

Dear Members,

This year will certainly go down as being one of the more interesting periods for the stock market. There is an old Chinese proverb which says 'may you live in interesting times'. Well we certainly believe these are interesting times indeed for the financial markets.

"Without doubt, we think the most important event of 2005 was a winding back of the low interest rate policies pursued by many central banks around the world."

2005 has been full of surprises with oil prices managing to defy gravity and rise to levels that few would have predicted back in January. Commodity prices 'got made' this year with the market coming to terms with the fact that the voracious appetite for resources in China and India is more than just a passing fad.

Gold has managed to break a 20 year relationship with the US dollar, and is now well and truly rising under its own steam. All currencies around the world are now losing ground against the precious metal. In late November, the historic level of US\$500 was breached for the first time in 18 years.

With the help of rising commodity prices and a booming resources sector, the All Ordinaries has continued to break new ground and set record after record. Few OECD countries can make this claim about their respective stock markets.

For Australia, this year has also been about the ongoing rise of the investment banks. The likes of Babcock & Brown, Macquarie Bank and Allco have continued to dominate the infrastructure asset market. It seems that financial institutions have an insatiable appetite for high yielding infrastructure investments. This has been reflected in a seemingly never ending flow of deals and soaring share prices for the investment banks.

It remains to be seen however, if this current investment fad for infrastructure assets will prove sustainable in 2006. It appears to us that demand for this asset class is very much reliant on low interest rates. The question we ask ourselves as 2005 draws to an end is whether interest rates will remain low, or whether the world is on the cusp of a cyclical change.

The United States recently posted the highest inflation numbers in 25 years. Interest rates at some point are going to become sensitive to this.

Without doubt, we think the most important event of 2005 was a winding back of the low interest rate policies pursued by many central banks around the world. Financial markets have been driven and shaped by low interest rates over the past decade, and this year has been no exception. However, we believe interest rates will rise significantly in the future, and for us, 2005 has been about making preparations for this event.

While some Members may be tired of our gold stock recommendations, we have stuck to our guns because we believe the gold sector as an asset class will benefit in a rising interest rate environment and offer protection from an outbreak of inflation.

Complacency among investors was prevalent more than ever in 2005. In our opinion, the market does not have an adequate risk premium priced in. If sentiment turns next year, many investors could be in for an unpleasant surprise. Therefore today's investment environment should be approached with some caution in our view.

"As evidenced by the 2005 report card, Members on balance have been very content with our performance with a 'B' being the average grade awarded."

The property market has continued to come off the boil and residential real estate is clearly no longer delivering the easy gains of a few years ago. We have watched the economy with great interest as investment capital has migrated back towards equities.

However, we still believe that investors face real risk with property investment in the current climate. We strongly believe that mortgage rates should be fixed for as long as possible. Apart from the fact that far too many property developers are driving Ferraris and Porsches, we are concerned about the low yield of real estate, particularly residential. Better yields can be obtained elsewhere in our opinion.

At the start of the year, we made four key predictions with respect to Australian and US equities, gold, oil and global interest rates. While we were not correct in all aspects of our forecasts, we nevertheless foresaw the general trend of the global economic environment.

We said that 'despite the relative calm in the US financial markets, volatility is set to increase significantly'. Considering risk and reward, we also said that 'US financial markets as an investment destination are best avoided'. This year we were very surprised at the low level of volatility in the US, and the ability of the Dow Jones to trade within a relatively tight range.

While we have been wrong in our prediction of volatility, we were right with respect to our view that the Australian All Ordinaries Index would continue to outperform the US and many other international equity markets. In 2005, the All Ordinaries increased by around 13 percent, but the key outperforming sectors were energy, gold and diversified resources.

Gold and oil have risen by around 17 and 30 percent respectively since January. Other resources to post solid gains include copper (+ 41 percent), hard coking coal (+120 percent), iron ore (+71.5 percent), and zinc (+57 percent). The movement in the underlying commodities have translated into even greater gains for many mining companies.

During the year we attempted to selectively lock in profits across the portfolio when valuations were high. This is the definitive path of the value investor. If the market proves volatile in the year ahead, we are confident that buying opportunities will emerge and it is therefore imperative that investors have access to sufficient cash reserves to buy when the timing is appropriate.

With respect to the Fat Prophets Portfolio, 17 out of the 20 stocks sold during the year yielded profits on the original recommended buy price.

