Twenty Eight Years of Independent Information and Unbiased Advice on the Australian and NZ Stockmarkets

Market Analysis

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Inside Market Analysis

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Summary and Recommended Investment Strategy.

Widespread uncertainty and fears of a market correction suggests that investors should remain fully invested in shares at the present time. At some stage - perhaps in late 2010 when corporate profits start to recover and grow on the economic upturn - everyone will start to think it is safe to dive into the stockmarket - and *that* will be when the market will become vulnerable to a major correction.

Investment Outlook.

The Dubai Crisis caused UK and European shares to plunge 3½% in a day. This was “the biggest fall since March amid fears that a debt crisis in Dubai heralded a new phase in the global financial meltdown and a double-dip recession in 2010” - but proved our expectation that a major stockmarket correction is unlikely at this time.

As we discussed in October and November, a major correction is unlikely owing to the *liquidity* in the financial system and the *widespread expectation* of a stockmarket decline. Pessimistic investors *expecting a decline and holding cash waiting to buy* will rush into the stockmarket to pick up bargains on any weakness. UK and European stockmarkets fell sharply on day one of the “Dubai Crisis” - but that was the end of it. The next day shares recovered half of the drop as bargain hunters stepped in.

We believe investors have been pessimistic - and expecting a correction or even a decline to new lows - since June. Even in the last month we have seen media articles telling how *optimistic* investors have been, pushing shares up to unsustainable levels. It may not be immediately obvious, but that article shows the writer's *pessimism* and expectation that stockmarkets will fall sharply. *Widely held expectations never happen on the stockmarket as investors have already acted ahead of those expectations.* If shares are expected to fall, then investors will have already sold or are over-weighted in cash (and waiting to buy at lower prices).

The danger here, of course, is that sentiment will slowly change. The longer this goes on, the more investors will begin to think that the stockmarket is a one-way bet, that every dip is a buying opportunity and that share prices can only be higher by the end of the week. That is when prices will fall sharply.

We don't believe we are anywhere near that stage yet. Central banks have *(Continued on Page 12)*

Stockmarket Forecasts

	One-Month	One-Year
Australia:	**63%** (Bullish)	**63%** (Bullish)
New Zealand:	**65%** (Bullish)	**58%** (Neutral)

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
AMP Limited	B	783	4.61	23	5.7
AMP Onyx Mgmt	D	76	5.67	NE	9.1
Abano Health.	A	593	0.74	14	5.3
Affco Holdings	E	36	0.19	NE	Nil
Air New Zealand	B	121	0.28	61	7.7
Akd Int Airport	C	190	6.30	56	6.2
Allied Farmers	E	19	0.06	NE	Nil
Allied Work.	B	86	0.29	10	11.3
Apple Fields	D	5.0	1.48	3	Nil
Barramundi Ltd	C	71	N/A	NE	2.5
Blis Technology	D	12	N/A	NE	Nil
Botry-Zen Ltd	E	1.3	6.50	NE	Nil
Briscoe Group	B	118	0.64	22	5.7
Broadway Ind	E	30	0.39	NE	Nil
Burger Fuel	E	30	3.37	NE	Nil
CDL Investments	E	27	N/A	39	Nil
CER Group Ltd	E	1.0	0.53	NE	Nil
Canty Bldg Soc.	B	305	1.01	18	3.9
Cavalier Corp	A	245	0.67	12	8.7
Cavotec MSL	C	230	0.50	8	Nil
Charlie's Group	D	8.1	0.76	NE	Nil
Col Motor Co	A	260	0.15	14	8.2
Comvita	C	130	0.51	48	Nil
Connexion	D	10	0.67	NE	Nil
Contact Energy	C	580	1.25	29	6.9
Cynotech Hold.	D	12	0.69	5	16.2
Delegat's Group	B	260	1.14	9	4.4
Dominion Fin.	B	1.0	0.01	0	149.3
Dorchester Pac	C	12	0.18	NE	Nil
Eastern Hi-Fi	D	8.0	0.47	NE	Nil
Ebos Group Ltd	B	553	0.20	14	6.5
F & P Health.	C	334	3.71	27	5.5
F & P Appliance	E	58	0.18	NE	Nil
Finzsoft Sol'ns	C	17	0.18	NE	Nil
Fletcher Build.	B	778	0.66	13	6.0
Freightways Ltd	B	311	1.37	13	7.6
Genesis Res.	E	6.0	1.36	NE	Nil
Goodman Prop.	C	104	6.78	NE	10.0
Guinness Peat	C	82	0.37	NE	3.0
GuocoLeisure	B	64	1.41	8	2.5
Hallenstein G.	A	311	0.94	14	9.6
Hellaby Hold.	B	170	0.18	16	5.0
Heritage Gold *	N/R	4.0	N/A	NE	Nil
Horizon Energy	B	325	2.68	16	7.8
ING Property	C	77	3.79	NE	10.4
ING Med. Prop.	C	119	0.00	NE	7.1
Infratil NZ	D	163	0.49	NE	5.7
Inv Research Gr	E	1.6	0.62	NE	Nil

	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
Jasons Media	C	55	0.80	11	4.1
Just Water Int.	D	33	0.77	16	16.7
Kathmandu Ltd	D	208	N/A	NE	Nil
Kermadec Prop.	C	53	3.14	NE	9.4
Kingfish Ltd	B	92	N/A	NE	4.9
Kirkcaldie & St	A	265	0.59	23	5.6
Kiwi Property	D	103	4.41	NE	8.9
Life Pharmacy	E	35	3.26	NE	Nil
Livestock Imp.	A	306	0.68	4	20.4
Lombard Group	D	6.1	0.80	NE	Nil
Lyttelton Port	B	240	2.91	24	2.9
Mainfreight Grp	A	565	0.44	16	4.9
Marlin Global	C	83	N/A	14	3.4
Media Tech.	C	2.0	0.31	2	Nil
Methven Limited	B	170	0.82	11	10.3
Metro. LifeCare	C	238	4.98	NE	Nil
Michael Hill	C	63	0.58	14	4.7
Mid-Cap Index	C	216	N/A	NE	Nil
Millennium & C.	C	40	1.13	8	4.5
Mowbray Collect	D	100	2.67	NE	Nil
NZ Exchange Ltd	A	875	7.30	23	3.6
NZ Experience	B	27	1.13	11	11.9
NZ Farming Sys.	E	47	4.69	NE	Nil
NZ Finance Hold	D	25	0.49	NE	Nil
NZ Oil & Gas *	N/R	172	4.81	13	4.2
NZ Refining Co	B	400	2.82	9	16.8
NZ Windfarms	E	47	9.59	NE	Nil
NZ Wool Service	E	16	0.07	NE	Nil
NZ Wine Company	B	185	1.28	13	3.1
NZSX 50 Port.	D	129	N/A	NE	Nil
NZSX 10 Fund	D	84	N/A	NE	Nil
NZX Aust MidCap	C	525	N/A	NE	Nil
Nat Property Tr	C	49	2.85	NE	10.2
New Image Group	C	63	1.49	9	3.4
Northland Port	B	175	N/A	27	4.5
Nuplex Indust	C	253	0.32	29	2.0
Opus Int'l Cons	D	161	N/A	NE	Nil
Oyster Bay	C	206	1.57	12	4.9
Ozzy (Tortis)	C	355	N/A	NE	Nil
PGG Wrightsons	E	60	0.15	NE	Nil
Pac Edge Bio.	D	23	N/A	NE	Nil
Pike River Coal	E	100	N/A	NE	Nil
Plus SMS Hold.	C	0.5	0.36	NE	Nil
Port Tauranga	B	685	6.39	20	5.6
Postie Plus Grp	C	40	0.14	26	Nil
Propertyfinance	D	10	0.16	NE	Nil
Property F Ind.	D	119	7.79	NE	6.0
ProvencoCadmus	D	3.5	0.04	NE	Nil

	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
Pumpkin Patch	C	203	0.82	NE	4.6
Pyne Gould Corp	D	46	0.31	NE	Nil
Rakon Ltd	E	115	1.05	33	Nil
Renaissance	C	22	0.05	3	20.4
Restaurant Brds	A	155	0.49	18	6.7
Rubicon Limited	D	90	0.45	NE	Nil
Ryman Health.	B	207	N/A	16	2.1
Salvus Strat.	C	75	N/A	NE	Nil
Sanford Limited	D	484	1.23	23	6.8
Satara Co-op	D	65	0.18	5	Nil
Savoy Equities	D	0.4	N/A	NE	Nil
Scott Tech. Ltd	C	135	1.14	11	10.0
Sealegs Corp	D	22	1.49	NE	Nil
Seeka Kiwifruit	B	315	0.37	10	5.7
Skellerup Hold.	D	50	0.42	8	7.1
Sky City Ltd	B	332	2.28	17	6.7
Sky Network TV	B	485	2.73	21	4.1
Smartpay NZ Ltd	C	4.2	0.31	NE	Nil
Smiths City	C	31	0.07	16	6.5
Sol. Dynamics	C	50	0.49	NE	Nil
South Port NZ	B	265	3.56	21	5.5
Speirs Group	D	35	0.32	NE	Nil
Steel & Tube	C	275	0.50	9	9.9
Sthn Travel	C	19	0.14	NE	Nil
Tag Pacific Ltd	B	27	0.17	13	3.5
Taylors Grp Ltd	A	220	0.76	12	8.4
TeamTalk Ltd	A	230	1.52	12	12.4
Telecom Corp	C	235	0.78	11	10.2
Tenon Ltd	E	90	0.12	NE	Nil
Tourism Hold.	C	73	0.42	NE	Nil
Tower Limited	A	195	0.76	11	4.6
Training Sol.	E	0.1	5.00	NE	Nil
Trust Power Ltd	C	725	2.91	22	6.8
Turners Auction	B	123	0.43	31	3.5
Turners & Grow.	C	160	0.28	12	9.3
VTL Group Ltd	C	1.5	0.01	0	Nil
Vector Ltd	C	194	1.65	11	10.1
WN Drive Tech.	E	8.9	2.63	NE	Nil
Wakefield Hlth	B	795	1.31	11	4.7
Warehouse Group	B	415	0.75	17	7.2
Widespread Port *	N/R	14	N/A	NE	Nil
Windflow Tech.	D	146	0.55	NE	Nil
Wool Equities	E	13	N/A	NE	Nil
World Index Fd	D	105	N/A	NE	Nil
Xero Ltd	C	160	N/A	NE	Nil
Zintel Comm.	B	39	0.50	9	11.5
Ave of 142 Cos	**C**	161	0.00	6	5.0

