

# BARRATT & COOKE

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## APRIL 2003

	<u>1/1/96</u>	<u>1/1/97</u>	<u>1/1/98</u>	<u>1/1/99</u>	<u>1/1/00</u>	<u>1/1/01</u>	<u>1/1/02</u>	<u>5/4/02</u>	<u>1/7/02</u>	<u>5/10/02</u>	<u>1/1/03</u>	<u>5/4/03</u>
FTSE 100	3689	4118	5136	5882	6930	6222	5217	5233	4656	3814	3940	3814
FTSE All Share	1803	2014	2411	2674	3242	2983	2524	2542	2263	1833	1894	1824
Nasdaq (US)	1000	1280	1580	2192	4131	2470	1950	1770	1463	1140	1335	1384
Dow Jones (US)	5117	6448	7915	9181	11452	10786	10022	10271	9243	7529	8342	8277
Nikkei Dow (Japan)	19868	19361	15256	13842	18934	13785	10543	11335	10622	9028	8579	8074

### Reasonable Yield FTSE 100 Equities

HSBC  
Barclays  
Scottish & Southern  
Legal & General Group  
Shell Transport & Trading  
Land Securities Group  
BOC Group  
Rexam  
Kelda Group

### Growth FTSE 100 Equities

Daily Mail & Gen.Tst  
Reckitt Benckiser  
Amersham  
Unilever  
Bunzl  
Tesco  
Compass Group  
AstraZeneca  
William Morrison

### Stocks Outside FTSE 100

Ashtenne  
London Stock Exchange  
Hiscox  
Jardine Lloyd Thompson

### Companies With Local Connections

Greene King  
GWR  
Savills

### Overseas

Nestlé  
Pfizer  
TotalFinaElf

## WAR

Like Kennedy, Diana, and the 11<sup>th</sup> September, I think we shall all remember that awful scene of the night skies illuminated by the devastating bombing of Baghdad on the first day of the War. I remember that sickening feeling at the bottom of my stomach of utter shame and thinking the words my Grandparents always said "The First World War was the War to end all Wars and twenty years later there was the Second World War". I thought that the world had grown up by the 21<sup>st</sup> Century. What are we doing?

Thank goodness those scenes were not as devastating as they first appeared, with precisely targeted bombing and the minimum loss of civilian life where possible. But, these scenes pulverised the famous England Rugby Grand Slam Victory and the importance of World Stockmarkets into insignificance.

Writing this chronicle 14 days into War on 5<sup>th</sup> April 2003, British troops, after heavy fighting, are about to take Basra, but are still experiencing strong resistance from a 'hard core' Ba'ath party. There is fighting in Nasiriya, while the US troops have taken Baghdad Airport and are preparing for the 'Battle of Baghdad'. In the North, Kurdish Peshmerga fighters are working with US forces in the northern cities of Mosul and Kirkuk - John Simpson the BBC journalist has just reported having been wounded by 'friendly fire' shrapnel and his interpreter is dead.

By the time you read this Newsletter we hope and pray that War has finished and by the July Newsletter these scenes and cities will be just names in history books (but I shall count no chickens).

Looking back at the Iraqi situation so far, I shall always remember the soft, firm sensible tones of Dr Blix (the weapons inspector) pleading for more time; the French and Germans ratting on the US and the British by saying “Non, non, non” and thereby in three words making the United Nations impotent and probably also destroying the dream of a European State and European Currency with full British participation (the Russians would always choose the other side of the coin to the US anyway); the bully-boy arrogance of President Bush and Donald Rumsfeld, with only Colin Powell bringing some semblance of dignity and humility to the scene; the incredulous propaganda of the Iraqi Minister for Information; and the sincere and brave statesmanship of Blair. Perhaps Bush and Blair are quite mad. Perhaps they know far more than us. Only history will tell, but we are ‘in there now’ and the British Government decisions and troops must be supported.

## **Stockmarkets**

In my introduction I referred to ‘the importance of world Stockmarkets being insignificant’ at this time of War - of course they are not.

However, one does become cynical at times like these, with quite extraordinary, unprecedented movements in Stockmarkets such as the FTSE 100:

11 <sup>th</sup> March 2003	3453	
12 <sup>th</sup> March 2003	3287	- 166 points (- 4.8%)
13 <sup>th</sup> March 2003	3487	+ 200 points (+ 6.1%)
14 <sup>th</sup> March 2003	3602	+ 115 points (+ 3.3%)

Today 5<sup>th</sup> April 2003            3814

exactly the same 3814 as it was for the 5<sup>th</sup> October 2002 Newsletter (headed ‘Sabre Rattling in Iraq’). How ironic that the six monthly valuations have the same FTSE 100 Index. Has the world stood still?

