

BARRATT & COOKE

MEMBERS OF THE LONDON STOCK EXCHANGE

Partners:

C.W.L. BARRATT
W. WARD-SMITH
M. K. WARREN

Associate Member:

A.J.EVERALL ACA

5/6 OPIE STREET
NORWICH
NORFOLK
NR1 3DW

Tel No: 01603 624236

Fax No: 01603 665757

E-mail:

admin@barrattandcooke.co.uk

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As The Waters Cover the Sea

As I have said several times before, on my 60th birthday I shall publish extracts from these chronicles entitled:

‘A history of our time through different eyes’

This chronicle is no different and yet this time I feel so humbled by the Boxing Day Tsunami that I feel inadequate to comment. However, I feel I must, if only to put into words my feelings and I know the feelings of so many others.

As I write, the death toll is 140,000, with the certainty that this will rise much higher as the world battles against time to prevent disease. These chronicles often amuse and occasionally offend - I wish to do neither today except send my heartfelt sympathy to those millions affected the whole way around the Indian Ocean.

Over recent years these chronicles have witnessed ‘stunned silence’ from ‘Black Friday’; ‘Diana’; ‘The Eleventh of September’; ‘The bombing of Baghdad’; and those pictorial images of each are still clearly visible in our memories.

Today, the Newsreel photographs will haunt us forever, of ‘The lady pathetically wading into the sea to save her family as the huge, foaming, roaring, white wave rushed in to engulf and destroy all nature’. (Thank God I read today that the lady and her family were washed up on higher ground to survive.)

‘Of paradise beaches left like First World War Battlefields piled up with the garbage of the 21st Century’.

And now the images of corpses; and the stench of death; the pathetic faces of children; and the horror of loved ones looking for the lost.

And yet this disaster has one great difference to the others, this was not ‘man made’, but an ‘Act of God’ with nature taking its natural course.

The whole World realises this, as shown by the response of the widows mite, which Governments can only match.

Thank God, the World is more important than mere money and politics - this disaster puts everything else into perspective. And let us pray that GOOD will come out of DISASTER.

All our heartfelt sympathies go to those affected.

C W L Barratt

	<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>1/1/04</u>	<u>5/4/04</u>	<u>1/7/04</u>	<u>5/10/04</u>	<u>1/1/05</u>
FTSE 100	4118	5136	5882	6930	6222	5217	3940	4477	4481	4464	4707	4814
FTSE All Share	2014	2411	2674	3242	2983	2524	1894	2207	2240	2229	2335	2411
Nasdaq (US)	1280	1580	2192	4131	2470	1950	1335	2003	2079	2048	1956	2175
Dow Jones (US)	6448	7915	9181	11452	10786	10022	8342	10454	10558	10435	10178	10783
Nikkei Dow (Japan)	19361	15256	13842	18934	13785	10543	8579	10677	11958	11859	11282	11489

<u>Reasonable Yield</u> <u>FTSE 100 Equities</u>	<u>Growth FTSE 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	BP	Aga Foodservice	GWR	Exxon Mobil
Barclays	Johnson Matthey	Forth Ports	Greene King	Procter & Gamble
National Grid Transco	Tesco	Halma	AB Ports	UBS
Legal & General Group	Royal Bank of Scot.	IMI		Johnson & Johnson
Rexam	BSkyB	Carphone Warehouse		
BAA	Wm Morrison	Quintain Estates & Dev.		
GlaxoSmithKline	Smith & Nephew	Northgate Inf. Solutions		
Smiths Group	Reckitt Benckiser	Marshalls		
Diageo	GUS	EMI		
Tate & Lyle	BHP Billiton	PZ Cussons		
United Utilities	Next	National Express		
	mmO ₂	Meggitt Group		

2004

This is always an interesting time to dig out the 2004 newsletters and remind us of the year's events which now seem so distant in one's memory.

January 2004

The Iraq War is over and Saddam Hussein captured.

Sadly we still read of Fallujah and today the assassination of the Governor of Baghdad, while there have been no 'war crime trials' yet.

April 2004

The death of Alistair Cooke; the bomb blast in Madrid; and in contrast Ginger McCain winning the Grand National and Norwich City 'top of the league'.

July 2004

England ousted from Euro 2004 by the partisan Swiss referee who did not allow Sol Campbell's goal. Robert Kilroy-Silk leading the UKIP party.

