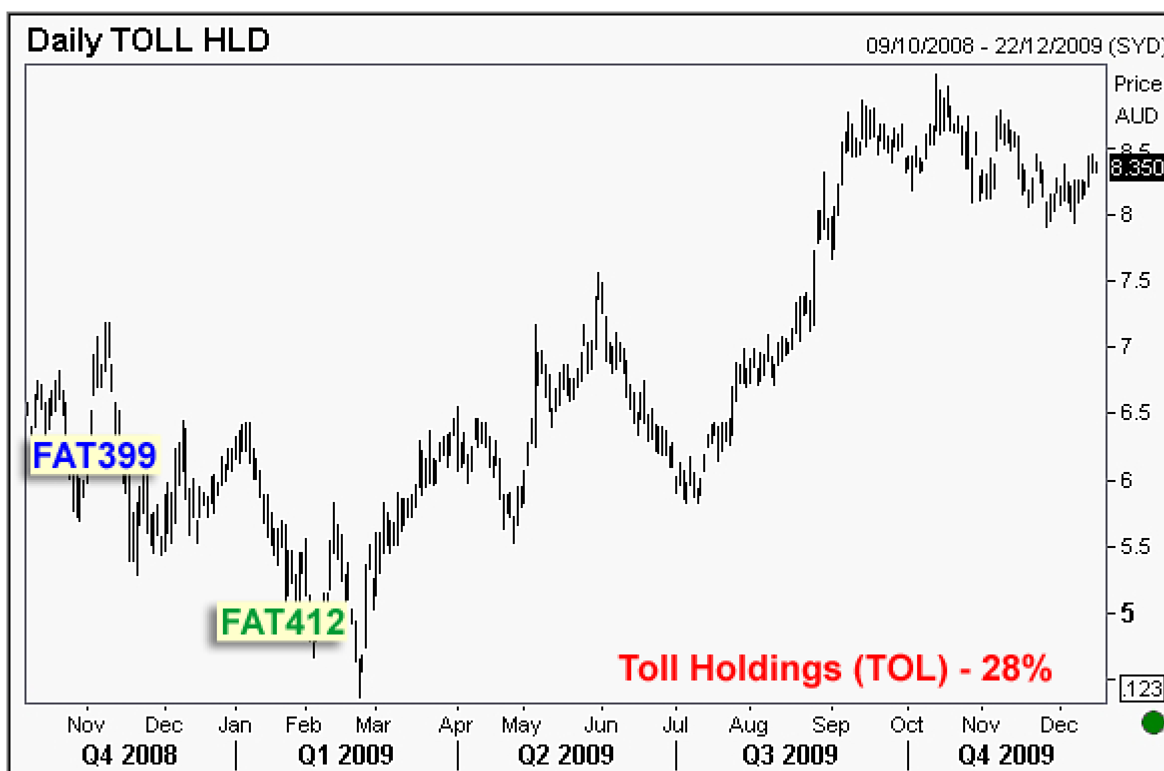
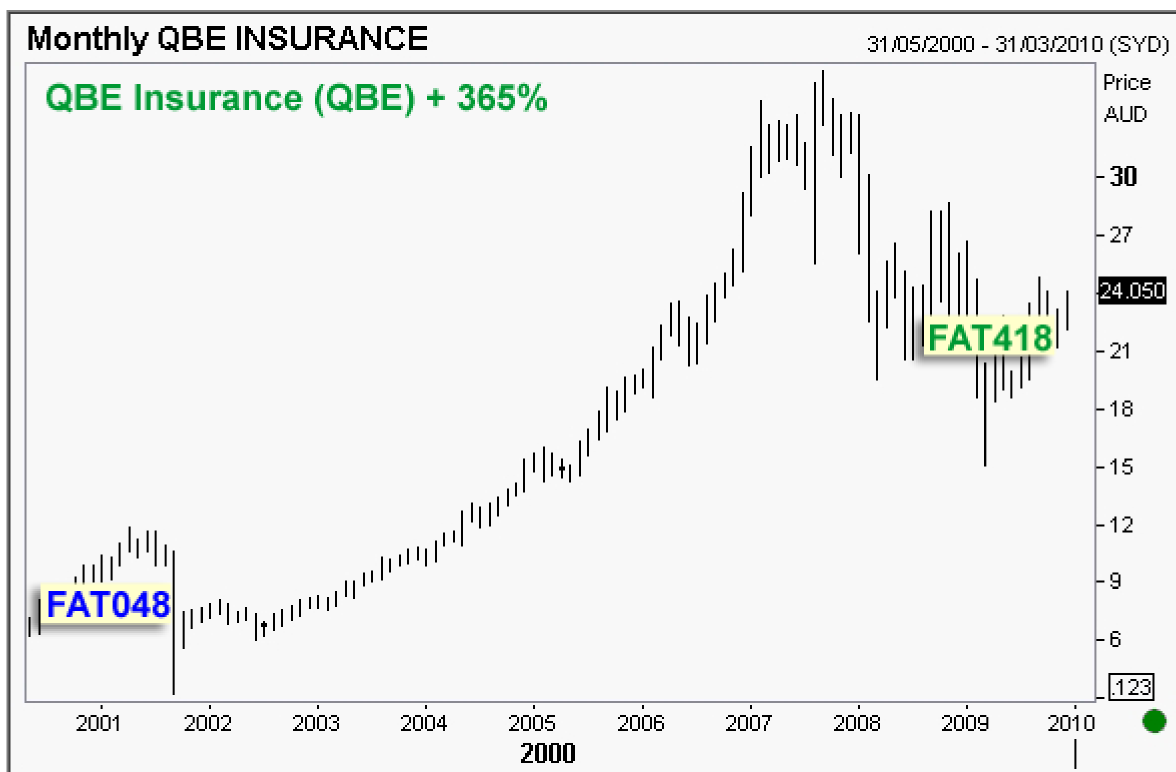
Commentary on each of the year's sell recommendations

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.



