

Market Analysis

Issue No. 332

P.O. Box 34-162, Auckland

February 8, 2000.

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Summary and Recommended Investment Strategy.

Despite high share valuations and an unfavourable outlook for the US, European and UK stockmarkets, shares in NZ and Australia offer good *value* and (especially in Australia) are producing outstanding returns to investors. Remain fully invested in the recommended shares

Investment Outlook.

Our One-Year Forecast for the NZ stockmarket improved slightly to a **Neutral 51%** owing to an upturn in Money Supply growth. Nevertheless, we are still concerned that the Reserve Bank will raise interest rates too far to choke off recent economic growth. The Reserve Bank is worried about inflationary pressures in 18-24 months time, despite *current* inflation being below expectations.

Somehow this reminds us of the Reserve Bank's track record of mistakes managing monetary policy - having got things *wrong* in 1993 (too loose), 1994 (too tight), and again in 1997/98 (i.e. in response to the October 1997 Asian crisis, NZ interest rates were not lowered until June 1998). Let's just hope that the economy and stockmarket aren't heading for another series of stop-start, up-down fluctuations that resulted in both underperforming their long term growth potential. [Editor's Note: But I wouldn't bet the bank on it. Investors should keep 60-70% of portfolios offshore.]

Our **Short Term Trend Model** of the NZ stockmarket has declined to a **Neutral 58%**.

Our *International Investor* newsletter forecasts a **Neutral 45%** chance that the Australian stockmarket will be higher in one year's time. Despite these neutral forecasts over recent months, many of our Australian share investments have continued to soar in value - far outperforming the broad market! And *without* a speculative over-valued dot.com share in sight!

ERG has soared *another* 51% (so we recommend selling to realise a very substantial gain) but **Flight Centre** is also up a further A\$3.25 and **Toll Holdings** A\$1.25. All in just one month!

Internationally we are concerned about rising interest rates, high stock valuations in the United States, Europe and the United Kingdom, and *International Investor's* Neutral to Bearish forecasts for these major stockmarkets. A correction in these overseas markets would have an impact on NZ and Australian share prices. However, the NZ and Australian stockmarkets are more highly correlated to fluctuations in Asian stockmarkets where the outlook

remains favourable. Share prices in NZ and Australia also offer much better *value* than the larger overseas markets. So for now we advise being fully invested the recommended NZ and Australian shares.



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		Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield		Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
A. Barnett Ltd	B	105	0.53	37	11.4	Hellaby Hold.	C	192	0.56	7	10.9	Property F Ind.	C	74	5.79	14	8.7
AMP Limited	B	1975	0.70	18	1.1	Heritage Mining*	N/R	5.0	N/A	NE	Nil	Pure NZ Limited	C	27	9.03	NE	Nil
AMP NZ Office	C	90	6.44	12	8.6	Horizon Energy	C	675	2.18	24	5.1	Radio Works NZ	A	788	2.17	17	2.8
Advantage HDS	B	340	4.85	39	Nil	IT Capital Ltd	C	78	N/A	NE	Nil	Reid Farmers	B	65	0.49	9	10.3
Affco Holdings	D	39	0.10	NE	Nil	Ind Newspapers	A	895	1.16	24	4.0	Renaissance	B	60	0.15	18	Nil
Air New Zealand	C	202	0.34	5	7.4	Infratil Aust.	E	79	N/A	NE	Nil	Restaurant Brds	B	136	0.53	9	11.0
Akd Int Airport	C	254	6.65	25	4.7	Infratil NZ	C	128	7.65	9	6.7	Revesco Ltd*	N/R	47	6.21	NE	Nil
Apple Fields	D	11	0.09	NE	Nil	JF China Region*	N/R	85	N/A	NE	1.4	Richina Pacific	D	53	0.08	NE	Nil
Aquaria 21	D	19	N/A	NE	Nil	Kingsgate Int'l	E	16	0.72	11	Nil	Roller Int'l *	N/R	40	0.21	NE	Nil
Baycorp Hold	A	925	N/A	53	2.6	Kiwi Developmnt	D	152	N/A	NE	Nil	Ryman Health.	C	192	N/A	NE	Nil
Brierley Invest	C	37	0.56	10	8.1	Kiwi Property	C	91	6.25	10	11.4	SE Utilities	C	90	2.24	12	6.6
Broadway Ind	D	36	0.09	NE	Nil	Lion Nathan Ltd	D	413	1.16	15	5.0	Sanford Limited	B	575	1.70	14	3.9
CDL Hotel NZ	E	25	0.42	13	4.5	Lytelton Port	C	160	2.94	12	6.8	Savoy Equities	D	7.0	2.63	NE	Nil
CDL Investments	E	23	1.61	10	13.0	Mainfreight Grp	C	166	0.42	17	4.9	Scott Tech. Ltd	B	264	1.88	18	6.2
Calan Hlthcare	E	116	N/A	NE	Nil	Manor Inns Grp	E	14	0.56	NE	Nil	Seafresh Fish.	D	14	0.57	16	Nil
Cap Properties	B	38	4.80	4	28.9	Max Resources*	N/R	13	N/A	NE	Nil	Shotover Jet	C	66	1.19	11	3.8
Carter Holt	D	211	1.27	70	3.8	Metro. LifeCare	B	225	2.19	21	4.0	Sky City Ltd	C	685	2.56	14	9.4
Cavaliere Corp	B	340	0.61	12	11.4	Michael Hill	B	320	0.79	14	5.4	Sky Network TV	E	380	N/A	NE	Nil
Cedenco Foods	B	92	2.17	10	Nil	Mid-Cap Index*	N/R	187	N/A	NE	Nil	South Port NZ	B	98	1.09	23	8.4
Ceramco Corp	B	150	0.69	20	5.0	Montana Group	C	201	1.01	18	2.2	Southern Cap	D	65	4.79	10	Nil
Col FS Property	C	87	N/A	13	7.9	Mr Chips Hold	B	75	0.68	22	8.0	Spectrum Res.*	N/R	35	N/A	NE	Nil
Col Motor Co	B	275	0.29	15	8.4	NZ Experience	D	15	1.07	71	Nil	St. Lukes Group	C	149	2.53	6	9.8
Colonial Ltd	B	806	1.01	20	0.7	NZ Invest Trust*	N/R	411	N/A	NE	2.0	Steel & Tube	B	161	0.42	14	7.4
Contact Energy	C	306	8.85	16	7.7	NZ Oil and Gas *	N/R	63	4.34	NE	Nil	Strathmore Grp	C	50	N/A	NE	Nil
Cue Energy Ltd * N/R	D	12	6.49	NE	Nil	NZ Refining Co	C	910	0.90	9	11.0	Summit Gold Ltd*N/R	N/R	13	N/A	NE	Nil
DB Group	D	273	0.43	9	8.7	Nat Property Tr	C	84	5.20	10	12.1	Tag Pacific Ltd	D	42	0.53	NE	1.8
Dairy Brands	E	26	1.74	NE	Nil	National Mutual	B	295	2.78	14	3.8	Tasman Agric.	C	78	2.50	11	3.9
Damba Hold Ltd	C	48	0.57	NE	Nil	Natural Gas	D	155	2.11	14	9.6	Taylor's Grp Ltd	A	118	0.75	16	5.7
Design Textiles	C	31	0.21	6	14.4	Newcall Group	D	58	N/A	NE	Nil	TeNZ *	N/R	96	N/A	NE	Nil
Dorchester Pac	A	145	1.11	13	4.6	Newmarket Prop.	B	61	4.54	7	15.6	Telecom Corp	B	839	4.28	18	8.2
E-Phone Ltd	D	66	N/A	NE	Nil	Nobilo Wines	C	95	0.83	21	4.7	Tourism Hold.	A	305	1.02	17	2.4
Ebos Group Ltd	A	380	0.98	17	7.1	Norland Port	A	136	1.09	13	8.2	Tower Limited	C	491	0.64	11	2.6
Eldercare NZ	D	60	N/A	NE	Nil	Nufarm Limited	C	410	0.44	10	6.1	Trans-Tasman	E	25	0.84	NE	Nil
Evergreen	E	50	N/A	21	Nil	Nuhaka Forestry	D	1360	N/A	NE	Nil	Trans Alta NZ	C	236	0.56	14	8.9
FC - Building	C	225	0.27	32	8.0	Nuplex Indust	B	305	0.54	15	5.1	Tranz Rail Hold	D	362	0.77	6	7.0
FC - Paper	E	121	0.22	NE	1.9	Opio Forestry	E	54	N/A	NE	Nil	Trust Power Ltd	D	340	2.70	30	7.1
FC - Forests	E	65	1.01	10	Nil	Otter Gold Mine*	N/R	88	0.56	19	Nil	United Networks	D	585	1.97	8	10.2
FC - Energy	D	426	1.17	25	4.9	Owens Investmts	D	117	0.17	16	12.8	Utilico Int'l	D	27	N/A	NE	Nil
Fisher & Paykel	B	680	1.03	23	4.0	Ozzy (Tortis)*	N/R	249	N/A	NE	Nil	Warehouse Group	A	825	1.25	22	3.4
Force Corp.	C	73	3.55	14	8.2	PDL Holdings	C	535	0.23	42	5.6	Waste Mgmt NZ	A	410	4.37	32	3.9
Goodman Fielder	C	155	0.44	14	6.0	Pacific Retail	C	190	N/A	15	2.4	Williams Kettle	A	198	0.28	13	9.8
Grocorp Pacific	D	14	0.85	NE	Nil	Paynter Hold	C	39	0.58	NE	Nil	World Index Fd *	N/R	213	N/A	NE	Nil
Guinness Peat	C	138	1.35	10	1.4	Port Tauranga	B	580	8.39	25	4.6	Wrightsons Ltd	D	45	0.11	NE	Nil
Hallenstein G.	B	220	0.81	13	11.5	Ports Auckland	C	490	4.22	20	5.5	Ave of 131 Cos	C	229	0.56	20	4.3
A.G.L.	B	890	1.75	13	5.1	Email Ltd	C	219	0.26	13	6.4	Orica Ltd	C	762	0.47	13	4.9
AAPT	B	500	1.98	43	Nil	Energy Develop.	A	1120	N/A	82	0.4	Orogen Minerals	C	157	2.84	12	4.1
AMP Diver. Prop	D	223	7.77	13	8.2	Fairfax (John)	A	532	2.94	17	2.0	PBL	A	1348	5.44	51	1.3
AMP Ltd	C	1525	0.64	16	1.2	Faulding (F.H.)	A	863	0.66	22	2.4	PMP Communicat.	B	220	0.47	9	9.3
AMP Office Trt	D	105	8.65	12	7.8	Flight Centre	A	1645	0.72	48	1.1	Pacific Group	C	508	1.13	32	3.1
AMP Shop Centre	E	105	N/A	NE	Nil	Foodland Assoc	C	911	0.22	7	5.4	Pacific Dunlop	C	180	0.29	9	7.8
ANZ Bank	C	1040	1.48	11	5.4	Foster's Brewin	B	435	2.40	21	3.0	Perp Trust Aust	C	2000	3.58	25	3.0
APN News Media	A	400	2.88	27	2.6	Future's Corp.	C	193	0.25	17	4.1	Pioneer Int'l	B	450	1.00	17	35.8
Advance Prop	C	139	6.66	12	8.5	GWA Internat'l	C	223	1.11	14	5.6	PowerTel Ltd	C	254	2.48	NE	Nil
Amcor Ltd	C	649	0.62	14	6.0	Gandel Retail T	D	105	9.35	16	7.9	O.B.E. Insur.	B	720	0.76	17	3.8
Amway Asia Pac	C	2600	N/A	NE	Nil	General Prop Tr	C	246	5.96	14	7.8	O.C.T. Resource	C	74	0.51	11	9.5
Aristocrat	A	2500	4.74	47	0.7	Ges Internat'l	B	205	1.15	47	0.5	Qantas	C	374	0.52	12	5.1
Aust Stock Exch	A	1299	8.12	33	2.7	Goodman Fielder	C	120	0.44	14	6.3	Rio Tinto Ltd	B	2705	1.77	15	2.1
Austar United	C	730	N/A	NE	Nil	Gt Sthn Plant'n	C	447	N/A	NE	Nil	Rural Press Ltd	C	490	1.31	13	2.6
Austrim Nylex	C	275	0.72	9	5.5	Guinness Peat	D	110	2.18	9	0.5	Sausage Softwar	B	530	N/A	NE	Nil
BA Tobacco Aust	C	1355	0.54	14	6.3	HIH Insurance	C	126	0.17	7	12.7	Seven Network	B	553	2.18	88	3.7
BRL Hardy Ltd	B	722	2.05	26	1.8	Hardie (James)	D	334	0.95	NE	4.5	Smith (Howard)	C	958	0.68	18	4.3
BTR "A"	E	508	N/A	NE	Nil	Harvey Norman	B	295	1.77	7	5.1	Smorgon Steel	C	187	0.83	25	2.4
Bank of W.Aust	B	399	5.69	17	4.1	Hills Motorway	C	320	9.00	40	1.8	Solution 6	A	1128	7.72	31	Nil
Boral Ltd	C	228	0.50	11	3.3	Hoyts Cinemas	C	200	1.18	15	2.0	Sonic Health	A	690	4.90	49	2.0
Brambles Ind.	C	3800	1.70	26	2.1	Hutchison Tel.	C	450	N/A	NE	Nil	Southcorp Ltd	C	544	1.17	19	3.7
Brickworks Ltd	B	4000	3.57	14	2.8	Incitec	D	530	0.65	18	4.0	Spotless Group	B	502	0.64	22	3.5
C & W Optus	B	578	8.72	NE	Nil	Infrastructure	C	160	7.14	8	6.3	St George Bank	B	1180	1.65	17	4.4
C.S.R. Ltd	C	344	0.52	10	6.7	Jupiters	C	260	1.09	14	5.4	Stockland Trust	C	328	5.68	13	7.5
CSL Limited	A	2330	7.22	65	0.9	Lang Corporatio	B	715	2.10	24	Nil	Suncorp-Metway	C	810	0.66	6	5.4
Cadbury Sch.	D	870	N/A	NE	3.9	Leighton Hold	C	540	0.42	12	5.6	TAB Ltd	C	255	0.32	23	3.5
Centro Prop.	C	258	6.16	12	8.8	Lend Lease Corp	B	1931	2.36	23	3.1	Tabcorp Holding	C	918	2.57	19	4.7
Challenger Int.	A	390	3.21	18	1.3	M.Y.O.B. Ltd	C	1122	8.48	NE	Nil	Telstra	A	735	1.73	9	4.5
Coal & Allied	B	1550	1.67	11	6.5	Macquarie Off.	D	104	7.60	11	10.2	Ten Network	C	203	1.34	14	7.1
Coca-Cola Bev.	E	313	N/A	NE	Nil	Macquarie Bank	B	2390	4.63	23	2.8	Transurban Grp	E	294	N/A	NE	Nil
CocaCola Amatil	C	356	0.96	19	5.3	Macquarie C Tel	C	259	N/A	NE	Nil	United Energy	C	239	1.46	66	7.2
Cochlear Ltd	A	2255	8.89	70	1.2	Mayne Nickless	A	335	0.29	10	9.0	Village Road.	C	255	0.75	8	3.9
Coles Myer	C																

