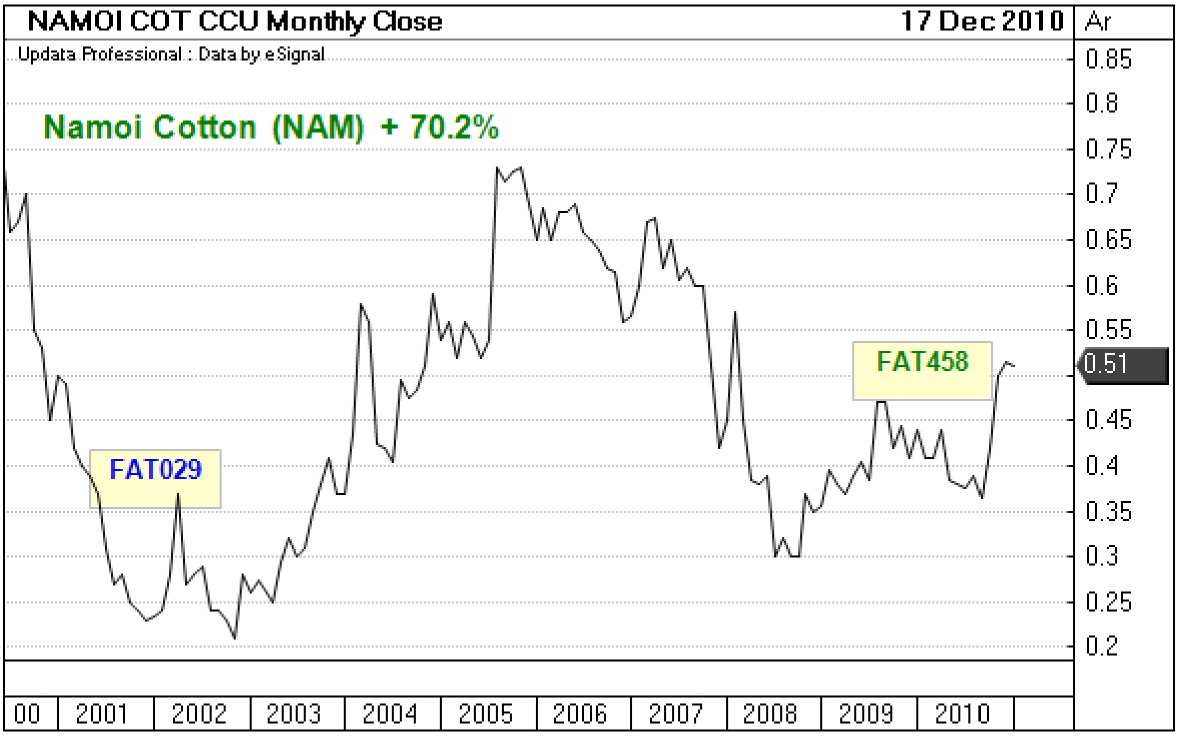
A review of the stocks we sold during the year

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.

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

Namoi



We kicked off 2010 with a clearing of the decks that saw Namoi Cotton removed from its long-standing position in the Fat Prophets Portfolio. Namoi is a decent income generating stock, but our focus is towards stocks that offer capital appreciation potential.

Namoi can at times deliver temporary stock price gains, as it has done in recent weeks on the back of the positive outlook for cotton crops. Namoi is unlikely to deliver a sustained re-rating though, primarily due to the variability of copper crops, which substantially impact its earnings. This volatility makes anything other than a mid single-digit earnings multiple unlikely.

