

Market Analysis

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Summary and Recommended Investment Strategy.

We see value and growth potential in most of our *Recommended Portfolio* shares (which recently hit new highs) so remain fully invested.

Investment Outlook.

July was a bad month for oil shares as the price of oil fell to new lows. It was a bad month for Gold Mining shares and other resource shares, as Gold also fell to new lows. And it was a bad month for many Asian stockmarkets (excluding Japan, which hit new highs) owing to continued volatility on the Chinese stockmarket.

So we are happy to report that our *Recommended Portfolio* has appreciated to new highs! Even after Friday's sharp decline it is up for the month.

Prophecy International, Integrated Research and Melbourne IT have all helped to lift our portfolio.

We like to think that this short term (and, more importantly, our long term) outperformance is the result of scientific and intelligent share selection and scientific and intelligent investment strategies . . . but the "smart" (but financially poor) academics will tell you that this can't be done, that we were wasting our time analysing potential investments and should have just put our money into an "index fund".

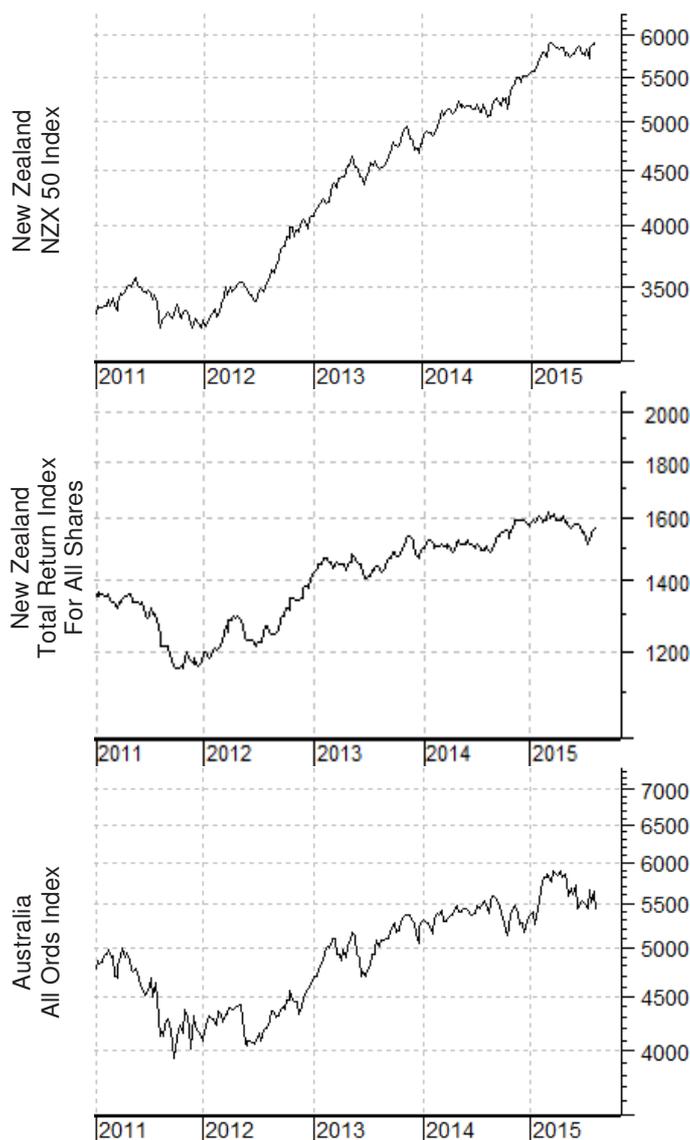
Academics will explain our 34-year track record of building wealth in the stockmarket as "good luck". They will point out that by pure chance one out of two people will outperform the market over any year, one in four over two years, one in eight over three years . . . and one in 17 billion over 34 years.

The last time we checked, the world population was only 7¼ billion - and probably only about 100 million of these have ever owned shares! But we are not here to waste our time arguing with academics. It is much more profitable applying our time and common sense to competing on the stockmarket.

Of course there is a lot of randomness (or "luck") in the stockmarket, but an intelligent investment strategy can use good share diversification (i.e. owning a lot of different shares) and time diversification (i.e. owning shares over the long term or over different periods) to eliminate that randomness or risk (or, for academics who may prefer thinking in terms of luck, averages out the "good luck" and the "bad luck"). (Cont'd on Page 16)

Stockmarket Forecasts

	One-Month	One-Year
Australia:	33% (Bearish)	49% (Neutral)
New Zealand:	67% (Bullish)	44% (Neutral)



Recommended Investments

Michael Hill International opened 12 stores over the last year and closed two, to end June 2015 with 288 *Michael Hill* stores. It also opened two *Emma & Roe* stores, taking the total to eight stores - but is still "continuing to refine and test" this new retail model.

The *Michael Hill* stores lifted same store revenues just 0.7% for the year, with total store revenues up 3.4% to A\$495.6 million.

Canadian revenues rose 15.5% to A\$81.3 million (C\$79.1 million) and United States revenues 24.9% to A\$13.6 million (US\$11.3 million).

Michael Hill International



Smiths City Group has contracted to sell its Colombo Street property for \$20 million (plus GST) and to lease it back for \$1,409,000 (plus GST) annually. The lease term is 12 years, plus rights of renewal for up to a further 12 years. This sale is subject to shareholder approval at the AGM on 25 August.

This cash *could* be used to expand the Finance business and potentially earn a much higher return on equity than the cost of renting the property.

Smiths City Group



Steel & Tube Holdings has acquired the business and assets of **Manufacturing Supplies**, one of the largest fastenings (i.e. screws, nuts & bolts) businesses in NZ, operating under the *Fortress Fasteners* brand. Manufacturing Supplies was formed in 1980, has eight branches and warehouses, with 10,000 product lines.

The acquisition will cost \$32 million (i.e. \$26 million in cash, plus the issue of 2,100,000 new Steel & Tube shares at 285 cents) and generates annual revenues of \$32-35 million and earnings (before interest and tax) of \$6.3-6.6 million. That is a Price/Sales ratio of 0.9-1.0

and a Price/Earnings ratio of around 7. That is good value. Steel & Tube is a steady cashflow generating business, so this type of acquisition is the best use of those cash flows, its cash holding and/or its ability to borrow (at a significantly lower cost than the earnings of the business being acquired).

Steel & Tube Holdings



Australian Shares

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

AcruX Ltd reports June 2015 quarter *Axiron* sales of US\$32.4 million. That is 31% lower than June 2014 and 17% less than the March 2015 quarter.

Annual sales were 14% lower at US\$155.4 million, on which it will earn royalties 13.9% lower at US\$19.2 million (although the Australian dollar value will be similar to last year).

AcruX Ltd



AJ Lucas Group reports that **Cuadrilla Resources** will appeal against decisions to deny its planning applications for *Roseacre Wood* and *Preston Road*.

AJ Lucas Group directly owns an 18.75% interest in these exploration tenements, plus a further 25.31% indirectly through its investment in Cuadrilla.

AtCor Medical's cash issue was 41% subscribed by existing shareholders and the remaining shares will be taken up by the underwriter.

As expected, the cash issue temporarily depressed the share price - offering a "buying opportunity to further increase shareholdings on-market".

The **American Heart Association** has published a statement recommending the measurement of carotid-

femoral pulse wave velocity and central aortic blood pressure. This will support the adoption of AtCor Medical's *SphygmoCor* device.

Ausenco Ltd has raised \$10.7 million from the placement of 17,808,087 shares at 60 cents to **Duro Felguera SA**. This raises the Spanish company's stake in Ausenco to 14.5%. While there is no indication that this may ultimately lead to a full acquisition, the placement price of 60 cents is probably a good indication of where a trade buyer would see good value in Ausenco shares.

(Continued on Page 4)



Portfolio of Recommended Investments

CURRENT ADVICE	Company	Code	Initial Recommendation - Date -	Price	Performance Forecast	Issued Shares (mil.)	Vola- tility Ratio	Price/ Sales Ratio	Price/ Earnings Ratio	Gross Dividend Yield	Recent Share Price	Cash Dividends Rec'd	Total Return %
NZ Shares													
BUY	CDL Investments Ltd	CDI	12/01/99	25	D	275.5	1.2	4.00	12	4.8	64	27.6	+266%
HOLD	Cavalier Corporation	CAV	05/12/95	156*	D	68.7	1.7	0.15	5	9.7	43	282.0	+108%
HOLD	Colonial Motor Company	CMO	10/11/92	128*	B	32.7	0.6	0.29	11	7.9	615	440.3	+724%
BUY	Michael Hill Int'l Ltd	MHI	11/06/91	5*	E	383.0	1.1	0.73	11	6.5	100	57.4	+3048%
HOLD	Nuplex Industries Ltd	NPX	11/02/97	523*	A	198.1	1.0	0.53	17	4.8	439	483.0	+76%
HOLD	Smiths City Group	SCY	09/10/06	64	D	52.7	1.4	0.13	35	6.6	53	29.0	+28%
HOLD	South Port New Zealand	SPN	13/02/96	120	A	26.2	0.6	3.71	17	6.9	445	225.3	+459%
BUY	Steel & Tube Holdings	STU	08/08/00	146	B	88.5	0.7	0.57	14	7.9	282	308.6	+305%
HOLD+	Acrux Limited	ACR	12/05/14	99	B	166.5	1.1	2.06	4	12.0	67	8.0	-25%
HOLD+	AJ Lucas Group	AJL	13/05/03	107*	C	267.4	1.8	0.31	NE	Nil	27	36.4	-41%
BUY	ALS Limited	ALQ	12/10/99	77*	A	407.2	0.5	1.35	17	4.2	496	275.5	+902%
BUY	AtCor Medical Ltd	ACG	11/11/13	15	C	173.2	1.9	7.33	NE	Nil	24	Nil	+57%
HOLD+	Atlas Pearls & Perfume	ATP	14/05/96	73	D	399.4	5.1	0.75	7	Nil	4	17.5	-71%
BUY	Ausenco Ltd	AAX	10/06/13	191*	C	186.3	1.6	0.17	NE	Nil	36	1.8	-80%
HOLD+	Brickworks Ltd	BKW	12/11/12	1115	A	148.4	0.3	3.35	22	2.8	1516	82.5	+43%
BUY	Cardno Ltd	CDD	14/12/09	391*	B	165.6	0.7	0.34	6	13.0	277	164.3	+13%
HOLD	Circadian Technologies	CIR	10/02/04	188	C	68.1	1.9	11.90	NE	Nil	21	65.0	-54%
HOLD+	Clarius Group Ltd	CND	08/04/03	82*	D	89.6	1.9	0.13	NE	Nil	26	70.5	+17%
HOLD+	CPT Global Ltd	CGO	10/03/08	88	C	36.7	1.6	0.37	8	11.5	39	15.8	-38%
HOLD	CSG Limited	CSV	11/10/10	175	B	284.1	0.9	2.27	37	5.5	163	50.0	+21%
BUY	Ellex Medical Lasers	ELX	14/03/06	49	C	107.6	1.7	0.67	46	Nil	34	Nil	-31%
BUY	Fiducian Group	FID	11/02/08	260	B	30.8	0.8	2.47	14	5.0	181	57.4	-8%
BUY	Finbar Group Ltd	FRI	12/04/10	106	A	229.2	0.9	1.03	8	7.9	126	44.5	+61%
HOLD+	Iluka Resources Ltd	ILU	12/10/04	471	B	418.7	0.5	3.93	0	2.6	745	210.0	+103%
HOLD+	Integrated Research	IRI	14/01/08	40	A	169.7	0.6	6.78	43	2.3	214	32.5	+516%
HOLD-	M2 Group Ltd	MTU	09/10/06	33	A	183.4	0.3	1.84	28	2.5	1042	94.0	+3342%
HOLD+	Melbourne IT	MLB	10/02/04	53	A	92.9	0.7	1.40	19	2.7	189	180.0	+595%
BUY	Mt Gibson Iron	MGX	10/11/14	44	A	1090.8	2.2	0.23	2	21.1	19	Nil	-57%
HOLD	Nomad Building Solutions	NOD	16/08/10	13*	C	277.5	3.5	0.54	NE	Nil	7	Nil	-43%
HOLD	Novarise Renewable Res	NOE	14/03/11	25	C	415.1	2.3	0.42	NE	Nil	16	Nil	-36%
HOLD	Probiotec Ltd	PBP	11/02/08	116	D	52.9	1.9	0.17	13	Nil	23	9.3	-73%
HOLD+	Prophecy International	PRO	08/09/08	26	B	55.4	0.8	13.55	75	1.6	173	17.8	+634%
HOLD+	Skilled Group Ltd	SKE	12/03/02	126	A	235.9	1.1	0.19	9	10.4	164	188.5	+179%
HOLD	Technology One Ltd	TNE	11/11/03	44	B	310.6	0.6	6.03	38	1.6	381	50.8	+881%
HOLD	TFS Corporation Ltd	TFC	08/01/07	45	A	327.0	0.8	3.30	6	4.0	149	20.2	+276%
HOLD+	The Reject Shop Ltd	TRS	11/01/05	257	A	28.8	0.6	0.25	12	4.9	612	392.0	+291%
HOLD	Village Roadshow	VRL	10/08/09	77	A	160.2	0.4	1.01	21	4.4	611	267.0	+1040%

The average Total Return (i.e. both Capital Gains/Losses plus Dividends received) of all current investments from initial recommendation is +371.5%. This is equal to an average annual rate of +36.4%, based upon the length of time each position has been held.

