

	<u>1/1/11</u>	<u>1/1/12</u>	<u>1/1/13</u>	<u>1/1/14</u>	<u>5/10/14</u>	<u>1/1/15</u>	<u>5/4/15</u>	<u>1/7/15</u>	<u>5/10/15</u>
FTSE 100	5900	5572	5898	6749	6528	6566	6834	6609	6299
FTSE All Share	3063	2858	3093	3610	3486	3533	3696	3616	3457
Dow Jones (US)	11578	12218	13104	16577	17010	17823	17763	17758	16776
S&P 500 (US)	1258	1250	1426	1848	1968	2059	2067	2077	1987
Nikkei 225 (Japan)	10229	8455	10395	16291	15709	17451	19435	20329	18005
WMA Balanced	2978	2895	3063	3395	3441	3549	3703	3582	3497

Growth Equities

Babcock Int.
Carnival
Compass Group
Diageo
Dixons Carphone
Experian
easyJet
Int. Hotels
Reckitt Benckiser
Unilever

Higher Yield Equities

AstraZeneca
BATS
BHP Billiton
BP
British Land
Centrica
HSBC
National Grid
Royal Dutch Shell
Standard Life

Mid-Cap Equities

Croda Int.
DS Smith
Essentra
Galliford Try
Pennon
Senior
Sophos
SSP Group
UBM
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
JPM Emerging Markets IT
Jupiter US Smaller Cos IT
Murray International IT
Pacific Assets Trust
Worldwide Healthcare Trust

"When China coughs the world catches influenza"

Sitting back in my old garden chair, I soak up the dying embers of summer, and wonder. I wonder about the beauty of God's creation, and yet I worry about the world and the world economy, for despite:

the tragedy of the Syrian refugees, as the world witnesses its largest human migration since the Second World War

the disgrace of Volkswagen who clearly knew they were cheating the world and the climate

the horror of Jeremy Corbyn leading the Labour Party (more about him later)

the disappointment as England were knocked out of the Rugby World Cup

we had:

the celebration of Sir Peter O'Sullivan's life, the voice of racing and my lifetime hero

the elation of Stuart Broad's 8 for 15 and the retention of the Ashes

the joy of Queen Elizabeth II becoming our longest serving Monarch (the poor lady had to spend most of the day with Nicola Sturgeon - now that really is 'duty')

and the happiness of the Welsh (I am sure we will all find a bit of Welsh blood by 31st October 2015)

but the overriding feature in world economics has been the fall from grace of China, and all the implications thereof, which we can do very little about.

China

Some of you might remember the article I wrote in November 2006 following my visit to China. It was titled:

"It doesn't matter whether the cat is black or white as long as it eats mice"

This was Deng Xiaoping's definition of the Chinese economic system, of capitalism within a communist country. In other words:

"It doesn't matter whether the Chinese economy is capitalist or communist as long as it works"

And in my final comment (in the longer essay) I wrote, and I quote:

"The Chinese people were so charming, hard-working, well educated, happy, honest, tidy and clean – with their delicious food, capitalism (run by a communist Government) and old bicycles. I am sure the boom will carry on until the 2008 Olympics, which will be outstanding, but I just hope the building boom and drought is not followed by a slump".

The boom went on for much longer than the 2008 Olympics, but "the boom" had to stop one day, and this turned out to be 2015 where the stated 'official' GDP growth rate has fallen from 14% to 7%. Economists are now beginning to query the 'official figures' (at the risk of being thrown into jail) by checking true statistics such as the movement of freight and imports/exports etc.

The simple fact is that the basic law of economics comes into play yet again:

"The law of supply and demand"

For a period through to 2015 there was huge demand for raw materials in China, and not enough supply.

