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MONEYWEEK

MAKE IT, KEEP IT, SPEND IT

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The stocks ready to roar

How to find future winners

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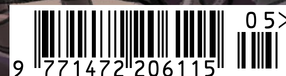

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MoneyWeek

3 February 2023 | Issue 1141

Britain's best-selling financial magazine

From the editor...

Last week a friend whom I had always considered fairly sensible told me he needed a side hustle, and had decided to start day trading as it looked easy.

After expelling half a double espresso through my nose, I asked where he had got that impression from. He explained that he had seen several videos explaining the process on Instagram and YouTube, and there was clearly nothing to it.

Two days later, he told me that he had been on a dating website and exchanged phone numbers with someone. The person soon tried to persuade him to sign up to a trading platform, and suggested that cryptocurrencies were looking especially promising.

The bitcoin has now finally dropped, and he promised me he would be more careful in future. But his experiences are an interesting illustration of just how difficult it has become for investors to avoid not only outright fraud, but also bad investment advice, lousy financial products and get-rich-quick schemes.

©Getty Images

Roulette: just like day trading, but more fun

> *"In a global bull market it's easy to feel like a genius; don't mistake luck for skill"*

Social media amplifies bad advice

Take this TikTok gem from 2021, supplied by some unknown from Oklahoma. "Here's my strategy in a nutshell: I see a stock going up, and I buy it, and I just watch it until it stops going up and then I sell it. I do that over and over and it pays for our whole lifestyle." Fancy that.

It seems to me that one reason social media users are particularly susceptible to this sort of thing is that they tend to be under 40, and are irritated that they are nowhere near as financially secure as their parents were at their age. So they want to catch up fast. And in the age of the soundbite and 30-second video, there is never any room for nuance and careful thought; even instant gratification takes too long for some people.

Still, it is worth sitting your children and your errant friends down and reminding them of a few important things. Firstly, in a broader bull market it's easy to feel like an investing genius (2021 saw a strong, global post-pandemic rebound), and it's important not to mistake luck for skill.

Secondly, stocks go down, too (see 2022). Thirdly, the (very) rare people who actually do make a living day trading, spread betting, or flipping houses are far too busy doing it to spend any time explaining how to do it on Instagram or YouTube. The influencers telling you about these wondrous things typically do not make their living doing them, but are selling how-to guides, as US financial blogger Barry Ritholtz points out. Which rather gives the game away.

Simple, yet difficult

Investment is like most worthwhile things in life: it requires time and effort.

That needn't mean it has to be a complicated process, however. Consider fund manager Terry Smith's strategy: "Buy good companies, don't overpay and do nothing."

This is fairly straightforward advice, but hard to implement, since people are prone to trading too frequently, scooping up shares on eye-watering price/earnings ratios in order to keep up with the crowd, and, crucially, not examining the stocks that have caught their eye carefully enough. It is always worth making the effort to have a good look under the bonnet. Happily, Mike explains how to do just that in our cover story this week (see page 18).

Andrew Van Sickle
editor@moneyweek.com

Survivor of the week

"America's last washboard factory isn't ready to throw in the towel," says The Wall Street Journal. Columbus Washboard was founded 128 years ago and sold more than one million boards per year in its heyday in the 1940s. Then electric washing machines revolutionised laundry and led to a collapse in the number of people using the wood-and steel boards to scrub clothing and linens by hand. The firm almost failed in 1999, before a group of four new owners invested to save it and upgraded the materials and production process to make it more efficient. Today, annual production is around 11,000 boards, made by four employees in a former discount store in Ohio, with a typical model selling for $27.49. Sales jumped 57% in 2020 "goosed by pandemic fears of societal collapse and limited laundry service", but in more normal times, a large share of Columbus Washboard's revenue comes from an even more unexpected source. Around 40% of the firm's washboards go to bluegrass and folk musicians, who use them as percussion instruments.

Cover illustration: Adam Stower. Photos: Getty Images; Salomon

©Alamy; Shutterstock

Good week:

Boris Johnson has earned nearly £1m in six weeks, thanks to a combination of a £510,000 advance for his memoirs and £447,299 for two corporate speeches, says The Times. Separately, it emerged that the former prime ministers's legal fees for the inquiry into parties at Downing Street during the pandemic are expected to reach £222,000. The cost will be paid by the taxpayer.

The **Musée d'Orsay** in Paris has acquired a €43m painting by Gustave Caillebotte, thanks to a donation by luxury goods firm LVMH, says Le Monde. *Partie de bateau*, owned by Caillebotte's descendants, was one of the few major Impressionist works still in private hands. The Musée d'Orsay's annual acquisition budget is just €3m, far less than museums in the US and the Gulf states.

Bad week:

Former health secretary **Matt Hancock** (pictured) has given just £10,000 (less than 3%) of his £320,000 earnings from appearing on *I'm a Celebrity... Get Me Out of Here!* to charity, says The Times. Hancock's spokesman had said the donation would be "more than his MP's salary", which is £84,144, but now says that referred only to his pay during the time he was on the TV show.

A long-running fraud at a Jamaican investment firm has seen millions of dollars stolen from clients, including former sprinter **Usain Bolt**, says The Guardian. The government – which was also among the victims – has not provided an estimate for how much was taken, but lawyers for Bolt have said that $12.7m is missing from his account, which was left with a balance of just $12,000.

Chinese stocks are cheap for a reason

Alex Rankine
Markets editor

Chinese equities look poised to "hop ahead in the year of the rabbit", says Dale Nicholls of Fidelity China Special Situations. The rapid reversal of zero-Covid policies and "attractive" valuations mean 2023 is shaping up to be a good year for the country's stocks. China's CSI 300 index has gained 18% since the end of October amid investors' enthusiasm about the reopening of the world's second-biggest economy.

The easing of pandemic-era restrictions is part of a broader effort to stoke growth, says The Economist. Beijing has rolled back a two-year long campaign to reduce leverage in the property sector, suspending limits on the amount some developers can borrow and ordering banks to bail out incomplete housing projects. The results are already apparent: "Sales of existing homes rose by more than 20% in the first ten days of 2023".

A heavy-handed campaign to bring the technology industry to heel also seems over following the recent rehabilitations of ride-hailer Didi and fintech giant Ant Group. Yet the new era of Chinese tech will be a far cry from the "unbridled expansion" of the past, as the state asserts ever more control over company boards.

"There is little doubt that China's economy will rebound strongly," says Nathaniel Taplin in The Wall Street Journal. But don't expect a repeat of America's 2021 post-Covid "consumption bacchanalia" either. The shaky property market will weigh on consumer confidence, while "several key pillars of China's labour market – exports, the internet technology sector and the housing market – still face structural or cyclical headwinds".

Beijing has rolled back a two-year campaign to reduce leverage in the property sector

©Getty Images

Relief for the technology sector

The Hong Kong Hang Seng Tech index has soared by 60% from its lows last October, say Hudson Lockett and Cheng Leng in the Financial Times. Yet strategists say that the rally has been driven by local money, while "foreign investors remain sceptical".

It remains to be seen how long international money managers can resist "Fomo" (fear of missing out), says Jennifer Hughes in the same paper. Economies in the developed world are heading for a tricky year, so "China's economic rebound post-Covid" could begin to look irresistibly "tempting to investors seeking growth". Low valuations mean there is "still some scope" for Chinese stocks to "outperform in the near term", says Adam Hoyes of Capital Economics. That said, the longer-term outlook is less encouraging. Recent measures do not mark "a shift in the leadership's more fundamental turn away" from a market-led economy, so "some political risk premium is likely to endure".

"Geopolitical tensions over Taiwan, harsh regulatory crackdowns, as well as a stringent Covid-Zero policy" had led some to conclude that China was "no longer investable", says Shuli Ren on Bloomberg. That resolve may weaken as China enters the "early stage of a business cycle while much of the world toys with a potential recession", but it is hard to see foreign investors paying up for local stocks as they did in the past. The MSCI China Index, currently trading on 11.2 times forward earnings, won't return to the 18.7 rating it enjoyed in 2021 for the foreseeable future.

South Korean market woos foreign investors

South Korea has unveiled a raft of measures designed to attract more foreign investors to its stockmarket. The country has been excluded from the MSCI World Index, the leading benchmark of developed markets, since 2014, says Al Jazeera.

MSCI cites a "lack of English-language information" and "complicated" restrictions on market participation by foreign investors. Korea's classification as an emerging market rankles in a country with a GDP per capita close to that of Italy.

Last month the finance ministry unveiled plans to extend trading hours on the foreign-exchange market, says Jihoon Lee on Reuters. The government will also draw up reforms to encourage higher dividend payouts by local firms.

The country's GDP per head is close to Italy's

©Getty Images

Separately, financial regulators have said they will scrap a rule requiring foreign investors to register with authorities – a burdensome process – before being able to trade Korean stocks.

A heavy weighting towards technology shares (which comprise 40% of the MSCI Korea index) saw the benchmark Kospi Composite plunge by 25% in 2022, for its worst year since 2008. Foreign investors are disenchanted: they have sold a net KRW57trn (£37.6bn) of Korean shares over the past three years.

The finance minister also says that from 2024, big listed firms will be required "to file important regulatory filings in English", says Song Jung-a in the Financial Times. Nonetheless, the main obstacle to the MSCI upgrade is a ban on offshore trading in the won, says Hwang Sei-woon of Korea Capital Market Institute.

Removing that hurdle will "take time… authorities are still fearful of losing full control over forex trading as the emotional scars of the [1997] Asian financial crisis" endure.

Oil will rally later this year

"There are few assets as likely to make a mug of investors… as oil," says Russ Mould of AJ Bell. The price of the fuel "swings all over the place, thanks to the complex dynamics of supply, geopolitics and also the influence of Opec", the cartel that controls one-third of global production. In recent months the bulls have been left looking foolish, with Brent crude tumbling by more than 25% since the start of June last year. At $85 a barrel this week, prices have been treading water since 1 January. Oil prices soared in after Russia's invasion of Ukraine, but then fell "as Russian supply held up and an economic slowdown crimped demand", says Tom Wilson in the Financial Times.

Yet 2023 may set the bulls running again. The International Energy Agency forecasts that global oil demand will hit a record 101.7 million barrels per day (mbpd) this year. Half of the forecast rise in consumption comes from China as it relaxes Covid controls. While the global oil market is "well-supplied" now, things could tighten as Western sanctions finally start to weigh on Russian output.

China's reopening is likely to offset weaker demand from the US and Europe, sending total demand up by 1.3mbpd this year, agrees a Capital Economics note. While oil could "struggle to make gains" in early 2023, the second half may bring a "more sustained rally", with Brent Crude finishing the year at $95 a barrel, an 11% rise from the current level.

Base metals will shine in 2023

"Commodities have the strongest outlook of any asset class in 2023," says Grant Smith on Bloomberg. At least, that is what Jeff Currie of Goldman Sachs thinks. "You cannot come up with a more bullish concoction for commodities," Currie says. "Lack of supply is apparent in every single market you look at". He compares the outlook with "the record run-up in commodities prices from 2007 to 2008".

Prices have rallied strongly on China's reopening and bets of an impending pivot towards easier monetary policy globally. Bellwether metal copper has gained 22% since the end of September, with aluminium up by 19% over the same period. Iron ore prices rose by almost 50% in the last two months of 2022, says Megha Mandavia in The Wall Street Journal.

The commodities backdrop is "confusing", say Capital Economics analysts in a note. China is reopening, fuelling bullish bets, but at the same time America is slowing, giving succour to the bears. The latest price bounce looks "premature": global industrial demand for metals has probably already recovered from the pandemic, which provides less scope for further gains in 2023. Expect raw materials to "wobble" before finding a "more stable footing once the US economy picks up" in the second half of the year.

©Getty Images

China is prioritising a consumer-led recovery, so demand for commodities is unlikely to rise sharply

Food prices will fall

Agricultural commodities are likely to finish 2023 lower than they started it, adds the Economist Intelligence Unit. "Both Russia and Australia are on course for a second consecutive year of bumper crops", which should push down food and feedstuff prices by 8%-9%.

That said, there remain risks in the shape of the war in Ukraine (which causes shipping disruption in the Black Sea) and climate change: last year "scorching heatwaves hit production of wheat in the northern hemisphere".

Commodity bulls shouldn't pin their hopes on China's reopening, says Reshma Kapadia in Barron's. Previous Chinese rebounds have been accompanied by lavish government stimulus that fuelled construction and infrastructure booms. But this time policymakers are wary of aggravating the country's debt problems and are prioritising "a consumer-led recovery". That will result in less knock-on demand for raw materials.

There is scope for "cautious optimism", says Mandavia. Inventories for most metals are tight: in December supplies on the London Metal Exchange (LME) were 50% down on early 2022 levels. The one exception is copper, whose LME inventories were "essentially flat" last year.

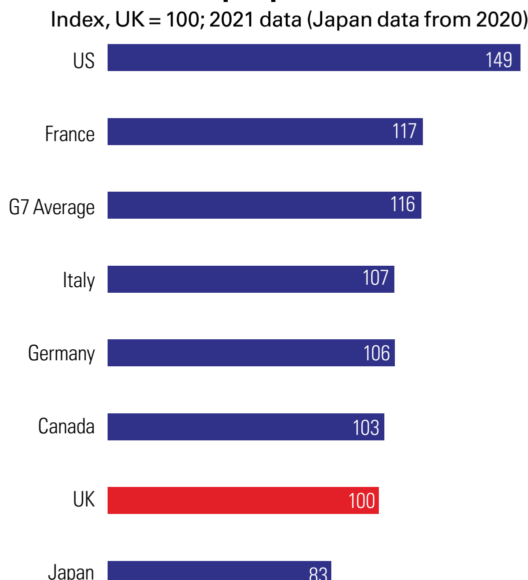
Structural demand for the metal is growing amid the energy transition, but 2023 may not be copper's year. Overall though, the "odds are that 2023 will end with industrial-metal prices… higher than they are now".

Viewpoint

"For years, crypto boosters pointed to the fact that Bitcoin had never crashed below the previous cycle's all-time high… But Bitcoin prices have spent… six months well under the $20,000 highs of… 2017… Bitcoin's annual ROI [return on investment] has been trending down since its inception… every bull run since at least 2013 has produced lower returns than the previous one… Those calling the end of Bitcoin or crypto have so far been proven wrong or – more likely – simply premature… Fraud… finds a way. But if the price manipulation driving recent crypto bubbles is no longer financially viable or politically tenable, then crypto may well have entered a new era of diminished future prospects… The falling valuation of better-regulated crypto companies…suggests a poor outlook for even the 'legitimate' firms operating in a sector driven by fraud once that fraud is excised."

Sohale Mortazavi, Quillette

■ Britain at the bottom of the productivity league



Source: The Sunday Times

Britain needs to raise its productivity game, says David Smith in The Sunday Times. On an output-per-hour-worked basis, the UK does slightly better than Italy and Canada, but lags French and German workers by 18%-19% and the US by 25%. As the chart shows, in output-per-worker terms things are even worse: "The UK is behind every other G7 country except Japan." Japan has an efficient manufacturing sector, but a combination of over-employment from a culture of lifetime employment and a weak services sector has long made it the "G7 productivity laggard". To boost its rating Britain must address acute skills shortages, raise weak business investment and develop a "proper infrastructure strategy".

Cracks in the car alliance

The longstanding tie-up between Nissan and Renault appears to have run out of road. The firms could eventually separate. Matthew Partridge reports

In an attempt to resolve "longstanding frictions" in its long alliance with Nissan, Renault has agreed to cut its ownership of the Japanese car giant to 15%, says Albertina Torsoli on Bloomberg. The rest of its 43% stake will be moved into a non-voting French trust with the aim of selling the $4bn worth of shares "in a coordinated and orderly process likely to play out over several years". The plan will also "allow Renault to push on with carving out its electric-vehicle and software business called Ampere", which the firm wants to list in 2023.

The deal, which must still be approved by the Nissan board, is the latest twist in an alliance "borne out of adversity and necessity at the turn of the century, when Renault rescued Nissan from near-bankruptcy" and took its 43% stake, says Robert Lea in the Times. Nissan received a 15% stake in Renault. The idea was to equalise the shareholdings eventually, but that never happened. Instead, the alliance was held together by "the force of personality of its architect" – former CEO Carlos Ghosn, now a fugitive after he fled Japan in 2019.

Clearing the air

This "long overdue development has the potential to clear the air between the partners", which should in turn "pave the way for better operational, financial and stockmarket performance", says Stephen Wilmot in The Wall Street Journal. Still, for now it creates a problem regarding the tranche of Nissan shares that Renault has promised to sell. Their sale could prolong the overhang that has made Nissan one of the world's worst-performing stocks in its sector recently. While Nissan could always buy the shares back and cancel them, "that would be expensive". It would also raise Renault's remaining 15% stake.

And there's another problem, say Pierre Briançon and Katrina Hamlin on Breakingviews. While in theory equalising stakes should lead to "fairer governance", the idea of having "two equal partners with separate managements" could also make decision-making "trickier", especially if there are "squabbles over future investments or technology sharing". At the very least the alliance needs a strong joint chairman or CEO. The protracted discussions needed "even to reach this small step forward do not suggest a smooth ride ahead".

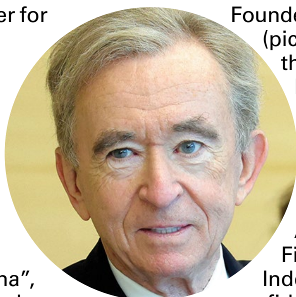
A full merger between the two carmakers is now off the table

Many within both companies remain unhappy about the agreement, says the Financial Times. Just a few weeks ago, many non-executive directors at Nissan, "expressed alarm that management was not negotiating aggressively enough with the French carmaker to protect Nissan's interest". Similarly, there are those at Renault that are sad that it is giving up the "nuclear option" of wielding "the full voting rights attached to its 43% stake in the Japanese group". With a full merger between the two companies now effectively off the table, insiders believe that the deal has "set in train a potential parting of the ways over coming years".

LVMH bets on luxury boom

LVMH, a bellwether for the luxury-goods industry, has profited from a "splurge" by shoppers in the US and Europe, says Isabella Fish in the Times. This helped it "offset Covid disruptions in China", which have reduced revenue in Asia, to report an overall 9% rise in sales in the fourth quarter. Sales at the luxury goods group, which owns Louis Vuitton and Dior, reached €22.7bn in the fourth quarter of 2022.

The 9% organic increase exceeded expectations.



