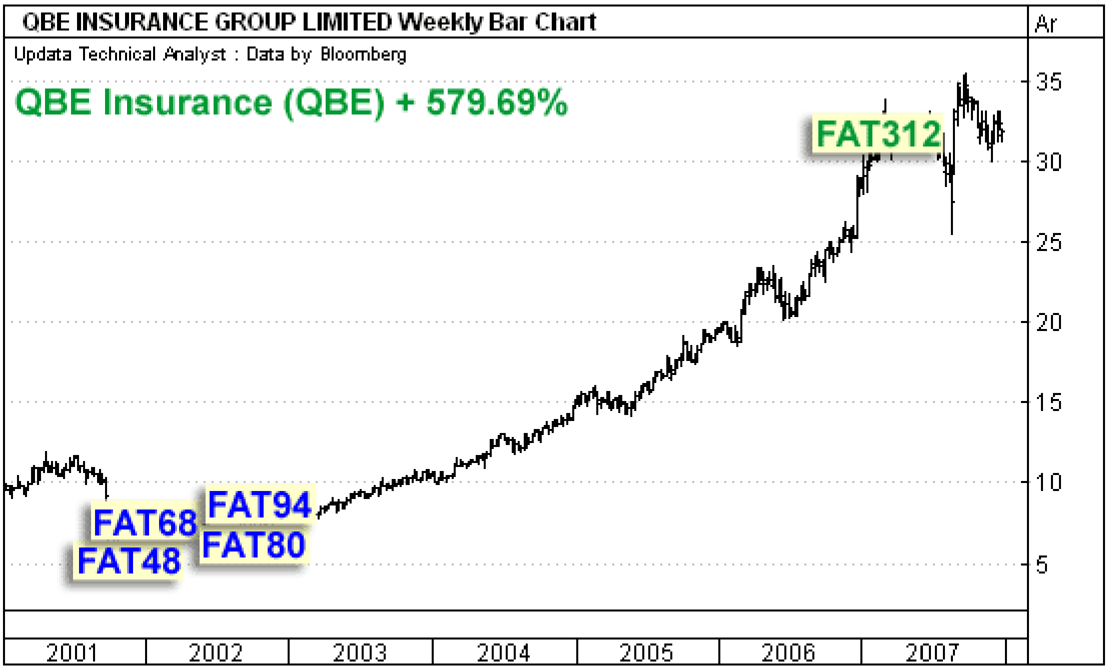
Where we took Profits and cut Losses

18/12/2007 **FAT-AUS-357**

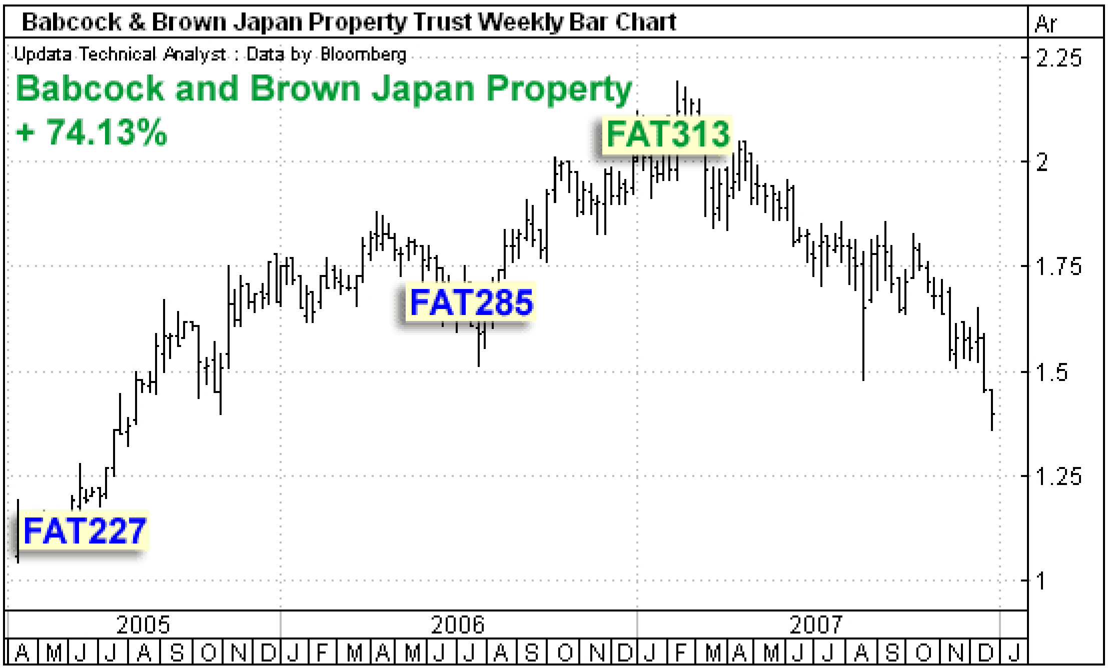
The following is a list of stocks that we sold throughout the year (including sell half recommendations). New Members will note that many of these stocks have been included in the portfolio for some time. This illustrates our long term approach to investing.

In the interests of transparency, we would also point out that the returns are based on our initial recommended price, or, where subsequent recommendations have been made to all Members, our average entry price. The total return also includes dividends paid.

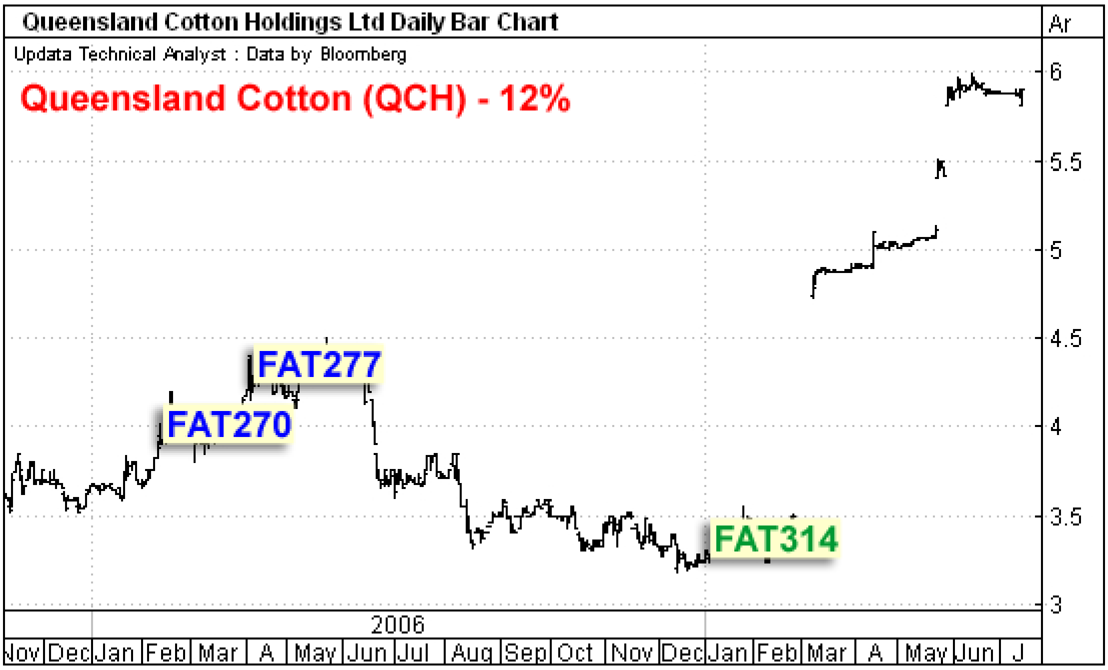
Ansell was a solid performer following its inclusion in the Fat Prophets Portfolio in October 2001. During this time the stock increased by close to 200 percent, outperforming the broader market by a wide margin. However, increasing costs driven by the commodities boom and a softening US economy were likely to impact Ansell's future profitability. Around 50 percent of Ansell's sales are in the US, so we felt future revenue growth was at risk to a possible slowdown there. With the prospect for further gains limited, we believed the time had come to take profits and sell our remaining stake.



