

# Market Analysis

## Inside Market Analysis

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Founder: James R Cornell (B.Com.)

## Summary and Recommended Investment Strategy.

Some Australian shares have weakened over the last couple months - which is creating buying opportunities in new companies and several existing portfolio companies. Remain fully invested in the recommended shares.

## Investment Outlook.

Most of the world's most successful investors look for value, take a contrarian approach to investing and look for out-of-favour, unpopular shares in which to invest.

So why is it that very few "professional" fund managers apply these methods? Why do they avoid the under-valued, out-of-favour shares that everyone hates? And instead rush to buy the popular, highly valued shares?

There are perhaps several reasons - all tied to the fact that they manage millions of dollars of *other people's money* while a successful investor will be managing millions of dollars of *their own money*.

Just imagine what would happen if the Fund Manager of your KiwiSaver scheme wrote in the next quarterly report that he has been loading up on iron ore producers as their business is now unprofitable owing to the collapse of iron ore prices! Lots of customers who don't really understand anything about stockmarket investment would panic and withdraw funds by switching schemes! (OK, we all know that no-one really reads those reports, but some journalist will re-print parts of it out of context and with some uninformed opinions in a newspaper column - and *then* people will panic.)

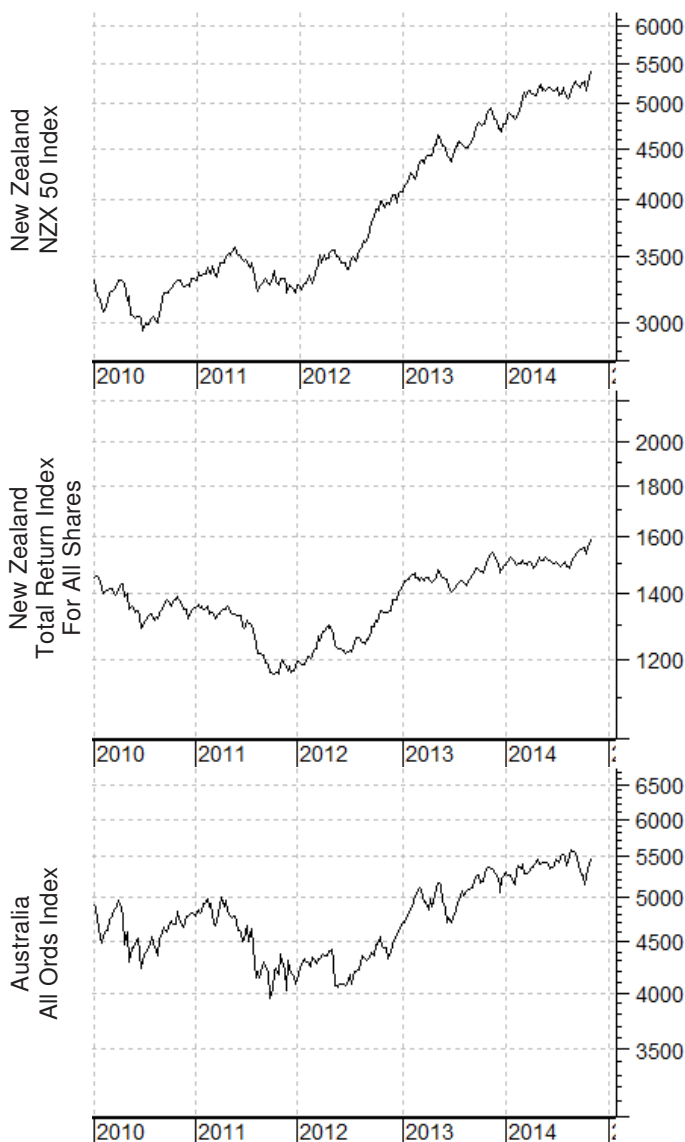
There is something intuitively *wrong* with buying shares in a sector which is suffering from unfavourable conditions and trading unprofitably! Aren't investment analysts supposed to be able to pick the *winning* sectors?

If you understand something about stockmarket investment then you may realise that in an unpopular sector share prices will have *already* collapsed, that some may have some hidden value and . . . shock, horror, how could anyone have expected this? . . . the sector may not collapse completely but may eventually recover. Those shares you picked up dirt cheap could be worth a lot more in a few years!

In January 2001 we bought a small coal miner after coking coal prices fell 45% over the previous three years and profitability collapsed 80%. Nothing ever went completely right for that (Continued on Page 20)

### Stockmarket Forecasts

	One-Month	One-Year
Australia:	75% (Bullish)	63% (Bullish)
New Zealand:	73% (Bullish)	49% (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	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield	Performance Forecast	Price	Price/Sales Ratio	P/E Ratio	Gross Yield			
AMP Limited	B	660	1.49	15	6.0	Insured Group	D	1.5	0.20	NE	Nil	Rubicon Limited	E	34	0.35	70	Nil
Abano Health.	B	710	0.69	30	4.1	Just Water Int.	B	15	0.48	8	Nil	Ryman Health.	C	770	N/A	20	1.5
Acuity Health	A	695	1.22	13	3.4	Kathmandu Ltd	C	302	1.57	14	5.5	SLI Systems Ltd	D	120	3.24	NE	Nil
Air New Zealand	B	209	0.05	1	6.6	Kermadec Prop.	C	67	6.58	11	4.5	Sanford Limited	A	502	1.02	23	6.4
Akid Int Airport	B	388	9.70	21	2.5	Kingfish Ltd	B	136	N/A	6	8.4	Satara Co-op	C	58	0.19	NE	Nil
Allied Farmers	B	8.5	0.20	NE	Nil	Kirkcaldie & St	C	170	0.45	NE	Nil	Scales Corp Ltd	E	136	N/A	NE	Nil
Allied Work.	B	260	0.46	17	4.1	Kiwi Property	C	122	5.92	12	5.3	Scott Tech. Ltd	D	153	1.05	11	7.3
Aorere Res. *	N/R	0.6	6.33	NE	Nil	L&M Energy	A	7.3	N/A	NE	Nil	Sealegs Corp	D	12	0.91	NE	Nil
Argosy Property	C	107	8.02	10	5.8	Mainfreight Grp	A	1595	0.82	18	2.8	Seeka Kiwifruit	A	325	0.48	18	5.6
Barramundi Ltd	D	63	N/A	NE	9.8	Marlin Global	B	83	N/A	8	8.9	Serko Limited	D	93	N/A	NE	Nil
Bathurst Res.	E	18	N/A	NE	Nil	Marsden Mar.	B	270	N/A	13	5.8	Skellerup Hold.	C	150	1.47	13	7.9
Blis Technology	C	2.4	N/A	NE	Nil	Mercur Group	E	15	1.08	NE	Nil	Sky City Ltd	B	409	2.90	24	6.8
Briscoe Group	B	290	1.30	19	6.0	Meridian Energy	B	172	1.76	19	8.9	Sky Network TV	C	634	2.71	15	6.4
Burger Fuel	C	350	N/A	NE	Nil	Methven Limited	C	115	0.79	16	11.3	Smartpay NZ Ltd	D	24	1.80	24	Nil
CDL Investments	D	53	3.77	11	5.3	Metro. LifeCare	B	437	9.73	13	0.9	Smiths City	C	55	0.13	7	6.4
Cavalier Corp	C	83	0.28	10	5.0	Michael Hill	C	139	1.02	16	4.7	Snakk Media Ltd	E	8.5	6.12	NE	Nil
Cavotec MSL	B	245	1.08	20	1.6	Mid-Cap Index	B	333	N/A	8	2.5	Snosaj12 Ltd	E	10	0.19	NE	Nil
Charlie's Group	D	43	4.00	51	Nil	Mighty River	B	296	2.43	20	6.3	Sol. Dynamics	D	50	0.64	14	Nil
Chorus Ltd	C	209	0.78	6	Nil	Millennium & C.	B	129	3.78	17	1.3	South Port NZ	A	395	3.30	16	7.7
Claridge Cap'l	D	1.5	N/A	NE	Nil	Moa Group Ltd	D	41	2.71	NE	Nil	Spark NZ Ltd	B	306	1.54	17	7.5
Col Motor Co	A	605	0.28	11	8.0	Mowbray Collect	D	43	1.31	NE	Nil	Speirs Group	B	21	0.15	1	Nil
Comvita	C	410	1.13	17	Nil	NPT Limited	D	60	6.10	13	7.4	Steel & Tube	C	299	0.60	15	7.4
Contact Energy	B	636	1.91	20	5.7	NZ Exchange Ltd	D	119	4.81	25	6.5	Summerset Group	C	265	N/A	17	1.2
Cynotech Hold.	E	0.2	0.09	NE	Nil	NZ Experience	B	35	1.11	9	11.8	Synlait Milk	D	365	1.27	46	Nil
DNZ Property	B	178	8.29	13	6.4	NZ Finance Hold	E	1.0	5.55	NE	Nil	TeamTalk Ltd	C	168	0.79	16	14.5
Delegat Group	A	470	2.05	11	3.3	NZ Farming Sys.	D	65	1.53	NE	Nil	Tenon Ltd	C	174	0.24	47	Nil
Diligent Board	B	499	5.31	57	Nil	NZ Oil & Gas *	N/R	75	3.07	32	8.0	Tourism Hold.	A	157	0.78	16	6.2
Dorchester Pac	D	266	4.10	39	1.9	NZ Refining Co	D	170	2.13	NE	1.6	Tower Limited	C	197	1.44	NE	5.6
EROAD Ltd	D	415	N/A	NE	Nil	NZ Windfarms	E	4.8	1.48	NE	Nil	Trade-Me Ltd	B	400	9.66	20	5.6
Ebos Group Ltd	C	970	0.25	16	4.8	NZ Wool Service	E	42	0.19	NE	Nil	Training Sol.	E	0.5	N/A	NE	Nil
F & P Health.	B	542	4.79	31	3.2	NZSX 50 Port.	C	183	N/A	8	2.5	Trilogy Intern.	D	64	1.34	37	Nil
Finzsoft Sol'ns	A	250	2.21	28	Nil	NZSX 10 Fund	C	118	N/A	6	3.4	Trust Power Ltd	C	752	2.90	20	6.8
Fletcher Build.	C	836	0.68	17	6.0	NZX Aust MidCap	C	501	N/A	NE	3.8	Turners & Grow.	C	173	0.28	13	Nil
Foley Fam Wines	C	163	2.75	26	Nil	New Image Group	E	25	0.79	NE	Nil	Turners Group	A	302	0.93	17	7.4
Fonterra S/H Fd	B	616	0.21	19	5.2	Nuplex Indust	C	310	0.37	12	6.8	Vector Ltd	C	278	2.20	16	7.6
Freightways Ltd	B	562	2.01	21	5.3	Opus Int'l Cons	C	153	0.49	10	7.2	Velo Capital	D	7.0	N/A	NE	Nil
Genesis Res.	D	1.8	N/A	NE	Nil	Ozzy (Tortis)	C	392	N/A	NE	3.1	Veritas Invest.	C	120	1.50	10	9.4
Genesis Energy	A	221	0.60	24	4.1	PGG Wrightsons	A	48	0.29	9	13.2	Vetlot Limited	C	0.4	N/A	NE	Nil
Gentech Group	D	208	N/A	NE	Nil	Pac Edge Bio.	E	82	N/A	NE	Nil	Vista Group Ltd	C	350	N/A	NE	Nil
GeoOP Ltd	D	50	N/A	NE	Nil	Pike River Coal	B	88	N/A	NE	Nil	Vital Health PT	C	153	7.68	14	7.2
Goodman Prop.	C	111	8.44	10	5.9	Port Tauranga	B	1635	8.23	28	4.2	WN Drive Tech.	E	8.0	0.39	NE	Nil
Green Cross H.	A	192	2.28	18	2.6	Postie Plus Grp	D	7.3	0.03	NE	Nil	Warehouse Group	C	317	0.44	7	9.2
Guinness Peat	D	53	0.34	13	Nil	Precinct Prop.	C	111	7.11	10	6.8	Windflow Tech.	D	6.0	0.32	NE	Nil
GuocoLeisure	C	101	2.32	23	Nil	Promisia Integ.	E	4.0	N/A	NE	Nil	Wool Equities	D	2.2	0.33	NE	Nil
Hallenstein G.	C	335	0.91	11	13.9	Property F Ind.	C	148	N/A	15	5.7	World Index Fd	E	100	N/A	NE	Nil
Heartland Bank	B	104	2.26	13	8.0	Pumpkin Patch	D	35	0.20	11	Nil	Wynyard Group	E	201	9.10	NE	Nil
Hellaby Hold.	B	298	0.38	11	7.0	Pushpay Hold.	C	235	N/A	NE	Nil	Xero Ltd	E	1752	N/A	NE	Nil
Heritage Gold *	N/R	1.8	N/A	NE	Nil	Pyne Gould Corp	D	40	N/A	NE	Nil	Z Energy Ltd	B	411	0.49	17	7.4
Horizon Energy	C	330	0.79	12	6.3	Rakon Ltd	D	35	0.44	NE	Nil	Zintel Cos.	E	44	0.54	NE	Nil
IkeGPS Limited	E	85	N/A	NE	Nil	Renaissance	D	15	0.15	NE	Nil	<b>Ave of 151 Ccos</b>	C	231	0.50	18	3.3
Infratil NZ	C	300	0.73	NE	4.4	Restaurant Brds	B	363	1.08	18	6.3	Platinum Asset	B	686	N/A	21	5.0
A.P. Eagers	A	570	0.38	16	4.0	DuluxGroup Ltd	A	556	1.41	27	3.1	Premier Invest	B	1106	1.90	24	3.6
AGL Energy Ltd	B	1386	0.85	14	4.5	Echo Ent Group	A	396	1.81	31	2.0	Primary Health	B	462	1.53	14	4.3
ALS Limited	B	553	1.45	14	7.1	Energy Develop.	B	506	2.08	19	5.5	Q.B.E. Insur.	B	1166	0.72	NE	2.7
AMP Ltd	A	590	0.86	24	3.9	Fairfax Media	B	82	0.95	13	2.4	Qantas Airways	B	169	0.24	NE	Nil
ANZ Bank	A	3288	2.67	14	5.0	Federation Cent	A	272	7.11	18	5.2	Qube Holdings	A	236	2.11	28	2.2
APA Group	A	810	5.08	20	4.5	Flexicorp Ltd	A	353	3.39	19	4.7	REA Group Ltd	A	4538	N/A	40	1.3
ARB Corporation	A	1313	3.17	22	2.2	Flight Centre	B	4138	1.86	20	3.7	Ramsay Health	A	5315	2.18	35	1.6
ASX Limited	A	3724	9.06	19	4.8	Fortescue Metal	A	315	0.79	3	6.3	Recall Holdings	B	598	2.87	42	Nil
AVEO Group	A	211	2.49	41	3.8	G8 Education	A	482	5.27	47	2.5	Reece Australia	B	3220	1.80	26	2.0
AWE Limited	A	175	2.77	15	Nil	GPT Group	A	417	N/A	12	4.9	Regis Health.	C	420	N/A	NE	Nil
Abacus Property	A	279	4.50	21	5.9	GWA Group Ltd	B	274	1.45	45	2.0	Retail Food Grp	A	590	5.08	23	3.7
Adelaide Bright	A	340	1.77	14	4.9	Genworth Mort.	B	368	N/A	NE	Nil	Rio Tinto Ltd	B	6070	1.96	10	3.5
Ainsworth Game	A	310	4.09	16	3.2	Goodman Group	A	565	8.25	15	3.7	S/Tracks ASX200	A	5251	N/A	7	4.3
Alumina Ltd	B	177	N/A	NE	Nil	Goodman Fielder	B	65	0.58	NE	3.1	SAI Global Ltd	B	410	1.64	24	3.8
Amalgamated Hld	B	1016	1.46	20	4.1	Graincorp	A	851	0.44	14	4.7	Sandfire Res.	B	518	1.52	10	1.9
Amcor Ltd	A	1222	1.36	20	3.5	Greencross Ltd	B	843	2.33	NE	1.5	Santos Ltd	B	1278	3.45	24	2.3
Aneka Tambang	D	110	N/A	NE	Nil	Growthpoint Pro	A	281	8.81	13	6.8	Scentre Group	B	356	N/A	NE	Nil
Ansell Ltd	B	2038	1.85	70	0.0	Harvey Norman	A	391	2.74	20	2.3	Seek Ltd	A	1681	7.90	29	1.8
Ardent Leisure	A	309	2.46	26	4.2	Henderson Group	B	399	4.18	19	3.7	Seven West Med.	B	179	0.97	12	6.7
Argo Investment	B	787	N/A	27	3.6	Hutchinson Tel.	D	6.4	N/A	NE	Nil	Seven Group	B	682	0.67	8	5.9
Aristocrat Leis	A	670	4.57	34	2.2	IOOF Holdings	A	922	2.89	21	5.2	Shopping Centre	A	179	7.33	10	6.1
Arrium Limited	B	31	0.07	2	29.5	IRESS Limited	A	1017	6.42	67	3.7	Sigma Pharm.	B	78	0.30	12	5.1
Asaleo Care Ltd	B	204	N/A	NE	Nil	liiNet	A	803	1.38	21	2.4	Sims Metal Mgmt	B	1113	0.32	NE	0.9
Asclano Limited	A	629	1.56	24	1.8	Iluka Resources	B	713	3.49	NE	1.3	Sirius Res. NL	C	275	N/A	NE	Nil
Aurizon Hold.	B	465	2.59	39	3.5	Independ. Group	A	419	2.45	21	1.9	Sirtex Medical	A	2650	N/A	62	0.4
AusNet Services	A	142	2.51	15	5.8	Insurance Aust.	A	648	1.41	12	6.0	Slater & Gordon	A	632	3.13	21	1.3
Aust AgriCult.	B	155	1.91	NE	Nil	Investa Office	A	358	N/A	12	5.2	Sonic Health	A	1913	1.96	20	3.5
Aust United In	B	834	N/A	8	3.8	Invocare Ltd	A	1246	3.47	28	2.9	Soul Pattinson	B	1441	4.36	21	3.2
Aust Foundation	A	612	N/A	25	3.6	JB Hi-Fi Ltd	B	1617	0.46	12	5.2	Spark Infrastru	A	193	8.23	20	2.8
Automotive Hold	A	392	0.44	27	5.1	Jim Hird	B	1226	4.27	NE	1.4	Spotless Group	C	202	0.85	NE	Nil
BHP Billiton	B	3449	1.55	8	3.7	Leighton Hold	A	2178	0.33	14	4.8	Steamships Trad	B	3101	2.32	18	2.7
BK1 Invest Coy	B	160	N/A	22	4.3	Lend Lease Grp	A	1622	N/A	NE	4.4	Stockland	A	420	5.03	19	5.7
BT Invest Mgmt	B	625	5.94	30	2.9	Liq Natural Gas	C	885	N/A	NE	Nil	Suncorp Group	A	1496	1.18	26	5.0
BWP Trust	A	255	N/A	12	5.5	M2 Group Ltd	A	800	1.41	22	3.3	Super Retail Gr	B	801	0.75	15	5.0
Bank of Q'land	A	1233	1.60	22	4.7	MNC Media Inv.	C	360	N/A	NE	Nil	Sydney Airport	A	451	8.97	34	3.4
Beach Energy	A	114	1.39	14	2.6	Macquarie Atlas	B	320	N/A	37	1.8	TPG Telecom Ltd	A	732	5.98	34	1.3
Bega Cheese Ltd	A	529	0.75	12	1.6	Macquarie Group	A	6236	2.46	16	4.2	TTG Fintech Ltd	D</				