Founder Bernard Arnault (pictured) believes that the two-year luxury boom, which has made LVMH the largest listed company in Europe, will endure, says Leila Abboud in the Financial Times. Indeed, he is so confident that he is hiking the dividend to €12 per share from €10 in 2021 .

However, with the global economy slowing, the luxury sector's prospects will depend on how fast China, the industry's second-biggest market after the US, emerges from a spike in Covid infections that followed the lifting of restrictions at the end of 2023.

The rise in infections has already forced many luxury brands to suspend operations because their staff have fallen ill. LVMH has been careful to hedge its bets, warning that the number of customers in China is still 40% below pre-pandemic levels, says CNN's Michelle Toh and Philip Wang.

Still, Arnault has evidence to support his optimism, noting that in Macao, which has been finally opened to travellers from the mainland, stores are already "full", with sales climbing strongly. Rival luxury brands Swatch Group and Burberry are also bullish.

"Dutch milkman" takes over Unilever

Unilever has often been accused of being "tin-eared to the concerns of its largest shareholders", says Patrick Hosking in The Times. So it is surprising that it has chosen the "virtually unknown" Hein Schumacher to replace CEO Alan Jope, who is due to step down in July.

Although Schumacher has been a non-executive director of Unilever since the autumn, his main job is leading a dairy co-operative owned by 15,000 farmers in the Netherlands, Belgium and Germany, and he is unfamiliar with "the institutional shareholding world".

Fear not, says Nils Pratley in The Guardian. While a "cooperatively-minded Dutch milkman" may seem "an unlikely appointment for a £100bn stockmarket colossus", remember that the company Schumacher is leaving has annual sales of €11bn (£9.6bn) and branches in 34 countries. Schumacher also knows Unilever from "a previous long stint in the rough-and-tumble environment of Heinz". Investors "pining for a red-in-tooth-and-claw big name" should also be reassured that activist Nelson Peltz "offered enthusiastic support for the appointment".

Nonetheless, "grumbling shareholders" are right to feel that Unilever "is off the pace set by the likes of Procter & Gamble and Nestlé". Pledges to increase operating margins to 20% were "junked well before the pandemic and inflation complicated the picture".

Things need to change, says Lex in the Financial Times. One "easy win" would be to spend more on marketing to boost "sluggish volumes". Schumacher should also sell some "underwhelming" food brands and "recycle" the proceeds into "faster-growing markets and products". Still, at least Unilever's products still "command loyalty". It raised prices by 12.5 % in the third quarter, with scant impact on sales volumes. With emerging markets benefiting from improving economic prospects and a weaker dollar, there is room for Unilever "to close its valuation gap with peers".

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MoneyWeek's comprehensive guide to this week's share tips

Six to buy

Antofagasta
The Telegraph
The price of copper has soared and structural undersupply is likely to keep prices buoyant in the longer term. Shares in this Chile-focused FTSE 100 miner have followed the metal higher, but there could be much more to come. The firm expects to produce between 670,000 and 710,000 tonnes of copper this year, and that figure could hit 900,000 tonnes by 2026 if it expands production at its operation in northern Chile. With "solid finances" and a reasonable valuation, the shares are a buy. *1,765p*

Assura
The Sunday Times
Shares in this GP-surgery landlord tumbled by a fifth last year amid gloom about the property market. However, the FTSE-250 firm's focus on primary healthcare makes it "more resilient than other property stocks", especially at a time when the NHS (which provides 81% of the group's income) needs to invest in more capacity. Indeed, the health service is prioritising GPs' surgeries and pharmacies to relieve pressure on hospitals. Shareholders may need "patience", but on a price/earnings (p/e) ratio of 18 the shares are trading at a discount to their five-year average, so there is room for a rerating. *56p*

Dr. Martens
Interactive Investor

Shares in this "iconic" bootmaker have endured a "near-relentless fall" since peaking above 500p soon after the 2021 flotation. Strong sales momentum among young women hasn't prevented the brand issuing two profit warnings in two months. Yet on approximately ten times forward earnings and a 4% yield, the shares have finally fallen to a reasonable valuation for a consumer-goods firm. Weakness in sterling may also "tempt an international buyer to make an approach", so now may be a good time to open "a starter position". *145p*

PepsiCo
Shares
A shaky global economy will make 2023 a year for "high-quality, cash-generative firms with defensive characteristics". This "soft drinks-to-snacks giant" fits the bill. Its strong brands have enabled it to raise prices and preserve margins even amid high inflation, and now falling commodity-input prices open the way for those margins to expand. Management has increased the dividend for 50 successive years and is now poised to buy back $10bn in stock over the next three years, making this "a terrific total-return stock". *$170*

Pershing Square
The Mail on Sunday
This investment trust concentrates on listed North American companies, with holdings including Universal Music, Hilton Hotels and restaurant group Chipotle. The fund enables British investors to benefit from the "magic touch" of billionaire manager Bill Ackman, who takes an active and "paternalistic" approach towards his investments. "Ackman has proved his acumen over many years," but the firm remains relatively unknown in London. With the shares trading on a 34% discount to the trust's net asset value (NAV), they are a buy. *2,895p*

Spire Healthcare
Investors Chronicle
NHS waiting times for cancer referrals and elective procedures are "at least ten times worse than they were in 2011", while the number of hip-and-knee replacements delivered privately recently surpassed those done on the NHS for the first time. That is driving "record demand from self-pay patients" at the UK's only listed private-healthcare firm. The group has attracted takeover interest from international healthcare firms in recent years and it "isn't fanciful to think that another bid will eventually materialise". The shares aren't cheap, but arguably merit their "premium" rating. *238p*

...and the rest

Investors' Chronicle
Investors have plenty of bitter experience of pre-production miners that never quite deliver on their promises. But **Adriatic Metals**, which is developing a base and precious-metals mine in Bosnia and Herzegovina, should be producing by the end of the year, so investors who "dig in" may be rewarded *(181p)*.

Shares
Our bet on telecoms testing firm **Spirent** has come unstuck after a trading update suggested that spending on the 5G-rollout by US mobile service providers could have peaked, undermining the main reason to buy the shares. So "it seems sensible to take our medicine (painful as it is) and walk away with [a] 17.6% loss". Sell *(227p)*.

The Mail on Sunday
Sustainability-focused investment manager **Foresight Group Holdings** invests in renewable-energy projects and small companies across Europe. Assets under management have grown rapidly in recent years. The business has made "tangible progress" since listing in early 2021, "but the shares have not kept pace". Existing shareholders should hold and "new investors could find value at current levels" *(470p)*.

The Telegraph
Scientific-equipment maker **SDI** buys up profitable firms that are too small to interest private-equity players and then uses the resulting cash flow to finance new acquisitions without needing to take on more debt. It is a growth model overlooked by the City. Buy *(153p)*.

The Times
Consumers in developed markets appear to be drowning their sorrows by treating themselves to premium alcohol, which should drive consistent returns for drinks giant **Diageo**. Some of the group's brands date back centuries and the shares have delivered a market-beating total return of 143% over the last decade. Buy *(3,471p)*.

An American View... picks from the Barron's Roundtable

Texas-based *Sterling Infrastructure* does site clearance, pours concrete foundations and rehabilitates highways and roads, says Scott Black of Delphi Management. The group offers strong free cash flow and a way to play higher US state infrastructure spending *($31.98)*. Zurich-headquartered global insurer *Chubb* is a high-quality business that is trading on a reasonable 12.6 times earnings *($228.86)*.

The weak yen makes this a good time for foreign investors to go shopping in Japan, says Abby Joseph Cohen, professor of business at Columbia University. Heat pumps-to air-conditioning specialist *Daikin Industries* is well placed to benefit when a cyclical upswing in industrial demand eventually materialises *(Tokyo, ¥20,250)*. *Toyota Motor's* slow move into electric vehicles (EVs) has made it unfashionable with investors, but the apparent caution reflects a "nuanced" strategy that recognises charging-infrastructure constraints will see robust demand for hybrids for some time to come *(Tokyo, ¥1,825)*. Growing interest in energy efficiency bodes well for Dutch firm *Signify*, the "leading purveyor of... quality LED lighting for commercial, industrial, and residential use". The shares are on just seven times earnings and yield above 4% *(Amsterdam: €33.57)*.

©Getty Images

Rishi Sunak's first 100 days

The prime minister has steadied the ship, but will that be enough? Emily Hohler reports

Rishi Sunak, who marked 100 days in office this Thursday, may have managed to calm financial markets after the "catastrophic premiership" of Liz Truss, but he still faces a "daunting set of challenges", says Gavin Gordon in the Evening Standard. Teachers, civil servants and train drivers joined the biggest day of strikes in the UK since 2011 on Wednesday, the NHS is in crisis, and sleaze allegations continue to engulf the government despite his promise of "integrity, professionalism and accountability at every level". The jury is still out on whether he will achieve his aims of improving the economy, cutting illegal immigration and easing pressure on the NHS, but for now the signs aren't good. The Tory party's polling numbers remain stubbornly low; interest rates are set to rise to 4% this week, from 2.25% when Sunak took office; inflation has fallen back only slightly from its October peak of 11.1%, and the IMF has slashed its 2023 growth forecast from 0.3% to –0.6%. The median wage is predicted to be no higher in 2027 than it was in 2007, adds Matthew Syed in The Times. By 2030, by some estimates, UK families are set to be worse off than Poles.

Sunak: a man in need of a sense of direction

©Getty Images

Poison cloud of allegations

To be fair, says Gordon, Sunak has "stood firm" on the economy, "resisting demands for tax cuts" and pay demands from public-sector workers. But he has failed to make tough calls closer to home. Indeed, says Chris Blackhurst in The National. Tory chairman Nadhim Zahawi has now gone, but he could have been sacked weeks ago. The deputy PM, Dominic Raab, remains in his job while under investigation for bullying. Appointing Gavin Williamson, who had already resigned twice from previous Cabinets, "was not smart" and he "duly went, for a third time". Neither, arguably, was bringing back Suella Braverman as home secretary soon after she was forced to quit over security breaches, contrary to the ministerial code.

The "poison cloud of allegations relating to rule-breaking, conflicts of interest, bullying officials and money, all so horribly familiar from the Johnson years", are all the more toxic at a time when the public are "feeling the pinch", says Andrew Rawnsley in The Observer. Sunak's handling of all this has made him look "indecisive" and a "terrible judge of character".

The problem runs deeper than that, says Syed. There has been a "creeping normalisation" of the abuse of power. Think of the dozens of ministers – half of all those serving under Theresa May and Boris Johnson – who have since accepted "lucrative jobs in industries over which they had oversight" without enduring an "iota of stigma from colleagues or the public". "For Britain, corruption is not a symptom of the problem; corruption is the problem."

There's a great "hunger in Britain for quiet, unsensational competence" but Sunak is not "meeting the moment", says Matthew Parris in The Times. He should suspend Raab, rebuke Braverman's language, tell Michael Gove the "levelling-up tombola must stop", forget about tax cuts, "hint about a spring-clean cabinet reshuffle" and thank Labour leader Keir Starmer for promising support for a Northern Ireland protocol deal. Sunak faces many tests before the 2024 election and his team has "no expectation" that he will transform his party's fortunes "any time soon", says Laura Kuenssberg on the BBC. The plan is to methodically work through his to-do list. He's a problem-solver, not a visionary, and "his backers believe that's what the public wants". Sunak wants to win the election and also "do the decent thing", says Paul Goodman on Conservative Home. To have a chance of achieving this, he needs a lot more than his five priorities. He needs to set a sense of direction for Britain.

Any Bregrets? Perhaps a few

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Brexit three years on: was it worth it?

31 January is Brexit Day, an anniversary marking three years of "political mayhem and economic calamity" since our formal exit from the EU, says Polly Toynbee in The Guardian. Although Labour says there is to be "no rejoining" (so as to deny Tories a "re-run of Brexit" in 2024 to "distract from the economy, the cost-of-living crisis and collapsed public services"), pollster John Curtice says polls now show that 57% would vote to rejoin the EU, a swing in part accounted for by so-called "Bregretters". Brexit is predicted to lead to a 4% long-run loss in productivity while inflation and energy prices are higher relative to the EU.

It's hard to disentangle how much of Britain's economic performance is down to Brexit, and how much is down to Covid, Russia's invasion of Ukraine and the travails of the Tory party, says Henry Zeffman in The Times. Other countries are "struggling for the same reasons". Notably, what has been happening in trade – the "most obvious field in which Brexit might be implicated" – tells a different story, says Ross Clark in The Spectator. In 2016, Britain exported £572.9bn worth of goods and services (at current prices) and imported £612bn worth. In the year to November 2022, the figures were £802.7bn and £883bn. Globally, Britain ranks fifth for outward FDI (foreign direct investment and second for inward FDI. Brexit has "not turned Britain into a global backwater" – far from it.

A more immediate challenge for Rishi Sunak is the resolution of post-Brexit trading arrangements in Northern Ireland, says George Parker in the Financial Times. A deal is taking shape, but can he sell it? Officials say that the European Court of Justice could have a reduced role under a system of red and green lanes, with goods destined for the Republic of Ireland and the EU facing "full customs and regulatory checks". Tory Eurosceptics do not want the ECJ to have any role on UK territory.

Nato's expansion stalls

Turkey is holding firm against Sweden's accession. Matthew Partridge reports

Nato made the historic decision last year to invite Sweden and Finland into the Western military alliance to demonstrate its "collective determination to face down Russian aggression", says Niclas Rolander and Ott Ummelas on Bloomberg. The plans have "gone nowhere": Nato member Turkey is vetoing Sweden's membership unless it does more to crack down on groups that are outlawed in Turkey, and Finland favours a joint accession (although it has hinted it might go ahead alone). Stockholm has agreed to cooperate on countering terrorism, to quickly address pending extradition requests, and confirmed it would not block arms exports to Turkey. But Turkey's president, Recep Tayyip Erdogan, is now demanding that Sweden extradite suspected Kurdish militants and alleged coup-plotters wanted by Turkey and to stop supporters of Kurdish movements in Sweden displaying their allegiances openly.

Erdogan has plenty of political reasons for saying no

©Getty Images

Genuine fear or political ploy?

Erdogan is "in the midst of a tough fight for re-election" and wants to deflect attention from a dire economy and high inflation by picking fights elsewhere, says Steven Erlanger in The New York Times. But there are also genuinely "deeply held feelings" in Turkey, across party lines, about the perceived dangers of Kurdish separatism and of the PKK, a militant Kurdish group. Sweden's case has also been hurt by the fact that a far-right Swedish politician burned a Qu'ran at a small demonstration near the Turkish Embassy in Stockholm on 21 January, even though the politician in question is alleged to have "connections" to Russia.

Turkey does have a "real problem" with terrorism, says Emma Ashford in Foreign Policy. However, many of the people that Erdogan is now demanding that Sweden extradite are journalists; the evidence against some of the others is "murky", which is unsurprising given the "authoritarian" nature of the Turkish government and its treatment of the Kurds. Erdogan's new demands are in reality a ploy so that Erdogan can keep Turkey's links with Russia open. Turkey is an important "diplomatic middleman between Russia and the West", but Nato shouldn't tolerate this kind of gamesmanship. "If there was ever a good case" for kicking a country out of Nato or "for threatening to do so", Turkey is making it now.

Will Ukraine get Western fighter jets?

Meanwhile, there is an ongoing debate within Nato over whether to send F-16 fighter jets to Ukraine, say Kathryn Armstrong and Jaroslav Lukiv on the BBC. US president Joe Biden and UK prime minister Rishi Sunak have "ruled out" providing Western fighter jets to Ukraine despite calls from Kyiv for "urgent air support". The German government likewise has ruled it out, citing fears of escalation. Other Western allies have been "less definitive" – French president Emmanuel Macron and the Polish government have indicated an openness to doing so, though they stressed that such a move could only be possible "in complete co-ordination" with other Nato members.

Italy's new PM exceeds low expectations

©Getty Images

Few governments approach the end of their first 100 days in power in such good shape as Giorgia Meloni's right-wing coalition, says The Economist. The Italian PM (pictured) "successfully framed and steered through parliament" a budget for 2023 and the markets "scarcely flinched" at the rise of a government "spearheaded by a party that traces its origins to neo-fascism". Indeed, the spread on Italian and German ten-year government bonds has shrunk from 2.33 percentage points to around 1.8 points. Her Brothers of Italy party has also gained in popularity, while support for the main opposition Democratic Party has fallen.

The immediate concerns over Meloni have "largely melted away" as she has chosen "caution over confrontation at home and abroad", says Crispian Balmer on Reuters. Her "softly-softly" approach is due to the fact that Italy has the third-largest public debt pile in the industrialised world and its room for manoeuvre is constrained by its dependence on the European Union's recovery and resilience fund, which makes some €190bn in grants and loans dependent on reforms agreed with the previous administration.

Meloni's success presents a dilemma for the mainstream right in Brussels, say Nicholas Vinocur and Jacopo Barigazzi in Politico. The left and centre-left are reeling from the scandal over payments from Qatar, while many in the centre-right European People's Party believe working with Meloni could help keep them in power in Brussels for years to come. Any alliance risks breaking a "cordon sanitaire" that has kept far-right figures out of power in Europe for decades.

Betting on politics

With the Conservatives continuing to trail Labour in national opinion polls by between 17% and 29%, attention is turning to the date of Rishi Sunak's departure from Downing Street. With £25,552 matched on Smarkets, punters have him at 4.3 (23.2%) to be replaced as PM this year, 1.9 (52.6%) to leave in 2024 and 2.9 (34.5%) to depart in 2025 or later.

Betfair doesn't have a market on when he will leave as PM, but it does have a slightly different one on when he will be replaced as Conservative leader. With £9,388 matched, he is at 5 (20%) to be replaced this year, 2 (50%) in 2024 and 2.62 (38.2%) to be replaced in 2025 or later. I don't think either of the bets offer much value at the moment as they are a reasonable reflection of the odds, though this could change.

Instead, you should think about betting on the date of Keir Starmer's departure. Confusingly, Smarkets has two identical markets on the Labour leader's departure, with £29,182 matched on one and £15,688 matched on the other. The odds are pretty much the same in either market, with 32 (3.1%) to leave by this year, 4 (25%) to leave in 2024 and 1.35 (74%) to remain leader by 2025. Unless some scandal erupts from out of nowhere, the only other way Starmer could be deposed is if Labour were to lose the next election.