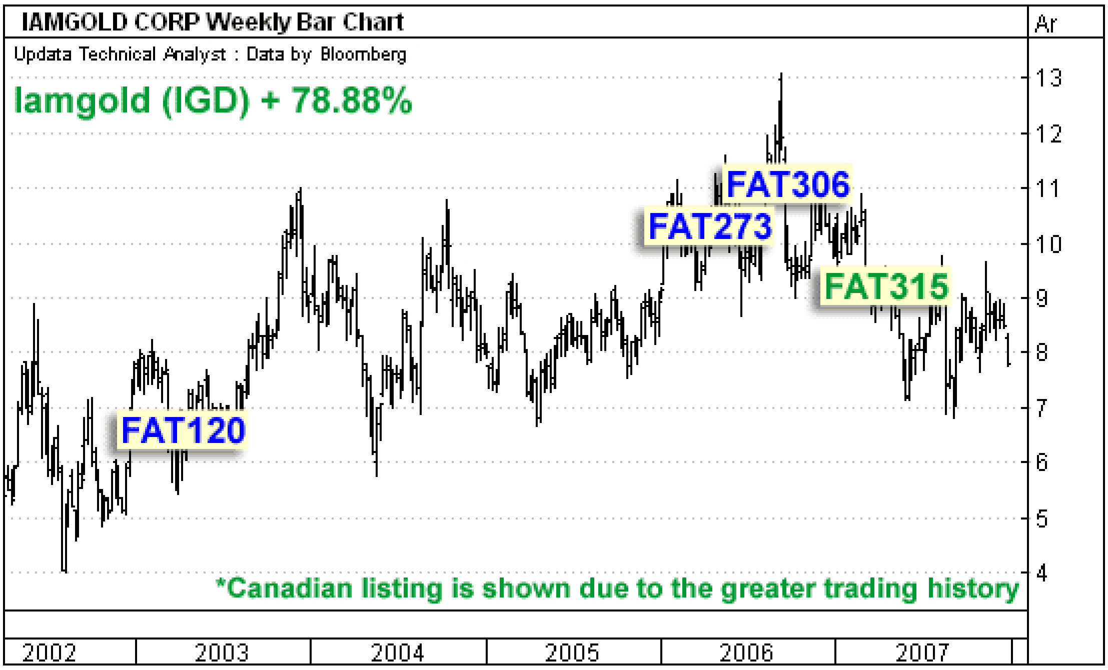
QBE was initially included in the Fat Prophets Portfolio in September 2001. The company's acquisitive nature was the driving force behind its stellar share price performance in the last five and a half years. However, following the impressive share price appreciation, we felt the margin of safety had thinned considerably, as price and value merged. Although the upward trend remained firmly intact, and we retained our faith in the underlying business, QBE had not experienced a meaningful correction since 2002. As such, we believed it would be prudent to take some profits off the table with a sell half.



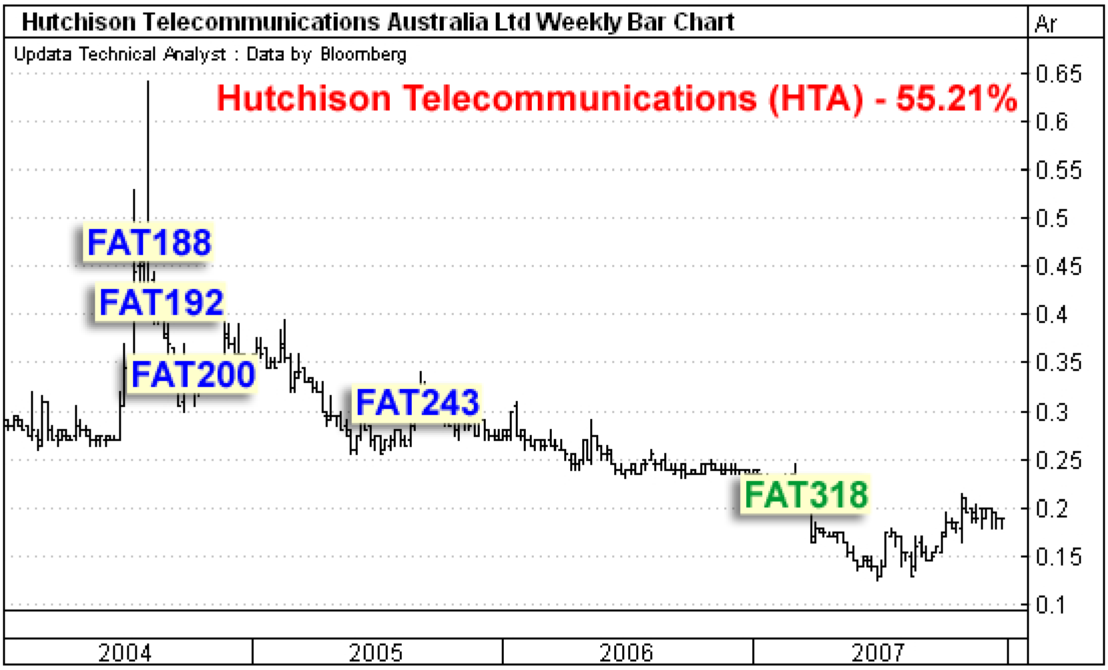
Babcock & Brown Japan Property Trust has been a standout performer during its time in the Fat Prophets Portfolio, with gains of almost 100 percent since our initial recommendation. Given expectations of a continuation of the Bank of Japan's low interest rate policy, Japan's property trusts are likely to benefit from a favourable economic environment for some time. However, following the exceptional gains since our initial recommendation, the Trust traded at a significant premium to underlying assets. As a result, we believed it would be prudent to reduce our exposure by half.



