

CHANGES

From Pete's Desk

Well, where can we go to find some positives in this world, with unprecedented re-arrangements of the global financial system and more and more disgusting activities for profit coming to light (witness the melamine in milk saga in China). Having experienced kidney stones recently I have some real empathy for the horror effects on all those babies.

New Zealand might be geographically isolated from the rest of the world but we will still be caught in the wash of all this turmoil. In the midst of all this however it was interesting that a recent survey showed an increase in consumer confidence, lower oil prices and perhaps some sunshine I suspect.

We have a new grandchild (more on page four) and that's a great positive in this uncertain world. We have also been getting on with our business changes. Our research group started out with five members who had all left Broadbase but

has continued to grow and looks like it could expand even further. We are all independently owned firms but collaborate in a number of areas, Aegis, systems and research mostly. It's great to be working with like-minded and experienced people that through group contribution achieve positive solutions. We have recently contracted a Research Analyst, who has a decade or two of experience working in off-shore and New Zealand markets. He is now semi-retired, living in Nelson.

As this newsletter hits your letterbox the tax cuts will be kicking in, so even if only on Superannuation a little extra will flow through to your pockets.

I hope that your world too is still great to be in and that the constant media negativity isn't spooking you greatly—give me a call if you have anything you wish to discuss

Inside this issue:

Tradeable Bonds	2
Out of the Office	2
Staff Changes	2
What Only a Week Can Bring	3
Trap for Young Players	4
Light Relief	4

TRADEABLE BONDS

There has (and continues to be) good buying opportunities for corporate bonds, which we have been recommending. The length of term; three years, five years and beyond are great. A bond is able to be sold on the Secondary Market so is far more liquid than a debenture.

We have fielded a number of queries regarding security and length of term around the bonds so I thought it a good opportunity to include some definitions for you in the newsletter.

Unsecured

As it sounds, there is no security over the providers assets for return of capital. This is

why you would only look to purchase good quality known providers with credit ratings. Most of those available lately have been bank bonds. A bank term deposit 3 years @ 7.2% and a 3 year unsecured unsubordinated bond @ 8.20% are on par for security—both are unsecured and both rated AA by Standard & Poor's.

Unsubordinated

Subordinated means "ranked below", unsubordinated is therefore the converse of this. If an issuer goes bust an unsubordinated bond is ranked ahead of the subordinated.



Tradeable Bonds—continued

Secondary Market

This is the trading vehicle for Bonds, just as the NZ Stock Exchange is the trading vehicle for Listed Company Shares. Point of note:- the New Zealand fixed interest market is substantially larger than the New Zealand Share Market with millions of dollars worth of bonds traded daily.

Face Value

The value that the bond was originally issued at i.e. \$10,000 or \$50,000 etc.

Coupon

The income percentage rate paid on the face value of the bond, fixed for the term of the bond.

Yield

Comes into play when purchasing a bond on the Secondary Market, not a new issue. It will be dependant on the market rates at the time of sale / purchase.

Example

Should interest rates continue to ease, as they are predicted to do, then a 7 year bond, bought at issue, with a coupon of 8.5% selling in a market where the going rate may have fallen to 6.5% will be quite desirable and a premium would be paid to the seller.

The following information is used to demonstrate:

Face value \$10,000
 Coupon 8.50%
 Maturity 30/11/2015
 Two coupon payments a year (31/05 and 30/11)
 Settlement Date 30/09/2010

Payment would be calculated thus:

\$ 283.33	Interest to date
\$ 864.43	Premium
<u>\$10,000.00</u>	Face Value
\$11,147.76	

The seller would therefore have received over the two years; three coupon payments @ \$425, plus the \$283.33 1st Jun to 30th Sept adjustment (\$1,558.33) along with the premium of \$864.43, a total of \$2,422.76 gross.

If instead you had a term deposit in the bank for the same period @ 7.20% you would receive \$1,320. If you had it on for 36 mths and if you were able to break early you would likely receive a penalty interest adjustment.

If investment rates climb higher (certainly not what I foresee) then it would be a matter of holding to the end of the term, collecting 8.5%pa and \$10,000 at maturity.

OUT OF THE OFFICE

Peter and Lynne will be out of the office from

Tuesday 30th September, back on deck Tuesday 7th October

Michele will be in the office through 30/09/2008 to 3/10/2008: **8.30am to 3.30pm**

If you phone outside of these hours please leave a message on the answer phone and we will attend to your query as soon as possible

STAFF CHANGES

We said farewell to Olivia on the 24th September. She has taken up a new position with Compass Health. We were sad to see her leave but do wish her all the very best .

As we are in the middle of implementing changes to our administration system we will not be replacing Olivia at this stage -no point in confusing more people than we have to!

Lynne and Michele will continue to happily book appointments and answer any general and administration enquiries you may have.

Check out our website

www.investcentre.co.nz

WHAT ONLY A WEEK CAN BRING

In this last quarter we saw what was probably the final run of local finance company and mortgage trusts to announce their need to seek investor arrangements (time). Whilst it has been ugly here it pales when compared to the events in this closing week of September in global markets.