In 2015 worldwide demand slackened and there was an over-supply of basic commodities e.g. oil, metals, aggregates etc. This has caused world commodity prices to crash:

	<u>5 Year</u>	<u>1 Year</u>		<u>05/10/2015</u>
	<u>High</u>	<u>High</u>	<u>Low</u>	
Iron Ore	\$188	\$83	\$47	\$53
Copper	\$9986	\$6860	\$4888	\$5177
Oil	\$126	\$95	\$43	\$49

This has affected mining and oil shares:

	<u>5 Year</u>	<u>1 Year</u>		
<u>Mining</u>	<u>High</u>	<u>High</u>	<u>Low</u>	<u>05/10/15</u>
BHP Billiton	2425p	1593p	951p	1065p
Rio Tinto	4624p	3280p	2091p	2316p
<u>Oil</u>				
Royal Dutch Shell	2576p	2409p	1503p	1706p
BP	519p	487p	320p	368p

By the same token the Chinese Stockmarket has fallen:

	<u>12/06/15</u>	<u>05/10/15</u>
The Shanghai Composite	5166	3053

It is also worth noting that many of the Chinese flotations were issued at the peak of the stockmarket but have since been blown away in a 'puff of smoke'.

Since 1st June 2014:

Of the 40 Chinese companies listed on AIM or floated since, only 25 are still trading and 15 have been suspended or gone bust.

In September 2014 the world's biggest ever Initial Public Offering (IPO) of the online retail company:

"Alibaba (and the 40 million thieves)"

was issued at \$68 before reaching a high of \$115. The price now is back to \$64.

The Barratt & Cooke view is:

- 1) Never dismiss China, it is the 2nd largest economy in the world and is continuing to grow, albeit at a slower rate than previously
- 2) China is still a communist state operating a capitalistic system, and therefore one cannot always trust statistics
- 3) It is very dangerous to invest in individual Chinese stocks, but is sensible to hold companies that trade with China
- 4) As explained in my essay 9 years ago, there was bound to be a 'China crash' (and recovery) at some stage, but we still worry about the lack of water in the country (and this is never mentioned).

- 5) With a worldwide over-supply of commodities, prices have fallen. However, "as sure as eggs is eggs", after much pain:

"equilibrium will return to commodity supply/demand"

Commodity prices will then recover and stabilise and the whole cycle will start again.

- 6) It must be remembered that China only represents a small proportion of UK exports:

	<u>Approximate % of goods/services exported</u>
£14bn goes to China	representing 4.7% of total UK exports
£37bn goes to US	representing 12.5% of total UK exports
and £147bn goes to Europe	representing 50.0% of total UK exports

Therefore China is not the 'be-all and end-all' to the UK economy.

Indeed, speaking to the Chairman of a FTSE100 PLC recently, he explained to me that:

"Over the past few years the growth in orders from China and emerging markets has slowed down. However, the US has exceeded expectations, the UK was as predicted, and Europe was now growing, albeit from a depressed level."

UK Stockmarkets

Following the general election in May we became more optimistic on UK equity investment and have been slowly investing cash balances to become nearly fully invested whilst, where appropriate, advising clients to hold suitable liquidity in short dated gilts or deposits.

Indeed, we believe that the following are all positives for UK industry:

- 1) the prospect of five years of economic stability under a Conservative Government (heaven forbid if we had five years of 'Corbynomics'!)
- 2) low interest rates, low inflation and a reasonable level for Sterling
- 3) lower commodity prices (especially oil)
- 4) and declining unemployment figures

UK Equities look low on an average:

- 1) Dividend yield of 3.8% (whereas the 10 year gilt gross redemption yield is 1.8%)
- 2) P/E ratio of 17.4x
- 3) Dividend cover of 1.5x (though admittedly this is lower than we would like)

However it is worth noting that in the absence of any recovery in commodity prices, the profits associated with oil and mining companies could fall significantly and cause dividends to be reduced in these sectors, whilst the 'fall out consequences' of lower commodity prices are now being felt with decisions such as:

- the mothballing of the Redcar steel plant with the loss of 1,700 jobs
- Royal Dutch Shell's decision to pull out of oil exploration in Alaska.

On an optimistic note, it is very encouraging to see merger and acquisition activity return to 2007 levels (see corporate action section).

US Markets

There is no doubt that the US economy is bounding ahead with GDP currently growing at 3.7%. The US is likely to raise interest rates by the end of 2015, but this is the sign of the economy doing so well that the authorities will want to put a cap on its overheating growth.

Europe

There is no doubt that Europe is pulling itself out of recession, albeit from a very low level.

The re-election of Alexis Tsipras in Greece seems to have been taken well by the rest of Europe (turning poacher into gamekeeper) and the Greek financial crisis is now deafening by its silence, similar to Ireland, Italy, Portugal and Spain.

