

BARRATT & COOKE

MEMBERS OF THE LONDON STOCK EXCHANGE

5 OPIE STREET, NORWICH, NR1 3DW

Tel No: 01603 624236

Fax No: 01603 665757

E-mail: admin@barrattandcooke.co.uk

1st January 2008

	<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>1/1/05</u>	<u>1/1/06</u>	<u>1/1/07</u>	<u>5/4/07</u>	<u>1/7/07</u>	<u>5/10/07</u>	<u>1/1/08</u>
FTSE 100	6930	6222	5217	3940	4477	4814	5618	6220	6397	6608	6596	6457
FTSE All Share	3242	2983	2524	1894	2207	2411	2847	3221	3332	3404	3387	3287
Dow Jones (US)	11452	10786	10022	8342	10454	10783	10717	12463	12560	13408	14066	13265
S&P 500 (US)	1469	1320	1148	880	1112	1212	1248	1418	1444	1503	1558	1468
Nikkei Dow (Japan)	18934	13785	10543	8579	10677	11489	16111	17225	17491	18138	17065	15308

Leading Growth Equities

BHP Billiton
Caledonia Investments
Diageo
Hammerson
Johnson Matthey
Prudential
SAB Miller
Smiths Group
Tesco
Whitbread

Leading Income Equities

Aviva
BP
BT Group
GlaxoSmithKline
Land Securities
Lloyds TSB
Royal Bank of Scotland
Segro
United Utilities
Yell

Smaller Companies

Cobham
Fenner
Forth Ports
Halma
Homeserve
Northumbrian Water
Quintain Estates
VT Group

Overseas Companies

LVMH
PepsiCo
Procter & Gamble
Syngenta
Woodside

AIM Stocks

Cape
Domino's Pizza
Majestic Wine

Overseas Funds

Henderson TR Pacific IT
JPM American IT
JPM Indian IT
Monks IT

'Dictum Meum Pactum'

(My Word is My Bond)

Having read the sad headlines of the assassination of Benazir Bhutto and now tribal rioting in Kenya, one realises that we are never far away from terrorism, but life must go on and thank God that we live in a politically and economically stable democracy.

This is always the time to look back at the 2007 predictions and forward to 2008. Well:

- 1) The FTSE 100 Index did rise from 6220 to finish the year at 6457, but as predicted in a very volatile way, having reached a high/low of 6732/5858.
- 2) Base rate did rise from 5% to above 5¼%, reaching 5¾%, to then fall back to 5½% and looks like falling further.
- 3) Teofilo remained unbeaten (he went lame and never ran again).
- 4) Leona had 2 number 1 hits.
- 5) And perhaps Prince William and Kate Middleton really will get married one day.

My predictions for 2008 are:

- 1) We are more optimistic than most commentators who, on average, predict the FTSE 100 to end the year at 6750. We expect the FTSE to remain volatile and from a level now of approximately 6500, will rise during the year to nearer to 6900, but at some stage will fall nearer to 6100.

This will give portfolio clients excellent opportunities to sell and buy.

- 2) Base rates will fall from 5½% to at least 4¾% (which should help Stockmarkets).
- 3) Sterling will fall against the US\$ nearer to 1.90.
- 4) Gordon Brown will still be holding on by his finger tips, but Darling will no longer be Chancellor of the Exchequer.
- 5) Rhydian will be a much greater star than Leon.
- 6) Denman will beat Kauto Star in the Cheltenham Gold Cup.

We shall see - and nothing gives my readers more pleasure than when my frivolous predictions go wrong!

Northern Rock and the Credit Crisis

I have discussed the Northern Rock crisis at length in my Newsletters of 16th August, 17th September and 5th October 2007. We have discussed the issues and actions taken and now is the time to discuss the consequences.

It is a fact that:

- 1) Greedy US and Global Banks have lost 'billions' in the US sub prime mortgage crisis.
- 2) This has caused 'global money markets' to dry up, while banks do not want to risk lending to other banks.
- 3) The casualties are those companies who relied upon the 'short term credit markets', such as:

Northern Rock

and with no 'short term credit' available they had to approach the Bank of England.

