Special Report: A review of stocks we sold this year

As 2013 draws to a close, we provide a review of all the Sell and Sell-Half recommendations we issued during the year. We are pleased to report that, **of the 23 occasions that we either urged profit-taking or an outright exit, we reported losses in just two instances**.

Most of the stocks that we recommended for partial profit-taking have subsequently continued to perform solidly on the bourse, adding further value to Members' remaining exposure.

While two of the stock that we recommended a full exit of have also since risen to higher levels (Breville, new News Corporation), we were more than satisfied with the tremendous returns crystallised for Members from the initial entry prices.

Furthermore, some Sell-Half recommendations, in hindsight, have proven to be well-timed given subsequent falls in the stocks (GrainCorp, Onthehouse, ARB Corporation, Silver Chef).

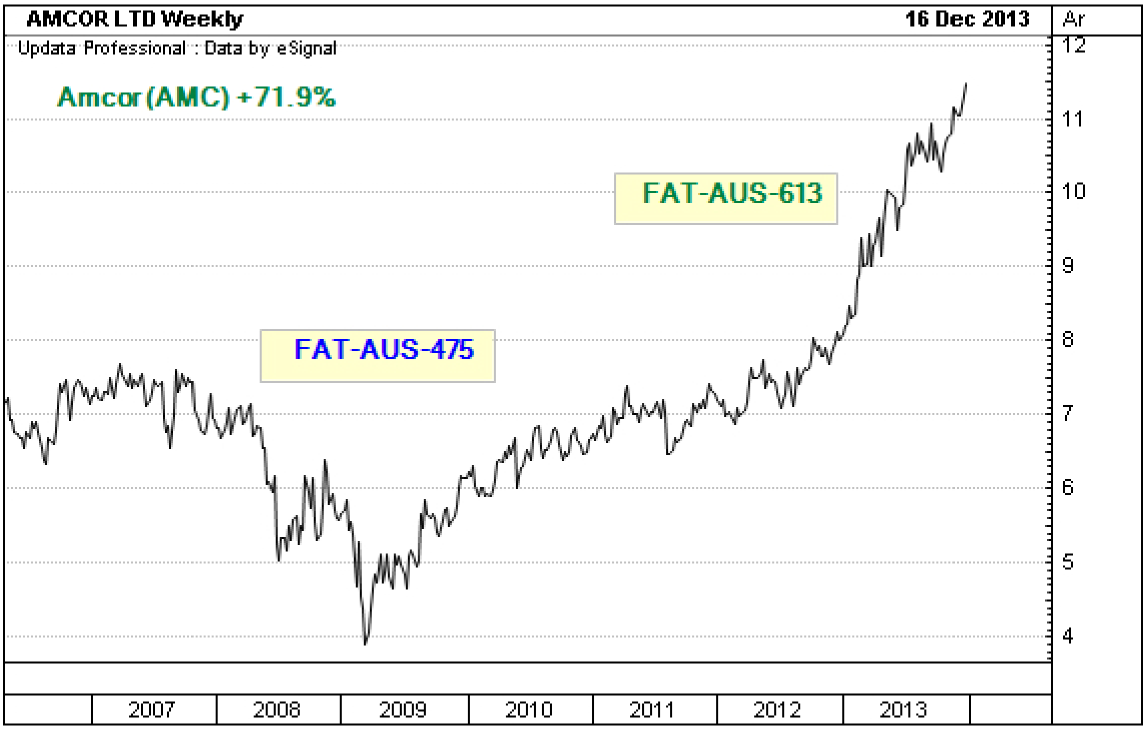
The two disappointing stocks where we crystallised substantial losses were Allmine and Oz Minerals. Unsurprisingly, both operate in the mining industry which has suffered a tumultuous year with volatile commodity prices, project delays/deferrals and extremely negative investor sentiment.

Amcor (ASX: AMC)

The global packaging giant was added to the Fat Prophets portfolio back in May 2010 (FAT-AUS-475) at $6.00. After taking profits at $6.83 in June 2010 (FAT-AUS-483), we took some more gains off the table in February of this year at $9.23 (FAT-AUS-613) for an annualised gain of 21.7 percent since inception inclusive of dividends.

Amcor's strong positioning in the global Flexibles and Rigid Plastics Packaging industry continues to improve, and was clearly evident once again in the results released this year, highlighted by the relentless rise in Return on Average Funds Employed (ROAFE). However, with these positives and the market's infatuation with Amcor's defensive characteristics reflected in the stock's premium, we took the opportunity to crystallise more gains in the stock this year.

We remain comfortable with our remaining shareholding, particularly as we fully support the company's decision to demerge the Australasia and Packaging Distribution operations (called Orora)—a spin-off that will further enhance the Amcor's leverage to the structurally favourable Flexibles and Rigid Plastics Packaging industry.

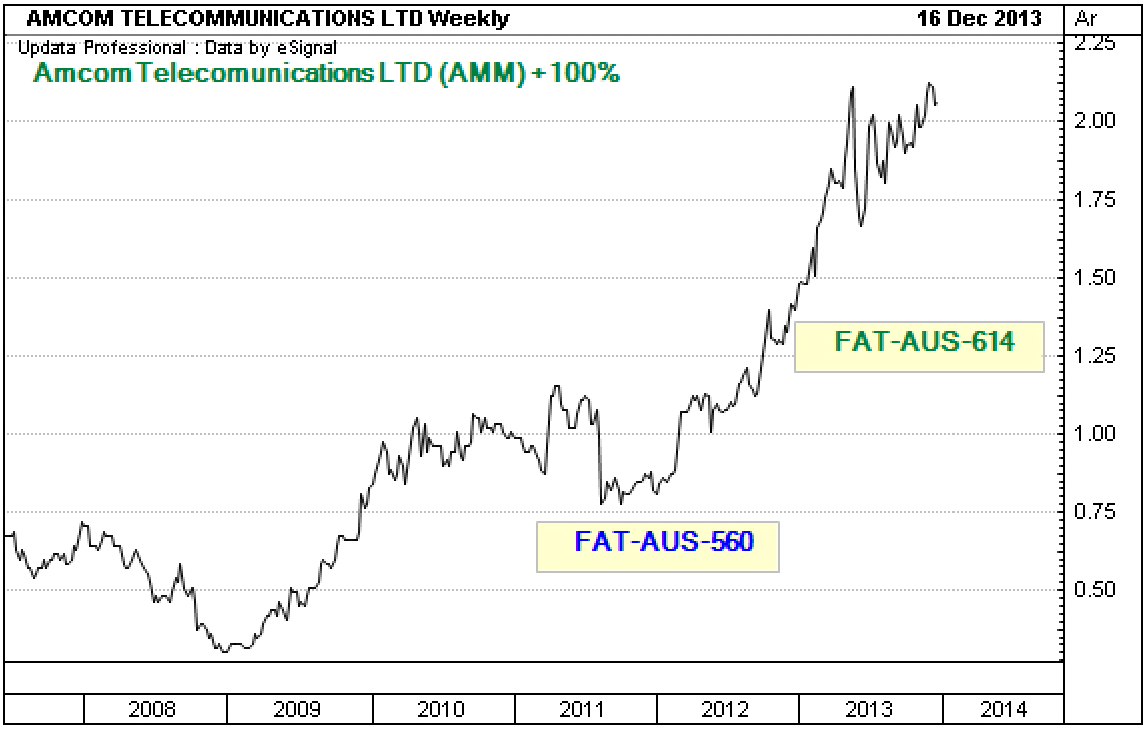


Amcom Telecommunication (ASX: AMM)

The fast-growing junior telco was added to the Fat Prophets portfolio back in February 2012 (FAT-AUS-560) at $0.87. We recommended Members Sell Half of their holdings in March of this year at $1.67 (FAT-AUS-614) for an annualised gain of 90.7 percent since inception inclusive of dividends.

This year has seen investors rapidly recognise Amcom Telecommunications' impressive financial track record, which looks set to continue in the medium term. Consequently, given the impressive gains in such a short period of time, we believed it was prudent to lock in some profits.

We continue to be firm holders of the remaining shares given the company's healthy operating momentum, and as management is guiding for another double-digit underlying earnings growth in fiscal 2014. All this is testament to the strong niche position of Amcom, with its own fibre-optic network, data centres and technical expertise, operating in what is rapidly becoming a business-critical Information, Communications and Technology (ICT) services industry.

