

NavralInvest Funds Updates

Period: 1st January to 31st March 2010

Global Market

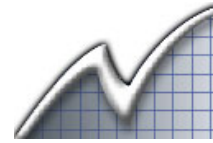
World stock markets continued their uptrend in the quarter. In the USA, the Dow Jones Industrial Average rose 4.11% while the broader S&P 500 went up 4.78%. European markets also posted gains with London FTSE up 4.93%, German DAX up 3.29% and Paris CAC up 0.96%. The Asian markets were mixed with the Japan Nikkei up 5.15% but the Hong Kong Hang Seng fell 2.89%.

The movement of the stock market in the quarter was quite clearly cut into two distinctive segments: a continuous fall in the first half of the quarter until mid February, then a strong reversal for the rest of the quarter towards the end of March. Market sentiment was contradictory and investors lacked conviction on either side of the trade. General trading volume was light and volatility was relatively high.

In the USA, quarterly company reports were generally satisfactory, but economic news was patchy. Fed left the interest rate at its historic low and vowed to keep it that way for an extensive period of time in an effort to help the recovery of the economy. However, the major headlines of the quarter were the two major reforms administration was trying to push through, the first one being the healthcare reform which would provide almost every American with healthcare insurance. The bill was fiercely debated over the quarter and generated shockwaves from time to time on the stock markets. It was finally passed before the end of March. The second reform announced at the end of January was that administration would clamp down on speculative trading practices within banks and financial institutions. The details of the reform are still unknown, but it will certainly cause an even more direct impact on the stock market once the details are made public.

In Europe, the small but debt laden countries like Greece, Portugal and Spain made headline news, and indeed it was a major drag on the stock markets over the quarter. The worst offender was Greece, who was on the brink of collapsing, due to its sovereign debt. A heated discussion ensued with the EU countries on how to resolve the problem, and this dragged on for months. The latest pledge announced in late March was that all EU member countries (with the involvement of the IMF) would set up a reserve fund to support any EU country with financial difficulty in the future. The solution was far from an unanimous resolution, but nevertheless a compromise was reached between the EU countries.

In Asia, the story was quite different. China recorded another strong growth in its December 2009 quarter GDP which came in at 10.7%. Its import and export trade data also jumped strongly from that of a year ago. However, this led to higher than expected inflation data which triggered the Chinese government to start tightening its monetary policy. Similar conditions were found in India where it also raised its borrowing rate by 25bps during the quarter.



Local Market

The Australian share market once again was more subdued than the world market, with the ASX200 up only 0.10% over the quarter. Sectors performing well in the quarter include Information Technology and Healthcare with a 7.09% and 3.25% gain respectively. Telecommunication Services had the worst run which plunged 12.80%, while the Energy and Industrials sectors were also weak with 1.30% and 1.10% falls.

This quarter was the reporting period for most Australian companies. Overall results were generally good, but were not reflected with a rally in most share prices, which attested that investors lacked confidence after the strong rally in the past few months since the March 2009 low. In addition, most analysts had adjusted their expectations on company earnings, and the late good results seemed just not strong enough to push share prices too much further.

The local economy was also strong. Consumer sentiment and business confidence were still high even after three consecutive interest rate rises in the 2009 December quarter. Even the manufacturing sector showed good improvement under the pressure of the strong AUD environment. The housing market was red hot with strong home sales and great price appreciations, whilst the labour market tightened with the latest unemployment rate falling to 5.3%, and the vacancy rate for skilled workers rising for months.

Even with all these signs of strong recovery in the Australian economy, the government was still reluctant (or afraid) to provide any relief in its fiscal stimulate policy, the most likely reason being the coming up election. However, the Reserve Bank of Australia has made it very clear that the emergency low level of interest rates was no longer needed. After a short pause in February, the RBA hiked the official cash rate again in March by another 25bps to 4.00%. It openly indicated that it would continue down this path until the interest rate returned to its normal level, which most economists expect to be around 5.00%.

Funds Update

The Funds have yet again performed well in the past quarter. Trading volume lightened coinciding with the general market, but good trading profits were made. With the portfolio adjustment carried out through the quarter, three stocks were removed from our investment portfolio which were BlueScope Steel (BSL), Fairfax Media (FXJ) and Qantas Airways (QAN).

We believe the stock market will continue its recovery but at a more steady pace. Risks left behind from the GFC still exist and are still considered threats. Concerns that need to be watched closely include: the progress of the sovereign debt problem; details of the banking reform in the USA; how the monetary tightening in the Asian region will impact on the rest of the world's recovery; and last but not the least, when all countries start to rollback their stimulus spending during the GFC, they will need to be really precise and vigilant to prevent the economy from slipping back into another recession.

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