- 4) The Bank of England, the Government and the FSA made a complete hash of the situation by:
 - a) Making Northern Rock's short term problems public
 - b) Procrastinating on a decision

thereby completely 'losing the plot'.

I believe they made the right decision in the end:

To guarantee all Northern Rock deposits
The Bank of England to make billions available to oil the wheels of the money market

thereby restoring the City of London's credibility.

DICTUM MEUM PACTUM

But sadly this was too late.

The consequences of the global credit crisis are:

- 1) Major global banks like UBS, Citigroup and Morgan Stanley have written off 'billions of US\$' and are still terrified to lend to each other (*unheard of in my lifetime*).
- 2) Short term money markets became very illiquid, with rates rising sharply, but following the huge supply of cash from the Bank of England and other central banks, equilibrium is gradually returning to the Money Markets:

	<u>1/12/2007</u>	<u>1/1/2008</u>
Base	5.75%	5.5%
Libor	<u>6.9%</u>	<u>5.89%</u>
Difference	<u>1.15%</u>	<u>0.39%</u>
	(<i>Unheard of in my lifetime</i>)	(<i>More in line</i>)

- 3) Even depositors in Banks and Building Societies are switching deposits into Gilts for the 'Government Guarantee' where Gilts are only yielding 4.4%, even though deposits were giving much higher rates (*it is unheard of for investors to consider Gilts safer than deposits!*).
- 4) The differential between:

Gilts	4.4%	gross
Bank Preference Shares	<u>9.0%</u>	gross equivalent
	<u>4.6%</u>	

is *unbelievable*, unless of course leading UK banks go bust.

- 5) UK Clearing Banks appear less affected than the US/Global Banks by the 'US sub prime mortgage crisis', but we shall know more in February when the UK Banks start their reporting season.

UK Banks have better 'collateral' than US Banks; always seem to have a way of 'getting their cash first'; have built up huge reserves over the years; and after 'write offs' have a way of fighting back.

We therefore feel that Banks such as:

Royal Bank of Scotland

which has only just taken over ABN Amro

Lloyds TSB

which is the least affected by the US sub prime mortgage crisis

both yielding over 7%, look good value, provided there is not a banking catastrophe.

- 6) Property shares have been severely affected by the credit squeeze. With no 'credit available', no property deals can take place, but even worse, where cash is demanded by redemptions, then properties have to be sold at 'fire sale prices' and the whole UK property valuation falls.

However, the problem is one of a 'short term credit squeeze', not the policy of investing in property for the long term. One day this credit squeeze will be over and property can then return to equilibrium.

In our January 2007 Newsletter we 'sang the virtues of REITs' (Real Estate Investment Trusts), but said "not yet, as prices are much too high".

We consider that prices are much too low at 40% discounts to the stated November 2007 net asset values:

	<u>Price</u> <u>1/1/2007</u>	<u>Price</u> <u>1/1/2008</u>	<u>% Fall</u>
Land Securities	2323p	1506p	- 35%
Segro	851p	470p	- 45%
British Land	1714p	945p	- 45%
Hammerson	1577p	1025p	- 35%

There is a price for everything!

7) Commodities

Because of fears of deposits in Banks, investors are going for the 'safety' of commodities (*unheard of*, except in Banana Republics).

On top of this, though there could be a recession in the 'Western world', 'third world economies' are growing rapidly and with demand for:

	<u>1/1/2007</u>	<u>1/1/2008</u>	<u>% Increase</u>
Gold	\$636	\$837	+ 31.6%
Copper	\$2520	\$3180	+ 26.2%
Oil	\$60.9	\$93.8	+ 54.0%
Wheat	£85 a ton	£125 a ton	+ 47.1%

commodity prices have risen sharply.

This must lead to inflation rising.

We do not believe a word this Government says, especially when discussing inflation.

They state inflation will fall below 2.0% and that CPI (*Con* Price Inflation) is now 1.9%.

All my readers understand RPI (*Real* Price Inflation) which is now 4.3% and we do not believe the Government's prediction that this will fall to 3%.

We therefore prefer Index Linked Gilts which rise with RPI while giving an income yield of approximately 2½% gross.

