

# BARRATT & COOKE

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|                    | <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>1/1/04</u> | <u>5/10/04</u> | <u>1/1/05</u> | <u>5/4/05</u> | <u>1/7/05</u> | <u>5/10/05</u> |
|--------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|---------------|---------------|---------------|----------------|
| FTSE 100           | 5136          | 5882          | 6930          | 6222          | 5217          | 3940          | 4477          | 4707           | 4814          | 4943          | 5113          | 5428           |
| FTSE All Share     | 2411          | 2674          | 3242          | 2983          | 2524          | 1894          | 2207          | 2335           | 2411          | 2479          | 2560          | 2721           |
| Dow Jones (US)     | 7915          | 9181          | 11452         | 10786         | 10022         | 8342          | 10454         | 10178          | 10783         | 10458         | 10275         | 10317          |
| S&P 500 (US)       | 971           | 1229          | 1469          | 1320          | 1148          | 880           | 1112          | 1134           | 1212          | 1181          | 1191          | 1197           |
| Nikkei Dow (Japan) | 15256         | 13842         | 18934         | 13785         | 10543         | 8579          | 10677         | 11282          | 11489         | 11774         | 11584         | 13690          |

| <u>Reasonable Yield</u><br><u>FTSE 100 Equities</u> | <u>Growth FTSE 100</u><br><u>Equities</u> | <u>Stocks Outside</u><br><u>FTSE 100</u> | <u>Companies</u><br><u>With Local</u><br><u>Connections</u> | <u>Overseas</u>  |
|---|---|--|---|------------------|
| Barclays  | BP  | Forth Ports                              | Greene King   | Caterpillar Inc  |
| Friends Provident                                   | Tesco                                     | IMI                                      | AB Ports  | Exxon Mobil      |
| Rexam   | Royal Bank of Scot.                       | Quintain Estates & Dev.                  |   | Procter & Gamble |
| BAA   | BHP Billiton                              | Northgate Inf. Solutions                 |   | Total            |
| GlaxoSmithKline                                     | O <sub>2</sub>                            | Meggitt Group                            | <u>AIM Stocks</u>   |                  |
| Diageo  | Smiths Group                              | Cobham                                   | Dobbies   |                  |
| United Utilities                                    | Carnival                                  | Homeserve                                | Domino's Pizza  |                  |
| Prudential  | Hammerson                                 | Close Brothers                           | Majestic Wine   |                  |
| GUS   | Reckitt Benckiser                         | Hunting                                  | Mayborn   |                  |
| National Grid                                       |   | Petrofac                                 |   |                  |

## Takeover Fever

As the autumnal colours change and morning mists descend, one's thoughts change from the "silly season" on Norfolk Beaches, to "serious thoughts" in front of log fires, and we look back to what happened this Summer and my last Chronicle written on 1<sup>st</sup> July 2005.

The atrocities of The London Transport Bombings, where horrifyingly we all knew somebody with a "story". And yet, we could look at Britain and the police (our own Andy Hayman taking control) with pride, and thank God the other bombs did not explode. Sadly, investment sentiment is becoming immune to such horror.

The euphoria of The Ashes win, with Shane Warne's determination to bowl England out single handed for 120 runs at Trent Bridge; the outstanding batting performance of Kevin Pietersen in the final innings; and Andy Flintoff's appalling celebration behaviour. These celebrations overshadowed Zara Phillips outstanding performance to become European 3 Day Event Champion emulating her Mother (to those watching, just as moving as The Ashes).

And then the "power of nature" with the devastation of Hurricanes Katrina and Rita, and the destruction of New Orleans. There is something perverse about the arrogance of the US Administration, and yet the forgotten poverty and naivety of "The Deep South".

While the "agony and ecstasy" of the summer took place, the World Stock Markets quietly rose to new highs not seen since 2001 (though Markets were much higher at the peak of The Dot Com Boom in 2000).

## The Market Rise

Text books and history do not always repeat themselves.

Over decades, a dramatic rise in the Oil price has always affected UK Stockmarkets, as highlighted by the Yom Kippur War, and the Arab Oil Embargoes of 1973 causing Stockmarkets to fall very sharply until mid 1974.

As the enclosed chart shows, Oil prices then fell back to a sustainable level of approximately \$20 a barrel from 1986 to 2002.

Since 9<sup>th</sup> November 2002, the Oil price has risen from \$22 a barrel to \$60 (having been \$67 recently).

Likewise, the sudden demand from China has caused a boom in commodity prices, especially Metals.

At least these factors do confirm the basic economic theory still works, of:

“The law of supply and demand”.

In the normal course of events, sharp rises in Oil and Commodity prices mean:

- a) Increased inflation (which they will eventually lead to)
- b) A slowdown in the domestic economy.

