BARRATT & COOKE

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	1/1/98	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
FTSE 100	5136	5882	6930	6222	5217	3940	4477	4814	4943	5113	5428	5618
FTSE All Share	2411	2674	3242	2983	2524	1894	2207	2411	2479	2560	2721	2847
Dow Jones (US)	7915	9181	11452	10786	10022	8342	10454	10783	10458	10275	10317	10717
S&P 500 (US)	971	1229	1469	1320	1148	880	1112	1212	1181	1191	1197	1248
Nikkei Dow (Japan)	15256	13842	18934	13785	10543	8579	10677	11489	11774	11584	13690	16111

Leading Growth Equities

BAE Systems
BHP Billiton
BP
Carnival
Diageo
Standard Chartered
Tesco
United Business Media
Whitbread

Leading Income Equities

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

Smaller Companies

Close Brothers
Cobham
Filtrona
Halfords
Hunting
Inmarsat
Morgan Sindall
Petrofac
Quintain Estates & Dev

Companies With Local Connections

Britvic
Greene King

AIM Stocks

Dobbies
Domino's Pizza
Glisten
Majestic Wine
Mayborn

Overseas Companies

Caterpillar Inc
ExxonMobil
Procter & Gamble
Total

Overseas Investment Trusts

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

The Agony and the Ecstasy of 2005

As I wrote this chronicle last year, the world was silenced by the magnitude and horror of the Indian Ocean Tsunami. A few months later the world was stunned again by another natural disaster of Hurricanes Katrina and Rita as New Orleans was literally washed away. 'Man-made' disasters followed with the London Tube bombings, the Hemel Hempstead oil refinery explosion (which I actually heard in Heydon!); and the relegation and slump of Norwich City.

2005 experienced the death of Pope John Paul II (a great man); the Royal Wedding of Charles and Camilla (a great lady); the rise of Jamie Oliver (a great cook); and the re-election of Tony Blair (whom I now consider a great con-man).

And yet we have enjoyed ecstasy; the Ashes (though Freddie Flintoff enjoyed his ecstasy a bit too much on that bus); Andy Murray; four straight wins by Norwich City as we go into the New Year; and of course the FTSE 100 reaching a four year high of 5600, stoked up by takeover fever, low interest rates, low inflation and commodity prices rising.

Ending 2005, I watch the tired and haggard Blair and Brown and I think back to their deceptions on inflation; Iraq; GDP growth targets; re-couping tax from Pension Funds, PEPs, ISAs; and now a complete U turn on 'residential property' held in SIPPs. I actually fear what will happen when Mr Brown takes over. However, it is refreshing to see the youthful David Cameron (a compassionate conservative) with his young team led by George Osborne (Shadow Chancellor) and the elder statesman William Hague, who has matured into baldness with his erudite wisdom and wit.

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I have often spoken about the 'political pendulum of politics' - this is what creates a healthy democracy - and I believe the pendulum has swung. This gives us new faces and new hope for the future - we shall see.

Statistics are always interesting and I enclose the statistics for 2005 showing that our long term confidence in Equities has been rewarded again with:

FTSE 100 up 17%
House prices up 3%
and Hedge Funds up 5% (Hedge Funds are no longer the 'holy grail')

	1/1/2004	1/1/2005	Change on Year	1/1/2006	Change on Year
FTSE 100	4477	4814	+ 7.5%	5618	+ 16.7%
All Share	2207	2411	+ 9.2%	2847	+ 18.1%
US Dow Jones	10454	10783	+ 3.1%	10717	- 0.1%
Gold $	417	437	+ 4.8%	513	+ 17.4%
UK 10 Year Gilt Yield	4.5%	4.5%	-	4.1%	- 0.4%
US $/Pound	1.79	1.92	- 7.3%	1.72	+ 10.4%
Pound/Euro	71p	71p	-	69p	+ 2.8%
Base Rate	3¾%	4¾%	+ 1%	4½%	- ¼%
Gross Domestic Product			+ 3.1%		+ 1.6%
RPI			+ 3.4%		+ 2.4%
Average Earnings			+ 4.2%		+ 3.0%
Average UK House Price		£152,623	+ 12.7%	£157,200	+ 3.0%

It is worth remembering the yearly change in FTSE 100 levels:

01/01/00	01/01/01	01/01/02	01/01/03	01/01/04	01/01/05	01/01/06
6930	6222	5217	3940	4477	4814	5618
	- 10.2%	- 16.1%	- 24.5%	+ 13.6%	+ 7.5%	+ 16.7%

(The market is still therefore playing 'catch up', but the absolute return allowing for dividends is 3¼% better than this each year.)

