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# Capital Market Update

*the quarterly newsletter of the Capital Markets Development Authority*

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## Does Interest Rate matter to the Capital Markets?

In the presence of a high interest rate market, investors generally face a dilemma of whether to invest in the stock market or other asset classes. The returns from the fixed interest products including term deposits warrant at least a second look if not more. Interest rates are one of the key indicators used by many when making investment decisions, because they impact on investment returns. Generally, during periods of rising interest rates, some investments become more attractive than others. For example, with debt securities bond prices tend to fall and become cheaper and new bond issuances become more attractive as coupon or interest rates are higher and more attractive. Similarly, bank investments, such as savings accounts and term deposits are also attractive with higher returns. On the other hand, when interest rates are low, debt securities and bank deposits may become less attractive whilst equities or shares investments, generally grow during periods of low interest rates and become more attractive to investors.

The Reserve Bank of Fiji's policy indicator rate continued to decline from as early as 1996 and this trend remained until the early part of 2006 with a small period of increased rate in year 2000. Research shows that share investments are generally volatile in the short term, however over the long term the short term losses are usually offset by the overall long term gains. In reviewing investment decisions, investors should be mindful that chasing short term gains on interest rates may be more costly in the long term, and therefore should carefully assess their options bearing in mind their initial investment objectives.

Taking into consideration that past performance is not always an indication of future performance, research has also shown that over the long term, share investments outperform all other classes of investments. Take for example an investor who had invested AUD 100 in the All Ordinaries Index in 1900, the value of that AUD 100 investment would be valued at AUD 59,036 by the end of 2006, or over AUD 7.1 million, assuming all dividends had been reinvested.

History may serve as a guide when trying to develop a strategy to protect a portfolio from the market declines that are associated with rising interest rates. In a rising interest rate environment most investors avoid getting locked into low rates of return on long-term investments. Instead, they tend to consider short and medium term bonds as an alternative. When rates rise, the more of liquid investments that you own, the less that you will need to borrow for substantial purchases at the higher rates. However, there is a downside to this strategy; rising interest rates usually are accompanied by rising inflation. Therefore, if an investor has a long-term horizon, cash investments are likely to have a difficult time keeping pace with inflation.

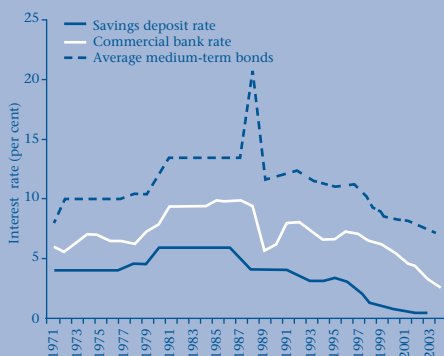
Interest rates are also an important factor for equity markets, not only because they affect the cost of company borrowings and therefore profits, but because long term interest rates (typically a government bond yield) have a powerful influence in valuation models used to assess the underlying value of a company. Rising long term bond yields will depress the value of a company by reducing the value of future earnings, and vice versa, and will often be reflected in share prices.

Alternatively equity returns have to match the high returns in other asset classes and therefore the required rate of return, increases thereby impacting on price an investor is prepared to pay.

Investments in the capital markets, particularly in the equity markets are suitable for investors who have a long term investment horizon. Although there will be times when your investments earn less and other times when you will earn more, the investor with a long term perspective can recoup their losses if they are patient. If you have a long-term perspective, you can change investments that aren't working for other alternatives.

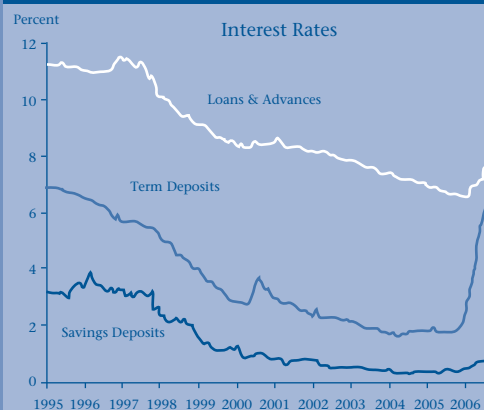
Long term investors, especially those who invest in a diversified portfolio, can ride-out down markets like the one that began after the 1987 rate hike without dramatically affecting their ability to reach their goals. The reality of investing is that the market will go up and at times go down, however, investors who begin early and stay for the long haul, have a much better chance of riding out the difficult times and capitalizing on the periods when the market is rising. Although economic factors influence the whole equity market, there are also more specific factors that play a role in the individual markets. For investors, investments in the capital markets, particularly the equity or share markets are suitable for those who have a long term investment horizon. There is consensus that the world equity markets are likely to remain volatile over 2007 and a significant correction at some stage is probable, however equities is still preferred to be the best performing asset class for the year. ●

