

BARRATT & COOKE

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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>1/1/03</u>	<u>1/7/03</u>	<u>5/10/03</u>	<u>1/1/04</u>	<u>5/4/04</u>	<u>1/7/04</u>
FTSE 100	4118	5136	5882	6930	6222	5217	3940	4031	4274	4477	4481	4464
FTSE All Share	2014	2411	2674	3242	2983	2524	1894	1971	2111	2207	2240	2229
Nasdaq (US)	1280	1580	2192	4131	2470	1950	1335	1623	1881	2003	2079	2048
Dow Jones (US)	6448	7915	9181	11452	10786	10022	8342	8985	9572	10454	10558	10435
Nikkei Dow (Japan)	19361	15256	13842	18934	13785	10543	8579	9083	10709	10677	11958	11859

Companies

With Local

Connections

Overseas

Reasonable Yield FTSE 100 Equities

HSBC
Barclays
National Grid Transco
Legal & General Group
Rexam
BAA
Unilever
Pearson
GlaxoSmithKline

Growth FTSE 100 Equities

Assoc. British Foods
BP
GUS
Bunzl
Tesco
Royal Bank of Scot.
Johnson Matthey
AstraZeneca
Centrica
Yell Group
Wm Morrison

Stocks Outside FTSE 100

Aga Foodservice
Cobham
Halma
RAC
Carphone Warehouse
Quintain Estates & Dev.
Taylor Nelson Sofres
Northgate Inf. Solutions
Wolverhampton & Dudley
Yule Catto

GWR
Greene King

Exxon Mobil
Procter & Gamble
Nestlé
Pfizer
Citigroup

A Time to Reflect

With Henman out of Wimbledon, the English cricket team defeated, and England ousted from Euro 2004 by a partisan Swiss referee who failed to allow Sol Campbell's brilliant last minute goal, July 1st seems an obvious time to reflect on the past six months and give a mid term review (MTR to my farmer clients).

Though Stockmarkets have hardly moved during the last six months:

1st January (FTSE 100 4477), 5th April (FTSE 100 4481), 1st July (FTSE 100 4464)

there are several fundamental, political, commercial and economic phenomena rumbling below the surface which maintain our long term optimism for quality international UK stocks, and our predictions are slowly bearing fruit.

Interest Rates

As my readers will know, I have been urging the Bank of England to raise interest rates for many months to take the steam out of house prices and to reduce ‘private borrowing’ which now appears out of control. I have been saying this for so long that my face has turned blue and clients have started to yawn. But at last interest rates have started to rise and have risen steadily from base rate of 3½% to 4½%. This has definitely slowed down the housing market (though agents will not admit to this yet). We believe interest rates will have to rise still further to have a significant effect.

Ironically, the financial gurus would say that falling house prices (which they will do one day) should not help the Stockmarket. However, at this one time in history, so much money has been diverted away from Stockmarkets by residential property (upgrading, second homes, and property to let) that when the situation goes into reverse, investors will turn to Equities for their value, income and liquidity.

Value

Some financial journalists are now saying that Stockmarkets have recovered enough and should not now be chased. I say nonsense and quote the FTSE 100 over the last seven years to prove this:

<u>1/1/97</u>	<u>1/1/98</u>	<u>1/1/00</u>	<u>1/7/02</u>	<u>5/10/02</u>	<u>5/4/03</u>	<u>1/1/04</u>	<u>5/4/04</u>	<u>1/7/04</u>
4118	5136	6930	4656	3814	3814	4477	4481	4464
Today’s level		Millennium boom too high	Today’s level	Too low during Iraq War		Today’s level		

Stockmarkets have not recovered significantly, indeed they have not risen for 7 years. They have just recovered after the Iraq War, but have fallen by 13 points in six months!!!

With:

- Average net yields at 3.3% (similar to most deposit rates)
- P/E’s 16.5 historically good value in most cases.
- and profits continuing to rise for the last seven years in quality UK companies

this proves Equities are still fundamentally good value.

And where Equities go too low, this is underpinned by vultures hovering around like Mr Philip Green and Marks & Spencer (see article later).

Inflation

I often wonder if politicians think the public are stark raving bonkers. None of us believe that inflation is actually running at 1.5%. There are now three inflation indices:

CPI 1.5%, RPI 2.8% and RPIX 2.3%.

(Three Government indices for inflation - “absolute b.....” (bunkum))

Equities have always been considered the perfect hedge against inflation, since rising inflation will cause commodity prices to rise, which in turn will lead to ‘retail price rises’ which helps corporate profits and therefore Equities.

Politics

These chronicles first referred to 'the pendulum swings' on 1st July 2002.

Indeed, for Bush, Blair and Beckham, that swing now looks 'terminal'.

I have never liked Bush.

Blair conned me for too long (Mrs Barratt was right).

And, I am sorry for Beckham.

