



## Fund Commentary

Period: 1<sup>st</sup> to 31<sup>st</sup> January 2004

### ***The Australian Share Market***

The Australian equity market started the year easing back from the strong growth of 2003. The ASX200 price index fell by 0.84% in January. The much anticipated interest rate rise in February failed to materialize. The fall in home loan approvals, slowdown in house price rises, and decline in auction clearance rates took the pressure off the Reserve Bank in its interest rate review. The RBA has adopted a "wait and see" posture with a "mildly accommodative" stance. This bodes well for stocks in general.

The high Australian dollar again featured strongly in the month, dampening the effects of inflation by reducing the price of imports. On the jobs front, job advertisements rose by 2.3% in January, presenting grounds for cautious optimism on future employment growth and signalling that the domestic economy is in good shape. More importantly, unemployment is still anticipated to remain under control at around the 5.5% mark, well within the Government's forecast for employment growth and unemployment rate.

In the US, mixed economic signals emerged. Tepid employment data eased fears of an interest rate rise. Consequently, US rates remained unchanged and the US dollar remained weak. Nonetheless, economic sentiment remains good with increased consumer confidence evident. Three positive sets of numbers emerged in January that signals a recovery that is broadening across manufacturing industries although there has been little flow-on to jobs creation as yet. Firstly, the Institute of Supply Management released figures to show that manufacturing activity rose strongly in January. Secondly, consumer spending was up 0.4% in December, and thirdly, construction spending reached its highest level in history in December. As a whole, the US economy cooled to an annual rate of 4% in the last quarter of 2003, but this is of no concern when taken into context of the whole year. The latest numbers are further evidence that the US economy is still growing well and heralds strong expansion in an election year.

Of all the economic regions that is important to Australia, only Europe continue to under perform. Even there, a nascent mild recovery seems to be happening as well. Our neighbours to the north in Asia, especially China, continue to generate large demands for our commodities.

### ***Approved Shares for the Navra Funds***

The table below presents the list of approved shares that have passed our rigorous share selection process for inclusion in the Navra Funds. They may not be included in the current portfolio depending on a number of factors determined by the Investment Committee's weekly review.

<b>Amcor Ltd</b>	<b>AMC</b>	<b>Paper &amp; Packaging</b>
<b>Australian Gas Light</b>	<b>AGL</b>	<b>Infrastructure/Utilities</b>
<b>Australian Stock Exchange</b>	<b>ASX</b>	<b>Investment/Financial Services</b>
<b>BHP Billiton</b>	<b>BHP</b>	<b>Diversified Resources</b>
<b>Boral</b>	<b>BLD</b>	<b>Building Materials</b>
<b>Cochlear Ltd</b>	<b>COH</b>	<b>Health/Biotech</b>
<b>Coca Cola Amatil</b>	<b>CCL</b>	<b>Food &amp; Household</b>
<b>Futuris Corporation Limited</b>	<b>FCL</b>	<b>Diversified Industrials</b>
<b>Harvey Norman</b>	<b>HVN</b>	<b>Retail</b>
<b>James Hardie Industries</b>	<b>JHX</b>	<b>Building Materials</b>
<b>Leighton Holdings</b>	<b>LEI</b>	<b>Developers/Contractors</b>
<b>Lend Lease Corp Ltd</b>	<b>LLC</b>	<b>Developer/Contractors</b>
<b>Lion Nathan Ltd</b>	<b>LNN</b>	<b>Alcohol / Tobacco</b>
<b>Macquarie Bank Ltd</b>	<b>MBL</b>	<b>Banking / Finance</b>
<b>National Australia Bank</b>	<b>NAB</b>	<b>Banking / Finance</b>
<b>National Foods</b>	<b>NFD</b>	<b>Foods &amp; Household</b>
<b>News Corp Ltd</b>	<b>NCP</b>	<b>Media</b>
<b>Orica</b>	<b>ORI</b>	<b>Chemicals</b>
<b>Origin Energy</b>	<b>ORG</b>	<b>Infrastructure/Utilities</b>
<b>Publishing &amp; Broadcasting</b>	<b>PBL</b>	<b>Media</b>
<b>Paperlinx</b>	<b>PPX</b>	<b>Paper &amp; Packaging</b>
<b>Qantas Airways Ltd</b>	<b>QAN</b>	<b>Transport</b>
<b>Rio Tinto Ltd</b>	<b>RIO</b>	<b>Diversified Resources</b>
<b>Toll Holdings</b>	<b>TOL</b>	<b>Transport</b>

