

| | 1/1/12 | 1/1/13 | 1/1/14 | 5/10/14 | 1/1/15 | 5/4/15 | 1/7/15 | 5/10/15 | 1/1/16 |
|--------------------|--------|--------|--------|---------|--------|--------|--------|---------|--------|
| FTSE 100 | 5572 | 5898 | 6749 | 6528 | 6566 | 6834 | 6609 | 6299 | 6242 |
| FTSE All Share | 2858 | 3093 | 3610 | 3486 | 3533 | 3696 | 3616 | 3457 | 3444 |
| Dow Jones (US) | 12218 | 13104 | 16577 | 17010 | 17823 | 17763 | 17758 | 16776 | 17425 |
| S&P 500 (US) | 1250 | 1426 | 1848 | 1968 | 2059 | 2067 | 2077 | 1987 | 2044 |
| Nikkei 225 (Japan) | 8455 | 10395 | 16291 | 15709 | 17451 | 19435 | 20329 | 18005 | 19034 |
| WMA Balanced | 2895 | 3063 | 3395 | 3441 | 3549 | 3703 | 3582 | 3497 | 3531 |

Growth Equities

Babcock Int.
Diageo
Dixons Carphone
Experian
easyJet
Intl. Hotels
Intertek
Reckitt Benckiser
Sage
Unilever

Higher Yield Equities

AstraZeneca
BATS
BP
British Land
HSBC
National Grid
Rio Tinto
Royal Mail
Smiths Group
Standard Life

Mid-Cap Equities

Croda Intl.
DS Smith
Galliford Try
Hiscox
NCC Group
Pennon
Senior
Shaftesbury
SSP Group
Victrex

Overseas Equities

Colgate-Palmolive
ConocoPhillips
CR Bard
Johnson & Johnson
Kimberly-Clark
Kone
L'Oreal
Nestlé
Roche
Wolters Kluwer

Collective Investments

Bankers IT
City of London IT
Finsbury Growth & Income IT
Henderson Smaller Co's Trust
JPM American IT
Monks IT
Murray International IT
Pacific Assets Trust
Perpetual Income & Growth Tst
Worldwide Healthcare Trust

"It's Balls"

Having just mown the lawn on Boxing Day; watched the desperate news of floods in Cumbria and York; telephoned my niece in the snow-free Alps; filled up my car at 99p a litre; and contemplated 'City's' 2 - 1 victory at Old Trafford; I now turn on Radio Norfolk to hear the new Chairman of Norwich City, Ed Balls. I sit back and think 'what has the world come to'.

The early part of 2015 has been recorded in previous chronicles, and I now reflect upon the last 3 months of this extraordinary and rather depressing year, as the horrors continue:

- A Russian airliner was bombed down in Egypt, killing all 224 on board.
- Islamic State continued to indiscriminately target Paris with 129 people murdered at a music venue following which the whole of England sang 'La Marseillaise' at Wembley in respect and sympathy.
- Brussels was placed on 'high alert' while the city was effectively closed down.
- Parliament voted for military action against ISIS in Syria with a majority of 174.
- Donald Trump (the tweet!) called for Muslims to be banned from entering the US.
- A 16 year old boy (from Norwich!) was accused of hacking into TalkTalk.
- John McDonnell (shadow chancellor) quoted from 'Chairman Mao's little red book'.

and on top of all this:

- Sepp Blatter (who is desperately in need of a shave) was found guilty of corruption.

On a brighter note:

- The Lords overturned 'tax credit cuts', helping the less fortunate in our society.
- Unemployment fell to a 7 year low of 5.2%.
- Shaker Aamer was released from Guantánamo Bay after 13 years without trial.
- Britain won the Davis Cup (Andy Murray was right about Worthing!).

and:

- My hero, A P McCoy was knighted: 'arise Sir Anthony'!

BREXIT

- Cameron continues to negotiate – but for what?
- John Major waxes lyrical about the US / UK and Europe.
- Whilst Halsall argues with passion about red tape, sovereignty and cost.
- The Norfolk farmer extols the virtues of C.A.P. (the Common Agricultural Policy) having moaned about it for 20 years.
- Stockbrokers and other professionals highlight the cost of 'red tape' of MiFID II.
- And the 'man in the street' tries to pour a litre into his pint glass.

