

# BARRATT & COOKE

MEMBERS OF THE LONDON STOCK EXCHANGE

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	<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>1/1/04</u>	<u>1/1/05</u>	<u>1/7/05</u>	<u>5/10/05</u>	<u>1/1/06</u>	<u>5/4/06</u>	<u>1/7/06</u>
FTSE 100	5882	6930	6222	5217	3940	4477	4814	5113	5428	5618	6044	5833
FTSE All Share	2674	3242	2983	2524	1894	2207	2411	2560	2721	2847	3086	2968
Dow Jones (US)	9181	11452	10786	10022	8342	10454	10783	10275	10317	10717	11240	11150
S&P 500 (US)	1229	1469	1320	1148	880	1112	1212	1191	1197	1248	1312	1270
Nikkei Dow (Japan)	13842	18934	13785	10543	8579	10677	11489	11584	13690	16111	17244	15505

## Leading Growth Equities

Aviva  
BHP Billiton  
BP  
Bunzl  
Diageo  
GUS  
Reckitt Benckiser  
Tesco  
United Business Media  
Wolseley

## Leading Income Equities

Alliance & Leicester  
Barclays  
BT Group  
Centrica  
Lloyds TSB  
National Grid  
Royal Bank of Scotland  
Scottish Power  
Standard Life  
United Utilities

## Smaller Companies

AGA  
Close Brothers  
Cobham  
Filtrona  
Hunting  
Mitchells & Butlers  
Northumbrian Water  
Petrofac  
Quintain Estates & Dev  
Weir Group

## AIM Stocks

Domino's Pizza  
Glisten  
Majestic Wine

## Overseas Companies

Caterpillar Inc  
ExxonMobil  
Procter & Gamble  
Total

## Overseas Investment Trusts

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

## Two WAGs Don't Make A Summer

Writing this chronicle in the Andalucian foothills, surveying the great plains to Gibraltar, sipping Rioja with dear friends, gives me time to reflect on moments in one's life, which though momentous at the time, slip quickly into oblivion.

Since the last Newsletter we have had such moments in sport, politics and finance.

### Sport 'It is only a game'

- The healed metatarsal, followed by the childish thuggery of Rooney.
- The ecstasy and agony of Andy Murray against Roddick and Baghdatis.
- The 6 times champion jockey, Kieran Fallon winning the Irish Derby on Sunday - to be banned from riding on Monday while he is charged with 'alleged corruption in horse racing'

(Let it never be forgotten that these 3 are sporting giants who should be respected by us mere mortals.)

## **Politics** ‘A week in politics’

- a) The announcement that ‘the health service has had its best year ever’.
- b) The undignified sacking of our own Charles Clarke, followed by his own retribution.
- c) and to cap it all, the humiliation of poor old ‘Two WAGs Prescott’.

(I believe that these 3 events will be the final nails in New Labour’s coffin.)

## **Finance** ‘Sell in May and go away’

On 21<sup>st</sup> April 2006 the FTSE 100 rose to 6133.

Between 11<sup>th</sup> May 2006 and 22<sup>nd</sup> May 2006 it fell from 6042 to 5533.

On 1<sup>st</sup> July 2006 it stands at 5833.

‘Was that week in May in Stockmarkets momentous, or like other events in sport and politics, will it disappear into oblivion?’ *Discuss.*

## **That Week in May**

Quite simply there was a sea-change of policy in the US economy, from the old fiscal policies of Alan Greenspan, the former Chairman of the ‘US Federal Reserve Monetary Policy Committee’ who believed in:

- a) Low interest rates.
- b) Economic growth.
- c) At the expense of the worsening trade deficit.
- d) and therefore the threat of rising inflation.

To the new policies of the new Chairman Ben Bernanke, who together with ‘the Fed’ had woken up to the fact that:

- a) The US trade deficit is now out of control.
- b) Causing the \$ to then fall to \$1.90 to the £1, with scare mongering of \$2.00 to the £1.
- c) He is paranoid that a falling dollar will cause inflation.
- d) To prevent inflation taking off ‘the Fed’ has increased US base rates:

from 1% (a ridiculous level)  
to 5¼% (higher, but sustainable)

(I say ‘the Fed’, as the US is insular and has little notion of ‘trade deficits’ or ‘currency movements’.)

