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	<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>1/1/03</u>	<u>5/4/03</u>	<u>1/7/03</u>	<u>5/10/03</u>	<u>1/1/04</u>
FTSE 100	4118	5136	5882	6930	6222	5217	3940	3814	4031	4274	4477
FTSE All Share	2014	2411	2674	3242	2983	2524	1894	1824	1971	2111	2207
Nasdaq (US)	1280	1580	2192	4131	2470	1950	1335	1384	1623	1881	2003
Dow Jones (US)	6448	7915	9181	11452	10786	10022	8342	8277	8985	9572	10454
Nikkei Dow (Japan)	19361	15256	13842	18934	13785	10543	8579	8074	9083	10709	10677

Reasonable Yield FTSE 100 Equities

HSBC
Barclays
Scottish & Southern
Legal & General Group
Shell Trans.& Trading
BP
Rexam
BAA
Severn Trent
Boots
Unilever

Growth FTSE 100 Equities

Assoc. British Foods
Reckitt Benckiser
GUS
Bunzl
Tesco
Royal Bank of Scot.
Johnson Matthey
Smith & Nephew
Man Group
Morrison (Wm)
Yell Group

Stocks Outside FTSE 100

London Stock Exchange
Johnston Press
Cobham
Hammerson
RAC
Jardine Lloyd Thompson
Kelda
Aberforth Smaller Co IT

Companies With Local Connections

GWR
Greene King
AB Ports
Persimmon

Overseas

Procter & Gamble
Nestlé
Pfizer
Citigroup
JPMF Chinese IT

“WE’VE GOT HIM”

One day I shall publish extracts from my chronicles entitled:

‘A history of our time through different eyes’.

It is well worth re-reading the 2003 chronicles as I have just done:

1st January 2003 ‘War is Imminent in Iraq’

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

There is nothing Stockmarkets dislike more than ‘fear and uncertainty’.”

5th April 2003 'War'

“Like Kennedy, Diana and 11th September, we shall all remember that awful scene of the night skies illuminated by the devastating bombing of Baghdad on the first night of War”.

The Stockmarket performed with unprecedented movements in March 2003:

11th 3453 12th 3287 13th 3487 14th 3602

and yet by 5th April 2003 stood at 3814, exactly the same as 3814 on 5th October 2002 (in fact the FTSE 100 had not changed a single point during that six month period!).

During this period the ‘pensions industry’ had a liquidity crisis resulting in the ‘crazy policy’ of:

“Selling Equities at the bottom.
Buying Gilts at the top.”

July 2003 'Peace'

“For goodness sake the War has been won, interest rates are at 50 year lows, inflation is almost non-existent, the US economy is beginning to stir. Why is everyone so miserable?”

I am absolutely convinced that when leading UK Equities yield more NET than Gilts yield GROSS, then UK Equities must be much too low and the Bond bubble is about to burst.”

October 2003 'No News is Good News'

“But there will be fun soon”.

(This has started: See Corporate Actions)

I have read many reviews of 2003, most of which state:

- 1) Equities up 13% over the year.
- 2) Gilts down.
- 3) Interest rates up.
- 4) Weak Dollar, strong Euro, steady Pound.
- 5) Prospects stable for 2004.

Yes, these are the facts, but it is important to look back at the chronicles to remember:

- a) The pessimism in January 2003, when the New Year Press comment was as pessimistic as 1974 (the start of a boom!).
- b) The names: John Simpson, Rageh Omaar, Dr Blix, Donald Rumsfeld, Colin Powell, the Ba'ath Party and of course Saddam Hussein and his Minister of Information.
- c) The places: Baghdad, Basra, Nasiriya, Mosul, Kirkuk and Tikrit.

Barratt & Cooke's advice throughout all this mayhem was:

- a) Believe in the Equity culture. (The report of the death of Equities was much exaggerated.)
- b) To retain sufficient liquidity in Gilts and Cash, but not to get sucked into the Bond bubble (how naive it was for the pensions industry to switch out of Equities into Bonds).
- c) To keep a broad balance of all investments divided between Cash, Property, Gilt, Equity and Foreign stocks.

Stockmarkets will always have their disasters as shown this time by:

Parmalat (Italy)

but a quality spread softens the blow.

Politically

There has been a major 'sea change'.