The true answer is that very few people have a clue which way they will vote, and in a 'Barratt Brexit Poll' the findings were:

19% In
21% Out
60% 'Shake it all about' genuine floaters

The number of well-educated, respected people who do have views but just do not know which way they will vote (me included) is quite extraordinary.

No doubt Major or Halsall will persuade me in the end, just as they will the nation. I just hope it is the right decision. Stockmarkets hate uncertainty and the sooner the referendum is out of the way, the better. We shall wait and see.

STOCKMARKETS

I look back to the FTSE 100 in 2015 and forward to 2016.

| | | |
|---|------|----------|
| Starting the year at | 6566 | 01/01/15 |
| Rising on positive financial data and pre-election euphoria (breaking the previous high of 6932 set on 01/01/00) | 7104 | 27/04/15 |
| It then drifted back on post-election lethargy | 6609 | 01/07/15 |
| The bubble then burst in China and oil and mineral prices crashed: Oil at \$36.9 down from a high of \$115 (2014) Iron ore at \$40 down from a high of \$158 (2013) | 5899 | 24/08/15 |
| Subsequently ending 2015 down 4.9% at | 6242 | 31/12/15 |

I have updated this newsletter on 7th January 2016 as we enter the year with a maelstrom of depressing facts:

- The Shanghai stock exchange was suspended twice, falling 7% on each occasion.
- The price of oil fell below US\$33 a barrel.
- North Korea tested an H Bomb (5.1 on the Richter scale).
- There was another Jihadi John style execution in Syria.
- Saudi Arabia and Iran cut-off diplomatic relations.
- Jeremy Corbyn's shadow government reshuffle was a farce.
- There were fears of interest rate rises across the world following the first rise in the US for 9 years.

And so the bad news continues.

Let us actually look at the facts:

1. There has definitely been a slowdown in the Chinese economy, although Chinese GDP growth is still predicted to be in excess of 6% this year.

It is difficult to trust Chinese financial data, and also very difficult to understand its fragmented, manipulated and artificially controlled stockmarkets (our advice has always been to invest in companies dealing with China, not the actual Chinese companies quoted in Shanghai).

2. This slowdown in the world's second largest economy has affected the demand for minerals, causing a slump in mineral prices. Producers have increased supply in recent years and are now left holding surplus stock which is being dumped on the world with disastrous effects in Redcar, Scunthorpe and Lanarkshire.

This affects FTSE 100 stocks such as BHP Billiton, Rio Tinto, Glencore, Anglo American.

3. Likewise there is a surplus of oil, not only because of the slowdown in China but due to international factors including:
 - Excess production in Saudi Arabia to crush the US Shale Oil industry.
 - Iran's intention to substantially increase its oil exports after sanctions are lifted.
 - Oil producing countries such as Venezuela, Russia etc. requiring revenue.
 - The complete collapse of OPEC (the oil cartel).

This affects FTSE 100 companies: Royal Dutch Shell, BP, BG and all service companies connected with oil and gas production.

We are therefore witnessing the oldest rule of economics:

'the law of supply and demand'.

The FTSE 100 has been badly affected by the crash in oil and mineral prices, due to its weightings in:

| | <u>% of FTSE 100</u> | |
|---------------|----------------------|-----------------|
| | <u>01/01/15</u> | <u>01/01/16</u> |
| Oil shares | 14.5% | 11.9% |
| Mining shares | 7.3% | 3.6% |

Interestingly, with the fall in prices of oil and mining shares, the weightings have now decreased considerably against other sectors.

However, economic news in the UK is good

The UK is the second best performing economy in the western world:

- A stable 'pro-business' centre-right majority party (the Conservatives).
- Estimated GDP growth of 2.4% each year for the next 3 years.
- Unemployment at a 7 year low of 5.2%.
- Inflation: CPI 0.1% (well below the 2% target) and RPI 1.1%.
- Bank base rate 0.5% (interest rates discussed later).
- Relatively weak sterling against the US\$ at \$1.47; reasonable against the euro at €1.36.
- Corporate profits and dividends at all-time highs (which could now be the peak).
- The UK is marginally a net beneficiary of lower oil prices.

This generally augurs well for the UK.

In Europe

Following Draghi's announcement that from March 2015 the European Central Bank (ECB) would pump €60bn into the European economy each month 'for as long as it takes to stop deflation' and the reduction of the ECB deposit rate to -0.3% (I repeat MINUS), the German and French economies are beginning to stir from the doldrums; which bodes well for the major European economies.

