JANUARY 2010

BARRATT & COOKE
STOCKBROKERS SINCE 1880

ALSO IN THIS ISSUE:
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- PRE BUDGET REPORT
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	1/1/06	1/1/07	1/1/08	5/4/08	5/10/08	1/1/09	5/4/09	1/7/09	5/10/09	1/1/10
FTSE 100	5618	6220	6457	5947	4980	4434	4030	4249	5024	5413
FTSE All Share	2847	3221	3287	3039	2522	2209	2051	2172	2580	2761
Dow Jones (US)	10717	12463	13265	12609	10325	8776	8018	8447	9600	10428
S&P 500 (US)	1248	1418	1468	1370	1099	903	843	919	1040	1115
Nikkei 225 (Japan)	16111	17225	15308	13293	10938	8860	8750	9958	9692	10546
APCIMS Balanced	2762	2950	3024	2869	2552	2416	2271	2318	2615	2724

Leading Growth Equities	Higher Yielding Equities	Smaller Companies	Overseas Companies	Investment Trusts/ Unit Trusts & Overseas Funds
BHP Billiton	Balfour Beatty	Afren	GDF Suez	Bankers Investment Trust
BG Group	BP	Colt Telecom	Nestlé	Blackrock Latin America IT
G4S	GlaxoSmithKline	Gt Portland Estates	Procter & Gamble	Edinburgh Investment Trust
W M Morrison	International Power	Greene King	Roche	JPM Indian Investment Trust
Reckitt Benckiser	National Grid	Inmarsat	Syngenta	Monks Investment Trust
Reed Elsevier	Royal Dutch Shell	Petrofac	Woodside	Templeton Emerging Markets IT
Schroders	J Sainsbury	Spirax Sarco		TR Property Investment Trust
Standard Chartered	Scottish & Southern	VT Group		
Tesco	Vodafone Group	Wellstream		
Xstrata				

SANITY HAS PREVAILED

Benjamin Disraeli was famously quoted in 1880 as saying:

"What we anticipate seldom occurs - what we least expect generally happens".

I contemplate these words as I write this Newsletter in the freezing cold (the coldest Christmas break for 30 years with the temperature at -5.0°C and still falling). What has happened to Global Warming?

I look back to the volatility of Stockmarkets during 2009. The FTSE 100 started the year at 4434, by 3rd March 2009 it had fallen to 3512, but by the end of the year had risen to 5413. What had happened to Armageddon?

I try to comprehend Base Rate standing at 0.5%, and projected Government debt at £178bn. Base Rate had never fallen below 2.0% in the 300 year history of the Bank of England, and £178bn represents a debt of £2,900 for every man, woman and child in the UK. What has happened to Prudence?

2000 - 2009 (I refuse to use that dreadful expression the 'Noughties')

Stockmarkets	Date	FTSE 100
The Euphoria of the Millennium	01/01/2000	6922
The Dot Com Crash/start of the Iraq War	05/03/2003	3621
The subsequent recovery	12/10/2007	6730
The Banking Crisis Crash	03/03/2009	3512
The subsequent rally	01/01/2010	5413

'Like water, markets will always find their own level', and unbelievably sanity has prevailed where we are entering the next decade at a level that we consider sane, for both Stockmarkets and currency markets.

£/US$	01/01/2000	=	1.62
£/US$	01/01/2010	=	1.61
As it was in	1975	=	1.61

We have seen:

Saddam Hussein	-	toppled
Members of Parliament	-	fiddle
Bankers	-	rewarded for failure
Madoff	-	jailed
Simon Cowell	-	make a fortune
Tiger Woods	-	in the rough

and

we have Barack Obama as President of the US (for which we can all feel proud), whilst the Turnip Taliban arrive in Norfolk (which is just the start of 5 months Electioneering!)

and

Afghanistan (for which we can only pray for a satisfactory 'people's victory').

All of these sagas have been well documented and it is now time to draw a line under this 'missed decade' and move on, remembering Warren Buffett's great quote:

> "The greatest lesson of history is that people do not learn from the greatest lessons of history".

