

BARRATT & COOKE

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5th April 2009

	<u>1/1/03</u>	<u>1/1/04</u>	<u>1/1/05</u>	<u>1/1/06</u>	<u>1/1/07</u>	<u>1/1/08</u>	<u>5/4/08</u>	<u>1/7/08</u>	<u>5/10/08</u>	<u>1/1/09</u>	<u>5/4/09</u>
FTSE 100	3940	4477	4814	5618	6220	6457	5947	5625	4980	4434	4030
FTSE All Share	1894	2207	2411	2847	3221	3287	3039	2856	2522	2209	2051
Dow Jones (US)	8342	10454	10783	10717	12463	13265	12609	11345	10325	8776	8018
S&P 500 (US)	880	1112	1212	1248	1418	1468	1370	1277	1099	903	843
Nikkei Dow (Japan)	8579	10677	11489	16111	17225	15308	13293	13514	10938	8860	8750

Leading Growth Equities

AstraZeneca
BHP Billiton
BG Group
Cobham
G4S
Prudential
Reed Elsevier
W M Morrison
Tesco

Higher Yielding Equities

BP
Centrica
GlaxoSmithKline
National Grid
Pearson
Pennon Group
Rexam
Scottish & Southern Energy
Vodafone

Smaller Companies

Croda
De La Rue
Hunting
Inmarsat
Petrofac
Spirax Sarco
VT Group
Weir Group

Overseas Companies

Nestlé
Roche
Woodside

Investment Trusts / Unit Trusts & Overseas Funds

Bankers Investment Trust
Edinburgh Investment Trust
M&G Corporate Bond Fund
Monks Investment Trust
Murray Income Trust

Quantitative Easing

Previous Newsletters have chronicled the demise of the World Banking sector. However, following the excesses of the 2000 credit boom exaggerated by the smoke and mirrors of sophisticated financial vehicles, the 'banking party ended' on 15th September 2008 when Lehman Brothers went bust.

Unbelievably, without Government intervention, Royal Bank of Scotland, HBOS, Northern Rock, Bradford & Bingley and now Dunfermline would have gone the same way.

Lloyds TSB (a well capitalised conservative bank) has been brought to its knees by a rushed Government inspired merger with HBOS. Barclays, HSBC and Standard Chartered have resorted to major capital raising exercises to strengthen weakened balance sheets.

Since the 1st January 2009 we have witnessed:

- Exposed frauds: Bernard Madoff and Sir Allen Stanford (which are probably just the tip of the iceberg).
- A Kangaroo Court: of 4 leading bankers from RBS and HBOS, where the Court appeared Judge and Jury (Sir Fred's reward for failure is a disgrace, but it takes the headlines away from politicians who encouraged excessive credit).
- Base Rate falls: to 0.5% (the lowest base rate in the 315 year history of the Bank of England, where base rates have averaged 5% for 315 years and have never fallen below 2%).

Inflation falls:	With CPI at 3.2%, but RPI <u>nil</u> (deflation is expected, but not for long. When real price inflation returns, it will return with a vengeance).		
Sterling falls:	to a low of \$1.36 against the US \$ and 1.02 Euros (falling Sterling must eventually cause rising inflation).		
Property values crash:	Residential property was down 16.6% in 2008. Commercial property was also down approximately 25% in 2008 (with no liquidity from the Banks, there is no credit for the Property companies).		
FTSE 100:	Behaving like a 'yoyo':		
	<u>1/1/2009</u>	<u>9/3/2009</u>	<u>5/4/2009</u>
	4434	3460	4030

And now we witness a gung-ho Prime Minister (his poor little Chancellor seems to have been banished to Dunfermline, wherever that is) jet-hopping 3 continents to lecture the world prior to the 'G20 Summit' on how 'by gambling the whole UK economy on something known as 'Quantitative Easing' he will save the financial world'.

It is little wonder that Jeremy Clarkson was infamously reported by the BBC describing our Prime Minister as 'a one eyed Scottish idiot'. We have little to be proud of with our media and if Jonathan Ross received a '3 month sentence', Jeremy Clarkson should have received 'life'. However, in this corrupt new world of sleaze and porn, he will probably receive the first knighthood from the incoming Conservative Government, or at the very least a nomination to succeed Boris as the new Mayor of London.

Quantitative Easing

This has been described by a Welsh wizard as 'printing money'.

The cut in base rate to 0.5% has clearly failed to inspire 'bank lending', or 'consumer spending'. The Banks still do not trust each other or Governments, and the consumers are feeling so poor that they are sensibly conserving cash.