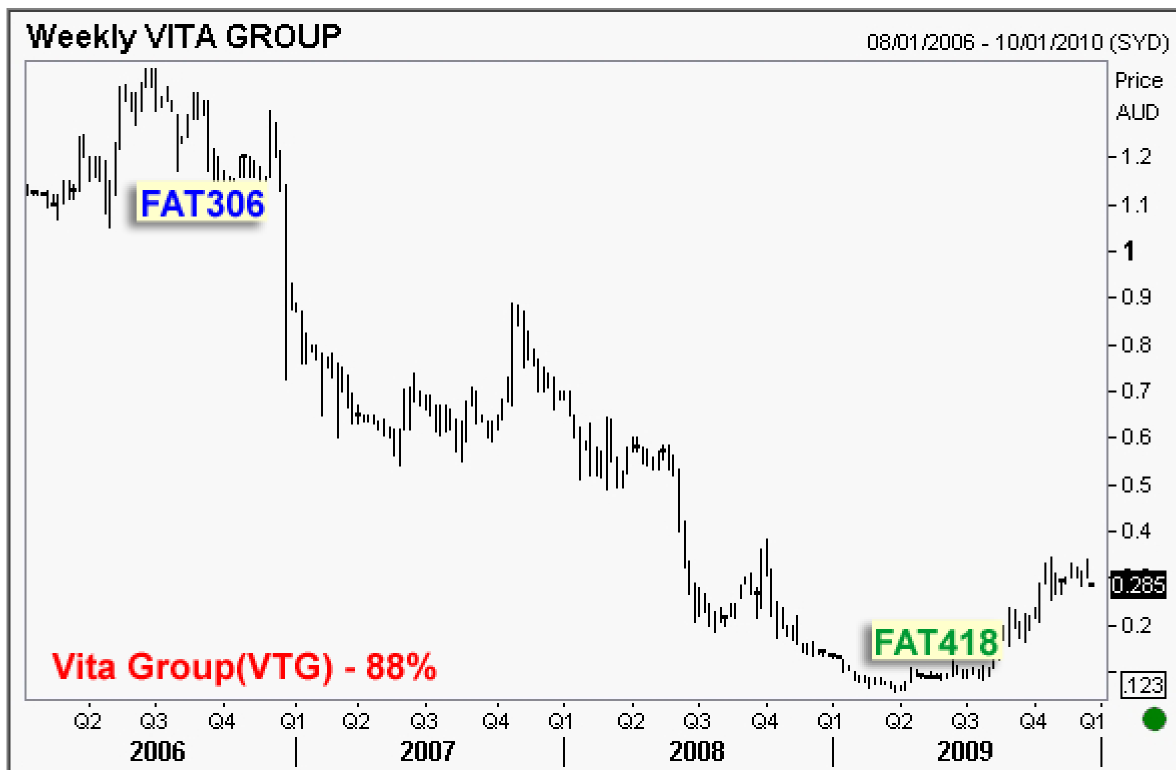
It is fair to say that we were unduly influenced by preceding market meltdown when we decided to cut our losses on Toll Holdings back in February. The stock had begun to breakdown and we took the view that the market had little concern for what we believed were firm fundamentals. Fundamentals did indeed count for little at that time. However, as the chart shows, we erred in our decision and should have stuck to our guns.



QBE had been a feature of the Fat Prophets portfolio since the early days, with our initial buy recommendation being made back in 2001. As investors though, we must guard against becoming too attached to any particular stock.

QBE had delivered a dream run under CEO Frank O'Halloran and his eye for a value accretive acquisition. Nevertheless, O'Halloran's best years behind him and retirement on the cards, our QBE recommendation looked set to deliver an opportunity cost, rather than any substantial further gains. We therefore took the decision to sell QBE.

In hindsight of course, we should have sold the entire holding at the time of our 2007 sell half recommendation, which turned out to be around the stock's all-time high.



Vita Group, originally know as Fone Zone, was the stuff of nightmares. We mis-judged the mobile phone retailer's dependence on Telstra, whose decision to subsidise Next G compatible handsets battered Fone Zone's margins and profitability.

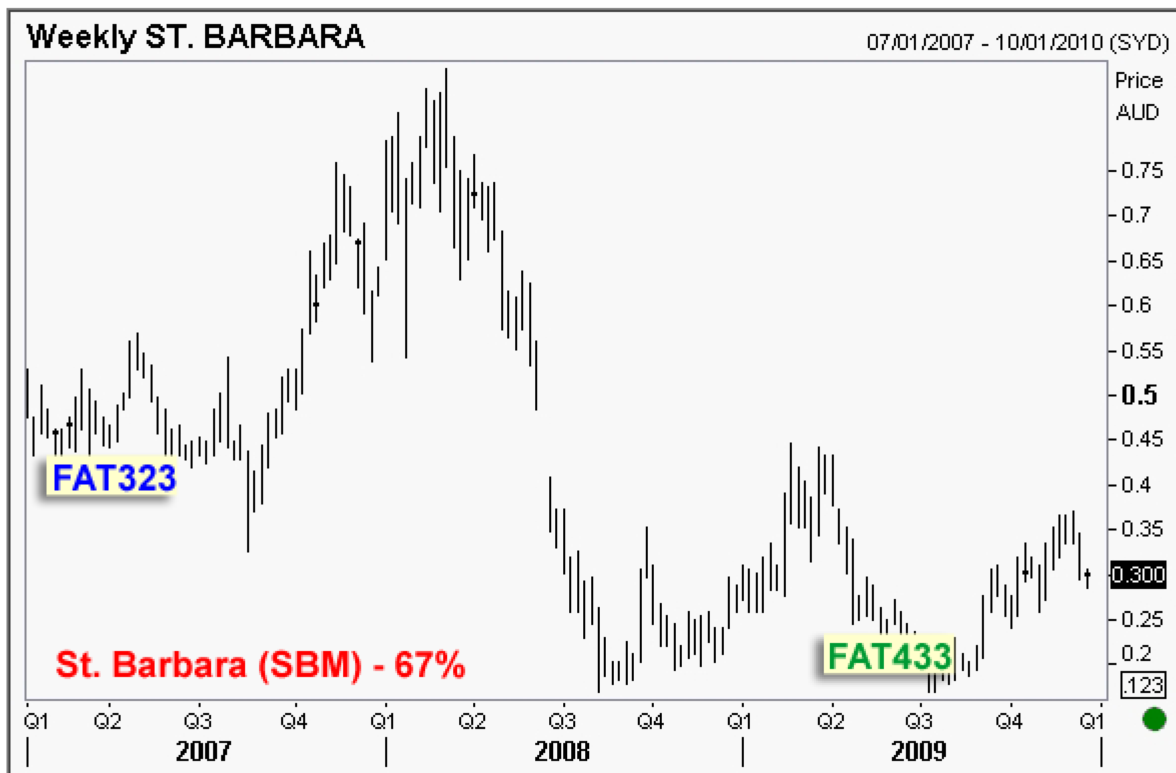
While acknowledging the bad call, we decided to hold on, and recommended the company on subsequent occasions at lower prices. We did this simply because we thought the share price had fallen much more than the value of the business. We were wrong and with the company seemingly holding a one-way ticket to the bottom, we took what little remained off the table and moved to greener pastures.