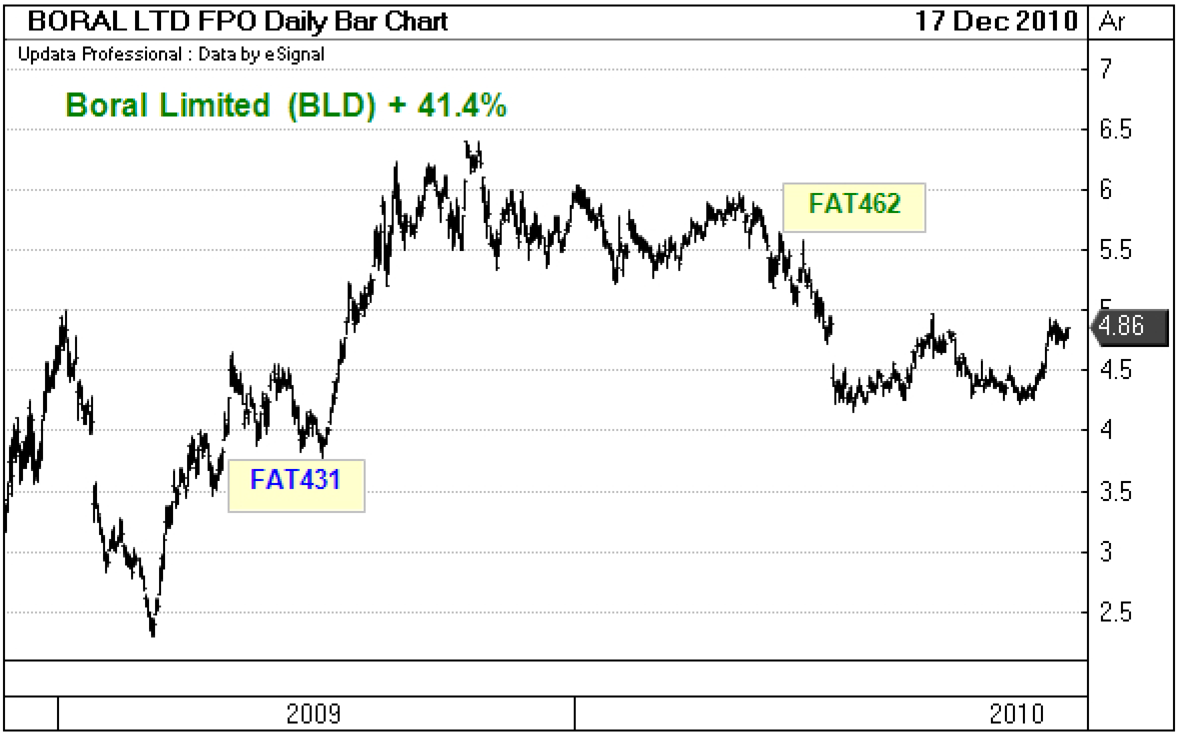
Paladin Energy

We sold Paladin in February 2010 because uranium prices at that time were quite simply uneconomic at around US$40/lb. Coupled with the potential for the uranium market to be in over-supply through the year, we considered Paladin to be overvalued and saw better opportunities elsewhere.

Uranium prices subsequently gathered some considerable momentum in the second half of 2010, with the sector seemingly in vogue once again. Uranium prices moved through US$60/lb in December 2010, with a commensurate benefit to Paladin's stock price. It remains to be seen whether the current rally will develop into something more sustainable.

Paladin Managing Director John Borshoff has stated in the past that the industry needs a uranium price of US$75-85/lb in order to sustain itself. Uranium's latest price rally has therefore not completely eliminated the pressure across the industry.