By Elections and Council Elections always throw up rebellious votes and the UK Independence Party can be ignored. Who is Robert Kilroy Silk anyway? (I thought he was Euro 2004's version of Jimmy Young, or the 'housewives choice').

However, General Elections are creeping closer on both sides of the Atlantic and changes will be healthy, which are bound to help Stockmarkets further - General Elections nearly always do.

The Middle East and Oil Prices

I believe that the terror threat of Al Qaeda and other fundamentalist groups throughout the world will threaten our Western Societies for generations, but as more and more atrocities take place (how long ago was the Madrid rail explosion?), so will our 'economic worries' become immune.

Please do not take this comment lightly, I refer to 'economic worries' not 'personal worries', where many of us have families living in London and other major cities.

Iraq has now become a sovereign state again and Saddam Hussein has been handed over for justice by his own people. Even though atrocities from the dying embers of War continue to flare up in the Middle East, let us pray and hope these are the rigor mortis symptoms of this tragic period of history (unfortunately the history chapter cannot be closed yet).

However, oil prices, a very major factor in global economies, have started to ebb having fallen back from US \$ 42 a barrel to today's US \$ 35, indicating a slightly more stable Middle East.

Currencies

Sterling continues to be very strong against both the:

Euro	66p to the Euro
US Dollar	1.83 US \$ to the £1

making exporting more difficult. However, clients should purchase top quality international stocks where currencies balance out between nations. Indeed US stocks will automatically recover when the US \$ recovers, purely on the currency.

In Conclusion

Through all the traumas of the past six months of interest rates, inflation, politics, the Middle East, oil prices, currencies, as we have been saying for many months (especially in the nadir of war), there is still considerable value in quality Equities at a level of 4464.

Fixed Interest

As stated, base rates have now risen from 3½% to 4½% and medium dated Gilt yields have now risen to over 5%.

We still believe that interest rates will rise further and that conventional Gilts will continue to fall.

Eurobonds are now giving 'gross yields' of around 6% and to gross funds, such as PEPs/ISAs/Pensions/Charities, Eurobonds are beginning to look attractive.

Preference Shares which were too low have held their prices very well, but are slowly coming into line with other Fixed Interest Stocks.

There will come a time (quite soon) when it will be right for gross funds to switch:

Preference Shares into the safety of short dated Eurobonds

Our advice for Gilts is still:

- a) Stay short
- b) or Index Linked

and again, one day (which is some way off) switch short dated into longer dated conventional stocks.

We shall keep all portfolio clients informed.

Investment Trusts

Investment Trusts have been depressing over the past year, with average 'discounts to net asset values' on several leading Investment Trusts doubling over the year from 8.25% to 16.9%. This is an extremely high discount to net asset value (ie 100p of assets for 83¼p) making Investment Trusts good value at the moment.

Discounts to net asset values do widen and narrow periodically, but like water, they find the correct level in the end, averaging about 10%.

The main reasons for the widening discounts at the moment are all artificial:

- 1) Mandatory 'FSA health warnings' on Investment Trusts tarnished by the split level Investment Trust scandal.
- 2) Boring Stockmarkets making Investment Trusts even more boring.
- 3) A sudden surge towards Hedge Funds (misguided).

The undermentioned facts on Investment Trust 'Discounts' are very interesting and prove the point:

	<u>Price</u>	<u>Yield</u>	<u>Discount</u> <u>30/6/03</u>	<u>Discount</u> <u>31/12/03</u>	<u>Discount</u> <u>30/6/04</u>
Bankers Investment Trust	255p	2.9%	5.0%	8.1%	14.9%
Foreign & Colonial Inv Trust	172p	2.1%	8.6%	11.8%	19.5%
Second Alliance Trust	2191p	3.1%	7.1%	9.5%	16.5%
Witan Investment Trust	303p	2.7%	<u>12.3%</u>	<u>15.2%</u>	<u>16.6%</u>
Average discount to asset value			<u>8.25%</u>	<u>11.2%</u>	<u>16.9%</u>

Other Points to Reflect Upon

Shell Transport & Trading Company

As we stated in the April 2004 Newsletter, Shell's 20% over-estimation of oil reserves, and now, major pay offs to its former Directors, are a disgrace.

This will put a cloud over Shell for several years, and now that they have recovered to over 400p we have written to portfolio clients with disproportionate holdings in Shell to reduce their holdings - capital gains tax permitting.

Marks & Spencer

Leading stock values are usually underpinned by vultures coming in to asset strip, until they don't like the carcass (witness W H Smith).

The salubrious Mr Philip Green of BHS fame has swooped down on Marks & Spencer intimating a bid of shares and cash.

Marks & Spencer have sacked a series of Chairmen and Chief Executives finally to appoint Stuart Rose to restore Marks & Spencer's fortunes and fight off the vulture Mr Green. Amongst rumours of 'insider dealing', I do not see why Mr Rose should succeed where so many others have failed.