	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
AGL Energy Ltd	B	1363	1.03	8	4.0
AMP Ltd	B	623	4.32	21	6.1
ANZ Bank	B	2130	3.47	35	4.8
APA Group	A	325	1.71	21	3.6
APN News Media	B	225	0.92	NE	10.0
ASX Limited	A	3375	6.92	18	4.9
AWE Limited	B	271	2.39	16	Nil
AXA Asia Pac	B	582	1.65	NE	3.2
Adelaide Bright	A	257	1.39	12	5.8
Alumina Ltd	B	157	N/A	11	7.7
Amalgamated Hld	B	553	1.05	11	5.8
Amcor Ltd	B	616	0.59	26	5.5
Andean Res.	D	254	N/A	NE	Nil
Aneka Tambang	C	106	N/A	NE	11.4
Ansell Ltd	B	1031	1.03	12	2.7
Aquarius Plat.	D	621	7.24	NE	Nil
Aquila Res.	C	913	N/A	NE	Nil
Argo Investment	C	660	N/A	NE	4.1
Aristocrat Leis	B	385	1.62	17	6.2
Arrow Energy	C	389	N/A	8	Nil
Asciano Group	E	177	0.72	NE	Nil
Australand Prop	B	50	1.10	5	22.2
Austar United	D	130	N/A	NE	Nil
Aust Foundation	B	517	N/A	49	4.1
Aust Infra.	B	173	8.54	10	7.5
BHP Billiton	A	4050	2.18	NE	2.5
Bank of Q'land	A	1103	1.01	16	4.7
Beach Energy	A	87	0.91	3	2.0
Bendigo Bank	A	900	0.82	16	4.8
Billabong Int'l	A	1088	1.64	18	4.1
Bluescope Steel	D	279	0.49	NE	1.8
Boart Longyear	B	36	0.26	3	8.9
Boral Limited	B	564	0.69	24	2.3
Bradken Ltd	B	710	0.74	14	5.2
Brambles Ltd	C	634	1.78	17	4.7
Brickworks Ltd	B	1236	2.77	5	3.2
C'wth Prop Off.	C	93	5.73	NE	9.2
C.S.R. Ltd	C	164	0.47	12	4.6
CFS Retail Prop	C	188	8.44	NE	6.7
CSL Limited	B	3048	3.62	16	2.3
Caltex Austrlia	B	833	0.09	12	4.3
Campbell Bros	A	2874	1.73	15	3.5
Carsales.com	B	490	N/A	95	2.7
Centamin Egypt	B	205	N/A	74	Nil
Centennial Coal	B	337	1.42	18	6.2
Chal Financial	B	405	1.11	NE	3.1
Coal & Allied	B	7800	2.49	8	7.1
CocaCola Amatil	B	1100	1.98	20	3.5
Cochlear Ltd	B	6397	5.16	27	2.7
Com'wealth Bank	A	5250	2.14	17	4.3
Computershare	B	1087	3.25	19	2.0
ConnectEast Grp	E	41	6.46	NE	Nil
Cons Media Hold	B	305	5.97	5	2.0
Crown Ltd	B	776	2.60	24	4.8
DUET Group	C	182	1.50	NE	13.3
David Jones	A	550	1.39	18	5.1
Deutsche Div Tr	A	131	6.10	14	7.1

	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
Dexus Property	C	81	4.89	NE	9.0
Djerriwarrh	C	435	N/A	NE	6.0
Downer EDI Ltd	B	850	0.48	15	3.4
Energy Resource	B	2256	8.54	19	1.2
Equinox Min.	C	412	N/A	NE	Nil
Extract Res.	D	828	N/A	NE	Nil
Fairfax Media	C	163	1.47	NE	1.2
Felix Resources	B	1691	4.40	12	3.1
Flight Centre	A	1696	0.99	44	0.5
Fortescue Metal	C	427	5.82	21	Nil
Foster's Group	B	539	2.22	24	5.1
GPT Group	D	56	2.71	NE	31.9
GWA Internat'l	B	291	1.28	18	6.2
Goodman Group	D	58	N/A	NE	16.8
Goodman Fielder	B	155	0.85	12	6.8
Graincorp	B	559	0.64	18	1.3
Guinness Peat	C	64	0.32	NE	3.2
Harvey Norman	B	420	3.10	21	2.6
Healthscope	B	477	0.74	17	4.5
Henderson Group	C	218	N/A	NE	5.7
ING Office Fund	C	57	4.36	NE	17.1
IOOF Holdings	A	568	3.53	82	0.7
Iluka Resources	B	351	2.33	22	Nil
Incitec Pivot	B	312	1.47	NE	1.4
Infigen Energy	B	133	2.43	6	6.8
Insurance Aust.	B	385	1.03	44	2.6
Iress Mkt Tech	B	773	5.71	26	4.0
JB Hi-Fi Ltd	A	2300	1.06	26	1.9
James Hardie	C	820	2.05	18	Nil
Kardoon Gas	E	820	N/A	NE	Nil
Kingsgate Cons.	A	923	7.78	27	1.6
Leighton Hold	B	3660	0.82	25	3.1
Lend Lease Grp	C	921	0.29	NE	4.5
Lihir Gold Ltd	C	324	6.70	5	Nil
MAp Group	B	268	0.93	2	10.1
Macarthur Coal	B	959	3.51	14	1.4
Macquarie Off.	C	28	3.68	NE	13.4
Macquarie C'Wde	C	57	4.01	NE	12.4
Macquarie Group	B	4789	2.63	17	3.9
Macquarie Infra	D	131	N/A	NE	15.3
Metcash Ltd	B	435	0.30	15	5.5
Milton Corp.	B	1775	N/A	32	4.4
Minara Resource	E	72	1.98	NE	Nil
Mineral Res.	A	681	3.26	19	2.8
Mirvac Group	C	146	2.43	NE	5.5
Monadelphous Gr	B	1358	1.04	16	5.4
Mt Gibson Iron	A	151	3.75	38	Nil
Murchison Metal	C	214	N/A	NE	Nil
Nat'l Aust Bank	A	2821	1.74	22	5.2
Navitas Ltd	B	388	2.82	27	3.7
New Hope Corp.	C	436	5.08	14	18.8
Newcrest Mining	B	3502	6.69	68	0.4
News Corp.	C	1620	0.34	NE	0.9
Nufarm Limited	B	1085	0.88	30	2.5
OM Holdings	B	185	1.53	8	3.5
OZ Minerals Ltd	C	120	4.24	NE	4.2
Oil Search Ltd	B	543	5.33	18	2.1

	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield
Onesteel Ltd	B	297	0.54	17	3.4
Orica Ltd	A	2528	1.23	17	3.8
Origin Energy	B	1580	1.71	26	3.2
Pacific Brands	C	124	0.58	NE	6.9
Paladin Energy	E	386	N/A	NE	Nil
Panaust Ltd	D	57	5.74	NE	Nil
Perpetual Ltd	B	3652	4.14	41	2.7
Platinum Asset	B	510	N/A	23	3.9
Premier Invest	A	828	1.43	15	6.6
Primary Health	B	564	1.83	21	2.5
Q.B.E. Insur.	B	2296	N/A	19	5.5
Qantas Airways	B	258	0.40	50	2.3
REA Group Ltd	A	853	6.47	NE	1.2
Ramsay Health	A	1081	0.59	18	3.5
Reece Australia	B	2250	1.49	23	2.3
Rio Tinto Ltd	B	7018	0.50	6	2.7
Riversdale Min.	C	639	N/A	NE	Nil
S/Tracks ASX200	B	4402	N/A	NE	4.1
SP Ausnet	B	84	1.51	12	14.2
Santos Ltd	B	1375	3.10	15	3.1
Seek Ltd	A	676	N/A	41	1.4
Seven Network	B	642	9.83	NE	5.3
Sigma Pharm.	B	95	0.28	11	7.4
Silex Systems	E	690	N/A	NE	Nil
Sims Metal Mgmt	C	2150	0.45	NE	1.8
Sino Gold Min.	C	808	N/A	NE	Nil
Sonic Health	B	1435	1.83	32	4.0
Soul Pattinson	B	1337	4.12	14	2.4
Spark Infrastru	B	128	5.63	NE	14.5
Stockland	B	392	4.83	5	8.7
Straits Res.	B	158	2.11	10	6.1
Suncorp-Metway	B	866	0.73	31	4.6
TPG Telecom Ltd	A	164	2.40	65	1.2
Tabcorp Holding	B	692	0.99	8	9.4
Tatts Group Ltd	B	238	0.93	11	8.8
Telstra	B	347	1.74	12	8.1
Ten Network	D	155	1.79	NE	Nil
Toll Holdings	B	823	1.02	22	3.0
Tower Australia	B	259	1.10	20	2.0
TransPacific In	D	132	0.48	NE	Nil
Transurban Grp	C	558	6.33	NE	3.9
Transfield Serv	B	382	0.47	13	3.1
UGL Limited	B	1332	0.46	15	4.8
Virgin Blue	C	54	0.34	NE	Nil
Wesfarmers Ltd	B	2923	0.66	22	3.8
Western Areas	E	508	N/A	NE	Nil
Westpac Banking	B	2356	4.14	55	4.9
Westfield Group	C	1192	6.32	NE	8.9
West Aust News	A	779	3.95	19	4.2
Whitehaven Coal	A	444	3.69	23	1.9
Woodside Petrol	A	4718	5.50	19	2.9
Woolworths Ltd	B	2683	0.66	18	3.9
Worley Group	A	2800	1.16	17	3.3
Wotif.com Hold.	A	654	N/A	31	2.7
Zimplats Hold.	B	1100	7.94	38	Nil
Ave of 1915 Cos	**C**	151	0.13	15	2.9

Recommended Investments

Cavalier Corporation reports earnings for the first four months of the current financial year are down 30% on last year . . . but last year started very strongly. Overall the company is budgeting for about a 6% growth in profits this year and the first four months are 5% ahead of that budget.

A steady first interim dividend of 3.0 cents (plus tax credits) has been declared.

Colonial Motor Company reports that the rising NZ dollar exchange rate has “reduced the price pressure and urgency for consumers to buy imported goods”. Over the whole NZ industry, new car sales are down 26% for the September quarter (compared with the September 2008 quarter), new light commercial vehicle sales are down 36% and heavy truck sales are down 55%. *(Continued on Page 4)*