What's more, the bet explicitly defines Starmer's exit as the election of a new, non-interim leader, rather than simply his resignation. Given that the last four Labour leadership elections in 2010, 2015, 2016 and 2020 took at least three months, and more typically four, this means that Starmer would have to announce his resignation by October 2024 for a successor to be installed before 2025. I therefore suggest that you bet on him to be the formal Labour leader until 2025 or later.

New York

Pfizer's sales to fall: US drugmaker Pfizer forecast a sharp fall in sales in 2023 as the easing of the pandemic tempers demand for its Covid vaccine and antiviral medicine, says Jamie Smyth in the Financial Times. It expects revenues of $67bn-$71bn in 2023, down about a third from a record $100.3bn last year. Pfizer forecasts adjusted earnings in a range of $3.25-$3.45 a share in 2023, well below analysts' consensus forecasts of $4.42. Sales of its Covid vaccine and Paxlovid treatment are expected to come in at $21.5bn, more than 60% less than in 2022.

Pfizer's shares fell by 15% in January following downgrades by investment banks. The end of the pandemic is putting pharmaceutical firms "back in a familiar, but unhappy place", says Robert Cyran on Breakingviews. Covid provided a "reprieve from the doldrums", but now it's "back to the research-and-development meat grinder". Developing new therapies "tends to be an exercise in capital destruction". Deloitte estimates projected returns on drug development for the top 20 firms was just 1.2% last year, a figure that has been in steady decline for more than a decade. Getting a new drug through trials takes an average of $2.3bn and seven years, twice as much and about a year longer than a decade ago, yet pharma firms have no choice but to "keep spending or wither". Pfizer is raising its research and development (R&D) spending to $13.4bn, 75% more than before the pandemic.

Santa Clara

Chips are down: Stagnation at Intel, the "once indomitable force of Silicon Valley", continued into the fourth quarter of last year, says Lex in the Financial Times. The semiconductor titan reported results that missed even its "diminished expectations". Revenue for the first three months of 2023 is forecast to fall by 40% from a year earlier. The company blames "persistent macro headwinds". But while post-pandemic chip sales are lower globally, the reality is that rivals AMD, Arm and Taiwan's TSMC are taking market share. AMD's revenue is forecast to rise 6% in 2023. Intel's could fall by a fifth. US president Joe Biden (pictured) is spending billions of dollars to create national champions and he has reached agreement with the Netherlands and Japan to restrict chip exports to China (the three countries dominate the chip-making process). Yet even "national security imperatives… may not be enough for Intel". Things aren't much better in Asia, says Jiyoung Sohn in The Wall Street Journal. Korea's Samsung Electronics, the world's biggest producer of memory chips – a bellwether for the industry as a whole owing to their sensitivity to shifts in supply and demand – reported a 69% year-on-year fall in operating profit in the fourth quarter. SK Hynix reported a 1.7trn won (£1.1bn) loss.

Santa Monica

Snap sales snipped: Snap, parent company of social-media platform Snapchat, has warned that sales in the first three months of this year will probably fall by about 10%, says Meghan Bobrowsky in The Wall Street Journal. Revenue growth stalled in the fourth quarter from a year earlier, when Snapchat made $1.3bn in sales – the lowest figure since Snap went public six years ago. The company reported a quarterly loss of $288m – a "stark change" from the first-ever three-month profit it recorded at the end of 2021. It's been a year of upheaval for social media and, in particular, for the advertising revenue on which it depends. Concerns about recession and the war in Ukraine have dented spending. Snap was one of the hardest hit last year. Its shares fell by 80%, as revenue growth halted and the competition intensified. In August, it let go a fifth of its staff. Rival Meta Platforms, owner of Facebook, followed suit, illustrating the malaise facing social-media companies. While Snapchat did add 12 million daily active users in the fourth quarter, worryingly, declining engagement among users could be becoming a trend, says Laura Forman in the same paper. "If you can't hold users' attention with a good ol' face swap, flower crown or puking rainbow, are you even still in the game?"

The way we live now... the weight-loss drug that went viral

Weight loss is a perennial challenge for celebrities chasing a skinny figure, with many turning to pharmaceutical means to achieve it. However, the latest slimming drug might be more trouble than it's worth, says Ben Spencer in The Sunday Times. Semaglutide is a weekly treatment that lowers blood sugar by promoting insulin production, administered via auto-injector pen. It was approved for weight loss treatment back in 2021. Now its doing the rounds on social media, going viral under its brand name Wegovy, distributed by Danish pharmaceutical giant Novo Nordisk. It has invested $2.6bn in a manufacturing expansion to try to meet the celebrity-stoked demand.

It's something of a dirty secret among US celebrities, many of whom use it before they attend big events. Kim Kardashian is rumoured to have used it in order to lose 16lb in three weeks to fit into a dress once worn by Marilyn Monroe, chemically fighting off hunger pangs and inducing a sense of feeling full. However, many are calling for the drug trend's drawbacks to be more widely recognised. Firstly, there are concerns that Semaglutide's popularity for dieting will diminish supplies that should go toward helping diabetes patients in critical need. Then there are the side effects. Some users of Semaglutide who lost a lot of weight also lost muscle mass and bone density, before finding their excess weight returned in due course.

Kim Kardashian shed 16lb in three weeks

©Getty Images

Frankfurt

ECB to stay the course: Investors should "tread carefully" when interpreting the estimate of how fast eurozone consumer prices were rising in January, says Bert Colijn of Dutch bank ING. The headline figure of 8.5% year-on-year showed a "fast decline" from December's 9.2%. But the German data, which has been delayed, has yet to enter the mix, while January is also when the annual weights of items are revised. The effect of higher wholesale energy prices tends to pass through into retail prices at the start of the year, further skewing the figures. All that said, annualised core inflation, which strips out volatile food and energy prices, for January is pencilled in at 5.3% – enough for the European Central Bank's (ECB) boss Christine Lagarde to carry on raising interest rates, even though the German economy shrank by 0.2% in the fourth quarter from the previous three months. France grew by 0.1% quarter-on-quarter. The final eurozone inflation data is out on 23 February. European governments, having flooded the eurozone with €530bn in the aftermath of the pandemic and Russia's invasion of Ukraine, are closing the spigots, says Francesco Guerrera on Breakingviews. This is "short-sighted". They should use the extra funds to "ease the blow of the ECB's efforts to tame inflation".

Lagarde: in a hawkish mood

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Beijing

JD.com leaves Southeast Asia: Chinese e-commerce giant JD.com is pulling the plug on its retail platforms in Thailand and Indonesia in a "major setback" for its overseas expansion efforts, says Ben Jiang in the South China Morning Post. The company had set up a joint venture in each of the Southeast Asian countries. It had partnered with Thai property and shopping-centre developer Central Group in 2017 to create JD Central in Thailand. That business ceases operations in March. And it launched JD.ID in Indonesia in 2015 with local investors; the company will stop taking orders on 15 February. JD.com will instead focus on its domestic market, and develop supply-chain networks and warehousing operations in Southeast Asia through its JD Logistics subsidiary. E-commerce has been a major driver of growth in the region's digital economy. But the competition from "a swarm of new [smaller] players" has been "red hot" as the ability to take payments online has become easier. A "fierce rivalry" among bigger players in the e-commerce sector has also emerged in Southeast Asia between Shopee (owned by Singapore's Sea), Alibaba's Lazada, and local Indonesian "behemoth" Tokopedia, "leaving little room for JD.com to find a profitable foothold". Both JD.ID and JD Central lagged behind major rivals. JD Logistics has teamed up with Biedronka, Poland's largest discount supermarket chain, and begun work on two industrial parks in Vietnam.

Abuja

Debt downgrade: Nigeria's government bonds "fell heavily" after credit-rating agency Moody's downgraded Nigeria to Caa1 from B3 in the expectation that its fiscal and debt position would carry on "deteriorating", say Rachel Savage and Marc Jones on Reuters. The government blames its public finances on last year's $9.5bn petrol subsidy, but debt servicing is also a major drain. The International Monetary Fund estimates that the country spent 80% of revenues on debt servicing last year and Moody's says it expects debt interest payments to account for around 50% of government revenue in the medium term, up from 35% in 2022. Moody's "also sees the debt-to-GDP ratio rising to 45%", up from 19% in 2019. Although elections at the end of the month may "provide a catalyst for economic reforms", implementation could be slow given structural challenges as well as constraints in a country still recovering from the pandemic, say Colleen Goko and Emele Onu on Bloomberg. The risk of debt default will increase next year if "fiscal consolidation doesn't take place". That's not the only bad news. If a trial in London involving an allegedly fraudulent gas deal from 2010 "doesn't go its way", Nigeria could be on the hook for a $11bn payout, equivalent to a third of the country's forex reserves.

Ahmedabad

Shorting-selling saga: Gautam Adani, one of the world's richest men and a close associate of India's prime minister Narendra Modi, has pulled off a $2.5bn share offering by Adani Enterprises, flagship of the Adani Group's listed companies, says The Economist. But a report by Hindenburg Research, respected New York-based short-sellers, almost derailed it. Hindenburg claimed offshore holding entities in Mauritius and elsewhere are fronts for the Adani family to pump up the group's shares to stratospheric levels. It also alleged the use of offshore vehicles to hide losses and launder money. The Adani Group issued a 413-page rebuttal and threatened legal action. Still, the shares plunged and its US-traded bonds, which Hindenburg has been selling, were trading at 70 cents on the dollar, "a price that usually denotes financial distress". Around $70bn was wiped off the group's market value. India relies on Adani Group for building much needed transport and energy infrastructure, tying itself to the integrity of a tycoon. Adani accounts for 7% of the capital spending of India's 500 largest listed firms. India must be careful, says Mihir Sharma on Bloomberg. If it comes to Adani's rescue, without justification, who will believe the government "doesn't have a thumb on the stockmarket scales"?

Britain's north-south divide

Boris Johnson's government was elected in 2019 on a promise of levelling up the poorer areas of the country. Have we made any progress? Simon Wilson reports

How's levelling up going?

It's going backwards, according to Bloomberg's "Levelling Up Scorecard", which tracks progress since the 2019 election using the government's own set of socioeconomic metrics for assessing its levelling-up agenda. Levelling up, if it's to be anything more than an aspirational slogan, means reducing inequalities between regions while improving outcomes in all of them. But the Bloomberg survey (newly updated using figures from December 2022) found that since 2019 the gulf between the UK's poorest regions and the wealthiest, London, has got wider, not narrower. Moreover, the gap's got even bigger since the last survey, in May 2022, especially in the northwest and southwest of England. A separate YouGov survey of more than 115,000 people found that in only four out of 361 local-authority areas did a majority believe that their area had improved in recent years. In some 142 areas, the majority opinion was of general decline.

Barnsley is still waiting for a leg-up

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How was this measured?

The metrics used to assess levelling up in the Bloomberg survey are: salary levels, productivity, the number of people on universal credit, total government spending, government spending on transport, foreign investment, civil-service employment, home affordability, crime levels, well being, life expectancy and broadband coverage. The Bloomberg analysis shows that more than three-quarters of constituencies – especially those in the Midlands and north of England – were already behind London and the southeast in 2019 and have since fallen even further behind. It also shows that 97% of so-called red wall seats (traditional Labour heartlands that voted Conservative in 2019) are classified as falling behind.

For example?

London and the southeast spent £905 per head on transport in the last fiscal year compared with £442 per head in the northeast, a gap that's grown since 2019. In terms of productivity, each job in London and the southeast generates an average £71,035 of economic output, compared with £42,827 in the West Midlands, £45,942 in the East Midlands and £46,331 in the northeast. In each case, the gap has grown since 2019. And overall spending per head on public services has risen 16% in London and the southeast since 2019, versus 12% or less in the north and southwest. One significant bright spot is the east of England region, where one in three constituencies are doing better since May 2022, thanks in part to shrinking pay and transport spending gaps. "But these constituencies are closer to London, showing the challenge of spreading wealth and opportunity beyond the gravitational pull of the capital," say the survey's authors.

What is being done about this?

In January the government dished out £2.1bn, the second tranche from its main levelling-up fund. But any credit it might have expected was drowned out by a chorus of surprise and anger that some very well-off areas had done pretty nicely out of it – including Rishi Sunak's own affluent North Yorkshire constituency. The southeast of England got £210m, including £20m for tackling obesity in Farnborough and £19.9m to reopen Canterbury Castle. Yorkshire and the Humber got just £120m for six schemes, including improved transport links in West Yorkshire, and the West Midlands got £155m for eight schemes. Levelling up was always a "slogan in search of a policy", says The Times – and the latest funding round is not going to convince voters it's a serious effort.

> *"Levelling up was always a slogan in search of a policy"*

The system of making councils compete for grants isn't sensible: it's a time-wasting stunt that creates more annoyed losers than happy winners. Two-thirds of winning bids came from Tory-held constituencies.

Was the criticism fair?

Not all of it. It's not true that the south was favoured at the expense of the north once you factor in population size. Per capita, London got £17 each, compared with £41 for the northeast and £48 for the northwest. But it is true that these were all pretty paltry sums compared with the average real-terms funding cuts for local authorities of 37% in the decade to 2019-2020, equivalent to around £16bn. Take Barnsley in post-industrial South Yorkshire, says Jennifer Williams in the Financial Times – the 38th poorest of 317 local authorities in England. In theory, the town should be at the centre of the levelling-up agenda. In practice, it has lost half its core funding, has seen its budget cut for 12 successive years in a row – and now has to find an emergency £21m to cope with the impact of inflation.

So what should happen?

In order genuinely to level up Britain, devolving power to the regions – including fiscal powers and control over tax revenues – will be essential, says Simon Jenkins in The Guardian. To the government's credit, its levelling-up White Paper (published a year ago, and yet to make it to Parliament) recognises the scale of the problem in the UK, the most regionally unbalanced of the large, advanced economies. Reversing that will require "long-lived, sustained and consistent policy efforts that are commensurate with the scale of disparity", the paper reads. "This is a key lesson from international experience" – such as the massive investment in eastern Germany post-unification – where successful programmes often spanned decades and had clear medium-term objectives.

Will any of this come to pass?

The good news, says Martin Wolf in the FT, is that the paper from Michael Gove's levelling-up department contains thorough analysis, clear aims, and some sensible policy steps. The bad news is that it offers only "baby steps" in terms of fiscal autonomy, and an excess of wishful thinking and overoptimistic target-setting. It's not a road-map to genuine progress. And if you think HM Treasury – protective of its powers and instinctively sceptical about big, transformational projects – is committed to making Gove's plan work, "you are deluded".

Don't fall for the AI hype

ChatGPT is an impressive tool, but investors who pile into every excited story will get burned

Matthew Lynn
City columnist

People have been talking about the potential for artificial intelligence to spark the next big wave of technological and industrial disruption for at least a decade now. But ChatGPT represents the first practical demonstration of its power most of us have yet seen. It is a simple, well-designed web tool, and you can ask it questions and get it to perform tasks that even two or three years ago would have seemed beyond a computer. And it performs pretty well. It may not be a genius, but it may be smarter than many of your colleagues, and that is quite something. When Microsoft invested $10bn in the not-for-profit OpenAI that created it, and in which the Tesla founder Elon Musk was an early investor, it became clear that something of significance had arrived. Already there is talk of it displacing Google as the dominant web app, as well as leading to the destruction of millions of white-collar jobs. (See pages 16 and 25.)

The bandwagon starts rolling

We will see how that plays out over the next few years. One point is already clear, however. Lots of companies are starting to jump on the bandwagon. The news publisher Buzzfeed announced last week that it was starting to use ChatGPT to write some of its content. The result? The shares doubled over the next day. Plenty more companies are already using it, or the technology underlying it, to power their chatbots, those irritating automated reply systems that almost never understand the problem you are trying to raise. We will almost certainly see a lot more of that over the next few months. Advertising agencies will be making a big splash on how they are using it to replace copywriters. Estate agencies will be using it to write brochures. Further down the line, supermarkets may be using it to do your online shopping, law firms to process house purchases, and brokers to tip shares. Every time there is an announcement, share prices will soar. Investors are piling into ChatGPT stocks with enthusiasm. It can't be long before there are AI funds and ETFs to invest in, too.

©Getty Images

ChatGPT is already smarter than many of your colleagues

A few fortunes will be made in the process as tiny stocks soar in value amid a wave of investor enthusiasm. The trouble is, it will all be nonsense. Take Buzzfeed. It is fundamentally a terrible business, which helps explain why the shares are down by 70% over the past five years (and it was 90% before the recent bounce). Sure, AI will allow it to cut a few costs in the short-term, although not by a huge amount since it hardly pays its writers a fortune. But AI will make its prospects far worse, as it will allow just about anyone to write very mediocre content at almost zero cost, and put it up on the web to harvest a few clicks. Margins will be whittled away to almost nothing.

Likewise with companies using it to improve their chatbots or perform routine administrative tasks. Very quickly everyone will be doing the same thing, and any cost reductions you manage to make will immediately be matched by all your competitors. ChatGPT is also open source: any company can use its technology, and if they need to adapt it for their own business they will. Very quickly, every company in an industry will be using it in one way or another, and any competitive advantage from deploying it first will evaporate in a few weeks or months. Even worse, while it is impressive, much of the work ChatGPT produces is still not very good, and customers are likely to notice.

AI will be significant commercially at some point. And it has the potential to radically reshape many white-collar industries, with sectors such as law, insurance, accounting and engineering, which have been largely unchanged by the technological upheavals of the last three decades, likely to be fundamentally challenged. But it will be new companies that find ways of using it to disrupt old industries that will be the real winners, and they will only emerge over many years. Tech fads come and go with alarming regularity. Don't fall for the hype. Investors that do are likely to get burned.

City talk

● Until last month, Direct Line's CEO Penny James (pictured) was seen as a potential successor to Amanda Blanc at Aviva, says Oliver Shah in The Times. Now she's stepping down, and it was "a resilient trading update from Aviva last Wednesday that appeared to seal James's fate". She is "carrying the can for a profit warning – self-inflicted, as Aviva's results indicated" – that blew up the dividend. But Aviva will now be on alert for the possibility that Direct Line's board will try to poach Adam Winslow, who heads its general insurance business, as a replacement. "Things can change quickly."

©Direct Line

● Tufan Erginbilgic, the new CEO of Rolls-Royce, has launched an "utterly scathing assessment of the company's current form and direction", says Ben Marlow in The Telegraph. Erginbilgic told employees that "we underperform every key competitor" and "every investment we make, we destroy value". And he's right. "If there is one blue-chip British company in need of a dramatic shake-up, it is poor Rolls-Royce". The firm is a "pathetic shadow of its once mighty self". Covid almost dealt it a final blow, averted by "the mother of all rescue acts", including a £7bn cash call and 9,000 job cuts, but the problem is that it "has never confronted the existential crisis at its heart" – its fortunes are tied to the airline and energy sectors. Blame a "historically supine board" and investors who "should have been asking tougher questions and demanding better answers" for this "scandal that shames the entire establishment".