Boral



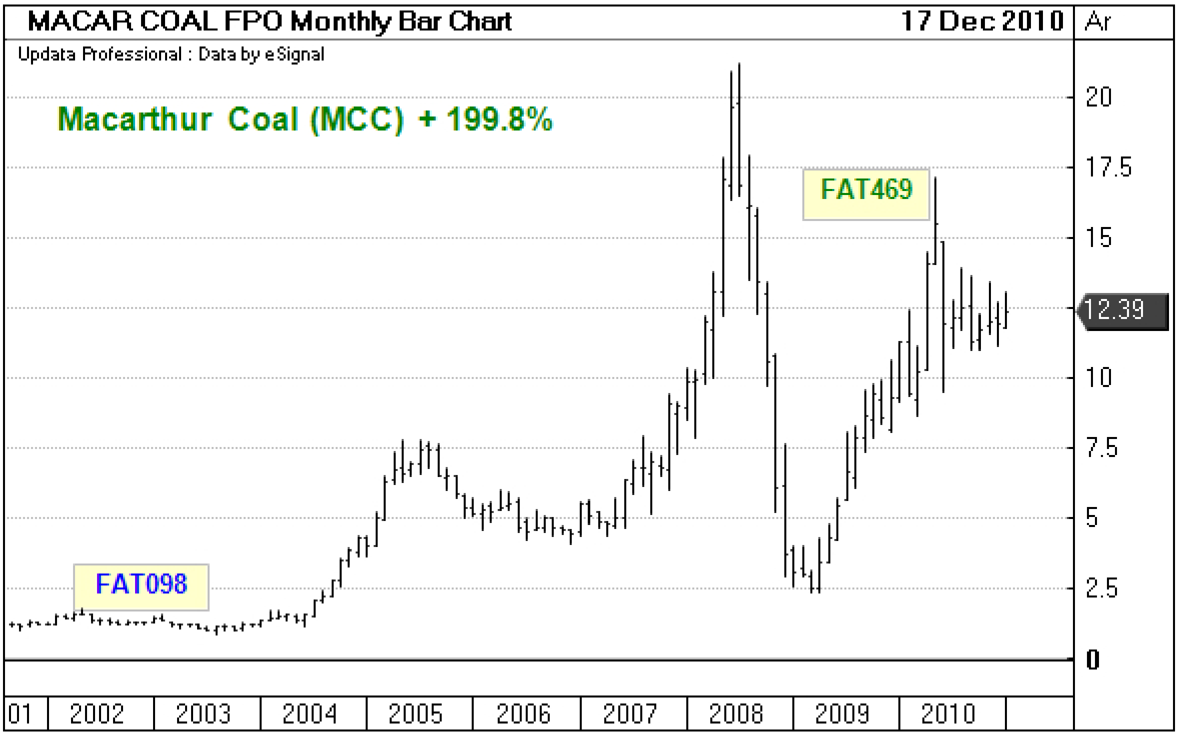
We originally recommended Boral as a buy in mid-2009. We considered the stock to be materially under-valued at that time, given the Australian housing market's nascent recovery, backed by the Government's infrastructure spending. We were also reasonably optimistic about the potential for improvement in its US business.

Our positive view on the stock didn't remain particularly isolated for long and we locked in a 35% gain, selling half in August 2009. Boral's stock price continued heading north and by February 2010 we felt it had run too far. The stock's price strength had removed the previous undervaluation that we had initially seen.

We were also forced to alter our outlook for the company as further data became available. Specifically, it became clear that the US housing recovery was going to take considerably longer than we first suspected. On the domestic front, the Government's infrastructure spending was not as beneficial to Boral as we previously expected. Very little expenditure was directed beyond schools and hospitals, which are not the "material intensive' projects that drive volume growth for Boral.

We recommended Members sell their remaining exposure, locking in a 41.4% gain in around 8 months.

Macarthur Coal



Macarthur Coal has been a long-standing feature of the Fat Prophets Portfolio, after we initially recommended the stock in one of our very early reports. In more recent times, the stock has been the subject of two separate but particularly intense takeover tussles.

The first occurred in 2008, driving the company's stock price through $20 and well above our estimate of value. The tussle was between steel giants Arcelor Mittal and Posco, in addition to China's Citic Resources. The bidders' focus was on Macarthur's strategic rather than fundamental value, driven by a desire to gain greater influence of coal supply. The dust eventually settled to reveal a stalemate between the three and Macarthur's stock price promptly fell back to earth.

We took some profits off the table during the 2008 takeover tussle, before increasing our exposure again when the heat came out of the stock. We were however a little early with our sell recommendation on the way up. This year's takeover tussle provided the opportunity to correct our previous mistiming, which we duly did.

