BARRATT & COOKE
STOCKBROKERS SINCE 1880

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	1/1/20	5/4/20	1/7/20	5/10/20	1/1/21	5/4/21	1/7/21	5/10/21	1/1/22
FTSE 100	7542	5416	6170	5943	6461	6737	7037	7077	7385
FTSE All Share	4196	2958	3411	3327	3674	3849	4015	4044	4208
Dow Jones (US)	28538	21053	25813	28149	30606	33527	34503	34315	36338
S&P 500 (US)	3231	2489	3100	3409	3756	4078	4298	4346	4766
Nikkei 225 (Japan)	23657	17820	22288	23312	27444	30089	28792	27822	28792
PIMFA Balanced	1679	1389	1574	1581	1677	1718	1778	1711	1849

Growth Equities	Higher Yield Equities	Mid-Cap Equities	Overseas Equities	Collective Investments
Diageo	Admiral	Bytes Tech	Coloplast	APAX Global Alpha I/T
Experian	Anglo American	Fevertree	Deere & Co	Blackrock Throgmorton I/T
Intertek	Reckitt Benckiser	GB Group	Fastenal	Cordiant Digital Infrastructure I/T
LSE	Rio Tinto	Liontrust A M	L'Oreal	Harbourvest Global Pvt Equity I/T
RELX	Royal Dutch Shell	NCC Group	Microsoft	JP Morgan Emerging Markets I/T
Rentokil	SSE	Rotork	Nike	Smithson I/T
Rightmove	Unilever	Spirent	Schneider Electric	TR Property I/T

Like a phoenix

I didn't watch BBC Sports Personality of the Year (see below) however, whilst people's champion Emma Raducanu was a worthy winner, it was absolutely the wrong decision. Tyson Fury's victory, twice rising from the canvas to win inside the distance was, for sporting purists, undoubtedly the performance of the year. That said, with Raducanu's bleeding knee both had to overcome adversity, as did Bob Champion (beating cancer) and Aldaniti (recovering from a bad leg) to get to the Grand National in 1981 (I won't spoil the end) as depicted in the classic film "Champions", our Christmas viewing this year.

Plenty of others have triumphed in the face of adversity, none more so than Her Royal Highness The Queen who delivered a remarkable Christmas speech without her rock, Prince Philip, in the wings for the first time. However, it wasn't just individuals who triumphed in the face of such challenges, the tools of our trade, Stockmarkets, have shown that they too can punch with the force of Wilder, dance with the finesse of Fury, rally with the defiance of Raducanu, show the courage of Bob Champion and demonstrate the fortitude of The Queen.

These markets have stared the COVID-19 pandemic in the face, where Omicron has replaced Delta, and have risen with greater resilience than anyone could imagine. The FTSE 100 started the year at 6460 points (31st Dec 2020) and finished it at 7,385 points (31st Dec 2021) to register a 14.3% increase. With global markets behaving similarly, or even better, some might say that Stockmarkets have in fact 'risen like a phoenix from the ashes'.

To be honest I don't wish to dwell on 'The Ashes' too much (sorry for the tenuous link). The First Test saw the second most delusional decision since the winter of 2020-21 (to bat first on a green pitch in overcast conditions having left out Anderson and Broad). We have all seen the memes "COVID-19 - if you need a quick Test play the Poms at cricket". An unequivocal disaster. However, in sport, teams can simply be outclassed and Australia currently have more strength in depth than England and we can accept that.

What we can't accept is the far worse decision made by the 'party planner' at Downing Street a year earlier. Apparently, whilst 'we' couldn't see friends and relatives 'they' were allowed a party. Hypocritical, careless and arrogant at best; rule breaking and dangerous at worst. We shall all be interested to see who pays the £10,000 fines levied on the pub landlords who were humiliated when breaching straight forward instructions earlier in the year.

In other news:

- We saw the madness of Insulate Britain activists gluing themselves to roads as vehicles sat stationary with engines purring, children held up on school runs, commuters disrupted on their way to work and even trips to hospital halted.
- Cricket was brought to its knees with racism reports before Azeem Rafiq, himself, had to apologise for antisemitic words; what a total mess.
- Kamala Harris became the first female acting President whilst Joe Biden, whom you may remember, or not, had a routine trip to hospital.
- Boris Johnson got increasingly confused with yet more unfathomables. I have no problem with him mentioning Peppa Pig; as a brand she is an extraordinary success. However, again, his positive spin is unbearable. The theme park is in fact one of the worst places on the planet and that comes from personal experience. An extraordinary mis-selling Prime Minister.