Company	Return	Buy	Issue	Sell	Issue
Warehouse Group (WHS)	#2.4%	\$3.60	FAT223	\$3.55	FAT256
Sanford (NZ:SAN)	#2.1%	\$5.20	FAT104	\$4.47	FAT254
Henderson Group (HGI)	66.7%	\$0.90	FAT156	\$1.50	FAT253
Amalgamated Holdings (AHD)	#138.7%	\$2.04	FAT57	\$4.33	FAT253
Australian Wealth Management (AUW)	38.8%	\$0.80	FAT214	\$1.11	FAT252
Minerals Corporation (MSC)	-81.2%	\$0.154 (ave)	FAT69	\$0.029	FAT252
Minerals Corporation (MSCO - options)	-45%	\$0.02	FAT197	\$0.011	FAT252
IWL (IWL)	#46.3%	\$2.16	FAT202	\$3.07	FAT247
AJ Lucas (AJL)	#73.3%	\$0.88	FAT78	\$1.29	FAT236
Pacific Hydro (PHY)	#62.9%	\$3.10	FAT195	\$5.00	FAT235
Ansell (ANN)	#148.5%	\$4.00	FAT54	\$9.70 (half)	FAT233
Mayne Group (MAY)	#31.1%	\$3.55	FAT152	\$4.50	FAT232
Southcorp (SRP)	#47.9%	\$2.90	FAT169	\$4.26	FAT230
Downer EDI (DOW)	#97.5%	\$2.40	FAT128	\$4.50 (half)	FAT228
Macarthur Coal (MCC)	#442.5%	\$1.25	FAT98	\$6.60 (half)	FAT227
Pacific Hydro (PHY)	#44.4%	\$3.10	FAT195	\$4.45 (half)	FAT223
Collection House (CLH)	#-7.8%	\$1.80	FAT142	\$1.54	FAT219
Amalgamated Holdings (AHD)	#123.3%	\$2.04	FAT57	\$4.20 (half)	FAT218
Southcorp (SRP)	#51.4%	\$2.90	FAT169	\$4.36 (half)	FAT218
Austar United (AUN)	87.2%	\$0.454 (ave)	FAT24	\$0.85 (half)	FAT216

Denotes: # dividend included; (half) sold half

Recommendations that were made during 2005 (but not yet sold) also produced a positive result. Of the 57 buy recommendations, 45 are currently in profit. A number of stocks were recommended more than once,

and thus some stocks have more than one entry on the table below.

Company	Return	Buy	Issue	Closing Price 19 December
Lihir Gold (LHG)	101%	\$1.05	FAT229	\$2.11
Lihir Gold (LHG)	99.1%	\$1.06	FAT215	\$2.11
Westonia Mines (WEZ)	91.7%	\$0.06	FAT230	\$0.115
Oil Search OSH	#84.7%	\$1.94	FAT214	\$3.52
Lihir Gold (LHG)	73%	\$1.22	FAT238	\$2.11
Indophil Resources (IRN)	66.7%	\$0.36	FAT241	\$0.60
Indophil Resources (IRN)	50%	\$0.40	FAT226	\$0.60
Babcock & Brown Japan Property Trust (BJT) GRD (GRD)	#47.6%	\$1.16	FAT227	\$1.69
Gallery Gold (GGN)	#43.8%	\$1.85	FAT233	\$2.63
Gallery Gold (GGN)	43.3%	\$0.30	FAT249	\$0.43
AWB (AWB)	#42.6%	\$4.25	FAT228	\$5.77
Macquarie Leisure Trust (MLE)	#41.6%	\$1.72	FAT217	\$2.37
Australian Wealth Management (AUW)	38.8%	\$0.80	FAT214	\$1.11
Dioro Exploration (DIO)	38.2%	\$0.055	FAT247	\$0.076
Valhalla Uranium (VUL)	37.5%	\$0.40	FAT255	\$0.55
Platinum Japan Fund (unlisted)	#34.4%	\$2.08	FAT230	\$2.7397
AngloGold Ashanti (AGG)	31.9%	\$9.55	FAT243	\$12.6
Newmont Mining (NEM)	#31.9%	\$5.15	FAT237	\$6.77
Select Managed Funds (SEM)	#31.7%	\$4.20	FAT232	\$5.45
Australian Wealth Management (AUW)	30.6%	\$0.85	FAT227	\$1.11
Gallery Gold (GGN)	30.3%	\$0.33	FAT239	\$0.43
Bolnisi Gold	28.8%	\$1.04	FAT257	\$1.34

