Where we took profits in 2012

18/12/2012 **FAT-AUS-605**

A review of the stocks we sold during the year

As usual, we review the recommendations where we took profits on portfolio holdings - both outright 'sells' and 'sell-half' recommendations.

With market volatility continuing into 2012 we have purposely been more nimble on the portfolio management this year. This has been to good effect in looking at the results from stocks we have exited this year. It is also reflected in the postive feedback we have had from Members.

We have completed 18 sell recommendations this year, 17 of which have yielded positive results. Notably three of these (Magellan, Carsales.com and Graincorp) came from stocks which were only introduced to the portfolio in 2012.

The returns are based on our initial recommendation price or, where subsequent recommendations have been made to all Members, the average entry price. The total returns include all dividends paid.

AWE

We bought into AWE way back in April 2007 at $2.77 when the Tui prospect was looking very good and the outlook for oil stocks in particular was very promising. The change in mix of AWE's assets reduced its exposure to the capital-hungry BassGas project and introduced some exploratory risk via the Asian assets.

The BassGas partial sale also resulted in the company's decision to pay a fully franked special dividend to shareholders of 5cps.

We saw some risk in the direction of AWE's new assets in Indonesia although on balance this was still positive.

On that basis, we sold half our holding at $1.51 per share for what turned out to be our only negative return during the year.

AWE LTD FPO (AWE-ASX)
updata
Weekly Close
11 Dec 2012 AWE-ASX
Ar
Updata Professional : Data by eSignal
AWE Ltd (AWE) -41.1%
FAT-AUS-322
FAT-AUS-559
4.5
4.25
4
3.75
3.5
3.25
3
2.75
2.5
2.25
2
1.75
1.5
1.24
1
2007
2008
2009
2010
2011
2012
2013

Wesfarmers

Our long association with Wesfarmers ended in February when we elected to sell out completely.

The company had achieved strong results in turning around the Coles supermarket business and we had ridden that success.

Even though we knew there was more to come as the plan for Coles continued, we felt the majority of the value had been attributed in the WES share price.

Arguably, we sold too early with the benefit of hindsight, but we were pleased with the annualised 26.3% return on an investment that had begun in 2009.

InvoCare

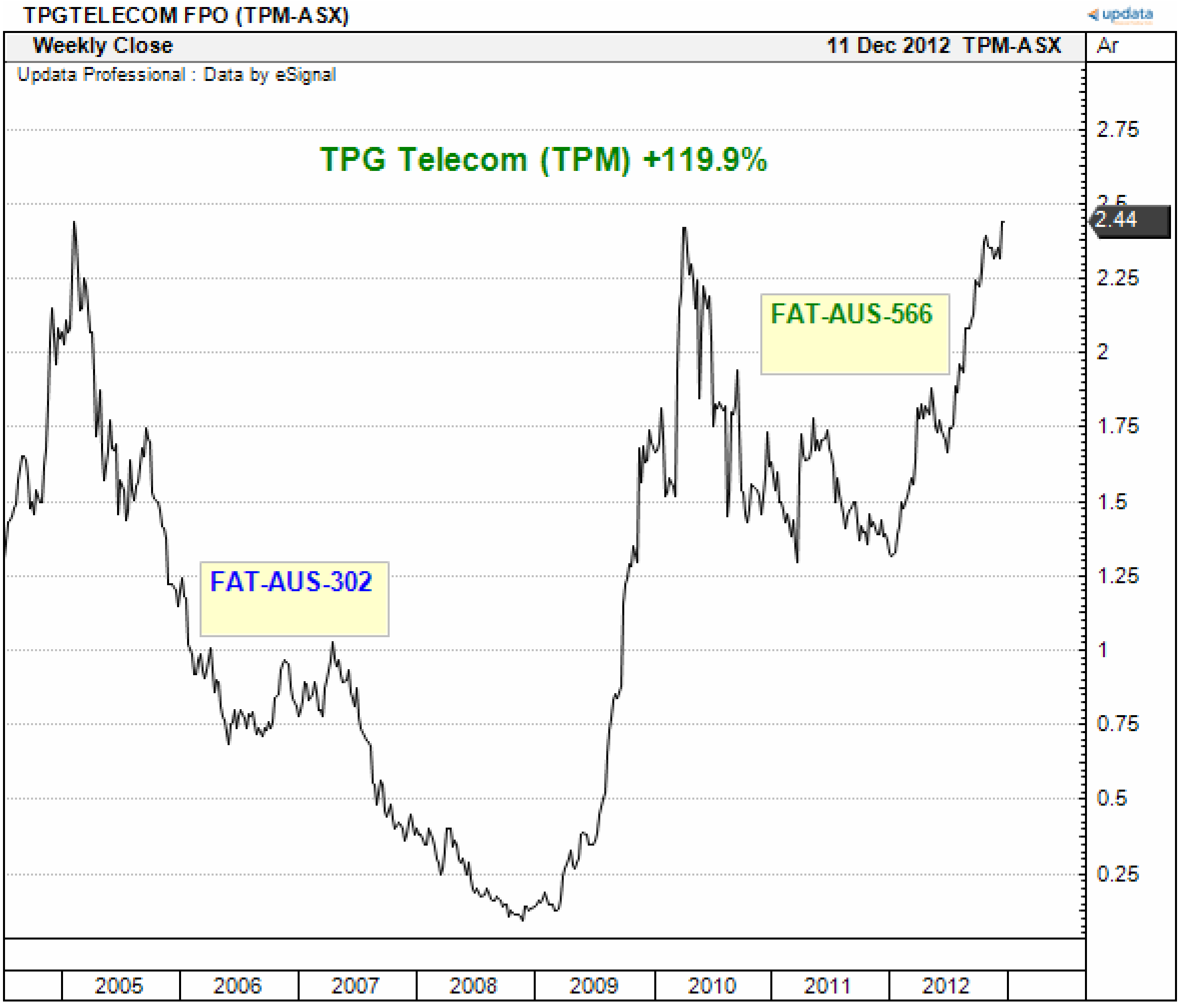
We added this funeral directory business to the portfolio in 2010 and it has been another of the quiet achievers.