In addition:

- Energy companies have gone into administration demonstrating that price wars stemming from comparison websites really are in the interest of the consumer, to the extent that the companies can no longer absorb volatility in gas prices. The fact that 'Bulb', our supplier at home, went bust is testament to Hannah shopping around for the best price. Rather like the banking crisis, the Government (which actually means the tax payer) is left to pick up the pieces.
- There was the dreadful tragedy of MP Sir David Amess (who was a true local hero, so proud of his constituency and the constituents of Southend-on-Sea). We salute you. There were also those in inflatable dinghies crossing the Channel trying to seek a better life. We hope Chinese tennis star Peng Shuai is safe.
- Boris and Carrie had a baby whilst Assange got extradited.
- And, like our friend Fury, we are instructed to keep danger at bay by continuing to jab, jab, jab and perhaps jab again, something it is unlikely the greatest tennis player of all time (No-vax Djokovic) will be doing!
- The leader of the opposition is starting to look a little careless. Whilst he has been scathing of Government policies he is now isolating for the 6th time having contracted COVID-19 again. We wish him well in his recovery and advise him to be vigilant, as clearly his own protocols aren't working. We must seek to protect ourselves first as this is what will bring the pandemic to an end.

Whilst negotiating 2021, we had to put up with the press. We know that with the virus we have to be careful, abide by the rules and be respectful of others. It would, however, be nice if from time to time the BBC could provide us with a little hope and optimism, rather than the extraordinary negativity they set about on a daily basis. I am not sure that the way to overcome the plethora of challenges faced is through such dour scaremongering. As it approaches its centenary I'm afraid our British Broadcasting Corporation seems to have lost all of its fortitude and war like spirit. Indeed, it has gone far beyond that dreadful word – 'woke'. Hannah banned BBC news in our house some months ago (fair play). I held on despite the Kuenssberg era but the straw that broke the camel's back, for me, was when my favourite journalist (and BBC stalwart for many years) Andrew Marr resigned with such scathing words on departure.

For some time my personal view has been that Omicron is the beginning of the end (words I have used before) but I am not a Doctor, nor a journalist, so I shall comment no further. Perhaps I am too much of an optimist but I feel, strongly, that 2022 will be a truly great year. That said, my outlook for the world is overwhelmingly more positive now that I no longer 'take' the BBC.

Portfolio performance

Thank you for all the positive comments with regard to portfolio performance, where, generally, statistics from the last quarter have been encouraging. Over the last two years we have had to hold our nerve, something CWLB taught us and JALB taught him. It is rare that investors are bullish as, inherently, we are cautious beings. It never seems like a good time to invest as when markets are low the fear is we are nowhere near the bottom. Conversely, as markets then start to rise, the immediate reaction is "we have missed the boat" or "there will be a further correction". However, it has been right to 'get in' and stay invested, albeit reposition slightly, where the polarity between 'good' opportunities and 'bad' ones has rarely been so pronounced. That said, overall, patience and persistence (see the end of this newsletter) has rewarded investors despite the turbulence since March 2020.

Companies - getting under the skin

I, like many in our industry, am guilty of talking of "Stockmarkets" but, are stockmarkets 'things'? Are they tangible? Can we buy them? Do they actually exist?

A strange question when, above, I refer to them as the tool of our trade! And, even stranger when the answer to each of the above questions is, quite possibly, no. Whilst Stock Exchanges most definitely exist (LSE for example), Stockmarkets are just a series of numbers and an algorithm of weighted averages.

For example the FTSE (which stands for the Financial Times Stock Exchange) is simply a list of large companies in public ownership, a list which was first published in the FT hence the name. The value of the FTSE 100 (i.e. 7,385) is a weighted average by market capitalisation of the 100 biggest companies which happen to be listed in London. Given that this number is 'just' an average we acknowledge that "the market" is less relevant as a whole than its individual investable components. In the case of the FTSE it is the 100, 350 or 1,374 (including AIM) individual companies which count. Or similarly, in the case of the S&P the 500 companies which count; or for the Dow Jones the 30 companies which count; or with the Nikkei the 225 companies which count. Therefore, our job is as much about the avoidance of the 'bad' as it is the selection of the 'good'. Screening out the poor quality companies is as important as identifying the good companies.

