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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>1/7/02</u>	<u>5/10/02</u>	<u>1/1/03</u>	<u>5/4/03</u>	<u>1/7/03</u>
FTSE 100	4118	5136	5882	6930	6222	5217	4656	3814	3940	3814	4031
FTSE All Share	2014	2411	2674	3242	2983	2524	2263	1833	1894	1824	1971
Nasdaq (US)	1280	1580	2192	4131	2470	1950	1463	1140	1335	1384	1623
Dow Jones (US)	6448	7915	9181	11452	10786	10022	9243	7529	8342	8277	8985
Nikkei Dow (Japan)	19361	15256	13842	18934	13785	10543	10622	9028	8579	8074	9083

<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	Daily Mail & Gen.Tst	London Stock Exchange	GWR	Procter & Gamble
Barclays	Reckitt Benckiser	Hiscox	Savills	Nestlé
Scottish & Southern	Amersham	Jardine Lloyd Thompson		Pfizer
Legal & General Group	Unilever	Johnston Press		Exxon Mobil
Shell Transport & Trading	Bunzl			
Land Securities Group	Tesco			
BOC Group	Compass Group			
Rexam	Royal Bank of Scotland			
Kelda Group	Johnson Matthey			

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. Kris Kin won the Derby and the English rugby team beat the 'All Blacks'.

Why is everyone so miserable?

I am absolutely convinced that when leading UK Equities yield more income net than Gilts yield gross, then UK Equities must be much too low and that the Bond bubble is about to burst - we shall see.

Iraq

The more I look back at history the more I quote Shakespeare and how pertinent those timeless words still are:

“All the world’s a stage
And all the men and women merely players”.

It is incomprehensible that at the time I wrote my 5th April 2003 Chronicle, Allied Troops had engaged in heavy fighting in Basra, Mosul and Kirkuk, leading up to the imminent 'Battle of Baghdad'. We had regular news reports from John Simpson, Rageh Omaar and Comical Ali regarding Dr Blix, Donald

Rumsfeld and Colin Powell. We had horrors of the outcome of War with 'weapons of mass destruction' being used against our troops and indeed the Iraqi people.

In that Newsletter I wrote "We hope and pray that War has finished and that by the July Newsletter these scenes and cities will be names in history books (but I shall count no chickens)".

Thank goodness this is exactly what happened. Iraq was not Armageddon and the world must be a safer place. But, where is Sadaam Hussein; where are the weapons of mass destruction; what will Al-Qaeda do next; how safe is Iraq?

I do believe that Tony Blair justly feared weapons of mass destruction, but it is noticeable how quiet he and Mr Bush have become.

Gordon Brown's Budget

With Tony's 'street cred' gone, I am concerned that Gordon's left wing tendencies will start to raise their ugly head. We all remember the 'Old Labour' of 'Spend, Spend, Spend - and soak the rich'. Gordon has already 'robbed' from pension funds (which are now suffering the consequences); effectively increased income tax by increasing National Insurance and is now increasing national debt by borrowing an additional £3bn and £5bn over and above the estimated figures for the next two years. He is gambling on the economy growing rapidly (which I hope it does), but Prudence is taking an awful gamble.

Higher borrowings by Gordon must increase interest rates in the end and the Bond bubble will burst. The recent European Gilt Auctions were a flop. It is a fact that Germany and the US are now reducing taxes to try to stimulate the economy.

Pensions are a disaster; house prices will fall and taxation is rising. The political pendulum has started to swing, but who is waiting in the wings? No wonder New Labour is hiding behind the smoke screen of the Fox Hunting Bill (what an irrelevance at such a momentous time).

Currencies

US \$

In 1974 I remember dealing in US dollars at 1.63 to the £1.
Since then the US dollar has fluctuated between 2.40 and 1.01 to the £1.
In June 2003 the dollar again stood at 1.63 to the £1.
Today, the 1st July 2003, the US dollar stands at 1.65 to the £1.

Euro

In January 1999 the Euro was launched at 71p to the Euro.
In May 2000 the Euro had fallen to 57p.
By May 2003 the Euro had risen to 72p.
Today, 1st July 2003, the Euro stands at 70p.