In the US

- Low oil prices assist their economy (they have shale if needed).
- Corporate profits have been rising.
- Corporate M&A activity has been very significant (see corporate actions later).
- Wages are rising: 'the feel good factor'.

Though:

- The US\$ is strong which will impact US exports.
- Interest rates have just started to rise to 0.25%!
- And, we have the bedlam of the US elections (even Mrs Clinton would be better than Mr Trump!).

Selective, quality US stocks should still be good value for the longer term.

Overall

We must accept:

1. There will be volatility in China and emerging markets (there always is).
2. There will be volatility in commodity prices, which are very difficult to predict (will today's US\$33 a barrel be the low?!).
3. Terrorism will continue around the world.
4. World interest rates will rise (on good news), albeit from very low levels:
UK 0.5% US 0.25% Europe -0.3%
(whilst there will be withdrawal symptoms as we withdraw from the addiction of low interest rates and quantitative easing).
5. European debt will raise its ugly head again (Greece etc.)
(we survived Greece as we have done Spain, Portugal, Italy and Ireland so far, and nobody seems to talk about US or UK debt).
6. Corporate profitability and indeed dividends could start to fall (in the short-term dividends could be relatively secure by using debt but this would be a worry in the longer term).

But with the UK economy growing at 2.4% per annum we now have:

FTSE 100:

| | |
|------------------------|-------|
| Average P/E | 17.4x |
| Average dividend yield | 3.9% |
| Average dividend cover | 1.5x |

while 10 year conventional gilts are yielding 1.96%

and short-term deposits next to nil.

- we are still 'cautiously optimistic' for UK and US equities.
- we have started to dip our toe in Europe.
- while we would continue to be wary of China and emerging markets (except as part of overall portfolios).

We actually feel this recent fall in the FTSE 100 presents investment opportunities and we will be looking to invest cash when appropriate.

INTEREST RATES – FIXED INTEREST INVESTMENT

Following good economic data and a rise in wage inflation, the US Federal Reserve's key Federal Funds Rate has risen for the first time in nearly 9 years to 0.25 – 0.5%; TINY BUT SIGNIFICANT.

This has given the world the sign that the US is now prepared to raise rates slowly but steadily to stave off inflation.

Mark Carney, the governor of the Bank of England, seems to blow 'hot and cold' as to his timing of increasing interest rates, which he is bound to do one day where he has stated his 'norm' to be 2.5% in due course.

The timing does not really matter, whether the rises start in 2016, or even 2017, it is a certainty that they will go up at some point.

It is also a certainty that when base rates go up so will bond yields (corporate and gilts), and for yields to rise prices of bonds need to fall.

Investors all want higher yields, but investors should stay:

'very short, very liquid and very safe'

in short dated conventional or index linked gilts to have the safety of capital, whereby they will have the flexibility to re-invest in higher yielding bonds in due course.

In the meantime, as prices fall and yields rise, there could be mayhem in the longer dated fixed interest markets as corporate bond holders panic out (you have been warned).

Corporate Actions

As predicted, the fun has really started in the US with:

| | |
|------------|--|
| US\$32.3bn | Warren Buffett's bid for Precision Cast Parts |
| US\$100bn | Heinz merger with *Kraft Foods *(Kan't remember a (flipping) thing) |
| US\$160bn | Pfizer's takeover of Allergan (well I suppose Viagra and Botox are a perfect fit!) |
| US\$110bn | Dow merger with Dupont |

and in the UK:

| | |
|--------|--|
| £4.4bn | Rexam takeover bid from Ball Corporation |
| £3.5bn | Amlin takeover bid from Mitsui Sumitomo |
| £47bn | BG Group takeover bid from Royal Dutch Shell |
| £71bn | SAB Miller takeover bid from AB Inbev. |

Rights issue:

Standard Chartered 2 for 7 at 465p

Other corporate actions:

- UBM consolidation 8 new for every 9 held and 55.3p special dividend
- Johnson Matthey consolidation 17 new for every 18 shares held and 150p special dividend
- Melrose 240p return of capital with consolidation terms to be confirmed 26/1/16

The most widely rumoured UK corporate activity at the moment is a merger between

Vodafone / Liberty

which seems very plausible, but we shall see.

We shall be sending further advice on all corporate actions in due course, and at the moment are watching:

BG Group
SAB Miller

very carefully.