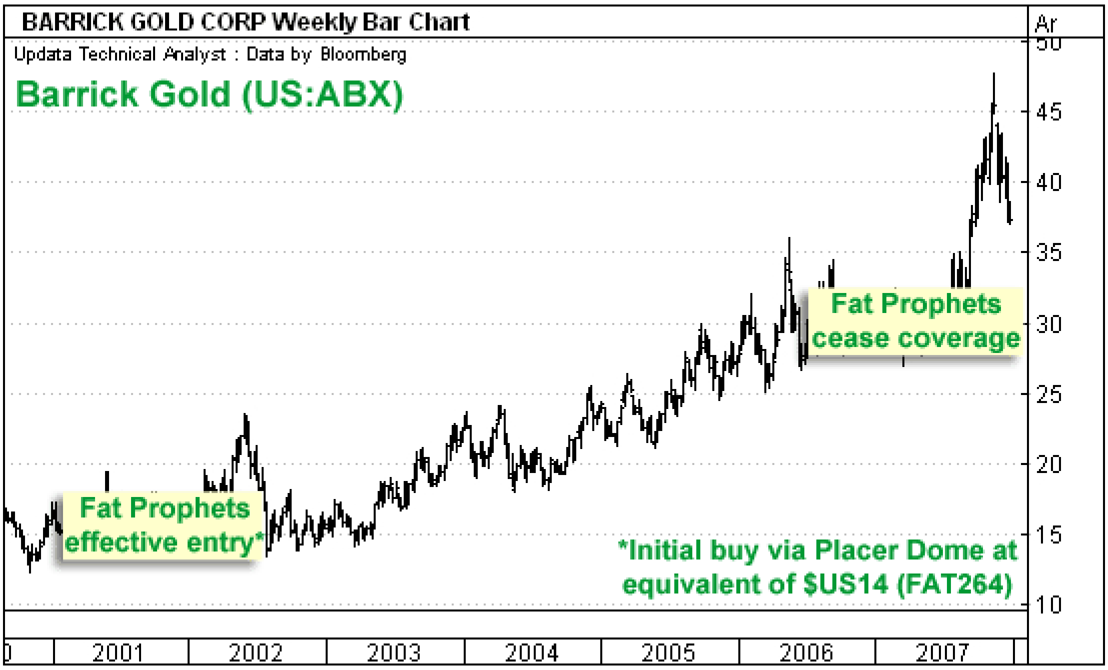
We first recommended Australia's largest diversified cotton group, Queensland Cotton in March 2006, believing 'soft' commodities and cotton in particular would have the opportunity to outperform on rising global demand. Unfortunately, the share price performance was disappointing. Legislative issues in the US, combined with the continued fallout from the drought in Australia, caused the company to downgrade profits and cut the dividend. With the prospect of no income while we waited for the weather conditions to improve, we recommended selling the stock. In hindsight, this decision proved to be frustratingly premature, as a takeover offer emerged just weeks after our sale.



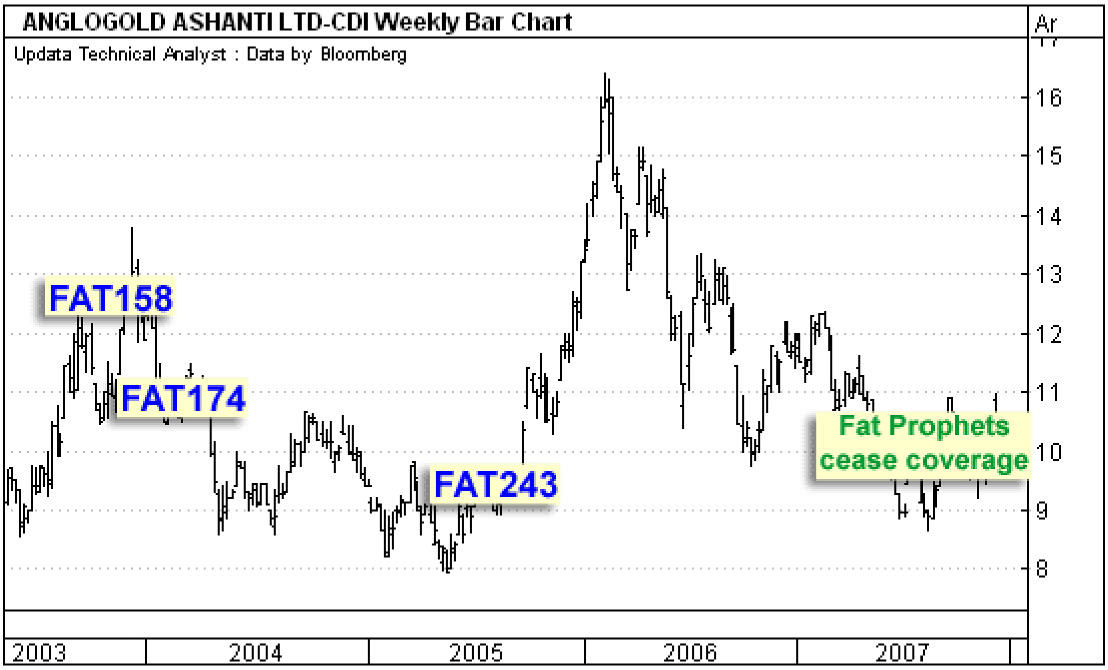
We gained exposure to Canadian gold miner IAMGOLD through the merger with our long term holding Gallery Gold in early 2006. After performing well early in the piece, IGD's share price began to deteriorate. Then, early in 2007, the company decided to de-list from the ASX effective 30 March 2007. Management did not feel the additional expense and administration of a secondary listing justified remaining on the ASX. Although we retained our belief that IAMGOLD represented an attractive exposure to the ongoing gold bull market, for ease of portfolio management we recommended selling the stock on the market.



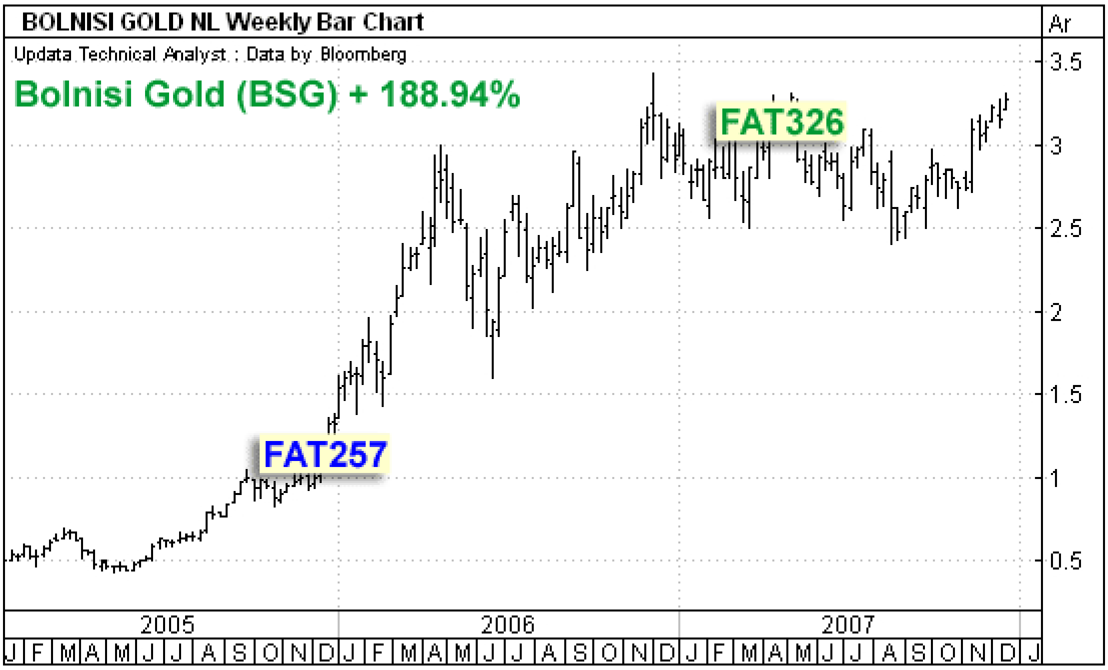
Not one of our best recommendations. Our initial recommendation of Hutchison in July 2004 coincided with an announcement that it was teaming up with Telstra in an infrastructure sharing deal. The share price spiked, pushing our entry price up to high levels. From then on it was all down hill…slowly. The company's balance sheet was fairly unusual in that debt outweighed assets, resulting in a negative equity position. While this is not generally a sign of corporate health, in Hutchison's case the funding originated from the Hong Kong parent, rather than the banks. Taking a sanguine view, we interpreted this as a low cost of capital however the heavy debt load weighed on the share price, despite significant operational progress. As a result, we decided to sell.