Sterling

Sterling's Weighted Currency Index now stands at 101.7 (having stood at 100 when it started in 1995).

The world commentators worry about currencies, but it is ironic how little they have altered in the very long term.

The daily movements of currencies, caused by short term currency speculators, does have a profound affect on exporting and importing industries. As a 'born again farmer' I appreciate that the recent

recovery in the Euro has caused wheat prices and IACS payments to rise, increasing farming revenues by £40 an acre, which in some cases will make the difference of a profit or a loss to farmers. This recovery in the Euro will make a difference to all industry in the UK.

One becomes very cynical on currency prices and how right Oscar Wilde was when he said:

“A cynic understands the price of everything and the value of nothing”.

I am convinced that it will be several years before the UK joins the Euro, regardless of those five economic tests.

In my next Newsletter I shall mention (incognito of course) my first client who can write in with details of:

- 1) Those five economic tests
- and 2) Details of the new Common Agriculture Policy ‘CAP’.

The Bond Bubble

Over the last week financial commentators have started to talk about the Bond bubble bursting.

I have mentioned this ‘bubble’ in all my recent Newsletters stating that long-dated Gilts are too high. I have been a lone voice in the wind - thank goodness I am not mad after all.

Bonds are fixed interest stocks, such as Gilts, Eurobonds, Debentures, Loan Stocks, Junk Bonds and Preference Shares.

Bonds should reflect interest rates and the credit rating of the underlying stock. As redemption dates lengthen the volatility of the Bond increases. As the credit rating becomes more risky then the Bond will yield more.

This is extremely simple mathematics and not complicated as the ‘Macro Economic Gurus’ would lead you to believe.

I have a saying pinned to my wall in the office:

“When interest rates are low, stay short. When interest rates are high, go long”.

Interest rates are low; Japan 0%, USA 1%, Europe 2%, UK 3¾%. (Indeed one could say “What is ⅝’s of ¾’s of sweet Fanny Adams?”)

That is why I have been suggesting :

Deposits
Short-Dated Stock
Index-Linked

or if you really need high income, Preference Shares.

Do not invest in other long-dated Fixed Interest stock.

As the enclosed chart shows, Gilt yields are very low and Preference Shares have been ignored. However, in the last month investors have suddenly spotted their value and prices have jumped (they are now nearly high enough).

The ‘bubble will burst’ when investors realise that the simple mathematics do not add up:

- 1) Longer dated Gilt and Eurobond yields of approximately 4.0%-4.5% gross are too low against some Equity yields of 4.5% net (with dividends growing).
- 2) To get higher Bond yields investors are purchasing Bonds in risky companies - 'Junk Bonds'.
- 3) Interest rates do fluctuate and when interest rates rise, which they will one day, Bond holders will be left holding the baby and will not be able to get out.

Yes, I have read the teenage scribblers expounding the virtues of Bonds for safety and income. This has been the case in the past, but prices are being ignored and they are mathematically too high.

Beware of Corporate Bond ISAs. Yes, there are tax advantages, but when the Bond bubble bursts the values will fall.

We are sitting on another 'bubble' which is about to burst.

Expectations of Investment Returns

In the past investors have expected investments to grow to compete with:

	<u>1974</u>	<u>2003</u>
Interest rates	15%	3.5%
Inflation	20%	2.5%

With interest rates and inflation now so much lower, investment returns will be similarly lower.

One cannot beat market returns with safety and to beat 'the market' one must take risk. This has led to the boom in:

- Hedge Funds (high risk and sometimes justified in very large portfolios)
- Junk Bonds (very dangerous to take higher risk for higher yield)

High expectations mean high risk - do not expect high returns with interest rates and inflation so low. This is where the pension industry has gone so wrong, projecting the high interest rate returns of the 1990's forward into the low interest rate, low inflation economy of 2003.

Do not expect past expectations (interest rates and inflation are now much lower).

UK Equities

What has happened to the man who said the FTSE 100 would fall to 2500 and would take 10 years to recover? He has probably joined 'Comical Ali'.

