

**Period: 1<sup>st</sup> to 30<sup>th</sup> September 2007**

### ***Fund Performance***

The volatility in the Australian equity market presented us with buying opportunities. The NavTraDE system buys shares as share prices depreciate. Our cash holding at the end of September was 43% as we have taken the opportunity to sell stocks at favourable prices. The actual returns in September for the Retail and Wholesale funds were +3.57% and +3.6% respectively compared to the +5.13% 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 The ANZ Bank (ANZ), BHP Billiton (BHP), Brambles (BXB), Futuris (FCL), Iluka Resources (ILU), Lion Nathan (LNN), Macquarie Bank (MBL), Orica (ORI), Oil Search (OSH), Rio Tinto (RIO), Santos (STO), Toll Holdings (TOL), Westpac Bank (WBC), Westfield (WDC), Woolworths (WOW) and Woodside (WPL).

The stocks that performed well this month and generated unrealized capital gains include The ANZ Bank (ANZ), BHP Billiton (BHP), Bluescope Steel (BSL), Foster's (FGL), Fairfax (FXJ), Iluka Resources (ILU), Macquarie Bank (MBL), National Australia Bank (NAB), Orica (ORI), Oil Search (OSH), OneSteel (OST), Publishing & Broadcasting (PBL), Rio Tinto (RIO), Santos (STO), Westpac Bank (WBC), Westfield (WDC) 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 Boral (BLD), Bendigo Bank (BEN), CSR Limited (CSR), Great Southern Plantations (GTP), Tabcorp (TAH), Telstra (TLSCA) and Toll Holdings (TOL).

The NavTraDE system resulted in increased weightings in: Toll Holdings (TOL), The ANZ Bank (ANZ) and Coles Group (CGJ).

The NavTraDE system also resulted in decreased weightings in: Woodside (WPL), Rio Tinto (RIO), Santos (STO), Westpac Bank (WBC) and BHP Billiton (BHP).

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

### ***The Australian Share Market***

#### ***The Australian stock market surged by 5.13% in September.***

The stock market surged by 5.13% in September (S&P/ASX200 Index) as improving US economic data gave confidence to investors.

#### ***The Australian economy is still showing strong GDP growth due to the booming resources industry, strong jobs market, and buoyant retail market.***

Australia's economy has expanded for the 16th consecutive year as China's appetite for commodities stokes investment and consumption booms. Australia's real GDP expanded at a 3.8% p.a. rate in the June quarter, down from the rapid growth of 6.5% p.a. rate in the March quarter. However, nominal GDP growth in the second quarter was 4.3% compared to 3.8% in the first quarter, mainly driven by consumption and the resources boom, with manufacturing now accounting for only 11% of GDP. Imports of capital goods surged 14% in August, driven by the mining sector.

#### ***The unemployment rate remained near record lows.***

The unemployment rate for August held steady for the third month at 4.3%, and only slightly higher than the May result of 4.2%, the lowest since 1964. The participation rate remains around 65.1%. National job vacancies in the three months to August rose 2.9% while job vacancies rose by 11.9% in the year to August, mainly in the communications, construction and mining sectors.

Consumer confidence was at a record high due to strong economic fundamentals, including low unemployment and the wealth effects of strong equity and housing markets. Retail sales rose a seasonally-adjusted 0.7% in August from July, after growing by 0.8% and 1.6% the previous two months. However, department stores sales fell 4.2% after surging 5.7% in July.

***The Reserve Bank raised interest rates by 0.25% in early August and held them steady into October.***

The ongoing economic growth, low unemployment and strong consumer confidence are putting an upward pressure on the consumer price index, the dampening effect of the rising Australian dollar notwithstanding. The September quarter CPI data will be out in two weeks, although early indications are that it will approach the 3.0% p.a. target band set by the RBA. After raising benchmark interest rates 0.25% to 6.50% on August 8, the likelihood of a further 0.25% increase sometime in the next few months is rising. Traders have factored in a 45% chance of a rate rise in the next six months and a 89% probability in the next twelve months.

***The housing market remains weak.***

The Australian housing market remains relatively weak. In September, Australia's construction industry expanded for the first time in seven months as home building rebounded, according to the Housing Industry Association. Nevertheless, the number of approvals fell 1.7% in August from July, the first drop in three months, to be 0.1% lower than the previous year. Building approvals rose a revised 0.2% in July.

***The trade deficit widened due to strong imports performance due to capital investments, while exports were constrained by bottlenecks.***

Australia's trade deficit widened in August as imports of consumer goods, business equipment and oil increased. The trade deficit almost doubled in August, due to a surge in imports by 5% while exports only rose 2%. Farm shipments fell 4% while exports of non-rural goods, including minerals, rose 3%. Imports of capital goods, including business machinery and vehicles, surged 14% while intermediate goods imports, including fuel, rose 6%. Imports of consumer goods increased 3% in August. Exports of bulk commodities continue to be hampered by infrastructure bottlenecks.

