

# Market Analysis

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## Inside Market Analysis

"Bad" economic outlook and low share valuations favourable for high future stockmarket returns ..... 1, 14  
 Michael Hill International restructure yields significant on-going tax savings ..... 4, 5  
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Founder: James R Cornell (B.Com.)

## Summary and Recommended Investment Strategy.

The *worst* economic conditions can yield the *highest* stockmarket returns. The current "bad" economic outlook has depressed share prices to historically low valuations. Low share valuations yield *high future returns*.

We recommend being fully invested in shares.

## Investment Outlook.

When was the third largest rally in US stock prices?

Knowing the answer to that question could be very relevant to managing your share portfolio in today's depressed and depressing investment and economic climate. But first a little history to put things in perspective.

The *largest* rise in the United States stockmarket (as measured by the Dow Jones Industrial Average) was from 1982 to 2000 - a period of economic expansion, technological innovation and increases in world trade. The stockmarket rose 1344% over 18 years, or an average of about 16% per annum.

Its *second largest* increase happened from 1921 to 1929. This was a period of both economic expansion and stockmarket boom. Share prices rose 497% - or about 25% per annum.

So *when* was the third largest rally? The correct answer (and, of course, you all knew this) is 1932 to 1937, when shares rose 372% or about 36% per annum. *This rally occurred from the 2nd to 7th year of the 10½ year long Great Depression, but its was also a period when share prices had become very under-valued following the 1929-1932 stockmarket crash.*

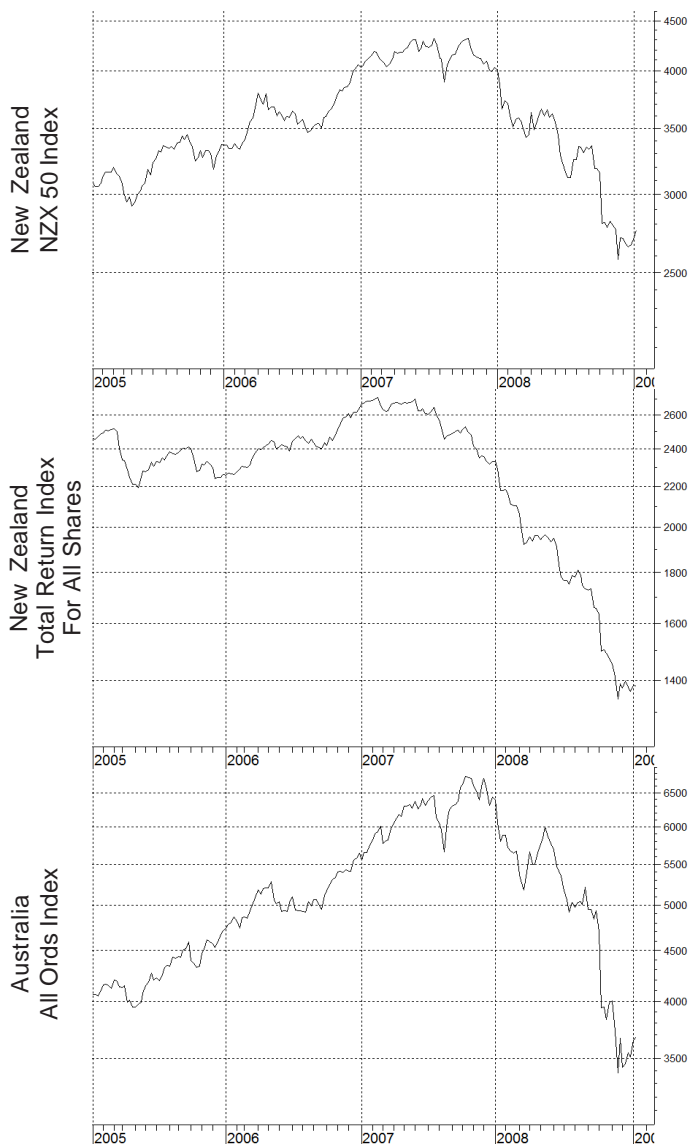
You may also have noticed that the 1932-37 rally produced the *highest* annual rate of appreciation!

The important lesson here is that it is not necessarily a healthy, growing economy that generates stockmarket wealth. Low share prices as experienced in 1932 are an even more important factor in determining future share price returns . . . and we are currently experiencing a similar period of very under-valued share prices!

Today some people are predicting the economic recession will last ten years. *That* would be just too similar to the 1930's Depression . . . but does suggest that 2009-2014 could be the best period in a lifetime to build investment wealth!! In fact, the Great Depression lasted for a decade as governments waited *five* years before taking any action to improve (Continued on Page 14)

### Stockmarket Forecasts

	One-Month	One-Year
Australia:	86% (Bullish)	65% (Bullish)
New Zealand:	64% (Bullish)	55% (Neutral)





# Recommended Investments

## 2008's Investment Returns

After ten straight years of consecutive gains, our *Recommended Portfolio* suffered a 32.0% *loss* during 2008 (or, to be strictly accurate, for the year from 11 January 2008 through to last Friday's closing prices). That compares with a 28.8% decline in the NZX 50 Index, a 39.8% decline by the broad NZ market and

39.2% decline in the All Ordinaries Index.

Over the last three years our portfolio is up just 1.0%, but beating the 18.0% *fall* in the NZX, 38.9% *decline* in the broad NZ market and 21.7% *decline* in the All Ordinaries Index.

Building significant wealth in the stockmarket is not about a "hot tip" or *(Continued on Page 4)*

## Portfolio of Recommended Investments

CURRENT ADVICE	Company	Initial Code	Recommendation Date	Price	Perform- mance 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	CDL Investments Ltd	CDI	12/01/99	25	D	218.9	1.5	1.55	4	15.6	22	17.9	+60%
HOLD+	Cavalier Corporation	CAV	05/12/95	156*	C	67.1	0.8	0.50	7	15.9	188	230.0	+168%
HOLD	Colonial Motor Company	CMO	10/11/92	150	B	27.9	0.5	0.14	10	13.5	255	338.8	+296%
HOLD	Lyttelton Port Company	LPC	12/12/00	150	A	102.3	0.7	3.13	25	3.0	255	68.4	+116%
BUY	Michael Hill Int'l Ltd	MHI	11/06/91	5*	D	382.5	1.0	0.55	8	8.8	54	25.4	+1488%
HOLD+	Nuplex Industries Ltd	NPX	11/02/97	350	C	81.7	0.6	0.16	5	15.1	298	240.0	+54%
HOLD	Postie Plus Group	PPG	08/05/06	71	D	40.0	1.4	0.10	NE	Nil	33	8.5	-42%
HOLD+	Renaissance Corp	RNS	13/08/96	85*	C	42.7	1.5	0.09	5	28.7	39	53.9	+9%
HOLD	Smiths City Group	SCY	09/10/06	64	C	53.0	1.6	0.06	4	15.0	30	10.0	-38%
HOLD	South Port New Zealand	SPN	13/02/96	120	A	26.2	0.8	3.67	22	6.6	215	103.8	+166%
HOLD	Steel & Tube Holdings	STU	08/08/00	146	B	88.2	0.8	0.50	11	10.0	285	212.0	+240%
HOLD+	Taylors Group Ltd	TAY	09/11/99	102	B	24.3	0.8	0.40	12	15.6	115	86.0	+97%
<u>Australian Shares (in Aust cents)</u>													
BUY	AJ Lucas Group	AJL	13/05/03	120	B	59.3	0.6	0.65	20	1.5	462	30.5	+310%
HOLD+	Atlas South Sea Pearl	ATP	14/05/96	73	B	89.3	1.5	0.89	2	19.0	21	17.5	-47%
HOLD	Breville Group Ltd	BRG	13/11/06	171	B	129.5	1.0	0.20	4	15.9	66	10.5	-55%
BUY	Campbell Brothers Ltd	CPB	12/10/99	406*	B	52.1	0.3	1.25	13	5.2	1827	407.6	+450%
HOLD	Cellnet Group Ltd <sup>1</sup>	CLT	12/02/02	147*	C	76.8	1.4	0.05	NE	Nil	27	32.4	-49%
BUY	Challenger Wine Trust	CWT	12/01/09	30	B	170.3	1.3	1.56	4	31.3	30	Nil	
HOLD	Circadian Technologies	CIR	10/02/04	188	C	40.1	1.0	2.86	NE	Nil	58	65.0	-35%
BUY	Clarius Group Ltd	CND	08/04/03	86	C	57.4	1.2	0.08	2	38.1	42	68.5	+28%
BUY	CPT Global Ltd	CGO	10/03/08	88	B	36.9	1.3	0.26	7	15.6	32	1.8	-62%
BUY	Devine Ltd	DVN	13/11/06	94	A	285.7	1.0	0.29	5	13.6	59	16.0	-20%
BUY	Ellex Medical Lasers	ELX	14/03/06	49	C	102.8	2.4	0.14	4	Nil	10	Nil	-80%
HOLD	Fiducian Portfolio Ser	FPS	11/02/08	260	B	32.8	0.9	1.42	6	10.8	120	6.5	-51%
HOLD	Iluka Resources Ltd	ILU	12/10/04	471	A	232.9	0.6	1.06	10	4.5	486	64.0	+17%
BUY	Integrated Research	IRI	14/01/08	40	B	166.5	1.4	1.16	7	11.5	26	3.0	-27%
HOLD	Int'l AllSports	IAS	11/02/03	180	C	66.4	1.7	0.29	NE	Nil	20	4.0	-87%
BUY	M2 Telecommunications	MTU	09/10/06	33	A	78.9	1.1	0.38	8	9.6	52	8.0	+82%
HOLD	Mercury Brands Ltd	MCB	08/02/05	93	D	62.2	4.8	0.04	NE	Nil	3	7.0	-90%
HOLD	Mercury Mobility <sup>1</sup>	MMY			C	105.0	2.1	1.63	NE	Nil	10	Nil	
HOLD	Melbourne IT	MLB	10/02/04	53	B	76.8	0.5	1.15	13	5.7	230	43.0	+415%
SOLD	M.Y.O.B Ltd												
BUY	Photon Group Ltd	PGA	10/11/08	140	B	102.8	0.7	0.18	5	20.6	139	Nil	-1%
BUY	Probiotec Ltd	PBP	11/02/08	116	A	46.6	0.7	1.00	10	1.8	141	2.5	+24%
BUY	Prophecy International	PRO	08/09/08	26	A	45.1	1.3	2.89	9	10.7	38	Nil	+44%
HOLD	Ross Human Directions	RHD	14/08/01	92	A	83.5	1.6	0.04	4	17.9	20	32.5	-43%
BUY	Skilled Group Ltd	SKE	12/03/02	126	B	122.0	0.7	0.09	5	15.6	147	121.5	+113%
HOLD+	Technology One Ltd	TNE	11/11/03	44	B	298.9	0.9	2.17	14	5.2	80	17.2	+121%
BUY	TFS Corporation Ltd	TFC	08/01/07	45	B	187.3	0.9	2.34	6	4.7	86	3.9	+99%
HOLD+	The Reject Shop Ltd	TRS	11/01/05	257	A	25.7	0.4	0.73	15	4.8	1001	126.5	+339%