- Lehman Bros. file for bankruptcy (no bailout)
- Merrill Lynch are taken over by Bank America
- The worlds largest insurer, AIG, gets a big chunk of cash from US Government and effectively nationalised.
- Lloyds Bank takes over Halifax Bank of Scotland (HBOS). This has possible implication in New Zealand for Strategic Finance Ltd
- Warren Buffet's investment vehicle, Berkshire Hathaway, purchased US\$5b of Goldman Sachs on very favourable terms to him.
- Washington Mutual, the largest US savings and loans bank, is suddenly taken over by the Government authorities and passed off to JP Morgan.
- The US Congress is being asked as I write this for approval of a scheme for central authorities to take over (at face value) US\$700+ billion of problem loans and mortgage backed assets off troubled institutions (will this be the crisis circuit breaker?)

I have to say I have never seen so much occur in such a short period of time in the 20 years I have been in the finance sector, or for that matter anything comparable in my studies of previous eras. I am certain that 2008 will be noted as a paradigm shift in financial markets for students of finance in future years. If September/October is seen as a turning point, driven by the biggest bail out in history, will it also mark a notable magic rapid recovery? I don't think so, re-

covery is likely to take time as usual. Is this a time to exit growth assets and to rush to safety (cash)? Definitely not!

- ⇒ In our own market, and Australia to a certain extent, I believe there are selected companies that now appear to be undervalued.
- ⇒ In fixed interest markets the last time we saw such good quality / good value was back in the early 1990's.
- ⇒ In the listed property sector values are oversold 20-30% and yields are between 8-12%, unlike our residential housing sector which still remains overvalued 20% with rental yield still poor at around 4-5% gross.

Whilst New Zealand and Australia have nominal direct exposure to these problem areas overseas we are inevitably caught up in this event. Negative implications for our investment markets and economy are likely to flow through for some years, as household balance sheets throughout the world adjust from overvalued house values and too much debt.

The Reserve Bank has commenced a rate easing phase, with a surprise 50bp to an Official Cash Rate of 7.50% currently. Expectation are that rates will now drop into the low sixes by next year. Fixed term mortgage rates will not drop similarly as most bank funding is still obtained offshore and remains expensive. This and a likely tightening of lending criteria will continue to weigh on housing markets in New Zealand. Similar conditions exist in Australian housing as well.

Without being rash this is a time for the sensible and unemotional driven investor to carefully look for opportunities. Avoiding debt loaded assets and finding quality investments that generate secure cash flows are the key.

If you are 45 now, you only have 240* paydays to save for your retirement and counting.

Now isn't that a scary thought.

*** based on monthly pay and retirement at age 65**

TRAP FOR YOUNG PLAYERS

Pete recently got caught out when booking airline tickets over the internet, which he thought you might find interesting.

He was due to go to an industry conference in Christchurch, went on line and booked his tickets and with supreme confidence booked his seat and obtained a boarding pass.

He then came down with a dreadful head cold, laid him up for quite a few days. He decided that he didn't want to take the risk of passing this on to everyone else. Back he went to the trusty computer, got on line, found his reservation but couldn't see how to change the booking (he was within the allowable period to shift the booking). He checked the instructions again—it definitely said that he could do this on line without charge. There was no "change booking button" on the screen.

By booking his seat and then his boarding pass he had passed the point of no return. He had to phone and pay a further \$50!

I D TEN T ERROR

I was having trouble with my computer. So I called Eric, the 11 year old next door, whose bedroom looks like mission control and asked him to come over. Eric clicked a couple of buttons and solved the problem.

As he was walking away I called after him, "So what was wrong?" He replied "It was an ID Ten T error". I didn't want to appear stupid but nonetheless enquired, "An ID Ten T error, what's that, in case I need to fix it again?"

Eric grinned... "Haven't you ever heard of an ID Ten T error before?" "No", I replied. "Write it down" he said, "and I think you'll figure it out!"

So I wrote it down I D 1 0 T

I used to like Eric ...!

IT'S A GIRL!

Pete and Lynne are proud Grandparents again (they can stop now!). Emily arrived to join the clan on the 31st July 2008. She has a great set of lungs and has everyone dancing to her tune already



WEBSITE

We are hoping to have the website up and running within the next week or two.

In the near future we will be setting up a client log-in, through this website, to allow access to Aegis client portfolios. The current valuation of your portfolio and cash reports will be available on-line.

If you would like to be set-up to have access to this service please email admin@investcentre.co.nz Documentation will then be forwarded to you for completion and return



97 Rangitikei St, Palmerston North 4410 P O Box 448, Palmerston North 4440
Ph: 06 354 7900 Fax: 06 354 9950 Email: admin@investcentre.co.nz

*The information contained in this newsletter is of a general nature and is not intended as a substitute for professional advice. It should be used as a guide only.
A Disclosure Statement is available on request at no charge.*