On top of the US economic policies, commodity prices have risen sharply due to demand from China where ‘demand is outstripping supply’.

Hedge Funds, whose performance has ‘drifted in the doldrums’ of stable Stockmarkets recently, have suddenly and spuriously jumped on the bandwagon of ‘doom and disaster’, TO GO SHORT blaming all the above facts of:

- a) The US trade deficit.
- b) A crashing US dollar.
- c) Rising inflation.
- d) Rising interest rates.
- e) Taking profits after good rises in Stockmarkets.
- f) Quoting the old saying ‘When the US sneezes then the rest of the World catches a cold’.

By Hedge Funds ‘going short’ this caused Global Markets to fall sharply during that May week and become very volatile.

And yet is the fall in the FTSE really justified?

I come back to my argument in the April Newsletter discussing:

‘To be or not to be? That is the question.’

concluding that the FTSE 100 did justify the level of 6000 ‘with cautious optimism’. Those arguments are exactly the same now making the FTSE 100 at 5833 even more justified:

FTSE 100 average PE’s down to	12.6
FTSE 100 average yields up to	3.3%
FTSE 100 corporate profits rising by over	10%
Dividends rising by over	8%
Dividend cover rising to	2.4 times
Inflation under control at approximately	3%
Bank base rates relatively low at	4½%

The Stockmarket now has very high liquidity from:

Special dividends  
Share buy backs  
Cash takeover bids

putting money back into Stockmarkets, all of which continue:

Special dividends/share buy backs    London Stock Exchange, Caledonia Investments, Candover, Whitbread, Vodafone, 3i etc

Takeover bids                                    BAA, Pilkington, AB Ports, BOC etc

### **In Conclusion**

It has always been Barratt & Cooke’s advice to clients to hold a balance of:

- 1) Property.
- 2) Cash/Gilts for absolute safety and liquidity (which proves the point in the ‘May shake out’).
- 3) A well spread balanced quality equity portfolio (for long term potential capital growth and rising income).
- 4) For those who can afford it, have some further ‘spice’ from smaller potential growth companies.

All our clients have this liquidity and spread and therefore none have been unduly nervous.

However, we are very aware that though Stockmarkets justify a FTSE 100 level of 6000, the ‘May shake out’ in Stockmarkets will cause ‘nervousness and uncertainty’ and there is nothing Stockmarkets hate more than ‘nervousness and uncertainty’. This will therefore make Stockmarkets volatile and fragile for the remaining summer months of 2006.

We have therefore been through all Advisory and Discretionary clients portfolios and only where applicable, we have advised clients to build up 'cash balances' from:

- a) Excessive gains on various stocks
- b) From takeovers, eg BAA
- c) From cash distributions, eg London Stock Exchange

to hold cash on deposit pending 'cherry picking' quality stocks at lower levels.

## World Stockmarkets

**Japan** has certainly started to stir on the back of economic boom in China. The Nikkei has fallen back from 17563 to 15505 and gives a good buying opportunity.

**US** Our preferred stocks of:

Procter & Gamble, ExxonMobil and Caterpillar

have all announced excellent figures and look good value, particularly with the lower value of the US \$.

**Australia** Due to its relative proximity to China we still like the leading mineral shares such as BHP Billiton (at a price). Don't believe any fanciful rumours on minor mining stocks - the 'old sardine cans' of the likes of *Metals Exploration* are raising their ugly heads again and this gives me the chance to quote from a recent Australian Newsletter sent to me by a very dear former pupil of Barratt & Cooke:

*Only in Australia could a man trapped down a mine for 14 days come up with the quote: 'From this point on my family comes first, roo shooting now comes second.'*

**Europe** Though Europe continues to be bogged down by regulation, there are still a few well performing funds, which investors should stay with.

**Emerging Markets** Await the 'May shake out' to stabilise before investing into speculative markets.

## Fixed Interest

Fixed interest yields are rising from the:

	<u>Yield</u> <u>Low 18/1/06</u>	to	<u>Yield</u> <u>Today 1/7/06</u>
Gilt	4.1%		4.8%
Eurobonds	5.1%		5.6%
Preference Shares	5.7% net		6.0% net

We still feel Fixed Interest yields too low and that interest rates will rise further - and therefore stay with short dated or index linked.

The day is getting closer to go longer dated - but not yet.