The average annual rate of gain of ALL recommendations (both the 37 current and 160 closed out) is +31.0%, compared with a market gain of +3.9% (by the SRC Total Return Index).

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

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

(1) Atlas Pacific notes (ATPG) last traded at cents. (2) Toll Holdings notes (TOLG) last traded at cents.

Recommended Investments

(Continued from Page 3)

The company, however, has also reported “delayed starts” to some work from the June quarter and “lower activity in the oil and gas sector”. First half revenues will be 15-20% lower at around \$140 million.

Ausenco and strategic partner **Duro Felguera** have won their first joint venture EPC project (i.e. Engineering, Procurement and Construction) to develop the **Dumont Nickel Project** for **Royal Nickel Corporation** at a total construction cost not to exceed C\$911 million. This project will create the fifth largest nickel-sulphide mine in the world.

The partners will finalise works, cost, schedule and EPC terms over the next several months, with construction expected to start late in 2015.

Ausenco Ltd



ALS Limited expects its first half profit to 30 September to be 4-11% lower than last year. The company has also signalled a “lower dividend payout ratio” in the future, mainly as only 22% of profits are earned in Australia so it has few franking credits.

Geochemical sample flows are “in line” with last year and “just a small 10-15%” increase in mineral exploration “would provide a significant uplift in performance” for this division.

Paying unfranked dividends is not tax efficient (i.e. does not maximise Shareholder wealth), especially if those dividends are partially financed through a dividend re-investment plan (i.e. issuing new shares to dilute earnings per share growth). The company will favour reducing debt and funding acquisitions, while surplus cash (if any, in excess of available franking credits) will be more efficiently returned to shareholders by “buying back shares on market”.

ALS Ltd



Ellex Medical Lasers' reports that a **University of Melbourne** research team, investigating its 2RT laser treatment on “cells, cell populations and the body as a whole” has been awarded a \$355,000 grant from the **Australian Research Council**.

Limited commercial sales of 2RT lasers to “early adopters and research collaborators” are “making good progress”. At mid-June 2015, 1500 procedures had been performed on 940 patients.

The **LEAD** double blind clinical trial was completed in March 2015. Patients will be evaluated over a three-year follow up, so results will be available in 2018.

Revenues for the year to June 2015 were 15% higher at \$62.5 million, with net profits *before* tax expected to be 90% higher at around \$2.5 million.

Ellex Medical Lasers



Finbar Group is forecasting a June 2015 net profit of \$25.5 million. That is down about 30% on last year, but owing to the timing of the completion of projects, not any decline in the business. A final dividend of 6.0 cents will make a steady annual payout of 10.0 cents.

Pre-sales are \$402 million, up 68% on a year earlier and the company will soon begin pre-selling its biggest ever project, the \$400 million *Civic Heart* project. The increase in pre-sales - plus several projects soon to be marketed - indicates strong growth in the years immediately ahead. “Buy” for both a high current income and capital growth.

Cash on hand is a record \$69 million (30 cents per share).

Finbar Group has received development approval for three projects: In 2011 it acquired land through a 50% joint venture and has now received approval for a \$72 million project to be named *Sunago*. This will consist of 163 apartments, of one and two bedrooms, in a seven storey development. Marketing of this 50% joint venture will begin in September with construction to begin in 2016.

It has also received approval for the first of four stages of the Port Hedland Project. The first stage of this 100% owned project will comprise 109 apartments, of one and two bedrooms, plus six commercial tenancies, with an end value of around \$390 million. Marketing is expected to begin about September.

Another 50% joint venture has received development approval for the site at 647-659 Murray Street in West Perth. The \$125 million project will consist of 178

apartments (of one, two or three bedrooms), 64 serviced apartments and two commercial lots. Marketing will begin this year with construction to start in 2016.

Finbar Group



Iuka Resources reports June quarter Mineral Sands Production of 304,800 tonnes, up 18% on the June 2014 production and up 82% from the low production of the March 2015 quarter. Year to date production is down 1% on the first half of 2014.

More significantly, revenues are up and costs are down. Total revenues for the six months are up 2.0% to \$349.6 million, with sales revenues per tonne up 11.3% to \$1,130. This is mainly the result of the lower Australian dollar exchange rate.

Cash production costs are down 12.6% to \$175.5 million, with costs per tonne down 14% to \$616.

That will boost the cash surplus on production (before overheads, interest and other costs) by 22% to \$174.1 million for the half year to June 2015.

The *Mining Area C Royalty* (which covers a long life, low cost, high grade iron ore deposit mined by **BHP Billiton**) has been revised slightly, reducing from 1.25% to 1.232%.

Mt Gibson Iron reports its cash holding of \$334 million (30.6 cents per share) at the end of June, up \$10 million for the quarter.

The insurance companies are to make an initial progress payment of \$2 million, but the final payout should be significantly higher. The company has “property damage and business interruption” insurance which *could* cover all of the \$700 million of property damage plus loss of profits (or the costs of repairing the project to realise the value of those \$700 million in development costs).

The company will *increase* iron ore production from its *Extension Hill* project. Cash operating costs were reduced to A\$44/wmt in the June quarter, with an all inclusive forecast cost of around A\$50-54/wmt (US\$37-40/wmt) for the new financial year to June 2016. This is approximately in line with current sales revenues of US\$38/wmt. Higher mining volumes of 3.0-3.5 million tonnes will reduce costs per tonne through economies of scale.

The alternative - to close the mine - would currently cost around \$45 million, mainly from fixed future

infrastructure and transport commitments. These costs will diminish quickly over time with the cumulative sale tonnage mined and transported over the life of the mine.

Mt Gibson Iron



Prophecy International Holdings reports unaudited revenues of \$9.95 million (up from the \$9.8 million forecast last month), with normalised pre-tax profits of \$4.1 million (up from \$4.0 million).

New *SNARE* sales were up 200% *before* the impact of the lower Australian dollar exchange rate, with total *SNARE* revenues up 130% to just under \$6 million.

The company also reports its second best sales month for *SNARE* during July plus “excellent sales” forecast for the newly acquired *eMite* software.

Prophecy International Holdings



Skilled Group

Year to 30/6/2015

	Latest	Previous	Change
Revenues	\$2,046.5m	\$1,869.6m	+9.5%
Net Profit	\$43.3m	\$44.2m	-2.0%
Net Cash Surplus	\$108.2m	\$60.7m	+78.3%
Earnings per share	18.4c	18.8c	-2.1%
Dividends per share	17.0c	17.0c	-

Skilled Group has declared a final dividend of 9.5 cents and, subject to approval of the scheme of arrangement, will declare a special dividend of 15.5 cents. This will make the 25.0 cents cash distribution proposed under the scheme. Both dividends will be paid 15 October (ex 2 October).

TFS Corporation has completed the acquisition of **ViroXis Corporation** and **Santalís Pharmaceuticals**.