World Markets Performance

	<u>52 Week</u> <u>High/low</u>	<u>05/10/15</u>	<u>1 Year</u> <u>Performance</u>	<u>Recent</u> <u>Fall from High</u>
China: Shanghai Composite	5178/2280	3053	+29.1%	-41.0%
US: S&P 500	2135/1821	1987	+1.1%	-6.9%
Japan: Nikkei 225	20953/14529	18005	+14.6%	-14.1%
Germany: DAX	12391/8355	9815	+6.7%	-20.8%
UK: FTSE100	7123/5768	6299	-3.5%	-11.6%
UK: FTSE250	18393/14193	17110	+12.3%	-7.0%

Interestingly, these figures prove that though Shanghai has fallen 41% from the recent high it is still up 29.1% over the year.

The FTSE100 has actually performed worse than the FTSE250, and this is due to the very heavy weighting of mining and oil shares in the FTSE100.

The FTSE100 has not actually fallen from recent highs as much as Japan, Germany and China.

Fixed Interest

The Bank of England has just announced that bank base rates would remain at 0.5%, this rate having been constant for the last six years. As we keep repeating, this is at a 300 year low.

Furthermore, due to the slowdown in the Chinese economy possibly affecting the rest of the world, UK interest rates are unlikely to rise until the middle of 2016.

Because of this 'lower for longer' scenario, longer dated gilts have risen whereby the:

10 year gilt gross redemption yield is 1.8%.

We still consider longer gilts very vulnerable to eventual interest rate rises, and therefore our preferred gilts held within a client portfolio for:

"risk mitigation"

are very short-dated conventional or index linked gilts.

By being 'short' rather than 'long' this distorts the performance of portfolios against the "WMA Indices" (which carry a higher weighting of longer dated gilts) but this is for a very good reason.

Corporate Actions

With lower stockmarkets, and yet strong balance sheets, and interest rates remaining depressed the predicted merger and acquisition activity has started.

In the UK there are potential bids or merger proposals for:

	<u>Takeover documents</u> <u>Expected</u>
Rexam by Ball Corporation	2 nd Quarter 2016
Amlin by Mitsui Sumitomo Insurance	1 st Quarter 2016
BG Group by Royal Dutch Shell B	1 st Quarter 2016
SAB Miller by AB InBev	Details expected shortly
Xchanging by Capita/Apollo	Details expected shortly

We shall give advice on each situation as and when appropriate.

Furthermore, in the US we have just seen Warren Buffett's largest take-over yet:

Precision Cast Parts (an Aerospace parts company) for \$32.3bn in cash

Like Warren Buffett, we see the recent fall in stockmarkets as an opportunity to add to quality equities for the longer term.

ISAs

With the future changes to personal taxation of dividend income above £5,000 which are coming from April 2016, tax efficient vehicles such as ISAs become more and more important, particularly as the ISA subscription allowance has been increased to £15,240 per individual for 2015/16.

JISAs

It is now possible to transfer Child Trust Funds into JISAs. JISAs are an extremely good way for parents or grandparents to build up 'nest eggs' for their dependents. We can only purchase JISAs when the parent is an existing client of Barratt & Cooke and if you need further details please contact your advisor.

Bank Compensation Deposit Limit

Due to the fall in the value of the euro against sterling, with effect 1st January 2016 the deposit limit for bank accounts guaranteed by the Financial Services Compensation Scheme will reduce to £75,000 (£150,000 for Joint Accounts) from the existing limit of £85,000.

Jeremy Corbyn (a personal view)

Jeremy Corbyn's policies would be a complete and utter disaster for stockmarkets, so much so that I feel his election to leader of the Labour Party is worthy of 'a personal view from CWLB'.

Japan beating South Africa in the Rugby World Cup was called 'the greatest upset in sport', but this does not compare with the 'upset in politics' when Jeremy Corbyn was overwhelmingly elected 'leader of the Labour Party', Her Majesty's official opposition.

We are told that Jeremy Corbyn is a very nice man, but it beggars belief that:

This self-confessed anarchist; champion of unilateral disarmament; fervent republican; IRA sympathiser with political views off the scale of the loony left; who has opposed sensible debate in the House of Commons for 30 years and until now has never achieved a ministerial role in either the cabinet or shadow cabinet

can be taken seriously on the world stage to represent Great Britain.