We viewed the company as a defensive business with its growth linked to Australia's mortality rate. The company has a network of around 170 funeral locations across Australia and New Zealand as well as 12 cemeteries and crematoria.

When we reviewed the company's annual result in February, we were pleased with the fundamental business but decided that the price had run towards the top end of our valuation range.

We took some profits by selling half our holding for an annualised return in excess of 20%.

TPG Telecom



After reporting an impressive half year result, we felt the time was right to take some profit on our long term holding in TPG Telecom.

We had first added this stock to our portfolio back in November 2006 when it was known as SP Telemedia. It has undergone some substantial changes since then but has continued to benefit from the growth in the telecommunications market.

The small end of the telecommunications market had been performing very well with TPG among the thick of the action.

Our sell half recommendation netted an annualised return of 15.8%. The stock remains a favourite in our portfolio and has continued to surge ahead.

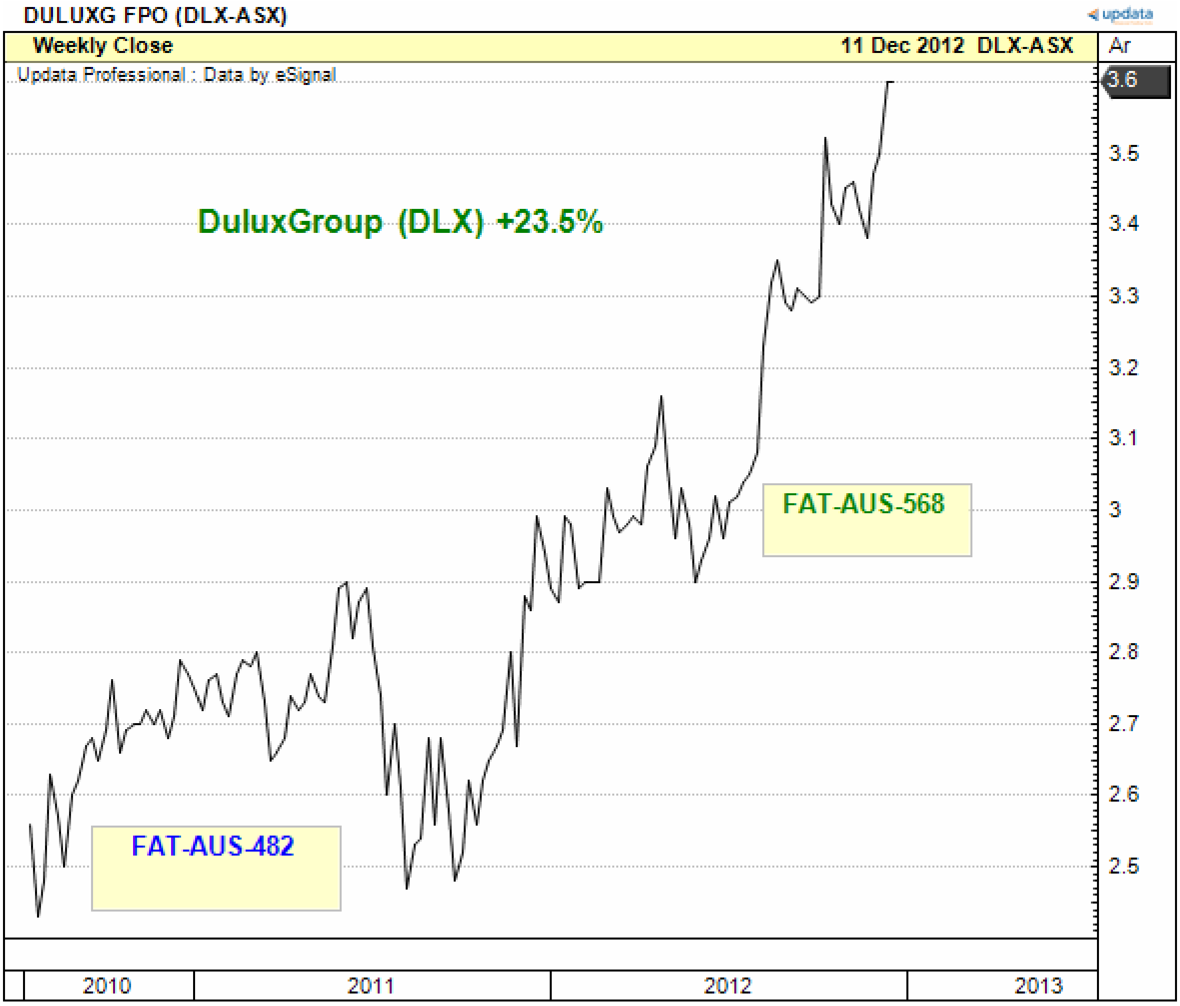
Coeur d'Alene

The silver producer de-listed from the Australian stock exchange and we transferred coverage to our US report.

We initially added this stock to the portfolio as Bolnisi Golf at $1 per share. Eighteen months later, it merged with Coeur d'Alene when the North American silver miner perhaps saw some of the value that we did in Bolnisi.

On selling the stock out of the Australian report, we realised an annualised gain of 77.8%.

DuluxGroup



Australia's leading coatings and paint manufacturer had been a moderate performer since separating from parent company, Orica.

The Australian building materials market had been enduring a lean time and DuluxGroup's fortunes are directly correlated with that industry. Spending on home renovation had stagnated as consumer confidence waned and mortgage rates remained high.