<b>Wesfarmers</b>	<b>WES</b>	<b>Diversified Industrials</b>
<b>Westfield America trust</b>	<b>WFA</b>	<b>Property</b>
<b>Westpac Banking Corporation</b>	<b>WBC</b>	<b>Banking / Finance</b>
<b>Woolworths</b>	<b>WOW</b>	<b>Retail</b>

Since inception the number of shares in the portfolio has increased from 20 to 25 shares in order to provide more diversification. Please [click here](#) to view the current portfolio.

### **Fund Performance**

The fall in the Australian equity market presented us with further buying opportunities. The NavTraDE system buys shares as share prices declines. As the share market has fallen in January, we have taken this opportunity to purchase and have reduced our cash holding to about 1.4%.

We are pleased to report that the Retail and the Wholesale Funds outperformed the market by about 0.80% and 0.81% respectively. The actual returns for the funds were -0.05% and -0.03% respectively as compared to -0.84% 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 realise 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 realised.

The following shares have risen in price and also performed well for the Fund during the month due to their volatility: Futuris (FCL), and Origin Energy (ORG). These shares generated realized capital gains through trading this month. The stock that performed well this month and generated both realized and unrealized capital gains through trading was Boral Ltd (BLD), and Qantas (QAN).

Shares that performed well by generating unrealized gains include Amcor (AMC), Cochlear (COH), Corporate Express (CXP), Lendlease Corporation (LLC), Tol Holdings (TOL), Wesfarmers (WES), and National Australia Bank (NAB).

During the month, shares that detracted from performance either due to low volatility or because they were displaying unrealized losses include BHP Billiton (BHP), Harvey Norman (HVN), James Hardie (JHX), Leighton Holdings (LEI), Paperlinx (PPX) and Rio Tinto (RIO).

We increased the portfolio weightings to the James Hardie (JHX), Leighton Holdings (LEI), National Foods (NFD), Rio Tinto (RIO), and Tol Holdings (TOL) as we believe that their underlying financial robustness and quality of these companies remained sound and have been a good buying opportunity. Inclusions to the portfolio include Lion Nathan (LNN), Macquarie Bank Ltd (MBL), Westpac Banking Corporation (WBC), and National Australia Bank (NAB).

We have decreased our weightings to the Boral Ltd (BLD), Cochlear (COH), Corporate Express (CXP), Harvey Norman (HVN), Lendlease Corporation (LLC), News Corp Ltd (NCP), Origin Energy (ORG), Orica (ORI), and Qantas (QAN). We have also sold out of Amcor (AMC), Coca Cola Amatil (CCL), Metcash (MTT), and Seven Networks (SEV).

### **Share Market Outlook**

The outlook for the Australian economy and the share market remains bright. Unemployment is anticipated to remain low at around 5.5% and inflation appears to be well within target. Greater world demand for our minerals will continue to drive our economy and the recently announced Free Trade Agreement with the US can only result in greater opportunities for many of our companies. If the deal passes both countries' legislature, the potential growth in manufacturing products and services will be significant. The relaxation of rules concerning US government contracts will open markets for companies ranging from information technology, to telecommunications and biotechnology. The "losers" out of this agreement would include some farming sectors (especially the sugar industry) and the beef industry, which was hoping for greater access than what eventually resulted.

The global economy and equity markets are also looking positive. Other than Europe, all of Australia's important trading regions are growing strongly. Economic data from the US are signalling economic expansion and President Bush is had increased allocation to defence in his budget proposal in this election year. The low US dollar and higher manufacturing activity bodes well for US economic growth, although promised job creation has yet to materialize.

The US-Australia Free Trade Agreement and continued strong demand for our raw materials in Asia are good news for Australian companies. Although the high Australia dollar has taken the shine off higher commodity prices for resources companies that do not have a hedging policy, companies are generally benefiting from lower import prices, especially from fuel.

The Reserve Bank's "mildly accommodating" stance and its decision not to raise official rates is further good news for Australian companies. The Resources and Energy sectors will continue to do well, as will high technology companies involved with information technology, telecommunications and biotechnology. Interest rate sensitive and consumer cyclical stocks may be affected by future interest rate rises later in the year and foreign currency fluctuations.