October 2004

Dame Kelly Holmes, Sir Matthew Pincet, Colin Montgomery OBE, President Bush, 'arise' the whole of the English cricket team (what was the name of the American who stood against Bush?).

The Economy

Gordon Brown continued his policy of imprudence in both the March budget and November budget statements with his 'public spending borrowing requirement PSBR' projections constantly rising to a staggering £148bn (and still rising!).

'Stealth and Indirect Taxation' continuing to rise up from £150bn in 1996/7 to £227bn in 2003, with over 60 different tax rises.

Have these really had a profound affect on education, health, the Police, or transport? (I think not)

However:

- 1) UK growth has increased by 3.1% during the year.
- 2) Unemployment is down by 80,000 (largely thanks to the Civil Service!).
- 3) Inflation has remained low with RPI increasing by 3.4% (RPI is the only inflation rate worth following, though the Government has invented a series of other indices).
- 4) As predicted base rates have risen from 3¾% to 4¾%.
- 5) UK Equities have had a reasonable year with the FTSE 100 rising 7½% in the year:
Up from 4477 (1st January 2004) to 4814 (1st January 2005)
- 6) Even though interest rates have risen, fixed interest stocks have remained surprisingly static.

At a glance the 2004 statistics are:

	<u>1/1/04</u>	<u>1/1/05</u>	<u>High</u>	<u>Low</u>	<u>Change</u>	<u>Change Taking into Account the US Dollar</u>
FTSE 100	4477	4814	4820	4287	+ 7.5%	
All Share	2207	2411	2412	2135	+ 9.2%	
US Dow Jones	10454	10783	10827	9749	+ 3.1%	- 4.1%
Gold (\$)	417	437	452	375	+ 4.8%	- 2.4%
Oil (\$)	29.5	40	51	29	+26.2%	+ 19%
UK 10 Year Gilt yield	4.50%	4.57%	5.24%	4.45%	0%	
US\$ / Pound	1.79	1.92	1.95	1.76	- 7.2%	
Pound / Euro	71p	71p	71p	66p	0%	
Bank Base Rate	3¾%	4¾%	4¾%	3¾%		
Gross domestic product	rose	3.1%				
RPI (headline)	rose	3.4%				
Average earnings	rose	4.2%				
Average UK house price	£152,623	rise of 12.7%				

It is worth remembering how the FTSE 100 has moved over the past five years:

<u>1/1/2000</u>	<u>12/3/2003</u>	<u>1/1/2005</u>
High 6920	Low 3287	Now 4814

with the annual change being:

<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
- 10%	- 16%	- 25%	+ 13%	+ 7.5%

We are therefore still playing 'catch up'.

2004 was a good/stable year for stockmarkets, rising 7½% + income 3½% = absolute return 11% (narrowing the gap with house price inflation of 12.7%).

2005

From an economic point of view:

- 1) Most economic commentators are expecting the FTSE 100 to rise in the early months, to then slip back again to end the year up 4% at 5000.

We are more optimistic and look for a gain of 10% to around 5300.

- 2) Bank base rates look to have peaked at 4¾%, though they could rise to 5% before falling back to end the year at approximately 4¼%. We do feel 10 year Gilt yields very low at 4.6%, but likely to stay at these levels.
- 3) The US Dollar does look too low at 1.92 to the £1. After falling a little further we feel the Dollar will rise slightly, on its eventual way back to 1.62 where it stood in 1973 and 2003!

The great imponderables during 2005 will be:

- 1) The price of the US Dollar (see comment below on currency).
- 2) The US trade deficit (which US citizens ignore).
- 3) The price of oil which is likely to slip back from an economically sustainable (but high) level of US \$40.
- 4) The General Election (see comment below).
- 5) The Nostradamus effect (the unknown - which we are so sadly witnessing at the moment).

However, the UK and European economies are sailing along on a steady and stable course at the moment and given a fair wind, with:

- a) Average PE's at 14.7.
- b) Net dividend yields at 3.2% (dividend cover 2.2 times).
- c) UK industry and commerce very efficient.
- d) Sterling at a reasonable level against the Euro.
- e) Interest rates low and under control.
- f) Inflation low and under control

and most importantly:

- g) Corporate profits rising, where 9 out of 10 FTSE 100 companies increased dividends in 2004.
- h) Housing inflation slowing down, which indeed could become deflation in 2005.