Fiji: interest rates, 1971 – 2003 (percent)



Source: International Monetary Fund, 2004. International Financial Statistics, Monetary Fund, Washington, DC.

Fiji: interest rates, 1995 – 2006 (percent)



Source: RBF Monetary Policy Statement, November 2006

# Understanding the basics of options trading - Part 2

## What are the benefits of options?

You may be wondering - why would an investor want to get involved with complicated options, when they could just go out and buy or sell shares? Some benefits that can be derived from investing in options are:

- an investor can gain on changes in a share's market price without ever having to actually put up the money to buy the share. The premium to buy an option is a fraction of the cost of buying shares outright.
- when an investor buys options instead of shares, the investor stands to earn more per dollar invested - options have "leverage."
- except in the case of selling uncovered calls or puts, risk is limited. In buying options, risk is limited to the premium paid for the option - no matter how much the actual share price moves adversely in relation to the strike price.

## What are the risks of options?

Options are not suitable for every investor. Options can be risky but can also provide opportunities to profit for those who use this very flexible and powerful financial instrument. Options have characteristics that may make them less attractive for certain investors such as:

- options are very time sensitive investments. An options contract is for a short period - generally a few months. The buyer of an option could lose his or her entire investment even with a correct prediction about the direction and magnitude of a particular price change if the price change does not occur in the relevant time period (i.e., before the option expires).
- some investors are more comfortable with a longer term investment generating ongoing income - a "buy and hold" investment strategy.
- options are less tangible than some other investments. Stocks offer certificates, as do bank Certificates of Deposit, but an option is a "book-entry" only investment without a paper certificate of ownership.

## How do options compare to shares?

Options share many similarities with shares:

- Both options and shares are listed securities. Orders to buy and sell options are handled through brokers in the same way as orders to buy and sell shares. Listed option orders are executed on the trading floors of regulated exchanges where all trading is conducted in an open, competitive auction market.
- Like shares, options trade with buyers making bids and sellers making offers. In shares, those bids and offers are for shares in the company. In options, the bids and offers are for the right to buy or sell 100 shares (per option contract) at a given price per share for a given period of time.
- Option investors, like share investors, have the ability to follow price movements, trading volume and other pertinent information day by day or even minute by minute. The buyer or seller of an option can quickly learn the price at which his order has been executed.

Despite being similar, there are some important differences between options and shares which should be noted:

- Unlike shares, an option has a limited life. Shares can be held indefinitely in the hope that its value may increase, while every option has an expiry date. If an option is not closed out or exercised prior to its expiry date, it ceases to exist as a financial instrument. For this reason, an option is considered a "wasting asset."
- There is not a fixed number of options, as there is with shares available. An option is simply a contract involving a buyer willing to pay a price to obtain certain rights and a seller willing to grant these rights in return for the price. Thus, unlike shares, the number of outstanding options (commonly referred to as "open interest") depends solely on the number of buyers and sellers interested in receiving and conferring these rights.
- Unlike shares which have certificates evidencing their ownership, option positions are indicated on printed statements prepared by a buyer's or seller's brokerage firm. Certificateless trading, an innovation of the option markets, sharply reduces paperwork and delays.

- Finally, while share ownership provides the holder with a share of the company, certain voting rights and rights to dividends (if any), option owners participate only in the potential benefit of the share's price movement.