My car now costs £60 instead of £50 to fill up.

Have you paid for your winter heating oil yet?

The consequences are clearly showing in the retail sector already, where even Tesco estimate that the rise in the oil price will reduce their profit by £60m per annum this year.

and yet Stockmarkets have risen – why?

- a) The major factor is that Oil and Mining companies are making a fortune from these increased prices, and their shares represent a major element of the FTSE100:

|                      |              |            |
|----------------------|--------------|------------|
| 4 Oil and Gas stocks | 20.7%        | of FTSE100 |
| 5 Mining Shares      | <u>5.2%</u>  | of FTSE100 |
|                      | <u>25.9%</u> | of FTSE100 |

A 1p rise in the share price of BP = 1 point movement in the FTSE100.

- b) And yet the UK economy is still doing well (indeed helped by profits from the Oil and Mining companies).

This has been confirmed by yesterday’s statement from the OFFICE FOR NATIONAL STATISTICS stating that “the gross operating surplus (profits) last year was £215bn, being 7% higher than the year before, and the highest figure ever recorded”.

This means that not only is the economy still well clear of recession, profits will send Corporation Tax pouring into The Treasury.

c) Even with the rise in Oil and Mining shares, the FTSE does not look overpriced on:

- 1) Average PEs of 14.3
- 2) Average Dividend Yields of 3.1%
- 3) Rising profits (as stated above) and therefore rising dividends, and share “Buy Backs”
- 4) Inflation still low (though it could rise due to the Oil Price)
- 5) Interest Rates still low with Base Rate 4 ½ %.

### **Takeover Fever**

Throughout the Summer Silly Season, there have been rumours of takeover bids for almost every company in the bottom half of the FTSE100.

There have been successful bids for:

Allied Domecq  
Pillar Properties  
Ashtenne  
GWR/Capital Radio – GCap Media

There are existing bids for:

Exel  
BPB  
Aegis

There have been announcements of potential bids/mergers:

The London Stock Exchange  
Scottish Power  
Boots / Alliance Unichem  
Somerfields

There are rumours of bids for:

J Sainsbury  
Centrica  
BOC  
Barclays  
Marks & Spencer  
Whitbread  
Rentokil

“and Uncle Tom Cobble and all”.

On top of this, there have been many corporate reconstructions:

National Grid Transco  
Intercontinental Hotels  
United Business Media  
Bunzl  
Rentokil

All these factors are justifiably holding Stockmarkets up, BUT remember “purchasing dud shares on takeover rumours has been the road to ruin for many”.

## **FTSE100 Index**

It is a very interesting fact to compare Indices on:

|            | <b><u>1<sup>st</sup> January 2001</u></b><br>(After the Dot Com peak of 01/01/00) | <b><u>5<sup>th</sup> October 2005</u></b> |
|------------|---|---|
| Dow Jones  | 10786   | 10317                                     |
| Nikkei Dow | 13785   | 13690                                     |
| FTSE100    | 6222  | 5428                                      |

At that stage, the sectors in the Market represented:

|                  |              |              |
|------------------|--------------|--------------|
| Telecom          | 17.7%        | 9.9%         |
| Banks            | 17.6%        | 20.1%        |
| Oil & Gas        | 13.5%        | 20.7%        |
| Pharmaceutical   | 11.6%        | 9.2%         |
| Media Technology | 9.3%         | 3.1%         |
| Mining           | <u>2.5%</u>  | <u>5.2%</u>  |
|                  | <u>72.2%</u> | <u>68.2%</u> |

One must be careful of Index Tracking as this can distort sensible investment decisions.

In 2001, Vodafone, following the purchase of Mannesmann, represented 10.6% of the FTSE100 (it now represents 7.2%).

In 2005, Royal Dutch Shell, following the merger of Shell Transport & Trading / Royal Dutch now represents 9.4% of the FTSE100 (in 2001 it represented 3.8%).

And with the moving value, this has a cumulative affect on

“having to buy”  
or “having to sell”

which is nonsense.

Similar nonsense is:

- Many South African stocks creeping into the FTSE100.
- The new gambling shares such as Party Gaming.

As predicted in the July Newsletter, the share price of Party Gaming has fallen from 175p to 90p. How could anybody seriously invest in a company whose founding directors are called Ruth Parasol, Anurag Dikshit and Vikrant Bhargava, who took out £1bn on the flotation.

Another economic theory is proven “there is one born every minute”.

## **Equity Conclusions**

Takeover Fever will continue to hold Stockmarkets up.

Though we like Oil and Mining shares in any long term portfolio, their rise in value is having a profound affect on the FTSE100 Index, meaning that though the FTSE100 might look relatively high, there is indeed a lot of value in the stocks outside the Oil and Mining sectors.