# Recommended Investments

**Cavalier Corporation** has announced the merger of its 50% owned **Cavalier Wool Holdings** with the wool scouring business of **NZ Wool Services International**. Cavalier Corporation will own 27.5% of the enlarged wool scouring business.

(Continued on Page 4)

## Cavalier Corporation



## Portfolio of Recommended Investments

CURRENT ADVICE	Company	Code	Initial Recommendation - Date -	Price	Performance Forecast	Issued Shares (mil.)	Vola- tility Ratio	Price/ Sales Ratio	Price/ Earnings Ratio	Gross Dividend Yield	Recent Share Price	Cash Dividends Rec'd	Total Return %
<u>NZ Shares</u>													
BUY	CDL Investments Ltd	CDI	12/01/99	25	D	274.7	1.2	3.77	11	5.3	53	25.4	+212%
HOLD	Cavalier Corporation	CAV	05/12/95	156*	C	68.7	1.3	0.28	10	5.0	83	282.0	+134%
HOLD	Colonial Motor Company	CMO	10/11/92	128*	A	32.7	0.4	0.28	11	8.0	605	427.3	+707%
BUY	Michael Hill Int'l Ltd	MHI	11/06/91	5*	C	383.0	0.9	1.02	16	4.7	139	54.9	+3778%
HOLD	Nuplex Industries Ltd	NPX	11/02/97	523*	C	198.1	1.1	0.37	12	6.8	310	462.0	+48%
HOLD	Smiths City Group	SCY	09/10/06	64	C	52.7	1.2	0.13	7	6.4	55	24.5	+24%
HOLD	South Port New Zealand	SPN	13/02/96	120	A	26.2	0.6	3.30	16	7.7	395	218.3	+411%
BUY	Steel & Tube Holdings	STU	08/08/00	146	C	88.5	0.9	0.60	15	7.4	299	299.6	+310%
<u>Australian Shares</u> (in Aust cents)													
BUY	Acruz Limited	ACR	12/05/14	99	A	166.5	0.9	3.32	6	7.4	108	8.0	+17%
HOLD	AJ Lucas Group	AJL	13/05/03	107*	C	267.4	1.0	0.82	NE	Nil	70	36.4	-1%
HOLD+	ALS Limited	ALQ	12/10/99	77*	B	397.8	0.5	1.45	14	7.1	553	264.5	+962%
BUY	AtCor Medical Ltd	ACG	11/11/13	15	D	157.4	2.8	3.05	NE	Nil	10	Nil	-35%
HOLD+	Atlas South Sea Pearl	ATP	14/05/96	73	C	319.5	2.4	2.35	21	Nil	12	17.5	-60%
BUY	Ausenco Ltd	AAX	10/06/13	191*	C	168.4	1.4	0.17	NE	4.3	47	1.8	-74%
HOLD+	Brickworks Ltd	BKW	12/11/12	1115	B	148.4	0.3	2.93	19	3.2	1325	54.5	+24%
HOLD	Cardno Ltd	CDD	14/12/09	391*	B	164.1	0.5	0.66	11	6.8	531	151.3	+75%
SELL	Cellnet Group Ltd	CLT	12/02/02	147*	C	55.7	1.9	0.14	NE	Nil	20	55.9	-48%
HOLD+	Chandler Macleod Group	CMG	14/08/01	51*	B	548.0	1.5	0.13	14	9.1	35	32.1	+32%
BUY	Circadian Technologies	CIR	10/02/04	188	D	68.1	2.1	9.35	NE	Nil	17	65.0	-57%
HOLD+	Clarius Group Ltd	CND	08/04/03	82*	C	89.6	1.8	0.12	NE	Nil	25	70.5	+16%
BUY	CPT Global Ltd	CGO	10/03/08	88	B	36.7	1.1	0.68	14	6.3	71	15.8	-1%
HOLD	CSG Limited	CSV	11/10/10	175	B	279.6	1.0	1.64	27	7.7	117	46.0	-7%
SELL	Devine Ltd	DVN	13/11/06	334*	C	158.7	0.9	0.57	NE	Nil	100	79.6	-46%
BUY	Ellex Medical Lasers	ELX	14/03/06	49	D	107.6	1.7	0.62	43	Nil	32	Nil	-36%
BUY	Fiducian Portfolio Ser	FPS	11/02/08	260	A	30.8	0.8	2.33	13	5.3	171	52.9	-14%
BUY	Finbar Group Ltd	FRI	12/04/10	106	B	227.0	0.8	1.15	9	7.1	142	46.5	+77%
HOLD+	Iluka Resources Ltd	ILU	12/10/04	471	B	418.7	0.6	3.49	0	1.3	713	197.0	+93%
BUY	Integrated Research	IRI	14/01/08	40	C	168.8	0.8	3.11	19	5.1	98	29.0	+218%
HOLD	M2 Telecommunications	MTU	09/10/06	33	A	181.0	0.4	1.41	22	3.3	800	79.0	+2564%
HOLD+	Melbourne IT	MLB	10/02/04	53	D	92.9	0.8	1.00	17	Nil	124	230.0	+568%
BUY	Mt Gibson Iron	MGX	10/11/14	44	B	1090.8	1.5	0.53	4	9.1	44	Nil	
HOLD	Nomad Building Solutio	NOD	16/08/10	13*	C	277.5	4.1	0.37	NE	Nil	5	Nil	-62%
HOLD	Novarise Renewable Res	NOE	14/03/11	25	D	415.1	2.5	0.61	6	Nil	14	Nil	-44%
HOLD	Probiotec Ltd	PBP	11/02/08	116	D	52.9	1.6	0.23	16	Nil	29	9.3	-67%
HOLD+	Prophecy International	PRO	08/09/08	26	C	55.4	1.5	2.98	17	7.2	38	15.8	+107%
HOLD+	Skilled Group Ltd	SKE	12/03/02	126	B	235.8	0.8	0.28	12	7.6	225	173.5	+216%
HOLD	Technology One Ltd	TNE	11/11/03	44	A	308.8	0.4	5.87	39	1.6	345	44.6	+785%
HOLD+	TFS Corporation Ltd	TFC	08/01/07	45	A	325.3	0.7	3.12	6	4.3	141	20.2	+258%
HOLD	The Reject Shop Ltd	TRS	11/01/05	257	B	28.8	0.4	0.32	16	3.8	798	375.5	+357%
HOLD	Village Roadshow	VRL	10/08/09	77	B	159.5	0.4	1.18	25	3.8	717	253.0	+1160%

The average Total Return (i.e. both Capital Gains/Losses plus Dividends received) of all current investments from initial recommendation is +332.4%. This is equal to an average annual rate of +33.7%, based upon the length of time each position has been held.

The average annual rate of gain of ALL recommendations (both the 40 current and 157 closed out) is +31.1%, compared with a market gain of +4.1% (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.

## Recommended Investments

(Continued from Page 3)

The company has also announced that it is unlikely to match the \$5.8 million profit achieved in the June 2014 financial year owing to the high price of wool and the higher exchange rate depressing the profitability of its Australian sales.

**Michael Hill International** lifted Canadian revenues 30.4% to C\$69.0 million in the year to 30 June 2014, but earnings (before interest and tax) rose 238.5% to C\$3.8 million. This indicates this division is achieving the economies of scale necessary to make a meaningful contribution to group profits. Earnings as a percentage of revenues were up from 2.1% to 5.5% - but still far behind the 15.5% achieved in Australia or 20.1% in NZ - indicating room for further significant improvement.

Revenues should also grow strongly with the current 54 Canadian stores expanded with the addition of 10 new stores in each of the next three years. That could boost Canadian revenues in the June 2017 financial year by about 70% to C\$115-120 million. An improvement in the earnings margin to 10% (i.e. still well short of its ultimate potential) would lift Canadian earnings 200-215% to C\$11.5-12.0 million.

The company opened two stores but also closed two stores in the United States during the June 2014 year. That is part of its repositioning and experimentation (or perhaps just simply lease expiries?) in that market, but there are signs that the company may be able to expand in this very large US market. The US stores are still unprofitable, but just eight stores is probably too small to ever be profitable. The company, however, is planning to open one new US store this year and another in the June 2016 year, with four new stores likely in the June 2017 financial year. That would indicate that Michael Hill International believes it is close to achieving the right marketing strategy in the US market - and will then begin to roll out new stores to steadily grow revenues, and eventually profits, in this market.

This *slow and steady* growth of a *profitable* and *cash flow positive* business, financed *100% internally* (i.e. with no dilution from issuing new capital and no new cash investment from shareholders) has generated significant long term wealth for shareholders. This growth strategy contrasts with the rapid growth, externally funded, dilutive capital raising adopted by companies like **Xero** and **Orion Health Group**. This newsletter long ago made its decision about which growth strategy is most likely to be successful and, as always, we backed that decision with our own money.

Our initial purchase price for Michael Hill International shares was 4.628 cents (adjusted for bonus issues and a share split). We not only have a very nice capital gain on this share, but the company has repaid

our initial investment 11-fold in cash dividends. Michael Hill International has not only built its own business significantly over the last two decades, but those cash dividends, re-invested in other shares, have made a *slow and steady* contribution to significantly building our investment portfolio!

A sound, intelligent investment strategy can help create this positive feedback system - where every successful investment creates significant cash flow (i.e. dividends), and ultimately from realised capital gains, which helps finance new investments - some of which will also hopefully be successful and continue this cycle of dividend growth and capital appreciation. Melbourne IT has repaid our initial investment 4-fold in cash distributions, Colonial Motor Company, ALS Ltd and Village Roadshow 3-fold and Steel & Tube and M2 Group 2-fold. These, and cash dividends from other investments, have all helped finance new share investments over the years.

The impact of realised gains is demonstrated by the takeover of JNA Telecommunications for a 3½-fold gain in 1998 which helped finance investments in Flight Centre (which rose 504%), Toll Holdings (up 2209%) and Vision Systems.

[Editor's Note: The impact of JNA was actually greater, as the shares had earlier fallen 65% in value - allowing us to build up a relatively large holding at low prices in 1996 - partially financed from a 34-fold gain on the sale of NZ Refining. So subscribers to this newsletter may have realised a 4½-5½ fold gain on a large portfolio holding].

Partial profit-taking on Flight Centre and ERG a year later helped finance our investment in ALS Ltd (Campbell Brothers). The takeover of Vision Systems (up 7½-fold) in late 2006 helped finance our investment in M2 Group (up 26½-fold). The sale of RadioWorks for a 5-fold gain helped finance our investment in Centennial Coal (Austral Coal) which went on to rise 9½-fold in value!

Even if only *some* shares in a diversified portfolio become such big winners, this creates "positive feedback" and generates "exponential growth" (i.e. compound growth) which, over a decade or two, can create significant investment wealth.

### Michael Hill International



**Nuplex Industries** has agreed to sell its *Nuplex Specialties* and *Nuplex Masterbatch* businesses to **CHAMP Private Equity** for A\$127.5 million in cash.

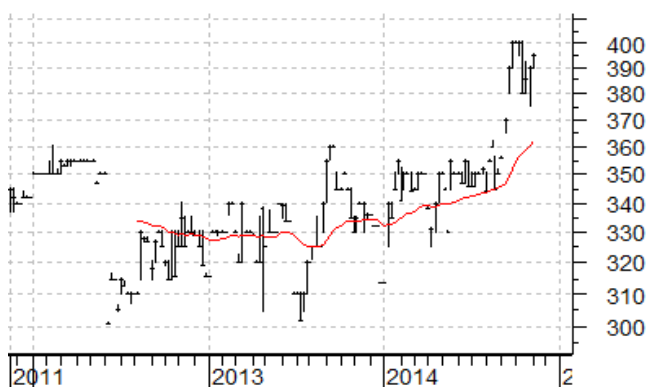
The sale of these businesses will initially lower earnings, down from a previous forecast earnings (before interest, tax and depreciation) of \$127-137 million to \$115-125 million. Cash from the sale will reduce interest bearing debt in the short term and could accelerate growth of the remaining businesses over the medium to long term.

**Nuplex Industries**



**South Port NZ** is “forecasting a similar overall cargo level but a slightly lower level of tax paid profits for 2015”.

**South Port NZ**



**Australian Shares**

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

**Acrux Ltd** reports *Axiron* sales of US\$36.3 million in the September 2014 quarter. That is down on the US\$40.6 million in the September 2013 quarter and the US\$47.1 million in the June 2014 quarter.

That will provide the company with a good royalty stream, but the next large (undisclosed) milestone payment probably requires annual calendar sales over US\$200 million (i.e. around US\$50 million per quarter).

**Acrux Ltd**



**AJ Lucas Group's** Spiecapag Lucas joint venture (with international pipeline specialist **Spiecapag SA**) has been awarded the contract to construct **APA Group's Eastern Gas Pipeline** in Western Australia.

The 293km gas pipeline expansion will cost a total of \$140 million and take gas to **AngloGold Ashanti's Sunrise Dam** and *Tropicana* gold mines to fuel gas fired electricity generation at both mines.

Planning for this project will begin immediately, with machinery mobilisation expected in January 2015, construction to begin in March with completion scheduled for November 2015.