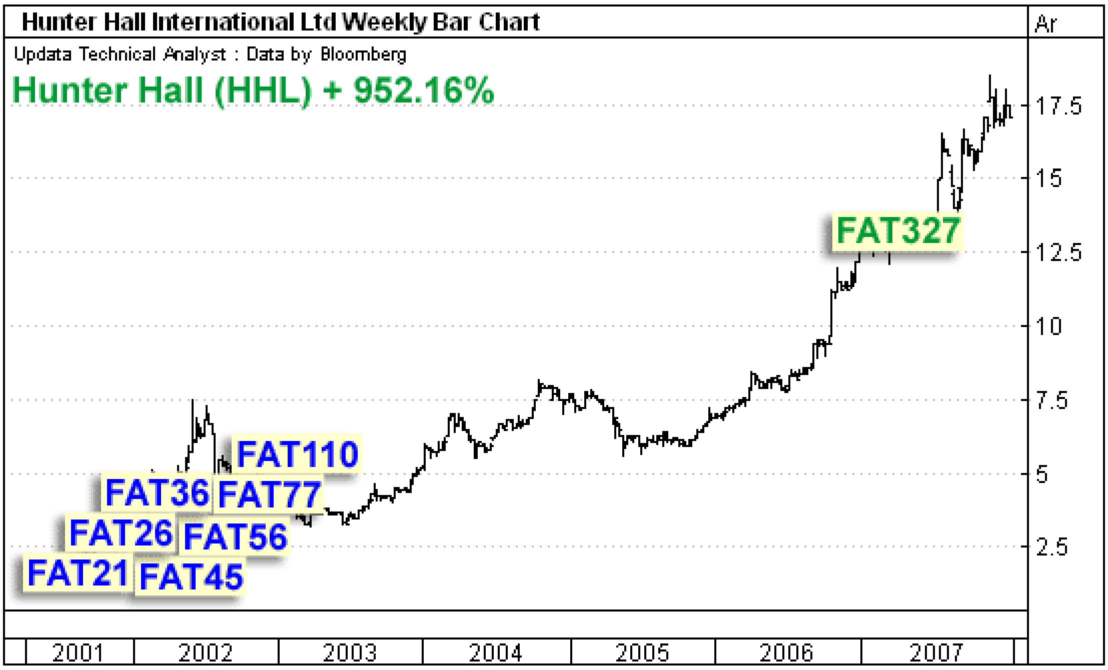
Fat Prophets' exposure to Barrick Gold came via a long succession of takeovers. We initially recommended Delta Gold in October 2001 (FAT50), prior to a merger with another Australian mid tier producer, Goldfields. The combined entity, known as Aurion Gold, became Australia's second largest pure gold producer. However, it was not long before the merged company attracted the attention of an even larger rival – Placer Dome. In November 2002, Placer completed the acquisition of Aurion to form the world's sixth largest gold producer. Then, in late 2005 Barrick Gold made a bid for Placer Dome, creating a giant that now dominates the global gold sector. Given Barrick Gold does not trade on the ASX, we decided to cease coverage of the stock for the Australasian report.



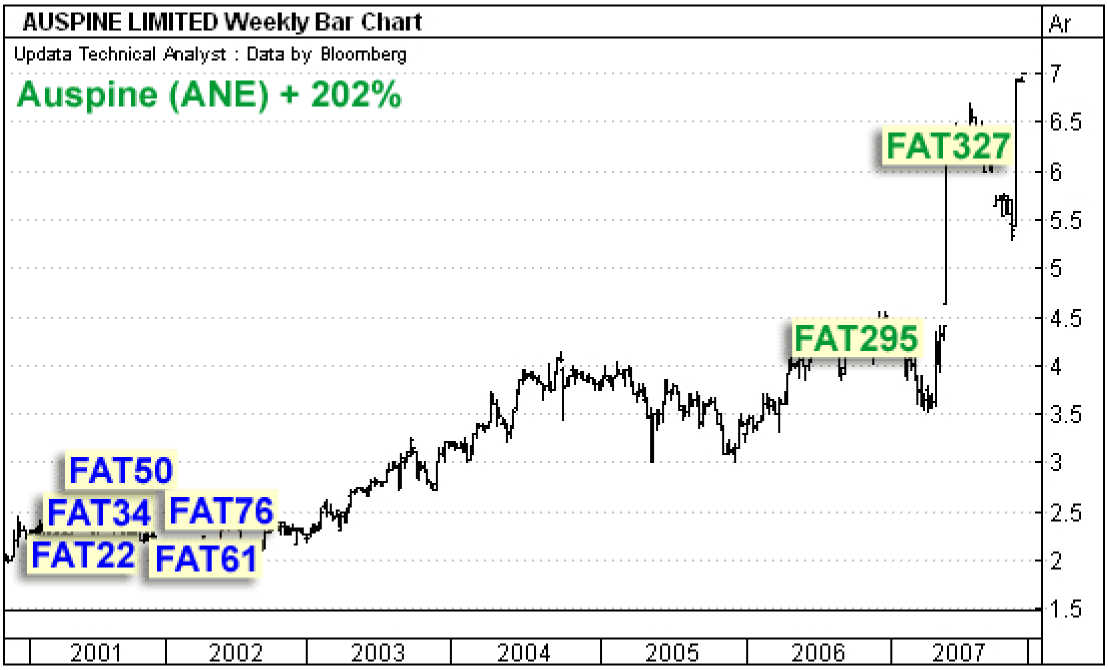
We originally recommended Anglogold in 2003 (prior to the completion of the Ashanti merger) as a favourable method for gaining exposure to our view of long run gold price appreciation. After initially languishing, the stock price rose to record highs in early 2006. Since then, production issues and cost inflation conspired to weigh on earnings and the stock pulled back through to 2007. Although we continued to like the fundamentals, daily trading volumes for the stock's ASX listing declined significantly. With a delisting possible, we decided to cease coverage on the stock from the Australasian portfolio.



