SIGNATURE DISH RECOMMENDATIONS 20/12/2005 **FAT-AUS-259**

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Signature dish recommendations, as the name suggests, represent stocks that fit the staple Fat Prophets diet. These stocks are mostly medium to large capitalisation companies characterised by relatively low price earnings multiples and healthy dividend yields.

Value based opportunities are often absent from the healthcare sector, where the prospects of an aging demographic have lead to the sector trading on high multiples. However, over the past few years we have identified two out-of-favour, globally focussed healthcare companies. During 2005, we exited one and took profits on another, posting respectable gains on both stocks.

MAY259.jpgAfter announcing plans to de-merge its global pharmaceuticals business from the domestic healthcare operations, **Mayne Group** (MAY) enjoyed a significant share price re-rating. One of the major rationales for our initial recommendation of Mayne was the low valuation being ascribed to the global pharmaceutical business (Pharma). The value of Pharma was being discounted due to the underperformance of the domestic operations. At the time of our sell recommendation, Mayne had been re-rated and was trading on an EV/EBITDA (enterprise value/earnings before interest, tax, depreciation and amortisation) multiple of around 9.5 times, compared to 5.5 times when initially recommended. We took advantage of the share price strength and locked in profits.

ANN259.jpgThe old Pacific Dunlop conglomerate, now known as **Ansell** (ANN), had underperformed by a wide margin prior to our recommendation. However, a new management team was installed and a clear strategy was detailed to turn around the company's fortunes. We saw merit in this approach and recommended the stock to Members. Since then, Ansell has undergone a significant transformation, and sentiment towards the once out-of-favour stock has turned full circle. With the restructuring process largely complete, and the share price duly re-rated, it was prudent to realise some profits in our opinion. Accordingly, we recommend Members sell half their holdings. Some exposure was maintained to the company's longer term growth prospects.

Companies exposed to the resource sector continued to deliver robust performances throughout 2005. While our longer term outlook for the sector remains positive, we believe it is always prudent to lock in some profits along the way.

DOW259.jpgAt the time of our initial recommendation of **Downer EDI** (DOW) in April 2003, we were searching for reasonably priced infrastructure related companies. Both State and Federal Governments were planning a massive public works expenditure programme, which would deliver significant work to the sector for years to come. As anticipated, many infrastructure companies were materially re-rated with Downer proving no exception. Our sell half recommendation locked in a healthy gain of 97.5 percent however some exposure was maintained given our bullish view of the sector.

MCC259.jpgAfter recommending a sell half in October 2004, locking in gains of over 195 percent, **Macarthur Coal** (MCC) continued to perform strongly on the back on rising production and robust coking coal prices. The ongoing rise of the share price gave us the opportunity to again take profits and we recommended members sell half at around $6.50 in May. While the longer term growth prospects remain good, we were concerned that the stocks rapid appreciation would lead to a lengthy period of consolidation. However, we are comfortable maintaining some exposure for the long term as Macarthur has a number of mines in the development phase which should increase production over the next few years.

AJL259.jpg**AJ Lucas** (AJL) is a small company that is involved in building long distance gas piplines as well as providing drilling services. After our initial recommendation in May 2002, AJL was significantly re-rated and we recommended Members lock in some profits by selling half their holdings. Subsequent price action was poor and after a decision to shelve development of a major pipeline in the Northern Territory, we decided the best course of action was to exit the stock.

Like the resources sector, financials have had a strong year on the back of global economic strength and investors' appetite for greater risk. Towards the end of the year however, we decided to exit some of our wealth management holdings on the basis that the risk and reward profiles were not appropriate. Earlier in the year, we closed out one of our positions at a loss.

CLH259.jpg**Collection House** (CLH) can be broadly described as a debt collector and was included in the Fat Prophets Portfolio in August 2003 at $1.80. Unfortunately the performance of CLH left much to be desired with the share price lagging the market by a wide margin. While we certainly exercised some patience with this recommendation, the long awaited recovery never materialised. Management had considerable time to restore profitability to historical levels, and their inability to turn the company around was cause for concern in our opinion. The opportunity cost of investment capital must be considered, and we decided to move on to the next stock idea. Including dividends, the CLH recommendation lost around 8 percent.