Maybe the 2½% cut in VAT is the best idea the Prime Minister can come up with!

The result is that the whole economic world of commerce is drying up. You only have to drive on the decaying motorways to witness less 'council spending' (whose money is in Icelandic Banks) and less lorries and traffic. QED.

But, we have been saved. The Prime Minister has discovered 'Quantitative Easing'.

'Quantitative Easing' is a method by which the Government prints money to purchase Gilts and Corporate Debt, thereby making the UK awash with a tsunami of cash. If the whole world follows Gordon's plan, then the whole world will float in cash and all our prayers will be answered. All we shall need is Noah's Ark, or yet another financial lifeboat!

What I fail to understand is:

- 1) Why the Treasury is issuing very short dated Gilts, on redemption yields of 1% to pay for the vast debts it has built up.
(1% because investors prefer to have the Government guarantee rather than bank deposits).
- 2) Yet, with Quantitative Easing the Treasury are 'buying in' medium dated Gilts, forcing redemption yields down to 3% (it is this medium dated Gilt yield figure of 3% which calculates Pensions).

3) And yet the Treasury is still auctioning very long dated Gilts where the auction of:

4¼% Treasury Stock 2049

was a recently reported failure (nobody in their right mind would invest at 4¼% for the next 40 years).

Mervyn King, the Governor of the Bank of England, has said “Enough is enough”.

Angela Merkel, the German Chancellor, has queried it.

Mirek Topolánek, the Czech Prime Minister, does not believe it.

And Barack Obama, Frank Sinatra like, has decided to ‘do it his way’.

Call me an English idiot if you will, but, like ‘sophisticated financial vehicles’, I query the merits of ‘Quantitative Easing’.

This Brings Us Back To Where We Are

We are all worse off:

- 1) Deposit interest from Banks and Building Societies is negligible.
- 2) Some companies, especially the Banks, have either cut or reduced dividends.
- 3) Capital values are down.

The FTSE having fallen in 2008 by 31.3% is down by 9.1% so far in 2009.

Other Stockmarkets have fared even worse.

Property prices fell in 2008 by 16.6% (*source: Nationwide House Price Index*).

- 4) Unemployment has risen from 1.61m to 2.03m (*source: Office for National Statistics*) (and I feel desperately sorry for all those young people coming out of University, highly qualified, with their lives in front of them, and yet they are not wanted by industry or commerce at the moment).
- 5) And in many companies, especially Solicitors and Estate Agents, employees are working reduced hours so that companies retain their good staff and reduce wages and yet:
 - a) Prices are coming down (deflation).
 - b) Mortgage rates have come down (if you can get one).
 - c) And it is a salutary feeling that surely things cannot get worse.

What Shall We Do About It?

Well, I feel the first thing to do is realise that the whole world is in this financial crisis together. It is ‘Bank inspired’ and certainly not ‘commercial and industrial Armageddon’, and one day this banking crisis will resolve itself (perhaps helped by Quantitative Easing) and the financial world will recover just as it did after 1929 and 1974. But there is no doubt there will be considerable hardship in between, especially on employment.

One day cars will have to be replaced (even mine ‘M94 KBO’: 219,298 miles), houses will have to be built (what happened to Prescott’s promise of 45,000 new homes, even though he does not want to live in Norfolk, thank God) and eventually the potholes will be repaired in the roads. ‘Boom will follow bust’, as it always has in the past.

Nearly all our clients have:

- 1) Their own property.
- 2) Their own cash deposits.
- 3) Their own income or pension (though future pensions will fall due to capital values down and medium dated gilt yields of 3%).
- 4) And then a balanced portfolio with Barratt & Cooke, with:

Cash deposits	pending investment
Gilts/Fixed Interest	for liquidity and income
Leading Equities	for potential rising income and potential capital gain

The Banks, Property shares and a few other Equities such as Legal & General have cut or reduced their dividends. However, the majority of leading Equities have retained or increased dividend payments. We therefore expect portfolio incomes to fall slightly, but not substantially. Unfortunately it has been the high income stocks that have reduced their dividends first.

But the present situation was well defined by an Irish idiot friend of mine, who said:

“Ah well, tis will mean -
I can still afford to pay the training fees out of income,
but I won't be able to buy another racehorse out of capital
tis year and perhaps next.”

To Keep One's Sanity

As these chronicles have stated so many times before, I believe in the 'Equity culture' for long term investment and I believe in logical financial formulas.

- 1) You cannot create wealth out of smoke and mirrors.

