One of the biggest criticisms we have faced this year is that we did not sell enough stocks. This is a valid criticism, especially in light of the ongoing carnage in the markets in October and November. In hindsight we should have added extensively to the list of sells below. However we made the decision to hold onto many stocks based on attractive valuations and we believe most stocks in the portfolio will rise well above their current levels in the years to come. Some of course, will not.

That said, we do attempt to cut losses and take profits where appropriate, as highlighted by the stocks below.

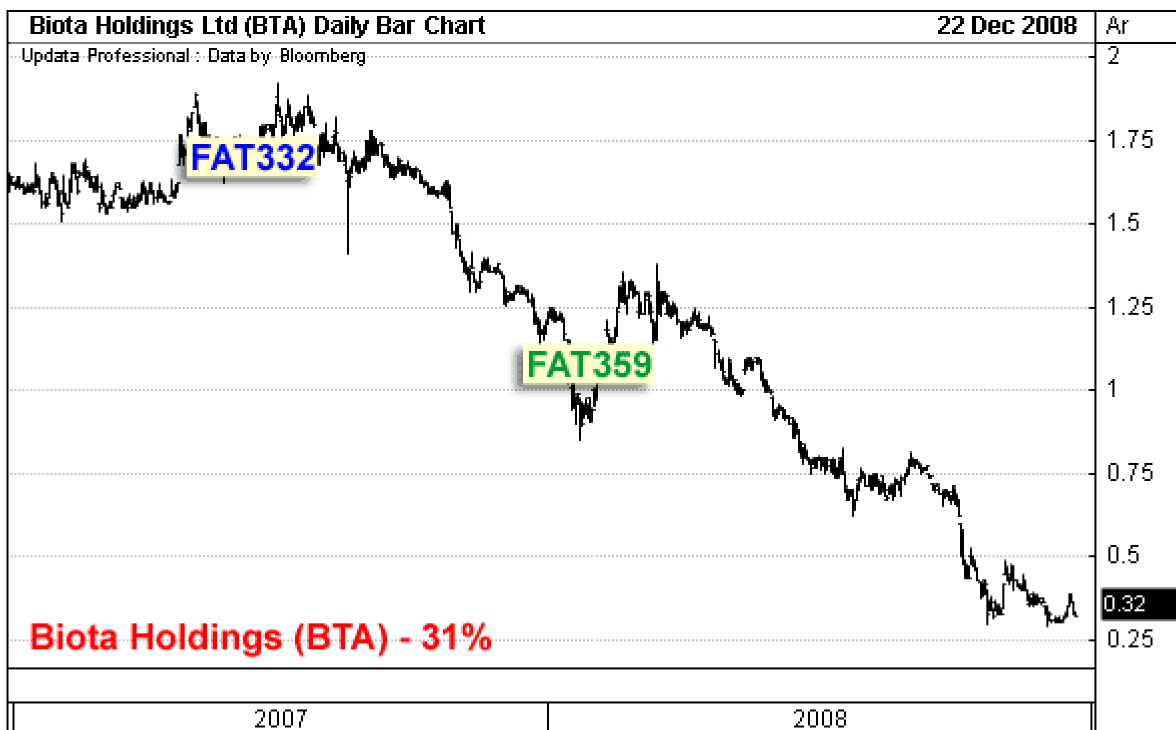
The following is a list of stocks that we sold throughout the year (including sell half recommendations). In the interests of transparency, we would also point out that the returns are based on our initial recommended price, or, where subsequent recommendations have been made to all Members, our average entry price. The total return also includes dividends paid.

The blue FAT issue numbers on the charts indicate the initial buy, while the green ones mark sales.

We recommended AV Jennings in August 2007, based on a favourable chart structure and the potential for a turnaround in the NSW housing market. As a turnaround story though, the stock carried a comparatively high degree of downside risk. With the chart structure breaking down and increased uncertainty surrounding the NSW housing market, we decided to cut our losses and sold the stock in January 2008.

Babcock & Brown Capital owns the Irish Telco Eircom, a dominant provider of fixed line wholesale and retail telecommunication services in Ireland. Although BCM's capital structure was highly geared, we believed the potential rewards from Eircom more than compensated for the associated risk.