**AJ Lucas Group**



**ALS Ltd** has sold its non-food hospitality supplies business, *Reward Distribution*, to French based **E.CF Group** for “approximately \$22 million in cash”. This is a non-core business, unrelated to its laboratory services business.

**ALS Ltd**



(Continued on Page 6)

## Recommended Investments

(Continued from Page 5)

**AtCor Medical** reports that the delays to selling to large pharmaceutical companies “has continued through the first quarter” of the new financial year. The company, however, is making progress on a number of important issues.

The company is hoping to have its *SphygmoCor* device approved for CPT I Coding in the United States. This is the critical final step in the commercialisation of a medical device or procedure. A CPT I code would approve the treatment (and fix a cost) that **Medicare** would reimburse to physicians. Private medical insurers, although not obligated, usually follow Medicare and negotiate a reimbursement rate. A CPT I code will therefore allow physicians to purchase *SphygmoCor* and use these for measuring central blood pressure, knowing that Medicare (and private insurers) will pay for the test.

The **Renal Physicians Association** applied and received a CPT III code in March 2012, which is “the first critical step” in applying for CPT I. The Renal Physicians Association now plans to submit a CPT I application this month. The CPT (Current Procedural Terminology) panel would consider the application in February 2015. If approved, the RUC (Relative Value Scale Update Committee) will consider data and recommendations to determine a Medicare payment rate which in May would be considered by CMS (Centres for Medicare & Medicaid Services). New CPT I codes are released in August and if *SphygmoCor* receives a CPT I code this news would have a significant impact on AtCor Medical's share valuation!

In November, CMS announces the new Medicare payment rate and the CPT code would become effective from 1 January 2016 at which point Medicare will reimburse medical claims for using the procedure.

A CPT I code would ensure physicians are paid for tests and would encourage them to invest in the technology. While the outcome of the application cannot be known in advance, AtCor Medical has “firm go to market plans post CPT I”.

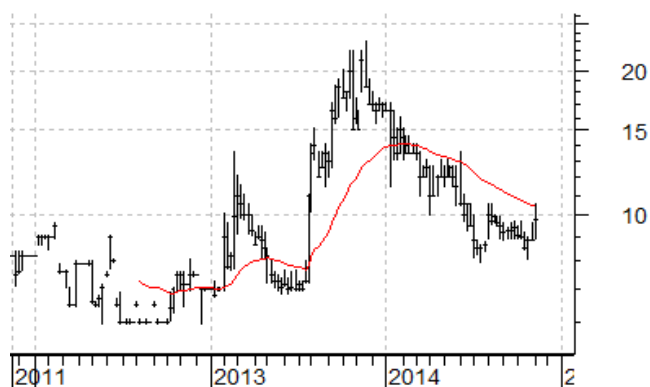
This is the standard procedure for all medical treatment seeking to be covered by Medicare.

The company will also soon begin to market the *Oscar 2* ambulatory blood pressure monitor (ABPM) - jointly developed with **SunTech Medical** - once it receives European *CE Mark* accreditation (expected this quarter) and US FDA approval (expected in the March quarter of 2015). AtCor Medical will market this

device to pharmaceutical clinical trials while SunTech Medical will market to clinical practices and research markets. An ABPM is a portable device, worn by a patient for a 24 hour period to record regular blood pressure during normal activity and sleep. The market for ABPM devices is around 45,000 units annually. *Oscar 2* will sell for about US\$2600 per unit - so this is a large potential market.

The pacemaker optimisation trial with a large device company is “nearing completion”. This *could* generate both equipment sales *and* royalties from the use of the technology.

### AtCor Medical



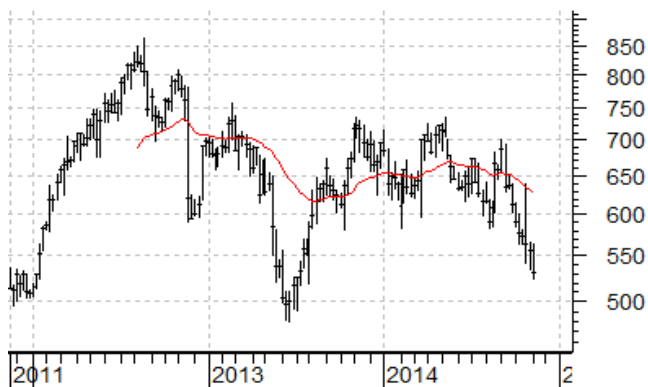
**Atlas South Sea Pearls** has sold \$1.4 million of pearls at auction in Kobe, Japan, on 22-23 October. Prices were 10% higher than in June and 50% higher than in May 2012. Over 85% of South Sea Pearls are produced in Japan, with these Japanese “pearl houses with pearl farms” winning “most of the bids this time”. The company will offer more pearls at auction in December.

### Atlas South Sea Pearls



**Cardno Ltd** reports its forward project work has grown from \$855 million at 30 June to \$935 million at the end of September. “Conditions appear more favourable” than last year, but this is “not expected to translate into improved performance until the second half of the June 2015 financial year”.

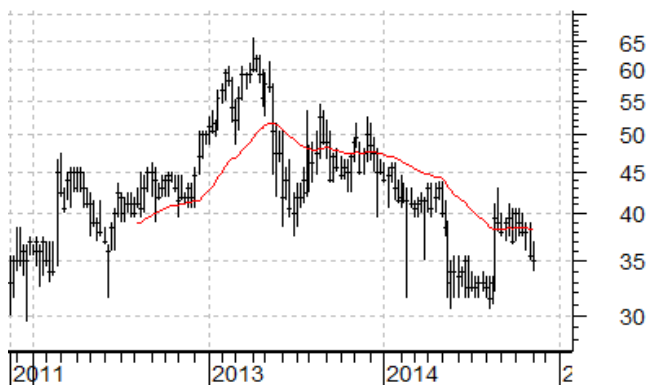
**Cardno**



**Chandler Macleod Group** notes that “lower business confidence” has “impacted our first quarter result” but with “a strong pipeline of business opportunities”.

Cashflow is “expected to remain strong” and “further productivity initiatives will deliver cost savings in 2015 and 2016”.

**Chandler Macleod Group**



**Ellex Medical Lasers** reports that **Bunderverband Auge** (the German Federate Eye Association, a non-profit patient organisation) has “recognised Ellex's proprietary Canaloplasty technology as the new *Gold Standard* in surgical treatment of glaucoma”. This uses a patented *iTRANK* microcatheter to enlarge and restore the eye's natural drainage.

This new technology has similar therapeutic benefits to the other surgical option, trabeculectomy (which bypasses the eye's natural drainage), but with a “vastly different safety profile”. Trabeculectomy has high risk of complications and infection.

The glaucoma surgical device market is currently around A\$275 million annually and expected to grow rapidly to A\$870 million by 2019. When Ellex Medical Lasers bought this business in December 2013, annual canaloplasty revenues were around US\$4 million (and Ellex Medical Lasers total group revenues are just A\$54 million) so this is a huge potential growth market.

**Ellex Medical Lasers**



**Fiducian Portfolio Services** predicts “net profits are expected to be higher than the past year, based on current projections”.

**Fiducian Portfolio Services**



**Finbar Group** has completed the *Spring View Towers* and settlements started last month. The company has pre-sold 181 of the 188 apartments (i.e. pre-sold \$96.8 million of this \$100.3 million joint venture project).

The company has received development approval for the Northbridge project, to be marketed as *Linq Apartments*. This wholly owned project will consist of a 14 level tower with 112 apartments and four commercial lots with an end value of around \$60 million. Marketing is expected from this month, with construction likely to begin in mid 2015 and completion in the June 2017 financial year.

The company has also secured a \$150 million joint venture project. The joint venture partner will contribute \$20 million in cash and Finbar Group will contribute \$10 million, with Finbar Group receiving 50% of development profits and a project management fee. The company has purchased a 3406m<sup>2</sup> site at 63 Adelaide Terrace in East Perth, 1.5 km from the CBD for \$15 million. The initial design concept is for a 32 level tower, with around 200 apartments plus ground floor commercial lots. The marketing launch is expected in about a year (i.e. late 2015), with construction likely to start in 2016.

(Continued on Page 8)

## Recommended Investments

(Continued from Page 7)

### Finbar Group



**Iluka Resources** made a “non-binding and conditional” offer to acquire UK based **Kenmare** in June and confirms that it is still “engaged in discussions” with that company.

Iluka Resources also reports “no material change in revenue per tonne” on sales during the September quarter. Total mineral sands revenues for the nine months to 30 September were \$491.0 million, down 7.1% on the same period the previous year.

At current sales volumes and prices, Iluka Resources will earn only low net profits but still generate significant net cash operating surpluses. For the half year to 30 June the company reported a net profit of just \$11.7 million (2.8 cents per share) but a net operating cash surplus of \$110.5 million (26 cents per share) and could produce a stronger performance in the second half of the year.

### Iluka Resources



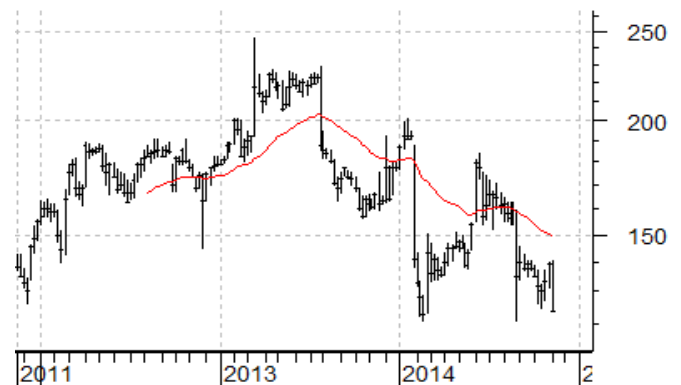
**Melbourne IT** has confirmed that cost synergies from the merger with Netregistry are likely to be \$7.5 million, up from the \$5.0 million initially expected.

The company is seeking to increase revenues by offering higher value services. Basic services (i.e. domain names, web hosting, email, DIY web design) generate average revenues per user of \$5-40 per month.

It will offer search engine optimisation, DIFM (do-it-for-me) web design, DIFM social media and DIFM online advertising which could generate \$100-400 per user per month. The company also believes the market for these value added services is four times larger than for the basic domain name and hosting services.

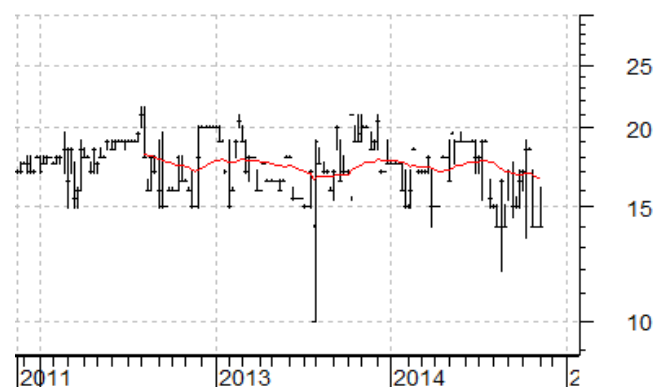
The second half earnings (before interest, tax and depreciation) are forecast at \$9-11 million, taking the full year to \$12.6-14.6 million.

### Melbourne IT



**Novarise Renewable Resources** reports that the major shareholders have failed to provide the A\$7,320,000 by 6 November, being 30% of the amount required for the proposed buy-out of the minority shareholders. The major shareholder is requesting a further extension to 30 November for this initial deposit.

### Novarise Renewable Resources



**Probiotec Ltd** has sold its processing facility at South Nowra, NSW, and will move these operations to its facility at Laverton, Victoria. The sale (of land, buildings and plant and machinery) for \$2.2 million will realise an \$800,000 *loss* on book value. \$1.0 million will be spent on plant and equipment and rationalisation expenses, leaving \$1.2 million to repay debt.

Integrating the operations at one site is expected to reduce annual operating costs by around \$500,000.



**Probiotec**



**Skilled Group** reports a “strong first quarter performance”, with revenues and earnings up more than 10%. The company is also expecting further annual cost savings of \$15 million starting this financial year from “process improvement and the benefit from systems investment”.

**Skilled Group**



**TFS Corporation** has announced that **Galderma** (a global dermatology company, owned by **Nestle**) will launch its *Benzac Acne Solutions* before the end of the year. The over-the-counter treatment should be in US stores on 29 December and available online (in the US) from 2 January 2015.

This product, which uses TFS Corporation's Indian Sandalwood Oil, was developed by **Santalís Pharmaceuticals** (50% owned by TFS Corporation), and exclusively licenced to Galderma who will distribute and market the product.

Galderma will pay Santalis Pharmaceuticals “typical upfront and short term milestone payments and annual royalties based on product launches and revenue from product sales”. That should be significant sums!

**TFS Corporation**



**Technology One** expects pre-tax profits for the year to 20 September 2014 to be up 15% - an increase on earlier guidance of a 10-15% increase. Licence fee revenues will be up 11%.

The annual result will be announced on 25 November.

**Technology One**



**The Reject Shop** reports a 2.7% increase in revenues for the September 2014 quarter (compared with the September 2013 quarter), but boosted by new stores. Same store revenues were down 5.4%.

July and August sales were depressed by the “final liquidation sales” of 70 **Retail Adventures / Discount Super group** stores but that has removed a direct competitor from the market.

**The Reject Shop**



# Share Recommendation: Buy Mount Gibson Iron

## **BUY Mount Gibson Iron** (code MGX).

Owing to recent falls in the value of iron ore, Mt Gibson Iron shares offer an attractive opportunity to make a counter-cyclical investment in a low-cost iron ore producer while revenues, potential profitability and especially the share price are depressed. Equally importantly, the company is virtually debt-free and holds a massive cash hoard equal to more than 88% of its share price!

Even at the current low iron ore price, the company should “harvest cash” from running down its short to medium term mines, recouping much of the historical \$655 million spent on mine development (i.e. the cost of acquisition, exploration and removing overburden) over the next 3-7 years. That could further boost its cash holding by perhaps by 30-70 cents to 70-110 cents per share (less amounts distributed as dividends).

### Company History

Mt Gibson Iron was formed in 1996 and after going into receivership was re-capitalised and listed on the Australian stockmarket in early 2002 to develop the *Tallering Peak* iron ore deposits in the Mid West.

In 2006 it merged with listed **Aztec Resources** which was re-developing the **Koolan Island** iron ore deposits. At the same time, Mt Gibson Iron sold its 73% interest in **Asia Iron Holdings** (which owned the *Extension Hill* magnetite project) to raise \$52.5 million with this cash allowing the company to develop the lower capital cost *Extension Hill* hematite project and advance the development of Koolan Island.

### Global Financial Crisis

Mt Gibson Iron almost failed again during the global financial crisis in 2008 when several “customers defaulted on binding offtake agreements”, refusing to send ships to collect ore and failing to pay for shipments. The situation was saved by two of its shareholder/customers, **APAC Resources** and **Shougang Concord International Enterprises** (1) agreeing to take all of the company’s iron ore production, (2) subscribing \$66 million in new capital (i.e. 110 million shares at 60 cents) and (3) underwriting a 1 for 5 cash issue to raise a further \$96.5 million (i.e. 160.8 million shares at 60 cents) from shareholders.

This \$162.5 million capital raising - plus high profits and strong cashflows in subsequent years - has helped repay virtually all interest bearing debts and build the company’s current massive cash holding of \$423 million (39 cents per share).

**Shougang Corporation** - a PRC state owned enterprise - owns 19% of APAC Resources (which owns 26.6% of Mt Gibson Iron) and 41% of Shougang Concord (which owns 15.0% of Mt Gibson Iron). Both companies are listed on the Hong Kong Stock Exchange.

### Current Operations

In the Mid West region, Mt Gibson Iron operated the

*Tallering Peak* mine (which was depleted and closed after ten years of operation) and the *Extension Hill* mine about 270km to the South.

These are low capital cost *Direct Shipping Ore (DSO)* mines. Ore is extracted via open pit mines and simply crushed before being shipped direct to customers. There is no capital investment or cost involved in processing ore to improve its grade.

*Tallering Peak* had a strip ratio of 6:1. That is, Mt Gibson Iron had to remove six tonnes of waste rock to uncover each tonne of ore. At *Extension Hill* the strip ratio is 0.7:1 - which results in a significantly lower cost of production.