We remain optimistic for UK Equities.

However, as always we advise clients to have:

- a) Property (in their own houses).
- b) Cash/Gilts for liquidity and safety.

To then have:

- c) Equities, with a wide spread of top quality companies, both in different sectors and geographically. And a few smaller potential growth companies for spice.

Currency

In my 35 years stockbroking I have never understood currency movements, though I do realise the effect that these movements have on economies and currencies.

I do believe that much of the currency movement is caused by currency speculators who are 'playing a game', rather than 'living in the real world'.

It took a staid Norfolk Farmer from his sugar beet pad near Downham Market, where 'he bestrides the world like a great colossus' (and he knows who he is) to explain to me the 'relative purchasing power of the dollar theory'. Quite simply this theory (known as the Hamburger theory) states that whatever the level of currency, US \$1 will always purchase the same as £1, ie:

A hamburger in the US will cost US \$3
and a hamburger in the UK will cost £3

and regardless whether the US \$ is 1.50 or 2.00 to the Pound, the relative purchasing power of both the US \$ and the £1 will stay the same in their own countries.

'Very interesting, think about it'.

The General Election

It now seems highly likely that this will take place on 5th May 2005 and there will be a 'Barratt & Cooke election preview' in the April 2005 Newsletter - it is what all clients have been waiting for, so don't miss it.

At this stage it seems highly likely that Mr Blair (not the Labour Party any more) will be re-elected with a majority of 100 seats.

However, readers of these chronicles have often read about the pendulum effect which continues to swing and now more so than ever with:

- a) No weapons of mass destruction (it is very difficult to forgive the Prime Minister's mis-judgement).
- b) Higher and higher taxes and greater and greater spending, with little to show for it.
- c) An extraordinary and perhaps fatal use of 'The Parliament Act'.
- d) And even 'Mr Dunket' has lost all the admiration he had built up over the years.

Any 'opposition' is deafening by its own silence, but we shall see. General elections are never totally predictable. 'Governments lose elections, they do not win them'.

World Markets

US

The US is expected to have a difficult year. The economy should slow as interest rates rise. The US citizen appears to be oblivious of the 'trade deficit'. However, if the US \$ rises, as we expect it will, then there will be currency gain.

Europe

European stocks are trading on much lower PE's than US stocks, being on ratings of 12 times earnings, as opposed to 16, making European stocks look good value. However, the Euro is now very strong against the US \$1, making exporting more difficult. We feel that French and German stocks will show similar rises to the UK.

Japan

Following Japan's first rise in GNP for some time, commentators are predicting a good year for Japanese stocks, with the Nikkei Index predicted to rise 13% to 13,000. Though we now quite like Japan, we are not quite so optimistic.

Far East/Emerging Markets

The Chinese Stockmarket did not live up to expectations for 2004 and though China is clearly booming, we prefer stocks trading with China, rather than individual Chinese stocks. One needs to know the economic effects of the Tsunami before investing further into Emerging Markets.

Australia

The Australian economy has picked up and we like commodity stocks benefiting from the boom in China such as BHP Billiton.

Fixed Interest

10 year Gilt yields are now back down to 4.6%, this is too low.

It is always sensible to have a degree of one's cash on deposit or in Gilts for liquidity, safety and income.

We now advise:

- 1) For liquidity and safety:

Barratt & Cooke Instant Deposit facility at Bank of Scotland

($\frac{1}{2}\%$ below base rate ie, $4\frac{3}{4}\% - \frac{1}{2}\% = 4\frac{1}{4}\%$ Instant Access)

Minimum deposit £5,000.

OR: Short Dated Gilts

for income: 5% Treasury Stock 2008

for growth: $2\frac{1}{2}\%$ Treasury Index-Linked Stock 2009

- 2) We do feel that Preference Shares are only suitable for private investors who need maximum income. For most private clients and all gross funds (Charities/Pension funds/PEPs/ISAs etc) we prefer the safety of:

Dated Gross Eurobonds

to Undated Net Preference Shares

(see chart)

We are writing to clients as and when we feel alterations should be made to fixed interest stocks.

ISAs

All clients who:

- 1) Pay higher rate tax, or
- 2) Could pay capital gains tax in the future, or
- 3) Have equity portfolios of over £150,000

should consider adding £7,000 to ISAs in this tax year (before 5th April 2005 if not already invested in ISAs since 6th April 2004).

