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- M & A
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	<u>1/1/08</u>	<u>1/1/09</u>	<u>1/1/10</u>	<u>5/4/10</u>	<u>5/10/10</u>	<u>1/1/11</u>	<u>5/4/11</u>	<u>1/7/11</u>	<u>5/10/11</u>
FTSE 100	6457	4434	5403	5744	5636	5900	6007	5946	5102
FTSE All Share	3287	2209	2751	2944	2912	3063	3117	3097	2632
Dow Jones (US)	13265	8776	10428	10927	10945	11578	12394	12414	10940
S&P 500 (US)	1468	903	1115	1178	1161	1258	1333	1321	1144
Nikkei 225 (Japan)	15308	8860	10546	11286	9519	10229	9616	9816	8383
APCIMS Balanced	3024	2416	2724	2881	2864	2978	2997	3006	2731

Growth Equities

Aggreko
BG Group
BHP Billiton
Diageo
Johnson Matthey
Petrofac
Reckitt Benckiser
Smith & Nephew
Smiths Group
Standard Chartered
Tesco
Unilever

Higher Yield Equities

AstraZeneca
Aviva
GlaxoSmithKline
IMI
National Grid
Royal Dutch Shell
Sainsbury (J)
SSE
Tate & Lyle
United Utilities
Vodafone Group

Mid-Cap Equities

Babcock International
Genus
Greene King
London & Stamford
Spirax-Sarco
Telecity
Weir Group

Overseas Equities

BASF
Becton Dickinson
Coca-Cola
ConocoPhillips
Johnson & Johnson
Nestlé
Roche
Syngenta

Collective Investments

3i Infrastructure Fd
BR World Mining IT
JPM Indian IT
Personal Assets Trust
Scottish Mortgage IT
Templeton Emerging IT

Europe Here We Come

Writing this chronicle on the hottest October day in history (29.5 degrees in the shade), I reflect on the last three months in shame and embarrassment as to where the human race has arrived in the 21st century:

- Anarchist riots in London;
- The closure of the News of the World following 'phone hacking';
- Dominique Strauss-Kahn's television apology for his 'indiscretions' as though they were common place;
- Kweku Adoboli losing £1.5bn derivative trading for ETFs at UBS (Adoboli was in the back office of UBS 5 years ago 'checking contracts');
- While our military is still losing lives in Afghanistan, and the Libyan conflict continues.

From an economic point of view the world has debt crises on either side of the Atlantic brought on by political ineptitude, which could cause a 'double dip recession' in the USA and Europe. It has been quoted that

'when America sneezes the rest of the world catches a cold',

and this is beginning to look like the first symptoms of Asian Flu.

How appropriate the expression now appears:

'Nero fiddled while Rome burned'.

This could so easily be re-quoted as:

'Europe muddled while Athens burned'.

And yet, UK companies are trading well having reduced their debt positions, producing increased profits, higher dividends and on 'cheap multiples'. The fear affecting everything is 'the fear of a double dip recession' and the consequences thereof.

THE INEPTITUDE OF WORLD POLITICIANS

- 1) In the US, the politics of the Democrats and Republicans are very similar to those of Labour and the Conservatives in the UK.

Like Labour, the Democrats under Obama want 'greater public spending to be paid for by higher taxation'.

Like the Conservatives, the Republicans want 'lower public spending and to reduce taxation'.

The Republicans have realised there are political points to be won by voting against Obama's spending rises unless he reduces tax. This has caused a stalemate in US politics.

Following this indecision, in early August Standard & Poor's, the US Credit Rating Agency, downgraded the US government debt rating from AAA to AA+ which caused stockmarkets to crash around the world.

Since then the President of Standard & Poor's has stepped down, and no doubt the new chap will return the rating to AAA (and probably receive an honorary knighthood!).

- 2) In Europe peripheral economies such as Greece (2% of the European economy), Ireland and Portugal have been encouraged to borrow and spend money on their infrastructure (have you ever seen the motorways in Ireland?!). Banks have been happy to lend billions using 'mirrors' to multiply the lending, knowing that the EU governments will pay – and then low and behold, the cash runs out, and what happens next?

It looks certain that Greece will default, despite support from the European Financial Stability Fund (EFSF). European banks will lose more money, and will then have to restrict lending. This will affect consumer demand and corporate profits, which could push Europe back into recession and all the consequences thereof.