Of course stock selection is not quite as binary as 'good' and 'bad' companies. One can invest into a well-managed business with seemingly strong fundamentals (micro factors) but which is increasingly experiencing a challenging trading environment i.e. weak macro conditions and this can turn out to be a disappointing investment. Looking back at the last two years, assuming that micro credentials are consistently strong (of course there is the odd trap) we can see how macro impact has been the main driver of company fortune, with companies operating in sectors such as Technology, Healthcare, Pharmaceuticals, Packaging and Renewable Energy benefitting from strong tailwinds, whereas those operating in structurally challenged sectors such as High Street Retail, Hospitality and Travel have struggled.

Is this the fault of the company? Perhaps not. In retail we have witnessed management teams at High Street Retail incumbents seek to reposition with the development of an online presence to embrace the digital world, yet with the burden of high cost bases and expertise in more traditional processes the transition is very difficult indeed. Pubs and airlines have simply had to sit and wait, constrained by COVID-19 restrictions. I just pray that my friends who work in the travel and leisure sectors can now 'make hay', for all of our sakes.

Of course an opening up of the economy and a commitment not to lockdown again could see a rotation back into currently out of favour holdings in so called 'value equities'. However, it is important to be aware that such stocks typically operate in structurally challenged sectors where the rate of change has merely been accelerated by the pandemic and proliferation of technology; from the way consumers behave/spend/interact to the cost of raw materials.

Will the high street ever be what it was? Unlikely. Yes, Gentleman's Walk in Norwich was densely populated pre-Christmas but, observationally, it was with people carrying Café Nero coffee cups. I did not see anyone trawling around with small children whilst carrying 4 or 5 bags and a hockey stick under an arm. Nor did I see people in suits carrying a stack of books, flowers and Jo Malone delights on Christmas Eve, in a desperate attempt to paper over the cracks of ill prepared planning. Why? Because the simplicity of clicking a few buttons combined with the reliability of a van arriving at your home within 24 hours to deliver is far more preferrable to the hustle and bustle of a 'nightmare day in Norwich'.

Those that campaign for a greener planet but sit on their backsides expecting vans to run around the country for them are as hypocritical as the Tory party planner, but that is an argument for this grumpy old man another day. The point is, even if we feel that a retail business is well run, if its internet offering is not sufficiently relevant then it is unlikely to meet our investment criteria. Marks and Spencer, a darling of portfolios in the 1990s and Woolworths in the 1960s have sadly but predictably been replaced by online innovators.

Businesses make money through their margin where (hopefully) costs are less than revenues, and the difference, profit, benefits shareholders. Either this profit is paid out in the form of dividends, or it is re-invested within the business to create greater potential for future profits, a virtuous cycle of generating long term shareholder value. Please forgive me for the simple (erring on patronising) explanation but, rather like avoiding certain companies and sectors, the key here is that we must be equally as mindful of input costs as we are of consumer demand and pricing point. This is particularly relevant in the current inflationary environment which we have written about at length in previous newsletters. Many businesses are experiencing unprecedented input cost inflation which cannot all be passed on to the consumer, again, a 'red flag' for low margin high turnover businesses with considerable labour forces.

	Start	High	End	% Change
Oil ($/bbl)	51.72	86.10	77.94	+50.7%
Pulp (CNY/Ton)	4583	6515	5311	+15.9%
Aluminium ($/mt)	1978	3180	2806	+41.9%
Wheat ($/bu)	6.42	8.68	7.71	+20.0%
UK National Living Wage	£8.72		£8.91	+2.2%
Shipping ($)*	4,221	20,586	14,070	+233.3%

**40ft Container indices for ocean freight from China to USA West coast.*

Inflation in input costs can be ridden out by the strong, and particularly those companies which are able to increase their prices with inflationary costs. Indeed, sometimes it is prudent to side with the 'best in class' in an industry which is experiencing a difficult period, since during such challenging times competitors can fail leaving a larger market share for the survivor. This is why when selecting investment opportunities balance sheet analysis is also undertaken alongside cash flow forecasting. A company which puts aside asset or cash for a 'rainy day' is one which is managed prudently. We may occasionally make a contrarian decision to invest in an opportunity which looks out of keeping with our overall strategy, but it will be based on our underlying analysis process.

