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	<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>
FTSE 100	3689	4118	5136	5882	6930	6222	5217	5233	4656	3814	3940
FTSE All Share	1803	2014	2411	2674	3242	2983	2524	2542	2263	1833	1894
Nasdaq (US)	1000	1280	1580	2192	4131	2470	1950	1770	1463	1140	1335
Dow Jones (US)	5117	6448	7915	9181	11452	10786	10022	10271	9243	7529	8342
Nikkei Dow (Japan)	19868	19361	15256	13842	18934	13785	10543	11335	10622	9028	8579

<u>Reasonable Yield</u> <u>FTSE 100 Equities</u>	<u>Growth FTSE</u> <u>100</u> <u>Equities</u>	<u>Stocks Outside</u> <u>FTSE 100</u>	<u>Companies</u> <u>With Local</u> <u>Connections</u>	<u>Overseas</u>
HSBC	Reckitt Benckiser	Ashtenne	Greene King	Nestlé
Barclays	Amersham	London Stock Exchange	GWR	Pfizer
Scottish & Southern	Alliance Unichem	Kelda Group	Savills	TotalFinaElf
Scottish & Newcastle	BP	Pennon Group		
Legal & General Group	Reed Elsevier	Hiscox		
Shell Transport & Trading	Unilever			
Land Securities Group	Bunzl			
J Sainsbury	Tesco			
BOC Group	Compass Group			

1st January 2003

“WAR IN IRAQ IS IMMINENT”

Being a realist and an optimist, I write this New Year's Chronicle jaundiced by pessimism and cynicism as I look back on 2002 and into the abyss of 2003.

I would like my lasting memories of 2002 to be of:

The Golden Jubilee with street parties and musical chairs on Heydon village green; of the celebration of the dear Queen Mother's Life, the most admired lady of my generation; of the excitement of the English Rugby team, and the famous victory of Europe in the Ryder Cup; and last, but by no means least, of that great day out to Cardiff to watch Norwich City miss promotion to the Premier League by a whisker (“*Come on you yellows!*”).

Sadly, industry and commerce did not excel themselves in 2002 with:

- “*Fat Cats*” still at the cream
- Corporate scandals
- The demise of the brave new world of Internet and Dot.coms
- The collapse of ITV Digital
- Pension Funds being unable to meet liabilities
- Some Split Level Trusts failing to repay Zeros
- House prices out of control
- More days lost to strikes since 1990 (the “*Fire fighters*” have not yet settled)
- Falling corporate profits

and with:

- Base Rates down to 4% (Europe 2¾%, US 1¼%, Japan 0%) which is not good for investors with “*cash*”
- Oil Prices over \$30 a barrel threatening world economies
- The US Dollar back to \$1.60 against the £1

and the most obvious threat of:

IMMINENT WAR IN IRAQ.

On top of this, there is apparently no “*STRONG OPPOSITION*” with all the good intentions of New Labour of

EDUCATION, EDUCATION, EDUCATION
HEALTH, HEALTH, HEALTH
TRANSPORT, TRANSPORT, TRANSPORT.

New Labour has destroyed the PENSIONS INDUSTRY by robbing back tax breaks. Gordon Brown has thrown out PRUDENCE, as tax receipts reduce from falling corporate profits. He has turned back to Old Labour policies of SPEND, SPEND, SPEND by soaking the creators of wealth. Has Education, Health and Transport really improved?

New Labour is now proving a “*shallow government*” which has fudged issues on the Countryside (I know more about changing babies’ nappies than Margaret Beckett knows about agriculture – and I would not make such a mess of it!). New Labour finds it impossible to make a decision on whether the English Cricket Team should go to Zimbabwe (of course they should not and for goodness sake say so). In my January 2002 Chronicle, I was praising Mr Bush and Mr Blair for standing “*shoulder to shoulder*”; I now feel Mr Bush is controlling the Puppet Strings of Mr Blair over IRAQ. The decisions now become impossible, but I fear War is inevitable (Saddam has probably been given enough chance to avert it and if we go in, it will be with very good reason).

Let nobody be complacent that it will just be a skirmish. I do not have children out there; I do not know what “*Weapons of Mass Destruction*” there are; I do not know what the repercussions on London will be. I just pray that the World will be going round as we know it in 6 months time, and yet none of us know what will happen. To predict Stock Markets over the next few months would be lunacy.

Stock Markets hate FEAR AND UNCERTAINTY, and in the present situation it is not surprising that the FTSE100 has fallen sharply to end 2002 at 3940, down 25% on the year.

My readers will have noted my long term belief in the Equity Culture and I still believe in it as strongly as ever. We shall continue to:

Shop at Tesco
Bank at Barclays
Insure with Legal & General
Buy petrol from Shell
Eat Burger Kings
Read the Daily Mail
Wash in Anglian Water
and Dry our hair with Electricity from Scottish & Southern.

These are all real businesses with long term growing profits, growing dividends and ultimately growing share prices as profits growth is reflected.

Where else do you put your money:

- Property - over-valued: an average house costs over 5 times earnings
- Cash - “*cash is king*” only when everything else is rotten. Deposit rates are very low.
- Gilt/Bonds - Interest rates are at 41 year lows and Bonds are vulnerable to a rise in interest rates.
- Antiques / Bloodstock etc - very high risk.

EQUITIES

For the first time since 1929 and 1939 the FTSE100 has fallen significantly for 3 years in a row:

2000 Down 10% 2001 Down 16% 2002 Down 25%

(Over 3 years, Equities have now fallen by 43%).

