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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>5/10/03</u>	<u>1/1/04</u>	<u>5/4/04</u>	<u>1/7/04</u>	<u>05/10/04</u>
FTSE 100	4118	5136	5882	6930	6222	5217	3940	4274	4477	4481	4464	4707
FTSE All Share	2014	2411	2674	3242	2983	2524	1894	2111	2207	2240	2229	2335
Nasdaq (US)	1280	1580	2192	4131	2470	1950	1335	1881	2003	2079	2048	1956
Dow Jones (US)	6448	7915	9181	11452	10786	10022	8342	9572	10454	10558	10435	10178
Nikkei Dow (Japan)	19361	15256	13842	18934	13785	10543	8579	10709	10677	11958	11859	11282

Companies

With Local

Connections

Overseas

Reasonable Yield FTSE 100 Equities

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

Diageo

Growth FTSE 100 Equities

Assoc. British Foods
BP
Bunzl
Tesco
Royal Bank of Scot.
Centrica
Wm Morrison
Smith & Nephew

Reckitt Benckiser
GUS
BHP Billiton
Next

Stocks Outside FTSE 100

Aga Foodservice
Cobham
Halma
RAC
Carphone Warehouse
Quintain Estates & Dev.
Northgate Inf. Solutions
Wolverhampton &
Dudley
Tate & Lyle
PZ Cussons
Laird Group
Meggitt Group

GWR
Greene King
AB Ports

Exxon Mobil
Procter & Gamble
Pfizer
UBS
Johnson & Johnson

Election Fever

What a wonderful way to end the wettest summer in living memory, with Kelly Holmes' double Olympic Gold, Matthew Pincent's 4th Rowing Gold, and Colin Montgomery's winning putt for the Ryder Cup on US soil (so satisfying), while watching Batman on the portals of Buckingham Palace.

On top of this the FTSE 100 stands at a 27 month high of 4707; interest rates appear to be peaking at around 5%; the party political conferences are out of the way; and for the next few weeks we can indulge ourselves enjoying the changing colours of autumn.

But enjoy it while we can, September/October/November are strange months in Stockmarkets, where 'the unknown' so often raises its ugly head. September 11th, Black Monday, the hurricane in 1987, etc, etc and then on 2nd November 2004 we shall have 'the mother of all battles':

'Gun happy Bush against the creepy lightweight Kerry'

where I honestly believe both candidates are so ghastly that the election of either will make no difference to US Stockmarkets.

Travelling from Seattle (the home of Microsoft, Amazon, Boeing and Starbucks Coffee) to Wyoming (the home of Buffalo Bill) in August I was surprised by two things. Firstly, to a man, the electorate were 'anti Bush', always stating "Anybody bar Bush", which makes me feel that the US election is certainly not a foregone conclusion. Secondly, the dichotomies of the American culture, which we shall see on election night. On the one hand there will be sugar, glitter and razzmatazz and on the other hand we shall be reminded of the US Fourth Amendment: 'The right to bear arms'.

It does worry me that either Bush or Kerry will become the most powerful man in the world, in a country that still carries guns, while Bush's home state still has capital punishment.

We shall have to wait until May 2005 to establish whether our Mr Blair will be leading us for the next five years. I suspect his Labour supporters:

- a) Will not like the arrogance of the 5 year leadership statement.
- b) Will not like the £3,500,000 retirement home (bought at the peak of the market).
- c) Will never forgive him regarding the statement '45 minutes before weapons of mass destruction'
- d) and my 'countryside clients' will never forgive him for the wettest harvest in living memory.

'The pendulum' could indeed swing against all the odds and Michael Howard could be Prime Minister from the only electable opposition.

We shall see - what a fascinating winter we are in for (yawn yawn).

THE ECONOMY

As stated I really do not believe that either the US or UK 'Presidential Elections' will have a profound affect on Stockmarkets.

However, there are very profound fundamentals taking place in world economies at the moment:

- 1) Interest rates in the UK.
- 2) The trade deficit in the US.
- 3) Oil and commodity prices due to Iraq and the industrial boom in China.