Many clients were, for example, surprised at our purchase and subsequent sale of Domino's Pizza at the start of the pandemic. I heard a number of times 'that's not a very Barratt and Cooke type stock' but in fact the balance sheet was sound and they could operate whilst their peer group, specifically restaurants, were closed. A reasonable profit, whilst markets were falling, was the end result.

We do however typically favour companies where businesses are easily scaleable and do not suffer from the above pressures, such as those within the technology sector which we believe can justify P/E ratios of 40x earnings where historically we might have been cautious on those at 20x earnings. That said, technology does not come without risk and it is possible (if not probable) that the next global pandemic will be a cyber event rather than a physical one, so a reasonable weighting to the sector is beneficial but we won't get carried away.

I firmly believe that portfolios are well positioned for both now and the future, particularly with an ever increasing international bias. It has been prudent not to 'chase' income as many of the higher yielding equities have had a torrid time of late. Yield is of course a function of both the dividend distribution and price and often higher yielding stocks are such simply because share prices have fallen, for good reason. We far prefer dividend growth over dividend yield.

I know that natural income is important to some clients and a small tapering of income payments is not ideal, but your advisor will be happy to advise you on top slicing profits from a strong performer to supplement this. I think it is important to note that CWLB, who used to have the mantra 'protect capital at all costs and spend income if you require it', is now of the mind (as are all of our advisors) to top up income with capital if required, rather than buy 'bombed out' higher dividend paying businesses.

To put this in perspective core holdings such as Halma, Experian, Microsoft, Amazon, Visa, Estee Lauder, L'Oreal, Nike (let alone some more niche growth holdings) all distribute income yields of under 1% (and zero in the case of Amazon which invests heavily in the future of the business). Arguably this list is far more forward looking than a 4%+ yielding portfolio of FTSE stocks in sectors such as Commercial Property, Tobacco and Oil. But the total returns (capital growth plus income) generated by these lower yielding equities, some of which have tremendous multi-year records of dividend growth, are, and in our opinion will continue to be, attractive. The anomaly is perhaps the Mining sector, where, despite economic cyclicality, there is potential for both high dividend income and capital growth into the future.

No changes in capital taxes

With no changes to capital taxation in the budget ISAs (where both income and capital gains are sheltered from tax) remain so important. We invite clients to subscribe to ISA (or JISA for minors) each year if they have done them in the past (some do them elsewhere or with cash), but if you'd like to subscribe do let your advisor know. Moreover, ISAs are also a really important tool for intergenerational planning as substantial capital gains taxes can been avoided. Whilst mentioning intergenerational planning, should you wish to investigate utilising our AIM service to mitigate IHT (under current tax rules) please do contact your advisor. We automatically draw this to the attention of clients for whom we deem it appropriate with certain thresholds revolving around age, portfolio size and income requirements, but it might be that you have assets elsewhere or changing circumstances which mean this service could be of use to you.

ESG

We all saw the contradictory images of the US President arriving at COP26 (the conference of parties exploring ways to create a greener planet) with more 'gas guzzlers' than the whole of his army. At least he turned up unlike Putin and Xi. The press (again) seemed to let these pieces of news dominate headlines, however some significant progress was made. The promise of 'just' a 1.5 degree rise was committed to by 197 countries. Focus was on deforestation, coal (where 8,500 power stations will be decommissioned by 2030), methane emissions (which are to be cut by 30%), distribution of funds (where $500bn has been pledged by wealthy countries to help those less well off).

China put up some resistance, calling for scope to incorporate a 2 degree rise and India too felt the proposal was fairly unachievable. It was, however, refreshing to hear from inspirational young environmentalists, particularly an extraordinary young woman from Kenya, Elizabeth Wathuti, who has set up a charity to plant trees. She talked with such intellect, passion and indeed pain; a nice change from Miss Thunberg's "blah, blah blah" rhetoric.