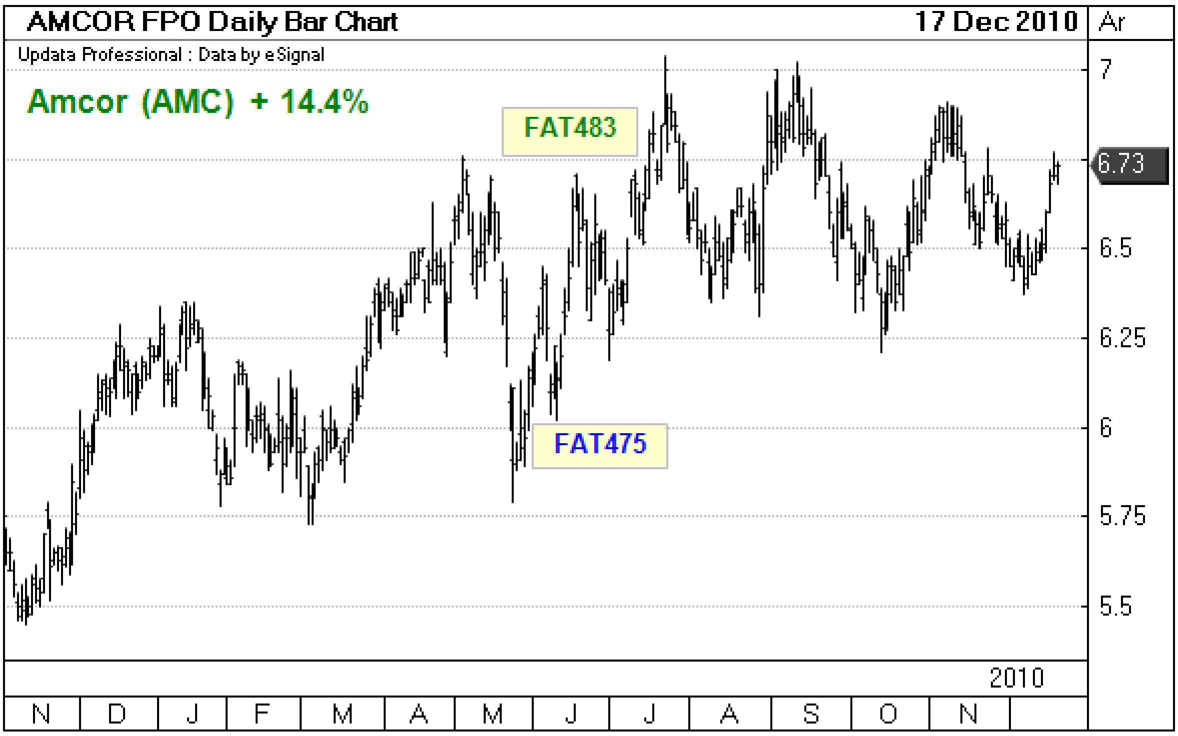
We recommended Members sell all of Macarthur Coal when the stock was just off its peak at around $16. The stock subsequently traded well below this for the rest of the year.

Avexa

We don't always get it right and although it was at the far end of our risk scale, Avexa certainly didn't turn out as we would like. The company had the potential to tap into the huge global HIV treatment market through its Vaccine, ATC. Although the company's clinical trials returned positive results, it was essential for Avexa to forge a partnership with a major pharmaceutical company if commercial success was ever going to be a reality.

The company's discussions with various majors came to an end in May 2010, without success. Given that ATC's potential commercial release was fundamental to our investment case for Avexa, we had no choice but to cut our losses and move on.