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 N/A	ROE	Volatility	P/E Ratio	Div Yield	P/S Ratio	Market Cap'n	Company	Share Price	Cur- rent	4-Wk Chg.	Rank 0-99	Insider Buy-Sell	Brokers Following	Short Interest	Price to N/A	ROE	Volatility	P/E Ratio	Div Yield	P/S Ratio	Market Cap'n	
OVER-VALUED SHARES: Highest Price/Sales Ratios, Relative Strength < 0														Austin Explor.																
Bionomics Ltd	47	-3.3	+3.5	54	1-1	3	0.0	7.8	13	0.7	61	Nil	9.85	197	Bathurst Res.	2	-31.4	-4.3	95	2-0	-	0.0	-	-	2.0	NE	Nil	4.01	8	
Nearmap Ltd	50	-1.7	-2.1	48	0-1	5	1.5	12.4	26	0.9	48	Nil	9.36	176	Analytica Ltd	1	-31.3	-5.3	95	0-0	-	-	-	-	-	2.8	NE	Nil	0.29	15
Aurora Absolute	96	-1.6	-0.1	48	0-0	-	-	1.0	-	0.3	NE	6.6	9.35	10	Energy Resource	38	-31.2	-13.0	95	1-0	6	3.6	0.3	-	-	3.3	NE	Nil	N/A	12
Geodynamics Ltd	3	-7.9	-3.3	65	1-0	-	-	0.4	-	2.2	NE	Nil	9.26	14	Tungsten Mining	4	-29.9	+3.4	94	0-0	-	-	-	-	-	1.7	NE	Nil	N/A	8
Brain Resource	23	-3.1	+1.3	53	1-0	-	-	-	-	1.1	NE	Nil	9.16	23	Indochine Min.	1	-29.9	+3.9	94	0-0	-	-	-	-	-	4.2	NE	Nil	N/A	7
Desane Group	74	-3.2	-5.8	53	0-0	-	-	0.9	5	0.5	18	2.7	9.08	22	Nido Petroleum	50	-29.8	-4.5	94	0-0	-	-	-	-	-	0.7	NE	Nil	0.27	22
Phosphagenics	2	-36.4	+0.3	97	0-0	-	-	0.9	-	2.5	NE	Nil	9.07	23	Latin Resources	1	-29.7	+4.2	94	0-1	-	-	-	-	-	3.4	NE	Nil	N/A	6
Galileo Japan	174	-0.1	-2.1	41	1-0	2	-	0.8	15	0.4	5	6.0	8.75	185	Windward Res.	9	-29.7	-3.1	94	0-0	-	-	-	-	-	1.2	NE	Nil	N/A	8
Avita Medical	7	-0.2	+3.1	42	0-0	-	-	7.0	-	1.3	NE	Nil	8.49	30	Activistic Ltd	9	-29.6	-8.3	94	0-0	-	-	-	-	-	0.9	NE	Nil	N/A	8
Bauxite Res.	6	-20.2	-0.8	86	0-0	-	-	-	-	1.6	NE	Nil	8.48	14	Antares Energy	11	-29.6	+0.9	94	3-0	-	0.1	-	-	-	1.0	NE	Nil	5.12	25
Moko Social Med	13	-10.8	-3.6	71	1-1	-	-	6.3	-	1.3	NE	Nil	8.40	75	Manas Resources	1	-29.4	-4.0	94	1-0	-	-	-	-	-	3.4	NE	Nil	N/A	7
Managed Account	19	-1.3	-0.1	47	0-0	-	-	3.8	-	1.1	NE	Nil	8.32	26	Gage Road Brew.	7	-28.7	+4.1	93	0-0	1	-	1.7	-	-	1.4	NE	Nil	0.96	26
Patrys Ltd	1	-22.8	-0.6	89	0-0	-	-	0.9	-	3.6	NE	Nil	8.25	6	Byron Energy	21	-28.6	-0.3	93	0-0	-	-	-	-	-	0.7	NE	Nil	N/A	26
3P Learning	216	-2.5	-4.0	51	2-0	4	0.2	21.6	38	0.7	57	Nil	8.05	291	U.S. Masters	10	-28.5	-3.9	93	0-0	-	-	-	-	-	0.9	NE	Nil	N/A	6
Cuesta Coal Ltd	3	-18.0	-10.7	83	0-0	-	-	-	-	2.3	NE	Nil	8.00	5	Red Metal Ltd	4	-28.4	+3.4	93	0-0	-	-	-	-	-	1.7	NE	Nil	N/A	6
Cadence Capital	144	-0.7	+0.8	45	0-0	-	0.0	1.0	8	0.4	13	6.9	7.71	251	Iron Road Ltd	6	-28.3	+1.5	93	0-0	-	-	-	-	-	1.2	NE	Nil	N/A	35
Buru Energy Ltd	34	-10.3	-6.1	70	2-0	3	2.2	-	-	0.7	NE	Nil	7.63	116	Royal Resources	2	-28.1	+2.9	93	0-0	-	-	-	-	-	2.5	NE	Nil	N/A	6
NSX Limited	8	-0.8	-2.4	45	0-0	-	-	-	-	1.3	NE	Nil	7.63	13	Tawana Resource	1	-28.0	+2.6	93	0-0	-	-	-	-	-	4.5	NE	Nil	N/A	7
360 Capital Grp	106	-3.3	-3.6	54	0-0	2	-	1.8	19	0.4	9	4.7	7.57	262	Enverro Limited	40	-28.0	-2.7	92	0-0	-	-	1.1	-	-	0.8	NE	Nil	N/A	33
360 Capital Ind	255	-1.0	-0.8	46	0-0	2	0.2	-	-	0.4	7	7.3	7.56	391	Samson Oil/Gas	1	-27.8	-1.9	92	0-2	-	0.1	-	-	-	4.5	NE	Nil	1.34	14
Mint Payments	6	-16.8	+7.4	81	1-0	2	-	-	-	1.8	NE	Nil	7.50	29	Ecosave Hold.	22	-27.7	-11.2	92	0-1	-	-	-	-	-	0.7	NE	Nil	0.42	6
99 Wuxian Ltd	21	-23.4	+4.1	89	0-0	1	-	-	-	1.0	160	Nil	7.22	219	Petrel Energy	4	-27.6	-2.9	92	2-0	-	-	-	-	-	1.6	NE	Nil	N/A	19
Ozforex Group	256	-4.6	+0.3	57	3-0	6	5.5	12.8	51	0.4	25	2.3	6.95	614	Aurelia Metals	3	-27.1	-16.3	92	0-0	3	-	-	-	-	1.7	NE	Nil	N/A	12
Industria REIT	185	-2.9	-2.5	52	0-0	4	0.5	0.9	12	0.4	8	6.4	6.94	228	Empire Energy	3	-27.1	+2.5	92	0-0	-	-	-	-	-	1.9	NE	Nil	0.28	8
Clearview Wlth	97	-0.7	-1.6	45	0-0	4	-	1.8	5	0.5	38	2.1	6.94	565	Segue Resources	0	-26.9	+0.2	92	0-0	-	-	-	-	-	6.1	NE	Nil	N/A	5
Seek Ltd	1470	-5.7	-1.2	60	7-1	16	7.4	-	-	0.5	25	2.0	6.91	5,058	Metminco Ltd	1	-26.4	+3.3	92	0-0	-	-	-	-	-	4.6	NE	Nil	N/A	9
Noble Mineral	1	-0.5	+0.2	44	0-0	-	0.4	-	-	3.6	NE	Nil	6.77	6	Legacy Iron Ore	0	-26.4	+1.2	91	0-0	-	-	-	-	-	5.4	NE	Nil	N/A	6
Nusep Holdings	3	-14.2	+2.7	77	0-0	-	-	-	-	2.2	NE	Nil	6.64	6	Jameson Res.	4	-26.4	+3.1	91	0-0	-	-	-	-	-	1.9	NE	Nil	N/A	8
Algae.Tec Ltd	5	-10.3	+0.4	70	1-0	-	-	5.0	-	1.9	NE	Nil	6.32	15	Invision Limited	2	-25.9	+4.1	91	3-0	-	-	2.4	-	-	2.5	NE	Nil	N/A	17
Clean Seas Tuna	6	-7.8	-0.1	65	1-1	-	-	1.5	12	1.5	13	Nil	6.27	65	Icon Energy	4	-25.7	+0.7	91	2-0	-	-	-	-	-	1.4	NE	Nil	N/A	27
Computronics	2	-0.0	+0.0	40	0-0	-	-	-	-	2.2	77	Nil	6.25	9	Kasbah Resource	2	-25.6	-2.0	91	1-0	-	-	-	-	-	2.4	NE	Nil	N/A	9
Aust New Agri.	10	-14.3	-12.2	77	0-0	-	-	1.1	-	1.1	NE	Nil	6.21	21	Platypus Min.	1	-24.9	-2.8	91	0-0	-	-	-	-	-	3.5	NE	Nil	N/A	58
Pharmaust Ltd	1	-3.8	-10.2	55	0-0	-	-	-	-	3.8	NE	Nil	6.12	12	Winchester En.	5	-24.8	-1.0	91	0-0	-	-	-	-	-	1.5	NE	Nil	N/A	11
Vocus Comm.	605	-0.0	+0.3	41	1-1	6	3.5	6.3	14	0.3	44	0.2	6.09	1,392	Panorama Syn.	12	-24.8	-2.3	90	0-0	-	-	12.0	-	-	1.0	NE	Nil	N/A	59
Quickstep Hold.	18	-2.6	+4.1	52	1-1	-	0.0	-	-	1.0	NE	Nil	5.96	72	Horizon Oil Ltd	9	-24.6	+1.2	90	0-0	7	2.1	0.2	2	1.5	9	Nil	0.79	116	
Unilife Corp.	35	-20.8	-7.3	86	0-0	1	0.0	1.1	-	0.8	NE	Nil	5.95	92	Comet Ridge Ltd	5	-24.5	-2.3	90	0-0	2	-	-	-	-	1.3	NE	Nil	N/A	23
Com'wealth Bank	8130	-1.9	-0.5	49	3-1	18	1.3	3.3	22	0.2	15	5.1	5.91	132,323	Lynas Corp Ltd	4	-23.8	+1.1	90	1-0	4	2.1	-	-	-	2.1	NE	Nil	1.26	122
Bluglass Ltd	10	-14.4	+5.7	77	0-0	-	-	4.8	-	1.2	NE	Nil	5.82	21	INSIDER SELLING: Most Insider Selling, Relative Strength < 0															
Brookfield P P	520	-0.1	-0.6	41	0-0	-	-	0.8	6	0.2	13	1.5	5.74	255	Platinum Asset	726	-0.5	-0.4	44	0-18	10	0.7	11.3	51	0.2	22	4.7	N/A	4,259	
Cromwell Prop.	109	-0.8	-0.2	45	2-5	9	2.4	1.5	14	0.4	10	7.0	5.63	1,888	Computershare	1188	-0.7	-0.7	45	1-10	15	0.7	-	-	-	0.2	25	2.4	3.09	6,608
Phoslock Water	3	-18.6	-4.1	84	2-1	-	-	-	-	2.0	NE	Nil	5.59	6	Western Areas	299	-8.8	-1.9	68	0-4	16	4.9	1.8	6	0.3	27	1.7	2.17	697	
China Magnesium	5	-7.7	-7.5	65	3-0	-	-	0.7	-	2.5	NE	Nil	5.58	10	Nthn Minerals	18	-10.4	+0.8	70	0-4	-	-	-	-	-	0.8	NE	Nil	N/A	79
Oil Search Ltd	685	-5.8	-1.7	60	0-3	19	1.5	2.2	9	0.3	24	1.8	5.30	10,430	Slater & Gordon	327	-16.1	-9.0	80	1-5	10	12.2	2.1	18	0.3	12	2.4	1.73	1,147	
Antares Energy	11	-29.6	+0.9	94	3-0	-	0.1	-	-	1.1	NE	Nil	5.12	25	WAM Research	120	-0.7	-0.5	44	1-5	-	-	1.0	10	0.4	11	6.3	N/A	168	
Genworth Mort.	313	-2.5	+1.1	51	0-1	8	1.9	-	-	0.6	9	5.1	5.10	2,034	Oil Search Ltd	685	-5.8	-1.7	60	0-3	19	1.5	2.2	9	0.3	24	1.8	5.30	10,430	
Jupiter Energy	25	-12.7	+2.9	74	0-0	-	-	-	-	0.8	NE	Nil	5.05	38	Dick Smith Hold	192	-0.2	-0.7	42	1-4	6	9.2	2.5	11	0.5	23	4.2	0.37	454	
Think Childcare	92	-8.9	-1.0	68	1-0	-	-	-	-	0.6	NE	Nil	5.04	36	Cromwell Prop.	109	-0.8	-0.2	45	2-5	9	2.4	1.5	14	0.3	10	7.0	5.63	1,888	
Stockland	413	-2.2	-1.1	50	0-0	11	0.6	-	-	0.3	18	5.8	4.95	9,754	Greencross Ltd	576	-15.3	+0.1	79	2-5	8	8.1	-	-	-	0.2	264	2.2	1.59	648
Neon Energy Ltd	3	-8.4	+0.7	67	0-0	1	-	-	-	2.2	NE	Nil	4.93	15	Saunders Int'l	59	-12.4	+0.3	74	0-2	-	-	2.7	37	0.5	7	10.2	0.67	46	
Vealls Ltd	151	-1.8	+0.7	48	0-0	-	-	-	-	0.2	9	7.0	4.85	18	Datadot Tech.	2	-13.5	-4.6	76	0-2	-	-	-	-	-	1.9	NE	Nil	2.04	16
WORST PERFORMING SHARES: Weakest Shares, P/S Ratio > 0.25, Yield < Twice Average														OBJ Limited	7	-15.2	+3.0	79	0-2	-	-	-	-	-	-	1.4	NE	Nil	N/A	104
XTV Networks	2	-47.3	+0.3	99	0-0	-	-	1.7	-	2.8	NE	Nil	N/A	13	Genetic Tech.	3	-4.9	-6.7	58	0-2	-	0.1	-	-	-	1.9	NE	Nil	4.25	50
Tissue Therapy	6	-44.0	+0.9	98	0-0	1	-	0.8	-	1.3	NE	Nil	N/A	17	Samson Oil/Gas	1	-27.8	-1.9	92	0-2	-</									

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.