We are committed to the ESG cause and continue to incorporate fundamentally attractive investments which also score well on an ethical basis across all portfolios. Moreover, for clients who wish to ensure their entire portfolio is aligned with an ethical investment strategy, we also now offer pure ESG portfolios where strict restrictions on 'sin stocks' are combined with investment into 'impact stocks' which contribute positively to environmental, social and governance factors. As part of our research process, I am delighted to confirm we have entered into an agreement with a firm called Ethical Screening who will work with our internal analysts to ensure underlying investments are suitable within an ESG investment strategy. If you would like more information on our ESG Portfolio Service please do not hesitate to contact your advisor.

Fund Portfolio Service

Our recently launched Income Fund has got off to a strong start and now trades ahead of its benchmark. Our stable of funds (Balanced, Growth & Income) have recently passed through the £100m level and provide fantastic solutions for portfolios under £400,000. This means we really are able to look after any client for whom Stockmarket investment is appropriate, whilst the funds provide further an attractive option for intergenerational planning as mentioned above (gifts to children/grandchildren). Of course if you would like details, your advisor will happily discuss the funds with you.

Conclusion

I was sent the following quote by a friend of mine. It was with regard to something personal but on reading it I thought it was even more appropriate to the Barratt and Cooke team:

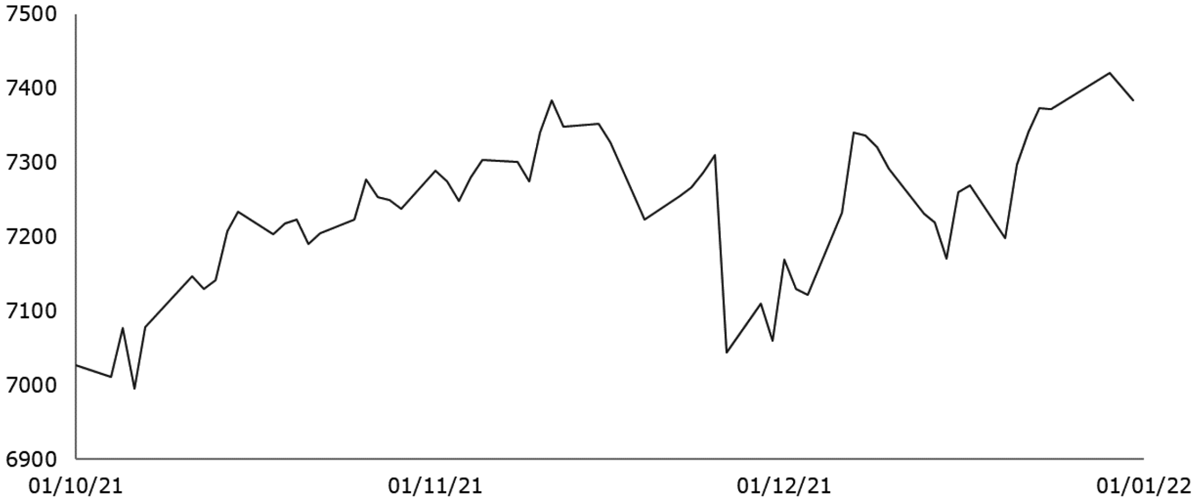
"Nothing in this world can take the place of persistence. Talent will not; nothing is more common than unsuccessful men with talent. Genius will not; unrewarded genius is almost a proverb. Education will not; the world is full of educated derelicts. Persistence and determination alone are omnipotent. The slogan 'Press On' has solved and always will solve problems of the human race". Calvin Coolidge (30th President of the United States of America from 1923 to 1929).

Whilst at Barratt and Cooke we have plenty of employees with excellent degrees from flagship universities such as Bath, Cambridge, Durham, Exeter and Nottingham, as well as some lesser celebrated ones, I think it is fair to say that what we do best is we persist, an ethos which has stood the test of time. Indeed, rarely has persistence been more important than through the challenges of the global pandemic and I say, hand on heart, our whole team (front and back office) has done everything it can in recent times. Consequently it has been a privilege to continue to serve every single client through this difficult period. We shall continue to persist through all challenges thrown at us; both within the four walls of work and outside, as those mentioned at the very top of this newsletter did in 2021.

