

- GREECE
- UK EQUITIES
- FIXED INTEREST
- THE EURO

	1/1/08	1/1/09	1/1/10	5/4/10	1/7/10	5/10/10	1/1/11	5/4/11	1/7/11
FTSE 100	6457	4434	5403	5744	4917	5636	5900	6007	5946
FTSE All Share	3287	2209	2751	2944	2543	2912	3063	3117	3097
Dow Jones (US)	13265	8776	10428	10927	9774	10945	11578	12394	12414
S&P 500 (US)	1468	903	1115	1178	1031	1161	1258	1333	1321
Nikkei 225 (Japan)	15308	8860	10546	11286	9383	9519	10229	9616	9816
APCIMS Balanced	3024	2416	2724	2881	2636	2864	2978	2997	3006

Leading Growth Equities

BHP Billiton
BG Group
HSBC
InterCont. Hotels
Petrofac
Reckitt Benckiser
Standard Chartered
Tesco
Unilever
Xstrata

Higher Yielding Equities

AstraZeneca
Aviva
GlaxoSmithKline
Land Securities
National Grid
Reed Elsevier
Royal Dutch Shell
J Sainsbury
United Utilities
Vodafone Group

Smaller Companies

Cookson
Domino's Pizza
EnQuest
Genus
Greene King
Greggs
London & Stamford
Telecity

Overseas Companies

BASF
Becton Dickinson
ConocoPhillips
Johnson & Johnson
Microsoft
Nestlé
Roche
Syngenta

Investment Trusts/ Unit Trusts & Overseas Funds

BlackRock Latin American IT
Henderson TR Pacific IT
JPM Indian Inv Trust
Monks Inv Trust
Polar Capital Tech Trust
Templeton Emerging IT

A GREEK TRAGEDY

I start this chronicle as I ended my last, 'Three cheers for Will and Kate'. They and the Middletons did us proud, lifting our spirits and making us proud to be British, with yet another iconic memory of the bridesmaids following the royal couple into Westminster Abbey.

Never has the Derby been so eagerly anticipated, with the Queen's colt, Carlton House, hoping to give The Duke of Edinburgh's 90th birthday its final celebration. Fairytales just don't happen, and after losing a shoe, he finished a creditable 3rd. Bruce Forsyth and Henry Cecil were knighted and Rory McIlroy has booked his audience at the Palace. The 'heavens opened' on the day that 'the drought' became official and England has returned to a green and pleasant land. Let's celebrate one last time, "God save the Queen."

I wish the rest of the world had been as happy. Bin Laden assassinated in his palace situated in Pakistan's Virginia Water; Colonel Gaddafi still hanging on by his finger tips despite constant bombings; atrocities in Afghanistan; and yet another Greek tragedy.

Despite the agony and ecstasy of the real world, stockmarkets have never been so boring, just quietly drifting into the 'silly season' of July and August, awaiting 'St Leger Day' the 10th September.

GREECE

I remember my first 'economics lesson'.

"If an economist says he knows what will happen, then he is a liar."

A few years ago leading economists and industrialists all wanted us to rush headlong into the euro. Thank God for a few 'crackpots' called 'Euro sceptics' who said 'hold on' and against all odds won the day, keeping the UK out of the Eurozone.

In hindsight it must have been crazy to expect sixteen European countries with economies so diverse as Germany and France to Greece, Portugal and Ireland, not to mention Italy, to use one currency - they cannot even agree on the Eurovision Song Contest!

With euros thrown at them like confetti, these minor economies have spent vast sums of money on capital projects, whereby the Greek debt represents an unsustainable 150% of its own gross domestic product. This huge debt is like a millstone around its economy, which will either sink, or have to be rescued by yet more loans from France and Germany, or even worse, by China!

With more loans the conditions will become tighter, with taxation rising, state assets being sold, banks extending the length of loans and austerity for years to come.

The fear is that if Greece defaults, then it will be closely followed by Portugal and Ireland, let alone the rest of the Eurozone, and then what?

I have no idea what will happen, but I have no doubt that Europe will sort itself out and move on. It is just one more crisis in the financial history of the world, and we all seem to get over them in the end.

Why can't Harvard educated economists learn from Dickens' Mr Micawber:

Annual income twenty pounds, annual expenditure nineteen pounds, nineteen shillings, six pence, result happiness.

Annual income twenty pounds, annual expenditure twenty pounds and six pence, result misery.

