

Period: 1<sup>st</sup> to 29<sup>th</sup> February 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 February was 7.7% as we have taken the opportunity to sell stocks at favourable prices. The actual returns in February for the Retail and Wholesale funds were both -2.18% compared to the -1.38% return of the S&P/ASX200. This resulted in an under-performance of -0.8% for the Retail and Wholesale funds against our benchmark.

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), Coca-Cola Amatil (CCL), CWN, Lion Nathan (LNN), Rio Tinto (RIO), Wesfarmers (WES), and Woodside (WPL).

The stocks that performed well this month and generated unrealized capital gains include BHP Billiton (BHP), Bluescope Steel (BSL), BDL, CWN, Lion Nathan (LNN), OneSteel (OST), Rio Tinto (RIO), Santos (STO), Tabcorp (TAH), Telstra (TLSCA), Wesfarmers (WES), Woolworths (WOW), and Woodside (WPL).

During the month, the shares that detracted from performance either due to low volatility or because they were displaying unrealized losses were AGL Energy (AGK), Asciano Group (AIO), The ANZ Bank (ANZ), Bendigo Bank (BEN), Brambles (BXB), Foster's (FGL), Fairfax (FXJ), Great Southern Plantations (GTP), Iluka Resources (ILU), MBL, National Australia Bank (NAB), Orica (ORI), Tabcorp (TAH), Toll Holdings (TOL), and Westpac Bank (WBC).

The NavTraDE system resulted in increased weightings in: BHP Billiton (BHP), and Futuris (FCL).

The NavTraDE system also resulted in decreased weightings in: Bluescope Steel (BSL), Coca-Cola Amatil (CCL), National Australia Bank (NAB), OneSteel (OST), Rio Tinto (RIO), and Woodside (WPL).

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

### **The Australian Share Market**

#### **The Australian stock market fell by 1.38% in February.**

The stock market fell again in February (S&P/ASX200 Index) by 1.38%, following the US market's fall. The key drivers were once again the concerns of a US recession affecting global markets, and continuing worsening in credit markets. These issues will continue to affect Australian share prices in the coming months.

#### **The RBA raised rates again.**

As widely expected, the Reserve Bank raised interest rates again to 7.25% claiming the need to reduce inflation. With the major banks willing to raise their lending rates accordingly, many households will start to feel the effects of the rate hikes. The RBA statement gives an indication that any follow up movement in April will be unlikely as the bank appears to believe that it has done enough for now.

#### **Economic indicators were mixed.**

Other economic news in Australia was mixed. Whilst GDP growth was strong (3.9%yr) in the December quarter, as seen by the strong growth in domestic demand, retail sales and dwelling approvals were weak. The moderating sales trend shows signs that consumers are being more cautious in response to the rate hikes last August and November, a market-led rise in rates in January, higher fuel prices, and deteriorating global growth prospects. The building approvals level is holding steady but at a level below the underlying demand for new buildings. This will put additional pressure on rents.

Similarly, the business indicators were also mixed but remained upbeat on the economy. Inventory build was slightly lower but company profits and sales were slightly higher than expected.

*The best performing sectors were Telecommunication Services, Energy, and Materials.*

The best performing sectors in February were Telecommunication Services (+12.1%); Energy (+11.9%); and Materials (+9.8%).

*US economic data continues to be weak.*

The worst performing sectors in the month were Retailing (-16.2%); Diversified Financials (-14.6%); and Banks (-14.1%).

*Interest Rates unchanged in Europe.*

US economic data remained a concern this month, with employment falling for two consecutive months. The Institute of Supply Management business surveys indicate a weaker growth ahead. Construction activity also fell sharply in January. In the housing market, delinquencies of mortgages and foreclosure rates rose.

*US dollar weakening.*

As expected, the European Central Bank and the Bank of England left interest rates unchanged on the back of a sluggish retail sales growth (0.1%yr to January) and an unchanged inflation rate of 3.2% in February.

*Commodity prices continue to surge.*

US dollar continued to be weak against the Yen and Euro, on the back of weak US data. However, the Australian dollar performed well against the US dollar but fell slightly against other major currencies.

Commodity prices continued to rise due to supply constraints, a weakening US dollar and global inflation worries. Oil price rose by 11% in February pushing pass USD\$100 a barrel. There were also large rises across the board for metals: lead rose by 23.8%, copper by 19.1%, and aluminium by 16.8%, and zinc by 13.8%.

### ***Share Market Outlook***

*A rough ride ahead for the Australian share market.*

The Australian share market will likely be characterised by increased volatility in the coming months, and likely to see more downward pressure in the coming months.

Following from last month, the continued uncertainties in the global economy and fears of a US-led slowdown will dampen enthusiasm in the share market. International news will likely worsen before brightening in later in the year with credit markets continue to deteriorate. The share market is also likely to be pressured by high local interest rates and a high Australian dollar. However, the bearish sentiment in the domestic share market is unlikely to be prolonged or deep and shares are expected to perform well on a 12-month basis.