The small cap section of the market contains a considerably higher degree of risk than is the case at the big end of town. Increased risk of course brings with it the potential for increased rewards, as was the case for Industrea.

We based our original investment case on our view that the market had adopted a significantly more pessimistic outlook for the company than was justified by the fundamentals. At the time of our initial buy recommendation, Industrea was trading on a miserable 3 times forward earnings. As a contract based company, a valuation of this nature implied that the company's order book would fill with cobwebs and not much else in the months and years ahead.

The market quickly came to realise that Industrea was badly miss-priced and, spurred on by a series of contract wins, proceeded to correct the undervaluation. With the stock having re-rated to a more reasonable valuation of around 9 times forward earnings, we took the opportunity to lock in a handsome profit through a sell half recommendation in May.

We subsequently removed our exposure at around what remains the high in August.

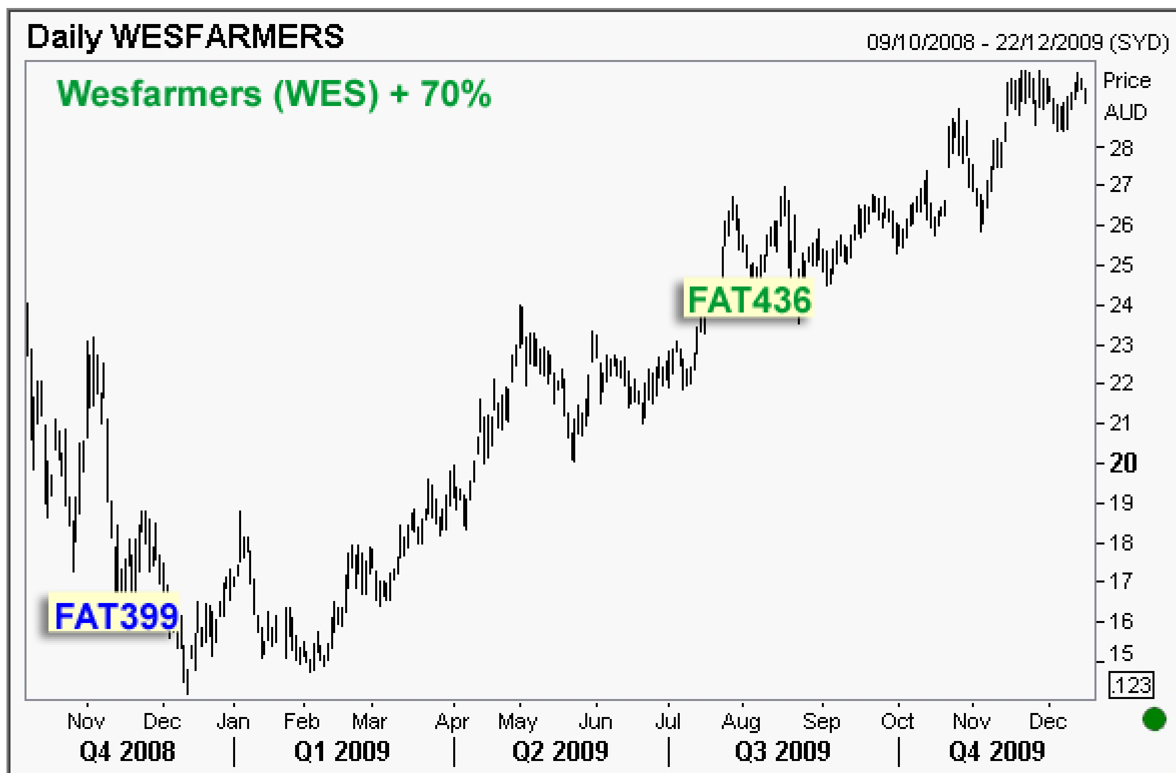


At the time of our 2007 initial recommendation of St Barbara, the gold miner was targeting annual production of 450,000 ounces by the second half of 2008. This proved to be little more than an aspirational target and disappointment characterised the two years since our recommendation. In short, management failed to deliver the promised production, and that which did occur came at a much higher than anticipated cost.

New CEO Tim Lehany rolled out that favourite play of incoming CEOs and instituted a strategic review. As a result, the miner dropped the pursuit of general production growth, in favour of targeting lower cost, higher-margin gold resources.

We would have considered St Barbara undervalued if one could have a reasonable degree of certainty over its future production and cost guidance. Given the miner's chequered track record, the technical difficulties involved in developing an underground resource and the company's potential refinancing headaches, we no longer had any confidence in the stock and exited at a painful loss.

Our recommended switch into Sino Gold at less than $5 did at least recoup a substantial amount of the losses.



Our initial recommendation for Wesfarmers was classic Fat Prophets, being completely against the consensus view. A contrarian approach is often necessary in order to unearth exceptional opportunities though. This has certainly proven to be the case with Wesfarmers.

At the time of our buy recommendation, the true depth of the GFC remained unknown and investors were more concerned about Wesfarmers balance sheet than anything else. While this concern wasn't entirely unjustified, we felt there was considerable upside potential if management could turn around the recently acquired Coles business.

