

Period: 1st to 31st January 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 January was 4% as we have taken the opportunity to buy stocks at favourable prices. The actual returns in January for the Retail and Wholesale funds were -7.16% and -7.12% respectively compared to the -10.88% return of the S&P/ASX200. This resulted in an out-performance of 3.72% and 3.76% 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), CMJ, CSR Limited (CSR), Coca-Cola Amatil (CCL), Futuris (FCL), Lion Nathan (LNN), Orica (ORI), OneSteel (OST), Santos (STO), Woolworths (WOW), and Woodside (WPL).

The stocks that performed well this month and generated unrealized capital gains include Bluescope Steel (BSL), CSR Limited (CSR), and OneSteel (OST).

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), BHP Billiton (BHP), Boral (BLD), Brambles (BXB), CWN, Foster's (FGL), Fairfax (FXJ), Great Southern Plantations (GTP), Iluka Resources (ILU), MBL, National Australia Bank (NAB), Rio Tinto (RIO), Tabcorp (TAH), Telstra (TLSCA), Toll Holdings (TOL), Westpac Bank (WBC), Wesfarmers (WES), Woolworths (WOW), and Woodside (WPL).

The NavTraDE system resulted in increased weightings in: BHP Billiton (BHP), Brambles (BXB), Qantas (QAN), SEV, SUN, Telstra (TLSCA), and Toll Holdings (TOL).

The NavTraDE system also resulted in decreased weightings in: Rio Tinto (RIO), Santos (STO), Westpac Bank (WBC), and Wesfarmers (WES).

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

The Australian Share Market

The Australian stock market fell by 10.88% in January.

The stock market fell about 10.88% in January (S&P/ASX200 Index) over concerns of a US recession affecting global markets, continuing credit and bank losses stemming from the Subprime mortgage meltdown, and falling expectations for future profit growth. These issues will see continued pressure on Australian share prices in the coming months.

Business conditions remained strong in December but business confidence falls.

There were mixed signals on the domestic economic front. Whilst business conditions remained strong according to the NAB business survey, business confidence fell amid fears of rising interest rates and global financial turmoil. The Australian Industry Group's survey of manufacturing showed a deterioration in January. However, credit growth remained strong.

Interest rates lifted by RBA.

With a view that the Australian economy remained strong with solid consumer confidence, favourable business conditions, a bounce in new home sales and solid retail performance, the RBA left interest rates at 6.25% in January. However, it raised rates in February following the release of the last three CPI reports showing an increasing inflation problem. Core inflation is now estimated at 4% on an annual basis, which is well over the 2-3% target. The RBA is however taking a positive view on the global economy and anticipating a rise in Australia's terms of trade.

The best performing sectors were HealthCare Equipment & Services, HealthCare Equipment & Services,

The best performing sectors in January were HealthCare Equipment & Services (-4.3%); Pharmaceuticals & Biotechnology (-6.1%); and Materials (-6.9%).

Pharmaceuticals & Biotechnology, and Materials.

The worst performing sectors in the month were Diversified Financials (-21.1%); Software & Services (-20.1%); and Consumer Durables & Apparel (-16.4%)

US economic data continues to be weak.

Concerns about the US economy continued during the month. The US December quarterly GDP growth was revised down to 2.2%, and home sales remained weak. Durable goods orders whilst unemployment rose. On a brighter note, the SM manufacturing conditions rose, indicating a resilient manufacturing sector.

US consumer price inflation rise marginally greater than expected but the slowdown in growth will relieve pressures on inflation. There is a view that this will lead to a soft-landing in the US and prompt the Feds to cut interest rates.

Oil prices surged due to cold weather.

Oil prices continued to push higher due to colder weather than expected in the US, lower output from OPEC and continued middle east tension. Production in the US was also affected by an accidental fire causing a closure of a US oil field.

Chinese government takes actions to cool rampant share market.

The Chinese stock market fell by about 9% on the last day of January as Chinese authorities took actions to cool the share market. This is not a concern as the Chinese share market grew by 135% over the last year. It is not seen as a sign of any weakness in the Chinese economy but a correction after strong sharemarket gains. The Chinese economic fundamentals are still robust with relatively low inflation and strong growth.

Share Market Outlook

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

The Australian economy is likely to be slow compared to last year, with a forecast for growth of about 2 to 3%. The effects of a weaker housing sector and constrained consumer spending will be ameliorated by the continued strength in our mining exports. Moderate growth domestically and globally will allow for a small rate decrease later in the year.

The continued uncertainties in the global economy and fears of a US-led slowdown will dampen enthusiasm in the share market. The share market is likely to be slow initially but will pick up later in the year as valuations are still reasonable, profit growth remains solid and the level of mergers and acquisitions remain high.