***China's demand for commodities continue unabated.***

The resources boom continues to drive the Australian economy. Retail spending increased due to rebounding consumer confidence. Interest rates are still relatively low and inflationary pressures have increased despite the higher A\$. Demand for Australian minerals exports remains unabated.

***The best performing sectors were Materials; Diversified Financials; Energy; and Pharmaceuticals & Biotechnology.***

The best performing sectors in September were Materials (+13.7%); Diversified Financials (+12.1%); Energy (+9.9%); and Pharmaceuticals & Biotechnology (+9.3%).

***World markets rebounded from the mixed result in August with generally strong gains.***

The worst performing sectors in the month were Technology Hardware & Equipment (-12.4%); Software & Services (-9.1%); and Consumer Durables & Apparel (-5.6%).

***The price performances of major commodities were mostly up, particularly crude oil and gold.***

The performances of the global stock markets were strong in September: the MSCI world index rose 4.6%; the S&P 500 index rose 3.6%, the Nasdaq rose 4.1%, the FTSE rose 2.6%, the Nikkei 225 rose 1.3% while the Hang Seng surged 13.2%.

As concerns about the US economy abated, the prices of all major commodities except aluminium, tin and zinc rose. Crude oil prices surged 10.4% while the gold price rose 10.0% on the back of a weakening US dollar. Copper prices rose 7.7% while lead prices increased 5.1%. Nickel rose 2.6%. Aluminium prices fell 2.4%, zinc and tin prices edged down slightly by 0.4% and 0.2% respectively.

***The US economic data are mixed with the jobs market strong, retail sales buoyant while the housing market remains weak.***

The US Commerce Department now expects GDP in the June quarter to reach 3.8% p.a. compared to the March quarter GDP growth of 0.6% p.a. Consumer spending, which accounts for about 70% of economic activity, was left unrevised at a 1.4% p.a. growth rate in the second quarter, slowing from 3.7% growth in the first quarter. Business investment was revised down to an 11% p.a. growth rate from 11.1% p.a. a month ago, compared to the first quarter's actual investment growth rate of 2.1% p.a.

Sales of new homes during August slumped to their lowest level in seven years, falling 8.3%. Construction of new homes fell 2.6% to the lowest rate for 12 years. Pending US home sales fell 21.5% year on year. Spending on residential investment declined 11.8% in the second quarter, after plunging 16.3% in the first quarter. The Federal Reserve cut the overnight federal funds rate target by a half-percentage point to 4.75% in mid-September to shield the economy from the slumping housing sector.

Despite the rise in jobs creation by 110,000 the unemployment rate rose 0.1% to 4.7% in September. Average hourly earnings rose 0.4% in September, the highest annual gain since February. For consumer

consumption to continue to drive the economy, wages must grow at a faster rate than inflation. Over the past 12 months, wages have grown by 4.1%, compared to the underlying inflation rate of 2.1%. However, higher wages will put pressure on inflation. Nevertheless, the price index for personal-consumption expenditures rose 1.8% in August compared with a year earlier, still within the Federal Reserve Bank's 1 to 2 % comfort zone. The increase was similar for the core inflation index, excluding food and energy prices.

***The US trade deficit narrowed slightly on the back of strong export performance.***

The US trade deficit is now only about 5% of GDP, compared to around 7% the last few years. This has been primarily due to strong exports growth of about 14% p.a. compared to import growth of 5.1%. While China is only 6 to 7% of world GDP, it accounts for 40% of the US trade deficit. Demand for US products worldwide is increasing, particularly for big-ticket items like commercial aircraft.

***The UK economy appears quite resilient, with strong growth in the June quarter and relatively low inflation.***

The UK GDP grew 3.1% p.a. to June 2007, and the second quarter's growth was 0.8% stronger than in the March quarter. Household expenditure rose 0.8% on the quarter, up from 0.7% in the first quarter. The growth of GDP has been above its trend rate of around 0.6% and 0.7% a quarter for six quarters now, though this above-trend growth is unlikely to continue. The official unemployment rate fell to a two-year low of 2.6%. However, comparing across countries the real unemployment rate was 5.4% in the three months through July, compared with 4.6% in the US, 6.9% in the euro area and 3.7% in Japan. Inflation slowed to 1.9% in July, the weakest pace in 16 months. Average earnings including bonuses rose 3.5% p.a. in the three months to July.