The average Total Return (i.e. both Capital Gains/Losses plus Dividends received) of all current investments from initial recommendation is +111.7%. This is equal to an average annual rate of +18.1%, based upon the length of time each position has been held.

The average annual rate of gain of ALL recommendations (both the 38 current and 144 closed out) is +28.3%, compared with a market gain of +4.8% (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) Cellnet Group returns include 1½ shares in Mercury Mobility distributed to shareholders.

## Recommended Investments

(Continued from Page 3)

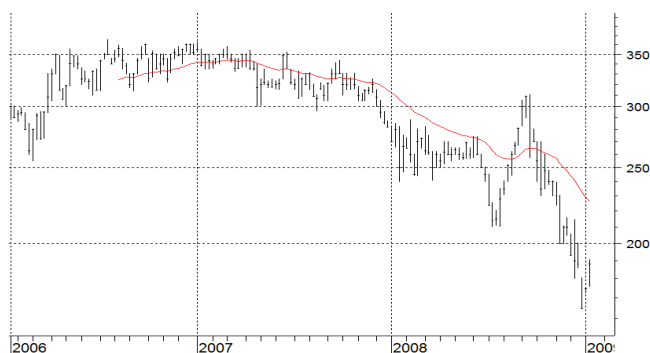
one “lucky investment”. Nor is it about the performance of the market over a relatively short period like a year. Successful stockmarket investment requires an intelligent and systematic approach to finding shares with the potential for above average future returns, diversifying investment capital across many attractive companies (as companies are individually risky and, even if carefully selected, some will fail or perform poorly) . . . and taking a long term approach (as the stockmarket can be very volatile and experience numerous booms and busts).

At this stage, 2008 is probably a year that most investors want to forget . . . but if some recent under-valued share purchases become future 5, 10 or 20-baggers, then 2008 will become a year worth remembering! As is usually the case, market fluctuations (either up or down) offer the opportunity to realise profits on fully valued shares and re-invest in shares that offer better value. Last year we realised significant cash sums from a capital repayment and then the sale of **Centennial Coal** (i.e. a 9½-fold gain over our seven year investment) and later from **Computershare** (i.e. sold for a better than 5-fold gain over five years). This cash helped finance the purchase of some very *under-valued* shares which should yield excellent future gains . . . and, to date, they have at least increased our dividend income, generating more new cash to buy further under-valued shares.

### New Zealand Shares

**Cavalier Corporation** has agreed to a joint venture with **NZ Woollscourers** (owned by David Ferrier, who already owns 7.5% of Cavalier's commission wool scouring operations in Hawkes Bay and Timaru) which would enable the “much needed rationalisation of the wool scouring industry in NZ” following the substantial reduction in sheep numbers over recent years. The proposal is subject to approval by the **Commerce Commission** and approval by the shareholders of Cavalier Corporation.

### **Cavalier Corporation**



**Michael Hill International** has announced an internal restructuring that will have a significant impact upon reducing future income taxes and boosting operating cash surpluses over future years. A wholly owned Australian subsidiary will acquire from a wholly owned

New Zealand subsidiary the Intellectual Property of the “Michael Hill Jeweller System of Retailing” at its independent valuation of \$293 million. This involves no external borrowing and is funded by inter-company loans between the wholly owned subsidiaries.

This will result in a one-off gain of \$57 million this financial year from the recognition of future Australian tax deductions available on the intellectual property rights, plus an on-going increase in reported profits of around \$7.4 million annually. So this restructuring will add around 30% to future annual profits.

Operating cash surpluses will increase around \$4.9 million this year and around \$9.5 million annually in future years for at least five years. After five years there will be a minimum benefit of at least \$2.1 million annually.

Effectively this restructuring - approved by the Australian Tax Office and the Inland Revenue Department - will reduce NZ income tax to near zero and significantly reduce Australian income tax. Consequently, the April 2009 dividend will be the last dividend with full imputation tax credits and full franking credits. Future dividends would have no imputation tax credits and be only about 50% franked. Having very effectively reduced income tax at the company level, hopefully the Michael Hill directors will now look at more tax efficient ways to distribute surplus cash to the shareholders.

Fully imputed dividends from Michael Hill International have been in doubt for some time as the company grows internationally and earns more of its profits outside of New Zealand. This restructuring at least significantly reduces income tax at the company level. The most tax efficient way to utilise those higher net profits would be to finance faster internal growth and expansion, or to distribute surplus cash via non-taxable share buy-backs. Unimputed dividends would require more income tax to be paid at the shareholder level, but the company should be able to offset this with higher gross dividend payouts (from its higher net profits and greater cash surpluses) so there should still be a significant benefit for shareholders.

For the six months to 31 December Michael Hill International experienced (in local currencies) a 1.2% growth in same store sales in Australia, but a 9.3% drop in NZ and 10.4% decline in Canada. In total - and helped by new stores - group revenues rose 8.7% to NZ\$226.9 million.

The recent strength in the US dollar, however, has increased the local currency cost of goods ordered for the Christmas period, significantly reducing margins. The company also made a “conscious decision to target sales at the expense of margins” in the current difficult retail environment, reducing stock levels and boosting cashflows.

There were also one-off costs from the US acquisition and internal restructuring, so the first half *trading* result will be “materially below” the record \$19.5 million profit last year.

It will be interesting to see how the “market” continues to react to a one-off poor trading result, versus the company's strategic decision to maintain a strong balance

sheet (at the expense of short term profits) and the expected on-going improvement in future profits as a result of its long term, strategic tax planning. We believe that Michael Hill International has been one of NZ's most successful companies owing to its focus on long term, strategic planning, while many other companies have failed owing to their focus on only short term profits.

**Michael Hill International**



**Postie Plus Group** has closed out forward exchange contracts at a profit and will use the proceeds to reduce bank debt by \$3.6 million.

**Postie Plus Group**



**Smiths City Group** has reported revenues 14.2% lower at \$114.2 million for the six months to 31 October, with profits down 53.5% to \$820,000 (1.5 cents per share). A 33.3% lower, unimputed dividend of 1.0 cent will be paid.

The net operating cash surplus was 74% lower at \$294,000.

The 2007 half year result included a \$549,000 profit from the redevelopment and sale of the group's store in

**SmithsCity Group**



Gore. This year the group redeveloped the Gisborne store, selling it in December at book value (to reduce debt) with no property development profit in the current market environment.

The home appliances, furniture and flooring retail market is "probably the worst for 15 years", but the company seeks to expand market share in this contracting market and to be well placed for the eventual upturn.

**South Port NZ** reports that **Hardwood Forests** has sold its forestry assets and is being liquidated. South Port NZ owns around 10% of this company and will report a \$500,000 profit from this liquidation.

**Australian Shares**

*(This section is in Australian currency, unless stated.)*

**AJ Lucas Group** issued \$45 million worth of Redeemable Convertible Preference shares to refinance \$45 million of short term borrowings used to help finance the acquisition of **Mitchell Drilling**. These preference shares receive interest at 11-13% and can be redeemed in cash or converted to ordinary shares at 720 cents.

**AGL** has acquired all of PEL285 in the Gloucester Basin for \$370 million in cash, with AJ Lucas Group receiving \$259 million for its 70% interest in this coal seam gas exploration licence. This realises a massive gain over AJ Lucas Group's book value of only \$24 million for this asset!

