BARRATT & COOKE
STOCKBROKERS SINCE 1880

WWW.BARRATTANDCOOKE.CO.UK

TELEPHONE: 01603 624236

	5/4/15	1/7/15	5/10/15	1/1/16	5/4/16	1/7/16	5/10/16	1/1/17	5/4/17
FTSE 100	6834	6609	6299	6242	6091	6504	7033	7143	7332
FTSE All Share	3696	3616	3457	3444	3351	3515	3827	3873	3997
Dow Jones (US)	17763	17758	16776	17425	17603	17930	18281	19763	20648
S&P 500 (US)	2067	2077	1987	2044	2045	2099	2160	2239	2353
Nikkei 225 (Japan)	19435	20329	18005	19034	15733	15576	16819	19114	18861
WMA Balanced	3703	3582	3497	3531	1312*	1394*	1475*	1492*	1538*

*these numbers have been rebased by the WMA

Growth Equities	Higher Yield Equities	Mid-Cap Equities	Overseas Equities	Collective Investments
Assoc. Brit Foods	AstraZeneca	Beazley	Amadeus	Bankers IT
BHP Billiton	BP	DS Smith	Colgate-Palmolive	Caledonia IT
Diageo	Imperial Brands	Hill & Smith	Estée Lauder	Fidelity Special Values IT
Micro Focus	ITV	McCarthy & Stone	Heineken	Finsbury Growth & Income IT
Prudential	Lloyds	NewRiver REIT	Kimberly-Clark	Monks IT
RELX	National Grid	Pennon	Nestlé	Murray International IT
Sage	Next	Rotork	Novartis	Pacific Assets Trust
Schroders	Rio Tinto	Saga	Schindler	Schroder Oriental Income IT
Shire	Vodafone	Shaftesbury		Schroder UK Mid Cap IT

A History of Our time Through Different Eyes – by Charles Barratt, Volume 1: 2000-2016

My book, covering the highlights of my newsletters 2000 – 2016 has finally arrived. I have sent 'signed 1st editions' to those clients and friends who have already requested a copy and am very happy to send signed copies to anybody else who asks for one. But remember, 'do not judge a book by its cover' and please do not use it as a doorstop or to prop up a wonky table leg (I might see!).

For those who would like a signed copy please either email: book@barrattandcooke.co.uk or telephone: Pippa 01603 624 236.

THERE IS NO TURNING BACK

Like the expression "only a little bit pregnant", Article 50 has finally been triggered, and 'there is no turning back' (*in other words 'we are all up the duff together'*).

We now have at least two years of negotiations and uncertainty, of soft and hard, of left and right, of strength and weakness but we are now actually travelling into the unknown. I am always an optimist and I do believe that sense will prevail with a viable, compassionate, sensible and adequate solution for both the UK and Europe. Indeed, we still need each other, Mrs May and Mrs Merkel included, but we just do not know how it will play out …'Illegitimi non carborundum'.

On 20th January 2017 Donald Trump was inaugurated as 45th President of the United States of America and it only took two months for his Republican colleagues to curtail one of his prime election manifestos of overturning Obamacare. Perhaps his Republican colleagues will have the same effect on other promises such as 'The Great Wall of Mexico' (we shall see).

However, within a world dominated by, but fed up with, 'political correctness' one could admire a man who has the audacity to insult Mrs Merkel (the most powerful lady in continental Europe). At a press conference in the Oval Office he refused to shake her hand, subsequently turning his back on her while grunting and proverbially picking his nose. Like Queen Victoria, Mrs Merkel was not amused. Even Mrs May and Mrs Sturgeon exchanged pleasantries, before Mrs May explained that the UK has more important things to discuss than a Scottish referendum ... (so please shut up).

Early 2017

1. President Obama, David Cameron and Michael Gove are all yesterday's men, Boris Johnson looks a bigger and bigger buffoon whilst George Osborne feathers his own nest as editor of The London Evening Standard and an advisor to Blackrock, while simultaneously holding down 4 other jobs. I wonder how the constituents of Tatton feel.

2. Jeremy Corbyn remains leader of the Labour party even after losing the Copeland (Sellafield) by-election to the Conservatives. Labour has held Copeland for over 80 years and it is very rare for a standing government to win a seat at a by-election.