STRENGTH RATING													STRENGTH RATING																				
Company	Share Price	Cur- rent	4-Wk Chg.	Rank 0-99	Under-Valued	Best Performing	Income	Over-Valued	Worst Performing	Price to NTA	Return on Equity	Volatility	Price Earnings Ratio	Dividend Yield	Price Sales Ratio	Market Cap'n	Company	Share Price	Cur- rent	4-Wk Chg.	Rank 0-99	Under-Valued	Best Performing	Income	Over-Valued	Worst Performing	Price to NTA	Return on Equity	Volatility	Price Earnings Ratio	Dividend Yield	Price Sales Ratio	Market Cap'n
UNDER-VALUED SHARES: Lowest Price/Sales, Yld > 0, Rel Strength > 0																																	
Air New Zealand	268	+2.5	-2.0	28	1-13	7	0.2	14	1.0	1	5.2	0.06				298	Precinct Prop.	114	-1.5	-0.1	55	0-4	7	1.1	11	0.5	10	6.6	7.30	1,208			
Ebos Group Ltd	1095	+3.1	+2.4	26	1-0	6	1.7	9	0.8	18	4.3	0.28				1,628	Wynyard Group	155	-8.0	-1.9	80	0-0	2	2.7	-	1.0	NE	Nil	6.89	180			
Nuplex Indust	439	+19.1	+4.2	3	0-0	7	1.7	10	1.0	17	4.8	0.53				870	NPT Limited	63	-0.1	-1.0	48	1-1	2	0.9	5	0.5	16	7.7	6.17	102			
Mainfreight Grp	1495	+0.3	-0.7	41	2-3	5	2.9	16	0.6	18	3.2	0.72				1,489	Serko Limited	85	-4.7	-0.5	72	0-0	-	5.2	-	1.0	NE	Nil	5.14	53			
Z Energy Ltd	589	+13.0	+1.1	6	3-0	7	4.7	1	0.7	337	5.7	0.77				2,356	Evolve Educat.	91	-4.5	-2.0	70	0-0	2	1.1	-	0.7	NE	Nil	8.49	161			
Infratil NZ	320	+3.3	-0.3	25	1-5	4	1.9	0	0.8	552	4.1	0.78				1,867	NZ Exchange Ltd	103	-4.7	-1.3	73	0-0	3	5.1	26	0.7	20	8.1	4.01	262			
Hallenstein G.	337	+3.7	-1.8	22	0-1	5	3.0	28	1.0	11	13.8	0.91				201	Gentech Group	204	-1.8	-2.8	59	0-0	2	2.3	5	0.7	44	2.5	3.85	148			
Green Cross H.	228	+5.0	-2.3	18	0-0	-	3.2	20	0.8	16	4.3	0.95				305	Orion Health.	389	-11.9	+0.4	86	2-1	2	5.5	-	0.5	NE	Nil	3.77	618			
Horizon Energy	435	+20.7	+5.3	1	0-0	-	1.6	6	0.6	27	4.5	0.97				109	Trust Power Ltd	780	-0.6	-0.2	52	2-0	7	1.3	8	0.3	17	7.0	2.46	2,441			
BEST PERFORMING SHARES: Strongest Shares, P/E < 20, P/S < 1.0																																	
Nuplex Indust	439	+19.1	+4.2	3	0-0	7	1.7	10	0.9	17	4.8	0.53				870	Heartland Bank	111	-0.8	-3.5	53	0-0	4	1.1	8	0.6	14	7.5	2.42	514			
Green Cross H.	228	+5.0	-2.3	18	0-0	-	3.2	20	0.6	16	4.3	0.95				305	Foley Fam Wines	140	-3.5	+0.5	64	0-0	-	0.9	4	0.7	22	Nil	2.36	73			
Hallenstein G.	337	+3.7	-1.8	22	0-1	5	3.0	28	0.9	11	13.8	0.91				201	Moa Group Ltd	28	-15.3	-2.5	90	0-0	-	1.5	-	1.1	NE	Nil	2.20	13			
Ebos Group Ltd	1095	+3.1	+2.4	26	1-0	6	1.7	9	0.8	18	4.3	0.28				1,628	Mighty River	266	-4.6	-0.8	72	1-3	8	1.2	7	0.8	18	7.0	2.18	3,724			
Air New Zealand	268	+2.5	-2.0	28	1-13	7	0.2	14	1.0	1	5.2	0.06				298	SLI Systems Ltd	78	-14.6	-1.7	88	0-2	3	4.1	-	1.2	NE	Nil	2.11	47			
Just Water Int.	14	+0.8	-3.0	36	1-0	-	1.9	26	2.5	7	Nil	0.45				13	NZ Oil & Gas	49	-8.5	-1.6	81	1-1	2	0.6	3	1.0	21	12.2	2.00	208			
Mainfreight Grp	1495	+0.3	-0.7	41	2-3	5	2.9	16	0.5	18	3.2	0.72				1,489	WORST PERFORMING SHARES: Weakest Shares, P/S Ratio > 0.25, Yield < Twice Average																
INCOME SHARES: Highest Yields, Capitalisation > NZ\$100 million																																	
Hallenstein G.	337	+3.7	-1.8	22	0-1	5	3.0	28	0.8	11	13.8	0.91				201	Vital Health PT	165	-58.3	+0.0	98	0-0	4	1.6	11	0.5	15	6.7	8.26	559			
PGG Wrightsons	46	-0.4	-1.7	51	2-0	2	1.3	15	1.2	8	13.6	0.28				347	Mercer Group	10	-20.8	-1.1	94	0-2	-	1.4	-	1.6	NE	Nil	0.72	29			
NZ Oil & Gas	49	-8.5	-1.6	81	1-1	2	0.6	3	1.2	21	12.2	2.00				208	WN Drive Tech.	6	-18.2	+8.5	91	0-0	-	1.8	-	2.3	NE	Nil	0.51	9			
Kingfish Ltd	136	-0.1	-0.4	48	0-0	-	1.0	7	0.8	15	11.0	N/A				168	Sealegs Corp	7	-17.7	-4.9	90	0-0	-	1.2	-	1.6	NE	Nil	0.54	9			
Warehouse Group	267	-4.0	-0.7	70	1-1	7	2.1	37	0.9	6	10.9	0.37				831	Moa Group Ltd	28	-15.3	-2.5	90	0-0	-	1.5	-	1.0	NE	Nil	2.20	13			
Sanford Limited	510	+3.4	+0.5	24	3-0	2	0.9	4	0.4	21	10.1	1.06				477	SLI Systems Ltd	78	-14.6	-1.7	88	0-2	3	4.1	-	1.1	NE	Nil	2.11	47			
Opus Int'l Cons	124	-7.9	-0.4	80	3-0	4	1.2	17	0.7	7	10.0	0.34				183	GeoOP Ltd	45	-14.5	+0.4	87	0-0	-	-	-	1.9	NE	Nil	N/A	12			
Skellerup Hold.	119	-5.9	-1.9	75	1-1	3	1.6	15	1.0	11	9.9	1.17				229	Orion Health.	389	-11.9	+0.4	86	2-1	2	5.5	-	0.5	NE	Nil	3.77	618			
Kathmandu Ltd	174	-11.7	+7.2	85	6-6	9	1.2	15	0.9	8	9.6	0.91				348	Pac Edge Bio.	60	-11.4	-1.5	85	0-0	2	17.1	-	1.8	NE	Nil	N/A	191			
NZSX 50 Port.	196	+1.0	+0.1	36	0-0	-	1.0	14	0.7	7	8.3	N/A				157	Synlait Milk	228	-11.3	-1.5	84	0-0	2	3.9	13	0.6	29	Nil	0.79	334			
INSIDER BUYING: Most Insider Buying, Relative Strength > 0																																	
Summerset Group	417	+10.3	+2.9	9	4-0	7	2.7	16	0.7	17	0.8	N/A				900	IkeGPS Limited	66	-10.8	-2.7	83	2-0	2	1.5	-	0.8	NE	Nil	9.03	33			
Sanford Limited	510	+3.4	+0.5	24	3-0	2	0.9	4	0.3	21	10.1	1.06				477	Genesis Energy	168	-9.7	-2.0	82	0-0	7	0.5	3	0.7	18	5.5	0.45	908			
Z Energy Ltd	589	+13.0	+1.1	6	3-0	7	4.7	1	0.6	337	5.7	0.77				2,356	Wynyard Group	155	-8.0	-1.9	80	0-0	2	2.7	-	0.9	NE	Nil	6.89	180			
Ryman Health.	842	+0.5	+0.6	39	4-1	7	3.8	22	0.6	17	1.6	N/A				4,210	Contact Energy	515	-7.5	-0.8	79	1-0	8	1.1	7	0.6	16	7.0	1.54	3,777			
Tourism Hold.	208	+5.2	+2.0	17	6-3	-	1.5	7	1.0	21	4.7	1.03				233	Smartpay NZ Ltd	17	-7.1	-1.2	78	2-0	-	2.6	14	2.0	19	Nil	1.32	29			
NZ Refining Co.	303	+11.8	+3.1	6	2-0	4	1.5	2	0.2	95	Nil	4.06				947	Xero Ltd	1717	-7.0	-2.5	77	2-7	5	6.8	-	1.3	NE	Nil	N/A	2,337			
Argosy Property	113	+0.2	-0.7	43	2-0	5	1.2	8	0.5	14	6.3	7.80				903	Michael Hill	100	-7.0	-1.3	77	0-0	4	2.0	17	0.6	11	6.5	0.73	383			
MetLifeCare	481	+1.6	-0.8	31	1-0	5	1.3	9	0.7	15	0.8	N/A				1,015	Pyne Gould Corp	31	-6.4	+1.0	76	0-0	-	0.4	-	1.1	NE	Nil	7.98	64			
Scales Corp Ltd	195	+8.6	+1.7	11	1-0	-	1.9	12	0.7	15	2.1	1.04				273	Rubicon Limited	32	-5.8	+0.5	75	0-0	1	1.8	3	1.4	65	Nil	0.33	131			
Just Water Int.	14	+0.8	-3.0	36	1-0	-	1.9	26	2.1	7	Nil	0.45				13	Serko Limited	85	-4.7	-0.5	72	0-0	-	5.2	-	1.0	NE	Nil	5.14	53			
OVER-VALUED SHARES: Highest Price/Sales Ratios, Relative Strength < 0																																	
Blis Technology	2	-0.0	+1.9	46	0-0	-	0.7	-	4.1	NE	Nil	9.63				25	INSIDER SELLING: Most Insider Selling, Relative Strength < 0																
IkeGPS Limited	66	-10.8	-2.7	83	2-0	2	1.5	-	0.9	NE	Nil	9.03				33	Xero Ltd	1717	-7.0	-2.5	77	2-7	5	6.8	-	1.3	NE	Nil	N/A	2,337			
Vital Health PT	165	-58.3	+0.0	98	0-0	4	1.6	11	0.5	15	6.7	8.26				559	Precinct Prop.	114	-1.5	-0.1	55	0-4	7	1.1	11	0.4	10	6.6	7.30	1,208			
Pyne Gould Corp	31	-6.4	+1.0	76	0-0	-	0.4	-	1.1	NE	Nil	7.98				64	EROAD Ltd	368	-1.9	-2.6	60	0-3	1	4.3	-	0.6	NE	Nil	N/A	221			

Australian Warrant / Option Analysis

Company	Share Price	Yr/Mth Exercise Price	to Expiry	Black-Option Price	Scholes Valuation	Option Over/Under-Valued	Share Volatility	Option Leverage	Options to Buy 1 Share	Break-Even Rate	Company	Share Price	Yr/Mth Exercise Price	to Expiry	Black-Option Price	Scholes Valuation	Option Over/Under-Valued	Share Volatility	Option Leverage	Options to Buy 1 Share	Break-Even Rate
88 Energy	1.1	2.0	2-6	0.4	0.8	-47	1.48	1.20	1.0	+37	Artemis Resources	0.2	0.3	0-11	0.1	0.1	-25	2.26	1.23	1.0	+113
A1 Cons Gold	5.0	3.0	4-3	2.0	3.7	-45	0.86	1.22	1.0	+0	Artemis Resources	0.2	2.0	1-0	0.1	0.1	+28	2.26	1.41	1.0	+950
Acorn Capital	75	100	0-2	0.1	0.0	+999	0.17	9.99	1.0	+624	Arunta Resources	0.2	0.2	3-11	0.1	0.2	-49	2.43	1.01	1.0	+11
Actinogen	6.2	20	0-1	0.1	0.0	+999	0.99	9.99	1.0	+999	Aspire Mining	1.6	3.0	1-10	0.4	0.3	+35	0.69	2.32	1.0	+52
Adelaide Resources	3.6	5.0	1-1	0.9	0.5	+99	0.93	3.19	1.0	+58	Atlas Iron	3.2	7.5	1-10	0.5	1.7	-71	1.48	1.33	1.0	+65
Adv Braking Tech	0.6	1.2	0-12	0.2	0.1	+190	0.80	2.81	1.0	+142	Aura Energy	2.0	5.0	1-10	0.5	0.3	+65	0.75	2.34	1.0	+76
Agrimin Ltd	23	5.0	0-4	14.0	18.0	-22	0.56	1.28	1.0	-44	Ausquest Ltd	2.0	3.5	2-8	1.0	1.1	-7	1.11	1.36	1.0	+36
Altura Mining	1.5	2.0	0-10	0.6	0.5	+16	1.21	1.81	1.0	+93	Ausquest Ltd	2.0	4.0	1-3	0.5	0.6	-15	1.11	1.82	1.0	+91
American Patriot	15	25	1-2	2.2	2.2	+1	0.73	2.64	1.0	+73	Bailador Tech Inv	84	100	0-7	4.0	0.3	+999	0.15	9.99	1.0	+44
Anatolia Energy	6.0	18	1-10	0.6	0.3	+118	0.57	3.40	1.0	+88	Barrack St Invest.	83	100	0-12	0.8	5.3	-85	0.32	5.58	1.0	+22
Antilles Oil & Gas	4.5	10	1-5	2.5	1.1	+137	0.97	1.98	1.0	+106	Beacon Minerals</										