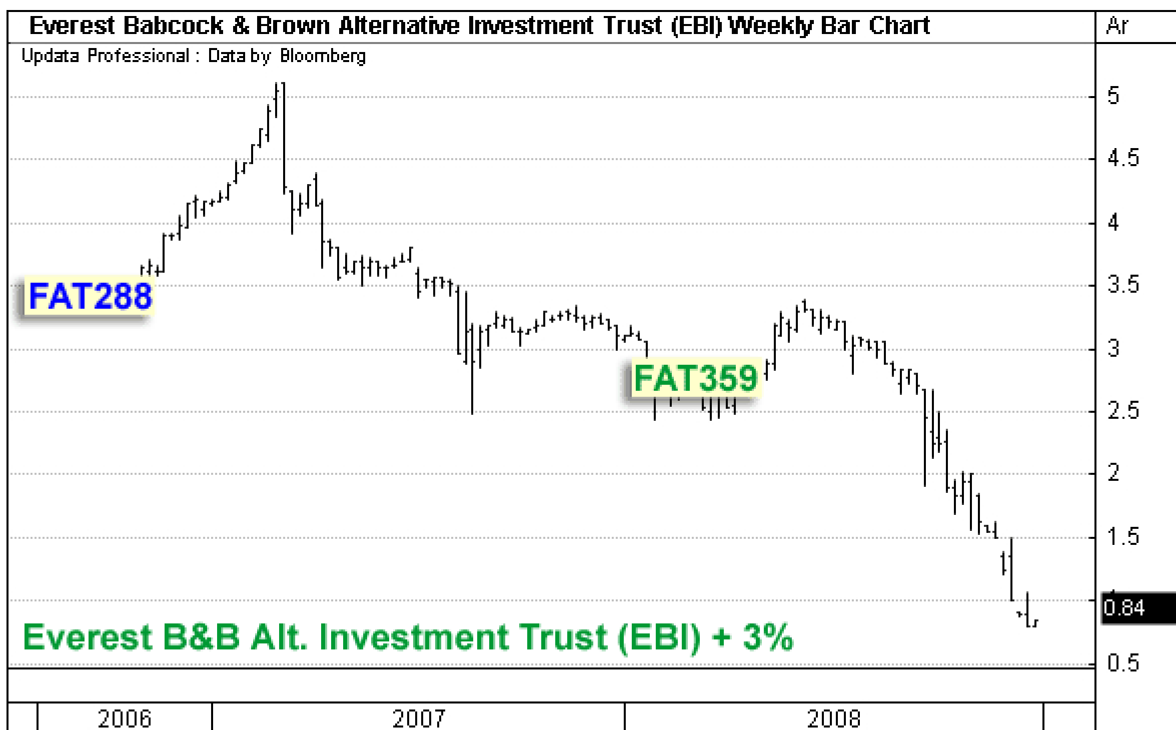
We therefore recommended the stock in September 2006 (FAT 297). We sold half our exposure in October 2007 for a tidy profit but the high debt levels meant the stock's risk profile deteriorated considerably following the global credit squeeze and we decided to remove our remaining exposure in January 2008.



We included Biota Holdings in the Fat Prophets Portfolio to gain exposure to the company's key influenza drug, marketed by GlaxoSmithKline as Relenza. The product offered significant growth potential as governments around the world built stockpiles to combat potential pandemics.

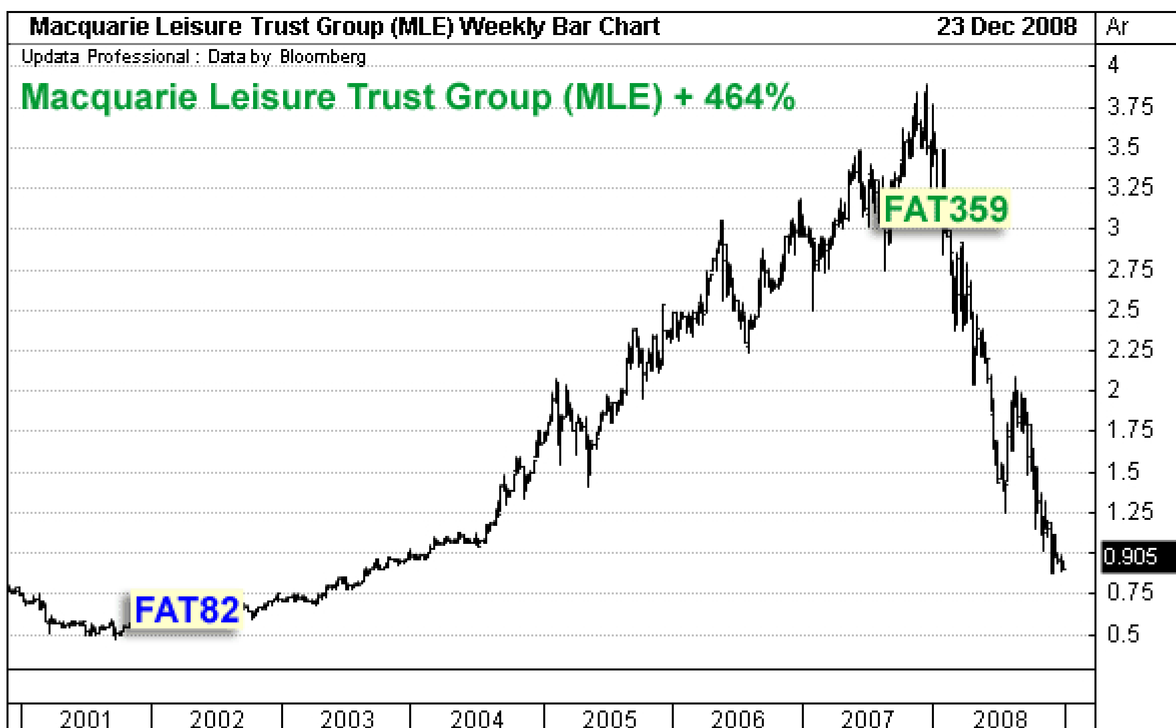
However, Biota were also taking legal action against Glaxo, alleging that the pharmaceutical giant had not adequately marketed the product. Biota was confident the mediation with Glaxo would ultimately prove successful, but the deteriorating stock price was telling us otherwise. As such, we recommended selling the stock in January and sitting on the sidelines to await further clarity.