Portfolio of Recommended Investments

CURRENT ADVICE	Company	Code	Initial Recommendation - Date -	Initial Recommendation Price	Performance Forecast	Issued Shares (mil.)	Volatility Ratio	Price/ Sales Ratio	Price/ Earnings Ratio	Gross Dividend Yield	Recent Share Price	Cash Dividends Rec'd	Total Return %
	NZ Shares												
HOLD	CDL Investments Ltd	CDI	12/01/99	25	E	243.4	1.3	15.17	39	Nil	27	17.9	+80%
HOLD+	Cavalier Corporation	CAV	05/12/95	156*	A	67.1	0.8	0.67	12	8.7	245	241.0	+212%
HOLD	Colonial Motor Company	CMO	10/11/92	150	A	27.9	0.5	0.15	14	8.2	260	353.8	+309%
HOLD	Lyttelton Port Company	LPC	12/12/00	150	B	102.3	0.7	2.91	24	2.9	240	73.3	+109%
BUY	Michael Hill Int’l Ltd	MHI	11/06/91	5*	C	382.5	0.9	0.58	14	4.7	63	27.9	+1718%
BUY	Nuplex Industries Ltd	NPX	11/02/97	131*	C	189.8	0.6	0.32	29	2.0	253	98.1	+168%
HOLD	Postie Plus Group	PPG	08/05/06	71	C	40.0	1.3	0.14	26	Nil	40	8.5	-32%
HOLD	Renaissance Corp	RNS	13/08/96	85*	C	44.9	1.8	0.05	3	20.4	22	53.9	-11%
HOLD	Smiths City Group	SCY	09/10/06	64	C	53.0	1.6	0.07	16	6.5	31	11.0	-34%
HOLD	South Port New Zealand	SPN	13/02/96	120	B	26.2	0.7	3.56	21	5.5	265	117.3	+219%
HOLD	Steel & Tube Holdings	STU	08/08/00	146	C	88.2	0.8	0.50	9	9.9	275	231.0	+247%
	Australian Shares (in Aust cents)												
HOLD+	AJ Lucas Group	AJL	13/05/03	120	B	64.9	0.7	0.52	21	4.0	400	41.0	+268%
HOLD+	Atlas South Sea Pearl	ATP	14/05/96	73	C	120.1	2.2	0.61	NE	19.0	11	17.5	-62%
HOLD	Breville Group Ltd	BRG	13/11/06	171	A	129.5	0.6	0.69	19	2.4	231	16.0	+44%
HOLD	Campbell Brothers Ltd	CPB	12/10/99	389*	A	61.9	0.3	1.73	15	3.5	2874	484.0	+763%
BUY	Cardno Ltd	CDD	14/12/09	410	B	84.3	0.5	0.67	10	6.8	410	Nil	
HOLD	Cellnet Group Ltd [1]	CLT	12/02/02	147*	D	76.8	1.4	0.27	NE	Nil	30	32.4	-48%
BUY	Challenger Wine Trust	CWT	12/01/09	30	C	170.3	1.3	1.69	NE	21.5	33	2.4	+18%
HOLD-	Charter Hall Group	CHC	06/04/09	30*	C	698.0	1.0	7.13	NE	7.9	63	1.0	+112%
HOLD	Circadian Technologies	CIR	10/02/04	188	E	45.2	0.9	10.25	NE	Nil	70	65.0	-28%
HOLD+	Clarius Group Ltd	CND	08/04/03	82*	C	79.7	0.9	0.18	29	Nil	80	65.5	+77%
BUY	CPT Global Ltd	CGO	10/03/08	88	A	36.8	0.8	0.76	15	6.0	91	7.3	+12%
HOLD	Devine Ltd	DVN	13/11/06	94	A	315.5	1.2	0.28	8	7.5	40	19.0	-37%
HOLD+	Ellex Medical Lasers	ELX	14/03/06	49	B	84.9	1.8	0.26	37	Nil	19	Nil	-62%
BUY	Fiducian Portfolio Ser	FPS	11/02/08	260	B	32.4	0.9	2.16	15	4.6	147	13.3	-38%
HOLD+	Iluka Resources Ltd	ILU	12/10/04	471	B	380.7	0.6	2.33	22	Nil	351	64.0	-12%
BUY	Integrated Research	IRI	14/01/08	40	A	166.8	1.0	1.91	10	8.2	49	7.0	+40%
HOLD	M2 Telecommunications	MTU	09/10/06	33	A	108.5	0.7	0.79	21	3.7	147	13.5	+386%
HOLD	Mnet Group [1]	MMY			C	208.3	2.5	1.76	NE	Nil	9	Nil	
BUY	Melbourne IT	MLB	10/02/04	53	B	78.0	0.6	0.69	8	9.1	165	51.0	+308%
HOLD+	Photon Group Ltd	PGA	10/11/08	132*	B	154.3	0.7	0.27	7	7.7	162	11.8	+32%
HOLD+	Probiotec Ltd	PBP	11/02/08	116	B	47.1	0.6	1.37	13	1.3	254	5.8	+124%
HOLD+	Prophecy International	PRO	08/09/08	26	A	45.8	1.1	4.57	14	6.6	64	4.3	+163%
HOLD+	Ross Human Directions	RHD	14/08/01	92	A	83.5	1.2	0.08	7	4.9	36	34.3	-24%
BUY	Skilled Group Ltd	SKE	12/03/02	126	B	123.6	0.7	0.11	8	6.1	172	1.5	+38%
HOLD	Technology One Ltd	TNE	11/11/03	44	B	300.3	0.9	1.96	15	4.7	80	20.1	+128%
BUY	TFS Corporation Ltd	TFC	08/01/07	45	B	191.3	0.9	1.95	5	4.4	97	8.1	+133%
HOLD+	The Reject Shop Ltd	TRS	11/01/05	257	B	25.8	0.3	0.87	19	4.0	1385	181.5	+510%
BUY	Village Roadshow PREF	VRLPA	10/08/09	77	B	0.0	1.6	NA	0	Nil	172	9.0	+135%

The average Total Return (i.e. both Capital Gains/Losses plus Dividends received) of all current investments from initial recommendation is +164.9%. This is equal to an average annual rate of +25.2%, 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 147 closed out) is +29.7%, compared with a market gain of +4.7% (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 includes 1½ shares of Mnet Group (formerly Mercury Mobility) distributed to shareholders.

Recommended Investments

(Continued from Page 3)

Colonial Motor Company's revenues fell 20% during the September quarter, with profits down around 25%. These low sales levels are expected to continue, but with an improvement from the December 2010 quarter.

Postie Plus Group reports strong sales growth, up 15% for the first quarter to 31 October. Same store sales were up 13%. The company also reports "growth in all-important margins" as well as "stronger cash flow being generated". The business historically trades at a loss in its first half (i.e. $2.6 million last year) but expects to "significantly reduce the loss" for the current first half year.

Postie Plus Group

Steel & Tube Holdings reports "tough" trading over the first four months of the new financial year. Last year the company reported a profit of $20.8 million in its first half to December 2008 and only $5.3 million in the second half year to June 2009. At this stage the company expects its first half result will be below last year's depressed second half profit of $5.3 million, but with prospects for an increase in demand in 2010 as economic activity recovers.

The company is also continuing to look for acquisition opportunities in other metals and products where it can use its existing skills, distribution network and customer base to generate new growth. An economic downturn can offer the best opportunity to acquire businesses at very attractive valuations.

Australian Shares

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

AJ Lucas Group has warned investors of a "very poor first half" owing to "stop start drilling operations" and the costs of tendering where clients are unlikely to make a commitment to begin work in the near future. The company, however, expects a "much improved second half" with annual earnings (before interest, tax and depreciation) of $50-55 million but "predominately arising in the second half".

In the year to June 2009, earnings were $44.1 million with a net profit of $12.0 million (both figures *excluding* the large gain on the sale of gas assets).

AJ Lucas Group also sees a "major phase of growth during the next 2-3 years". Shareholders have probably heard that before . . . but AJ Lucas Group has been a good investment, despite some setbacks and some volatility in performance.

The company has disclosed its investment in European shale gas company **Cuadrilla Resources Corporation** (57% owned by AJ Lucas Group) is $50.6 million (i.e. $26.6 million in equity investments and $24.0 million in loans). That is a significant investment for AJ Lucas Group, worth around 78 cents per share. Drilling and fracturing of the surrounding rock - which will help prove the potential value of this "highly speculative" exploration venture - is scheduled to begin in the June quarter of 2010. This exploration will require US$50 million of further funding and AJ Lucas Group has been "holding discussions with a number of interested, value adding parties" to provide this funding in return for an equity interest in Cuadrilla Resources. AJ Lucas Group will provide the additional funds if suitable new partners cannot be found - but that would increase its "speculative" investment in Cuadrilla Resources to around $105 million (over 160 cents per AJ Lucas share).

AJ Lucas Group has also invested "considerable sums" in a 10% interest in a large "unconventional deep fracture system" oil and gas venture in East Texas. Accounting rules required the company to write-off as an intangible asset its investment of $64 million (or 99 cents per AJ Lucas Group share) in this project prior to June 2009 and the company has probably invested further funds this year. The joint venture is progressively acquiring acreage. To develop this field successfully will "require sophisticated horizontal drilling techniques" - which, of course, is AJ Lucas Group's area of expertise. The company is acting as a seed capitalist on this venture, buying the exploration interest and using its technology to prove the potential value of the asset which has "very considerable upside potential". The company would then seek to sell the asset (i.e. to recoup its initial investment and, if exploration is successful, a significant capital gain) and perhaps retain a small residual equity interest. Drilling was initially expected by now, but has been deferred until 2010.

The *Grisly* prospect in British Columbia has been unsuccessful - but fortunately the investment here was much smaller (i.e. $6.4 million as at 30 June 2009).

AJ Lucas Group has won the $95 million contract for the shore crossing which will connect the upstream facilities of the *Gorgon Project* to the onshore infrastructure on Barrow Island. The company will construct nine holes using horizontal directional drilling under the coast line and emerging 400 metres offshore. Site work is expected to start in May 2010. The Gorgon Project is developing the *Greater Gorgon* gas field - Australia's largest gas resource with 40 trillion cubic feet of gas, located 130-200km north-west of Western Australia.

Companies like AJ Lucas Group are usually under-valued by the stockmarket. There are the *business operations* (which require relatively little capital but produce on-going revenues and profits - although often volatile) and the *investments* in energy assets (which produce no revenues but require large amounts of capital and could generate significant one-off gains). The stockmarket fails to accurately price a company with two such dissimilar interests.

Splitting the company into two separate entities, the business and investments, would likely increase the total valuation, but this would be inappropriate as the development of the energy assets, requires the group's business skills (and the development of the assets also helps create those business skills). AJ Lucas Group, for example, helped pioneer the Coal Seam Methane (CSM) business - as the company developed the technology that enables this business to exist. So AJ Lucas Group needed to buy exploration interests and develop them for CSM to demonstrate the potential of the technology before other companies would hire the group to develop their potential CSM assets. CSM was successful for AJ Lucas Group - creating both a valuable asset that was sold last year and an on-going, growing business developing CSM assets for other companies.

AJ Lucas Group invested $500,000 in its initial CSM assets in 2002 - which were sold last year for $209 million. Today the scale of investment in developing energy assets is considerably higher!! The potential returns could also be significantly higher!! These, of course, are very high risk ventures. To be successful, AJ Lucas Group needs to find suitable exploration targets (i.e. which contain economic quantities of gas) *and* develop and commercialise the technology to access and extract that gas. Re-investing in these assets is, however, an appropriate way for the company to develop and exploit the value of its technologies. Success would create significant value in these energy projects - plus new businesses with on-going demand for the company's drilling technology and expertise!

If these energy investments were a complete failure and proved worthless, AJ Lucas Group would still have its existing income producing businesses. There would be significant asset write-offs and the share price might fall sharply . . . but the company would continue to generate revenues and cashflow, report trading profits and pay dividends.

With upside potential from its speculative energy investments - plus its growing drilling and pipeline businesses - AJ Lucas Group shares remain an attractive holding in our portfolio.

Atlas South Sea Pearl believes that the global production of South Sea pearls increased from 2.4 tonnes in 1998 to 12.5 tonnes in 2009 - leading to over-production which has contributed, together with the economic downturn, to the 40-50% decline in pearl prices. Indonesia produces the largest volume of pearls, while Australia produces the highest value, highest quality pearls.