With unbuttoned collar, tie at half mast, old tweed jacket, ageing beard and shifting eyes he looks like a startled rabbit 'caught in the headlights' when questioned about his economic policy, his foreign policy, and his views on Syria and ISIS.

He talks about 'power' coming from 'bottom up'; he talks about the nationalisation of the railways, and this is just a start. He talks about destroying the Bank of England and destroying the recent changes in education. He talks about excessive quantitative easing to destroy the value of sterling; and he prefers to sing 'The Red Flag' to 'The National Anthem'.

Parts of his speech at the Labour Party Conference were taken from 'Old Labour's' rhetoric of the 1980s, where he said nothing about Labour's defeat at the general election; nothing about 'Corbynomics', nothing about his Robin Hood taxes to "rob the rich to give to the poor", and nothing about his front bench of 'Red Flag' cronies (if only Maid Marion was there!). In fact he said nothing positive at all.

I have always believed in democracy and in:

'raising social/living standards by a capitalistic system'

but I fear that 'Corbynomics' will hurt the very people that Corbyn is trying to help. It will certainly be a disaster for 'middle England' and UK industry should he be elected.

One could be cynical and laugh, but I am afraid 'this is real' and no laughing matter. In our democracy there is clearly an under-swell of support for Jeremy Corbyn, just as there was in Scotland for the SNP.

It is no wonder that most of the previous Labour front bench have resigned. Are they telling us something? We have all been warned!

In Conclusion

There is an old expression:

"when Detroit sneezes the rest of the world catches a cold"

which referred to the US automobile industry in the 1930's.

There is no doubt that in 2015:

"China has coughed, and the rest of the world has caught a nasty dose of influenza"

Though we feel rotten at the time, and a few of the weak die, the vast majority of us recover and the nightmare is soon passed.

Warren Buffett has made his largest cash takeover bid to date and are we prepared to take:

'Buffett's tonic'

treating this as an opportunity to purchase 'depressed quality'. Only time will tell.

If anybody would like a copy of my 2006 essay on China, please ask your advisor.

CWLB
05/10/15

Ps After many years thought, I have finally decided to take the plunge and attempt to write an anthology of my best Newsletters.

I believe these go back to around 1985 but sadly, due to an over enthusiastic purge on the paperless society, I can only find Newsletters back to 1997.

Some clients have 'very strange habits' and if anybody has squirrelled away the early Newsletters before 1997 please let me know and I shall promise you 'a signed first edition'.

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October 2015 Equity Suggestions