Recommended Investments

Recommended Portfolio Spread: NZ 30-40%, Australia 20-30%, International 35-45%

Over recent years we have suggested a portfolio spread with investors (younger than retirement age) holding about 35-45% of their portfolios in NZ, 15-25% in Australia and 35-45% internationally - or about an average 40/20/40 spread between these sectors. Our investments in all of the regions rose strongly during 1999, but an investor who started with our recommended 40/20/40 spread probably now has a 35/25/40 spread - owing to the spectacular growth of many of our Australian share selections. Given that the number of listed companies in NZ continues to decline - and that there are ten times as many Australian listed companies from which to find under-valued smaller growth companies - we are happy to stay with the low NZ holding and higher percentage in Australia. Therefore

we are current recommending that investors have a lower 30-40% of their portfolio invested in NZ, a higher 20-30% in Australia and 35-45% internationally. Of course, these are simply an approximate guide to good diversification and investors may deviate 10-20% from those percentages. Retired investors may also want to hold a larger percentage in NZ investments - perhaps in fixed interest or property shares - to provide a cash income (and NZ imputation tax credits) in NZ currency to fund living expenses.

New Zealand Shares

Colonial Motor Company is planning a further cash distribution to shareholders by way of a capital repayment. The plan, subject to court approval, is for a pro-rata buy-back of 10% of the company's capital at \$2.70 per share. Many investors ignore dividends and focus only on the potential *(Continued on Page 4)*

Portfolio of Recommended Investments

CURRENT ADVICE	Company	Code	Initial Recommendation - Date -	Price	Performance Forecast	Issued Shares (mil.)	Vola- tility Ratio	Price/ Sales Ratio	Price/ Earnings Ratio	Gross Dividend Yield	Recent Share Price	Cash Dividends Rec'd	Total Return %
<u>NZ Shares</u>													
HOLD+	Air New Zealand "A"	AIRVA	08/10/96	257*	C	567.0	0.9	0.34	5	7.4	202	63.0	+3%
HOLD-	Apple Fields Limited	APF	10/03/92	237	D	29.2	2.6	0.09	NE	Nil	11	10.0	-91%
BUY	CDL Investments Ltd	CDI	12/01/99	25	E	169.5	2.1	1.61	10	13.0	23	2.0	+0%
BUY	Cavalier Corporation	CAV	05/12/95	312	B	36.0	1.0	0.61	12	11.4	340	97.0	+40%
HOLD+	Colonial Motor Company	CMO	10/11/92	150	B	30.9	0.8	0.29	15	8.4	275	187.3	+208%
HOLD	Designer Textiles Ltd	DTL	12/01/99	47	C	29.7	1.8	0.21	6	14.4	31	3.0	-28%
HOLD+	Ebos Group Ltd	EBO	12/10/99	290	A	23.2	0.8	0.98	17	7.1	380	9.0	+34%
HOLD	Michael Hill Int'l Ltd	MHI	11/06/91	46*	B	38.6	0.9	0.79	14	5.4	320	51.5	+708%
HOLD	Nufarm Limited	NUF	11/02/97	505	C	150.5	0.9	0.44	10	6.1	410	60.0	-7%
HOLD+	Nuplex Industries Ltd	NPX	11/02/97	350	B	55.4	1.0	0.54	15	5.1	305	21.0	-7%
HOLD	Owens Group Limited	OWN	12/03/91	47*	D	56.3	1.1	0.17	16	12.8	117	80.3	+320%
BUY	PDL Holdings Ltd	PDL	13/02/96	810	C	13.6	0.9	0.23	42	5.6	535	113.0	-20%
HOLD+	Radio Works NZ Ltd	RWL	08/12/92	205	A	12.0	0.5	2.17	17	2.8	788	121.0	+343%
HOLD+	Renaissance Corp	RNS	13/08/96	85*	B	35.3	2.3	0.15	18	Nil	60	4.4	-24%
HOLD	Richina Pacific	RCH	03/11/95	119*	D	72.2	1.6	0.08	NE	Nil	53	11.9	-45%
HOLD	South Port New Zealand	SPN	13/02/96	120	B	32.4	1.2	1.09	23	8.4	98	33.3	+9%
BUY	Taylors Group Ltd	TAY	09/11/99	102	A	24.3	1.2	0.75	16	5.7	118	Nil	+16%
HOLD+	Tourism Holdings Ltd	THL	14/07/92	168*	A	56.6	1.0	1.02	17	2.4	305	53.2	+113%
HOLD+	Wrightson Limited	WRI	13/01/98	83	D	139.7	1.8	0.11	NE	Nil	45	6.3	-38%
<u>Australian Shares</u> (in Aust cents)													
BUY	Abigroup Limited	ABG	09/03/99	265	C	47.7	0.9	0.13	6	7.1	196	14.0	-21%
BUY	Atlas Pacific Ltd	ATP	14/05/96	73	D	54.8	1.9	14.90	NE	Nil	31	Nil	-58%
BUY	Auspine Limited	ANE	08/02/00	210	B	57.0	0.8	0.52	12	5.7	210	Nil	
HOLD+	Biron Corporation Ltd	BIC	12/04/94	178	B	21.6	2.0	0.94	NE	7.1	28	11.0	-78%
BUY	Campbell Brothers Ltd	CPB	12/10/99	435	B	31.0	0.7	0.76	14	4.8	498	11.0	+17%
HOLD+	Central Equity Ltd	CEQ	09/02/94	154	A	82.1	0.8	0.98	6	7.4	215	65.0	+82%
BUY	Data#3 Limited	DTL	09/02/99	285	A	14.2	0.8	0.28	14	4.4	275	12.0	+1%
SELL	E.R.G. Limited	ERG	10/10/95	152*	A	203.2	0.8	7.85	127	0.1	1061	7.5	+603%
HOLD	Flight Centre	FLT	11/08/98	308	A	81.6	0.5	0.72	48	1.1	1645	24.5	+442%
BUY	Hamilton Island Ltd	HAM	09/11/99	205	A	43.5	0.9	1.06	11	5.5	235	Nil	+15%
HOLD+	Hancock & Gore	HNG	15/07/97	125*	B	46.1	0.9	0.70	11	5.7	141	15.8	+25%
HOLD+	PMP Communications	PMP	09/02/99	309	B	253.4	0.9	0.47	9	9.3	220	20.4	-22%
HOLD+	Thakral Holdings	THG	10/11/98	65	C	513.5	1.2	1.70	12	7.7	75	5.8	+24%
BUY	Toll Holdings	TOL	08/09/98	240	B	59.5	0.7	0.29	13	3.3	661	30.0	+188%
BUY	Utility Services Corp	USC	11/01/00	59	A	77.1	1.5	0.74	21	Nil	72	Nil	+22%
BUY	Vision Systems Ltd	VSL	10/11/98	685*	A	13.8	0.6	0.65	12	4.1	685	27.9	+4%

The average Total Return (i.e. both Capital Gains/Losses plus Dividends received) of all current investments from initial recommendation is +81.7%. This is equal to an average annual rate of +24.5%, based upon the length of time each position has been held.

The average annual rate of gain of ALL recommendations (both the 35 current and 101 closed out) is +30.9%, compared with a market gain of +13.6% (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 (APTG) last traded at 31½ cents.

Recommended Investments (Continued from Page 3) for capital gains. However, Colonial Motor Company's ability to generate cash from the sale of property investments, from profits in its motor vehicle business and improved distribution methods (which require less money tied up in stock) has already allowed the company to repay investors \$12,480 for every \$10,000 invested in the shares at the time of our initial buy recommendation. The planned capital repayment will increase that cash return to \$14,320 - while maintaining our existing level of ownership in the company. In addition, the shares are showing a nice capital gain! An attractive "Hold+".

Ebos Group has acquired a small Brisbane based wholesaler, **Maygar Medical Supplies**. That company's current annual turnover is just A\$4 million, but it will become the first interstate branch of Ebos' Australian business and become the base for expanding in Queensland.

Ebos Group's share price has risen strongly since we recommended the shares last October, but this is a quality company with an excellent growth record. Expansion throughout Australia could continue that growth well into the future. With a Price/Sales ratio of 0.98, a Price/Earnings ratio of 17 and a gross Dividend Yield of 7.1% the shares still offer good *value*. We rate the shares as "Hold+", but they would become even more attractive (i.e. a "Buy") if the price dips back to around 350-360 cents.

PDL Holdings' business is continuing to recover slowly. The third quarter result shows revenue up 12.5% to \$94.3 million and profits up 238% (from last year's poor third quarter) to \$2.1 million. Profits this year have been very steady, rising from \$1.46 million in the first quarter and \$1.58 million in the second quarter. At this rate, profits for the year ending June 2000 should be around \$7-8 million (50-60 cents per share). That would justify an annual dividend somewhere between last year's 20.0 cents and the company's previous dividend rate of 40.0 cents. At 535 cents, PDL Holdings shares will therefore probably yield somewhere between 5.6% at 11.2%.



Our *Comprehensive Share Selection Criteria* rates the shares a "Buy" owing to their low Price/Sales ratio, while the profit recovery now underway will return the Price/Earnings ratio to a low 9-11 and boost the Dividend Yield. Successful stockmarket investment can involve buying *good* companies or *growth* companies but most importantly investors need to buy *under-valued* companies. Buy.

Richina Pacific has sold an undeveloped 2500m²

building site in central Auckland for an undisclosed sum, but in excess of book value.

The Board of **Wrightson** has announced that it "is confident Wrightson is on the road to recovery with strong trading in the year to December".