Germany and France benefit from these problems in the Eurozone, which reduce the value of the Euro. If Germany still used Deutschmarks, and France used Francs, the value of the Deutschmark and the Franc would be so high that it would make it very difficult to export Mercedes, BMWs, frogs and champagne. There is a great deal of politics behind the ineptitude, and I really do believe that:

'Europe is muddling while Athens burns'.

- 3) The Rest of the World knows that recession in the US and Europe will affect short term demand for exports from the emerging economies. However, the economic world is migrating eastward, and their demand is becoming ever more domestic.

FEAR HAS DISTORTED THE VALUE OF EQUITIES

- 1) The Bank of England Base Rate remains at 0.5% gross (a 300 year low since the Bank of England began in 1694).
- 2) 10 year conventional gilt gross redemption yields are down to 2.4% (which are very vulnerable to an interest rate rise. This will not happen in the short term, but one should remember that base rates have averaged 5.8% gross over the last 90 years).

FIXED INTEREST – BY SAM MATTHEWS

The fixed interest market remains in uncharted waters as:

- Base rates remain steadfastly at 0.5% gross, and speculation of further quantitative easing has replaced anticipation of any possible tightening in monetary policy. This is because policy makers fear that any increase in interest rates would lead to a double dip recession, as such a move would further pressurise household budgets which are already facing the constraints of increasing food and fuel prices and limited wage growth. This could lead to mortgage defaults and reduced consumer spending.
- The flight to safety has caused the yield on fixed interest investments to fall markedly. With companies having improved their financial positions, investors have increasingly purchased fixed income securities to benefit from the predictability of interest payments – despite the historically meagre yields available.
- The gross redemption yield on the 10 year benchmark gilt has fallen to 2.4%. The fall in gilt yields has been accelerated by the European sovereign debt crisis and US debt rating downgrade, with investors believing UK debt offers a safe haven in comparison as they are reassured by the coalition's steps to tackle the budget deficit. This has had the effect of pushing gilt prices even higher and therefore yields lower.

In response to such unprecedented market conditions our fixed interest investment process has been to:

- 1) Buy index linked gilts for relative safety within portfolios and to provide some inflation protection. With conventional gilts yielding so little and inflation remaining high we remain buyers of the

1.25% Treasury Index Linked Gilt 2017.

- 2) Continue to hold certain sterling corporate bonds bought in 2009 and late 2010 - Investors who bought well have locked into rates that are now unavailable. Unless very short dated, these bonds should be held while reinvestment options remain so limited.

- 3) Take advantage of new bond issues as they come to market, such as the recent

National Grid 1.25% Index Linked Bond.

Investor demand has driven high coupon bonds to trade well above par, meaning those who purchase now will lose capital to redemption. However, new issues allow investors to buy at par, often at more favourable rates than available in the secondary market.

BARRATT & COOKE OVERALL INVESTMENT POLICY

Whilst we take into consideration the individual requirements of all clients, our overall investment policy is:

- 1) To hold some cash on deposit pending further equity investment in due course.
- 2) To hold a good proportion in fixed income (as outlined above).
- 3) To retain a large proportion in quality equity, predominantly in FTSE 100 companies, with a few smaller companies for special situations whilst we also advise purchasing some overseas companies and Trusts for a geographic spread.

We particularly favour UK equities with an international business, or domestic businesses concentrating on the necessities of

& Nephew would appear to be attractive prey for one of the larger US-based healthcare firms such as Stryker, Zimmer or Medtronic which need to diversify away from the slowing US market.

Smiths Group

One of the few remaining FTSE conglomerates, Smiths Group has

These meetings are an ideal opportunity to enhance our research, as we can gain an insight into both the challenges and opportunities ahead for companies and the investment process of investment trust managers. Furthermore, they also allow us to ask direct questions and generally assess the quality of management at the helm of the companies we choose to invest in - or otherwise.

For example, after attending a presentation and having had the opportunity to pose some questions to Rupert Soames, CEO of Aggreko, we were encouraged by the outlook for the company as emerging market economies face shortfalls in power generation. With a mobile fleet of generators which is able to provide significant wattage at short notice, and the ability to pass on any increases in fuel prices, we believe that the company is well positioned to benefit from this trend. Therefore, we see any material weakness caused by market volatility as an attractive buying opportunity for medium term capital growth.

BUSINESS DEVELOPMENT AND COMPLIANCE ISSUES – BY SAM BARRATT

Junior ISAs

Barratt & Cooke will be offering a Junior ISA (JISA) service which is a tax efficient savings account for children. This product will be launched on 1st November 2011.