		<u>Price</u>	<u>Net</u>	<u>52 Week</u>	
		<u>05/10/15</u>	<u>Yield</u>	<u>High</u>	<u>Low</u>
<u>FTSE 100 COMPANIES</u>					
AUTOMOBILES	GKN PLC Ordinary Shares	281p	3.0%	389p	249p
BANKS	HSBC Holdings PLC Ordinary Shares	521p	6.3%	659p	478p
BEVERAGES	Diageo PLC Ordinary Shares	1811p	3.1%	2055p	1593p
CHEMICALS	Johnson Matthey PLC Ordinary Shares	2510p	2.7%	3590p	2217p
FINANCIAL SERVICES	Standard Life PLC Ordinary Shares	408p	4.3%	506p	372p
FOOD PRODUCERS	Unilever PLC Ordinary Shares	2778p	3.1%	3087p	2397p
HOUSEHOLD PRODUCTS	Reckitt Benckiser PLC Ordinary Shares	6102p	2.1%	6300p	4784p
LIFE INSURANCE	Prudential PLC Ordinary Shares	1484p	2.6%	1762p	1288p
MINING	BHP Billiton PLC Ordinary Shares	1065p	7.7%	1593p	951p
	Rio Tinto PLC Ordinary Shares	2316p	6.4%	3280p	2091p
OIL & GAS	BP PLC Ordinary Shares	368p	7.1%	487p	320p
	Royal Dutch Shell PLC 'B' Shares	1706p	7.2%	2409p	1503p
PHARMACEUTICAL	AstraZeneca PLC Ordinary Shares	4248p	4.3%	4906p	3746p
	Shire PLC Ordinary Shares	4604p	0.3%	5870p	3475p
REAL ESTATE	British Land PLC Ordinary Shares	858p	3.3%	892p	649p
RETAILERS	Dixons Carphone PLC Ordinary Shares	447p	1.9%	490p	351p
SOFTWARE & COMPUTERS	Sage PLC Ordinary Shares	518p	2.4%	584p	347p
SUPPORT SERVICES	Babcock Int. Group PLC Ordinary Shrs	961p	2.5%	1207p	869p
	Experian PLC Ordinary Shares	1072p	2.3%	1264p	910p
	Intertek Group PLC Ordinary Shares	2573p	1.9%	2797p	2141p
TECHNOLOGY	ARM PLC Ordinary Shares	963p	0.8%	1232p	779p
TOBACCO	British American Tobacco PLC Ord Shrs	3680p	4.1%	3894p	3232p
	Imperial Tobacco Group PLC Ord Shrs	3377p	3.7%	3538p	2483p
TRAVEL & LEISURE	Carnival PLC Ordinary Shares	3440p	2.2%	3576p	2093p
	Compass Group PLC Ordinary Shares	1077p	2.5%	1223p	925p
	easyJet PLC Ordinary Shares	1808p	2.5%	1929p	1302p
	Intercontinental Hotels PLC Ord Shares	2380p	2.1%	2967p	2085p
UTILITIES	Centrica PLC Ordinary Shares	230p	5.3%	309p	219p
	National Grid PLC Ordinary Shares	934p	4.6%	965p	806p
<u>FTSE 250 COMPANIES</u>					
AEROSPACE	Senior PLC Ordinary Shares	261p	2.2%	362p	244p
CHEMICALS	Croda Int. PLC Ordinary Shares	2766p	2.4%	3150p	1965p
	Victrex PLC Ordinary Shares	1832p	2.5%	2147p	1505p
HOME CONSTRUCTION	Galliford Try PLC Ordinary Shares	1589p	4.3%	1824p	1085p
INDUSTRIALS	DS Smith PLC Ordinary Shares	384p	3.0%	424p	232p
INSURANCE	Jardine Lloyd Thompson PLC Ord Shrs	1026p	2.9%	1112p	815p
MEDIA	UBM PLC Ordinary Shares	513p	4.2%	585p	384p
REAL ESTATE	Tritax Big Box REIT PLC Ordinary Shs	128p	4.6%	128p	105p
SUPPORT SERVICES	Essentra PLC Ordinary Shares	843p	2.2%	1069p	625p
	Serco PLC Ordinary Shares	105p	0.0%	260p	97p
TECHNOLOGY	Sophos Group PLC Ordinary Shares	243p	0.0%	285p	225p
TRAVEL & LEISURE	Marston's PLC Ordinary Shares	154p	4.5%	174p	135p
	SSP Group PLC Ordinary Shares	302p	0.7%	318p	226p
UTILITIES	Pennon Group PLC Ordinary Shares	805p	4.0%	925p	712p
<u>OVERSEAS COMPANIES</u>					
FOOD PRODUCERS	Nestlé SA Registered Shares	5055p	2.9%	5211p	4341p
HEALTHCARE PRODUCTS	Becton Dickinson Common Stock	9045p	1.8%	10232p	7942p
	Johnson & Johnson Common Stock	6256p	3.2%	7229p	5400p
PERSONAL GOODS	Colgate-Palmolive Common Stock	4315p	2.3%	4725p	3357p
	Kimberly-Clark Common Stock	7396p	3.1%	7858p	6573p
	L'Oreal Common Stock	11842p	1.7%	13393p	8647p
INDUSTRIALS	Kone OYJ Class 'B' Shares	2679p	3.3%	3276p	2210p
MEDIA	Wolters Kluwer NV Shares	2099p	1.3%	2361p	1375p
MEDICAL EQUIPMENT	CR Bard Common Stock	12641p	0.5%	13368p	9533p
OIL & GAS	ConocoPhillips Common Stock	3498p	5.6%	5001p	2714p
PHARMACEUTICALS	Roche Holdings AG Genusscheine NPV	17629p	3.1%	20018p	16160p

Dividend income may be subject to local Government withholding tax (currently 35% in Switzerland, 30% in Europe, 15% in the USA).