UK EQUITY MARKETS

Despite the worries in the Eurozone, the majority of the UK's leading international companies are actually performing very well, supported by growth in Emerging Economies and the Far East (China and India).

Profits are rising, dividends are rising and the FTSE 100 continues to fluctuate between 5500 and 6200 (today it stands at 5946).

However, the domestic economy is beginning to reflect the excesses of the final years of New Labour's champagne economy and no more so than in the retail sector.

Retail

In our last Newsletter we stated that one day it would be right to buy retailers, but not yet. Within the last month we have seen:

Habitat and Homeform (Dolphin Bathrooms and Moben Kitchens) go into administration, with Jane Norman following closely behind.

Dixons (Currys and PC World) announcing a £224m loss.

Major reorganisations taking place at Kesa (Comet), HMV, Clinton Cards, Thorntons, Game Group and JJB Sports.

These disasters are largely due to 3 factors:

- 1) Internet shopping changing a complete sector.
- 2) Over expansion and debt in those champagne years.
- 3) Consumers becoming extremely cautious with higher taxation, the threat of redundancy and greater expenditure on food and fuel.

This is why we still prefer 'essential retail', ie the supermarkets.

House Builders

Likewise, house builders are still being affected by the lack of:

consumer confidence
and mortgage capacity

and one day this will change around, but not yet.

Mining

On great hype Glencore floated at 530p and has fallen to 491p.

With a market capitalisation in excess of £35bn, it entered the FTSE 100 on listing.

We prefer:

Xstrata

in which Glencore has a 34% stake, which could lead to a bid for Xstrata one day.

Industrial

With relatively low sterling and advanced technological skills, UK industrial companies have started to 'wake up', which has been proved by increasing exports and increasing earnings, leading to an increase in dividends.

Oils

We have recently reviewed the oil sector, where the price of a barrel of oil has fallen back from US \$127 to US \$112 (having fallen 7.4% on 23rd June 2011 as the International Energy Agency announced it would release 60m barrels from reserves to offset Libyan shortfalls).

However we still remain very optimistic on the oil sector.

After the disasters of Deepwater Horizon, failed Russian deals and weak management, where appropriate we have advised clients to switch out of BP into other oil shares.

However, with the FTSE 100 below 6000 points, we still feel leading UK equities offer reasonable value:

P/E	11.3x
Yield	3.1%
Dividend cover	2.9x

though we continue to hold some 'cash available for investment', looking to invest this if stockmarkets slip back further during the quiet summer months.

FIXED INTEREST

UK base rates still remain at 0.5%, the lowest rate since the Bank of England began in 1694 (over 300 years ago). This is a totally artificial, political rate, to let the European/UK Banks escape from the 2008/2009 banking crisis that still lingers on.

Because of this medium dated conventional Gilts only yield 3.2% to redemption.

We have preferred:

Index Linked Gilts

which have risen with RPI. RPI now stands at 5.2%, while CPI stands at 4.5% compared with the UK Government's target of 2.0%. We feel that RPI will remain well above Government predictions, with the high price of oil and food (though oil has recently fallen back, as has wheat from £200 a tonne to £170).

Investment Grade Eurobonds are paying interest yields of approximately 5% (whilst the gross redemption yields are lower). Though relatively high in price, they do provide reasonable income.

Preference Shares give high net yields of 7.5%, but are considerably riskier than other Fixed Interest Stocks.

It is a fact that Index Linked Stocks have performed well with rising inflation (which will slip back one day).

We have begun to look seriously at various Index Linked Stocks, where we might decide the individual stocks have risen too high and therefore take the tax free profit while 'ahead of the game', to reinvest into very short dated Conventional Gilts for absolute safety.

GLOBAL ISSUES (BY WILLIAM BARRATT)

Why is the euro so strong?

A month or so ago I changed some sterling into euros at a very 'reputable' UK bank. On giving them £300 I was presented with just €314. I am sure I am not the only one who has thought "is that all?"

Greece is going bust, with Portugal, Ireland and Spain not far behind. And yet the single currency is almost at parity with the 'Great' British pound. I always thought a euro was meant to cost 80p or to put it in currency terms, a euro/sterling rate of 1.25. How can this be the case?

Today the cash rate stands at: 1.04

whilst the business rate is: 1.10

1) Some countries are not 'duds'

Whilst Europe carries the aforementioned laggards, it does include heavyweights such as Germany and France. Germany is at the forefront of industry and manufacturing hence it is a substantial net exporter, bringing in cash to underpin its economy and prop up its neighbours. It is a cliché example, but I do not need to tell you that BMW, Mercedes, Volkswagen, and Rolls Royce are all German manufactured.