It is easier said than done to “switch sectors”, but always have a:

- a) balance of sectors
- b) with leading stocks in each sector
- c) consider buying ancillary industry stocks eg:

|                           |             |
|---------------------------|-------------|
| <i>Mining Engineering</i> | Caterpillar |
| <i>Oil Engineering</i>    | Hunting     |
| <i>Oil Services</i>       | Petrofac    |

THOUGH ONE MUST NOT GET LEFT BEHIND ON THIS RISE, BE SELECTIVE AND WHEN PURCHASING PUT ON PURCHASE LIMITS TO PICK UP STOCKS ON WEAK DAYS.

### **Foreign Stocks**

#### Australia

Is booming with the Commodity Boom, and we still particularly like BHP Billiton.

#### US

The US\$ Dollar has stabilised around \$1.80. The Dow Jones has not shown much movement, but we still like:

Exxon, Procter & Gamble, Caterpillar

#### Japan/Far East/China

China is booming helping all the economies in the Far East, where Japan at last appears to have turned the economic corner. We like:

Atlantis Japan Growth Fund  
JP Morgan Fleming Japanese Investment Trust

#### Europe

Similar to the UK, Continental European Stockmarkets are performing well, and we particularly like:

JO Hambro Continental European OEIC  
JP Morgan Fleming Continental European Investment Trust

### **Fixed Interest**

UK Base Rates remained at 4 ¾ % from August 2004 to August 2005 the longest period of unchanged Base Rates in the recent era.

Base Rates then fell to 4 ½ % and have since remained at this level, though most economic gurus expect a further fall in due course. We agree, but beware, as inflation rises due to Oil prices, so will Base Rates in due course.

US rates have been steadily rising from 1% in June 2003, to the latest rise to 3.75%, and still rising.

Over the last 3 months:

#### **Average Yields**

|                   |            |
|-------------------|------------|
| Gilts             | 4.2% gross |
| Eurobonds         | 5.1% gross |
| Preference Shares | 5.9% net   |

have barely changed.

## **Fixed Interest Conclusion**

Our views remain the same:

- 1) Stick to short dated stocks, or Index-Linked for absolute safety.
- 2) Non Tax payers purchase Eurobonds for income.
- 3) Only purchase Preference Shares where tax payers desperately need income.

We shall shortly be writing to holders of:

2% Treasury Index-Linked Stock 2006

Soon it will be right to sell (free of commission) before redemption to reinvest into longer dated Index-Linked.

## **Further points to mention**

### 1) **Capital losses carried forward**

With so much capital gain now in clients' portfolios, from share price rises and potential takeover bids, all clients should now check with their accountants if they have any losses "carried forward" to 2005/2006. Please let Barratt & Cooke know if there are any available losses, to use in conjunction with the £8,500 capital gains tax free allowance.

We can then record these allowable losses to be used up in 2005/2006, or future years.

### 2) **Royal Dutch merger with Shell Transport & Trading**

We had a few "large" holders of Royal Dutch, who would have been subject to "unfair" capital gains tax if they had accepted the merger with Shell Transport & Trading.

Despite all the pressure from the company, we advised shareholders not to accept and if necessary suffer the consequences of being a "dissenting shareholder" rather than paying capital gains tax.

We are delighted to say that Royal Dutch Shell have relented and holders will now be receiving Loan Notes.

We shall write to the original Royal Dutch Shareholders shortly. This is just another case of "Barratt & Cooke looking after our clients".

## **SIPPS – Self Invested Personal Pension Schemes**

After 6<sup>th</sup> April 2006, "A Day", pension legislation is changing and many clients who have built up sizeable personal pension plans should consider the opportunity of more flexible SIPPs. If any clients have not yet contacted their Pension Adviser or IFA to discuss these opportunities, they should.

Barratt & Cooke, together with an approved Pension Adviser and Pension Administrator, will be offering a managed portfolio for SIPP investment whereby:

- Pension advice is given by an authorised adviser
- Approved Pension Administrator acts as trustee
- Barratt & Cooke act as stockbroker for the Stocks and Shares element of the SIPP.

For any clients who wish to discuss the opportunities of SIPPs, please contact us and we will arrange a meeting for a review of your Pension plans.

## Discretion

This is now the fastest growing department.

Now that our advice is “stock led” rather than “review led”, many clients prefer us to deal immediately rather than awaiting confirmation instructions.

Your adviser will mention Discretion on reviews, where appropriate.

## AIM Stocks

AIM (Alternative Investment Market) is the Stockmarket for smaller, newer companies (run by The London Stock Exchange), but without the strict regulation of “official quotation on the London Stock Market”.