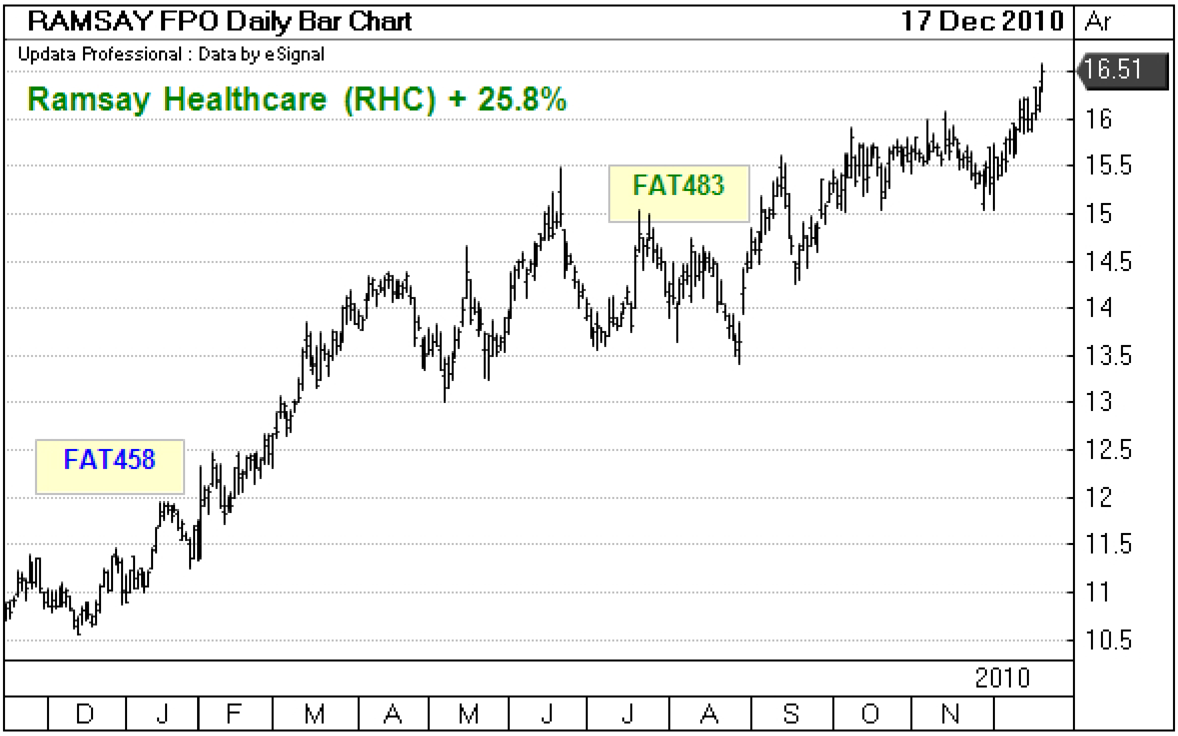
Amcor



There are generally more examples of failed acquisitions than those that successfully add shareholder value. Amcor CEO Ken Mackenzie's 2009 acquisition of Alcan Packaging is shaping up to be one of the latter. As we said in our initial buy recommendation, the acquisition was made at a propitious time and a very attractive price. With the stock around $6 in May, we did not believe that the market was adequately accounting for the deal's upside potential. This saw us add the stock to our portfolio as a new buy recommendation.

It was only a couple of months later that Amcor pushed back up towards $7. Although we remained quite comfortable with the business, we recommended the Members lock in a modest gain by selling half at around $6.83. This has so far proved to be a sensible course of action, with the stock tracking sideways in the months since.

