidiary, **Pharma Pacific**, has also announced the licensing of US based **Coulter Pharmaceuticals Inc** with the exclusive rights to commercialise a proprietary monoclonal antibody for the treatment of auto-immune diseases (e.g. rheumatoid arthritis) and graft rejection. Pharma Pacific will receive $2.75 million immediately, up to another $19 million (at stages through to successful product development and approval for marketing) and then on-going royalties.

Fruitfed Supplies has reported a 7.2% increase in revenue to $58.0 million and a 1.8% lift in profits to $1,043,000 (14.5 cents per share) for the year to March 31. A 5.0 cents final dividend will make a steady annual 7.0 cents payout (plus full imputation tax credits) - but the company will also pay a "special" 16.0 cents dividend (with full tax credits).

The company's *reason* for this special dividend is given as: "Acquisition of complementary businesses has been investigated but projects which meet the expectations of management and directors have not been found. Accordingly, a special dividend will be paid to shareholders." It is likely, however, that the real reason has to do with distributing imputation tax credits ahead of a change in ownership. The **NZ Fruitgrowers Charitable Trust** is to sell 4,034,956 shares (33.33% of the company) to **Williams & Kettle** (which will then own 69.67% of Fruitfed). This large change in ownership would result in Fruitfed's accumulated imputation tax credits being lost. Williams & Kettle will pay 119 cents for these shares after the 21.0 cents of dividends, valuing the shares at 140 cents at present.

It is likely that Williams & Kettle will make a full takeover offer to buy out the minority public shareholders, possibly soon after this purchase becomes unconditional on June 25. Buying out the minority shareholders would require only $4.4 million but save all of the annual costs of operating a separate stock exchange listed company, so is sound financial logic. Although Selwyn Cushing is only a director and major shareholder at Williams & Kettle, the company is likely to adopt a style of takeover bid learnt during his years at Brierley Investments - that is, don't pay one dollar more than is necessary. A bid at 119 cents ex-dividend (i.e. equal to 140 cents per share cum-dividend) is the minimum that the company *can* offer (to be considered fair and reasonable) - and will probably be the *maximum* that it would want to pay!

Nevertheless, Fruitfed Supplies reports "positive trends are continuing and are expected to *substantially improve trading results in the current year*", so we are in no hurry to sell and would rather remain shareholders and benefit from this recovery and future growth. We continue to rate Fruitfed Supplies a "Buy" - especially at a price less than 140 cents cum-dividend or less than 119 cents ex-dividend. If a takeover offer *is* made later this month, then shares purchased at the current price of 130 cents would yield a short term gain of at least 7% (from 21.0 cents of tax-paid income and at least 119 cents in the offer). It is also likely that Williams &

Kettle would need to raise its offer at least 5-10% (to 125-130 cents ex-dividend) to be successful.

Owens Group's revenues fell 5.4% over the last year to $388.2 million with trading profits down 45.6% to $4,041,000 (7.2 cents per share). Almost half of this fall in profits resulted from the sale of businesses during the current year. These sales have allowed the company to reduce debts from $21.2 million to $10.2 million (although that has not yet resulted in a lower interest expense) *and* to increase its cash in the bank from $3.7 million to $10.4 million. A final 6.0 cents dividend (plus full tax credits) maintains a steady 10.0 cents annual dividend payout, while a “special” 12.0 cents dividend (but with only one-third imputation tax credits) will also be paid. These two dividends will distribute $10.1 million in cash to shareholders.

Major businesses sold during the year were **Rhino Security** (realising a $7.0 million capital gain), **Chep**, **Nedlloyd/Owen**s and **Owens Petroleum**, while the company closed down US based **Owens Cooltainer** (at a loss of $4.4 million), **Owens Container Lines Singapore** and **Owens International's** Fremantle branch. The company will focus on being a regional operator, servicing NZ, Australia, Asia and the Pacific Islands. Owens has spent A$5.5 million to acquire Melbourne based **Hyde Park Tank Container Holdings** which specialises in the cleaning, repair and storage of ISO tank containers and the cleaning of road tankers

Owens Group does not anticipate further significant business sales or closures - but needs to restore adequate profit margins to its current businesses.

Radio Otago has reported a 19.5% lift in revenue to $13.4 million for the year to March 31, with profits up 26.3% to $1,171,000 (14.2 cents per share). A final 9.0 cents dividend makes 14.0 cents (plus full tax credits) for the year. The issued capital increased by a 1 for 8 bonus issue in July 1997, so this year's dividend is a 57.5% increase on last year! Radio Otago's profit *before* goodwill amortisation (i.e. restated in the accounting policies used by its proposed merger partner, **Radio Pacific**) was $1,603,000 (19.5 cents per share).

Radio Pacific - which has expanded more aggressively - lifted revenues 39.9% to 31.5 million and profits jumped 65.6% to $3,901,000 (45.0 cents per share). A final 7.5 cents will make a steady 15.0 cents dividend (plus full tax credits) as Radio Pacific seeks to retain earnings to repay borrowings used to partially fund major acquisitions over the last two years.

In the proposed **Radio Pacific/Radio Otago** merger, Radio Pacific will contribute 70.2% of the revenue of the combined group and 70.9% of the profits, with its shareholders obtaining 72.4% of the equity. Radio Otago contributes 29.8% of the revenue and 29.1% of the profits and its shareholders receive 27.8% of the equity. That looks to be very fair to the shareholders in both companies!

As outlined last month, the merger will reduce overhead costs (increasing profitability) as well as increasing the marketability of the shares that could attract institutional buying. Last month we wrote “In the short to medium term we anticipate that merger benefits could see the shares being re-rated upwards and outperform the NZ stockmarket over the next several months” and since then their share prices have risen 18-20%! Continue to hold for further short term outperformance - and these shares are also attractive as medium to long term investments, with profits likely to rise strongly with the current upturn in the NZ economy. “Hold+”.

Wrightson has acquired a 51% shareholding in Uruguay based **Semillas PAS** (which is to be renamed Wrightson PAS). Wrightson has been exporting seeds and new plant varieties to Uruguay for eight years in partnership with Semillas PAS and will now buy a controlling interest and expand the export of high-value pastoral seed varieties developed in the group's NZ breeding programs. This would appear to be a low cost way to expand sales, build a profitable business overseas as well as to generate a higher return from the NZ breeding program.

Australian Shares

Biron Corporation has entered into an exclusive worldwide distribution agreement with New York based **Kingstone Gem Importers** (excluding the Australian and NZ markets, which Biron will continue to market directly). The agreement requires Kingstone to take at least a minimum level of Biron's cultured emeralds at specific prices with payment secured by bank bills of exchange. The market for cultured emeralds remains “very competitive” and with Biron incurring restructuring costs in Bangkok and the US as a result of this change in marketing, significant benefits are unlikely to be realised in the current financial year.

Central Equity has announced its third quarterly dividend to be paid on July 6 (ex-dividend June 29). Last year the company paid a 5.0 cents interim dividend and 8.0 cents final dividend, but this year has paid 3.0 cents in the first quarter, 3.0 cents in the second quarter and will pay 4.0 cents in the third quarter.

With Central Equity's large cash holding, substantial off the plan sales and “insider” buying by the directors, these shares remain a “Buy”. The shares offer a high income yield and trade at a low P/E ratio, so could be re-rated substantially higher in price. The company's cash holding *could* be used to fund a share buy-back reducing the number of shares outstanding and allowing higher dividends to be paid on those that remained, or to fund a major acquisition (increasing earnings and dividend payments).

Data#3 aims to sell computer equipment to a wide range of customers, but prefers larger corporates requiring more expensive systems. However, companies aren't the only people with large information technology budgets. Three years ago, Data#3 introduced **St Hilda's Anglican School for Girls** (at Southport) to the use of *operational leases* to acquire and upgrade computer equipment. The school has recently renewed its three year contract with an A$500,000 annual budget. The lease arrangements are funded externally through Brisbane based **Rentworks**, with Data#3 to supply 177 PCs, 31 notebooks, two servers and radio (i.e. wireless) networking to the school this year.

Data#3's share price has been extremely volatile since we recommended buying into the company in February. The shares hit a high of A$4.00 when the company made a media presentation, but two directors took that opportunity to sell *(Continued on Page 6)*

Recommended Investments *(Continued from Page 5)*

shares. The price has since weakened to a low last week of A$2.55 - at which level we believe the shares will find technical *support* (i.e. that the price will not go lower). Despite the recent decline in price, the *long term* Relative Strength rating is +16.9%, with the shares ranked 12 (on a scale of 0-99). We continue to rate Data#3 shares as a "Buy".

ERG Ltd has re-branded all of its subsidiaries under the ERG name. AES Prodata becomes **ERG Transit Systems**, **ERG Card Systems** and **ERG Telecommunications** remain unchanged, while Australian Power Industries will now be known as **ERG Connect**.

ERG Transit Systems has won a contract to upgrade the automatic fare collection (AFC) system in all 400 buses operated by **Westbus**, Australia's largest private bus company. Installation will be completed by the end of July. ERG has already installed smart card AFC systems in all **State Transit Authority** buses and is supplying new AFC systems to the State Transit Authority ferries. Most other private bus operators also use ERG fare collection systems. The use of smart cards allows all of these transport systems to be integrated, with passengers using one card to pay for travel with any public transport operator. The system also enables the transport operators to monitor revenue and evaluate operational performance bus by bus and depot by depot.

The ERG/Motorola alliance has now been formally awarded the San Francisco Translink Project, which will be the largest smart card AFC project ever awarded in the United States. As reported last month, the system will cost A$36.7 million to install with an ERG/ Motorola 50/50 joint venture operating the system for ten years at an annual fee of A$7.9-13.6 million (depending upon usage). The project is now estimated to generate total revenues of US$114-157 million over the ten year period - which is 40-50% higher than the figures released by the companies last month. A six-month trial of the system will begin in the last quarter of the year 2000, with the full system operational across the 26 operators by 2002. The system will also use ERG's new contact and contactless smart card allowing the system to be expanded to pay for telephones, parking meters, taxis and in retail at a later time.

Hancock & Gore's profit for the six months to March 31 fell 4.5% to A$2,776,000 (6.0 cents) on revenue down 18.4% to A$44.1 million. A steady 3.75 cents interim dividend will be paid on July 16 (ex-dividend July 2).

The Industrial Abrasive division raised sales, despite increased competition, but reduced exports are anticipated for the second half of the year, so full year profits from this division are likely to be "slightly less than last year".

The Imaging & Networking division experienced problems integrating the Mitsui service business and with a new management information system, resulting in "substantial non-recurring costs". The Sydney office also suffered severe water damage during a hailstorm. Insurance will cover inventory and equipment damage and consequential losses, but this situation has required additional management input. Pre-tax profits in this division fell sharply from A$1,227,000 last year to just A$139,000 over the latest six months.

The Optical division has been expanded with the purchase of a 38% interest in **Budget Eyewear**, which is the third largest eyewear retailer in Australia with 26 of its own stores and 34 franchised stores. Hancock & Gore already owns a 20% shareholding in **Laubman & Pank Holdings**, which is the second largest optical retailer with 70 stores throughout Australia. Budget Eyewear was bought in April (i.e. *after* the current reporting period) and the previous year's result included Hancock & Gore's largest Optical investment, **Perkins Optical**, which was sold in March 1998. Despite this, Optical division earnings increased 115% to A$914,000.

The Sewing, Craft and Headware division increased earnings by 42% to A$734,000. **J Leutenegger** - now 50% owned after selling half the company to management - *doubled* its earnings compared to last year when 100% owned by Hancock & Gore.

The Investment division owns 22.7% of listed **Environmental Recovery Services** and 10.0% of listed **Sabre Corporation**. The surplus market value over cost of these investments rose A$1 million to A$3.7 million over the last six months.

Hancock & Gore shares are a little weak at the present time, with a Relative Strength rating of -3.8% (ranked 68), so may under-perform slightly over the next several months. However, the shares offer excellent *value* and Hancock & Gore is a successful, low profile investment company, which we see as a long term share investment and potential "ten-bagger" (i.e. capable of increasing ten-fold in value). The company specialises in buying and rejuvenating under-performing quality businesses, then entering into joint ventures with management - which releases Hancock & Gore's money and own management for new investments while maintaining a 50% interest in the restructured business.