The key features of the Junior ISA are:

- A JISA can be taken out on behalf of a child (under 18) who lives in the UK and does not already hold a Child Trust Fund.
- The annual JISA allowance is initially £3,600.
- The child can take responsibility for the account aged 16 but cannot make a withdrawal until they are 18 years old.
- Accounts can only be held with one provider (unlike an ISA).
- Once a subscription has been made the JISA becomes beneficially owned by the child and the subscriber cannot recover the gift.

This could be a tax efficient scheme for clients to consider on a yearly basis. If you are interested in finding out more information about this service please contact your advisor.

Online Valuations

We are pleased to inform you that Barratt & Cooke is in the process of developing its IT systems in order to provide an online valuation service. This will enable clients to have access to information about their portfolio as and when they wish. The system will be secure and individuals who wish to use the service will be allocated a unique username and password with which to log on. We will send out more information once the system is fully developed.

Suitability

We have recently written to most clients regarding suitability and risk ratings, redefining our risk categories as:

Low, Moderate, Medium, Medium-High, High.

Though yet more paper, this has been a necessary and sensible exercise and we thank all those clients who have replied.

For those that have not yet responded, we would be grateful if you could kindly do so, or if you have any queries please do not hesitate to contact your advisor.

THOUGHT FOR THE DAY

Over the last four months, along with many of my experienced contemporaries across the stockbroking industry, I have studied text books and case studies to sit my updated Stock Exchange exams.

I have been refreshed on various economic theories (most of which have been 'thrown out of the window' during the current market volatility).

I have learnt about Derivatives, Traded Options, CFDs (Contracts for Difference), ETFs (Exchange Traded Funds), together with Contangos, Backwardations and Straddles; only going to prove that Derivative is another word for mirror.

And yet, within the whole examination syllabus there was no mention of the stock exchange motto:

"My word is my bond"

which is etched on my heart, as Calais was on Queen Mary's.

If the News of the World, Dominique Strauss Khan and Kweku Adoboli had followed this motto would their disgraceful behaviour have occurred? I think not.

C W L Barratt
5th October 2011

Post Script

As this series of chronicles will one day be called:

'A history of our time through different eyes'

I must recall a few highlights over the past three months lest they be forgotten:

Darren Clarke's famous victory in 'The Open', followed by his Flintoff-esque celebrations, but Irish Style!

Tom Watson's hole in one at the 6th at St George's. I was there on 'The Maiden Sandhill' to watch it.

Frankel's great success at Glorious Goodwood for Sir Henry Cecil, to prove that he is a horse of a lifetime.

And of course Norwich City's two great victories in the Premiership (and letting Manchester United off the hook) – Europe here we come!

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Equity Suggestions – 5th October 2011