2006

We enter 2006 with the FTSE 100 at a four year high of 5618, having risen 17% over the year. However, the FTSE 100 is still well below its all time high of 6930 on 1st January 2000.

This rise in the FTSE 100 to 5618 can be justified by:

1) Takeover fever (see details in Corporate Actions).

   Individual stocks have risen on takeover and on anticipation of takeover.

   The market has risen on the knowledge that as individual stocks are taken over, that money will come back into Stockmarkets for reinvestment.

2) Interest rates are still low, with base rate at 4½% and predicted to fall to 4% during 2006. The prospects of 'cheap money' makes 'mergers and acquisitions' even more likely.

3) There is still a huge amount of money 'slushing around' the financial markets for Private Equity Funds and Merchant Banks to pounce. There is now a limited supply of companies as they are quietly gobbled up.

4) At the same time historic fundamentals of valuations are NOT too high:

a) Average PE's = 14.0
b) Average net yields = 3.1%
c) Corporate profits rose by 15% during 2005
d) With many companies increasing dividends by approximately 10%
e) Most companies are 'flushed with cash' and are able to do 'share buy backs', with Rights Issues now being very rare (and usually only in distressed situations).

5) Demand from China has caused commodity prices to rise, particularly metals and oils and though the oil price is slightly down at $58.70 a barrel (high/low: $67.52/$37.38) the rise in mining and oil shares is therefore justified on prospects of substantial profits growth.

6) It is surprising that the rise in oil prices has had very little effect on stockmarkets or the economy so far.

The rise in the FTSE 100 can therefore be justified.

However:

1) Stockmarkets are at a four year high.

2) Like the Hedge Fund phenomenon, Private Equity Funds could catch a cold on expensive takeovers.

3) Mr Brown's Budget Deficit continues to widen, having to support 6,000,000 public sector service jobs, with the PSBR (Public Sector Borrowing Requirement) increasing to £37bn for 2005/06.

4) Taxation continues to rise after over 60 additional taxes have been announced by Labour, where the tax from stealth and indirect taxes has risen from £150bn in 1996/7 to £227bn in 2003 and £256bn in 2005. Mr Brown will levy windfall taxes at every available opportunity - it is now the turn of oil companies and could be property shares next as they change to REIT's.

5) I am still confused that world Stockmarkets have not worried more about the rise in the price of oil and the effect it will have on corporate profits. It is predicted that profits growth in 2006 could fall from 15% to 6%.

Investment Advice

It is seldom that Barratt & Cooke has been in such a dilemma.

1) Equity market levels can be justified and our advice is always to hold the majority of one's wealth in Equities and property, and a proportion for liquidity and safety in Gilts and Cash.

2) However, UK Equity markets are at a four year high, largely on takeover 'froth'.

It therefore takes a brave man to invest all into Equities.

But it can take a foolish man not to be in Equities at all.

Barratt & Cooke has never been known to shirk giving firm advice to our clients and we therefore give our firm investment policy statement.

Existing Portfolio Clients

Most Advisory and Discretionary clients (depending upon size) have very well balanced portfolios with approximately:

20%	Gilt/Deposits
60%	Top quality UK/Overseas Equities
10%	Smaller companies
10%	Investment/Unit Trusts
100%	

with investments spread across the various sectors avoiding some of the extraordinary stocks that have found their way into the FTSE 100, such as the recent new entry of Kazakhmys (a Russian Copper Mine).

These clients have done well and can sleep soundly at night.

We review to establish gain, build up ISA, weed out the weak and improve quality.

At these levels it is sensible to secure Gilts/Cash proportions, while retaining the wide spread of quality Equities.

New Clients - New Cash For Investment

This is much harder!

Over a generation of Stockbroking I have heard clients say:

1) 'Timing is the most important thing about investment'.
or:
2) 'Sector is the most important thing about investment'.

Yes, but what TIME and what SECTOR, using 'fore-thought', not 'hindsight'?

My constant philosophy has been:

1) The most important thing is actually to be in Equities and Property, while keeping a sensible proportion for liquidity and safety in Gilts and Deposits.
2) Equities can slip back, but over the years quality companies have, and will, show growth - just as Property has done.
3) Sectors will 'come into' and 'out of' vogue, but the important thing is to have a cross section of growth sectors, choosing the growth companies within these sectors.