I never believed in Derivatives, Hedge Funds and other Special Investment Vehicles; and this is where the Banks have come a cropper.

This mess will be cleared up one day, but it will take some time.

- 2) Witness Bernard Madoff and Sir Allen Stanford, as we have seen with so many fraudulent Ponzi schemes before, if something looks too good to be true then it usually is!
- 3) House prices should not be more than 5 times earnings.

No wonder house prices are now falling to a sustainable level.

But being positive and looking forward:

- 4) Bank of England base rates have averaged 5% for 315 years and have never been below 2% before:

0.5%	Base rate is not sustainable
1.0%	Short dated Gilt yield is not sustainable
3.0%	Medium dated Gilt yield is not sustainable

Interest rates will rise in due course to the benefit of our investing clients.

Clients should only invest in short dated Gilts.

5) Inflation has now fallen to:

CPI 3.2% RPI 0% (which includes mortgages and houses)

It is highly likely that there will be a short period of deflation and the last time this happened was in 1960. However, following the fall in Sterling and the effects of Quantitative Easing (printing money) inflation appears certain to return with a vengeance.

Therefore we prefer Index Linked Gilts, especially 2013 and 2016, to benefit from the effects of inflation in a few years time.

6) Changes in FTSE 100 formulae make equities look historically cheap:

	<u>Average</u>	<u>Now 5/4/09</u>
PE	15x	8x
Net Yield	3.0%	5.1%
Cover	2.0x	2.3x

2008/2009/2010 corporate profits will be poor, affecting ratios. However, quoted companies will be loathe to reduce dividends, even if it does affect dividend cover and that is why we feel portfolio income will hold up.

When the recovery comes, which it will one day, then the present ratios will look much too low. Do not forget Stockmarkets anticipate events.

The Yield Gap

Back in the 1930s 'risky' Equities yielded more than 'safe' Gilts - 'the yield gap'.

Throughout my 40 years Stockbroking, Equities have yielded less than Gilts - 'the reverse yield gap'.

In these extraordinary times 'the yield gap' has returned:

'Gilts 1% - 3% against Equities 5.2%'

I have never seen this before and it quite simply means:

'Medium dated Gilts are too high, Equities are too low'

though of course it takes a brave man or an idiot to call the bottom of the Equity market.

Green Shoots

We believe we have seen the 'first green shoot' (although one swallow does not make a summer) with a clean bill of health for Barclays from the FSA.

In addition:

1) The oil price has started to recover:

<u>52 Week High</u>	<u>52 Week Low</u>	<u>5/4/2009</u>
\$147 (3/7/2008)	\$35 (24/12/2008)	\$52

Other commodity prices have started to rise off the bottom as well.

2) Rumours of Corporate deals have started again - even BHP Billiton are thinking of talking to Rio Tinto once more.

- 3) The tsunami of cash about to hit the world from Quantitative Easing will eventually wash through the system and have the desired effect on the economy.
- 4) And never forget, Stockmarkets always anticipate events; and as a Norfolk idiot once said when asked the way:

‘Remember boy, it’s better to travel than to arrive.’

Advisory and Discretionary Portfolio Advice

Bearing all the aforementioned points in mind, Advisory clients know we give advice throughout the year and with Discretionary clients we deal immediately we feel action should be taken.

All portfolios are different and bespoke to each client, but for balanced portfolios the advice over the past year, in these uncertain times, has been to:

Build up	<i>Cash Deposits</i>	pending reinvestment into Equities when the economic situation becomes clearer.
Build up	<i>Index Linked Gilts</i>	for absolute liquidity and the safety of the Government guarantee.
For income	<i>Eurobonds</i>	of investment grade status.
Retain	<i>Equities</i>	a well balanced diverse portfolio:
		<ol style="list-style-type: none"> a) Diversifying very large holdings. b) Weeding out under performing stocks. c) Constantly adding to quality. d) Adding to ISAs where appropriate.

As we all know:

Bank Shares have been a disaster and fell overnight following the collapse of Lehman Brothers.

Of course HSBC and Standard Chartered have large overseas earnings. Barclays should survive following the ‘clean bill of health’ by the FSA. Lloyds Banking Group has been affected by HBOS, but Lloyds TSB has considerable capital strength.

RBS is currently 58% owned by the Government (potentially rising to approximately 70%) and will take a long time to recover, if ever. We are watching the position carefully.

Insurance Shares have been affected by the Banks. In many portfolios we have reduced the insurance element. The Hedge Funds have now got their teeth into Legal & General and Aviva and following recent excellent figures Prudential is our preferred stock in the sector.