8) Interest Rates

All my readers can now see how movements in interest rates affect an economy, but alterations take 18 months to have an effect, as shown by:

- a) US rates of 1% creating an unsustainable boom.
- b) To slow this boom down interest rates in the US rose to 5¼% stopping the boom and causing a crash.

In the UK, the Bank of England has been more sensible, raising interest rates further from 3¾% to 5¾% and have now started to reduce these to 5½%, and as the credit crisis slows house price rises down, will gradually reduce interest rates further, probably to 4¾% or lower.

Falling interest rates will help Stockmarkets.

Falling interest rates should help conventional Gilts, but these are too high, only yielding 4.4%.

Preference Shares yielding the equivalent of 9% gross, look outstanding, but there are risks.

In conclusion, the consequences of the credit squeeze are:

If UK Banks survive, which we believe they will, and this credit squeeze lasts no longer than a year, then:

- a) Bank shares look cheap
- b) Property shares look cheap
- c) Index Linked Gilts look attractive
- d) Preference Shares look attractive

but - there are risks and nothing is certain.

UK Stockmarkets

2007 has been a year of exceptional volatility.

2007 started with optimism and indeed growth for most sectors of the economy.

The FTSE 100 steadily rose from	6220	1 st January 2007
to	6716	13 th July 2007
until the major problems of the US sub prime mortgage crisis became apparent when the FTSE fell to	5858	16 th August 2007
to recover again	6732	12 th October 2007
followed by the Northern Rock crisis fuelling a fall to	6071	21 st November 2007
to then recover at the year end	6457	31 st December 2007

We believe that UK Equities are still reasonable value with the FTSE 100 at 6457, with historical indices still relatively low:

- 1) Average PE 11.3x.
- 2) Average yield 3.1% net.
- 3) Average dividend cover 2.5x.
- 4) With profits and dividends continuing to rise.
- 5) Base rates are likely to fall from 5.5%.
- 6) Inflation is under control (though we are not as optimistic as the Government).
- 7) BRIC countries (Brazil, Russia, India and China) are generating demand, from which most of the FTSE 100 companies are benefitting.
- 8) The report of the death of the Private Equity Fund has been much exaggerated, and with the huge National Investment Funds from the oil rich states of Saudi Arabia, Dubai, Qatar, Kuwait and also China, there is bound to be further major takeover activity bringing huge sums of cash to the market for investment.

- 9) Investment that might have been directed to Property could now be directed to Equity.
- 10) Gilt yields are extremely low, making quality Equities even more attractive.

Of course some FTSE 100 companies will be affected by the 'credit crisis', but this 'crisis' will not last forever and though the FTSE 100 might be weak in the first 6 months of 2008, we expect it to be stronger by the end of the year.

We believe the FTSE 100 will remain as volatile in 2008 as it was in 2007. Starting at approximately 6500, we believe the market will vary between extremes of approximately 6000 - 7000. This will give excellent opportunities to take profits if the FTSE rises to around 6800 and to pick up 'cheap stock' around 6200. Of course we shall be selecting individual stocks, not just using the index.

Fixed Interest/Deposits

We have discussed these details in the section on 'the credit crisis'.

The conclusions are:

- 1) Deposit Rates

Some term deposit rates were outstanding, but with Libor coming back into equilibrium, these outstanding rates have dried up.

- 2) Conventional Gilts

Now yield 4.4% gross.

This is a low yield, but redemption is guaranteed by the Government, and is totally liquid.

All Gilt investment should be 'short' because of low yields.

- 3) Eurobonds

Now yield 5.8% gross, which is attractive to gross funds, eg PEPs/ISAs/SIPPs/Pension Funds/Charities

- 4) Preference Shares

Are now giving exceptional yields of 7.1% net = 9% gross.

However, there are the risks of:

- a) The underlying company going bust (though I do not believe the leading UK banks/insurance companies will go bust).
- b) The lack of liquidity, if one wishes to sell.

Preference Shares pay 'franked dividends' which are very attractive to companies paying 'Corporation Tax'.

Preference Shares are attractive to clients who are prepared to go in with their eyes wide open.

Overseas Markets (John Everall)

2007 was a very different experience for many overseas markets.