Back in January we reported that **Vision Systems** was negotiating to develop a digital hydrographic database for the Royal Australian Navy. This system will store digital data, allowing sea charts to be stored and displayed electronically. Those negotiations were to take 6-8 weeks with the contract valued "in excess of A$20 million". Negotiations apparently took longer than expected, but Vision Systems' subsidiary, **Vision Abell Pty**, was awarded the A$32 million contract in mid-May. Four other companies will provide Vision with specialised services for this project which will employ 40 engineers for 26 months during the development phase. Vision will then convert existing hydrographic information (including charts and survey information dating back to last century) to the new digital format, install the system at the Hydrographic Office in Wollongong and provide on-site training followed by four years of maintenance and support services.

This project has generated considerable interest from "a number of other hydrographic offices" around the world. The Digital Database, together with the company's Laser Airborne Depth Sounding Systems (LADS) establishes Vision Systems as a leading international supplier of hydrographic systems and services.

Vision Systems' share price has been very volatile over the last eighteen months - dipping back below our November 1998 initial recommendation price in the last two weeks. "Buy".

Computer Selections of NZ Shares based upon our Comprehensive Share Selection Criteria

See "Market Analysis" issues 298-301 or the Reprint sent to all new subscribers for details. These shares are not formal "buy" and "sell" recommendations, but the "Under-Valued", "Best Performing" and "Income" shares should be considered for purchase, while the "Over-valued" and "Worst Performing" shares can generally be sold to release money for re-investment in more attractive shares.

UNDER-VALUED SHARES: Lowest Price/Sales, Yld > 0, Rel Strength > 0

Company	Share Price	STRENGTH RATING Cur-rent	4-Wk Chg.	Rank 0-99	Brokers Following	Price to NTA	Return on Equity	Vola-tility	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
Pacific Retail	143	+12.7	-6.1	12	4	1.6	13	1.4	12	6.3	0.21	64
Col Motor Co	220	+7.9	-3.5	20	1	0.9	10	0.9	9	9.2	0.22	68
Progressive Ent	226	+15.9	-2.1	9	6	2.3	9	1.0	26	3.3	0.23	420
Fruitfed Supp	130	+7.1	-2.0	23	-	2.2	15	1.1	15	8.0	0.27	16
<u>Williams Kettle</u>	210	+7.3	+3.1	22	-	0.9	3	0.7	28	8.5	0.31	31
Donaghys Ind	127	+2.7	+0.7	41	2	0.7	1	0.9	104	8.2	0.35	39
Mainfreight Grp	150	+4.8	+0.4	32	6	2.6	17	1.1	15	5.5	0.52	108
A. Barnett Ltd	114	+0.2	-0.0	52	-	0.6	-	1.0	NE	3.9	0.55	17
Restaurant Brds	135	+8.5	-3.9	19	6	5.0	36	1.1	14	6.6	0.55	115
CDL Hotel NZ	34	+2.7	+1.0	40	6	0.6	3	2.0	17	3.3	0.57	119
Air New Zealand	318	+14.0	-0.2	11	10	0.9	7	0.9	12	6.3	0.58	1,802
Fernz Corp Ltd	575	+2.7	-0.0	40	8	2.2	13	0.8	17	4.7	0.61	838
Ebos Dental & S	540	+1.0	+1.6	49	-	3.9	27	0.5	15	7.5	0.66	42
Dorchester Pac	71	+4.6	+0.1	33	-	1.2	12	1.3	10	8.4	0.66	11
Cavalier Corp	356	+5.6	-2.1	28	4	1.8	14	0.9	13	10.5	0.66	128
Ceramco Corp	150	+3.7	+4.7	34	5	1.2	6	1.1	20	5.0	0.69	63
Fisher & Paykel	580	+0.8	-3.6	49	7	1.7	9	0.8	19	4.6	0.81	682
Michael Hill	305	+12.7	-4.7	13	3	3.6	22	0.8	16	4.6	0.83	118
Ind Newspapers	685	+1.5	-4.7	46	8	0.9	5	0.8	18	5.0	0.87	885
Colonial Ltd	700	+5.1	-2.3	29	-	1.4	8	0.9	18	0.8	0.88	6,421

BEST PERFORMING SHARES: Strongest Shares, P/E < 20, P/S < 1.0

Company	Share Price	STRENGTH RATING Cur-rent	4-Wk Chg.	Rank 0-99	Brokers Following	Price to NTA	Return on Equity	Vola-tility	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
Air New Zealand	318	+14.0	-0.2	11	10	0.9	7	0.7	12	6.3	0.58	1,802
Hallenstein G.	255	+12.9	-5.5	12	6	4.5	29	0.9	16	9.4	0.97	148
Pacific Retail	143	+12.7	-6.1	12	4	1.6	13	1.3	12	6.3	0.21	64
Michael Hill	305	+12.7	-4.7	13	3	3.6	22	0.7	16	4.6	0.83	118
Renaissance	45	+11.1	+13.0	15	-	1.2	10	1.5	12	Nil	0.10	11
Restaurant Brds	135	+8.5	-3.9	19	6	5.0	36	0.9	14	6.6	0.55	115
Col Motor Co	220	+7.9	-3.5	20	1	0.9	10	0.7	9	9.2	0.22	68
Fruitfed Supp	130	+7.1	-2.0	23	-	2.2	15	0.9	15	8.0	0.27	16
Cavalier Corp	356	+5.6	-2.1	28	4	1.8	14	0.8	13	10.5	0.66	128
Colonial Ltd	700	+5.1	-2.3	29	-	1.4	8	0.8	18	0.8	0.88	6,421
Mainfreight Grp	150	+4.8	+0.4	32	6	2.6	17	0.9	15	5.5	0.52	108
Dorchester Pac	71	+4.6	+0.1	33	-	1.2	12	1.0	10	8.4	0.66	11
CDL Hotel NZ	34	+2.7	+1.0	40	6	0.6	3	1.6	17	3.3	0.57	119
Fernz Corp Ltd	575	+2.7	-0.0	40	8	2.2	13	0.7	17	4.7	0.61	838
Kingsgate Int'l	17	+1.6	+0.3	45	-	0.5	4	1.7	12	Nil	0.77	67
Ind Newspapers	685	+1.5	-4.7	46	8	0.9	5	0.7	18	5.0	0.87	885
Ebos Dental & S	540	+1.0	+1.6	49	-	3.9	27	0.4	15	7.5	0.66	42
Fisher & Paykel	580	+0.8	-3.6	49	7	1.7	9	0.7	19	4.6	0.81	682

INCOME SHARES: Highest Yields, Capitalisation > NZ$100 million

Company	Share Price	STRENGTH RATING Cur-rent	4-Wk Chg.	Rank 0-99	Brokers Following	Price to NTA	Return on Equity	Vola-tility	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
Steel & Tube	167	-1.8	-1.5	63	7	1.2	10	0.9	12	12.5	0.37	147
Cavalier Corp	356	+5.6	-2.1	28	4	1.8	14	0.8	13	10.5	0.66	128
Hellaby Hold.	200	-1.0	-4.0	59	4	1.8	25	0.9	7	10.4	0.73	101
Natural Gas	159	-6.5	+0.1	82	7	1.3	11	0.8	12	10.3	1.82	627
DB Group	240	-6.8	+0.0	84	8	1.0	11	0.7	10	10.0	0.36	242
Hallenstein G.	255	+12.9	-5.5	12	6	4.5	29	0.8	16	9.4	0.97	148
Tranz Rail Hold	300	-8.1	-3.8	89	8	0.9	12	0.7	8	8.5	0.63	362
Brierley Invest	54	-6.9	+4.8	84	7	0.6	-	0.9	NE	8.3	0.56	1,612
United Networks	600	+5.7	-1.1	27	2	1.4	10	0.5	14	8.2	2.08	909
Telecom Corp	840	+2.0	-3.8	44	12	13.6	76	0.6	18	8.2	4.29	14,724

OVER-VALUED SHARES: Highest Price/Sales Ratios, Relative Strength < 0

Company	Share Price	STRENGTH RATING Cur-rent	4-Wk Chg.	Rank 0-99	Brokers Following	Price to NTA	Return on Equity	Vola-tility	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
Ports Auckland	525	-3.4	-4.2	71	7	3.2	19	0.6	17	5.1	4.15	696
National Mutual	304	-4.8	+0.2	76	-	1.0	7	0.8	16	3.5	3.39	5,286
Force Corp.	57	-2.5	+1.0	65	4	1.5	13	1.2	12	10.5	2.66	88
Tasman Agric.	75	-1.7	+0.9	62	5	0.6	7	0.8	8	4.4	2.47	101
Cue Energy Ltd	7	-11.5	+2.9	96	-	0.4	-	2.7	NE	Nil	2.11	19
Apple Fields	15	-16.6	+5.3	98	-	0.3	-	1.1	NE	Nil	2.06	4
Natural Gas	159	-6.5	+0.1	82	7	1.3	11	0.8	12	10.3	1.82	627

WORST PERFORMING SHARES: Weakest Shares, P/S Ratio > 0.25, Yield < Twice Average

Company	Share Price	STRENGTH RATING Cur-rent	4-Wk Chg.	Rank 0-99	Brokers Following	Price to NTA	Return on Equity	Vola-tility	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
Spectrum Res.	3	-48.7	-0.0	98	-	0.5	-	2.9	NE	Nil	N/A	1
Apple Fields	15	-16.6	+5.3	98	-	0.3	-	1.0	NE	Nil	2.06	4
Kiwi Developmnt	36	-14.9	+0.7	97	-	0.5	-	1.1	NE	Nil	N/A	17
Seafresh Fish.	13	-14.3	+7.9	96	-	0.5	-	1.6	NE	Nil	0.40	8
Cue Energy Ltd	7	-11.5	+2.9	96	-	0.4	-	2.6	NE	Nil	2.11	19
NZ Petroleum Co	1	-10.3	+5.7	93	-	0.1	-	4.8	NE	Nil	0.34	0
Summit Gold Ltd	13	-10.1	+4.4	93	-	1.9	3	1.7	74	Nil	N/A	11
Trans-Tasman	41	-8.9	+0.4	92	6	0.4	-	1.3	NE	Nil	1.38	149
Nobilo Wines	80	-8.7	-0.4	91	1	8.1	55	0.9	15	5.6	N/A	35
Otter Gold Mine	86	-8.2	-0.1	90	-	0.7	17	0.7	4	Nil	0.55	40
Tranz Rail Hold	300	-8.1	-3.8	89	8	0.9	12	0.7	8	8.5	0.63	362
Damba Hold Ltd	50	-7.8	-8.0	89	-	0.5	-	0.6	NE	Nil	0.59	9
Ernest Adams	163	-7.5	-2.5	87	-	1.3	4	0.6	33	Nil	0.45	27
Goodman Fielder	182	-7.5	+1.5	86	-	1.4	10	0.5	15	4.8	0.63	2,305
Tag Pacific Ltd	14	-7.1	-1.7	86	-	0.4	4	1.4	11	5.1	0.31	6
Brierley Invest	54	-6.9	+4.8	84	7	0.6	-	0.8	NE	8.3	0.56	1,612
Max Resources	13	-6.3	+1.2	82	-	0.4	-	1.5	NE	Nil	N/A	5
AMP Limited	2045	-6.0	+0.0	81	-	2.2	12	0.7	18	1.0	0.73	22,016
Pure NZ Limited	16	-6.0	+1.6	80	-	3.9	-	1.3	NE	Nil	N/A	4
Aquaria 21	13	-5.7	-1.8	78	-	1.3	-	1.8	NE	Nil	N/A	35

New Zealand Rural Services Companies:

Reid Farmers, Williams & Kettle, Wrightson

One sector of the NZ stockmarket that is depressed and offering good *value* is Rural Services: **Reid Farmers**, **Williams & Kettle** and **Wrightson**.

Williams & Kettle shares have recently appeared in the "Under-Valued Shares" section of our "Comprehensive Share Selection Criteria". Wrightson is attractive as a company making a substantial on-market share buy-back, while Reid Farmers offers *income* investors a very high, relatively secure income yield.