(Some clients may disagree, but this is my profound belief on investment technique.)

For new money (while Stockmarkets are above 5600):

Do not delay investing into:

a) Government Stocks
b) Foreign Stocks

But with the UK equity element:

a) Invest 50% Now.
b) Retain the other 50% on Deposit with Barratt & Cooke to invest at lower limits - taking your Stockbroker advisors advice.

These limit prices will be reviewed every 2 month until the investment is complete.

World Stockmarkets

US The US market is the one market that did not rise in 2005, making it look reasonable value. The US $ has correctly strengthened against the £1 and now stands nearer the correct level of 1.72, rather than 'the teenage scribbler and banker talk' of US $2 to the £1 as mentioned this time last year.

Japan Even with the Nikkei Dow rising to 16,111 the whole economy of Japan has changed during 2005 due to zero interest rates and strong export demand from China and the US, which is lifting Japan out of its deflationary era. The re-election of Prime Minister, Junichiro Koizumi with an outright majority has raised hopes that he can push through beneficial economic reforms.

Europe Has performed slightly better than the UK during 2005. The positive factors for 2006 are the same as the UK.

Emerging/Far East It is very difficult to invest directly into areas similar to China/India etc - we prefer companies with major trading links to these areas, eg HSBC, Standard Chartered etc.

Australia Is benefiting from the Chinese boom and we still like BHP Billiton (though they have risen 50% since our recommendation in 1st January 2005).

Fixed Interest Stocks

Values have barely changed since 1st January 2005 with:

	Yield
Gilts	4.1%
Eurobonds	5.0%
Preference Shares	5.8% net

Advice

With base rates and interest rates so low:

a) Stick to short dated stocks for safety.
b) Index Linked - for absolute certain capital growth.
c) Preference Shares - only where high net yield is essential.

FURTHER POINTS

SIPPs

After 6th April 2006, 'A Day', pension legislation is changing and many clients who have built up sizeable personal pension plans should consider the opportunity of more flexible SIPPs. If any clients have not yet contacted their Pension Adviser or IFA to discuss these opportunities, they should.

Barratt & Cooke, together with an approved Pension Adviser and Pension Administrator, will be offering a managed portfolio for SIPP investment whereby:

- Pension advice is given by an authorised adviser
- Approved Pension Administrator acts as trustee
- Barratt & Cooke act as stockbroker for the Stocks and Shares element of the SIPP.

For any clients who wish to discuss the opportunities of SIPPs, please contact us and we will arrange a meeting for a review of your Pension plans.

In the November Budget Statement Mr Brown stated a complete U-turn on SIPPs, whereby you can no longer invest in:

a) Residential property.
b) Other items such as wine, fast cars, slow racehorses etc.

(It is quite right to take these out of SIPP regulation, but how crazy to put them in in the first place).

REITs (Real Estate Investment Trusts)

In the November Budget Statement the Government announced that regulations are now to be drawn up for REIT's, which should be in place by the end of 2006.

REIT's will pool investors money to purchase a portfolio of commercial and residential property which will then be let to companies and individuals. Rental income and profits from the sale of assets within the Trusts are tax free, making such investments particularly attractive to investors who do not pay 'income tax or capital gains tax':

SIPPs
PEPs/ISAs
Charities

In the past all 'Collective Property Investment Companies' have had to pay Corporation Tax on rental income, which cannot be reclaimed.

We believe that REIT's will be ideal for 'property investments' within SIPPs, Charities and even PEPs/ISAs and shall be watching the development of REIT's very carefully and shall keep clients informed.

ISA

With Stockmarkets rising sharply over the last three years and all the takeover activity that is taking place, many clients are finding capital gains tax inevitable over their £8,500 tax free allowance.

This is now proving the importance of having the maximum funds in capital gains tax free PEPs/ISAs while there is still no 'capital gains tax and no higher rate income tax'.

Nearly all clients should invest £7,000 in ISAs during the tax year 2005/6, before 5th April 2006.

Corporate Action

During 2005 these have been coming thick and fast and Barratt & Cooke advise all clients of action to be taken to all advisory clients.