Ramsay Healthcare

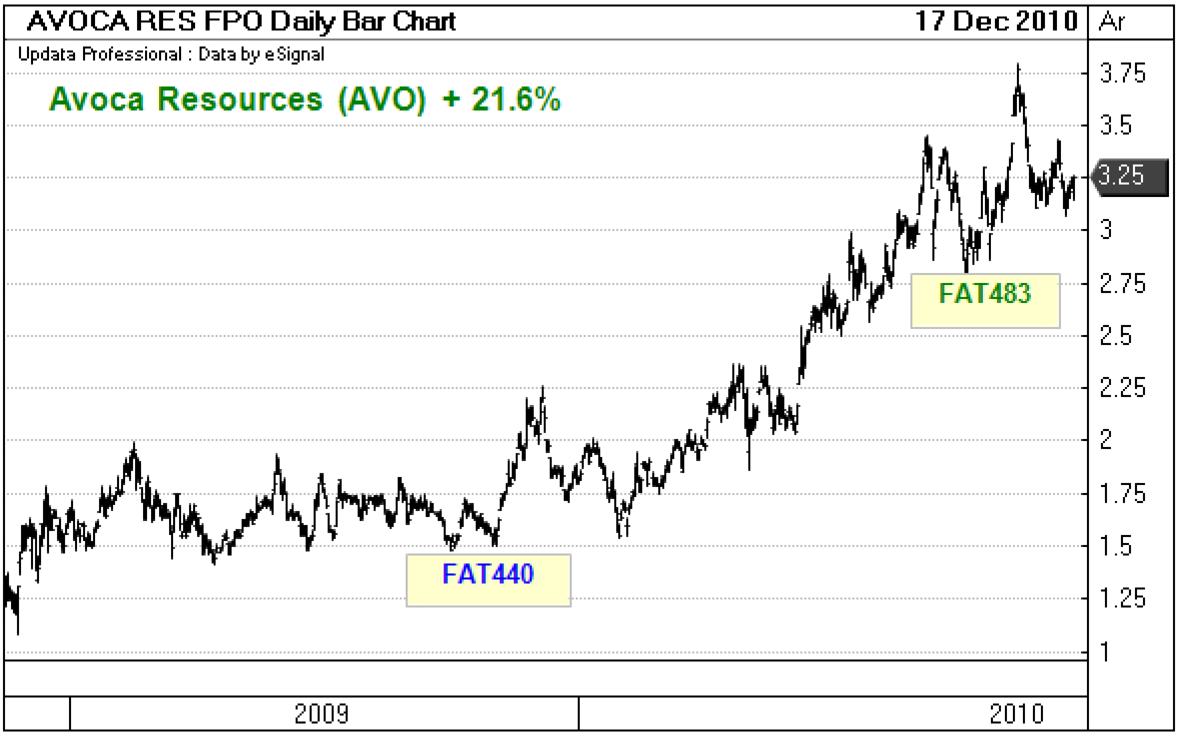


Ramsay Healthcare is another of those fairly rare breed of companies that successfully deliver growth through acquisition. Its January 2010 acquisition of a majority stake in French hospital operator Proclif is a case in point. Management took two years scouting for opportunities in the country, before committing to the deal. Accusations of empire building certainly aren't justified when it comes to Ramsay's acquisition strategy.

This was one of the key attributes that initially attracted us to the stock and something that we felt its valuation overlooked. Ramsay Healthcare is essentially a defensive play with attractive growth prospects. The company's growth potential, both organic and acquisitive, justified a higher valuation than the 11.5 times forward earnings that was the case at the time of our buy in January.

Our positive view on the company didn't remain in isolation for long, with the stock swiftly benefiting from a re-rating. Although we continue to view Ramsay favourably, the re-rating had inevitably eroded much of the immediate under-valuation. We therefore took the opportunity to lock in a healthy gain, while retaining exposure to the longer term upside through a sell half recommendation in July.

Avoca Resources



If there's one theme that defines Fat Prophets, it's our bullish view on gold. The trade has become more crowded over the years, but we've been calling higher prices for the metal for much of the last decade. We've been proved correct time-and-time again as gold has consistently hit new highs. But buying is only half the story and given that even the strongest bull market doesn't only move in one direction, it is important to remain nimble.