<u>Company Histories</u>

All three of these businesses have operated for a long time providing services to farmers:

The current Reid Farmers was formed in 1974 from the merger of **Donald Reid & Company** and **The Otago Farmers Co-operative**. **Williams & Kettle** was incorporated last century (in 1891), but the company did not list on the NZ Stock Exchange under May 1993, while **Wrightson** was re-floated on the stockmarket by **Fletcher Challenge** in December 1993.

<u>Restructuring and Change</u>

While all three companies continue to offer their traditional rural services (e.g. rural stores providing farm supplies, livestock trading, wool auctions, rural real estate) they have sought to adapt to changes in the rural economic environment in slightly different ways.

<u>Reid Farmers</u> has remained close to its traditional business, seeking expansion through the acquisition of the competing rural businesses owned by **South Port** in April 1997 for $12 million in cash. <u>One area where Reid Farmers differs from the other two companies in this survey is its large Finance operations which are a major contributor to profits</u>.

<u>Williams & Kettle</u> has sought to expand its East Coast based businesses in several ways. It has expanded into Wairarapa, Manawatu, Wanganui, the King Country, Waikato and Bay of Plenty. New business units have been established in the areas of log procurement and marketing, *(Continued on Page 8)*

Rural Services Companies: *(Continued from Page 7)*
seeds and crop supply management. The company has also expanded externally through acquisitions, taking over **NZ Rural Properties** (between 1996 and February 1999) and steadily building up a 69.67% stake in **Fruitfed Supplies** (since November 1994). The area where Williams & Kettle differs from the other companies is its $28 million investment in farm properties - $20 million in direct ownership and $8 million via **NZ Rural Property Trust** (which is managed by Williams & Kettle). These farming assets are not expected to remain in the longer term, and will be sold off (either individually or in a listed rural property investment trust) when the company can realise a satisfactory price.

Wrightson originally owned a significant finance business but sold that in December 1997 for $100 million (although the company will continue to market the business and service rural borrowers). The company is seeking to expand into non-traditional areas. Wrightson has expanded services to dairy farmers, and in 1997 acquired **Aorangi Forest Service** and **Pine Plan NZ** to establish a forestry management and consulting business. It also plans to become a major supplier of seed potatoes with the acquisition of **Eurogrow** in December 1998 and the Australasian rights to specialist seed potato production technologies in January 1999. Its pastoral seeds business was recently expanded into Uruguay with the purchase of a 51% shareholding in **Semillas PAS** (to be re-named **Wrightson PAS**).

Profitability in the Rural Services sector has been unsatisfactory over recent years, and earnings have been very volatile, reflecting the level of restructuring and change.

Recent Results

Reid Farmers' results have been very consistent, reflecting little change in its business and its major involvement in Rural Finance (providing a steady, reliable profit from net interest income). For the year to June 1996 the company earned a profit of $3,315,000 (5.9 cents per share), falling 2.1% to $3,244,000 (5.8 cents per share) in 1997 and rising 11.4% to $3,615,000 (6.5 cents per share) in 1998. At the end of each year the company has paid a steady 4.0 cents dividend (plus full imputation tax credits). For the six months to December 1998, profits rose 6.5% to $1,218,000 (2.2 cents per share).

Williams & Kettle's results have been more volatile. With a substantially smaller finance division, the company's fortunes have varied with the performance of the more volatile rural sector. For the year to July 1996 profits were $616,000 (7.3 cents per share), rising 308.6% to $2,517,000 (although a 74.5% increase in issued capital to fund an acquisition held earnings per share to 17.1 cents) in 1997 only to fall 56.3% to $1,101,000 (7.5 cents per share) in 1998. An annual dividend of 15.0 cents (plus tax credits) was paid in 1996 and 1997, but reduced to 12.0 cents in 1998. The six months to January 31, 1999, saw profits up 31.6% to $1,074,000 (7.3 cents per share) and a steady 6.0 cents interim dividend.

Wrightson's profits have shown by far the greatest volatility: The company earned only $1,137,000 (0.7 cents per share) in the year to June 1996, with an 897.7% increase to $11,344,000 (6.7 cents per share) in 1997 and a 42.0% drop (excluding a $27.3 million extra-ordinary gain selling the finance business) to $6,577,000 (although earnings per share fell only 29.9% to 4.7 cents owing to the reduced capital resulting from the share buy-back) in 1998. The company has paid dividends (plus full tax credits) of 3.5 cents for the 1996 financial year, 5.5 cents for 1997 and 3.3 cents for 1998. The six months to December produced a small $338,000 loss.

Investment Criteria

At 54 cents, Reid Farmers trades on a low Price/Sales ratio of 0.41, a Price/Earnings ratio of just 8 and offers a very high gross Dividend Yield of 11.1%.

Williams & Kettle shares are trading around 210 cents which is a similarly low Price/Sales ratio of 0.31, a high Price/Earnings ratio of 28 and offer a gross Dividend Yield of 8.5%.

Wrightson shares at 34 cents are trading on a significantly lower Price/Sales ratio of 0.08, a low Price/Earnings ratio of 7 and offer a gross Dividend Yield of 14.5%.

While all three shares offer a high yield, the dividends from Williams & Kettle and Wrightson are uncertain and will fluctuate with their volatile earnings. Reid Farmers alone has a stable income (from its large finance business) and its dividends are likely to be sustainable and therefore offer *income* investors a fairly reliable - and very high - yield! Reid Farmers' finance business is growing steadily, generating earnings (before tax) of $1,970,000 (39% of group profits) in 1997, and $2,223,000 (43% of total pre-tax profits) in 1998 and we expect that figure to reach 50% this year.

With uncertainty over the future level of profits and dividends from Williams & Kettle and Wrightson, the Price/Sales ratio is probably a good measure of the relative value of these businesses. On the basis of the Price/Sales ratio, Wrightson would appear to be the most under-valued, *out of favour*, company in this sector with its shares trading at about one-quarter of the valuation of the other two companies.

Reid Farmers and Williams & Kettle shares both trade at a small discount to net asset values, while Wrightson is trading at less than half its net assets - again suggesting that the stockmarket is under-valuing Wrightson relative to its two competitors.

All are relatively small companies with market capitalisations of $29.1 million, $30.8 million and $47.5 million, respectively.

No stockbrokers follow Reid Farmers or Williams & Kettle. Wrightson used to be *widely followed* (with ten brokers publishing profit forecasts during 1996/97), but is now relatively *neglected* with all but four brokers having “given up” on the company.

Pyne Gould Corporation own 43.7% of Reid Farmers, but the company is *neglected* by institutional investors who own only 2.5% of the company! Interests associated with Selwyn J Cushing own around 30% of Williams & Kettle, which is also neglected by institutional investors who own only about 7.5% of the company. Institutional investors, however, own around 50% of Wrightson which has no major non-institutional shareholders.

These shareholdings obviously favour Reid Farmers and Williams & Kettle which are *neglected* by institutions, while it is unfavourable for Wrightson which is *widely owned* by institutions. Institutional investors tend to be *trend followers*, so selling by institutional investors who are disillusioned with Wrightson probably explains this company's poorer share price performance relative to the other two companies. [Editor's Note: Our resident "Conspiracy Theory" expert *believes* that Wrightson is also seeking to keep its share price depressed during the period of its share buy-back.]

Technically, Williams & Kettle (Strength Rating +7.3%, ranked 23) is showing signs of recovery after falling steadily in value over the last five years. Reid Farmers is also showing *potential* for a recovery (with a Strength Rating of -0.4%, ranked 55), while Wrightson's share price remains weak (Strength Rating -8.5%, ranked 92). Williams & Kettle therefore qualifies under our "Under-Valued Shares" criteria owing to its low P/S Ratio and positive Strength Rating (with Reid Farmers shares falling marginally short of qualifying with a Strength rating ever so slightly less than zero).

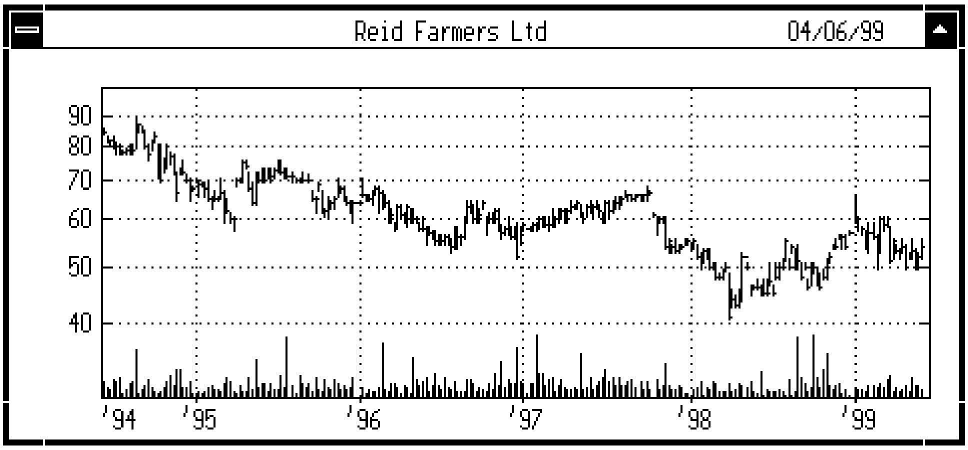
Our "Comprehensive Share Selection Criteria" also looks for companies involved in buying back their own shares - as this is a sign that the company considers the shares under-valued. Companies re-purchasing shares tend to outperform the market. This puts Wrightson in a favourable position as it plans to spend up to half of the $100 million received from its finance division sale to re-purchase shares in three stages. In the first stage the company spent $15.1 million re-purchasing 29.3 million shares (17.3% of its capital). In the second stage the company re-purchased only about 4-5 million shares. The third and final stage in the buy-back may begin later this year.

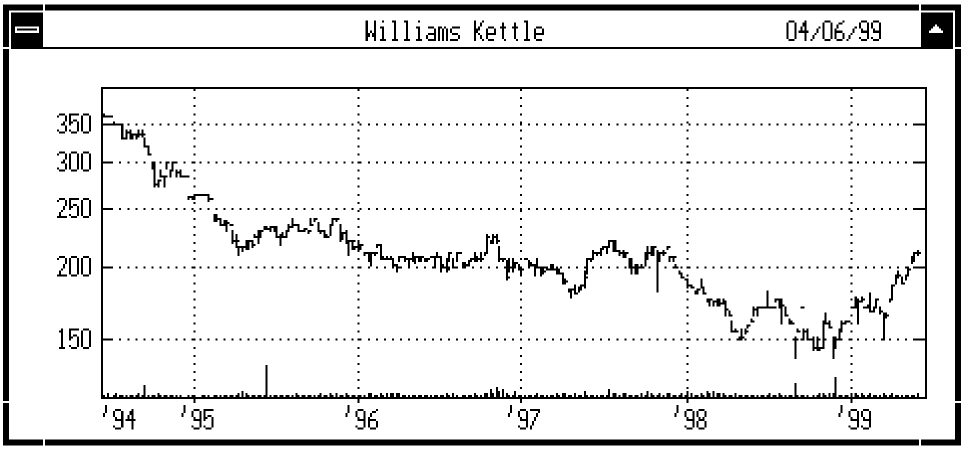
Summary & Recommendation

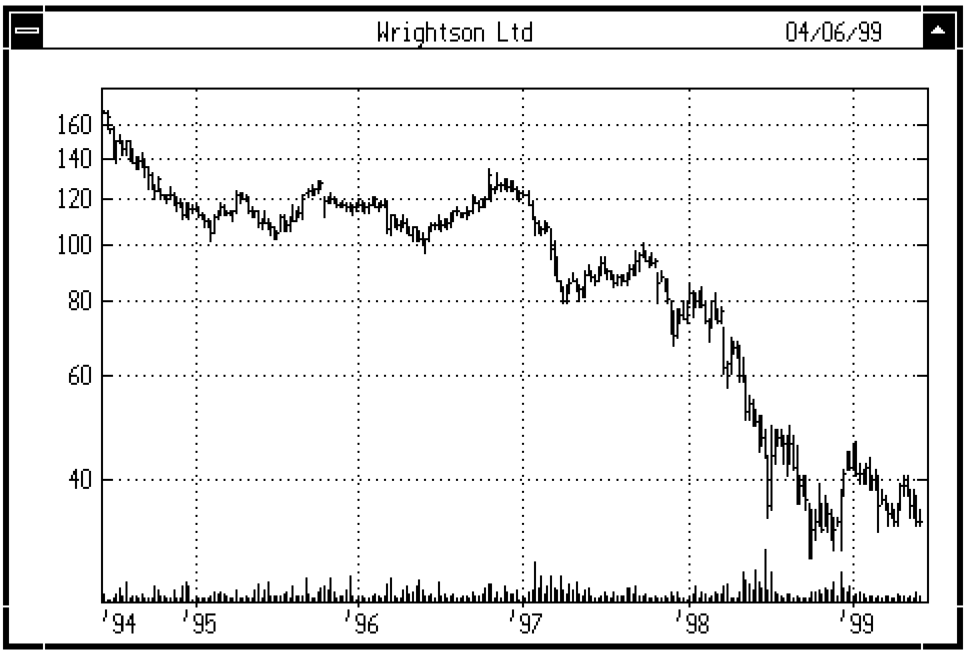
These Rural Services companies are being given a low valuation on the stockmarket - which partially reflects the depressed conditions in that sector and the inadequate level of profit at the present time. Over the longer term these businesses should be able to generate satisfactory levels of profit on the assets invested. If that were not possible, then these assets could be liquidated and funds (in excess of current share prices) returned to shareholders.

