

Period: 1st to 28th February 2006

Fund Performance

The volatility in the Australian equity market presented us with buying opportunities. The NavTraDE system buys shares as share prices depreciate. Our cash holding at the end of February was 22.9% as we have taken the opportunity to sell stocks at favourable prices. The actual returns in February for the Retail and Wholesale funds were +0.17% and +0.17% respectively compared to the -0.17% return of the S&P/ASX200.

The NavTraDE system takes advantage of irrational investor behaviour to buy quality companies as their share prices are falling and to sell them as they are rising. Consequently, the system can realize capital gains from dealing in shares with volatile price movements, irrespective of the net price movement from the beginning to the end of the period. It takes time for shares to move through price cycles and therefore for the potential of the NavTraDE system to be fully realized.

The stocks that performed well this month and generated realized capital gains through trading include The ANZ Bank (ANZ), BHP Billiton (BHP), Futuris (FCL), Lion Nathan (LNN), National Australia Bank (NAB), Orica (ORI), OneSteel (OST), Santos (STO), Westpac Bank (WBC), Westfield (WDC), and Woolworths (WOW).

The stocks that performed well this month and generated unrealized capital gains include The ANZ Bank (ANZ), Futuris (FCL), Lion Nathan (LNN), National Australia Bank (NAB), OneSteel (OST), Publishing & Broadcasting (PBL), Tabcorp (TAH), Westpac Bank (WBC), and Woolworths (WOW).

During the month, the shares that detracted from performance either due to low volatility or because they were displaying unrealized losses were Bluescope Steel (BSL), Coca-Cola Amatil (CCL), Macquarie Bank (MBL), Origin Energy (ORG), Santos (STO), Tabcorp (TAH), Toll Holdings (TOL), Wesfarmers (WES), and Woodside (WPL). There were no inclusions or exclusions to the portfolio.

The NavTraDE system resulted in increased weightings in: Woodside (WPL).

The NavTraDE system also resulted in decreased weightings in: Futuris (FCL), Woolworths (WOW), Westfield (WDC), The ANZ Bank (ANZ), Orica (ORI), and OneSteel (OST).

To view our current portfolio, please [click here](#).

The Australian Share Market

The Australian equity market fell 0.17% in February (S&P/ASX200 Index), after strong rises in previous two months.

The Australian stock market fell 0.17% in February.

Unemployment remains strong with continuing jobs growth. Retail sales are recovering while the housing market has dipped slightly.

The export industries, particularly mining, continued strong performances.

The underlying economy is strong. The jobs data suggest continuing strength in labour market conditions in early 2006. Wage rises across the board amount to 4.2% over the past year, significantly above the core inflation rate of about 2.75%. The unemployment rate slipped 0.1% to 5.2% in February due to a surge in new jobs.

The retail environment is still slightly weak with sales volumes rising modestly by only 0.2% in December but rebounding 0.8% in January. Major winners were department stores, clothing stores, hospitality and food.

The housing market is softening with residential approvals falling 1.9% in January. The value of residential approvals was 4.8% lower than a year ago, although non-residential approvals were 19% higher. Lending data still suggest underlying robustness in the sector. Investor spending remains flat as first home buyers return to the market.

The domestic economy is facing a two-gear status with resources companies struggling to lift output despite previous years' investments due to infrastructure bottlenecks. The manufacturing sector is also steadily increasing export performance. However, the services and rural sectors are flat at best. Imports growth is again outstripping exports growth, leading to a burgeoning current account deficit even as the terms of trade has improved sharply. Imports are presently driven by the strong A\$, recovering consumer sentiments, capital investments, and higher fuel prices.

The RBA has held interest rates steady for the 12th consecutive month. It has warned of a risk of interest rate rise towards the latter half of the year due to the core inflation rate of 2.75%, close to the 3% benchmark, and higher wage costs.

In summary, the Australian real economy continues to remain resilient. Retail spending is recovering while the housing market is softening. Employment is strong, interest rates are relatively low and demand for Australian minerals exports remains keen.

The best performing sectors were Pharmaceuticals & Biotechnology; Retailing; Utilities; and Automobiles & Components.

The best performing sectors in February were Pharmaceuticals & Biotechnology (+17.5%); Retailing (+14.8%); Utilities (+5.4%); and Automobiles & Components (+5.0%).

The worst performing sectors were Energy (-8.1%); Diversified Financials (-5.3%); Materials (-4.6%); and Telecommunication Services (-4.1%).

World markets were mixed in February.

The performances of the global stock markets were mixed in February: the S&P 500 index rose 0.05%, the Nasdaq fell 1.06%, the FTSE rose 0.54%, the Nikkei 225 fell 2.67% and the HangSeng rose 1.05%.