Atlas South Sea Pearl, however, is in the "unique position" with lower costs than Australian producers, but with similar quality (although their average pearl size is smaller). This will "ensure that the Atlas pearling business will remain viable into the future". Furthermore, the company is seeking to reduce costs and improve pearl quality with its genetic research and selective breeding to further improve its competitive position in the industry.

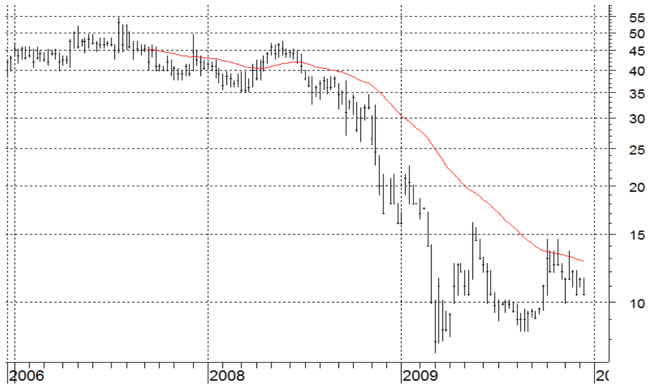
The company expects to have seeded 370,000 oysters by the end of this year, up from the 350,000 seeded in 2008. The company reports "anecdotal evidence that most pearl producers have reduced seeding by as much as 50% to cut costs". This will reduce future supply in the industry and the company also expects "further reductions and consolidation within the pearling industry" with many "smaller producers unable to remain viable".

Atlas South Sea Pearl reports pearl prices down 40-50% and sales volumes down 60%, but expects annual revenues in excess of $6 million and an operating profit in excess of $500,000 before tax, foreign currency movements and Agricultural Asset valuation adjustments (which, given the depressed state of the industry, will probably involve a non-cash write-down in value). No dividend will be paid for 2009. The director's report that the company "should have sufficient cash reserves to weather" the current crisis, with "challenging" conditions expected over the next 12-18 months.

Jewellery outlets in Bali have performed poorly during the second half of 2009. Tourist numbers increased, but with less discretionary spending.

The pearling industry is clearly suffering a major downturn. If prices are down 40-50% and volumes down 60%, then revenues are down 75-80%. That would quickly force most low cost, low quality producers *and* most high cost, high quality produces out of business - or into a major retrenchment of their operations. Taking a medium or long term view, however, this downturn is probably the *best* thing that can happen for a low cost, high quality producer like Atlas South Sea Pearl. The downturn will sweep away many competitors - and reduce production volumes for others that do survive. The over-supply of pearls will be removed from the market and pearl prices will improve, increasing profit margins for those that survive. The company just needs to survive another year or two, minimise cash expenditure, but maintain quality and production volumes.

Atlas South Sea Pearl



Breville Group is rejecting the **GUD Holdings** takeover offer, apparently believing "that GUD can pay significantly more". At this stage the takeover has been extended until 30 December (and will likely be extended further), but do not expect any real progress until the proposed takeover receives approval from the **Australia Competition and Consumer Commission**. At that stage the parties may negotiate seriously - or become more *hostile*.

There are significant synergies *if* GUD can gain full control of Breville Group, but a lack of those benefits to GUD with a smaller, controlling interest and some potential disadvantages to minority Breville Group shareholders if GUD controls the company but owns only 50.1% to 89.9%.

Breville Group has upgraded its own forecasts for this year, predicting a net profit of $17.8 million (13.7 cents per share).

At this stage we recommend doing nothing. Hold your Breville Group shares. *(Continued on Page 6)*

Recommended Investments

(Continued from Page 5)

Campbell Brothers suffered a 12.2% drop in revenues for the six months to 30 September 2009, with profits down 32.9% to $38,259,000 (71.3 cents per share). The interim dividend will be lowered 10.0% to 45.0 cents (with 50% franking credits).

The net operating cash surplus was 32% lower at $36.3 million.

The ALS Minerals division suffered a 41% drop in revenues which also reduced profit margins from 39.2% to 25.2%. So earnings were 62% lower at $24.6 million. This division contributed 68% of group earnings a year ago, but with the downturn in the resource exploration sector contributed only 36% of earnings over the latest period. This division "experienced improving business volumes" during the second half of the period.

Other laboratory divisions performed strongly: ALS Environmental lifted revenues 10% to $119.1 million and earnings 57% to $26.0 million. ALS Coal revenues were up 12% to $31.2 million with earnings 56% higher at $8.5 million. ALS Tribology better than *doubled* revenues to $15.4 million - helped by the acquisition of **Staveley Services** in August 2008 (i.e. which contributed a full six months to the latest result) - plus organic growth in other markets, with earnings up more than 2¾ times at $2.7 million.

Campbell Chemicals experienced a 3% decline in revenues to $79.1 million, while earnings were 22% lower at $4.1 million. Reward Distribution's revenues were 9% lower at $61.3 million and earnings 9% lower at $2.1 million.

The company's takeover of **Pearlstreet** has been successful with acceptances of over 90% (allowing it to go to 100% ownership).

Campbell Brothers has also negotiated the acquisition of **Ecowise Environmental Pty** for $40 million in cash (plus taking over $11 million of debt in that company). This business generates around $55 million in revenues (i.e. is being acquired on an attractive Price/Sales ratio of 0.73), employs over 380 staff, with 17 laboratories and offices (mainly in Melbourne and Canberra), with its business focusing upon the water sector. Parts of the business have the potential to be offered through other Campbell Brothers laboratories, especially in Asia.

Cellnet Group - as previously announced - expects to earn a net profit of $1.0-1.2 million this year, with a profit of at least $700,000 in the first half to 31 December 2009.

Shareholders have approved plans for Cellnet Group to repurchase up to 20% of its issued capital on-market. To date the company has bought back just 1,027,921 shares (1.3%), but trading volumes in Cellnet Group shares are very low at the present time so this buy back may take quite a long time!

Challenger Wine Trust has indicated that it expects to declare a first half distribution of 3.25 cents. The units are expected to trade ex-distribution from 23 December but the actual payment is expected around 9 February. The company will introduce an *underwritten* distribution re-investment plan (with shares offered at a 5% discount to market value) so will actually retain all of the expected $5.5 million distribution (i.e. by offering units to investors or the underwriter) with the money retained being used to repay debt. This will help strengthen the balance sheet and ultimately should help to re-rate the depressed value of the units.

A re-investment plan will, of course, *dilute* the value of the units by increasing the number of units by 10-12%. Given that we still believe Challenger Wine Trust units are under-valued we favour investors participating in the distribution plan and receiving additional units rather than cash.

The trust had previously disclosed it was discussing "rental support options" with its largest tenant, **Australian Vintage**. This company leases about one-third of the trust's assets, but has been experiencing financial problems. The trust has agreed to provide a $1.36 million rent rebate in relation to three vineyards where rental increases have exceeded market rents in exchange for certain undisclosed "improved lessor terms". This rebate equals about 11% of Australian Vintage's total annual rentals. We would guess that this arrangement is effectively a discount to a financially weak tenant to ensure prompt payment of the remaining 89% of rental income - but expressed in terms that will not have all the other tenants wanting their long term lease obligations discounted to depressed current market rents.

About 20% of Australian vineyards are surplus to requirements, but long term rental contracts largely protect Challenger Wine Trust from the short term impact of this oversupply of grapes which is depressing the capital value and rental value of vineyards. By the time these contracts come up for renewal and renegotiation, the supply of grapes should have reduced to meet industry demand, with a corresponding recovery in the *market* rentals for the vineyards.

Challenger Wine Trust

Charter Hall Group has sold the *Atrium* property from its *Core Plus Office Fund* for $137 million. This will reduce the fund's debt level to 47%. The company has also contracted for its *Charter Hall Opportunity Fund No 4* to sell its 50% stake in the *Alluvion* following completion in April 2010 for $95 million. This sale will realise a 25% per annum rate of return on the fund's capital from this development project.

Clarius Group expects a half year profit to 31 December of around just $1.1-1.4 million (1.3-1.6 cents per share), before any one-off costs. That is down on the $1.9 million in the first half of the previous year, but similar to the second half profit of $1.3 million.

This is an inadequate level of profitability but reflects the still depressed recruitment market. Clarius Group is "well positioned with capacity to grow and capitalise on an improvement in demand for contract and permanent recruitment". This is a cyclical business, so profits will recover strongly when business volumes increase.

Devine has sold its 50% interest in the proposed King George Central office development at 145 Ann Street in the Brisbane CBD to its joint venture partner, Leighton Properties.

Devine has also sold two of the three sites involved in its proposed *French Quarter* development for $25 million. After writing off holding costs for the three sites, Devine will record a loss of $6 million after tax. **Sunland Group** is acquiring the 2067m² sites on the corner of Alice and Albert Streets, plus the adjoining 140 Alice Street, and plans a $250 million luxury high rise residential development. This leaves Devine with the adjoining 1994m² Camelot site which it will seek to sell over the coming months.

Devine's reason for these sales is to "concentrate on the residential sector", "focus on developing subsequent stages of the very successfil *Hamilton Harbour* project" and to "replenish our Victoria land bank". It does, however, look that Devine is seeking to reduce debt levels by selling assets which will not be developed in the near future. The company is continuing to negotiate to extend its corporate loan facility from February 2010 to February 2011 and to finalise terms to remove two technical breaches of its current loan covenants.

Ellex Medical Lasers has been awarded a $540,000 grant from the Victorian Government to conduct a trial involving 50 patients with early stage age-related mascular degeneration.

Iluka Resources has begun producing heavy minerals from its *Jacinth-Ambrosia* project. This $390 million project (completed below budget of $420 million) is a "long life, globally significant, zircon rich mineral sand mine". Sustained production is "a major milestone" that "significantly reduces project execution risk", while revenues and cashflows will now significantly improve the company's financial position.

Iluka Resources and **Beadell Resources** have negotiated a farm-in agreement covering mineral sand deposits in a 300 km² licence area in the northern Eucla Basin and adjacent to Iluka Resources existing 50,000 km² exploration licences in this region. Under the agreement, Iluka Resources must spend $200,000 on exploration within the first two years to earn a 70% interest. Iluka Resources then has the option to spend a further $400,000 to increase its interest to 90% . . . after which it must finance all expenditure through to a feasibility study recommending mining operations (i.e. Beadell Resources will have a "free-carried" 10% interest without further dilution). Upon completion of the feasibility study, Beadell Resources can either contribute its 10% share of further development and mining costs or negotiate to sell its interest to Iluka Resources.

Mercury Mobility has changed its name to **Mnet Group**.

Photon Group has increased its takeover offer for listed **Dark Blue Sea** from 30 cents to 35 cents and made the offer unconditional. That has won the support of the Dark Blue Sea directors who have accepted the offer for their 20.3% stake in the company. This lifts Photon Group's ownership to 80.2%.

Prophecy International Holdings has signed a non-binding Heads of Agreement to acquire an Australian software company (subject to the completion of due diligence) for $500,000 in cash plus 1,000,000 Prophecy International shares (plus undisclosed earnouts based on future profits in excess of targets over the next three years). The final agreement should be executed and settled by mid-December.