		<u>Price</u>	<u>Net*</u>	<u>52 Week</u>	
		<u>05/10/11</u>	<u>Yield</u>	<u>High</u>	<u>Low</u>
CHEMICALS	Johnson Matthey PLC Ordinary Shares	1611p	2.8%	2123p	1484p
HEALTHCARE	Smith & Nephew PLC Ordinary Shares	569p	1.7%	749p	501p
ENGINEERING	IMI PLC Ordinary Shares	681p	4.0%	1142p	625p
AEROSPACE & DEFENCE	Rolls-Royce PLC Ordinary Shares	595p	2.7%	667p	531p
BANKS	HSBC Holdings PLC Ordinary Shares	485p	4.8%	740p	466p
	Standard Chartered PLC Ordinary Shares	1218p	3.5%	1975p	1142p
BEVERAGES	Diageo PLC Ordinary Shares	1229p	3.3%	1317p	1082p
ELECTRICITY	National Grid PLC Ordinary Shares	627p	5.8%	651p	522p
	SSE PLC Ordinary Shares	1289p	5.8%	1430p	1103p
FINANCIALS	Schroders PLC Ordinary Shares	1230p	3.1%	1936p	1155p
FOOD PRODUCERS	Tate & Lyle PLC Ordinary Shares	630p	3.8%	683p	474p
	Unilever PLC Ordinary Shares	1997p	3.8%	2090p	1758p
FOOD RETAILERS	Tesco PLC Ordinary Shares	393p	3.7%	446p	349p
	J Sainsbury PLC Ordinary Shares	285p	5.3%	396p	258p
	William Morrison PLC Ordinary Shares	294p	3.9%	310p	262p
HOUSEHOLD PRODUCTS	Reckitt Benckiser PLC Ordinary Shares	3310p	3.6%	3678p	2960p
INDUSTRIALS	Smiths Group PLC Ordinary Shares	925p	3.7%	1450p	885p
LIFE ASSURANCE	Aviva PLC Ordinary Shares	296p	8.6%	481p	267p
MEDIA	Reed Elsevier PLC Ordinary Shares	496p	4.1%	594p	446p
MINING	BHP Billiton PLC Ordinary Shares	1778p	3.4%	2654p	1625p
	Rio Tinto PLC Ordinary Shares	2906p	2.4%	4718p	2637p
	Xstrata PLC Ordinary Shares	818p	2.4%	1579p	715p
OIL & GAS	BG Group PLC Ordinary Shares	1225p	1.1%	1595p	1105p
	Royal Dutch Shell PLC 'B' Shares	2018p	5.1%	2352p	1768p
OIL SERVICES	Petrofac Ltd Ordinary Shares	1170p	2.5%	1697p	1045p
PHARMACEUTICAL	AstraZeneca PLC Ordinary Shares	2893p	5.7%	3364p	2454p
	GlaxoSmithKline PLC Ordinary Shares	1345p	5.0%	1396p	1123p
PROPERTY (REITs)	Land Securities PLC Ordinary Shares	648p	4.3%	894p	610p
SUPPORT SERVICES	Aggreko PLC Ordinary Shares	1571p	1.2%	2051p	1377p
TELECOMMUNICATIONS	Vodafone Group PLC Ordinary Shares	169p	5.3%	185p	154p
TRAVEL & LEISURE	InterContinental Hotels PLC Ord Shares	997p	3.2%	1440p	939p
	Whitbread PLC Ordinary Shares	1598p	2.8%	1899p	1344p
UTILITIES	United Utilities PLC Ordinary Shares	614p	4.9%	635p	529p
	Pennon Group PLC Ordinary Shares	681p	3.6%	750p	573p

SMALLER COMPANIES/SPECIAL SITUATIONS

BIOTECHNOLOGY	Genus PLC Ordinary Shares	1006p	1.2%	1115p	789p
BREWERY	Greene King PLC Ordinary Shares	411p	5.6%	519p	402p
GENERAL INDUSTRIAL	Cookson Group PLC Ordinary Shares	418p	4.4%	738p	386p
OIL & GAS	EnQuest PLC Ordinary Shares	89p	-	160p	86p
IT SERVICES	Telecity PLC Ordinary Shares	580p	-	590p	424p
PROPERTY (REITs)	London & Stamford PLC Ordinary Shares	116p	5.4%	140p	109p
HOUSE BUILDERS	Persimmon PLC Ordinary Shares	462p	1.6%	506p	336p
ENGINEERING	Weir Group PLC Ordinary Shares	1436p	1.9%	2254p	1332p
SUPPORT SERVICES	Babcock International PLC Ord Shares	665p	2.9%	736p	507p
ENGINEERING	Spirax-Sarco PLC Ordinary Shares	1722p	2.5%	2064p	1593p

OVERSEAS STOCKS**

		<u>Price</u>	<u>Gross*#</u>	<u>52 Week</u>	
		<u>05/10/11</u>	<u>Yield</u>	<u>High</u>	<u>Low</u>
CHEMICALS	BASF SE	4123p	4.6%	6200p	3706p
	Syngenta AG Shares	17120p	2.9%	21459p	15981p
FOOD PRODUCERS	Nestlé SA Registered Shares	3507p	3.7%	3977p	3291p
HEALTHCARE PRODUCTS	Johnson & Johnson Common Stock	4038p	3.6%	4253p	3589p
OIL	ConocoPhillips Common Stock	4140p	4.0%	5026p	3675p
MEDICAL EQUIPMENT	Becton Dickinson & Company Shares	4722p	2.3%	5619p	4577p
PHARMACEUTICAL	Roche Holdings AG Genusschein NPV	10176p	4.5%	11140p	8566p
TECHNOLOGY	Microsoft Common Stock	1677p	2.5%	1860p	1454p
BEVERAGES	Coca-Cola PLC Ordinary Shares	4244p	2.8%	4511p	3725p

* These yields are estimated and not guaranteed. ** Nominee clients only.

Dividend income may be subject to local Government withholding tax (currently 35% in Switzerland, 15% in the USA and 26.375% in Germany).