(BSG)					
Lihir Gold	27.9%	\$1.65	FAT 252	\$2.11	
(LHG)					
AWB	#26.3%	\$4.80	FAT221	\$5.77	
(AWB)					
Austal	#22.8%	\$1.80	FAT242	\$2.12	
(ASB)					
Platinum Japan Fund	21%	\$2.26	FAT242	\$2.7397	
(unlisted)					
Amcor	#19.6%	\$6.50	FAT229	\$7.27	
(AMC)					
Gallery Gold	19.4%	\$0.36	FAT256	\$0.43	
(GGN)					
Austal	#16.3%	\$1.90	FAT220	\$2.12	
(ASB)					
Westpac Office Trust	#12.9%	\$0.513	FAT246	\$0.57	
(WOTCA)					
Newmont Mining	#12.1%	\$6.05	FAT251	\$6.77	
(NEM)					
Babcock & Brown Japan Property Trust (BJT)	11.2%	\$1.52	FAT255	\$1.69	
Foster's Group	#7.9%	\$5.27	FAT223	\$5.58	
(FGL)					
Amcor	#7.5%	\$7.23	FAT218	\$7.27	
(AMC)					
Global Mining Investments	7.2%	\$1.04	FAT251	\$1.115	
(GMI)					
Lion Selection Group	6.7%	\$1.95	FAT249	\$2.08	
(LSG)					
Foster's Group	#6.3%	\$5.35	FAT236	\$5.58	
(FGL)					
ABB Grain	5.1%	\$6.80	FAT239	\$7.15	
(ABB)					
Resolute Mining	4.1%	\$1.10	FAT228	\$1.145	
(RSG)					
Lion Selection Group	4%	\$2	FAT219	\$2.08	
(LSG)					
GRD	#3.5%	\$2.60	FAT216	\$2.63	
(GRD)					
Tower	3.1%	\$1.79	FAT224	\$1.845	
(TWR)					
Warehouse Group	#2.4%	\$3.60	FAT223	\$3.55	
(WHS)					
Sedimentary Holdings	2.1%	\$0.24	FAT258	\$0.245	
(SED)					
Merrill Lynch International Gold Fund	1.2%	\$1.10	FAT255	\$1.1133	

(unlisted)				
Westpac Office Trust	#-0.3%	\$0.60	FAT219	\$0.57
(WOTCA)				
Everest Babcock & Brown	-1.9%	\$4.70	FAT248	\$4.61
(EBB)				
Resolute Mining	-2.1%	\$1.17	FAT255	\$1.145
(RSG)				
Tap Oil	-2.2%	\$2.76	FAT258	\$2.70
(TAP)				
Hutchison	-8.3%	\$0.30	FAT243	\$0.275
(HTA)				
Oceana Gold	-8.3%	\$0.66	FAT246	\$0.605
(OGD)				
Telstra	#-15.9%	\$5.02	FAT216	\$3.82
(TLS)				
Telstra	#-17.6%	\$4.88	FAT242	\$3.82
(TLS)				
Telstra	#-20.2%	\$5.04	FAT224	\$3.82
(TLS)				
Telstra	#-21.2%	\$5.10	FAT234	\$3.82
(TLS)				
McGuigan Simeon Wines	#-28%	\$4.35	FAT244	\$3
(MGW)				
Minerals Corporation	-70%	\$0.10	FAT213	\$0.03
(MSC)				

While some may disagree, we believe 2005 has generally proven to be a solid year for Fat Prophets' Members. For those that did suffer realised or unrealised losses during the year, rest assured we will be working very hard to deliver exciting opportunities in 2006.

On the business front, Fat Prophets recently turned five as a stock market research house. The past 12 months have seen the company continue to evolve with funds management being added to our stable of services. We have been disappointed in the performance of the fund since inception but believe that 2006 will be a stronger year.

The company continued to make considerable progress in the United Kingdom. The Fat Prophets UK portfolio delivered solid hypothetical returns over the year, and comfortably beat the broader market. Fat Prophets Mining & Resources was launched in November with the aim of expanding our commodity focus globally.

Continuing an ongoing tradition at Fat Prophets, we have once again invited Members to award us a grade between A and D. An A being excellent and a D representing a very poor effort. As evidenced by the 2005 Report Card, Members on balance have been very content with our performance with a 'B' being the average grade awarded. While satisfied, we will be striving to improve on this result in the next 12 months. We extend our thanks to all those who voted and provided feedback, both the good, bad, and even the ugly!

We wish all Member's a happy and safe Christmas, and of course a very prosperous New Year.

Signing off for 2005, we take this opportunity to thank you for your continued support.

Best wishes,

Fat Prophets

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