Property Shares have been severely affected by the lack of finance from the Banking sector. However, at very large discounts to asset values, and with strengthened balance sheets from Rights Issues, we do feel leading Property shares will recover. Land Securities is our favoured stock in the sector following their Rights Issue, and with less gearing than other Property stocks. Speculative Property shares are very vulnerable to a lack of refinancing and again we are watching the position carefully.

However the sectors that one could call ‘necessities’ have proved more resilient, eg:

<i>Pharmaceuticals</i>	AstraZeneca/GlaxoSmithKline
<i>Supermarkets</i>	Tesco/Sainsbury and we have now added Morrisons
<i>Household Products</i>	Reckitt Benckiser
<i>Oil/Gas</i>	BP/Royal Dutch Shell/BG
<i>Utilities</i>	Centrica/National Grid/Pennon/Scottish & Southern
<i>Support Services</i>	Bunzl/G4S
<i>Beverages</i>	Diageo

and:

<i>Mining Shares</i>	BHP Billiton/Rio Tinto
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have started to recover again.

We have recently also recommended:

FTSE 100 iShares

to give a spread of the whole FTSE 100 market, to ‘make a turn’ on the volatile movements in Stockmarkets.

Though no two portfolios are exactly the same due to client requirements for:

Liquidity
Income
Growth
Size
and Timing

our investment advice has been consistent with most Advisory and Discretionary clients, as we write to them throughout the year.

Income

With income falling from Banks and Building Society Deposits and Gilt yields of between 1% and 3%, many clients are now as interested in income as they are in capital.

Gilts and Deposits give liquidity and safety, and it must be remembered that they have the Government guarantee (up to £50,000 per person, per banking licence for money in the bank):

Eurobonds	Investment Grade Eurobonds give relatively high gross income (approximately 5.5% gross redemption yield)
FTSE 100 Equities	give high average net income of 5.2% (where dividends can be increased, or in some cases such as Banks, decreased)

These are attractive yields, and one can achieve a sensible diversified portfolio using Eurobonds/Corporate Bond Funds and higher yielding good quality Equities to give an attractive stream of income.

That said, all clients must be aware that in most cases ‘the greater the income, the greater the risk of income reduction or capital reduction’.

Therefore, whilst it may be useful in a time when deposit rates are so low, Equity income should not be seen as a substitute for bank interest.

Fixed Interest

Short dated Gilts are only attractive for absolute liquidity and the safety of the Government guarantee:

4¾% Treasury Stock 2010
3¾% Treasury Stock 2011

We prefer Index Linked Gilts which will rise if inflation takes off:

2½% Index Linked Treasury Stock 2013
2½% Index Linked Treasury Stock 2016

Eurobonds are attractive for high gross income, but most Eurobonds are only dealt in a minimum nominal size of £50,000.

For a spread of Bonds in lesser amounts, providing diversification and liquidity (although no redemption dates), we suggest:

M&G Corporate Bond Fund
Schroder Corporate Bond Fund

Preference shares give extremely high yields, but there may be considerable risks on the underlying companies. Preference shares should only be purchased in specific cases.

Overseas Markets (John Everall)

The World Trade Organisation predicts that global trade will contract by 9% in 2009, having risen by 12% per annum between 2000 and 2008. The global economy 'fell off a cliff' in the 4th quarter of 2008 with GDP (Gross Domestic Product) declines in most major economies:

US	- 6.3%
Europe	- 1.5%
UK	- 1.6%
Germany	- 2.1%
Japan	- 3.2%

With this background, it is hardly surprising that world Stockmarkets have started 2009 poorly.

US

The US Government has announced a further stimulus programme which will mean a US budget deficit of approximately 12% of GDP, the largest deficit since WWII and larger than the GDP of major economies such as Spain, Brazil and Australia. The deficit is projected to shrink to 3% of GDP by 2013, which assumes that the economy grows by an optimistic 3.2% in 2010.

US companies are suffering with General Electric cutting its dividend for the first time since 1939. However, some recent good news showed sales of new homes rising by 4.7% in February 2009.

With the possibility of the dollar weakening against sterling, following its strong performance in 2008, we are cautious of investing in the US.

Europe

Europe has suffered from the down-turn in world trade, especially Germany (the world's largest exporter ahead of China), where GDP is expected to shrink by between 5% and 7% in 2009.