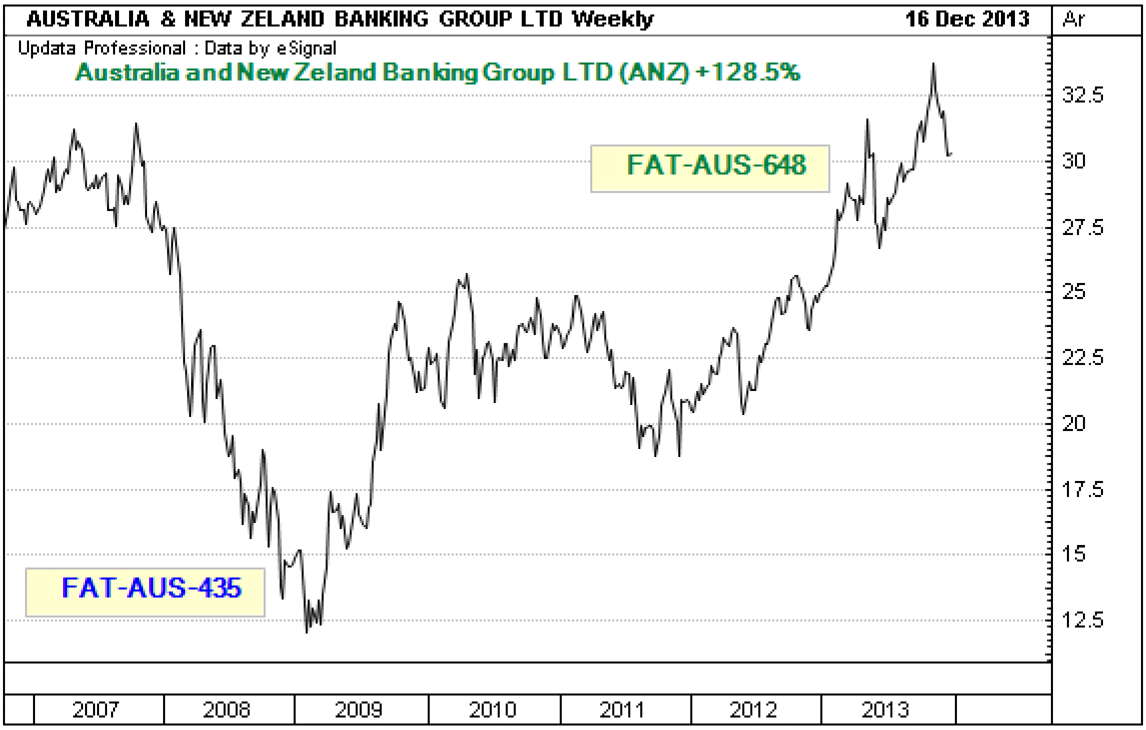


Australia and New Zealand Banking Group (ASX: ANZ)

The Big-Four bank was added to the Fat Prophets portfolio back in July 2009 (FAT-AUS-435) at $17.15. After taking profits at $24.67 in October 2009 (FAT-AUS-445), we took some more gains off the table last month at $33.79 (FAT-AUS-648) for an annualised gain of 21.5 percent since inception inclusive of dividends.

While ANZ Banking Group continues to post solid earnings and dividend growth, even in the face of a subdued credit lending environment, the rising stock multiples recently opened up another opportunity to crystallise some gains.

Having said that, the stock remains a core holding in the portfolio and we are content to see how management's super-regional Asian strategy pans out in the long term.

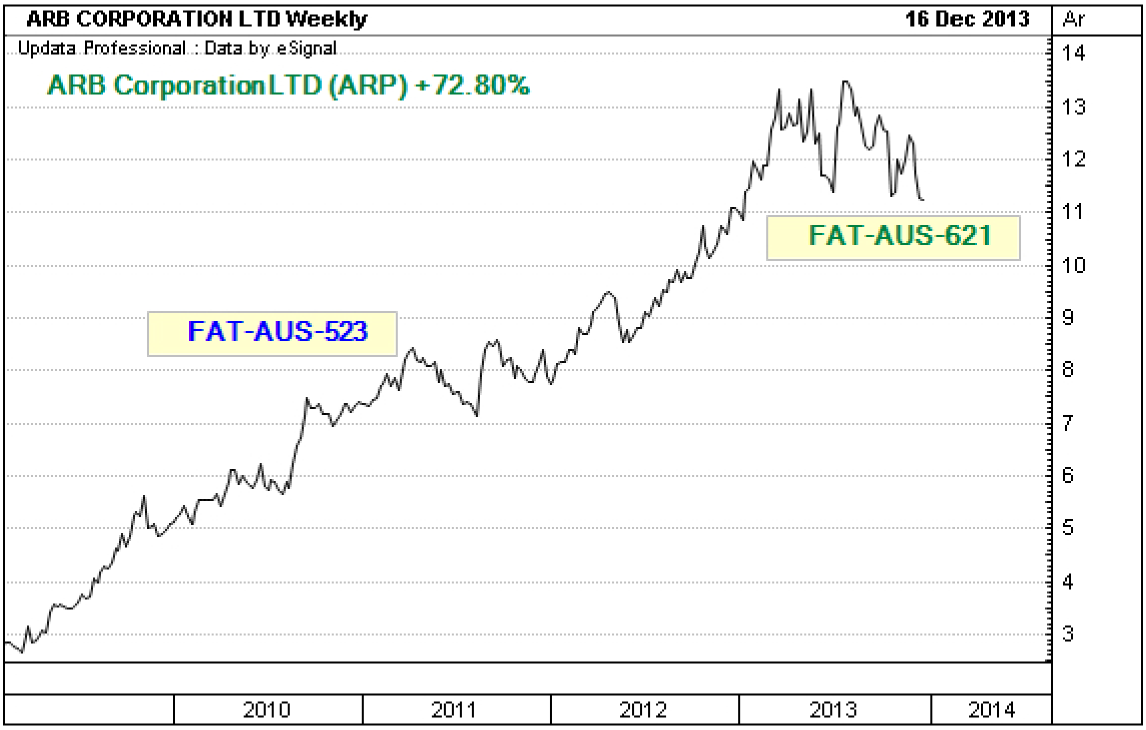


ARB Corporation (ASX: ARP)

The iconic 4WD accessories maker was added to the Fat Prophets portfolio back in May 2011 (FAT-AUS-523) at $7.88. We subsequently recommended Members Sell Half of their holdings in April of this year at $13.11 (FAT-AUS-621) for an annualised gain of 32.3 percent since inception inclusive of dividends.

At the time, we believed the premium rating of this quality stock had reached a level that warranted some profit taking, especially by those Members who have enjoyed the significant capital appreciation since the initial recommendation. We also thought the stock's multiple at that time factored in very little of the potential risk posed by the slowdown in mining activities on the sales of 4WDs and, hence, the follow-on demand for ARB's products.