● "If you want to shore up investors' confidence when a New York hedge fund is questioning your accounting… you usually have to get into the gritty business of point-by-point rebuttal," says Nils Pratley in The Guardian. It's time for cybersecurity firm Darktrace to take that to heart after a short-seller claimed that its "sales, margins and growth rates may be overstated". Yes, the claims may be wrong, but Darktrace needs to provide details, not "airy 'nothing to see here' statements". If CEO Poppy Gustafsson brings off a "successful and transparent defence", she might silence the "persistent City whispering" around the firm's high sales and marketing expenditure. "Opt for full exposure and elaborate explanation."

Overtaken by events

You can't anticipate crises – but if you come into them with a pricey portfolio, it will cost you more

Cris Sholto Heaton
Investment columnist

When I said a few weeks ago that I'd be reviewing not just my holdings but all of my investment strategies this year and reflecting on the main risks and lessons, I wasn't expecting a solid start to the year for my underperforming "capital gains" portfolio. That's helped it look a bit better over the short term and it's up about 10% over three months. So it's a relief that I didn't rush to sell any holdings. Still, medium-term returns are miserable: it lost 5% per year between the beginning of 2020 and the end of 2022.

This portfolio is mostly invested in mid-cap and small-cap stocks. It's pretty concentrated, with 10-15 positions (currently 13), and many of those are in Asia and emerging markets . Before that, performance was on a par with my "buy and hold" portfolio of multinationals, so it's clear something went awry. I need to know what.

The micro and the macro

When I started reviewing my performance, I expected to see some costly examples of where I was too slow to sell losers. In reality, there was only one glaring example of holding onto an individual stock far too long. In recent years, my approach with this portfolio has been to make a half-sized investment initially and wait a while. If it drops 20%-25%, I either sell or – if the investment case is still compelling – I complete the purchase. If it drops by a similar amount again and it's not the result of a wider market meltdown, I sell: there's no third chance.

The real performance problem was more down to macro factors. Smaller stocks sold off in general during the pandemic, but many have now recovered. However, my portfolio had a substantial amount in Hong Kong, which was battered by pro-democracy protests, China's resulting crackdown and by the pandemic. These stocks are only just starting to rebound. I also had quite a bit in Japan, where the weak yen has been a further headwind. If this portfolio was being run in isolation, one would obviously conclude that I didn't have enough diversification. However, since it's being run alongside portfolios with very different exposure, that's not the main error here. Still, in hindsight, it would have been good to duck some of these losses.

The 2019 pro-democracy protests in Hong Kong were the start of a long slump on the local market

Anticipating events like this is difficult, and getting into the habit of selling everything whenever you feel nervous is not a recipe for success. Market timing does not work for most of us. Still, in hindsight, I see one clear error. I came into 2020 with large paper gains in a few stocks that subsequently fell back. I hadn't sold because a) I believe in running winners and b) I wasn't seeing better opportunities. Yet valuations were stretched and I knew that at the time. I should have been more alert to how conditions were changing and whether it was time to take some profits, perhaps using stop losses to lock in gains.

I wish I knew what market timing was, but I'm too embarrassed to ask

Market timing refers to any strategy that involves trying to predict future price movements and shifting between different investments to take advantage of them. To take a simple example, if you believe that shares are likely to fall and bonds to rise over the next month, you would buy bonds and sell shares. You would only intend to hold these positions for as long as you think bonds will keep beating shares: as soon as you think the trend will reverse, you would buy shares and sell bonds.

These predictions and trading decisions may be based on economic data: in the example above, you might believe that GDP growth will be much worse than expected and investors will dump shares because they fear a recession is coming. They could be derived from trends or patterns that you think you can see in price charts (known as technical indicators); you might think a bull market looks as though it is coming to a peak or that a bear market is near a bottom. Or they might be influenced by other major events, such as the threat of a war and the impact that you think it will have on markets.

All of these involve an attempt to predict not only what will happen and how it will affect asset prices, but also when that will occur. If you get the timing wrong, you can easily lose money even if your prediction eventually turns out to be correct. That's part of the reason why market timing is so difficult, together with higher costs. If a buy-and-hold investor buys a stock that they think is cheap and their analysis is correct, they should make a profit, even if it takes longer than expected, as their costs will be relatively low. But if a market timer regularly changes their positions based on what they think will happen, they will incur higher costs. Unless their predictions are very often correct, these costs will eat into their profits. Studies suggest that most market timers do worse than buy-and-hold investors.

Guru watch

Jeremy Grantham, co-founder, GMO

The popping of the bubble in US stocks is far from over, says Jeremy Grantham, the veteran investor who co-founded asset manager GMO . By the end of 2023, the true long-term value of US S&P 500 should be around 3,200 – or about 20% below current levels – and the index is likely to drop below that at some point this year. "The range of problems is greater than it usually is — maybe as great as I've ever seen," he tells Bloomberg. "There are more things that can go wrong than there are that can go right. There's a definite chance that things could go wrong and that we could have basically the system start to go completely wrong on a global basis".

Any crisis is likely to play out in a similar way to past "explosions of investor confidence" seen in 1929, 1972 and 2000. While many analysts attribute last year's slide to the impact of the war in Ukraine, rising inflation, the effects of the pandemic and supply-chain problems, a bear market was already overdue, argues Grantham. Stocks may strengthen during the first early part of the year – helped by the usual seasonal strength in the market in January and the presidential election cycle in the US (Grantham argues that stocks tend to do well in the third year of a presidential administration, as policymakers try to stoke growth). However, "almost any pin can prick such supreme confidence and cause the first quick and severe decline".

Investors should focus on value strategies to limit their losses, says Grantham, a long-standing proponent of value investing. Value stocks struggled in the decade after the 2008 financial crisis as growth stocks surged in popularity. But interest-rate hikes by the US Federal Reserve have helped them revive (value stocks tend to do better than high-priced growth stocks when rates rise). Value returns could beat growth by 20% over the next year or two and the cheapest quartile of stocks could do especially well.

©Getty Images

Putin scores own goal on energy

Julian Lee
Bloomberg

Russia spent almost 50 years building its energy market in Europe, says Julian Lee. Vladimir Putin has "destroyed it in under 50 weeks". While Russia has found new markets for its crude oil, mostly in India and only at huge discounts, switching sales of refined products and natural gas could prove "almost impossible". Even if Moscow salvages some kind of deal with Europe, the EU is unlikely ever to revert to pre-war levels of dependency. The war has also "spurred" investment in renewables. And even if some countries are willing to snap up cheap Russian diesel at a discount (another cost to be borne by Russia), natural gas requires huge pipelines. The Yamal gas fields that used to supply Europe are inaccessible and therefore underused, while the Power of Siberia pipeline and its associated gas fields, which are now fuelling China, have required an investment of up to $100bn and may "never yield a return". There will also be limits to how much more Russian gas China will buy. Though its needs are "vast", it will be wary of repeating Europe's mistakes. Piping gas to India will be "even more difficult" because of geography. All told, "Russians will be counting the cost of war for generations to come".

Why Britain is mired in sleaze

John Harris
The Guardian

In crisis Britain, it is our "unlucky fate to be run by an administration in a similar state of breakdown", says John Harris. The ruling class comes from "absurdly narrow cliques". Take the current sleaze allegations. All of the main characters mentioned, with the exception of Nadhim Zahawi who went to UCL, were privately educated and attended Oxbridge. It was Margaret Thatcher, despite her "patina of petit-bourgeois meritocracy", who led to "privilege and the right accent" becoming cause for celebration again. Boris Johnson "crystallised" this sense of entitlement and Rishi Sunak, "the weak prefect… can't figure out how to stop it". The result? A ruling class that has taken "endlessly stupid decisions, knowing that their wealth and connections mean they will never have to worry about the consequences". At the last count, two-thirds of senior judges were privately educated, 51% of "leading journalists" and 52% of diplomats. The figure for the cabinet is 65%. Ensuring the intake of our leading universities reflects the fact that 93% of our population is state educated would be a start, but a "huge process of reform and positive discrimination" is needed to open up our institutions and pull the country out of "failure and sleaze".

Goldman has lost its swagger

Editorial
The Economist

Goldman Sachs is losing its shine, says The Economist. Since October, it has U-turned on its plan for a big consumer bank, booked one of its worst quarterly results for a decade and attracted a probe by the Federal Reserve. Today, investors think that Goldman is worth only the net book – or liquidation – value of its assets. Its struggles provide several lessons. Firstly, that it still excels, but in a "bad industry", investment banking, which "combines the drawbacks of a regulated activity (capital requirements and red tape) with the vices of a speculative one (volatility and capture by employees)". Last year, even as profits halved to $11bn, it paid out $15bn in salaries and bonuses, its second-highest bill since 2009. Second, that it's "hard to compete in winner-takes-all digital markets". Despite spending billions, its customer base remains a fraction of PayPal's. Finally, as globalisation falters, local competitors have emerged and countries are increasingly "wary of foreign financiers". Can it recover its "swagger"? Sensible steps are now being taken, but there is something "uniquely hard about reforming elite firms" that think they are "smarter than everyone else". Being self-critical may be the "hardest leap of all".

South Korea must tackle patriarchy

Hawon Jung
The New York Times

The trend for South Korean women to spurn motherhood is "killing" the country, says Hawon Jung. For three years in a row, the country has recorded the lowest fertility rate in the world, with women having fewer than one child on average. The UN projects a halving of the population by 2050. Koreans are put off starting families by the "staggering costs of raising children, unaffordable homes, lousy job prospects and soul-crushing hours", but the "patriarchal culture" is the overriding issue. President Yoon Suk-yeol rose to power by leveraging the resentment of young men angered by the noisy campaigning of feminists, but regressive policies are not the way to go. "Gender equality is the solution." Over the past 16 years, $210bn has been poured into state programmes "encouraging procreation", yet women – who are still saddled with the lion's share of domestic chores, face discrimination at work and a shocking level of violence – "still say nope". As the former equality minister Chung Hyun-back says, nothing will change until women's grievances are addressed. The government needs to admit there is a systemic problem and infuse "every aspect" of women's lives with "agency and equality". "Survival of the nation is at stake."

Money talks

"No one can ever take *me* away from me. I'm always going to be OK. No matter what happens, I've proven that theory. I know that I can live with nothing. I know I can live with something. I can live in an apartment. I can live in a trailer. I can live in a mansion. I can live in a castle. I'm just OK right here where I'm at."
Model and actress Pamela Anderson (pictured), quoted in Variety

"Cars. Always a bad investment, although I've never regretted buying one. I lost about £20,000 on a Mercedes C63 AMG. I had it for about two years, but I loved it every day I got in it, so that's just the price you pay for that pleasure."
Former soldier and bodyguard turned actor Simon Newton on his worst investments, quoted in The Sunday Times

"Before, I directly associated my self-worth with the [amount of money] on my contract. Now I want and just need enough money to have a roof over my head, be happy and be able to do the things I love."
Former rugby player Ed Jackson, quoted in The Telegraph

"The most I've ever earned was £5,000 for one day of filming and creating content for a company. I wish those days would come around more frequently, as anyone would. But, I also try not to lose sight of the fact that only a small percentage of people on this planet get paid that sort of money to do ridiculous things on camera… I am very lucky."
Vet and television broadcaster Rory Cowlam, quoted in The Mail on Sunday

"Money… don't change you, per se. It fasho [for sure] change people around you, though."
Musician GloRilla, quoted in The Cut

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The return of the secretary

©Getty Images
ChatGPT will never have the human touch

noahpinion.substack.com
The rise of ChatGPT, an online artificial-intelligence tool, has got people worrying about the future of work again, says Hollis Robbins. When you've got a machine in your pocket that can do anything someone you might hire can, then what future for the human race? The reality is that the rise of artificial intelligence (AI) will make some old-fashioned human jobs more in demand than ever.

Consider the secretary. In the 19th century, this was a prized role for young men. The word comes from the Latin *secretarius*, and means "person entrusted with secrets", the "trusted officer who writes the letters and keeps the records", the "apprentice manager well-positioned to learn at the elbow of the man in charge, someday to be the man in charge". In the business world in the mid-20th century, highly paid secretaries had to undergo rigorous training. As well as understanding all aspects of the business, they would have to be well educated, understand and navigate local politics, and know how to adjust a hat, hold a cocktail and greet guests – not to mention buy gifts for the boss's wife.

How not to be flaky

These days we are all our own secretaries, enabled by various digital technologies. Few of us own a filing cabinet anymore. Yet as we get bombarded with more and more emails and information, a situation only likely to get worse when it is being spewed out by AI, the value of hiring someone with a head on their shoulders to filter out all the rubbish will become more apparent. Just imagine how much more productive you would be if you had someone to review and process your email, to organise your diary, book holidays, tactfully communicate when you can't make a meeting, and to remind you of important birthdays and suggest gifts. And it could pay for itself. Consider an executive earning $1.5m a year. A secretary earning $120,000 who works for one executive alone needs to save that boss only five hours of a 60-hour work week to make the numbers work.

Schools and colleges will have to change to meet the needs of this new future– more focus on training in skills such as "how to show up early, how to deliver bad news, how to give and accept criticism, how to deal with an office visitor the team leader does not want to see, how not to be flaky, how to organise files, how to handle confidential information, and most importantly, how to write and answer emails promptly, swiftly, briefly, and with tact". These are not skills that can be replaced by AI, and they may "provide a competitive edge to businesses that value them".

Britain's hidden success story

unherd.com/thepost
British Indians are an "inspirational national success story", but they are not the only ones, says Rakib Ehsan. The Census shows that in 2021 there were 445,000 people of Chinese origin living in England and Wales, 0.7% of the population. Compared with other larger ethnic minorities, they are more geographically dispersed and have a "proven ...record of high academic and socio-economic achievement". They bring home the second-highest pay cheques of all ethnic groups, earning a median hourly rate at £15.38 compared with £12.49 for the white British. Children of Chinese origin are also the least likely to live in poverty – only 12% do compared with 26% for whites and 52% for blacks. Why do they do so well? British Chinese families place a high value on education, including post-secondary academic attainment, and often provide supplementary tutoring. Parents are "robust" in reducing their children's exposure to "counter-productive influences". And they have an "unshakeable belief" in social mobility and advancement: "hope and optimism over grievance and pessimism". This all backs up the findings of the Sewell report, which challenged cultural obsessions with race and argued that family structure and community dynamics were more important factors for social policy.

Learning to love your job

ft.com
There are many reasons to hate a job, says Grace Lordan. Perhaps the tasks are arduous or boring, the pay low. Perhaps you feel you're wasting your best years. Whatever the reason, it can't go on: hating your job will harm your mental and physical health if you don't do something about it. But what?

First, recognise that you alone are responsible for resolving the problem – no one's going to swoop in and rescue you. And don't quit in a moment of despair – "no big life decisions should be made in misery". Then seek greater clarity about why you hate your job. Are there aspects of it you like? Could you concentrate more on these and reorganise the job to shed the more hateful tasks, or work from home more to avoid disagreeable people? Talk to your manager.

©Getty Images
Bored? Then do something

While you're there, ask for a pay rise. If the answer is no, that is good to know while you decide whether to quit. Seek out people of like mind for help, advice, and perhaps connections that will lead you to a new position. Or perhaps you could find a "side hustle" that earns money and is enjoyable. It may give you just the skills you need for the career change you seek.

Did the sugar tax work?

snowdon.substack.com
Just before Britain's sugar tax was introduced in April 2018, various advocates of the policy were handed £1.5m of taxpayers' money to evaluate it, says Christopher Snowdon. "Marking your own homework is considered perfectly normal in 'public health'." They had their work cut out: what the government classifies as child obesity (but really isn't –the statistics are dodgy) rose in 2018/2019, rose again in 2019/2020, and spiked dramatically in 2020/2021, doubtless due to lockdowns. So childhood obesity didn't decline after the tax was introduced.

Unfazed, the researchers created a model seeking to show what would have happened based on trends between 2013 and 2016, and detected a dampening of the rate of increase in obesity among girls in year six. (A similar model that failed to repeat the finding is buried away in the report and the authors barely mention it.) The study will doubtless by cited as evidence that the sugar tax "worked". But it is "extremely thin gruel". To date, the sugar tax has cost consumers well over £1bn.

Investing in world-changing stocks

Scottish Mortgage struggled in 2022, but its strategy is still compelling for long-term investors

Max King
Investment columnist

The £11bn Scottish Mortgage Trust (SMT) was one of the worst performers in the market in 2022, with an investment return of -42%. The shares, which reached £15 in November 2021, halved by June and now trade at a 9% discount to net asset value. There is no shortage of pundits writing it off. Yet the strategy hasn't changed.

"We seek to invest in the world's greatest growth companies, whether they are public or private," says Tom Slater, the lead manager. Over 20 years, in which the share price has risen 15-fold, "we have owned 700 companies, but less than 5% of them have driven all our returns. That is what we expect – an exceptional impact from a small number of companies… Our companies are relatively early in exploiting the opportunity for growth. They have suffered a significant decline in valuation, but 2022 brought an exceptional number of breakthroughs in their businesses."

Slater admits that it was "a humbling year… some of our assumptions were wrong". Changes in consumer and business practices induced by the pandemic have been less persistent than expected and China has been very problematic. E-commerce penetration in China is double that in the US, at 30%, so competition is increasing. In addition, the state has clamped down on platform companies. So exposure has been halved to 13% in the last two years with several exits, including Alibaba, which was the first private-equity investment by SMT, made ten years ago.

SMT was right not to abandon China

©Alamy

Private equity now accounts for 30% of the portfolio, close to the cap. Most of the holdings are small, but nine are in SMT's top 30, including Northvolt (3.6%), SpaceX (3.2%) and ByteDance, the owner of TikTok (2.2%). All of the holdings were revalued at least three times last year, implying that valuations are now realistic.

Listed holdings account for 70% of the portfolio, and two-thirds of these are profitable. There are 100 holdings in all, but the top 30 account for 74% of the portfolio and the top ten for 44%. The valuation of the top ten fell from seven to five times sales last year.

Immense potential

Moderna is the largest holding, accounting for 9.9% of the portfolio. "The market is treating Moderna and its Covid vaccine as a one-trick pony and has failed to price in that the mRNA technology platform, developed before the pandemic, is highly scalable." Positive phase-two trial data for Moderna's cancer vaccine for the treatment of melanoma has led to Merck investing $250m.

