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Buy Indian stocks as Modi wins again

PLUS

The world's most lethal laptop

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Here's Jeremy!

Protect your wealth from a Corbyn government

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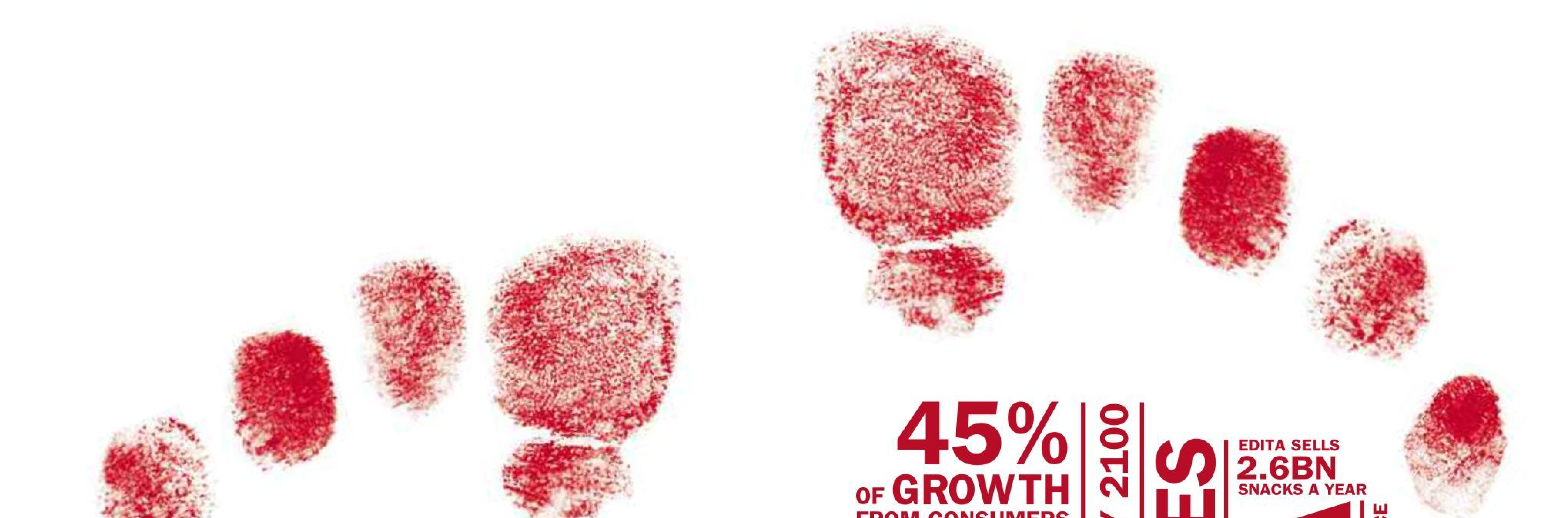

THYROCARE PERFORMED
84M TESTS
IN 2018

INDIANS CONSUME
26M DABUR
HAJMOLA TABLETS
PER DAY

DR LAL PATHLABS
PROCESSED MORE THAN
30M SAMPLES IN 2018

INDIA

COLGATE CONDUCTED
> 6M FREE
DENTAL CHECK-UPS
IN 2017/18

BRITANNIA PRODUCTS ARE IN MORE THAN
180m
HOUSEHOLDS

22 OFFICIAL LANGUAGES SPOKEN

HINDUSTAN UNILEVER SELLS
140M UNITS PER DAY

2 OF THE TOP 10
MEGACITIES

73M DIABETIC PATIENTS

2.5BN
PORTIONS OF MAGGI NOODLES ARE CONSUMED ANNUALLY

5.9M KM OF ROADS

7 TAXPAYERS FOR EVERY 100 VOTES

LARGEST
MILK PRODUCER

22M
PASSENGERS DAILY

121,407 KM
OF RAILWAY LINES.

45%
OF GROWTH
FROM CONSUMERS

MEDIAN AGE 19

POPULATION GROWTH RATE 2%

1.3BN PEOPLE
2.5BN BY 2050

800M NIGERIANS BY 2100

54 COUNTRIES

AFRICA

EDITA SELLS
2.6BN
SNACKS A YEAR

EAST AFRICAN BREWERIES PRODUCE
108M LITRES
OF DRINKS P.A.

INTEGRATED DIAGNOSTICS HLDGS DID
26.2M
TESTS

40%
OF GLOBAL GUINNESS PRODUCTION IS CONSUMED IN AFRICA

CONSUMER SPENDING
WILL REACH
$2.2TN
BY 2030

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	2018	2017	2016	2015	2014	Since inception to 31.12.18
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Source: Financial Express Analytics, MSCI.com, Inception 25.6.14.

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MoneyWeek

31 May 2019 | Issue 949

Britain's best-selling financial magazine

From the editor-in-chief...