Ore from both mines required relatively expensive road transportation and then rail haulage to Geraldton where Mt Gibson Iron has access to bulk rail unloading and ship loading infrastructure. The company has 5 year leases on the *Berth 4 Storage Facility* (120,000 tonnes capacity) and *Berth 5 Storage Facility* (240,000 tonnes) and in 2012 paid \$20 million toward a Rail Unloader, doubling its export capacity to six million tonnes per annum. The rail unloader is a “common user facility” owned by the **Geraldton Port Authority** but Mt Gibson Iron has priority access and will receive a rebate if other companies use the facility over the next ten years.

The *Extension Hill* mine (annual production 3.0 million tonnes) has resources for about another three years of production, but within a few kilometres are deposits for future development: *Extension Hill South* (with 5-7 million tonnes at 58-61% Fe), *Iron Hill* and *Gibson Hill*.

These are all relatively low-capital cost, short term, mining projects and Mt Gibson Iron plans to progressively develop these deposits as required to maintain production.

In December 2013 Mt Gibson Iron acquired the *Shine* hematite iron project from **Gindalbie Metals** (about 85 km north of *Extension Hill*) for \$12 million in cash (plus \$3 million on the first commercial sale of ore, plus an additional royalty if the Platts 62% Fe CFR index price is above US\$115/tonne). Mine development costs would be about \$9-11 million to produce 1.6 million tonnes annually for about eight years.

The estimated total cost of iron ore over the life of the mine would be around A\$75/tonne (delivered to the ship) - which is actually *higher* than the US\$65 (A\$72) that Mt Gibson Iron received on sales during the September 2014 quarter! The company had planned to begin mining - to replace *Tallering Peak* - but given the current low iron ore price this has been deferred pending a recovery in iron ore prices and additional exploration data to optimise mining and reduce costs.

In April 2013, the company acquired a large exploration interest called *Fields Find*, approximately

midway between *Extension Hill* and *Shine*. This should also yield numerous low cost, short life iron ore mining projects.

*Koolan Island* was mined by **BHP** from 1965 but considered a non-core small operation and wound down in the 1980's and closed in 1993 after producing 68 million tonnes. Aztec Resources acquired the tenements after BHP relinquished them.

The main *Koolan Island* high grade ore body extends down to a depth of 1.4 km. BHP never mined more than 85 metres below sea level, while Mt Gibson Iron is planning to extend the open pit down to about 130 metres over the next seven years, at an annual production of 4.0 million tonnes.

Mt Gibson Iron used the high cash flows from *Tallering Peak* to invest heavily in accelerated waste stripping at *Koolan Island* during the 2013 and 2014 financial years (and this was planned to continue this year and in 2016). This up-front investment in stripping will result in low operating cash costs in the future, setting the project up for "cash harvesting" from 2018-2022.

The company is investigating the potential for underground mining - the ore body is considerably wider at depth - to extend the mine life. There are also numerous other ore bodies that, subject to exploration, could be suitable for mining in the future.

*Koolan Island* produces high grade ore with direct loading to ships. Unlike the Mid West operation, Mt Gibson Iron does not need to transport ore by road and rail to the port.

Mt Gibson Iron is planning to invest \$60 million of cash (i.e. \$45 million this financial year and \$15 million in the June 2016 year) to replace the *Koolan Island* mining fleet. \$23 million was spent in the September quarter on the load and haul equipment which together with tax payments and very low sales prices, resulted in the \$55 million drop in the cash holding from June to September 2014.

### **Iron Ore Prices**

Iron Ore prices are usually measured with the Platts 62% Fe Index -which is the spot price of iron ore (62% iron) delivered to China. Individual iron ores usually trade at a premium or discount to this index depending upon their iron content and the level of impurities.

Iron oxide ( $\text{Fe}_2\text{O}_3$ ) is 70% iron and 30% oxygen, so 62% iron ore is 88.5% pure.

Mt Gibson Iron sells its ore at Australian ports - with the buyer arranging transport and paying shipping and insurance costs (which are currently around US\$10/tonne). Mt Gibson Iron has historically received an average price US\$20-30 below the Platts Index.

Mid West production was around 58-59% iron, while *Koolan Island* is around 63-64% iron, so with the closure of *Tallering Peak* and more production from *Koolan Island*, Mt Gibson Iron's average ore grade (and price) should improve. So future ore sales could average a price perhaps US\$10 below Platt's (i.e. approximately the Platt's price, less freight to China).

Iron Ore prices peaked at US\$190/tonne in February 2011, but have fallen - very sharply over recent months - to a five year low around US\$82/tonne. This partly

reflects a cyclical downturn in China, slower demand growth and more importantly a greater supply, as miners have sought to reduce costs and lift production.

Another short term impact is that steel producers in China's largest and third largest steel producing provinces were ordered to close until mid-November - to temporarily improve air quality ahead of the APEC summit on 8-10 November.

China purchases 60% of internationally traded iron ore (but like many commodities, much is not traded internationally but produced and sold locally). The growth in Chinese demand is slowing, but Chinese demand for iron is not expected to peak until somewhere between 2020 and 2026.

Some commentators believe that the price of iron ore will spiral lower towards US\$20-30/tonne (or lower) . . . but these are usually the same people who believe that the gold price will spiral upward to thousands (or tens of thousands) of dollars per ounce. Somehow there is something very wrong with a world view that predicts the most useful metal in the world will become virtually worthless, while the least useful will soar in value (only to be re-buried in the ground in steel vaults). As a reality check, investors may wish to note that the biggest, lowest cost iron ore producers (i.e. Rio Tinto and BHP) would break-even at a price of US\$45-50 delivered to China.

Prices around US\$80-100/tonne will eventually drive high cost producers out of business, but prices around US\$45-50 would also cause the biggest, lowest cost producers to cut back production.

More sensible commentators expect iron ore prices to bottom out around US\$70-85/tonne over the next two years.

### **Platts 62% Fe Index**



### **Financial Impact on Mt Gibson Iron**

Mt Gibson Iron could receive prices around US\$60-75/tonne (A\$69-87/tonne) over the next few years which is currently less than its total cost of production. The company would therefore report losses, but would still be capable of generating significant cash operating surpluses to further boost its cash holding!

The company's total cost of sales was A\$55.12 in 2010, but rose to \$62.09 in 2011, \$79.34 in 2012, \$79.61 in 2013 and \$74.64 in 2014. It has since reduced costs by \$50 million annually or about \$5/tonne, so total costs of production are probably around A\$70/tonne (US\$60/tonne).  
(Continued on Page 12)

**Financial Results: 2007-2014**

	2014	2013	2012	2011	2010	2009	2008	2007
Revenues	\$913.5m	\$864.8m	\$669.9m	\$693.2m	\$555.3m	\$431.7m	\$435.2m	\$165.0m
Net Profit	\$117.7m	\$92.9m	\$172.5m	\$239.5m	\$132.4m	\$42.6m	\$113.3m	\$29.0m
Net Cash Surplus	\$238.0m	\$179.7m	\$56.2m	\$222.4m	\$169.1m	\$99.5m	\$45.8m	\$3.0m
Earnings per share	10.8c	8.5c	15.9c	22.1c	12.3c	4.0c	14.1c	3.7c
Dividends per share	4.0c	4.0c	4.0c	4.0c	Nil	Nil	Nil	Nil
Inrest Bearing Debt	\$9.5m	\$28.4m	\$47.0m	\$45.1m	\$133.8m	\$161.6m	\$158.3m	\$154.2m
Cash at Bank	\$519.8m	\$376.0m	\$292.7m	\$387.5m	\$347.4m	\$222.2m	\$48.7m	\$60.8m

**BUY Mt Gibson Iron***(Continued from Page 11)*

27-28% of those total costs, however, are *historical costs* which have been capitalised on the balance sheet. These are the costs of acquiring tenements, exploration, mine development (i.e. removing overburden), plus plant and machinery to operate mining and crushing. *Cash* operating costs are about A\$50/tonne (US\$43/tonne).

At current iron ore prices, Mt Gibson Iron would report a loss but could still generate hundred million dollar cash surpluses annually for 3-7 years to significantly boost its cash holding (although continued investment in accelerated stripping at *Koolan Island* would reduce this over the next two years).

In response to the current low iron ore price, Mt Gibson Iron cut 270 jobs, including 140 contractors at *Koolan Island* and brought forward planned redundancies from the closure of *Tallering Peak*. The board and senior managers have agreed to a 10% cut in pay.

**Recent Results**

Mt Gibson Iron's financial results from 2007 to 2014 (summarised in the table on this page) show the growth and volatility of the business. After a capital raising in November 2008 to January 2009, there was a significant improvement in the company's financial position with the repayment of virtually all interest bearing debt and the build up of a massive cash holding.

The result to June 2009 reflects the impact of the Global Financial Crisis and Mt Gibson Iron's capital raising. Net profits fell 62.4% to \$42,618,000 and earnings per share were down 72% to 4.0 cents on capital increased 33.8% to 1,075,228,611 shares from the \$162.5 million capital raising.

High profits and strong cashflows in 2010 and 2011 enabled Mt Gibson Iron to repay most of its interest bearing debt and further build up its cash holding.

Cash dipped in 2012 owing to the payment of the 2011 maiden dividend and lower operating cash flows owing to the build up of inventories.

*Very strong* cashflows in 2013 and 2014 - helped by the sale of inventory stockpiles - left the company virtually debt-free and with a massive cash hoard. The 2013 and 2014 profits reported above ignore the impact of the *Mineral Resource Rent Tax* which has been repealed in the current financial year and will require the (non-cash) write-off of a deferred tax credit.

**Investment Criteria**

At current share prices an investment in Mt Gibson Iron shares is not principally an investment in an iron ore

producer. It is an investment in a debt-free, cash-rich company . . . with an interest in iron ore production which, even at current prices, should be able to generate significant additional cash surpluses!

At 30 September the company had \$465 million (43 cents per share) of cash in the bank! It has since paid a 4.0 cents dividend (for the June 2014 financial year), so has around \$421 million (39 cents per share) in cash. At the current share price of 44 cents, 88% of our investment in the shares is represented by this cash. That implies the stockmarket is valuing the iron ore assets and business at only \$59 million (about 5 cents per share) yet it should continue to generate large cash surpluses.

The company states "The primary objective of the Group's capital management program is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders". Clearly that is conservative, reflecting the impact of the Global Financial Crisis of 2008, but the company has also expressed the possibility of diversifying into the mining of other commodities - which could be achieved via an acquisition.

The deferral of the Shine project shows prudent capital management. The company wants to develop a new mine - to replace production from *Tallering Peak* - but only when it is economically viable to do so. If iron ore prices remain low - making this type of new iron ore project uneconomic (or offering an unacceptably low return) - then Mt Gibson Iron would likely run down its existing mines and use its cash to diversify into another mining (or non-mining?) business. Or return cash to shareholders through higher dividends, capital repayments or share buy-backs.

At 44 cents, Mt Gibson Iron shares trade on a Price/Sales Ratio of 0.53, a Price/Earnings ratio of 4 and a Dividend Yield of 9.1%. This shows the value in the business, *if* iron ore prices recover to reasonable levels.

At current ore prices, Mt Gibson Iron may operate at a *loss*, but would likely still generate strong operating cash flows and further increase its cash holding. Running down its existing mines could generate a further \$300-700 million (30-70 cents per share) in cash over the next 3-7 years.

The issued capital consists of 1,090,584,232 shares, making Mt Gibson Iron a relatively large company with a market capitalisation of \$480 million. The shares are *very actively* traded, with a *daily* turnover of 3-15 million shares - worth \$1½-7½ million.

As a large company, Mt Gibson Iron is widely followed, with 15 brokers publishing profit forecasts.

Widely followed shares are usually fairly valued - so investors are more likely to find “undiscovered” value it neglected, under-researched companies. A widely followed company like Mt Gibson Iron can be driven by negative investor sentiment and pessimism over the low price of iron ore - so this is a share that *could* become “over-sold” and extremely under-valued in the current depressed environment.

Over the next two years, brokers are predicting revenues of \$420-625 million. That would likely result in a reported *loss* - but let’s look beyond that headline and do some maths:

\$420-625 million of revenues from production and sales of 6.6-7.0 million tonnes is A\$64-90/tonne. That is consistent with *our* estimate of A\$69-87. A *cash* production cost of \$50/tonne on 6.6-7.0 million tonnes is a cash outflow of \$330-350 million. That would generate a net operating surplus of \$90-275 million (8-25 cents per share) annually (although, as previously mentioned, continued investment of \$50-100 million in accelerated stripping at *Kooland Island* would lower net cash surpluses in the 2015 and 2016 financial years but boost cash surpluses in later years).

So it appears that brokers rate Mt Gibson Iron a “Sell” owing to forecast future losses, while we rate them a “Buy” owing to the low share price in relation to its current cash holding and expected future net operating cashflows! Only 14 brokers make a recommendation. Seven rate Mt Gibson Iron a “Hold” - which is often a broker’s lowest rating (i.e. they don’t want to upset potential future corporate clients) - and three “Under-perform”. Both “Hold” and “Under-perform” in broker jargon equate to “Sell” in normal English.

Directors and senior management have moderate investments in Mt Gibson Iron. Two of the seven directors are associated with the major shareholders (which own 25.9% and 14.1% of Mt Gibson Iron) but have no direct personal shareholdings.

There have been two *insider* buys and one sell over the last year. G Hill purchased 100,000 shares on-market at 80 cents in March 2014, lifting his holding to 170,000 shares. P Douglas sold 100,000 shares at 81 cents in March and purchased 25,822 shares at 59 cents in September, to give a total holding of 129,688 shares.

The other three independent directors own nil, 20,000 and 100,000 shares.

The Relative Strength rating is -17.4%, ranked 84 (on a scale of 0-99), making this a very weak company. Relatively strong shares are usually attractive and tend to continue to outperform the market, but *very weak* shares can also be attractive and can bounce sharply higher.

Short Interest is about 3.6% (i.e. about 3.2 million shares have been sold short). This is an *increase* in short selling over recent weeks - up from 3.0% at the end of October, 1.9% in September and 1.2-1.6% in earlier months. A peak in short selling would indicate an extreme of negative sentiment and pessimism by high risk habitual losers who tend to sell *after* a decline - but it is only in retrospect that one will be able to tell at what level short selling actually peaks

in Mt Gibson Iron shares.

Investors should note that a *crisis* is usually the best time to buy shares. In late 2008, during the Global Financial Crisis, when customers refused to take delivery and make payments, Mt Gibson Iron had around \$160 million in debt and faced a liquidity crisis. The shares plunged 95% from a February 2008 high of 357 cents to a November low of 19 cents . . . before the two major shareholder/customers agreed to take all production and underwrote the \$162.5 million capital raising. The shares subsequently recovered to a high of 242 cents in 2010.

Over the last six years - since that capital raising - Mt Gibson Iron’s business has generated operating cash surpluses of \$965 million. \$380 million was re-invested in the iron ore business, \$152 million used to repay debt, \$172 was distributed to shareholders as dividends and \$259 million has accumulated in the bank (taking its cash to \$421 million).

### **Summary and Recommendation**

Mt Gibson Iron shares are a “Buy” at around current prices as this is a virtually debt-free company with \$421 million (39 cents per share) in the bank and bank term deposits. Its iron ore mining business may be unprofitable at current iron ore prices, but should still be able to generate significant cash surpluses - perhaps a total of \$300-700 million (30-70 cents per share) - over the next 3-7 years!

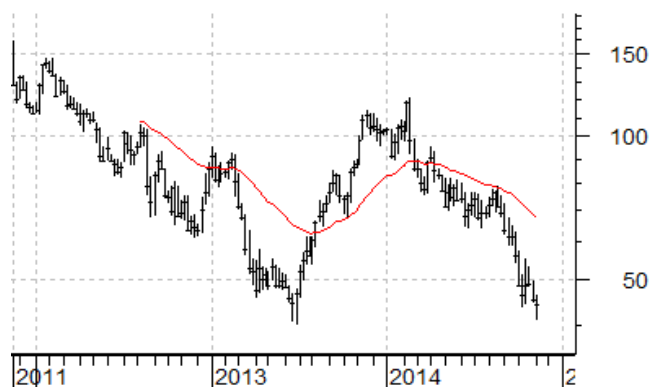
The historically low valuation - a P/E of 4 and Dividend Yield of 9.1% - indicate the potential value in the iron ore mining business, if iron ore prices ever recover to more normal levels.

