BARRATT & COOKE

MEMBERS OF THE LONDON STOCK EXCHANGE

5 OPIE STREET, NORWICH, NR1 3DW
Tel No: 01603 624236
Fax No: 01603 665757
E-mail: admin@barrattandcooke.co.uk

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	1/1/99	1/1/00	1/1/01	1/1/02	1/1/03	1/1/04	1/1/05	5/4/05	1/7/05	5/10/05	1/1/06	5/4/06
FTSE 100	5882	6930	6222	5217	3940	4477	4814	4943	5113	5428	5618	6044
FTSE All Share	2674	3242	2983	2524	1894	2207	2411	2479	2560	2721	2847	3086
Dow Jones (US)	9181	11452	10786	10022	8342	10454	10783	10458	10275	10317	10717	11240
S&P 500 (US)	1229	1469	1320	1148	880	1112	1212	1181	1191	1197	1248	1312
Nikkei Dow (Japan)	13842	18934	13785	10543	8579	10677	11489	11774	11584	13690	16111	17244

Leading Growth Equities

AB Foods
BAE Systems
BHP Billiton
BP
Carnival
Centrica
Diageo
Tesco
United Business Media

Leading Income Equities

Barclays
BT Group
Friends Provident
Lloyds TSB
National Grid
Royal Bank of Scotland
Scottish Power
United Utilities

Smaller Companies

Cobham
Filtrona
Halfords
Hunting
Inmarsat
Petrofac
Qinetiq
Quintain Estates & Dev
Weir Group

AIM Stocks

Dobbies
Domino's Pizza
Glisten
Majestic Wine

Overseas Companies

Caterpillar Inc
ExxonMobil
Procter & Gamble
Total

Overseas Investment Trusts

F&C US Smaller Co's
JPMF American
JPMF Japan

Hamlet

Following the recent sharp rise in world Stockmarket indices, where psychological barriers have been breached:

FTSE 100: 6000 Dow Jones: 11000 Nikkei Dow: 17000 Australia: 5000

my readers are now asking that timeless question:

"To be, or not to be?
That, is the question."

"Whether it is sensible to suffer the risks of outrageous fortune in Equities
or to be content to wallow in the soft comfort of cash and bonds."

Though misquoted, this is a hugely profound question at this point in time. This April chronicle will discuss and endeavour to come to a conclusion.

Let us therefore discuss:

<u>"Why have UK Stockmarkets reached these levels and can they be justified?"</u>

I believe there are 5 main subjects that need to be discussed, all of which justify the UK Stockmarket level, but with cautious optimism:

1) The UK economy.
2) Fundamental valuations of Equities.
3) Commodity prices and other technical situations.
4) Takeover fever.
5) What else?

The UK Economy

I have never understood why highly paid economists always look at short term positions and never realise that 'basic economic formulae' usually return.

The UK economy has returned to basic formulae:

£	:	US$	=	1.74	(about right - a similar level to 30 years ago)
Euro	:	£	=	70p	(exactly right - where it started)
Base rate			=	4½%	(5% 100 years ago)
RPI			=	2.4%	(though we suspect this is really higher)

We feel all these levels <u>exactly right</u> and would expect similar levels at the end of the year.

Mr Brown is artificially depressing the cost of borrowing from Long Dated Gilts, but more about this crooked sleight of hand later.

Though I do not trust Mr Brown a yard, the UK economy is moving on an even keel.

Fundamental Valuations of Equities

Again, there have always been fundamental 'formulae' for valuing Equities of:

PE ratio   Net asset value   Growth prospects

It is a simple fact that UK companies with worldwide exposure are performing well with:

a) Rising profits
b) Therefore rising dividends
c) Strong cash flows creating 'share buy backs' and 'large special dividends'
d) Underlying asset values are increasing, and balance sheets becoming even stronger

and with these improving corporate fortunes it means that the FTSE 100 trades on:

Average PE of	13.0 times earnings
Dividends yield of	3.1% net

whereby the formulae have remained in line, strengthened by strong balance sheets with increased asset values.

The present formulae justify UK Equity values at FTSE 6000.