The best performers were:

**% Rise in local currency
terms over 2007**

China	+ 87%
India	+ 45%
Brazil	+ 40%
Hong Kong	+ 38%

whereas the poor performers were:

Sweden	- 4%
Italy	- 7%
Japan	- 10%
Ireland	- 25%

In broad terms, these diverse performances can be explained by a combination of:

- Sub prime collapse: affecting debt-laden Western economies
- Soaring commodity prices: benefiting resource rich economies
- Strong economic growth: India has grown 9% per annum over the past 3 years.

For 2008 our views on the main overseas markets are:

US	Surprisingly strong US GDP figures (up 4.9%) in December are likely to continue to support the dollar. There are worries about a recession in 2008, but with interest rates now falling, this should be avoided.				
Europe	Europe will slow from here due to the stronger Euro affecting exports, weaker demand and rising raw material prices.				
Japan	We have now become more cautious on Japan where the high oil price is affecting the economy.				
China/India	China is now looking stretched on a PE of over 40 times. Whilst the longer term attractions are not in doubt, China is vulnerable to a correction so we prefer a broadly based Far East Fund - Henderson TR Pacific. India looks more attractive on a PE of 24 - we like JPM Indian.				
Australia	The Australian economy continues to benefit from high commodity prices, no debt, and its proximity to Far Eastern markets. We continue to like: <table> <tr> <td><i>Oil</i></td> <td>Woodside (at a limit of 2300p)</td> </tr> <tr> <td><i>Mining</i></td> <td>BHP Billiton (at a limit of 1500p)</td> </tr> </table>	<i>Oil</i>	Woodside (at a limit of 2300p)	<i>Mining</i>	BHP Billiton (at a limit of 1500p)
<i>Oil</i>	Woodside (at a limit of 2300p)				
<i>Mining</i>	BHP Billiton (at a limit of 1500p)				

AIM/PLUS Markets (Will Mellor)

The Alternative Investment Market (AIM) and Plus Markets (PLUS) are markets designed primarily for young and growing companies which, by their very nature, are likely to be more speculative and volatile investments. However, despite a backdrop of increased risk there are significant attractions to investing in this area of the Stockmarket.

Under current tax legislation, there are particularly attractive tax incentives available for investing in qualifying AIM/PLUS listed companies (generally Property and Financial related stocks are excluded). These companies are classed as 'business assets' and, if held for more than two years, are exempt from Inheritance Tax.

Due to the inherent risks involved, Barratt & Cooke advise clients who wish to invest in AIM/PLUS stocks to diversify their risk by investing in a 'basket' of stocks. Stocks within our AIM/PLUS basket would typically have the following attributes:

- a) Experienced and successful management
- b) Significant asset backing
- c) Strong cash flow
- d) Good track record

and operate in attractive industries.

Investing in AIM/PLUS companies is only suitable for those clients willing to accommodate the risks involved with such investments. However, for those clients, and under current tax legislation, this is certainly an area of investment worth consideration, especially for the elderly.

If you would like further details on investing in an AIM/PLUS 'basket' please contact your investment advisor.

BRIC (Brazil, Russia, India and China) (William Barratt)

As stated in the October Newsletter the Investment Trust and other collectives provide a solution to achieving global diversification without the risks or costs associated with purchasing individual foreign shares.

It is widely known that it was the US Sub Prime market that prompted the drying up of credit, however in this instance it was not a case of 'America sneezing and the UK catching a cold', we had fundamental problems ourselves with UK Customers 'full to the hilt' with mortgages and loans. The UK Market has remained strong considering this fundamental problem, and has been buoyed by companies with strong balance sheets. Despite the fact that 60% of FTSE 100 earnings are derived from overseas, this is a good case for looking further afield to try to find markets which remain lowly correlated to the UK consumer.

In recent years the 'Buzz' words have been China and India. However, City analysts have created the acronym BRIC - Brazil, Russia, India and China, which at different stages of development offer exciting opportunities for the investor.

