

Period: 1st to 31st December 2007

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 December was 16.3% as we have taken the opportunity to buy stocks at favourable prices. The actual returns in December for the Retail and Wholesale funds were -2.06% and -2.02% respectively compared to the -2.96% return of the S&P/ASX200. This resulted in an out-performance of 0.9% and 0.94% for the Retail and Wholesale funds against our benchmark.

On a quarterly basis, we are pleased to report that we have significantly out-performed the benchmark. The returns for the Retail and Wholesale funds were -1.64% and -1.54% respectively against the benchmark return of -3.47%. We out-performed by almost 2% over the last quarter.

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 Coca-Cola Amatil (CCL), CMJ, CWN, Futuris (FCL), Foster's (FGL), Lion Nathan (LNN), MBL (Macquarie Bank Limited), Rio Tinto (RIO), Westfield (WDC), Wesfarmers (WES), Woolworths (WOW), and Woodside (WPL).

The stocks that performed well this month and generated unrealized capital gains include AGL Energy (AGK), Foster's (FGL), Iluka Resources (ILU), Lion Nathan (LNN), Orica (ORI), Santos (STO), Westfield (WDC), Woolworths (WOW), 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 BHP Billiton (BHP), Boral (BLD), Brambles (BXB), Bluescope Steel (BSL), CSR Limited (CSR), Fairfax (FXJ), Great Southern Plantations (GTP), MBL, National Australia Bank (NAB), OneSteel (OST), Westpac Bank (WBC)

The NavTraDE system resulted in increased weightings in: Bendigo Bank (BEN), BHP Billiton (BHP), CMJ, CWN, Rio Tinto (RIO), Toll Holdings (TOL), Wesfarmers (WESN), and Woolworths (WOW).

The NavTraDE system also resulted in decreased weightings in: Macquarie Group (MQG), Publishing & Broadcasting (PBL), and Woodside (WPL).

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

The Australian Share Market

The Australian stock market fell by 2.96% in December.

The stock market fell about 2.96% in December (S&P/ASX200 Index) due in part to growing fears of a possible US recession affecting the Australian economy. The fallout from the sub-prime mortgage crisis continued, with Centro Property the latest casualty after it reported that it was having difficulty refinancing its debts.

Local jobs and spending data remain strong. Australian economy relatively strong compared to US and Europe.

There is little Australian economic data this month due to the Christmas holiday season. Local jobs and spending data remain strong. The unemployment rate rose 0.2% to 4.5% seasonally-adjusted in November but there was a reported surge in jobs creation with an additional 53,000 people counted as being employed albeit most of them in part-time positions. The fundamentals for the Australian non-residential property markets continue to be good relative to the US and Europe, propped up by a relatively strong local economy.

The housing market appears to be cooling due to recent interest rate rises, although construction is still strong.

Home sales continue to fall in Australia but the Westpac-Melbourne Institute's leading index points continued strong economic growth. Skilled vacancies are also expected to rise.

The best performing sectors were Software & Services; Food & Drug Retailing; and HealthCare Equipment & Services.

The best performing sectors in December were Pharmaceuticals & Biotechnology (+4.3%); Energy (+1.4%); and Food Beverage & Tobacco (+1.2%).

US economic data has been weak.

The worst performing sectors in the month were Real Estate (-8%); Transportation (-7.6%); and Commercial Services & Supplies (-5.3%).

The few economic releases this month indicate that the US economic is faltering. Home sales and house prices continue to fall, with the national house price series falling for the first time in 30 years. Coupled with the sub-prime mortgage crisis, the falling house prices are leading expectations of more write-downs by US and possibly European investment banks in the next few months.

Durable goods orders were expected to be weak and holiday retail sales are showing their weakest growth since 2002.

Oil and gold prices surged.

Record high oil prices and the run of weak US economic data have joined to increase fears of a US recession. The twin effects of the surging oil price and a weakening US dollar has seen greater investor demand for the safe haven of gold, pushing the gold price through the 1980 record high of US\$850 an ounce.

Higher oil prices will add to inflation globally.

Higher oil prices will add pressure on inflation globally. However, global growth is slowing and with fears of a US-led global recession, there will be added pressure on US households to reduce spending and encourage retailers to discount their goods if they want to maintain sales.

China raised interest rates again.

China has also raised interest rates again in an effort to cool its burgeoning economy and to deflate its own internal inflationary pressures.

Japan export growth slowed.

The Japanese government lowered its growth forecast as a response to export growth slowing. The Bank of Japan had also left interest rates on hold. Economic indicators are not bright in Japan. Although it has a non-existent inflation, bar that due to higher oil prices, industrial production, wages, household spending and the labour market remain weak.

Share Market Outlook

Global growth is likely to be slow initially but pick up towards second half of the year.

Global economic growth is likely to slow in the first part of the year, picking up in the second half. This uncertainty in global growth and continued concerns in the credit markets is likely to result in a rough and volatile period for share market investors. The Australian share market will likely be volatile on the back of concerns over global growth, but should remain relatively resilient and improve in the second half as commodity prices trend back up again. The interest rate differential in Australia's favour will remain. Returns for Australian share market investors are likely to be modest and unspectacular in 2008, probably around 8 to 10%.

The Australian resources sector will also be affected by lower global demand and Chinese tightening.