"We are on the cusp of abundant low-cost energy becoming a reality," which makes energy transition a key theme. Battery technology is critical, accounting for the investment in Northvolt, and is an important part of the rationale for the hugely successful investment in Tesla.

Pinduoduo, whose online platform connects farmers with consumers, was SMT's most successful investment last year, gaining 60% as profits tripled, although it's still only half the price of two years ago. It shows that SMT was right not to abandon China and illustrates the recovery potential of growth companies that deliver profits.

SpaceX has reduced the cost of sending a satellite into orbit to $1,400 per kilogram, just 3% of the cost in the space shuttle. There were 90 launches last year and Starlink, SpaceX's satellite mobile service, reached a million active subscribers.

Slater is also bullish on delivery-drone firm Zipline, arguing that this is coming to the US sooner than expected. "We are trying to back companies for the very long term that are radically changing the way business is done… This will create value regardless of the market environment and matters far more than the prevailing preference for or against growth companies."

SMT is still a compelling proposition and fully deserves its place in the MoneyWeek portfolio.

Activist watch

Cevian Capital, Europe's largest activist investor, has dumped its entire stake in UK telecoms firm Vodafone, says the Daily Mail. Cevian had become one of Vodafone's top-ten shareholders and was pushing the company to slim down and sell off poorly performing divisions to boost a share price that has fallen 60% in the last five years. However, the activist substantially reduced the size of its holding during the summer due to concerns that rising interest rates would prevent Vodafone from getting a favourable deal for assets. The sale of the firm's Hungarian arm for £1.6bn seemed not to have helped matters, but the exit may also suggest that "Cevian has little faith in whoever replaces ex-boss Nick Read", who was ousted last month.

Short positions... 3i's record-breaking retail deal

■ 3i's investment in Dutch household-goods retailer Action is on track to be the UK's best private-equity (PE) deal ever, says The Sunday Times. The London-listed buyout firm invested €279m in 2011; today its 52.7% stake is valued at £10.28bn, an 88-fold gain. And Action's growth rate "suggests the eventual spoils could be even greater". Last year, sales rose 30% to €8.86bn and underlying profits increased 46% to €1.21bn, as the firm expands in France, Germany, Poland and six other European countries. Still, "while Action's returns dwarf other buyouts, 3i's 11-year holding means it has ceased to be a typical [PE] deal", where holding periods of five years are common. Some critics argue that "the longer 3i holds on to Action, the more it risks exhausting its potential for growth under whoever its next owner may be". But 3i's CEO Simon Burrows disagrees, arguing that the firm can follow Ikea, Aldi and Lidl – "three massive businesses… that just keep growing".

■ Inflows into venture capital trusts (VCTs) have remained strong this tax year, says Investors' Chronicle. VCTs have taken in £597m as of 16 January 2023, only slightly down on £606m at the same point in 2022. There are good reasons why these tax-efficient funds remain popular. "Frozen tax thresholds leave investors with fewer places to put their cash," while "tougher markets over the past year also allow this year's investors, and VCT managers, to take advantage of lower valuations". But investors should be cautious. The vast amount of money means more cash will be seeking deals, increasing the risk that managers overpay. The best opportunities may lie in VCTs that invest in Aim-traded stocks rather than unlisted firms, since Aim shares have fallen significantly – but Aim VCTs aren't raising much new money.

Solid stocks ready to motor for years to come

Finding winners and avoiding losers requires some detective work. Dr Mike Tubbs highlights five key characteristics of long-term success stories – and the shares that look poised to prosper now

Anthony Bolton, one of Britain's most famous stockpickers, delivered market-beating returns for 25 years as the manager of the Fidelity Special Situations Fund. He claimed that "all you need to outperform is a few winners and to avoid the losers – try to win by not losing too often. A hit rate of 60% is good".

This article describes a set of five criteria that, if met, should greatly reduce companies' chances of becoming losers and raise the percentage of winners in your portfolio. We will examine each of them in turn, giving examples. A company meeting these criteria is said to have solid fundamentals.

Past performance is revealing

Sound past performance is important since it bolsters confidence that a company can continue to do well. By sound performance we mean profitable growth for several years, with both profits and cash flow expanding.

However, beware of companies whose growth is based on acquisitions unaccompanied by organic growth, and be particularly sceptical about large acquisitions trumpeted as "transforming" the business. They can prove to be expensive errors. Many companies pay dividends as well as showing growth. If so, it is important that the dividend is well covered by after-tax profits. Well covered means after-tax profits should total more than double the dividend payout.

A second hallmark of a long-term winner is an enduring competitive advantage, often referred to as a "wide moat". It means that a company can protect a strong position in its market from potential rivals, who would erode its profit margins. A firm with a wide moat will almost certainly have a strong position in its niche.

A wide moat may be created with patented products, such as an effective new drug that competing drugmakers are not allowed to copy. Companies with prestigious brands can also provide wide moats – examples being Coca-Cola, and Diageo's drinks brands, such as Johnnie Walker and Guinness. Narrower moats can be effective for companies with strong niche positions in several different markets.

A sound balance sheet is very important. The ideal scenario is net cash but, if there is net debt, the interest on that debt must represent only a small percentage of profits. Bolton said that "the biggest mistakes I've made over the years have nearly all been in companies with poor balance sheets".

"Renowned stockpicker Anthony Bolton said his biggest mistakes were firms with poor balance sheets"

A poor balance sheet is one with a lot of debt. This carries two risks: firstly, in difficult times a company's dividend can be cut, but interest on debt has to be paid and may not be covered by profits. Secondly, if interest rates rise, as they have been doing in 2022-2023, the interest burden will increase.

A high return on capital – a key gauge of profitability – means that a company is making good use of its money. It is often defined as return on capital employed (ROCE), which is equal to operating profit divided by the sum of equity and long-term debt. The difficulty with ROCE is that, when a company has made several acquisitions, not all the capital used for acquisitions will be included in the capital used to calculate ROCE.

Consequently, a gauge that has been used for many years by Halma, a FTSE-100 safety, environment and health company (offerings range from air pollution gauges to eye-health monitors), is return on total invested capital (ROTIC). This looks at the return not just on conventional capital, but also including all the capital used for past acquisitions. Other companies, such as Judges Scientific, are now also using ROTIC. In 2021-2022, for instance, Halma's ROTIC was 14.4% (somewhat less than its ROCE of 17.1%) and more than twice its weighted average cost of capital of 6.7%.

The intensity of research and development (R&D), the ratio of R&D investment to sales, measures how much effort a company is putting into developing new products and services or improving its existing range. A good company will have an R&D intensity at, or above, the average for its global sector. If the R&D intensity is significantly below average, the product range is likely to become less competitive over time and profitability will suffer. However, high R&D intensity alone is not enough since the R&D also needs to be targeted at products the market needs.

We will now take a look at some companies that failed to meet some of these criteria and saw share-price collapses or worse. We'll then look at examples of companies that met the criteria and prospered.

Where big names have gone wrong...

Readers may remember Carillion, the FTSE 250 construction company that went into liquidation in January 2018. Carillion's share price was above 200p until a profit warning in July 2017, which saw the price fall to around 60p. The company still won a £1.3bn HS2 contract that month and a £130m rail electrification contract in November 2017.

But at liquidation on 15 January 2018 Carillion had 43,000 employees, sales of £5.2bn but total debts of £1.5bn (including a £600m pension deficit). Net debt had risen from around £100m in 2010. The company had taken on too many risky contracts that proved to be unprofitable and in any case its margins were thin.

This example proves that even the largest companies can go under if debts are large and profitability poor. Large debts mean that a company does not have the financial strength to survive problems such as risky contracts resulting in losses.

Many companies have wide moats, but these need careful attention and investment to remain wide. For example, a drug company with several successful drugs needs to develop new and popular treatments to replace them before the patents expire on the current highly profitable drugs.

Boeing is an example of a company that failed to care adequately for its wide moat based on intangible assets (the reputation of its brand) and switching costs (whereby the hassle of going to a rival keeps clients at a company). The design failures leading to two 737 Max disasters and the subsequent grounding of all such models was a serious setback. Then came

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Coca-Cola's ubiquitous brand gives it an enduring competitive advantage

production problems with the 787 that led to a halt in deliveries in mid-2021.

Boeing's shares crashed from a high of $440 in February 2019 to a low of $95 in March 2020. However, Boeing is recovering its position in the global commercial aircraft duopoly with Airbus because of the difficulties facing other prospective entrants. The shares were up to $185 in December 2020 and $210 recently.

The effect of a healthy ROCE on a firm's performance and investors' perception of its prospects can be seen by comparing Next, one of the best UK retailers, with Marks & Spencer. Next has a ROCE of 32.8% and its shares fell by 15.4% between December 2019 and December 2022; M&S, with a ROCE of 8.6% slid by 63.4% over the same period.

Strong R&D is essential if a company is to maintain an edge over its competitors. However, the R&D needs to be directed at the right market targets. Nokia provides an example of a company with a dominant market share (50% of the global mobile-phone market in early 2007) that failed to invest in developing a timely, feature-rich smartphone, so its market share fell to 3% in 2013. Nokia's first Android smartphone, the X series, was not launched until 2014 – years after the first iPhone (2007) and first Android smartphone (2008).

Another example is the Xerox Alto computer, the first ever PC with a mouse and graphical user interface (GUI), completed in March 1973. Xerox only made 2,000 for its own sites and selected universities and did not do a proper market launch because it had lost money in mini-computers and decided to concentrate its R&D on its existing copying machines rather than the future potential of PCs and printers. Steve Jobs visited the Xerox R&D laboratories and essentially copied the key aspects of the Alto to make the Apple Macintosh, launched in 1984.

... and where they have got it right

We will now look at a couple of historical examples of companies that met the criteria and their shares did well over the following years. Our first example is **Halma (LSE: HLMA)**, mentioned earlier, whose shares were at 156p in March 2009 and then soared 14.5-fold in 14 years. If we look back at Halma's 2008-2009 results, we find a company with record revenue and profits; both had nearly doubled since 2003-2004 despite the global financial crisis.

Profitability (measured by the pre-tax profit margin, pre-tax profit divided by sales) was 16%, ROTIC 13.1%, and R&D was 5% of sales – above the global average for the electronics and electrical sector of 4.2%. Halma has always maintained a reasonable level of debt, which in 2008-2009 was £51m, or only 70% of pre-tax profits. And Halma raised its 2008-2009 dividend by 5%, the 30th year in which the dividend had been increased by 5% or more. Halma has a narrow moat based on patented products, brands and switching costs for its collection of products in niche global markets.

Halma regularly makes bolt-on acquisitions for its core divisions and sells companies whose product ranges are in danger of becoming commodities. It has careful acquisition criteria and has proved itself to be a disciplined and effective acquirer over decades. Based on these and earlier figures, Halma looked to be a good investment with sound fundamentals in 2009, so it is not

Continued on page 20

"Xerox invented the first PC, but failed to develop it; Steve Jobs copied it to make the Apple Macintosh"

Continued from page 19

surprising that the shares rocketed in the following 14 years. I bought them myself at 113p in 2002.

A US example is **McDonald's (NYSE: MCD)**, the world's largest restaurant owner and operator with 2021 sales of $23.2bn and a thriving set of franchisees. MCD's share price rose by a factor of 21 between 2003 and 2022. It has a long record of profitable growth with operating profits of 42.5% of sales in 2021 and operating profits up by an annual 11.1% from 2019 to 2021.

Few restaurant operators have moats, but McDonald's has a wide one based on one of the world's most recognisable brands and a global presence, giving it economies of scale and strong purchasing power. The group has a sound balance sheet, with pre-tax profits eight times larger than interest payments.

The firm's average return on capital over the last five years has been 18% (including spending on all acquisitions), compared with its weighted average cost of capital of 7%. McDonald's does not have R&D expenses, but it does invest in its brand and regularly comes up with improved recipes to maintain customers' interest. The forward dividend yield is 2.3%.

An adept acquirer

Other companies meeting our five criteria (or most of them) include **Judges Scientific (Aim: JDG)**, which comprises a set of scientific-instrument companies working in ultra-high vacuum technology and materials sciences. Judges has a good record of acquiring, integrating and growing companies in the global scientific-instruments sector. In these respects it has similarities to Halma.

It has demonstrated profitable growth with operating earnings, or earnings before interest and tax (Ebit) up 174% between 2017 and 2021. In 2021 Ebit reached 17.1% of sales of £91.3m (84% of sales being outside the UK). Net cash was £1.4m in late 2021 and ROTIC (which it uses as a performance indicator, just as Halma does) totalled 28.3% at the end of 2021. Judges has a narrow moat based on its brands and intellectual property and invested 6.8% of revenue in R&D in 2021, well above the global average for the electronic and electrical sector. The shares rose sixfold in six years between late 2016 and late 2022. The forward dividend yield is 0.9%.

Diageo (LSE: DGE) is one of the world's leading drinks companies, with a set of valuable brands ranging from Johnnie Walker to Guinness. The stock has quintupled since March 2009. It is highly profitable, with Ebit of 31.6% of its £15.5bn turnover. Diageo has a wide moat based on its brands and economies of scale, which lowers costs. Its net debt is average for its industry and interest payments are under 8% of Ebit. Its ROCE is a comfortable 17.4%. Within the drinks industry, R&D is not important, but Diageo invests in its brands instead. The forward dividend yield is 2.1%.

Denmark's **Novo Nordisk (Copenhagen: NOVO-B)** is the market leader for treatments of diabetes (the world's fastest-growing major disease) and obesity. Its shares are up by a factor of 18 in 14 years.

It is highly profitable, with Ebit of 42% of turnover and revenue has grown from DKr78bn in 2012 to DKr141bn in 2021. Net debt at DKr5bn is much smaller than Ebit and its high ROCE of 68.5% reflects its high profitability. It has a wide moat based on patents, brands and global scale and R&D of 12.7% of sales. The forward dividend yield is 1.15%.

PTC (Nasdaq: PTC) offers its customers high-end computer-aided design and simulation, product life-cycle management software and products and services designed to establish industrial internet-of-things (IoT) systems; these make manufacturing plants more efficient, for instance.

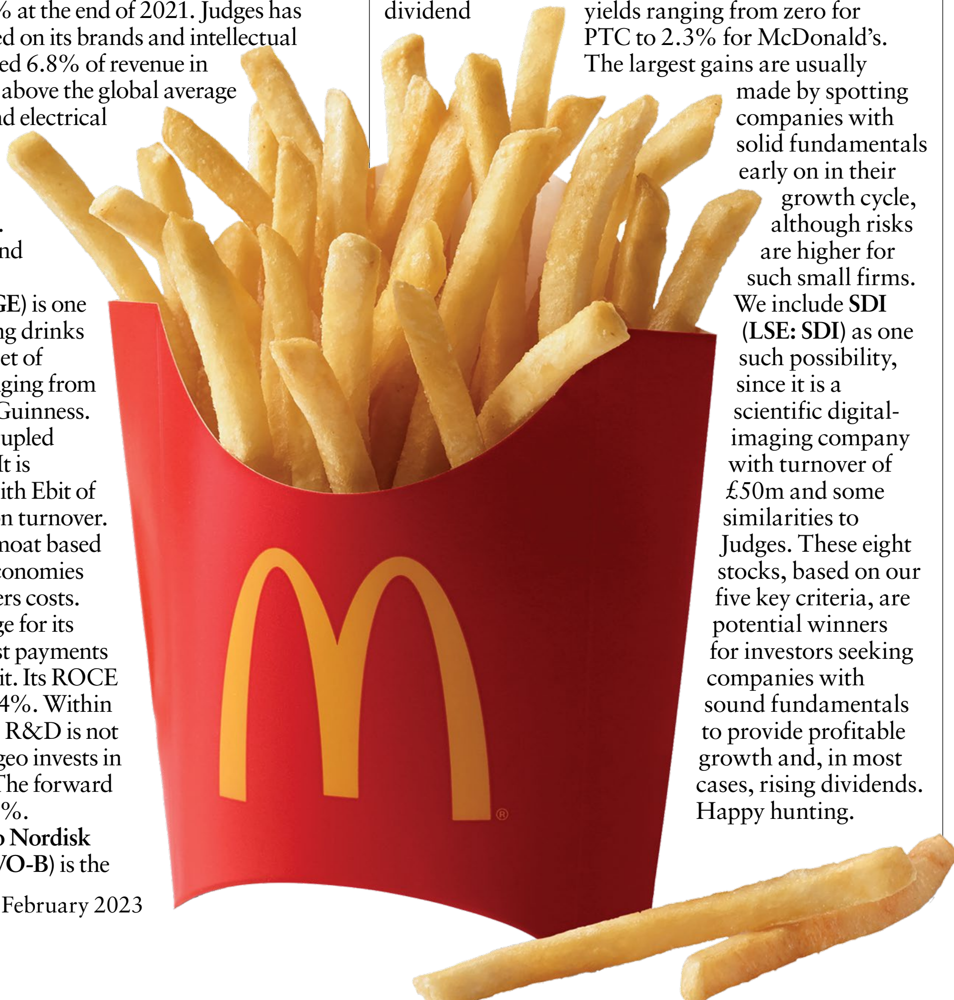
The stock has risen 17-fold in 14 years. It is highly profitable, with 2022 Ebit of 24.7% of sales of $1.93bn. Sales are up 54% on their 2019 level. PTC has manageable net debt of $1.08bn, or 2.5 times earnings before interest, taxes, depreciation and amortisation (Ebitda) and ROCE of 13%. PTC has a narrow moat based on intangible assets and switching costs, which are substantial for the complex products it is normally used for. Its R&D is a high 17.5% of sales (Microsoft's figure is 12.4%). There is no dividend.

Renishaw (LSE: RSW) is primarily a global specialist in precision-metrology, but it also has a small precision-health division. Its shares are up 15-fold in 14 years. It is highly profitable, with Ebit of 21.7% of 2021-2022 sales of £671m. Sales have almost doubled since 2013. Renishaw has net cash of £116m and ROCE of 17%. It has a wide moat based on patented products and its brand's reputation, and R&D of a high 8.9% of sales (well above average for the electronics and electrical sector). The forward dividend yield is 1.9%.

