

BARRATT & COOKE

MEMBERS OF THE LONDON STOCK EXCHANGE

5 OPIE STREET, NORWICH, NR1 3DW

Tel No: 01603 624236

Fax No: 01603 665757

E-mail: admin@barrattandcooke.co.uk

5th October 2006

	<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>5/10/05</u>	<u>1/1/06</u>	<u>5/4/06</u>	<u>1/7/06</u>	<u>5/10/06</u>
FTSE 100	5882	6930	6222	5217	3940	4477	4814	5428	5618	6044	5833	6005
FTSE All Share	2674	3242	2983	2524	1894	2207	2411	2721	2847	3086	2968	3076
Dow Jones (US)	9181	11452	10786	10022	8342	10454	10783	10317	10717	11240	11150	11867
S&P 500 (US)	1229	1469	1320	1148	880	1112	1212	1197	1248	1312	1270	1353
Nikkei Dow (Japan)	13842	18934	13785	10543	8579	10677	11489	13690	16111	17244	15505	16436

Leading Growth Equities

Aviva
BHP Billiton
BG
Bunzl
Diageo
Experian
Reckitt Benckiser
Tesco
United Business Media
Wolseley

Leading Income Equities

Alliance & Leicester
Barclays
BP
BT Group
Friends Provident
Lloyds TSB
National Grid
Royal Bank of Scotland
United Utilities

Smaller Companies

AGA
Biffa
Close Brothers
Cobham
Filtrona
Halma
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

Darren

Looking back over the summer months to my last Newsletter, I think of terrorism with 'hair gel bombs' at airports; Middle East tensions with the Israeli/US alliance bombarding Lebanon and Hezbollah mercilessly; the Iraq/Iran/Afghanistan chaos; the military coup in Thailand, and the Venezuelan President being certified as a complete loony.

At home we have a Prime Minister hanging on to power by his finger tips and instead of him arranging his own canonisation to immortality, he is preparing the history books for the Prime Minister who took us into Iraq and would not resign. To actually state at last week's Labour conference that 'Between now and when I leave office, I will dedicate myself to advancing peace between Israel and Palestine' - the man must now be completely off this planet.

He is surrounded by the lecherous Prescott, the out of depth Margaret Beckett, John Reid who said that troops would return from Afghanistan without firing a shot, and accident prone 'chicks' Tessa Jowell and Patricia Hewitt. He has squandered fortunes 'investing' into the health service and education with no lasting effect. His only legacy will be the devolution of Scotland (no bad thing) and the right to roam (as long as it is not in his own backyard).

Who can really imagine socialist Mr Brown (whose own party did not allow his recent Trust taxation proposals) leading us into the next General Election and out again - Cherie summed it all up in one word, 'liar'.

Though cynical about politics, one picture last week summed up the real England to me (even though it was Irish) - that of the tight grief stricken lips holding back the welling red tear filled eyes and the sheer determination of Darren Clarke as he stuffed the Americans at the Ryder Cup, and lit up one more cigar. Darren, you did it for Heather, but much more so, you did it for us. Putting Bush and Blair, Cherie and Brown back in the background for a few minutes of sanity. My readers of this chronicle will naturally ask 'What has this got to do with Stockmarkets?' The answer is 'very little'.

But, it is my analogy of what is 'good and bad', 'real and lightweight' and, as my readers have read over the years, I have warned against:

- 1) The dotcom boom of 2000 (the 'sardine can' syndrome).
- 2) The gambling boom of 2005/6.

In my July 2005 Newsletter I stated "What sensible investor could invest in Party Gaming with Directors' names of Ruth Parasol, Anurag Dikshit and Vikrant Bhargava?" - the price was then 175p, it is now 37p. Following the US legislation restricting internet gambling in the USA, internet gambling firms have crashed with the value of Party Gaming falling from £7bn to £1.5bn (loss £5.5bn). It now seems crazy that serious investors (such as Fidelity, Merrill Lynch and Tracker Funds) ploughed 'billions' into this company which went straight into the FTSE 100 - but they did. As I stated then - this proves another economic theory, 'there is one born every minute'.

- 3) The 'Holy Grail' of the Hedge Fund, where the leading Hedge Fund Amaranth lost \$5bn gambling in gas futures (I thought a Hedge meant you cannot lose!).
- 4) I warned in October 2005 of the 'Minnow oil stocks when oil was once \$67 a barrel'.
- 5) I now warn of Russian resource stocks that have entered the London Stock Exchange, such as

Kazkhmys
Sibir Energy
Urals Energy

In Russia there has always been the very rich, and the very poor, but there have also been economic revolutions. We shall see.

Though Barratt & Cooke will never be 'Top of the Pops' in any one year - over a 4/5 year period clients will see how well they have done as their half-yearly valuations are despatched.