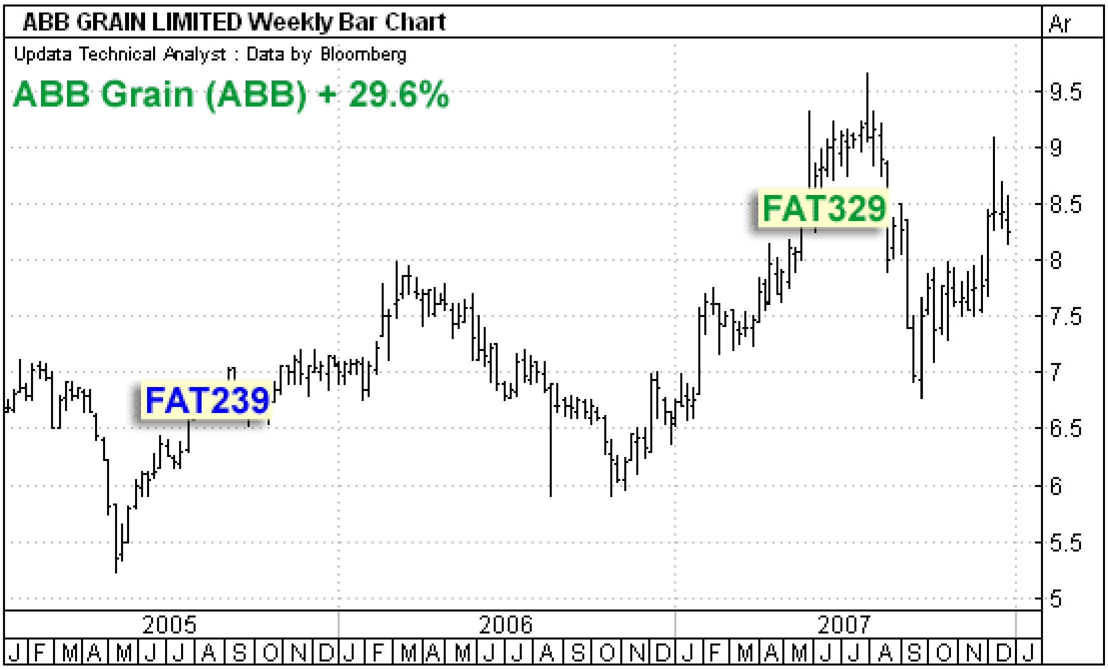
We first recommended the exploration company, Bolnisi Gold in December 2005 at $1.05. Since then, Bolnisi performed exceptionally well, appreciating more than 200 percent. However, following the takeover by North American silver heavyweight Coeur d'Alene Mines, the company's exciting exploration profile was lost. Given the circumstances, we decided to lock in our gains and sell Bolnisi Gold.



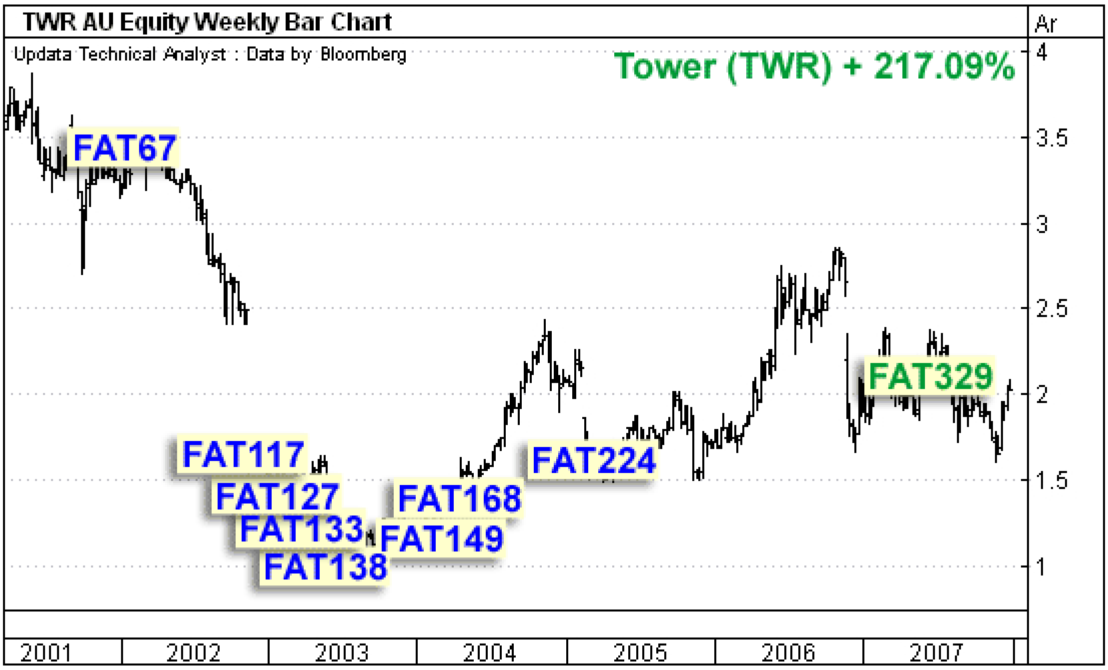
Hunter Hall was included in the Fat Prophets Portfolio in March 2001. The company has been a standout performer, appreciating more than 8 times since our original recommendation. The strong performance record of the investment manager's products was key to the stock's tremendous growth. And while we don't doubt the ability of Hunter to continue delivering robust returns, given our exceptional gains since the initial recommendation, we believed it would be prudent to reduce our exposure by half.



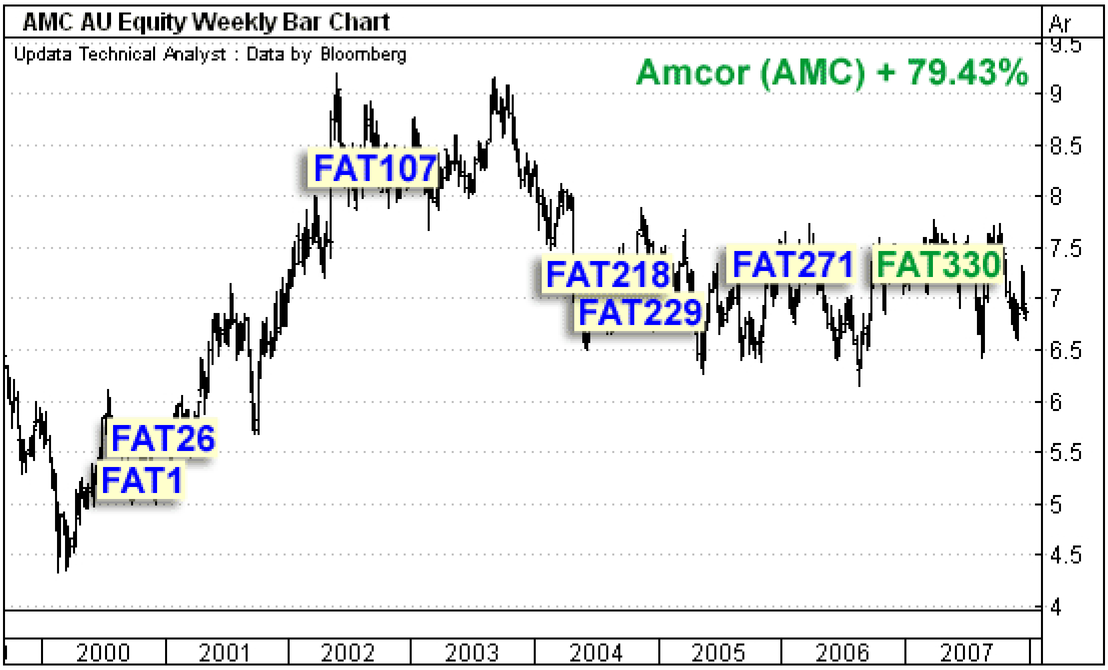
Our initial recommendation for wood chip and housing wood frame supplier, Auspine, came in March 2001 at $2.25. While the stock made steady progress, the housing market downturn on Australia's East Coast saw Auspine's profitability began to suffer. The stock continued to offer good value from an asset perspective, as it traded below net tangible assets for a considerable period. This brought out the predators, and an announcement of a potential takeover from Gunns saw the share price soar towards the $6.15 offer price. Given the industry economics, we considered the elevated price more than fair value and recommended selling all remaining stock.