The unnamed company owns the intellectual property in four specific and competitive software products which currently generate around $2 million in annual revenues and about $400,000 in pre-tax profits. This is a low valuation (i.e. a Price/Sales ratio of 0.55 and a Price/Earnings ratio of 4) which should immediately boost earnings per share (and dividends and the share price) by around 10%.

The great potential, however, comes from the "significant growth" that Prophecy International believes that it can create by providing additional financial resources and using its existing partner network to take these four products to world markets.

Prophecy International also "expects to complete a second software company acquisition" this financial year!

Ross Human Directions reports "trading results for the first quarter are pleasing when compared with the previous year".

Skilled Group has warned that it is "unlikely to reach" recent analyst estimates of earnings (before interest, tax and depreciation) of $88 million this year. That is approximately the level of earnings last year.

Skilled Group reported a profit of $21.4 million in the first half of last year and a profit of $12.7 million in the second half. It now reports that earnings are steadily improving but only "modestly above" the second half of last year. Nevertheless, the company believes it can achieve a "strong performance" next year (i.e. to June 2011) and in subsequent years.

Technology One lifted revenues 11.1% to $122.5 million for the year to 30 September 2009, but profits were 9.0% lower at $15,684,000 (5.2 cents per share). A final 2.87 cents dividend will take the annual dividend to a 9.0% lower 3.75 cents.

The net operating cash surplus rose 58% to $18.6 million.

Village Roadshow has successfully completed its on-market buyback, acquiring 12,690,800 ordinary shares for $23.7 million (i.e. an average of 187 cents per share) and 45,000,000 preference shares for $81.4 million (i.e. an average of 181 cents per share). The company has since paid a 6.0 cents ordinary dividend a 9.0 cents preference dividend.

Given that we believe Village Roadshow can better manage its businesses to increase profitability, reduce interest bearing debt and improve shareholder wealth, this buyback *leverages* any future improvements. Buying back 25.7% of the equity increases the percentage ownership of the *remaining* shareholders by 34.6%. So our unchanged shareholding now owns 34.6% *more* of the company's Radio, Theme Parks, Film Distribution, Cinema Exhibition and Film Production businesses (but less cash - or more debt - that was used to finance the buy-back).

Share Recommendation: Buy Cardno

BUY Cardno (code CDD).

Cardno is a diversified consulting engineering group providing professional services to infrastructure development projects around the world.

The business generates high profit margins and strong cashflows, and has grown very rapidly through a mix of acquisitions (funded by new shares and operating cash surpluses) and organically (i.e. helped by cross-selling services from new acquisitions through the existing group).

The shares - along with the general stockmarket - fell during 2008, offer good value and are now starting to recover. Infrastructure spending remains high in the public sector and is recovering in the private sector, so Cardno's revenues and profits have held up well during the global economic downturn. Acquisition opportunities have improved with "reasonable pricing expectation" from vendors.

High profit margins, strong cashflows and cash in the bank should enable Cardno to continue to grow strongly over the years ahead.

Company History

This business was originally formed in 1945 as **Cardno & Davies** and remained very small until 1999 when it began to expand through acquisitions. The company listed on the Australian stockmarket in early 2004 after offering 4,500,000 shares to the public at 100 cents each to raise $4.5 million to help finance future growth. The existing investors retained their 30,844,992 shares (87.3% of the company).

Acquisition Strategy and Major Acquisitions

Cardno's acquisition strategy is to seek out "complementary businesses with new geographical and/or skills coverage" with "minimal overlap with existing businesses". There is a "focus on knowledge sharing and cross selling" and it seeks to retain existing owner managers and staff in acquired businesses.

The company has generally financed acquisitions with a mix of shares (i.e. so that the vendors become Cardno shareholders and retain an equity interest in the business) and cash (i.e. to re-invest its strong cashflows). The group has expanded very rapidly, so cash has also been raised from a share placement and Share Purchase Plans.

The group first expanded into the United States in May 2007 with the purchase of **Emerging Markets Group** for US$9.5 million (in cash and shares). This development assistance business specialised in financial sector reform, public and private sector reform, health sector reform and tourism development in emerging markets. It generated annual revenues of US$50 million (so was acquired on a low Price/Sales ratio of 0.19). It complemented the group's existing development assistance businesses, Australian based **Cardno Acil** (acquired in May 2005) and UK based **Cardno Agrisystems** (acquired in September 2005). The United States is the major contributor to development assistance, but "without a presence in the US, companies have found it difficult to access the US development assistance market".

In June 2007 the group acquired US based **WRG Design Inc** for US$28 million (in cash and shares). This business generated annual revenues of US$45 million (i.e. a P/S ratio of 0.62) from "physical infrastructure services in land use planning, civil engineering, water resources, sustainable development, survey and landscape architecture". This business was very similar to Cardno's Australian operations, but expanded the group into the much larger US market.

In February 2008, the Australian company **Bowler Geotechnical** was acquired for $44.7 million (50% in shares, 50% in cash). The business generated annual revenues of $35 million and earnings (before interest and tax) of $10 million (i.e. a P/S ratio of 1.28 and a P/E ratio of about 7½) from geotechnical engineering and materials testing. The company operated 16 permanent laboratories throughout Australia and 16 mobile laboratories. This business was complementary to the group's existing engineering and physical infrastructure services, thereby expanding its client base as well as allowing for cross-selling Bowler Geotechnical's services to Cardno's clients. Cardno also provided "resources and support" to "create real opportunities for the future growth of the business".

March 2008 saw the purchase of UK based water engineering software company **Micro Drainage** for £13.0 million (or about a P/E ratio of 9). The company is the "dominant provider of storm water drainage design software to engineering consultants and water companies in the United Kingdom and Ireland". This business fits with Cardno's existing **XP Software** water engineering software business - allowing Cardno to utilise XP Software's "extensive international network to market Micro Drainage's product range worldwide". A founder of Micro Drainage also became *Discipline Leader of Water Modelling* to "disseminate his knowledge in this technical field across the group".

In September 2008, Cardno paid US$40.4 million (20% in shares, 80% in Cash) to acquire **TBE Group** which is involved in US government infrastructure projects, particularly in the transport sector. The business generates annual revenues of US$60 million (with work in hand of US$100 million) and earnings before interest and tax of US$6.5 million, pricing this business on a P/S ratio of 0.67 and a P/E ratio of about 10. 50% of the company's revenues come from *Subsurface Utility Engineering* (SUE), which is the accurate mapping of existing underground utilities prior to construction projects. TBE Group's services and location are "highly complementary" to Cardno's other US offices, allowing the geographic expansion of the SUE business within the

United States. TBE Group had already established successful SUE operations in Canada, the United Kingdom and China (through a joint venture), and Cardno will expand this business to its other global markets.

In June 2009, this business (rebranded as **Cardno TBE**) was named the preferred tenderer for the *I4/ Crosstown* connector, a major Florida highway to be funded by the US Federal Government's *Stimulus Package* and the State of Florida. The group will provide construction, engineering and inspection services for a consultancy fee in excess of US$12 million over five years which is “one of Cardno's largest single fee awards for a physical infrastructure project”.

Share Placements and Share Purchase Plans

In November 2007 the group placed 6,000,000 shares with institutional investors at 700 cents each to raise $42 million in new cash. At the same time it made a Share Purchase Plan to shareholders, also at 700 cents, raising a further $23.3 million. This capital raising was 14½ times larger than its Initial Public Offering in 2004!

A Share Purchase Plan in April this year at 207 cents per share raised $16.7 million.

Recent Results

In the year to June 2006, revenues rose 85.6% to $186.8 million with profits up 82.5% to $12,663,000. Earnings per share were 57.0% higher at 30.3 cents and the annual dividend rate raised 35.7% to 19.0 cents.

The net operating cash surplus was 15% higher at $13.0 million.

Revenues rose 42.1% to $265.3 million for the year to June 2007, with profits up 45.8% to $18,468,000. Earnings per share rose just 6.3% to 32.2 cents while the annual dividend was 18.4% higher at 22.5 cents.

The net operating cash surplus improved 93% to $25.8 million.

For the year to June 2008, revenues were 50.4% higher at $399.0 million with a similar 48.6% increase in profits to $27,452,000. Earnings per share rose 15.8% to 37.3 cents, while the annual dividend was 20.0% higher at 27.0 cents.

The net operating cash surplus increased 26% to $32.6 million.

Over the year to June 2009, revenues rose a further 29.3% to $515.8 million and profits improved 24.4% to $34,153,000. Earnings per share were 40.5 cents, up 8.6%. The annual dividend was lifted 3.7% to 28.0 cents.

For the six months to 31 December 2009 the company is predicting a profit of $14-16 million. That will be down 12-23% on the $18,256,000 profit for the same period last year, with earnings per share 20-30% lower at 16.5-18.8 cents. That reflects “difficult market conditions” which are “improving in all markets” and a “stronger second half performance” is expected “based both on organic growth and recent project wins”.

In the year to June 2009, 35% of revenues were earned from *International Development Assistance* projects which are mainly financed through long term government aid projects. Another 21% of revenues came from *Public Sector Infrastructure* which is growing as governments seek to increase public spending on infrastructure in response to the current economic downturn. 44% of revenues were earned from *Private Sector Infrastructure* work. This sector is currently depressed.

Investment Criteria

At 410 cents, Cardno shares trade on a Price/Sales ratio of 0.67, a Price/Earnings ratio of 10 and offer a Dividend Yield of 6.8%.

The issued capital consists of 84,969,038 shares, giving a market capitalisation of $348.4 million. This makes Cardno a larger listed company and is included in the All Ordinaries Index.

Management and Directors have a significant investment in this company. The Chairman, JC Massey, owns 44,382 shares, while the Managing Director AD Buckley holds 2,359,037 shares (2.8% of the company). Executive Directors, TC Johnson and GG Tamblyn, own 1,967,399 shares (2.3%) and 1,426,330 shares (1.7%), respectively. A third Executive Director has 19,947 shares. One Non-Executive Director owns 207,390 shares, a second has just 3,348 shares, while a third has no shares.

Most staff are also shareholders, while three executives have multi-million dollar investments in the company (i.e. 800,141 shares, 653,652 shares and 556,860 shares).

Large shareholdings align management's interests with those of the public shareholders.

Over the last year there have been two *insider* buys on-market. The Chairman, JC Massey, bought 10,000 shares on-market at around 326 cents each in February 2009 and Non-Executive Director AH Barnes bought his first 1,500 shares on-market at 305 cents each in March 2009.

Cardno is a fairly large company so is followed by two brokers (i.e. who publish profit forecasts) but generally *neglected* by institutional investors. There are only about a half a dozen institutional shareholders, owning just 15% of the company in total. If institutional investors *discover* this company in the future then their share buying could significantly boost the share price.

The shares hit a high of 820 cents in November 2007 (when the company raised $65 million in new equity) and fell 68% during the stockmarket decline to a low of 261 cents in March 2009. Since then the shares recovered strongly to a recent high of 520 cents in October, before falling back this month with the general stockmarket weakness and some large share sales during the first week of December. Technically, the shares are in a long term uptrend with a Relative Strength rating of +13.4%, ranked 42 (on a scale of 0-99).