## What are some of the characteristics of options?

- Premium – The price of the option which is arrived at by negotiation between the taker and the writer of the option.
- Contract size – Each option represents a set quantity of the underlying financial instrument. Each contract will have a well defined contract size. For example, most equity options have a contract size of 100 shares. So, if the option is exercised, 100 shares of the underlying company must be transferred between the option holder and writer. On the Australian Stock Exchange (ASX) options market, an option contract size is standardised at 1,000 underlying shares. That means 1 option contract represents 1,000 underlying shares. This may change if there is an adjustment such as a new issue or a reorganisation of capital in the underlying share. In the case of index options, the contract value is fixed at a certain number of dollars per index point, (for example, \$10 per index point). The size of the contract is equal to the index level x the dollar value per index point (for example, for an index at 3400 points, 1 contract would be 3400 x AUD 10 = AUD 34,000).
- Expiry day – The expiry day is the day on which all unexercised options in a particular series expire and is the last day of trading for that particular series. In general, all options for a particular class follow one of three quarterly cycles listed below.
  - January/April/July/October;
  - February/May/August/November; or
  - March/June/September/December

Options are usually listed for the next three months in the quarterly expiry cycle. For example, assume it is now June 2006 and XYZ Co. follows the January, April, July, October expiry cycle. There would be currently listed a July 2006, an October 2006 and a January 2007 series. When the July series expires, an April 2007 series will be listed. When the October 2006 series expires, a July 2007 series will be listed and so on.

## DID YOU KNOW...

... that a security is a transferable intangible interest in an asset representing financial value. Traditionally securities have been categorised between debt and equity securities, and between bearer and registered securities. These are shares, stocks, debentures or bonds or any right or option in respect of any share, stocks, debentures or bonds.

# Beware of investment scams

The Capital Markets Development Authority (CMDA) would like to reiterate it's warning to members of the public, to be wary of unregulated investments with promises of high returns. This type of investment schemes are usually offered by individuals or companies who prey on unsuspecting investors around the world. Some of our neighbouring countries that have encountered these scams over the years, have found that fraudsters continually adopted new methods and new targets, to circumvent the regulatory enforcements as loopholes are closed off. As a preventative measure, the public must be forewarned that these fraudsters are capable of operating from anywhere in the world and that people should be wary or risk becoming victims of these investment scams.

With the increase in internet usage in Fiji, there is the possibility of fraudsters using the internet to find unsuspecting investors for bogus investment schemes or to spread false information about a company. "Spam" or junk e-mail is cheap and easy to create, and enables

the unscrupulous to target many more potential investors. Individuals should ensure they deal only with CMDA approved financial advisers, broker-dealers or financial institutions with a proven track record.

Identifying and investigating investment scams is difficult and can take a long time. Depending on the case, there may be limited redress for unsuspecting victims. For some they may be able to take it up with the police, otherwise they can also pursue civil remedies. This can be very costly and in many cases most victims usually end up losing money. In reviewing the CMDA Act and the Managed Investment Schemes Act, the Authority is mindful that the likelihood of an increase in investment scams is inevitable and that the introduction of new schemes may find a target in the uninformed investors of our country. The legislation is being drafted to ensure that the Authority has the necessary powers to take swift enforcement action against promoters of these illegal schemes when the need arises. ●

## Meet a Unit Trust Rep



Mr Ambika Nand

Licensed Unit Trust representative  
Colonial First State Investments (Fiji) Limited

### Getting Started

Ambika first joined Blue Shield Pacific Insurance Limited, which was then a subsidiary of Colonial Fiji Life Ltd, as a new business underwriting officer in 1987. In 1995, he was appointed as a Sales Manager and in 1998 was promoted District Sales Manager for Colonial Fiji Life Ltd. Ambika has been a licensed unit trust representative of Colonial First State Investment (Fiji) Limited since 2000.

### The Clients

"My clients are basically life insurance customers from the business community".

### The Job

"I am directly responsible for leading a sales team with 18 full-time sales agents involved in life & health insurance sales and service. As a unit trust representative for Colonial First State Managed Funds, I also have an opportunity to offer other investment options to my clients.

### Biggest Challenge

"My biggest challenge has been trying to educate clients about the difference between savings and investments as most people regard these as the same thing. Savings is the part of your income that you set aside for future spending, while investments is the part of your income that you use to buy assets that will generate a higher income stream over time. Ideally, investments should be held for a longer period to cater for the upturns and downturns of the market".

### Best Investor

"Our best investors are those clients who had started investing early and keep investing over long periods of time despite the performance results in some fund".

### Best Thing about the Job

"Keep track of market development and revisit existing customers to grow their investment and educate and encourage young people about investment and its importance to their future".