3. Even Sir Philip Green kept his knighthood, though it did cost him £363m!

4. Sadly, terrorism continues but with the world becoming so expectant of these horrific yet inevitable events, one-off terrorist attacks do not affect stockmarkets like they used to. In recent weeks we have witnessed: Khalid Masood's one man attack at the Houses of Parliament, Kim Jong-Un of North Korea setting off rockets as if it is 5th November, while his step-brother was assassinated and Russia's leader of the opposition has been arrested and jailed for 16 days (will we ever hear of him again).

5. Complaints regarding public sector departments continue:

   The NHS – not enough beds
   Schools – not enough teachers
   Roads – too many potholes
   Police – not enough policemen

6. And, the slippery new Chancellor, Philip Hammond, made a complete horlicks of increasing the National Insurance contributions for the self-employed, which he has subsequently had to withdraw.

As I have said in so many newsletters over the past year 'You couldn't make it up'.

More positively we have also seen:

Roger Federer beat Rafael Nadal in the Australian Open Final bringing back memories of the old days.

Might Bite (owned by a friend) holding on to win at Cheltenham.

Lincoln City reach the quarter finals of the F.A. Cup, a feat not achieved by a non-league team for 103 years.

Dame Vera Lynn: the Forces' (and now the nation's) Sweetheart, celebrating her 100th birthday.

Stockmarkets

	05/04/16	01/07/16	05/10/16	01/01/17	05/04/17
FTSE 100	6091	6504	7033	7143	7332
Dow Jones (US)	17603	17930	18281	19763	20648

Over the last year the theory that 'markets hate uncertainty' has been truly put to the test and, despite the aforementioned political uncertainty, the FTSE 100 actually reached an all-time high of 7447 (on 17th March 2017) with the Dow powering through 21000 points.

This is not to say that uncertainty doesn't spook stockmarkets, but in the current environment there are positive factors which outweigh the risk of the political unknown. The two primary factors fuelling the FTSE rally have been the TINA effect, as written about in my October 2016 newsletter, and the devaluation of sterling as mentioned in my January 2017 newsletter.

Furthermore, with UK equities now 15% cheaper to US predators (due to the fall in sterling), corporate activity (such as the recent Kraft Heinz opportunistic approach for Unilever) is to be expected and may support markets. However, one day sterling could recover against the currently very firm US dollar or a fragmented Euro (we shall see what happens with Le Pen etc.).

Corporation tax is falling (in the UK from 20% in 2016 to 18% by 2020) which will make the UK an attractive business destination despite 'Brexit'. I personally do not trust this Chancellor who will no doubt get all the receipts back in income tax!

In the US the 'Trump Bump' has been induced by the President's:

a. love of corporate business (stuff the environment)
b. love of 'The Wall' (investing in infrastructure)
c. hate of taxation (though he pays very little himself)
d. hate of red tape (cutting bureaucratic corners)

but with his Republican colleagues curtailing his policies this may turn into 'The Trump Dump'!

Inflation has finally started to gain momentum, particularly in the UK with:

	2016	Now
UK CPI	0.7%	2.3%
UK RPI	1.8%	3.2%

This has been fuelled by wages starting to rise (i.e. the new National Living Wage) whilst the recovery in the oil price is starting to feed through to higher 'pump prices' (impacting both individuals and businesses) while the weakness of sterling is pushing up the price of imported goods (such as food and clothing).

Though US interest rates have started to rise, UK interest rates are not expected to increase until 2018 and in an environment of rising inflation we feel current gilt yields are crazy:

	UK	US
Base rates	0.25%	0.875%
10 year bond yield	1.12%	2.38%

Cheap money continues to distort financial markets although some potential investors remain in cash waiting for an opportunity to invest on a market fall. Whilst this cash missed the recent rally, it does provide a floor to equities (at a point where share prices look too low and therefore represent bargain value). But I have heard this 'weight of money argument' before and it is often a very dangerous argument written by teenage scribblers.

In summary, whilst the rally in equities may seem counterintuitive given political and economic uncertainty (Brexit, Trump, European elections, Putin and not forgetting Kim Jong-Un and his firework display), there are fundamental reasons for the rise, but the primary driver has been the devaluation of sterling. However, sterling could well recover as outlined by Edward Sidgwick, one of our advisors overleaf.