As our opinion became decidedly less contrarian, and given the long road the company still had to travel with regards to rebuilding the Coles, Kmart and Target businesses, we decided to remove some profits from the table through a sell half recommendation.

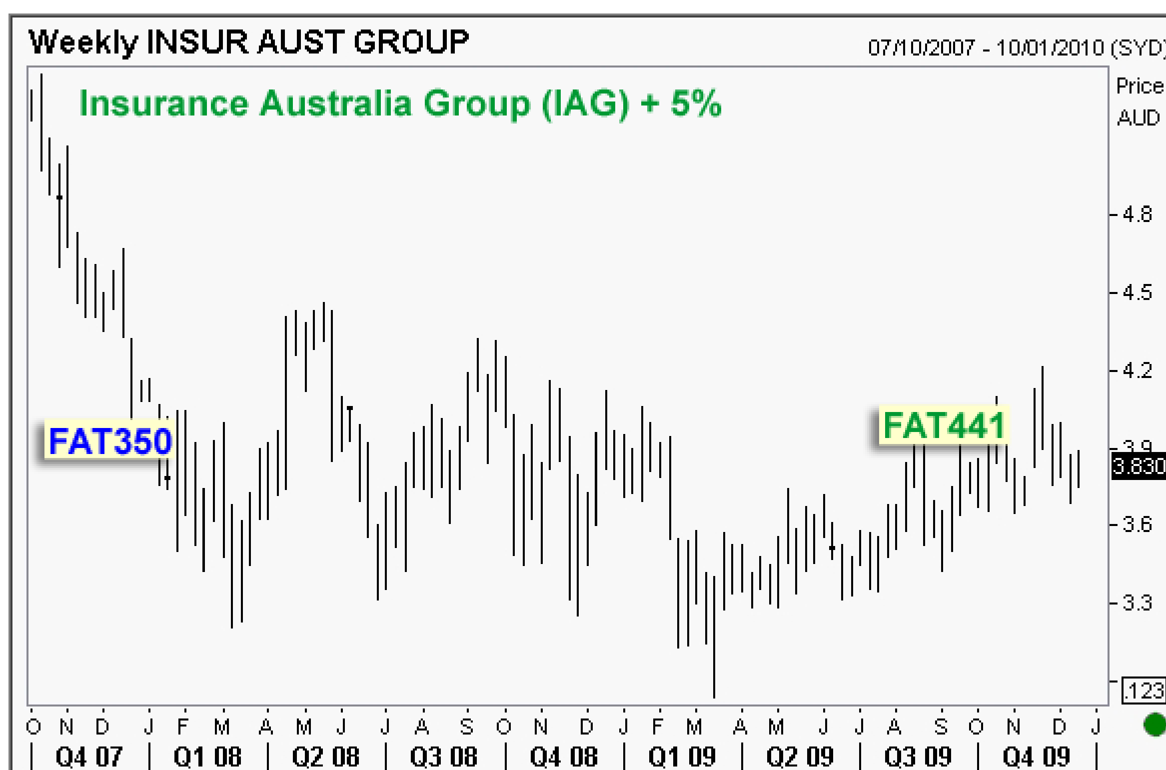
We added Boral to the Fat Prophets Portfolio in June based on the recovery in Australian and US housing markets. The building/housing sector had been overlooked by the wider market rally and we felt it would not be long before the herd began to recognise this. This subsequently proved to be the case, with the stock delivering strong gains just a couple of months later.

We continued to like the Boral story as a play on NSW and US housing, together with being a beneficiary of government stimulus spending on infrastructure. However, the stock no longer so clearly undervalued, we felt that the prudent course of action was to remove some profits from the table through a sell half recommendation in August.

One of the factors that characterises the market of early 2009 was a gross over-estimation of the extent of Australia's recession. As it turned out, economic forecasts were almost universally incorrect. The housing market proved resilient and unemployment is unlikely to get anywhere near previous expectations of 8% or more.

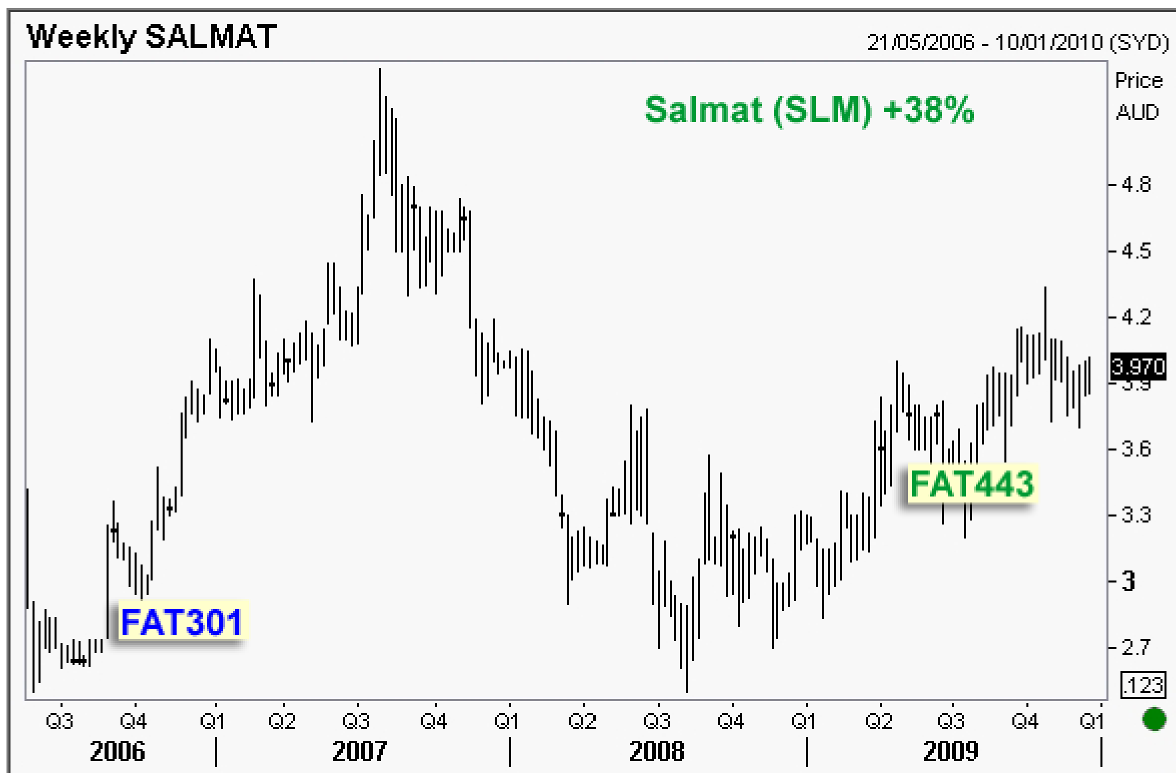
While we couldn't be sure how badly the GFC would impact Australia, we did know that the slowdown would not prove terminal. Leading online job ads company Seek therefore represented an attractive opportunity when the market's pessimism forced the stock down to deeply oversold levels.