Biota subsequently advised that they were terminating their litigation efforts and along with the bear market, the stock price has since deteriorated significantly. The stock is now trading just above its cash backing and we continue to monitor developments.



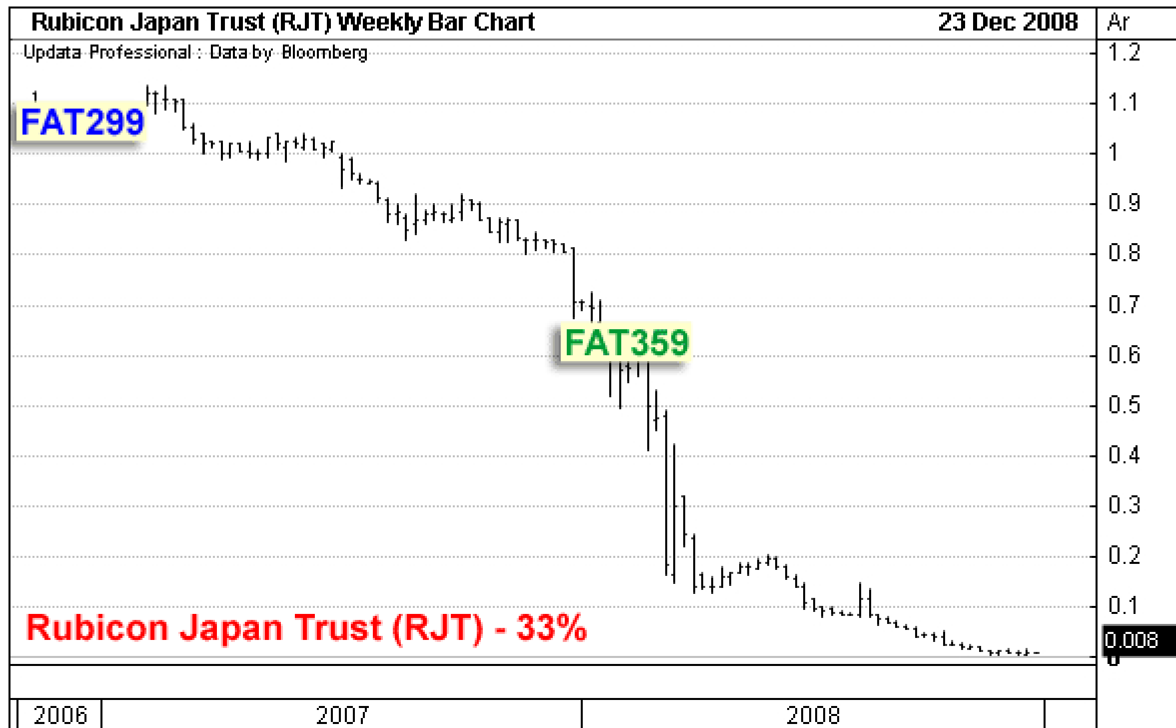
EBI consists of a portfolio of hedge fund managers and is predominantly a leveraged income based investment, as the fund distributed all gains made by the hedge fund managers. However, the increased market volatility from mid-2007 led to flat returns from the underlying hedge funds and the Trust subsequently cancelled the dividend for the period ending 31 December 2007.

Given the state of the markets, we felt that the scenario of lower returns and therefore income could persist for some time, leading EBI to continue trading well below its net tangible asset backing. With better opportunities elsewhere, we recommended Members sell EBI in January for a modest profit.



Macquarie Leisure Trust has been a standout performer since our initial buy recommendation in 2002. The strong performance is primarily due to the success of the Trust's flagship asset, Dreamworld. Management also drove growth through the development of other divisions such as bowling, marinas and a US expansion.

Given the Trust's consumer discretionary nature and exposure to a slowing US economy, we felt future growth would prove far more challenging than had been the case in the past. As such, we chose to lock in our more than five-fold gains and sell the stock in January.