That smarmy self confidence of Blair was shattered in '45 minutes'.

Ken Livingstone (red Ken) is coming back into Labour favour.

Brown's conjuring tricks and sleight of hand have been exposed:

- a) We all knew Prudence's borrowing requirement figures were much too low at £24bn. This was then increased to £27bn and has been increased yet again to £37bn.

(Even the IMF has stated that 'the sums do not add up' and that the UK must either increase taxation, or reduce public expenditure.)

- b) He has reduced inflation overnight by changing:

RPI 'Retail Prices Index' = 2.5%

to CPI 'Consumer Prices Index' = 2.0%

(CPI does not include housing costs - the most important factor of expenditure to almost everybody!).

- c) Like all 'late' parents he is now besotted by babies, with 'Baby Bonds' and prospects of 'six months paternity leave'. We all feel the same at the time, but soon grow out of broodiness (perhaps *Prudence* has given way to *Broodence*).

And yet the Conservative Party has rid itself of that unelectable, ineffectual Ian Duncan Smith. Like him or not, the Second Generation Immigrant/Grammar School Boy Michael Howard, has proved himself a leader already.

My readers will know these chronicles are apolitical, but we believe in the 'balance of power' - that pendulum (so often referred to) has swung. Where will it be in 2005?

Currencies and Foreign Markets

(Excluding the Russian Rouble, Roman Abramovich and Mikhail Khodorkovsky)

Currencies, which the table below shows have been extremely volatile during 2003, could have a major effect on world Stockmarkets in 2004:

	<u>1/1/2001</u>	<u>1/1/2002</u>	<u>1/1/2003</u>	<u>1/7/2003</u>	<u>1/1/2004</u>
US \$ to the £1	1.49	1.45	1.61	1.65	1.79
Euro to the £1	1.59	1.64	1.54	1.44	1.42
£1 to the Euro	0.63	0.61	0.65	0.70	0.71

The US Dollar has been extremely weak (though this fall has hardly been noticed in the US due to the US being an 'internal economy', with only 15% of US citizens having a passport).

The Euro has been extremely strong.

The Pound Sterling has been relatively stable.

What influence will this have on world Stockmarkets?

I consider that there are 3 major rules on currencies:

- 1) A weak currency stimulates an economy to export.
- 2) However, when converting profits and assets back into another currency, this then diminishes the effect, ie:

	Dow Jones up	25%
but	US \$ down	<u>22%</u>
	The overall capital rise is	<u>3%</u>

- 3) Currencies fluctuate and will continue to fluctuate:
 - a) Within the last 30 years the £1 against the US\$ has varied between 1.01 and 2.42. Now 1.79.
 - b) The Euro was issued at 70p. Fell to 61p. Now 70p again.
 - c) Commodity prices like oil, minerals, cereals might look high against the US \$, but are now low against the Euro.

Therefore one can tie oneself in a complete knot working out the effects of currencies.

Barratt & Cooke's advice is to purchase quality international stocks trading in all currencies, which minimises the effects of one particular currency, eg:

Shell Transport & Trading Company, GlaxoSmithKline, Johnson Matthey, Bunzl, Unilever, HSBC

all of which are down slightly due to worries of the fall in the Dollar.

US	The low US \$ will help the economy, though the FTSE 100 has some catching up on the Dow Jones to do.
Europe	The strength of the Euro will make it harder for industry.
Japan	Though the Stockmarket recovered 25% during 2003, this was 'off the bottom' and the economy is still in very bad shape.
Australia	Will benefit from higher mineral prices.
Far East	Markets are picking up and it is worth having a small proportion in a portfolio, particularly China.
Emerging Markets	Continue to ignore.

Interest Rates

The Governor of the Bank of England has now changed from:

'Steady Eddie', Edward George
to 'Merve the Swerve', Mervyn King

True to his name, within weeks of his appointment, UK base rates were raised to 3¾% from 3½%. It seems certain that base rates will rise to 4% in the New Year and if house prices continue to rise, base rates will rise still further.

It is still our view that:

- 1) Base rates are too low and will rise.
- 2) Long-dated Gilt prices are too high and will fall.
- 3) For liquidity and safety stay in short-dated Gilts, or Index Linked Gilts.
- 4) For maximum income invest in Preference Shares (but investors must be aware of the volatility risks of Preference Shares).

