NavraInvest Funds Updates Period: 1st October to 31st December 2010

Global Market

It has been a generally upbeat quarter for most financial markets around the globe. In the USA, the Dow Jones Industrial Average jumped 7.32% while the broader S&P500 surged 10.20%. European markets also went up with the London FTSE rising 6.33%, the German DAX jumping 11.00% and the Paris CAC also up 2.41%. Asian markets did well with the Japan Nikkei jumping 9.17% and the Hong Kong Hang Seng up 3.03%.

Although things seemed buoyant in most financial markets, the economic news around the world was far from steady. There was an obvious gap in the growth rate between developed countries and emerging markets. We observed the USA, European countries and Japan still either loaded with debt problems or struggling to find growth, whilst countries like China, India and Brazil were tightening rates in order to slow down overheated growth and high inflation threads.

In early October, facing a stalling economy, Japan's government announced an enormous five trillion yen "Comprehensive Monetary Easing", in order to push the sluggish economy forward.

During the same month, news in the USA was not much better. Employment only improved marginally while the housing market remained weak and economic growth rate slow. However, its stock market conversely moved higher in the hope that the worse the news, the better the chance of the Federal Reserve Bank to step in to help. Indeed that wish did come true in early November as FOMC announced further Quantitative Easing (so called QE2) of 600 billion dollars and pushed the stock market to its new yearly high.

Just after a period of steady improvement, trouble struck in November. European Sovereign Debt worries were back to the front page with concerns of Ireland's debt. At the same time, China reported another set of strong growth and high inflation figures, which conversely spooked the market into a possible interest rate hike in the country. In late November, serious conflict broke out between North and South Korea after North Korea fired artillery shells into South Korea. This added further instability to stock markets.

Fortunately things calmed down toward the end of 2010 in December. The EU officially put together an 85 billion euro dollar bailout for Ireland. China did hike its interest rate, but it was on the pace of market expectation. Japan also recorded its first industrial output growth in the past 6 months. The Korean conflict, fortunately, did not escalate.

The latest economic news from the USA was an improvement with consumer confidence spiking and 2011 GDP forecast being revised and raised. Corporate news was generally positive. General Motors successfully re-IPO'd (Initial Public Offering) itself. The US Government sold out its holding in Citigroup, and AIG and was able to get back all the money owed under credit agreement. Stock markets finally closed 2010 on a 2 year high.

Local Market

The Australian stock market had a more subdued rise over the quarter with the ASX200 up 3.54%. Materials sector led the way and surged 13.28%. Health Care and Energy sectors also made good gains of 8.33% and 7.51% respectively. Consumer Staples was the worst performing sector that fell 5.09% while Consumer Discretionary and Utilities also made moderate losses.

There was no significant domestic news that had an impact on the local share market, so we mostly followed foreign leads. One thing that became more obvious is the fact that we are experiencing a 2 speed economy in Australia. While mining and its supporting sectors are performing strongly, some other industries are continuously under pressure.

One of the most troubled sectors is the Construction sector. With the series of rate hikes in the past few months, housing prices have fell and sales have been slow, with the sector experiencing consecutive months of contraction. The Manufacturing sector is also in a similar situation as the Australian Dollar hit a record high level. Meanwhile, the Retail sector has also been doing it hard. While the sector is blaming online sales without GST, the real problem has been the weakening consumer sentiment as people are saving more to make their mortgage payments.

Australia's Q3 GDP recorded a 0.2% growth, which was much lower than expected. Reported company gross profit in Q3 2010 also surprisingly fell slightly.

On the other hand, the generally strong Australian economy provided support to the job market. Job advertising rose consecutively over the months and overall unemployment stayed at a relatively low level of 5.2%. Business confidence also improved and went back to pre-crisis level. The latest CPI is well below expectation and inflation seems to be under control.

The Reserve Bank of Australia surprised the market by holding interest rates steady in October but then made an equally surprised hike in November by 0.25%, bringing it up to 4.75%. From the latest RBA statement issued, the general consensus was that the current interest rate would be kept steady for next few months, with evidence of the economy cooling down and ongoing uncertainty in the foreign debt crisis.

Funds Update

2010 has been a year of a bumpy ride in the stock market. Australia's benchmark index S&P/ASX 200 finished the year pretty much flat. The Funds' performance has recovered since July. In anticipating future shockwaves to the financial market, certain value protection mechanisms were arranged within the Fund and will be continuously monitored and revised in the future. Although our Funds may seem to slightly lack behind the benchmark index, the discrepancy is majorly fabricated by the extreme outperformance in the small cap companies within the index. With our belief in strong and secure long term performance in blue-chip companies, we believe their share price performance will bounce back.

Looking forward, with the steady global recovery and strong companies cash balance, we perceive the 2011 share market outlook to be relatively bullish. The key risk will remain in Europe on the debt problem in weak areas such as Portugal, Spain and Italy.

To view our current portfolio, please click here.