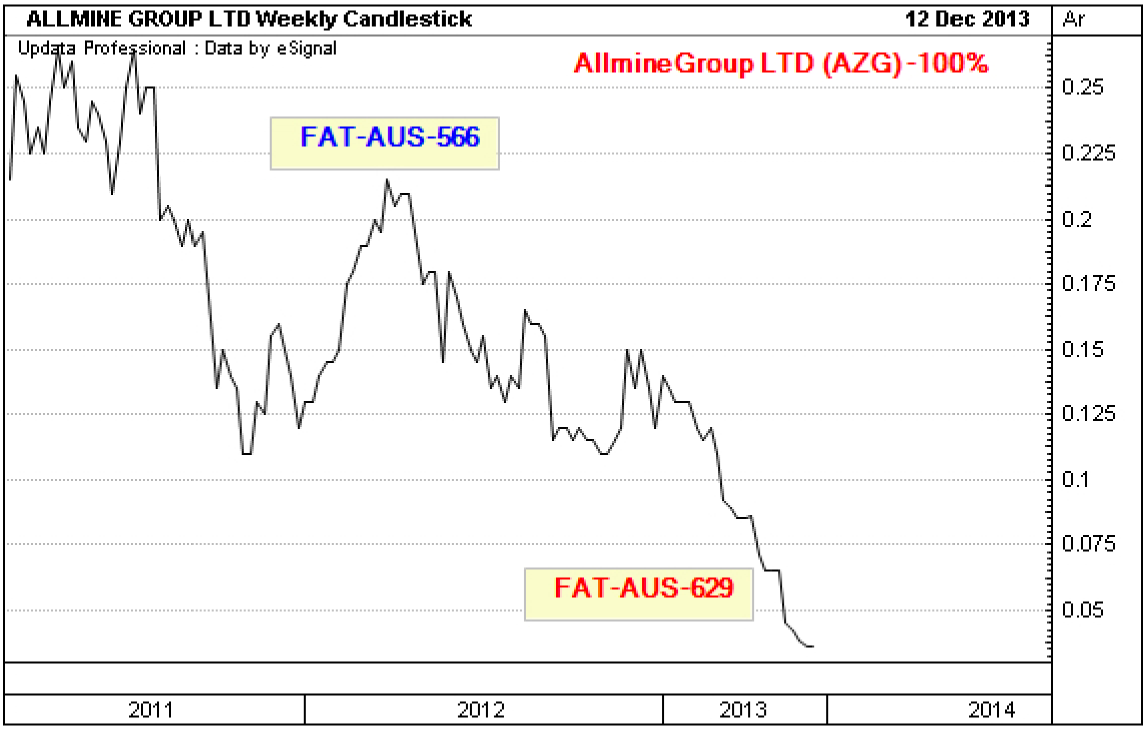
Since then, the company has provided a rather underwhelming trading update, one that suggests its September quarter earnings could be down by up to 10 percent year on year. The current pressures are being driven by stagnant revenues, coming at a time when the company's costs are rising due to various reinvestment activities. While these headwinds are likely to persist in the near term, we maintain our positive view on ARB Corporation's longer term fundamentals, driven by its market leadership position, management's unceasing commitment to product development and the company's pristine balance sheet.



Allmine (ASX: AZG)

The junior mining services provider was added to the Fat Prophets portfolio back in March 2012 (FAT-AUS-566) at $0.20. This was premised on the strength of the company's significant project pipeline across civil engineering and construction, in addition to full plant maintenance operations in Australia and offshore.

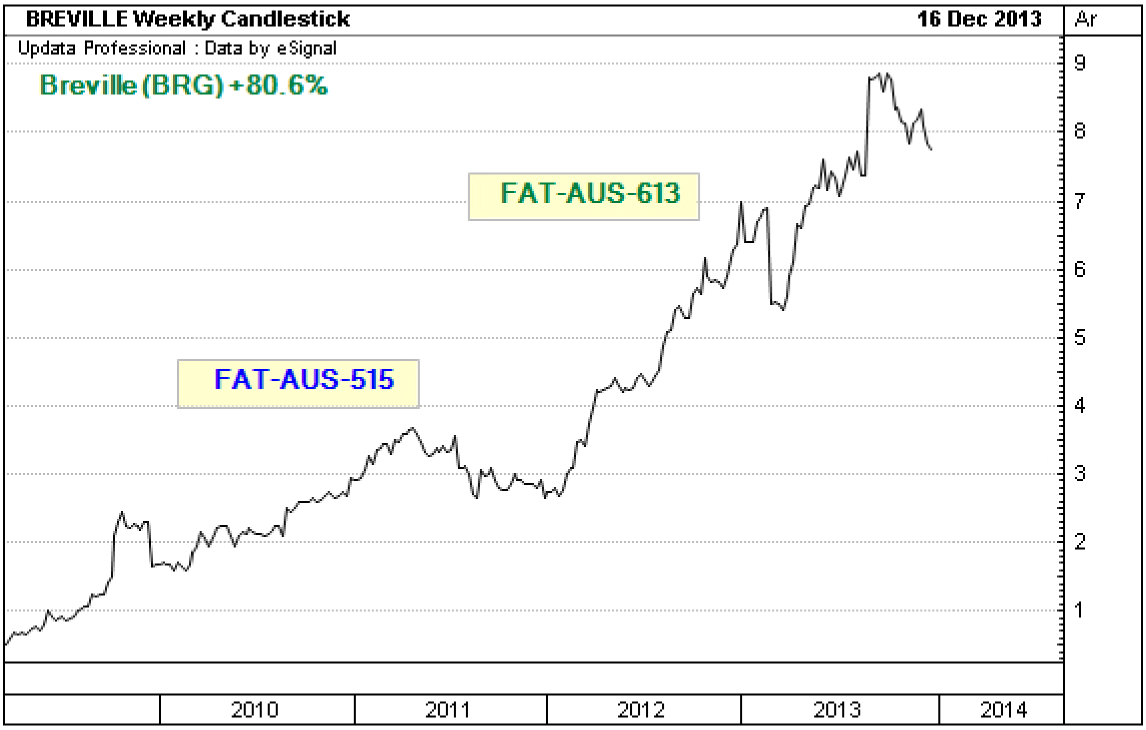
Unfortunately, our investment thesis proved to be incorrect, with the severe turmoil in the general mining services space this year (volatile iron ore prices, reduced client activities, project delays and deferrals), Allmine placed into voluntary administration on 20 June 2013. Management's strategic review came too late to save the company, particularly in light of the potential technical breach of its banking facility, with the company unable to find ways to strengthen the balance sheet.



Breville Group (ASX: BRG)

The household appliances maker was added to the Fat Prophets portfolio back in March 2011 (FAT-AUS-515) at $3.30. After taking profits at $5.44 in August 2012 (FAT-AUS-589), we recommended that Members exit the stock entirely in February of this year at $5.65 (FAT-AUS-613) for an annualised gain of 35.0 percent since inception inclusive of dividends.

The decision to sell out was primarily due to our concerns regarding the precarious state of the company's Keurig distribution agreement for the popular Keurig Single Cup Coffee Brewing System in Canada. Since then, the stock has more than shaken off this risk and continued to deliver solid earnings. While we have missed the subsequent share price appreciation, we take solace in the tremendous gains made on the stock during its tenure in the portfolio.

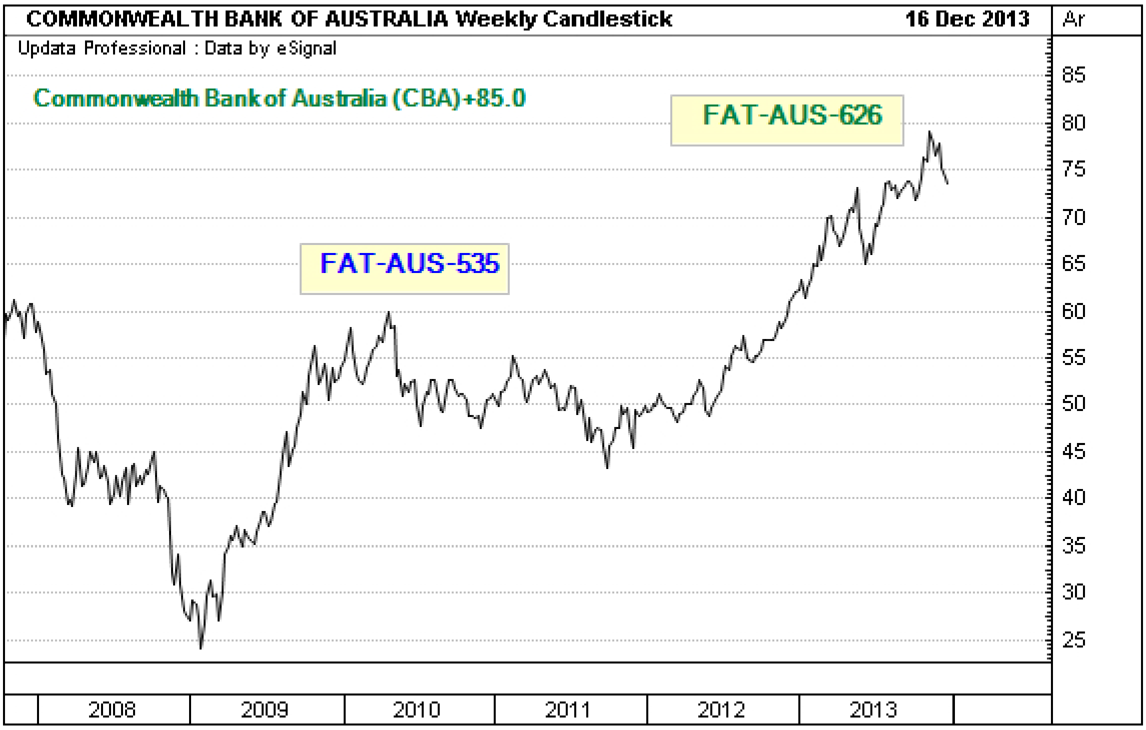


Commonwealth Bank of Australia (ASX: CBA)

Australia's largest bank was added to the Fat Prophets portfolio back in August 2011 (FAT-AUS-535) at $46.99. This year, we took profits on the stock on two occasions, once in June at $67.27 (FAT-AUS-626) and then again last month at $78.08 (FAT-AUS-649) for an annualised gain (inclusive of dividends) of 28.4 and 31.2 percent, respectively.