The major factors affecting UK Stockmarkets at the moment are of course:

### 1) **The Iraq War**

causing large daily movements in sentiment.

We do feel that when the War is over (which we pray for as soon as possible) that greater world stability will return and the Equity Culture will return, rather than hoarding ‘Cash’ or ‘Bonds’.

### 2) **The Pensions Crisis**

With:

- a) Lower Equity values
- b) Lower interest rates (affecting annuities)
- c) People living longer (affecting annuities)
- d) Gordon Brown’s 1998 Budget robbing pensions of tax breaks

this has caused a ‘quadruple whammy’ to the Life Assurance industry all at the same time, effectively busting Equitable Life with its ‘guaranteed annuity rate scheme’.

Other Life Assurance companies have panicked and to shore up liquidity have:

- a) Sold Equities 'willy nilly' causing Equities to fall. Equities are now much too low (though they are just starting to rise).
- b) Bought Gilts, forcing Gilt prices up to 48 year highs (though they are just starting to fall).

I understand the problems in the Life Assurance industry, but as I have not heard a single word of apology from senior management to:

Shareholders for reduced dividends.  
Policy holders for shattered 'pension dreams' due to over optimistic projections.

'It is with a heavy heart' that I must agree with every word I have read in the Eastern Daily Press recently.

Norwich and Norfolk are not impressed.

### 3) **Recession in Industry**

I think we all feel more apprehensive than we did and the 'feel good factor' has waned.

This affects industry, its suppliers, and retailers. This is demonstrated by the recent figures showing a down-turn in consumer spending.

This in turn lifts the ugly head of possible increases in unemployment.

### 4) **The Political Situation**

We are all getting a bit peeved off by New Labour's promises.

Do we have a better transport system?

Do we have better schools?

Is law and order safer?

I know we have a better hospital, but is the NHS better?

I also know that hidden taxes are higher, especially with today's National Insurance increases.

How prudent really is the Chancellor?

Has Blair had enough?

Is there an opposition?

The rustle of autumn wind has started to blow through the political scene, which again causes uncertainty.

However, the recent strength of the Euro will certainly help industry, especially my farmer clients as they begin to see cereal and sugar beet prices rise off the bottom, together with their IACS claims.

I shall comment on the Budget in Late News.

## Equities

However, with all the problems allowed for, leading UK Equities look fundamentally and historically cheap on:

Average PE	15
Average <u>net</u> yield	3.7% net
while Base Rate is only	3.75% gross
and inflation under control at approximately 3%	

(The yield gap between Equities/Gilts has returned for the first time for 50 years!)

The FTSE 100 is now down 45% from its high of 6930 on 1<sup>st</sup> January 2000.  
The FTSE 100 was down 53% at its low of 3287 on 12<sup>th</sup> March 2003.

As we said in our last Newsletter, for the first time since 1929, 1939 and 1960 the FTSE 100 has fallen consecutively for 3 years.

We remain very confident of Equity investment in the long term provided:

- a) It is in leading companies with proven management.
- b) There is a wide spread of sectors.
- c) Never invest too much in one sector, or in one company.

## Gilts/Fixed Interest

For several months we have been saying:

- 1) Base rates are too low at 3¾%. They could go lower in the short term, but are bound to rise in due course.
- 2) Because of this:
  - a) Stay with Deposits or very short-dated Gilts
  - or b) invest in Index-Linked Gilts
  - or c) for very high income, Preference Shares look outstanding (though of course Preference Shares have more risk than Gilts or Deposits).
  - d) AVOID LONG DATED GILTS.

At last the world is beginning to listen to us (as shown by the enclosed Fixed Interest list).

## World Markets

All World Markets are down, but at this stage:

<b>US</b>	Must recover if War does not go on too long.
<b>Europe</b>	Though the French and Germans are not my 'flavour of the month', European Markets look low and have started to recover.
<b>Australia</b>	Remains attractive and relatively stable.
<b>Far East</b>	Keep an eye on.
<b>Japan</b>	Avoid.
<b>Emerging Markets</b>	Avoid.

## Corporate Actions Since 1<sup>st</sup> January 2003

Pending schemes:

1) **Six Continents**

will split into:

<i>Hotels</i>	Inter Continental Hotels
<i>Pubs</i>	Mitchells & Butlers

There has been an unsuccessful bid from Hugh Osmond (no relation to Donny). There could be further bids.