Because of:

- a) The lack of regulation
- b) Less liquidity in the shares

this makes this market illiquid and speculative.

However, for most AIM Stocks (not financial or property companies) held for over 2 years:

- a) \* capital gains tax is only 10%
- b) \* There is no inheritance tax, as these are classed as “Business Assets”

\* Until the Government changes legislation.

For clients who:

- a) Believe they will survive 2 years!
- b) Are prepared to purchase AIM Stocks with “their eyes wide open” understanding the risks involved
- c) Then there are very considerable inheritance tax savings advantages.

Because these stocks are volatile, illiquid and in some cases fully valued due to the tax implications, any clients purchasing AIM stocks for inheritance tax planning reasons, are advised to have a spread of stocks (and we list 10), eg:

|                       |                        |                          |                    |
|-----------------------|------------------------|--------------------------|--------------------|
| <i>Garden Centres</i> | Dobbies Garden Centres | <i>Publishing</i>        | Huveaux            |
| <i>Food Producers</i> | Glisten                | <i>Babycare Products</i> | Mayborn            |
|                       | Inter Link Foods       | <i>Support Services</i>  | PKL Holdings       |
| <i>Retailers</i>      | Majestic Wine          |                          | Synergy Healthcare |
|                       | Domino's Pizza         | <i>Pharmaceuticals</i>   | William Ransom     |

AIM Stocks are high risk and tax legislation could change.

## ISAs

It is still right for clients to continue to add £7,000 to ISAs each tax year, where clients have now built up very substantial funds, free of capital gains tax and free of higher rate tax.

## **Barratt & Cooke**

Life moves on and since 1<sup>st</sup> April 2005:

- 1) We have incorporated very smoothly to become Barratt & Cooke Ltd.
- 2) We have taken on Non-Executive Directors:  
  
Jonathan Barclay and Jamie Hambro
- 3) We have sold the Shareshop premises 6 Opie Street, Norwich.
- 4) We have opened the new Dealing Department on the corner of London Street / Opie Street.
- 5) My dear friend and partner, Willie Ward-Smith, has retired and Miles Piercy and his “front row team” of Penny Dartnall, Will Mellor and Hayley Cooper have smoothly and efficiently taken over the Dealing Department.

Charles Barratt is not always as visible as he used to be (though he can be heard at times!) but as you can see a lot of work and thought has been going on behind the scenes. However, as in any well run business, I hope no clients have even noticed the changes except for smarter premises and improved services (which everybody should take for granted).

### **Final thought**

On 21<sup>st</sup> October 2005, we shall celebrate the 200<sup>th</sup> Anniversary of The Battle of Trafalgar and thanksgiving for our great Norfolk Hero, Lord Nelson.

At that time, the Stock Exchange was 4 years old, having been established in 1801. However, Stockmarket activity took place in Coffee Houses in the City from the 1690s, and the South Sea Bubble burst in 1720.

I have witnessed Bubbles in:

Australian Mines  
Penny Shares  
Dot Coms

Will the next South Sea Bubble be “minnow” Oil Exploration stocks (when the price of Oil was once \$67 a barrel)?

Only time will tell.

**C W L Barratt**  
**5<sup>th</sup> October 2005**

ps: Like all good journals, we enclose a Su Doku. The first correct answers to both puzzles will receive a treasured Barratt & Cooke pen.

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# Barratt & Cooke

## Su Doku Quiz

|   |   |   |   |  |   |   |   |   |
|---|---|---|---|--|---|---|---|---|
|   |   |   | 6 |  | 2 |   |   |   |
|   | 6 |   | 4 |  | 9 |   | 2 |   |
| 2 |   |   |   |  |   |   |   | 3 |
|   |   | 7 | 2 |  | 5 | 3 |   |   |
| 8 | 2 |   |   |  |   |   | 5 | 1 |
|   |   | 4 | 9 |  | 8 | 6 |   |   |
| 5 |   |   |   |  |   |   |   | 7 |
|   | 7 |   | 1 |  | 6 |   | 9 |   |
|   |   |   | 7 |  | 3 |   |   |   |

|   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|
| 1 |   |   |   |   |   |   | 2 | 6 |
|   |   |   |   | 5 |   | 7 |   |   |
|   |   | 9 |   | 3 | 7 | 1 |   |   |
|   |   |   |   |   | 5 |   | 9 | 8 |
|   |   |   | 3 |   | 8 |   |   |   |
| 5 | 9 |   | 6 |   |   |   |   |   |
|   |   | 1 | 5 | 4 |   | 8 |   |   |
|   |   | 3 |   | 6 |   |   |   |   |
| 9 | 6 |   |   |   |   |   |   | 4 |