2010

We enter 2010 in a weary state of apathy and disbelief as to where the economists and politicians have led us as Labour lunges to 'the left' in the December Budget Statement.

1) Will the UK finances ever recover from debt?

2) We know taxes will have to rise, but by how much?

3) Where will the spending cuts be?

4) How will the Government repay Quantitative Easing?

5) We know inflation will rise but will it be within Government guidelines?

6) Will the Bankers think of others rather than just themselves?

7) Will the next generation of MPs be whiter than white?

8) When will the Government sell their holdings in:

    Royal Bank of Scotland Group PLC

    and

    Lloyds Banking Group PLC?

9) Is Afghanistan solvable?

And yet, by the time I write the next chronicle:

1) The Daffodils will be in bud as they feel the first warmth of spring.

2) The Politicians will be in full cry, as the General Election is announced (We all know it will be 6th May).

3) Cadbury will know its fate, and there will be further merger and acquisition activity.

4) But most importantly we will know who is the greatest steeplechaser of all time (after Arkle), and the perfect result in the Cheltenham Gold Cup in March would be a dead-heat:

   Kauto Star/Denman

   (I shall give anybody 100/1 on this result now!)

and:

5) I shall be wearing tights!

PREDICTIONS

Very few financial commentators are prepared to stick their necks out, having proved to be such "Charlies" in the past.

However, I shall now make one or two fundamental observations:

1) Unbelievably the FTSE 100 at 5413 is neither too high, nor too low, and though there will be considerable volatility over the year, this is a sustainable level.

   We shall be 'buying' and 'selling' on volatility, but expect the FTSE 100 to finish slightly higher by the end of this year.

2) Interest rates must rise from Bank Base Rate of 0.5%, making longer dated Gilts and longer dated Corporate Bonds vulnerable.

3) Unemployment will continue to rise from 1.63m in the early part of the year, but will gradually stabilise as the UK pulls out of recession at the end of 2010, after all the other leading Western economies.

4) Inflation will rise to above the current prediction of 2% as VAT, commodities and oil prices rise.

5) There will be a continuing shift in economic activity from 'The West' to 'The East'.

6) There will be an outright Conservative majority, which will need a Conservative swing of 7.5%. All eyes will be on Great Yarmouth with a current Labour majority of 4500 - this is exactly 7.5% in Labour's favour, which the Pollsters will tell us the Conservatives will have to win to achieve an outright overall victory.

INVESTMENT POLICY

Barratt & Cooke's investment policy of creating balanced portfolios to match clients profiles of:

1) Income
2) Risk
3) Liquidity etc

has proved very successful for decades, whereby 'Clients' and 'Advisors' can sleep soundly at night (except for the occasional nightmare).

This policy of:

Cash Deposit	for investment opportunities
Gilts	for safety and liquidity
Leading Equities	for potential capital growth and rising dividends
Smaller Companies	for spice
Overseas Companies/Trusts	for international investment

will continue, but during 2010 we shall be looking to:

a) Realise or invest on volatile markets.
b) Establish capital gains (before capital gains tax goes up from 18%?).
c) Diversify portfolios - too much in one stock or sector is always dangerous, as proved by the Banking Sector in 2009.
d) There will be a shift towards overseas exposure, though approximately 70% of FTSE 100 earnings come from abroad.

EQUITIES

As I stated earlier in this chronicle, it seems unbelievable that the FTSE 100 stands at precisely where I feel it should be, on the economic fundamentals and formulae of:

	01/01/2010 Average
P/E	18
Net Yield	3.3%
Dividend Cover	1.7 x

bearing in mind that we are now at the low point of 'recession' and the prospects for economic revival look considerably more optimistic than this time last year.