ISA

With constantly changing tax rates, it is sensible for most clients to subscribe the maximum allowable (£15,240) to ISAs before 5th April 2016, if you have not already done so.

ISAs are not only capital gains tax free but there is no further tax on income whilst they do not have to be declared on tax returns and are excellent for future tax planning.

In Conclusion

We are living through times of extreme volatility in stockmarkets; unprecedented falls in the commodity markets while UK interest rates remain at 300 year lows.

There has been a slowdown in growth in China; there is political uncertainty throughout the world from Iran to Saudi Arabia, from the US (elections) to the UK (the EU), while terrorism raises its ugly head again.

The oldest rule of economics is proved yet again with:

'the law of supply and demand'

in the oil and metals prices.

Like water, markets will find their own true level one day, but in the meantime, remember those salutary words of Rudyard Kipling:

If you can keep your head when all about you
Are losing theirs and blaming it on you,
If you can trust yourself when all men doubt you,
But make allowance for their doubting too;
If you can wait and not be tired by waiting...

time will tell.

Happy New Year.

CWLB
01/01/16

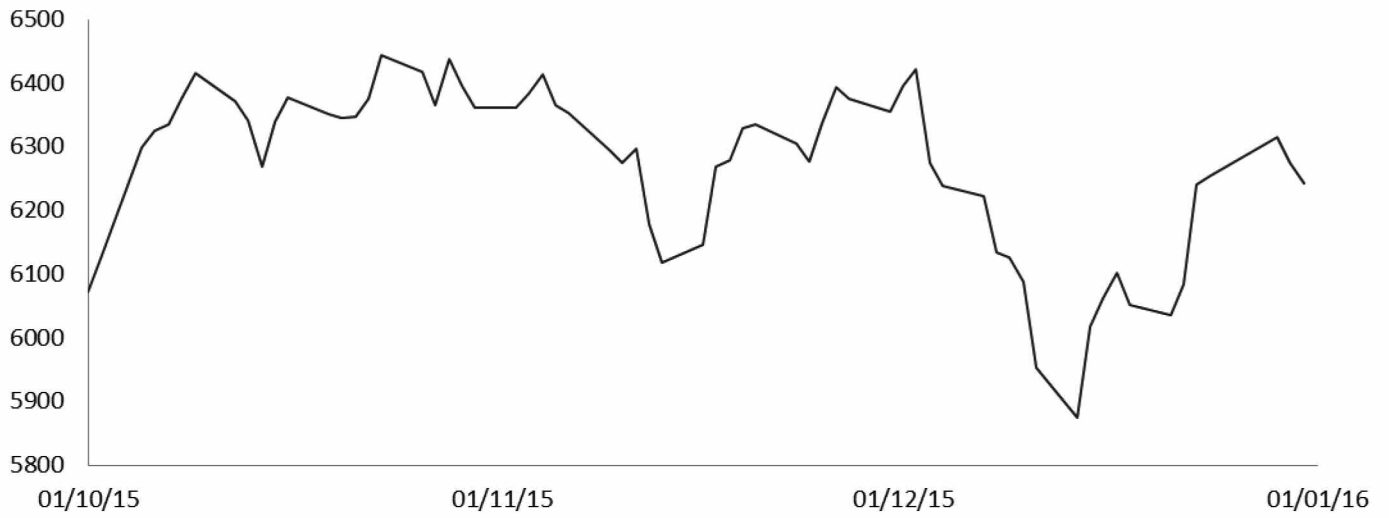
p.s. It's Balls. Since Ed Balls has left Whitehall, I am glad he has chosen the terraces of Carrow Road rather than the Woolsack of Westminster, where the Canaries have won 3 out of 4 matches over Christmas.

'On the Balls City'.