Summary and Recommendation

Cardno is a large, diversified business capable of earning high profit margins and strong cashflows. Group revenues should be relatively stable with over half earned from *International Development Assistance* and *Public Sector Infrastructure* projects, which are stable or counter-cyclical businesses, largely funded by governments.

The shares trade on a moderate valuation - offering an attractive current income yield of 6.8%, plus the potential for organic growth as the group fully utilises technologies and know-how *(Continued on Page 10)*

BUY Cardno

(Continued from Page 9)

from acquisitions made over recent years. There should also be the opportunity to make new acquisitions at attractive valuations.

Profits have weakened over the current half year, but we see Cardno as a business that should be able to steadily grow earnings per share and dividends to build shareholder wealth.

"Consulting engineering" may not be the most exciting business, but a low share valuation, reliable revenues and steady growth should yield above average investment returns over the next several years.

Cardno

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

For an explanation of this table see the *Share Selection Methods* report available from our website. 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	Share Price	STRENGTH RATING Cur-rent	STRENGTH RATING 4-Wk Chg.	STRENGTH RATING Rank 0-99	Insider Buy-Sell	Brokers Following	Price to NTA	Return on Equity	Vola-til-ity	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
UNDER-VALUED SHARES: Lowest Price/Sales, Yld>0, Rel Strength>0													
Col Motor Co	260	+3.8	+1.6	47	8-0	-	0.6	4	0.5	14	8.2	0.15	72
Tag Pacific Ltd	27	+35.5	+7.6	2	0-0	-	0.6	5	2.1	13	3.5	0.17	19
Hellaby Hold.	170	+25.8	-4.7	6	13-0	-	1.0	6	0.7	16	5.0	0.18	86
Ebos Group Ltd	553	+7.3	-3.6	35	0-2	1	1.7	12	0.5	14	6.5	0.20	271
Air New Zealand	121	+10.6	-4.4	19	0-7	1	0.8	1	0.9	61	7.7	0.28	1,290
Allied Work.	86	+3.3	+0.5	49	0-0	-	1.3	12	1.1	10	11.3	0.29	22
Nuplex Indust	253	+0.5	+1.9	54	3-0	1	0.9	3	0.6	29	2.0	0.32	480
Seeka Kiwifruit	315	+9.9	+1.9	24	2-0	-	0.7	7	0.4	10	5.7	0.37	40
Guinness Peat	82	+6.2	-1.3	40	0-5	-	0.5	-	1.0	NE	3.0	0.37	1,278
Turners Auction	123	+31.3	-6.9	3	2-0	-	1.7	5	0.7	31	3.5	0.43	34
Mainfreight Grp	565	+10.4	-0.0	22	0-8	-	1.9	12	0.6	16	4.9	0.44	556
Restaurant Brds	155	+31.5	+6.3	3	11-0	-	4.1	22	0.7	18	6.7	0.49	151
Zintel Comm.	39	+23.0	-3.1	8	4-0	-	1.8	20	1.6	9	11.5	0.50	20
Kirkcaldie & St	265	+7.6	+3.4	33	0-0	-	1.2	5	0.4	23	5.6	0.59	26
Briscoe Group	118	+9.0	-3.4	26	0-0	-	2.1	10	0.8	22	5.7	0.64	250
Fletcher Build.	778	+8.9	-3.9	27	2-12	1	1.6	12	0.7	13	6.0	0.66	4,703
Cavalier Corp	245	+10.4	-5.8	21	0-0	1	1.9	16	0.8	12	8.7	0.67	164
Livestock Imp.	306	+21.1	+13.9	10	0-0	-	0.6	14	0.6	4	20.4	0.68	103
Abano Health.	593	+10.9	-7.3	16	0-0	-	2.4	17	0.7	14	5.3	0.74	138
Warehouse Group	415	+6.1	-2.0	40	3-1	1	4.0	24	0.6	17	7.2	0.75	1,291
BEST PERFORMING SHARES: Strongest Shares, P/E<20, P/S<1.0													
Tag Pacific Ltd	27	+35.5	+7.6	2	0-0	-	0.6	5	1.7	13	3.5	0.17	19
Restaurant Brds	155	+31.5	+6.3	3	11-0	-	4.1	22	0.6	18	6.7	0.49	151
Hellaby Hold.	170	+25.8	-4.7	6	13-0	-	1.0	6	0.6	16	5.0	0.18	86
Zintel Comm.	39	+23.0	-3.1	8	4-0	-	1.8	20	1.2	9	11.5	0.50	20
Livestock Imp.	306	+21.1	+13.9	10	0-0	-	0.6	14	0.5	4	20.4	0.68	103
Taylors Grp Ltd	220	+19.1	-5.0	10	0-0	-	1.8	14	0.5	12	8.4	0.76	53
Methven Limited	170	+11.1	-2.6	15	1-2	-	2.0	17	0.8	11	10.3	0.82	113
Abano Health.	593	+10.9	-7.3	16	0-0	-	2.4	17	0.7	14	5.3	0.74	138
Hallenstein G.	311	+10.7	+0.1	18	0-0	-	3.3	23	0.4	14	9.6	0.94	186
Cavalier Corp	245	+10.4	-5.8	21	0-0	1	1.9	16	0.6	12	8.7	0.67	164
Mainfreight Grp	565	+10.4	-0.0	22	0-8	-	1.9	12	0.5	16	4.9	0.44	556
Seeka Kiwifruit	315	+9.9	+1.9	24	2-0	-	0.7	7	0.3	10	5.7	0.37	40
Fletcher Build.	778	+8.9	-3.9	27	2-12	1	1.6	12	0.6	13	6.0	0.66	4,703
Tower Limited	195	+7.6	+3.1	33	2-0	1	1.4	13	0.8	11	4.6	0.76	485
Ebos Group Ltd	553	+7.3	-3.6	35	0-2	1	1.7	12	0.4	14	6.5	0.20	271
Warehouse Group	415	+6.1	-2.0	40	3-1	1	4.0	24	0.6	17	7.2	0.75	1,291
Col Motor Co	260	+3.8	+1.6	47	8-0	-	0.6	4	0.4	14	8.2	0.15	72
Allied Work.	86	+3.3	+0.5	49	0-0	-	1.3	12	0.8	10	11.3	0.29	22
INCOME SHARES: Highest Yields, Capitalisation>NZ$100 million													
Livestock Imp.	306	+21.1	+13.9	10	0-0	-	0.6	14	0.4	4	20.4	0.68	103
NZ Refining Co	400	-12.9	+2.4	86	0-0	-	1.6	18	0.5	9	16.8	2.82	1,120
ING Property	77	+10.1	-3.2	23	1-0	-	0.7	-	0.5	NE	10.4	3.79	408
Methven Limited	170	+11.1	-2.6	15	1-2	-	2.0	17	0.7	11	10.3	0.82	113
Telecom Corp	235	-3.5	-2.5	68	1-3	1	1.6	15	0.6	11	10.2	0.78	4,376
Vector Ltd	194	-3.4	+0.0	67	2-0	1	0.9	9	0.7	11	10.1	1.65	1,854
Goodman Prop.	104	+5.8	+0.5	42	0-0	-	1.0	-	0.5	NE	10.0	6.78	879
Hallenstein G.	311	+10.7	+0.1	18	0-0	-	3.3	23	0.4	14	9.6	0.94	186
Turners & Grow.	160	-1.3	+0.3	61	1-0	-	0.6	5	0.5	12	9.3	0.28	160
AMP Onyx Mgmt	76	+0.1	-1.6	56	1-0	-	0.8	-	0.6	NE	9.1	5.67	758

Company	Share Price	STRENGTH RATING Cur-rent	STRENGTH RATING 4-Wk Chg.	STRENGTH RATING Rank 0-99	Insider Buy-Sell	Brokers Following	Price to NTA	Return on Equity	Vola-til-ity	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
INSIDER BUYING: Most Insider Buying, Relative Strength>0													
Hellaby Hold.	170	+25.8	-4.7	6	13-0	-	1.0	6	0.5	16	5.0	0.18	86
Restaurant Brds	155	+31.5	+6.3	3	11-0	-	4.1	22	0.5	18	6.7	0.49	151
Guoco Leisure	64	+26.0	+3.1	6	10-0	-	0.6	7	0.6	8	2.5	1.41	876
Col Motor Co	260	+3.8	+1.6	47	8-0	-	0.6	4	0.3	14	8.2	0.15	72
Scott Tech. Ltd	135	+3.4	-3.9	49	5-0	-	1.9	17	0.4	11	10.0	1.14	34
Comvita	130	+13.4	+0.8	14	5-0	-	0.6	1	0.6	48	Nil	0.51	37
Zintel Comm.	39	+23.0	-3.1	8	4-0	-	1.8	20	1.0	9	11.5	0.50	20
Tourism Hold.	73	+13.0	+3.4	15	4-0	-	0.4	-	0.7	NE	Nil	0.42	72
Port Tauranga	685	+7.1	-0.2	35	3-0	-	1.4	7	0.4	20	5.6	6.39	918
Xero Ltd	160	+15.3	+1.6	13	3-0	-	28.0	-	0.8	NE	Nil	N/A	140
OVER-VALUED SHARES: Highest Price/Sales Ratios, Relative Strength<0													
NZ Windfarms	47	-20.2	-4.6	89	0-0	-	0.5	-	1.0	NE	Nil	9.59	37
NZ Farming Sys.	47	-12.3	+2.6	85	3-1	-	0.4	-	0.8	NE	Nil	4.69	115
Burger Fuel	30	-0.3	+0.9	58	0-0	-	3.4	-	0.9	NE	Nil	3.37	16
Life Pharmacy	35	-5.8	-9.5	76	0-0	-	0.6	0	1.0	393	Nil	3.26	24
Trust Power Ltd	725	-0.2	-0.5	58	0-3	-	1.6	7	0.5	22	6.8	2.91	2,285
NZ Refining Co	400	-12.9	+2.4	86	0-0	-	1.6	18	0.4	9	16.8	2.82	1,120
Mowbray Collect	100	-3.8	+2.1	71	0-0	-	2.6	-	0.3	NE	Nil	2.67	11
WN Drive Tech.	9	-20.3	+1.2	90	7-0	-	1.9	-	1.2	NE	Nil	2.63	38
WORST PERFORMING SHARES: Weakest Shares, P/S Ratio>0.25, Yield<Twice Average													
Charlie's Group	8	-58.3	+0.0	97	1-0	-	1.8	-	1.4	NE	Nil	0.76	24
Pyne Gould Corp	46	-37.4	-1.7	96	7-1	-	0.2	-	0.7	NE	Nil	0.31	317
WN Drive Tech.	9	-20.3	+1.2	90	7-0	-	1.9	-	1.2	NE	Nil	2.63	38
NZ Windfarms	47	-20.2	-4.6	89	0-0	-	0.5	-	1.0	NE	Nil	9.59	37
Windflow Tech.	146	-15.2	+4.3	88	0-0	-	1.1	-	0.3	NE	Nil	0.55	18
Jasons Media	55	-13.1	+0.2	87	0-0	-	3.3	30	0.7	11	4.1	0.80	11
NZ Farming Sys.	47	-12.3	+2.6	85	3-1	-	0.4	-	0.7	NE	Nil	4.69	115
Rakon Ltd	115	-10.1	-1.9	83	1-2	-	1.1	3	0.9	33	Nil	1.05	147
Cavotec MSL	230	-7.9	-2.9	80	0-0	-	6.0	78	0.5	8	Nil	0.50	146
Northland Port	175	-7.8	+1.1	79	0-0	-	0.5	2	0.4	27	4.5	N/A	72
Life Pharmacy	35	-5.8	-9.5	76	0-0	-	0.6	0	1.0	393	Nil	3.26	24
Canty Bldg Soc.	305	-5.8	-0.0	75	2-1	-	0.7	4	0.2	18	3.9	1.01	37
NZ Finance Hold	25	-5.4	+2.4	73	1-0	-	1.1	-	0.6	NE	Nil	0.49	19
Oyster Bay	206	-5.4	-0.4	72	0-0	-	0.3	3	0.3	12	4.9	1.57	19
Sanford Limited	484	-5.1	+0.3	72	0-1	1	0.9	4	0.2	23	6.8	1.23	453
Mowbray Collect	100	-3.8	+2.1	71	0-0	-	2.6	-	0.3	NE	Nil	2.67	11
INSIDER SELLING: Most Insider Selling, Relative Strength<0													
PGG Wrightsons	60	-24.9	+0.9	92	1-8	1	0.5	-	0.6	NE	Nil	0.15	189
Steel & Tube	275	-1.0	-5.7	60	0-4	-	1.6	17	0.5	9	9.9	0.50	243
Trust Power Ltd	725	-0.2	-0.5	58	0-3	-	1.6	7	0.5	22	6.8	2.91	2,285
Telecom Corp	235	-3.5	-2.5	68	1-3	1	1.6	15	0.5	11	10.2	0.78	4,376
Wakefield Hlth	795	-2.2	-2.7	65	0-1	1	1.2	11	0.2	11	4.7	1.31	113
Sanford Limited	484	-5.1	+0.3	72	0-1	1	0.9	4	0.2	23	6.8	1.23	453
Rakon Ltd	115	-10.1	-1.9	83	1-2	-	1.1	3	0.9	33	Nil	1.05	147
Allied Farmers	19	-22.2	+1.9	90	0-0	-	-	-	0.9	NE	Nil	0.06	7
Life Pharmacy	35	-5.8	-9.5	76	0-0	-	0.6	0	0.9	393	Nil	3.26	24
Broadway Ind	30	-2.0	+0.6	64	0-0	-	0.7	-	0.6	NE	Nil	0.39	14