Whilst there are Investment Trusts that invest in the specific countries, JPM Indian being on our suggestions list, there are a number of Open Ended Unit Trusts which cover all 4 BRIC nations. Over the last three years these have achieved exceptional returns averaging in excess of 40%. A note of caution though - such high returns do come with a large element of risk, we remain sceptical over liquidity i.e. a manager's ease at which he may 'get out' of a large position as well as company fundamentals and valuations. We would therefore suggest that while these funds are in their embryonic stages, with little track record, that if you would like exposure to the exciting but risky asset class that is BRIC, you should opt to buy the BRIC iShare.

An iShare tracks an index. The iShare FTSE BRIC 50 simply tracks the largest companies from the BRIC nations. Whilst Brazil, Russia, India and China continue to grow, this iShare could prove a valuable addition to client's portfolios. We are not 'pushing' BRIC iShares, but for our clients who wish to gain exposure to Brazil, Russia, India and China (BRIC) we feel this is the most sensible way in (Nominee clients only).

Corporate Actions

Since the October Newsletter several takeover bids, or potential takeover bids have been called off, largely due to the lack of 'credit finance'. The notable bid to have been called off is:

J Sainsbury

Bids that look certain to go through are:

ICI
Kelda

There has been much talk and rejections etc for:

Rio Tinto
Close Brothers
Biffa
Scottish & Newcastle

and even the soap opera at:

The London Stock Exchange

We shall keep all clients advised as to the action to take.

Capital Gains Tax

The present Chancellor of the Exchequer Alistair "Magpie" Darling is a walking disaster, whom Mr Brown will have to get rid of before the nation gets rid of him.

First he stole inheritance tax concessions out of David Cameron's nest, hence the nickname Magpie.

He then procrastinated on the decision to guarantee Northern Rock deposits, effectively putting the nail into Northern Rock's coffin.

He has also come out with a sweeping statement of capital gains tax to be at a flat rate of 18%, with no tapering or indexation relief.

On first appearance this seemed to be an excellent idea, reducing capital gains tax from 40% less taper, less indexation.

However, little thought had been given to the statement as to:

- 1) 'What was' the base cost and 'when'?
Was it 6th April 2008, 31st March 1982, 5th April 1965 or when?
- 2) What about the 10% capital gains tax for 'business assets' where businessmen were selling to retire - especially farmers?

Magpie has stated he will review the capital gains tax rules, but has made no statement yet, and decisions for retiring businessmen must be made by 5th April 2008 - where the time is now too short to sell a business.

We are supportive of a flat 18% capital gains tax for our clients, which should be beneficial, but we can give no specific advice until we know the new and exact rules.

This is rather like changing 'the offside rule' for the last 15 minutes of a cup final.

Magpie is not only proving a disaster, but also a disgrace.

PEPs/ISAs

PEPs/ISAs will merge on 6th April 2008. We shall be merging all clients PEP/ISA portfolios at that time and shall inform you shortly afterwards.

At that time we shall also consider 'Cash Only ISAs'.

SIPPs (John Everall)

One of Barratt & Cooke's fastest growing areas is:

SIPPs (Self Invested Personal Pensions)

which have become very popular following changes to pension regulation ('A' Day) in April 2006.

SIPPs allow investors greater flexibility in managing their own pensions, in a similar way to existing portfolios.

To set up a SIPP, an investor requires:

- 1) Pension Advisor - If you require Pension advice (which Barratt & Cooke cannot give), you need to appoint a Pension Advisor.
- 2) Pensioner Trustee - to administer the Pension Scheme.
- 3) Investment Advisor - Barratt & Cooke to manage stocks and shares portfolio within the SIPP.

With a Barratt & Cooke SIPP portfolio:

- The portfolio can be Advisory or Discretionary.
- Stock can be held in Barratt & Cooke Nominees.
- Dividends are sent to your Pension bank account or reinvested into the portfolio.
- We send regular reports etc in the normal way.

There are considerable tax advantages to SIPPs, most notably:

- Any amount up to 100% of income (maximum £225,000 for 2007/08) can be invested in a SIPP.
- Subject to maximum of £1.6m (rising to £1.8m in 2010).
- A basic rate tax refund is claimed by the Pensioner Trustee. Higher rate tax payers can claim an extra refund via their tax returns.
- No higher rate tax on dividends, and gross dividends are tax free.
- No capital gains tax.
- Up to 25% of the SIPP can be withdrawn as a tax free lump sum between ages 50 and 75 (rising to age 55 in 2010).