A Sterling Recovery? (by Edward Sidgwick)

To help put sterling weakness into context, against the dollar the pound now trades at levels last seen in 1985, lower than both 'Black Wednesday' in 1992 (when Britain crashed out of the ERM) and the height of the 'Credit Crisis' in 2008/09. Many reasons for the recent weakness in sterling are intuitive, reflecting the uncertain outlook for the UK as we enter such unchartered waters. Delving deeper, we can consider more technical reasons such as the UK's reliance on the "kindness of strangers" (in Mark Carney's words). In essence, this refers to the fact that the UK's deficits (both the budget deficit – i.e. the government spending beyond its means, and the current account deficit – i.e. the nation importing more than it exports) require investment from overseas and such investors, in light of the rising uncertainty, now demand higher returns on UK assets.

However, whilst sterling weakness is understandable, it must be remembered that currencies are binary, and for sterling to remain so weak, other currencies such as the dollar and euro must remain strong. With significant geo-political risks in both the US and the Eurozone, the ongoing weakness of sterling is perhaps not a given?

CWLB has often written of $1.62 being fair value for sterling (and indeed in the last twenty years it has visited this level in 1999, 2003, 2008, 2009, 2011 and 2014). Whilst we don't get too bogged down with forecasting short term currency movements, we are increasingly conscious that a strengthening of sterling would impact the FTSE significantly, reversing some of the recent gains from the overseas earners. It is for this reason that we are currently considering sectors and companies which stand to prosper in such an environment.

An example of one such sector that we are turning more positive on is retail. Of course, a key cost for retailers is that of their imported goods, which become more expensive as sterling weakens and cheaper as sterling strengthens. Recent weakness of sterling has therefore presented a significant headwind to the sector, as has increasing competition to 'the high street' from online peers, whilst sentiment is fragile given the sensitivity of the sector to the UK consumer. For these reasons, the retail sector has fallen significantly out of favour of late, with the share prices of (formerly) stockmarket 'darlings' such as Next and Associated British Foods falling sharply over the past year.

There is of course 'a price for everything' and we feel that the current valuations of some such stocks assume an outcome significantly worse than that that we envisage. Furthermore, if we do see a recovery in sterling, then this will act as a tailwind to earnings in, and sentiment towards, the retail sector. Our focus within the retail sector is on those with; online sales mitigating high street pressures; overseas sales mitigating the reliance on the UK consumer; higher profit margins mitigating the impact of sterling weakness; and cash generative business models allowing for high dividends and robust balance sheets.

Whilst retail is not a typical Barratt & Cooke sector, clients can expect us to turn slightly more positive on 'out of vogue' depressed opportunities such as this, beneficiaries of a possible recovery in sterling in due course.

Hammond's Budget

As well as tampering (and subsequently reversing) National Insurance for the self-employed, the charmless Philip Hammond also decided to tamper with how dividends are taxed.

As you will see from the chart below, George Osborne had completely changed taxation on dividends with effect from 5th April 2016, leaving higher income earners (over £80,000) worse off and favouring those in lower income brackets:

1. the first £5,000 of dividend income was exempt from tax
2. for basic rate taxpayers additional dividend income was taxed at just 7.5%

The new Chancellor has reduced the exemption on the first £5,000 of dividend income to £2,000 and we are yet to find out what the basic rate tax will be.

	Income Tax	**Dividend**
April 2015 - 2016	Personal allowance: £10,600 Basic: 20% Higher: 40% Additional: 45%	Basic: 10% Higher: 32.5% Additional: 37.5%
2016-2017	Personal allowance: £11,000 Basic: 20% Higher: 40% Additional: 45%	Dividend allowance: £5,000 Basic: 7.5% Higher: 32.5% Additional: 38.1%
2017-2018	Personal allowance: £11,500 Basic: 20% Higher: 40% Additional: 45%	Dividend allowance: £5,000 Basic: 7.5% Higher: 32.5% Additional: 38.1%
2018-2019	?	Dividend allowance: £2,000 ?