This was our thinking behind our recommendation to sell half of Avoca resources in July 2010. As we said in FAT483; *"due to management's proven development and operational ability we view Avoca's ambition to become a mid-tier gold producer as an attainable goal. The miner therefore offers attractive exposure to our view of further gold price strength. Even so, given the pace of gains to date and the potential for further near term volatility in both the gold price and broader share market, we recommend that Members sell half of Avoca."*

Oz Minerals

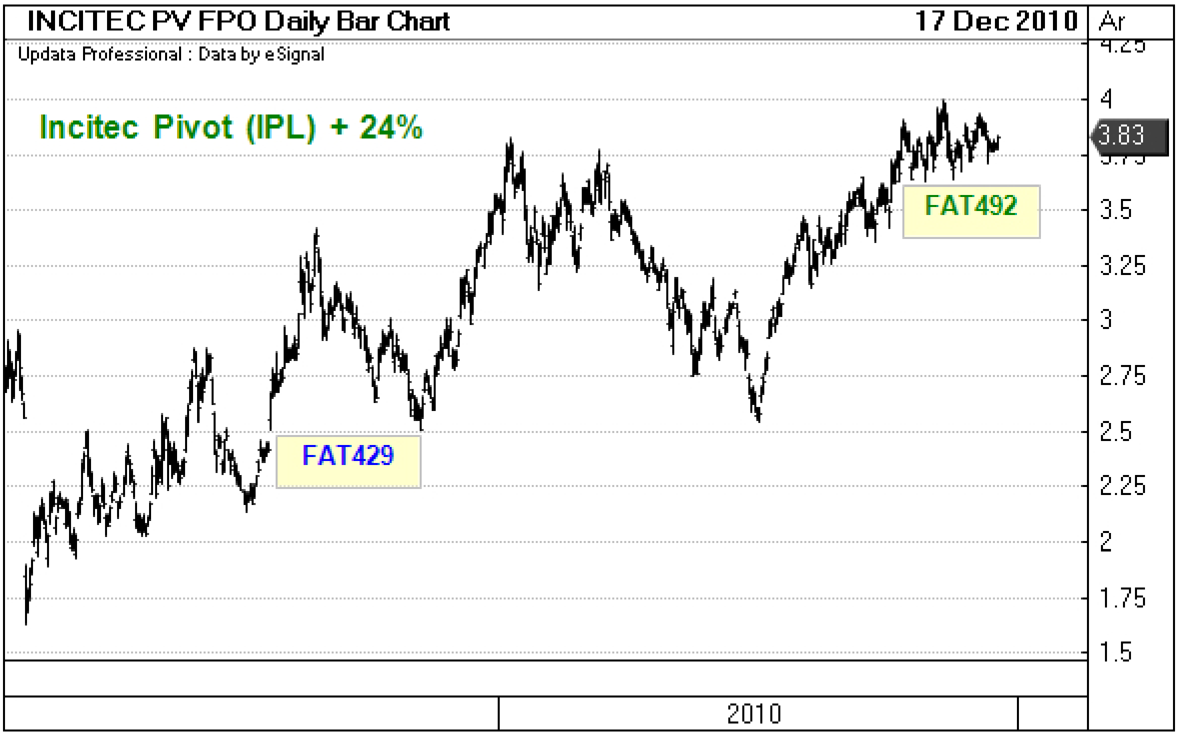
We initially recommended Oz Minerals prior to the Zinifex merger when it was known as Oxiana. It was Oxiana's Prominent Hill copper-gold development that we were most interested in. We didn't find the Zinifex merger which formed Oz Minerals particularly appealing, but in the end it didn't sway us from our positive opinion.

Our decision to stick with Oz Minerals was in hindsight a mistake. When the credit crunch began to bite, the heavily indebted company found itself at the mercy of its lenders, who were in no mood to refinance maturing debt. This wouldn't have been such a problem, were it not for the fact that Oz Minerals had misclassified a substantial amount of debt as long-term. The debt was in fact short-term and time was swiftly running out for the miner to strike a deal with its lenders.

Oz Minerals very nearly collapsed due to the reluctance of its lending syndicate to refinance its debt. That was until China's Minmetals rode to the rescue, buying most of its assets, apart from Prominent Hill. Given that we viewed Prominent Hill as its core asset, this was a long-awaited piece of good news.

Although our initial buy recommendation was heavily underwater, our subsequent buy recommendations around $1 had performed well and it was with this in mind that we finally reduced our exposure by half.