**AGL** is also making a full takeover of listed **Sydney Gas**, offering 42½ cents per share. AJ Lucas Group has agreed to accept this takeover for its 20% stake in Sydney Gas, which will realise a capital gain and a further \$34 million in cash.

AJ Lucas Group will also continue to provide technical and drilling services for both of these projects being acquired by AGL. These transactions have allowed AJ Lucas Group to realise \$293 million in cash (432 cents per share!!) from the sale of its New South Wales coal seam gas assets. The company retains *all* of its profitable, income earning businesses which it forecasts will generate revenues this year of \$600 million and earnings (before interest, depreciation and tax) of \$80 million. We estimate \$80 million in earnings would produce a net profit of \$40-50 million (60-75 cents per share).

AJ Lucas Group had interest bearing debts of \$71.0 million in June 2008 and to finance the acquisition of **Mitchell Drilling** borrowed a further \$105.0 million (over three years) and \$45 million via convertible shares. So the company *could* repay all of this debt and still have over \$72 million in surplus cash.

At the very least, AJ Lucas Group should significantly increase its regular dividends this year, but a special dividend or capital repayment of anywhere from 50 cents to 200 cents per share could also be possible.

So AJ Lucas Group has no net debt and \$72 million (106 cents per share) in surplus cash. At 462 cents the shares trade at around 0.52 times this year's expected revenues (excluding asset sales) and just 6-8 times forecast trading profits. With strong profit growth, plus a very strong balance sheet and potential for cash distributions or new acquisitions with the cash from its CSG asset sales, we believe

*(Continued on Page 6)*

**Recommended Investments**

*(Continued from Page 5)*

there is good potential for AJ Lucas Group's share price to continue to appreciate strongly. "Buy" and Hold for further investment gains.

**AJ Lucas Group**



**Clarius Group** reports that "trading conditions deteriorated further in the last quarter" and now expects trading profits (before any one-off costs) for the six months to December 2008 to be 60-64% lower at \$1.9-2.1 million (3.1-3.4 cents per share).

The contracting business - which generates 65% of gross profits - has "held up reasonably well", while the highly cyclical permanent recruitment division has suffered from a sharp drop in hiring as the economy weakened.

Cyclical businesses can experience sharp profit declines in an economic downturn as revenues decline quickly but it is slower to downsize and cut operating costs. Even if the business remains depressed, profits will likely recover as costs are reduced to meet the current trading environment. Medium to long term there will still be a demand for permanent recruitment and when revenues recover in that division then profits (and dividends and the share price) should rebound very strongly.

Medium to long term there is also a trend towards companies outsourcing their non-core labour requirements through employment businesses like Clarius Group, Ross Human Directions and Skilled Group.

Even at current depressed levels of profitability the market is significantly under-valuing shares in companies in this sector!

**Clarius Group**



**Ellex Medical Lasers** expects unit sales over the half year to December 2008 will be below last year, while the weaker Australian dollar will "ensure similar revenues" for the period. Foreign currency expenses, however, have increased, with a "material reduction in profits". The company will also report unrealised foreign exchange losses on hedging contracts of around \$3.4 million (before tax).

The company is seeking to further reduce operating costs and working capital to offset the impact of the economic slowdown on profitability and cash flow.

The underwriter of the 1:2 cash issue has agreed to take up at least 14 million shares for \$1.4 million (up from the 11 million shares originally agreed). We did not take up our rights to buy new shares at 10 cents, but bought a greater number of shares on-market at prices up to 9.0 cents to maintain our ownership in this business.

Overall the company issued 16,379,506 shares (47.8% of the total offered), raising \$1.6 million.

**Ellex Medical Laser**



**Skilled Group** has re-affirmed its June 2009 forecast of earnings (before interest, depreciation and tax) of \$100-110 million. Unlike other companies in this sector it is not dependant upon the cyclical permanent recruitment business and has little or no exposure to the worst sectors of the economy (e.g. banking, finance, property).

Net debt has increased to \$320 million as a result of earn-out payments on acquisitions, but expected to fall to \$280-300 million by June 2009. That is a relatively high debt level, but manageable given the strong cashflows in this business.

The company is likely to maintain its current 23.0 cents annual dividend, so the shares offer a very high 15.6% Dividend Yield and trade on a low Price/Earnings ratio of 5. We are upgrading Skilled Group shares to a "Buy".

**Skilled Group**



# Share Recommendation: Sell M.Y.O.B. On-Market

The following update was emailed to subscribers on the 18th December. For NZ resident investors, selling the shares on-market at least equalled or was slightly better (after tax) than the maximum takeover consideration if the company reached 90% acceptances - and with earlier receipt of the money and less risk.

Manhattan Software now has 91.9% acceptances - but the takeover has yet to become unconditional owing to a financing condition (or is that just a good way to delay payment of the \$406 million takeover consideration and save \$100,000 per day in interest?). The 8.15 cents dividend will be paid (to investors who haven't sold on-market) on 6 February.

The MYOB directors have negotiated with Manhattan Software for what they call an "improved offer" for your MYOB shares.

Instead of receiving 102.15 cents (if Manhattan receives acceptances of less than 90%) you will now get 94 cents plus an 8.15 cents dividend . . . or a total of 102.15 cents.

If Manhattan receives over 90% acceptances, then instead of receiving 112.15 cents you will now receive 104 cents plus the 8.15 cents dividend . . . which we calculate as a total of 112.15 cents.

We are not sure what part of the offer is really "improved"?

The dividend (which will go to all shareholders, whether accepting the takeover offer or not) will be paid in January. MYOB is in the All Ordinaries Index, so for NZ resident investors the shares are exempt from the "Fair Dividend Tax" and a NZ investor will now pay income tax on the 8.15 cents dividend, while the previous capital consideration would have been completely non-taxable.

After tax, the net consideration to a NZ investor (on a 39% tax rate) will be reduced to 98.9715 cents or 108.9715 cents!

## Current Options

The takeover offer has been extended until 31 December and, as is usual, will probably be extended again - so there is no need to rush to take action with your shares.

Investors have the option of unconditionally accepting the takeover and getting 94 cents (or perhaps 104 cents), plus the dividend.

Or accepting with the new BLUE acceptance form which only becomes effective *if* acceptances reach 90%. So under this option an investor would either get 104 cents from the takeover *or* have their shares returned to them (plus, of course, the dividend).

The third option is to do nothing. You will remain a minority shareholder in MYOB (which will be controlled by Manhattan owning 50-90%) or, if Manhattan reaches 90% acceptances your shares will be subject to compulsory acquisitions (at 104 cents). In either case you will also receive the dividend.

The fourth option is to simply sell your shares on-market. The shares should trade around 102-112 cents (depending upon the market's assessment of whether or not the takeover will reach 90%). At present the shares trade around 108½ cents, but that will likely rise slightly over the next few weeks if Manhattan continue to build acceptances towards the 90% level.

Selling on-market for a tax-free capital sum is a better option for NZ resident investors than a capital sum of 94-104 cents plus a 8.15 taxable dividend!

## Summary and Recommendation

The MYOB directors are now recommending the BLUE (i.e. conditional on 90%) acceptance of this takeover offer. In this situation, Manhattan is likely to be successful at acquiring full ownership of MYOB. The potential for a rival bid has rapidly diminished and Manhattan already has acceptances totalling a controlling 52.6%.

Acceptance of the takeover is now only worth 99-109 cents (after tax) to a NZ resident investor compared with 108½ cents (non-taxable) selling on-market today or perhaps up to 110-113 cents over the next few weeks.

We therefore recommend that investors sell their MYOB shares on-market over the next few weeks to realise the best after tax return.

## **M.Y.O.B.**



# Buy Challenger Wine Trust

## BUY Challenger Wine Trust (code CWT).

We reviewed this specialist property trust two months ago but the stockmarket, in its wisdom, has lowered the share price from 44 cents to 30 cents. That is less than one-third of its net asset value . . . and boosts the very reliable income yield to around 31.7%. So an investment in this relatively low risk, "no-growth" business will provide a very high 30% cash income (which we can continue to re-invest in other under-valued shares while the stockmarket is depressed) and the unit price should eventually be re-rated to around 70-80 cents (i.e. for a capital gain of 133-167%) as the stockmarket recovers over the next few years.

This isn't a growth investment, but still offers significant capital appreciation as the stockmarket recovers. A recovery over the next three years would equal an annual compound rate of capital gain of around 36%. Add in the 30% income yield and this investment could produce a total return of around 65% per annum! If the stockmarket recovery takes five years, the annual compound rate of capital gain would be about 20%, for a total return of around 50% per annum.

How significant are these rates of return? Well, \$10,000 invested and compounding at 65% will grow to about \$1.5 million in just ten years!! At 50% it would still grow to \$576,000. (And, for those of you that prefer to think in bigger numbers, \$7-17 million invested at 50-65% per annum over just one decade would grow to a *billion* dollars!)

### Company Business

Challenger Wine Trust is a specialist property trust investing in vineyard properties on long term leases to wine companies and contract grape growers.

In the short to medium term the trust is not exposed to the risks involved in agricultural businesses (i.e. crop yields, commodity prices, exchange rates) as it leases its land, grape vines and water rights to wineries and contract grape growers under long term leases, often with Consumer Price Index increases to annual rentals. Over the long term, however, the value of grapes that can be produced determines the value of the land and the vines and will impact upon future rental income every 5-15 years as leases expire and are renegotiated.

