

Portfolio Strategy

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Analyst:

Cameron Watson

The biggest investing potholes

The longer one is involved in the investment sector the more you realise that being a successful investor is 20% market nous and 80% avoiding stupid mistakes. As legendary investor Warren Buffett put it; "investing is simple, not easy".

So much of the emphasis of the investment industry is focused on the hard stuff - reading markets, picking companies, forecasting interest rates etc. But over the long term all this flashy gumpf makes little difference to returns. What really matters is doing the basics well and avoiding major mistakes.

In this way investing is akin to rugby, where no matter how skilled your players, if you make fundamental errors when executing the basics you will have trouble. Flat backlines, for instance, don't work. Here are some of the more common potholes that continue to trip up investors.

Having unrealistic expectations

Shares have been the best performing investment over the past 60-70 years and have returned around 10% a year. During periods when inflation is low and rising returns tend to be more like 8% a year. This makes sense when you consider shares provide dividends of circa 5% and manage to grow earnings by roughly the same rate of GDP growth - about 3% a year.

For a balanced portfolio of shares, fixed income and property a return of between 6% and 8% a year seems realistic. Investors gunning for returns of 15% plus will have to take huge risks to get there by putting all their money on a few shares or properties, or by using debt to gear their portfolio. The higher return you aim for, the higher the chances that you fail. As they say, aiming for the moon can mean you end up in a black hole.

Falling for con artists

There are many unsavoury characters out there that play on people's gullibility and greed by offering unrealistic returns. Do not get sucked in. If it sounds too good to be true, it will be. I have seen return projections of 20%, 50% and even 150% a year offered to investors. Such returns are complete nonsense. They simply defy the laws of gravity. Consider \$100,000 invested today and earning 50% a year. If you manage to earn this return every year you will be a billionaire in 23 years. You will then overtake Bill Gates as the world's richest person after 35 years. Do you really think this is going to happen? High returns are simply unsustainable over long periods of time and the people offering them are guessing, at best.

Putting too much emphasis on market predictions

Within the investment industry there is an army of very smart investment analysts, economists, strategists and fund managers all getting paid to eyeball markets and come up with the next best investment idea.

Although this research is usually very interesting, and often backed up with very nice colour-coded charts, much of the time it is wrong. What trips up all of these experts is not their

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analysis, but the fact that they are dealing with future events. The future is 100% unpredictable and even the most robust research can be proved worthless by a completely unforeseen event.

Smart investors recognise that nobody can predict the future direction of investment markets and that it is dangerous to put too much stock in such predictions.

Following the crowd

Investors have a fatal habit of chasing what's hot. Unfortunately, past performance has no bearing on future performance and in fact, last year's winners can often end up as next year's wooden spoons.

Lack of balance

The biggest investment tragedies happen when people have their portfolio excessively concentrated on one investment, or one investment sector. The golden rule of investment is to have a good spread of investments across the main sectors; cash, bonds, shares, property and overseas investments.

Fees

This four-letter word has spelled disaster for generation after generation of investors who put their faith in such traditional savings products like whole of life policies and super schemes. The costs involved with these funds have decimated returns leaving almost nothing for the investor.

Fees are arguably the biggest threat to an investor's long-term returns. For instance, a super fund that earns 8.0% on its portfolio will have management fees of at least 1.5% deducted then tax of 2.0%. Take off another 1.5% for advisory fees and 2.5% for inflation the investor at the end of the food chain is left with a return of just 0.5%. Reduce fees by investing directly into markets wherever possible.

Disclosure Statement

Pursuant to the provisions of the Securities Markets Act 1988 and the Securities Markets (Investment Advisers and Brokers) Regulations 2007 this Disclosure Statement provides you with important information about your Craigs Investment Partners Limited ("Craigs Investment Partners") Advisor, the firm of Craigs Investment Partners and the investment advice you will receive. This document was prepared in August 2009.