While we continue to like Seek from a long term perspective, the stock's correction to a more reasonable valuation served as the trigger for us to recommend a half sell in August.



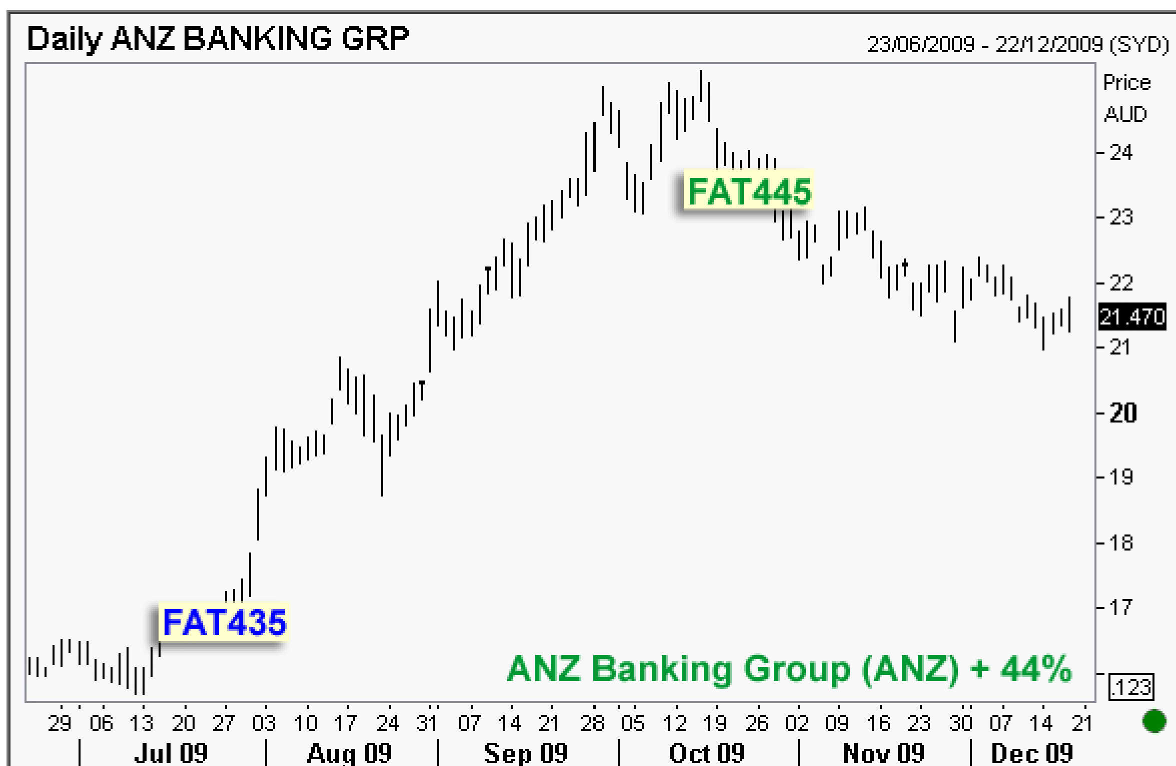
Insurance Australia Group proved to be a particularly frustrating call on our behalf. The company added its name to the list of failed offshore expansions following its regrettable entry into the British insurance market. Although we preserved for some time, it became clear that there was little prospect of anything more than sideways action for IAG's share price.

Our optimism towards IAG through the years since our initial recommendation did at least mitigate what would otherwise have been an unpleasant loss. We averaged down through a number of buy recommendations and the company's capital raising, which in conjunction with dividends, allowed us to escape with a poor but marginally positive return.



Salmat has had a wild ride since our initial entry back in 2006. The stock's volatility is perhaps surprising given the mundane nature of its business outsourcing and customer contact operations. Then again, our entry and exist has of course spanned one of the market's more volatile periods.

Like many companies this year, Salmat was undervalued as the market reached its nadir in March. At that point, the outlook for everything was very uncertain, but as conditions have returned towards normality, so did the value of the stock. As such, we believed that Salmat had passed the point at which we thought it offered good value to investors and recommended that Members sell their holdings in September.