We still feel there is good value in higher yielding FTSE 100 stocks and those with large overseas earnings:

		Price	Net Yield
Oils	BP PLC Ordinary Shares	600p	6.5%
	Royal Dutch Shell PLC 'B' Shares	1812p	6.0%
Utilities	National Grid PLC Ordinary Shares	679p	5.4%
	Scottish & Southern Energy PLC Ordinary Shares	1161p	5.8%
	International Power PLC Ordinary Shares	309p	4.2%
Telecom	Vodafone Group PLC Ordinary Shares	144p	5.5%
Media	Reed Elsevier PLC Ordinary Shares	512p	4.0%
Pharmaceutical	GlaxoSmithKline PLC Ordinary Shares	1320p	4.5%
	AstraZeneca PLC Ordinary Shares	2911p	3.3%

You will also see listed in this Newsletter several smaller companies, which though speculative could show considerable returns.

BANKS

As we all know the Banking Sector has been through a torrid time in 2008/2009.

Everything that could go wrong for

Royal Bank of Scotland Group PLC

has gone wrong, and it will be a very long road to recovery, if ever.

However, Lloyds TSB was a very sound bank before its disastrous merger with HBOS, and its subsequent rescue by the UK Government.

In due course, once the HBOS losses of 2008/2009 are behind it,

Lloyds Banking Group PLC

could have started its road to recovery following the £21bn cash raising exercise at the end of 2009.

Lloyds TSB, Bank of Scotland, Halifax will have a strong presence in the High Street, which eventually should lead to:

a) A recovery in profits
b) A resumption in dividends

and at that time the UK Government will sell its 40% stake in Lloyds Banking Group to leave the Bank free of Government interference.

If Lloyds Banking Group survive, one day the present price of 50p could look cheap, albeit with risk and volatility along the way.

FIXED INTEREST

Bank Base Rate at 0.5% has little relationship to the 'Real World'. However, deposits are safe and cash liquid for investment opportunities. One day Quantitative Easing will end and all these artificial rates will disappear in a 'puff of smoke' as investors are left incredulous as they pass on the stories to their grandchildren in fairytales of how:

'once upon a time Bank Base Rate was ½%...'

Over recent years we have been saying that in the 'Real World':

Interest Rates

and in particular:

Gilt Yields

are far too low (meaning that Conventional Gilt prices are far too high).

10 Year Gilt Redemption Yields

have now risen from 3% to 4% meaning that Longer Dated Gilt prices have fallen over 10% from their high this year with:

War Loan (undated) falling 17.5% from this year's high

Corporate Bond Yields

have actually continued to fall from 6% to below 5%, which means that most Corporate Bonds are now fully valued and are vulnerable to future interest rate rises.

Our advice is therefore:

1) Low rates of interest on deposit are better than Capital losses on longer dated Gilts.

2) If you must have Conventional Gilts then go 'very short'.

3) Corporate Bonds should be short dated, or medium dated for gross yield in ISA.

4) We believe inflation will rise, and therefore favour:

Index Linked Gilts

OVERSEAS MARKET SUMMARY BY JOHN EVERALL

Most overseas markets have performed well over 2009 (after a particularly difficult 2008). Emerging Markets have shown the biggest gains:

	01/01/08	01/01/09	01/01/10
US (S&P 500)	1468	903	1115
Germany (DAX 40)	8067	4810	5957
Japan (Nikkei 225)	15308	8860	10546
China (Shanghai Composite)	5262	1821	3277
India (Sensex 30)	20287	9647	17465
Brazil (Bovespa)	63886	37550	68588
Australia (ASX 200)	6340	3722	4871

Emerging Markets are the world's new economic powerhouses. In 2009, Emerging Economies grew by 1.7% compared to a contraction in Advanced Economies of 3.4%.

(Source: International Monetary Fund).

US

The unemployment rate now stands at 10% but there have been some encouraging signs:

Job losses are tapering off
The housing market is improving
The dollar has shown recent signs of strength.

We are positive on the longer term prospects for the US economy, despite short term debt issues.

Europe

Whilst Germany and France have started to recover, there are major concerns over Greece, Spain, Ireland and Portugal where high budget deficits have unnerved investors and rating agencies. The EMU could come under pressure in 2010 so we are wary of Europe and would only invest in defensive well known European equities or trusts.