1. Advisor Details

Name | Cameron Watson

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Email | cameron.watson@craigsip.com

Year joining Craigs Investment Partners | 1998

Branch | 158 Cameron Road, PO Box 13155, Tauranga 3141

Disclosure of Craigs Investment Partners:

Cam Watson ('your Investment Advisor') is employed by Craigs Investment Partners, an NZX Firm and one of New Zealand's largest investment advisory firms. Craigs Investment Partners is 100% owned by certain Craigs Investment Partners staff and close business associates.

2. Qualifications

Cam Watson holds the following qualifications:

1994 | NZX Diploma

1989 | Bachelor of Arts, Victoria University

In Craigs Investment Partners' pursuit of excellence, Investment Advisors are required to maintain continuous internal performance modules, covering topics such as industry and regulatory developments. Craigs Investment Partners Advisors are supported by a global research network.

3. Experience

Cam Watson has been employed with Craigs Investment Partners* since 1998, becoming the Chief Investment Officer in 2007. Previous work history details:

1995-1998 | Tower
Business Development Manager

1993-1995 | Southpac
Investment Management, Investor Services
Manager

1992-1993 | Prudential
Client Services Manager

1990-1992 | Tower Trust Services
Head of Client Services

Craigs Investment Partners* was established in 1984 and has operated as an Investment Advisory Firm since that time.

4. Professional bodies

Cam Watson is a member of or accredited with the following organisations:

- NZX Advisor
- Current Sharebrokers Licence

Craigs Investment Partners is an NZX Firm and must comply with the NZX Participant Rules.

5. Range of investment advice given

Your Investment Advisor is able to provide advice on all mainstream financial products and investments both listed and unlisted, including, but not limited to, advice on Australian and New Zealand Equities, International Equities, Public Offerings, International Bonds, New Zealand Government Stock, Kiwi Bonds, Local Authority Stock, Corporate Bonds and Capital Notes, Debenture Investments, Money Market, Managed Funds, Investment Trusts, Savings Plans, Superannuation Schemes, Unit Trusts, Margin Lending, Foreign Exchange, Fixed Interest, Private Equity and at Call Investments.

Craigs Investment Partners gives investment advice on, but not limited to, the following services and securities; Australian and New Zealand Equities, International Equities, Public Offerings, International Bonds, New Zealand Government Stock, Kiwi Bonds, Local Authority Stock, Corporate Bonds and Capital Notes, Debenture Investments, Money Market, Managed Funds, Investment Trusts, Savings Plans, Unit Trusts, Private Equity, Fixed Interest, Investment Banking and Corporate Advice, Share broking and Company Research, Portfolio Services, Margin Lending, Foreign Exchange, Superannuation, at Call Investments and Funds Management.

6. Types of services

Your Investment Advisor provides the following services: Share broking, Portfolio Strategy and Management, Retirement Planning and Superannuation, Investment Advisory, Custodial Services, Foreign Exchange, Asset Allocation, Cash Management, Portfolio Lending, Research and such other services as introduced from time to time by Craigs Investment Partners.

Craigs Investment Partners Terms and Conditions for Services Provided to Clients (as amended from time to time) apply to all advice given by your Investment Advisor.

7. Dispute resolution

If you have a dispute with your Investment Advisor or Craigs Investment Partners in connection with any investment advice given you should promptly (either in writing and/or verbally) detail the particulars of the dispute to The Compliance Manager:

The Compliance Manager
C/- Craigs Investment Partners Limited
PO Box 13155, Tauranga
New Zealand
Telephone +64 (7) 577 6049.

In the first instance the Compliance Manager will, in good faith, try to resolve the dispute. If an appropriate outcome cannot be achieved the matter may be referred in writing to the NZX at:

NZX Limited
NZX Regulation
PO Box 2959, Wellington
New Zealand
Phone: +64 (4) 472 7599

8. Disclosure of certain criminal convictions

Neither your Investment Advisor, Craigs Investment Partners nor the directors of Craigs Investment Partners have, within the last 5 years:

- had a conviction under the Securities Markets Act 1988, or the Securities Act 1978 (as amended), or for a crime involving dishonesty (as defined in the Crimes Act 1961);
- been a director or principal officer of a Company convicted of any of the above offences;
- been adjudged bankrupt;
- been prevented by a court from taking part in the management of a company or business;
- been the subject of an adverse finding by a court in any proceeding that has been taken against the Investment Advisor or broker in the Investment Advisor or broker's professional capacity;
- been expelled from or been prohibited from being a member of a professional body.