From small cap to blue chip

These five companies, together with Halma and McDonald's, offer a range of sizes from sales of £91.3m (Judges) to $23.2bn (McDonald's) and dividend yields ranging from zero for PTC to 2.3% for McDonald's. The largest gains are usually made by spotting companies with solid fundamentals early on in their growth cycle, although risks are higher for such small firms. We include **SDI (LSE: SDI)** as one such possibility, since it is a scientific digital-imaging company with turnover of £50m and some similarities to Judges. These eight stocks, based on our five key criteria, are potential winners for investors seeking companies with sound fundamentals to provide profitable growth and, in most cases, rising dividends. Happy hunting.

"Novo Nordisk is the leader in drugs for diabetes, the world's fastest-growing major disease"



©McDonald's

BASF gets the chemistry right

This German chemicals blue-chip has fallen far out of favour. The shares now look a bargain

David J Stevenson
Investment columnist

Chemicals companies aren't popular investments. Some see them as fossil fuel-dependent, energy-intensive polluters threatened by environmental regulations. Others see their profitability driven mainly by the economic cycle. But we simply cannot do without chemicals. They turn raw materials – oil, natural gas, water and metals – into essential products. By far the biggest firm in the sector is **BASF (Frankfurt: BAS)**, owner of the world's largest integrated chemical plant at Ludwigshafen in Germany.

BASF's chemicals division supplies basic petrochemicals: ethylene, propylene, benzene and polystyrene. The materials arm of the company is a supplier of specialised products for the plastics industry. The industrial solutions division, meanwhile, develops ingredients for fuel and lubricants, resins and antioxidants. Another branch of BASF, surface technologies, supplies automotive and battery materials manufacturers. Nutrition and care customers include food and feed producers as well as the pharmaceutical, cosmetics and cleaning industries. Agricultural solutions provides seeds products as well as fungicides, herbicides and biological products to help farmers achieve better yields. Measured by sales, BASF is more than 50% larger than its next biggest competitor (America's Dow Chemical). Yet despite such domination and a vast product range, BASF's stock has slumped by 45% since its peak in early 2018.

The chemicals giant is 50% larger, measured by sales, than its nearest rival

©BASF

A gloomy global backdrop

One major problem is that because of its size the group is heavily dependent on global events. At the end of 2018, BASF's earlier optimism evaporated as it warned that trade friction between America and China had dimmed the outlook; 2019's revenue would fall rather than rise. The group also cautioned that adjusted operating profit would decline by 30%. Then came Covid and the ensuing financial devastation. For 2020, BASF produced a €1.5bn loss. Although turnover and profits rebounded in 2021, Russia's invasion of Ukraine caused natural-gas supply interruptions and soaring prices. About 60% of the European gas bought by BASF generates power for its factories. The other 40% is used as a raw material for making basic chemicals and the huge product range.

As there is no substitute for gas in both areas, shortages can be devastating. When gas prices started climbing quickly, BASF closed its ammonia plant and cut acetylene (a gas used in welding) output. In March 2022 the firm said it would need to stop chemical production in Germany altogether if natural gas supplies fell to less than half its requirements. In September, when Russia extended a shutdown of the Nord Stream 1 gas pipeline indefinitely, BASF warned that production could be cut even further. BASF has also just announced writedowns of €7.3bn on its 67% stake in oil and gas producer Wintershall Dea, which is pulling out of Russia.

Concerns over the gas supply continue, but Germany is fighting back. "The country has made valiant efforts to find alternatives to Russian energy imports, building import terminals for liquefied natural gas, bringing its mothballed coal-fired power stations back online and extending the life of its nuclear reactors," says the Financial Times.

Since its peak in August 2022, the EU natural gas price has plunged by 80%. That still leaves it three times dearer than two years ago. For BASF, though, this is a huge relief. The group is also downsizing at Ludwigshafen and, in its largest-ever foreign investment, is building a €10bn chemical complex at Guangdong in south-eastern China. BASF's energy worries haven't yet evaporated, while European gas prices could rebound again. But the gloom seems to be factored into the shares, which are now cheap.

A cheap stock by any measure

BASF has just reported preliminary figures for 2022. It says it expects sales of €87.3bn (11% higher than in 2021).Pre-special items income from operations, or operating earnings (EBIT – earnings before interest and tax) should reach €6.9bn, 11% lower than last year. These forecasts are in line with BASF's previous outlook and tally with analysts' estimates for 2022.

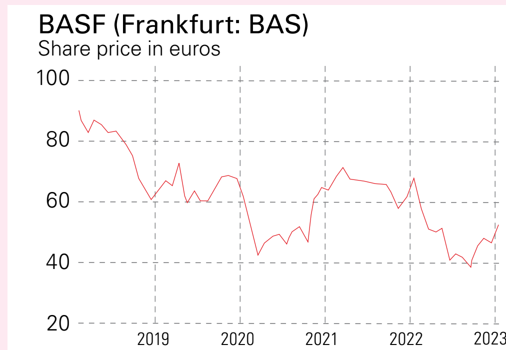
The bottom line is expected to show a loss of €1.4bn (versus 2021's €5.5bn profit), due mainly to the €7.3bn Wintershall Dea asset writedown, €5.4bn of which was absorbed in last year's fourth quarter. The money spent by BASF on the halted Nord Stream 2 pipeline project has also been written off.

The group's market value is €47bn, which is on a par with book value, while net debt as at the end of September 2022 was €19bn. Based on last year's turnover, the price-to-sales ratio is a lowly 0.54. This year's analysts' estimates put the stock on a prospective price/earnings (p/e) ratio of 11.6, dropping to just above ten for next year. In other words, BASF is cheap by any measure.

Then there's the potential yield. Despite its recent earnings volatility, BASF has – except in 2020, where the payout stayed at 2019's level – actually hiked the dividend every year. Although there is no mention of the distribution in the preliminary figures, maintenance of last year's level would give investors a 6.4% yield.

As outlined above, there are ongoing risks to buying BASF. Its gas supply problems may worsen, while the global recession widely pencilled in could undermine stocks further.

Yet BASF is a world-class, market-leading business whose shares are very lowly valued. They may not have bottomed out yet, but they have the potential to rebound strongly when sentiment towards the chemicals sector recovers.



The best regular saver accounts

Stash away your cash and earn up to 7% interest

Kalpana Fitzpatrick
Senior digital editor

Interest rates are still far below inflation, but the good news is that banks have boosted the rates on regular savings accounts, with the highest on offer now 7%. Regular savers come with more restrictions than easy-access or fixed-term savings accounts. Most run for a fixed term and pay interest yearly, although some pay monthly. They usually require a minimum monthly payment and always have a limit on the sum you can pay in each month. Some allow unlimited withdrawals; others require you to close the account to get your money back.

Most banks offer the best rates to their existing customers, so the income you can earn will depend on which current accounts you hold. In some cases, if you do not have a current account with a bank offering an appealing regular savings rate, it may be worth switching current accounts and securing a switching bonus. First Direct has doubled the annual equivalent rate (AER) on its regular saver to 7%.

You can pay in between £25 to £300 into the account each month. To benefit from the 7% rate you will need to be a First Direct current account holder. The rate will only be available for 12 months. If you do not have a First Direct current account you can open the account now and receive a £175 cash bonus.

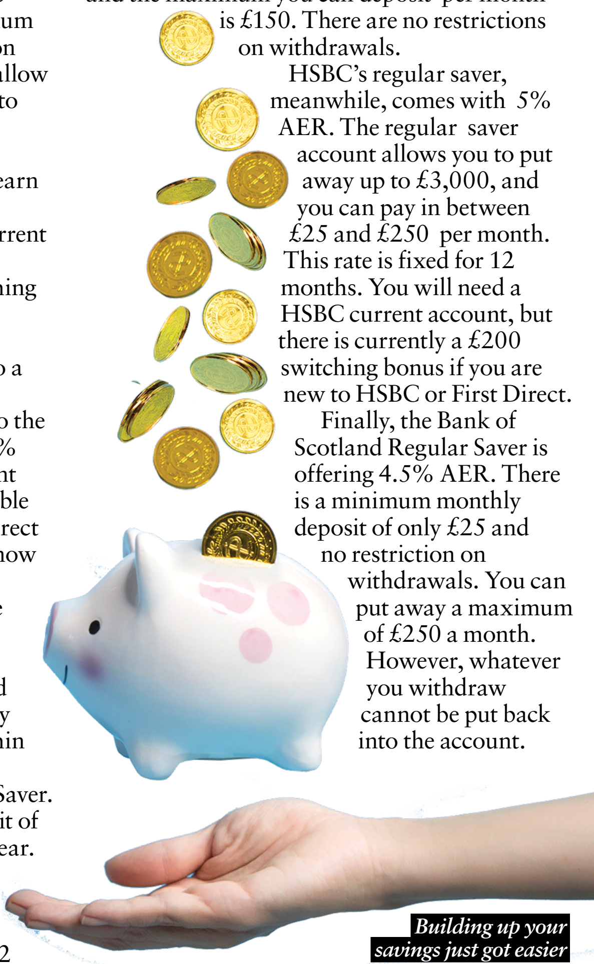
To qualify for the bonus, you need to use the bank's switching service and be a new customer (you do not qualify if you have previously had a First Direct product or had a HSBC current account on or after January 2019). You must pay in at least £1,000 within three months of opening the account.

Then there is the Club Lloyds Monthly Saver. It offers 5.25% AER on a maximum deposit of £400 per month. The rate is fixed for one year. As it's a Club Saver, you need to hold a Lloyds current account already and be a Lloyds Club customer; moreover, you can't have opened this same account in the last 12 months.

A minimum monthly payment of £25 is required and there are no restrictions on withdrawals. Natwest Digital Regular Saver is offering 5.12% AER on balances up to £1,000. The rate drops to 1% on balances between £1,000 and £5,000 and 0.5% on balances above £5,000. You must be a Natwest current account holder to be eligible for this account and the maximum you can deposit per month is £150. There are no restrictions on withdrawals.

HSBC's regular saver, meanwhile, comes with 5% AER. The regular saver account allows you to put away up to £3,000, and you can pay in between £25 and £250 per month. This rate is fixed for 12 months. You will need a HSBC current account, but there is currently a £200 switching bonus if you are new to HSBC or First Direct.

Finally, the Bank of Scotland Regular Saver is offering 4.5% AER. There is a minimum monthly deposit of only £25 and no restriction on withdrawals. You can put away a maximum of £250 a month. However, whatever you withdraw cannot be put back into the account.



Building up your savings just got easier

©Getty Images

Overpaid on energy bills? Claim it back

If you've been paying your energy bills by direct debit for years, have you checked to see if you've built up any credit? *asks Ruth Jackson-Kirby.* Figures from Ofgem show that in November 2021 energy suppliers were sitting on £1.8bn of credit belonging to customers. Some people have built up over £1,000 of credit, and want it back.

But that is easier said than done. "While suppliers have to refund your credit if you ask, there is no set time within which they have to do it," says The Sunday Times. "Guidelines say only that firms need to refund customers 'promptly'."

"I would support the introduction of a time limit on credit balance repayments," Christine Farnish, a former director of energy regulator Ofgem, told The Times. "Accrued credit balances should also be automatically refunded at regular intervals rather than making consumers go through the hassle of making a claim."

To avoid building up too much credit, use the energy direct-debit calculator from MoneySavingExpert to ensure you aren't overpaying each month. "If the results come back and it's much less than what you are being charged, you should go to your supplier about a refund," says Samuel Walker in The Sun.

You can then ask your supplier to move you to a variable direct debit. "Rather than a fixed amount, you will pay for what you use each month, meaning higher bills in winter and lower ones in summer," says The Times.

Pocket money... how to top up your state pension

- In 2020 only around 45.6% of pensioners were getting the full state pension. To receive the full amount you need 35 years of National Insurance Contributions (NICs). If you've taken a career break, been on a low income or worked abroad, you may have gaps in your National Insurance record.

You can "fill in historic gaps in your national insurance record to boost your pension entitlement", says Lily Russell-Jones in The Times, "but the window for doing so is closing". The system allows you to purchase voluntary NICs to fill gaps in your record. Normally you can only fill in gaps dating back six years, "but until 5 April those who reached or will reach state pension age after April 2016 can fill in gaps dating back to 2006-2007, meaning that you can make up for 16 years of missed contributions."

It costs £15.85 to buy a week's worth of missed NICs – so a whole year costs £824.20. Filling in a one-year gap would boost your state pension income by up to £275 a year.

If you paid £8,242 to make up a ten your gap you would then get an extra £2,750 a year, according to pensions consultancy Lane Clark & Peacock. That "would be worth £55,000 extra over a 20-year retirement, without taking into account inflation".

- Telecoms firms are being urged to allow customers to make penalty-free exits from their contracts ahead of the biggest price increases on record.

BT, EE, Plusnet, Shell, TalkTalk and Vodafone are all expected to put up prices by more than 14% from April. This will add about £60 a year to the average bill, "but most customers are on fixed-term contracts with break-clause fees of up to £219 if they try to leave", says Miles Brignall in The Guardian. Clauses in these contracts allow firms to raise prices each year by December's consumer price index (CPI), plus 3%-3.9%. Inflation in December reached 10.5% – hence the huge jump.

- Smaller banks are offering much better rates than the high street's big names when it comes to notice accounts, says George Nixon in The Sunday Times. You can get a rate of 3.6% from Hinckley & Rugby Building Society on its 120-days' notice account. Alternatively, OakNorth Bank pays 3.35% on its online 120-day account.

How to keep data safe

Firms failing to safeguard customers' details could incur a fine

David Prosser
Business columnist

Is your business heading for an expensive data failure? In 2022, the Information Commissioner's Office (ICO) issued record fines to businesses for failing to safeguard data properly.

That record could be eclipsed again in 2023, as the ICO continues to respond to Britons' anxiety about their data. One recent survey it conducted found that 91% of people were worried their information might be sold on to other companies without their consent.

The UK is in the process of developing its own data-protection laws, which will eventually supersede the European Union's General Data Protection Regulation (GDPR). For now, though, the GDPR's provisions continue to apply to British companies – and replacement legislation is unlikely to be any less demanding.

For smaller businesses, data protection can feel daunting. Most firms collect people's data in one way or another, including information from employees as well as customers' data. But how do you know you're abiding by the rules and looking after it properly? What sort of technology do you need?

The good news is that some simple steps will go a long way towards keeping you on the right side of the ICO. It offers a range of guidance and training for small and medium-sized enterprises getting to grips with data protection, but the basic building blocks of a sensible approach are straightforward enough if you work through them logically.

Start by making a simple list. What personal information are you currently collecting, or do you plan to collect? Only if you have a full inventory of what you are capturing can you be fully accountable for it. At the same time, ask yourself why you're collecting this data and whether you really need to keep it.

Keeping your clients' personal information confidential is no laughing matter

©Alamy

Some data may be essential to your business. In other cases, there may be benefits to having the information – or you may simply be collecting it because you always have.

You may be challenged to prove that you really do need a piece of information. The more data you have, the harder it is to manage, and the greater your exposure in the event of a breach.

> *"Britain is developing its own data laws to replace EU ones"*

Next, audit your data security. How are you protecting information from a potential breach and are these safeguards strong enough? In practice, your security should reflect the sensitivity of the data you hold. The more personal and sensitive the data, the greater the protections you will be expected to put around it.

Also think about transparency and communication. You are required to explain your data policy to your customers: why you hold information, what you'll do with it and how long you'll keep it for. Being upfront and honest isn't only important from a regulatory perspective, it can also help you build more trusting relationships with your customers.

Be aware that the law gives people the right to ask you what personal information you hold on them. If you receive a "subject access request", you have a legal responsibility to respond clearly and quickly. The ICO publishes advice on how to do this in a compliant way.

Finally, it's important to accept that even with good intentions, data breaches do sometimes happen. You need to have an action plan in place for how you will deal with such a breach. Knowing how you will respond in advance will help you mitigate the damage if the worst does happen.

Do you need a salary-advance scheme?

As the cost-of-living crisis bites, many businesses could find that their staff are struggling to stay on top of their finances. One way to help could be to introduce a salary-advance scheme.

The idea is to give employees access to a proportion of their pay before the day they are paid, helping them overcome short-term financial pressures without having to take out expensive credit from firms such as payday lenders. The cash could be used in an emergency – when an unexpected bill arrives, for instance.

Supermarket giant Tesco launched a scheme of this kind at the end of last year, but the arrangements aren't only for large companies. Working with a third-party provider that manages the scheme on their behalf, small businesses may be able to offer similar benefits.

Salary-advance schemes don't offer loans. Instead, your staff can only access pay they have already earned, and the money is automatically repaid in full when their next salary payment goes out. There are no interest charges – for employer or employee – but providers typically charge a small fee each time someone uses the facility.

For employers worried about the impact of financial problems on the workforce (with money woes causing stress and mental-health difficulties that can even lead to people being signed off work), a salary-advance scheme could be a useful way to make a small difference.

Petty cash... growing the procurement pie

● Businesses sitting on stockpiles of old stamps won't be able to use them on outgoing mail from this week onwards. Stamps without a barcode stopped being legal tender for business postage on 1 February; all stamps used by businesses must now carry a barcode. However, all is not lost for businesses (and individuals) with costly stamps still to use up. They can be exchanged with the Royal Mail for valid replacements. But you'll need to apply by post, rather than taking your old stamps to the Post Office.

● New data reveals that in the 2021/2022 tax year, HM Revenue & Customs raised £5.7bn following investigations into tax returns, 54% more than in the previous year. Much of the cash came from businesses found to have filed incorrect tax returns; they were underpaying tax. HMRC is increasing resources for such investigations. Tax experts warn SMEs to double down on their efforts to account for tax accurately.

● New legislation is designed to make it easier for small companies to win a greater share of the £300bn worth of goods and services that the government buys each year. According to ministers, the Procurement Bill, now on the verge of becoming law, will replace EU-compliant procurement processes with a simpler system. The government has published guidance for businesses hoping to take advantage (see gov.uk/government/publications/benefits-for-prospective-suppliers-to-the-public-sector).

Companies embracing change will prosper

A professional investor tells us where he'd put his money. This week: James Rutland, manager of the Invesco European Focus Fund, selects three stocks

Europe has fallen out of favour with investors. After an anaemic recovery from the global financial crisis, sentiment towards the region soured further as war broke out between Russia and Ukraine, leading to higher energy prices and lower economic growth.

So what next for European equities? In the short term, the reduction in energy costs and China reopening are both helpful, but there are two other major changes to which investors need to pay attention. The first is investment regime change. In the last decade investors prioritised stocks that could benefit from low interest rates. Valuation was therefore less influential.