In both instances, the decision to recommend taking profits was purely driven by valuation reasons, as Commonwealth Bank's reliable earnings delivery, robust capital position and premium positioning in the lucrative local financial services industry have led to continuing gains in the stock's multiples.

There is still much we like about the bank, such as its dominant position in retail banking and funds management, diverse income streams, premier technological platform, solid customer satisfaction scores and strong cross-selling ability. As a result, the stock remains a core holding in the Fat Prophets portfolio.

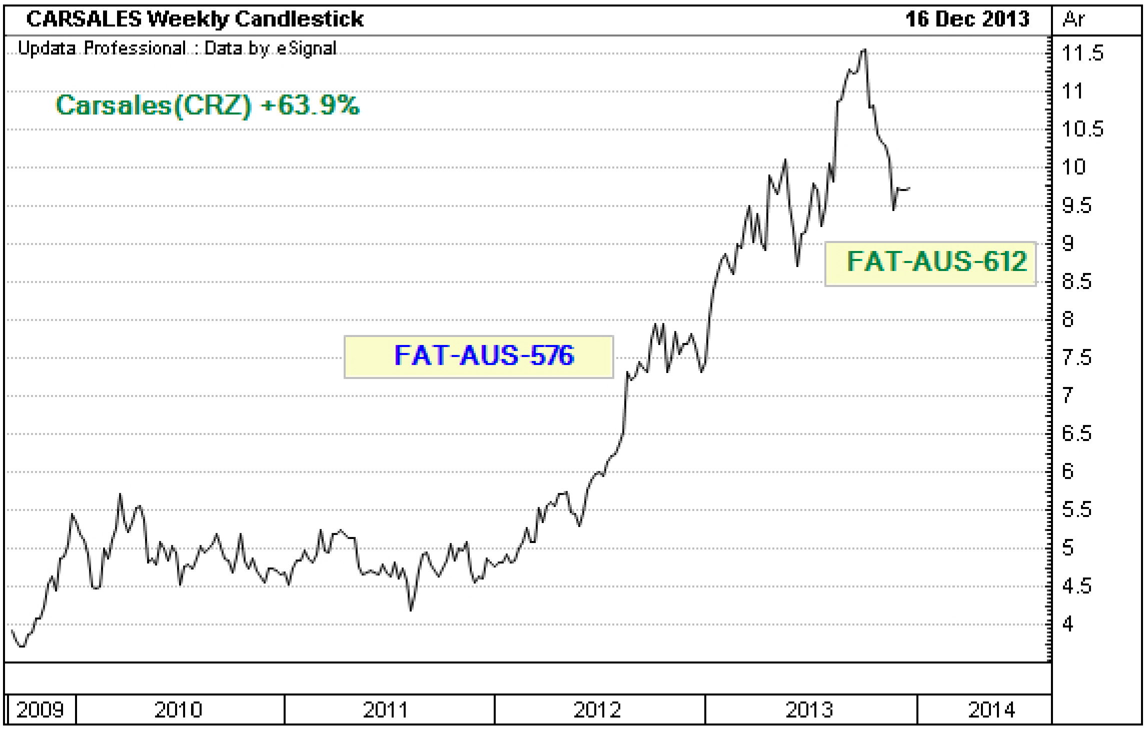


Carsales.com (ASX: CRZ)

The online automotive classifieds leader was added to the Fat Prophets portfolio back in May 2012 (FAT-AUS-576) at $5.45. After taking profits at $7.25 in August 2012 (FAT-AUS-588), we took some more gains off the table in February of this year at $8.74 (FAT-AUS-612) for a gain of 63.9 percent in less than a year.

The decision to crystallise some further gains on the internet powerhouse this year was once again driven by the ritzy valuation multiples of the stock, particularly in such a short period of time since its initial inception into the portfolio.

We remain comfortable holding onto the remaining shares. This is despite a shift away from third-party online distribution channels by a number of car dealers and some cyclical softness in other areas. Management's recently expressed confidence in meeting consensus earnings expectations, which we see as demonstrating not only the flexibility available on the cost side, but the continuing 'network effect' that Carsales.com enjoys as the undisputed leader in the online automotive vertical space.

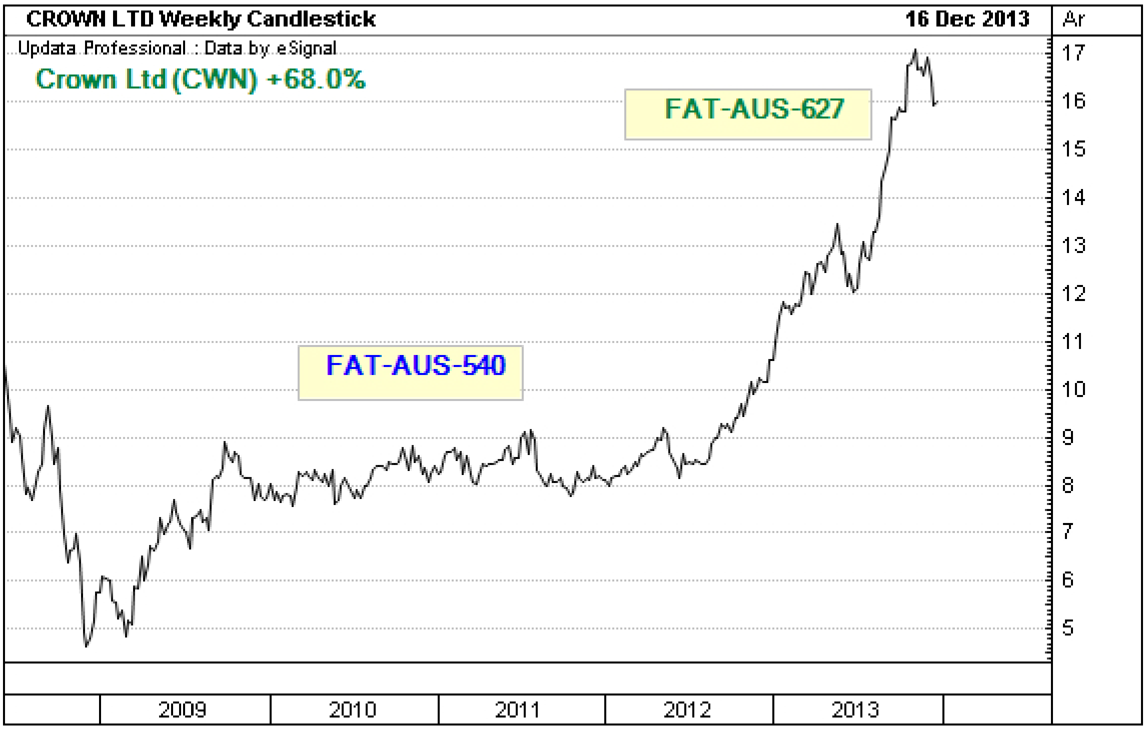


Crown Resorts (ASX: CWN)

The casino empire was added to the Fat Prophets portfolio back in September 2011 (FAT-AUS-540) at $7.85. We subsequently recommended Members Sell Half of their holdings in June of this year at $12.45 (FAT-AUS-627) for an annualised gain of 34.6 percent since inception inclusive of dividends.

When we first included Crown Resorts, one of the primary planks of the investment thesis was our belief that the stock price did not adequately reflect the underlying value of its 34 percent interest in Macau-based Melco Crown. By the middle of this year, that valuation gap was duly recognised by the market, leading to handsome capital appreciation over the holding period which we decided to partly lock in.

Since then, the stock has continued to go from strength to strength, driven by resilient earnings growth from all the casinos, as well as potential longer term upside from the significant pipeline of large-scale projects in Macau, the Philippines and Sydney.