Craigs Investment Partners has not, within the last 5 years, been placed in statutory management or receivership.

9. Fees

Detailed information regarding fees is set out in the schedule to this Disclosure Statement.

10. Other interests and relationships

Craigs Investment Partners has the following relationship(s) with the following relevant organizations:

Relevant Organisation	Description of Relationship
NZX Limited (NZX).	Craigs Investment Partners is an NZX Participant and must comply with the NZX Participant Rules.
Craigs Investment Partners Cash Management Trust Limited (CIPCMT)	Craigs Investment Partners, through their wholly owned subsidiary CMT Management Limited is the Manager of CIPCMT. CIPCMT was established for accepting on-call and term deposits from clients through the Craigs Investment Partners Cash Management Account.
Custodial Services Limited (CSL)	CSL, a wholly owned subsidiary, provides custodial services to Craigs Investment Partners' clients as well as a number of clients independent of Craigs Investment Partners.
Craigs Investment Partners Investment Management Limited (CIPIML)	CIPIML, a wholly owned subsidiary was formed to develop and manage a range of funds portfolios available to Craigs Investment Partners' clients as well as direct investors.
Craigs Investment Partners Superannuation Management Limited (CIPSML)	CIPSML, a wholly owned subsidiary, was formed to develop and manage a range of Superannuation and KiwiSaver schemes available to Craigs Investment Partners' clients as well as direct investors.
Pohutukawa Private Equity Limited (PPE)	Craigs Investment Partners owns 50% of Pohutukawa Management Limited, which provides Private Equity Management Services to PPE.

Details of the commissions Craigs Investment Partners receives from the above organisations are included in the schedule to this Disclosure Statement. Craigs Investment Partners may be the sponsor, promoter or manager of a security, which has been recommended to you and may receive a fee for the services it performs in such capacity. Such fees are disclosed in the Investment Statement or Explanatory Document for each relevant security or offering. As at the date of this Disclosure Statement Craigs Investment Partners are the Sponsor and Promoter of SuperSTART[®], a registered superannuation scheme and KiwiSTART[®] Defined and KiwiSTART[®] Personalised, KiwiSaver Schemes offered by Craigs Investment Partners.

Your Investment Advisor or an associated person may have a direct or indirect pecuniary or other interest in giving investment advice to you. Your Investment Advisor or an associated person will or may receive remuneration directly or indirectly, from a person other than yourself as an investor and in connection with the giving of investment advice to you or a transaction resulting from the giving of advice to you.

An Investment Advisor receives either commission from Craigs Investment Partners of up to 50% of the total gross revenue generated by the Investment Advisor, or a fixed salary. These are paid from fees, brokerage and margins earned by Craigs Investment Partners which are included in the schedule to this Disclosure Statement. If staff are also a shareholder in Craigs Investment Partners, they will receive any distributions paid by Craigs Investment Partners to its shareholders.

Your Investment Advisor or their Prescribed Persons (as defined in the NZX Participant Rules) may, from time to time, hold securities, which are the subject of advice given to you. These holdings may constitute a threshold interest in the security, which they are recommending to you or which you may buy or sell. A threshold interest is an interest that exceeds \$100,000 NZD, or equivalent value, of the security on issue.

11. Money handling procedures

Payment of Money

Money for 'Buy' transactions can be made:

- by personal or bank cheque made payable to "Craigs Investment Partners Limited Client Funds Account" and crossed "non transferable" and "A/c Payee only";
- by Craigs Investment Partners debiting your Craigs Investment Partners Cash Management Account;
- by you direct crediting or sending by telegraphic transfer to a Craigs Investment Partners Limited Client Funds Account.
- Payment by cash is not accepted.