Mt Gibson Iron’s current cash is largely surplus to requirements in its business - so ultimately must be used to finance expansion and/or diversification, either from acquiring existing mining businesses, acquiring and developing new mineral resources or returned to shareholders (via dividends, share repurchases or capital repayments).

While *any* mining operation can involve high risks, cash in the bank (which makes up 86% of our investment in Mt Gibson Iron shares) is virtually risk-free, effectively making this a low risk, cash-rich investment (with a “small” interest in iron ore production).

It is impossible to know exactly how this investment will work out, but the shares *could* be significantly re-rated on a recovery in iron ore prices and/or from the investment of some of its cash in new income and cashflow producing business ventures.

### **Mt Gibson Iron**



# Share Recommendations: Sell Cellnet Group and Sell Devine Ltd

## SELL Cellnet Group (code CLT).

Cellnet Group is a long term holding, first purchased in 2002. The shares moved sideways for five years, then underperformed over the next five years to 2012. At least during that period the company repaid 38% of our initial cost through dividends and a capital repayment.

The current business is small and has experimented with additional business ventures to try to achieve better economies of scale. Some of those ventures didn't work out and were written off. In the year to June 2014 the company traded unprofitably, including foreign exchange losses and the need to scrap almost \$2.0 million in obsolete stock. Interest bearing debt increased 13-fold to \$6.3 million, compared with the company's current stockmarket capitalisation of \$13.1 million.

The company has, however, announced better trading conditions and is forecasting a pre-tax profit for the half year to 31 December of \$1.1-1.4 million (2.0-2.5 cents per share, before tax).

Our main concern going forward is the relatively high debt and the small size of the business, making it difficult to achieve economies of scale in an importing/distribution business. The recent announcement has helped lift the share price to around 20 cents, so we feel this could be a good time to sell off what is now a *very small* investment in our portfolio.

### Cellnet Group



## SELL Devine Ltd (code DVN).

Devine Ltd is another long term holding, purchased in 2006, which hasn't worked out so well.

Property development is a difficult, but potentially very profitable, business where we have made only a few investments over the decades. **Central Equity** (1994-2002) was moderately successful with a 79% gain, **CDL Investments** (1994-present) is up 222%, **Villa World** (2002-2005) yielded a 3-fold gain over a short period, **Finbar Group** (2010-present) is up 77%, but Devine is down 46% (all returns including dividends received).

Devine successfully sought to expand its residential property development business - but this has failed to produce meaningful growth in group revenues and profits. Its other property development interests have not been successful and have been scaled back.

**Leighton** acquired a major stake in the company, but over the last year Leighton has sought to liquidate parts of its business - including its investment in Devine - to return cash to its shareholders. Since July, Devine has been seeking a buyer for the whole company. Although "a number of interested parties are in the advanced stages of due diligence" the slow speed of this process would suggest they are not very interested. Devine notes "There are no assurances what form a transaction, if any, will take".

Devine's share price dropped to a low of 51 cents in 2012 and there was uncertainty owing to high debt levels. Those debt levels have since reduced and the share price has recovered to around 100 cents, but there is still uncertainty about the future of the company given its major shareholder's desire to sell out (i.e. this "overhang" of shares for sale will continue to depress the share price) and little improvement in profitability which is still low.

So this is another situation where we believe it may be best to quit an unsuccessful investment with an uncertain future, realising some cash for re-investment elsewhere.

### Devine



# 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	STRENGTH RATING				Insider Buying	Insider Selling	Price to NTA	Return on Equity	Vol- atility	Price Earm. Ratio	Divi- dend Yield	Price Sales Ratio	Market Cap'n
	Share Price	Cur- rent	4-Wk Chg.	Rank 0-99									
<b>UNDER-VALUED SHARES:</b> Lowest Price/Sales, Yld > 0, Rel Strength > 0													
Air New Zealand	209	+1.2	+0.5	43	3-8	7	0.1	14	0.9	1	6.6	0.05	233
Fonterra S/H Fd	616	+1.5	+0.1	42	9-0	6	0.8	4	0.8	19	5.2	0.21	665
Col Motor Co	605	+6.3	+1.0	20	0-0	-	1.4	13	0.4	11	8.0	0.28	198
PGG Wrightsons	48	+3.2	+3.6	31	2-0	2	1.3	15	1.6	9	13.2	0.29	359
Hellaby Hold.	298	+1.1	+1.4	44	1-0	4	1.6	15	1.2	11	7.0	0.38	283
Seeka Kiwifruit	325	+11.8	-2.2	9	2-0	-	0.8	4	0.4	18	5.6	0.48	47
Z Energy Ltd	411	+2.6	+1.4	36	0-0	6	2.8	16	0.7	17	7.4	0.49	1,644
Genesis Energy	221	+4.8	+2.7	24	0-0	-	0.6	3	1.0	24	4.1	0.60	1,195
Abano Health.	710	+3.7	+1.3	29	0-0	2	1.6	5	0.7	30	4.1	0.69	146
Infratil NZ	300	+8.9	+2.9	13	5-3	4	1.7	0	0.8	517	4.4	0.73	1,750
Tourism Hold.	157	+17.4	+1.6	6	8-9	-	1.1	7	0.9	16	6.2	0.78	176
Horizon Energy	330	+1.2	-1.3	43	0-0	-	1.2	11	0.6	12	6.3	0.79	82
Mainfreight Grp	1595	+6.7	-0.2	16	1-9	6	3.6	20	0.5	18	2.8	0.82	1,579
Turners Group	302	+9.7	-1.5	11	0-0	-	4.5	26	0.9	17	7.4	0.93	83

<b>BEST PERFORMING SHARES:</b> Strongest Shares, P/E < 20, P/S < 1.0													
Speirs Group	21	+35.4	+17.2	1	0-0	-	1.1	94	2.2	1	Nil	0.15	2
Tourism Hold.	157	+17.4	+1.6	6	8-9	-	1.1	7	0.7	16	6.2	0.78	176
Seeka Kiwifruit	325	+11.8	-2.2	9	2-0	-	0.8	4	0.3	18	5.6	0.48	47
Just Water Int.	15	+11.8	+13.5	9	0-0	-	2.0	26	3.0	8	Nil	0.48	13
Turners Group	302	+9.7	-1.5	11	0-0	-	4.5	26	0.7	17	7.4	0.93	83
Mainfreight Grp	1595	+6.7	-0.2	16	1-9	6	3.6	20	0.5	18	2.8	0.82	1,579
Col Motor Co	605	+6.3	+1.0	20	0-0	-	1.4	13	0.3	11	8.0	0.28	198
Chorus Ltd	209	+4.7	+4.3	25	0-0	10	1.1	20	0.8	6	Nil	0.78	828
PGG Wrightsons	48	+3.2	+3.6	31	2-0	2	1.3	15	1.3	9	13.2	0.29	359
Z Energy Ltd	411	+2.6	+1.4	36	0-0	6	2.8	16	0.7	17	7.4	0.49	1,644
Sol. Dynamics	50	+1.8	-0.7	38	0-0	-	4.1	29	0.9	14	Nil	0.64	7
Fonterra S/H Fd	616	+1.5	+0.1	42	9-0	6	0.8	4	0.8	19	5.2	0.21	665
Horizon Energy	330	+1.2	-1.3	43	0-0	-	1.2	11	0.5	12	6.3	0.79	82
Air New Zealand	209	+1.2	+0.5	43	3-8	7	0.1	14	0.7	1	6.6	0.05	233
Hellaby Hold.	298	+1.1	+1.4	44	1-0	4	1.6	15	1.0	11	7.0	0.38	283

<b>INCOME SHARES:</b> Highest Yields, Capitalisation > NZ\$100 million													
Hallenstein G.	335	-3.5	+2.7	75	1-1	5	3.0	28	0.7	11	13.9	0.91	200
PGG Wrightsons	48	+3.2	+3.6	31	2-0	2	1.3	15	1.1	9	13.2	0.29	359
Warehouse Group	317	-3.5	+1.4	75	4-0	8	2.5	37	0.7	7	9.2	0.44	986
Meridian Energy	172	+16.1	+5.7	7	1-0	9	1.0	5	0.7	19	8.9	1.76	4,407
Kingfish Ltd	136	+0.4	-0.3	46	0-0	-	1.0	16	0.7	6	8.4	N/A	162
Col Motor Co	605	+6.3	+1.0	20	0-0	-	1.4	13	0.3	11	8.0	0.28	198
Heartland Bank	104	+6.0	+0.1	21	1-0	3	1.1	8	0.7	13	8.0	2.26	482
NZ Oil & Gas	75	-2.8	-1.7	71	0-1	4	0.9	3	1.0	32	8.0	3.07	318
Skellerup Hold.	150	-6.6	-1.4	82	4-1	3	2.0	15	1.0	13	7.9	1.47	289
South Port NZ	395	+6.1	+1.4	20	0-0	-	3.3	21	0.4	16	7.7	3.30	104

<b>INSIDER BUYING:</b> Most Insider Buying, Relative Strength > 0													
Fonterra S/H Fd	616	+1.5	+0.1	42	9-0	6	0.8	4	0.7	19	5.2	0.21	665
Trust Power Ltd	752	+2.6	+0.5	35	3-0	6	1.6	8	0.4	20	6.8	2.90	2,353
PGG Wrightsons	48	+3.2	+3.6	31	2-0	2	1.3	15	1.0	9	13.2	0.29	359
Argosy Property	107	+4.3	+0.5	26	2-0	5	1.1	12	0.6	10	5.8	8.02	842
Seeka Kiwifruit	325	+11.8	-2.2	9	2-0	-	0.8	4	0.2	18	5.6	0.48	47
Vector Ltd	278	+2.7	+0.8	35	2-0	6	1.2	7	0.5	16	7.6	2.20	2,768
Sanford Limited	502	+6.4	+5.3	18	2-0	2	0.8	4	0.3	23	6.4	1.02	470
Infratil NZ	300	+8.9	+2.9	13	5-3	4	1.7	0	0.6	517	4.4	0.73	1,750
Acurity Health	695	+15.3	+1.5	7	1-0	1	1.0	7	0.2	13	3.4	1.22	120
Tenon Ltd	174	+6.9	+1.3	16	1-0	1	0.8	2	0.6	47	Nil	0.24	114

<b>OVER-VALUED SHARES:</b> Highest Price/Sales Ratios, Relative Strength < 0													
Trade-Me Ltd	400	-1.3	+3.1	62	5-1	11	2.4	12	0.5	20	5.6	9.66	1,585
Wynyard Group	201	-2.3	+0.7	69	0-0	2	3.8	-	0.6	NE	Nil	9.10	206
Vital Health PT	153	-58.3	+0.0	98	1-0	4	1.5	11	0.4	14	7.2	7.68	520
Snakk Media Ltd	9	-3.0	+2.4	73	0-0	1	26.6	-	2.2	NE	Nil	6.12	22
NPT Limited	60	-2.6	+0.4	70	2-1	2	0.8	7	0.5	13	7.4	6.10	97
NZ Exchange Ltd	119	-3.6	-1.9	77	0-0	3	6.1	24	0.7	25	6.5	4.81	302
Charlie's Group	43	-58.3	+0.0	98	0-0	-	7.7	15	1.0	51	Nil	4.00	126
SLI Systems Ltd	120	-17.7	+1.3	93	0-2	3	6.3	-	0.9	NE	Nil	3.24	73
NZ Oil & Gas	75	-2.8	-1.7	71	0-1	4	0.9	3	0.9	32	8.0	3.07	318
Sky City Ltd	409	-2.0	+1.6	65	1-1	13	3.1	13	0.4	24	6.8	2.90	2,381
Sky Network TV	634	-1.2	-1.7	62	2-1	10	2.0	13	0.4	15	6.4	2.71	2,467
Moa Group Ltd	41	-13.7	+1.6	92	0-0	1	1.4	-	0.9	NE	Nil	2.71	12
NZ Refining Co	170	-4.8	+1.5	79	0-0	4	0.8	-	0.7	NE	1.6	2.13	476

Company	STRENGTH RATING				Insider Buying	Insider Selling	Price to NTA	Return on Equity	Vol- atility	Price Earm. Ratio	Divi- dend Yield	Price Sales Ratio	Market Cap'n
	Share Price	Cur- rent	4-Wk Chg.	Rank 0-99									
<b>WORST PERFORMING SHARES:</b> Weakest Shares, P/S Ratio > 0.25, Yield < Twice Average													
Charlie's Group	43	-58.3	+0.0	98	0-0	-	7.7	15	0.9	51	Nil	4.00	126
GeoOP Ltd	50	-35.9	+0.5	97	0-0	-	-	-	1.1	NE	Nil	N/A	14
WN Drive Tech.	8	-21.6	-1.1	96	0-0	-	1.2	-	2.0	NE	Nil	0.39	11
Xero Ltd	1752	-19.5	-2.8	94	2-4	5	8.8	-	0.8	NE	Nil	N/A	2,236
Cavalier Corp	83	-19.3	-0.4	94	0-0	3	6.6	6	0.8	10	5.0	0.28	57
SLI Systems Ltd	120	-17.7	+1.3	93	0-2	3	6.3	-	0.8	NE	Nil	3.24	73
Moa Group Ltd	41	-13.7	+1.6	92	0-0	1	1.4	-	0.9	NE	Nil	2.71	12
NZ Windfarms	5	-10.0	+0.7	90	0-0	-	0.2	-	1.8	NE	Nil	1.48	14
Sealegs Corp	12	-10.0	+3.7	90	0-0	-	1.8	-	1.3	NE	Nil	0.91	15
Summerset Group	265	-9.2	-1.2	89	4-3	5	2.0	12	0.6	17	1.2	N/A	568
Smartpay NZ Ltd	24	-9.0	+0.9	88	1-0	-	4.3	18	1.7	24	Nil	1.80	41
IkeGPS Limited	85	-8.6	-0.4	87	0-0	-	-	-	0.8	NE	Nil	N/A	43
Guinness Peat	53	-8.1	-3.8	86	2-1	3	0.8	6	0.9	13	Nil	0.34	739
Gentech Group	208	-7.8	-1.4	85	0-0	-	-	-	0.7	NE	Nil	N/A	151
Mercer Group	15	-7.3	+0.2	84	0-1	-	2.2	-	1.7	NE	Nil	1.08	44
Pac Edge Bio.	82	-7.1	+5.6	84	0-5	-	37.9	-	1.8	NE	Nil	N/A	261
Kirkcaldie & St	170	-6.2	-3.5	82	0-0	-	0.9	-	0.3	NE	Nil	0.45	17
Kathmandu Ltd	302	-5.2	-1.1	81	2-9	10	2.1	15	0.7	14	5.5	1.57	605
Promisia Integ.	4	-5.1	-0.2	80	0-0	-	-	-	2.5	NE	Nil	N/A	9
NZ Refining Co	170	-4.8	+1.5	79	0-0	4	0.8	-	0.7	NE	1.6	2.13	476

<b>INSIDER SELLING:</b> Most Insider Selling, Relative Strength < 0													
Kathmandu Ltd	302	-5.2	-1.1	81	2-9	10	2.1	15	0.7	14	5.5	1.57	605
Pac Edge Bio.	82	-7.1	+5.6	84	0-5	-	37.9	-	1.7	NE	Nil	N/A	261
SLI Systems Ltd	120	-17.7	+1.3	93	0-2	3	6.3	-	0.8	NE	Nil	3.24	73
Xero Ltd	1752	-19.5	-2.8	94	2-4	5	8.8	-	0.8	NE	Nil	N/A	2,236
Mercer Group	15	-7.3	+0.2	84	0-1	-	2.2	-					