The trust holds investments in 24 vineyards and two wineries valued at \$137.6 million, vines valued at \$130.3 million and tradeable water rights with a book value of \$21.8 million but assessed at a market value of \$30.2 million. This \$298.1 million of assets are rented out at an average return of about 10.6% per annum with an average remaining lease term averaging around 5½ years (plus rights of renewal for further periods of time).

The trust leverages the return to investors, financing around half of its assets through mortgages and debt facilities. These were re-negotiated in May 2008, with repayments (or refinancing) in 2011 and 2012. The trust has debt facilities totalling \$166.3 million, of which \$155.0 million has been drawn down. Interest rates are fixed at 7.9%.

## Recent Results

Rental income for the year to 30 June was \$31.6 million, with an operating profit of \$16,010,000 or a net profit (after a small decline in asset values) of \$13,534,000 (8.0 cents per share).

The annual distribution for 2008 was 9.4 cents, with the trust now predicting a 9.5 cents distribution for 2009. The units currently trade ex-entitlement to the December 2008 distribution of 2.3 cents.

Around 70-80% of the trust's quarterly distributions are untaxed Australian income, which is taxable to Australian investors and subject to 30% withholding tax to foreign investors. A further 5-10% is Australian interest subject to 10% foreign withholding tax, another 5-10% foreign income and the last 5-10% "tax deferred" income.

NZ\$10,000 invested by a NZ resident would be taxed on a 5% "fair dividend" of only \$500 annually. At a 39% tax rate that is a NZ tax liability of \$195. The investor, however, would receive around \$2430 in cash annually and a withholding tax credit of about \$736 which can be claimed as a credit on a NZ Income Tax Return. So this will produce a net cash income of \$2430 plus a tax benefit of around \$541 (i.e. the \$736 foreign withholding tax credit, less the NZ "fair dividend" tax). That is a 24.3% cash yield and a further 5.4% yield from the surplus tax credits.

## Investment Criteria

At 30 cents the units trade on a Price/Sales ratio of 1.56, a low Price/Earnings ratio of 4 and offer an historical income yield of 31.3%. The net asset value per unit (based upon the assessed value of water rights) is 94 cents, so at 30 cents the units are trading at a 68% discount!

This business is soundly financed with reliable rental income from long term leases and mortgages at fixed interest rates. The trust therefore has predictable and reliable cash income and cash expenses, so is in an excellent position to pay regular, reliable income to its investors. Nothing is without some risk, so investors need to maintain a diversified portfolio, but Challenger Wine Trust would normally be a suitable investment for investors requiring a reliable income. At current prices it offers both a *very high* income and the potential for significant capital appreciation.

Under more normal financial conditions the units would trade around at least 70-80 cents - offering an attractive 11.8-13.4% income yield. *If* financial markets return to normal over the next few years then these units should appreciate 133-167% back to this 70-80 cents valuation. *If* financial markets did not improve then, in the short to medium term the trust would continue to offer an income return over 30%, while medium to long term the trust could seek to progressively sell off its agricultural land and other assets, probably realising close to book value, and could ultimately liquidate and make capital returns of perhaps 90-95 cents to investors! Two vineyard sales in December 2007 were settled at



around a 5-6% premium to book value.

There are 170,312,633 units on issue, giving a market capitalisation of \$51.1 million. There appears to be a large seller in the market which has helped depress the price over recent months but also means there are plenty of units available for purchase. UBS Nominees has recently disclosed reducing its holding from 10.9 million units (6.4%) to under 5% and appears to still be selling.

There have been three *insider* buys over the last year. GK McWilliams purchased 30,000 units at 71 cents in February 2008 to increase his holding to 130,000 units. R Hooper purchased all of his 200,000 units at prices from 70 cents to 72 cents per share, also in February 2008. In August 2008, B O'Connor purchased 3000 units at 58 cents, doubling his holding to (a not very large) 6000 units.

The other directors also own investments in the trust. B Shanahan has 400,000 units, IM Martens has 256,148 units, I Moore holds 480,000 units and R Woods owns 233,812 units. Challenger Life owns 45.9 million units (27.0%).

### **Summary and Recommendation**

Challenger Wine Trust is a relatively low risk, specialist property investment trust with reliable cashflows and distributions. This would normally be considered an income investment, but at current prices offers an

extremely high income yield (31.3% *before* tax for Australian residents and an effective 29.7% *after* tax to NZ investors owing to the “loopholes” in the poorly designed “fair dividend” tax rules) *plus* the potential for 133-167% (i.e. 20-35% per annum compounded) capital appreciation over the next few years.

**The potential for 50-65% per annum returns from a relatively low-risk investment will make Challenger Wine Trust units a “must Buy” for all investors!**

The high income yield will also provide our portfolio with strong cashflows to help finance further under-valued share purchases this year and over the next few years as the stockmarket starts to recover.

### **Challenger Wine Trust**



## “Cash is King”

In an economic downturn people often say that “Cash is King” - but that is only half the story. Over the long term, cash in the bank is not a good investment, earning only a low income and depreciating in value with inflation. The king-making power of cash in a financial downturn or recession comes from the ability to spend that cash to acquire some real assets, businesses or investments at low prices. Hold on to your “safe” cash too long and asset prices will recover and the opportunity to acquire wealth enhancing assets will be gone . . . and the real value of your cash holding will steadily dwindle.

Fully realising the benefits of holding cash during a downturn, however, are not easy. Usually this requires making *two* difficult decisions accurately. Firstly you need to sell your investments at just the right time and secondly you need to buy back investments at both the right time and right price. Get just one of these decisions wrong - sell too early or too late, or buy back too early or too late - and the potential benefits of timing the market can be lost.

But if you *do* hold some cash in a downturn - perhaps from earlier asset sales, an inheritance, accumulated investment income or savings from employment - then you need to look for a strategy to *invest* that cash in real assets or investments.

The strategy for investing cash during a downturn will depend upon how much cash a person has and their financial circumstances.

For example, a person with a *cashflow* from employment savings or investment income *could* steadily re-invest that cash as it becomes available - knowing that there will be more cashflow for investment next month or next quarter. A person with a lump sum, but no on-going savings or other investments should probably be more cautious about spending that cash to acquire investments. As it is impossible to accurately time a stockmarket recovery - and share prices will probably fluctuate widely - a person with a lump sum to invest should probably seek to invest the cash steadily over a period of time.

Depending upon one's expectations and risk tolerance, it may be appropriate, for example, to invest around 25% initially and then another 12½% per month over the next six months. Or, for a more cautious investor, just invest around 4-5% per month over the next 18-24 months.

High yield shares can also be particularly attractive as even if you invest in them “too early” and they decline in capital value in the short term, they will still generate cash flows from dividends, providing additional cash to finance further investments over future months and years.

In the current depressed market there are a number of shares with yields of 15-30%. Every \$1000 invested in these shares will produce another \$150-300 of cash *this year* and \$150-300 of cash *next year* and so on every year. So spending cash to acquire under-valued investments will quickly produce further cash! Perhaps that the real meaning of the term “Cash is King”?



# “Insider” Trades in Australian Shares

The table below shows the number of Purchases and Sales of a company's shares by its Directors over the last twelve months (excluding “Neutral” situations where the number of Buyers and Sellers were equal). Shares where many “insiders” have been buying can outperform the market for up to two years, while shares where many “insiders” have sold can under-perform for a similar period.

