

Period: 1st to 31st January 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 January was 17.4% as we have taken the opportunity to sell stocks at favourable prices. The actual returns in January for the Retail and Wholesale funds were +1.90% and +1.81% respectively compared to the +3.49% 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 BHP Billiton (BHP), Futuris (FCL), Origin Energy (ORG), Orica (ORI), Santos (STO), Woolworths (WOW), and Woodside (WPL).

The stocks that performed well this month and generated unrealized capital gains include The ANZ Bank (ANZ), BHP Billiton (BHP), Bluescope Steel (BSL), Futuris (FCL), Lion Nathan (LNN), National Australia Bank (NAB), Orica (ORI), OneSteel (OST), Santos (STO), and Wesfarmers (WES).

During the month, the shares that detracted from performance either due to low volatility or because they were displaying unrealized losses were Coca-Cola Amatil (CCL), Origin Energy (ORG), Publishing & Broadcasting (PBL), Tabcorp (TAH), Toll Holdings (TOL), and Westfield (WDC). There were no inclusions or exclusions to the portfolio.

The NavTraDE system resulted in increased weightings in: Lion Nathan (LNN), Toll Holdings (TOL), Coca-Cola Amatil (CCL), and Bluescope Steel (BSL).

The NavTraDE system also resulted in decreased weightings in: Futuris (FCL), OneSteel (OST), BHP Billiton (BHP), and Woolworths (WOW).

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

The Australian Share Market

The Australian equity market rose 3.49% in January (S&P/ASX200 Index), continuing the strong rise in December.

The underlying economy is strong. The jobs data suggest continuing strength in labour market conditions in early 2006. Total employment rose slightly in January but full time employment grew strongly at the expense of part time employment. The unemployment rate rose 0.1% to 5.3% while the participation rate was steady at 64.4%.

The retail sector is showing a mild recovery. Retail trade rose by 0.4% in December to be 4.0% higher over the year, helped by the easing of the petrol price rises seen late last year. Larger retailers grew at 5.3% p.a. compared to 1.9% for smaller retailers. Retail prices also grew by 0.2% in the December quarter to be up 1.5% for the year.

After months of resilience the housing market was softer in December. Residential approvals fell 3.5% to be 8.9% lower than a year ago. The value of residential approvals fell 2.3% to be 7% lower than a year ago. Approvals for non-residential construction also fell by 0.3% to be 5.6% higher than a year ago. Higher activity in this sector offsets to some degree the moderate slowdown in the residential sector.

New lending for housing eased by 0.8% in November, with demand coming mainly from owner-occupiers, particularly first home buyers. The value of housing is back to the peak of 2003. The gap in approvals by owner-occupiers vs investors is the widest for the past six years, suggesting lessening attractiveness of housing compared to other investments. The RBA

The Australian stock market rose 3.5% in January. Unemployment remains strong with jobs growing for the 15th out of the past 17 months. Retail sales are recovery while the housing market has dipped slightly.

The export industries, particularly mining, continued strong performances.

kept the benchmark interest rates unchanged.

The December trade deficit halved from \$2.5 billion to \$1.2 billion due to strong performance from exports which leapt 7%. Higher export volumes accounted for this rise while imports decreased by 1% following the pre-Christmas surge of 7% in November. The main contributor to the export increase was mining which reached almost \$8 billion, more than twice that of the next category, services. Mining exports have almost doubled since January 2004. Further improved performances from the mining sector is on the cards with additional price increases forecast for 2006.

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

The best performing sectors were Technology Hardware & Equipment, Energy, Materials, and Diversified Financials.

Most sectors performed well in January. The best performing sectors in the month were Technology Hardware & Equipment (+11.35%); Energy (+10.17%); Materials (+9.06%); and Diversified Financials (+4.70%).

The worst performing sectors were Retailing (-4.36%); Restaurants & Leisure (-4.00%); HealthCare Equipment & Services (-3.25%); and Automobiles & Components (-3.08%).

World markets surged in January.

The performances of the global stock markets were strong in January: the S&P 500 index rose 2.55%, the Nasdaq rose 4.56%, the FTSE rose 2.52%, the Nikkei 225 rose 3.34% and the HangSeng leapt 5.89%.

The US economy continues to grow while Europe is showing signs of picking up after several years in the doldrums.

Commodity markets surged in January. Crude oil rose strong (WTIS +11.14%), gold rose 10%. Base metals all rose, mainly due to rising tensions regarding Iran, strong Chinese demand and accommodating US monetary policy.

The housing market is softening, offset by strong equity markets, buoyant employment and consumer confidence.

