

Period: 1st to 31st May 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 May was 7.14% as we have taken the opportunity to sell stocks at favourable prices. The actual returns in May for the Retail and Wholesale funds were 1.24% and 1.27% respectively compared to the 1.06% return of the S&P/ASX200. This resulted in an out-performance of 0.18% and 0.21% 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 AGL Energy (AGK), BHP Billiton (BHP), Bluescope Steel (BSL), Lion Nathan (LNN), Orica (ORI), OneSteel (OST), Rio Tinto (RIO), Santos (STO), Wesfarmers (WES), and Woodside (WPL).

The stocks that performed well this month and generated unrealized capital gains include AGL Energy (AGK), Bendigo Bank (BEN), Lion Nathan (LNN), National Australia Bank (NAB), Orica (ORI), OneSteel (OST), Santos (STO), Wesfarmers (WES), 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 Brambles (BXB), Coca-Cola Amatil (CCL), CSR Limited (CSR), Futuris (FCL), Fairfax (FXJ), Iluka Resources (ILU), Macquarie Group Ltd (MQG), Toll Holdings (TOL), Westpac Bank (WBC), Westfield (WDC), and Woolworths (WOW).

The NavTraDE system resulted in increased weightings in: Brambles (BXB), Wesfarmers (WES), Futuris (FCL), ZFX, and Woolworths (WOW).

The NavTraDE system also resulted in decreased weightings in: BHP Billiton (BHP), OneSteel (OST), Westpac Bank (WBC), Woodside (WPL), Great Southern Plantations (GTP), and Lion Nathan (LNN).

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

The Australian Share Market

The Australian stock market rose by 1.06% in May.

The Australian stock market gained marginally in May albeit amidst concerns about the global credit crunch and rising oil price. US, European and Japanese share markets generally rose, mainly on the back of good US economic data and profit results.

Soft Australian economic data.

On the Australian economic front, data was generally soft. Skilled job vacancies fell in May and there are signs that we should be expecting slower growth ahead. Private sector credit also rose at its slowest pace since July 2001, and capital spending fell in March.

GDP growth did not slow as much as expected but still substantially weaker than a year ago.

On a brighter note, GDP growth did not slow as much as widely anticipated in the March quarter, although it is still substantially weaker than a year ago. Much of the slowdown in GDP growth can be attributed to softer growth in consumer spending and a fall in retail sales. The data also shows that the trend will continue and we should expect a continuation of this slowdown into the June quarter.

The best performing sectors were Energy, Software & Services, and Telecommunications.

The best performing sectors in May were Energy (+19.7%); Software & Services (+6.1%); and Telecommunication Services (+4.2%). The worst performing sectors in the month were Diversified Financials (-10%); Real Estate (-8.6%); and Commercial Services & Supplies (-7.5%).

Global Share Markets

US economic conditions were

The economic news from the US was again mixed in May albeit slightly stronger than last month. Consumer sentiment is still deteriorating and

mixed. GDP growth revised up and recessionary fears dissipate.

home prices fell 14% for the first three months of the year. Consumer spending data is also very weak. On a more positive note, durable goods order beat expectations and new home sales surprisingly rose in April. Consequently, the March quarter GDP growth was revised up from +0.6% to +0.9% annualised, alleviating fears of a recession in the US.

US Federal Reserve starting to turn its attention to inflation after easing to address the credit crunch.

Since cutting interest rates to combat the credit crunch in the US and the collapsing US housing market, the US Federal reserve indicated that it has turned its focus back on inflation. Inflation is significantly higher than what the Fed would prefer, which is to be expected given the measures taken in recent months. However, there is still significant downside risks for US growth, and the chances of an interest rate rise in the US is unlikely to happen in the short term.

Japanese and European economic data were quite weak.

The Japanese also reported weak economic data. Household spending remained soft. Similarly unemployment and job vacancies also remained weak. Higher food and oil prices saw inflation rise to 1% year-on-year, but outside these two items, inflation remained virtually non-existent. The view in Europe was not much better. Economic data remained soft with German factory orders and industrial production falling. However, the ECB remained focused on inflation and signaled a possible interest rate rise in July.

Share Market Outlook

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

The Australian share market remained volatile and is likely to be under continued pressure in the coming months. The full fallout from the global credit crunch, higher oil prices (which peaked to US\$135 a barrel in May), and US housing slump has yet to be felt. Australian shares are also likely to feel the effects from the rise in domestic interest rates and a strong Australian dollar. The share market is also subject to expected weaker commodity prices.

Against a backdrop of short term uncertainty, shares should still stay above the lows experienced in the early part of the year. They are also likely to improve into the end of the year as the economic outlook improved and investors exploit the attractive share valuations.