Interest Rates in the UK

Low interest rates have meant low mortgage rates, which in turn has pushed house prices too high.

To slow down the heat in the economy caused by higher house prices, the Government (or to be correct the Bank of England) has increased bank base rates from 3½% to 4¾%.

This rise in interest rates from 3½% to 4¾% has had a dramatic affect on house prices which highlights the following points:

- 1) In the short term base rates are likely to peak at 5%, but could then rise again in due course?
- 2) The fragility of the housing market. Our 'nation of gamblers', are over-g geared on property, believing it to be a one way bet.

I am very surprised that such a relatively small movement in interest rates is having such a dramatic affect - it just goes to show the *fragility* that exists in house prices. A base rate of 4¾% is not high historically.

HOWEVER, THERE IS NO DOUBT THAT THE UK ECONOMY IS IN GOOD SHAPE, with the one exception, that Brown cannot 'balance his books' between borrowing/taxation and expenditure. As he will not cut expenditure, Labour taxation must rise.

The Trade Deficit in the US

The US Government appears to be totally oblivious of the huge trade deficit which is slowly becoming 'out of control':

Unemployment is rising.
Markets are in a downward curve.
The ongoing Iraqi War needs to be paid for.

My financier friend, with whom I travelled the States in August, is extremely worried that:

'The US will sneeze, which will give the rest of the world a cold'.

Oil and Commodity Prices

Due to the effect of Iraq, oil prices are now US \$50 a barrel.

Due to the industrial boom in China, commodity prices have risen by up to 40% this year.

WHERE DOES THIS LEAVE STOCKMARKETS?

Interest Rates in the UK

We believe will peak at around 5% in the short term.

We believe that money that would have been invested in property or Hedge Funds will now be diverted to Equity markets, which still look cheap with the FTSE 100 at 4700 on:

PE average of 15.6x
Yields average of 3.2% net

for real value, real yield and real prospects of rising dividends and steady capital growth.

The US Trade Deficit

Being a self sufficient country, where only 10% of the inhabitants have a passport, I think they will continue to ignore the trade deficit and so what if the US Dollar is weak.

The Dow Jones has fallen back to 10178 from a high of 10737 and if the US Dollar does recover, so will Equities when converted back into sterling.

Oil and Commodity Prices

This will have an effect on corporate profits, but invest in oil and mining shares to compensate.

Investment Advice

We are therefore optimistic for UK Equities. We feel US stocks are good value if the US Dollar recovers, but be very aware of the 'adverse pressures'.

Therefore, when investing 'new money' stick to reasonable 'buy limits' to execute on bad days in Stockmarkets. Stockmarkets are bound to be volatile and after the September rise be patient. Continue to maintain that long term balance of:

Cash/Gilts Property Equity

but never be over exposed to one sector and never become over geared.

World Stockmarkets

US

We like quality US stocks. We feel the Dow Jones is too low and that US stocks will recover in sterling terms as the US Dollar recovers.

Europe

Europe continues to get 'bogged down' in 'red tape'. Historically most European markets look good value, but stick to quality European Trusts with flexible managers.

Japan

Perhaps it is now time to start putting one's toe into Japan where the economy is more stable than for the last 5 years. There is still a banking crisis, but one day it will be history.

Australia

We like the commodity based Equities and in particular:

BHP Billiton

which is benefiting from the demand from China.

Emerging Markets/Far East

Continue to avoid, except Japan and possibly China.

Investment Trusts

Following the 1st July 2004 Newsletter and our article on Investment Trusts, as predicted, 'discounts to net asset values' are narrowing and Investment Trusts have started to recover.

Fixed Interest

With base rates likely to peak at 5%, Gilts and Eurobonds have recovered over the last month whereby:

Gilts yield 4.8%

Eurobonds yield 5.4%

For maximum income Preference Shares still yield 8.4% equivalent gross

but there will be a time for gross funds to switch out of Preference Shares into Eurobonds and we are watching these differentials very carefully.

Our advice to clients is still 'stay short' or 'index linked'.

Consider 'Preference Shares' if income is essential.

Corporate Actions

The recent rise in Stockmarkets has led to a flood of corporate activity.