Eastern Europe remains a problem area which we would avoid. The region is heavily dependent on external debt and the lending squeeze is expected to continue.

Japan

The strong yen is lowering import prices (deflation) and hurting exports. With debt remaining very high, we remain cautious on Japan.

Australia

Australia has raised its interest rates in the past quarter, showing that it has been one of the least affected by the world economic crisis. We continue to like Australia with its abundance of natural resources and proximity to China.

China, India, Brazil (see William Barratt's article below looking at Emerging Markets in more depth)

The Chinese economy grew by 8% over 2009, but there are concerns about a property bubble. Following the strong rise in the Chinese market in 2009, we remain cautious in the short term on China, although we like the longer term prospects.

India continues to grow (6% in 2009) and is now the second fastest growing economy in the world. Only 15% of GDP comes from exports, so much of its growth is 'self-generated'. We favour India over China.

Brazil has benefitted from high raw material prices since the Brazilian Stockmarket has a high exposure to commodity related stocks.

EMERGING MARKETS & 'DECOUPLING' BY WILLIAM BARRATT

You may have read one of my 'debut' pieces in the January 2008 Newsletter introducing clients to the acronym BRIC:

Brazil
Russia
India
China

At the time BRIC was a 'buzz word' and, although we thought it was important that clients were made aware of the opportunities presented by Emerging Markets, I was not keen to push BRIC too hard. Some were surprised that the piece wasn't more 'bullish' and put it down to the fact that like a debutant playing in his first Test Match 'I didn't want to try and hit a six off the first ball only to see my timbers splayed behind me' however I assure you this was not the case.

The reason I was troubled by BRIC at the time was that I thought Emerging Markets were too highly reliant on the Western World and with developed markets looking overvalued my fear was that Emerging Markets may be in for a very difficult period.

I talked of the BRIC ETF (in effect a tracker of Emerging Markets) and had you purchased this, in the two years to date you would now be slightly 'down' (although ahead of the FTSE) but at one stage with the investment down 59% it would have taken a bold investor to stick with the emerging market story:

	01/01/08	2 Year Low	01/01/10	2 Year Change
FTSE 100	6476	3460	5413	-16.4%
BRIC ETF	1980	812	1863	- 5.9%

Emerging Market Investment Trusts are (in general) not far away in price from where they were two years ago and as such I do not consider the 'boat missed'. However I now feel that Emerging Markets present a much more attractive opportunity primarily down to 'Decoupling'.

‘Decoupling’ is a horrid piece of Stockmarket jargon, but in essence it refers to an Emerging Market’s independence from the Western World, and the last two years have demonstrated that the idea of India ‘needing’ the developed nations to support and stimulate its economy has become an anachronism. Hence Emerging Markets have become ‘decoupled’ from the West.

This is not to say that China and India do not benefit from exports, of course they do - with cheaper labour costs I expect to read ‘made in China’ in the back of textiles for many years to come. However the Chinese are not ‘dependant’ on The Western World. One does not have to delve too far into press comment to realise that the:

Chinese are spending money in China
The Indians are spending money in India
And the Brazilians are spending money in Brazil

An economy which can stimulate spending from within is one which will grow. In simplistic terms this is because its:

- Nationals are spending their increasing wealth on home grown products.
- This creates more jobs and generates money for the government.
- If the government invests this money on infrastructure and public projects the general standard of living increases and the aspirations of its people gains momentum.

Therefore we believe that Emerging Markets which can now support themselves rather than rely on the outside world are well set for an extended period of growth.

Although ‘tipped’ in the New Year press we would consider Russia a particularly risky region (when the Russian Market fell substantially it ceased trading and as we always like to retain liquidity we see this as an additional risk to the more obvious political one).