Hindsight is easy - outspoken foresight not so easy.

Stockmarkets

As the charts will show:

- 1) The FTSE100 appears to have hardly moved:

<u>1/1/06</u>	<u>5/4/06</u>	<u>1/7/06</u>	<u>5/10/06</u>
5618	6044	5833	6005

but it must be remembered that:

The FTSE 100 on	21/4/06	rose to	6133
Fell on fear of terrorism	12/6/06	to	5467
Has subsequently recovered	5/10/06	to	6005 as confidence has returned

In April, as the UK FTSE100 rose to 6133, we advised many clients to ‘hold cash on deposit, accumulated from takeovers, special dividends and profit taking etc pending investment lower down’.

All reinvestments were completed by 1st September 2006, a very successful operation.

If Stockmarkets rise sharply again, we shall be looking to complete a similar exercise.

- 2) US Stockmarkets now stand at an all time high.

However, it is very interesting to compare the values when converted back in Sterling:

	<u>1/1/00</u>	<u>1/1/03</u>	<u>1/1/06</u>	<u>5/4/06</u>	<u>5/10/06</u>
Dow Jones	11452	8342	10717	11240	11867
US \$	1.61	1.61	1.72	1.75	1.88
Equivalent conversion	11452	8342	10032	10341	10163

and therefore, though US stocks look high, they are not so high allowing for the weak performance of the US \$.

- 3) It is extremely interesting that though the Mining and Oil stocks supported Stockmarkets as commodity prices rose, it is the so called ‘dull sectors’ that have supported the FTSE 100 as Mining and Oil stocks have fallen back on falling commodity prices:

Commodities:

	<u>5/4/06</u>	<u>5/10/06</u>	<u>One Year High/Low</u>
Oil	\$66	\$60	\$78/\$53
Gold	\$588.7	\$572	\$725/\$460
Platinum	\$1090	\$1070	\$1331/\$922

Shares:

<i>Oil</i>	BP	675p	575p	723p/559p
<i>Mines</i>	Rio Tinto	3160p	2487p	3387p/2050p
<i>Supermarkets</i>	Tesco	330p	383p	387p/292p
<i>Utilities</i>	National Grid	572p	675p	680p/498p
<i>Telecommunications</i>	BT	221p	269p	271p/200p

We actually feel this gives:

- 1) The perfect definition for a spread of sectors.
- 2) That we now feel leading Oil and leading Mining stocks exceptionally good value, even though commodity prices have fallen from recent highs.

3) With fundamental formulae of FTSE 100 stocks, being very similar to 5th April 2006:

Average P/E	12.3 x
Average yield	3.2%
Dividend cover	2.4 x
Dividends rising by over	8%
Profits rising by over	10%
Interest rates still relatively low at	4¾%
Inflation rising slightly at	3.4%

Reinvestment into Stockmarkets of takeover and special dividend proceeds.

We still feel the FTSE 100 looks good value at up to	6000
Even better value at	5750
and reaching the high side at	6500

World Markets

Europe	remains relatively dull, bogged down by compliance and ‘red tape’, but a few successful Fund Managers should be followed.
US	at a high, but still reasonable to purchase on US \$ considerations.
Japan	has fallen back from its high of 17563 on 7 th April 2006. However, the economy is improving and the Nikkei Dow looks reasonable value.
Australia	still attractive on its proximity to China.
Far East/Emerging Markets	are much in vogue with the economic booms of China and India. Both markets have had a ‘set back’ recently giving an opportunity to have a ‘toe in the water’ through top quality Trusts.

At this stage it is worth stating that a few years ago I visited India and later this month I shall visit China. I always find visiting such countries a very humbling experience knowing that their cultures actually go back 5000 years.

I therefore rather agree with Ghandi; when asked “What, Mr Ghandi, do you think of Western civilisation?” He replied “I think it would be a very good idea”. Perhaps Mr Bush and Mr Blair should consider these words more carefully.

Fixed Interest

Since the last Newsletter ‘Bank Base Rates’ have risen from 4½% to 4¾%.

We still feel they could go at least ¼% higher.

We have been predicting the rise in interest rates for several years and at last it is now happening.

With deposit rates of at least 4¾%, and rising for ‘term deposits’, we still feel long dated Gilt yields of 4.25% crazy.

We therefore advise clients to:

- 1) Stay on Deposit
- 2) or in short dated Gilts
- 3) or Index Linked Gilts (with RPI rising to 3.4%)
- 4) or Preference Shares for maximum income.

One day it will be right to switch longer dated, but still not yet.

Corporate Actions

Continue unabated.