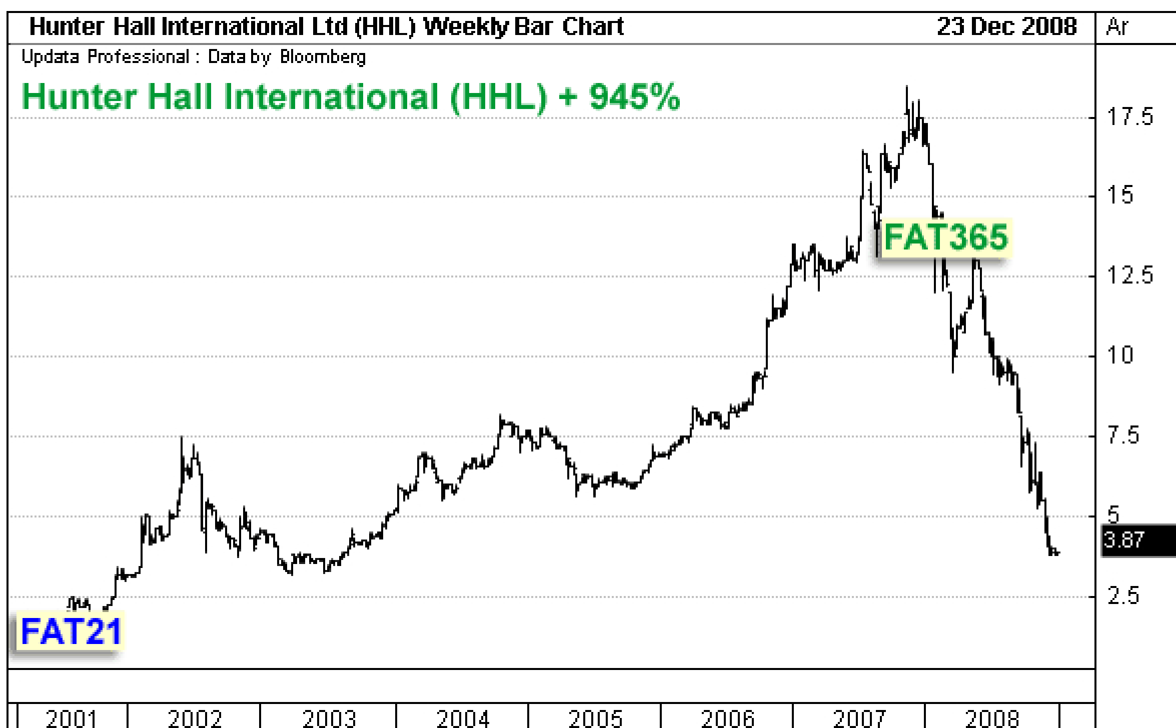


We originally gained exposure to Rubicon Japan Trust through a priority allocation to the initial public offering based on our holdings in the Rubicon European Trust. At that time, we believed RJT represented a good vehicle for Australian investors to gain access to our view of a rising Japanese property market.

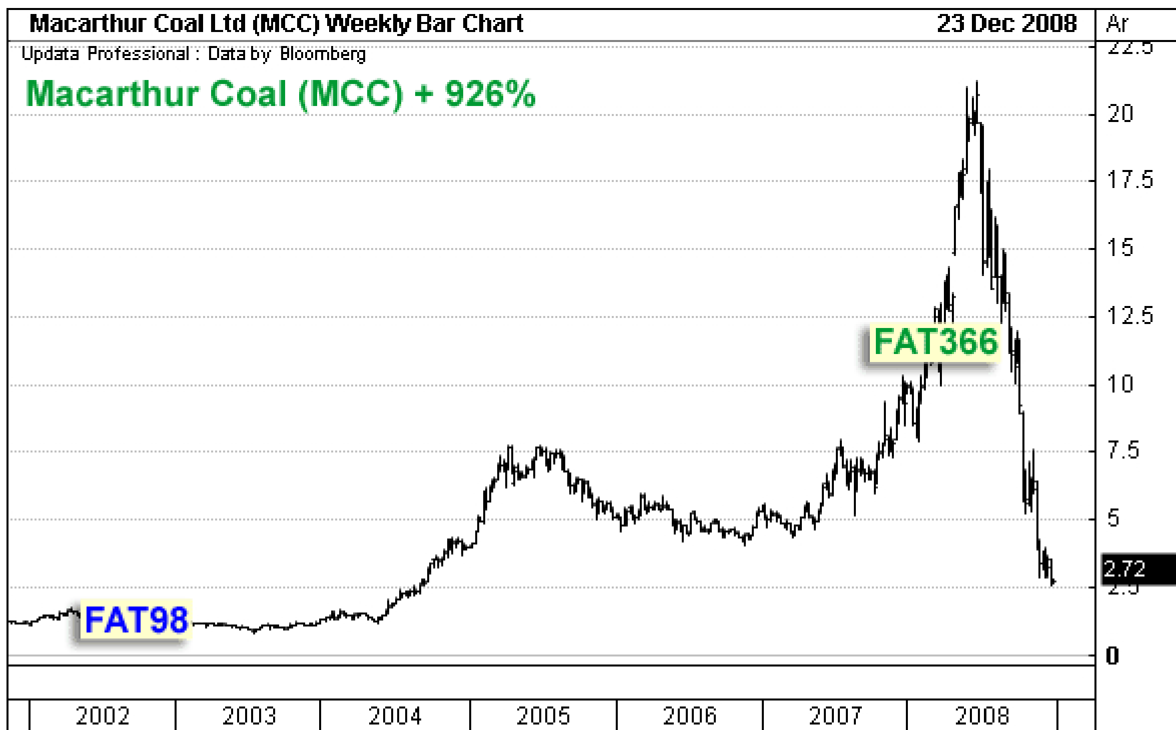
This was in hindsight an unfortunate error of judgement. It subsequently became clear that RJT's management were not of the same calibre as our alternative Japan Property Trust, Babcock & Brown Japan Property (BJT). We therefore took the difficult decision to realise an uncomfortable loss and sold the stock in January. With the stock now trading at less than 1 cent, losing a third of the investment seems a small price to pay.

We originally recommended beverage giant Foster's Group back in March 2004. At the time, we were attracted to the company's duopolistic industry position and strong operating cash flows. However, management's ill-timed expansion into wine has hampered the company's growth and shareholder returns.