Much is talked about the FTSE 100 hitting 6940 in 2000 and then falling sharply. It must be remembered that the stocks in the FTSE then were largely 'High Tech Stocks', which were hyped up on hope value, but no actual true net asset value. The FTSE 100 is very different today, proved by the present takeover fever.

Commodity Prices and Other Technical Situations

Metal prices have risen to recent highs:

Gold \$588.70 Silver \$11.91 Platinum \$1,090 Copper \$5,527

together with high prices of Zinc, Steel, Aluminium etc. (Mr Brown sold most of our gold reserves at \$280 - we hope he gets a better price for the Tote.)

This has been caused by the sudden demand from China, India and indeed behind the Old Iron Curtain.

Oil prices have remained high at US \$ 66, caused by factors including supply shortage from Iraq, hurricanes in the Gulf, and Russia cutting off the gas pipeline to The Ukraine.

The 'oldest economic theory' in the world applies:

'The law of supply and demand'

and demand for commodities is outstripping supply. This state of affairs will last into the near future anyway.

This has caused a disproportionate rise in the mining sector of the FTSE 100 - with large gains from:

Rio Tinto, BHP Billiton, Anglo American, Antofagasta, Kazakhmys, Xstrata

At present commodity prices, Mining shares can justify their present prices, but are vulnerable to any fall in commodity prices.

It is a fact, that throughout history Stockmarkets have performed badly as commodity prices have risen. This is because UK industrial companies have been affected by the price rise of 'raw materials'. The situation is now different:

1) There are a lot of Mining and Oil shares in the index.

2) Other major sectors are Financial, High Tech, Pharmaceutical, Stores, Media, Telecommunications etc which are not so affected directly by commodity prices, as the old 'UK industrial base' was.

Another **technical situation** is the rise in property shares following the announcement of the introduction in January 2007 of REITs (we shall discuss REITs later in this chronicle), but the rise in Property shares are indeed justified.

Takeover Fever

We have been saying for several years in these chronicles that UK public companies have very 'strong balance sheets', with high 'net asset values' which are being ignored.

At last the World has woken up to this fact with a spate of takeover bids where no UK company appears safe or sacrosanct from the vultures of Private Equity or Hedge Funds.

The difference in this spate of takeover bids is that most bids are in 'actual cash', which one day will have to be reinvested back into Stockmarkets, and not 'paper confetti' as in the days of Slater Walker.

These bids have pushed up Stockmarkets:

a) On actual bids increasing share valuation.
b) Potential bids giving a 'takeover premium'.
c) Potential purchase of other Equities, from takeover cash.

(Yet again - the law of supply and demand prevails, 'too much cash chasing too little stock'.)

I shall discuss takeovers further under Corporate Actions.

What else is there to invest in?

1) <u>Commercial Property</u> yields are now down to 6.0% due to rises in prices pushed up by prospects from:

    SIPPs
    REITs

    together with demand from industry and commerce.

2) <u>Residential Property</u>: Most clients are fully committed on their own residential property, and the 'buy to let market' looks very over-heated.

3) Certainly not:

    LONG DATED GILTS

    which Mr Brown has manipulated to give yields of 4.0%. Stick to Short Dated, or Index Linked Gilts.

4) This brings us back to CASH which is safe, liquid and can yield 4.0% +, but will show no growth and will always fall behind as 'fiscal drag' and 'inflation' continues.

and:

5) <u>Equities</u>, which actually still look reasonable value and can justify these present levels.

<u>World Stockmarkets</u>

Japan

Japan has begun to stir and it must be right to have a small proportion of a portfolio in this Stockmarket, being the 2nd largest Stockmarket in the world. The Japanese economic climate has at last started to improve, helped by the proximity of China.

US

Compared to other world markets, the US has been relatively sluggish and top quality stocks like:

    Procter & Gamble, ExxonMobil, Caterpillar

have all announced excellent figures.

Europe

Still bogged down by regulation, but there are still some good performing funds.

Emerging Markets

China, India, other Emerging Markets are looking high and only merit a 'toe' in the water.

Australia

Australia is benefiting from the commodity boom, particularly with its relative proximity to China.

The 22nd March 2006 Budget

This Budget has been written off as 'a boring Budget' prior to Mr Blair's elevation (no doubt to sainthood) and Mr Brown's move to Number 10.