When the price improved through March, we took some of the gain by selling half our holding at $3.03 per share.

The company's subsequent bid for Alesco Group in July marked our decision to exit the stock as we though the transaction added complexity and doubt to its future strategy.

We realised a 10.8% annualised profit on the investment.

Austar

After waiting what seemed an eternity for the most obvious takeover in recent years, the Foxtel takeover offer for Austar was approved by shareholders and we agreed.

Fat Prophets first bought into Austar in August 2009 (FAT-AUS-436) at $1.05 per share.

Austar was the regional equivalent to Foxtel and the only difference between the two was a geographical demarcation. It made great sense for the two businesses to merge, but for one reason or another, not least of which was shareholder differences of opinion over valuations, the two pay TV operators remained apart.

When Austar's major shareholders, Liberty Media, saw the chance to exit its holding thanks to a favourable exchange rate, it finally unlocked the chance for the Foxtel partners to snap up the remaining piece of the puzzle to offer services across Australia.

Despite a frantic effort from the free-to-air commercial television networks to prevent the merger on competition grounds, the ACCC made the right decision to allow it.

The $1.52 per share takeover price gave our portfolio holding an annualised gain of 14.9% and a total return of 44.8%.

Resolute Mining

Even though we thought there was plenty of exploration upside to Resolute Mining through its flagship Syama mine in the West African country of Mali, we felt the political uncertainty was overriding the valuation potential for the stock.

As a post-script note to our sale of the stock, we note that Mali's Prime Minister has been forced to resign, bearing out our concerns.

We liked the company from a fundamental point of view with its exploration upside, interesting portfolio of assets and the development of the Syama mine in particular.

We sold our holding for an annualised gain of 9.2%.