On top of this the Chancellor, in conjunction with the Ministry of Justice, has brought in a new hidden tax, the Probate Court fee:

<u>Value of estate</u>	<u>Proposed probate fee</u>	<u>Fee increase</u>
Below £50,000	£0	n/a (£215 less)
£50,001-£300,000	£300	£85
£300,001-£500,000	£1,000	£785
£500,001-£1m	£4,000	£3,785
£1m-£1.6m	£8,000	£7,785
£1.6m-£2m	£12,000	£11,785
Above £2m	£20,000	£19,785

Each spouse can still leave £325,000 free of IHT and there is also a 'family home allowance' on Estates below the £2m threshold.

So much for the once promised Conservative £1,000,000 IHT exemption; we can certainly forget about that from this Chancellor – how long will he last?

<u>ISAs</u>

With the proposed:

- fall in the income tax exemption on dividend income from £5,000 to £2,000
- increase in higher rates of dividend income tax
- restrictions on the amounts you can contribute to pensions

ISAs have become even more attractive. Not only do they provide the obvious income tax and capital gains tax benefits but they also help with future generational tax planning. Indeed now ISAs are even more flexible than they were with an ability to re-contribute funds which have been withdrawn during the year and spouses can leave ISAs to each other on death.

The recent changes in both tax and ISA rules prove how important it is to keep adding to ISAs as early and as long as you can. Subscription levels for the 2017/18 tax year have now been increased from £15,240 to £20,000 per person.

To potentially mitigate inheritance tax liabilities and allow future generations to build up ISAs from an early age, some of our clients:

> make regular gifts to their children out of surplus income (free of IHT) and tell their children to invest in ISAs (building up tax free ISAs from an early age to supplement pensions one day. My goodness, with the fall in pension rates this could be very important in the years to come).

Corporate Actions

There is no doubt that a spate of proposed takeover bids have been currency induced, with international companies seeking to acquire UK companies 'on the cheap' following the fall in sterling after Brexit:

Unilever – bid for by Kraft Heinz : rejected

An opportunistic bid by the very aggressive Kraft Heinz; Unilever has been able to fight off this bid but it has 'gingered up' the management to deliver greater shareholder value and consider action over lower margin businesses such as their spreads division (Flora margarine) which could be sold in due course.

Sky – bid for by 21st Century Fox: referred to the European Commission

Again an opportunistic bid but this time by the Murdoch family who effectively own large proportions of both companies. A few years ago, Fox bid for Sky but this bid was refused by the government following the 'phone hacking scandal. Having let the dust settle and following the fall in sterling, the Murdochs found the perfect opportunity to bid again, though the offer was a rotten price for Sky shareholders, thereby benefiting Fox (and the Murdochs!). This bid has now been referred to the regulator, which was our concern, and why we advised most holders to sell.

Separately, and showing a rare sign of commercial logic prior to Brexit:

The London Stock Exchange (LSE)

agreed to merge with Deutsche Börse. The LSE would have had a 45% share of the combined group and Deutsche Börse 55%, but it was proposed that the headquarters would be in London.

Having followed the numerous takeover and merger discussions of the LSE since flotation in 1999 I really did believe this merger made commercial sense, bringing together the powerhouses behind European stockmarkets and making even more sense after Brexit, keeping the best of London and Germany together.

But 'no', the European authorities sulked over Brexit and on a minor technicality, which was 'the straw that broke the camel's back', the LSE refused to sell their tiny Italian fixed interest subsidiary and the merger was blocked by the authorities.

How petty and short sighted of the European authorities, as this would have been a great European merger. Instead it is now plausible that the US stockmarket will initiate merger talks with London, which would be to the detriment of Europe.

Tesco bidding for Booker

We have always felt this takeover bid rife with competition issues and have advised most clients to sell before the bid is stopped, if it is. Some major shareholders of Tesco are now rebelling against the bid.

Standard Life merging with Aberdeen Asset Management

Sadly these two companies have been two of Barratt & Cooke's more disappointing investments (though yields are high).

It makes commercial logic for these two companies to merge, where there should be large synergy savings. Though in this case (like Norwich Union's merger with CGU to form Aviva) we cannot see that the proposed management structure makes sense with:

2 Chief Executives + 2 Chairmen

Indeed it is likely that 2 + 2 = 3 (not 5). We are watching this situation very carefully and will advise clients accordingly.

MiFID II (by Miles Piercy)

With effect 3rd January 2018, a new financial regulation (MiFID II) will come into force. As with most regulatory changes the major impact is on financial firms; however, in this instance, some of the changes due to be implemented will affect clients directly:

so much so that we will not be able to buy or sell shares if we do not hold up to date and correct information.