There is such little confidence in Equities at the moment that there seem to be as many SELL recommendations as BUYs in the New Year commentaries. Whereas analysts predict the FTSE100 to finish the year somewhere between 3500 and 5000 (with the major consensus at 4400 – 4600) **SOMEBODY MUST BE RIGHT THIS YEAR, LAST YEAR EVERYBODY WAS WRONG!**

The last time I saw such negative comment in the New Year Press was in 1974, when the only BUY recommendation that journalists would make was:

European Ferries (now P&O) 5.5% Net Preference Shares

(purely to obtain the travel discount).

This turned out to be the nadir of the Market, which then boomed until 1986 – we must now be getting to the nadir of this Market.

Markets never move when you expect them to. I would not be the least surprised if Houses continue to rise in value and Equities fall **IN THE SHORT TERM**, but I am quite certain the pendulum will swing **IN THE LONG TERM** and one must be in Equities for this swing in the long term.

Readers must be getting bored of why I feel EQUITIES (FTSE100) are too low, but for those who flash through these pages, I must repeat the reasons:

- 1) P/E Ratios now average approximately 14. The 10 year average is 15.7.
- 2) Dividend Yields now average approximately 3.5% net. The 10 year average is 3.3% net.
- 3) Dividend Yield Ratio (the difference between Gilts and Equity Yields) now averages 1.2. The 10 year average is 2.0 (below 1.0 the Reverse Yield Gap becomes the Yield Gap).
- 4) Cash flow is stronger relative to prices at 9.5. The 10 year average is 11.6.

Allowing for “*free cashflow*” (i.e. excluding interest payments on debt and capital expenditure), the ratio is down to 20, against July 2001 of 30.

- 5) Companies are only valued at 2 times Asset Values. The 10 year average is 2.7 times.

These STATISTICS all make equities look CHEAP.

INTEREST RATES

World interest rates are quite extraordinary with World Economies trying to buy their way out of recession.

Fiscal and Monetary Policy have always been controlled by interest rates and taxation, though:

Japan	0 %	Base Rate
US	1¼ %	Base Rate
Europe	2¾ %	Base Rate

are leaving themselves very little room for manoeuvre.

UK still 4% Base Rate

This 4% Base Rate has now been constant for 14 months, which is a very long time without a move in interest rates (no wonder “*Steady Eddie*” is able to retire).

The old formula has been “*interest rates should be 2 – 3% above inflation*”. With inflation starting to rise and house prices out of control, we still feel that UK interest rates will rise in due course rather than fall.

IN CONCLUSION

- 1) We are extremely concerned by IMMINENT WAR IN IRAQ.
- 2) We are concerned that without a STRONG OPPOSITION, Mr Blair will become Mr Bush’s puppet.
- 3) We pray for a successful outcome.
- 4) There is nothing Stock Markets hate more than “*FEAR and UNCERTAINTY*”.
- 5) In the short term, it would be lunacy to predict Stock Market movements
- 6) However, we are totally confident that the LONG TERM EQUITY CULTURE is correct.
- 7) It must be right to have a wide spread of equity sectors, with worldwide equities in Investment Trusts.
- 8) Always retain more than sufficient liquidity in Deposits / Gilts.

Equities:

- 1) We list our preferred stocks
- 2) Watch out for the MEDIA BILL in the Summer of 2003
- 3) We particularly like Oil Shares due to the rise in Oil Prices during the IRAQ conflict.

Gilts:

STAY SHORT DATED and PARTICULARLY in INDEX-LINKED where inflation is starting to rise.

It is now right to switch

2 ½ % Treasury Index-Linked Stock 2003

into the longer dated:

2% Treasury Index-Linked Stock 2006

and we shall be writing to all clients shortly.

WORLD MARKETS

We still prefer UK.

EUROPE has been very depressed, but at these levels, should be held.

Do not purchase US Stocks until the "IRAQ" situation is concluded.

Ignore JAPAN whose Banking industry is in chaos.

Ignore EMERGING MARKETS (look at Argentina!).

Start to look at FAR EAST (especially CHINA where appropriate).

CORPORATE ACTIONS

We shall shortly be writing to clients regarding:

- 1) Railtrack (RT Group): 200p repayment on 10/01/2003, plus 50p – 60p by the end of 2003.
- 2) Six Continents: restructuring the company.
- 3) Redemption of Gilts/Fixed Interest stocks during 2003.

OTHER FACTS

Most clients are now in NOMINEES and though there is no necessity to be in Nominees, clients who are not in Nominees should ask themselves, why not?

Barratt & Cooke's DISCRETIONARY SERVICE is increasing rapidly, with a BALANCED PORTFOLIO of Gilts and Equities for those who do not want the responsibility of making decisions.

2002/03 ISAs are available until 5th April 2003 and though ISAs have been disappointing because markets are down, they are tax free vehicles and will become very attractive one day, especially if added to while Stock Markets are down.

COMPLIANCE continues to be everybody's bug bear. We try to keep this to the minimum required, but ask all clients to realise this is beyond our control. Recently The Royal Bank of Scotland was fined £750,000 for not keeping "Money Laundering records" correctly. Barratt & Cooke do not intend to be fined.

FTSE100 SHARES

As I have done before, I enclose details of the FTSE100 constituents showing:

- 1) All the FTSE100 stocks at 01/11/02
- 2) Investors Chronicle comments (not a single sell recommendation)
- 3) How the FTSE100 WEIGHTING is made up.

FINAL THOUGHT

2002 has been an “Annus Horribilis” both economically and my own personal sadness. There have been happy moments, but lets move on.

2003 feels like looking into the Abyss which cannot get worse. Where will the world be in my April and July 2003 Newsletters?

Equities are near their lowest point for 7 years, and if one believes in the Equity culture as I do, this must be as good a moment to buy as ever.

I shall continue to pray for a safer world and one day Equities will reflect it.

C W L Barratt
1st January 2003

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