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 Expire									Share Price	Exercise Price	to Expire							
Broken Hill Prospect.	3.9	8.0	4-2	0.9	2.0	-55	0.87	1.39	1.0	+22	Minera Gold	0.1	1.2	1-3	0.1	0.0	+766	1.42	1.98	1.0	+668
Burey Gold	2.5	5.0	1-11	0.1	0.7	-86	0.87	1.86	1.0	+45	Minerals Corp	7.2	1.0	0-4	0.1	6.7	-99	4.24	1.05	1.0	-100
Buxton Resources	12	30	0-5	1.0	0.7	+36	1.21	3.17	1.0	+980	Mining Projects	0.8	1.0	0-10	0.3	0.2	+41	0.94	2.16	1.0	+79
CBG Capital	96	100	1-1	2.3	5.2	-56	0.15	9.06	1.0	+6	Mitchell Services	2.3	30	0-11	0.1	0.0	+999	0.77	5.98	1.0	+999
Cadence Capital	144	143	0-0	0.5	5.2	-90	0.12	9.06	1.0	-100	Money3 Corp.	113	130	2-9	40.0	24.4	+64	0.38	2.66	1.0	+16
Canyon Resources	5.0	16	0-6	0.7	0.0	+999	0.55	9.55	1.0	+999	Mozambi Resources	1.1	2.0	2-4	0.4	0.5	-24	1.08	1.45	1.0	+40
Canyon Resources	5.0	16	0-6	0.7	0.0	+999	0.55	9.55	1.0	+999	Mt Magnet South	0.4	0.6	3-4	0.2	0.3	-43	1.75	1.07	1.0	+23
Canyon Resources	5.0	6.0	1-5	1.0	1.0	-3	0.55	2.64	1.0	+27	NKWE Platinum	7.5	10	0-7	1.8	1.1	+65	0.79	3.04	1.0	+117
Capital Mining	0.2	2.0	1-4	0.1	0.0	+166	1.51	1.76	1.0	+483	NSL Consolidated	1.1	1.0	1-4	0.5	0.6	-10	1.09	1.52	1.0	+26
Caravel Minerals	0.5	3.5	0-9	0.1	0.0	+999	1.00	3.84	1.0	+999	Namibian Copper	0.4	1.5	3-8	0.2	0.3	-24	1.35	1.20	1.0	+48
Carbon Energy	1.5	6.0	0-11	0.3	0.2	+90	1.16	2.39	1.0	+378	Naos Absolute Opps	91	100	1-3	1.2	1.1	+10	0.08	9.99	1.0	+9
Cardinal Resources	7.0	15	4-1	2.2	3.9	-43	0.96	1.33	1.0	+25	Naracoota Resources	6.0	9.0	0-1	0.6	0.0	+999	0.85	9.99	1.0	+999
Carnarvon Petrol.	11	10	0-4	2.5	2.1	+19	0.56	3.75	1.0	+39	New Talisman Gold	0.7	2.0	2-3	0.2	0.2	-10	1.00	1.67	1.0	+66
Cellmid Ltd	3.5	3.4	1-2	1.8	0.9	+107	0.54	2.61	1.0	+41	Oilex Ltd	3.9	15	0-0	0.1	0.2	-55	0.90	1.67	1.0	+999
Centaurus Metals	0.6	5.0	1-7	0.1	0.1	-29	1.42	1.67	1.0	+286	Omni Market Tide	7.0	10	3-4	2.0	5.1	-61	1.31	1.17	1.0	+18
Ceramic Fuel Cells	0.4	1.1	0-2	0.1	0.0	+999	0.59	9.99	1.0	+999	Orinoco Gold	9.4	11	1-3	2.7	2.2	+24	0.63	2.46	1.0	+35
Challenger Energy	4.0	20	0-10	0.5	0.0	+999	0.76	4.76	1.0	+611	Orion Gold NL	3.2	20	0-0	0.1	2.2	-95	0.93	2.46	1.0	+999
Circadian Technologies	21	27	3-3	6.0	5.4	-12	0.45	2.25	1.0	+15	Ozgrowth	15	23	0-0	0.1	2.2	-95	0.29	2.46	1.0	+999
Citation Resources	9.1	4.0	0-4	0.1	5.8	-98	1.90	1.42	1.0	-93	PBD Developments	1.5	2.3	0-4	0.1	0.1	+80	0.67	5.47	1.0	+284
Cleveland Mining	4.1	65	0-10	0.1	0.0	+999	0.86	5.61	1.0	+999	PM Capital Asian	98	100	0-9	3.0	3.9	-23	0.13	9.99	1.0	+8
Clime Capital	91	104	0-2	0.1	0.0	+999	0.09	9.99	1.0	+161	Paradigm Metals	0.1	0.2	1-4	0.2	0.1	+225	1.86	1.26	1.0	+183
Collaborate Corp	2.3	2.0	1-8	1.0	2.0	-49	2.15	1.09	1.0	+17	Parmelia Resources	2.6	5.0	1-9	0.9	1.2	-27	1.28	1.44	1.0	+60
Connexon Media	19	20	1-6	5.3	8.0	-34	0.92	1.68	1.0	+21	Peninsula Energy	2.4	3.0	0-4	0.3	0.1	+233	0.48	6.89	1.0	+160
Cott Oil & Gas	2.2	20	0-4	2.5	0.0	+999	0.82	9.99	1.0	+999	Peninsula Energy	2.4	5.0	3-4	0.6	0.4	+69	0.48	2.52	1.0	+29
Cove Resources	0.4	0.5	3-10	0.1	0.1	-7	0.41	2.21	1.0	+11	Perpetual Equity	99	100	0-9	2.4	2.5	-5	0.06	9.99	1.0	+4
Cudeco Limited	111	250	0-4	12.0	1.0	+999	0.77	6.23	1.0	+999	PharmAust Ltd	0.8	2.0	0-0	0.1	2.5	-96	0.72	9.99	1.0	+999
Diatreme Resources	1.0	2.0	0-6	0.2	0.2	+5	1.36	2.23	1.0	+339	Pharmnet Group	0.1	0.5	0-4	0.1	0.0	+999	0.00	9.99	1.0	+999
Discovery Africa	0.5	20	1-4	0.1	0.0	+839	1.34	2.49	1.0	+999	Phylogica Ltd	1.3	9.0	0-10	0.1	0.0	+656	0.95	3.80	1.0	+933
Drake Resources	0.3	3.0	1-11	0.1	0.0	+289	1.02	2.19	1.0	+238	Platina Resources	6.3	6.0	0-1	0.2	0.8	-74	0.87	5.08	1.0	-17
Eagle Nickel	0.3	20	0-4	0.4	0.0	+999	0.00	9.99	1.0	+999	Platypus Minerals	1.0	3.5	1-3	0.3	0.1	+157	0.97	2.38	1.0	+191
Eden Energy	7.5	3.0	3-1	4.6	5.9	-21	0.98	1.18	1.0	+0	Pluton Resources	3.4	5.5	1-7	0.9	0.0	+999	0.00	9.99	1.0	+49
Elemental Minerals	16	25	0-5	3.0	0.4	+709	0.58	6.33	1.0	+345	Potash Minerals	18	20	0-3	5.0	4.7	+6	1.52	2.29	1.0	+272
Elixir Petroleum	0.2	1.5	1-1	0.1	0.1	+73	1.82	1.58	1.0	+582	Prima Biomed	4.8	20	1-10	1.5	2.1	-29	1.49	1.41	1.0	+130
Elk Petroleum	6.5	25	1-11	0.2	1.6	-88	1.08	1.77	1.0	+104	Primary Gold	1.7	10	0-4	0.4	0.0	+999	1.31	4.46	1.0	+999
Ellerston Global Inv.	118	100	2-7	25.0	26.1	-4	0.14	3.89	1.0	+2	Proto Res & Inv	0.1	5.5	1-7	0.1	0.0	+999	0.00	9.99	1.0	+999
Elysium Resources	0.3	20	0-7	0.1	0.0	+999	1.28	5.51	1.0	+999	Pryme Energy	0.5	2.0	0-11	0.1	0.0	+402	0.92	3.21	1.0	+393
Empire Oil	0.4	0.9	2-8	0.2	0.2	+26	0.95	1.56	1.0	+46	QV Equities	106	100	0-7	5.1	7.1	-29	0.08	9.99	1.0	-1
Enjeri Ltd	3.0	20	1-4	0.1	0.6	-82	1.36	1.84	1.0	+316	RTG Mining	58	150	1-9	21.0	3.9	+435	0.58	3.16	1.0	+85
Env. Clean Tech.	1.8	1.5	1-11	0.9	1.0	-11	1.00	1.42	1.0	+16	Ram Resources	0.3	2.5	1-6	0.1	0.0	+365	1.06	2.35	1.0	+329
Env. Clean Tech.	1.8	0.9	1-11	1.1	1.2	-10	1.00	1.31	1.0	+6	Rampart Energy	0.1	0.7	0-5	0.1	0.0	+999	1.97	2.33	1.0	+999
European Metals	12	10	0-10	4.5	5.7	-21	1.20	1.62	1.0	+25	Range Resources	1.3	5.0	0-5	0.1	0.0	+999	0.60	9.99	1.0	+999
Exalt Resources	3.0	20	0-4	0.2	0.0	+999	1.12	5.95	1.0	+999	Raya Group	0.4	1.5	0-11	75.0	0.0	+999	1.13	2.46	1.0	+999
Fatfish Internet	19	22	0-11	1.0	2.7	-63	0.50	3.45	1.0	+23	Raya Group	0.4	1.5	0-11	0.2	0.0	+401	1.13	2.46	1.0	+408
Firestrike Res.	2.4	4.0	1-4	1.5	0.3	+492	0.56	3.19	1.0	+86	Red Gum Resources	4.8	1.0	2-3	0.1	4.5	-98	1.85	1.05	1.0	-49
First Growth Funds	0.6	0.8	0-6	0.3	0.3	+12	2.07	1.54	1.0	+275	Red Gum Resources	4.8	10	0-6	0.1	1.5	-93	1.85	1.77	1.0	+343
Fox Resources	0.2	4.0	0-10	0.1	0.0	+999	0.98	4.88	1.0	+999	Red Mountain Mining	0.3	1.2	0-7	0.1	0.0	+370	1.31	2.70	1.0	+999
Future Generation IF	111	110	1-1	2.9	6.0	-52	0.09	9.99	1.0	+2	Red Mountain Mining	0.3	3.0	0-10	0.1	0.0	+851	1.31	2.70	1.0	+999
GBM Resources	2.1	3.5	0-10	0.2	0.4	-55	1.02	2.22	1.0	+97	Red Mountain Mining	0.3	0.6	0-10	0.1	0.1	+22	1.31	1.88	1.0	+176
General Mining	5.0	13	0-0	0.7	0.0	+999	3.47	9.99	1.0	+999	Redstone Resources	1.0	20	0-6	0.1	0.0	+486	1.83	2.81	1.0	+999
Gladiator Res.	0.2	0.6	1-10	0.1	0.0	+211	0.83	2.19	1.0	+98	Renascor Resources	1.4	3.0	1-1	0.5	0.3	+61	1.06	2.05	1.0	+133
Global Metal Exp	0.1	2.0	0-2	0.1	0.0	+999	1.04	9.99	1.0	+999	Resource Star	0.8	0.4	0-7	0.6	0.5	+30	1.17	1.54	1.0	+47
Global Value Fund	106	100	0-7	5.3	8.1	-34	0.11	9.99	1.0	-1	Resource Star	0.8	0.8	2-4	0.5	0.5	-2	1.17	1.29	1.0	+23
Goldphyre Resources	4.4	8.0	1-1	1.2	2.2	-45	1.65	1.42	1.0	+98	Reward Minerals	69	25	0-10	50.0	44.6	-12	0.55	1.53	1.0	+11
Greenland M&E	6.0	20	0-10	0.8	0.0	+999	0.63	5.28	1.0	+344	Rhinomed Ltd	3.2	6.0	1-8	0.8	1.0	-19	0.95	1.80	1.0	+57
Havilah Resources	25	30	1-10	8.2	8.0	+3	0.72	1.93	1.0	+27	Rimfire Pacific Mining	2.1	5.0	0-4	0.9	0.0	+999	0.97	5.07	1.0	+999
High Peak Royalties	7.0	35	1-8	0.3	0.1	+310	0.59	4.18	1.0	+171	Rumble Resources	2.4	3.5	0-2	0.3	0.0	+999	1.27	1.00	1.0	+999
IM Medical	0.1	1.0	1-1	0.1	0.0	+951	1.40	2.13	1.0	+815	Rumble Resources	2.4	8.0	0-10	0.4	0.4	+10	1.27	2.18	1.0	+350
IMX Resources	1.1	60	0-1	0.3	0.0	+999	0.83	9.99	1.0	+999	SML Corporation	1.5	20	0-3	0.1	0.0	+999	1.19	7.79	1.0	+999
Icollege Ltd	13	20	1-11	2.1	2.8	-24	0.66	2.23	1.0	+35	Samson Oil & Gas	0.5	3.8	1-7	0.2	0.0	+999	0.84	2.97	1.0	+272
Impact Minerals	2.8	20	0-3	0.1	0.0	+999	1.03	9.18	1.0	+999	Siburan Resources	5.8	2.0	2-4	4.6	4.3	+8	0.80	1.28	1.0	+6
Indus Energy NL	0.6	30	0-10	0.1	0.0	+534	1.80	2.34	1.0	+999	Sino Aust Oil & Gas	48	75	1-3	2.5	0.0	+999	0.00	9.99	1.0	+47
Intermin Resources	5.0	7.5	1-10	0.3	1.2	-76	0.69	2.13	1.0	+27	Sipa Resources	7.2	7.5	0-2	0.5	1.0	-51	0.93	3.80	1.0	+78
Investigator Res.	1.3	10	1-7	0.2	0.0	+537	0.81	3.10	1.0	+267	Southern Gold	1.2	1.5	0-3	0.1	0.1	-28	0.98	3.64	1.0	+216
Invigor Group	8.6	5.0	2-10	4.0	5.3	-24	0.71	1.41	1.0	+2	Spitfire Resources	1.0	12	0-7	0.1	0.0	+999	0.73	9.99	1.0	+999
Isignithis	14	50	0-4	1.0	0.5	+84	1.46	3.26	1.0	+999	St George Mining	7.8	20	1-10	1.6	2.7	-41	1.12	1.62	1.0	+74
Jacka Resources	0.7	13	0-9	0.1	0.0	+999	1.09	4.42	1												

Index Investing: Theory, Doctrine and Reality

Index Investing

“Index Investing” is an important (and currently popular) stockmarket investment *technique* - although many of its *disciples* have an almost religious faith in this one method of investing in the stockmarket.

An understanding of the theory and reality of index investing can teach (or confirm) many valid investment principles that can be applied to many other techniques of stockmarket investing .

This newsletter has long argued that the stockmarket is the best place to invest to build wealth over the long term. Index funds can do this in one easy purchase with excellent diversification and low fees.

All index funds, however, are not created equal. The almost religious belief of some financial journalists in index funds *may* be appropriate for United States investors, but does not translate well to New Zealand. For a US investor an S&P 500 index fund is a tax efficient way to buy and hold a diversified portfolio of stocks (i.e. 500 stocks, with less than 20% invested in its top 10 holdings) at virtually no cost (i.e. fees of just 0.05% annually, or just \$5 on a \$10,000 investment).

That faith should not be blindly applied to NZ index funds which are relatively poorly diversified and have annual expenses *10-300 times greater* (i.e. 0.6% to 1.5%).

If you buy US index funds through a NZ broker the initial brokerage fee is 0.6-1.2% and annual custodian fees could be around 0.25% - although many US index funds are dual-listed in Australia, so can be purchased at regular brokerage fees and without ongoing custodian fees. A foreign index fund, however, is not tax efficient for a NZ resident investor and will be subject to the 5% “Fair Dividend Rate” tax! That would erode annual returns by around 1.5%.

Perhaps readers can understand why we have not converted to the religion of index investing?

Nevertheless, index investing *could* be appropriate in some cases for some people and there are things that we can learn from the theory and practice of index investing and apply to non-index investing.

The History of Index Investing

The London Stock Exchange opened in 1773 and the New York Stock Exchange in 1792 . . . and almost a couple of *centuries* later the idea of “index investing” was developed!

The first public index fund, **First Index Trust** (now called the **500 Portfolio of Vanguard Index Trust**) was launched in 1976 by John C Bogle and **Vanguard Group**, raising just \$11.4 million in assets. The fund initially charged a 6% sales fee (reduced to zero in 1977) and, owing to limited capital and high transaction costs at that time, initially invested in only 280 of the 500 index stocks (i.e. the largest 200 stocks plus 80 selected to represent the remaining 300).

By 1977 fund assets were still only \$17 million. Vanguard *tripled* this by merging **Exeter Fund** (a \$58 million stock exchange listed fund) into First Index. That enabled the portfolio to expand to include all 500 index stocks.

Wells Fargo Bank concurrently developed the principles of index investing in 1969-71 and it ran a \$6 million pension fund for **Samsonite Corporation** based on the equal weighted NYSE index. Matching an *equal weighted* index was extremely difficult and by 1976 they changed to the *market weighted* S&P 500 Index for its own pension fund and one for **Illinois Bell**. A public index fund started in 1984 had a 1.0% management fee, “so we can make a lot of money”, but was never popular with investors!

Batterymarch Financial Management also developed the idea of the index fund in 1971, only to be awarded a “*Dubious Achievement Award*” by a pension fund magazine! In 1974 it finally attracted its first index fund client. The **American National Bank** also launched an S&P 500 Index fund in 1974.

Ten years after their formation, index funds were still unpopular, accounting for only about 0.5% of equity funds owned by individuals. Pensions were quicker to adopt this technique, with 15% of equity investments in index portfolios. Today - after four decades - index funds have become popular and account for over 20% of equity funds owned by individuals.

The Theory For Index Investing

The theory behind index investing is simple (but please read this carefully so that you understand it): Investors as a group cannot outperform the market because they are the market.