***China's economy continues to expand, although inflationary pressures are increasing.***

China's GDP growth soared to 11.5% year-on-year in the first half of 2007. The Shanghai Composite stock index surged 93% in the year-to-date. Investment in fixed assets rose 26.7% p.a. in the first eight months of 2007. Fixed-asset investment now accounts for around 45% of GDP. The trade surplus has grown to 9% of GDP and private consumption has fallen from half of total economic activity in the late 1990s to 35% this year.

Chinese retail sales rose by a massive 17.1% in July. The high economic activity has led to strong inflationary pressures. The consumer price index rose 6.5 % p.a. in August, the highest monthly rate in a decade, or around 4.2% p.a. for the year to date. In particular, food prices surged 18.2% from a year ago. In August, exports to the US rose 16.7%, while imports of US goods rose 15.5%.

***Share Market Outlook***

*The US economy is slowing. Concerns over the mortgage market and risk of inflation should see volatility in the equity markets.*

US economic growth is slowing due to a weak housing market and concerns over the subprime credit market. Employment is still very strong as is consumer confidence. Most analysts predict a growth rate of between 2.5% to 3.0% in 2007. The US export performance is continuing to improve, particularly in a weak US dollar environment. The Federal Reserve may cut official interest rates in the fourth quarter. The IMF has slashed its 2008 US growth forecast to 2.2% from 2.8% on the back of concerns about the credit market. The manufacturing sector continues to decline, while professional services expand. Due to the strong reliance on the consumer sector, inflation is likely to rise in the US from the falling US dollar.

*Growth in the global economy may have peaked as the Japanese and Eurozone economies also showing signs of slowing.*

Commodities prices should be supported by the robustness of the European and East Asian economies. Barring political upheavals in the Middle East, the risks to the global economy are still low and suggest continued growth in 2007, although at a slightly lower pace than in 2006. Slowing US economic growth and increased geopolitical risks should see the US dollar weaken which would help US exports relative to imports. A soft landing for the US economy is still anticipated while the corporate sector appears healthy although the risk of recession is increasing. With the Japanese economy and the euro zone showing signs of slowing, growth in the global economy may have peaked, although the stronger than expected Chinese economy may help cushion the effects of a weaker US economy. However, post the Beijing Olympics, the Chinese construction industry should slow, and hence, 2008 economic growth may be dampened.

*Australian economic fundamentals remain healthy. Inflation is increasing despite the relatively high A\$.*

Australian economic fundamentals appear sound with continued economic growth likely in 2007. GDP growth is now expected to surpass 4.0% this year. The unemployment rate is low, business profit outlook is sound, and the housing market remains buoyant. The resources sector should continue to dominate Australia's economic performance while the high A\$ impacts export manufacturing and offsets inflation. Chinese demand for Australian minerals remains strong for the foreseeable future. Nevertheless, due to concerns over the US economy, some volatility in the equity market is anticipated over the short term. Rising inflationary pressures, despite the high A\$, is likely to see further interest rate rises later in the year.

*Economic growth is now expected to exceed 4% due to healthy domestic fundamentals and the continuing strength of the global economy.*

Demand from Far East Asian countries for Australian commodities should support the A\$ particularly as the US\$ weakens. A stronger A\$ should aid importers (especially retailers) at the expense of exporters. Revenues and profits for materials companies should continue to benefit from high commodity prices and increasing production. The Chinese economic boom continues to fuel economic growth in the rest of the world.

*China's growth is now expected to exceed 11%. Inflation pressures are emerging, and a post-Beijing Olympics slowdown could emerge.*

The risks to the world economy in the short term have increased due to uncertainty about the US credit market. However, the likelihood of a significant downturn in the world economy is still low in the short term, barring geopolitical events in the Middle East. The outlook continues to be positive in the short to medium term. The IMF's 2008 forecast for the euro zone has been trimmed to 2.3% from 2.5%. The World Bank has raised its growth forecast for the Chinese economy to 11.3% in 2007 and 10.8% in 2008. However, the post-Beijing Olympics slowdown does not appear to be much factored in by most analysts. High inflation may have an effect on the Renminbi and higher interest rates, thus contributing to slowing down the Chinese economy, albeit marginally at this stage.

*Resources companies should continue to benefit from strong Asian demand for commodities. Materials companies should benefit from high economic activity.*

Resources companies may benefit from further global demand and higher production but will have to contend with a stronger A\$. Materials companies should benefit from the resilience of the housing market. Retail stocks should continue to be supported by strong consumer sentiments and a strong A\$. Strong investments will help capital goods companies.

Lack of growth opportunities will see banks and diversified financials companies struggle to grow in line with the broader market. Negatives are expected from media stocks, hotels and companies associated with the rural sector. Industrial stocks are not particularly compelling as a sector, particularly as exporters must contend with a strong A\$.