Those days look to be over. The second change is the emergence of new secular themes, such as the energy transition and digitalisation. Our approach is to find companies with the potential and the will to change for the better. This should enable these firms to take advantage of available opportunities. To be successful requires discipline, patience and continuous engagement – the core tenets of what we do.

Spearheading digitalisation

One stock changing for the better, in our view, is Siemens (Frankfurt: SIE). Its global footprint across digitalisation and factory automation is a unique asset. While there is still a perception that Siemens is a sprawling German conglomerate, the reality is that the business has radically simplified itself over the last decade, and as a result cash flow has improved significantly.

We expect Siemens to benefit from increasing levels of investment as ageing labour forces, falling productivity and higher energy costs drive demand for its products. At the same time, the company's customers are suffering from the higher cost of living, which means that the pressure to switch to the more efficient longer-term solutions that Siemens provides should generate further demand.

Fuelling the energy transition

Technip Energies (Paris: TE) has been a beneficiary of the energy transition in Europe. Gas will be a transition fuel as we decarbonise and Technip Energies is the market leader in liquefied natural gas (LNG) plants. The opportunity here has improved now that Europe needs to replace Russian gas. Beyond gas, Technip Energies enjoys strong market positions across blue and green hydrogen, carbon capture and sustainable chemistry. The positive shift in legislation supported by the US Inflation Reduction Act and the rumoured EU Net-Zero Industry Act should, we believe, act as a catalyst to drive growth for a long time to come.

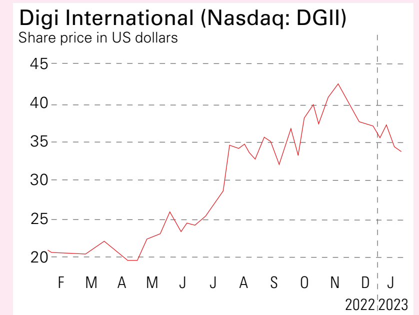
> *"Siemens, contrary to popular belief, is no longer a sprawling conglomerate"*

A global beer brand

Heineken (Amsterdam: HEIA) is Europe's largest brewer and a company where we see catalysts for positive change. The business has a great geographic footprint with strong revenue growth potential, but its profitability and operational flexibility are often seen as being inferior to its peers. This was highlighted by how the business fared during the pandemic.

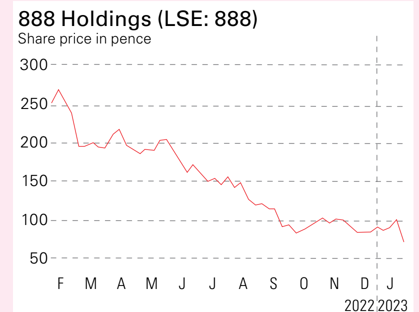
A new management team has identified several areas where they can improve profitability, the most notable of which are shifting the cultural mindset to one that recognises the need continuously to improve, as well as simplifying the organisation and supply chains. This strategy may be buttressed by commodity costs falling towards the end of the year.

If only you'd invested in...



The stock of **Digi International (Nasdaq: DGII)**, which specialises in software and hardware related to the "internet of things" (IoT), is enjoying rising demand for its products. Digi International sells networking devices such as routers and gateways that act as a hub for an IoT network, says The Motley Fool. These devices allow customers to track products, which has proved a boon during the Covid-induced supply-chain problems. This explains why the stock has shrugged off the recent slump in the technology sector. The shares have jumped by 62% in the last 12 months.

Be glad you didn't buy...



Online gambling group **888 Holdings (LSE: 888)** has seen its share price crash by 25% after it announced an internal investigation into suspected money laundering by VIP customers, says PA Media. The legal probe has led to several Middle Eastern accounts (worth £50m, or 3% of annual sales) being suspended. CEO Itai Pazner has resigned. The probe comes after 888 Holdings was fined £9.4m by the UK's Gambling Commission for compliance failings in 2022. The company is also grappling with a debt load of £1.8bn, five times its current market value. The stock has slumped by 71% in a year.

The second Prometheus

In ChatGPT, entrepreneur Sam Altman has stolen from the gods the kindling that will fire a new technology boom. But will it prove a blessing or a curse? Jane Lewis reports

©Getty Images

"The technological progress we make in the next 100 years will be far larger than all we've made since we first controlled fire and invented the wheel," wrote Sam Altman in his 2021 essay "Moore's Law for Everything". If so, it might be said that he holds the tinderbox of the future. OpenAI, the company Altman co-founded with Elon Musk and a clutch of other Silicon Valley heavy-hitters in 2015 to develop artificial intelligence for the "benefit of humanity", has "taken the world by storm" in the past eight weeks, says TechCrunch.

The public release of ChatGPT – a chatbot deemed by some to have the potential to upend the status quo – has both "dazzled and alarmed". A forerunner, DALL-E, which enables users to create digital art by simply describing what they envision, generated only slightly less buzz when it was released to the public earlier last year.

The man behind the buzz

"There have been chatbots before," says Fortune, "but not like this." ChatGPT can hold long, fluid dialogues, answer questions and compose almost any kind of written material a person requests – from haikus and movie screenplays to computer code – "in about a second", often with little to no specific knowledge on the user's part. Within five days of its release, more than a million people had played with it, a milestone Facebook took ten months to hit. "Suddenly everyone is talking about how AI might upend their jobs, companies, schools and lives." Many computer scientists still dismiss so-called "generative AI" as hyped.

"What sets him apart is his business smarts, sharp wit and unique perspective"

But that hasn't stopped OpenAI generating an investment frenzy that has crowned it with a reported valuation of $29bn. Not bad for a heavily loss-making outfit that, until a few years ago, wasn't a company at all, but a small non-profit laboratory dedicated to academic research.

The man behind the buzz "embodies OpenAI's puzzling nature". At 37, Altman is both the architect of its soaring valuation and its "buzz-killer-in-chief – speaking out publicly about how far ChatGPT is from being truly reliable". A serial entrepreneur known more for business savvy than for feats of engineering, he was born in St Louis, Missouri, in 1985, notes Business Today (India), and dropped out of a computer-science degree at Stanford to co-found Loopt, a social-media company. The concept was interesting enough to win a place in the portfolio of Y Combinator (YC) – the start-up accelerator founded by computer scientist and entrepreneur Paul Graham. In 2012 Loopt was sold to Green Dot Corporation for $43m, and the money helped Altman launch into the venture-capital universe. His biggest early success came in 2011 when he cofounded OkCupid, a free online dating platform that proved "immensely popular" and was eventually acquired by Match Group for $50m in 2011.

When Paul Graham quit YC in 2014, Altman was named as his successor. Under his leadership, the incubator funded more than 2,000 start-ups, including Airbnb, Reddit and Pinterest. When Reddit hit a snag, he stepped in as CEO for eight days. It's hard not to admire his business smarts, says Business Today, but what really sets him apart is "his sharp wit and unique perspective… Altman always manages to keep everyone on their toes".

New world order

The potential of AI has preoccupied Altman for years, says the Financial Times. On the one hand he believes the challenges faced by the world can probably only be solved by computer superintelligence. On the other, "he has long expressed a deep concern about the flipside of technological creation" – notably societal disruption – arguing that the AI revolution will "further shift the balance of power from labour to capital". To that end, he is a prominent supporter of universal basic income.

Whatever the fortunes of his company, we can thank Sam Altman for starting a key conversation about the shape of the political economy to come.

The worst trades in history... Blockbuster spurns Netflix

Blockbuster was set up in 1985 by David Cook following a dispute with the video chain Video Works. His idea of setting up a chain of video stores that featured a wide range of titles, didn't stock adult movies and displayed the videos on the shelves (rather than behind the counter) proved a hit with customers. Fuelled by the acquisition of rivals, Blockbuster would reach 3,400 stores by 1993, and was purchased by media company Viacom for $8.3bn the same year. The deal was not a success, but Blockbuster was still worth $2.5bn when it was returned to the stock exchange in 1999.

What was the idea?

In 2000 Blockbuster received an offer from an upstart DVD-rental-by-post service called Netflix – ironically founded out of anger at Blockbuster's fees for returning films late – which was growing in popularity but losing money. Netflix wanted Blockbuster to buy it for $50m, with the idea that Netflix would become the rental arm of Blockbuster and be advertised in its stores. Blockbuster turned down the deal, believing Netflix would add little to the firm and might end up taking business away from its physical locations. It spurned repeated offers from Netflix, including one as late as 2007.

What happened next?

From 2000 onwards Blockbuster would make several errors. Its plans to deliver video on demand with Enron unravelled. A deceptive attempt to end explicit late fees, only to claw them back, generated bad publicity. Worst of all, activist investor Carl Icahn removed CEO John Antioco in 2007, who was starting to imitate aspects of the Netflix model, including another attempt at online streaming. Blockbuster's sales plummeted, resulting in the store declaring bankruptcy in September 2010. In contrast, Netflix now has a market capitalisation of $163bn.

Lessons for investors

Blockbuster's bankruptcy wiped out its shareholders, destroying what had, at its peak in 2004, been a firm with a market cap of $5bn. The management's decision to spurn Netflix needn't have been a fatal error – they could easily have replicated Netflix's model, or bought Netflix only to drag it down with them. Still, the decision was indicative of a company that was failing because it was unwilling to adapt to new technologies. Indeed, Icahn prevented it from taking steps that might have saved it from destruction, showing that interventions by activists are not always positive.

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Adventure in the mountains

Embrace the great outdoors at one of these three winter hotspots. Chris Carter reports

The delightful Dolomites

Forestis is a mountain retreat in Plose, a small, peaceful resort in the Dolomites, in Italy, says Harriet Sime in the Daily Mail. It is perfect for skiers, but the majority of guests in fact choose not to ski. Instead, they are drawn to the "high Alpine hiking trails, delicious mountain cuisine and glorious spa with its steaming indoor-outdoor pool and wood-fired saunas". The building was constructed in 1912 as a sanatorium for tuberculosis sufferers before it was abandoned during World War I. The Vatican later bought it as a retreat for those in need of a break, and in 2000 it took on a whole new life as a hotel. Two decades on, it "is probably the most impressive hotel I've ever set foot in", says Sime. The views of the mountains "will stay with me forever". *From £630, including dinner and breakfast, forestis.it*

Foretis offers glorious mountain views

Family fun in the French Alps

Club Med Val d'Isère in France is the first of the company's top-of-the-range, family-focused Exclusive Collection hotels in the Alps, says Sean Newsom in The Sunday Times. And the location is extraordinary. Walk out of the boot room and to your right rears the giant "pudding-shaped dome" of the Solaise, home to one of the most magnificent red-rated pistes in the country. To your left is the "plunging" black-rated slope on the Rocher de Bellevarde. Simply click into your skis and cruise down to Val d'Isère's main hub of ski lifts to enjoy the pistes. "In other words, this is a breathtaking and multifaceted place to ski, and Club Med Val d'Isère is sitting pretty in the middle of it." *Seven nights all-inclusive from £2,266 per person, clubmed.co.uk*

©Aspen Meadows Resort; Club Med; Forestis

Hiking around the mountains in Aspen

Aspen Meadows Resort in Colorado has paid homage to Bauhaus utilitarianism through its design since 1950, says Amy Tara Koch in The New York Times. But the all-suite hotel has also just emerged from an extensive refurbishment that has suffused its 98 rooms with verve, while "remaining faithful to the less-is-more vision". It is set in an "enchanting" 40 acres, studded with sculptures, and which can be explored by snowshoe. The deck, "tricked out" with igloos to dine in during winter, offers views of Aspen's mountains. Skiing may be the big thing here, but so is hiking the 80 miles of cross-country trails that connect the communities of Aspen, Snowmass and Basalt. *From $620, aspenmeadows.com*

Wine of the week: a spectacular pinot blanc

2021 Pinot Blanc, Reserve, Domaine Weinbach, Alsace, France

£25.68, justerinis.com

Matthew Jukes
Wine columnist

I have previously recommended three Weinbach wines on this page over the past 17 years, featuring a gewürztraminer, a riesling and a pinot gris. But this is the first time I have drawn your attention to their glorious interpretation of the pinot blanc grape. Weinbach is my favourite estate in the whole of Alsace, and the wines taste like they are made from equal parts epic-quality grapes and mesmerising magical spells. The 2021 was a challenging vintage across France, yet the entire '21 portfolio at Weinbach is sensational.

This beautiful PB is one of the cornerstones of the range, and you cannot put a foot wrong with any wine in the collection, so if you want to gather together a knockout mixed case, then Gewurztraminer Les Treilles du Loup (£30.68), Pinot Gris Les Caracoles (£43.68) and Riesling Cuvée Colette (£43.68) ought to be in the mix. All of these 2021s arrive this month in the J&B cellar, so put your name down now, as this vintage is in very short supply.

My headline pinot blanc, made from 70% pinot auxerrois and 30% pinot blanc, was subjected to meagre yields. Accordingly, the fruit concentration is spectacular while remaining astonishingly refreshing on the finish. It is a wicked alternative to top-flight chardonnay while retaining a broader food-matching repertoire as well as the ability to act as an elite aperitif. It's also exciting to find wine from a genuinely world-class estate that is 25 quid – happy days.

Matthew Jukes is a winner of the International Wine & Spirit Competition's Communicator of the Year (MatthewJukes.com).

This week: colourful properties – from a Grade A-listed Scots Baronial house in Edinburgh, to a one-be

▲ **North Grays Farm, Membury, Axminster, Devon.** A Grade II-listed, 16th-century house with a 3-bedroom annexe, a living room with an inglenook fireplace and a wood-burning stove, and a kitchen with a vaulted beamed ceiling. 3 beds, 2 baths, recep, garden, 1.63 acres. £1.25m Jackson-Stops 01823-325144.

▶ **Ladbroke Grove, London W11.** A one-bedroom apartment in a row of colourful period buildings in Ladbroke Grove. It has wood floors, a contemporary bathroom and kitchen, and a living room with French doors that open onto a paved patio area. £550,000+ Knight Frank 020-3866 7835.

▶ **Old Craig, Craighouse, Edinburgh, Scotland.** A refurbished, Grade A-listed Scots Baronial house built in 1565 and set in one acre of landscaped gardens. The house has a panelled dining room, a barrel-vaulted sitting room and magnificent open fireplaces. 5 beds, 6 baths, dressing room, 5 receps, study, open-plan kitchen/dining/living room, attic, outbuildings, walled garden, parking. £2.8m+ Savills 0131-247 3770.

edroom apartment in a period building in London's Ladbroke Grove

Forde Park, Newton Abbot, Devon. A substantial Victorian villa set in front, side and rear gardens overlooking Forde Park. The property is currently arranged as three dwellings that include a one-bedroom first-floor flat and an attached two-bedroom cottage. It retains its period fireplaces and has contemporary fitted bathrooms. 3 beds, 2 bath, 4 receps, kitchen, large garage/workshop, walled gardens, parking. £1.25m. Marchand Petit 01803-847979.

Lovaine Terrace, Alnmouth, Alnwick, Northumberland. A Grade II-listed house in a conservation area with a front garden with a terrace and seating area overlooking the estuary, as well as a garden to the rear. 4 beds, bath, 2 receps, breakfast kitchen, off-street parking. £750,000 Sanderson Young 01665-600170.

Bardfield End Green, Thaxted, Essex. This Grade II-listed former farmhouse comes with a one-bedroom annexe and is set in gardens that include a vegetable garden with a polytunnel. It has exposed wall and ceiling timbers, terracotta and wood floors and a dual-aspect living room with a large inglenook fireplace with a solid-fuel stove. 3 beds, 2 baths, 2 receps, dining kitchen, paddock, 1.34 acres. £875,000 Cheffins 01799-523656.

Hay Farm House, Therfield Royston, Hertfordshire. A Grade II-listed former farmhouse dating from the 16th century set in mature gardens with two natural ponds and a vegetable garden. It has exposed beams, wood floors, an inglenook fireplace, a panelled dining room, and a conservatory with stained-glass windows. 6 beds, 3 baths, 3 receps, study, kitchen, barn, triple garage, 1.2 acres. £1.695m Strutt & Parker 01223-459501.

Prospect Place, Dursley, Gloucestershire. A six-bedroom, terraced period property just a short walk from the town centre. The house has a large front garden that includes raised beds, a patio seating area, and a treehouse. It retains its original sash windows, exposed beams, wooden floorboards and large open fireplaces, and has a bedroom with a copper roll-top bath. 6 beds,2 baths, 2 receps, breakfast kitchen, studio/ study, cellar parking. £499,950 Hamptons 01453-270176.