Although the Australian wine division's profitability improved considerably in the 2007 half year results, wine sales in the Americas had begun to slow. Given our bearish outlook on US consumer spending, we felt this weak demand environment would continue for some time. With no end in sight for the wine division's sub par returns, we recommended locking in our profits and selling Foster's Group.



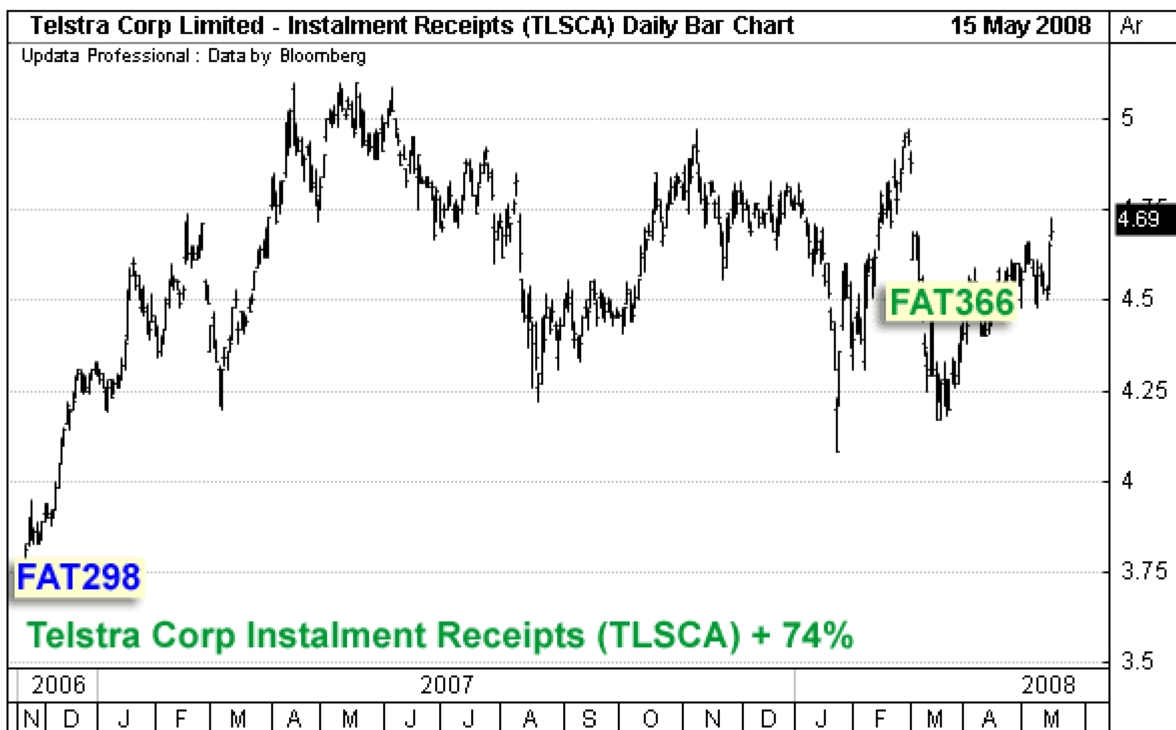
Investment Manager Hunter Hall has been a long-standing feature in the Fat Prophets Portfolio, over which time the company's outstanding investment performance has driven strong share price growth. Given the possibility of continued volatility in global stockmarkets though, we felt such strong growth was unlikely to continue in the year ahead. Accordingly, we opted to take some profits off the table and reduce our exposure by half.



Macarthur Coal was first included in the Fat Prophets Portfolio in 2002. More recently, the planned improvements to port and rail infrastructure on Australia's east coast were central to our investment case, facilitating greater future sales volumes for the company.

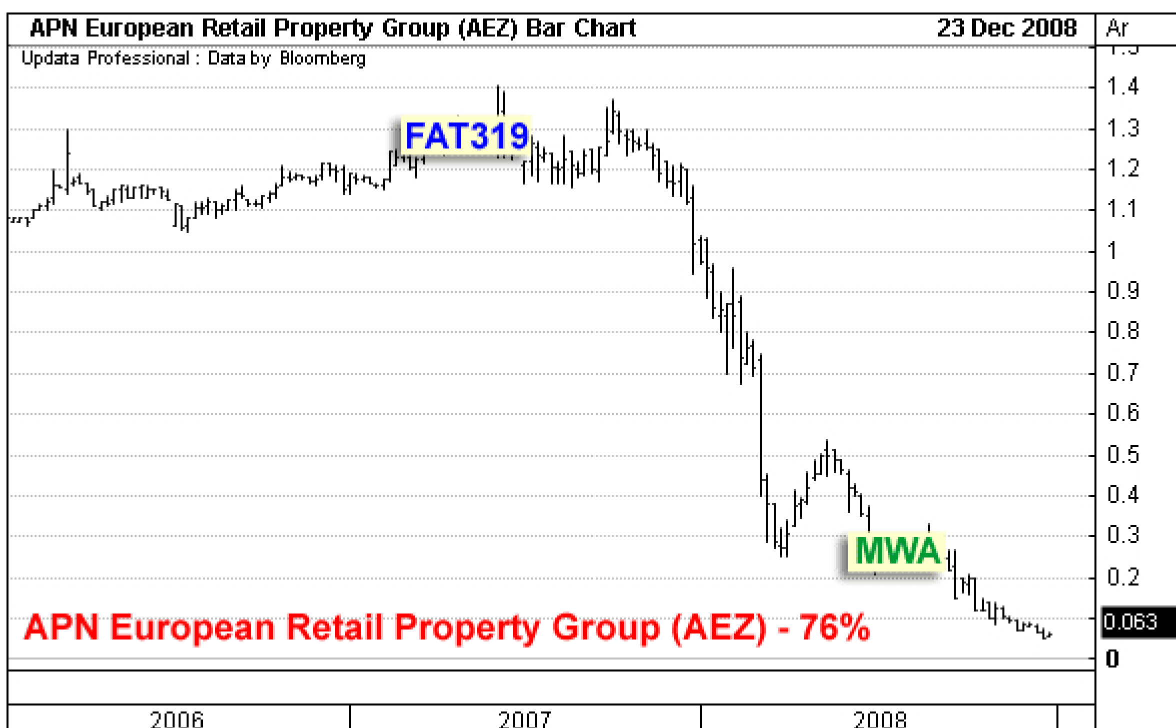
With the stock price hitting record highs, we felt any potential weakening of coal prices or delays to infrastructure improvements represented a considerable downside risk. Although the broader market outlook remained positive, we opted to reduce our exposure by half in February 2008.