Australian Shares

Further to our suggestion that a group of investors may be seeking to use **Biron Corporation** as a listed shell, Biron has reported that it is "not aware of any particular intentions" but that **Advent Group** wants it to "utilise its cash assets" and "seek other investment opportunities". We consider those statements to be consistent with our earlier suggestions. On the other hand, Biron Director Dr M Snow (not related to the Chairman and major shareholder, GRW Snow), has sold 258,944 shares on-market, reducing his direct holding to just 39,507 shares.

After 80 years at the same location, **Campbell Brothers** will need to leave its original Bowen Hills, Brisbane, property by next year to make room for a 4-6 lane Inner City By-pass. The company is negotiating with council for compensation in excess of the A\$5 million of property, plant and equipment at the site.

Campbell Brothers' expanded Laboratory Services division offers strong growth potential, while its core Soap & Chemicals division is also very profitable and produces a reliable cashflow to fund dividend payments, expansion and acquisitions. A strong "Buy".

Data#3 shares have declined to A\$2.75 - slightly below our initial recommendation price a year ago. At this level we rate Data#3 shares a strong "Buy".

We believe that *Information Technology* will remain a strong sector in the economy, but investors won't earn profits by paying huge valuations for internet companies will very small businesses. Most of the profits will be earned by manufacturers, retailers and service companies. Data#3 which sells hardware and software, installs systems and offers support and training is a company that could do very well. Furthermore, Data#3 trades on a very low valuation. The Price/Sales ratio is a very low 0.28, the Price/Earnings ratio just 14 and the shares offer an above average Dividend Yield of 4.4%.

ERG has won a contract worth over HK\$77 million (A\$15 million) to supply and install its automated fare collection system at five new MTR stations in Hong Kong.

While such a contract would have been important up to a year ago, somehow we no longer think that A\$15 million of revenue will have much impact on the share price of a company with a market capitalisation of A\$2.1 billion. We are recommending the sale of ERG shares (see Page 6-7).

Three months ago **Flight Centre** reported first quarter revenues up 24% and profits up 50% on the same period in the previous year. That excellent performance has continued into the second quarter.

The audited results for the half year to December 31 will be available in four weeks, but the company has indicated that revenue has "increased by 26% to just over A\$1,000 million" and profits will be "in the order of 40-45% greater" or around A\$14.7-15.2 million (about 18 cents per share).

Flight Centre shares - like ERG shares - are trading on a very high Price/Earnings ratio, but Flight Centre *is producing strong revenue and profit growth*.

Furthermore that growth is a direct result of its opening new travel shops and its continuing expansion in Canada, the United Kingdom, South Africa and the United States. If the share price continues to move higher and/or if the growth rate slows, we may decide to realise some more profits or to sell out completely. However, while the shares look expensive on an historical P/E ratio of 46, the current 40% p.a. growth rate need only continue for another 18 months to reduce the P/E ratio to 20. Having taken some profits by selling one-third of our shares last October, we are happy to "Hold" our remaining investment and let these shares fly!

The opening of the **Hamilton Island** airport to **Qantas** in late 1998 (following the sale of Ansett's 50% shareholding in the airport company, initially to **BT Hotel Group** and then to 100% owner Hamilton Island) is reported to be having a "huge impact" on Airlie Beach (on the mainland) where A\$390 million of new development is now planned. Qantas is also described to be "aggressively marketing the Whitsunday area". Some of these tourists will stay at the Hamilton Island resort - further improving occupancy levels and profitability - but the higher volume of passengers going through the Hamilton Island airport will also have a significant impact on revenues and profits of that operation. We continue to rate Hamilton Island shares a "Buy" for income, income growth - and substantial capital appreciation.

Hancock & Gore has further extended its on-market share buy-back through to July 2000.

Thakral Group Holdings has purchased the **Courtyard Marriott Great Barrier Reef Resort**, a 189 room hotel, tavern and 1.7 hectare development site at Palm Cove (25 km north of Cairns) from Japanese based **Kokusai Motorcars**.

Kokusai Motors originally purchased the hotel for A\$30 million in 1988 and the adjoining development site for A\$20 million. The tavern was built at a cost of A\$5 million in about 1995 and a further A\$4.8 million was spent refurbishing the hotel in 1999. The sale price to Thakral is A\$20 million, A\$40 million less than the original cost to the vendor.

The development site has approval for holiday apartments, but Thakral favours a residential project and plans to "develop the site as quickly as possible". This will allow Thakral to add value and also recoup some of its initial investment when the residential properties are sold.

Thakral also plans to introduce gaming machines to the hotel, which is another low cost way to improve profitability.

Thakral Holdings Group has also announced the A\$27 million acquisition of **The Glades Robina** from the Korean group **Dong Ah**. The Glades is a 134 hectare golf course residential development, consisting of a completed Greg Norman "signature" golf course, a partially constructed clubhouse and golf lodge, plus land with approvals for 1000 residential "entitlements". This major sub-division site is within walking distance of the Robina shopping centre and high school, with railway access to Brisbane and the Brisbane-Gold Coast Highway (currently being upgraded to four lanes each way) runs adjacent to the site. Development and sales are expected progressively over four years, and

Thakral *may* introduce joint venture partners into the project.

Fifteen months ago, after receiving a large amount of cash from the takeover of **JNA Telecommunications** (and a smaller amount of cash from the management buyout of **Equitilink**) we bought **Flight Centre, Toll Holdings** and **Vision Systems**, with the remaining money (after adding to some existing shareholdings) going into Thakral shares as a "low risk, high yielding investment that should produce steady capital appreciation over the next 18-24 months". Thakral will never be another JNA, ERG, Flight Centre or Toll Holdings. We never thought it would be. It is, however, achieving its purpose of providing diversification to our portfolio, as putting all of our money into smaller, emerging growth companies would be too risky. If *that* sector experiences a downturn we can always sell the Thakral shares to rebuild the more risky sections of our portfolio (and those large dividend cheques are also quite handy to help fund new share investments). Thakral shares are our equivalent to "money in the bank for a rainy day" and also quite a nice investment in their own right! The company's expansion into gaming and property development is helping to add value to its hotel investments. "Hold" for more income and more capital appreciation.

Toll Holdings has paid A\$3.1 million to acquire the former **Thiess Contractors'** headquarters in Archerfield, Brisbane. The 4½ hectare site consisting of 5000m² of offices and 6000m² of workshops will be used to house the company's administration and head office staff.

Toll Holdings has also committed to a ten year lease (with options to renew for up to ten years) for an A\$10 million, 22,200m² depot (including 1000m² of offices and 1200m² of workshops) being purpose built for its **NQX Freight** business at the **Port of Brisbane's** new **Eagle Farm Industrial Estate**. Due to be completed in September, this will be one of Toll Holdings' largest depots and allow all of its Brisbane operations to be consolidated into one site.

Despite having almost tripled in value since our initial "Buy" recommendation in late 1998, Toll Holdings shares continue to offer good value and are still an attractive "Buy" at current prices!

As another example of **Utility Services Corporation's** diverse Information Technology services, the company has been selected to develop and implement an Earth Station control and monitoring system for the Department of Defence's new satellite communication network. The contract, worth over A\$2 million, has been sub-contracted from **Cable & Wireless Optus** which is providing the communications network.

Vision Systems has negotiated a new technology and product supply agreement with **Leica Microsystems**. Under the new agreement Vision Systems will receive approximately A\$15 million cash (including A\$5.4 million owing from its earlier agreement) for provide Leica with technology access and exclusive worldwide distribution rights to three histopathology instruments. Vision Systems will also receive approximately A\$11 million over the next 18 months for manufacturing this high value, automated laboratory equipment for Leica.

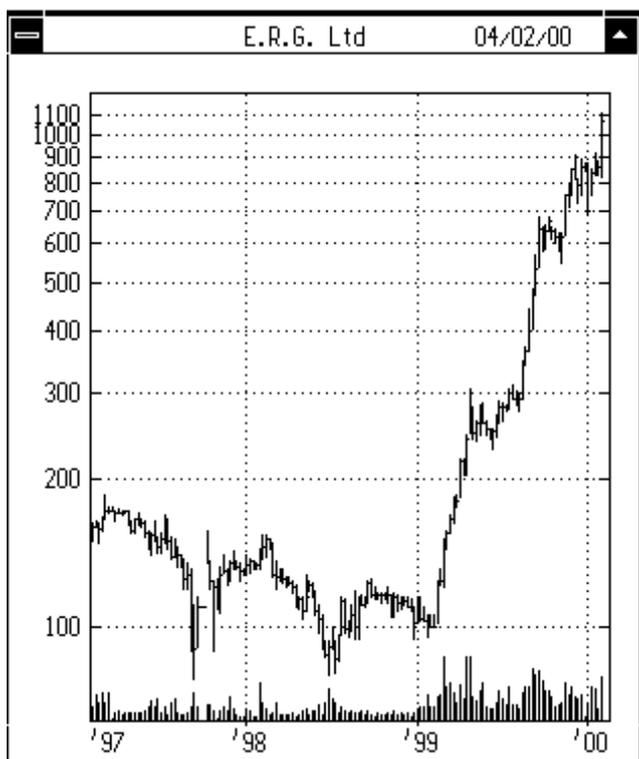
Share Recommendation: Sell E.R.G. Ltd

SELL E.R.G. Ltd

It was only a year ago that ERG shares were trading at A\$1.00 and showing a 34% loss from our initial recommendation price of A\$1.52 in October 1995. Then ERG won some major Automated Fare Collection (AFC) contracts - and the share price hasn't looked back!

We originally recommended ERG for investment owing to its competitive advantage in AFC systems through its world leading technology in the use of "contactless" smart cards. At the time, ERG shares looked under-valued, having dropped in price by two-thirds from their 1994 peak owing to a "glitch" with the Victorian state government over the installation of an AFC system in Melbourne. The shares were trading on a Price/Research ratio of 9.8 (i.e. values under 10.0 are good value), a low Price/Earnings ratio of 16.4 and were *neglected* (i.e. followed by only three brokers).

As things so often turn out, we got a few things "right" and a few things "wrong". We correctly identified that the company had world leading technology, but it took far longer than we expected - until early 1999 - for that technology to lead to the company winning significant business contracts. Similarly, we correctly identified that the Melbourne AFC contract "glitch" offered an opportunity to buy into an emerging growth stock at an attractive price - but again failed to anticipate that resolving that problem (which was *political*, not *technical*) would take four years! Perhaps the most important thing we did right was to stick with the company long enough for it to prove and to commercialise its technology, despite a share price that steadily drifted depressingly lower for four years - and then holding on while the price soared from A\$1 to over A\$6 (when we sold one-third of the shares) in October and holding the remainder through until now.



While we continue to believe that ERG will be a successful company, we also believe that the share price has risen to a level that makes them *over-valued*. ERG shares have gone from being *neglected* and *unpopular* to an institutional favourite. The recent inclusion of ERG in the "Top 150" index has helped to further increase institutional buying in the shares. Directors have also been selling (as we reported last month).

"Half Year Profit Warning . . . Revenue and Profits will both increase by more than 100%"

Tuesday last week, ERG issued a "profit warning", predicting that its first half profit would exceed its earlier expectations with revenue and profits for the six months to December 31 both ahead more than 100% on the previous year. That started a new buying frenzy - but a calm analysis of that prediction is not encouraging.

Last year ERG generated revenue of \$90.3 million in its first half year and a profit of A\$5,029,000 - so this announcement indicates this year's half yearly revenue will exceed A\$180 million and profits will exceed A\$10 million. That result, however, would just be a 20% increase in revenue and a 30% decline in profits when compared with the *second* half of the June 1999 year, when revenue was A\$152 million and profits A\$15.3 million.

Furthermore, last year's first half result was depressed by interest costs of A\$3 million resulting from delays in payment for its Melbourne AFC system. The first 60% of the profit increase therefore simply results from the settlement of that contract and the repayment of debt.

So it would appear that ERG's major AFC contracts have yet to make a *significant* impact on profitability.

Finally, pull out your pocket calculator and work out the Price/Sales Ratio and Price/Earnings ratio. An A\$10 million profit is just 4.9 cents per share (or 9.8 cents annualised), so at A\$10.61 the shares are trading on a P/E ratio of 108. Annualising the first half revenue gives a Price/Sales ratio of 12. Even assuming that the full year profit rises 50-100% (to A\$30-41 million) the P/E ratio is still 50-70, while annual revenues of A\$400 million (up 65%) leaves the Price/Sales ratio at about 5.