AUW259.jpgWhile Collection House proved a poor recommendation, we had more success with our direct wealth management exposures, Australian Wealth Management and Henderson Group PLC. We initially gained exposure to Australian Wealth Management (AUW) through our holding in Tower, and subsequently recommended the stock at 85 cents. As a part of Tower's restructuring program, AUW was spun out and separately listed on the ASX in February 2005. The company's core businesses include Bridges Financial Planning and Australian Executor Trustees, which is an estate management service. Despite strong share price appreciation, we believed the risk and reward profile was no longer compelling. As a small player in an industry that benefits from economies of scale, we believed AUW was at risk of becoming marginalised and subsequently recommended Members to sell their holdings for a return of around 39 percent.

HGI259.jpg**Henderson Group PLC** (HGI) de-merged from AMP in December 2003 and listed on both the UK and Australian stock exchanges. Our exposure to HGI was also achieved through a parent company, and at the time we believed the issue price of 90 cents represented good value. Following its listing, HGI rationalised operations by selling the capital intensive Life Services division, thereby becoming a pure funds management company. While the company possesses reasonably good growth prospects, once again we believed the risk/reward profile was not compelling enough to continue holding the stock. HGI is still in the process of building a scalable business which in our view made it vulnerable to a downturn in global equity markets. Due to these concerns we decided to exit the stock and realise solid gains.

IWL259.jpg**IWL** is exposed to the wealth management industry through the provision of financial planning softw investment research and online trading services & technology. At the time of our initial recommendation we believed the company held considerable upside potential. IWL carved a strategically important niche in providing backend financial planning and broking support services, and grew the business both organically and via acquisition. However, considering the company's leverage to financial market conditions and our cautious approach towards equity markets in 2006, we thought it prudent to take some profits and recommended Members to sell half of their holdings.

Unlike the resource and financial sector, consumer discretionary stocks have done it tough in 2005, some more so than others. Towards the end of the year we elected to sell our holdings in two companies we believed were at risk from declining consumer spending.

AHG259.jpg**Amalgamated Holdings** (AHD) performed consistently during its time in the Fat Prophets Portfolio. A diversified entertainment and leisure group, the company was recommended in late 2001 as a classic Signature dish with a low price-to-earnings ratio and healthy dividend yield. Over the four years it was held, management concentrated on the company's core assets, discarding the smaller non-core business units. This strategy proved extremely successful and resulted in a significant share price re-rating. However, due to the company's exposure to discretionary spending we took profits in early 2005 with a sell half recommendation. Throughout the year AHD failed to make any lasting headway and upward momentum of the charts appeared to be stalling. Consequently, we elected to sell our remaining holding and thus realise a healthy overall profit.

WHS259.jpgDespite holding a cautious view on the retail sector towards the end of 2004, we recommended **Warehouse Group** (WHS) in April 2005. The recommendation was made on the basis that the company was trading close to multi year lows and, as a discount retailer, it would be somewhat insulated from a slowdown in consumer spending. However, Warehouse's operating environment proved to be more difficult than we had anticipated. The exit from the Australian retail sector removed an important growth platform for Warehouse and concerns over the retail environment in New Zealand, the company's main market, prompted our sell recommendation.

SAN259.jpgOne of our last sell recommendations for the year was a long held, but ultimately disappointing call. **Sanford** (SAN), listed on the New Zealand stock exchange, is a commercial fishing operator and was first recommended in late 2002. Despite the low valuation, Sanford's stock price languished throughout its time in the Fat Prophets Portfolio. The appreciation of the NZ dollar and high energy prices, which impacted fleet running costs, weighed on the share price. Fortunately, ongoing dividend payments eased the pain and we therefore managed to post a small gain on exiting the stock.

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