



Biotech Daily

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Daily news on ASX-listed biotechnology companies

OPES PRIME: CAVEAT BLOODY EMPTOR

The expression caveat emptor is very simple. It means buyer beware and is an edict against stupidity in business.

What bit of caveat bloody emptor didn't the investors with Opes Prime understand?

If a deal sounds too good to be true, the general rule is that ... it is too good to be true.

Didn't anybody stop to think, why will Opes Prime lend me so much against my speculative shares when nobody else will?

And Victorians in particular should be awake to the idea of this kind of corporate meltdown after the Pyramid Building Society debacle. It was called Pyramid. Hello? P-y-r-a-m-i-d. As in pyramid selling, as in as old as the pyramids. Was no one thinking then either?

Well greed often gets in the road of thinking.

In the case of Pyramid it was hard to believe that investors risked their life savings for a few pennies more. Both of us have been touched by the Pyramid debacle.

In one case a dear friend said her farming parents had everything tied up with Pyramid.

How could they? They were sober, conservative, hard working people.

"It paid a higher interest rate" was the reply.

How could Pyramid pay this higher rate when nobody else could?

We imagine the promise of greater returns was what attracted investors to Opes Prime.

There is a similar desperate tale on the Share Scene web site by a Solagran investor who says he has two young children, a wife staring blankly at the television and his entire life savings wiped out by the debacle.

It was not clear whether he was saying he gave his shares to Opes Prime in which case they are probably gone, or whether he was worried that with 40 percent of Solagran in the hands of the receivers, his investment in Solagran would be significantly devalued.

If he put his life savings into Solagran then the question of too many eggs and too few baskets arises. If he gave his shares to Opes Prime he should have asked more questions. It wasn't glaringly obvious, but if he took the time to read he would have clearly seen that if Opes Prime fell over he would become an unsecured creditor.

There is a reason we talk about risk return ratios. To achieve a greater rate of return one accepts a greater risk.

We are not proposing that we all only invest in the Big Four banks. Funds need to be raised to conduct drug and device research and development, but again, caveat emptor.

The only difference between shares and any other form of gambling is that when you lose you generally get to keep some of your stake.

But the rule of only bet the amount you are prepared to lose is useful to both.

Last week the TAB was offering 16 to 1 against Essendon beating Geelong by more than 39.5 points – and for good reason. An Essendon supporter betting \$5 would have made a handsome return if the team won. Sadly, the team lost, but \$5 is not a big bet.

That bet was high risk, potential high return, with very little loss.

The entire biotechnology and medical device sector is high risk, but some companies and some practices are higher risk than others. If you don't understand what you are getting into, don't do it, unless you don't mind the loss.

In the case of Solamind, the company expected that \$40 million of shares placed in an Opes Prime margin lending account would allow it to borrow money to buy millions more Solagran shares. It makes the \$500 to \$1000 cost for a top lawyer to read the contract's fine print look like chicken feed.

But Solagran was not alone in the biotechnology sector. Acrux chairman and Starpharma director Ross Dobinson gave all of his holdings in those two companies - worth more than \$13 million at the time - to Opes Prime and lost them.

If one bothered to read it, or paid a lawyer to, the contract made it clear that the shares were being given to Opes Prime to do with what they wanted. And Opes Prime was far from being a household name. Caveat bloody emptor.

David Langsam, Marc Sinatra