With its extremely low Price/Sales ratio, debt free balance sheet and substantial discount to net assets, Wrightson would appear to be considerably more under-valued than the other two companies. Wrightson shares are likely to continue to remain relatively under-valued (although perhaps to a lesser extent) owing to the large institutional shareholdings in this company. However, the current significant under-valuation offers the potential for the greatest recovery (when satisfactory profits can be earned) or the greatest potential for capital repayment (if all or some of the business is liquidated and surplus capital is returned to share-holders).

Reid Farmers is attractive as an under-valued share offering a very high, and relatively reliable, dividend yield funded substantially from its stable finance business, rather than the more volatile, low profit margin rural services businesses.







Share charts all drawn to the same ratio price scale

Computer Selections of Australian Shares based upon our Comprehensive Share Selection Criteria

See "Market Analysis" issues 298-301 or the Reprint sent to all new subscribers for details These shares are not formal "buy" and "sell" recommendations, but the "Under-Valued", "Best Performing", "Income" and "Insider Buying" shares should be considered for purchase, while the "Over-valued", "Worst Performing" and "Insider Selling" shares can be sold to release money for re-investment in more attractive shares.

UNDER-VALUED SHARES: Lowest Price/Sales, Yld > 0, Rel Strength > 0

Company	Share Price	STRENGTH RATING Cur-rent	4-Wk Chg.	Rank 0-99	Insider Buy-Sell	Brokers Following	Price to NTA	Return on Equity	Vola-tility	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
Auto Group Ltd	106	+13.3	-1.8	15	0·0	1	2.6	17	1.4	15	3.8	0.07	35
Mosaix Technol.	98	+0.2	-0.0	45	0·0	-	1.0	4	1.4	27	6.1	0.08	18
A.P. Eagers	425	+7.6	-1.1	22	1·0	2	1.0	9	0.9	11	6.1	0.08	51
Grow Force Aust	770	+11.0	+1.0	17	0·0	-	2.3	8	0.8	29	3.2	0.13	14
Cons Manufact.	95	+0.9	+3.8	42	0·0	2	1.2	16	1.4	8	8.4	0.16	11
Angus & Coote	310	+1.6	-0.6	38	0·0	-	0.8	7	1.0	12	6.5	0.16	37
IAMA Ltd	223	+1.0	-2.5	41	2·3	5	2.0	17	1.1	12	6.3	0.18	192
Heggies Bulk.	48	+14.9	-11.3	13	0·0	-	1.5	15	1.8	10	7.3	0.19	26
Farm Pride Food	79	+0.5	-3.4	43	0·0	-	79.0	-	1.5	11	2.0	0.20	13
Skydome Holding	28	+2.7	+1.2	35	0·0	-	1.6	25	2.3	6	8.9	0.20	3
Abigroup Ltd	243	+2.9	-1.8	34	0·0	2	2.5	36	1.1	7	4.9	0.21	114
A.V. Jennings	53	+3.7	+3.9	31	0·0	1	0.9	19	1.8	5	9.0	0.21	114
Datamatic Hold	25	+23.2	+7.7	9	0·0	-	-	-	2.4	2	8.0	0.21	9
Danks Holdings	900	+7.3	-0.3	23	0·0	-	1.5	12	0.8	13	4.1	0.21	59
Watpac Ltd	45	+6.9	-5.5	24	3·0	2	1.8	22	1.9	8	7.2	0.22	31
Namoi Cotton	84	+4.0	+0.7	30	4·0	2	1.2	22	1.5	5	11.3	0.23	86
Spicers Paper	195	+9.0	+2.5	21	0·0	10	1.2	7	1.1	17	4.1	0.24	268
Embelton Ltd	175	+10.8	+3.0	17	0·0	-	0.7	7	1.2	11	4.0	0.24	4
Hudson Invest.	80	+2.0	+5.8	37	0·0	-	0.9	2	1.5	55	2.5	0.24	40
Bridgestone	310	+2.4	-0.6	36	0·0	1	0.8	8	1.0	10	4.0	0.24	113
Foodland Assoc	1050	+4.7	-3.5	28	0·0	12	2.8	15	0.8	20	4.4	0.25	986
Penfold (WC)	157	+0.7	-1.3	42	0·0	-	1.3	4	1.2	36	6.4	0.26	20
Eltin	175	+12.1	-1.2	15	1·0	6	1.1	11	1.2	10	5.7	0.26	131
Finemore Hold	213	+1.5	-7.2	39	2·0	7	1.1	12	1.1	9	6.1	0.27	113
Green's Foods	64	+17.6	+2.8	11	3·0	-	2.7	2	1.6	114	1.6	0.27	37
S.P.C. Ltd	90	+44.4	+6.5	3	1·1	-	1.3	14	1.5	9	2.5	0.28	63
Toll Holdings	555	+34.9	-3.4	5	2·0	5	3.8	21	0.9	18	2.5	0.29	257
Joyce Corp.	198	+12.5	+4.0	15	0·0	-	2.4	20	1.1	12	4.8	0.30	36
Henry Walker Gr	205	+3.8	+2.2	31	3·2	9	1.6	15	1.1	10	4.8	0.30	354
Merchant House	11	+0.6	+1.0	43	0·0	-	1.6	26	3.5	6	9.1	0.30	13
CPI Group	234	+9.4	-2.1	20	0·0	8	1.7	6	1.1	31	5.1	0.31	94
Tempo Services	195	+15.6	-9.1	12	0·4	6	39.0	-	1.1	15	3.8	0.33	84
Email Ltd	285	+3.8	+1.2	31	3·0	14	1.7	11	1.0	16	4.9	0.33	841
Monadelphous Gr	310	+4.2	+0.8	29	0·0	-	2.7	24	1.0	11	8.1	0.34	50
Futuris Corp.	208	+10.9	-1.5	17	0·0	10	2.3	25	1.1	9	3.6	0.35	1,065
Crane Group	840	+0.2	-0.5	44	4·0	9	1.4	9	0.8	17	6.0	0.35	333
Just Jeans Grp	152	+2.9	-0.4	34	5·0	9	2.4	13	1.2	19	5.9	0.36	124
Data 3 Ltd	260	+16.9	-12.8	11	1·2	1	9.3	72	1.1	13	4.4	0.38	34
Dollar Sweets	70	+7.7	-3.2	22	0·0	2	5.8	49	1.6	12	3.1	0.38	86
Simsmetal Ltd	702	+0.9	+3.3	41	0·0	8	2.7	21	0.8	13	5.1	0.39	600
Flight Centre	750	+30.7	+1.6	6	0·4	3	11.9	36	0.8	33	1.5	0.39	607
Pearl Riv. Tyre	80	+6.7	+1.1	24	0·0	-	0.6	12	1.5	5	3.8	0.40	42
Centennial Coal	77	+13.9	+1.8	14	0·0	-	0.5	5	1.5	10	6.5	0.43	26
East African Co	335	+8.5	+0.4	21	0·0	-	0.9	11	1.0	8	3.0	0.43	22
Spotless Serv.	115	+4.0	-2.9	30	0·0	7	11.5	68	1.3	17	5.2	0.44	373
Wills (WD & HO)	608	+16.1	+3.8	12	0·0	8	3.0	17	0.9	18	4.9	0.44	803
Coles Myer	826	+2.7	-2.7	35	1·0	16	3.6	15	0.8	24	2.9	0.45	9,529
Pirelli Cables	74	+2.6	-0.7	35	0·0	1	1.1	8	1.6	15	6.1	0.46	64
Walker Corp.	68	+0.5	-2.1	43	0·0	3	0.9	14	1.6	7	7.6	0.47	194
Nat'l Consol.	81	+0.5	-0.1	43	0·0	-	2.0	2	1.5	109	4.9	0.49	164

BEST PERFORMING SHARES: Strongest Shares, P/E < 20, P/S < 1.0

Company	Share Price	STRENGTH RATING Cur-rent	4-Wk Chg.	Rank 0-99	Insider Buy-Sell	Brokers Following	Price to NTA	Return on Equity	Vola-tility	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
A.I. Engeering	28	+52.4	+22.4	2	0·0	-	2.3	25	1.7	9	3.6	0.77	23
S.P.C. Ltd	90	+44.4	+6.5	3	1·1	-	1.3	14	1.2	9	2.5	0.28	63
Toll Holdings	555	+34.9	-3.4	5	2·0	5	3.8	21	0.8	18	2.5	0.29	257
Eumundi Brewing	10	+24.9	+7.4	8	0·0	-	2.5	43	2.6	6	Nil	0.36	4
Datamatic Hold	25	+23.2	+7.7	9	0·0	-	-	-	1.8	2	8.0	0.21	9
Oroton Int'l	172	+23.0	-0.1	9	4·0	-	2.5	15	1.0	17	4.7	0.58	28
Minproc Limited	60	+22.2	+32.6	9	0·0	-	1.1	8	1.3	13	1.7	0.98	15
Qantas	440	+19.2	-3.2	10	0·1	16	1.7	10	0.8	16	3.1	0.63	5,304
Crown Ltd	88	+19.0	-3.0	10	0·0	11	2.0	15	1.2	13	Nil	0.69	876
Data 3 Ltd	260	+16.9	-12.8	11	1·2	1	9.3	72	0.9	13	4.4	0.38	34
New Hampton Gol	19	+16.8	-18.4	12	0·0	-	-	-	2.0	8	Nil	0.66	26
Erawan Company	36	+16.1	+3.0	12	0·0	-	0.3	5	1.6	5	10.0	0.59	12
Wills (WD & HO)	608	+16.1	+3.8	12	0·0	8	3.0	17	0.8	18	4.9	0.44	803
Vietnam Indust.	12	+16.0	+13.7	12	0·0	-	0.5	10	2.4	6	Nil	0.25	12
Tempo Services	195	+15.6	-9.1	12	0·4	6	39.0	-	1.0	15	3.8	0.33	84
Breakwater Is.	23	+15.5	-1.5	12	0·0	2	0.7	5	1.9	14	5.3	0.71	32
Heggies Bulk.	48	+14.9	-11.3	13	0·0	-	1.5	15	1.4	10	7.3	0.19	26
Waterco Ltd	128	+14.7	-3.3	13	0·0	-	1.4	13	1.1	11	5.5	0.55	23
Centennial Coal	77	+13.9	+1.8	14	0·0	-	0.5	5	1.2	10	6.5	0.43	26
Auto Group Ltd	106	+13.3	-1.8	15	0·0	1	2.6	17	1.1	15	3.8	0.07	35
Reece Australia	1500	+13.1	-1.5	15	0·0	-	2.3	13	0.7	17	2.3	0.71	299
Joyce Corp.	198	+12.5	+4.0	15	0·0	-	2.4	20	0.9	12	4.8	0.30	36
Eltin	175	+12.1	-1.2	15	1·0	6	1.1	11	1.0	10	5.7	0.26	131
Sunland Group	200	+11.9	+2.2	16	0·0	-	1.6	21	0.9	7	3.5	0.72	65
Sabre Group	170	+10.9	-4.8	17	0·1	-	3.1	28	1.0	11	4.1	1.00	52
Futuris Corp.	208	+10.9	-1.5	17	0·0	10	2.3	25	0.9	9	3.6	0.35	1,065
Rothmans Hold	1420	+10.8	-1.2	17	1·0	8	8.2	56	0.7	15	6.0	0.57	1,731
Embelton Ltd	175	+10.8	+3.0	17	0·0	-	0.7	7	1.0	11	4.0	0.24	4
United Overseas	59	+9.4	+7.4	20	0·0	-	1.0	18	1.3	5	6.8	0.59	28
Mirvac Ltd	214	+9.2	+2.0	20	0·0	8	1.5	13	0.9	11	4.7	0.83	461
Spicers Paper	195	+9.0	+2.5	21	0·0	10	1.2	7	1.0	17	4.1	0.24	268
Central Equity	189	+8.5	-2.4	21	9·0	1	1.4	19	1.0	8	6.9	0.76	154
East African Co	335	+8.5	+0.4	21	0·0	-	0.9	11	0.8	8	3.0	0.43	22
Stokes (Aust)	53	+8.5	-1.3	21	0·0	-	0.5	10	1.4	5	Nil	0.08	3
Dollar Sweets	70	+7.7	-3.2	22	0·0	2	5.8	49	1.3	12	3.1	0.38	86
A.P. Eagers	425	+7.6	-1.1	22	1·0	2	1.0	9	0.8	11	6.1	0.08	51
Freedom Furn.	162	+7.5	-3.6	23	1·0	11	5.2	32	1.0	16	4.6	0.61	123
Danks Holdings	900	+7.3	-0.3	23	0·0	-	1.5	12	0.7	13	4.1	0.21	59
Maxi TRANS	38	+7.2	-0.7	23	0·0	2	7.5	73	1.6	10	6.0	0.64	47
Watpac Ltd	45	+6.9	-5.5	24	3·0	2	1.8	22	1.5	8	7.2	0.22	31
Trust Co of Aus	1450	+6.8	-0.9	24	0·0	-	1.5	75	0.7	2	4.1	0.58	9
Pearl Riv. Tyre	80	+6.7	+1.1	24	0·0	-	0.6	12	1.2	5	3.8	0.40	42
Schaffer Corp	250	+6.4	+0.7	25	3·0	-	0.8	5	0.9	14	4.4	0.66	25
Faulding (F.H.)	860	+6.3	-3.7	25	0·0	10	4.2	23	0.7	19	2.3	0.67	1,370
Suncorp-Metway	880	+6.1	-0.5	25	0·1	10	2.8	18	0.7	16	5.0	0.68	1,804
Garratt's Ltd	110	+6.1	-9.5	25	3·0	-	3.0	35	1.1	8	9.1	0.94	12
F.F.I. Holdings	108	+5.8	-0.3	26	0·0	-	1.4	10	1.1	14	5.6	0.63	6
Ausdoc Group	263	+5.7	-2.5	26	4·0	9	-	-	0.9	19	4.9	0.87	233
Aust Oil & Gas	170	+5.3	-1.8	27	0·0	1	0.8	11	1.0	8	5.9	0.57	78
National Hire	69	+5.2	-1.6	27	0·0	-	4.6	46	1.3	10	5.8	0.76	14