Therefore, during 2017 we will be contacting clients in order to obtain certain documents, or information; indeed, this process has already started for some clients, including charities, trusts and companies, whereby they must obtain a Legal Entity Identifier (a unique 20-character, alpha-numeric code, much like a National Insurance number for an individual) in order to be able to undertake transactions in financial markets.

When we contact clients we will explain what is required, but we think it prudent to bring the general theme to your attention now in order that when we request information, our requirements are dealt with promptly in order to ensure a smooth transition; we do not want a 'late rush' as clients cannot afford to miss the deadline.

In conclusion

Like Marmite, love him or hate him, Trump has stimulated stockmarkets since his inauguration. He intends to tear up 'red tape' (and the handbook that goes with it) in order to try and break down barriers to doing business which must be a good thing as bureaucracy has gone too far. This does however come at a cost with his lack of political correctness and let's not forget the aftertaste of Marmite is filthy!

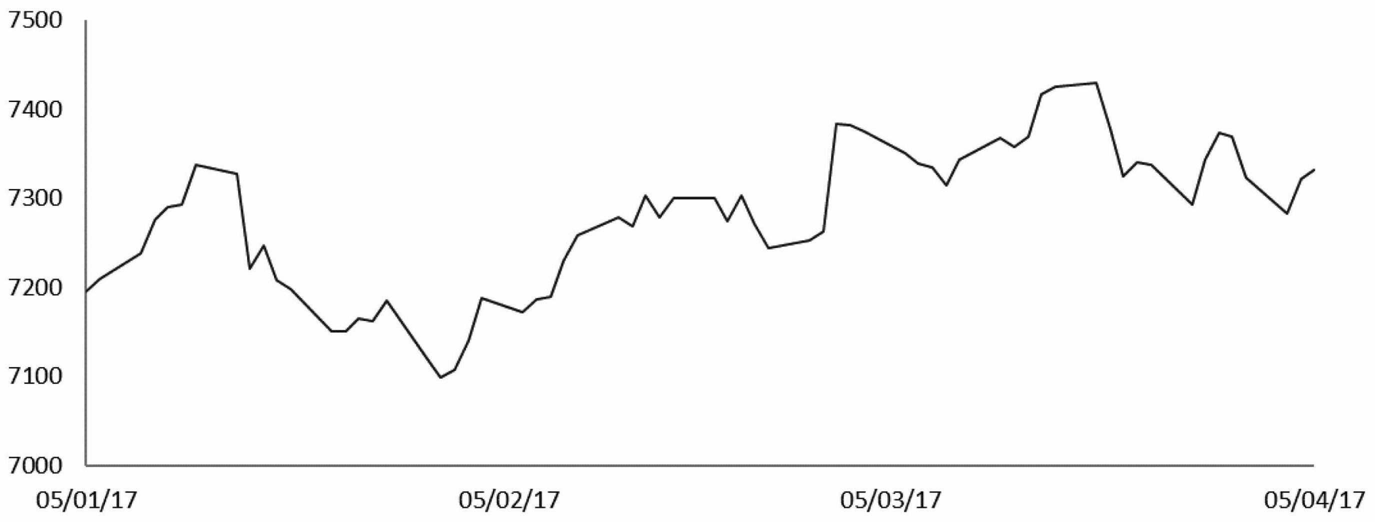
There is no turning back on Brexit but of all the people to lead the UK through it I do believe Mrs May has the right qualities of diplomacy, trust and sense.

Good on you and good luck!