Other European countries, especially in Eastern Europe, have suffered:

Romania	has agreed a €19bn rescue package with the IMF (Bulgaria could soon follow)
Ukraine	has already received an IMF bail-out and needs more; the economy is expected to shrink by 10% in 2009.
Latvia	the Government has fallen.
Hungary	the Prime Minister has resigned.

We would avoid Eastern Europe.

Japan

Japan's exports in February 2009 were down sharply on the previous year and GDP is expected to shrink by around 7% for 2009.

We remain cautious on Japan.

China/India

Exports from China have been affected by the fall in world trade, but China and India are still expected to grow in 2009. These 2 economies should help to alleviate the slump in highly indebted Western economies and we remain positive in the medium term.

Australia

Australia's dollar has been lifted by the recent improvement in commodity prices. At the same time, there have been a number of bids for stakes in Australian companies from China, though the takeover authorities may block some of these. Australia remains attractive with its strong resource sector.

Compliance

Recorded Telephone Calls

With effect from the 1st April 2009 we have been recording all our telephone calls, incoming and outgoing, to ensure we comply with changes to the Financial Services Authority rules. The only changes you will notice will be a recorded message which you will hear every time before the telephone is answered. In addition to complying with the rules we may use these recordings for training purposes.

ISAs

While Stockmarkets are down and the yield from Equities is high, ISAs will become even more important particularly to higher rate tax payers as income tax rates may rise in due course.

Corporate Actions

There has been a flood of Corporate Actions from the Banks and Property companies re-building balance sheets. Rights Issues will continue and we shall keep all clients informed. The paperwork now being received by clients shows the importance of Nominees and Discretion.

Issues since the 1st January 2009 include:

Rights Issues

British Land	Land Securities
Catlin Group	Segro
Cookson Group	SVG
Hammerson	William Hill
HSBC	Xstrata

Mergers

Britannia Building Society - proposed merger with Co-op Financial Services
HBOS - acquired by Lloyds TSB Group

Open Offers

HBOS
Lloyds Banking Group
Premier Foods
Royal Bank of Scotland
SIG

Administration

Woolworths Group

Redemption

Treasury 4% 2009

We shall be watching very carefully for the:

Lloyds Banking Group Placing at 38.43p

and shall keep all clients informed.

Branding/Website

We urge clients and prospective new clients to log on to our new website:

www.barrattandcooke.co.uk

We hope you find it more useful than the previous one, I certainly think it looks better!

This website is in conjunction with the ongoing development of the Barratt & Cooke brand, which you will see coming in over the next few months.

Obviously it is the young that have been involved, as they should be, and I am encouraged by the enthusiasm they have for the business.

However, rest assured; THE BARRATT & COOKE ETHOS, INVESTMENT POLICY AND RELATIONSHIP WITH OUR LOYAL CLIENTS WILL NOT CHANGE.

In Conclusion

Although there have been highlights in 2008/2009 away from Stockmarkets with:

Kauto Star reclaiming his Cheltenham Crown

The Irish rugby team beating Wales 17-15 in the final seconds of the match to win the Grand Slam and with Bryan Gunn battling for Norwich City's survival, Tiger back from knee surgery and Jenson Button the King of Formula 1, we are in for an exciting year.

2008/2009 has been a rotten year for investors worldwide.

Capital values have fallen, but the average income from Equities has actually held up pretty well, whilst interest from Bank and Building Society deposits has fallen sharply.

Over 40 clients replied to the Winston Churchill quote: 'KBO', and Barratt & Cooke will certainly KBO (Keep bug.....ring on), especially with Sam Barratt about to join us in June, after 5 years experience with two Investment Banks in the City of London.

Indeed Barratt & Cooke continue to expand and are looking to recruit staff with relevant Stockbroking qualifications and experience to join our loyal hard working team.

Riddles

The prize for the best KBO statement:

There were many replies of: "Kick Brown Out"

and from the ladies: "Kiss Barack Obama"

and unprintable poems and definitions, but the two I particularly liked were:

"Keep Barratt On" (and operational)

"Kiss Beautiful Olivia" (our first granddaughter) - which of course has to be my winner!

With incomprehensible numbers being bandied around (particularly at the G20 Summit), these figures have become meaningless, but they do have more meaning when written down.

This month's riddle is:

"Can you take one penny away from a trillion Dollars"

There will be a prize for the first correct answer pulled out of a hat.

It transpires that Gordon Brown really is saving the world!!!

I do not think I am very proud of the 21st Century so far, but the sun has started to shine and the lawn needs mowing and so the world goes on revolving - thank goodness.

C W L Barratt

5th April 2009

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