INCOME SHARES: Highest Yields, Capitalisation > A$250 million

Company	Share Price	STRENGTH RATING Cur-rent	4-Wk Chg.	Rank 0-99	Insider Buy-Sell	Brokers Following	Price to NTA	Return on Equity	Vola-tility	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
Ten Network	224	+2.0	-3.4	37	0·0	9	-	-	0.8	76	13.4	0.85	820
Graincorp	900	+14.8	-1.6	13	7·2	1	5.0	63	0.7	8	10.0	1.65	281
Burswood Ltd	106	+7.7	+0.2	22	0·0	13	0.9	11	1.0	8	9.9	1.26	426
HIH Insurance	167	-9.2	-2.1	80	3·0	9	1.2	14	0.9	9	9.6	0.23	771
Aust Cons Inv	90	+31.8	+6.4	5	0·0	-	1.4	28	1.0	5	9.4	1.18	1,073
Envestra	85	-5.6	-2.6	71	1·0	5	3.7	-	1.1	NE	9.1	2.57	298
Q.C.T. Resource	79	-9.2	+2.1	80	0·0	14	0.8	7	1.1	11	8.9	0.54	544
Capral Alum.	218	-0.7	+1.4	52	2·0	10	0.9	3	0.8	32	8.3	0.58	449
Normandy NFM	333	-6.3	+1.3	74	1·0	12	-	-	0.8	7	7.5	1.94	254
United Energy	236	+8.2	-0.8	21	0·0	8	-	-	0.8	65	7.3	1.44	982
Aust Infra.	220	+2.5	-0.8	35	0·1	2	1.0	8	0.8	11	7.3	8.92	306
Australand Hold	140	+5.0	-0.1	27	1·0	4	1.3	19	0.9	7	7.2	0.87	405
Infrastructure	142	+3.2	-4.3	33	0·0	2	1.1	15	0.9	7	7.0	6.34	794
PMP Communicat.	302	+4.3	-0.8	29	4·0	10	-	-	0.8	13	6.8	0.67	764
Coal & Allied	1500	+26.3	+5.5	7	0·0	4	2.4	22	0.6	11	6.7	1.62	952
West Aust News	541	+0.4	-0.6	43	0·0	13	36.1	-	0.7	16	6.7	3.43	1,045
Sons of Gwalia	389	-1.6	-2.4	56	0·0	16	-	-	0.8	6	6.4	1.03	444
Hills Indust.	240	+2.8	-2.1	34	1·1	4	2.7	16	0.8	17	6.4	0.75	267
Grosvenor Trust	154	+0.0	-0.0	47	0·0	-	1.1	7	0.9	16	6.4	8.69	448
GIO Australia	364	-5.3	-1.8	71	2·0	12	1.9	-	0.8	NE	6.0	0.81	2,294
Metal Manufact.	200	-3.4	-4.9	66	5·0	4	1.5	66	0.9	2	6.0	0.26	283
Rothmans Hold	1420	+10.8	-1.2	17	1·0	8	8.2	56	0.6	15	6.0	0.57	1,731
Crane Group	840	+0.2	-0.5	44	4·0	9	1.4	9	0.7	17	6.0	0.35	333
Caltex Austrlia	376	-0.5	+0.7	51	0·0	8	1.3	10	0.8	13	5.9	0.16	1,015
OPSM Protector	283	-6.4	+0.1	74	0·0	9	3.4	1	0.8	236	5.8	0.78	406

INSIDER BUYING: Most Insider Buying, Relative Strength > 0

Company	Share Price	STRENGTH RATING Cur-rent	4-Wk Chg.	Rank 0-99	Insider Buy-Sell	Brokers Following	Price to NTA	Return on Equity	Vola-tility	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
Central Equity	189	+8.5	-2.4	21	9·0	1	1.4	19	0.8	8	6.9	0.76	154
Milton Corp.	900	+2.2	-0.9	36	9·0	-	1.0	8	0.6	12	4.2	3.51	411
Auridiam Cons.	5	+1.3	-2.9	40	8·0	-	-	-	2.6	NE	Nil	0.55	3
GWA Internat'l	277	+1.5	+0.0	39	6·0	10	2.2	12	0.8	19	4.0	1.44	751
BT Global Asset	71	+1.5	-0.9	38	9·3	-	0.9	18	1.0	5	Nil	1.01	61
Smith (Howard)	1165	+8.4	-2.2	21	5·0	14	4.7	14	0.6	34	3.4	0.87	2,230
Just Jeans Grp	152	+2.9	-0.4	34	5·0	9	2.4	13	0.9	19	5.9	0.36	124
Adacel Tech.	150	+13.6	-0.4	14	5·0	-	5.2	29	0.9	18	Nil	3.45	48
Graincorp	900	+14.8	-1.6	13	7·2	1	5.0	63	0.6	8	10.0	1.65	281
PMP Communicat.	302	+4.3	-0.8	29	4·0	10	-	-	0.8	13	6.8	0.67	764
Crane Group	840	+0.2	-0.5	44	4·0	9	1.4	9	0.7	17	6.0	0.35	333
Oroton Int'l	172	+23.0	-0.1	9	4·0	-	2.5	15	0.8	17	4.7	0.58	28
Grange Resource	92	+64.6	+42.2	1	4·0	-	-	-	1.0	NE	Nil	N/A	54
Ausdoc Group	263	+5.7	-2.5	26	4·0	9	-	-	0.8	19	4.9	0.87	233
Heine Managem't	350	+18.6	+4.6	10	4·0	-	7.3	29	0.7	25	2.9	2.60	71
Namoi Cotton	84	+4.0	+0.7	30	4·0	2	1.2	22	1.0	5	11.3	0.23	86
Tyndall Aust.	276	+7.9	-2.3	22	4·0	3	2.6	12	0.8	21	2.2	5.63	706
North Star Res.	10	+3.7	-1.1	32	4·0	-	-	-	2.0	NE	Nil	N/A	3
Soul Pattinson	3310	+10.4	+1.7	18	3·0	2	1.1	6	0.6	18	2.1	1.04	790
Schaffer Corp	250	+6.4	+0.7	25	3·0	-	0.8	5	0.8	14	4.4	0.66	25
Mt Grace Res.	42	+15.1	+14.1	13	3·0	-	-	-	1.2	NE	Nil	N/A	14
Email Ltd	285	+3.8	+1.2	31	3·0	14	1.7	11	0.8	16	4.9	0.33	841
APN News Media	264	+9.9	-2.0	19	3·0	11	1.9	11	0.8	18	4.0	1.90	636
Burns Philp	29	+28.5	+4.9	7	3·0	1	-	-	1.3	54	Nil	0.07	154

Australian Company Analysis: Crane Group

Crane Group qualifies as a "Buy" under the "Income Shares", the "Insider Buying" *and* the "Under-Valued Shares" sections of our "Comprehensive Share Selection Criteria". The company is involved in metal fabrication and plumbing supplies.

Company History

Crane Group (previously named G.E. Crane Holdings until November 1998) was listed on the Australian Stock Exchange in 1947 as a building supplies firm. The company has grown steadily, helped by a few major acquisitions: The non-ferrous metal operations of **Metal Manufactures** were purchased in 1969, the plumbing supplies manufacturing business of **C.O.N. Holdings** was acquired in 1976-77, the plumbing supplies distributor **Tradelink** was purchased from **Burns Philp** in 1994 and later that same year NZ based **Mico Wakefield** was purchased.

Future Growth

Crane Group is unlikely to grow rapidly and, being a cyclical business, profits (and the share price) will tend to fluctuate with the building cycle.

In September 1997 a joint venture was formed with Dutch manufacturer **Wavin BV** to acquire **Iplex Pipeline,** the plastic pipes and fittings manufacturing businesses of **James Hardie Industries**, for A$121 million. Under the joint venture, Crane Group will own a 75% interest in the Australian and NZ businesses and a 50% interest in the Singapore business. Plastic plumbing pipes are a commodity type of product in a price sensitive market. Wavin brings to this joint venture its strength in technology and Research & Development - which will help produce a slightly better and/or cheaper product. Iplex earned a profit of only A$0.7 million last year (but A$23 million three years earlier), so this acquisition does look a little expensive. Crane expects it will take two to three years to earn satisfactory profits. Sales have dropped since the acquisition, but annual operating costs have been reduced by $10 million (which will add A$5-6 million to tax paid profits from next year).

We don't expect any spectacular growth from Crane Group, but it is a sound business that should generate reasonable profits and pay reasonable dividends. Investors can improve their long term profits by taking advantage of the cyclical nature of the company's business and its share price - buying when depressed and selling when booming!

Recent Results

Revenues have risen steadily over the years although profits, as one would expect from a cyclical business, have fluctuated. In the year to June 1997, revenues rose 5.8% to A$956.8 million with profits up 43.2% to A$28,951,000 (77.1 cents per share) and the annual dividend up 11.1% to 50.0 cents. In the year to June 1998 revenue rose strongly, up 26.0% to A$1,205.4 million, but profits fell sharply, down 33.2% to A$19,341,000 (50.5 cents per share), with the dividend held steady at 50.0 cents.