## “Insider” Indicators

Last 5 wks: 88.8% Buyers

Last 13 wks: 90.5% Buyers

Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers
1300Smiles Ltd	1-0	Aneka Tambang	1-0	Azumah Res.	1-0	CTI Logistics	11-0	Cockatoo Coal	2-0
3D Resources	1-0	Anglo Pacific	7-0	Azure Minerals	1-0	CVC Limited	0-3	Cockatoo Ridge	1-0
3Q Holdings Ltd	1-0	Anglo Australia	10-1	B & B Infrastr.	2-0	Cabcharge Ltd	6-1	Codan Ltd	6-0
A-Cap Resources	3-0	Ansearch Ltd	3-1	B & B Wind Part	0-1	Cadence Capital	1-0	Coffey Int'l	2-0
A.P. Eagers	19-0	Antares Energy	4-0	B&B Japan Prop.	8-1	Cape Range Wire	4-0	Cogstate Ltd	4-0
ABC Learning	0-8	Antisense T.	1-0	B&B Power	3-0	Capital Health	1-0	Collection Hse	9-0
ADG Gbl Supply	1-0	Anvil Mining	2-0	BC Iron Ltd	2-0	Capral Limited	1-0	Colonial Res.	2-0
AGL Energy Ltd	2-0	Apa Financial	3-0	BHP Billiton	2-0	Carbon Con	3-0	Colorpak Ltd	2-0
AMP Ltd	5-0	Apex Minerals	1-0	BSA Ltd	13-0	Carbon Energy	1-0	Com'wealth Bank	2-0
ANZ Bank	12-0	Aquacarotene	1-0	BT Invest Mgmt	3-0	Cardno Ltd	4-0	ComOps Limited	3-0
APA Group	8-0	Aquarius Plat.	2-1	Bandanna Energy	1-0	Cardia Tech.	4-2	Comet Resources	1-0
APN Property	14-0	Arafura Pearls	7-0	Bank of Q'land	1-3	Carlton Invest	0-1	Commquest Ltd	10-0
APN Euro Prop.	8-0	Arafura Res.	2-0	Bannerman Res.	7-1	Carnavale Res.	3-0	Community Life	3-0
APN News Media	4-1	Arana Thera.	4-0	Bass St Oil Coy	1-0	Carnarvon Pet.	4-5	Commander Comm.	1-0
ARB Corporation	0-1	Argent Minerals	1-0	Bass Metals Ltd	1-0	Cash Converters	2-0	ComputerCORP	6-0
ASF Group Ltd	2-0	Argo Explor.	1-0	Batavia Mining	14-0	Caspian Oil & G	2-1	Computershare	2-10
ASG Group Ltd	1-0	Argo Investment	4-0	Bathurst Res.	6-0	Catalpa Res.	1-0	Compass Hotel	7-0
ASX Limited	0-3	Ariadne Aust	1-0	Bauxite Res.	0-1	Catalyst Metals	3-0	Compass Res	4-0
AV Jennings	1-0	Aristocrat Leis	3-0	Beaconsfield GI	4-0	Cathrx Ltd	1-0	Comtel Corp.	3-0
AWB Limited	2-0	Artist & Enter.	0-5	Beacon Minerals	5-0	Cazaly Res Ltd	2-0	Condor Nickel	4-0
AXA Asia Pac	1-0	Ascent Pharm.	4-0	Becton Prop Grp	1-0	Cedar Woods Prp	3-0	Coneco Ltd	2-0
Abacus Property	5-0	Asciano Group	4-0	Bell Financial	15-0	Centamin Egypt	3-0	ConnectEast Grp	1-0
Aberdeen Leader	4-0	Ashburton Min.	1-0	Bendigo Bank	1-3	Centennial Coal	2-0	Conquest Mining	9-0
AcruX Ltd	0-1	Aspen Group Ltd	7-1	Beyond Int'l	2-0	Centro Retail	0-1	Cons Rutile	1-0
Activex Ltd	1-0	Aspermont Ltd	1-0	Billabong Int'l	3-1	Centaurus Res.	2-0	Cons Tin Mines	1-0
Acuvax Ltd	2-0	Atlas Iron Ltd	3-1	Biosignal Ltd	1-0	Centrebet Int'l	1-0	Cons Media Hold	1-0
Ad Braking Tech	1-0	Atlas SS Pearl	0-3	Biota Holdings	1-0	Central Petrol.	0-2	Contango Cap P.	6-0
Adavale Res.	8-0	Atom Energy Ltd	1-0	Blackmores Ltd	1-0	Century Aust In	1-0	Cool or Cosy	2-0
Adcorp Aust.	1-0	Audax Resources	2-0	Black Fire En.	1-0	Centrepoint All	5-0	Coonawarra Aust	1-0
Adelaide Bright	0-2	Augustus Min.	4-0	Blackthorn Res.	1-0	Ceramic Fuel C.	4-0	Cooper Energy	1-0
Adelphi Energy	1-0	Augur Resources	3-0	Blue Energy Ltd	1-0	Chal Wine Trust	3-0	Coote Indust.	7-0
Admiralty Res.	2-1	Aura Energy Ltd	1-0	Bluescope Steel	6-0	Chal Infra Fund	1-0	Copper Strike	1-0
Adtrans Group	19-0	Aurium Res.	1-0	Bluglass Ltd	1-0	Chal Financial	1-0	CopperMoly Ltd	1-0
Adv Share Reg.	1-0	Aurora Oil Gas	2-0	Boart Longyear	9-1	Chal Div Prop	2-0	Coretrack Ltd	9-0
Adv Surgical	1-0	Aurox Resources	7-0	Boom Logistics	6-0	Chalice Gold	5-0	Corvette Res.	1-0
Adv. Magnesium	1-0	Ausdrill Ltd	6-0	Boral Limited	2-0	Chameleon Min.	4-0	Costarella Des.	2-0
Advanced Engine	4-0	Ausmelt Ltd	1-0	Botswana Metals	7-0	Chandler McLeod	1-0	Count Financial	11-0
Advance Energy	1-0	Aussie Q Res.	1-0	Bow Energy Ltd	15-0	Charter Pacific	5-0	Coventry Group	7-0
Aequus Capital	2-5	Austock Group	2-0	Bowen Energy	1-0	Charter Hall GR	6-5	Crane Group	0-1
Aevum Ltd	4-0	Aust Leaders Fd	1-0	Bradken Ltd	4-0	Chesser Res.	1-0	Credit Corp	5-1
African Energy	5-0	Aust Pharm. Ind	7-0	Brand New Vint.	2-0	Cheviot K Vine.	1-0	Crescent Gold	2-0
Agenix Limited	4-1	Aust Wealth Mgt	2-0	Brandrill	9-0	Cheviot Bridge	3-0	Cromwell Group	7-0
Ainsworth Game	2-0	Australis Aqua.	5-0	Bravura Sol.	2-0	China Y Copper	6-0	Crown Ltd	1-0
Albidon Ltd	1-0	Austar United	1-2	Breakaway Res.	4-0	China Century	8-0	CuDeco Ltd	1-0
Alchemy Res.	3-0	Aust Power Gas	9-1	Bremer Park Ltd	1-0	Choiseul Inv.	2-0	Cummins Corp Ltd	1-0
Alchemia Ltd	4-0	Aust Infra.	9-0	Brickworks Inv.	9-0	Chrome Corp Ltd	3-1	Cumamona En.	1-0
Ale Property	3-0	Austin Eng.	1-0	Brickworks Ltd	4-2	Circadian Tech	2-0	Customers Ltd	11-0
Alesco Corp Ltd	6-0	Aust Mines Ltd	2-0	Brierty Ltd	7-0	Citigold Corp	1-0	Cyclopharm Ltd	0-1
Alkane Explor.	1-0	Aust Education	6-0	Buccaneer En.	2-0	City Pacific	4-0	Cypress Lakes	1-0
Allco Finance	1-0	Aust Foundation	2-0	Buderim Ginger	1-0	City View	0-1	D'Aguiar Gold	1-0
Allco Eq Part.	3-0	Aust Enh Income	1-0	Buka Gold Ltd	1-0	Clancy Expor.	2-0	DKN Financial	1-0
Allco Hit Ltd	3-0	Aust Gold Ltd	2-0	Bunnings W/hse	2-0	Clean Seas Tuna	1-0	DUET Group	3-0
Allied Brands	3-0	Aust W'wide Exp	0-1	Burleson Energy	3-0	Clime Inv Mgmt	6-0	DWS Adv Bus Sol	3-0
Allied Gold Ltd	2-1	Auth Invest Fd	1-0	Buru Energy Ltd	3-0	Clime Capital	1-2	Danks Holdings	0-1
Altera Capital	3-0	Automotive Hold	2-0	C.S.R. Ltd	3-0	Clinovel Pharm.	1-0	Dark Blue Sea	3-0
Altium Limited	5-0	Autodom Limited	1-0	CBD Energy Ltd	1-0	Clive Peeters	1-0	Datadot Tech.	1-0
Alumina Ltd	2-0	Auto Technology	1-0	CGA Mining Ltd	0-4	Cloncurry Metal	2-0	Datasquirt Ltd	1-0
Amadeus Energy	5-0	Avalon Minerals	3-0	CI Resources	5-0	Clough Limited	6-0	Deep Yellow Ltd	1-2
Amalgamated Hld	4-2	Avastra Sleep	4-0	CMA Corporation	2-1	Clover Corp.	3-0	Destra Corp Ltd	3-0
Ambition Group	8-0	Avita Medical	2-0	CMI Limited	21-0	Coalworks Ltd	1-0	Devine	9-0
Amcom Telecom.	2-3	Aviva Corp Ltd	0-1	CO2 Group Ltd	6-3	Coal of Africa	3-0	Dexion Ltd	3-0
Amex Resources	1-0	Avoca Resources	2-0	CPI Group	1-0	Cobar Cons Res.	1-0	Diatreme Res.	2-0
Analytica Ltd	0-2	Axiom Mining	2-0	CSG Ltd	3-1	Coca Cola Amatil	0-1	Dioro Explor.	1-0
Andean Res.	3-2	Axiom Property	3-0	CSL Limited	2-0	Cochlear Ltd	3-0	Div. United Inv	3-0

Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers
Djeriwarh	3-0	Ferrowest Ltd	1-0	Hastie Group	7-0	Jatoil Limited	1-0	Magna Metals	1-0
Dolomatrix Intl	5-0	Fiducian P Serv	3-0	Hast Div Util	1-0	Jetset Travel	2-0	Malagasy Min.	2-0
Domino's Pizza	0-5	Finbar Group	14-0	Hastings Hi-Yld	6-0	Jindalee Res.	1-0	Manas Resources	1-0
Downer EDI Ltd	9-0	Finders Res.	1-0	Havilah Res.	9-0	Joyce Corp.	3-0	Manacomm Corp.	2-0
Dragon Mountain	3-0	Findlay Sec.	3-1	Headline Group	8-0	Jumbuck Enter.	7-0	Mantle Mining	7-0
Dragon Mining	1-0	Firestone En.	3-0	HealthLinx Ltd	1-0	Jupiter Mines	1-2	Marbletend Grp	8-0
Drake Resources	3-0	Firstfolio Ltd	1-0	Hedley L&G Prop	3-0	K&S Corporation	6-0	Marengo Mining	5-0
Drillsearch	6-0	First Aust Res.	0-1	Helix Resources	7-0	K2 Asset Mgmt	3-0	Marine Produce	2-0
Dulhanty Power	1-0	Fission Energy	3-0	Helicon Group	1-0	KLM Group Ltd	1-0	Marion Energy	1-0
Dyesol Ltd	2-0	Flat Glass Ind.	9-0	Herald Resource	1-0	KL Technology	1-0	Mariner Pipe In	1-0
Dynasty Metals	1-0	Fleetwood Corp	0-5	Heron Resources	4-0	Kagara Ltd	2-1	Mariner Fin.	2-0
E & A Limited	11-0	Flexicorp Ltd	3-0	Highland Pac.	6-0	Kairiki Energy	1-0	Matilda Mineral	1-0
E-Bet Limited	11-0	Flinders Mines	3-0	Hill End Gold	1-0	Kal-Boulder Res	0-1	Matrix Metals	6-1
E-pay Asia Ltd	7-0	Fluorotechnics	1-0	Hillcrest Litig	5-0	Karmelsonix Ltd	2-0	Maverick Energy	4-0
ETT Ltd	1-0	Focus Minerals	5-0	Hillgrove Res.	3-1	Kasbah Resource	1-0	Mawson West Ltd	10-0
Eagle Nickel	3-0	Folkestone Ltd	4-0	Hitech Energy	0-3	Kentor Gold Ltd	3-0	Maxi TRANS	3-0
Eagle Eye Metal	1-0	Forest Place Gr	1-0	Hodges Res.	5-0	Key Petroleum	1-0	McPherson's Ltd	5-0
East Energy Res	1-0	Forge Group Ltd	1-0	Horizon Oil Ltd	7-0	KeyBridge Cap'l	4-0	Medical Therapy	4-0
East Coast Min.	4-0	Forte Energy NL	2-0	Hudson Res. Ltd	12-0	Kings Minerals	2-0	Medivac Ltd	1-0
Eastern Corp	1-0	Fortescue Metal	0-2	Huntley Invest	1-0	Kip McGrath EC	1-0	Medic Vision	1-0
Echo Resources	2-0	Foster's Group	1-0	Hunter Hall Int	10-15	Konekt Limited	2-0	Medical Dev Int	5-0
Eden Energy Ltd	0-1	Frankland Olive	1-0	Hunter H Global	1-0	Koon Holdings	2-0	Medtech Global	2-0
Eftel Ltd	5-0	Freedom Nut'l	9-0	Hutchison Tel.	1-0	Korab Resources	2-0	Melbourne IT	7-0
Electrometals	10-0	Funtastic Ltd	1-0	Hydromet Corp.	1-4	Korvest Ltd	1-0	Mercury Brands	1-0
Elixir Petrol.	1-0	G.R.D. NL	7-0	Hydrotech Int'l	4-0	Kresta Holdings	5-0	Merchant House	2-0
Elk Petroleum	10-0	G.U.D. Holdings	2-0	Hyperion Flag.	9-0	Kuth Energy Ltd	1-0	Mermaid Marine	1-0
Ellex Medical	1-0	GBST Holdings	11-0	Hyro Limited	6-0	L&M Petroleum	1-0	Mesoblast Ltd	2-1
Embelton Ltd	1-0	GEO Property	3-0	I-Cash Payment	0-1	Labtech Systems	2-3	Metals Finance	8-0
Emeco Holdings	5-1	GME Resources	3-0	IBA Health Grp	1-0	Lachlan Star	3-0	Metal Storm Ltd	1-0
Emerald Oil & G	2-0	GTI Resources	2-0	IM Medical Ltd	2-1	Lakes Oil NL	1-0	Metabolic Phar.	1-0
Emerson Stewart	1-0	GWA Internat'l	2-1	IMD Group	7-0	Landmark White	3-0	Meteoric Res.	1-0
Emerg. Leaders	2-0	Gage Road Brew.	3-0	IMX Resources	5-0	Laserbond Ltd	1-0	Metroland Aust	3-0
Emmerson Res.	2-0	Gale Pacific	4-0	ING Real Estate	3-0	Lefroy Res.	5-0	Midwest Corp	0-3
Empire Sec.	1-0	Galileo Japan	17-0	ING Priv Equity	3-0	Legacy Iron Ore	2-0	Mikoh Corp.	1-0
Empire Oil, Gas	0-1	Gas2Grid Ltd	1-0	ING Indust Trt	1-0	Legend Corp.	1-0	Millennium Min.	1-0
Emu Nickel NL	2-0	Genesis Bio.	2-0	ING Office Fund	1-2	Leighton Hold	6-2	Millepede Int'l	4-0
Encounter Res.	2-0	Genera Bio.	2-0	ING Retail E.E.	2-0	Lend Lease Corp	1-0	Mina Resource	13-0
Energy One Ltd	1-0	Geodynamics Ltd	2-0	IPGA Ltd	1-0	Liberty Res.	4-0	Mincor Resource	3-0
Enerji Ltd	0-1	Geopacific Res.	1-0	ISS Group Ltd	0-2	Life Therapeut.	1-0	Mindax Limited	10-2
Energy Ventures	1-0	Gindalbie Met.	6-0	IT & e Limited	2-0	Lihir Gold Ltd	6-0	Minemakers Ltd	3-2
Energy World	1-0	Glengarry Res.	4-0	ITL Limited	3-0	Linc Energy Ltd	3-5	Mineral Res.	1-0
Entek Energy	11-0	Global Nickel	1-0	ITX Group	3-0	Lindsay Aust	1-0	Mineral Commod.	5-0
Entellect Soln	1-0	Global Health	4-1	Icon Resources	4-0	Linq Resources	4-0	Minerals Corp.	7-0
Enterprise Met.	1-0	Global Con Serv	2-0	Icon Energy	1-0	Lion Selection	4-1	Mining Projects	2-0
Environment Grp	1-0	Global Mining I	4-0	iiNet	0-1	Liq Natural Gas	0-2	Mint Wireless	2-0
Environ. Clean	1-0	Gloucester Coal	7-0	Iluka Resources	1-0	Little World B.	15-0	Mintails Ltd	8-0
Envirogold Ltd	4-0	Golden West Res	6-1	Image Resources	6-0	Living Cell T.	0-2	Mirrabooka Inv.	4-0
Envirozel Ltd	18-0	Golden Rim Res.	1-0	Impedimed Ltd	3-0	Living Leisure	0-1	Mirvac Group	1-0
Enviromission	1-0	GoldLink Income	1-0	Impress Energy	14-0	Lodestar Min.	3-0	Mitchell Comm.	5-0
Epsilon Energy	3-0	Golden State	4-0	Imugene Ltd	2-0	Logicamms Ltd	3-0	Mobi Ltd	3-0
Equatorial Coal	4-0	Goldminex Res.	0-1	Incitec Pivot	4-0	London City Eq.	2-0	Moby Oil & Gas	5-0
Equinox Min.	7-0	Goodman Fielder	1-0	Incremental Pet	3-0	Ludowici Ltd	6-0	Molopo Aust	1-0
Equity Trustees	1-0	Grand Gulf En.	6-0	Ind Minerals	3-0	Lumacom	2-0	Moly Mines Ltd	0-1
Eromanga H/C	2-0	Grange Resource	5-0	Independ. Group	2-1	Luminus Systems	0-2	Monax Mining	1-0
Esplanade Prop.	1-3	Graynic Metals	1-0	India Resources	3-0	Lycopodium Ltd	3-1	Monarch Gold M.	2-0
Essa Australia	1-0	Great Southern	1-0	Indo Mines Ltd	0-1	Lynas Corp Ltd	1-0	Monaro Mining	3-0
Essential Pet.	1-0	Greenland Min.	10-0	Industrea Ltd	2-0	MCM Entertain.	4-0	Momodaphous Gr	3-0
European Gas	1-0	Green Rock En.	1-0	Infomedia Ltd	1-0	MDS Financial	1-0	Mooter Media	1-0
Eurogold Ltd	2-0	Greencap Ltd	3-0	Ingena Group	1-0	MEO Australia	6-1	Morning Star	0-1
Every Day Mine	6-1	Greencross Ltd	2-0	Insurance Aust.	4-0	Mac Services	0-1	Morn. Star Gold	3-0
Excalibur Min.	1-0	Gryphon Mineral	3-0	Intermoco Ltd	5-0	Mac. Harbour M.	1-0	Mortgage Choice	1-0
Exco Resources	2-0	Gt Bendigo Gold	1-0	Intermin Res	6-0	Mac Mahon Hold	5-0	Mt Burgess Min.	2-0
Exoma Energy	1-0	Gt Western Exp.	2-0	Intrapower Ltd	0-2	Macarthur Cook	5-0	Mt Magnet South	5-0
Eyecare Partner	2-0	Gujarat NRE Min	9-0	Inventis Ltd	3-0	Macarthur Coal	2-1	Multiplex Acum.	3-0
Ezenet Limited	1-0	Gulf Mines Ltd	1-0	Invocare Ltd	0-3	Macarthurcook P	1-0	Multi Channel S	1-0
F.F.I. Holdings	1-0	Gulf Resources	3-0	Iress Mkt Tech	4-0	Macquarie Media	7-0	Mutiny Gold Ltd	1-0
FCPB Invest.	1-0	Gullewa Ltd	1-0	Ironbark Cap.	0-1	Macquarie Group	3-0	My Net Fone Ltd	1-0
FKP Limited	5-0	Gunns Ltd	4-1	Iron Road Ltd	1-0	Macquarie Air.	2-0	NGM Resources	6-0
Fairfax Media	2-0	Gunson Res.	3-0	Iron Ore Hold.	1-0	Macquarie Radio	1-0	NRW Holdings	8-0
Fairstar Res.	3-0	HFA Holdings	2-0	Iron Mountain	2-0	Macquarie C'Wde	5-0	NSL Health Ltd	1-0
Falcon Minerals	4-0	HGL Limited	4-0	JB Hi-Fi Ltd	1-2	Macquarie DDR	12-0	NSX Limited	3-1
Fantastic Hold.	3-0	Halcygen Pharm.	4-0	JV Global Ltd	8-0	Macquarie Off.	1-0	Namoi Cotton	1-0
Farm Pride Food	4-0	Hamilton James	1-0	Jackson Mineral	3-0	Macquarie Infra	3-0	Nanosonics Ltd	1-0
Fat Prophets	2-3	Hannans Reward	3-0	Jackgreen Ltd	4-0	Magellan Flag.	16-0	Nat'l Aust Bank	5-1
Ferrus Ltd	1-0	Harvey Norman	3-1	James Hardie	2-0	Magellan Fin Gp	5-0	Nat'l Can	1-0

Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers
NatasaMining	3-0	Pike River Coal	1-0	RichfieldGroup	2-0	StirlingProd.	1-0	Transfield S In	9-0
NationalHire	3-0	PioneerNickel	1-0	Ridley Corp.	13-0	Stockland	2-0	TransurbanGrp	7-1
NaturalFuel	3-0	Pipe Networks	2-0	Rivercity M'way	1-0	Strat. Energy	1-0	Transit Hold.	1-0
Navitas Ltd	3-0	Plan B Group	3-0	Riversdale Min.	0-2	Strathfield Grp	7-0	TransPacific In	2-0
NeptuneMarine	3-0	Planet Gas Ltd	1-0	RobustResource	4-0	Straits Res.	0-2	Treasury Group	5-0
Netcomm Limited	1-0	Platinum Aust	2-1	Rock Oil Company	4-2	Strategic Min.	1-0	Trinity Group	15-1
New Hope Corp.	9-0	Platsearch NL	1-0	Rocklands Rich.	3-0	Strike Res.	2-0	Trojan Equity	4-0
NewcrestMining	1-0	Platinum Cap'l	2-0	Rockeby Biomed	1-0	Structural Syst	4-0	Troy Resources	3-0
Newera Uranium	5-0	Pluton Resource	3-0	Ross Human Dir.	1-0	Style Limited	16-0	Truscott Mining	1-0
Nexus Energy	4-0	Po Valley Ener.	2-1	Rox Resources	2-0	Sub-Sahara Res.	1-0	Trust Company	4-1
Nib Holdings	7-0	Polartechnics	1-0	Royalco Res.	2-0	Sundance Energy	1-0	UCMS Group Ltd	4-0
Nick Scali Ltd	2-0	Polaris Metals	8-0	Royal Resources	2-1	Sunland Group	2-0	Undercoverwear	2-0
Nomad Building	6-2	Portland Ortho.	1-0	Rubicon Europe	1-0	Sunset Energy	3-0	Unilife Medical	1-0
Noni B Limited	2-0	Port Bouvard	5-0	Rubicon Res.	1-0	Sunshine Gas	1-0	United Overseas	4-0
Norfolk Group	1-0	Praemium Ltd	6-0	Rubicon Group	2-0	Sunshine Heart	2-0	United Group	1-2
Northern Energy	4-0	Premier Invest	3-0	Rubicon Japan	1-0	Superior Res.	1-0	United Oregon	1-0
North Aust Diam	4-1	Primeag Aust.	5-1	Rubicon America	1-0	Supply Network	2-0	United Minerals	4-2
Northern Iron	3-0	Primary Health	12-1	Runge Ltd	10-0	Swick Min Serv	4-0	Universal Res.	0-1
Northern Mining	3-2	Prime Media Grp	13-0	Ruralco Hold.	5-1	Swish Group	1-0	Uramet Minerals	1-0
Novogen Ltd	2-0	Pro-Pac Pack.	4-1	Ruralaus Invest	4-0	Sylvastate Ltd	2-0	Uranium Equitie	5-0
Nth Qld Metals	1-0	Probiotec Ltd	2-0	Rusina Mining	3-0	Symex Holdings	23-0	Uranex NL	3-0
Nthn Star Res.	2-0	Progen Pharm.	1-0	S/Tracks Prop.	0-2	Syndicated Met.	2-0	Uscom Limited	2-0
Nufarm Limited	2-0	Prophecy Int'l	3-0	S/Tracks ASX 50	0-2	Synergy Metals	2-0	VDM Group Ltd	5-0
Nullarbor Hold	1-0	Proto Resources	13-0	S/Tracks ASX200	0-2	Synergy Equity	2-0	Valad Property	9-0
Nusep Ltd	6-0	Pryme Oil & Gas	4-0	SAI Global Ltd	2-0	Syngas Ltd	1-0	Ventracor Ltd	0-1
Nylex Ltd	3-1	Public Holdings	6-2	SP Ausnet	1-2	TFS Corporation	7-3	Venus Resources	3-0
OM Holdings	2-0	Q Ltd	1-0	SPTelemedia	5-0	TNG Limited	5-4	Verticon Group	5-0
OZ Minerals Ltd	4-1	Q'ld Trustees	5-0	STW Comm Group	1-0	TSV Holdings	1-0	Victoria Petrol	3-0
Oaks Hotel	1-0	Q-Mastor Ltd	4-0	Saferoads Hold.	1-0	TTA Holdings	1-0	Viento Group	1-0
Occupational Md	0-1	Q.B.E. Insur.	2-1	Salinas Energy	1-0	TZ Limited	6-0	View Resources	1-0
Ocean Capital	3-0	QRSciences Hold	7-0	Salmat Ltd	7-0	Tabcorp Holding	1-0	Village Road.	10-1
Odin Energy Ltd	1-0	QRXPharma Ltd	3-0	Sam's Seafood	1-0	Takoradi Ltd	1-0	Virax Holdings	3-0
Oil Basins Ltd	1-0	Qantas Airways	3-1	Samson Oil/Gas	2-0	Talent2 Int'l	2-1	Virgin Blue	2-0
Oil Search Ltd	1-0	Quantum Energy	3-0	Sandfire Res.	2-0	Talisman Mining	3-0	Vita Group Ltd	4-0
Oldfields Hold	4-0	Quay Magnesium	2-0	Saunders Int'l	1-0	Tamawood Ltd	2-0	Vmoto Ltd	1-0
Olympia Res.	0-1	Queensland Gas	3-1	Savcor Group	9-0	Tamaya Res.	1-0	Vulcan Res.	1-0
Orbital Corp	5-0	Queensland Ores	4-0	Scantech	1-0	Tanami Gold NL	5-0	W'bool Cheese	3-0
Orchard Indust.	1-0	Queste Comm's	1-0	Scimitar Res.	3-0	Tandou Ltd	8-0	WAG Limited	1-0
Orient Res Hold	1-0	Questus Ltd	3-0	Sedgman Ltd	4-1	Tap Oil	0-3	WAM Active Ltd	8-0
Oriental Tech.	1-0	Quest Investm't	0-1	Segue Resources	5-0	Tasman Resource	1-0	WDS Limited	6-1
Origin Energy	4-1	Quickflix Ltd	3-0	Select harvest	2-0	Tasmanian Perp	2-0	WHL Energy	3-0
Orion Petroleum	3-0	RCG Corporation	1-0	Servcorp Ltd	4-0	Tassal Group	5-0	Watpac Ltd	6-0
Orocobre Ltd	1-0	RCR Tomlinson	5-1	Service Stream	8-1	Tatts Group Ltd	0-4	Wattyl Ltd	2-1
Oropa Limited	6-0	RIM Capital Ltd	3-0	Seven Network	2-1	Tawana Resource	1-0	Wavenet Int'l	7-0
Over Fifty Grp	4-0	RR Australia	5-1	Shaw River Res.	2-0	Technology One	0-1	Webster Ltd	1-0
Oz Brewing Ltd	1-0	Ramsay Health	0-1	Shield Mining	2-0	Technic Ltd	1-0	Webspy Limited	1-0
PMP Limited	0-3	Rawson Res.	1-2	Signature Metal	3-0	Tectonic Res.	5-0	Wellcom Group	1-0
Pac Environment	1-0	Real Brands	3-0	Silex Systems	0-3	Teleton Limited	4-0	Wentworth Hold.	3-0
Pac. Enviromin	3-0	Reckson NY Prop	2-0	Silver Lake Res	3-0	Telstra	1-0	Wesfarmers Ltd	2-1
Pacific Ore Ltd	1-0	Reclaim Indust.	1-0	Silver Swan Grp	4-0	Templeton Globa	0-1	Western Plains	1-0
Pacific Brands	1-0	Red Fork Energy	3-0	Silver Chef Ltd	2-0	Terramin Aust	2-0	West Wits Min.	1-0
Pacific Energy	1-0	Red Emperor Res	1-0	Sims Metal Mgmt	3-7	Territory Res.	3-0	Western Desert	4-0
Pacrim Energy	2-0	Red 5 Ltd	1-0	Sinovus Mining	1-0	Terrain Mineral	1-0	West'n Metals	3-0
Paladin Energy	3-0	Red Hill Iron	17-0	Sino Gold Min.	0-2	Thakral Holding	1-0	Western Areas	9-5
Paladio Group	17-0	Redflex Holding	5-2	Skilled Group	1-0	The Reject Shop	2-4	Westfield Group	1-0
Pan Pacific Pet	7-0	Redisland Aust.	1-0	Slater & Gordon	0-3	Thinksmart Ltd	6-0	White Cliff Nkl	2-0
Panax Geotherm.	6-0	Reece Australia	1-0	Snowball Group	1-0	Thomas & Coffey	3-0	Whitehaven Coal	3-0
Panaust Ltd	0-1	Reed Resources	6-1	Solagran Ltd	4-0	Thundelarra Exp	6-2	White Energy Co	0-1
Panoramic Res.	2-0	Reef Casino Trt	0-1	Solco Ltd	1-0	Tiaro Coal Ltd	3-0	Whitefield Ltd	1-0
Paperlin X Ltd	5-1	Regal Resources	1-0	Somnomed Ltd	3-0	Tiger Resources	1-0	White Canyon Ur	1-0
Patties Foods	10-0	Regis Resources	8-0	Sonic Health	0-5	Timbercorp Prim	1-0	Wide Bay Aust.	2-0
Payce Consol.	1-0	Regional Exp.	5-0	Soul Pattinson	8-0	Timbercorp	3-0	Willmott Forest	4-0
Pearlstreet Ltd	2-1	Renison Cons	2-0	Souls Priv Equ	1-0	Tishman Speyer	5-0	Wilson HTM Inv.	4-0
Pelorus Prop.	5-0	Repol Ltd	1-0	Spark Infrastru	0-1	Tissue Therapy	1-0	Windimurra Van.	2-0
Penrice Soda	2-0	Republic Gold	0-1	Spec Fashion	3-0	Tolhurst Noall	1-0	Windy Knob Res.	2-0
PeopleBank Aust	5-0	Res & Invest NL	2-0	Spitfire Res.	7-0	Toll Holdings	6-0	Wolf Minerals	2-0
Perpetual Ltd	4-0	Resource Base	1-0	Spotless Group	2-0	Top End Uranium	2-0	Woodside Petrol	1-2
Perseus Mining	2-0	Resonance Hlth	3-0	St Barbara Ltd	0-3	Toro Energy Ltd	2-0	Woolworths Ltd	1-0
Pharmaust Ltd	4-1	Resources Min.	1-0	Starpharma Hold	9-0	Torrens Energy	1-0	Worley Group	2-1
Pharmaxis Ltd	1-0	Resource Gener.	2-0	Stem Cell Sci.	0-1	Total Staffing	1-0	Wotif.com Hold.	6-0
Phoenix Copper	4-0	Retail Food Grp	3-0	Sth Cross Elect	1-0	Tower Australia	1-2	XRF Scientific	3-0
Phoslock Water	1-0	Reward Minerals	5-3	Sth Boulder Min	0-1	Tox Free Sol.	0-1	Xstate Res.	2-0
Phosphagenics	1-0	Rey Resources	0-1	Sthn Uranium	1-0	Trafalgar Corp.	1-0	YTC Resources	2-0
Photon Group	11-0	Rheochem plc	0-1	Sthn Cross Gold	2-0	Tranzact Fin.	12-0	Zicom Group	13-0
Phylogica Ltd	1-0	Richmond Mining	1-0	Stirling Min.	2-0	Transfield Serv	8-0		