Just too richly priced for us! Especially when there is no shortage of *undiscovered* growth company shares on P/E ratios of less than 20 and P/S ratios under 1.00.

Summary and Recommendation

As our investment in ERG has demonstrated, share prices can fluctuate between extremes of under-valuation and over-valuation. The interest in technology stocks has helped ERG's share price soar over the last year. While many technology companies - especially in the internet sector - will fail, we believe that ERG will continue to grow strongly. Nevertheless, we believe that the current share price around A\$10.61 *over anticipates that growth potential*. A correction in major overseas stockmarkets or in the technology sector would also leave ERG's share price vulnerable to a sharp decline.

We feel happy to have our money in smaller, undiscovered, *under-valued* companies, rather than a company like ERG which has attracted significant institutional and media attention over the last year and which is now very highly valued. We are therefore recommending that investors sell the remaining two-thirds of their ERG shares.

We believe that the money from the sale of ERG will be better invested in other technology investments (e.g.

Data#3, Vision Systems, Utility Services Corporation), other smaller growth companies (**Campbell Brothers, Hamilton Island, Hancock & Gore, Toll Holdings**) and/or used to build up a small cash reserve.

At A\$10.61 (plus the 7½ cents in dividends collected) this investment has increased just over 7-fold in value in less than 4½ years - a compounded rate of return of 56% per annum!

Buy Auspine Ltd

BUY Australian listed Auspine Ltd

We reviewed Australian listed forestry and timber company, **Auspine**, in the December issue of *Market Analysis* but stopped short of formally recommending the shares for investment.

At that stage, we believed Auspine was an attractively priced *cyclical* share which could rise to 310-360 cents over the next year. However we also believed that investors were better to put their money (from the sale of one-third of **ERG** and one-third of **Flight Centre**) into **Campbell Brothers** for *growth*, **Hamilton Island** for *recovery/growth* and (our later discovery) **Utility Services Corporation** for *growth*.

The main thing that has changed over the last two months is our decision to now sell ERG shares. ERG has been so successful, and appreciated so strongly in value, that selling the remaining two-thirds of our shares (and at a higher price) generates a huge amount of cash. Investors can buy into the *growth* shares listed above, and still have funds left over that can go into a medium term *cyclical* investment.

Updating Our December Review

The Auspine share price has dipped slightly to A\$2.10 - which lowers both the Price/Sales ratio slightly to 0.52 and the Price/Earnings ratio to 12, while increasing the Dividend Yield to 5.7%.

In mid-January the company sold its small Steel Division for A\$4 million in cash. The land and buildings previously used by that division will now be sold, which is expected to realise a further A\$2 million. Steel was an insignificantly small, non-core business, but its sale will allow Auspine to repay about 10% of its interest bearing debts. Selling non-core assets is part of the strategy to "extract maximum shareholder value".

Auspine is an attractive cyclical investment with profits set to increase strongly this year owing to a pre-GST building boom that has increased demand for the company's main product - house framing timber. In December we reported that revenues were up 18% for the first five months "with significant price increases". The company has since stated that the revenue for the first half will be up 15% and confirms "substantial price recoveries" (i.e. higher selling prices) with "profitability the best it has been for the past four years". This is resulting in "improved cash flows enabling strategic investments in new plantation forestry and timber conversion assets that will enhance future profitability".

The Managing Director and major shareholder, A de Bruin, has continued to purchase shares on-market, although in smaller quantities than the 1.9 million purchased in six earlier transactions. A further 10,725 shares and 5,870 shares were purchased at around

A\$2.52 during January.

Auspine shares qualify as a "Buy" in the *Under-Valued Shares, Best Performing Shares* and *Insider Buying* sections of our *Comprehensive Share Selection Criteria*.

Correction to December Review

In our December review we also *twice* wrote about "1995 profit levels of A\$28 million (49 cents per share)" when that should have read "A\$18 million (33 cents per share)" as correctly mentioned originally in the paragraph discussing the company's "Recent Results"

Current Building Boom and its Impact upon Auspine

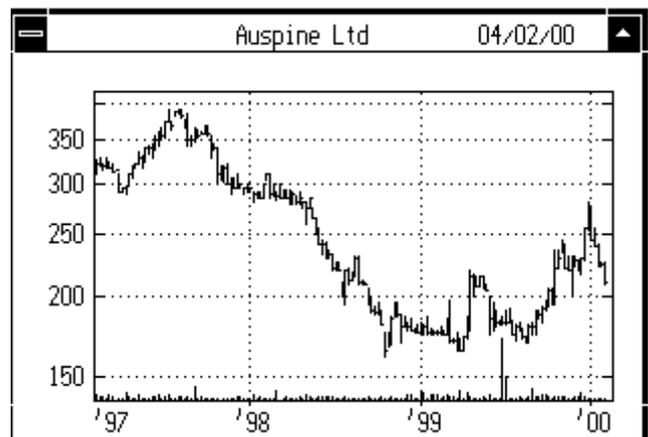
Auspine's results for the half year to December 31 - which is expected about the end of the first week of March - should show a strong profit recovery and increased dividend. Boom conditions in the building industry should continue at least until the end of June 2000, producing a strong second half result for the company.

Although business may slow in the 2001 financial year, the high cashflow and profits this year are improving the company's financial position. Future profitability will therefore be improved owing to lower debt levels (i.e. a lower interest expense) and from expansion of the core business.

Summary & Recommendation

Although the company's options (which are inactively traded) may be an attractive investment for investors willing to take higher risks, we are formally recommending Auspine shares as a low risk, cyclical recovery situation. The shares currently offer a 5.7% yield - which we expect to rise - and have the potential to recover to around 310-360 cents (up 50-70%) over the next 6-9 months.

Disclosure of Interest: Interests closely associated with your Editor (i.e. my wife) purchased a small holding in Auspine options following the December review.



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.

Company	STRENGTH RATING					Price to NTA	Return on Equity	Volatility	Price/Earn. Ratio	Dividend Yield	Price/Sales Ratio	Market Cap'n
	Share Price	Cur. rent	4-Wk Chg.	Rank	Brokers Following							
UNDER-VALUED SHARES: Lowest Price/Sales, Yld > 0, Rel Strength > 0												
PDL Holdings	535	+0.9	-1.6	51	2	0.9	2	0.9	42	5.6	0.23	73
Williams Kettle	198	+2.1	-1.5	42	-	0.8	6	0.7	13	9.8	0.28	26
Col Motor Co	275	+4.3	+0.6	35	-	1.1	7	0.8	15	8.4	0.29	85
Mainfreight Grp	166	+7.3	+0.9	23	7	2.7	15	1.1	17	4.9	0.42	12
Steel & Tube	161	+0.4	+0.6	56	8	1.2	9	1.3	14	7.4	0.42	142
Reid Farmers	65	+3.2	+0.9	38	-	1.0	11	1.3	9	10.3	0.49	36
Tag Pacific Ltd	42	+62.2	-13.1	2	-	1.5	-	1.8	NE	1.8	0.53	19
Restaurant Brds	136	+6.3	+1.7	29	8	4.2	46	1.3	9	11.0	0.53	116
Nuplex Indust	305	+7.4	+1.6	20	7	1.7	12	1.0	15	5.1	0.54	169
Trans Alta NZ	236	+1.6	-0.8	47	8	1.1	7	0.9	14	8.9	0.56	583
Hellaby Hold.	192	+0.0	+1.7	58	4	1.5	22	1.1	7	10.9	0.56	97
Mr Chips Hold	75	+3.2	+1.6	37	-	2.3	10	1.0	22	8.0	0.68	12
Ceramco Corp	150	+7.3	-4.0	22	3	1.2	6	1.1	20	5.0	0.69	63
Taylor's Grp Ltd	118	+5.6	+2.2	33	2	1.5	10	1.2	16	5.7	0.75	29
Tranz Rail Hold	362	+0.7	+1.4	55	9	1.0	15	0.9	6	7.0	0.77	437
Michael Hill	320	+2.8	+0.3	40	4	3.8	27	0.9	14	5.4	0.79	123
Nobilio Wines	95	+2.6	+0.5	41	-	1.6	7	1.3	21	4.7	0.83	42
Ebos Group Ltd	380	+22.3	+0.8	7	-	5.7	34	0.8	17	7.1	0.98	88

BEST PERFORMING SHARES: Strongest Shares, P/E < 20, P/S < 1.0												
Ebos Group Ltd	380	+22.3	+0.8	7	-	5.7	34	0.7	17	7.1	0.98	88
Renaissance	60	+12.9	+11.4	13	-	1.6	9	2.0	18	Nil	0.15	21
Seafresh Fish.	14	+7.8	-1.2	18	-	0.7	4	2.4	16	Nil	0.57	9
Nuplex Indust	305	+7.4	+1.6	20	7	1.7	12	0.9	15	5.1	0.54	169
Mainfreight Grp	166	+7.3	+0.9	23	7	2.7	15	0.9	17	4.9	0.42	12
Restaurant Brds	136	+6.3	+1.7	29	8	4.2	46	1.1	9	11.0	0.53	116
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Reid Farmers	65	+3.2	+0.9	38	-	1.0	11	1.0	9	10.3	0.49	36
Michael Hill	320	+2.8	+0.3	40	4	3.8	27	0.8	14	5.4	0.79	123
Williams Kettle	198	+2.1	-1.5	42	-	0.8	6	0.5	13	9.8	0.28	26
Trans Alta NZ	236	+1.6	-0.8	47	8	1.1	7	0.7	14	8.9	0.56	583
Tranz Rail Hold	362	+0.7	+1.4	55	9	1.0	15	0.8	6	7.0	0.77	437
Steel & Tube	161	+0.4	+0.6	56	8	1.2	9	1.1	14	7.4	0.42	142
Hellaby Hold.	192	+0.0	+1.7	58	4	1.5	22	1.0	7	10.9	0.56	97

Company Review: Sky Network TV

Sky Network TV shares have soared 31% since last month's *Company Analysis* which rated them a "Sell". Two factors may be behind this rise:

Firstly, the AOL/Time merger has boosted investor interest in internet and media stocks. Secondly, TVNZ has been denied permission to enter the digital pay TV business. [Editor's Note. Our resident conspiracy theorist notes that TVNZ engineered a Labour win at the last Election to thwart National's plans to privatise the company - only to be "stabbed in the back" by its new masters who have vetoed the company's expansion plans.]

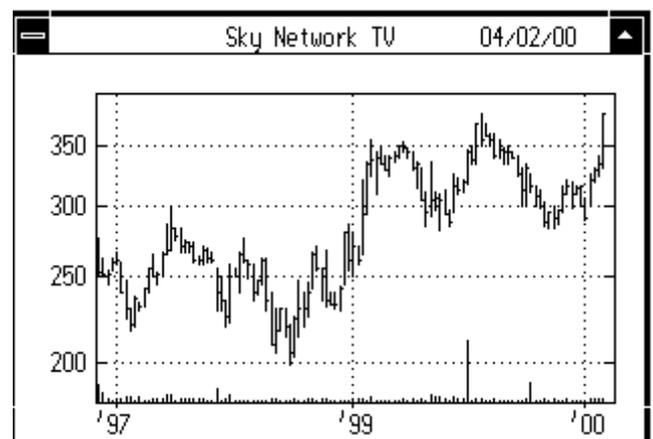
While the TVNZ situation removes *one* source of potential competition, neither of these factors changes the fundamental problem with Sky TV's business: That is, that the fixed and variable costs of running this business exceed the revenue that can be generated from customers. This may not concern many investors in the new age of "internet economics", but ultimately the current boom (like the mining boom, the property boom

Company	STRENGTH RATING					Price to NTA	Return on Equity	Volatility	Price/Earn. Ratio	Dividend Yield	Price/Sales Ratio	Market Cap'n
	Share Price	Cur. rent	4-Wk Chg.	Rank	Brokers Following							
INCOME SHARES: Highest Yields, Capitalisation > NZ\$100 million												
Hallenstein G.	220	-1.2	-0.8	69	7	3.9	30	0.8	13	11.5	0.81	128
Cavalier Corp	340	-0.3	+0.4	61	5	1.7	15	0.8	12	11.4	0.61	122
NZ Refining Co	910	-13.7	-0.5	98	4	1.5	16	0.4	9	11.0	0.90	218
Restaurant Brds	136	+6.3	+1.7	29	8	4.2	46	1.0	9	11.0	0.53	116
United Networks	585	-1.2	+0.4	72	3	1.1	14	0.4	8	10.2	1.97	886
Natural Gas	155	-1.6	-0.1	74	8	1.1	8	0.9	14	9.6	2.11	698
Sky City Ltd	685	-1.3	-1.8	72	8	4.4	31	0.5	14	9.4	2.56	671
Trans Alta NZ	236	+1.6	-0.8	47	8	1.1	7	0.7	14	8.9	0.56	583
DB Group	273	-0.2	+1.8	60	8	1.2	13	0.5	9	8.7	0.43	275
Telecom Corp	839	+1.7	+1.1	45	11	13.6	76	0.6	18	8.2	4.28	14,706