This was my advice on 1st January 2003 and by looking at the enclosed Fixed Interest Chart, how right I was:

- 1) Long-dated Gilts have fallen.
- 2) Preference and Index Linked have risen.

This remains our advice, though of course not so obvious as it was on 1st January 2003.

Equities

‘The fun has started’:

- 1) The Equity culture is not dead.

Those investors who panicked in the dark days of War have sat on cash long enough and, having experienced ‘crumbs of interest’ from the ‘fat cat bankers’, are now moving back into Equity markets (albeit at much higher levels, where the Index has risen to 4477).

- 2) Though UK Stockmarkets are up 13% over the year, it must be remembered that they have risen from very low levels:

2000 down 10% 2001 down 16% 2002 down 25%

so

2003 up 13% (this is not sensational)

When Stockmarkets fell to 3287 on 12th March 2003, this was the lowest level since 1995 (eight years before!)

On:

PE	of	18
Yield	of	3.2%
Dividend cover	of	1.7

with ‘efficiencies’ - a euphemism for job cuts (especially the disgraceful banks and insurance companies moving telephone/clerical jobs to the Far East and India) and the US economy beginning to stir, inflation under control, low interest rates (which could go higher and still look low), then prospects for UK multinational companies are good.

- 3) The present spate of Corporate Actions will create Equity activity and provide cash to be reinvested back into Equity markets.
- 4) Recently, most world markets have actually jumped more than the FTSE, especially the Dow Jones, up 25% on the year. The FTSE must catch up this leeway in due course.
- 5) We therefore feel that the ‘teenage scribblers’ who predict Stockmarkets to rise to a maximum FTSE of 5000 to be right, though we would be more optimistic and say ‘at least 5000 during the year’. There is likely to be a ‘lull’ following the year end bounce and provided there are no hidden uglies during the year (which nobody can predict except Nostrodamus) we believe UK Equities will then rise gently.
- 6) With the influence of ‘Hedge Funds’ taking huge daily speculative positions in Equities this will cause Equities to be volatile on a daily basis and when

Buying	often hold out for a lower limit price
Selling	often hold out for a higher limit price

and secure some profits when profits are made, by reducing larger holdings to spread risk.

- 7) For the first time since 1999 we would consider some ‘high tech’ investment.

It is a fact that all companies increased their ‘technology spend’ to the maximum in 1999 as everybody was so worried by the ‘Millennium Bug’. Four years on, at last companies are having to update technology, especially computer/telecommunication technology again. For a wide spread of risk in technology shares it is worth considering technology Investment Trusts:

Herald Investment Trust
Polar Capital Technology Trust

Corporate Actions

The ‘old fashioned’ mergers and acquisitions (M&A) have at last returned to our vocabulary.

During 2003

Cash takeovers have taken place for:

Waste Recycling
Chubb
Selfridges
Debenhams

Mergers:

Express Dairies/Arla
P&O Princess Cruises/Carnival Corporation

Demergers have taken place in:

Six Continents	Became Incontinent Hotels and Mitchells & Butlers
Kingfisher	Demerging Kesa Electricals
AMP	Demerging Henderson (HHG)

Rights Issues:

Royal & Sun Alliance
Rexam

Situations still pending:

Takeovers:

Amersham
Weetabix

Mergers:

Morrison/Safeway
Granada/Carlton to form ITV

Gilts to be redeemed during 2004:

	<u>Date of Redemption</u>
13½% Treasury Stock 2004/2008	26/03/2004
10% Treasury Stock 2004	18/05/2004
5% Treasury Stock 2004	07/06/2004
4¾% Treasury Index Linked Stock 2004	21/10/2004
6¾% Treasury Stock 2004	26/11/2004

Barratt & Cooke automatically advise all advisory clients on action to be taken as Corporate Actions take place.

Further Points

1) **Trusts**

The 'Autumn Statement' will affect tax rates on Trust income and capital gains.

It will also reduce the scope of 'roll over' into Trust.

Trust clients should clarify the tax positions with their accountants.

2) **Charities**

Will cease to 'reclaim tax' as from 5th April 2004.

3) **FSA**

The FSA, the Stock Exchange Regulators, continue to bombard all Financial Service companies with regulation and fines.

