

BARRATT & COOKE

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	<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>1/7/06</u>	<u>5/10/06</u>	<u>1/1/07</u>	<u>5/4/07</u>	<u>1/7/07</u>
FTSE 100	6930	6222	5217	3940	4477	4814	5618	5833	6005	6220	6397	6608
FTSE All Share	3242	2983	2524	1894	2207	2411	2847	2968	3076	3221	3332	3404
Dow Jones (US)	11452	10786	10022	8342	10454	10783	10717	11150	11867	12463	12560	13408
S&P 500 (US)	1469	1320	1148	880	1112	1212	1248	1270	1353	1418	1444	1503
Nikkei Dow (Japan)	18934	13785	10543	8579	10677	11489	16111	15505	16436	17225	17491	18138

Leading Growth Equities

BG Group
BSkyB
Cadbury Schweppes
Caledonia Investments
Diageo
Experian Group
Johnson Matthey
Next
Prudential
Reckitt Benckiser
Smiths Group
Tesco

Leading Income Equities

Aviva
Barclays
BP
BT Group
GlaxoSmithKline
Kingfisher
Lloyds TSB
Royal Bank of Scotland
United Utilities

Smaller Companies

Biffa
Close Brothers
Cobham
Forth Ports
G4S
Halma
Hikma Pharmaceuticals
Mothercare
Northumbrian Water
Quintain Estates
VT Group

Overseas Companies

ExxonMobil
LVMH
Procter & Gamble
SAB Miller
Woodside

AIM Stocks

Cape
Domino's Pizza
Lok'n Store
Majestic Wine

Overseas Funds

Baillie Gifford Japan
JPM American
JPM Indian
New Star European Growth
Pacific Horizon

Vanity, Vanity, Vanity, All is Vanity

As I write this Chronicle, Tony Blair is standing up in "The House" making his retirement speech, and it is therefore a perfect time to reflect on his 10 years in office.

We can all remember that sunny day in May 1997, when the young Tony Blair was elected with a landslide victory of 179 to bring in the new political force of "New Labour". In one fell swoop both Thatcherism (toned down by Major), and "The Old Labour Left", had been thrown out of the window, and a new "middle of the road party" had been created.

Blair was the youngest Prime Minister since Lord Liverpool in 1812, and with the flag flying masses welcoming in the new "great white hope", he promised that he would "turn the country around". Little did we all suspect that this was the "hype", the "spin", and the "theatre", that we would experience over the next 10 years. (The spin doctors had not found Cherie yet, as she welcomed the nation the next morning blairy eyed and in her nightdress – sadly her dress sense never improved).

Let nobody take it away from Blair, that at that time he did unite his party and indeed most of the nation, and until his own "Sword of Damocles" Iraq, remained a strong Prime Minister for 9 of his 10 years, sadly the last being as a lame duck hanging onto power. Political stability; economic success; his passionate views on "The Climate"; the development of science; and indeed his greatest success, "peace in Northern Ireland", (which was started by Major); will all have their lasting effects.

But it was the painting over the cracks that will be the lasting epilogue of Blair. Despite huge sums of money and huge amounts of spin, there was little obvious improvement in “*Education, Education, Education*”; in the Health Service; or in crime and punishment.

The economy strengthened with the prudence of the Chancellor of the Exchequer who displayed one stroke of genius by splitting the Bank of England away from the Government. But following this excellent start, Brown could not resist his “Old Labour” roots of “*Spend, Spend, Spend*” and “*Tax, Tax, Tax*” to little effect except inflation rising much higher than anticipated; with interest rates rising; house prices out of control and certainly out of the reach of new buyers; and most of Corporate UK Ltd being taken over by foreigners or venture capitalists. Many of us have done well financially under “Blair”, but for how long, and are we really better off?

Other than his unfortunate list of ministers: “Two Jags Prescott”; “Dunkett Plunkett”; and his previous Minister of Agriculture Margaret Beckett who tried to destroy British agriculture; Blair’s biggest misjudgement of character and ability was to put all his trust and faith in Bush, who most US citizens find an embarrassment. I have no doubt he was misinformed on “weapons of mass destruction” and though I was never for war in Iraq, such personal opinions are easy to make from this chair – they are not so easy when such decisions are “real”.