However we particularly like:

Templeton Emerging Markets Investment Trust (for a Global Emerging market ‘play’)
JP Morgan Indian Investment Trust
Blackrock Latin America Investment Trust (Brazil)

You can also purchase:

JP Morgan Chinese Investment Trust

(although we would be more sceptical of China as a potential ‘boom and bust scenario’).

THE DECEMBER PRE-BUDGET REPORT (described by one eminent client as “complete cobblers”!)

The report made very unpleasant reading, and proves that Mr Brown’s Government has jumped very clearly to the ‘left’, where the political colour has changed from pink to scarlet. (This will please the left wingers in the Labour Party).

The main points affecting Barratt & Cooke’s clients are:

1) UK Economic Growth Forecast for 2009 -4.75% (recession)
   UK Economic Growth Forecast for 2010 1% to 1.5% (only just out of recession)
2) Government Budget Deficit Forecast 2009/2010 £178bn!!!
3) Inflation for 2010 to vary between 3.0% and 1.5% (using CPI).
4) VAT to revert to 17.5% from 15% on 1st January 2010 (though likely to rise further in 2010).

5) All National Insurance contributions up another ½% in 2010 (the employment tax)
6) Inheritance Tax exemption to be held at £325,000 until 2011.
7) All income earners over £150,000 and potentially those over £100,000 to be affected by higher income tax:

    Less personal allowances
    Less pension contributions

8) Capital gains tax remains at 18% - which is very low but we feel capital gains tax is very likely to rise next year, whichever political party gets in.

These figures are so bad that we would make the following points:

1) The FTSE 100 derives approximately 70% of its earnings from overseas.
2) No political party will be able to reduce taxation in the short term. It is more a case of how little do they have to raise it by.
3) Capital Gains Tax is so low, it could be better to pay Capital Gains Tax now, rather than at higher levels later on.

ISAs

With Income Tax and Capital Gains Tax likely to rise in the future, ISA allowances should be fully used by the majority of clients and especially any client who is likely to pay Higher Rate Income Tax and/or Capital Gains Tax.

For clients who are aged under 50 the total allowance for this tax year is £7,200.

For clients who are aged over 50 or will be at the end of the tax year (April 5th 2010) the total allowance has now risen to £10,200.

As from April 6th 2010, all eligible investors will be able to subscribe a total of £10,200 irrespective of their age.

The main advantages of ISAs are:

1) ISAs are free of Income Tax and Capital Gains Tax.
2) Clients requiring income can invest in Fixed Interest securities and receive interest gross (unlike pensions where you have to pay tax on income withdrawal).
3) ISAs are fully flexible with investors able to withdraw cash when required (unlike pensions).
4) ISAs are held in Barratt & Cooke Nominees.
5) There is no need to declare ISAs on your Tax Returns.

We shall be contacting clients who have ISA portfolios before the end of the tax year, but if any client wishes to discuss ISAs in the meantime please contact your advisor.

CORPORATE ACTIONS

During the 2008/2009 Credit Crisis there has been a large number of 'Rights Issues', usually by weak companies trying to strengthen balance sheets when they have been unable to find Bank support, eg:

Banks, Property and Building Companies

These Rights Issues continue and since the October 2009 Newsletter we have seen:

Rights Issues

Ladbrokes	1 for 2	at	95p
Balfour Beatty	3 for 7	at	180p
Barratt Developments	1.3 for 1	at	100p
Quintain Estates	3 for 1	at	49p
Lloyds Banking Group	1.34 for 1	at	37p
National Express	7 for 3	at	105p
Grainger	2 for 1	at	90p

Take-Over Bids

Friends Provident have been taken over by Resolution.

There has also been a major take-over bid for Cadbury from Kraft. Details are still to be announced, but we are getting close to 'the beginning of the end'. We shall keep all clients informed.

This could be the start of major 'merger and acquisition' activity in 2010.

Lloyds Bank Issues

The £21bn fund raising exercise was the most complicated I have seen in 40 years, including:

Ordinary Shares/Preference Shares/Enhanced Capital Notes/Exchange Consideration Amounts

This proves the necessity of using Nominees.