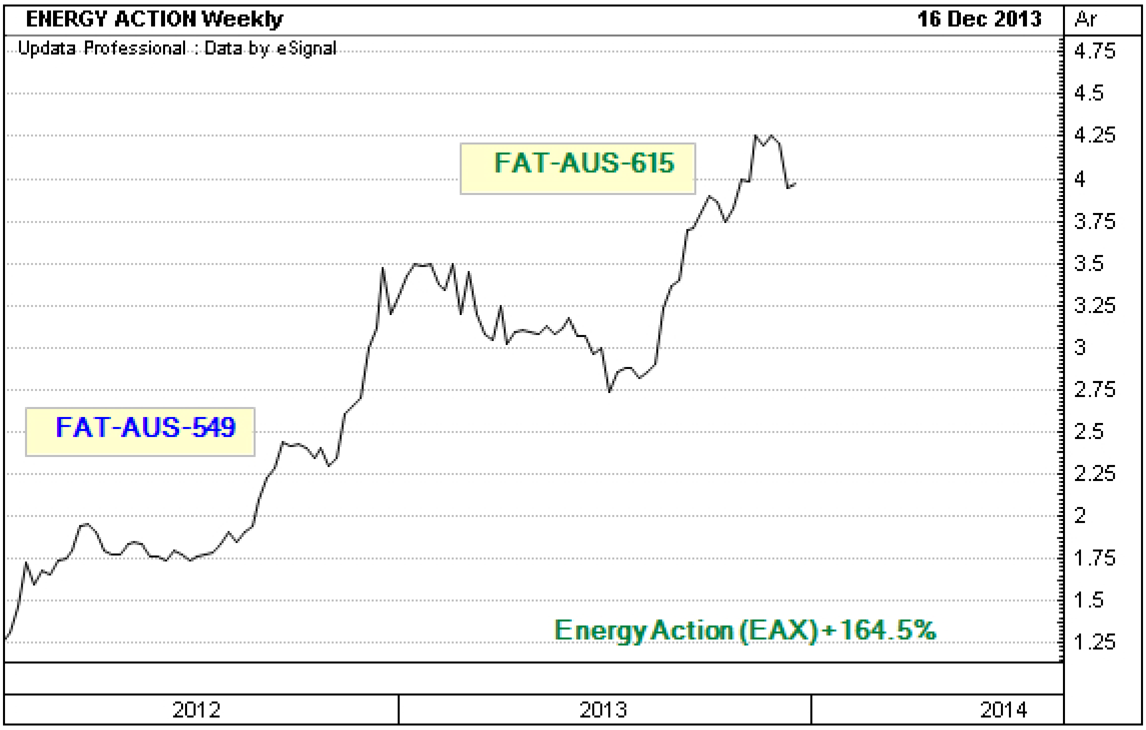


Energy Action (ASX: EAX)

The innovative energy services and management provider was added to the Fat Prophets portfolio back in November 2011 (FAT-AUS-549) at $1.20. After taking profits at $1.95 in July 2012 (FAT-AUS-585), we took some more gains off the table in March of this year at $3.12 (FAT-AUS-615) for an annualised gain of 108.6 percent since inception inclusive of dividends.

As the performance of the stock attests, the market has emphatically rewarded Energy Action for its high-quality, high-margin attributes with an attractive and scalable business model. We decided to take advantage of this, particularly given our low entry price.

We remain firm holders of the remaining shareholding, and continue to be fans of Energy Action's strong contracted revenue base, its integrated business model, a pristine balance sheet and solid cash generating power capable of facilitating further acquisitions.

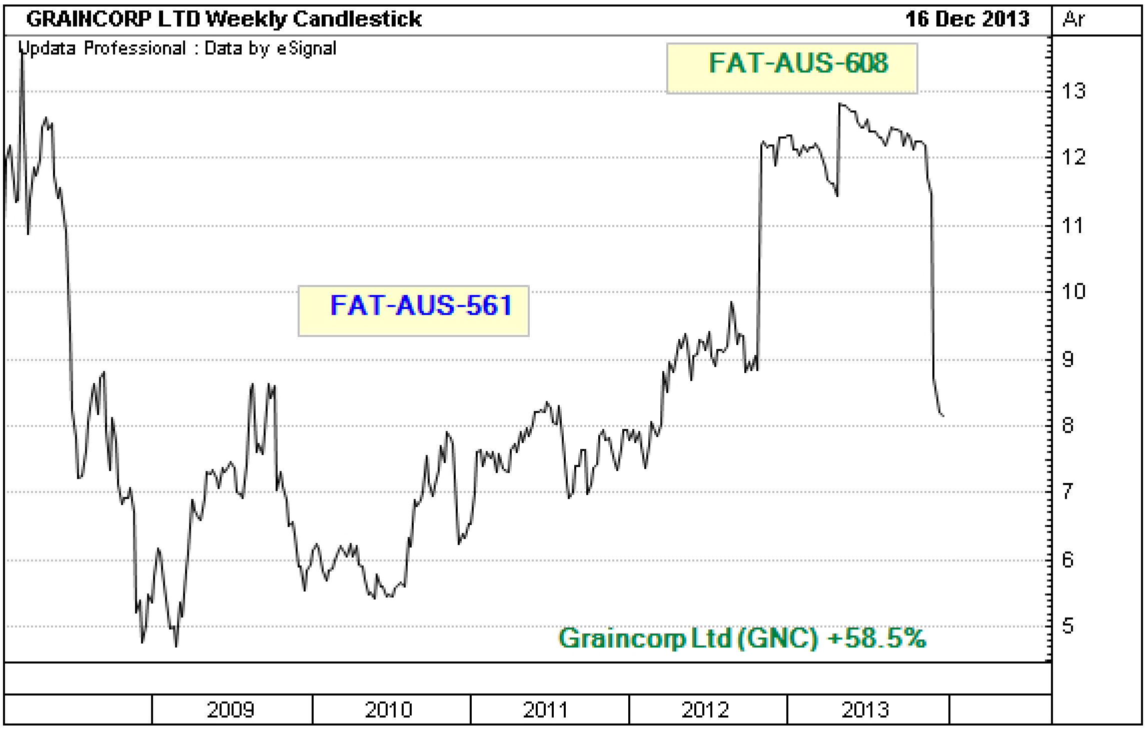


GrainCorp (ASX: GNC)

Australia's dominant grain handler was added to the Fat Prophets portfolio back in February 2012 (FAT-AUS-561) at $7.79. After taking profits at $12.15 in October 2012 (FAT-AUS-597), we took some more gains off the table in January of this year at $12.05 (FAT-AUS-608) for a gain of 58.5 percent (inclusive of dividends) in less than a year since inception.

The rationale for the recommendation to take profits this year was once again driven by the takeover offer from Archer Daniels Midlands (ADM) which awakened the market as to the strategic value inherent in GrainCorp's difficult-to-replicate grain storage, logistics and distribution infrastructure.

Of course, the ADM takeover was rejected by the Federal Treasurer last month on the basis that the acquisition "would not be in our national interest", although political influences were clearly at play. Irrespective of the merits or otherwise of the Federal Treasurer's rationale, a decision has been made and the takeover premium in Graincorp shares has dissipated. On the other hand, with the crystallised gains in the pocket and the company's dominant market position and diversified earnings profile still very much in place, we are content to recommend Members to hold onto their remaining shares.