He found it easier to “ban” or undermine, than to create any better alternative, and my readers should witness the effects on:

- a) The House of Lords
- b) The devolution of Scotland and Wales
- c) He has made a mockery of The Honours system
- d) And banning smoking in public places is Political Correctness gone mad (even though I hate smoking).

But what caps it all, was his farewell tour of the world parading with the likes of Colonel Gaddafi, Arnold Schwarzenegger and The Pope (could 3 people possibly be more different, but Tony is a friend of everybody).

I am sorry, but it brings back those famous words,

“Vanity, Vanity, Vanity, All is Vanity”.

But where I really feel betrayed by Blair was that I believed as a young Labour Prime Minister he would be able to see and deal with the madness of modern day regulation and compliance; of modern day political correctness; and the Nanny State. Instead, he endorsed and thrived upon it all (out of political correctness I shall say nothing, but just ask my readers to listen to the view of his new friend the Pope – who had no hesitation in airing such views).

And so we say goodbye to Tony Blair, a basically decent man, a nice guy, who will go down in history as one of the youngest, longest serving Prime Ministers, who got us into the Iraq debacle but not out of it, and remembered for very little else.

WE SHALL SEE WHAT FOLLOWS.

Interest Rates

The Government rightly considers the greatest evil in an economy is roaring inflation, and have therefore set a target to the Bank of England to make sure:

“inflation does not exceed 1% above the target rate of inflation of 2%”

(in this instance inflation is CPI “Con Price Index” and not RPI “Real Price Index”).

With inflation rising above 2%, then the Bank of England uses “Interest Rates” to rectify inflation.

By increasing interest rates, this reduces consumer borrowing; which in turn reduces consumer spending; which in turn reduces the economy; and in turn reduces inflation.

The Bank of England has therefore gradually increased “Bank Base Rate” from 3¾% to 5½%, and though house price inflation has started to slow down, it takes a very long time for interest rates to work through an economy and thereby change the rate of inflation.

Therefore, by changing interest rates the Bank of England can:

- a) Reduce or increase “consumer borrowing”
- b) Thereby reducing or increasing inflation
- c) Thereby reducing an overheated economy, or “stoking up” a weak economy.

This is precisely what the present changes in “interest rates” will endeavour to achieve, and we are now seeing the original effect of interest rate rises in:

- a) A slight reduction in house price inflation
- b) But also an effect on consumer demand.

Witness recent cautionary statements from:

Tesco (supermarkets)
Carpetright (household goods)
Pendragon (motor cars)

It is this balanced “fine tuning” of interest rates that is the Bank of England’s tool to:

- a) Keep inflation under control
- b) While keeping the corporate economy on an even keel

and with this very fine tuning we do expect interest rates to rise still further, probably peaking at 6%, before gradually drifting back to 5%, but no lower for sometime.

As a boy, I was always taught that Base Rate should be approximately 2% - 3% above inflation – and therefore about 6% is right now, drifting back to 5% in due course. There is no macro-economics in these figures, just simple common sense.

Fixed Interest Stocks

Movements in “Bank Base Rate” have a profound effect on the price of

Fixed Interest Stocks (BONDS)

as these reflect “present” and “future” interest rates.

Teenage scribblers have been writing about “ A Bond Crisis”, but there is no crisis, it is just that:-

- a) Interest Rates have been too low for too long
- b) Gilt yields have not reflected the true level of interest rates (as we have been stating over the past 4 years - i.e. Bonds were over valued)

We enclose a very interesting chart showing Interest Rates/Bond Prices/Bond Yields. These show:

- 1) Bank Base Rates rising from low to today’s levels:

	<u>Base Rate</u>		<u>Base Rate</u>
	<u>Low</u>	<u>Date</u>	<u>Today 1/7/2007</u>
US	1%	July 2003	5.25%
Europe	2%	July 2003	4%
UK	3.75%	July 2003	5.5%

- 2) UK Bond Yields rising from lows:

	<u>Low Yield</u>	<u>Date</u>	<u>1/7/2007</u>
Medium Gilts	4.0%	July 2003	5.7%
Long Gilts	4.9%	July 2003	5.1%
Eurobonds	5.1%	July 2003	6.8%
Preference Shares	7.2%	Dec 2005	8% (equivalent gross)

For the first time in 5 years, fixed interest stocks are beginning to look attractive with:

	<u>Present</u>	<u>Definitely</u>	<u>Outstanding</u>
	<u>Redemption Yields</u>	<u>Attractive</u>	
Medium Gilts	5.7%	6.0%	6.5%
Eurobonds	6.8%	7.0%	7.5%
Preference	8% gross	8.0%	9.0%

(long Gilts are not attractive on redemption yields of 5.1%)

We are getting to the stage of

- a) Advising Private Clients to switch from “short” to “medium dated Stock”
- b) Advising Clients who need more income, especially Charities and Pension Funds to switch from “Short” and “Index Linked” into “Higher income medium dated stock”

and we shall contact all clients regarding this at the appropriate time.

Again the old rules of logic still apply

“when interest rates are low stay short - when interest rates are high go long”.

Equity Markets

It has always been right to invest in long term quality equities, to share in rising profits and rising dividends.

On pure fundamentals UK Equities still look reasonable value with the FTSE 100 at 6600 and the average

PE	12.3 x
Yield	2.9% Net
Dividend cover	2.8 x

with profits and dividends growing well above the present rate of inflation.

There is potentially outstanding value in the top10 Stocks in the FTSE where the

PE	11.8 x
Yield	3.9% Net
Cover	2.2 x

Though stocks are looking higher in the FTSE 250 index

PE	18.0 x
Yield	2.0% Net
Cover	2.7 x

Equity markets are being “stoked up” by the rush of take-over bids, both actual and rumoured, from the Cash Rich and Asset Hungry Venture Capitalists and Hedge Funds. Bids naturally cause share prices to rise, and not only is it bid values, but “Cash” has to be reinvested into Stockmarkets causing further rises.

One only needs to look at the Corporate Activity page of this Newsletter to understand the values of deals taking place.

But:

- 1) Interest rates are rising which must mean a slow down in Corporate Profitability due to
 - (a) Finance charges being higher
 - (b) Consumer spending slowing down
(Witness: Tesco, Carpetright, Pendragon)
- 2) As interest rates rise there will be bankruptcies as is beginning to be shown in the
 - (a) US Sub-prime mortgage crisis (Bear Stearns Property Hedge Fund)
 - (b) Losses on collateralised mortgage obligations (CMOs)
- 3) I am one of the few stockbrokers old enough to remember the “*Slater Walker Debacle*” of the late 1970’s

At that time Jim Slater was considered an absolute genius with the whole of the UK Secondary Banking / Property Market following him. Suddenly, after failing to merge with the Investment Bank, HILL SAMUEL, Jim Slater was shown up for what he was, an “Asset Stripper, and Share Speculator”.

Slater Walker’s collapse brought down the whole of UK’s Secondary Banking/ Property Market with The Bank of England creating a “lifeboat fund” to prevent a total UK Banking/Property collapse.

Though I certainly do not feel the present take-over activity has reached the Slater Walker position yet, I cannot help but feel that with all the “artificial financial instruments” now being used by Hedge Funds and Venture Capitalists to take over some of the great names of British Industry, there is an element of UK Stockmarkets which is becoming very frothy and over-heated.

Advice

Stick to a well spread list of top quality well managed companies for long term growth, as in the past.

But keep some “powder dry” should Stockmarkets fall.

This is why we have advised the majority of Discretionary and Advisory clients to hold

- (a) A proportion in absolutely safe Gilts
- (b) A proportion in absolutely safe cash deposits

pending reinvestment as and when Stockmarkets stabilise, or indeed fall.

Overseas Markets

US US Markets have slipped back from an all time high, but remain attractive on US\$ considerations. We continue to like EXXON and SAB MILLER (which has significant exposure in the US).

Europe Selected funds continue to perform well and we have added to our suggested list:

NEW STAR EUROPEAN GROWTH

Far East/Emerging Markets Remains speculative but well spread Investment Trusts such as

PACIFIC HORIZON

are worth a “toe in the water”.

Australia We have added one more individual Australian Stock:

WOODSIDE

Woodside has huge reserves of oil and gas in the Timor Sea off Northern Australia. Australia is a politically stable area and as the demand for oil increases, we feel that the world oil majors may need to build up reserves in such a politically stable area, making Woodside a merger/take-over candidate.