To add in sult to injury, it looks highly likely that the train manufacturer Bombardier based in Derby is to lose a government contract for manufacturing trains to the German giant Siemens on the basis of the OECD Directive on public procurement. This will mean that whilst 100% of the trains on the track in France are French built and 90% of the trains running in Germany are German built, not one in the UK will be made in Britain. Call me cynical, but whilst the UK loses yet more jobs, at least your train might be on time.

2) A safe haven for emerging market currencies

Emerging market economies such as China, India and Brazil are still highly correlated to the US, not only from a growth perspective (reliant on exporting to the US consumer), but also tracking the strength of the US dollar. The Chinese hold enormous foreign currency reserves, with a very large proportion in the US dollar, the traditional world reserve currency.

With recent developments in the US (Government debt of approximately 14 trillion US dollars making the UK problem look like a drop in the ocean), China has increasingly sought to hedge its exposure through buying other currencies with the euro being particularly favoured. This satisfies two ends for the Chinese:

- It diversifies the risks associated with being pegged to one currency.
- It helps support another market (the Eurozone) with which it does significant trade.

The Chinese do not want to be held to ransom by anyone, least of all the US.

3) Is sterling weak, rather than the euros strong?

Having been in existence for over a decade, has the European currency found its watermark at almost parity versus sterling and are we wrong to expect more euros for our pound?

With the concerns of relatively weak economic growth, high inflation and a wide budget deficit in addition to government spending cuts, the outlook for the UK economy is uncertain. At the same time, interest rates in the UK appear likely to remain at historic lows in the near term, while the European Central Bank has started to increase rates. Both of these factors have contributed to the weakness of sterling.

Conclusion

The Euro has been strong, but this has been largely due to the weakness of sterling. Indeed, in comparison to other developed economy currencies, both the euro and sterling have been weak. This is particularly the case against the Australian dollar and the Swiss franc, but not the US dollar (which faces its own problems to rival those of the UK and Eurozone).

The weakness of the pound concerns us as we travel overseas as everything costs more; however, this benefits the majority of UK companies as over 70% of FTSE 100 earnings are derived from overseas (without getting too technical, when reported back in sterling terms these businesses get more pounds for their euros - hence the weak currency boosts corporate earnings in sterling terms).

Next time you are in France and you get the bill for breakfast and you feel like saying to the waiter "excuse me sir it was only a cup of coffee and a croissant not a full steak and bottle of wine" just think of the poor American who thinks he has just purchased a second home.

CORPORATE ACTIONS

Mergers and acquisitions (M&A) have virtually dried up since 5th April 2011.

It is the 'Infrastructure Funds' that have been showing the most activity with:

Arcus European Infrastructure Fund

taking over Forth Ports at 1630p.

Cheung Kong Infrastructure Holdings has now announced that it is in early discussions to take over:

Northumbrian Water

The shares have risen from a 2011 low of 293p, to today's 416p and we shall keep all shareholders informed as to the action that should be taken.

It has also been announced that the proposed merger of The London Stock Exchange (LSE) with The Toronto Stock Exchange (TMX) has failed. This now makes The London Stock Exchange a takeover target itself, and we shall keep all shareholders informed.

There are still ongoing takeover/merger discussions:

News Corp: BSkyB
SAB Miller: Fosters

COMPLIANCE

Following criticism of the FSA after the Banking crisis of 2008/2009, for their 'lighter touch' approach to regulation, the FSA decided to implement a 'more intrusive' style of regulation. As a result they have started to focus on one point of compliance regulation at a time, along with the whole 'rule book'.

Over recent months they have focused on:

KYC Know Your Client
TCF Treat Your Client Fairly

The next subject which will become a household word shortly is:

Suitability Demonstrating our investment advice is appropriate taking into account the risk tolerance and objectives of a client, amongst other things.

Currently we have categorised all client portfolios into one of the following:

Low risk
Medium risk
High risk

We are now having to define these categories more clearly and will therefore be increasing the portfolio categories to:

Low risk
Moderate risk
Medium risk
Medium high risk
High risk

We shall shortly write to all clients redefining their 'category of risk'.

Although this will require yet another form to fill in, under compliance and FSA requirements there is no option. However, under the present stockmarket situation this is indeed sensible regulation.

CONCLUSION

With a well balanced Barratt & Cooke portfolio, book up a Greek cruise and relax.