Not a bit of it 'the poison lies in the detail'.

Brown has proved himself to be 'the master of the three card trick', using his sleight of hand with inflation:

RPI RPIX CPI

This time he has been far less obvious and far more sinister.

He has used the 'boring headlines' of:

Capital gains tax threshold up to £8,800
Inheritance tax threshold rising from £275,000 to £325,000 in 4 years
ISA subscriptions remaining at £7,000
Gas guzzling cars to suffer higher taxation (poor old Prescott)

Tinkering with:

VCTs and EISs (which are of little consequence)

to cover up the 'socialist venom' hidden deep in the detail on Trust, SIPPs, Pensions.

Trusts

With immediate effect most new Trusts have been brought into the Discretionary Trust inheritance tax provisions and will suffer:

a) Entry charges of 20% on lifetime transfers that exceed the Nil Rate Band.

b) A 'periodic' tax charge of up to 6% on the value of Trust assets over the nil rate band once every 10 years.

c) And an exit charge proportionate to the periodic charge when the funds are withdrawn between 10 year anniversaries.

This announcement was totally unexpected and takes place immediately.

As we see it, this announcement effectively 'hits on the head' Trusts for the protection of family wealth for all members over the age of 18. There will be no tax advantages and the only purpose for a Trust will be:

a) To protect children from capital.
b) To protect the capital from disastrous marriages.

(Though these advantages will both be at the cost of taxation.)

The Government has not discussed this ill conceived idea with its users - the private client lawyers and accountants - and there will be much more discussion before this becomes law.

All clients with family Trusts, or thinking of creating family Trusts should contact their lawyers/accountants as soon as possible.

SIPPs

Though 'A Day' takes place on 6th April 2006, there was no statement on SIPPs.

But again, 'deep in the detail' it was announced that the capital value of SIPPs at the age of 75 could no longer be transferred into a 'family SIPP', but would be subject to the standard rates of inheritance tax on death.

Having 'sucked in' SIPP contributions before 'A Day' with promise of 'the Holy Grail', the venom is yet again in the tail.

Pension Funds

Having robbed pension funds of 'tax credits' in his early days, Brown has continued to chastise Pension Funds by:

1) Encouraging them to sell Equities at the bottom of the market (causing the market to fall even further in 2003).

2) Encouraging them to purchase long dated Gilts at the top of the Gilt market (causing a Gilt bubble in 2006).

This 'Gilt bubble' has reduced long dated Gilt yields to the ridiculous level of <u>below</u> 4% gross.

However, Brown's sleight of hand could not resist causing a shortage of long dated Gilts to keep the cost (interest payments) on his excessive 'borrowing requirement' down - for the 'tab' to be picked up by future generations, when long dated Gilts find their true level.

No, this was no 'boring Budget', but a sign of the 'red hot socialism' that we must expect when Brown moves to Number 10. Yes, David Cameron and George Osborne were right, "These are yesterday's men" and to me are beginning to resemble 'the pigs' in George Orwell's Animal Farm.

<u>Further Details on REITs, SIPPs, ISAs/Capital Gains Tax</u>

REITs

'Real Estate Investment Trusts' will come in, in January 2007.

Quite simply this will be a fairer tax system for property companies and investors.

If a property company:

a) Pays out 90% of its income in dividends
b) Its gearing is no higher than 70%-80%
c) No shareholder holds more than 10% of the Equity

then it can elect to become a REIT with no Corporation Tax on rents.

(Needless to say Mr Brown will receive 2% of gross market value of the investment assets, as a property company converts to a REIT.)

As REITs will pay no Corporation Tax, this could be a particularly interesting investment for gross funds such as:

PEPs/ISAs
Charities
SIPPs

As further details come out on REITs we shall keep clients informed, but these could become a major investment vehicle from 2007 onwards.

Pensions

'A Day' is 6th April 2006 for SIPPs.

All clients whose 'pension fund pots' exceed £1,500,000 must see their Pension Fund Managers to 'ring fence' this pot.

SIPPs will become a very popular form of pension policy investment and Barratt & Cooke have formed an alliance with:

a) An IFA Pension Advisor.
b) A Pensionaire Trustee to hold investments.
c) Barratt & Cooke will manage Stock Exchange investments for the SIPP.