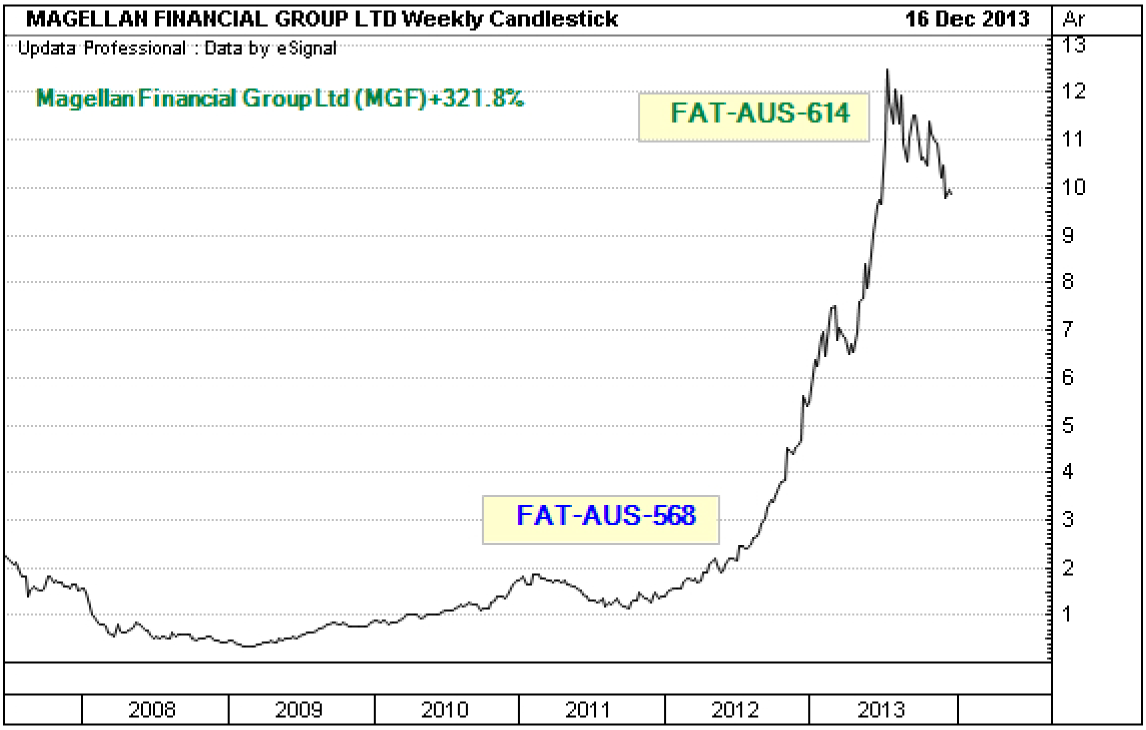


Magellan Financial (ASX: MFG)

The global fund manager was added to the Fat Prophets portfolio back in April 2012 (FAT-AUS-568) at $1.74. After taking profits at $2.20 in June 2012 (FAT-AUS-578), we took some more gains off the table in March of this year at $7.26 (FAT-AUS-614) for an annualised gain of 321.8 percent in less than a year since inception inclusive of dividends.

We were keen to take some of the stellar gains off the table as the stock was up over four-fold earlier this year, driven by incredible growth in Funds under Management (FUM) on the back of Magellan Financial's impressive outperformance track record, with explosive earnings growth following suit.

Since then, all key operating metrics have continued to surge, with the company's FUM now fast approaching the magical $20 billion mark—a level that catapults the locally-grown global fund manager into the Big League. In our view, this benchmark-crushing investment performance and rising FUM will continue to drive significant earnings growth for the medium term. Given the profits already crystallised, we are more than comfortable advising Members to hold onto their remaining shares and ride the earnings growth story for a little longer.



News Corporation (ASX: NWSLV)

The former global media conglomerate was split into two companies in June this year. The new News Corporation was separated holding mainly the print media assets as well as the Australian pay TV and online real estate classified interests. We first recommended the stock back in November 2012 at a split-adjusted price of $8.84 (FAT-AUS-600). In October this year, we recommended that Members completely sell out of new News Corporation at a price of $17.45 for a gain of 98.2 percent in just under a year.

While the new News Corporation begun its independent life with no debt and US$2.6 billion of cash on its balance sheet, we saw treacherous waters ahead, as the entire newspaper industry continues to grapple with the transition to the digital environment. Notwithstanding the clear structural headwinds, the new News Corporation shares steadily moved up, from $14.30 on the first day of the split. Consequently, we viewed this as an ideal time to sell the shares, particularly given the tremendous gain on our low split-adjusted entry price.

Onthehouse (ASX: OTH)

The emerging online real estate information and services provider was added to the Fat Prophets portfolio back in July 2012 (FAT-AUS-582) at $0.44. We recommended Members Sell Half of their holdings in September of this year at $0.62 (FAT-AUS-642) for an annualised gain of 39.6 percent since inception inclusive of dividends.

The decision to take profits was purely opportunistic, taken as it did at a time when the stock was enjoying a strong rally on the back of confirmation of strategic deals with Commonwealth and Westpac which catapulted Onthehouse into the lucrative financial institutions market. Investor sentiment towards the company at the time was also improving following the recent release of the solid fiscal 2013 financial result.

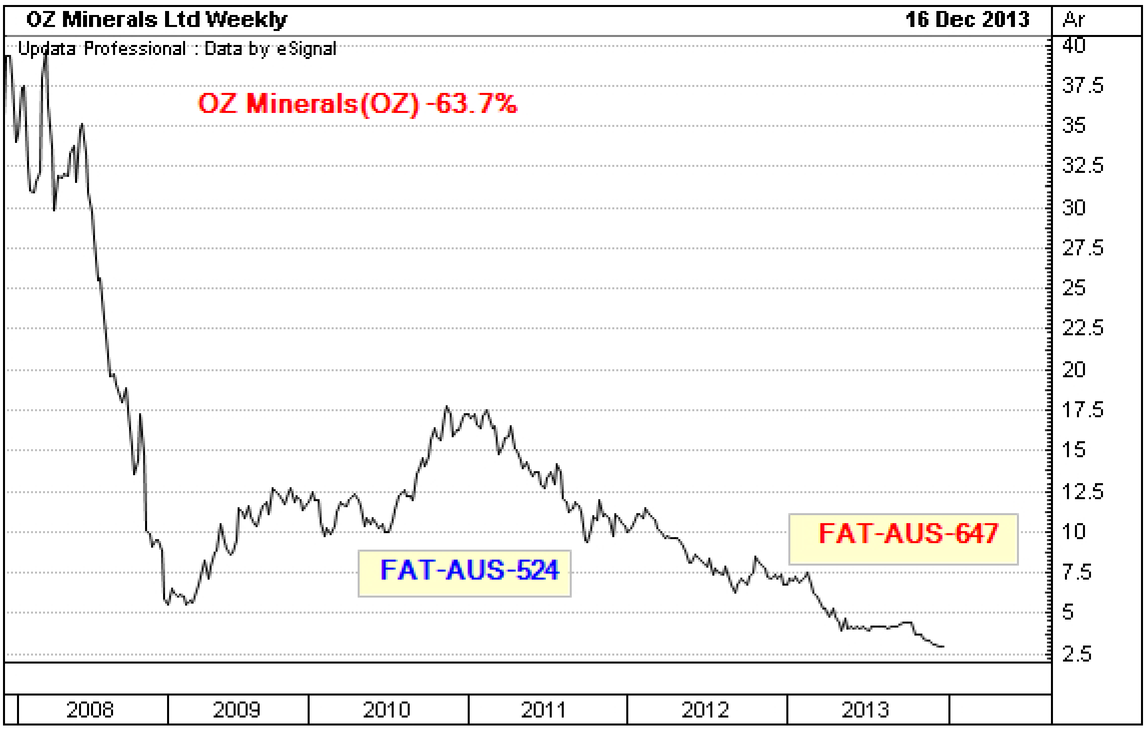
We remain comfortable with our remaining shareholding, particularly in light of the growth initiatives in place for the nascent Consumer Online business and the cash-generative nature of the Real Estate Solutions division.

Oz Minerals (ASX: OZL)

The copper and gold miner was added to the Fat Prophets portfolio back in May 2011 (FAT-AUS-524) at $13.15. Due to persistent disappointing results, we recommended in October this year that Members completely exit the stock at $3.70 (FAT-AUS-647) for an annualised loss of 34.0 percent since inception.

The potential of the Prominent Hill copper-gold mine in South Australia to lift production is what initially drew our attention to the stock. Unfortunately, the company's production profile has, to date, not reached the levels we envisaged Prominent Hill was capable of achieving. Having monitored the company's activities closely all year, we came to the painful conclusion that catalysts are lacking on the horizon and decided to crystallise our losses on the stock.

Our decision to cut losses rather than hold on has been partially vindicated since our sell recommendation, with OZL falling another 22 percent after a disappointing resource update.



SEEK (ASX: SEK)

The online employment classified juggernaut was added to the Fat Prophets portfolio back in April 2009 (FAT-AUS-420) at $3.00. After taking profits at $5.35 in August 2009 (FAT-AUS-439), we took some more gains off the table in February of this year at $9.97 (FAT-AUS-613) for an annualised gain of 37.8 percent since inception inclusive of dividends.

Our decision to take profits early this year was fuelled by the stock's powerful rally, as the market grew excited by the potential Initial Public Offer (IPO) of Zhaopin, which at the time could have valued SEEK's 78 percent interest at up to $550 million. We believed that provided a good opportunity to crystallise some further impressive gains, particularly as the core Australian online classifieds business was experiencing flat earnings due to the persistently weak labour market.