The following stocks have been taken over during 2005:

BPB, Pillar Properties, Allied Domecq, GWR/GCap Media, Ashtenne, Geest, Aggregate Industries, RAC, Novar, Exel

The following stocks are being bid for:

Somerfield, O_2, Boots, P&O, London Stock Exchange

The following stocks have had major capital reorganisation:

GUS/Burberry, National Grid, Royal Dutch/Shell Transport & Trading Company, 3i Group, Intercontinental Hotels, United Business Media, Bunzl/Filtrona

The stocks most rumoured to be taken over in 2006 are:

Lloyds TSB
Centrica
Pilkington
Whitbread
Virgin Mobile

Companies FTSE Reclassification

The FTSE classification system has recently had a significant overhaul with many UK companies switching to new sectors and some sectors changing names, eg:

Rexam has switched from Support Services to General Industries
Burberry and DSG from General Retailers to Personal Goods
Housebuilders from Construction and Materials Building to Household Goods

This is part of the world-wide move in an effort to classify companies more accurately. We shall be adjusting valuations as appropriate.

If you are unable to find a share in your paper, please contact your Advisor.

The London Stock Exchange

This takeover saga has been going on for over a year, which we are watching 'like paint drying'. However, the shares do stand at near their high of 620p, so no harm has been taken.

We do follow the London Stock Exchange very carefully:

1) Macquarie has bid 580p, which will not succeed.

2) If Macquarie is to succeed they will have to bid in excess of 650p. As a firm Barratt & Cooke does not want Macquarie to 'carve up the London Stock Exchange'.

3) Euronext (French) is likely to bid again, as could Deutsche Börse. This could be a reasonable solution.

4) The London Stock Exchange is doing extremely well it its own right and is likely to line up 'dealing merger arrangements' with:

   OM of Sweden
   Italian Stock Exchange

   (which would all be good).

5) I have always felt that 'the New York Stock Exchange' could merge with the London Stock Exchange one day, though this could be two years away. This would be excellent for the users of the London Stock Exchange, though I am not keen on the cowboy spivs of 'Nasdaq'.

Our advice to clients is still 'hold and await developments'. However, there are still a lot of 'ifs and buts' and while the LSE stand at 620p (40p above Macquarie's bid of 580p) some clients might like to sell saying "A bird in the hand is worth two in the bush".

Barratt & Cooke Ltd

Has been well documented in these chronicles:

1) Barratt & Cooke incorporated in April 2005, which secures our 'independence' into the foreseeable future.

2) The new Dealing Department in London Street is up and running under Miles Piercy and his team's excellent dealing skills.

3) Barratt & Cooke continues to grow with:

Over 3,000 portfolio clients
Approximately £1bn of funds under management
of which approximately 65% are now in Nominees
and 20% in Discretion which is growing rapidly

4) It was a great honour that Michael Savory, the then Lord Mayor of the City of London, opened the new Dealing Office on 7th November 2005 and for those clients who did not see the article in the Eastern Daily Press, we enclose a copy.

This was a particular honour as Michael Savory was honoured in today's New Years Honours List with a Knighthood for services to The City of London. I was absolutely thrilled to read this - I know the work Michael Savory put into this task in his year in office - and to take the trouble to visit Barratt & Cooke puts his hard work into perspective. 'Thank you Sir Michael - nobody deserves it more'.

Thought For Today

Who can tell me the difference between 'New Labour and a Compassionate Conservative'?

C W L Barratt
1st January 2006

ps **Victim Support Norfolk**

Having been the President of Victim Support Norfolk for the last five years, I make no apology for enclosing a brochure on this excellent Charity. Victim Support Norfolk supports all victims of crime in Norfolk, supports all witnesses in the Magistrates and Crown Courts, and I am delighted to say is taking on new initiatives in the Coroners Courts and Youth Services etc, while acting closely with many other connected organisations such as Criminal Justices Board, Probation etc etc.

This Charity is 80% funded by the Home Office, but we have to raise the other 20% (£80,000 per annum) by private donation. However, I am not asking for money at this stage (though we do need it), I am asking for volunteers to help with victims of serious crime in Norfolk and especially Norwich (murder, rape, GBH etc). We have nearly enough volunteers for victims of minor crime throughout Norfolk, but we have a shortage of volunteers for victims of serious crime in Norwich, where volunteers will have to go through serious training.

I thought this inclusion in my Newsletter might appeal to a few clients or their friends and relatives who want a challenge within a very worthwhile charity. We shall see - and there is no harm in asking.

If you would like further details please contact our Chief Executive Officer direct:

Brian Butcher Tel: 01603 765141

or telephone me and I shall arrange a meeting with Victim Support Norfolk.