# 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.

STRENGTH RATING														STRENGTH RATING																			
Company	Share Price	Cur- rent	4-Wk Chg.	Rank 0-99	Insider Buy/Sell	Brokers Following	Short Interest	Price to P/E	ROE	Volatility	P/E Ratio	Div Yield	PS Ratio	Market Cap'n	Company	Share Price	Cur- rent	4-Wk Chg.	Rank 0-99	Insider Buy/Sell	Brokers Following	Short Interest	Price to P/E	ROE	Volatility	P/E Ratio	Div Yield	PS Ratio	Market Cap'n				
<b>UNDER-VALUED SHARES: Lowest Price/Sales, Yld &gt; 0, Rel Strength &gt; 0</b>																																	
Raptis Group	40	+0.0	+0.0	38	0-0	-	-	-	1.0	NE	12.5	0.11	28	Coffey Int'l	33	+17.6	-0.0	9	1-0	2	0.0	3.0	16	1.0	19	Nil	0.14	84					
CFT Energy	6	+0.0	+0.0	39	0-0	-	-	-	2.9	0	33.3	0.11	3	GR Engineering	72	+16.0	+0.0	9	1-0	1	-	2.4	31	0.9	8	8.3	0.95	108					
Watpac Ltd	75	+2.4	-1.5	30	3-0	1	0.0	0.6	8	1.0	8	0.0	142	Capilano Honey	650	+14.2	-6.4	11	0-1	-	-	2.0	17	0.5	12	3.1	0.64	55					
Aust Pharm. Ind	85	+13.2	+4.9	12	2-0	8	2.2	1.1	6	0.9	17	3.8	0.13	412	Aust Pharm. Ind	85	+13.2	+4.9	12	2-0	8	2.2	1.1	6	0.7	17	3.8	0.13	412				
Chandler McLeod	35	+0.6	+3.1	36	0-0	4	0.0	-	1.3	14	9.1	0.13	192	Tyrian Diagnost	0	+12.1	-3.2	12	0-0	-	-	-	23.5	0	Nil	0.00	1						
Ruralco Hold.	345	+0.7	-0.1	36	0-0	4	-	2.4	7	0.4	34	5.8	0.17	267	Brierty Ltd	42	+11.8	-12.2	13	3-0	1	-	0.8	18	0.9	5	7.2	0.18	46				
Brierty Ltd	42	+11.8	-12.2	13	3-0	1	-	0.8	18	1.2	5	7.2	0.18	46	Merchant House	22	+11.2	+1.6	13	0-0	-	-	0.6	31	1.2	2	11.6	0.24	20				
Mastermyne Grp	46	+1.8	+2.7	32	3-0	3	-	46.0	-	1.3	12	5.2	0.20	35	Austal Limited	133	+11.0	+0.2	13	1-0	2	0.2	1.1	8	0.5	14	Nil	0.41	461				
K&S Corporation	140	+1.2	+1.7	34	1-0	4	-	0.7	9	0.8	8	7.9	0.23	128	Lindsay Aust	40	+8.9	-1.6	15	0-3	1	-	1.7	11	0.9	15	5.1	0.32	100				
Merchant House	22	+11.2	+1.6	13	0-0	-	-	0.6	31	1.6	2	11.6	0.24	20	Bursor Group	236	+8.9	-0.0	15	0-0	-	1.0	-	-	0.8	10	Nil	0.33	386				
RCR Tomlinson	238	+0.9	-3.1	35	4-1	7	0.3	5.5	74	0.5	8	4.2	0.25	331	Konekt Limited	11	+8.5	-13.0	16	1-0	-	-	1.8	23	1.7	8	Nil	0.25	8				
Sigma Pharm.	78	+6.6	-1.9	19	0-1	12	1.9	1.6	12	0.8	12	5.1	0.30	864	Regional Exp.	102	+8.3	+3.8	16	2-1	2	-	0.6	4	0.7	15	Nil	0.44	112				
Ridley Corp.	89	+2.5	+1.1	29	5-0	5	-	2.0	13	0.8	15	4.2	0.31	272	Pental Limited	3	+8.1	-2.9	17	3-0	-	-	1.7	15	2.8	11	3.5	0.56	62				
McPherson's Ltd	118	+2.1	-0.6	30	2-0	3	0.0	-	0.7	8	9.3	0.32	113	Norton Group	13	+7.6	-2.0	18	0-0	-	-	0.4	8	1.5	5	Nil	0.47	121					
Sims Metal Mgmt	1113	+6.6	-3.1	19	2-1	12	7.9	1.3	-	0.4	NE	0.9	3.2	2,278	Namoi Cotton	36	+7.2	+0.2	18	0-0	-	-	0.3	4	0.9	7	Nil	0.08	39				
Lindsay Aust	40	+8.9	-1.6	15	0-3	1	-	1.7	11	1.2	15	5.1	0.32	100	Laserbond Ltd	10	+7.0	-2.5	18	2-0	-	-	1.4	12	1.7	12	4.0	0.90	9				
Leighton Hold	2178	+3.3	-2.2	27	5-2	16	1.7	2.7	19	0.3	14	4.8	0.33	7,373	Vantage Gold.	5	+6.7	+9.6	19	0-0	-	-	0.2	2	2.4	9	Nil	0.29	12				
Dicker Data Ltd	172	+7.6	-6.8	17	4-0	1	-	11.5	27	1.0	43	2.6	0.33	221	Sigma Pharm.	78	+6.6	-1.9	19	0-1	12	1.9	1.6	12	0.6	12	5.1	0.30	864				
Sedgman Ltd	47	+1.1	-2.8	34	0-0	6	0.5	0.8	-	1.4	NE	10.6	0.34	107	Shenhua Int'l	45	+6.1	-1.9	20	0-0	-	-	0.8	12	0.9	7	5.6	0.67	57				
Caltex Australia	3148	+18.7	+2.7	8	0-1	10	0.5	3.5	22	0.4	16	1.1	0.34	8,500	AV Jennings	61	+5.7	+1.6	20	0-0	2	-	0.8	6	0.7	12	3.3	0.93	232				
Colopak Ltd	71	+1.3	+3.5	33	0-0	3	-	2.3	-	1.0	NE	4.9	0.36	58	Collins Foods	219	+5.2	-5.7	22	3-0	6	0.1	-	-	0.5	15	4.8	0.46	204				
Vita Group Ltd	114	+26.6	+5.7	6	1-1	3	-	-	-	0.7	NE	4.1	0.36	162	KBL Mining Ltd	3	+5.0	-5.7	23	2-0	-	0.0	1.1	88	2.9	1	Nil	0.42	13				
A.P. Eagers	570	+2.6	-2.0	29	15-0	3	0.0	2.4	15	0.3	16	4.0	0.38	1,018	Aust Vintage	41	+4.8	+1.8	23	4-0	2	-	0.5	6	0.8	9	5.4	0.44	94				
Centrepoint All	53	+27.1	+1.0	5	5-0	-	-	7.6	44	0.9	17	4.2	0.41	56	Diploma Group	4	+4.6	+0.9	24	0-0	-	-	1.3	33	2.5	4	Nil	0.09	19				
Dick Smith Hold	218	+3.0	+1.4	28	1-3	6	7.3	3.6	14	0.7	26	3.7	0.42	516	Bionomics Ltd	54	+4.6	+2.4	24	0-0	3	-	27.0	-	0.9	4	Nil	0.47	225				
UXC Limited	84	+1.9	+2.0	31	1-0	8	0.8	-	-	0.9	17	4.5	0.42	277	Landmark White	48	+4.2	-2.9	25	1-5	-	-	8.0	70	0.8	11	7.8	0.72	13				
PTB Group Ltd	32	+5.7	+3.1	21	1-0	-	-	0.4	1	1.4	32	15.9	0.42	12	Resource Base	1	+4.1	+3.9	25	0-0	-	-	-	-	5.8	15	Nil	0.22	2				
CI Resources	88	+3.5	-1.0	26	0-0	-	-	0.9	25	1.0	4	1.1	0.42	64	Zeta Resources	41	+4.1	-8.1	25	0-0	-	-	0.6	46	1.0	1	Nil	0.99	38				
Aust Vintage	41	+4.8	+1.8	23	4-0	2	-	0.5	6	1.1	9	5.4	0.44	94	Toll Holdings	555	+3.7	+0.4	26	1-0	15	2.7	3.9	28	0.4	14	5.0	0.45	3,981				
Automotive Hold	392	+0.8	-0.1	35	2-0	13	0.8	4.5	17	0.5	27	5.1	0.44	1,201	Supply Network	233	+3.6	-1.3	26	1-0	-	-	3.9	30	0.3	13	3.9	0.98	80				
Toll Holdings	555	+3.7	+0.4	26	1-0	15	2.7	3.9	28	0.5	14	5.0	0.45	3,981	CI Resources	88	+3.5	-1.0	26	0-0	-	-	0.9	25	0.8	4	1.1	0.42	64				
Embelton Ltd	725	+2.6	-1.0	29	0-0	-	-	0.3	13	4.2	0.45	16	Leighton Hold	2178	+3.3	-2.2	27	5-2	16	1.7	2.7	19	0.3	14	4.8	0.33	7,373						
Collins Foods	219	+5.2	-5.7	22	3-0	6	0.1	-	0.6	15	4.8	0.46	204	Inabox Limited	130	+3.2	-1.4	27	0-0	-	-	4.5	26	0.7	17	Nil	0.39	18					
Nufarm Limited	499	+4.2	+2.0	25	3-2	11	4.7	1.7	5	0.5	35	1.6	0.50	1,319	Newhaven Hotels	86	+3.1	-1.9	27	0-0	-	-	0.8	15	0.5	5	7.0	0.78	20				
Pro-Pac Pack.	49	+1.1	-1.2	34	0-0	-	-	3.8	21	1.1	18	4.1	0.51	111	Saunders Int'l	85	+2.8	-2.7	28	0-2	-	-	4.3	41	0.6	10	7.1	0.96	67				
Pental Limited	3	+8.1	-2.9	17	3-0	-	-	1.7	15	4.0	11	3.5	0.56	62	Bega Cheese Ltd	529	+2.7	+0.8	28	1-2	7	1.4	2.6	21	0.5	12	1.6	0.75	807				
Alliance Aviat.	120	+1.3	-0.2	33	1-0	3	0.0	0.9	7	0.8	12	7.7	0.63	127	CPT Global Ltd	71	+2.7	-3.3	29	0-1	-	-	3.7	27	0.8	14	6.3	0.68	26				
Capilano Honey	650	+14.2	-6.4	11	0-1	-	-	2.0	17	0.5	12	3.1	0.64	55	Embelton Ltd	725	+2.6	-1.0	29	0-0	-	-	0.3	13	4.2	0.45	16						
Shenhua Int'l	45	+6.1	-1.9	20	0-0	-	-	0.8	12	1.1	7	5.6	0.67	57	A.P. Eagers	570	+2.6	-2.0	29	15-0	3	0.0	2.4	15	0.3	16	4.0	0.38	1,018				
CPT Global Ltd	71	+2.7	-3.3	29	0-1	-	-	3.7	27	1.0	14	6.3	0.68	26	Ridley Corp.	89	+2.5	+1.1	29	5-0	5	-	2.0	13	0.6	15	4.2	0.31	272				
Panoramic Res.	51	+0.8	-19.2	35	0-0	8	0.1	0.6	-	1.3	NE	3.9	0.69	164	Watpac Ltd	75	+2.4	-1.5	30	3-0	1	0.0	0.6	8	0.8	8	8.0	0.12	142				
Patties Foods	128	+2.3	+0.1	30	6-1	5	0.0	2.6	24	0.7	11	5.6	0.72	177	Patties Foods	128	+2.3	+0.1	30	6-1	5	0.0	2.6	24	0.5	0.0	2.6	24	0.5	11	5.6	0.72	177
Landmark White	48	+4.2	-2.9	25	1-5	-	-	8.0	70	1.1	11	7.8	0.72	13	Stream Group	18	+2.2	+0.3	30	0-0	-	-	1.2	-	1.2	1	Nil	0.08	2				
Bega Cheese Ltd	529	+2.7	+0.8	28	1-2	7	1.4	2.6	21	0.5	12	1.6	0.75	807	McPherson's Ltd	118	+2.1	-0.6	30	2-0	3	0.0	-	-	0.5	8	9.3	0.32	113				
Brisbane Bronco	27	+0.0	+0.1	38	0-0	-	-	1.8	14	1.5	13	1.9	0.76	26	UXC Limited	84	+1.9	+2.0	31	1-0	8	0.8	-	-	0.7	17	4.5	0.42	277				
Newhaven Hotels	86	+3.1	-1.9	27	0-0	-	-	0.8	15	0.7	5	7.0	0.78	20	Mastermyne Grp	46	+1.8	+2.7	32	3-0	3	-	46.0	-	1.0	12	5.2	0.20	35				
SMS Mgmt & Tech	363	+1.7	-2.6	32	5-0	11	2.2	15.8	79	0.6	20	3.4	0.80	252	SMS Mgmt & Tech	363	+1.7	-2.6	32	5-0	11	2.2	15.8	79	0.5	20	3.4	0.80	252				
Calliden Group	48	+18.3	+3.2	8	1-0	-	-	2.1	12	1.0	17	4.6	0.82	108	Alliance Aviat.	120	+1.3	-0.2	33	1-0	3	0.0	0.9	7	0.6	12	7.7	0.63	127				
Orora Limited	184	+11.5	+1.7	13	16-0	11	0.6	-	-	0.8	NE	3.3	0.84	2,220	K&S Corporation	140	+1.2	+1.7	34	1-0	4	-	0.7	9	0.6	8	7.9	0.23	128				
Wesfarmers Ltd	4480	+0.6	-0.1	36	1-0	16	0.6	10.2	32	0.3	32	4.5	0.85	1,219	Pac Environment	6	+1.1	+0.9	34	0-0	-	-	-	-	2.1	5	Nil	0.51	6				
AMP Ltd	590	+5.2	+0.2	22	0-0	16	0.6	4.4	18	0.5	24	3.9	0.86	17,451	Pro-Pac Pack.	49	+1.1	-1.2	3														



Company	Share Price	STRENGTH RATING			Insider Buy-Sell	Brokers Following	Short Interest	Price to N/A	ROE	Volatility	P/E Ratio	Div Yield	P/S Ratio	Market Cap'n
		Current	4-Wk Chg.	Rank 0-99										
Finbar Group	142	-6.6	-2.1	63	4-0	1	-	1.5	17	0.5	9	7.1	1.15	321
ALS Limited	553	-15.0	-3.9	79	1-0	17	6.9	-	-	0.3	14	7.1	1.45	2,200
Wotif.com Hold.	305	+3.0	-4.1	27	1-0	17	1.6	-	-	0.3	15	7.0	1.31	650
Bradken Ltd	370	-3.4	-3.8	54	0-0	14	4.3	1.6	5	0.5	29	7.0	0.55	633
Cadence Capital	145	-0.7	-1.0	45	0-0	-	0.1	1.0	6	0.4	17	6.9	1.60	290
Cardno Ltd	531	-4.8	-1.4	58	4-1	11	5.1	59.0	-	0.3	11	6.8	0.66	871
Growthpoint Pro	281	+6.5	+1.7	19	4-0	6	0.3	1.3	10	0.3	13	6.8	8.81	1,558
Seven West Med.	179	-7.6	-2.0	66	2-0	15	1.8	-	-	0.6	12	6.7	0.97	1,784
Chart H Retail	408	+1.2	-0.2	34	0-0	12	4.1	1.2	11	0.4	11	6.7	8.16	1,521