NOMINEES

The majority of Barratt & Cooke clients now hold their stock in Barratt & Cooke Nominees, all of whom appreciate this efficient service.

In view of the following points, Nominees are now the norm within Stock Exchange procedure, and most Stockbrokers insist on holding client stocks in Nominee Names:

1) Corporate Actions take place on a much quicker timetable (often giving only 1 week to act upon)
2) Due to technical issues with CREST/Euroclear etc, registrars often bring in impossible regulations for certificated stocks (witness Lloyds Banking Group issues)
3) 'The Market' prefers to deal 'electronically' rather than in 'certificates', and therefore dealing in Certificated form is more expensive.

It is therefore now time that all Barratt & Cooke clients are in Nominees.

Due to the increased costs of dealing for clients with 'share certificates' as from June 1st 2010 the settlement charge (currently £10) on all certificated transactions will increase to £20.

The settlement charge for holdings in our Nominee and ISA accounts (where all transactions already settle electronically) will remain unchanged.

If you would like to transfer to Nominees please contact your advisor. Clients will still be able to hold share certificates if they wish but our charging structure must reflect the difficulty we now encounter in dealing and settling certificated transactions.

There are other alternatives such as CREST Sponsored Membership should clients wish to explore further avenues.

In summary, the benefits of being in Nominees are:

1) Quicker settlement.
2) No need to sign CREST transfers.
3) Simplicity of corporate actions.
4) Comprehensive reconciliation of stock.
5) No danger of reliance on the postal service.

DISCRETION

Almost 40% of our funds under management are now in the Barratt & Cooke Discretionary Service (we had anticipated 30% by 1st January 2010).

The Discretionary Service is very similar to the Advisory Service except that we deal automatically when we feel action should be taken. If you have been happy with Barratt & Cooke's advice over recent years and have always instructed us to 'carry on', then you should seriously consider Discretion, and speak to your advisor about this service.

C W L Barratt

I have now allocated a Senior Advisor to help me with each of my clients while I am absent on 'official duty' for much of the coming year.

I have been through each client's portfolio with the Advisor and shall keep in regular contact with that Advisor during the year, but not minute to minute.

If for some reason you would like to change Advisor, please contact Martin Warren who will arrange this with no embarrassment on any side. All clients must be happy with whom they are liaising in my absence.

IN CONCLUSION

We enter 2010 in a state of interregnum, but by Election Day 'all hell will have been let loose on the hustings'. What fun!

The Cheltenham Gold Cup in March will be the 'greatest steeplechase' ever with memories of 'Ali v Frazier' or 'The Rumble in the Jungle'!

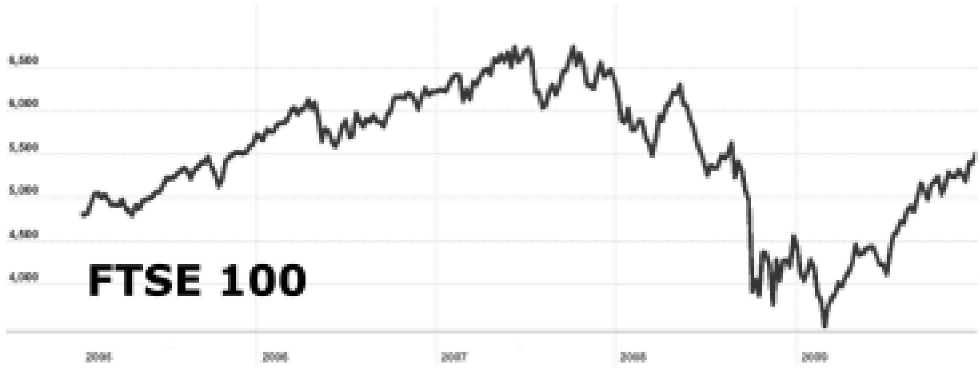
Norwich will be playing Championship Football against Ipswich, if (by a miracle) Roy Keane can keep Ipswich up.