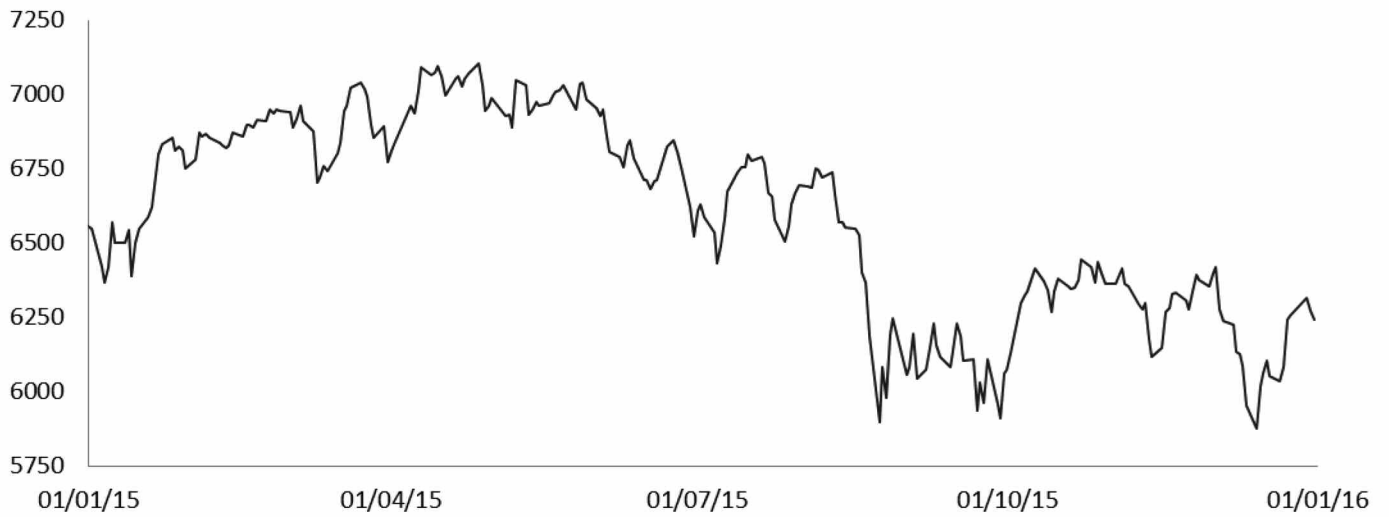
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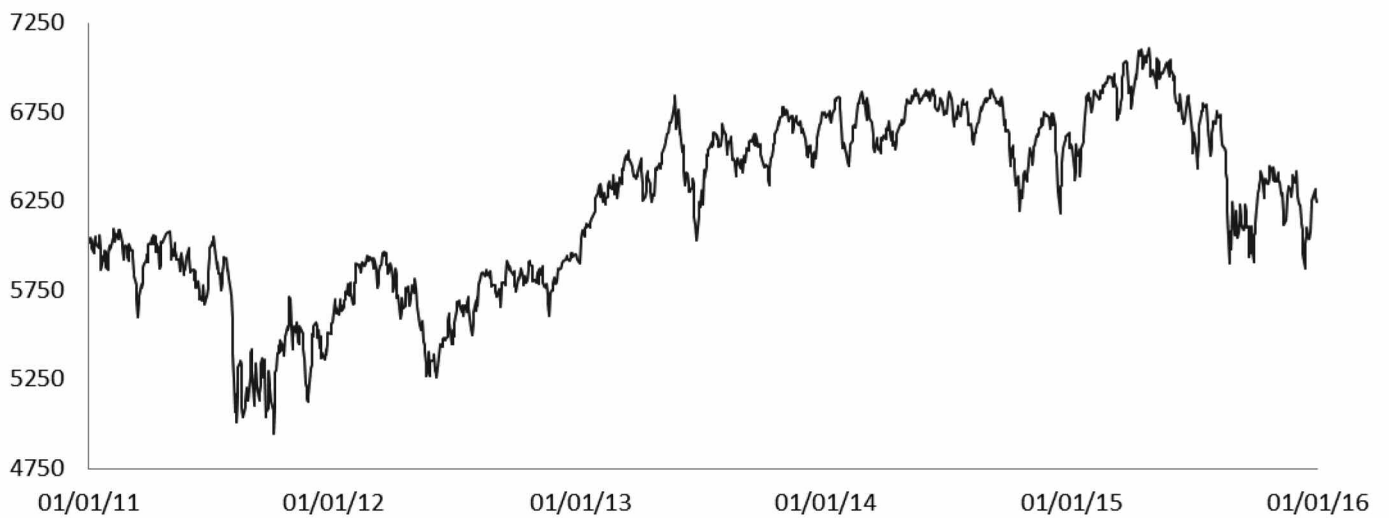
FTSE 100 – Previous Quarter



FTSE 100 – 1 Year



FTSE 100 – 5 Year



Source: Proquote