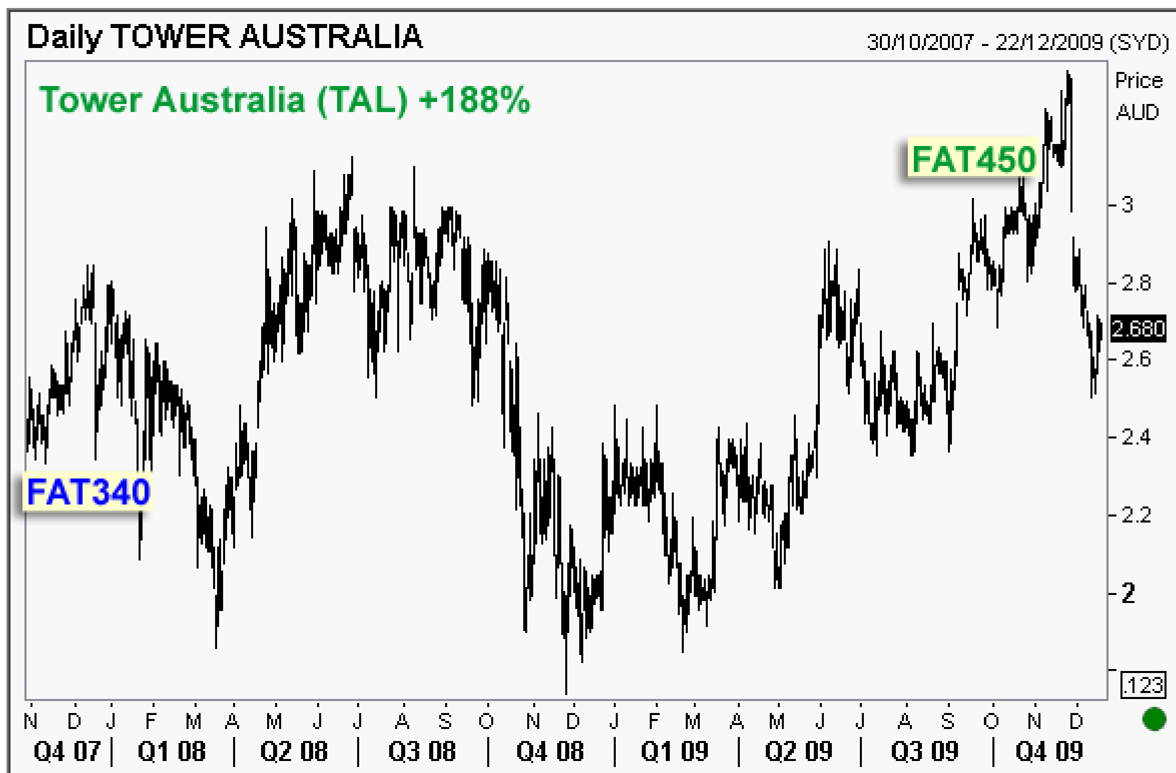


Just as the market completely over-estimated the extent of the economic slowdown here in Australia, the banks also became extremely oversold. Fears of a property market meltdown and potentially frozen credit markets did not paint a pretty picture for the sector. Indeed, it was precisely this scenario that kept us out of the banks during the preceding years.

Nevertheless, we recognised that an opportunity had developed and recommended ANZ on the basis of its comparatively more attractive valuation and growth prospects. While we continue to favour the bank from a long-term perspective, the rally clearly over-extended and we sold half in October.

Mining is a very tough business and few small players successfully transition to the big league. The capital intensive nature of the industry often whittles away free cash flow and shareholder returns. It is therefore important to keep a close eye on the numbers, and not allow lofty growth forecasts to gloss over weakness.

It was with this in mind that we exited Mundo Minerals in November. The company's operating cash flow was negative and with cash reserves dwindling, management seemed unlikely to achieve their objectives without a capital raising. In short, the company's capital constrained situation meant that the risks had become too high, over-riding Mundo's excellent exploration potential.



Tower Australia recovered nicely after a solid first half profit result. The investment business had experienced declining fee income as markets fell, but the insurance business was still improving its position within the industry.

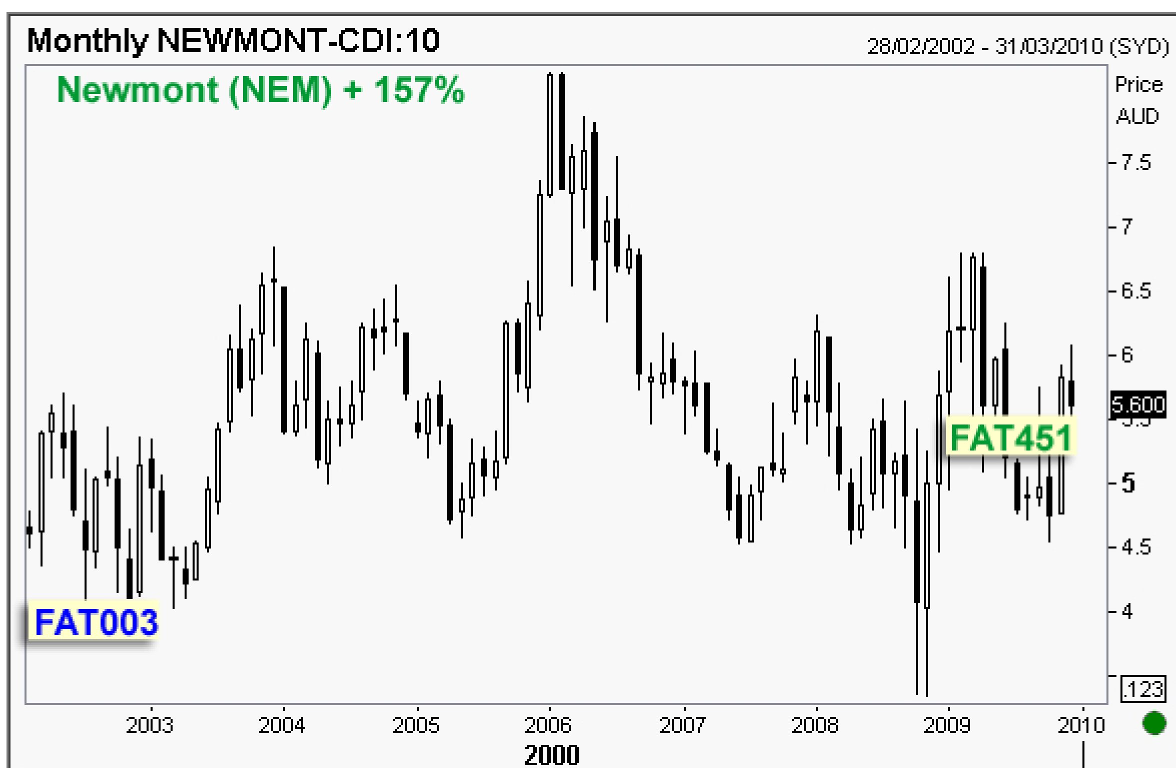
Our positive view on Tower was predicated on the long term outlook for the Australian life insurance market and Tower's position within the broader wealth protection industry. While we did not change our view on the sector's attractive fundamentals, the stock had rallied into our previously identified target range of $3.15 and $3.25 per share.