Though we are not keen on Marks & Spencer as an investment, the 'golden rule' in these situations is to 'hold on and await developments'. Where clients still hold Marks & Spencer we have sent this advice, and shall send further advice in due course.

As a post script - we are very concerned about the 'insider trader' allegations, which the FSA and eventually DTI will not leave alone. These could blow up into another Guinness affair (I have not seen any commentator mention this yet, but mark my words).

Barratt & Cooke Services

Over the quieter summer months we do not let the grass grow beneath our feet and are constantly looking to improve our services to clients.

1) **Advisory/Discretionary Clients**

We are now operating the Advisory Service on a 'stock driven system' where we write on individual stocks during the year, while annual reviews concentrate on capital gains tax, ISAs etc.

This is proving highly successful with clients, where we are now able to take 'short term profits' where appropriate, while also able to 'cut out' of stocks if something appears to be going wrong.

More and more clients are moving to the Discretionary Service where we deal automatically on these decisions rather than writing to the client first.

We have developed a banking deposit facility with the Bank of Scotland, earning ½% below base rate ($4\frac{1}{2}\% - \frac{1}{2}\% = 4.0\%$ gross). This is for Discretionary clients to hold cash while Stockmarkets appear high, before purchasing another stock. We shall be developing this for Advisory clients shortly.

2) **SIPPs**

Self-Invested Personal Pensions.

This will be the next major development for Barratt & Cooke after ISAs.

We are in talks with a leading IFA (Independent Financial Advisor) and a leading Pension Trustee, where Barratt & Cooke will create a package to clients for advising on and administering clients' Pension Funds. This is 'early days', but we shall announce the 'package' long before the changes in the Pensions Act ready for April 2006.

3) **Hedge Funds**

Over the past few months we have researched Hedge Funds and have concluded that they are only appropriate for very large portfolio clients, and to be safe they must be in a Fund of Funds not individual Hedge Funds, where 10% of the total Hedge Funds go bust each year.

The investment world has become excited about Hedge Funds during a 'falling market' as many Hedge Funds go 'short of stock'. Barratt & Cooke do not feel the Stockmarket will crash again in the near future and our policy to hedge market falls has always been to hold a proportion of a portfolio in short dated Gilts.

During our investigation into Hedge Funds we have concluded that:

- 1) This is a huge speculative market in the US.
- 2) There is very little 'rhyme or reason' to Hedge Fund investment policies other than the 'whim' of the individual Hedge Fund Manager.
- 3) In one case we saw:

"Long of Germany, to go short of Turkey."

"Long of oil, to go short of oil shares."

"Short of Tracker shares, while Tracker Funds in the same 'house' are long."

Quite frankly this could have been:

Back No 1 and No 2 to win at Kempton Park 3.30pm

to lay No 3, 4, 5, 6, 7, 8, 9 in the same race to lose.

- 4) There is virtually no regulation in the UK and therefore most Hedge Funds are sheltered offshore.
- 5) All Hedge Fund Mangers are looking for a special 'turn situation' and with the market now so large, these 'turn situations' are becoming harder and harder to find.
- 6) No wonder investment houses are pushing Hedge Funds - the fees are huge.

Even though this is a rapidly growing market, Barratt & Cooke are not going to be sucked in, even if we are considered naïve.

There is a place for Hedge Funds for very rich clients who need Hedge exposure - and of course we shall advise on funds when asked to do so.

Corporate Actions

We have written to clients regarding:

- 1) Marks & Spencer - takeover.
- 2) London Stock Exchange - special 55p Dividend (following sale of the London Stock Exchange building).
- 3) Sainsbury - special 35p repayment (following sale of Shaw's of the USA).
- 4) Countrywide Assured - demerger.

It should be noted that Proctor & Gamble have had a one for one stock split, the effect of which was to double the number of shares held, with the share price halving from 6000p to 3000p.

We have also written to clients regarding the redemption of:

	<u>Redemption Due</u>
9½% Conversion Stock 2004	25/10/2004
4¾% Treasury Index Linked 2004	21/10/2004
6¾% Treasury 2004	26/11/2004

Final Thought

For liquidity and safety stick in Short or Index Linked Gilts. One day, when interest rates have risen further, we can then switch to lock into higher yields, but not yet.

Equities will stay quiet during summer months, but we believe will rise in the Autumn when nobody is looking. As always stick with quality.

Forget Henman, forget Beckham, enjoy Troon and the Summer - and dream of Delia. See you against Arsenal on 28th August.

Several clients won the Barratt & Cooke pen for the widdle about the "spend a penny and the Euro" (though many answers were unpublishable).

To keep the interest going there will be 10 pens allotted to those clients who predict Norwich City's correct place in the Premiership at the end of the season, provided you are still a client!

Happy hols.

C W L Barratt 1/7/2004

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