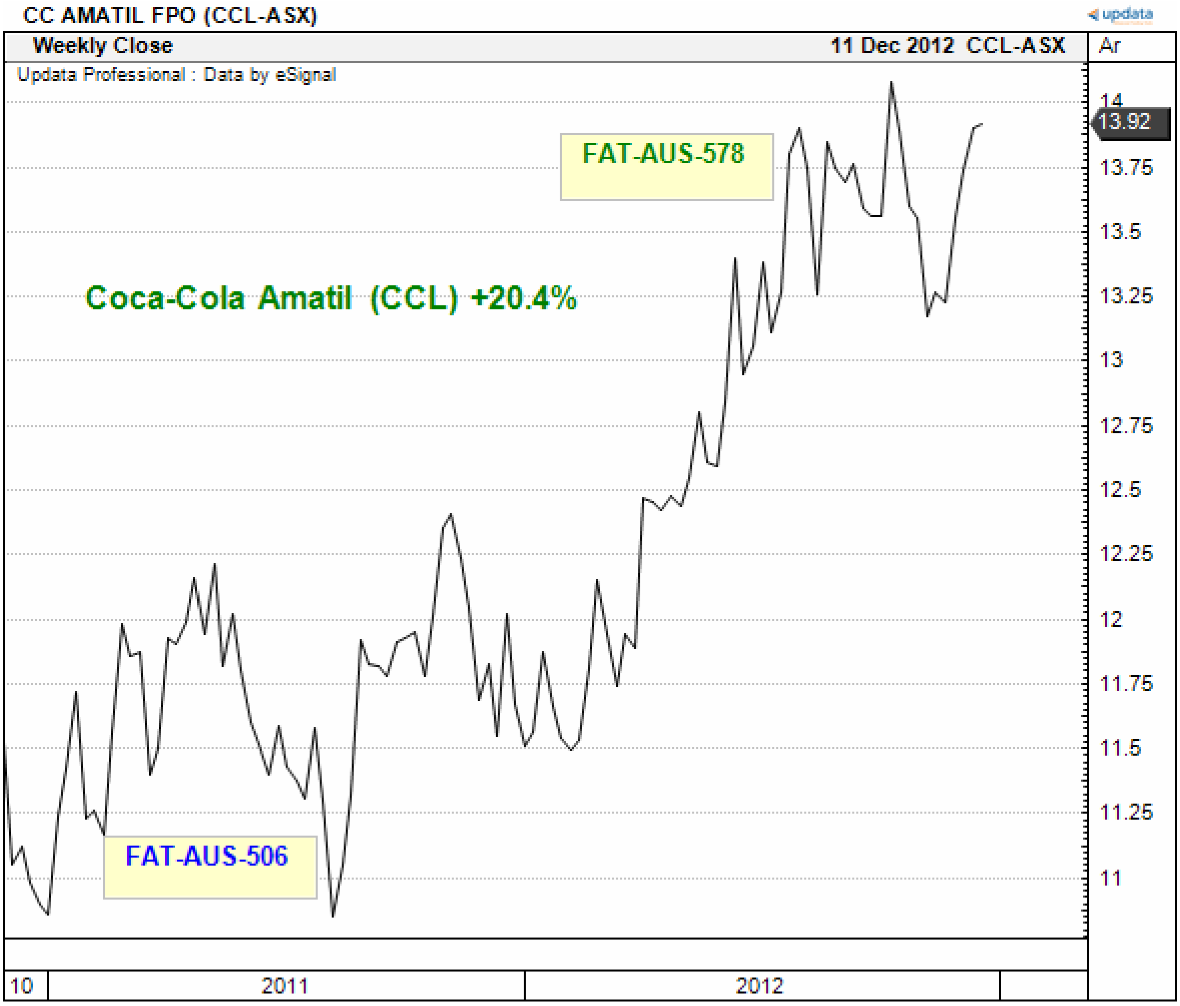
Alacer Gold

Following a transformative year, we sold our holding in Alacer Gold for a modest gain of 3.2% on an annualised basis.

Alacer had been formed by the merger of Anatolia and Avoca in February 2011, pushing the company into the mid-tier of gold producers. The balance sheet had been strengthened and resources boosted as a consequence.

Alacer's low cost asset in Turkey had potential for significant resource upgrades, but was experiencing near-term operational problems that prompted our exit.