- a) You will now see the following 'health warning' on Investment Trust advice, on all correspondence when Investment Trusts are being recommended:

'Barratt & Cooke from time to time will advise investing in Investment Trusts that permit using gearing as an investment strategy. Gearing is a strategy which involves borrowing money to increase holdings of investments or investing in warrants or derivatives. Such a strategy is likely to result in movements in the price of the relevant security being amplified significantly and may be subject to sudden and large falls in value and investors may get back nothing at all.'

- b) Continuing Client Agreements and ID for Money Laundering.

(The Abbey National has just been fined £2.3m for incomplete Money Laundering records. We are sorry for the bother which may be caused to our clients, but Barratt & Cooke suffer from the same FSA regulations as any other financial services firm).

4) **PEPs/ISAs**

The Government stated in the 'Autumn Statement' that

PEPs remain ringfenced.

ISAs will continue at £7,000:

2003/4
2004/5
2005/6

and then be reduced to £5,000:

2006/7

Tax reclamation will cease on 6th April 2004. However, PEPs/ISAs remain free of capital gains tax, higher rate income tax and do not need to be entered on Tax Returns.

PEPs/ISAs remain very attractive for most clients and clients should add the maximum while they can.

For clients who do not pay capital gains tax, or higher rate income tax and do not need to make Annual Tax Returns, they could consider their PEP/ISA position after 6th April 2004.

5) **Gold**

This can now easily be purchased on the Stock Exchange by purchasing:

Gold Bullion Securities

But, beware, new products always come in at a peak of a market. Is Gold about to peak?

6) **Hedge Funds**

We continue to monitor Hedge Funds, most of which have not actually performed very well in 2003. It is obvious to us that the people who make the most money out of Hedge Funds are the managers themselves. We have therefore added to our recommendation list:

Man Group

who are the UK's largest Hedge Fund Managers and will benefit from increased Hedge Fund activity.

7) **Proposed Tax Changes for 2004/5**

Capital gains tax threshold will be increased to £8,200. Inheritance tax threshold will be increased to £263,000.

8) **Unsolicited Call/Cheque Fraud**

We have witnessed both recently. Clients are advised to be very careful of:

- a) Unsolicited calls selling financial products (often 'foreign shares which are a certainty'). Ignore them and report calls to Barratt & Cooke to refer to FSA.
- b) Cheque Fraud

I have recently seen a cheque totally altered except for the signatures. Be very careful if cheques are lost in the post and 'stop' these immediately.

9) **Discretionary Service**

This service is now growing rapidly and proving very successful.

With 'new money' we create a balanced portfolio of quality Equities/Fixed Interest/Cash and constantly monitor all investments, automatically making investment decisions as and when these are needed.

For existing clients, or clients transferring to Barratt & Cooke, we gradually change portfolios to the standard list, but bear in mind clients' individual preferences, capital gains tax, balance etc.

10) Advisory Service

We now keep all investments on one portfolio valuation, ie personal holdings/PEP/ISA.

As an extension of the Discretionary Service, when we make an investment decision on an individual stock, we now write to all advisory clients where appropriate, as we did on AstraZeneca recently.

We keep a list of stocks to buy/hold/sell and give the same advice to all advisory clients, though of course some clients do not always agree with our advice and that is entirely up to them.

The service is therefore now more 'stock driven' rather than just 'annual review driven'. We also do annual reviews to look at the capital gains tax/ISA/balance of portfolio situation.

Final Thought

The world does not seem such a bad place after all.

The world is rid of Saddam Hussein.

Every prospective mother-in-law's dream came true when Jonny's drop kick won the Rugby World Cup with 20 seconds to go.

And 'WE'VE GOT HIM' - Darren Huckerby, surely at 5 points clear we will win the league and be promoted to the Gods (or should I say Oligarchs).

Finally, I conclude in Sir Ken Morrison's immortal words. When asked about retirement at 72 while he is taking over Safeway:

"I might cut back to five days a week now. That way I can visit the stores more at the weekend".

Happy New Year.

C W L Barratt

(There is one intentional Norfolk Spoonerism within this Newsletter.

Clue: There has been a run on the shares and it's nothing to do with Glaxo's 20 blockbuster drugs.

The usual Barratt & Cooke pen and pencil will be awarded to the first correct answer.)

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