From that theory comes the reality: Investors as a group must underperform the market as costs (i.e. fund operating expenses, advisory fees, transaction costs) are a deduction from the market return.

Most disciples of index investing would now go on to tell a little lie: That the “efficient market” ensures that individual stocks are accurately priced, and “active” investors engaged in security analysis, pay the costs of keeping the market efficient and accurately pricing stocks (but, as shown above, must collectively underperform the market owing to those expenses). Smart index investors can “free-load” on this and just buy these accurately priced securities.

The religion of index investing offers its followers a “holy-than-thou” feeling of superiority (i.e. they are smarter than non-believers!), something for nothing (i.e. the benefit of the efficient market, funded by infidel “active” investors) while secure in the *faith* that *all* of their shares are *fairly valued*. It must be like having a *Supreme Being* as your personal portfolio manager!

Look back, however, at the theory of index investing at the start of this section. (Continued on Page 10)

Index Investing

(Continued from Page 9)

It says nothing about whether the market is efficient or inefficient at pricing shares. In fact, *if* the market was inefficient then only *some* investors would be able to exploit those inefficiencies and *tend* to earn above average returns over the medium to long term. The statement that “investors as a group cannot outperform the market because they are the market” would remain equally true *even if the stockmarket was inefficient at pricing shares.*

Index investing would work equally well in an efficient or inefficient stockmarket achieving a market average return which collectively investors cannot beat. So indexing is a perfectly valid investment strategy . . . but just don't tell the index investors that “half of the shares may be over-valued and half may be under-valued, and we don't know which is which, and we are going to buy them all and hold them all regardless of their individual investment merits”.

Indexing is still an excellent investment strategy . . . only that *little white lie* about “efficient markets and all shares being fairly valued” (while totally irrelevant, it makes no difference whether they are or not) *sells* to the public better than the reality of “Let's match the index by buying everything in the index regardless of their individual investment merits”.

The Benefits of Index Investing

The benefits of index investing are: (1) low costs as there are no advisory fees and the low portfolio turnover results in low transaction costs, (2) wide diversification (when matching a large index such as the S&P 500 or the FTSE All-Share) and (3) low portfolio turnover resulting in the deferral of capital gains tax, where applicable. So an index fund is a tax-efficient, low cost way to acquire a diversified portfolio.

Unfortunately, this theory has been applied in some situations where indexation might make less sense.

The Reality of Index Funds

A large company index fund, such as one based on the S&P 500 index, will probably have a portfolio turnover of 3-10% per year. There may be a few large IPOs that add stocks to the index, or some takeovers that remove stocks, but most movement will be 10-15 of the smaller stocks that drop out or get added into the index each year. The index is weighted by capitalisation, so the smallest companies account for only 0.01% of the index. Changing a dozen or so very small stocks each year has no significant impact on portfolio turnover.

On the other hand, a mid-cap or small-cap index fund can add or lose not only many *smaller* stocks each year but also many of their large stocks (i.e. which become too big to remain in the index, being replaced by formerly larger stocks that have declined in value).

Vanguard's S&P 500 Index had - as expected - a low portfolio turnover of 2.7% in 2014. Its Mid-Cap Index fund had a turnover of 82.4% and its Small-Cap Index fund a turnover of 66.4%. And for some reason this is called “passive” index investment? “Active” fund managers probably don't trade this often! So large company index funds will probably have low turnover

and low transaction costs, but mid-cap and small-cap index funds will likely have significantly higher turnover and higher annual transaction costs.

Most index funds are well diversified. The largest stock in the S&P 500 Index is Apple Inc at 3.0% of the index. The ten largest holdings make up 18.5% of the index. A Total Market index fund will hold shares in over 3800 stocks (i.e. about 77% in S&P 500 stocks and 23% in over 3300 smaller companies). The FTSE All-Share Index's biggest holding is HSBC at 5.4%, with the top ten shares making up 30.8% of the index.

All of those index funds offer great diversification! But this is not always the case . . .

The S&P/NZX 10 once had Telecom NZ as its biggest holding at around 40%! It now has Fletcher Building at 17.8% followed by Spark NZ at 15.0% and Auckland International Airport at 13.2%. That is still 46% in just three companies. The S&P/NZX 50 has 44.6% in its top 10 holdings. This is not good diversification!

Portfolio turnover is about 10-30% annually for these NZ index funds, so annual transaction costs will be 5-10 *times higher* than a US S&P 500 index fund. [The S&P/NZX 50 index caps individual shares at 5%, re-adjusting the weighting back to 5% at each quarterly review if a share's value has risen above 7% or fallen below 2.5%. This “capped index” generates additional trading and transaction costs over the normal index fund.]

Potential Problems with “Exchange Traded Funds”

Index funds can be structured as an unlisted unit trust or unlisted mutual fund but the most common and fastest growing sector is Index Exchange Traded Funds (or ETFs). Not all ETFs are index funds, but most are. ETFs are easy to buy or sell through a regular stockbroker.

As with any new (and newly popular) financial product there are potential problems which have not yet been tested in adverse market conditions or are not yet controlled by regulation: Many investors are unaware that ETFs held in their brokerage account can be lent by their broker to short sellers. Those who do know this are probably unaware of the *level* of stock lending and short selling involved.

The brokers, of course, require security for stock lending and short selling, but in a future financial crisis, short selling of ETFs could be a major source of systemic risk! In one particular ETF, each share has been lent and short sold, and re-lent and again short sold and then re-lent and short sold a third *and* fourth time! That, of course, is the statistical average, so presumably some shares have been lent and short sold fewer times and some even more than four times! Good luck to investors and securities regulators trying to sort that out after a future crisis!

The ETF in question is a sector index fund, **Market Vectors ETF Trust - Semiconductor ETF** (code SMH). The fund has issued 6.82 million shares (with a market value of US\$57.91/share) and holds US\$381.4 million in assets. Short sellers are short 18.9 million shares. That means the investors are actually “long” 25.7 million

shares worth \$1491 million. Only 25.6% of this is backed by actual stock investments held by the Fund, with 74.4% backed by the promises of short sellers.

The largest S&P 500 Index ETF, SPDR S&P 500 ETF Trust (code SPY) has short interest equal to 36.7% of its capital. That is 312.5 million shares valued at US\$65 billion. "Index" investing is supposed to be low-risk "buy and forget" investing. These high levels of short selling are an undisclosed and hidden "counter-party" risk, one not faced by non-index investors.

Why is short selling index funds so popular?

Firstly, some people see this as a way to short the market and profit from a fall in the stockmarket. This is a losing strategy. Being long on index funds has been a profitable strategy. Going short on index funds will offer equal but opposite returns!

Secondly, shorting an index fund can be part of a "market neutral" investment strategy. A Fund Manager, believing in his exceptional stock picking skills, may run a \$100 million "market neutral" fund. This would consist of \$100 million in long positions in his favourite stocks and a \$100 million short position in an index fund. In theory, the short index position offsets the long positions to eliminate *market risk*. The portfolio will gain or lose depending upon the Fund Manager's stock selection ability, regardless of whether the general stockmarket goes up or down. This type of "market neutral" investment strategy is fairly popular, but the theory and practice are flawed. [Hint: While market exposure will cause portfolio values to fluctuate, over the medium to long term, the market rewards investors very well - with a 10% annual return - for taking on this market exposure.]

One way US investors can avoid the potential problems with ETF short selling is to favour unlisted index mutual funds, when available. For example, Vanguard offers a listed S&P 500 Index ETF fund (code VOO) and an identical unlisted mutual fund (code VFAX). It offers a listed Total Market ETF (code VTI) and an identical unlisted mutual fund (VTSAX). Unfortunately, US securities laws now restrict the sale of US mutual funds to only US residents. The rest of us have only the option of investing in the ETFs.

A number of the largest US Index ETFs are now dual-listed on the Australian stock exchange. For most NZ and Australian investors, this is the best way to invest in these index funds. For NZ residents, these funds will be subject to NZ's "Fair Dividend Rate" tax, so are not tax efficient investments.

Note also that although listed in Australia these are still US securities and the US Internal Revenue seeks to collect estate taxes from non-residents that have in excess of US\$60,000 in US investments. Australia has no estate duty, but does have an *Australia - US Estate Duty Treaty* which *may* shield Australian residents from US estate duties on these US investments. NZ has no estate duties but does not have a specific Estate Duty Treaty with the United States.

We, of course, are not qualified to give legal advice . . . but it may be better to hold these investments in a trust, rather than in the name of a real person.

Some Important Questions about the Future of Index Investing

To the people with almost religious beliefs about indexing, this newsletter may be considered a heretic for even thinking about questioning the "self-evident superiority of index investing" - but we believe it is important to question, consider and understand all investment techniques - not to just blindly accept and apply the preachings of university professors, investment books or common media articles.

Even the "prophet" of index investing, John C Bogle, the Founder of The Vanguard Group and the First Index Trust - who first brought the word about index investing to the masses - has posed some important questions. In 1997 Bogle asked:

- "*Has today's dominant index - the S&P 500 - become a self-fulfilling prophesy?*" Index funds have beaten "active" management not only due to lower fees but also as the flow of money into indexation has inflated the price of large company shares relative to the rest of the market where active managers have a larger exposure.
- "*If so, will a major reversal*" - a decline in the popularity of index funds - "*be self-fulfilling too?*"
- "*How great would market liquidity be if, say, one-third of all stocks were to be held by index funds?*". Since 1997 the share of individual investors' portfolios in index funds has increased from less than 10% to over 20%. Pension funds *probably* have a higher percentage of their equity investments in index portfolios.
- "*Will there be a shift from indexing based on the S&P 500 to indexing based on the entire stock market?*". This has, in fact, happened. Today Vanguard has almost *twice* as much in its Total Stock Market index funds than in its S&P 500 index funds. Of course, almost 80% of the total stock market funds are invested in S&P 500 stocks.

Presumably this will eventually expand again to cover all international markets, but at the present the amount invested in non-US equity index funds is still significantly lower than in US funds.

If one-third or more of all stocks are held in index funds it may not only impact on liquidity, but the ability of "active" investors to correctly price stocks to create an efficient market. Indexing will work as well if the stockmarket became *inefficient* but the *inefficient allocation* of capital would harm economic growth and employment and total market returns by taking scarce capital away from young, growing (and job creating) companies, in favour of older, mature, no-growth, larger companies. Scarce equity capital needs to be allocated on the *merits* of individual companies, not simply based upon their size!

How Suitable are Index Funds for Your Portfolio?

For a United States investor, index funds offer a compelling case: They are tax-efficient, provide excellent diversification and extremely low fees. US residents can also hold their index funds (or other investments) in a tax-free retirement savings account, where capital

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Index Investing

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gains and dividends would accumulate, free of tax. (And a US resident can avoid any potential problems and risks from ETF short selling by investing in mutual funds.)

A \$2 million retirement portfolio (which might allow \$100,000 to be withdrawn to meet annual expenses in retirement) invested in Vanguard's leading index funds will incur just \$1000 in fees annually.

The case is far less compelling for a New Zealand investor. A local index fund will be significantly less well diversified, even poorly diversified. Annual management fees will be 10-300 times higher. A \$2 million retirement portfolio in NZX's "smartshares" index funds will cost \$12-15,000 in fees (plus the Fund Manager also keeps any interest earned on uninvested cash - a "hidden" fee of about another \$2500). Other NZ based index funds will have higher fees - perhaps \$30,000 (1.5%) or more annually.

A NZ or Australian investor would obtain better diversification investing in a US fund, but may feel less comfortable (than a US investor) as the fund is invested in a "foreign" country in a "foreign" currency. Rightly or wrongly there is a perceived exchange rate risk between US dollar denominated investments and NZ or Australian dollar living expenses.

For a NZ investor, the "Fair Dividend Tax" rate means that US index funds are not a tax-efficient investment. That \$2 million retirement portfolio would have a "Fair Dividend Tax" *assessed income* of \$100,000 - or \$24-33,000 in tax expenses (depending on other income), or a 1.2-1.65% expense annually.

If the case for index funds is tax efficiency, diversification and low fees, then this is a compelling strategy for many US investors who can access tax efficiency, well diversified, low fee funds and accumulate gains in a tax-free retirement account.

In New Zealand, index funds are not tax efficient, not well diversified and do not have low fees. The NZ Government has not even offered the tax-free retirement accounts common in many other OECD countries!

So what exactly is the case for index investing in New Zealand? Financial journalists advocating index funds appear to base that on the experience of US investors and US funds, without researching that things are a little different in NZ!

NZ index Fund Managers are like the early Wells Fargo Bank seeking to "make a lot of money" - with fees of 0.6% to 1.5%, not like Vanguard (with its 0.05% fee) that aligns its interests with investors!

What Lessons Can We Learn from Index Investing?

As readers of this newsletter will know, we have not been converted to the religion of index investing, mainly as the benefits of indexing, as preached by its disciples have not translated well from the US to the NZ and Australian stockmarkets. But we can still learn many important lessons from index investing.

What does index investing really involve?

Index investing is nothing more than the ultimate application (and the ultimate validation) of two older

investment techniques:

The first is ***diversification*** which indexing simply takes to the ultimate by buying all the shares in the market. An S&P 500 index fund will buy all 500 stocks in the S&P 500 Index while a Total Market fund will buy all 3800 US listed stocks. Global index funds will hold shares in several thousand different companies.