OVER-VALUED SHARES: Highest Price/Sales Ratios, Relative Strength < 0												
Infratil NZ	128	-0.2	-2.6	60	4	1.7	19	0.5	9	6.7	7.65	242
Akd Int Airport	254	-0.8	-0.8	66	9	2.1	8	0.7	25	4.7	6.65	1,067
Ports Auckland	490	-1.7	+0.9	75	8	2.8	14	0.5	20	5.5	4.22	649
Force Corp.	73	-2.3	+2.3	78	3	1.9	13	1.2	14	8.2	3.55	113
Savoy Equities	7	-3.7	+5.9	83	-	0.3	-	2.9	NE	Nil	2.63	27
Sky City Ltd	685	-1.3	-1.8	72	8	4.4	31	0.5	14	9.4	2.56	671
Tasman Agric.	78	-0.5	+0.1	63	4	0.6	5	0.8	11	3.9	2.50	100
Natural Gas	155	-1.6	-0.1	74	8	1.1	8	0.9	14	9.6	2.11	698
United Networks	585	-1.2	+0.4	72	3	1.1	14	0.3	8	10.2	1.97	886
Dairy Brands	26	-0.6	-0.1	63	-	0.6	-	1.3	NE	Nil	1.74	13

WORST PERFORMING SHARES: Weakest Shares, P/S Ratio > 0.25, Yield < Twice Average												
Spectrum Res.	35	-48.7	+0.0	100	-	5.3	-	1.6	NE	Nil	N/A	9
Trans-Tasman	25	-10.8	+0.3	97	6	0.2	-	1.4	NE	Nil	0.84	91
FC - Forests	65	-9.3	-0.6	96	10	0.5	5	1.0	10	Nil	1.01	550
Brierley Invest	37	-8.5	-1.0	95	6	0.4	4	0.8	10	8.1	0.56	1,105
Utilico Int'l	27	-8.5	-0.7	94	1	0.6	-	1.0	NE	Nil	N/A	27
Damba Hold Ltd	48	-7.3	+1.1	94	-	0.5	-	0.8	NE	Nil	0.57	9
CDL Hotel NZ	25	-7.3	-2.3	93	4	0.4	3	1.2	13	4.5	0.42	87
Air New Zealand	202	-7.0	-3.3	92	11	0.5	10	0.6	5	7.4	0.34	1,145
Nufarm Limited	410	-6.9	-0.2	91	7	1.4	14	0.6	10	6.1	0.44	617
Infratil Aust.	79	-5.8	-1.8	89	-	0.8	-	0.7	NE	Nil	N/A	241
Goodman Fielder	155	-4.4	-0.6	88	-	1.2	8	0.6	14	6.0	0.44	1,963
FC - Building	225	-3.8	+0.2	85	8	1.0	3	1.0	32	8.0	0.27	732
Southern Cap	65	-3.8	-0.0	85	-	0.6	6	0.8	10	Nil	4.79	16
Savoy Equities	7	-3.7	+5.9	83	-	0.3	-	2.7	NE	Nil	2.63	27
Kingsgate Int'l	16	-2.8	+0.2	81	-	0.5	4	1.3	11	Nil	0.72	63
Manor Inns Grp	14	-2.5	-2.7	79	-	1.0	-	1.8	NE	Nil	0.56	2
Col FS Property	87	-2.4	+1.2	79	-	-	-	0.7	13	7.9	N/A	126
Force Corp.	73	-2.3	+2.3	78	3	1.9	13	1.2	14	8.2	3.55	113
FC - Energy	426	-2.0	-1.0	76	9	1.1	4	0.7	25	4.9	1.17	1,396
Ports Auckland	490	-1.7	+0.9	75	8	2.8	14	0.5	20	5.5	4.22	649

and investment boom) will end. At that stage investors will discover that it is *cashflow* and *profits* that are important, not *appreciating* asset values.



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.

Company	STRENGTH RATING				Insider Buy/Sell	Brokers Following	Price to NTA	Return on Equity	Volatility	Price/Earn. Ratio	Dividend Yield	Price/Sales Ratio	Market Cap'n
	Share Price	Cur. rent	4-Wk Chg.	Rank									
UNDER-VALUED SHARES: Lowest Price/Sales, Yld > 0, Rel Strength > 0													
Webster Ltd	88	+1.2	-0.4	50	0-0	-0.7	6	1.2	11	3.4	0.13		20
Roberts Ltd	170	+0.3	+0.3	53	0-0	1	0.7	6	1.0	10	8.8	0.14	18
CMI Limited	106	+1.0	-0.8	50	0-0	2	1.3	30	1.2	4	7.5	0.17	29
Danks Holdings	900	+1.3	-2.9	49	0-0	-1.5	13	0.7	11	4.8	0.19		59
David Garry Hld	23	+3.2	+6.2	43	0-0	-7.5	34	2.0	22	4.4	0.19		5
CPI Group	210	+0.7	+0.0	51	0-0	9	1.5	19	1.0	8	6.7	0.20	84
Merchant House	10	+2.1	+0.1	47	0-0	-1.4	-2.8	NE	10.0	0.22	10		10
Palm Corp	40	+3.6	-2.2	42	0-0	-1.1	15	1.6	7	7.5	0.23		14
Crevet Ltd	56	+7.3	+2.1	33	1-0	3	0.8	-1.4	NE	2.7	0.23		20
Green's Foods	58	+5.2	+0.7	38	0-0	-2.4	24	1.4	10	3.4	0.24		46
Futuris Corp.	193	+2.5	-0.2	45	1-0	11	2.4	14	1.0	17	4.1	0.25	1,120
S.P.C. Ltd	83	+2.9	-1.1	44	1-1	-1.1	14	1.3	8	2.7	0.26		58
Aust Pharm. Ind	215	+0.1	+0.9	54	0-1	5	1.9	12	1.0	15	4.6	0.27	316
Embelton Ltd	201	+3.5	-1.4	42	0-0	-0.7	6	1.0	13	3.5	0.27		5
Data 3 Ltd	275	+6.5	-2.1	35	0-3	230.6	-0.9	14	4.4	0.28			39
Datamatic Hold	34	+16.2	+5.2	22	0-0	-	-	-1.7	3	5.9	0.29		24
Toll Holdings	661	+6.3	+2.5	36	1-0	6	3.1	25	0.8	13	3.3	0.29	393
Metal Manufact.	236	+6.4	+3.2	35	3-0	5	1.8	67	0.9	3	5.1	0.30	334
McPherson's Ltd	146	+18.3	+3.6	20	2-0	2.2	13	1.1	17	4.5	0.30		57
Lemarne Corp	274	+6.8	-0.9	34	0-0	-1.6	14	0.9	11	5.1	0.33		45
Automotive Ind.	28	+3.6	+0.3	42	0-0	-0.9	3	1.8	31	5.4	0.33		6
Vealls Ltd	105	+8.6	+4.3	32	0-0	-	-	-1.2	4	7.2	0.34		6
Tempo Services	270	+10.4	-3.2	29	1-0	630.0	-0.9	21	3.0	0.36			112
OAMPS	95	+14.5	-2.6	23	6-0	-1.9	21	1.2	9	5.3	0.36		18
Southern Dental	31	+0.5	+0.1	52	0-0	-1.1	18	1.8	6	6.5	0.36		7
Parbury Ltd	41	+15.3	+0.1	23	3-0	1	1.6	11	1.6	15	6.7	0.37	52
Monadelphous Gr	370	+9.8	-1.6	30	0-0	-3.0	26	0.9	12	7.3	0.37		62
Snack Foods Ltd	75	+8.3	+2.2	32	0-0	3	5.8	39	1.3	15	2.9	0.37	92
Snapak Group	51	+0.2	+0.6	54	0-0	-1.0	6	1.5	18	9.8	0.39		27
Shearer (John)	180	+11.1	+2.4	28	0-0	-0.8	11	1.0	8	3.9	0.43		20
Westraln Fores	155	+0.3	-1.2	53	0-0	1	0.9	-1.1	NE	1.3	0.44		95
Viking Indust.	29	+6.3	-6.3	35	0-0	-2.2	35	1.8	6	3.4	0.44		11
East African Co	355	+1.1	+1.2	50	0-0	-0.9	11	0.9	8	2.8	0.45		23
Triako Res.	32	+4.4	-7.4	40	0-0	-	-	-1.8	2	6.3	0.46		11
Wills (WD & HO)	625	+6.1	-1.6	36	0-0	-2.9	15	0.8	19	4.8	0.46		825
Erawan Company	42	+5.0	-2.7	38	0-0	0.3	6	1.6	5	13.0	0.49		14
Forrester Kurts	112	+1.0	+0.2	50	0-0	2	0.9	14	1.2	6	8.9	0.50	126
Tag Pacific	38	+65.2	-16.3	4	0-0	-1.8	5	1.6	35	1.6	0.51		20
<u>Auspine Ltd</u>	210	+8.9	-2.4	31	7-0	6	0.8	7	1.0	12	5.7	0.52	120
Skilled Eng.	365	+11.3	+0.4	28	0-0	1121.5	98	0.9	22	3.7	0.52		285
Spotless Serv.	134	+6.6	-1.7	34	0-0	7	5.2	28	1.1	19	4.5	0.52	498
Metalcorp Ltd	199	+17.9	+6.7	20	0-0	2	3.3	3	1.0	96	1.0	0.53	159
Gunns Ltd	185	+6.5	+1.9	35	0-0	2	1.6	13	1.0	12	5.4	0.53	67
CDK Tectonics	88	+1.3	-4.0	49	0-0	-1.9	26	1.2	7	8.0	0.55		10
York Securities	56	+11.7	+0.9	27	0-0	-3.5	30	1.4	12	7.1	0.57		5
PCH Group	35	+15.6	-1.9	23	1-1	-1.6	27	1.7	6	6.4	0.58		17
BT Global Asset	92	+10.3	+2.9	29	0-3	-0.9	-	-1.2	NE	7.6	0.60		44
United Overseas	60	+5.0	-1.3	38	0-0	-0.9	17	1.4	5	6.7	0.60		30
Freedom Furn.	210	+4.3	+0.7	40	0-0	12	6.8	43	1.0	16	3.8	0.61	178
M.I.M. Holdings	130	+13.8	-0.6	24	2-0	17	-	-1.1	NE	1.9	0.62		2,215