Payment of 'Sale' transactions will be settled by Craigs Investment Partners by cheque, telegraphic transfer or direct credit into your Craigs Investment Partners Cash Management Account or nominated bank account.

12. Investment money

Money received from you will be held on trust for you in the Craigs Investment Partners Client Funds Accounts and will be held in the Craigs Investment Partners Client Funds Accounts until it has been disbursed in accordance with your instructions. We may however, withdraw money from funds held on trust for you for Fees and Charges owed by you to Craigs Investment Partners. Money paid by you to Craigs Investment Partners or money held by Craigs Investment Partners for you pending investment, reinvestment, payment to you, or for any other reason, may attract interest from the bank where it is deposited. Such interest will be deducted from the bank account and retained by us.

Craigs Investment Partners and your Investment Advisor keep electronic records of all property and monies received on your account, these records detail:

- The person on whose account the money/property is received.
- The date of receipt.
- The amount of money or nature of the property.

KPMG currently undertake the statutory audit of Craigs Investment Partners.

You may request a statement of your account by contacting Craigs

Investment Partners or your Investment Advisor.

Except as detailed above, Craigs Investment Partners and your Investment Advisor will only apply money or property received from you for the benefit of Craigs or any other person in accordance with instructions given by you.

13. Investment property

Other valuable property or documents should be delivered to: Craigs Investment Partners Limited
158 Cameron Road, PO Box 13155, Tauranga
Telephone: +64 (7) 577 6049 or 0800 272 442,
or other Craigs Investment Partners offices.

14. Professional indemnity

Craigs Investment Partners maintains professional indemnity insurance, which is consistent with standard commercial terms, which covers all employees and members of the Craigs Investment Partners Group of Companies and is commensurate with the nature and scope of the business, which Craigs Investment Partners conducts.

15. Fees schedule

Your Investment Advisor provides a range of investment related services on which Craigs Investment Partners charges may apply:

- Share broking: Transactional brokerage is charged on the purchase and sale of listed and unlisted securities, dependent on the value of the transaction, of up to 2.5% plus any stamp duties, trade levies and other agency charges. A minimum charge may apply.
- Portfolio Strategy and Management: An annual fee of up to 1.25%, based on the market value of the portfolio, will be charged.
- Superannuation and Funds Management: Craigs Investment Partners offers a range of superannuation and KiwiSaver products and a range of Portfolio Investment Entities (PIEs). Entry, Exit, Custodial and Management fees may apply, for specific details please refer to our latest investment statement.
- Custodial Services: An annual fee of up to 0.50%, based on the market value of your portfolio will be charged. Alternatively a fixed dollar charge per security held can be applied.
- Foreign Exchange: No fixed fee is charged in relation to providing foreign exchange services, although Craigs Investment Partners may earn a margin between the wholesale rate and the client rate.
- Cash Management: Cash Management Accounts operate free of account and transaction charges although we reserve the right to impose transaction fees in certain circumstances for specific clients (please refer to a copy of our latest Investment Statement). Craigs Investment Partners, through their wholly owned subsidiary CMT Management Ltd, is responsible for the payment of Trustee Fees, Manager Fees and Brokerage Fees as set out in the Trust Deed and detailed in the Prospectus. Interest rates are offered to investors net of these fees.
- Portfolio Lending: Craigs Investment Partners charges an

Application fee (\$125), a Margin Call (\$30 per margin call) and an Administration fee (\$500 per 6 months, offset against any interest charge) in relation to providing Portfolio Lending services. Craigs Investment Partners may also earn a margin between the interest rate charged to Portfolio Lending clients and the interest Craigs Investment Partners is charged through their wholesale lending arrangements.

- Private Equity: Craigs Investment Partners, through their 50% joint venture, Pohutukawa Management Limited, may earn management and performance fees as detailed in the relevant Investment Statement.

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* Craigs Investment Partners was formerly known as ABN AMRO Craigs Limited. Prior to 2001, operated as Craig & Co. Limited.