Further upside was in our view limited and we recommended selling Tower, while maintaining industry exposure through our buy recommendation on AMP.

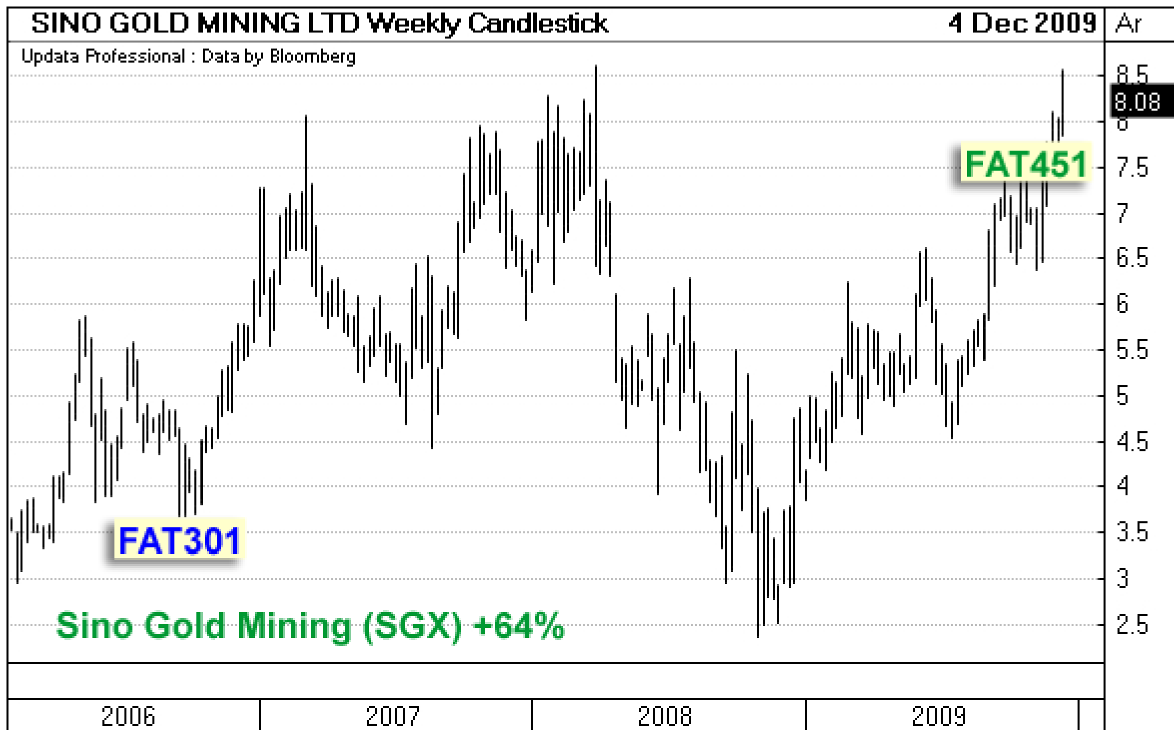
TPG Telecom was still SP Telemedia when we initially recommended the stock as what we thought would prove to be a rewarding value play. In the event the value case got better and better as the stock price continued to fall. It looked like we had fallen into a classic value trap.

That is until TPG effectively concocted a reverse takeover with the company. This gave shareholders access to TPG's internet business. The company has also bolstered its infrastructure through the acquisition of PIPE networks, which is due to settle early next year. The potential for the company's infrastructure to play a role in the NBN has put a rocket under the share price.

With the company's stock price chart near vertical, it was not a difficult decision to sell half.



The decision to sell Newmont was taken out of our hands by the company's decision to delist its Australian CDIs. This did however coincide with the latter stages of gold's recent record price run, and we were therefore looking to take profits anyway.

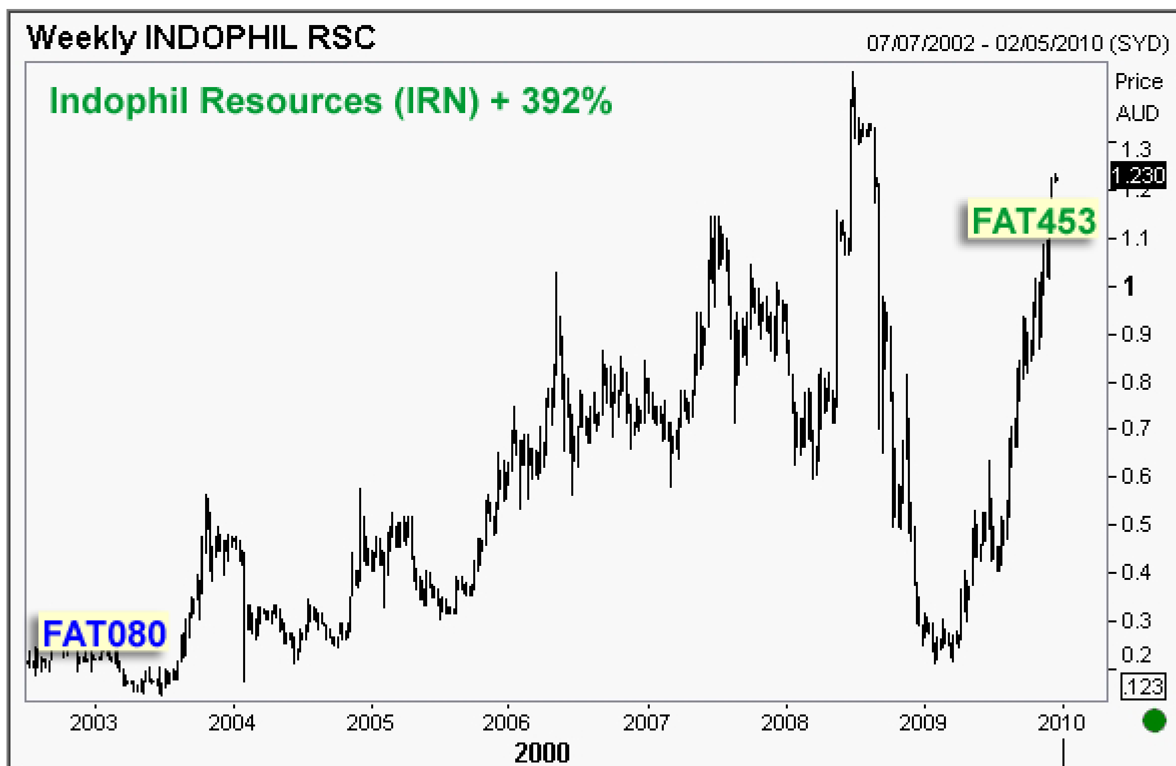


Sino Gold has been a particularly volatile stock even by the gold sector's standards. We've consistently stuck with the story through the tough patches though. Our bullish view on the stock has been rewarded by an admirable achievement of management's stated development goals to date.