The US economy continues to grow. The housing market is cooling, offset by strong equity markets, buoyant employment and consumer confidence.

Commodity markets were weaker in February. All major commodities except tin fell.

US unemployment fell to a four-year low of 4.7%, significantly below the 'natural level' of 5%. This is a key indicator of the strength of the US economy, demonstrating severe constraints in production capacity.

The housing market is showing signs of cooling, with sales of existing homes falling for a fifth successive month in January. Average house prices were steady in the month, although the high-end segment has shown falling prices.

The fourth quarter GDP was upwardly revised to 1.6%, as widely expected, but is still the weakest in three years. The slowdown from 4.1% in the third quarter was largely due to weak auto sales, slower business investment, a rise in imports and a drop in federal spending. Consumer spending expanded at 1.2% p.a., the slowest growth rate since 2001. The GDP price index rose at an annual rate of 3.3%.

China is still the engine of world economic growth. Fundamentals look sound and bode well for continued GDP growth and demand for Western goods and Australian mineral imports.

Core inflation increased at 2.1% p.a. in the quarter, down 0.1% p.a. from the previous quarter. Over the past year, the core personal consumption expenditure price index has increased 1.9%, at the top end of the Federal Reserve's comfort zone.

China's economic strength and demand for Western goods and minerals is continuing unabated, despite some official recognition of the impact of the poverty gap between the rural and urban sectors. GDP growth is still in the range of 9-10%. Core inflation is low and the consumer confidence is high. Official statistics suggest that in 2005 China's GDP grew 9.9%, CPI was 1.8% and exports were up 28.4%. GDP is expected to grow around 9.6% year-on-year in the first quarter, with CPI rising to around 2.2%.

Share Market Outlook

Australian economic fundamentals remain sound. Inflationary

The RBA expects the world economy to grow around 4.5% in 2006, about the same level as for 2005. The US market is expected to show continued strength due to high employment, strong underlying manufacturing base,

pressures are increasing and the possibility of further interest rate rises has also increased albeit slightly. Economic growth is likely to remain around 3.0% due to healthy domestic fundamentals and the continuing strengths in the US and Chinese economies.

The labour market appears buoyant but may have passed its peak. Consumer confidence should improve due to the continued wealth-effects of strong stock and housing markets.

The key drivers of global growth remain the US and China.

Resources companies may benefit from rising production and prices.

Banks should benefit from continued economic growth. Ongoing problems are expected in the telco sector.

high consumer confidence and buoyant equity markets. The housing market is beginning to cool although a significant fall is unlikely.

Conditions in Europe and Japan are also more positive than in previous years. In the past year, the Japanese stock market has leapt 38% while the FTSE has jumped 16%.

The A\$ should remain relatively strong, despite the improvements in the economies of our trading partners because of China's continued demand for Australian minerals.

The outlook for the Australian equity market is positive in the short term as the resources sector continues to support the rest of the economy. The housing market is cooling but is not expected to decline significantly. A rebalancing of the housing market is ongoing as investors shift to other forms of investments. The unemployment rate is low and should support domestic consumption. The interest rate outlook is relatively benign although on a mild tightening bias due to wage cost rises and a core inflation only marginally below the RBA's benchmark limit.

The likelihood of a significant downturn in the world economy is low. The outlook continues to be positive in the short to medium term.

The Chinese growth story continues to fuel economic growth in the rest of the world. Chinese inflation is remarkably low considering high credit growth and consumer spending. It is possible that China will continue to grow for a number of years unless there are significant social and/or policy changes. Infrastructure expenditure is still at the bottom of the maturity curve which bodes well for future demand for commodities.

The risks to the world economy in the short to medium term are unchanged. Fears of higher oil prices have abated and the general outlook is positive.

The banking sector should continue to benefit from high economic activity. Energy companies should see volatility from fluctuating oil prices. Resources companies may benefit from further global demand, greater production, and higher prices. The next round of price talks is about to get underway and some significant price rises are expected. Materials companies should benefit from the resilience of the housing market. Infrastructure companies may benefit from higher traffic numbers associated with strong economic activity. Retail companies should show the benefits of rebounding consumer confidence.

Negatives are expected from services, wine stocks and companies associated with the rural sector. Transportation companies should feel the effects of higher fuel prices although offset by higher traffic volumes. Steel companies may face pressure from Chinese exports due to slowing Chinese demand for imported steel and recent capacity additions leading to cheaper global steel prices. Industrial stocks are not particularly compelling as a sector as profit growth outlook is relatively subdued. Significant investment requirements are likely to drag the telco sector.