BEST PERFORMING SHARES: Strongest Shares, P/E < 20, P/S < 1.0													
Astron Ltd	40	+38.8	+5.3	10	0-0	-0.3	9	1.3	4	Nil	0.22		5
Queensld Tour.	24	+25.7	+3.0	15	0-0	-0.7	38	1.5	2	Nil	0.35		4
Holyman Ltd	104	+22.3	-8.4	16	2-0	-5.5	93	1.0	6	Nil	0.45		68
Murchison Un.	62	+22.3	+4.6	17	0-0	1	-	-1.1	4	Nil	0.42		35
Ticor Ltd	125	+19.6	-2.0	19	0-0	7	0.8	8	0.9	11	2.4	0.98	308
Oroton Int'l	268	+18.3	-2.0	19	2-0	-3.8	38	0.8	10	4.5	0.80		48
McPherson's Ltd	146	+18.3	+3.6	20	2-0	2.2	13	0.9	17	4.5	0.30		57
Arrowfield Grp	200	+16.5	+1.4	21	0-0	-0.8	6	0.8	14	Nil	0.65		18
Burns Philp	40	+16.3	+10.3	22	4-0	2	-	-1.3	4	Nil	0.14		212
Datamatic Hold	34	+16.2	+5.2	22	0-0	-	-	-1.3	3	5.9	0.29		24
PCH Group	35	+15.6	-1.9	23	1-1	-1.6	27	1.3	6	6.4	0.58		17
Parbury Ltd	41	+15.3	+0.1	23	3-0	1	1.6	11	1.3	15	6.7	0.37	52
OAMPS	95	+14.5	-2.6	23	6-0	-1.9	21	1.0	9	5.3	0.36		18
General Publish	13	+13.4	+9.5	25	0-0	-	-	-1.9	4	Nil	0.18		2
Hazelton Air.	80	+12.4	+7.8	26	0-0	-1.1	12	1.0	9	Nil	0.22		14
Waterco Ltd	160	+12.4	-0.7	26	3-0	-1.7	15	0.9	11	5.6	0.69		29
F.F.I. Holdings	130	+12.0	+5.0	27	0-0	-1.6	10	0.9	17	4.6	0.75		8
York Securities	56	+11.7	+0.9	27	0-0	-3.5	30	1.2	12	7.1	0.57		5
Vietnam Indust.	12	+11.2	-3.3	28	0-0	-0.5	10	2.0	6	Nil	0.25		12
Shearer (John)	180	+11.1	+2.4	28	0-0	-0.8	11	0.9	8	3.9	0.43		20
Monadelphous Gr	370	+9.8	-1.6	30	0-0	-3.0	26	0.7	12	7.3	0.37		62
Gazal Corp	216	+9.5	+2.6	30	3-1	-	-	-0.8	13	5.8	0.71		107
<u>Auspine Ltd</u>	210	+8.9	-2.4	31	7-0	6	0.8	7	0.8	12	5.7	0.52	120
Breakwater Is.	30	+8.8	-2.5	31	0-0	3	0.8	8	1.4	10	7.3	0.91	43
Vealls Ltd	105	+8.6	+4.3	32	0-0	-	-	-1.0	4	7.2	0.34		6

Company	STRENGTH RATING				Insider Buy/Sell	Brokers Following	Price to NTA	Return on Equity	Volatility	Price/Earn. Ratio	Dividend Yield	Price/Sales Ratio	Market Cap'n
	Share Price	Cur. rent	4-Wk Chg.	Rank									
Snack Foods Ltd	75	+8.3	+2.2	32	0-0	3	5.8	39	1.1	15	2.9	0.37	92
Schaffer Corp	280	+8.2	+0.3	32	6-0	-0.9	5	0.8	18	4.3	0.66		28
Q.B.E. Insur.	720	+7.0	+1.5	34	2-0	13	2.8	16	0.7	17	3.8	0.76	3,003
Central Equity	215	+6.9	-0.9	34	3-0	1	1.6	25	0.8	6	7.4	0.98	176
Lemarne Corp	274	+6.8	-0.9	34	0-0	-1.6	14	0.8	11	5.1	0.33		45
Mid-East Min'ls	125	+6.8	-1.6	34	0-0	-0.9	29	0.9	3	Nil	0.92		27
Spotless Serv.	134	+6.6	-1.7	34	0-0	7	5.2	28	0.9	19	4.5	0.52	498
Data 3 Ltd	275	+6.5	-2.1	35	0-3	230.6	-0.8	14	4.4	0.28			39
Reece Australia	1610	+6.5	-4.0	35	0-0	-2.3	20	0.6	12	3.4	0.68		321
Gunns Ltd	185	+6.5	+1.9	35	0-0	2	1.6	13	0.9	12	5.4	0.53	67
Sunland Group	245	+6.5	-3.0	35	2-0	1	1.8	24	0.8	7	4.1	0.66	80
Metal Manufact.	236	+6.4	+3.2	35	3-0	5	1.8	67	0.8	3	5.1	0.30	334
Minproc Limited	47	+6.4	-2.1	35	0-0	-1.0	12	1.2	8	Nil	0.25		11
Viking Indust.	29	+6.3	-6.3	35	0-0	-2.2	35	1.4	6	3.4	0.44		11
Toll Holdings	661	+6.3	+2.5	36	1-0	6	3.1	25	0.7	13	3.3	0.29	393
Wills (WD & HO)	625	+6.1	-1.6	36	0-0	-2.9	15	0.7	19	4.8	0.46		825
Troll Co of Aus	1668	+5.9	-0.6	36									

New Zealand Warrant / Option Analysis

Warrant	Share Price	Exercise Price	Years & Months to Expiry	Warrant Price (NZ cents)	Black-Scholes Valuation (NZ cents)	Warrant Over/Under Valued (%)	Share Volatility	Warrant Leverage	No. Warrants to Buy One Share	Break-Even Rate
Aquaria 21	\$0.19	\$0.20	0-7	6.0	2.9	+107	0.495	3.8	1.0000	+68%
IT Capital	\$0.78	\$0.18	0-8	60.0	61.8	-3	1.068	1.2	1.0000	-1%
NZ Oil & Gas Options	\$0.63	\$0.70	1-8	22.0	10.4	+112	0.306	3.6	1.0000	+26%
Otter Gold Mines 1999/2003	\$0.88	\$2.00	3-4	10.0	21.9	-54	0.588	2.0	1.0000	+30%
Otter Gold Mines 2001	\$0.88	\$2.75	1-8	3.0	4.4	-32	0.588	3.4	1.0000	+99%
Southern Capital	\$0.65	\$1.00	0-1	0.3	0.0	+999999	0.326	93.7	1.0000	+9999%
WDR Contact Energy	\$3.06	\$3.50	0-4	10.5	1.2	+768	0.178	19.6	2.0000	+78%
WDR Telecom NZ	\$8.39	\$9.00	0-1	7.0	1.9	+266	0.208	33.0	2.0000	+179%

Australian Warrant / Option Analysis

We have expanded our quarterly *Warrant/Option Analysis* to cover all Australian company issued options. Details and our valuation analysis of approximately 170 Australian options can be found on Page 13.

The Place of Options in a Diversified Investment Strategy

Options are usually used to increase risks and potential returns (especially by speculators) but can also be used (in some circumstances) to reduce risks for conservative investors!

Whether or not to use options - and how much could be invested in options - will depend upon a person's individual financial circumstances as well as whether they are using options to *increase risks/returns* or to *reduce risks*. In either case, options can have a part to play in most diversified investment portfolios.

Investment Strategy One: Using Options to Increase Risks and Returns

An exposure to options to increase risks and potential returns should never exceed more than a small percentage of an investor's total investment portfolio. Depending upon other factors discussed below, the maximum commitment to options may be limited to a maximum of 5-10% of an investor's total portfolio.

Volatile securities (such as options) are most suitable for investors with a *long term investment horizon*. A younger person investing to build wealth for retirement in 20-40 years can afford to take higher risks and experience more shorter term volatility in their long term objective of seeking maximum capital appreciation. An older, retired investor would normally have a short investment horizon and be more concerned with capital preservation, so increased risk through the use of options would generally be unattractive.

The suitability of risky options would also depend upon an investor's income and *ability to save new capital*. A person with a high employment income and substantial savings, but few financial assets, can afford

to invest a *higher percentage* of their (relatively small) investment portfolio in options. On the other hand, a person with a moderate income and lower savings - or a person who has already accumulated significant investment wealth - can afford to risk a *lower percentage* of their portfolio in options.

Selecting an Option for Higher Risks and Potentially Higher Returns

Option selection should take several factors into account:

Firstly, investors should only buy options in a company where the underlying share is attractive and likely to increase in value. So an investor could use our *Comprehensive Share Selection Criteria* (and other information such as *Insider Trading*) to identify attractive shares. If these companies have also issued options, then the options *may* offer a more attractive investment than buying the shares directly. Examples include **Auspine** December 2002 options to buy shares at A\$4.00 and **Green's Foods** February 2002 options to buy shares at A\$0.50.

Secondly, investors should seek to buy options which are under-valued and trading below their fair value as determined by the Black-Scholes option valuation model. If an option is trading at a 30-60% discount to its fair value, then not only does that improve the chances of earning a profit over the life of the option, but there will be the potential for a substantial capital gain should the market start to correctly price the option closer to its Black-Scholes valuation.

Thirdly, investors need to look for options with a low "Break-Even Rate". This is the annual rate of capital appreciation needed for an investment in the option to break-even. A higher rate of appreciation in the share price is needed for the option to actually increase in value. If the break-even rate is 50-100% per annum, well, let's be realistic, the options will almost certainly expire worthless! For example, although **Citistate's** options trade at a 70% discount to their fair valuation, the share price would need to rise by an incredible 163%

per annum over the next year and seven months, simply for the options to regain their 0.4 cent value - which is about as likely as winning *second* prize on a Lotto ticket!

Fourthly, buy options with a high Option Leverage. To justify the risk of a 100% loss on an investment in an option, there must be the potential to multiply potential profits if the share price rises. Options that offer a high Option Leverage (i.e. **Auspine** at 3.26 times, **Huntley Investment** at 6.08 times) therefore offer the potential for a substantial payoff if the share price rises. A low Option Leverage indicates that an investment in the options will yield only slightly higher returns if successful, while still involve the risk of a substantial capital loss.

Note: The Option Leverage is based upon the *short term* change in the Black-Scholes valuation relative to fluctuations in the share price. An Option Leverage of 2.80 shows that the option valuation will fluctuate 2.80% with every 1.00% fluctuation in the share price. Buying options at a discount to their fair valuation further increases the potential leveraged gains!

Finally, investors need to look at the period until the final option expiry/exercise date and relate this to their option investment strategy. Short dated options can offer very high leverage (i.e. high profit potential) but there is less time for the share price to appreciate (i.e. are riskier and more likely to expire worthless). Longer dated options usually offer lower leverage, but can be less risky.

Our Higher Risk/Higher Return Option Selections

As our area of expertise in "Market Analysis" is *investment - not short term speculation - we prefer options with 1½-3 years until expiry*. We also seek to minimise risks while maximising gains by (1) buying options at a considerable discount from their fair value, (2) seeking a high Option Leverage (enabling us to make a small initial investment, but still reaping a good return on successful options) and (3) only buying options with a low Break-Even rate (i.e. where there is a good chance of the options having some value). We are also cautious about buying or holding speculative warrants when the market outlook is uncertain.

Although the outlook for the Australian stockmarket is only Neutral (and therefore this is not the best time to buy and hold options), from the tables on the following pages we believe the following options are relatively attractive: **AP Eagers**, **Auspine**, **Franked Income Fund**, **Green's Foods** and **Huntley Investment**.

AP Eagers (Code APEO) options to buy shares at A\$4.00 on 31/01/2003. AP Eagers is a Brisbane based motor vehicle dealer, operates a finance company and holds a 19% shareholding in **Auto Group**.

These warrants are attractive owing to their 60% discount to fair valuation, the high Option Leverage (3.06 times) and the Break-Even Rate of just 1% per annum. Warrant holders risk only 10½% of the capital involved in buying the shares, but will reap almost all of any increase in the ordinary share price over the next two years and eleven months! A *very attractive* low risk/high return situation.

These options are certainly worth buying - if you can get them. The only problem is that they are inactively traded with just 5000 options on offer at 50 cents at the present time!

Auspine (ANEQ) options to buy shares at A\$4.00 on 31/12/2002. This forestry and timber company was the subject of a *Company Analysis* report in *Market Analysis* two months ago. Auspine shares qualify as a Buy under *three* of our *Comprehensive Share Selection Criteria*. So the shares are an attractive investment, while the options offer an attractive leveraged entry into the company.

The Break-Even Rate on the Auspine options is quite high at 27% per annum, although the share price could perform well in the short to medium term owing to the sharp upturn in profitability, and the high Option Leverage of 3.26 times would magnify those gains.

Again, these options are relatively inactively traded. Only a total of 138,000 options are on offer at prices from 17½-19 cents.

Franked Income Fund (FIFO) options to buy shares at various prices up to A\$5.80 on 31/12/2002. Franked Income Fund is an investment company that owns 50.6% of listed **Wesfarmers** and 25.3% of **Bunnings Warehouse Property Trust**. The Break-Even Rate is a moderate 13% per annum, over two years and eleven months, while the Option Leverage is a high 3.89 times. Unfortunately, these options are also inactively traded at the present time, with just several thousand options on offer at 27½ cents.

Green's Foods (GFDO) options to buy shares at 50 cents on 03/02/2002. Green's Foods also appears as a Buy under two of our *Comprehensive Share Selection Criteria* - being an *Under-valued* and *Best Performing* share. This is a very small company which is restructuring and consolidating its business on a smaller number of product lines where it can earn better profits.