**INSIDER BUYING:** Most Insider Buying, Relative Strength > 0

Orora Limited	184	+11.5	+1.7	13	16-0	11	0.6	-	-	0.5	NE	3.3	0.84	2,220
A.P. Eagers	570	+2.6	-2.0	29	15-0	3	0.0	2.4	15	0.2	16	4.0	0.38	1,018
Runge Pincock M	64	+0.7	+0.5	36	11-0	-	-	4.6	-	0.6	NE	Nil	1.39	114
Recall Holdings	598	+8.6	+2.3	16	10-0	14	2.1	-	-	0.4	42	Nil	2.87	1,873
Heron Resources	14	+11.2	-2.7	13	10-0	-	-	-	-	1.1	NE	Nil	N/A	35
Moreton Res Ltd	1	+17.9	-7.7	9	10-0	-	-	-	-	6.0	NE	Nil	N/A	9
Sth Boulder Min	22	+2.4	-0.3	30	10-0	-	-	-	-	0.9	NE	Nil	N/A	28
Macquarie Group	6236	+1.7	+0.8	32	9-0	16	0.5	2.0	12	0.3	16	4.2	2.46	20,030
IOOF Holdings	922	+2.4	+0.6	30	8-0	14	4.3	-	-	0.3	21	5.2	2.89	2,767
Crusader Res.	27	+1.5	-10.5	33	8-0	2	-	-	-	0.8	NE	Nil	4.47	34
Redflex Holding	109	+3.5	+3.3	27	8-0	-	-	1.2	-	0.3	NE	Nil	0.99	121
Sundance Energy	109	+5.4	-7.8	21	8-0	7	0.4	-	-	0.6	28	Nil	5.28	599
360 Capital Grp	106	+14.4	+1.3	10	7-0	2	-	1.8	19	0.4	9	4.7	7.61	264
Sino Gas & En.	20	+9.7	-4.3	14	7-0	3	0.8	-	-	0.9	NE	Nil	N/A	301
Red Hill Iron	120	+1.8	-16.3	32	7-0	-	-	-	-	0.5	NE	Nil	N/A	59
ASX Limited	3724	+0.2	-0.2	37	7-0	18	2.8	5.6	30	0.3	19	4.8	9.06	7,209
Tap Oil	55	+14.8	-5.7	10	6-0	3	0.0	1.7	-	0.7	NE	Nil	4.93	134
Site Group Int.	15	+0.2	-0.9	37	6-0	-	-	7.5	-	1.2	NE	Nil	4.16	72
NetComm Wire.	56	+0.8	-9.1	35	6-0	-	-	5.1	7	0.5	71	Nil	1.12	72
Ale Property	314	+5.3	-0.3	21	6-0	3	1.1	1.6	10	0.2	17	5.2	N/A	615
Aristocrat Leis	670	+9.4	+2.3	15	7-1	14	0.1	16.3	47	0.4	34	2.2	4.57	4,221
Timpetra Res.	19	+32.4	-6.2	4	8-2	-	-	-	-	1.1	NE	Nil	N/A	13
Hunter H Global	113	+5.1	+0.4	22	5-0	-	-	0.9	18	0.4	5	5.8	N/A	213
Paperlin X Ltd	6	+14.4	+10.3	10	5-0	2	0.0	-	-	1.5	NE	Nil	0.01	38
King Island Sc.	14	+6.6	-0.3	19	5-0	-	-	7.0	-	1.0	NE	Nil	N/A	19
KGL Resources	25	+50.7	-67.8	2	5-0	-	-	-	-	0.9	NE	Nil	N/A	35
SMS Mgmt & Tech	363	+1.7	-2.6	32	5-0	11	2.2	15.8	79	0.4	20	3.4	0.80	252
Ansell Ltd	2038	+1.8	+0.9	32	5-0	15	4.1	4.8	7	0.2	70	0.0	1.85	3,120
Xanadu Mines	10	+60.7	-12.1	2	5-0	-	-	-	-	1.4	NE	Nil	N/A	23

Company	Share Price	STRENGTH RATING			Insider Buy-Sell	Brokers Following	Short Interest	Price to N/A	ROE	Volatility	P/E Ratio	Div Yield	P/S Ratio	Market Cap'n	
		Current	4-Wk Chg.	Rank 0-99											
Ridley Corp.	89	+2.5	+1.1	29	5-0	5	-	2.0	13	0.5	15	4.2	0.31	272	
Impedimed Ltd	69	+64.3	+11.7	1	5-0	3	-	23.0	-	0.8	NE	Nil	N/A	165	
Centrepont All	53	+27.1	+1.0	5	5-0	-	-	7.6	44	0.5	17	4.2	0.41	56	
Antaria Ltd	3	+35.9	+10.9	4	5-0	-	-	2.5	1	2.3	444	Nil	3.92	15	
Origin Energy	1454	+1.5	+0.2	33	6-1	15	0.7	-	-	0.3	25	3.4	1.11	16,086	
Patties Foods	128	+2.3	+0.1	30	6-1	5	0.0	2.6	24	0.4	11	5.6	0.72	177	
Aust Oil Coy	15	+19.5	+5.9	8	4-0	-	-	-	-	1.0	NE	Nil	N/A	13	
Galileo Japan	168	+4.3	-1.5	25	4-0	-	-	0.8	15	0.5	5	6.3	8.44	179	
Energy World	36	+5.1	-1.2	22	4-0	-	-	2.7	1.2	4	0.8	30	Nil	3.67	624
GPT Group	417	+2.2	-0.1	30	4-0	15	0.4	1.1	9	0.3	12	4.9	N/A	7,028	
CSG Ltd	117	+13.7	-0.4	11	4-0	3	0.1	4.7	17	0.6	27	7.7	1.64	327	
Transfield Serv	189	+28.0	+3.8	5	4-0	13	1.3	5.4	37	0.4	15	Nil	0.26	966	
SDI Limited	61	+4.3	-3.0	25	4-0	-	-	2.3	21	0.8	11	1.1	1.11	73	
Elders Limited	20	+15.6	-13.8	10	4-0	3	3.4	2.8	-	1.0	NE	Nil	0.06	163	
Aust Vintage	41	+4.8	+1.8	23	4-0	2	-	0.5	6	0.6	9	5.4	0.44	94	
Dicker Data Ltd	172	+7.6	-6.8	17	4-0	1	-	11.5	27	0.7	43	2.6	0.33	221	
Scantech	60	+0.2	+2.6	37	4-0	-	-	1.1	-	0.6	NE	Nil	0.90	11	
Growthpoint Pro	281	+6.5	+1.7	19	4-0	6	0.3	1.3	10	0.3	13	6.8	8.81	1,558	
Webjet NL	334	+8.1	+2.3	17	5-1	10	1.8	11.5	84	0.3	14	4.0	2.66	265	
Naos Emerging	107	+1.5	-0.2	33	5-1	-	-	0.9	11	0.6	8	5.4	4.91	38	
Austex Oil Ltd	17	+11.1	-13.9	13	7-3	2	0.0	-	-	0.9	NE	Nil	4.35	95	
Select harvest	634	+7.2	+3.1	18	3-0	7	1.7	2.6	21	0.2	13	3.2	1.95	450	
G.U.D. Holdings	720	+8.8	-3.6	16	3-0	12	3.8	10.9	37	0.3	29	5.0	0.87	511	
Pioneer Credit	175	+4.2	+2.0	25	3-0	-	-	-	-	0.7	75	1.8	3.06	79	
Brierty Ltd	42	+11.8	-12.2	13	3-0	1	-	0.8	18	0.7	5	7.2	0.18	46	
Pental Limited	3	+8.1	-2.9	17	3-0	-	-	1.7	15	1.9	11	3.5	0.56	62	
Qantas Airways	169	+9.6	+3.1	15	3-0	14	1.4	0.7	-	0.5	NE	Nil	0.24	3,701	
Metalliko Res.	4	+22.4	-1.1	7	3-0	-	-	-	-	2.0	NE	Nil	N/A	3	
HUB24 Limited	97	+4.6	+0.5	23	3-0	-	-	2.9	-	0.6	NE	Nil	N/A	46	
Medtech Global	12	+10.9	-24.2	14	3-0	-	-	-	-	1.4	NE	Nil	0.72	12	
Aims Property	12	+11.1	-3.4	13	3-0	-	-	0.9	40	1.1	2	2.2	N/A	52	
I-College Ltd	15	+34.0	-37.6	4	3-0	-	-	-	-	0.9	NE	Nil	N/A	49	
AVEO Group	211	+3.7	-0.9	26	3-0	3	0.9	0.8	2	0.4	41	3.8	2.49	1,054	
Treasury Group	1040	+4.8	-1.1	23	3-0	3	0.1	3.8	20	0.3	18	4.8	N/A	246	
Sietel Ltd	460	+2.5	-0.5	29	3-0	-	-	0.6	5	0.2	12	Nil	4.04	37	
TFS Corporation	141	+6.2	-8.3	20	3-0	2	1.8	1.8	32	0.3	6	4.3	3.12	459	
Arowana Int'l	100	+13.5	-1.6	11	3-0	-	-	33.3	-	1.4	NE	5.3	N/A	163	
Mutiny Gold Ltd	3	+12.2	+0.3	12	3-0	-	-	-	-	2.2	NE	Nil	N/A	20	
Centuria Cap'l	94	+5.8	+1.7	20	3-0	-	-	1.5	19	0.4	8	2.9	1.81	73	
Sheffield Res.	84	+5.2	-4.9	22	3-0	-	-	-	-	0.8	NE	Nil	N/A	7	
Gunson Res.	1	+3.1	+1.0	27	3-0	-	-	-	-	3.5	NE	Nil	N/A	4	

# Australian Warrant / Option Analysis

Company	Share Price	Yr/Mth Exercise Price	to Expiry	Option Price	Black-Scholes Valuation	Option Over/Under-Valued	Share Volatility	Option Leverage	Options to Buy 1 Share	Break-Even Rate
Actinogen	4.0	20	0-10	0.1	0.5	-79	1.37	2.22	1.0	+594
Adv Braking Tech	0.6	1.2	1-9	0.2	0.1	+41	0.83	2.03	1.0	+64
Agenix Ltd	1.2	5.0	0-7	0.1	0.0	+999	0.69	6.76	1.0	+999
Alcyone Resources	0.1	6.0	0-6	0.1	0.0	+999	1.56	4.62	1.0	+999
Alcyone Resources	0.1	1.0	0-8	0.1	0.0	+999	1.56	2.49	1.0	+999
Aleator Energy	0.1	2.0	0-2	0.1	0.0	+999	1.29	9.99	1.0	+999
American Patriot	19	25	1-11	4.5	1.2	+265	0.27	4.91	1.0	+28
Anatolia Energy	6.2	18	2-7	0.6	0.4	+57	0.49	3.17	1.0	+54
Antipa Minerals	0.5	8.0	0-1	0.1	0.0	+999	1.07	9.99	1.0	+999
Antisense Thera.	11	27	2-2	3.7	1.1	+237	0.59	2.72	1.0	+64
Applabs Tech.	18	25	1-6	4.9	6.2	-20	0.95	1.77	1.0	+44
Argent Minerals	2.9	18	1-4	0.9	0.1	+936	0.84	3.12	1.0	+300
Argentina Mining	2.3	20	0-3	0.1	0.0	+999	1.54	4.57	1.0	+999
Argonaut Resources	1.6	6.0	2-4	0.2	0.3	-25	0.81	2.08	1.0	+79
Artemis Resources	0.3	2.0	1-9	0.1	0.1	-13	1.55	1.45	1.0	+204
Arunta Resources	0.1	0.2	4-8	0.1	0.1	+6	1.87	1.03	1.0	+27
Arunta Resources	0.1	2.0	0-1	0.1	0.0	+999	1.87	9.99	1.0	+999
Atlantic Gold	23	60	3-9	5.0	20.9	-76	1.95	1.04	1.0	+32
Aura Energy	2.6	20	0-0	0.1	20.9	-100	0.87	1.04	1.0	+999
Ausgold Ltd	4.5	5.0	0-6	1.2	1.7	-28	1.55	1.80	1.0	+101
Ausquest Ltd	1.1	4.0	2-0	0.8	0.4	+114	1.18	1.58	1.0	+109
Aust Min & Min	8.8	20	0-6	1.0	0.0	+999	0.50	8.70	1.0	+469
Barrack St Invest.	96	100	1-9	3.9	4.3	-10	0.07	9.99	1.0	+5
Beacon Minerals	0.3	0.5	0-10	0.1	0.1	+34	1.11	2.06	1.0	+130
Black Mountain										