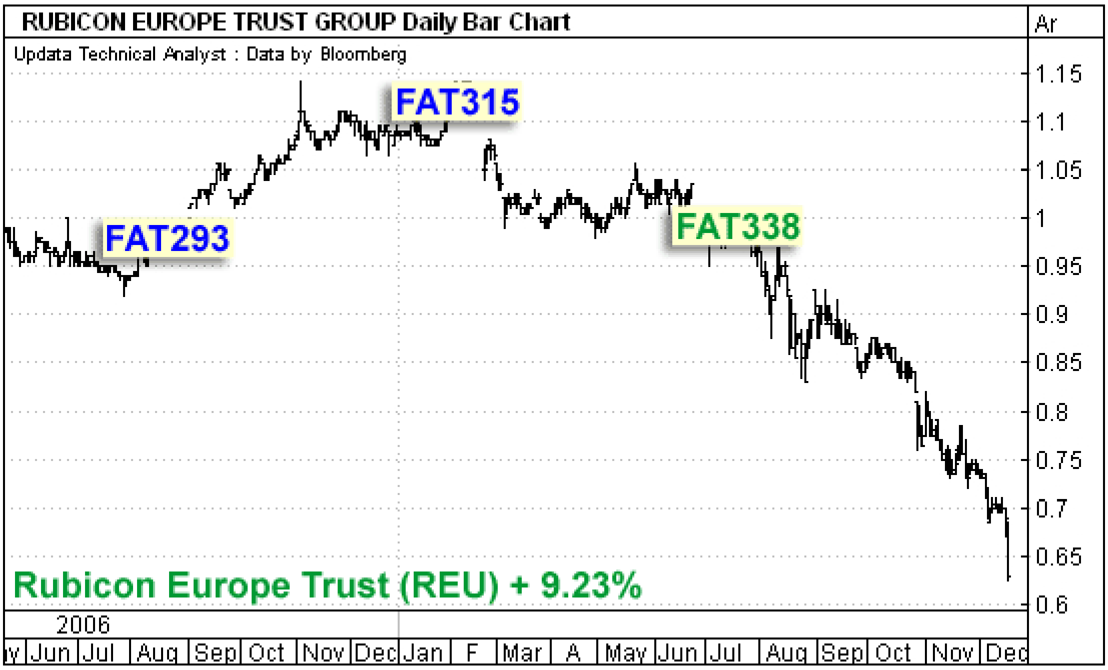
We added ABB Grain to the Fat Prophets Portfolio in July 2005 at a price of $6.79. Our interest was piqued after fears of a prolonged drought pushed the stock's price well below our estimation of intrinsic value. This was especially so given the company's dominance of the South Australian grain market. After a lack-lustre performance, the stock made strong gains from late 2006. With much of the potential upside already accounted for in the stock's price, we felt the risk outweighed the potential reward and decided to sell our holding.



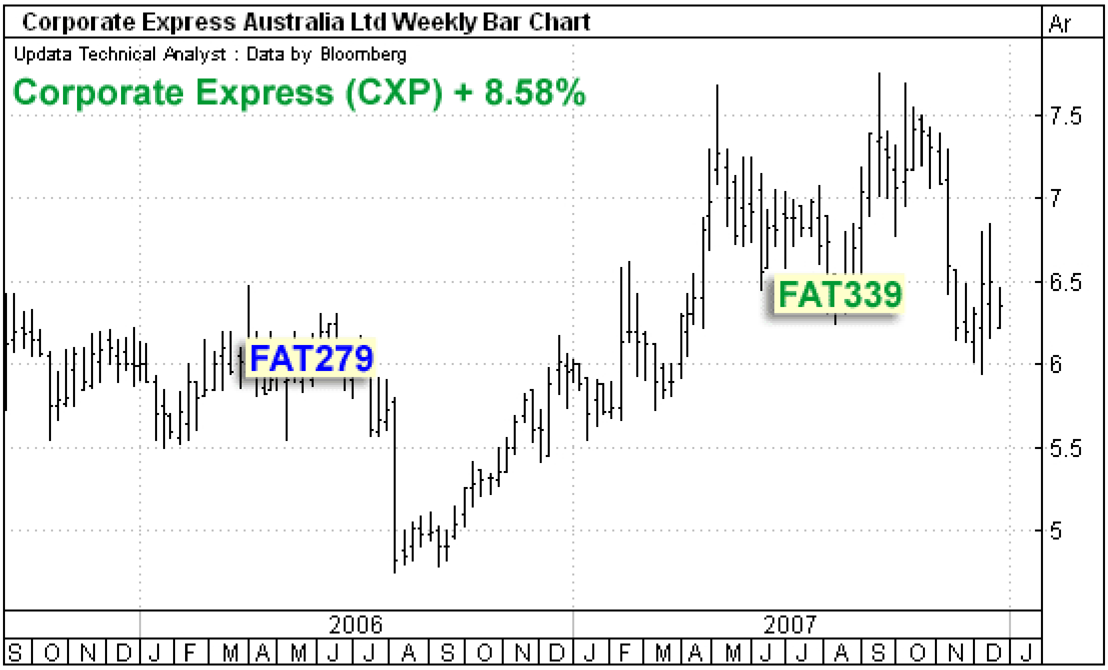
Tower New Zealand is another Fat Prophets Portfolio stalwart, with our original investment dating back to January 2002. Since then, the stock has exceeded our expectations, generating a return in excess of 200 percent. In November 2006, Tower's Australian and New Zealand operations went their separate ways. After much consideration, we concluded that Tower New Zealand no longer offered sufficient growth or yield to justify our holding. As such, we recommended selling the stock.



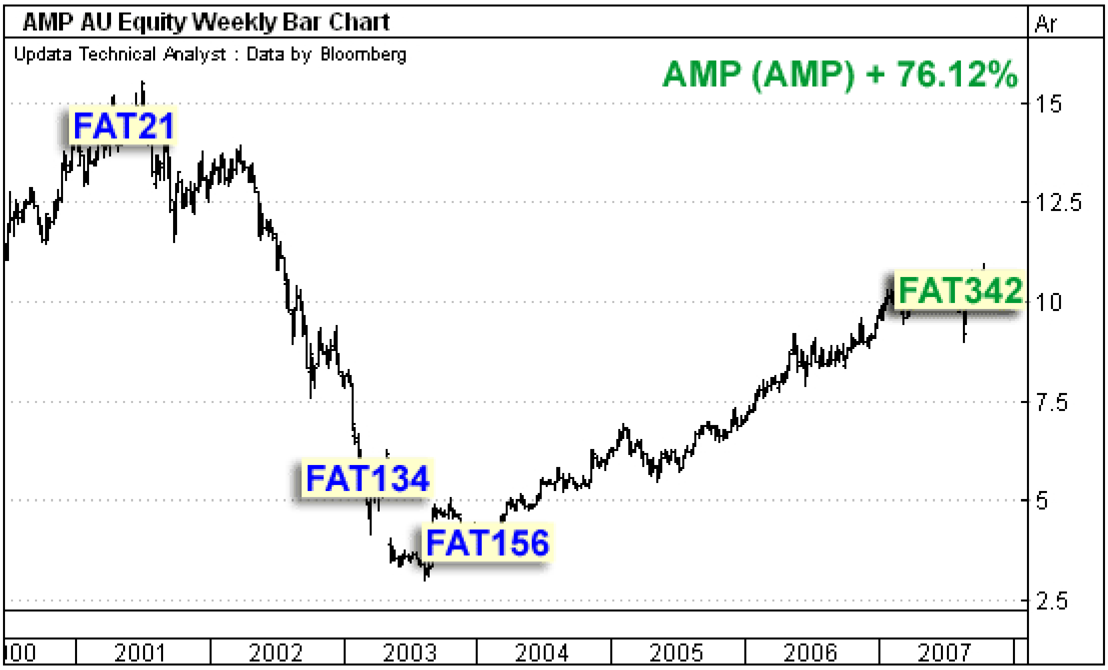
Amcor has the honour of being the first stock in the Fat Prophets Portfolio, having been held since October 2000. However, the paper and packaging industry in which Amcor operates suffers from over capacity and structural inefficiencies. This has resulted in the company embarking on a number of restructuring programs over recent years, which nearly always result in write-downs and restructuring charges. With the prospect of continued pressure on earnings, we decided it was time to part ways and recommended selling.