The second is "***buy and hold***" which indexing takes to the ultimate holding period - forever (except for some small re-balancing as stocks enter or leave an index).

These two factors - diversification and "buy and hold" (i.e. long term investment) - are common features of most successful investors portfolios. They have always been incorporated in the (so-called) "active" investment style of this newsletter.

Diversification

Diversification averages out extreme performances of individual shares to achieve a portfolio return roughly similar to "the market".

Good diversification is therefore important to any investment portfolio. Indexing takes this to the ultimate level by buying everything, but investment theory tells us that equal dollar amounts invested in 20 different shares will eliminate about 95% of company specific risk. Let's add in a margin of safety as (1) some portfolio shares *may* be similar and (2) the relative value of some shareholdings will increase over time (thereby lowering portfolio diversification). So a portfolio of 30-50 shares should provide a level of diversification not significantly different from owning an index fund, with its hundreds or thousands of shares!

As we discussed earlier, index investment "works" equally well whether the market is efficient (and accurately prices shares) or inefficient (and inaccurately prices shares) as wide diversification ensures that the portfolio will hold a spread of "good" and "bad" shares and therefore perform close to the market average return - which is *exactly* what indexing does.

We seek to improve on that market average return through selecting the shares in which we invest. Even if we can do that successfully, we understand that "investors as a group cannot outperform the market because they are the market". If the market is inefficient, then we may be able to earn above average returns, if we apply the right investment techniques (but not everyone can do this and few people agree on the "right" investment techniques). Of course, perhaps we have just been "lucky" over the last 34 years?

If the market is very efficient, then we are wasting our time on security analysis. All shares will be correctly priced (and remain correctly priced), so *whatever* we buy and hold will earn us an average market return (less the cost wasted of our security analysis and less any excessive transaction costs).

"Buy and Hold" or Long Term Investment

No-one can "buy and hold" shares forever like an index fund, but we do take a long term view, often holding shares for many years or even decades! Over the long run we probably turn over 10-30% of our portfolio annually. That is more than the big S&P 500 index

funds, but is actually *less* than the average 40% annual portfolio turnover for a leading NZ index fund management group!

Taking a long term view *minimises* transaction costs. Like index funds, we seek to maximise returns by minimising costs - and our “active” management probably involves less trading and lower transaction costs than most NZ (so-called) “passive” index funds.

A long term holding period also minimises advisory fees because we don’t need to find a huge list of new shares to buy each month (only to decide to sell them and have to find something else to buy after a few months). We therefore focus our research on finding a small number of very good investments. Shares that have the potential to increase many-fold in value over many-years. Some don’t work out successfully . . . but some become *very big* winners!

An index fund beats other funds over the medium to long term by minimising its fees: no investment advisory fees and very few transaction costs.

We seek to improve those returns through security analysis while also seeking to *minimise* advisory fees and transaction costs. Perhaps no-one can compete with Vanguard’s 0.05% annual advisory fee - but not even NZ index funds come anywhere close! Investors in NZ index funds will pay 0.6-1.5% advisory fees annually for poor diversification. Index funds do not disclose transaction fees, simply recording sales and purchases at cost, including brokerage, but the actual transaction costs are probably less than 0.1% annually.

Vanguard’s S&P 500 Index fund (listed in Australia) is not even a low cost option for NZ investors as they will pay around 1.65% annually in “Fair Dividend Rate” taxes (for a fund that is perhaps not the most appropriate for NZ or Australian investors).

NZ index funds and investors with overseas investments will also be subject to the FDR tax. We mention the tax here to show that NZ investors in S&P 500 Index funds are at a significant disadvantage to the benefits enjoyed by US index investors. \$10,000 invested at 10% per annum for 40 years grows to \$452,590 for a US investor. For a NZ investor that \$10,000 compounds at 8.35% after tax to grow to only \$247,260.

[Kiwisaver funds suffer from a similar high level of fees and other costs, which will similarly erode the long term returns - and the retirement wealth of the country - but that is another story that most people probably don’t want to know about.]

Most investors can run an “active” portfolio for significantly less than these *actual* total costs of “passive” index funds for the NZ investor. Many readers of this newsletter started subscribing when they had only low 5-figure sums (e.g. \$10-20,000) to invest but a reasonable retirement portfolio target should be mid to high 6-figures or low 7-figures.

If you pay \$250 annually for this newsletter and turn over 20% of your portfolio each year with a discount broker (for both the sell and buy transactions) then on this very small \$10,000 “starter” portfolio your advisory fee is 2.5% and your transaction costs (based on a minimum \$30 to sell and \$30 to buy) would be 0.6%.

This is a total expense of 3.1%. It is not very economic to manage a small portfolio, but do-it-yourself investing has significant economies of scale. At \$20,000 the expense ratio drops to 1.6% - about what you’d pay for a more expensive NZ index fund.

Once your portfolio is up to \$100,000 the advisory fee is 0.25% and transaction costs 0.05% (if you pay 0.11% brokerage) or 0.12% (at 0.30% brokerage). With a total expense ratio of 0.3-0.4% you are now way ahead of the lowest cost (0.6-0.7%) NZ index funds - and better diversified!

On a million dollar portfolio the total expense ratio is 0.08% (or up to 0.15% if you are still being very generous to your broker). That is already looking pretty competitive with Vanguard’s lowest 0.05% rate . . . and they have \$3 *trillion* of investments!

Summary and Recommendation

This newsletter believes that the stockmarket is the best place to invest to build wealth over the long term. It also believes that private investors, managing their own portfolio of shares can achieve higher returns, better diversification (i.e. lower risk) and certainly lower costs than the relatively higher cost (and poorly diversified) NZ based index funds (and often lower than many of the Australian listed index funds).

We also believe that our job is to give investors independent and unbiased information so that they can make their own informed decisions, appropriate to their situation. Index funds advocates may be happy to effectively say “Our way is *right*, and *every* other way is *wrong*”, but we never will. We believe there is a *better* way, but it isn’t for everyone. Remember that investors as a group cannot outperform the market because they are the market.

Some investors may choose to do things “our way” - which is why we publish this newsletter. Others may decide to “retire” from active management (or never start) and become an index investor. If a person doesn’t want to be involved in the “active” management of their share portfolio, then indexing in equities through index funds will yield better growth and higher long term returns than just leaving money in a bank term deposit.

If you choose to invest in index funds then always remember that index funds are not created equal. Vanguard is a “mutual company”, owned by its funds (i.e. the public investors). Other fund management groups are motivated to charge the highest fees possible to maximise profits for their own shareholders!

On the following page we summarise the main Index ETFs listed in Australia. Some of these have relatively poor diversification and relatively high fees. Some are more attractive and offer the good diversification and low fees that index funds are supposed to offer!

If you want to become an index investor, the simplest and lowest cost way to index the global stockmarket is to invest equal dollar amounts in Vanguard US Total Market Share Index (VTS) and Vanguard All-World excluding US Shares (VEU).

This would also be the simplest and lowest cost way for a non-index investor in NZ and Australian shares to obtain international diversification.

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US based Index ETFs listed in Australia

Name	Code	Expense	Comment
iShares Asia 50	IAA	0.50%	50 shares from HK, Singapore, Korea and Taiwan.
iShares China Large-Cap	IZZ	0.74%	50 Chinese shares, 59% in top 10.
iShares Core S&P 500	IVV	0.07%	S&P 500 Index fund. Low costs.
iShares S&P 500 AUD Hedged	IHVV	0.13%	As above, but hedged to AUD.
iShares CoreS&P Mid-Cap	IJH	0.12%	S&P MidCap 400 index fund. (The 400 stocks <i>below</i> the S&P 500).
iShares Core S&P Small-Cap	IJR	0.12%	S&P SmallCap 600 index fund. (The next 600 stocks <i>below</i> MidCap 400).
iShares Europe	IEU	0.60%	350 largest UK & European shares. 19% in top 10 holdings. High fees!
iShares Global 100	IOO	0.40%	100 largest companies, but mainly US. Relatively high fees.
iShares Global 100 AUD Hedged	IHO0	0.46%	AS above, but hedged to AUD.
iShares MSCI Australia 200	IOZ	0.19%	Top 200 Aust shares. 52% in top 10 holdings.
iShares MSCI BRIC	IBK	0.68%	300 shares from China, Brazil, Russia, India. 30% in top 10 holdings.
iShares MSCI EAFE	IVE	0.33%	900+ Europe, Australasia and Far East (i.e. World, excl US and Canada) 12% in top 10 holdings. Higher fees than Vanguard VEU.
iShares MSCI Emerging Markets	IEM	0.68%	850 shares from 22 Emerging Markets shares. Vanguard VGE has lower fee.
iShares MSCI Hong Kong	IHK	0.48%	41 Hong Kong shares, 65% in top 10 holdings.
iShares MSCI Japan	IJP	0.48%	300+ Japan shares, 21% in top 10 holdings.
iShares MSCI Singapore	ISG	0.48%	30 Singapore shares, with 70% in top 10 holdings
iShares MSCI South Korea Capped	IKO	0.62%	100+ South Korea shares, but 20% in Samsung, 44% in top 10.
iShares MSCI Taiwan	ITW	0.62%	100 Taiwan shares, but 22% in Taiwan Semiconductor, 50% in top 10.
iShares Russell 2000	IRU	0.20%	Russell 2000 index (the smaller 2000 of the largest 3000 US stocks). Higher turnover than IJR above which also has lower fees.
iShares S&P/ASX 20	ILC	0.24%	Top 20 Australian shares. Why pay <i>any</i> annual fee to own CBA, WBC, etc?
iShares S&P/ASX Dividend Opportunities	UHD	0.30%	50 high yield shares, 44% in top 10 holdings.
iShares S&P/ASX Small Ordinaries	ISO	0.55%	ASX300, excluding the ASX100.
SPDR S&P 500	SPY	0.09%	S&P500 Index fund. Low costs.
SPDR S&P Emerging Markets	WEMG	0.65%	300 shares from E/Markets. Similar to Vanguard VGE, but high fees
SPDR S&P Global Dividend	WDIV	0.50%	Global High Dividend index fund. 23% US, 16% Canada, 15% UK.
SPDR S&P World ex Australia	WXOZ	0.42%	1250 shares, from deveopled countries. 67% in US.
SPDR S&P World ex Australia (Hedged)	WXHG	0.48%	As above, but hedged to AUD.
SPDR S&P/ASX 50	SPY	0.29%	Top 50 Aust shares, 62% in 10 largest shares
SPDR S&P/ASX 200	STW	0.29%	Top 200 Aust shares, 52% in 10 largest. Higher fees than Vanguard VAS.
SPDR S&P/ASX Small Ordinaries	SSO	0.50%	ASX300, excluding the ASX100.
SPDR S&P/ASX 200 Resources	OZR	0.40%	ASX200 Resource index fund. 39% in BHP, 88% in top 10. Poor diversification.
SPDR MSCI Aust Select High Dividend	SYI	0.35%	36 high yield shares. 64% in top 10 holdings.
Vanguard Australian Shares Index	VAS	0.15%	ASX300 index fund (but 50% invested in the top 10 shares). Low fees.
Vanguard Australian Shares High Yield	VHY	0.25%	Matches a "High Yield" index. 50 shares, but 75% in top 10.
Vanguard MSCI Australian Large Coys Index	VLC	0.20%	About 30 large Australian shares, 71% in just 10 shares.
Vanguard MSCI Australian Small Coys Index	VSO	0.30%	"Small" Australian shares, ~150 with with market caps of \$12-3,300 million.
Vanguard FTSE Emerging Markets	VGE	0.48%	850 shares from 22 Emerging Markets. 29% in China. 14% Taiwan.
Vanguard MSCI International Shares	VGS	0.18%	1500 shares, 22 developed countries, excl. Australia, but 63% US stocks.
Vanguard MSCI International (Hedged)	VGAD	0.21%	As above, but hedged to Australian dollars.
Vanguard US Total Market Share Index	VTS	0.05%	The "benchmark" index fund. 4000 US stocks. Very low fees.
Vanguard All-World ex US Shares	VEU	0.14%	250 shares from 46 countries, excluding the US. Low fees.