Coca-Cola Amatil



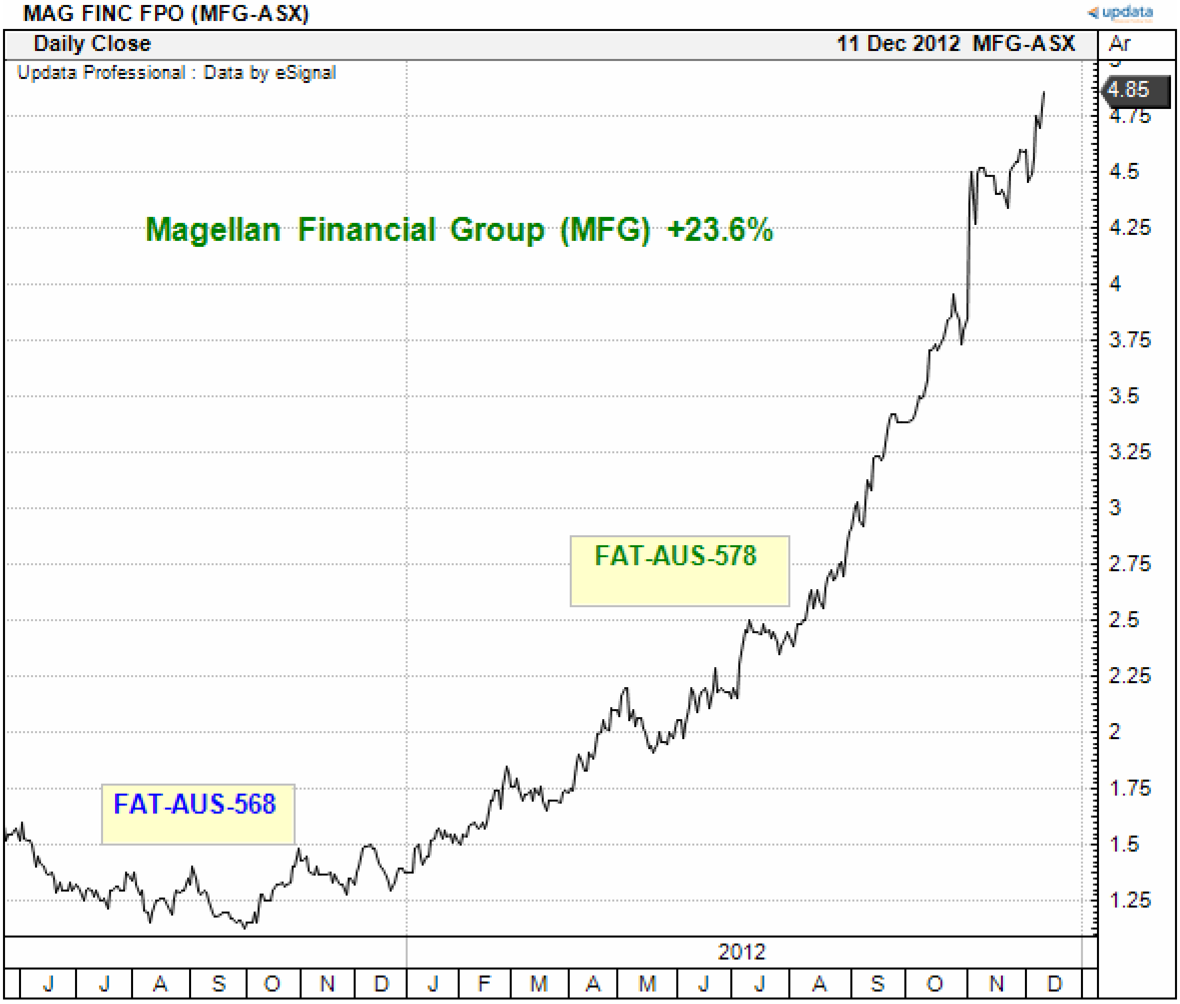
High quality defensive stocks were the flavour of the year and our addition of Coca-Cola Amatil to the portfolio back in early 2011 was among the popular stocks in this regard.

Coca-Cola Amatil was not just riding the wave but was freshly digesting a series of excellent outcomes following SABMiller's acquisition of Foster's Group.

Coca-Cola Amatil had been bought out of its Pacific Beverages joint venture for a substantial profit as a consequence of that deal and was pondering the acquisition of the Foster's Fijian Brewery assets.

Every which way we looked at the company revealed positive reasons to own it, but we decided to take some profits on that holding based purely on its share price performance. It remains a core holding in the portfolio.

Magellan Financial Group



Having only added this funds management group to the Fat Prophets portfolio in April at $1.74 per share, Magellan Financial Group has been one of the biggest performers in the market this year.

This fund manager had established an exellent track record in performance that was attracting further funds under management - a virtuous circle.