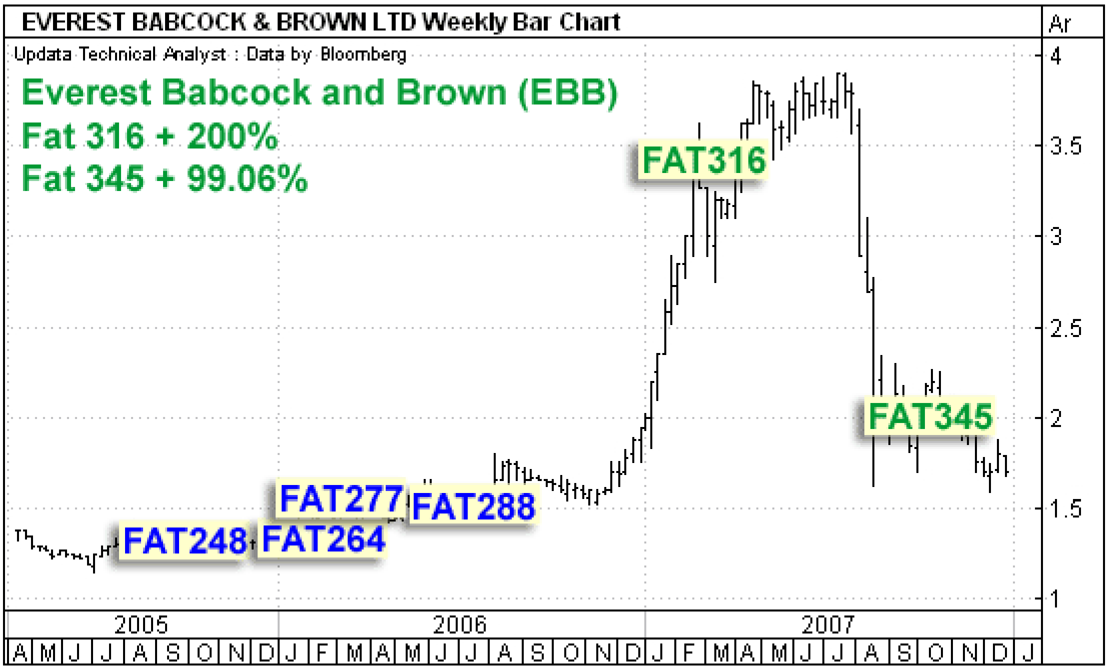
We first recommended Rubicon Europe Trust in August 2006, as an opportunity for Australian investors to gain exposure to undervalued elements of the European property market. However, in March 2007 Management decided to extend their activities into mortgage financing, which resulted in a sharp share price reversal as investors re-assessed the Trust's risk profile. Following consideration of the risks now associated to the Trust, we felt better opportunities lay elsewhere and removed our exposure.



We initially recommended Corporate Express in May 2006 at $6, the timing of which was slightly premature as the stock subsequently fell. Nevertheless, our conviction was justified when the stock recovered all the lost ground and more. Even so, we subsequently determined that the company's organic growth potential was not as favourable as we had first anticipated. In the face of competitive pressures and rising costs, we felt future growth was limited and decided to lock in a modest gain.



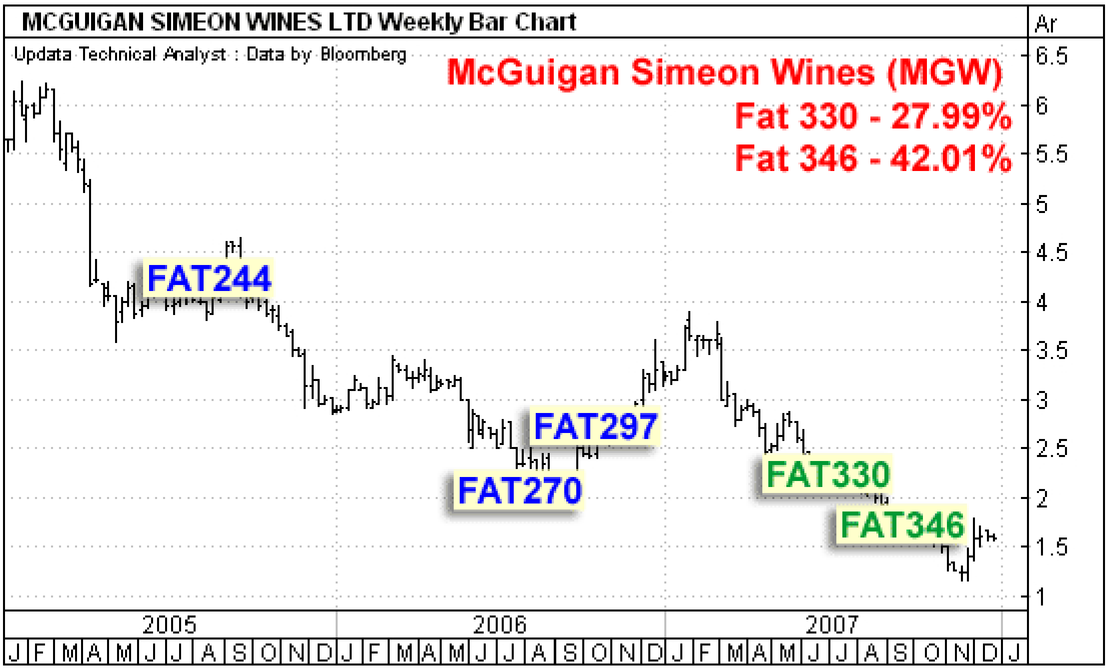
After persevering with AMP through the lean years during the early part of the decade, we enjoyed the company's subsequent resurgence under the stewardship of Andrew Mohl. However, following Mr Mohl's resignation, we felt the company faced a more uncertain future and with better opportunities elsewhere, crystallised a gain in excess of 75 percent.