Colonial First State Investments (Fiji) Limited  
Phone: +679 331 4400  
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## Regulatory Matters

On regulatory matters, during the quarter, the CMDA received no complaints and inquiries into potential breaches of the CMDA Act, Regulation and Rules.

The CMDA granted approval to:

- Mr Dinesh Shankar to act as a licensed Broker/Dealer representative for FijiStock Brokers Ltd (FSB) from 20 December 2006 to 19 December 2007
- Ms Desha Chetty to act as an approved Broker/Dealer representative for FijiStock Brokers Ltd (FSB) from 20 December 2006 to 19 December 2007
- Mr David Oliver to act as a licensed Broker/Dealer representative for Kontiki StockBrokers Ltd (KSB) from 12 November 2006 to 11 November 2007
- Mr Gerald Tyson Wong to act as a licensed Broker/Dealer representative for Kontiki StockBrokers Ltd (KSB) from 11 December 2006 to 10 December 2007
- Mr Josua Satavu to act as a licensed Broker/Dealer representative for FHL Securities Ltd (FHL) from 10 October 2006 to 9 October 2007
- Mr David Oliver to act as a licensed investment adviser representative for Kontiki Capital Ltd (KCL) from 12 November 2006 to 11 November 2007
- FHL Securities Ltd to conduct the business of investment adviser from 1 December 2006 to 30 November 2007
- PWCCFL to conduct the business of investment adviser from 1 December 2006 to 30 November 2007
- Ms Jenny Seeto to act as a licensed investment adviser representative for

PWCCFL from 1 December 2006 to 30 November 2007

- Mr Chirk Yam to act as a licensed investment adviser representative for PWCCFL from 1 December 2006 to 30 November 2007
- Mr Jerome Kado to act as a licensed investment adviser representative for PWCCFL from 1 December 2006 to 30 November 2007
- Mr Nitin Gandhi to act as a licensed investment adviser representative for PWCCFL from 1 December 2006 to 30 November 2007
- KPMGFASL to conduct the business of investment adviser from 1 December 2006 to 30 November 2007
- Ms Lisa Apted to act as a licensed investment adviser representative for KPMGFASL from 1 December 2006 to 30 November 2007
- Mr Bruce Sutton to act as a licensed investment adviser representative for KPMGFASL from 1 December 2006 to 30 November 2007
- Mr Trevor Labati to act as an approved unit trust representative for Unit Trust of Fiji (UTOF) from 10 October 2006 to 9 October 2007
- Mr Gyanesh Reuben to act as an approved unit trust representative for Unit Trust of Fiji (UTOF) from 3 December 2006 to 2 December 2007
- Mr Jone Lesuma to act as a licensed unit trust representative for Colonial First State Investments from 8 November 2006 to 7 November 2007 ●

# News in Brief

Fiji Television Limited (FTV) and Fijian Holdings Limited (FHL) jointly announced the acquisition of 100 per cent shares in Communications Pacific Limited (Compac) by the television company. Compac's core business is in the sales and services of radio, television and communications product, with transmission towers located around Fiji.

Foster's Group Pacific Limited (FGP) announced a final dividend of 20 cents per share for the year ended 30 June 2006.

RB Patel Group (RBG) submitted half yearly statements for the year ended 30 September 2006 showing an increase in operating profit after tax of almost 40% over the same period last year. RBG also announced an interim dividend of 4 cents per share paid on 20 November 2006.

Fiji Television Limited (FTV) made various announcements during the month of November. These included notice of their 12th annual general meeting, submission of their 2006 annual report to SPSE, signing of an exclusive 2-year deal with Samoa Systems Inc. for the provision and distribution of Sky Pacific services in American Samoa, appointment of their first Manager Legal, Ms Tanya Waqanika and signing a 5 year deal with Courts Homecentres to be their preferred distributor in Fiji for Sky Pacific on Hire purchase.

A regulatory and compliance seminar for listed companies was jointly organised by CMDA and the South Pacific Stock Exchange. The one day seminar was held

on 11th October 2006 at the Holiday Inn in Suva.

Toyota Tsusho (South Sea) Limited (TTS) announced an interim dividend of 2.5 cents per share to be paid out of profits for the six months ended 30 September 2006.

Yaqara Groups Limited (YGL) announced the extension of the expiry date for exercising of series C option to 24 November 2006.