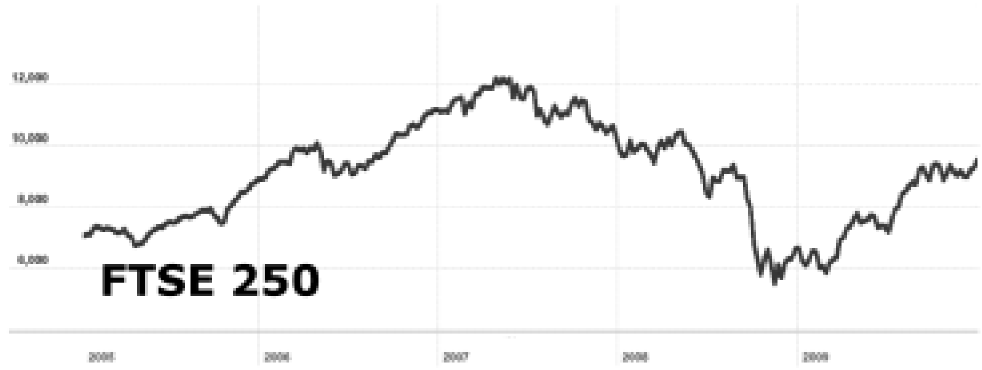
And yet against all the odds 'sanity prevails' with FTSE 100 at 5413.

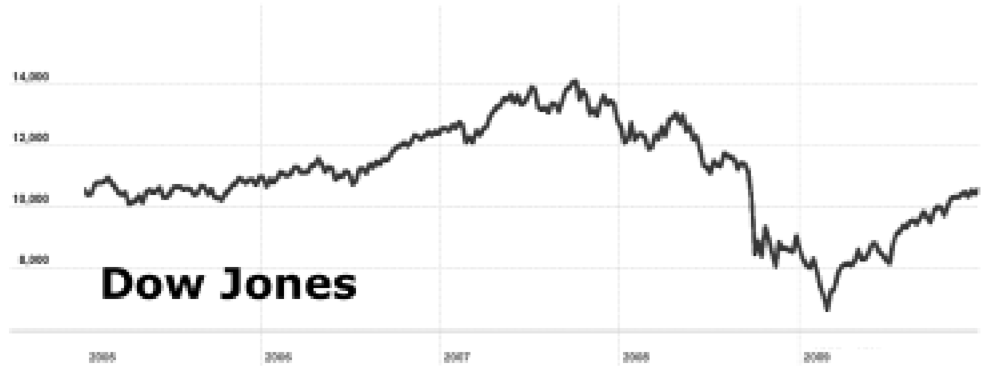
C W L Barratt
1st January 2010

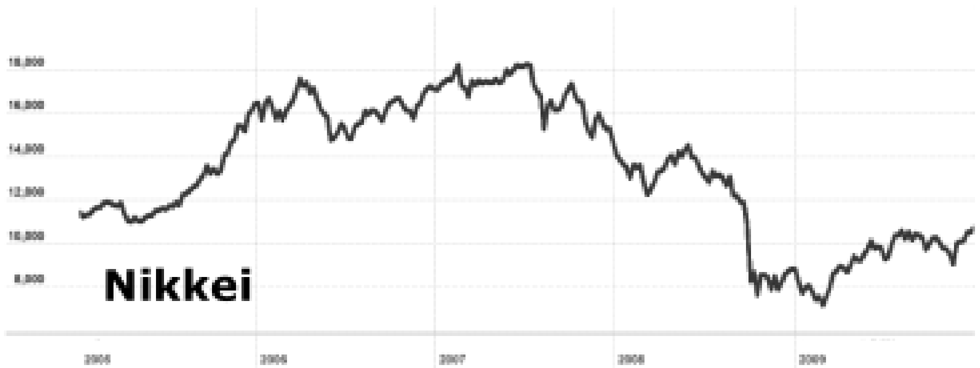
'Life is never as good as you think it will be. But then again, it is never as bad.'

(Anon)









Source: FT.com