For the half year to December 31, 1998, revenues rose 13.9% to A$676.7 million with profits rising 10.5% to A$13,271,000 (34.0 cents per share) and a steady 22.0 cents interim dividend. Crane Group is expecting to equal its 1997 record profit again this year.

Investment Criteria

At A$8.40, Crane Group shares trade on a Price/Sales ratio of 0.35, a Price/Earnings ratio of 17 and offer a Dividend Yield of 6.0%. That low P/S ratio qualifies the shares in the "Under-Valued Shares" criteria, although this type of low profit margin, low growth business would never justify a high valuation. The Dividend Yield also qualifies the shares under our "Income Shares" criteria.

Crane Group's market capitalisation (i.e. the value of all of it shares) is A$333 million which makes this a relatively large business. Consequently, the shares are *widely owned* by institutional investors, and the company is *widely followed*, with nine stockbrokers publishing profit forecasts. This is <u>not</u> what we would look for from a *growth* company, but exactly what we would expect from a company qualifying under our "Income Shares" criteria.

Among the institutional investors, however, is **Tyndall Australia** which specialises in making large investments in a small number of companies whose shares that it considers to be under-valued. Tyndall has just been taken over by **Royal & Sun Alliance** which does not share that investment strategy. The current weakness in Crane Group's share price may therefore be caused by the Tyndall shareholding being sold down (or the expectation that it *will* be sold down) by the company's new owners. <u>Investors should therefore seek to *buy Crane shares on weakness* - with the price possibly dipping to around A$8.00-8.25</u>.

Technically the shares are in a fairly neutral price trend. The Relative Strength rating is +1.0%, with the share ranked 41 (on a scale of 0-99). The shares hit a low of A$7.30 last September (when global stockmarkets were depressed) and recovered to a recent high of A$10.20 in March.

The shares could also become subject to *tax loss* selling during June. That is, investors who purchased Crane Group shares in late 1997 may sell this month (and buy back later) to realise a capital loss (which can be offset against capital gains from other shares) before the end of the Australian tax year on June 30.

The current weakness - as explained above - is probably as a result of expected selling by Tyndall. <u>We would expect the price to remained depressed for another 3-5 months</u>.

Four directors have purchased shares on the market over the last year: JB Studdy purchased 3000 shares at around A$9.45 last August (taking his holding to 8,750 shares), JB Fairfax bought 25,000 shares at A$8.05 each in September *(Continued on Page 12)*

Crane Group *(Continued from Page 11)*

(building his holding to 281,868 shares) and the Chairman, ED Cameron, increased his holding by 2000 shares (to 28,467 shares) in October at a cost of about A$8.05 per share. Last month IA Deveson bought 406 shares on market at A$9.33 (increasing his holding to 2406 shares). While these purchases range from a relatively insignificant A$3,800 up to a sizeable A$201,000 the most important feature here is the *consensus* of buying among four different directors. Four buyers (and no sellers) plus a *positive* Relative Strength rating, qualifies the shares under our "Insider Buying" criteria.

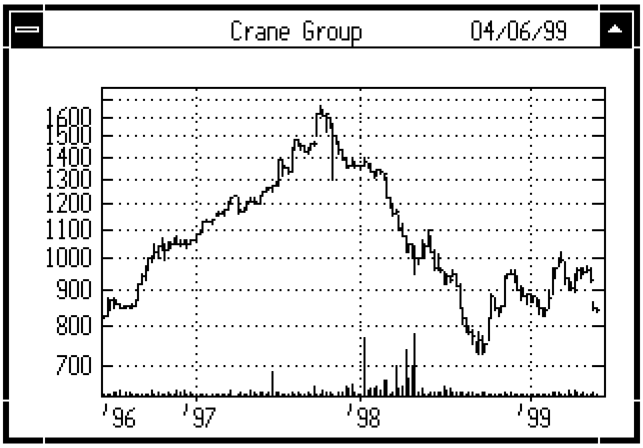
Crane Group shares suitable for Conservative Investors

The "Income Shares" section of our "Comprehensive Share Selection Criteria" is designed to identify *large* companies whose share prices are currently depressed. Usually the share price is depressed owing to a cyclical downturn in their business, or some other financial "problems", but larger companies usually have the financial resources to survive, continue to pay dividends and to experience an eventual recovery and upturn in their businesses.

Over the medium to long term a selection of shares from our "Income Shares" criteria should outperform a random selection of larger Australian company shares (e.g. NAB, Telstra, etc. or an Australian *index* fund such as the NZ listed Tortis-Ozzy) yet carry the same relatively low risk. These "Income Shares" are therefore most suitable for retired or more conservative investors.

Summary and Recommendation

We are not formally recommending Crane shares for investment (i.e. we shall not be adding them to our *Recommended Portfolio*), but Crane Group shares are suitable for retired and/or more conservative investors looking for high income yields and depressed shares with potential for capital appreciation from cyclical re-rating over the next few years. We expect the share price to remain weak in the immediate future - with any upturn in price likely to be some months away - so investors wanting to buy Crane Group shares should seek to buy during periods of weakness, probably in the price range of A$8.00-8.25.



"Neglect" Ratings of NZ Shares

"Neglected" Shares = 1-6 Brokers, "Moderately Followed" Shares = 7-8 Brokers, "Widely Followed" Shares = 9 or more Brokers.

Company	No. of Brokers Following Company	Market Capital-isation (NZ$ Mill.)
AMP NZ Office	5	248
Affco Holdings	1	43
Air New Zealand	10	1,802
Akd Int Airport	9	1,184
Baycorp Hold	5	414
Brierley Invest	7	1,612
CDL Hotel NZ	6	119
Carter Holt	9	3,678
Cavalier Corp	4	128
Ceramco Corp	5	63
Col Motor Co	1	68
Contact Energy	3	1,981
Corp Invest Ltd	7	339
DB Group	8	242
Donaghys Ind	2	39
FC - Building	8	1,040
FC - Forests	9	818
FC - Energy	9	1,750

Company	No. of Brokers Following Company	Market Capital-isation (NZ$ Mill.)
FC - Paper	10	1,114
Fernz Corp Ltd	8	838
Fisher & Paykel	7	682
Force Corp.	4	88
Guiness Peat	2	715
Hallenstein G.	6	148
Hellaby Hold.	4	101
Horizon Energy	3	135
Ind Newspapers	8	885
Infratil NZ	4	275
Infratil Int'l	1	37
Kiwi Property	8	352
LWR Industries	2	59
Lion Nathan Ltd	9	2,382
Lyttelton Port	4	170
Mainfreight Grp	6	108
Metro. LifeCare	2	114
Michael Hill	3	118

Company	No. of Brokers Following Company	Market Capital-isation (NZ$ Mill.)
NZ Refining Co	4	365
Natural Gas	7	627
Newmarket Prop.	1	37
Nobilo Wines	1	35
Northland Port	3	50
Nuplex Indust	6	163
Owens Investmts	7	79
PDL Holdings	3	67
Pacific Retail	4	64
Port Tauranga	7	401
Ports Auckland	7	696
Progressive Ent	6	420
Property F Ind.	5	95
Restaurant Brds	6	115
Sanford Limited	6	458
Shortland Prop.	6	176
Sky City Ltd	7	735
Sky Network TV	9	883

Company	No. of Brokers Following Company	Market Capital-isation (NZ$ Mill.)
South Port NZ	1	27
St. Lukes Group	7	310
Steel & Tube	7	147
Tasman Agric.	5	101
Taylors Grp Ltd	2	27
Telecom Corp	12	14,724
Tourism Hold.	6	127
Trans-Tasman	6	149
Trans Alta NZ	8	511
Tranz Rail Hold	8	362
Trust Power Ltd	6	529
United Networks	2	909
Warehouse Group	7	1,023
Waste Mgmt NZ	2	361
Wrightsons Ltd	4	47
Zuellig NZ	1	84

Research studies have shown that shares that are *widely researched* (by stockbrokers or others) tend to under-perform the market, while the *least researched* shares tend to outperform the market average. This result is entirely logical. W*idely researched* shares should be "fairly" valued by the market, while *under researched* shares will tend to be *under-priced* (as fewer investors would be aware of the company's merits).

The easiest way to earn above average profits in the stockmarket - perhaps the only way - is to buy cheaply. Shares that are *neglected* by brokers (i.e. not included in these tables as no broker researches them, or followed by only a small number of brokers) will tend to be under-priced relatively to widely followed shares!

Widely followed "blue chip" shares are nice - *neglected* shares that no-one knows about are better!

"Neglect" Ratings of Australian Shares

"Neglected" Shares = 1-4 Brokers, "Moderately Followed" Shares = 5-10 Brokers, "Widely Followed" Shares = 11 or more Brokers.