Fijian Holdings Limited (FHL) announced the retirement of the founding Chairman of FHL, Mr Lyle Cupit and a take over by Mr Josaia Mar as the new Chairman. FHL also announced the appointment of Mr Jo Tuamoto as a director representing A-Class shareholders and Mr Asif Razak and Alice Tabete as directors representing B-Class shareholders.

Kontiki Growth Fund Ltd (KGF) announced that the net asset backing per share of the KGF was 100.14 cents per share as at 30th November 2006. This compares with 96.80 cents a share as at the date of listing (16 December 2004) on the SPSE.

Communications Fiji Ltd (CFM) announced their financial result for the year ended December 31st 2006. In an update following the third quarter results, CFM previously disclosed that the company expected to record a final pre tax group profit of \$240,000 for the year. This included results from operations in Fiji, Papua New Guinea, CFM's share

of losses recorded by Unwired Fiji and various non cash allowances.

The South Pacific Stock Exchange (SPSE) announced the continued waiver of its settlement fee for a second consecutive year. This fee was applicable on every trade executed on the exchange as per requirements under Schedule B of the SPSE Business Rules 2000. SPSE CEO Jinita Prasad said that the suspension would be for another year commencing January 1 and that the \$5 settlement fee would also be exempted on all option trades for the same period. This suspension was intended to reduce transaction costs and encourage more trades.

Flour Mills of Fiji Ltd (FMF) announced a \$15m investment in an alcohol brewing business. FMF Chairman Mr Hari Punja believes the time is ripe to make a move in the alcohol market which he estimates as consuming around 200 million litres a year. FMF plans to construct a new brewery and employ around 200 people to man the operations. The new brewery is expected to be of the same size as the recently constructed warehouse beside the biscuit factory and will have 8,000 square feet space and four stories high. Construction of the new brewery is expected to commence in 2007. Mr Punja said he would like to concentrate first on producing beer with varying alcohol contents, something that the local market does not cater for. FMF will import its processing machines from China while the brewer will be contracted from overseas.

## Quarter 4 2006 Trading on the South Pacific Stock Exchange

Company	Total No. of Shares Traded	Total Value of Shares Traded (\$)	No. of Trades	Last Price Traded this Qtr (\$)	Qtr 4- Qtr 3 % change	Earnings Per Share (cents)	Price/Earnings Ratio (times)	Dividend Yield (%)	Market Capitalisation (\$)
Atlantic & Pacific Packaging	-	-	-	1.19	-	1.86	63.93	2.94	9,520,000
Amalgamated Telecom Holdings	14,504	15,341	11	1.04	(5.45)	8.28	12.57	5.77	438,989,063
Communications (Fiji)	-	-	-	1.90	-	6.10	31.14	1.58	6,760,200
Fosters Group Pacific	5,770	117,607	19	18.88	(24.45)	83.00	22.75	2.12	196,505,400
FijiCare Insurance	-	-	-	0.70	-	(11.57)	na	-	4,032,542
Flour Mills of Fiji	157,240	159,306	14	0.96	(11.93)	1.30	73.63	1.25	144,000,000
Fiji Sugar Corporation	-	-	-	0.36	-	(8.64)	na	-	15,983,999
Fiji Television	25,767	143,882	22	5.59	(0.18)	34.95	15.99	3.22	57,577,000
Kontiki Growth Fund	26,000	26,040	5	1.01	1.00	3.62	27.88	4.92	3,560,457
Pacific Green Industries	-	-	-	2.25	-	(7.63)	na	-	17,143,277
R B Patel Group	13,900	23,443	9	1.70	(5.56)	9.82	17.31	6.03	51,000,000
The Rice Company of Fiji	2,000	6,000	1	3.00	(14.29)	10.18	29.47	4.50	18,000,000
Toyota Tsusho	1,150	2,415	1	2.10	-	23.44	8.96	5.95	29,467,624
VB Holdings	500	1,275	2	2.60	13.04	21.72	11.97	3.08	3,978,000
Yaqara Group	1,500	1,995	1	1.33	(8.28)	(11.96)	na	-	20,275,194
Fijian Holdings	58,428	239,322	132	4.09	(0.24)	89.76	4.56	4.89	42,800,419
<b>TOTAL</b>	<b>306,759</b>	<b>736,626</b>	<b>217</b>						<b>Market Capitalisation as at 31 December 2006 \$1,059,593,175</b>