In hindsight we should have sold the remaining half into the subsequent scuffle for control by various strategic buyers.



After recommending the T3 instalment offer in October 2006, the initial $2 instalment subsequently delivered a healthy 74% return. Although at that time we remained confident in Telstra's ability to perform well in a difficult market, we felt that the easy gains were behind the instalment receipts. Moreover, by taking profits on the receipts less capital needed to be directed towards the head stock when the time came to pay the final Telstra instalment.

The remaining instalment receipts became ordinary Telstra shares after payment of the final instalment.



Our initial reason for buying AEZ was to gain some non-Australian based property exposure. We had long viewed the Aussie listed property sector as expensive and we thought European property, which was more

conservatively valued, offered a relatively attractive opportunity for investors looking for yield.

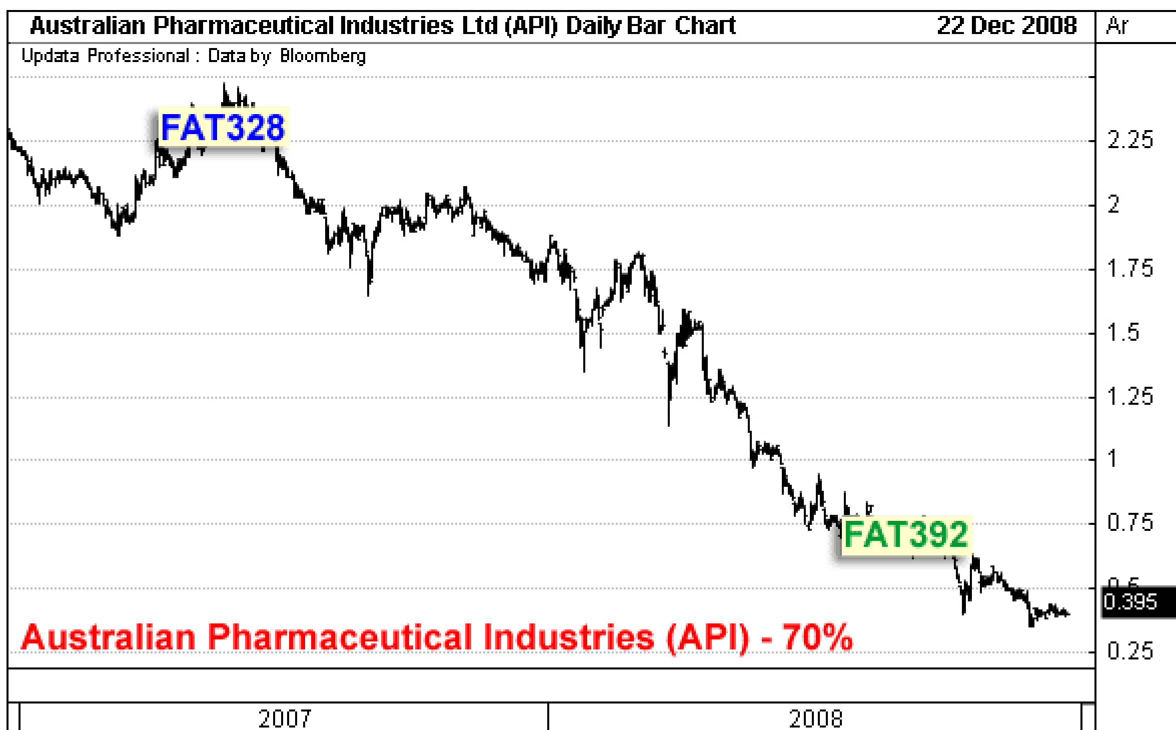
How wrong we were. It didn't matter where the property was located. Rather the crucial factor was the financing of the asset. And AEZ had just as much debt as any other trust. This heavy debt burden began to bite as the credit crunch eroded the value of the trust's properties.