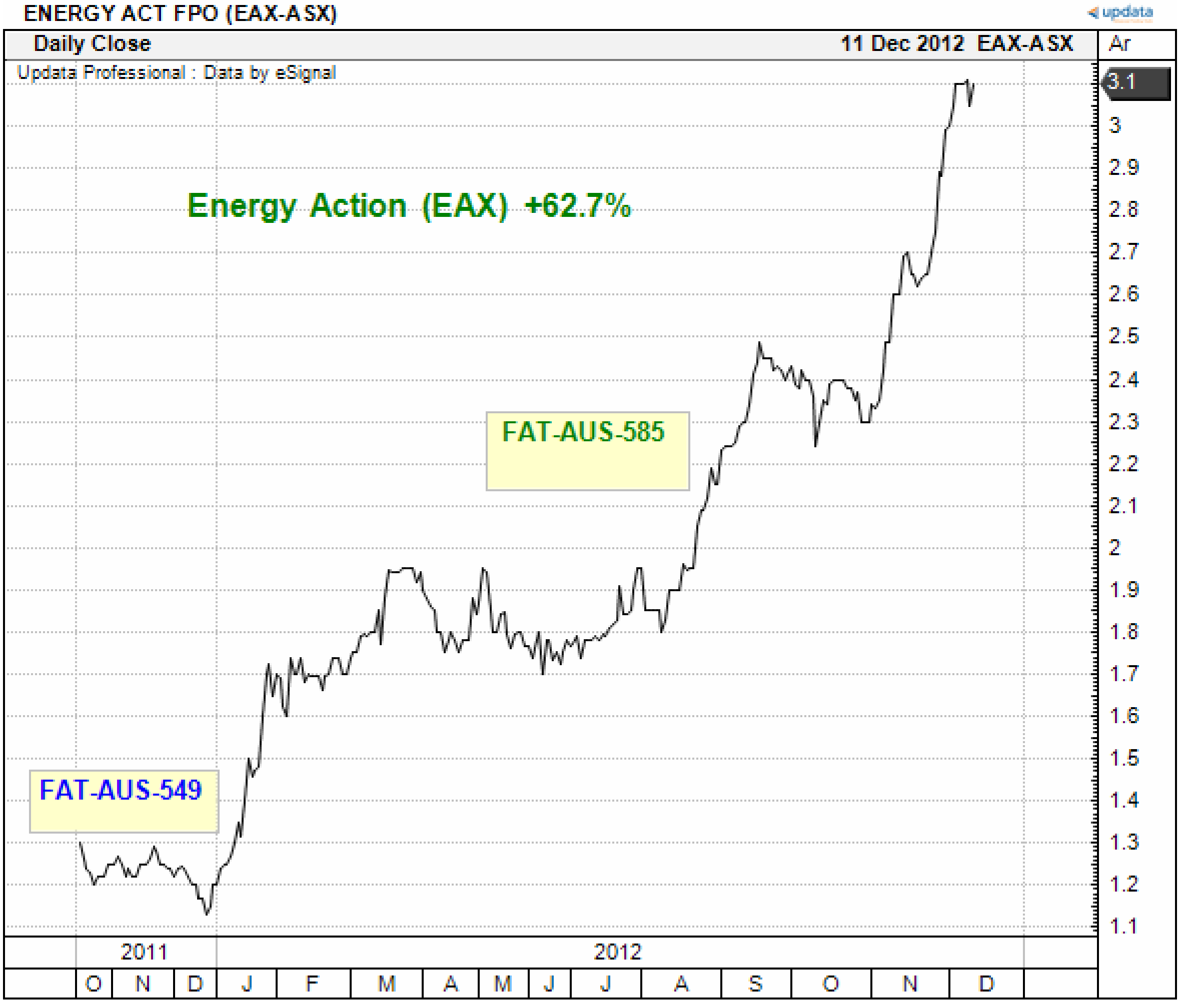
Magellan is a boutique financial services provider that caters to high net worth individuals and retail investors. It also manages wholesale and institutional mandates. One of the key differentiators of the business model is that it specialised in managing a global mandate.

By the time June rolled around, the stock had raced ahead as the company's investment performance and funds under management were growing strongly.

Based simply on its rapid price appreciation, we decided to take some profit off the table at $2.20 per share for a gain of 23.6% in just over two months.

The stock has continued its rapid advance and remains a star performer in our portfolio.