Company	No. of Brokers Following Company	Market Capital-isation (A$ Mill.)	Company	No. of Brokers Following Company	Market Capital-isation (A$ Mill.)	Company	No. of Brokers Following Company	Market Capital-isation (A$ Mill.)	Company	No. of Brokers Following Company	Market Capital-isation (A$ Mill.)
A.G.L.	14	3,140	Central Equity	1	154	Hills Indust.	4	267	Property Income	5	537
A.P. Eagers	2	51	Centro Prop.	5	497	Hills Motorway	7	783	Prophecy Int'l	1	137
A.V. Jennings	1	114	Cinema Plus	4	56	Homemaker Prop.	1	141	Q.B.E. Insur.	13	2,319
AAPT	9	1,435	Cleland	1	41	Hoyts Cinemas	8	625	Q.C.T. Resource	14	544
AJ Indust Fund	4	120	Clough Limited	2	218	IAMA Ltd	5	192	Qantas	16	5,304
AJ Office	7	288	Coal & Allied	4	952	Illuka Resource	9	699	Queens'd Cotton	3	130
AJ Retail	6	269	Coates Hire	6	235	Incitec	5	665	Queensl'd Metal	4	156
AMP Ind Prop Tr	4	318	Coca-Cola Bev.	3	3,137	Indust Property	5	200	Ramsay Health	6	139
AMP Ltd	13	18,114	CocaCola Amatil	16	6,321	Indust Inv Trt	2	215	Ranger Minerals	9	165
AMP Office Trt	7	571	Cochlear Ltd	7	591	Infratil Aust.	5	234	Rebel Sport	6	54
AMP Shop Centre	6	803	Coffey Int'l	1	22	Infrastructure	2	794	Rec. Solutions	3	36
ANZ Bank	18	17,603	Col FS Com Prop	6	228	Ipoh Garden	2	209	Reinsurance Aus	11	197
APN News Media	11	636	Coles Myer	16	9,529	Jupiters	12	874	Resolute Saman.	15	172
ARB Corporation	3	64	Colonial Ltd	13	5,262	Just Jeans Grp	9	124	Ridley Corp.	10	224
ARC Energy	1	13	Colonial Retail	5	358	K&S Corporation	4	42	Rio Tinto Ltd	16	13,622
AWA Ltd	1	146	Com'wealth Bank	18	23,054	Keycorp ltd	1	110	Roberts Ltd	1	17
Abigroup Ltd	2	114	Com. Inv. Trust	3	660	Kidston Gold	7	50	Rock Building	1	39
Acacia Resource	15	386	Comalco Ltd	15	3,375	Lang Corporatio	7	544	Ross Mining NL	11	169
Adelaide Bank	11	428	Computer Share	2	1,625	Leighton Hold	11	1,547	Rothmans Hold	8	1,731
Adelaide Bright	8	146	Cons Rutile	4	113	Leisure Wide PT	2	87	Rural Press Ltd	7	565
Adsteam Marine	7	221	Cons Manufact.	2	11	Lemarne Corp	1	40	Santos Ltd	20	2,999
Adtrans Group	1	40	Corp Express	3	208	Lemvest Ltd	1	44	Scanbox AsiaPac	1	7
Advance Prop	7	655	Coventry Group	3	161	Lend Lease Corp	13	10,363	Schroder Prop.	10	1,011
Alpha Health	1	15	Crane Group	9	333	Liberty One	1	145	Scientific Serv	2	32
Amalgamated Hld	4	485	Cranswick Wines	3	43	Lihir Gold	14	1,017	Sea World PT	2	177
Amcor Ltd	16	5,384	Crevet Ltd	3	14	M.I.M. Holdings	17	1,457	Seven Network	13	1,510
Ammtec Ltd	1	17	Croesus Mining	1	36	MacMahon Hold	7	50	Siddons Ramset	9	303
Amrad Corp.	3	114	Crown Ltd	11	876	Macquarie Bank	10	2,884	Simeon Wines	10	272
Anaconda Nickel	4	285	Cultus Petrol.	6	147	Maxi TRANS	2	47	Simsmetal Ltd	8	600
Antaeus Energy	1	30	Cuppa Cup Vine.	1	31	Mayne Nickless	17	1,849	Singleton Group	1	126
Ariadne Aust	1	93	Cypress Lakes	1	19	McConnell Dowel	1	108	Skilled Eng.	9	228
Aristocrat	7	1,205	Darling Park Tr	3	96	McGuigan Wines	4	120	Smith (Howard)	14	2,230
Ashton Mining	5	234	Data Advantage	3	382	McPherson's Ltd	2	30	Smorgon Steel	5	1,805
Asia Pac Spec	5	70	Data 3 Ltd	1	34	Metal Manufact.	4	283	Solution 6	1	205
Atkins Carlyle	11	114	Davids	7	324	Metalcorp Ltd	3	110	Sonic Health	8	518
Aurora Gold	13	129	David Jones	15	605	Micromedical	1	14	Sons of Gwalia	16	444
Ausdoc Group	9	233	Delfin Property	3	131	Millers Retail	3	110	Soul Pattinson	2	790
Ausdrill Ltd	2	36	Delta Gold NL	15	451	Mirvac Ltd	8	461	Southcorp Ltd	16	3,992
Auspine Ltd	5	105	Dev Capital Aus	1	59	Mirvac Property	7	557	Spicers Paper	10	268
Aust Oil & Gas	1	78	Devine	1	45	Murchison Un.	1	18	Spotless Group	7	528
Aust Pharm. Ind	3	312	Dollar Sweets	2	86	Namoi Cotton	2	86	Spotless Serv.	7	373
Aust Infra.	2	306	Downer Group	1	249	Nat'l Mutual	12	4,388	St George Bank	15	4,969
Aust Hospital	7	152	E.R.G.	1	508	Nat'l Can	1	128	Star City Hold.	12	624
Aust Resources	4	69	ETRADE Aust.	1	365	Nat'l Mut. Prop	8	950	Sthn Star	3	91
Aust Stock Exch	4	1,025	East'n Aluminiu	7	121	Nat'l Aust Bank	18	38,244	Sthn Cross Brd.	6	245
Aust Com Prp Tr	2	160	Eltin	6	131	Nat'l Foods	12	751	Stockland Trust	6	1,384
Aust Gth Prop.	2	133	Email Ltd	14	841	Nautronix Ltd	4	58	Straits Res.	3	31
Austral Ltd	2	231	Emperor Mines	3	37	New Cap Reinsur	3	34	Strathfield Grp	1	163
Austrim Ltd	4	637	Energy Develop.	5	341	Newcrest Mining	13	751	Suncorp Prop.	1	32
Australand Hold	4	405	Energy Equity	3	87	News Corporatio	16	26,983	Suncorp-Metway	10	1,804
Auto Group Ltd	1	35	Energy Resource	8	247	Niugini Mining	4	176	Sydney Aquarium	6	87
Avatar Indust.	2	66	Envestra	5	297	Norm Mt Leyshon	11	138	TAB Ltd	14	1,475
B.H.P.	17	28,189	Evans Deakin	9	405	Normandy Mining	20	1,835	TDG Logistics	1	59
BRL Hardy Ltd	12	894	FAI Life	2	200	Normandy NFM	12	254	TV Media Serv.	6	0
BT Hotel Group	4	207	FXF Trust	2	224	Norman Wines	2	40	Tabcorp Holding	13	3,506
BT Office	6	0	Fairfax (John)	14	2,976	North Ltd	16	2,146	Tap Oil	5	84
BT Property	5	384	Farnell & Thom.	1	19	Novogen Ltd	1	193	Telecasters Aus	4	162
BT Sydney	2	317	Faulding (F.H.)	10	1,370	Novus Petroleum	8	178	Telstra	18	32,810
Bank of Q'land	9	339	Finemore Hold	7	113	OPSM Protector	9	406	Tempo Services	6	84
Bank of W.Aust	14	1,668	First Aust Bldg	1	99	Oil Search Ltd	12	919	Ten Network	9	820
Beaconsfield Gl	1	71	Fleetwood Corp	1	36	Orbital Engine	2	121	Thakral Holding	1	294
Becker Group	1	17	Flight Centre	3	607	Orica Ltd	11	2,366	Ticor Ltd	5	145
Bendigo Sand.	7	388	Flinders Ind PT	1	180	Orogen Minerals	4	524	Timbercorp	3	151
Beyond Int'l	2	45	Foodland Assoc	12	986	PBL	14	5,465	Toll Holdings	5	257
Biota Holdings	2	449	Forest Place Gr	2	44	PMP Communicat.	10	764	Tourism Aust.	1	166
Blackmores Ltd	1	72	Forrester Kurts	2	117	Pacific Dunlop	16	2,678	Triplecee Ret.	2	99
Boag (J) & Son	2	37	Foster's Brewin	18	7,700	Pacific Hydro	1	65	Tyndall Aust.	3	706
Boral Ltd	16	2,854	Franked Income	4	1,337	Pacific Group	12	855	United Group	9	178
Brambles Ind.	17	9,340	Freedom Furn.	11	123	Pacific Mining	3	184	United Energy	8	982
Brandrill	3	36	Futuris Corp.	10	1,065	Paladin Ind.	5	166	Village Ent PT	2	158
Brazin Limited	6	381	G.U.D. Holdings	10	135	Paladin Com.	5	373	Villa World	3	89
Breakwater Is.	2	32	GIO Australia	12	2,294	Parbury Ltd	3	40	Village Road.	8	637
Brickworks Ltd	3	481	GWA Internat'l	10	751	Pasminco Ltd	17	1,796	Vision Systems	2	80
Bridgestone	1	113	Gandel Retail T	9	1,126	Peptide Tech.	1	71	Walker Corp.	3	194
Bristile Ltd	4	113	General Prop Tr	10	3,477	Perilya Mines	2	22	Watpac Ltd	2	31
Bunnings W/hse	2	152	Ges Internat'l	1	506	Perp Trust Aust	4	857	Wattyl Ltd	12	348
Burns Philp	1	154	Goldfields	12	223	Perseverance	2	7	Wesfarmers Ltd	14	3,726
Burswood Ltd	13	426	Goodman Hardie	3	183	Petaluma Ltd	7	110	West Aust News	13	1,045
C & W Optus	16	11,247	Goodman Fielder	16	1,882	Peter Lehman W.	5	74	West'n Metals	11	133
C'wide Ret Trt	4	352	Graincorp	1	281	Petroz NL	8	93	Western Mining	18	6,856
C.S.R. Ltd	16	4,464	Grand Hotel	4	259	Petsec Energy	3	52	Westfield Hold.	10	4,713
CI Technologies	3	261	Great Central	11	436	Pioneer Int'l	15	3,069	Westfield Trust	9	4,563
CIM Resources	1	15	Gunns Ltd	1	51	Pipers Brook	1	32	Westfield Amer.	4	1,357
CPI Group	8	94	Gympie Gold	2	34	Pirelli Cables	1	64	Weston (George)	2	748
CSL Limited	9	1,696	HIH Insurance	9	771	Portman Mining	8	87	Westpac Banking	18	19,113
Caltex Austrlia	8	1,015	Hardie (James)	14	1,589	Pracom Ltd	1	93	Westpac Prop Tr	6	516
Candle Aust.	8	90	Hargraves Res.	3	32	Preston Resourc	1	60	Westral'n Fores	2	87
Capcount Prop.	4	278	Harris Scarfe	7	119	Prime TV	8	190	White (J) Malt	1	65
Capital Prop.	6	423	Harvey Norman	11	2,545	Prime Indust.	5	619	Wide Bay Cap'n	1	64
Capral Alum.	10	449	Healthscope	2	28	Prime Credit PT	6	486	Wills (WD & HO)	8	803
Cent Norseman	1	80	Henry Walker Gr	9	354	Prime Retail	2	97	Woodside Petrol	19	6,807
Centaur Mining	9	161	Hill 50 Gold	4	101	Progen Indust.	1	85	Woolworths Ltd	16	5,995
									Yates (Arthur)	8	75

Subscriber's Portfolio Reviewed

Early May 1999 saw the third anniversary of my share investing (and subscriptions to "Market Analysis" and "International Investor"). I started with just under $60,000 and have added about $1000 per month. Over the first two years my investments declined steadily to around -10%, but have risen strongly over the last year and are now up 65% to $155,000.

Why do you suggest 40% in NZ? Even after three years, half are showing a good gain, but half are wandering in the wilderness. Since 1987 the NZSE 40 angle of climb has been slow and tedious, whereas Australia has taken off pretty well.

I took the courage of my convictions and sold Fruitfed, but not with Designer Textiles, Renaissance or Wrightsons.

International investments also struggled, but your predictions are clearly taking hold. I am below your suggested 35-40%, but running out of cash. My thoughts were to sell down the NZ shares and invest internationally, but with only six buys at present in "International Investor" I might get over-weighted in these few shares. What do you think of this idea?

Your comments on any of the above would be most welcome.

Review

By way of further background, this investor has *very closely* followed the recommendations in "Market Analysis" and "International Investor" over the last three years - with 36 of the 37 current investments being from the shares and funds recommended in our newsletters. Therefore there is no need to review the investor's individual shareholdings as that is done every month through the newsletters. The only "other" investment held is some GPG shares which make up about 5% of the portfolio (and are classified as a NZ share). The investor also previously made one other investment - buying a broker's recommendation which fell over 90% in value! 47% of the portfolio is presently invested in NZ shares (compared with our suggested 40%), 29% in Australia (suggested level 20-25%) and 24% Internationally (35-40% suggested).

Based upon the starting capital and the $1000 of savings added each month, <u>this portfolio shows a better than 20% *compound* rate of return</u>. This excellent rate of return also demonstrates what we believe are important factors in successful stockmarket investment:

1. <u>The portfolio is widely diversified</u>, with investments in NZ, Australia and Internationally, and covering a total of 37 different companies and funds. Some investments will be successful and some will not, so it is important to spread investments across *several countries* and *many companies* to ensure a good overall return over the medium to longer term.
2. <u>The investor has taken a medium to long term approach to investment</u>. Although the portfolio failed to show any gain over the first two years, the investor has stuck with our investment strategy, which has since yielded excellent returns.
3. <u>The investor has also taken a long term approach to building his investment capital</u> - starting out with less than $60,000 but adding another $36,000 through regular monthly savings of about $1000. Dividends and capital gains have also been re-invested.

<u>This investor should continue to stick with these investment principles</u> - although the sale of Fruitfed (and the unexecuted plans to sell Designer Textiles, Renaissance and Wrightson) may indicate a shift towards a more aggressive management style. A little success in the stockmarket has often led investors to forsake a sound investment strategy in favour of quick and easy gains when the stockmarket is booming! We believe such a change would be <u>unfavourable</u> over the medium to long term. A more "active" management style, for example, *may* have resulted in the sale of JNA shares when their price dropped in 1996 - instead of that investment ultimately yielding the investor a 462% gain (i.e. NZ$33,900).

Even if the NZ investments should continue to perform poorly (which is <u>not</u> our expectation) then having 40% in NZ (and 20-25% in Australia) provides good overall portfolio diversification and allows us to invest 35-40% internationally (of which 70% is in Asia - where we are starting to realise the profit potential of a recovery and new growth as a result of economic and political change). Good geographic diversification allows us to target specific areas (such as Asian stockmarkets) where we see huge potential - but also high volatility!

In fact, the NZ stockmarket offers good *value* compared with many overseas stockmarkets. Investors often fall into the trap of projecting *past* returns into the *future*. Consequently, everyone wants to buy when prices are high (i.e. have performed well in the past) and no-one wants to buy when prices are low (i.e. have performed poorly in the past). This incorrect logic applies to both individual shares and the whole stockmarket!

