

Period: 1<sup>st</sup> to 30<sup>th</sup> April 2008

### **Fund Performance**

The volatility in the Australian equity market presented us with trading opportunities. The NavTraDE system buys shares as share prices depreciate. Our cash holding at the end of April was 6.45% as we have taken the opportunity to sell stocks at favourable prices. The actual returns in April for the Retail and Wholesale funds were 2.44% and 2.45% respectively compared to the 4.48% 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 Bluescope Steel (BSL), Futuris (FCL), Lion Nathan (LNN), Orica (ORI), Rio Tinto (RIO), Santos (STO), Telstra (TLSCA), and Woodside (WPL).

The stocks that performed well this month and generated unrealized capital gains include AGL Energy (AGK), Bendigo Bank (BEN), BHP Billiton (BHP), Bluescope Steel (BSL), Crown (CWN), Futuris (FCL), Macquarie Group (MQG), National Australia Bank (NAB), OneSteel (OST), Rio Tinto (RIO), Telstra (TLSCA), Westpac Bank (WBC), and Westfield (WDC).

During the month, the shares that detracted from performance either due to low volatility or because they were displaying unrealized losses were The ANZ Bank (ANZ), Foster's (FGL), Great Southern Plantations (GTP), Iluka Resources (ILU), Tabcorp (TAH), Toll Holdings (TOL), Wesfarmers (WES), and Woolworths (WOW).

The NavTraDE system resulted in increased weightings in: Woodside (WPL), Macquarie Group (MQG), and Wesfarmers (WES).

The NavTraDE system also resulted in decreased weightings in: Great Southern Plantations (GTP), Toll Holdings (TOL), The ANZ Bank (ANZ), Telstra (TLSCA), BHP Billiton (BHP), Futuris (FCL), Bluescope Steel (BSL), and Santos (STO).

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

### **The Australian Share Market**

**The Australian stock market rose by 4.5% in April.**

The stock market (as measured by the ASX 200) changed course in April and rose by 4.5%. In contrast, global share markets fell amid concerns on rising oil prices. Australian bank shares were sold off initially on the news of an earnings downgrade from St. George, but recovered when the Commonwealth bank reported that its capital ratios were strong and consequently obviated the need to raise capital.

**Job advertisement and employment stronger than expected..**

In Australia, the economic news was stronger than expected although inflation remained high. Job advertisements rose, and employment numbers were better than expected. However, conditions in the services sector fell sharply and house price gains slowed in the first quarter of the year. In some cities, house prices even declined. This trend may continue to the end of the year as homeowners continue to feel the effects of high interest rates. The trade deficit narrowed to A\$2.7billion and will further improve in the short term due to higher commodity prices, particularly coal and iron ore.

**RBA left rates unchanged at 7.25%.**

As widely expected, the RBA left interest rates unchanged at 7.25%. The RBA's Statement on Monetary Policy indicated that interest rates have probably increased sufficiently and the resulting tight financial conditions and the global economic downturn will likely lead to a period of below trend growth. This will hopefully lead inflation to back to within the 2 to 3% band, albeit by the end of 2010. However, the risks remain on the upside.

**The best performing sectors were Energy, Diversified Financials,**

The best performing sectors in April were Energy (+10.1%); Diversified Financials (+9.6%); Materials (+9.4%); and Insurance (+8.9%). The worst performing sectors in the month were Hotels Restaurants &

**Materials and Insurance..**

Leisure (-13.1%); Consumer Durables & Apparel (-5.7%); Commercial Services & Supplies (-5.3%); and Transportation (-5%).

**Global Share Markets**

**US economic conditions were mixed. Good trade figures were offset by poor pending house sales**

The economic news from the US was mixed in April. The improvement in conditions of the services sector as reported by the Institute of Supply Management (ISM) survey, were in contrast to a deterioration in pending house sales figures. The Federal Reserve survey of bank lending offices showed a continued tightening in bank lending. However, unemployment claims did not deteriorate to the extent that is normally a signal of a recession.

On the trade front, stronger than expected trade figures suggests an upwards revision of the initially reported 0.6% rise in March GDP. It is clear that the trade sector is helping to keep the US economy from falling into a recession.

**European economic data were quite weak.**

In April, we saw weaker than expected Euro-zone retail sales figures, German and France industrial production and German factory orders. As widely expected, the European Central Bank left interest rates on hold on the back of inflation concerns. It is likely that the ECB will cut interest rates later in the year as we anticipate European growth to slow further.

**Share Market Outlook**

**Continued rough ride ahead for the Australian share market with a likely rebound later in the year.**

The Australian share market had a solid rebound in March, rising from its low of the year in February. But it is now looking susceptible to a correction. There is likely to be a renewed round of share market weakness due to global and Australian economic conditions exacerbated by a surging oil price.

In spite of the short term uncertainty in share market performance, Australian shares will likely rise by the end of the year. This is supported by attractive valuations, the prospects of an interest rate cut in the future, and expectations of a stronger global growth in 2009. The focus of attention in the May will be the Federal Budget, where the highlights are expected to be a large budget surplus, income tax cuts, increase spending on education and infrastructure, public services cutbacks, reduction in middle class welfare, and tax increase on discretionary items like alcohol and cigarettes.