If you are interested in setting up a Barratt & Cooke SIPP portfolio please contact your advisor.

Nominees

The time has come when all Barratt & Cooke clients (and indeed all Stock Exchange investors) should be in Nominees.

- 1) 80% of Barratt & Cooke clients are already in Nominees.
- 2) It is becoming harder to deal in 'certificated stock', due to:
 - a) The Stock Exchange demanding 3 day settlement in the majority of cases.
 - b) For settlement to be longer than 3 days, which certificates have to be, then prices are 'widened' and the client is worse off.
- 3) It is still possible to remain in certificated stock for those clients who prefer:
 - a) To hold certificates - like cash under the mattress
 - b) Like to receive company reports etc
 - c) Like to receive dividends direct and do all the paperwork themselves

but because certificates within the Stock Exchange system are becoming an anachronism:

- a) Prices in the Stockmarket for certificated stock are becoming worse.
- b) Barratt & Cooke will charge an additional fee for certificated stock in due course.

If you are a certificated client and wish to go into Nominees, please contact your advisor.

An Apology

In my last chronicle I stated that Gurneys Bank was the last bank to have a run on it for 140 years and had to be rescued by Barclays Bank. This statement was wrong and I give an open apology.

In Norfolk we all know that:

'The Buxtons are related to the Barclays
The Barclays are related to the Birkbecks
And the Birkbecks are related to the Gurneys
And some are more closely related to God than others.'

Needless to say, a Buxton friend of mine has sent to me the book:

'The Mystery of Overend & Gurney'

explaining that it was the London merchant bank, OVEREND & GURNEY that went bust, not GURNEYS BANK of Norwich which was as solid as a rock.

Overend & Gurney used to borrow from regional banks such as Gurneys Bank of Norwich (stacked full of cash from good harvests), to discount Bills of Exchange in London. This was a very good business and their turnover was only second to the Bank of England.

But, when Overend & Gurney started 'borrowing short' and 'lending long' on further speculative business ventures such as railways in Central America, the whole thing went pear shaped.

Some partners in Gurneys Bank of Norwich were also partners in Overend & Gurney and were therefore jointly and severally liable.

That is when my Buxton friend's great grandfather purchased a Gurney property, and family liquidity was restored, and they all lived happily ever after. Amen.

Déjà vu.

Pause For Thought

Never borrow an umbrella from a bank.

For while the sun is shining you can have as many umbrellas as you like and for as long as you like.

But, immediately it starts to rain, the bank asks for the umbrella back.

Never be dependent upon the bank's umbrella, as storm clouds can come over the horizon from nowhere!

C W L Barratt
1st January 2008

Post Script

On reading 'the Apology' in this chronicle again, it has only just dawned on me that:

It was my Buxton friend's great grandfather's son who advised my grandfather - Legh Barratt - to go into Stockbroking in Norwich, supported by Stockbroking business from GURNEYS BANK, hence the origins of BARRATT & COOKE.

We all go back a very long way in Norfolk, which is a great discipline for professional standards and life.
DICTUM MEUM PACTUM.

PLEASE NOTE: This newsletter is provided solely to enable clients to make their own investment decisions. The information within this Newsletter does not constitute advice or a personal recommendation, or take into account the particular investment objectives, financial situations, or needs of individual clients. It may therefore not be suitable for all recipients. If you have any doubts as to the suitability of this service, you should seek advice from your investment adviser. The past is not necessarily a guide to future performance. The value of shares and the income from them can fall as well as rise and investors may get back less than they originally invested. Certain Investment Trusts will 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. Any tax reliefs referred to are those currently applying. All estimates and prospective figures quoted in this newsletter are forecasts and are not guaranteed. Barratt and Cooke is the trading name of Barratt & Cooke Limited. Registered in England No. 5378036. Barratt & Cooke Limited is authorised and regulated by the Financial Services Authority, who are based at 25 The North Colonnade, Canary Wharf, E14 5HS.