Investment Trust & Unit Trust/OEIC Suggestions

		<u>Price</u> <u>05/10/15</u>	<u>Net</u> <u>Yield</u>	<u>52 Week</u>		<u>Discount</u> <u>to NAV*</u>
				<u>High</u>	<u>Low</u>	
UK	City of London I/T	388p	4.0%	418p	346p	(2.0%)
	Finsbury Growth & Income Trust	579p	2.1%	609p	464p	(2.2%)
	Henderson Smaller Companies Tst	646p	2.1%	696p	469p	10.4%
	Perpetual Inc & Growth I/T	413p	3.0%	431p	349p	(1.1%)
	Schroder UK Mid Cap I/T	466p	1.8%	505p	404p	8.6%
Global	Bankers I/T	616p	2.5%	675p	506p	1.0%
	Fundsmith Equity Fund	199p	1.5%	206p	165p	N/A
	JP Morgan American I/T	264p	1.4%	296p	237p	5.3%
	Jupiter US Smaller Companies I/T	585p	-	702p	573p	12.5%
	Murray International I/T	858p	5.3%	1096p	786p	(5.1%)
	Odey Allegra Developed Mkts Fund	13105p	-	14519p	10505p	N/A
	Personal Assets Trust	34145p	1.6%	36300p	33000p	0.4%
Emerging Markets	Aberdeen Asian Income Trust	157p	5.4%#	209p	144p	3.9%
	Fundsmith Emerging Markets I/T	980p	-	1125p	830p	(5.6%)
	JP Morgan Emerging Markets I/T	548p	1.1%	673p	486p	12.2%
	Pacific Assets Trust	187p	1.4%	226p	156p	1.9%
Frontier Markets	BlackRock Frontiers I/T	104p	4.1%	131p	95p	(0.7%)
Healthcare	Worldwide Healthcare Trust	1709p	0.7%	2104p	1355p	8.4%
Infrastructure	John Laing Infrastructure Fund	117p	5.8%#	129p	114p	(13.2%)
Technology	Polar Capital Technology Trust	555p	-	614p	459p	4.6%

* () = premium
Gross Yield

Fixed Interest Suggestions

	<u>Price</u> <u>05/10/15</u>	<u>Gross</u> <u>Interest</u> <u>Yield</u>	<u>Gross</u> <u>Redemption</u> <u>Yield</u> <u>Tax Rate</u>		<u>Payment</u> <u>Dates</u>	<u>Redemption</u> <u>Date</u>
			<u>Nil</u>	<u>40%</u>		
INDEX-LINKED GILTS						
0.125% Treasury Index Linked 2019	110.2#	0.1%	1.1%*	1.0%*	May/Nov	22 Nov 2019
1.875% Treasury Index Linked 2022	153.3#	1.5%	1.4%*	0.7%*	May/Nov	22 Nov 2022
CONVENTIONAL GILT						
1.0% Treasury 2017	100.8	1.0%	0.6%	0.2%	Mar/Sep	07 Sep 2017
EURO STERLING BOND						
London Stock Exchange 4.75% 2021	106.4	4.5%	3.5%	2.7%	May/Nov	02 Nov 2021
INDEX-LINKED CORPORATE BONDS						
National Grid 1.25% Index Linked 2021	111.1	1.3%	3.7%*	2.3%*	Apr/Oct	06 Oct 2021
Severn Trent 1.3% Index Linked 2022	106.7	1.3%	3.9%*	2.4%*	Jan/Jul	11 Jul 2022
BOND FUND						
Fidelity Moneybuilder Income Fund	117.7p	3.6%				

* Equivalent Gross Redemption Yield for Index Linked Gilts/Bonds assuming that future RPI inflation averages 2.5% to redemption.

Price adjusted for inflation (where the published price may be significantly different as it does not include accrued inflation).