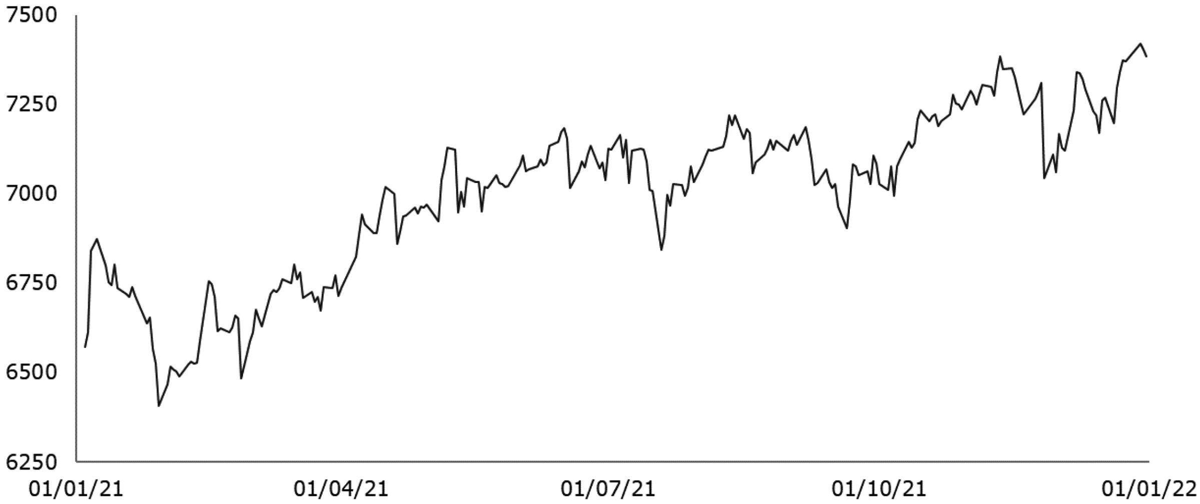
2022 is going to be a brilliant year.

WJB
01/01/2022

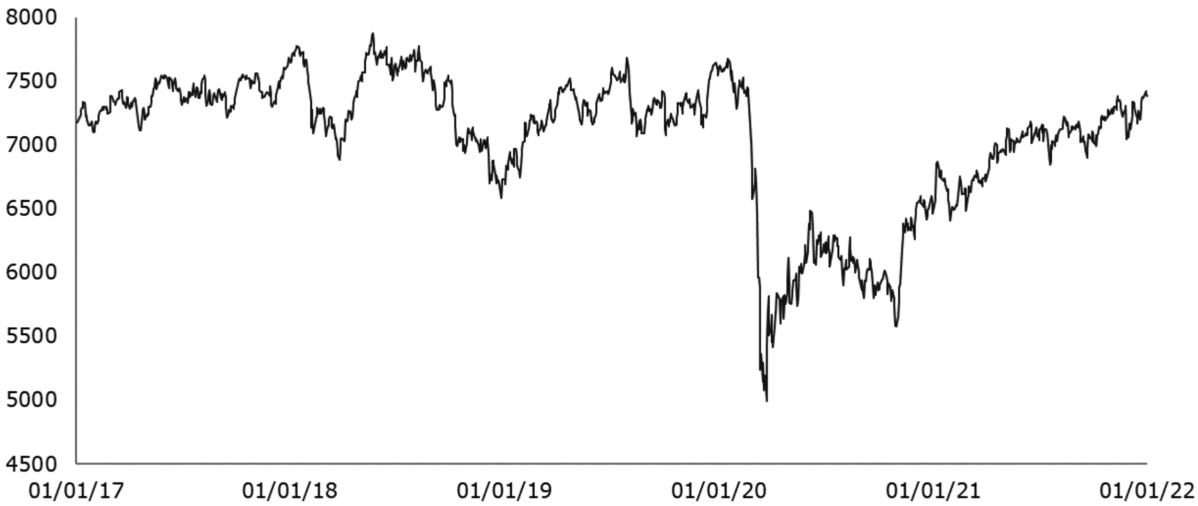
FTSE 100 – Previous Quarter



FTSE 100 – 1 Year



FTSE 100 – 5 Year



Source: Iress