We feel we should apologise to clients for all the literature sent on corporate actions over the last 3 months, but this is not our fault and clients appreciate us endeavouring to make their lives as simple as possible with 'Granny proof instructions' (which grannies handle very well - it is the 'Captains of Industry' who don't read the instructions that are the problem, and they know who they are!!!).

This paperwork shows the merits of the Nominee Service and indeed many more clients are going into the Discretionary Service, where we deal with everything automatically.

Corporate Actions Since 1st July 2004

There have been too many to list, but the major ones have been:

Marks & Spencer	Green takeover bid
Marks & Spencer	Tender offer
London Stock Exchange	Cash repayment and share reconstruction
J Sainsbury	Cash repayment and share reconstruction
Pillar Property	Cash repayment and share reconstruction
Ashtenne	Cash repayment and share reconstruction
Abbey National	Pending takeover by the Spanish
GWR/Capital Radio	Pending merger

On top of this there will be Gilt redemptions:

9½% Conversion Stock 2004	25/10/2004
4¾% Treasury Index Linked Stock 2004	21/10/2004
6¾% Treasury Stock 2004	26/11/2004

Pending:

Centrica	Cash repayment
Hays	Demerger of DX
RMC	Takeover

and so it goes on. We shall keep you informed.

Stock Led Advice

We write on all Corporate Actions, which generally lead to investment decisions.

We now write to clients regarding specific stocks as and when we feel action should be taken. Since July we have sent advice where appropriate to clients concerning:

- Gross Funds to switch part of Scottish & Southern Energy into National Grid
- Alliance & Leicester having touched 915p into other Banks
- Part of Alliance Unichem after rise into other Health Stocks
- Abbey National into another Bank (nobody wants Spanish paper).

All of this has meant a great deal of paper in the last 3 months. It is pure coincidence that it has all happened together, and though we discussed 'spreading the advice out over a few months' we felt we should deal with every situation as it happened. Barratt & Cooke systems have held up to the activity well, though it has put a strain on all (well done the staff and the clients).

Reviews

Though we now have 'stock led advice' we are now in the process of reviewing all clients portfolios as well, with a view towards:

- 1) Balance of portfolios.
- 2) Capital gains.
- 3) ISA.

With leading stocks having risen, we are now considering more stocks outside the FTSE100 and some AIM Stocks for 'Inheritance Tax Saving Schemes'.

Hedge Funds

We continue to monitor Hedge Funds. As we feel Stockmarkets will continue to rise, do not rush into Hedge Funds at this stage. Hedge Funds have proved that they perform well in a falling market.

Final Thought

As stated in the press recently, the UK has become gambling mad, which I really do not approve of, just as I do not approve of *student binge drinking* (perhaps this shows my age of 55 on 22nd October 2004). However, what odds will my clients give me for 'mixed doubles and a treble' on:

Kerry to beat Bush
Howard to beat Blair
Norwich to remain in the Premiership (oh I do hope so)

Quote of the Month

When Analysts were asked:

"Will Philip Green bid again for Marks & Spencer?"

60% said Yes, and the other 60% said No.

C W L Barratt
5th October 2004

(For clients who do not know me, I enclose a photograph from today's Eastern Daily Press showing the real Charles Barratt).

PLEASE NOTE: This newsletter is provided solely to enable clients to make their own investment decisions. It may therefore not be suitable for all recipients and does not constitute a personal recommendation to invest. If you have any doubts as to the suitability of this service, you should seek advice from your investment adviser. The past is not necessarily a guide to future performance. The value of shares and the income from them can fall as well as rise and investors may get back less than they originally invested. Certain Investment Trusts will permit using gearing as an investment strategy. Gearing is a strategy which involves borrowing money to increase holdings of investments or investing in warrants or derivatives. Such a strategy is likely to result in movements in the price of the relevant security being amplified significantly and may be subject to sudden and large falls in value and investors may get back nothing at all. Any tax reliefs referred to are those currently applying. All estimates and prospective figures quoted in this newsletter are forecasts and are not guaranteed. Barratt & Cooke are authorised and regulated by the Financial Services Authority.