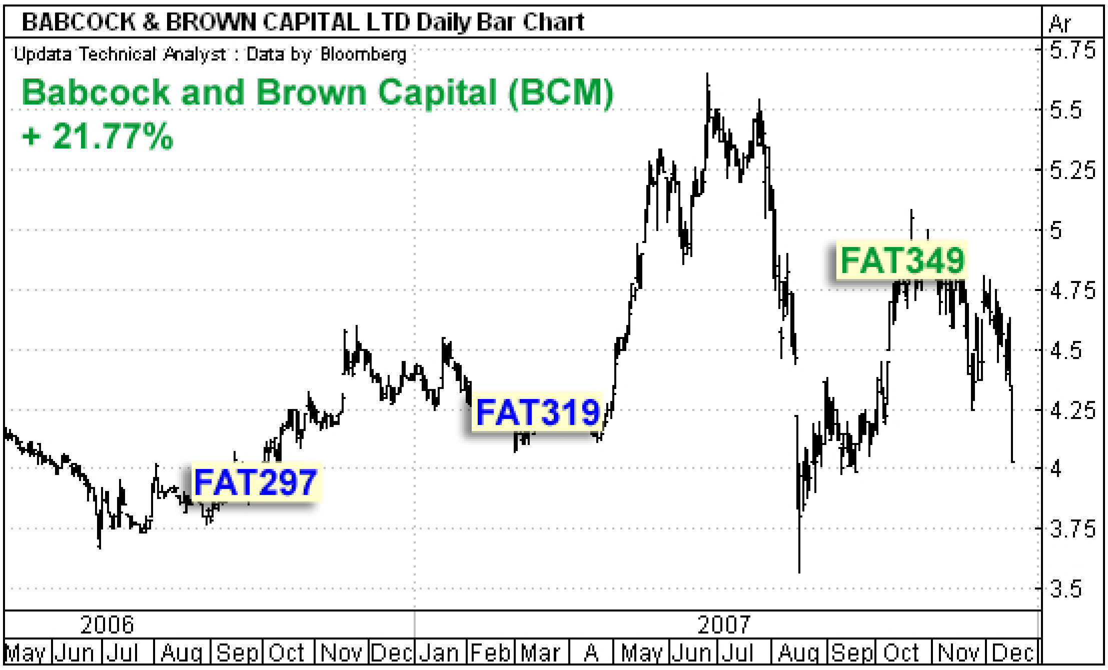
EBB's initial incarnation in the Fat Prophets Portfolio was as both a Company and a Trust, wrapped up in one. In August 2006, the two entities traded separately, as Everest Babcock & Brown Alternative Investment Trust (EBI) and Everest Babcock & Brown Limited (EBB). Our effective entry price for EBB was $1.38 and upon listing the stock traded around $1.60. We believed the stock was undervalued and in the next six months we saw the price rise by over 100 percent. Following such strong gains we decided to lock in some profits with a sell half recommendation.

Following the company's half year results however, we then decided to sell our remaining holding. While the company reported very strong year on year growth, we believed the changing conditions in financial markets would result in a slower rate of future growth.

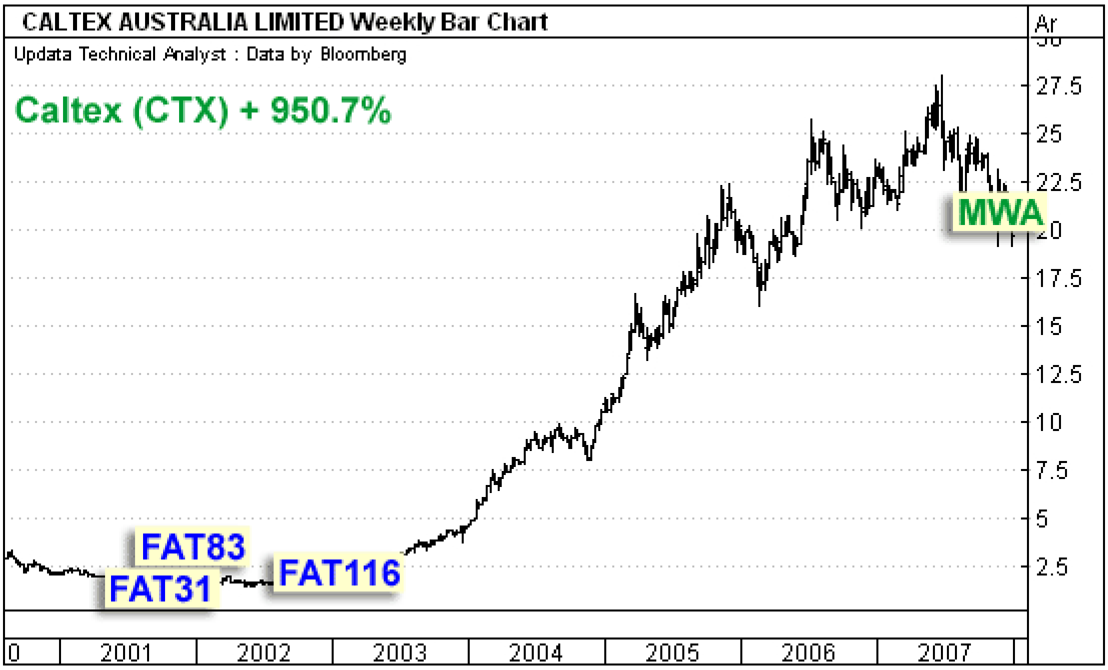
We originally recommended Perth based financial services provider, IWL, in late 2004. Following the recent trend of consolidation in the financial services industry, IWL's board recommended shareholders accept a takeover offer by Commonwealth Bank of Australia. With the stock having performed strongly since our initial recommendation and the market price in the region of the offer price, we took the opportunity to lock in a healthy return in excess of 230 percent.



Our original investment premise for McGuigan was a classic contrarian play. The wine industry was in the midst of over-supply, which forced mass discounting as companies attempted to reduce their wine stockpiles. This in turn put earnings (and stock prices) under pressure. Recognising the cyclical nature of the situation, we recommended McGuigan at $3.55 in August 2005. As is an inherent risk for agricultural stocks, the pendulum swung too far with under-supply and higher costs now the issue. Given the increased risk, we opted to reduce our exposure by half in June. The fundamentals continued to deteriorate in the weeks that followed however, leading us to sell the remaining holding and realise an uncomfortable 42 percent loss.



We originally recommended the company as a method for investors to gain exposure to a private equity type vehicle. And due to the stock's private equity type debt structure, the August 2007 credit crunch removed our initial gains. While the stock price recovered in the subsequent market rebound, given the inherent risk attached to highly indebted vehicles we took advantage of the strong price rally to lock in modest profits. With the stock still representing good value though, we decided to maintain some exposure.



We first recommended Caltex back in mid-2001 at around $2.15. At the time, Caltex was deeply out of favour with investors. As often happens with our contrarian investments, the stock continued to decline following the initial recommendation. As we envisaged though, the company's fundamentals began to improve considerably and the stock price quickly moved to significantly higher levels. However, with the stock's stellar growth phase in the past, we considered the right course of action was to lock in our profits and sell. We consequently issued a mid-week alert in November, recommending the sale and securing our total holding period return of more than 950 percent.

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Sumitomo Chemical, Sumitomo Mitsui Financial Group, Tata Motors, TE Connectivity, Telepizza, Tencent, THK Co., Toyota Motor, VanEck Vectors Junior Gold Miners ETF, Volkswagen, Walt Disney, Wynn Macau, Wynn Resorts, XTD, Yaskawa Electric, Zillow. These may change without notice and should not be taken as recommendations.