2) **AWG**

will repay a further 100p cash to shareholders. West LB has indicated a bid of approximately 510p. There is nothing definite at the moment.

3) **Safeway**

has received a bid from William Morrison.

Tesco, Sainsbury, Asda and Philip Green all intend to bid.

The situation is with the Competition Commission, with an announcement due by 12<sup>th</sup> August 2003.

4) **Granada/Carlton**

have announced merger plans. Again this is with the Competition Commission.

5) **RT Group (Railtrack)**

has repaid 200p with further cash to come (approximately 50p).

6) **Marconi**

has announced a reconstruction.

7) **Gilts**

Four Gilts will be repaid shortly:

	<u>Redemption Date</u>
9¾% Conversion Stock 2003	7/5/2003
2½% Treasury Index Linked Stock 2003	20/5/2003 (most sold and reinvested longer)
3½% Funding Stock 1999/2004	6/6/2003
8% Treasury Stock 2003	10/6/2003

We shall write to clients when corporate actions need dealing with.

## Late News

### **The Grand National**

Monty's Pass wins the Grand National and I hope his owner Mike Futter needs a good stockbroker having seen the whites of the bookmakers eyes.

### **The War (Day 20, 9<sup>th</sup> April 2003)**

British troops now control Basra; US troops control Baghdad (Iraqi troops fled before the Battle of Baghdad); Chemical Ali is dead and Saddam Hussein is rumoured to have been killed in a bombing raid. The War is clearly won, but we must never forget the death of the 30 British troops and 90 US troops (so far) who have paid the final sacrifice for 'World Peace', let alone thousands of Iraqis.

What has the cost been? Is the world a safer place? What happens next? I have no idea, only time will tell.

### **The Budget**

The Budget delivered on 9<sup>th</sup> April 2003 was one of the longest loads of financial waffle I have ever heard.

In principle:

- 1) Most tax rates are staying the same, with bands increased by indexation (but don't forget National Insurance increased substantially on 6<sup>th</sup> April 2003).
- 2) Capital gains tax allowance increase from £7,700 to £7,900, for Trusts £3,850 to £3,950.
- 3) The inheritance tax threshold will rise from £250,000 to £255,000.
- 4) There was no statement regarding ISAs.
- 5) There is no change in Stock Exchange Stamp Duty, but Stamp Duty could be changed on property leases.
- 6) The Chancellor will continue to look at tax avoidance schemes, especially on specific domicile schemes.
- 7) The Chancellor predicts inflation at 2½% for next year after 2¾% later this year.
- 8) Growth in the economy has slowed slightly. He therefore predicts growth for this year of 2%-2½%, reduced from his previous estimate of 2½%-3%. Last year's growth was 1.8%.
- 9) He has comfortably allowed for the cost of the Iraq War.
- 10) He proposes to borrow over previous estimates an additional:

£3bn in 2003/4 making £27bn  
£5bn in 2004/5 making £24bn

The Budget Collect:

“Oh Lord, there is nothing more painful than paying Income Tax - except not paying Income Tax”.

Our immediate views are:

- 1) The increase as from 6<sup>th</sup> April 2003 in 'National Insurance' will hurt tax payers and employers immediately.
- 2) Government borrowing will increase, which means more Gilts will be issued - continue to avoid long dated Gilts.
- 3) If you believe the Chancellor's predictions, all well and good; however I suspect he has been listening to too many press conferences from 'the Iraqi Minister for Information'.

I think to maintain growth at 2.5%, inflation within the target of 2.5% and an increase in borrowings this and next year by only £3bn and £5bn over and above the estimated figure is extremely optimistic. I believe Gordon Brown is taking a gamble on the economy growing as quickly as he predicts.

Let's hope Prudence is right and I am wrong.

### **Other Facts**

#### 1) **ISAs**

Though ISAs have been disappointing while Stockmarkets have fallen, they are TAX FREE VEHICLES which could be very attractive one day. We advise all potentially higher rate tax payers to add to ISAs while they can and while Stockmarkets remain so low.

#### 2) **Barratt & Cooke's Discretionary Service**

is growing rapidly while Stockmarkets are so volatile and where clients want a quiet life with a well balanced managed portfolio of Gilts and leading Equities.

For further details please contact your Barratt & Cooke Advisor to arrange a meeting.

### **Final Thought**

In times of such uncertainty as today, John West, the great salmon entrepreneur (once owned by Unilever) was right in saying:

"Eat what you can  
and can what you can't".

**C W L Barratt**  
**April 2003**

As in Rageh Omaar's BBC reports from Baghdad, parts of this Newsletter have been heavily censored.

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