# “Insider” Trades in NZ Shares

The table below shows the number of Purchases and Sales of a company's shares by its Directors over the last twelve months (excluding “Neutral” situations where the number of Buyers and Sellers were equal). Shares where many “insiders” have been buying can outperform the market for up to two years, while shares where many “insiders” have sold can under-perform for a similar period.

## “Insider” Indicators

Last 5 wks: 81.8% Buyers

Last 13 wks: 78.2% Buyers

Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers	Company	Insider Buyers-Sellers
TrustPowerLtd	0-1	ContactEnergy	1-0	Just Water Int.	6-0	PlusSMSHold.	1-3	Sky City Ltd	2-0
AMPOnyxMgmt	3-0	CynotechHold.	2-0	KiwiProperty	3-0	PumpkinPatch	3-1	Sol.Dynamics	0-1
AMPLimited	4-0	DominionFin.	1-0	LifePharmacy	0-1	PyneGouldCorp	3-0	TeamTalkLtd	0-1
AffooHoldings	3-1	DorchesterPac	9-0	LivestockImp.	2-0	RakonLtd	1-3	TelecomCorp	6-9
AirNewZealand	6-1	EbosGroupLtd	1-0	MainfreightGrp	0-9	Renaissance	9-0	TowerLimited	2-0
AkdIntAirport	2-1	F&PAppliance	2-0	MethvenLimited	1-0	RestaurantBrds	1-0	TurnersAuction	5-0
AlliedWork.	1-0	F & P Health.	2-3	MowbrayCollect	0-5	RubiconLimited	6-0	VectorLtd	1-0
AppleFields	1-0	GuocoLeisure	10-0	NZFarmingSys.	15-0	RymanHealth.	2-0	WakefieldHlth	1-4
CavotecMSL	1-0	HallensteinG.	3-0	NZFinanceHold	1-0	SalvusStrat.	0-1	WarehouseGroup	0-3
CertOrganics	0-1	HellabyHold.	12-0	NZOil & Gas	1-0	Scott Tech. Ltd	4-0	WindflowTech.	1-0
Charlie'sGroup	1-0	INGProperty	5-0	NZRefiningCo	1-0	SeekaKiwifruit	1-0	XeroLtd	5-0
ColMotorCo	4-0	INGMed.Prop.	3-0	PGGWrightsons	13-0	SkellerupHold.	8-0	ZintelComm.	2-0
Comvita	2-0	InfratilNZ	10-2	PikeRiverCoal	3-0	SkyNetworkTV	2-0		

## Investment Outlook

(Continued from Page 1)

the situation. Things are often quicker and more volatile today.

Even back in the 1930's, however, when (we all assume) things happened at a more leisurely rate, over *half* of the 1932-37 recovery occurred within the first 12 months . . . and with extreme volatility! Share prices *doubled* in just two months, then retraced three-quarters of that advance, falling nearly 40% over the next six months. Shares then more than doubled again over the next four months, ending the first year of the recovery up 2½-fold in value.

Accurately predicting such volatile market movements is clearly impossible . . . and would actually be of little real value owing to the low turnover and wide bid-offer spreads common at a market low. Trying to quickly invest sizeable amounts of cash in that situation is impossible without pushing prices up significantly.

What we do know is that share valuations today are similar to the 1930's. Some shares trade for less than their cash in the bank. Many trade on single digit P/E ratios and double digits Yields. The economic situation - while nowhere near as serious as the 1930's - at least has some similarities. Investors worry whether companies will ever become profitable, or even survive the economic storm. This is probably as close to the conditions experienced during the 1932-37 stockmarket boom that we are ever likely to get. History teaches us that 1932-37 was the *best time ever* to be invested in shares.

Shares valuations are just far too low to ignore. From these low levels, shares should yield far above average future returns even in a Depression! Remain fully invested in the recommended shares.

## Dividend\$

Company	Cents per Share	Ex-Date	Pay-able	Tax Credit
Jason Travel Media	1.50	16-01	30-01	Full
National Property Trust	1.24	19-12	08-01	Nil
Smiths City Group	1.00	05-02	13-02	Nil
<u>Australian Shares</u>				
Campbell Brothers	50.00	01-12	17-12	
M.Y.O.B.	8.15	12-01	06-12	
Technology One	2.45	01-12	19-12	

## Total Return Index for All Listed Shares

Dec 8	1390.67		
Dec 9	1399.01		
Dec 10	1396.44		
Dec 11	1396.44		
Dec 12	1397.91		
Dec 15	1383.22	Dec 22	1369.56
Dec 16	1382.94	Dec 23	1361.14
Dec 17	1387.76	Dec 24	1364.57
Dec 18	1386.88	Dec 25	Holiday
Dec 19	1376.51	Dec 26	Holiday
Dec 29	1377.61	Jan 5	1389.36
Dec 30	1373.70	Jan 6	1393.90
Dec 31	1384.27	Jan 7	1384.87
Jan 1	Holiday	Jan 8	1383.56
Jan 2	Holiday	Jan 9	1378.60

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## *Next Issue:*

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The print version will be delivered later that week, depending upon printing and postal delivery times.

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