The US economy showed encouraging resilience, although clearly slowing down. Real GDP rose by 1.1% in the fourth quarter of 2005. A rise in imports accounted for a large part in the fall in GDP. Business and housing investment slowed as did government spending, particularly on defence. The trade deficit widened from US\$66.0b in September to US\$68.9b in October. The current account deficit narrowed from US\$197.8b in the June quarter to US\$195.8b in the September quarter, and now represents 6.2% of GDP, down from 6.4% in the previous quarter.

The unemployment rate fell 0.2% to 4.7% in January, the lowest level since July 2001. Retail sales rose 0.7% in December. The headline CPI for December fell 0.1%, or a rise of 3.4% for the year. Core CPI rose 0.2%, or an annual rate of 2.2% with no evidence that higher fuel prices have translated to consumer prices.

The housing market weakened further in December. Housing starts fell 8.9%, much of which may be explained by unseasonably poor weather during the month. New home sales rebounded in December with a rise of 2.9% on the back of a modest fall in prices. Median prices rose 13.2% over the year. Existing home sales fell 5.7% in December, the lowest level since March 2004, and down 3.1% over the year. The median selling price held up well, to be up 10.5% over the year.

The Federal Reserve raised its main lending rate by 0.25% to 4.5% in January, the 14th consecutive increase.

Europe's economy is improving. The UK maintained interest rates in view of optimistic growth prospects and low inflation. Industrial Production expanded 0.2%, after gaining 0.4% in November. GDP grew 0.6% in the fourth quarter, up from 0.4% the previous quarter. During 2005 GDP rose 1.8%.

China is still the engine of world economic growth. Fundamentals look

China's economy continues to grow. Industrial production surged 16.6% over the year to November. CPI increased only 1.6% in the year to December, well below Government limits of 3%. GDP grew by 9.9% p.a. in the fourth quarter compared to 9.8% in the previous quarter. In 2005, industrial production grew 11.4%, while the trade surplus reached US\$101.9b. Consumer spending was strong with retail sales up 12.9%. Industrial

sound and bode well for continued GDP growth and demand for Western goods and Australian mineral imports.

investment grew with fixed assets investment surging 25.7%. The economic story was shared between rural and urban sectors with farmers' net income rising 6.2%.

Share Market Outlook

US economic outlook remains solid. The performance of the exports industries is strong, as reflected in the continued growth in equity markets, while the key driver for the economy remains US households. Consumer confidence is strong due to low employment and the strong wealth effects of rising equity markets and accumulated wealth in housing. Mortgage equity withdrawals remain high and have been in positive territory since early 2002, fuelling consumer spending. Rising interest rates have been offset by rising equity and housing investment values, and the continued importation of cheap foreign goods.

Australian economic fundamentals remain sound. Inflationary pressures are low and the possibility of further interest rate rises has faded. 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 levels of the current account and trade deficits are not at present critical. Net long-term capital inflows remain strong with surplus countries still willing to fund US deficits, as these surplus countries are also major suppliers with little incentives to see sharp declines in the US\$.

Business confidence remains solid. Capacity utilization is at its highest level in five years and may lead to inflationary pressures. Continued defence spending is also likely to support the corporate sector for the foreseeable future.

The risks to the global economy are low and suggest continued strong growth in a low inflation environment. The risk of crude oil price spikes is ever present but is unlikely to lead to sustained depression of the world economy. Demand for commodity remains strong as the world continues to grow, with China still in a 'catch-up' phase likely to last for years to come. Geopolitical risk remains high and may present buying opportunities in the future.

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.

Australian economic fundamentals appear sound in the short term and most analysts predict continued growth in 2006. The unemployment rate is low, inflationary pressures are contained, business profit outlook is good, and equity markets continue to reach new records. It is likely that the risks to the housing market have moderated and housing demand appears on the upturn. Consumer confidence has steadied as the impact of high oil prices has not been severe. The risk of an official interest rate rise remains low for the next few months. Chinese demand for Australian minerals, particularly iron ore and coal, remains strong for the foreseeable future.

The drivers of the A\$ remain the US\$, Australian monetary policy and commodity prices. Demand from China for Australian commodities should support the A\$, but this is likely to be offset by the growth in the US economy and higher US interest rates. It is difficult to pick the general direction of the A\$ at present. Revenues and profits for materials companies should continue to benefit from high commodity prices and increasing production.

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 key drivers of

The Chinese growth story continues to fuel economic growth in the rest of

global growth remain the US and China.

the world. Chinese inflation is remarkably low considering high credit growth and consumer spending. The risks to the world economy in the short to medium term are unchanged and include a sharp correction in the US stock market from inflationary and currency devaluation fears stemming from an unexpected worsening of the twin deficits. Fears of higher oil prices have abated and the general outlook is positive.

Energy stocks should retreat from recent highs. Resources companies may benefit from rising production and prices.

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, higher production, and higher prices. 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 retail stocks, wine stocks and companies associated with the rural sector. Transportation companies should feel the effects of higher fuel prices. 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.