Being a small company, the shares and options are inactively traded - although there are currently 40,000 options on offer at 20 cents. The options are fairly priced, but offer good leverage (2.55 times) and an achievable 9% p.a. Break-Even Rate so could be worth a small investment if available.

Huntley Investment (HICO) options to buy shares at A\$0.50 on 31/05/2001. The major attraction here is the *very high* Option Leverage of 6.08 times and the low Break-Even Rate of 6% p.a., although there is only a short period (one year and three months) until the final exercise/expiry date. Still, if the shares of this listed investment trust rise 20% (to 62 cents) over that period, the option value would *double* to 12 cents! There are 19,000 options on offer at 6 cents and a further 63,000 at 6½-7 cents.

Huntley Investment scored an average -1% *Superiority Rating* in *International Investor's January Investment Fund Survey* - and with a 9% gain (in NZ dollar terms) has not participated in the large gains that our direct Australian share investments produced last year!

(Continued on Page 12)

Investment Strategy Two: **Using Options to Reduce Risks**

Using options to *reduce risks* is a little harder for many investors to understand. In many cases this *risk reduction* is possible as the stockmarket is *underpricing* particular options. In that situation it may be cheaper to buy the option (and to later pay the exercise price to turn it into a share) than to simply buy the share on the market!

In fact, the money to exercise the warrant at its final exercise/expiry date can be deposited in a bank account, risk-free and accumulating interest, so the amount of money that needs to be placed in the bank deposit will be less than the exercise price.

To give an example, rather than buying 10,000 shares in **Cardia Technology** at 41 cents (i.e. a total investment of A\$4100) an investor could instead buy 10,000 options at 21½ cents (investing just \$2150). The remaining A\$1950 could be invested in a bank deposit at 5.0%, which (after deducting tax at 33%) would grow to A\$2249 over the next four years and four months. Only A\$2000 of this would then be needed to exercise the options and to own 10,000 shares. The investor who buys the options (rather than the shares) will be better off by A\$249 and will have had less money (i.e. A\$2150 rather than A\$4100) at risk in the company - resulting in a smaller loss if Cardia Technology should fail or its share price decline sharply.

Selecting Options to Reduce Risks

In this situation an investor should not be looking for options to purchase, but should be considering options as an *alternative to shares in companies where the decision to make an investment has already been made.*

For example, once a decision to invest in a company has been made, an investor should check to see if the company has listed options and if those options offer a more attractive entry.

Situations where the options (and cash in the bank) can be used as a lower risk alternative to buying the shares directly can be quickly identified by their low Break-Even Rate. In the following situations we make no comment upon the investment merits of the individual companies but in each case an investor could *reduce risks* by purchasing the options *instead of* the shares (and by investing the balance in an interest bearing deposit): **AP Eagers, Adelong, Adultshop.com, Ambition, Biotech, Cardia, Consolidated Minerals, Cranswick Premium Wines, Eftnet, Federation** (31/8/2000 options), **Global Business** (31/12/2005 options), **GoldenDeeps, IHG, Impress, JAM, Kanowna, Livingstone, Magna Pacific, Metabolic, Micromedical, My Money, Pinnacle, Pulsat** (30/09/2003), **Red River, Senetas, Shield Equities, Sydney Gas** (30/6/2001), **Union Capital and Vital Capital.**

Marketability Warning!

In many cases options can be inactively traded, may be offered in only small volumes or there may be a large spread between the bid and offer prices. Such options would be unattractive for short term trading, although could still be suitable for long term investment. Where there is a large bid/offer spread, an investor may have to buy at substantially higher prices than the prices shown in our table. Check actual market quotes *before* placing orders!

(The Option Table is on Page 13)

NZ Internet Brokers

There are now many NZ firms offering brokerage services via the internet - all at substantially lower rates than you will pay to place orders by telephone!

Most internet brokers require that you have cash on deposit with them in a cash management account *before* you can place a Buy order.

Access Brokerage (www.access-brokerage.co.nz) offers a flat rate of \$29.50 per trade.

Direct Broking (www.directbroking.co.nz) charges \$25.00 *plus* 0.05% if you have money in your cash management account, or a higher \$25.00 *plus* 0.35% for a credit (i.e. send them a cheque when you get the contract note).

DF Mainland (www.dfmainland.co.nz) charges brokerage at 0.7%, with a minimum charge of \$20.00.

Two banks have recently offered brokerage services, although do not actually act as stockbrokers. Both **Bank of New Zealand** and **ASB Bank** offer *branded* stockbroking services. That is, they *appear* to be acting as stockbrokers but that part of their business is channelled straight through to a *real* stockbroker.

ASB Bank (www.asbsecurities.co.nz) charges brokerage at 0.4% in NZ with a minimum of \$24.95. The company also offers an Australian service - that is, re-brands the brokerage services of **Commonwealth Securities** - charging 0.5% with an A\$39.95 minimum.

Bank of New Zealand (www.bnzist.co.nz) has a flat rate of \$37.50 per trade.

All of these internet brokers offer lower rates than dealing with a broker over the telephone, so any of them will save you money. If you are a medium to larger investor (i.e. make purchases and sales worth over \$10,000) then Access Brokerage's flat rate \$29.50 is your best deal. Smaller investors may save a little money with one of the other brokers, although those 0.4-0.7% rates can soon add up!

Overall we would favour dealing directly with a broker, rather than a re-branded bank service. If fees need to be shared between two companies, then brokerage rates will likely always be a bit higher than dealing directly through a real broker.

Investors may be attracted to the ASB service which offers NZ and Australian trading, and plans to offer US and UK trading, but we expect that moving funds between these markets will be no easier than dealing directly with separate brokers in each country.

Australian brokers **Sanford** (A\$28.95 flat fee) and **E*trade Australia** (0.1% with a minimum of A\$39.50), and UK broker **FasTrade** (0.5%, with a minimum of £15 and maximum of £30) offer rates that NZ brokers and NZ banks will not be able to better.