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			
A2 Milk Company	A	82	N/A	NE	Nil	IkeGPS Limited	D	66	9.03	NE	Nil	SLI Systems Ltd	E	78	2.11	NE	Nil
AMP Limited	B	722	1.63	17	5.5	Infratil NZ	B	320	0.78	NE	4.1	Sanford Limited	B	510	1.06	21	10.1
AWF Madison Grp	C	230	0.39	14	4.8	Just Water Int.	C	14	0.45	7	Nil	Satara Co-op	B	58	0.19	NE	Nil
Abano Health.	C	774	0.75	33	3.8	Kathmandu Ltd	C	174	0.91	8	9.6	Scales Corp Ltd	B	195	1.04	15	2.1
Air New Zealand	A	268	0.06	1	5.2	Kingfish Ltd	C	136	N/A	15	11.0	Scott Tech. Ltd	D	143	1.04	25	7.8
Airworks Ltd	C	337	N/A	NE	Nil	Kirkcaldie & St	B	225	0.65	61	Nil	SeaDragon Ltd	E	1.3	N/A	NE	Nil
Akd Int Airport	A	541	N/A	30	1.8	Kiwi Property	C	126	6.12	13	5.1	Sealegs Corp	E	7.0	0.54	NE	Nil
Allied Farmers	D	6.1	0.15	NE	Nil	Mainfreight Grp	B	1495	0.72	18	3.2	Seeka Kiwifruit	E	325	0.44	16	3.4
Aorere Res. *	N/R	0.3	3.17	NE	Nil	Marlin Global	C	89	N/A	9	8.3	Serko Limited	C	85	5.14	NE	Nil
Argosy Property	D	113	7.80	14	6.3	Marsden Mar.	A	289	N/A	14	5.4	Skellerup Hold.	E	119	1.17	11	9.9
Arvida Group	E	87	N/A	NE	Nil	Mercer Group	E	10	0.72	NE	Nil	Sky City Ltd	A	429	3.04	25	6.5
Augusta Capital	B	97	9.59	16	3.1	Meridian Energy	E	229	1.86	20	6.7	Sky Network TV	A	608	2.60	15	6.6
Barramundi Ltd	C	66	N/A	NE	9.3	MetLifeCare	B	481	N/A	15	0.8	Smartpay NZ Ltd	D	17	1.32	19	Nil
Bathurst Res.	D	18	N/A	NE	Nil	Methven Limited	E	111	0.84	14	10.0	Smiths City	D	53	0.13	35	6.6
Blis Technology	D	2.3	9.63	NE	Nil	Michael Hill	E	100	0.73	11	6.5	Snakk Media Ltd	C	5.3	1.43	NE	Nil
Briscoe Group	C	296	1.27	16	6.6	Mid-Cap Index	B	354	N/A	5	9.6	Sol. Dynamics	B	115	1.48	32	Nil
Burger Fuel	D	310	N/A	NE	Nil	Mighty River	D	266	2.18	18	7.0	South Port NZ	A	445	3.71	17	6.9
CDL Investments	D	64	4.00	12	4.8	Millennium & C.	B	141	1.72	7	2.4	Spark NZ Ltd	C	288	1.45	16	7.9
Cavalier Corp	D	43	0.15	5	9.7	Moa Group Ltd	C	28	2.20	NE	Nil	Speirs Group	C	23	0.16	1	Nil
Cavotec MSL	D	245	1.08	20	1.6	Mowbray Collect	E	20	1.32	NE	Nil	Steel & Tube	B	282	0.57	14	7.9
Chorus Ltd	B	278	1.04	7	Nil	NPT Limited	D	63	6.17	16	7.7	Summerset Group	A	417	N/A	17	0.8
Coats Group plc	C	66	0.45	35	Nil	NZ Exchange Ltd	E	103	4.01	20	8.1	Synlait Milk	C	228	0.79	29	Nil
Col Motor Co	B	615	0.29	11	7.9	NZ Oil & Gas *	N/R	49	2.00	21	12.2	T&G Global	D	180	0.29	13	2.3
Comvita	B	550	1.48	21	3.3	NZ Refining Co	B	303	4.06	95	Nil	TeamTalk Ltd	B	80	0.38	7	30.4
Contact Energy	C	515	1.54	16	7.0	NZ Windfarms	C	5.4	1.67	NE	Nil	Tenon Ltd	B	203	0.27	55	Nil
DNZ Property	B	217	N/A	9	6.6	NZF Group	D	1.0	5.55	NE	Nil	Tourism Hold.	B	208	1.03	21	4.7
Delegat Group	B	530	2.31	13	2.9	NZSX 50 Port.	C	196	N/A	7	8.3	Tower Limited	C	214	1.24	17	6.8
Diligent Board	C	552	4.51	44	Nil	NZSX 10 Fund	C	127	N/A	22	8.2	Trade-Me Ltd	C	323	7.80	16	7.0
EROAD Ltd	D	368	N/A	NE	Nil	NZX Aust MidCap	B	547	N/A	9	5.1	Training Sol.	E	0.2	N/A	NE	Nil
Ebos Group Ltd	B	1095	0.28	18	4.3	New Talisman *	N/R	0.8	N/A	NE	Nil	Trilogy Intern.	B	129	2.19	18	3.9
Evolve Educat.	E	91	4.89	NE	Nil	Nuxep Indust	A	439	0.53	17	4.8	Trust Power Ltd	B	780	2.46	17	7.0
F & P Health.	C	764	6.75	43	2.5	Opus Int'l Cons	D	124	0.34	7	10.0	Turners Ltd	E	30	1.98	10	3.3
Finzsoft Sol'ns	C	340	1.49	11	Nil	Orion Health.	D	389	3.77	NE	Nil	VMob Group	C	35	0.00	NE	Nil
Fletcher Build.	A	780	0.64	16	6.4	Ozzy (Tortis)	B	387	N/A	15	8.4	Vector Ltd	B	328	2.59	19	6.5
Fliway Group	C	96	N/A	NE	Nil	PGG Wrightsons	D	46	0.28	8	13.6	Veritas Invest.	C	69	0.86	6	16.4
Foley Fam Wines	D	140	2.36	22	Nil	Pac Edge Bio.	E	60	N/A	NE	Nil	Vetilot Limited	E	0.2	N/A	NE	Nil
Fonterra S/H Fd	C	490	0.17	15	6.5	Port Tauranga	A	1750	8.81	30	4.0	Vista Group Ltd	C	600	N/A	NE	Nil
Freightways Ltd	C	573	2.04	21	5.2	Precinct Prop.	D	114	7.30	10	6.6	Vital Health PT	C	165	8.26	15	6.7
Genesis Energy	D	168	0.45	18	5.5	Promisia Integ.	C	4.0	N/A	NE	Nil	WN Drive Tech.	D	5.5	0.51	NE	Nil
Gentech Group	D	204	3.85	44	2.5	Property F. Ind.	D	154	9.94	11	6.4	Warehouse Group	C	267	0.37	6	10.9
GeoOP Ltd	C	45	N/A	NE	Nil	Pumpkin Patch	D	17	0.10	5	Nil	Windflow Tech.	C	3.0	0.16	NE	Nil
Goodman Prop.	C	124	9.14	8	7.2	Pushpay Hold.	C	477	N/A	NE	Nil	World Index Fd	D	100	N/A	NE	Nil
Green Cross H.	C	228	0.95	16	4.3	Pyne Gould Corp	E	31	7.98	NE	Nil	Wynyard Group	E	155	6.89	NE	Nil
Hallenstein G.	B	337	0.91	11	13.8	Rakon Ltd	C	36	0.52	22	Nil	Xero Ltd	E	1717	N/A	NE	Nil
Heartland Bank	D	111	2.42	14	7.5	Restaurant Brds	B	407	1.11	17	6.5	Z Energy Ltd	B	589	0.77	NE	5.7
Hellaby Hold.	D	291	0.38	11	7.2	Rubicon Limited	E	32	0.33	65	Nil	Ave of 139 Cos	C	261	0.02	16	4.0
Horizon Energy	A	435	0.97	27	4.5	Ryman Health.	C	842	N/A	17	1.6						
A.P. Eagers	A	1025	0.64	24	2.6	DuluxGroup Ltd	B	589	1.39	21	3.5	Pact Group Hold	A	449	1.16	23	2.1
AGL Energy Ltd	A	1635	1.00	17	3.9	Echo Ent Group	A	489	2.24	38	1.6	Perpetual Ltd	A	4349	4.50	26	4.0
ALS Limited	A	496	1.35	17	4.2	Energy Develop.	A	788	3.24	29	3.6	Platinum Asset	A	726	N/A	22	4.7
AMP Ltd	A	638	1.06	21	4.1	Estia Health	B	635	6.49	NE	Nil	Premier Invest	A	1304	2.25	28	3.1
ANZ Bank	A	3014	2.44	13	5.4	Evolution Min.	B	95	1.13	14	2.1	Primary Health	A	448	1.49	14	4.5
APA Group	A	892	5.60	22	4.1	Fairfax Media	C	84	0.97	14	2.4	Q.B.E. Insur.	A	1416	0.76	19	2.6
ARB Corporation	A	1377	3.33	23	2.1	Federation Cent	A	284	7.42	19	5.0	Qantas Airways	B	377	0.54	NE	Nil
ASX Limited	A	4308	N/A	22	4.1	Flexicorp Ltd	B	296	2.84	16	5.6	Qube Holdings	B	230	2.06	28	2.2
AVEO Group	B	273	3.23	53	2.9	Flight Centre	A	3395	1.52	17	4.5	REA Group Ltd	A	4295	N/A	38	1.3
Abacus Property	B	309	5.00	23	5.3	Fortescue Metal	B	188	0.47	2	10.7	Ramsay Health	A	6325	2.59	42	1.3
Adelaide Bright	A	469	2.25	17	3.6	G.U.D. Holdings	A	986	1.37	25	4.3	Recall Holdings	B	701	3.37	49	Nil
Ainsworth Game	B	285	3.76	15	3.5	G8 Education	B	313	2.25	21	6.1	Reece Australia	A	3251	1.82	26	2.0
Alumina Ltd	C	142	N/A	NE	1.1	GPT Group	A	468	7.74	13	4.5	Regis Health.	C	585	N/A	NE	Nil
Amalgamated Hld	A	1264	1.82	25	3.3	Genworth Mort.	A	313	5.10	9	5.1	Retail Food Grp	B	509	4.39	20	4.3
Amcor Ltd	B	1391	N/A	NE	0.2	Goodman Group	A	626	9.14	16	3.3	Rio Tinto Ltd	A	5327	0.39	3	4.8
Aneka Tambang	D	110	N/A	NE	0.1	Graincorp	A	850	0.47	39	2.4	S/Tracks ASX200	B	5110	N/A	7	4.4
Ansell Ltd	B	2475	2.24	85	0.0	Growthpoint Pro	A	327	N/A	15	5.8	SAI Global Ltd	A	454	1.81	27	3.4
Ardent Leisure	B	234	1.86	19	5.6	Harvey Norman	A	470	3.35	24	1.9	Sandfire Res.	A	563	1.65	11	1.8
Argo Investment	A	840	N/A	25	3.5	Henderson Group	A	605	5.56	14	2.8	Santos Ltd	B	676	1.65	NE	5.2
Aristocrat Leis	B	870	6.47	NE	1.8	Hutchison Tel.	C	7.8	N/A	NE	Nil	Sccentre Group	A	396	9.72	11	9.2
Asaleo Care Ltd	B	163	1.56	NE	3.3	IOOF Holdings	A	930	2.92	21	5.1	Seek Ltd	A	1470	6.91	25	2.0
Asciano Limited	A	815	2.02	31	1.4	IRESS Limited	A	1012	4.89	32	4.1	Select Harvest	A	1140	3.51	23	1.8
Aurizon Hold.	A	510	2.84	43	3.2	iinet	A	939	1.61	25	2.0	Seven West Med.	B	87	0.48	6	13.9
AusNet Services	B	134	2.53	NE	6.2	Iluka Resources	B	745	3.93	NE	2.6	Seven Group	B	530	0.52	6	7.5
Aust Foundation	A	622	N/A	23	2.3	Incitec Pivot	A	336	1.66	23	3.2	Shopping Centre	A	211	8.64	12	5.2
Aust United Hld	B	833	N/A	8	3.8	Independ. Group	B	352	2.06	18	2.3	Sigma Pharm.	B	87	0.30	18	2.3
Automotive Hold	A	430	0.48	29	4.7	Insurance Aust.	A	587	1.28	11	6.6	Sims Metal Mgmt	B	935	0.27	NE	1.1
BHP Billiton	A	2593	1.17	6	5.0	Investa Office	A	386	N/A	13	4.8	Sirius Res. NL	B	289	N/A	NE	Nil
BKI Invest Coy	A	170	N/A	22	4.2	Invocare Ltd	A	1334	3.47	27	2.7	Sirtex Medical	A	3092	N/A	73	0.3
BT Invest Mgmt	A	942	8.95	46	1.9	JB											

Investment Outlook

(Continued from Page 1)

The objective of our share selection - as stated 34 years ago - is to find shares with the potential to appreciate many-fold in value over many-years. We have widely discussed our share selection methods, so won't go into that here.

Our investment strategy then exploits *Investment Mathematics* (a course not taught in any Universities!) and the fact that investment returns are “skewed to the right” - a mathematical term which in this case simply means that our maximum loss is 100% on any individual share while our potential gains are unlimited. So we can let our winners increase 5-fold, 10-fold or 20-fold (or more) in value. Potential gains *far exceed* potential losses, so on a diversified portfolio, our wealth can grow significantly, even if only *half* the shares were winners (some with very *large* gains) and *half* were losers (with limited losses).

Our “Buy and long term Hold” strategy has worked well over the last several decades, so remain fully invested in the recommended shares.

Dividend\$

Company	Cents per Share	Ex-Date	Pay-able	Tax Credit
Augusta Capital	1.25	07-08	14-08	Full

Total Return Index for All Listed Shares

Jul 13	1514.90	Jul 20	1552.48
Jul 14	1515.56	Jul 21	1553.82
Jul 15	1528.92	Jul 22	1552.47
Jul 16	1540.17	Jul 23	1552.49
Jul 17	1546.11	Jul 24	1554.88
Jul 27	1547.10	Aug 3	1567.70
Jul 28	1542.81	Aug 4	1569.87
Jul 29	1552.41	Aug 5	1566.63
Jul 30	1557.85	Aug 6	1568.77
Jul 31	1562.55	Aug 7	1565.14

Next Issue:

The next issue of *Market Analysis* will be emailed in five weeks time on Monday September 14, 2015.

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

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