Capital Gains Tax

Clients should establish their £8,200 capital tax free gain allowance before 5th April 2005 where possible.

We shall be reviewing all Advisory and Discretionary clients capital gains tax positions in February/March well before 5th April 2005 to see if any appropriate action should be taken. This year this is particularly important with:

- a) The FTSE 100 up 7½%, where we have taken gains for clients already.
- b) Gains from takeovers and capital restructures.
- c) Gains that could be made from pending takeovers, eg London Stock Exchange etc.

Hedge Funds

We have been studying Hedge Funds closely over the year, but have decided to ignore these as Stockmarkets have been rising.

Hedge Funds generally do better during falling Stockmarkets, and certainly have a place when Stockmarkets are looking fragile. During 2004, and at the present time we remain optimistic of Stockmarkets and have therefore rightly ignored Hedge Fund investment in 2004.

However, there are new 'Hedge Fund Investment Trusts' now coming to the Stockmarket similar to the Cazenove's sponsored:

Absolute Return Trust Ltd

A new London listed Fund of Hedge Funds managed by Fauchier Partners.

These 'Hedge Fund Investment Trusts' will be the easiest and most tax efficient way for Barratt & Cooke clients to invest in Hedge Funds and we shall be watching these carefully over the year, though we are not buyers of Hedge Funds yet.

Discretionary Service

This is now Barratt & Cooke's fastest expanding department.

The service is similar to Advisory, except we deal automatically instead of contacting Advisory clients first for permission to then deal.

For clients in this service, we gradually arrange portfolios to mirror our 3 present portfolios:

1) **Standard Discretion**

(3% cash, 17% Fixed Interest, 73% Equity, 7% Foreign)

2) **Aggressive Discretion**

Where clients prefer their investment to be more aggressive, with less Gilt and more smaller companies.

3) **Income Discretion**

Largely for Gross Funds such as Charities/Pensions, etc where there is a greater content of:

- a) Gross Eurobonds
- b) Higher Yielding Equity rather than growth equity.

With Gilt yields at 4.6% it is very difficult to increase income substantially at the moment, and in each individual case, we take account of:

- 1) Liquidity requirements
- 2) Income requirements
- 3) Balance
- 4) Capital gains tax consequences.

Corporate Actions

During 2004, we have seen:

Takeover Bids/Mergers:

Morrison took over Safeway
Granada/Carlton merged to become ITV
GEC (US) took over Amersham
Securicor merged with Group 4
Banco Santander Central Hispano took over Abbey National

Cash repayments/Special Dividends/Reorganisations:

The London Stock Exchange
Countrywide Assured
J Sainsbury
AWG
Pillar Property
Ashtenne

Takeovers have been fought off by:

Marks & Spencer
W H Smith
De Vere

Pending Corporate Actions:

The London Stock Exchange approach from Deutsche Börse and Euronext
GWR/Capital Radio OFT has cleared the merger
RMC
Novar
Royal Doulton

The London Stock Exchange

The shareholders in the London Stock Exchange will know the LSE is now in talks with Deutsche Börse/Euronext, which should lead to a bid.

We are watching the position very carefully and will be writing to clients after the LSE's discussions with Deutsche Börse and Euronext.

It seems likely that we shall advise clients:

- a) To sell part at a price.
- b) To retain part to await developments.

We shall keep all shareholders fully informed of our advice.

In Conclusion

2004 was a good year for Stockmarkets, and we expect much of the same in 2005.

Even though the London Stock Exchange will probably be owned by the French or Germans by the end of 2005, we shall promise to write these chronicles in comprehensible English.

'Barratt & Cooke's 2005 General Election Preview'
should be worth waiting for, provided you are not a politician!

Pause for Thought

As with the whole world, our heart felt sympathy goes out to those poor souls affected around the Indian Ocean.

There are 2 quotes I would like to make:

J A L Barratt, on life:

"Charlie, you must remember that life never works out exactly as you expect"
(he was a prisoner of War with the Japanese on the Thailand/Burma railway for 4 years).

Sir Bob Geldof, on The Today programme this morning:

"We end 2004 in tragedy, but we enter 2005 on a genuine wave of compassion and kindness"
(a great man).

CWLB

1st January 2005

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