AEZ cut the dividend on a couple of occasions in order to conserve cash. With no sign that conditions were likely to improve any time soon, we decided to exit our position for a hefty loss - Not one of our better recommendations.

Indophil has been a long standing holding in the Fat Prophets Portfolio, providing exposure to the huge Tampakan copper-gold development project in the Philippines. Our view that majority joint venture partner Xstrata may look to take full control of Tampakan became reality during the year when they announced a takeover offer for Indophil.

Xstrata upped their initial offer when a competing bid emerged, leading to two offers of $1.28 per share for the company. The existence of two potential buyers raised the prospect of a higher offer, reflected in Indophil's share price trading at a small premium to the offer price.

Given the risk that the bids would fall through, we opted to take some profits off the table through a sell-half recommendation. This allowed us to lock in quite considerable gains, while retaining exposure to the prospect of the eventual development of the asset. We would have been better off selling all of the stock as the share price has since fallen considerably.



Our original investment case for Australian Pharmaceutical Industries was slightly different to our standard formula. The company had been through a disastrous 2007, but with fresh leadership the stock offered strong turnaround potential.

We felt the stock's valuation did not reflect the upside potential of restored profit margins in the core distribution business, or the growth of the Priceline Pharmacy brand. Nevertheless, the stock remained in a persistent downtrend as investor sentiment continued to wane.

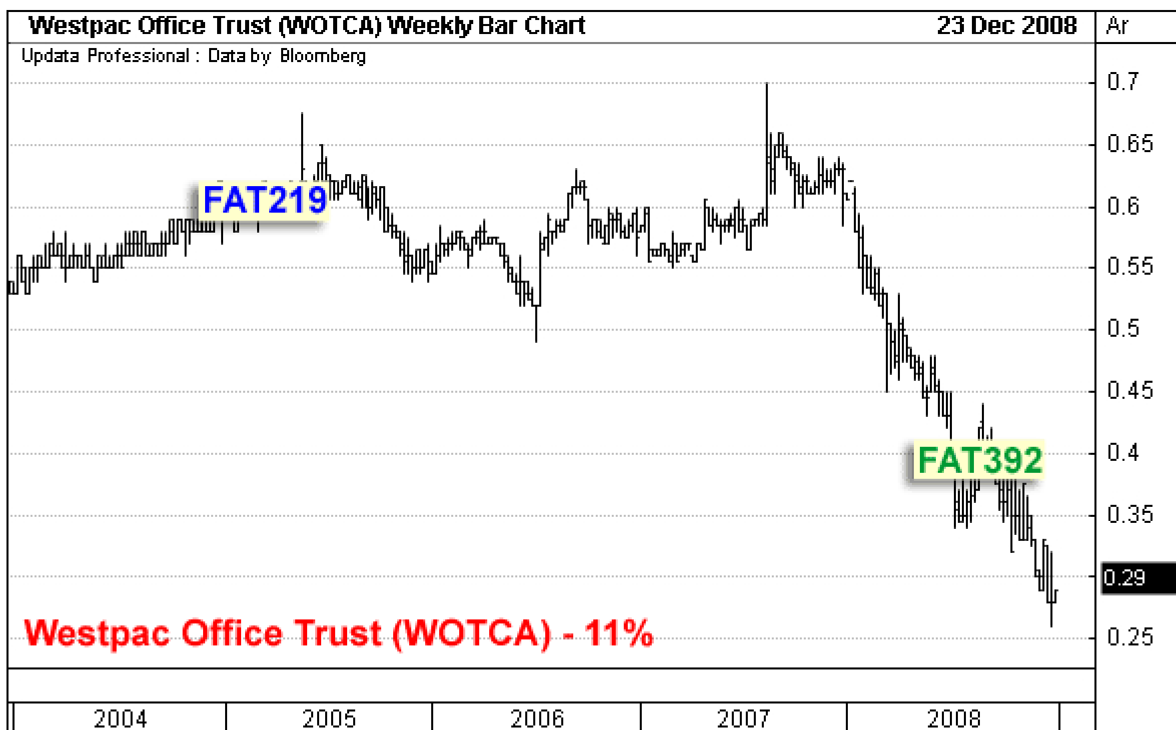
While our view on the stock's upside potential remained unchanged, it became clear that the turnaround would not occur within an acceptable time frame. We therefore took the decision to cut our losses and view future developments from the sidelines.

Nufarm has been a standout performer for Fat Prophets. We originally recommended the company during the Australian drought in 2002. Nufarm was at that time far from the great performer it later became, trading at just $3.62. Our faith in the quality of both the business model and management paid off as the business steadily grew over the years.

Nevertheless, we believed Nufarm had become fully valued and the stock's best days were behind it. We recommended selling Nufarm at $15.77 in FAT392 to take advantage of more compelling value opportunities elsewhere.