Another key advantage Sino has over other gold miners is its unique access to China. This has not gone unnoticed and Canada's Eldorado Gold is in the process of taking over the company. Not wishing to hold a potentially thinly traded CDI, or a Canadian listed stock, we took the opportunity to lock in our gains and sold Sino Gold in November. We recommended Avoca Resources as our preferred alternative.

It is perhaps apt that Macarthur Coal's long term price chart resembles a heart beat. The stock set pulses racing during the 2008 three-way takeover tussle, which saw the company's stock trade at around $20. Once the dust had settled and a Mexican standoff became visible, investor enthusiasm quickly waned. The onset of the GFC subsequently smashed the company to near all-time lows.

The rally has however pushed Macarthur into expensive territory and with downside risks beginning to mount, we reduced our exposure by half in December.



Indophil's stake in the huge Tampakan copper-gold resource was the only reason to be invested in the stock. The miner was never going to be able to see a development the size of Tampakan through to the end. A

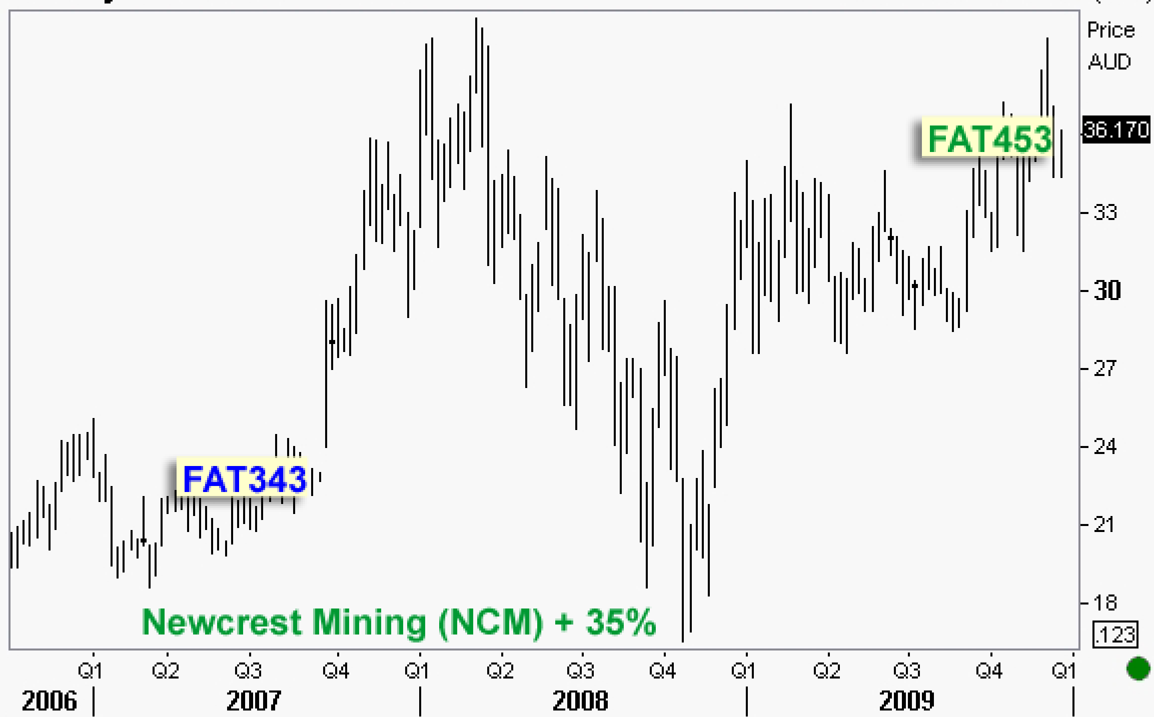
takeover was therefore always a likely exit scenario.

We had thought this would come from major shareholder Xstrata. In the event though, Zijin Mining Group launched a full takeover for Indophil at $1.28 per share. Rather than wait several months for the takeover's completion, we opted to take the money immediately (albeit 7% below the offer price), locking in a huge gain in the process.

Our long held bullish view on gold has proved incredibly accurate over the last few years. Identifying excellent buying opportunities is however only half the story. Impressive gains can all-too-often be whittled away if investors fail to take profits off the table.

It is with this in mind that we decided to reduce our gold and precious metal exposure through a sell half recommendation across a range of stocks. As we said in the report though, the move was a trading orientated decision driven by our view that gold stocks are susceptible to a period of weakness following gold's correction. It did not reflect an alteration to our view that gold is in a secular bull market. Indeed, our longer-term view of gold and the US dollar remains unchanged and we will certainly look to increase our exposure as opportunities arise.

Monthly AVOCA RESOURCES
30/04/2002 - 31/03/2010 (SYD)
Avoca Resources (AVO) + 94%
* Initial exposure came from Dioro Exploration
FAT440
FAT453
Price
AUD
2.4
2.1
1.855
1.5
1.2
0.9
0.6
0.3
2003
2004
2005
2006
2007
2008
2009
2010
2000


Weekly NEWCREST MINING
08/10/2006 - 10/01/2010 (SYD)
FAT343
FAT453
Newcrest Mining (NCM) + 35%
Price
AUD
36.170
33
30
27
24
21
18
Q1
Q2
Q3
Q4
2006
2007
2008
2009

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