Company	Yr/Mth			Black-Option Price	Scholes Valuation	Option Over/Under-Valued	Share Volatility	Option Leverage	Options to Buy 1 Share	Break-Even Rate	Company	Yr/Mth			Black-Option Price	Scholes Valuation	Option Over/Under-Valued	Share Volatility	Option Leverage	Options to Buy 1 Share	Break-Even Rate
	Share Price	Exercise Price	to Expiry									Share Price	Exercise Price	to Expiry							
AP Eagers Ltd	430	400	2-11	45.0	113.1	-60	0.21	3.06	1.00	+1	Intercontinental Gold	16	20	3-4	4.7	12.1	-61	1.29	1.16	1.00	+14
Abador Gold	20	25	0-4	3.0	5.0	-41	1.42	2.24	1.00	+174	JAM Developments	34	25	5-9	15.0	17.7	-15	0.32	1.68	1.00	+3
Acclaim Uranium NL	8	20	2-7	2.0	3.0	-34	0.94	1.59	1.00	+48	Jervois Mining NL	6	20	2-0	3.3	0.9	+263	0.77	2.27	1.00	+94
Adelong Consolidated	147	20	2-11	118.0	137.8	-14	1.40	1.05	1.00	-2	Kalrez Energy NL	3	20	3-4	1.6	0.3	+448	0.66	2.33	1.00	+79
Adelong Consolidated	147	20	0-9	115.0	128.9	-11	1.40	1.13	1.00	-11	Kanowna Lights NL	41	20	1-11	19.0	28.5	-33	1.03	1.28	1.00	-2
Adultshop.com	135	20	4-4	115.0	134.1	-14	2.20	1.00	1.00	+0	Kimberley Oil NL	8	20	1-9	2.0	2.4	-18	0.99	1.79	1.00	+75
Airboss Ltd	30	29	4-4	12.0	29.4	-59	2.20	1.01	1.00	+7	Kingsgate Consol	75	50	0-1	30.0	25.3	+19	0.57	2.95	1.00	+117
Alligiance Mining	16	20	3-10	8.4	13.1	-36	1.36	1.11	1.00	+16	Kingstream Steel	32	110	2-5	13.5	4.1	+229	0.68	2.37	1.00	+75
Allied Mining	20	20	1-0	10.0	8.7	+16	1.09	1.68	1.00	+50	Lafayette Mining NL	18	20	1-7	7.0	6.5	+8	0.75	1.88	1.00	+29
Amadeus Petroleum	16	20	3-9	5.5	9.8	-44	0.89	1.32	1.00	+13	Legend Mining NL	18	20	2-1	6.5	7.3	-11	0.73	1.74	1.00	+20
Amadeus Petroleum	16	20	0-6	2.5	2.9	-13	0.89	2.80	1.00	+98	Livingstone Res	60	20	0-5	37.0	41.5	-11	1.27	1.39	1.00	-12
Ambition Group	100	100	4-7	28.0	33.7	-17	0.27	2.30	1.00	+6	Lynas Gold NL	25	20	0-9	8.0	9.6	-17	0.93	1.93	1.00	+21
Asset Backed	17	35	2-6	7.5	4.4	+69	0.70	1.97	1.00	+44	Macmin NL	11	20	1-0	4.0	1.7	+139	0.85	2.50	1.00	+129
Astro Mining NL	63	120	2-10	20.0	42.5	-53	1.35	1.22	1.00	+33	Magna Pacific	71	25	1-4	42.0	53.1	-21	1.15	1.25	1.00	-4
Audax Resources	18	50	1-1	5.5	0.3	+999	0.55	4.74	1.00	+183	Majestic Resources	37	20	3-4	22.0	26.2	-16	0.80	1.27	1.00	+4
Auspine Ltd	210	400	2-10	17.0	21.2	-20	0.38	3.26	1.00	+27	Menzies Court	17	20	1-1	2.1	1.3	+61	0.28	5.52	1.00	+27
Aust Mineral	7	20	3-1	2.1	2.5	-15	0.90	1.58	1.00	+47	Mermaid Marine Ltd	68	75	0-9	5.0	9.1	-45	0.45	3.92	1.00	+24
Aust Kimb Diamonds	6	20	2-7	3.7	2.5	+47	1.14	1.45	1.00	+72	Metabolic	59	20	3-5	40.5	46.6	-13	0.79	1.20	1.00	+1
Barron Enter.	14	25	0-7	3.0	3.2	-7	1.38	2.05	1.00	+249	Metals Exploration	74	125	2-4	6.1	22.1	-72	0.70	1.91	1.00	+28
Beach Petroleum NL	5	20	4-2	2.2	1.9	+17	0.84	1.53	1.00	+43	Metroland Australia	23	20	1-3	4.1	8.4	-51	0.66	2.03	1.00	+4
Beaconsfield Gold	87	150	1-0	8.0	4.0	+98	0.47	4.60	1.00	+82	Micromedical Indust.	57	20	0-8	33.0	37.9	-13	0.68	1.48	1.00	-10
Bemax Resources	19	20	0-4	5.0	3.8	+32	0.93	2.92	1.00	+128	Mikoh Corporation Ltd	51	20	0-1	28.0	31.1	-10	1.34	1.63	1.00	-52
Bionomics Ltd	90	50	1-9	58.0	45.5	+28	0.32	1.91	1.00	+11	Mineral Commodities	16	20	1-1	4.0	4.9	-18	0.88	2.01	1.00	+45
Biotech Int'l	37	20	0-9	15.5	18.3	-15	0.55	1.91	1.00	-5	Minerals Corporation	16	20	1-9	5.0	7.1	-29	0.96	1.60	1.00	+29
Bolnisi Gold NL	15	20	1-4	3.5	2.4	+43	0.56	2.83	1.00	+44	Minotaur Corp NL	17	20	1-10	7.0	8.2	-14	1.03	1.49	1.00	+31
Boss Resources NL	12	20	1-8	4.9	6.0	-18	1.34	1.39	1.00	+59	Mitokop Australia NL	11	20	3-7	6.0	6.6	-9	1.02	1.30	1.00	+27
Britannia Gold NL	8	20	0-3	1.2	0.1	+999	0.92	6.30	1.00	+999	Mt. Grace Resources	37	20	0-9	18.0	19.6	-8	0.90	1.65	1.00	+6
CMC Power Systems	16	25	2-5	7.8	9.7	-20	1.23	1.29	1.00	+35	Murray Basin	16	20	0-3	2.0	0.8	+156	0.66	5.69	1.00	+306
Cambrian Resources	49	20	0-3	36.5	30.1	+21	1.36	1.55	1.00	+77	My Money Group	59	21	1-0	36.0	47.2	-24	0.22	1.50	0.83	-14
Cardia Technologies	41	20	4-4	21.5	33.5	-36	1.00	1.13	1.00	+1	New Hampton Gldfids	20	23	1-2	7.0	4.4	+58	0.58	2.62	1.00	+42
Carnarvon Petroleum	11	400	1-5	2.9	0.0	+999	0.82	4.84	1.00	+999	New Holland Mining	4	20	2-7	2.3	2.7	-15	1.81	1.15	1.00	+98
Carnarvon Petroleum	11	25	2-5	3.5	3.1	+14	0.82	1.80	1.00	+51	Newland Resources	80	2000	0-6	3.0	0.1	+999	1.50	3.90	1.00	+999
Central Kalgoorlie	8	25	0-10	3.2	1.9	+69	1.46	1.87	1.00	+353	Nexus Minerals	11	20	1-4	2.9	3.0	-4	0.96	1.93	1.00	+73
Chariot Internet	128	100	2-10	48.0	47.6	+1	0.26	2.36	1.00	+5	Normandy Mining	99	250	1-2	4.6	1.2	+285	0.46	5.55	1.00	+125
Charter Pacific	51	50	2-8	35.0	21.8	+61	0.59	1.75	1.00	+21	Omega Oil NL	22	20	0-4	1.4	3.2	-56	0.45	4.58	1.00	-1
Chiquita Brands	107	110	2-11	21.5	26.6	-19	0.28	2.84	1.00	+7	Optiscan Imaging Ltd	216	20	2-1	195.0	199.6	-2	1.01	1.07	1.00	-0
Citic Centre Ltd	85	100	2-5	8.0	19.4	-59	0.39	2.65	1.00	+10	Oxiana Resources	15	20	0-4	5.3	1.3	+303	0.84	3.89	1.00	+431
Citistate Corp	6	25	1-7	0.4	1.3	-70	1.20	1.77	1.00	+163	Pahth Telecom.	45	20	3-4	31.0	30.7	+1	0.55	1.37	1.00	+4
Cluff Resources	6	20	1-10	3.2	3.6	-11	1.62	1.29	1.00	+104	Paladin Resources NL	9	20	0-8	2.8	0.5	+454	0.80	3.60	1.00	+303
Cobra Resources NL	13	20	2-10	5.2	6.2	-16	0.87	1.49	1.00	+26	Pharmaction Holdings	19	20	0-4	4.0	3.6	+12	0.95	2.92	1.00	+118
Conquest Mining NL	28	25	0-4	10.0	7.1	+40	0.94	2.64	1.00	+106	Pima Mining NL	38	20	0-7	20.0	19.3	+4	0.79	1.79	1.00	+12
Consolidated Mineral	37	20	2-1	18.0	33.2	-46	2.09	1.05	1.00	+2	Pima Mining NL	38	20	2-1	26.0	24.0	-8	0.79	1.39	1.00	+10
Cranswick Premium	236	195	2-4	52.5	77.4	-32	0.29	2.54	1.00	+2	Pinnacle VRB Limited	49	20	0-11	29.0	31.1	-7	0.78	1.50	1.00	+0
Craton Resources	22	25	0-1	1.4	1.5	-9	1.02	5.64	1.00	+791	Platgold Pacific NL	21	20	1-4	12.0	13.6	-12	1.53	1.28	1.00	+37
Craton Resources	22	25	3-1	9.0	14.0	-36	1.02	1.29	1.00	+15	Platsearch NL	11	25	0-9	1.1	3.5	-68	1.65	1.67	1.00	+237
Dalrymple Resources	73	20	0-4	55.0	53.5	+3	1.06	1.35	1.00	+8	Plenty River	24	20	2-5	9.5	13.2	-28	0.80	1.47	1.00	+9
Deepgreen Minerals	4	20	1-4	35.0	0.7	+999	1.32	1.83	1.00	+689	Precious Metals	30	65	1-4	7.7	0.6	+999	0.40	5.41	1.00	+94
Defiance Mining NL	6	20	3-4	2.8	2.7	+4	0.94	1.49	1.00	+46	Prima Resources NL	22	20	1-9	8.5	12.3	-31	1.09	1.40	1.00	+17
Diamond Ventures NL	10	20	2-4	4.0	3.2	+24	0.82	1.77	1.00	+46	Pulsat Communicat.	77	20	3-7	54.0	66.9	-19	1.02	1.11	1.00	-1
Downer Group Ltd	41	50	1-0	6.5	2.6	+150	0.29	5.82	1.00	+38	Pulsat Communicat.	77	200	2-11	14.0	35.2	-60	1.02	1.45	1.00	+42
Efnert Technologies	74	20	4-7	60.0	58.8	+2	0.30	1.26	1.00	+2	Quadrant Australia	15	20	1-4	6.9	7.5	-8	1.30	1.46	1.00	+55
Empire Oil & Gas	16	20	2-10	6.0	7.3	-18	0.75	1.58	1.00	+19	Quiktrak Networks Ltd	27	20	2-1	14.5	15.8	-8	0.89	1.42	1.00	+12
Federation Res.	322	30	0-6	260.0	303.3	-14	3.16	1.05	1.00	-19	Rand Mining	20	20	1-4	8.0	9.9	-19	1.10	1.53	1.00	+29
Federation Res.	322	400	2-2	125.0	315.2	-60	3.16	1.01	1.00	+25	Red River Limited	90	30	1-5	55.0	67.0	-18	1.01	1.27	1.00	-4
Fimiston Mining NL	22	30	1-7	6.5	9.0	-27	1.02	1.62	1.00	+40	Redfire Resources NL	27	20	0-11	11.0	11.0	-0	0.73	1.97	1.00	+16
Finders Gold NL	7	20	2-10	2.4	3.7	-36	1.18	1.35	1.00	+50	Reefton Mining NL	23	20	3-9	9.6	21.3	-55	1.77	1.04	1.00	+7
Franked Income Fd	428	580	2-10	26.0	50.4	-48	0.25	3.89	1.00	+13	Shenley Corporation	98	30	4-3	70.0	92.1	-24	1.46	1.04	1.00	+0
Frontier Petroleum	28	20	1-4	13.0	16.0	-19	1.11	1.43	1.00	+15	Shield Equities	47	20	1-7	26.0	35.3	-26	1.25	1.22	1.00	-1
GPS Online.com	32	40	2-4	10.5	14.0	-25	0.80	1.62	1.00	+22	Sirocco Resources NL	32	20	0-10	16.0	16.8	-5	1.01	1.61	1.00	+15
General Gold Res.	6	20	2-4	2.2	1.3	+74	0.80	2.00	1.00	+73	St Francis Mining	4	30	1-8	2.3	0.3	+740	1.00	2.34	1.00	+273
Giants Reef Mining	8	20	1-4	2.6	1.6	+59	0.94	2.13	1.00	+112	St Francis Mining	4	20	0-9	0.6	0.1	+788	1.00	3.56	1.00	+923
Glengarry Resources	6	75	2-2	1.5	0.3	+359	0.89	2.45	1.00	+217	Strategic Minerals	7	20	0-5	0.5	0.3	+93	1.09	3.69	1.00	+999
Glengarry Resources	6	20	0-10	1.5	0.3	+349	0.89	3.20	1.00	+336	Sun Resources NL	14	25	2-4	7.4	4.9	+50	0.82	1.72	1.00	+43
Global Business	43	20	5-10	25.0	34.3	-27	0.71	1.17	1.00	+1	Sydney Gas Company	72	20	1-4	50.0	55.1	-9	0.91	1.26	1.00	-2
Global Business	43	100	2-3	10.5	9.2	+14	0.71	2.10	1.00	+52	Tanami Gold NL	12	20	1-9	4.0	3.0	+31	0.78	2.01	1.00	+52
Globe Securities	13	20	3-10	2.3	5.9	-61	0.74	1.50													

"Insider" Insights

(A summary of buying and selling by major shareholders)

Company	Shareholder	Buy/ Sell	Shares (Mill)	% of Coy Held	
				Before	After
14/01/2000					
Dorchester Pacific	PR Briggs	Sell	-2.118	12.97%	11.63%
Infracore International	Foreign & Colonial	Buy	+5.449	0.0%	5.50%
Otter Gold Mines	Royal & Sun Alliance	Buy	+0.800	7.02%	8.57%
Shortland Properties	Capital Properties	Buy	+10.192	96.59%	100.0%
Telecom NZ	Brandes Investment	Buy	+91.700	0.0%	5.23%
21/01/2000					
Brierley Investments	Franklin Resources	Sell	-42.355	9.42%	8.13%
Dairy Brands NZ	ASL	Buy	+9.683	0.0%	19.80%
Dairy Brands NZ	Aust Opportunities	Buy	+9.720	0.0%	19.90%
Dairy Brands NZ	Eastern States Sec.	Buy	+7.921	0.0%	16.20%
Montana Group (NZ)	GPG	Buy	+3.041	5.14%	6.55%
Montana Group (NZ)	AMP	Sell	-2.944	7.15%	5.78%
Taylor's Group	Spotless Services	Buy	+0.119	65.11%	65.58%
28/01/2000					
Advantage Group	Armstrong Jones	Buy	+2.810	0.0%	5.62%
Spectrum Resources	Momentum	Sell	-4.249	38.80%	33.96%

Total Return Index for All Listed Shares

Jan 10	2540.47	Jan 17	2530.07
Jan 11	2555.73	Jan 18	2537.91
Jan 12	2529.06	Jan 19	2545.24
Jan 13	2527.05	Jan 20	2521.20
Jan 14	2523.46	Jan 21	2518.10
Jan 24	2525.80	Jan 31	2475.82
Jan 25	2495.39	Feb 1	2462.03
Jan 26	2494.50	Feb 2	2465.47
Jan 27	2492.29	Feb 3	2466.87
Jan 28	2483.91	Feb 4	2477.20

Current Issues

BONUS ISSUES

	Ratio	Ex-Date
Spectrum (1)	1:6	-
(1) Issue of options to buy shares at 20 cents until 30/11/2001.		

CASH ISSUES

	Ratio	Price	Ex-Date	Appln Date
Spectrum (1)	7:3	5	-	-
(1) New shares will participate in the bonus issue of options.				

Dividend\$

Company	Cents per Share	Ex-Date	Pay-able	Tax Credit
Calan Healthcare	1.9572	14-02	01-03	0.0428
DB Group	8.00	31-01	11-02	Full
National Property Trust	4.2762	21-02	25-02	0.5125
Restaurant Brands	5.50	20-03	31-03	Full
St Lukes Group	4.676	20-03	03-04	Nil
Tower Corporation	12.00	06-03	17-03	1.00
Trans Alta NZ	6.50	13-03	16-03	Full
United Networks	15.00	03-04	07-04	Full
<u>Australian Shares</u>				
Hancock & Gore	4.25	21-01	11-02	-

The announcement that major shareholder PR Briggs has sold 2,118,238 **Dorchester Pacific** shares (at prices between 100-160 cents) sent the shares into a quick decline from which it has subsequently recovered. However, Dorchester Pacific's share price has *tripled* over the last two years, so some profit-taking could be wise.

Spotless Group has bought a further 119,000 **Taylor's Group** shares. At the very *least*, the series of on-market purchases over recent months must indicate that Taylor's Group is finally experiencing an upturn in their business. It could also indicate that Spotless will eventually make a full takeover bid.

Spectrum Resources' new major shareholder, Momentum, isn't waiting around for the company to generate profits from its new e-commerce business. Of course, "e-commerce profits" is a very rare commodity, so Momentum seems to be happy to go for those good old "share trading profits". After originally buying 38,172,000 Spectrum shares (at an estimated 10-15 cents per share), Momentum sold 4,134,000 shares (at about 21-25 cents) in December (see last month's *Market Analysis*) and has now sold a further 4,249,000 shares (probably at 30-35 cents).

New Internet Feature

Our NZ based internet site (www.stockmarket.co.nz) now offers an online *Help* function that allows you to "chat with our representative online" (i.e. to type in messages and get my immediate response in a new window that will open up).

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ONLINE



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Next Issue

The next issue of "Market Analysis" will be posted in four weeks time on Tuesday March 7, 2000 and on our internet sites on Wednesday March 8.

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 or www.stockmarket-research.com or www.stockmarket-research.co.uk Email: james@stockmarket.co.nz). Subscription Rate NZ\$190 (including GST) per year.

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