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

For an explanation of this table see the *Share Selection Methods* report available from our website. 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.

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

Company	Share Price	STRENGTH RATING Cur-rent	4-Wk Chg.	Rank 0-99	Insider Buy-Sell	Brokers Following	Price to NTA	Return on Equity	Vola-til-ity	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
Imperial Corp.	1	-5.2	-1.2	83	0-0	-	-	-	4.1	NE	Nil	N/A	11
Victoria Petrol	30	-2.7	-4.3	79	0-0	-	-	-	0.8	NE	Nil	9.52	110
Calzada Ltd	3	-0.5	-2.7	74	0-0	-	0.6	-	1.9	NE	Nil	9.38	9
Cockatoo Coal	34	-4.0	+1.5	81	0-0	1	-	-	0.7	NE	Nil	9.28	159
Polartechnics	7	-13.9	+3.0	91	0-0	-	7.1	-	1.6	NE	Nil	8.77	17
Caspian Oil & G	1	-9.0	-8.0	88	0-0	-	-	-	3.1	NE	Nil	8.57	12
Grange Resource	25	-21.1	-0.8	95	0-0	-	-	-	0.8	NE	Nil	8.43	52
Forest Place Gr	86	-10.0	-3.6	89	0-0	-	0.4	3	0.6	13	Nil	7.78	71
Agenix Limited	2	-4.4	+1.2	81	0-0	-	0.9	-	2.5	NE	Nil	7.08	7
Metal Storm Ltd	2	-10.4	+0.8	89	1-0	-	-	-	2.1	NE	Nil	6.67	15
Deutsche Ind Tr	196	+0.0	+0.0	71	0-0	-	1.2	10	0.2	12	8.1	6.49	663
Metals Aust.	1	-21.3	+0.3	95	0-0	-	-	-	3.6	NE	Nil	6.32	8
Jervois Mining	1	-4.7	+4.4	82	1-0	-	-	-	4.7	NE	Nil	6.25	15
Deutsche Div Tr	131	+0.0	+0.0	71	0-0	-	1.1	8	0.3	14	7.1	6.10	1,306
Ramelius Res.	53	-6.1	+4.4	84	0-1	-	-	-	0.8	12	0.9	5.56	83
Gateway Mining	7	-0.9	-2.5	75	1-0	-	-	-	1.2	117	Nil	5.38	7
Energy World	37	-10.0	-4.6	89	1-0	-	-	-	0.7	NE	Nil	4.89	578
ETW Corporation	2	-3.6	+7.7	80	0-0	-	-	-	2.2	NE	Nil	4.88	6
Paragon Care	2	-0.3	+4.1	73	5-0	-	2.4	-	2.0	NE	Nil	4.80	5
Pelorus Prop.	19	-0.6	+1.4	74	1-0	-	0.7	-	0.9	NE	Nil	4.66	67
Novogen Ltd	51	-10.3	-5.9	89	0-0	-	1.8	-	0.7	NE	Nil	4.63	52
LBT Innovations	10	-7.7	-2.6	86	3-1	-	10.0	34	1.3	29	Nil	4.48	10
Primeag Aust.	103	-2.9	+0.5	79	3-0	-	0.8	-	0.6	NE	Nil	4.35	155
Maximus Res	3	-5.0	+2.8	83	3-0	-	-	-	1.9	NE	Nil	4.20	7
Island Sky Aust	12	-16.8	-3.2	93	0-2	-	1.5	2	1.1	65	Nil	4.08	23
Target Energy	6	-5.0	-3.8	83	0-0	-	-	-	1.5	NE	Nil	3.70	6
CSL Limited	3048	-1.1	-1.6	76	0-1	2	4.1	26	0.3	16	2.3	3.62	18,265
Dominion Mining	367	-5.9	+0.2	84	0-11	3	3.5	29	0.6	12	3.8	3.36	378
Carnarvon Pet.	49	-2.9	-1.2	79	0-3	2	7.0	76	0.8	9	Nil	3.32	335
AAQ Holdings	15	-2.7	+0.8	79	0-0	-	0.9	-	1.0	NE	Nil	3.27	13
Nexus Energy	32	-7.2	+0.5	86	4-1	1	-	-	0.8	NE	Nil	3.12	207
CI Resources	86	-3.1	+0.9	79	1-0	-	2.0	55	0.6	4	Nil	3.11	63
Carpathian Res.	4	-28.5	+0.8	97	0-0	-	-	-	1.9	NE	Nil	3.02	10
Fluorotechnics	35	-19.3	-3.0	95	0-0	-	7.0	-	1.0	NE	Nil	2.99	10
Superwoman Grp	1	-12.8	+3.7	91	0-0	-	-	-	3.2	NE	Nil	2.97	24
Chal K Japan Tr	85	-0.1	+0.0	72	0-0	-	-	-	0.7	NE	7.6	2.96	129
Bendigo Mining	24	-0.1	-1.0	72	0-0	-	1.6	11	0.9	14	2.1	2.76	119
Austin Explor.	6	-3.8	+2.0	80	0-0	-	-	-	1.7	NE	Nil	2.75	13
Progen Pharm.	55	-14.5	+1.0	92	0-0	-	0.5	-	0.9	NE	Nil	2.75	14
Occupational Md	15	-13.8	+0.9	91	0-0	-	-	-	1.1	NE	Nil	2.61	6
Pac Environment	22	-18.7	+5.8	94	1-0	-	-	-	1.1	NE	Nil	2.58	17
Mosaic Oil NL	11	-3.7	-2.9	80	0-1	1	-	-	1.1	26	Nil	2.57	66
Winchester Res.	21	+0.0	+0.0	72	0-0	-	1.5	-	1.1	NE	Nil	2.56	49
Ruralaus Invest	13	-1.9	-3.4	77	0-0	-	0.4	-	1.1	NE	Nil	2.54	7
Pryme Oil & Gas	7	-2.9	-7.8	79	0-0	-	-	-	1.3	NE	Nil	2.49	11
Coal & Allied	7800	-5.8	-0.4	84	0-0	-	5.1	60	0.1	8	7.1	2.49	6,754
TZ Limited	96	-13.0	+2.9	91	1-0	-	-	-	1.0	NE	Nil	2.34	37
Hostech Ltd	3	-3.8	+0.5	81	1-0	-	-	-	2.5	NE	Nil	2.34	12
Murchison Hold.	63	-8.6	+0.7	87	0-0	-	0.5	7	0.4	7	Nil	2.32	13
IDT Australia	139	-2.8	-0.6	79	0-0	-	1.7	19	0.4	9	7.6	2.24	60