UK Equities fell due to the uncertainties of:

- 1) Iraq.
- 2) The pensions crisis (due to many factors detailed in previous chronicles).
- 3) The Zero Preference scandal (again chronicled).
- 4) The Telecom/high tech bubble bursting (again chronicled).

However, there are many excellent companies out there, slowly increasing profits, dividends and assets and at last investors are beginning to appreciate their fundamental values of:

- 1) PE's = 14
- 2) Good net yields = 4% net
- 3) Asset value = takeover bids have started
- 4) Profits and dividend growth.

The FTSE 100 has recovered from a low on 12th March 2003 of 3287 and now stands at 4000 which still looks low historically.

Overseas Markets

All overseas markets have recovered:

US	Low interest rates and tax cuts should continue to boost the market.
Europe	Looks bleak, but at these prices most of Europe is too low. (The J O Hambro Continental European Fund, run by Rod Marsden, has been the best performing European Fund over the last six months).
Australia	Is low. The economy is doing well, but like other markets is being affected by the world situation.
Japan	Has recovered from its low, but with the banking and economic crisis will take many years to recover (if ever).
Far East/ Emerging Markets	There are possibilities, but it is so hard to sort the wheat from the chaff.

Compliance

Over the next six months we shall be bringing in a scheme for all Advisory clients where we shall state:

- 1) The stocks that Barratt & Cooke are monitoring.
- 2) The stocks that Barratt & Cooke do not monitor.

We have also improved the format of our valuations, whereby we are consolidating PEPs/ISAs/Personal holdings into one valuation.

You will see details as reviews come through.

Our:

Nominee Service
Discretionary Service

continue to grow rapidly and where appropriate we shall be explaining their virtues to clients.

In Conclusion

Beware of long dated Bonds - the bubble will burst.

Stick to Deposits, short-dated Gilts, Index-Linked Gilts, or Preference Shares.

Do not raise expectations too high, we live in a world of lower inflation and lower returns.

Higher return means higher risk, as has been seen by Hedge Funds and even Guaranteed Income Bonds (what guarantee?).

We prefer Equities like Shell Transport & Trading Company yielding approximately 4.0% net to long-dated Gilts yielding approximately 4% gross.

As a very dear eminent solicitor, now in the Autumn of his days, says to me:

“My dear Charles, remember:

- 1) A little inflation is a very good thing.
 - 2) Always be an optimist for a pessimist gets nowhere.
- and 3) WHAT I REGRET IN LIFE HAS BEEN MY ECONOMIES AND NOT MY EXTRAVAGANCES”
(ie buy quality, avoid rubbish).

How right, how right!

C W L Barratt
July 2003

Warning

Clients are now being pestered by overseas junk mail where dubious Investment Houses are recommending dubious stocks. This has become a ‘scam’, which is being investigated by the FSA. Do not reply to this junk mail.

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Corporate Actions

We have advised valuation clients on action to take on the following stocks where appropriate since 5th April 2003:

AWG	Consolidation plus cash back of £1 per 'old' share via Redeemable Shares (Redeemable in lieu of dividend due August).
Kingfisher	Consolidation and demerger of Kesa Electricals.
Six Continents	Split into Intercontinental Hotels Group and Mitchells & Butlers.
Marconi	Reconstruction.
P & O Princess Cruises	Merger with Carnival Corporation.

Fixed Interest Redemptions

2½% Treasury Index Linked Stock 2003	Repaid at 225.5011 per £100 stock on 20 th May 2003.
3½% Funding Stock 1999/2004	Repaid at par 6 th June 2003.
8% Treasury Stock 2003	Repaid at par 10 th June 2003.
Morgan Crucible Preference Shares	To be repaid at par on 31 st July 2003.

Open Positions

Carlton/Granada proposed merger	Competition Commission report expected 26 th August 2003.
Safeway	Competition Commission report expected 12 th August 2003.
Selfridges	Takeover bid at 387p.
Debenhams	Announces bid approach at 425p.
Chubb	Takeover bid at 75p.
Waste Recycling Group	Takeover bid at 267½p.