## **OTHER POINTS**

### **Barratt & Cooke Cash Deposits**

While Stockmarkets have been volatile, we have advised more clients than normal to hold 'cash deposits' pending investment into Equities in due course.

Barratt & Cooke now offer the Barratt & Cooke Client Deposit Account with Bank of Scotland paying:

½% below base rate (ie 4½% - ½% = 4.0% gross)  
with immediate access ready for investment.

### **Trust Taxation**

Brown's Budget of 'red hot socialism' on Trusts has gone too far, even for New Labour. There will be major changes in the 'July Finance Bill' and we shall report on these in the October Newsletter.

In the meantime, the creation of all new trusts should be put on hold, and in due course the purposes of all existing family trusts should be reviewed.

### **SIPPs**

'A Day' took place on the 6<sup>th</sup> April 2006. All SIPPs should be reviewed and where necessary 'ring fenced' etc.

Barratt & Cooke has formed an alliance with:

- a) An IFA Pension Advisor - for pension advice.
- b) A Pensioner Trustee - to hold the SIPPs.
- c) Together with Barratt & Cooke providing the Discretionary, Advisory, or self select Stockbroking services.

SIPPs are becoming one of Barratt & Cooke's fastest expanding departments.

### **ISA/PEP/Capital Gains**

Capital gains tax is becoming a greater and greater issue to Barratt & Cooke clients where the payment of some capital gains tax is becoming inevitable, particularly following the takeover of:

BAA, O<sub>2</sub>, AB Ports etc

and potential takeover one day of:

London Stock Exchange, BOC etc

As well as the reduction in large successful holdings of:

Greene King, Rio Tinto etc

and many corporate cash buy backs and demergers.

It is therefore essential for:

- a) Most clients to continue to add £7,000 to ISA each year while you can, which are totally free of capital gains tax.
- b) Clients who have 'allowable losses carried forward' should inform Barratt & Cooke, so that these losses can be used against gains.
- c) If capital gains tax is inevitable, then clients can purchase 'index linked gilts' as a reserve for future capital gains tax payments.

### **The London Stock Exchange**

This has now become the longest running 'soap opera' since the introduction of Coronation Street.

Nasdaq has acquired 25%.

The New York Stock Exchange and Euronext wish to merge.

Deutsche Börse still wishes to join the party.

OM (Sweden), the Italian Stock Exchange are 'wall flowers' ready to be picked.

The Japanese Stock Exchange, Chicago Mercantile are sharpening their teeth and The London Stock Exchange with Clara Furse at the helm, still plays 'hard to catch'.

The LSE has made a special cash payment of £2 per share and continues to trade well.

Await the next episode of this 'soap opera'.

### **Standard Life**

Standard Life will demutualise on Monday 10<sup>th</sup> July 2006.

For shareholders receiving Standard Life shares, it is important that they:

- a) Elect for a certificate - and inform Barratt & Cooke of the number of shares they hold for our records.
- b) Hold this certificate in their own name for a year (to receive the bonus).
- c) If they hold shares for a year then they can consider placing these into Barratt & Cooke Nominees, after the 1 for 20 bonus issue has been made.

### **Corporate Actions Since 5<sup>th</sup> April 2006**

Barratt & Cooke regret that due to so many corporate actions since the 5<sup>th</sup> April 2006 we have had to 'bombard' you with letters regarding the following corporate actions where appropriate:

<b>Takeovers</b>	BAA, Pilkington, Wyevale
<b>Special Dividend</b>	LSE, Scottish Power, Caledonia Investments, Whitbread, Intercontinental Hotels, Vodafone, Pennon
<b>Others</b>	Standard Life, Alliance Unichem, Alliance Trust, Second Alliance Trust

Clients must be kept informed on corporate actions beyond our control and for clients getting 'fed up' with our circulars (which some Advisory clients are) they should consider:

- a) Nominees, which deal with 'paperwork'.
- b) Discretion, which then deals with the decisions.

If you want more information on Nominees/Discretion then please contact your Advisor.

### **Thought For Today**

‘One must take the opportunity of a lifetime, during the lifetime of the opportunity.’

I firmly believe that a shake out during the summer months of 2006 could be such an opportunity.

**C W L Barratt**  
**1<sup>st</sup> July 2006**

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