Energy Action



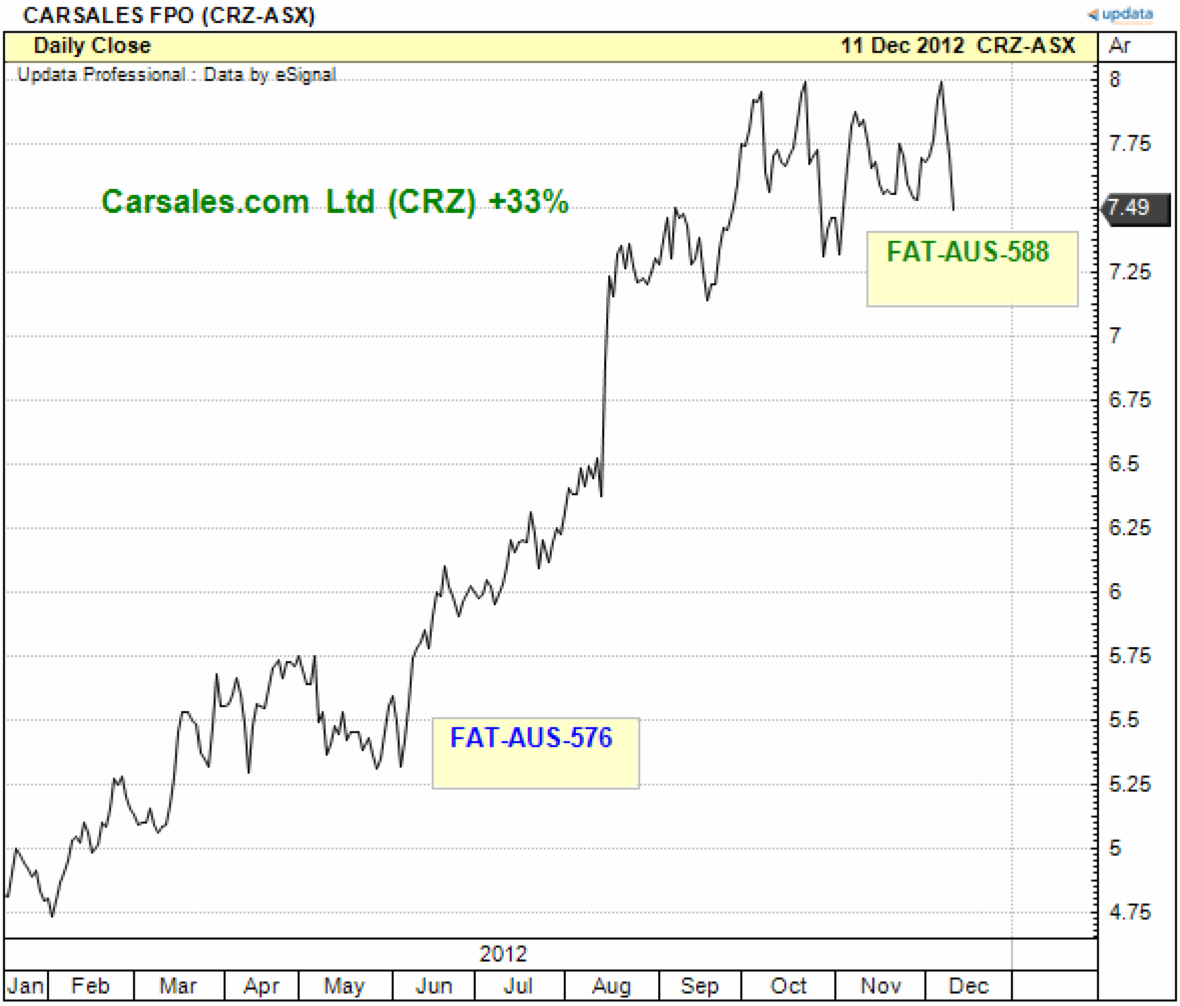
Energy management expert, Energy Action, has enjoyed a tremendous first year as a listed company to back up its longer history as a growth business.

Fat Prophets Wealth Management had assisted the company to join the ASX board and was pleased to see it among the better performers for the year, despite a weak year for listings.

The price appreciated as the company delivered more excellent earnings so we decided to lock some of that gain in with a sell-half recommendation in July at $1.95 per share for a 62.7% gain.

The stock remains among our favourite small cap companies in the portfolio.

Carsales.com



Another new addition to the Fat Prophets portfolio this year was Carsales.com. The motor vehicle website has enjoyed excellent growth in recent years thanks to its dominant position in the online space.

Carsales.com had attained a leading position in the online automotive advertising market in Australia, with about 75% of all time spent browsing such sites spent on the carsales.com website.

The company had some great characteristics such as its 'network' effect, an asset light model and strong pricing power.

When we added the stock in May at $5.45 per share, it already had some momentum behind it which continued. Three months later and 33% higher at $7.28, we took some profits by selling half our holding.

Breville Group

Kitchen appliance specialist Breville Group entered our portfolio in March 2011 at $3.30 per share as the company was beginning to make some headway with sales of its nicely designed products into the US market.

Breville had endured a poor few years but under new management was showing definite signs of turning itself around.

Subsequent profit results confirmed that was indeed the case with US earnings steaming ahead of expectations.

By the time it reported its full year result in August, Breville's share price had risen 84% for the year to date and we decided to lock some of the gain in with a sell-half recommendation.

Consolidated Media Holdings

The consolidation of the pay TV industry in Australia took a big step when News Corporation launched its $1.9 billion bid for Foxtel and Fox Sports shareholder, Consolidated Media Holdings.

Major shareholders of ConsMedia, James Packer and Kerry Stokes, agreed to the deal and minorities received a decent price for their shares at $3.45 plus a 6cps dividend.

We agreed with the takeover proposal and sold the stock from our portfolio.