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

Company	Share Price	STRENGTH RATING Cur-rent	4-Wk Chg.	Rank 0-99	Insider Buy-Sell	Brokers Following	Price to NTA	Return on Equity	Vola-til-ity	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
Albidon Ltd	4	-43.2	+2.8	99	0-0	-	-	-	1.6	NE	Nil	1.44	6
Baraka Petrol.	1	-38.4	+6.1	99	0-1	-	-	-	3.7	NE	Nil	N/A	12
Matrixview Ltd	3	-34.2	-8.5	99	1-0	-	-	-	1.7	NE	Nil	N/A	12
Sth Amer Iron	8	-29.9	+2.7	98	2-0	-	0.6	-	1.2	NE	Nil	N/A	8
Marion Energy	12	-29.0	+0.5	98	0-0	2	-	-	0.9	NE	Nil	N/A	30
ICS Global Ltd	4	-28.8	-7.1	98	1-0	-	-	-	1.7	NE	Nil	1.54	6
Carpathian Res.	4	-28.5	+0.8	97	0-0	-	-	-	1.8	NE	Nil	3.02	10
Acuvax Ltd	2	-27.1	-6.0	97	1-0	-	-	-	2.5	NE	Nil	N/A	10
Indago Res.	27	-26.7	+1.1	97	0-0	-	-	-	1.3	NE	Nil	N/A	17
Clean Seas Tuna	25	-25.1	-6.4	97	0-0	-	0.4	-	0.6	NE	Nil	1.66	51
Azurn Int'l Ltd	10	-24.7	-5.2	97	0-0	-	-	-	1.3	NE	Nil	1.86	11
Golden State	4	-24.7	+1.8	97	1-0	-	-	-	2.3	NE	Nil	N/A	8
Golden Gate Pet	4	-24.2	-1.0	96	0-0	-	-	-	1.8	NE	Nil	1.45	8
Aust Zircon NL	3	-23.9	+1.1	96	0-0	-	-	-	1.8	NE	Nil	1.19	12
Samson Oil/Gas	1	-22.8	-3.4	96	0-0	-	-	-	3.0	NE	Nil	0.27	13
Trinity Group	12	-22.3	+3.8	96	8-0	-	0.3	-	1.0	NE	Nil	0.55	28
Webfirm Group	3	-22.2	-12.1	96	0-0	-	3.4	-	1.8	NE	Nil	0.49	5
Auto Technology	6	-21.6	+2.6	96	2-1	-	5.7	-	1.6	NE	Nil	N/A	14
Metals Aust.	1	-21.3	+0.3	95	0-0	-	-	-	3.3	NE	Nil	6.32	8
Grange Resource	25	-21.1	-0.8	95	0-0	-	-	-	0.8	NE	Nil	8.43	52
Mineral Commod.	5	-20.9	-6.9	95	1-0	-	-	-	1.7	NE	Nil	N/A	7
Transerv Energy	1	-20.5	-9.5	95	1-1	-	-	-	2.6	NE	Nil	N/A	11
Windimurra Van.	17	-20.3	+3.7	95	0-0	-	-	-	0.9	NE	Nil	N/A	17
Fluorotechnics	35	-19.3	-3.0	95	0-0	-	7.0	-	0.9	NE	Nil	2.99	10
Phosphagenics	7	-19.1	-4.4	95	0-0	-	3.6	-	1.1	NE	Nil	N/A	48
Go Connect Ltd	1	-18.9	-2.4	94	0-0	-	-	-	2.7	NE	Nil	N/A	7
Admiralty Res.	2	-18.8	+3.1	94	1-0	-	-	-	2.6	NE	Nil	N/A	18
Pac Environment	22	-18.7	+5.8	94	1-0	-	-	-	1.0	NE	Nil	2.58	17
Eyecare Partner	10	-17.9	-0.5	94	2-0	-	-	-	1.1	10	Nil	0.48	14
First Aust Res.	6	-17.8	+4.3	94	0-0	-	-	-	1.5	NE	Nil	N/A	34
Stirling Prod.	1	-17.7	+4.2	94	1-0	-	-	-	2.6	NE	Nil	N/A	7
AED Oil Ltd	60	-17.3	+0.1	94	3-0	-	0.4	15	0.7	3	Nil	0.64	92
Nexbis Ltd	19	-17.2	-13.4	94	3-0	-	1.4	81	0.8	2	Nil	1.22	80
B&B Power	8	-17.2	+5.1	94	0-0	-	-	-	1.2	NE	Nil	N/A	55
Altium Limited	24	-17.1	-1.6	93	6-0	-	2.0	-	0.7	NE	Nil	0.34	21
Island Sky Aust	12	-16.8	-3.2	93	0-2	-	1.5	2	1.0	65	Nil	4.08	23
Corum Group Ltd	3	-16.8	-6.7	93	1-0	-	-	-	2.0	NE	Nil	0.36	7
Compass Res	15	-16.3	+3.3	93	0-0	-	0.3	-	1.0	NE	Nil	N/A	19
Centaurus Res.	35	-16.2	+2.9	93	1-0	-	-	-	0.9	NE	Nil	N/A	8
Minemakers Ltd	39	-16.1	+2.1	93	0-5	-	-	-	0.7	NE	Nil	N/A	16
Aspermont Ltd	15	-16.1	+1.5	93	1-0	-	-	-	1.0	NE	Nil	1.49	34
Pac. Enviromin	2	-16.0	+4.7	93	1-0	-	1.5	-	2.6	NE	Nil	N/A	6
Mintails Ltd	4	-15.7	+2.1	92	3-0	-	0.2	-	2.2	NE	Nil	1.03	17
CCK Financial	12	-15.4	+5.6	92	0-0	-	5.8	32	1.0	18	Nil	1.14	6
Stirling Res.	13	-15.2	-4.4	92	10-0	-	0.3	-	1.3	NE	Nil	N/A	52
Everest Fin Grp	5	-14.9	+0.5	92	1-0	-	0.6	59	1.5	1	Nil	0.40	13
TransPacific In	132	-14.7	+2.2	92	3-2	-	-	-	0.7	NE	Nil	0.48	1,071
Progen Pharm.	55	-14.5	+1.0	92	0-0	-	0.5	-	0.8	NE	Nil	2.75	14
Indo Mines Ltd	20	-14.2	+3.3	91	0-0	-	-	-	0.7	NE	Nil	N/A	14
Equities & Free	28	-13.9	-2.3	91	0-0	-	0.7	-	0.6	NE	Nil	0.50	7

INSIDER SELLING: Most Insider Selling, Relative Strength < 0

Company	Share Price	STRENGTH RATING Cur-rent	4-Wk Chg.	Rank 0-99	Insider Buy-Sell	Brokers Following	Price to NTA	Return on Equity	Vola-til-ity	Price Earn. Ratio	Divi-dend Yield	Price Sales Ratio	Market Cap'n
Dominion Mining	367	-5.9	+0.2	84	0-11	3	3.5	29	0.6	12	3.8	3.36	378
Western Areas	508	-1.5	+0.0	76	0-9	3	8.5	-	0.5	NE	Nil	N/A	908
Minemakers Ltd	39	-16.1	+2.1	93	0-5	-	-	-	0.7	NE	Nil	N/A	16
Eromanga H/C	16	-0.6	+1.8	74	0-3	-	-	-	0.9	NE	Nil	N/A	28
Alliance Res.	63	-6.6	-7.2	85	0-3	-	-	-	0.8	NE	Nil	N/A	168
Carnarvon Pet.	49	-2.9	-1.2	79	0-3	2	7.0	76	0.7	9	Nil	3.32	335
Rock Build Soc.	253	-1.7	-1.7	77	0-3	-	1.4	12	0.2	11	7.3	0.55	50
Slater & Gordon	151	-0.6	+0.1	74	1-4	1	1.9	20	0.5	10	2.8	1.60	164
Linc Energy Ltd	150	-4.8	+3.3	82	0-2	-	-	-	0.7	NE	Nil	N/A	625
Island Sky Aust	12	-16.8	-3.2	93	0-2	-	1.5	2	1.0	65	Nil	4.08	23
Nido Petroleum	17	-1.9	+3.0	77	0-2	1	-	-	1.0	25	Nil	N/A	179
Paladin Energy	386	-0.6	-3.1	74	0-2	-	3.2	-	0.9	NE	Nil	N/A	2,407
Pepinnini Min.	22	-1.0	-2.9	75	0-2	-	-	-	0.9	NE	Nil	N/A	14
Carnegie Wave E	13	-9.0	-9.6	88	0-1	-	12.5	-	1.0	NE	Nil	N/A	62
Baraka Petrol.	1	-38.4	+6.1	99	0-1	-	-	-	3.4	NE	Nil	N/A	12
CSL Limited	3048	-1.1	-1.6	76	0-1	2	4.1	26	0.3	16	2.3	3.62	18,265
Mundo Minerals	25	-6.5	-5.6	85	0-1	-	-	-	1.0	NE	Nil	1.26	36
Black Range Min	4	-6.2	-9.7	84	0-1	-	-	-	1.8	NE	Nil	N/A	26
Mosaic Oil NL	11	-3.7	-2.9	80	0-1	1	-	-	1.0	26	Nil	2.57	66
Country Road	324	-0.5	+0.1	74	0-1	-	3.5	25	0.2	14	4.1	0.64	224
Pike River Coal	78	-2.0	-1.6	77	0-1	-	1.1	-	0.7	NE	Nil	N/A	274
Hydromet Corp.	4	-6.7	-2.7	85	0-1	-	1.0	-	1.5	NE	Nil	0.55	15
Heemskirk Cons.	41	-5.1	+1.0	83	0-1	-	0.6	-	0.6	NE	2.4	0.96	31
Ramelius Res.	53	-6.1	+4.4	84	0-1	-	-	-	0.7	12	0.9	5.56	83
Marathon Res.	48	-9.0	-7.2	88	0-1	-	-	-	1.1	NE	Nil	N/A	36

Investment Outlook

(Continued from Page 1)

pumped huge amounts into the financial system over the last year and are unlikely to reverse that process either quickly or in the near future. Furthermore, slow global economic growth over the next few years will draw little liquidity out of financial markets into the real economy. Ample liquidity and slow economic growth often leads to what economists call "financial asset price inflation" or known more commonly as an irrational stockmarket boom. Bank deposits offer low interest rates, there is little demand for new property investments or for new investment in manufacturing facilities - but the money has to go somewhere which is usually into chasing share prices higher.

This will, of course, make it easier for companies to raise new equity and rebuild their balance sheets with less reliance on bank borrowing, so there are some real economic benefits. A stockmarket boom is an *unintentional* consequence of Central Banks pumping liquidity into the system but one that they won't really be too concerned about stopping even if taxpayer money is making wealthy private investors richer - at least on paper.

We do expect that stockmarkets will face a challenging time over the next 3-6 months. The economy has stabilised and may show some early signs of recovery, but corporate profitability will still be depressed. That may disappoint investors who question whether 50% or 100% or 200% increases in share prices were really justified over the last 9-12 months if profitability is unchanged?

Expect some volatility - as investors re-assess the value and future recovery/growth potential of individual shares - but we would expect the Australian and New Zealand stockmarkets to move higher overall. There could be some general weakness in January and early February as companies warn of below market expectation results and then a rally from mid-February to mid 2010.

In the second half of 2010, corporate profits could start to grow strongly owing to improved economic conditions. Believing that profit growth will drive share prices higher, sentiment could change with private and institutional investors becoming more optimistic and fully invested in shares. Economic growth will start to draw liquidity away from financial markets to the real economy and lead Central Banks to believe it is safe to unwind their liquidty injections. That would lead to perfect conditions for a stockmarket correction!

Dividend$

Company	Cents per Share	Ex-Date	Pay-able	Tax Credit
Cavalier Corporation	3.00	27-11	11-12	Full
Goodman Property	2.125	03-12	17-12	0.06451
ING Medical Properties	2.125	08-12	22-12	0.2307
ING Properties	1.875	04-12	18-12	0.199
Kiwi Income Properties	3.75	30-11	18-12	0.75
Tower Corporation	9.00	15-01	02-02	Full
Australian Shares				
Campbell Brothers	45.00	27-11	16-12	
Challenger Wine Trust (1)	3.25	23-12	09-02	
Technology One	2.87	30-11	18-12	
TFS Corporation	3.00	26-11	22-12	

(1) Amount to be confirmed.

Total Return Index for All Listed Shares

	Nov 9	1449.87	
	Nov 10	1452.35	
	Nov 11	1446.06	
	Nov 12	1447.23	
	Nov 13	1442.09	
Nov 16	1443.96	Nov 23	1437.71
Nov 17	1443.87	Nov 24	1435.97
Nov 18	1443.95	Nov 25	1433.38
Nov 19	1438.92	Nov 26	1438.42
Nov 20	1436.28	Nov 27	1424.65
Nov 30	1429.39	Dec 7	1443.56
Dec 1	1430.06	Dec 8	1444.66
Dec 2	1433.24	Dec 9	1434.57
Dec 3	1433.56	Dec 10	1421.69
Dec 4	1439.10	Dec 11	1423.76

Next Issue:

The next issue of *Market Analysis* will be emailed in four weeks time on Monday January 11, 2009.

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