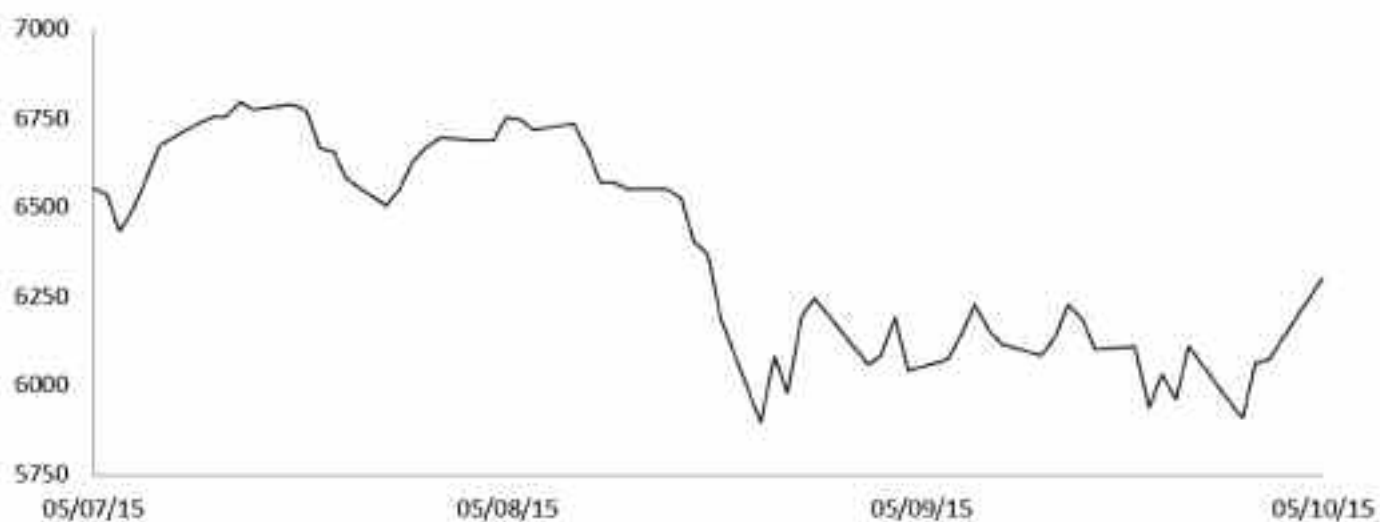
All yields are estimated and not guaranteed.

Source: Bloomberg

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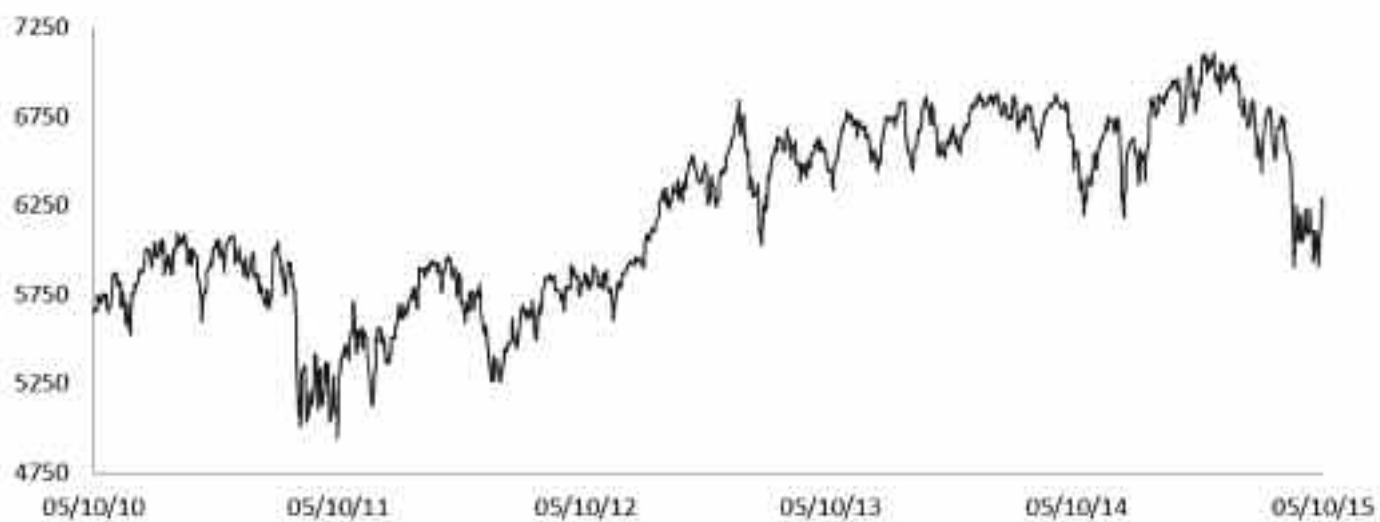
FTSE 100 - Previous Quarter



FTSE 100 - 1 Year



FTSE 100 - 5 Year



Source: Bloomberg