Incitec Pivot



Our recognition that the current market conditions are inherently more volatile than was the case prior to the GFC has been a prominent factor in our decision making through the year. This was certainly a major factor in our decision to sell Incitec Pivot a little after 12-months from our initial buy recommendation.

The stock enjoyed a strong run from its low of $2.58 in July, on the back of macro factors rather than stock specific events. These included stronger soft-commodity and fertiliser prices, combined with the knock-on effect of BHP's bid for Canada's Potash. We took the view that these factors could unwind, as BHP's bid ultimately did and that it was therefore important to lock in our gain.

This we did through a sell recommendation in September and although Incitec is marginally higher at present, the stock remains locked in a consolidation pattern. Nevertheless, Incitec Pivot remains on our radar.

Myer

Myer's private equity owners undoubtedly thought they had a small window of opportunity to ditch their investment in late 2009, before retail conditions toughened again in 2010. The retail sector had benefited from Rudd's cash handouts and rising interest rates were yet to crimp consumer confidence. We recognised this as the motivating factor behind Myer's float, which came about a year ahead of schedule, and we duly gave the IPO a wide berth.

The stock will be remembered for being a very poor performer following its IPO. Negative sentiment grew as disillusioned investors in the IPO continued to jump ship. This however caused the stock to dip below our estimate of value, which factored in the margin growth that management was still to deliver.

We initially recommended Myer as a buy at around $3.25, deeming that negative sentiment was quite simply overdone. This proved to be the case with the stock pushing back towards $4 in September 2010. At this price level, sentiment had turned a little too positive, at least in the short term and we decided to lock in half our gain, selling half in FAT492.

Saracen

Our bullish view on gold has certainly been vindicated this year, with the precious metal hitting fresh highs on a regular basis. With a long-held theme such as our bullish view on gold, it is easy to become to comfortable and not look for new ideas. Such a move would be extremely limiting in terms of our investment performance over the longer term.

Indeed, it is imperative that we keep our finger on the pulse when it comes to which companies are likely to be the next gold producers, potentially even mid-tier producers. To this end, we talk to a lot of junior gold companies and occasionally this process turns up attractive opportunities. One of which was Saracen, which we recommended as a buy in FAT478.

The stock wasted little time heading north following our initial buy recommendation, gaining some 50% in a matter of weeks. The primary catalyst was gold's push towards and through US$1,300 per ounce and with a possible period of consolidation on the cards, the sensible course of action was to take some profits off the table through a sell half recommendation.

Newcrest

Newcrest is now one of the world's largest gold producers, following its acquisition of Lihir Gold. It is a cornerstone holding for any quality gold portfolio and following the merger, more readily held in major institutional portfolios too. Nevertheless, bull markets don't move in only one direction and as was the case for Saracen above, we thought it prudent to take some of our healthy gains off the table.

Provet

From time-to-time, a company's positive attributes can serve to rob investors of its longer term potential when it becomes a takeover target. This is of course a good problem to have and we certainly didn't complain when our recommendation to buy Provet delivered a 50% gain in a matter of weeks.

America's Henry Schein announced a deal to acquire the veterinary supplies company in October. The cash bid was set at $2.14 per share, but as the saying goes, a bird in the hand is worth two in the bush and we saw little point in hanging around for the extra 5 cents.

We recommended members sell Provet around $2.09 in FAT495.

Westfield

Westfield’s decision to break out half of its Australian and New Zealand retail assets into a separate trust raised a few eyebrows, ourselves included. It was strange because it came only 6 years after Westfield went through the costly exercise of consolidating its three trusts into Westfield Group.

We took quite some time studying the transaction and just couldn’t get away from the view that it was essentially just a carefully disguised capital raising. We certainly did not see how splitting out the additional trust would release value for unit holders, as Chairman Frank Lowey stated.

With the stock having delivered a lethargic performance in the months prior to the announcement, the feeling that management wasn’t being quite straight moved our recommendation from hold to sell.