SIPPs need 'professional advice' and are about to take off. If you need advice on SIPPs please contact your Barratt & Cooke Advisor who will then take the situation forward.

ISAs/PEPs and Capital Gains Tax

Following the recent spate of takeover bids, most of our Advisory/Discretionary clients are bound to have capital gains considerations next year, particularly from the possible takeover of The London Stock Exchange, BAA and many other companies. In some cases capital gains tax will be inevitable.

On top of this, Stockmarkets are at highs and most Advisory/Discretionary portfolios are showing good gains.

This highlights the importance of:

Holding PEPs
Building up ISAs

both of which are totally free of capital gains tax, totally regardless of the 'higher income tax benefits'.

We would advise any client who might have to pay capital gains tax one day to continue to invest £7,000 per annum in ISA, building up capital gains tax free portfolios.

Corporate Actions - Takeover Fever

'In business the only constant is change.'

The UK Stockmarket is now besieged with takeover bids from Private Equity and Hedge Fund vultures, together with worldwide companies trying to purchase 'jewels in the global crown' such as:

The London Stock Exchange	Financial
BAA	Airports
P&O	Docks

The following have been taken over for cash in the last 3 months:

P&O
O_2

The following have agreed bids, which should take place shortly:

Pilkington
BOC

The following have announced that they have received takeover approaches. In some cases the 'bids' have been fought off temporarily. In other cases, bid defences are being prepared:

The London Stock Exchange
BAA
Kesa
ITV
Associated British Ports
Mitchells & Butlers
Alliance & Leicester
Prudential (Aviva)
De Vere

Other strong rumours:

BG
Centrica

Mergers/demergers to take place:

GUS
Ladbrokes
Alliance Trust/Second Alliance Trust
Boots/Alliance Unichem

Barratt & Cooke continue to monitor all takeover, demerger situations and to advise Advisory/Discretionary clients accordingly.

The London Stock Exchange

If you have ever played poker, you will understand how important it is to:

a) Have a strong hand (which the LSE has with increasing turnover).
b) To play the last 'trump card' at the end.

Deutsche Börse and OM (Sweden) have 'folded'.

Euronext is keeping quiet hoping to 'join hands' with the LSE.

Nasdaq have 'opened', but have now decided to let others come into the game before 'raising the ante'.

New York Stock Exchange holds all the aces and continues to hold them 'close to its chest'.

The situation is fascinating - stay in the game and watch events develop.

(Forget 'Party Gaming', this is far more fun and is profitable as well).

Barratt & Cooke

We have now completed our first year as a limited company and what a year!

Incorporation
The opening of the new Dealing Office
Stockmarkets touching FTSE 6000
Funds under management over £1bn

Interestingly of these funds under management:

60% is in Barratt & Cooke Nominees

of which 20% is now in the Barratt & Cooke Discretionary Service (which we only started to promote in 2004).

Discretion is increasing rapidly and we expect this to be 40% of our business by 2008 - we shall see.

Also nearly 20% of the total funds are in capital gains tax free PEPs and ISAs which will make a huge difference with the pending corporate action in 2006/7.

The vast majority of these funds are invested cautiously following the Barratt & Cooke standard portfolio of:

1) Cash.
2) Short dated Gilt.
3) A spread of leading Equities.
4) Investment Trusts for a global spread.
5) And few smaller companies where required for 'spice'.

And of course, the clients have their own residential property, deposits and pensions over and above the Barratt & Cooke portfolio.

Within such portfolios, our clients can 'sleep soundly' - <u>as do we</u>.

<u>In Conclusion</u>

Throughout history the returns for Equities, or Property have always outperformed 'absolute returns' for Cash and Gilts taken over a long period of time.

One hears of the gambler who made a fortune (but never when he loses).

One hears of the investor who sold at the top of the market (but never when he 'got back in').

But one never hears of the 'cautious optimist' who sits through booms and slumps and booms.
(Until one reads the Wills column, unless they have found a way around Trust taxation!).

"To be or not to be?
That is the question."

The answer:

"To be" - but with cautious optimism.

C W L Barratt
5th April 2006