Company	Yr/Mth			Option Price	Black-Scholes Valuation	Option Over/Under-Valued	Share Volatility	Option Leverage	Options to Buy 1 Share	Break-Even Rate	Company	Yr/Mth			Option Price	Black-Scholes Valuation	Option Over/Under-Valued	Share Volatility	Option Leverage	Options to Buy 1 Share	Break-Even Rate
	Share Price	Exercise Price	to Expiry									Share Price	Exercise Price	to Expiry							
Future Generation IF	105	110	1-10	5.4	53.7	-90	1.03	1.48	1.0	+5	PM Capital Global	97	100	0-7	3.1	2.4	+31	0.10	9.99	1.0	+11
GBM Resources	2.3	3.5	1-7	0.4	0.7	-44	0.87	1.88	1.0	+40	Panterra Gold	2.6	18	0-1	0.1	0.0	+999	0.72	9.99	1.0	+999
Galaxy Resources	3.7	8.0	0-1	0.2	0.0	+999	0.61	9.99	1.0	+999	Parmelia Resources	4.0	5.0	2-6	1.7	2.8	-39	1.37	1.21	1.0	+23
Galicia Energy	1.7	8.0	0-7	0.1	0.0	+143	1.11	3.48	1.0	+999	Paynes Find Gold	0.2	3.0	0-7	0.1	0.0	+258	2.30	1.85	1.0	+999
General Mining	0.8	13	0-9	0.5	0.0	+999	1.23	3.45	1.0	+999	Peak Resources	8.5	10	0-7	2.2	1.2	+78	0.66	3.35	1.0	+86
Gladiator Res.	0.5	0.6	2-7	0.1	0.3	-67	1.12	1.31	1.0	+14	Peninsula Energy	2.3	3.0	1-1	1.0	0.3	+252	0.50	3.46	1.0	+67
Gladiator Resources	0.5	1.0	0-7	0.1	0.0	+999	1.12	5.25	1.0	+999	Pental Ltd	3.4	3.0	0-6	0.7	0.6	+9	4.1	3.89	1.0	+18
Gleneagle Gold	0.2	1.0	0-7	0.1	0.1	+88	2.17	1.68	1.0	+999	Pepinnini Min.	1.8	5.0	0-7	0.2	0.1	+228	0.89	3.82	1.0	+516
Global Metal Exp	0.5	2.0	0-11	0.2	0.0	+999	0.00	9.99	1.0	+403	PharmAust Ltd	0.8	2.0	0-9	0.2	0.0	+999	0.65	4.71	1.0	+285
Global Resources	17	5.0	1-1	8.5	11.9	-29	0.85	1.34	1.0	-17	Pharmnet Group	0.1	0.5	1-1	0.1	0.0	+999	0.99	2.75	1.0	+423
Global Value Fund	101	100	1-4	5.0	6.0	-17	0.06	9.99	1.0	+3	Phoenix Gold	8.0	25	0-0	0.1	0.0	+999	0.53	2.75	1.0	+999
Goldphyre Resources	1.2	8.0	1-10	0.3	0.1	+187	0.93	2.32	1.0	+187	Phylogica Ltd	1.6	9.0	1-7	0.6	0.2	+146	1.11	2.01	1.0	+210
Green Rock Energy	0.2	1.2	0-2	0.1	0.0	+999	1.43	6.76	1.0	+999	Platina Resources	8.7	6.0	0-10	9.0	6.2	+44	2.05	1.22	1.0	+92
Greenland M&E	7.5	20	1-7	1.6	1.5	+6	0.92	2.05	1.0	+95	Pluton Resources	3.4	5.5	2-4	0.9	0.7	+25	0.57	2.30	1.0	+31
Havilah Resources	13	30	2-7	2.8	1.2	+132	0.48	2.98	1.0	+43	Plymouth Minerals	10	25	0-7	0.1	0.4	-76	0.87	3.77	1.0	+384
High Peak Royalties	15	35	2-5	3.0	11.5	-74	1.91	1.11	1.0	+50	Potash Minerals	3.5	20	1-0	0.2	0.1	+120	0.93	3.26	1.0	+477
Hot Chili Ltd	20	75	0-0	0.1	11.5	-99	0.67	1.11	1.0	+999	Prima Biomed	3.9	20	2-7	1.5	0.3	+347	0.71	2.45	1.0	+95
IM Medical	0.1	1.0	1-10	0.1	0.1	+69	2.06	1.22	1.0	+270	Primary Gold	2.7	20	0-4	0.6	0.0	+999	0.81	9.99	1.0	+999
IMX Resources	1.7	60	0-10	0.3	0.0	+999	1.24	3.92	1.0	+999	Primary Gold	2.7	10	1-1	0.5	0.1	+335	0.81	3.23	1.0	+250
Icecolle Ltd	15	20	2-8	4.0	12.1	-67	1.68	1.11	1.0	+19	Proto Res & Inv	0.1	5.5	2-4	0.1	0.0	+999	0.00	9.99	1.0	+468
Immuron Ltd	0.6	4.0	0-5	0.1	0.0	+999	1.31	3.91	1.0	+999	Pryme Energy	0.9	2.0	1-8	0.2	0.3	-35	1.10	1.67	1.0	+72
Impact Minerals	2.4	20	1-0	0.1	0.1	+84	1.04	3.09	1.0	+738	QV Equities	99	100	1-4	3.9	3.6	+9	0.03	9.99	1.0	+4
Investigator Res.	2.1	10	2-4	0.4	0.3	+37	0.83	2.13	1.0	+99	Qanda Technology	0.2	0.2	2-5	0.1	0.2	-48	2.67	1.02	1.0	+18
Invigor Group	8.0	5.0	3-7	2.9	7.8	-63	2.20	1.01	1.0	-0	Quest Petroleum	0.1	1.5	1-7	0.1	0.1	+92	2.18	1.26	1.0	+476
Jacka Resources	4.2	13	1-6	0.3	0.3	+11	0.69	3.03	1.0	+116	RTG Mining	86	150	2-6	33.0	2.5	+999	0.25	5.59	1.0	+35
Jacka Resources	4.2	35	0-2	0.1	0.0	+999	0.69	9.99	1.0	+999	Ram Resources	0.9	2.5	2-3	0.3	0.4	-26	1.21	1.44	1.0	+66
Kaboko Mining	0.1	1.2	1-9	0.1	0.0	+103	1.95	1.30	1.0	+333	Ramelius Res.	4.0	12	0-8	0.7	0.0	+999	0.66	5.48	1.0	+466
Kibaran Resources	21	20	0-8	6.6	10.5	-37	1.56	1.52	1.0	+41	Rampart Energy	0.3	0.7	1-2	0.1	0.1	+25	1.17	1.86	1.0	+132
King River Copper	4.5	20	0-7	0.9	0.3	+235	1.31	2.78	1.0	+999	Range Resources	1.4	5.0	1-2	0.4	0.1	+230	0.92	6.62	1.0	+218
Kingston Resources	1.5	20	1-1	1.0	0.0	+999	0.97	3.65	1.0	+999	Raya Group	1.2	1.5	1-8	0.5	0.5	+5	0.92	1.69	1.0	+37
Kogi Iron	3.2	8.0	2-6	1.4	1.0	+42	0.87	1.73	1.0	+54	Raya Group	1.2	1.5	1-8	0.1	0.5	-79	0.92	1.69	1.0	+19
Krakatoa Resources	9.0	20	0-7	1.5	0.8	+95	1.00	3.04	1.0	+345	Raya Group	1.2	10	0-1	0.1	0.0	+999	0.92	9.99	1.0	+999
Krucible Metals	6.5	5.0	1-2	2.1	2.5	-16	0.64	2.03	1.0	+8	Real Energy Corp.	32	30	0-6	8.0	7.1	+12	0.67	2.96	1.0	+41
Kunene Resources	5.3	25	0-8	0.2	0.0	+999	0.74	5.56	1.0	+879	Red Gum Resources	0.5	1.0	2-12	0.1	0.4	-73	1.49	1.16	1.0	+31
Laconia Resources	0.4	6.0	3-10	0.1	0.1	+39	0.94	1.74	1.0	+104	Red Gum Resources	0.5	10	1-3	0.1	0.0	+131	1.49	2.02	1.0	+999
Lindian Res.	0.7	2.0	3-8	0.1	0.5	-79	1.29	1.20	1.0	+35	Red Mountain Mining	0.5	3.0	1-7	0.2	0.3	-26	1.93	1.28	1.0	+223
Lindian Resources	0.7	8.0	0-1	0.1	0.0	+999	1.29	9.99	1.0	+999	Redstone Resources	4.3	20	1-3	0.1	0.6	-82	1.12	2.17	1.0	+243
Lion Selection Group	30	80	0-0	0.1	0.0	+999	0.37	9.99	1.0	+999	Resource Mining	0.4	0.6	0-2	0.1	0.1	+28	2.02	2.41	1.0	+999
Liontown Resources	2.0	5.0	0-10	0.4	0.1	+210	0.83	3.24	1.0	+233	Resource Star	0.7	0.4	1-4	0.5	0.5	-9	1.80	1.16	1.0	+21
Lithex Resources	3.5	8.0	1-1	0.2	2.4	-92	2.35	1.20	1.0	+119	Reward Minerals	54	25	1-7	40.0	34.3	+17	0.81	1.43	1.0	+12
Lodestar Minerals	1.4	3.0	1-4	0.5	0.9	-42	1.87	1.26	1.0	+99	Rhinomed Ltd	2.8	6.0	2-5	1.0	1.2	-19	1.05	1.49	1.0	+46
Lucapa Diamond	37	1.0	0-9	13.0	35.5	-63	0.79	1.03	1.0	-72	Rumble Resources	4.5	35	0-11	1.9	0.0	+999	0.85	4.30	1.0	+893
Lynas Corporation	5.5	9.0	0-10	1.0	0.7	+40	0.79	2.91	1.0	+113	Rumble Resources	4.5	8.0	0-7	1.2	0.4	+192	0.85	3.27	1.0	+241
MRG Metals	12	25	1-10	3.0	2.2	+34	0.76	2.19	1.0	+63	SML Corporation	1.7	20	0-12	0.1	0.1	+3	1.38	2.36	1.0	+999
MRL Corporation	9.0	20	1-11	1.6	5.1	-69	1.48	1.31	1.0	+60	Samson Oil & Gas	1.7	3.8	2-4	0.8	0.1	+450	0.48	3.11	1.0	+53
Magellan Financial	1464	300	1-711	145.0	1179.2	-3	0.35	1.24	1.0	-1	Sandon Capital	95	100	0-8	1.1	1.9	-43	1.10	9.99	1.0	+10
Magellan Flagship	157	105	2-11	55.0	62.7	-12	0.19	2.39	1.0	+1	Select Exploration	0.5	35	0-10	0.1	0.0	+999	1.07	8.42	1.0	+999
Magnis Resources	19	10	2-6	8.6	12.6	-32	0.91	1.30	1.0	+0	Shopy Ltd	1.5	3.5	0-8	0.2	0.1	+126	0.85	3.44	1.0	+287
Malachite Resources	0.8	1.5	0-4	0.1	0.0	+231	0.89	4.52	1.0	+700	Silver City Minerals	3.6	25	0-1	0.1	0.0	+999	0.82	9.99	1.0	+999
Manas Resources	2.3	8.0	0-4	0.3	0.0	+999	0.78	7.98	1.0	+999	Sino Aust Oil & Gas	48	75	2-0	2.5	0.9	+178	0.22	7.21	1.0	+27
Mantle Mining	2.2	4.5	0-7	0.5	0.2	+100	1.04	2.80	1.0	+308	Sipa Resources	3.7	7.5	0-11	0.7	0.3	+152	0.70	3.35	1.0	+135
Metals of Africa	11	15	2-1	4.7	5.4	-12	1.03	1.48	1.0	+32	Spitfire Resources	1.2	12	1-4	0.1	0.0	+695	0.86	3.49	1.0	+466
Minera Gold	0.4	1.2	2-0	0.2	0.2	-8	1.50	1.31	1.0	+87	St George Mining	7.5	20	0-0	0.1	0.0	+999	0.92	3.49	1.0	+999
Minerals Corp	5.4	1.0	1-1	0.1	5.3	-98	4.32	1.01	1.0	-77	Sth Amer Ferro Met	1.8	20	0-1	0.1	0.0	+999	0.62	9.99	1.0	+999
Mining Corporation	1.4	5.0	0-7	0.5	0.0	+999	0.75	5.49	1.0	+944	Sihm Hemi Mining	5.5	4.5	1-3	1.5	2.6	-42	0.93	1.64	1.0	+7
Mining Projects	0.8	1.0	1-7	0.3	0.4	-32	1.30	1.38	1.0	+36	Sun Resources	0.6	2.5	2-10	0.2	0.1	+67	0.81	1.92	1.0	+70
Mining Projects	0.8	1.5	0-0	0.1	0.4	-77	1.30	1.38	1.0	+999	Syndicated Metals	3.7	20	0-0	0.1	0.0	+999	0.83	9.99	1.0	+999
Mitchell Services	3.4	30	1-8	0.1	0.3	-65	1.05	2.25	1.0	+270	TNG Limited	9.4	8.0	0-8	4.0	3.6	+11	1.01	1.92	1.0	+44
Moko.Mobi Ltd	14	5.0	0-7	8.3	8.6	-4	0.68	1.55	1.0	-3	Tag Pacific	10	20	2-10	1.6	1.8	-13	0.55	2.32	1.0	+31
Monax Mining	1.5	4.2	0-8	0.4	0.1	+214	1.07	2.82	1.0	+437	Talga Resources	40	35	1-0	14.5	16.1	-10	0.93	1.80	1.0	+25
Money3 Corp.	129	130	3-6	20.0	33.1	-40	0.29	2.65	1.0	+4	Tamaska Oil & Gas	0.8	0.5	0-9	0.1	0.6	-83	2.27	1.20	1.0	-33
Mongolian Resources	9.0	40	0-1	0.1	0.0	+999	1.48	9.99	1.0	+999	Thorne Opps.	43	53	0-5	0.3	1.4	-78	0.38	7.81	1.0	+72
Mutiny Gold	3.0	5.0	0-9	0.5	0.3	+52	0.79	3.12	1.0	+135	Titan Energy	2.3	3.0	0-11	0.1	0.6	-82	0.87	2.24	1.0	+38
NKWE Platinum	7.0	10	1-4	2.7	1.3	+113	0.63	2.61	1.0	+56	Titan Energy	2.3	4.0	0-6	0.3	0.2	+58	0.87	3.47	1.0	+250
NSL Consolidated	0.7	1.0	2-1	0.4	0.4	+5	1.17	1.38	1.0	+39	Trafford Resources	4.0	20	0-6	0.5	0.0	+999	0.58	9.99	1.0	+999
Namibian Copper	0.7	1.5	4-5	0.2	0.5	-57	1.10	1.21	1.0	+22	Trafford Resources	4.0	10	0-3	0						

# *New Issue:*

## *Orion Health Group*

*The following review was emailed to subscribers on 29 October.*

*The shares have since been priced at 570 cents, valuing the company at \$915 million - a very high Price/Sales ratio of 6.*

**Orion Health Group Ltd**, a software company established 21 years ago, is seeking to raise \$120 million in new cash from the issue of 21.1 - 27.9 million new shares at a price of 430-570 cents per share.

Existing shareholders will also sell \$5.0 million worth of shares (i.e. 0.9-1.2 million shares) to the public in the Initial Public Offering.

Orion Health Group *was* a profitable business through to March 2013, earning a net profit of \$7,750,000 but since 2012 has been “strategically focused on aggressively growing market share” in the United States, which has “required us to scale our delivery at a speed which has generated challenges, which in turn has adversely impacted our margins in the short term”.

In other words, they have had to spend a lot more on Research & Development *and* on Sales & Marketing to grow in a very competitive market. Expenses have increased faster than revenues and the business has become unprofitable.

Why would you want to buy into a company that had been “adversely impacted” by events? Perhaps because that might depress the share price and offer a low buying opportunity? Well, that *does* happen on the *stockmarket*, but not in the IPO market!

How “adversely” has Orion Health Group been impacted? Judge for yourself. The prospectus uses the word “adversely” no less than 42 times. Investors may be a little “adverse” to invest in a company with that many problems.

So lets look at some valuation statistics.

The market capitalisation *after* this Initial Public Offering will be around \$720-915 million (depending upon the issue price of the shares). That is 93-118 times the net profit earned in 2013 (i.e. a P/E of 93-118) but the company became *unprofitable* in the year to March 2014 with a *loss* of \$1,137,000. In the half year to 30 September, the company *lost* \$14,756,000.

Unfortunately, there is no suggestion that the company will return to profitability in the foreseeable future!

At least the brokers selling this IPO don't have to worry about a ridiculously high P/E ratio - but perhaps *investors* should worry.

Annual revenues to March 2014 were \$153.0 million. Only 29% were *recurring* revenues, although these will increase in the future as the company moves from one-off, upfront, perpetual software sales to recurring annual *Software as a Service* revenues. Unfortunately this transition adversely - yes, that word again - impacts on revenue growth and profitability in the short to medium term.

We like software companies but *profitable* software companies can be purchased on Price/Sales ratios of 3-5½ (or lower). Orion Health Group's \$720-915 million market capitalisation is a Price/Sales ratio of 4.7-6.0. That looks a little expensive, especially as most revenue growth has been from lower margin “implementation services” and “managed services” while high margin “perpetual licence” revenues will decline significantly (i.e. from more than 30% of revenue to just “10-15%” over the “medium term”).

For an *unprofitable* software company, we *might* be more interested at a P/S of 2-3. That would value the shares at about *half* their proposed IPO price.

### Summary and Recommendation

Software is a great business, especially companies (like Integrated Research and Technology One) that can finance Research & Development (to improve and expand their services) and Sales & Marketing (to win new customers) *out of revenues* to generate *profitable growth* and also pay dividends!

*Unprofitable* software companies involve much higher risks, so are less attractive for investment. Logic is inverted when they are priced at a *higher valuation*. Why would investors pay *more* for a company that fails to earn a profit and is unable to finance its growth from internally generated cashflows?

So Orion Health Care may be a great company, but at a high valuation and with an unprofitable business it is not something we shall be buying for our portfolio.

## Investment Outlook

(Continued from Page 1)

company and it struggled to adapt and grow in a competitive market . . . but when we sold out seven years later our investment was up 9½-fold in value.

A professional Fund Manager would never last that long. If investors withdraw money owing to his “irrational” decisions with their retirement investments then he will be fired and replaced after a few months. Especially if he was foolish enough to be the only person in the investment industry to openly advocate buying resource shares when the sector is depressed (while everyone else is trying to dump the resource shares they bought years ago, at much higher prices, during the boom).

Investors want “something safe, that is growing strongly”. Never mind the price.

So, the *best career option* for a professional Fund Manager is to buy Property shares in an Property boom, Resource shares in a Resource boom and Technology shares in a Technology boom. Don't stick your neck out. Give the investors what they want.

That may never make much money for the investors, but no-one ever got fired for making the *same mistake as his boss* or the *same mistake as everyone else in the industry*. Who could possibly have seen that one coming? It surprised us all! Pretty soon the professional Fund Manager will be able to suppress any of those dangerous

*contrarian investment* views. The only question to bring up at the next investment committee meeting is “How *heavily* over-weighted should the fund be in Orion Health shares?”.

All of this, of course, creates enormous opportunities for anyone who can think for themselves and manage their own investments. Any investment method would cease to work if *everyone* followed it. If institutions were to buy out-of-favour shares then they wouldn't be out-of-favour and they certainly wouldn't be so cheap. Fortunately, there is no chance of this current favourable situation ever changing! Retirement savings and Fund Management are big business and companies will seek to safeguard their market share (and regular, recurring management fees), rather than risk being different and (potentially) losing customers!

Unlike a professional Fund Manager, the individual investor does not have to explain their buying and selling to a boss or an investment committee, can't be sacked and doesn't have to report to outside investors.

To be really successful in the stockmarket, it helps to think differently and to act differently to most other participants in the market. A Fund Manager who thinks and acts differently probably won't keep his job very long. As individual investors we have no such constraints. We can employ “contrarian” methods, buy shares that other's hate and don't want, and we are free to exploit these under-valued opportunities to find potential future big winners and further grow our investment wealth!

## Dividend \$

Company	Cents per Share	Ex-Date	Pay-able	Tax Credit
Augusta Capital	1.25	07-11	14-11	Full
AWF Group	7.20	28-11	05-12	Full
Hallenstein Glasson	16.50	28-11	05-12	Full
Kathmandu	9.00	10-11	21-11	Full
Mighty River special	5.00	20-11	11-12	Full
Precinct Property	1.35	27-11	11-12	Full
Property For Industry	1.80	17-11	28-11	Full
Restaurant Brands	7.50	07-11	21-11	Full
Scott Technology	5.50	28-11	09-12	Full
Seeka Kiwifruit	8.00	07-11	13-11	Full
Trust Power	20.00	28-11	12-12	6.7843
Warehouse	6.00	28-11	11-12	Full

Company	Cents per Share	Ex-Date	Pay-able	Tax Credit
<u>Australian Shares</u>				
TFS Corporation	3.00	09-10	10-11	

### Total Return Index for All Listed Shares

Oct 13	1546.29	Oct 20	1540.02
Oct 14	1541.17	Oct 21	1545.06
Oct 15	1542.03	Oct 22	1553.41
Oct 16	1532.55	Oct 23	1557.83
Oct 17	1533.47	Oct 24	1559.78
Oct 27	Holiday	Nov 3	1587.60
Oct 28	1561.68	Nov 4	1584.69
Oct 29	1566.51	Nov 5	1581.04
Oct 30	1574.78	Nov 6	1586.66
Oct 31	1580.65	Nov 7	1589.97

### Next Issue:

The next issue of *Market Analysis* will be emailed in four weeks time on Monday December 8, 2014.

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

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