(Please note, this is for Nominee clients only)

CORPORATE ACTIONS

Since the 1st January 2007, there has been much corporate activity, and the whole of UK Industry is rumoured to be up for grabs by Hedge Funds, and Venture Capitalists.

Takeover Bids and Mergers Completed

AWG
Scottish Power
Corus
Countrywide

Takeover Bids and Mergers - in process or approaches announced

ICI
Hanson
Dobbies Garden Centres
Nichols
EMI
Reuters
Alliance Boots

Special Dividends, Rights, Demergers, Schemes etc.

Whitbread
Cairn Energy
United Business Media
Meggitt
Drax
Smiths Group
Kelda

The “longest running corporate saga in history” The London Stock Exchange is now bidding for the Italian Bourse.

REITs (Real Estate Investment Trusts)

We wrote an article on REITs in our January 2007 Newsletter. REITs are really “Property Investment Trusts”, which will pay dividends gross of Tax, and the REITs will not pay capital gains tax on property transactions.

REITs will be an excellent investment for “Gross Funds” (e.g. Charities, PEPs/ISAs, Pension Funds) in due course, but in our January Newsletter we warned clients not to invest in REITs while

- 1) Commercial and Residential property is so high
- 2) Property Companies will have conversion expenses.

This advice to delay purchasing REITs has been absolutely correct so far as leading Property Company Share prices have fallen. However, one day REITs will become attractive and we shall advise appropriate clients to purchase REITs at that time.

Compliance - MIFID

Some clients may be aware that as of 1st November 2007, all financial organisations will have to comply with the new European Legislation known as MIFID (Markets in Financial Instruments Directive). We will write to clients in the Autumn detailing any changes that need to be made. At this stage we are confident that as the majority of changes will be internal, clients will not be affected too much and we will endeavour to keep any changes and paperwork to a minimum.

Health Warning

Some of our clients have been approached by unsolicited individuals and companies known as “Boiler Rooms”. These organisations will offer shares or tip stocks for their own financial gain and will NOT act in the interest of the client. WE STRONGLY URGE ALL OUR CLIENTS TO IGNORE ANY SUCH CALL AND NEVER DIVULGE PERSONAL DETAILS TO THEM.

Barratt & Cooke

It is with regret that we say goodbye to Andrew Burtenshaw who joined us in October 2000, having been Head of Gilts at Norwich Union, but now wishes to spend more time with his family.

Andrew has been an excellent, respected and much liked Private Client Advisor to many clients. Andrew and I went through his whole list of clients to endeavour to match the right client with the right new advisor.

Andrew’s clients will therefore be hearing from their new advisor in due course, but if for any reason you wish to change your advisor please let Charles Barratt know and we shall arrange this. We wish clients to have total confidence in, and be in harmony with, their new advisor and quite understand if any changes are requested at this stage.

By the same token, I am delighted that Will Mellor (26) has now joined the Advisory Team and as well as having his own portfolio of clients, will be working as Charles Barratt’s Personal Assistant.

Finally, I am personally thrilled that William Barratt (28) has decided to join Barratt & Cooke after 5 years stockbroking in London. He will begin working in the Dealing Department with the Dealing Manager Miles Piercy and will also act as “Business Development Manager” working very closely with Martin Warren.

2007 Predictions

Many of my readers enjoyed some fun with my New Year Crystal Ball - particularly when the frivolous things go wrong but,

- 1) No clients lost money on Teofilo in the Derby (he was withdrawn lame, but would have won it if he had been fit - proving “backing horses is a mugs game”)
- 2) Sadly the Royal Romance is “Officially Off” - but gosh I was proud to be British watching the Princes at the Concert.
- 3) Gordon Brown has crept into the Prime Minister’s seat with all the humility of Dickens’ Uriah Heep.
- 4) The FTSE 100 has crept over the 6600 level.
- 5) Interest Rates have continued to rise above the 5¼% level.

Thought for Today

Barratt & Cooke have a very experienced long term team of Advisors and Staff. With the younger team of Miles Piercy (Dealing), William Barratt (Business Development) and Will Mellor (Advisory) joining the “Cabinet”, Barratt & Cooke is preparing to carry on its “ethos” of a highly efficient, personal, private client stockbroking firm for at least another generation into the future. William Barratt and Will Mellor will be writing articles in the next Newsletter which will certainly be evidence of time moving on.

C W L Barratt
1st July 2007

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