Gear up to go skiing

The top winter sport kit to rule the slopes. Compiled by Jasper Spires

Gucci's glamorous goggles

Gucci Eyewear mirrored ski goggles are fitted with reflective lenses that bounce light away from your eyes to provide a comfortable view of the snow. The visor itself is decorated with Gucci's signature "GG" monogram and it offers 100% UV protection. The strap to affix the ivory polycarbonate goggles to your head also comes in orange and white – a revamp of the label's classic "Web" design. *£665, net-a-porter.com*

Look good, stay safe

The **Smith Summit MIPS backcountry and touring helmet** is ideal for both touring and ski mountaineering. Its minimalist, triple-safety certified design incorporates a hybrid shell construction that blends a durable exterior with a lightweight inner moulded shell to maximise durability without creating excessive weight. It weighs only 400g. Its "Brain Protection System" is designed to reduce rotational forces caused by angled impacts to the head and it features an "AirEvac" ventilation system to keep lenses fog-free when worn through 33 fixed vents. It can also be worn over a baseball cap or beanie. *£215, skiequipmentuk.co.uk*

Master the ride

The **Salomon Dancehaul** is a unisex all-mountain snowboard that's perfect for taking your skills on the slopes to the next level. Providing personality for every riding style, the board's sleek design has been engineered to get the most out of your ride. Its tapered directional shape and radical sidecut pairs elegantly with its extra width to give a big boost to turns, while its longer nose produces maximum float in deep snow. The materials are equally impressive. The Dancehaul's BA MD fibreglass body guarantees light and lively handling, while the sustainably sourced wood core keeps the board grounded in traditional snowboarding values. It's strong, too, and able to support a maximum weight of 90kg. *£425, salomon.com*

Staying warm and dry on the slopes

The **Ortovox 3L Guardian Shell** jacket is a compact wind and waterproof coat that's high quality and hi-tech, blending inner and outer layers of traditional and cutting-edge materials to keep the most determined skiers warm on-piste. The exterior is engineered to keep the snow sliding off, while the inner fibres of the jacket are made of merino wool. That allows moisture to pass through from within, for when you've been working hard, while trapping enough heat to keep you warm. To cool down, the underarm ventilation zippers can be snapped open and the hood can be worn under a helmet for added protection on blustery days. *£569, ortovox.com*

The ultimate skis for adventurists

Voelkl's Mantra 102 skis are the pièce de résistance of freeriding power. Boasting a multilayer wood core as well as tip and tail rockers, this 102mm waist set of skis is made to be as comfortable on as off the piste. They are designed to be used "absolutely anywhere". However, it's the high-speed dynamism that really characterises the Mantra 102s. The skis' tailored carbon tips make the Mantra extremely versatile, enabling greater accuracy when executing curves, while their agile "shovel reaction" feature lets you turn the skis easily without losing control. "In other words, simply think about changing direction – and it happens." *£420, voelkl.com*

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- A full day to visit the High Dam and Temple of Philae
- A half day to visit the Temples of Karnak and Luxor
- 3 nights in the Red Sea Resort of Hurghada with free time at leisure

Holiday Departure Months

J	F	M	A	**M**	**J**	J	A	**S**	**O**	**N**	D

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- Return flights from London Heathrow, Edinburgh or Dublin to Amman, all via Istanbul
- 3 nights in Amman with a city tour and a full day excursion to the Roman city of Jerash
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- 2 nights in Petra with a full day tour and a jeep tour of the Wadi Rum Desert
- 3 nights at the edge of the Dead Sea with a full day excursion to the town of Bethany

Holiday Departure Months

J	F	M	A	M	**J**	J	A	**S**	O	**N**	D

FROM **£2,969**

Western Canada & the Rockies

Fully Guided | 10 Nights | 3★ & 4★ B&B

- Flights from London Heathrow, Edinburgh or Dublin to Vancouver via Amsterdam
- 3 nights in Vancouver including a city tour of the main highlights
- 1 night in Clearwater with an excursion to Wells Gray Park
- 1 night in Jasper with a visit to Mount Robson Park
- Enjoy a Snowcoach ride on Athabasca Glacier, located in the Rockies
- 2 nights in Banff with a excursion of the main highlights including Lake Louise
- 1 night in Vernon, visit Glacier National Park and Okanagan Valley
- 1 night in Whistler, travel through Nicola Valley en route
- Visit Grouse Mountain and Capilano Suspension Bridge Park in Vancouver

Holiday Departure Months

J	F	M	A	**M**	**J**	J	**A**	**S**	O	N	D

FROM **£3,199**

Highlights of Vietnam

Fully Guided | 14 Nights | 4★ & 5★ Half board

- Flights from London Heathrow, Glasgow or Dublin to Hanoi, returning from Ho Chi Min City all via Dubai
- 2 nights in Hanoi with a full day excursion including Ho Chi Minh complex
- 1 night in Halong with a sailing experience of Halong Bay
- 3 nights in Hoi An including a half day guided walking tour and a Vietnamese cooking class
- 1 night in Hue with a Perfume River cruise to Thien Mu Pagoda
- 4 nights in Ho Chi Min City, a half day excursion to the Cu Chi Tunnels and a full day to Cai Be with a Mekong Delta river cruise
- 1 night in Can Tho visiting Cai Rang floating market and Khmer Pagoda

Holiday Departure Months

J	F	**M**	**A**	**M**	J	J	A	**S**	**O**	**N**	D

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The week's best TV

Madoff

The Monster of Wall Street
Available on Netflix

The implosion of Bernie Madoff's Ponzi scheme in December 2008 marked the end of one of the most notorious financial scandals of all time. The collapse took place against the backdrop of the global financial crisis, just a few months after the fall of Lehman Brothers, but the fraud's unprecedented size, as well as the fact that the main perpetrator was the former chairman of the Nasdaq, made it particularly compelling.

There have been a number of books and television documentaries about the scandal already, so Netflix's documentary mini-series *Madoff: The Monster of Wall Street*, directed by Joe Berlinger, is entering a crowded marketplace. The show does though rise to the occasion and finds new things to say. The series consists of four episodes, lasting a total of around four-and-a-half hours. The first part deals with Madoff's early career and details how the scheme started. The middle parts cover its growth, despite the best efforts of critics, such as rival portfolio manager Harry Markopolos, to expose what was going on. The concluding section looks at Madoff's arrest and the aftermath of the exposure of the fraud.

One of the big themes explored is the incompetence of the regulators, especially the Securities and Exchange Commission (SEC), the US agency responsible for regulating securities exchanges and preventing fraud.

Joseph Scotto plays Bernie Madoff in dramatisations of the key events

©Netflix

> *"Many of the earlier investors (mostly middle-class private individuals) lost their life savings and their house"*

Following repeated prompting from Markopolos, the SEC did finally send some junior staff to investigated Madoff; they were essentially bullied by Madoff into dropping the case. Most absurdly, the SEC later got Madoff to hand over account details that would instantly have exposed the fraud, but the official in question didn't bother to follow them up by making a simple phone call.

A cautionary tale

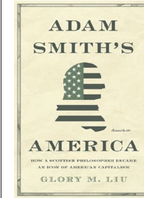
The testimony of the victims provides the most moving moments in the series. Some critics say that they should have been more sceptical and not put all their eggs into Madoff's dodgy basket, but many of the victims did in fact do the due diligence, even hiring investigators, who gave Madoff's fund a clean bill of health. Trustee Irving Picard, who was tasked with picking up the pieces, managed to claw back most of the money that had been put into the fund, but many of the earlier investors (mostly middle-class private individuals) lost all their life savings and had to sell their houses to repay past withdrawals.

There are a few angles that could have been investigated in more detail, such as the negligence of the banks supervising Madoff's accounts. But overall, this is a gripping documentary – and a cautionary tale for investors. It delivers a clear lesson: if an investment looks too good to be true, it usually is.

Reviewed by Matthew Partridge

Adam Smith's America

How a Scottish Philosopher Became an Icon of American Capitalism
Glory Liu
Princeton, £28.23



We are used to conservative politicians quoting Adam Smith approvingly when they wish to defend free trade and free markets. But he is admired on the left, too. Former prime minister Gordon Brown, for example, has claimed to take inspiration from Smith's works. As Glory Liu points out in her new book, the fight over the legacy of this foundational figure in economics is nothing new.

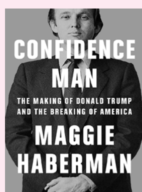
Shortly after *The Wealth of Nations* reached the shores of the US, its ideas were being used as ammunition in political debates – the book was published the same year as the US Declaration of Independence. Perhaps the most brazen argument was offered by Alexander Hamilton, who claimed Smith's support for protective tariffs for infant industries. Later, on the eve of the civil war, Northerners would quote Smith's distaste for slavery, while Southerners claimed to be fighting to protect free trade between nations.

The appropriation of Smith by both sides of the political spectrum has continued to the present day. Liu clearly has little time for either side, seeing the exercise as little more than name-dropping by people who have rarely bothered to read the actual work. In any case, the world Smith lived in is so different from our own that the whole exercise seems rather pointless. Still, it is fascinating to see how a work can bear so many different interpretations.

Book in the news... how Trump raged his way to the top

Confidence Man

The Making of Donald Trump and the Breaking of America
Maggie Haberman
Mudlark, £25



Despite damaging revelations over his behaviour during the 6 January Capitol riots, ongoing legal woes and defeats for his handpicked candidates in the mid-term election a few months ago, several recent opinion polls suggest that former US president Donald Trump is still the frontrunner for the Republican nomination for the forthcoming presidential elections in 2024. This raises the question of why "a man who lies so transparently and exhibits such incompetence" can nevertheless end up being "so successful", says The Economist. The argument of this book is that the answer is to be found in the "annealing interplay of politics and commerce in the New York of the 1970s and 1980s". This "equipped Trump with the low expectations and cynical convictions that would carry him so far".

One of the key influences in Trump's early life was his mentor Roy Cohn, a "corrupt attorney" who "taught him the uses of emotional terrorism", says Peter Conrad in The New York Times. Negotiating with mafia thugs and political bosses during his years as a property developer in New York also taught Trump the importance of "brazen lying, performative rage" and "chaotic plotting that sets allies at odds with one another". Trump is held captive by an "eternal past of grudges and grievances, re-enacted in assaults on those who supposedly slighted him".

There have been far too many books about Trump already, and each new revelation now melts into an "indistinguishable muck", say Joe Klein in The New York Times. This one, however, is different. Haberman is a "formidable" investigator and Trump granted her "endless interviews, including three for this book". She is also "an exemplar of her craft" – "relentless, judicious" and even-handed. Her book is notable "for the quality of its observations about Trump's character", which will make it a "primary source about the most vexing president in American history for years to come".

Bridge by Andrew Robson

Disappointment to delight

Two former MPs, Michael Mates and Robin Squire, combined well in defence on this week's deal.

Dealer West — Neither side vulnerable

North:
♠ AJ
♥ K8532
♦ J5
♣ 10863

West:
♠ 107543
♥ A6
♦ 2
♣ K9752

East:
♠ K862
♥ Q4
♦ 97643
♣ AQ

South:
♠ Q9
♥ J1097
♦ AKQ108
♣ J4

The bidding

South	West	North	East
	pass	pass	1♦*
1♥**	1♠	4♥***	pass§
pass	pass		

* Marginal, with a preponderance of honours in short suits. I like opening light in third chair – but only when I want my suit led.
** Hardly a textbook overcall, although the Diamond length suggests partner is short and therefore likely to have some Hearts. Spot on.
*** Bidding to the level of the fit, assuming five Hearts opposite...
§ Although there are many minus features (eg, the Heart holding), Larry Cohen's sage words, "If in doubt, bid Four Spades over Four Hearts", would have worked well.
Due to the miraculous layout, there is no defence to the 18-point Four Spades.

West led his singleton Diamond, and declarer won in hand and led the nine of Hearts. West rose with the Ace, planning to score his low Trump with a Diamond ruff. He switched to a low Club, and East won the Ace and returned the Queen; East was hoping West would overtake with the King and lead a third-round for a Trump promotion.

Doubtless disappointed he was still on lead with the Queen of Clubs, East tried a second Diamond, whereupon his disappointment turned to delight. West ruffed, and led a third (low Club), which East could ruff with his Queen. Pretty defence indeed – and two down.

There is less bridge played in the Commons these days because there are no late bills. More civilized hours mean less opportunity for card-playing.

For Andrew's four daily BridgeCasts, go to andrewrobsonbridgecast.com

Sudoku 1141

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

To complete MoneyWeek's Sudoku, fill in the squares in the grid so that every row and column and each of the nine 3x3 squares contain all the digits from one to nine. The answer to last week's puzzle is below.

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

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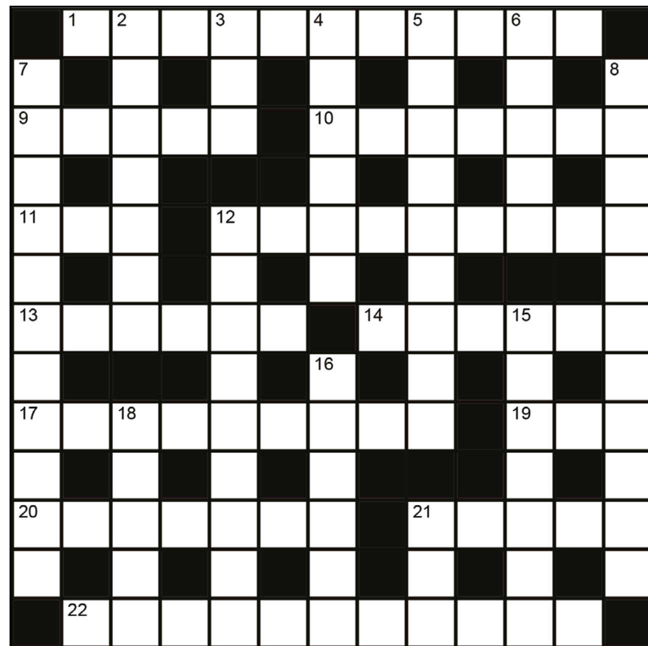
Tim Moorey's Quick Crossword No.1141

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 13 Feb 2023. By post: send to MoneyWeek's Quick Crossword No.1141, 121-141 Westbourne Terrace, Paddington, London W2 6JR. By email: scan or photograph completed solution and coupon and email to: crossword@moneyweek.com with MoneyWeek Crossword No.1141 in the subject field.



Across clues are mildly cryptic, down clues are straight

ACROSS
1 No city suited unfortunately? Try this (11)
9 Swimming in Riyadh out of depth is dangerous (5)
10 Boyfriends hanging around old city offices (7)
11 Highest point curtailed for pulse (3)
12 Psychiatrist's loss of business? (9)
13 Toy gun seen behind bandit's back (6)
14 On a ship or a meeting of directors (6)
17 Comedian on cocaine gets a joke (9)
19 Caught perhaps but not in office (3)
20 Gatherings with Republican supporters (7)
21 Heard trumpet for ex-PM (5)
22 Rock group project a fairly short distance away (6, 5)

DOWN
2 Art of paper folding (7)
3 Dissenting vote (3)
4 Bobby (6)
5 South African rugby player (9)
6 Theatrical entertainment (5)
7 Union official (4, 7)
8 Money shelled out (11)
12 Choice (9)
15 Pear-shaped salad ingredient (7)
16 Blackcurrant cordial (6)
18 Croatian resort (5)
21 "___, humbug!" (3)

Name ....

Address ....

....

email ....

Solutions to 1139

Across 1 Resists *anag* **5** Cutie *Cu tie* **8** Ghana *hidden* **9** Deserts *trees anag inside d s* **10** Pound sterling *pound + Sterling* **11** Flaunt *Fl + aunt* **12** Agents *a gents* **15** Discount store *deceptive def* **18** Leander *n inside leader* **19** Ellis *anag less p* **20** Radar *reversal* **21** Misused *is =lives inside mused*
Down 1 Rig up *ring up less n* **2** Spatula *anag* **3** Standing order *deceptive def* **4** Sedate *SE date* **5** Cash registers *anag* **6** Tarsi *hidden* **7** Ensigns *anag* **11** Fiddler *two defs* **13** Noodles *n oodles* **14** Antrim *a n trim* **16** Staid *t inside Said* **17** Eased *ceased less c.*

The winner of MoneyWeek Quick Crossword No.1139 is: Larry Bird of Guildford

Tim Moorey is author of How To Crack Cryptic Crosswords, published by HarperCollins, and runs crossword workshops (timmoorey.com)

Taylor's is one of the oldest of the founding port houses, family run and entirely dedicated to the production of the highest quality ports. Late Bottled Vintage is matured in wood for four to six years. The ageing process produces a high-quality, immediately drinkable wine with a long, elegant finish; ruby red in colour, with a hint of morello cherries on the nose, and cassis, plums and blackberry to taste. Try it with goat's cheese or a chocolate fondant.

The sham fight over debt ceilings

Both sides declare a war to the last man. In the end, both will agree to more money

Bill Bonner
Columnist

Investors are still hesitating, wobbling, not sure which direction to take. Like passengers lost in the Paris metro, they turn left, they turn right, first paralysed by choice, later befuddled and fatigued by wrong choices. We don't know which direction markets will take either, but we suspect the smart money is on "down". If not now, then soon enough. There are just too many banana peels on the ground.

The US federal government has bumped up against its debt ceiling again. Janet Yellen, previously in charge of the Fed's misguided monetary policy, and now messing things up on the fiscal policy front, says she can use "extraordinary measures" to keep the heat on in the Capitol building. But those measures won't last forever. In June, push will come to shove – and the ceiling will have to be raised.

Washington wags are saying that the "conservatives" will insist on budget cuts before agreeing to it. But they say that every time the ceiling is raised. And in the end, the ceiling is raised without any real constraints on federal spending. This fight over the debt ceiling is a sham battle. Both sides fire blanks. Both vow to fight to the last man; in the end, both agree that what they need is more money to spend.

Yellen: messing things up in a new department

Yes, the decline of the US empire goes on with the advice and consent of both parties. Republicans and Democrats pretend to be fierce competitors. But the typical member of Congress has much less in common with his own voters than with his fellows in the Capitol – even those in the opposite camp. They all live in the same area. They earn the same amount of money – enhanced by the same slimy contributions from the industries they regulate. And they all have the same interest in seeing the flow of money from the public to the elite deciders continue without interruption.

> *"The debt ceiling levitates and the banana peels proliferate"*

So, the debt ceiling levitates and the banana peels proliferate. The Fed is raising rates and the money supply declines; at some point a major player will be unable to refinance his debts. Real wages have fallen for 21 months in a row; sooner or later households will have to stop spending money. Growth rates are pathetically low. Savings rates are near all-time lows. Productivity is falling at the fastest rate in 40 years. The feds are trying to pinch off supplies of fossil-fuel energy – the very stuff that made us so prosperous. And the war industry – which has bought off both political parties, the press, and the universities – leads the country towards another disaster.

We remind readers that progress, such as there is – in marriage, economics and politics – is cyclical. Up and down, round and round. One day, we enjoy warm kisses; the next we are reminded to take out the trash. One day comes a great boom, then comes a bust. Optimism prevails – until, that is, the facts are out in the open.

The bottom line

€79bn The total value of sales in vintage and pre-owned watches by 2033, triple the €25bn the market made last year, according to forecasts by LuxeConsult. Pre-owned watch sales rose 20% in value to €52bn; sales for new watches rose 12%.

£422,000 How much the government paid "towards the costs and damages incurred" by the *Ever Given* when the container ship blocked the Suez Canal for six days in March 2021, according to a an official filing. It is not known what cargo the government was shipping.

700 The price in Filipino pesos (£10.40) for a kilo of onions in the Philippines last month – more than the cost of meat and the country's minimum daily wage, says BBC News. Rising demand post-pandemic and bad weather affecting crops are driving up consumer prices.

£462,070 How much the average first-time buyer spent on a London property last year, double the national average, according to Nationwide building society. That figure was £122,000 three decades ago, when the London premium over the national average was 1.5 times.

$130m How much in ransom payments was saved when the FBI, working with local law enforcement agencies around the world, including the UK's National Crime Agency, infiltrated Hive, a hacking group, and distributed 300 decryption keys to organisations that had been hacked and held to ransom.

£2.3bn The combined tax paid to HMRC by the top-ten highest taxpayers last year, up 14% on 2021, according to The Sunday Times Tax List. *Harry Potter* author JK Rowling (pictured) paid £15m during a "quieter year", dropping from 27th to joint 81st in the annual compilation, says the newspaper.

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*Source: IMF WEO, October 2021.

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