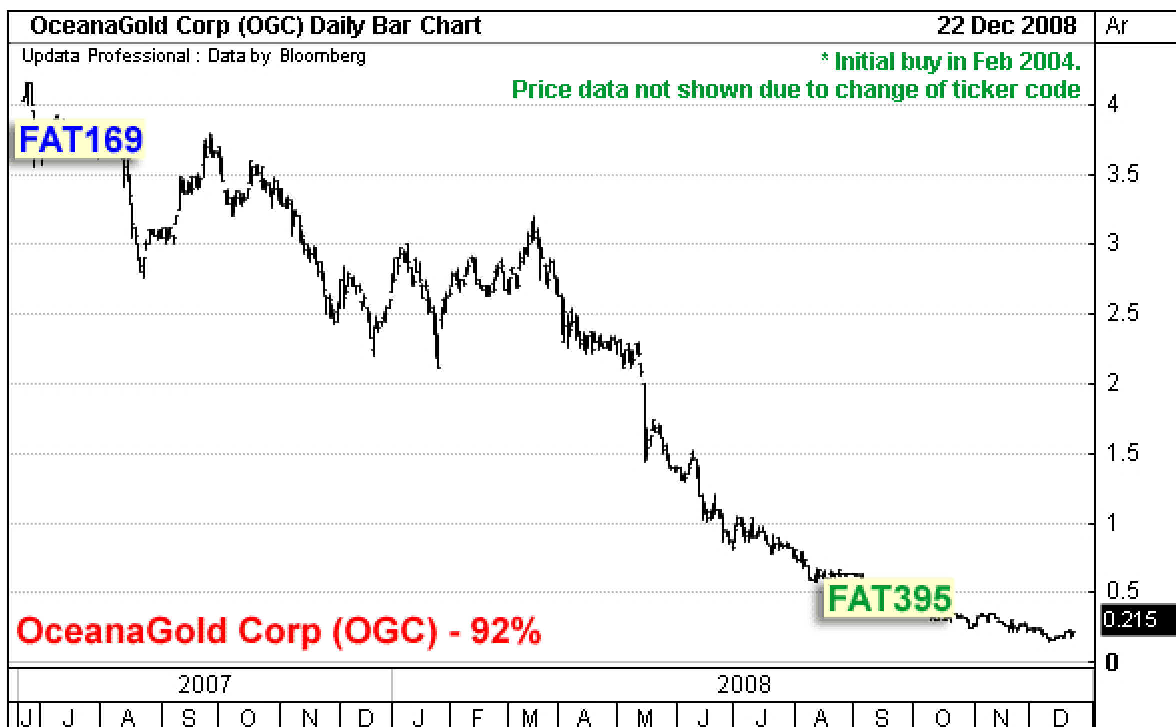
We persevered with TAP Oil for some time, having bought into the company back in 2005. Operational disappointments characterised the subsequent few years. Most recently, the company failed to capitalise on the record oil prices in the first half of 2008 due to production disruptions at their key operations.

This contributed to a breakdown in the charts and the possibility of a protracted deterioration in the company's stock price. While there was the potential for exploration success to re-invigorate the share price, the company's risk reward profile was no longer favourable in our view. We therefore sold TAP, switching the proceeds to Australian Worldwide Exploration (AWE).



We initially recommended Westpac Office Trust in 2005 as a defensive investment that also offered longer-term growth prospects. However, the Trust's defensive characteristics did not hold up as we had anticipated in the face of the high profile failures of the lower quality Trusts.

While we felt the Trust had the ability to rebound along with a general sector re-rating, we believed the prospects for the Babcock and Brown Japan Property Trust were better and switched our exposure from WOTCA into BJT.



Oceanagold started out with relatively low quality gold producing assets in New Zealand. However, a growing production profile and restructured hedge book indicated that the assets would generate sound cashflows in

a rising gold price environment. The company also held a number of Philippines based tenements, including the high quality Didipio gold/copper deposit, which had the potential to take Oceana to the status of a mid-tier gold producer.

The company's lofty ambitions unfortunately became detached from reality through Oceana's management blunders, which included a woefully inaccurate estimation of the project's development costs and Didipio became stranded as financing dried up.

For members looking to continue with a high risk exposure, we recommended switching into Mundo Minerals (MUN). Given the subsequent revelations regarding the company's refinancing issues, our lower risk recommendation of OZ Minerals (OZL) was a poor one.

Japanese equities have proven to be a frustrating investment option over the last few years. There's no doubt that the country's share market offers attractive value, but the catalyst to realise that value has never quite materialised. The current global slowdown is likely to impact the one area of the Japanese economy that is world class, the export sector.

ollowing the recent savage bear market in equities, other equity markets in the region are now of comparable attractiveness from a value perspective. We felt that gaining diversified exposure to more dynamic economies in the region could prove to be a more effective long-term investment.

As a result, we recommended selling the fund for a slim profit with a view to investing the proceeds in alternative opportunities.

We initially recommended Telstra in 2005, just prior to the arrival of new CEO Sol Trujillo and subsequent doubts that he could successfully transform the formerly government owned company into a modern telecoms heavyweight. Mr Trujillo then surprised his critics by keeping his ambitious 5-year transformation plan on track, in part due to his uncompromising dealings with regulatory authorities.

More recently though, Telstra's high-risk strategy of forcing the government's hand on the national broadband network backfired and the company was excluded from the process. Although not a knockout blow, the government's decision raises considerable uncertainty around the continued success of Mr Trujillo's transformation plans and more importantly the long-term profitability of the business.

With the charting picture considerably weakened and the stock likely to underperform while uncertainty remains, we recommended selling Telstra and monitoring developments from the sidelines.

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