Source: Bloomberg

These are core stocks for a portfolio, but we will be using selective limits where appropriate.

INVESTMENT TRUST & UNIT TRUST/OEIC SUGGESTIONS

		<u>Price</u> <u>05/10/11</u>	<u>Net*</u> <u>Yield</u>	<u>52 Week</u> <u>High</u> <u>Low</u>		<u>Disc**</u> <u>to NAV</u>
REASONABLE YIELD	Perpetual Income & Growth Inv Trust	241p	4.0%	279p	227p	0.75%
	Edinburgh Investment Trust	457p	5.0%	495p	405p	(2.9%)
WORLDWIDE GROWTH	Bankers Investment Trust	358p	3.5%	430p	347p	9.4%
	Scottish Mortgage Investment Trust	600p	2.0%	783p	583p	9.6%
	Monks Investment Trust	306p	1.0%	368p	298p	10.2%
	Personal Assets Trust	32700p	1.6%	33850p	30100p	(1%)
SMALL COMPANIES	Schroder UK Mid Cap Fund	215p	2.7%	283p	211p	14.0%
	Invesco Perpetual UK Smaller Co's Trust	179p	2.4%	215p	170p	14.4%
EMERGING MARKETS	Templeton Emerging Markets Inv Trust	503p	0.8%	690p	492p	5.7%
	Henderson TR Pacific Inv Trust	141p	2.1%	211p	136p	5.6%
	Blackrock Latin America Inv Trust	502p	2.9%	789p	487p	2.2%
	Advance Frontier Markets Fund	39.3p	-	51.8p	39p	13.7%
	JP Morgan Indian Investment Trust	350p	-	505p	342p	9.6%
MINING FUND	Blackrock World Mining Inv Trust	588p	1.0%	830p	567p	12.7%
TECHNOLOGY	Polar Capital Technology Trust	315p	-	395p	297p	4.5%
INFRASTRUCTURE FUND	HICL Infrastructure Fund#	116p	5.8%	122p	112p	(7.6%)
	3i Infrastructure PLC#	119p	4.8%	125p	113p	0.2%

* These yields are estimated and not guaranteed

** Taken from the FT 5th October 2011/() = premium

Yields paid gross

Source: Bloomberg

FIXED INTEREST STOCKS

<u>Base Rates</u>	<u>UK</u>	<u>US</u>	<u>Europe</u>
	0.5%	0.25%	1.5%

Government Stocks

Conventional

Nothing suitable

<u>Index Linked</u>	<u>Price</u>	<u>Gross Interest Yield</u>	<u>Equivalent Gross Redemption Yield*</u> Tax Rate		<u>Dividend Dates</u>	<u>Redemption Date</u>
1.25% Treasury Index Linked 2017**	138.8	1.1%	Nil	40%	May/Nov	22 Nov 2017

Index Linked Euro Sterling Bond

National Grid 1.25% Index Linked 2021	100.9	1.26%	4.2%	2.5%	Apr/Oct	06 Oct 2021
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* Assuming that future RPI inflation averages 3% to redemption

** Price adjusted for inflation (please note the published price may be significantly different as it does not include accrued inflation)

Conventional Euro Sterling Bonds

(only for clients in Nominees and ISAs)

	<u>Price</u>	<u>Gross Interest Yield</u>	<u>Gross Redemption Yield</u>	<u>Dividend Dates</u>
Lloyds Banking Group 5.5% 2016 (min £2,000)	99.0	5.6%	5.7%	Mar/Sep
InterContinental Hotels 6% 2016 (min £50,000)	106.0	5.7%	4.6%	Dec
Close Brothers 6.5% 2017 (min £50,000)	103.5	6.3%	5.7%	Feb/Aug

High Yield Preference Shares

	<u>Price</u>	<u>Net Yield</u>	<u>Equivalent Gross Yield @ 20% Tax</u>	<u>Dividend Dates</u>
General Accident 8 ⁷ / ₈ % Cumulative Preference Shares	103	8.6%	10.8%	Jan/Jul
Standard Chartered 8 ¹ / ₄ % Non-Cumulative Pref Shares	107	7.7%	9.6%	Apr/Oct
Ecclesiastical Insurance Office 8 ⁵ / ₈ % Non-Cum Pref Shares	108	8.0%	10.0%	Jun/Dec

Note: Depending upon availability, similar Fixed Interest Stocks can be selected.

Source: Bloomberg prices

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