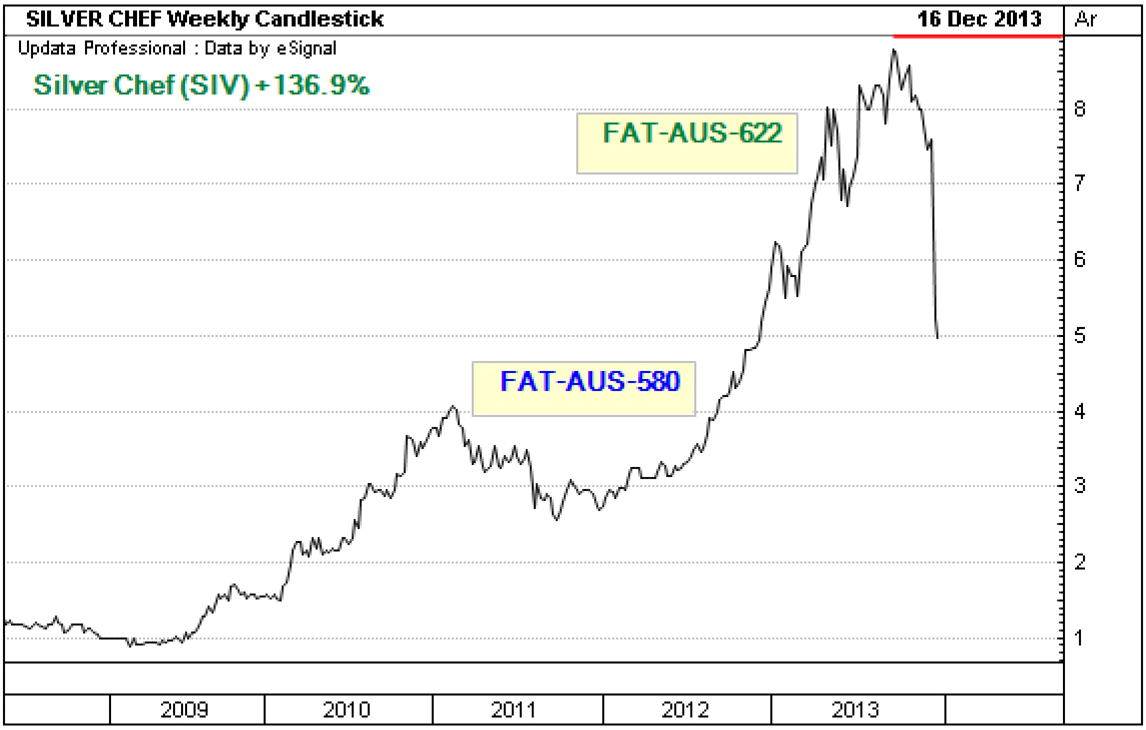
Since then, SEEK shares have continued to scale new heights, as investors shrug off the cyclical weakness in the domestic market and become further buoyed by the company's international expansion strategy—one that has resulted in controlling stakes in several online employment classified operations, each a market leader or close number-two player in lucrative markets such as China, Asia, Brazil and Mexico. Consequently, we continue to recommend Members retain their remaining shares, especially with upside from a potential Initial Public Offering of the IDP Education business next year.

Silver Chef (ASX: SIV)

The small business equipment-financing provider was added to the Fat Prophets portfolio back in June 2012 (FAT-AUS-580) at $3.21. We recommended Members Sell Half of their holdings in May of this year at $7.32 (FAT-AUS-622) for a gain of 136.9 percent in just under a year since inception into the portfolio.

While we remained impressed by Silver Chef's impeccable earnings growth track record, the sheer speed of the share price appreciation led to the opportunity to lock in some significant gains on the stock.

With these profits safely tucked away, we are content to hold onto the remaining shareholding. This is notwithstanding the shock profit estimate downgrade last week, with management now projecting full fiscal year NPAT (ending June 2014) to be 10-15 percent below the previous guidance of $13 million. We regard the subsequent circa 30 percent drop in the stock price to be excessive, given the magnitude of the guidance downgrade and in view of the fact that the core Silver Chef Hospitality division continues to perform in line with expectations.

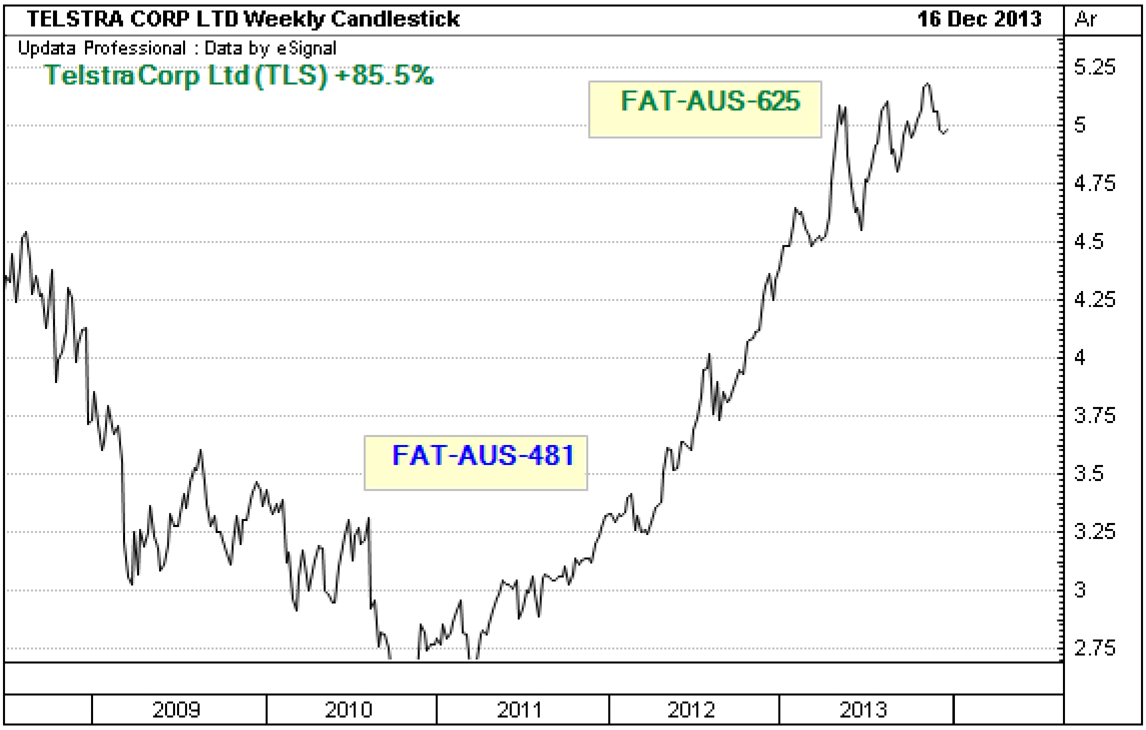


Telstra (ASX: TLS)

Australia's largest telecommunications company was added to the Fat Prophets portfolio back in July 2010 (FAT-AUS-481) at $3.11. We recommended that Members take profits at $4.93 in May of this year (FAT-AUS-625) for an annualised gain of 23.8 percent, boosted notably by 84 cents in fully franked dividends along the way.

At the time of the decision, we sensed that investors' infatuation with defensive yield plays was coming close to an end and, with the stock no longer trading at bargain basement multiples, believed it was a good time to crystallise some of the strong gains.

We are content with Members sticking with their remaining shares in Telstra. Although we do not expect the company to set the world alight with rapid growth in revenues, recent results show a telco that is making solid progress, transitioning from a legacy fixed-line monopoly to a mobile-centric entity in the fast-growing digital and data telecommunications environment. With its robust free cash flow and scale, we believe Telstra can maintain its leadership position, incrementally grow its business abroad and even modestly increase its dividend.