The investor's plans to cut the NZ investments back to $5000 each would realise around $12,000 (from the partial sale of some Cavalier and GPG shares, and perhaps a few Air NZ and Radio Pacific shares), reducing the percentage in NZ from 47% to 39%. Re-investing that $12,000 internationally would increase that section from 24% to 32%. That is in line with our suggested portfolio spread, but is a relatively minor adjustment. <u>A similar adjustment could be made by simply leaving the NZ investments unchanged and using the $1000 of new monthly savings (plus dividends) to build up the international section of the portfolio over the next twelve months</u>.

The International section of the portfolio is currently spread over nine different funds, with between $1000 and $8,900 in each. That biggest holding makes up only 5.7% of the *total* portfolio, so there is no over-weighting at this stage. Of the six current "buy" rating recommendations, the investor does not own two of these funds and has just $1500 invested in a third - so any additional investments could build each of these positions up to around $4,000 each.

Readers Ask . . .

Question: We are 35 years old, with a combined salary of $150,000 and the following assets:

Five residential properties	$730,000	
less interest only mortgages	$610,000	$120,000
Home	$295,000	
less revolving mortgage	$65,000	$230,000
Insurance Bond		$25,000
Shares		$45,000
Net Worth		$395,000

Our plan is to redeem the Insurance Bond and borrow further against the equity in our home to increase the share portfolio.

Your comments and advice would be appreciated.

Answer: With a high income from employment you are in a position to be able to "gear up" your investment portfolio - but you have already done this with the residential investment properties. Borrowing further money against your home to buy shares involves unacceptably high risk. To build investment wealth successfully over the *longer term* you need to be able to survive interest rate hikes, economic recessions, stockmarket declines and property slumps. If you are too highly geared, your wealth may increase rapidly while things are going well - but fall sharply at the first signs of trouble!

For example, you could probably increase your home mortgage to around $200,000 - drawing down another $135,000 plus the $25,000 from the insurance bond to give you $160,000 to expand your share portfolio. However, that will increase your total interest bearing debts to $810,000 - which far exceeds your net worth of $395,000.

If, at some stage in the future, either (1) interest rates rise or (2) one or more of your investment properties falls vacant or (3) one of you were to lose your job or suffer a drop in income or (4) share prices decline or (5) property values decline or (6) credit conditions tighten and the bank offers to refinance only a smaller part of the mortgages when they fall due, then you could find yourself in a difficult financial position. You could be forced to sell assets in a depressed market or - almost as bad - need to use all of your employment savings to pay the mortgages when you could be using that money to pick up assets cheap in the next "crisis".

Furthermore, as you are borrowing on *interest only* mortgages your total debt level - and therefore your financial risk - is not being reduced over time.

As an alternative, I suggest that you leave your debt levels unchanged and use your savings to increase your share portfolio and equity. Based upon your high income and estimated net rental income, you are probably able to save around $70,000 per year. Why not leave your home mortgage at around $65,000 and use the $25,000 mortgage bond and your annual savings to build up the share portfolio? After one year (and without counting any dividends or capital gains) your share portfolio would grow to $140,000 and after five years (again not counting *any* gains) your share portfolio would be around $420,000 and your net worth up to around $745,000.

With your high income, substantial net wealth and young age, you can afford to take risks and invest fairly aggressively. However, debt funding is the *wrong* sort of aggressive, risky strategy. Instead, fund your share investments with your savings but invest in a portfolio of mainly smaller, emerging growth companies for maximum capital growth (rather than existing share investments that are mainly in larger, established, low risk companies). Smaller growth companies offer you the highest long term returns, but are volatile and individually these companies can be very risky. That individual company risk can be almost completely eliminated through good diversification - that is, simply spread your money over 15-20 different companies!

You should also be looking to invest some of your portfolio offshore - with Asian stockmarkets likely to yield strong gains over the next several years (although, again, these markets are likely to be volatile). A little leverage could be added by investing in some UK investment trust warrants - which is actually a cheaper and less risky way to "gear up" your portfolio than taking on more interest bearing debt yourself!

Summary and Recommendation

You are in a position to take risks and invest aggressively, but instead of investing in a *debt funded* portfolio of *blue chip* shares you should be aiming to build up an *equity funded* portfolio of *riskier emerging growth shares*. This second alternative offers you better medium to long term growth potential - and without the unacceptably high risks of carrying higher levels of personal interest bearing debt!

Question: I understand how you calculate your average return on the portfolio, but I have been unable to produce your percentage per annum figure. Which ever way I do it I get a lower answer than you. This is important to me as a figure of over 30% is pretty impressive. Could you tell me how it is calculated?

Answer: There are several ways to calculate an *average percentage gain* - but there is no completely "correct" method. We calculate the average annual gain in three relatively simple steps:

Firstly, calculate the average gain/loss from all recommendations by adding up the gain or loss on each investment and dividing by the number of investments. Since "Market Analysis" was first published in March 1981 we have recommended a total of 130 shares (99 we have subsequently recommended selling, and 31 are still in the *Recommended Portfolio*).

Secondly, calculate the average length of time that these shares have been held by adding up the number of weeks that each share was held and dividing by the number of investments.

Thirdly, we find the average annual rate of gain by dividing the average gain by the average length of time that those investments were held.

The average gain on our 130 share investments is +80.85% and the average length of time that these shares were held is 121.98 weeks (about 2 years, 4 months), so the average annual rate of gain is +34.47%.

A complete *Summary of All Prior Recommendations* is sent to all new subscribers, and additional copies are available upon request.

"Insider" Insights

(A summary of buying and selling by major shareholders)

Company	Shareholder	Buy/ Sell	Shares (Mill)	% of Coy Held Before	After
14/05/99					
Evergreen Forests	Societe Generale	Sell	-1.723	12.90%	11.78%
FC - Building	Franklin Resources	Buy	+1.914	4.65%	5.14%
Mainfreight Ltd	Royal & Sun Alliance	Sell	-1.000	7.96%	6.58%
NZ Light Leathers	Argent Group	Buy	+0.770	82.29%	95.11%
Trans Tasman Prop.	Seabil NZ	Buy	+3.278	49.52%	50.50%
Tranz Rail	Franklin Resources	Buy	+2.017	6.34%	8.01%
Zuellig NZ	Zuellig Group	Buy	+5.400	86.42%	91.18%
21/05/99					
AMP Office Trust	Bankers Trust	Sell	-4.950	11.50%	10.51%
Corporate Investments	The Capital Group	Buy	+0.114	5.94%	7.08%
Cue Energy	Anzoil NL	Buy	+48.231	0.0%	16.71%
FC - Energy	Franklin Resources	Buy	+3.300	4.19%	5.03%
FC - Paper	Franklin Resources	Sell	-12.590	9.22%	7.59%
FC - Paper	JP Morgan Inv Mgmt	Buy	+3.170	5.59%	6.00%
Property For Industry	Royal & Sun Alliance	Sell	-1.125	6.69%	5.74%
Restaurant Brands	Scudder Kemper	Buy	+4.270	0.0%	5.02%
Sky City Ltd	Colonial First State	Buy	+12.640	11.62%	13.13%
Taylors Group	Royal & Sun Alliance	Buy	+0.221	7.74%	8.69%
Trans Tasman Prop.	Grantham Mayo	Buy	+41.241	0.0%	11.38%
Trans Tasman Prop.	Seabil NZ	Buy	+4.566	50.50%	51.76%
28/05/99					
Advantage Group	Romney (No 11)	Sell	-0.555	8.37%	6.98%
Air New Zealand	Brierley Investments	Buy	+27.713	42.25%	47.14%
Kiwi Income Property	Bankers Trust	Sell	-9.630	6.70%	3.88%
Mainfreight Ltd	Tower Corporation	Buy	+3.835	0.0%	5.30%
NZ Salmon	DRG Ross	Buy	+1.739	0.0%	12.65%
Restaurant Brands	Tower Corporation	Buy	+0.918	7.29%	8.37%
Trans Tasman Prop.	Seabill NZ	Buy	+11.015	51.76%	54.80%
04/06/99					
Air New Zealand	Franklin Resources	Sell	-8.049	8.34%	6.92%
Cue Energy	Anzoil	Buy	+58.488	16.71%	20.26%
FC - Building	Franklin Resources	Buy	+10.782	5.14	7.80%
FC - Paper	Debenture Nominees	Sell	-7.814	7.26%	6.21%
Infratil International	Guiness Peat Group	Buy	+1.038	5.00%	6.05%
NZ Light Leathers	Argent Group	Buy	+0.116	95.11%	97.05%
NZ Salmon Company	Sth Pacific Finance	Sell	-1.769	12.87%	0.0%
Nuhaka Farm Forestry	Evergreen Forests	Buy	+0.019	20.08%	21.13%

Argent Group is completing its takeover of **NZ Light Leathers**, while Zuellig Group will buy out the minority public shareholders in **Zuellig NZ**.

Investment company, Rangatira, through its subsidiary, Romney (No 11), is realising some profits on **Advantage Group** - which now calls itself an "e-commerce" company and has made two acquisitions - but still basically only *sells* point-of-sale equipment to retailers.

DRG Ross has also acquired a 12.65% shareholding in **NZ Salmon** - a cashed up company (with net assets of 12 cents) looking for a new business. The shares trade at 19 cents - which values the company's stock exchange listing at about $1 million

Office Closed: June 11-25

Our office will be closed from June 11-25 (inclusive) while your Editor and his wife take a short holiday somewhere in Malaysia. Am I neglecting the search for *the next* NZ Refining/Michael Hill/JNA/Flight Centre/Toll Holdings? No, having invested my own money in all of those companies (and every other recommendation) my investment portfolio has grown to a level at which I am now *obligated* to take two overseas holidays per year. However, being an investor myself, I'll be back to the search - refreshed and working twice as hard - by the end of the month.

Dividend$

Company	Cents per Share	Ex-Date	Pay-able	Tax Credit
Capital Properties	2.83	21-05	11-06	1.12
Carter Holt Harvey	3.00	21-06	12-07	0.4925373
Ceramco Corporation	5.00	21-06	02-07	Full
Eastern Equities	1.50	24-05	04-06	Full
Fruitfed Supplies	5.00	14-06	16-06	Full
Fruitfed Supplies (1)	16.00	14-06	16-06	Full
Infrastruture & Utilities	3.00	31-05	04-06	Full
Infrastruture & Utilities (1)	2.25	31-05	04-06	Full
Kiwi Income Property	5.052	28-06	09-07	0.148
Lion Nathan	8.00	31-05	15-06	2.364179
Mr Chips Holdings	2.00	07-06	11-06	Full
Northland Port	2.00	31-05	04-06	Full
Owen Group	6.00	26-07	30-07	Full
Owens Group (1)	12.00	26-07	30-07	1.97
Radio Otago	9.00	26-07	01-08	Full
Radio Pacific	7.50	26-07	06-08	Full
Scott Technology	4.50	10-05	13-05	Full
Telecom NZ	11.50	07-06	16-06	Full
Trans-Alta	5.20	28-06	01-07	Full
	Australian Dividends			
Central Equity	4.00	29-06	06-07	-
Hancock & Gore	3.75	02-07	16-07	-

(1) Special Dividends

Total Return Index for All Listed Shares

May 10	2104.80	May 17	2096.51
May 11	2091.81	May 18	2097.39
May 12	2081.24	May 19	2105.22
May 13	2090.12	May 20	2106.83
May 14	2108.58	May 21	2102.04
May 24	2107.11	May 31	2085.11
May 25	2088.58	Jun 1	2088.41
May 26	2088.23	Jun 2	2093.04
May 27	2101.37	Jun 3	2101.04
May 28	2092.78	Jun 4	2112.55

Internet Password

"Market Analysis" is published on the Internet in full (www.stockmarket.co.nz) but password protected to prevent unauthorised access by non-subscribers. That password will be changed every month:

June's Password July's Password

See Print Newsletter

Please keep these passwords confidential!

Next Issue

The next issue of "Market Analysis" will be posted in five weeks time on Tuesday July 13, 1999.

MARKET ANALYSIS is published 12 times per year by Securities Research Company Limited, P.O. Box 34-162, Birkenhead, Auckland. (66 Stanaway Street. Telephone 64-9-4199 427 Facsimile 64-9-4199 428 Internet: www.stockmarket.co.nz Email: james@stockmarket.co.nz). Subscription Rate $175 (including GST) per year.