We shall be watching to invest part of any cash balance available for investment, if an appropriate investment opportunity arises on weakness during the 'silly season' (July and August). Stockmarkets should become more interesting in September, they always do.

For those staying at home, watch out for Rory McIlroy in 'The Open' at St Georges and you might even see me following him.

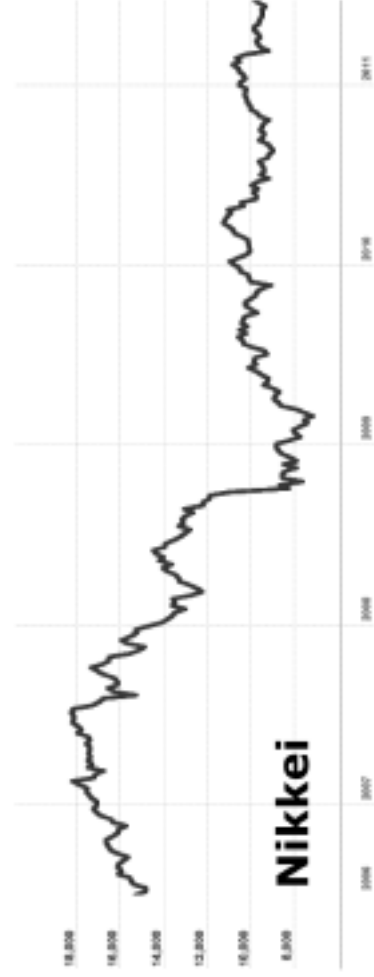
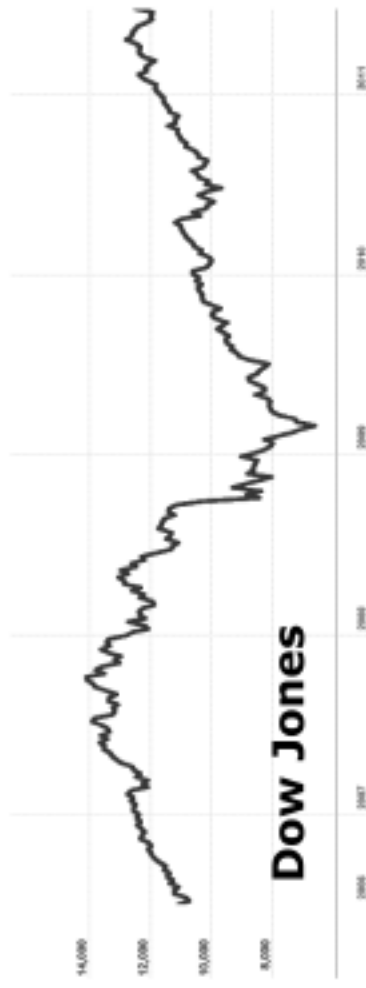
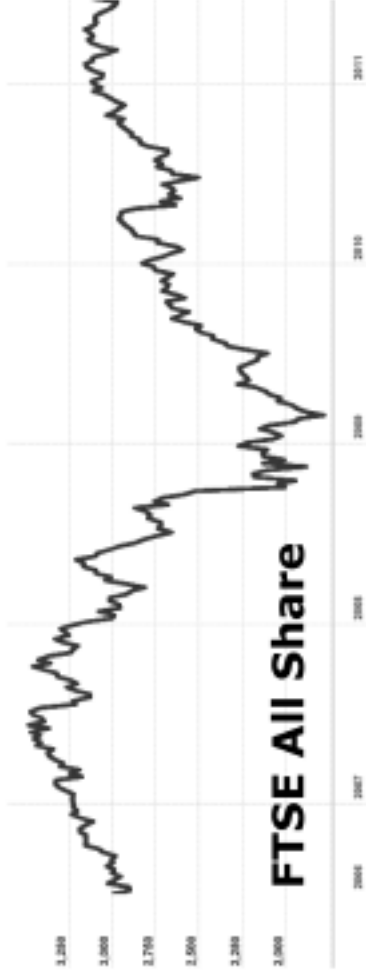
C W L Barratt
1st July 2011

Thought For The Day

A proportion of the euro 'confetti' handed to the Greeks at its inception (1999) was used to build the infrastructure for their Olympic Games. Let's hope the UK fares better 10 years from now.

With tickets to the 'High Dive Final', I just hope they have finished the swimming pool and the hosepipe ban is lifted in time to fill it (come on Tom Daley).

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