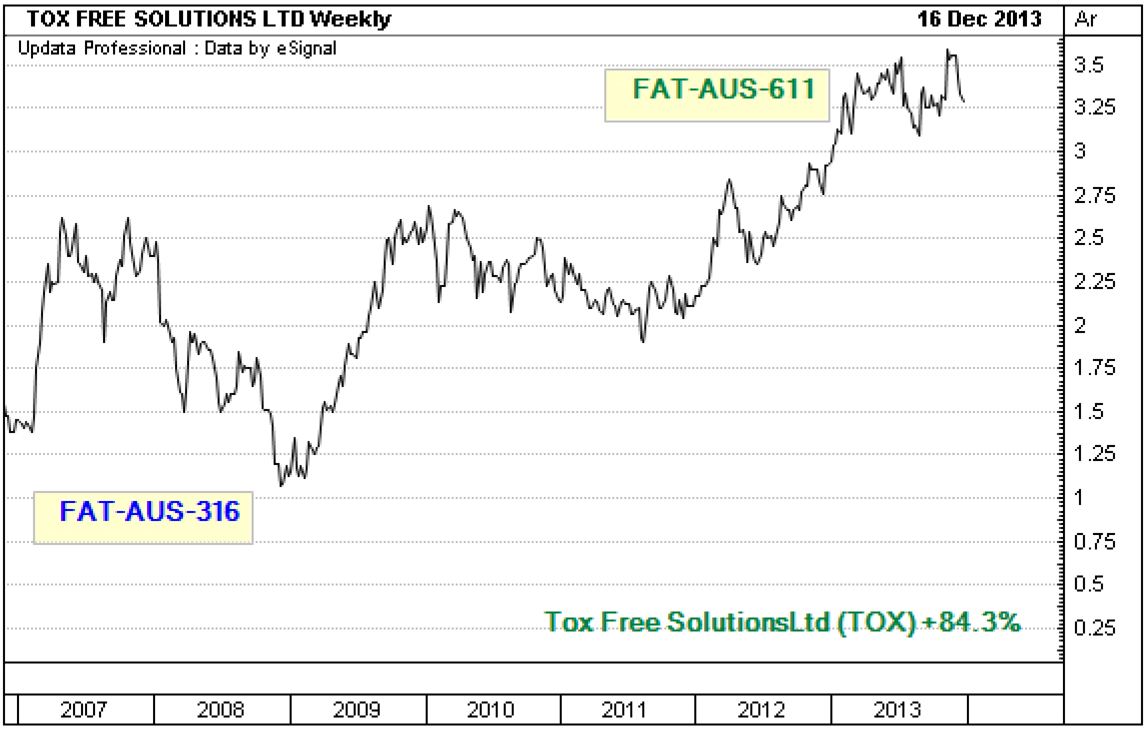


Tox Free Solutions (ASX: TOX)

The waste management services provider was added to the Fat Prophets portfolio back in February 2007 (FAT-AUS-316) at $1.85. We recommended Members Sell Half of their holdings in February of this year at $3.32 (FAT-AUS-611) for an annualised gain of 10.8 percent since inception inclusive of dividends.

At the time, we were comfortable with the how the company was performing. However, the stock had a near 40 percent rally in the 12 months to the early part of 2013 and presented an opportunity to realise some gains, particularly given the rapid earnings multiple expansion.

While shares of Tox Free Solutions have treaded water since then, the company's diverse operations are performing satisfactorily. It boasts a solid pipeline of tenders, expanding service offerings and, compared to other mining services providers, is faring relatively well in the resources sector. We believe this is due to the essential nature of Tox Free Solutions' business (waste management) and the fact that the bulk of its revenue is derived from customers who require the company's services on a recurring basis. Consequently, we see it as worthwhile for Members to retain their remnant shareholdings.

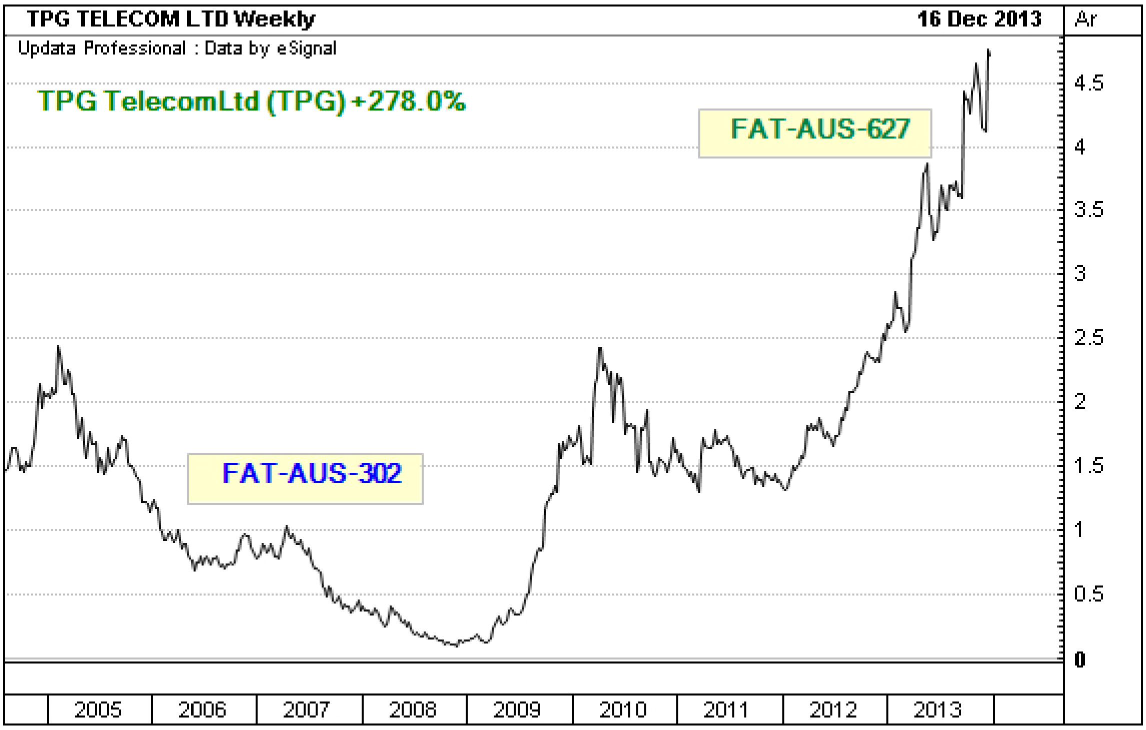


TPG Telecom (ASX: TPM)

The fast-growing telco was added to the Fat Prophets portfolio back in November 2006 (FAT-AUS-302) at just $0.93. We took profits on the stock on two occasions prior to 2013, once in November 2009 at $1.67 (FAT-AUS-450) and then again in March 2012 at $1.75 (FAT-AUS-566). We lightened our holdings once more in June of this year at $3.34 (FAT-AUS-627) for an annualised gain (inclusive of dividends) of 22.3 percent since the stock's inception into the portfolio.

The most recent decision to crystallise further gains in TPG Telecom was driven by the ongoing stock multiple expansion which had reached over 18 times net earnings by the middle of this year. This was on the back of continuing impressive growth in the company's broadband operating metrics leading to a strong lift in earnings and financial firepower.

Since the partial sale, shares in TPG Telecom have marched further upward, fuelled by the potential upside from the recently-announced $450 million acquisition of AAPT telecommunications assets, as well as management's ambitious Fibre-to-the-Building (FTTB) network expansion plan, targeting 500,000 apartments in densely populated areas in Sydney, Melbourne, Brisbane, Adelaide and Perth. With these growth avenues, augmented by continuing strong performance of the core operations, we recommend that Members stick with their remaining shareholdings.



Westpac Banking Corporation (ASX: WBC)

The Big-Four bank was first added to the Fat Prophets portfolio back in May 2010 (FAT-AUS-473) at $24.82. This year, we took profits on the stock on two occasions, once in May at $29.51 (FAT-AUS-625) and then again last month at $32.76 (FAT-AUS-651) for an annualised gain (inclusive of dividends) of 13.8 percent since inception into the portfolio.

The decision to take profits this year had little to do with our view on Westpac Banking Corporation's core fundamentals which remain first class in terms of earnings power, bad debt levels, capital strength and dividend resilience. Indeed, it was driven by these very factors which had pushed the stock's multiples to a level at which we felt it was prudent to crystallise some gains.

While further significant capital appreciation is likely to be harder to come by, we remain comfortable with our remaining shareholding, as we continue to view Westpac as one of the best exposures to the highly lucrative and structurally sound Australian banking sector.

Disclosure: Directors and/or associates of the Fat Prophets Group of Companies currently hold positions in: AMM, ANZ, CBA, CRZ, CWN, MFG, OTH, SIV, TLS and WBC.