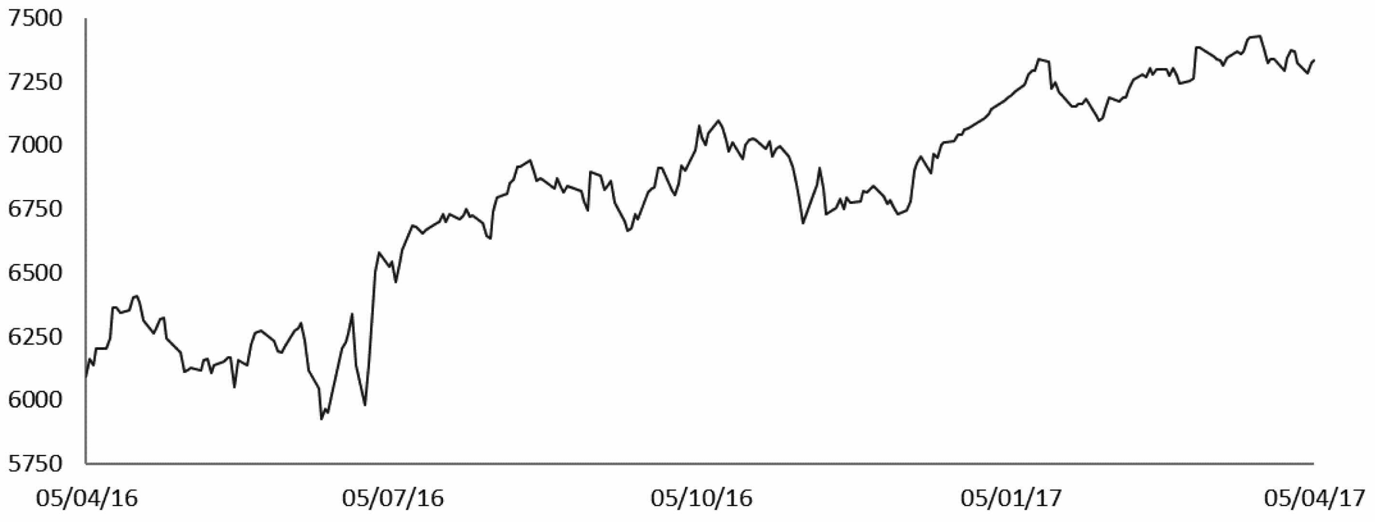
ILLEGITIMI NON CARBORUNDUM.

CWLB & WJB
5/4/2017

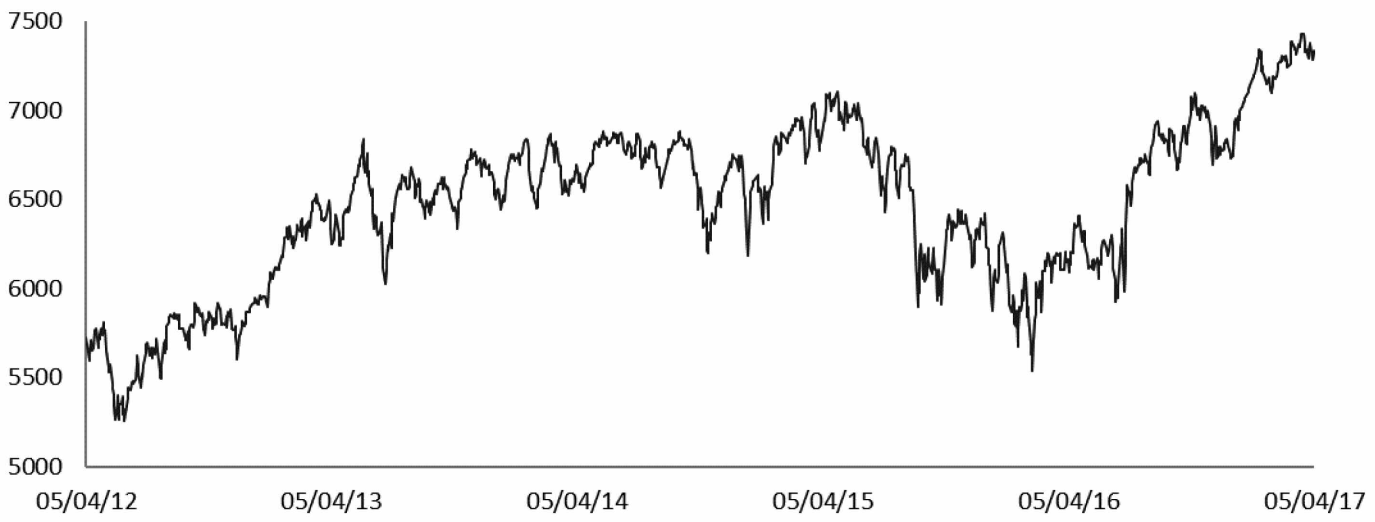
FTSE 100 – Previous Quarter



FTSE 100 – 1 Year



FTSE 100 – 5 Year



Source: Proquote