Takeover bids and mergers completed:

Associated British Ports
BOC
BAA
Alliance Boots
Hardys & Hansons
DX Services
De Vere

Redemptions:

2% Treasury Index Linked Stock 2006
7¾% Treasury Stock 2006

Demergers taking place:

Severn Trent	demerging	Biffa
GUS	becoming	Home Retail Group and Experian

Takeover bids/approaches for:

McCarthy & Stone
AWG
Northgate Information Solutions
House of Fraser
London Clubs International

and the ongoing saga of:

The London Stock Exchange

Nasdaq may bid again after 2nd October 2006 at 1243p +, or could delay a bid until 2nd April 2007 at any price. The NYSE has not completed the deal with Euronext yet. ICAP could come into the reckoning (I hope so) and Deutsche Börse still wants to join into a party (very interesting).

We continue to keep all portfolio clients informed on Corporate Actions.

Taxation

Trusts

In our July Newsletter we said that we would give more information when the Chancellor's Budget proposals had become law. The final changes saw some 'backtracking' but there are still major changes which affect Trusts.

The new rules are aimed at Accumulation & Maintenance Trusts (A&Ms) and Interest In Possession Trusts (sometimes called Life Interest Trusts). These are mostly used to protect income or assets for a surviving spouse or children.

The relaxation of the original proposals means that under a Will, assets can still be placed in Trust tax-free for the eventual benefit of children, whilst providing an income for the surviving spouse as before. However, a similar arrangement made before death will, where the inheritance tax exemption (currently £285,000) is exceeded, produce an immediate tax charge of 20% on the excess.

In addition with A&M Trusts, both income and capital must now be paid out to the beneficiaries when they reach 18 if tax is to be avoided. An amendment to the original proposal means that there is reduced charge provided the maximum age of distribution is 25. It is calculated at 0.6% per annum for each year over 18 up to 25 and will be payable on the excess over £285,000.

Barratt & Cooke will continue to offer Stock Exchange investment advice for all Trusts, setting up balanced portfolios of stocks and shares in keeping with the Trustees objectives. However, with 'entry taxes', 'exit taxes' and 'running taxes' you should always consult a Trust lawyer before deciding on the right Trust to set up. It is also important that your Will is kept up to date.

Carried Forward Allowable Tax Losses

With clients having built up so much capital gain over the past 3 years, it is important for Barratt & Cooke to know any allowable tax losses carried forward to 5th April 2006.

So that we can allow for these on any gains established and make the best use of the losses, if you have an allowable loss carried forward to 6th April 2006, please complete the enclosed proforma which we shall then record for future information.

Further Points

1) SIPPS

Barratt & Cooke continue to expand their SIPP Advisory/Discretionary service rapidly. For further details ask your Advisor.

2) ISAs

With clients establishing so much capital gain over the past three years it is essential, in most cases, that clients continue to add to ISAs (£7,000 between 6th April 2006 - 5th April 2007).

3) Nominees/Discretion

70% of our clients are now in Nominees - which clients consider a fantastic service.

25% of our clients are in Discretion and we expect this to be 50% by 2008. Again clients consider this a fantastic service. For further details please ask your Advisor.

4) Personal Service

Our 'advice driven stock by stock service' is a great deal more efficient and more profitable to clients. If any client wishes to come into the office to discuss their investments with their Advisor, then you are extremely welcome to telephone to arrange a meeting and we shall be delighted to go through everything with you. I can promise that each client is being looked after personally and individually by their advisor - and it is really up to clients to arrange a meeting if they wish to have a meeting.

By the same token, I get cross if anybody says "Of course, Barratt & Cooke is really Charles Barratt", it certainly is not, it is a team effort by all 40 of us. If any client wishes for a change of Advisor then please let me know and I shall arrange this, with no offence to anybody. Of course some Advisors suit some clients better than others - though we do try to match the right client with the right Advisor from the start.

Final Thought

I feel very sorry for Nigel Worthington as he is an extremely nice man. In the tough world of competitive sport perhaps he has been too nice - and I wish him every good wish and happiness in the future.

Competitive sport and efficient business has to be loyal, but also tough to survive, and Barratt & Cooke is very loyal, but never takes the easy option.

I have recently taken a leaf out of the legendary 76 year old Warren Buffett's book, who is quoted as saying:

‘I have laid out a succession plan in a sealed envelope in my office. When they open that envelope the first instruction is to take my pulse again!’

Though I am going grey at 56 and clients have begun to ask ‘when?’ - I have no intention of retiring for at least 9 years - (I love Barratt & Cooke too much) - but by then succession plans will be known, as we always prepare for the long term future.

C W L Barratt
5th October 2006

There will be 2 treasured Barratt & Cooke pens to be won for:

- a) The first correct answer
- b) The wittiest answer

of the next full-time Manager of Norwich City.