Graincorp

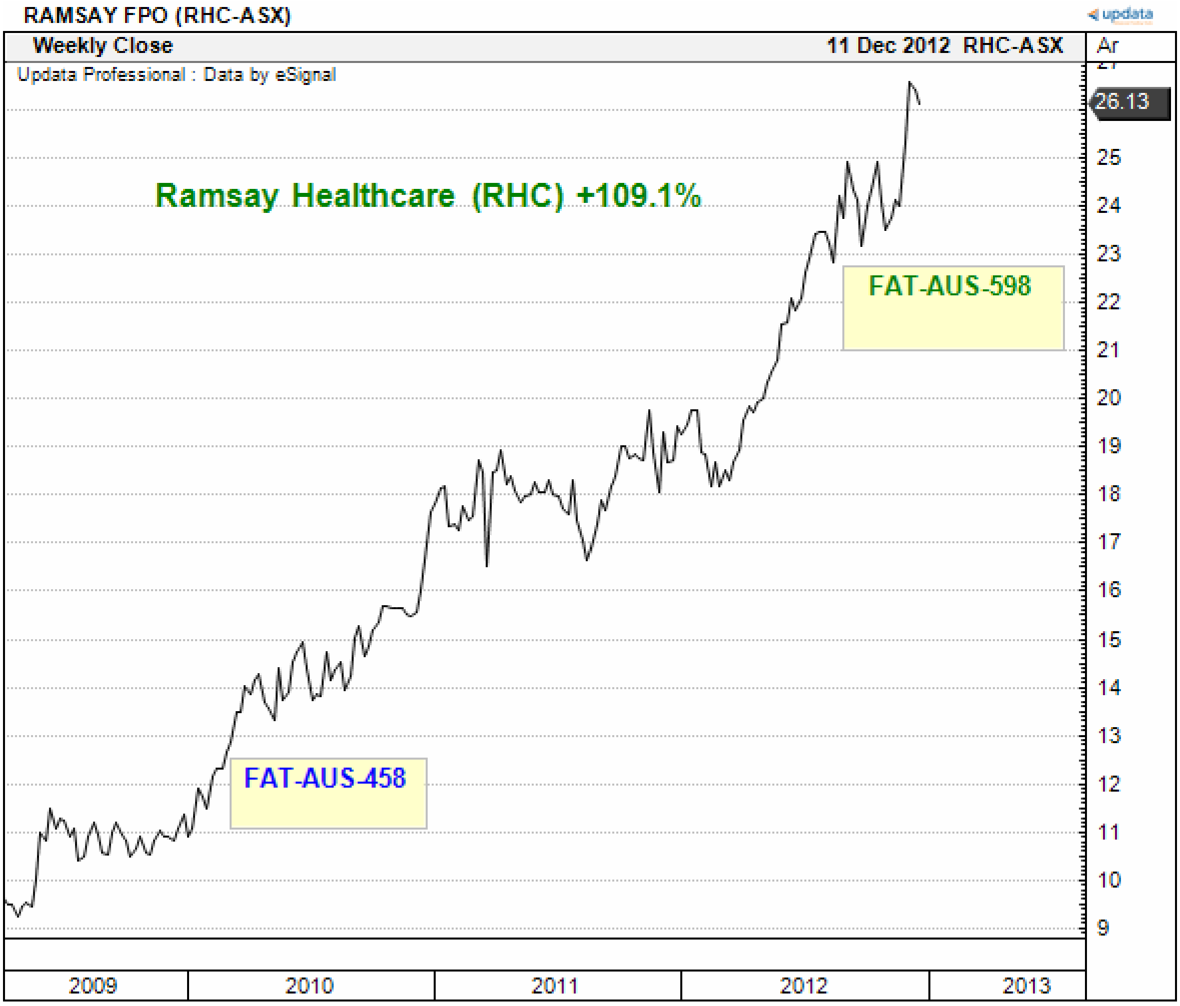
Agricultural commodities have been a favourite theme at Fat Prophets and we have watched the sector steadily consolidate over the years. Regardless of that, we added Graincorp to our portfolio in February this year at $7.79 per share.

We were only partly surprised when US company Archer Daniels Midland popped up in October and offered $11.75 per share for the company – a bid rejected by Graincorp's board as it considered the offer to be inadequate.

In the interests of good portfolio management, we seized the moment and sold half our portfolio holding at the prevailing market price of $12.15 per share.

At this point, the takeover battle is not over, so we are anticipating more corporate news on this stock.

Ramsay Healthcare



Hospital management company, Ramsay Healthcare, was added to our portfolio in early 2010 at $11.89 per share.

The company proved to be a consistent performer which was reflected in its steadily rising share price over the next two years.

As with all investments, it pays to be a little cold and calculating rather than passionately stubborn about your favourite stocks. When Ramsay's share price peaked through the $23 mark in October this year, we decided the valuation had exceeded our target and we sold our holding in the stock for an annualised gain of 30.4%.

Global Mining Investments

Despite GMI's portfolio outperforming its global benchmark consistently over several years, the fund sustained a sizeable discount to its net tangible asset backing for a long time.

When the company was restructured, it presented an opportunity to exit the investment at a value much closer to the NTA and we decided to take it and move on.

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.