Given the way it is disrupting our politics, you would think that Brexit is just about the only thing that matters to the UK. Not so. On page 14, Matthew Lynn looks at some of the other (rather more important) things that the brave (or perhaps foolish) person who becomes the next prime minister needs to concentrate on. As far as he is concerned, our trading relationship with Europe comes pretty low down the list. John rather agrees that Brexit doesn't much matter. Note that for all the sound and fury, the UK is still seeing rather better GDP growth than most of the other EU countries. At the same time, unemployment is at its lowest for 44 years (3.8%) and retail sales are up more than 5% year-on-year. This is a very resilient economy.

©Alamy

UK economy: more reasons to be cheerful than expected

> *"For all the sound and fury, the UK is still enjoying better growth than most of the EU"*

The biggest threat from Brexit

However, the shenanigans over how we leave the EU (see page 8 for what happens next) might have one nasty long-term impact on the UK. In making a general election more likely, they also make a Jeremy Corbyn government more likely – and that could have a fairly unpleasant effect on the finances of those who are higher earners, wealth creators or both. The UK economy might be resilient but it's hard to imagine any modern economy that wouldn't crumble at least a little in the face of the kind of policies Corbyn's old-fashioned socialist silliness threatens.

What can you do? John has a good look at the options available on page 20. We would not, however, recommend abandoning the UK stockmarket as a whole. Far from it. Good value high-quality stocks are hard to find these days, but the UK is jammed with them – see page 28, where Troy's Hugo Ure suggests a few. The pound is also very cheap (see page 4) – discounting pretty much every risk out there. If Brexit goes better from here, and the Corbyn threat retreats, it will be become clear, as Hamish McRae puts it in the Daily Mail, that "on a long view UK assets must be bargain basement".

If you are a less value-orientated investor you might turn to my interview with Walter Price on page 23. Price is a huge believer in the US technology sector. We might carp about the valuations of the likes of Uber, Lyft and Tesla (now increasingly being seen as a heavily-indebted car company with production issues, rather than a super-duper tech firm), but he reckons that if we look among the mid-caps and concentrate on the less whizzy-sounding areas of technology that are gradually transforming corporate behaviour (and costs), as well as our day-to-day lives, there is huge value in the technology sector.

Most investors think this round of the great tech boom is coming to an end. Price thinks it is just beginning – and that we should all be heavily invested for the next 20 years. The growth will, he says, more than justify today's prices (the average price/earnings ratio – see page 13 – in his portfolio is a lot more than 30 times).

Finally, if that's not punchy enough for you, turn to page 7 where we look at Facebook's cryptocurrency launch. Is it time that us old-timers at MoneyWeek gave in and accepted that crypto is the future? For the answer to that (hint: John and I aren't quite there yet) listen to our latest podcast at moneyweek.com.

Merryn Somerset Webb
editor@moneyweek.com

Wealth gap of the week

"The growing gap between the Premier League and lower-league clubs has been starkly illustrated by figures that show nearly three quarters of English Football League sides are losing money", says Martyn Ziegler in The Times. While the 20 Premier League clubs made a combined surplus of £304m in the 2017/2018 season, the 72 teams in the lower leagues, comprising the Sky Bet Championship, League One and League Two, suffered a collective net deficit of £388m. A total of 52 of those 72 sides ended the season in the red. Bolton Wanderers went into administration this month, while Bury is in "crisis". Clubs overextend themselves trying to reach the top flight, with its minimum guaranteed income of £100m. "The gap is now so big between the Premier League and the rest that the Championship clubs are prepared to gamble on getting to the 'Promised Land'", Kieran Maguire, a lecturer in football finance at the University of Liverpool, tells The Times.

Cover illustration: Adam Stower. Photos: Getty Images; Guo O Dong

Good week for:

The Verve singer **Richard Ashcroft** said that the "bitter taste" of a 22-year legal wrangle over the rights to the 1997 hit, *Bittersweet Symphony*, had gone. The fallout boiled down to an agreement the band had to sample a five-note segment of an orchestral version of the Rolling Stones song, *The Last Time*, in return for half of the royalties. But Stones manager, Allen Klein, claimed The Verve took more, so Ashcroft has never received any of the royalties until now. Ashcroft thanked Mick Jagger and Keith Richards for voluntarily signing over the rights.

Randy Lerner, ex-owner of Aston Villa, netted a £30m windfall after the football club won promotion to the Premier League, says the Mail Online. Lerner had inserted the payout clause into the contract when Tony Xia bought the newly relegated club in 2016 for £76.2m. The clause would be triggered if Villa were promoted within three seasons. The players shared in a £6m bonus pool.

©Getty Images

Bad week for:

Anna Maria Ghezzi, a 92-year-old fashion heiress, has been ordered to pay Italy's tax authorities €15.5m in back tax as part of a plea bargain. Ghezzi, thought to be worth €105m, was also handed an eight-month suspended prison sentence. Investigators said she had evaded taxes for years by claiming she had been living in Britain and Switzerland. She had really been living in Milan.

The BBC pension fund lost millions on its holding in US carmaker Tesla last week, says Jamie Nimmo in The Mail on Sunday. Shares in the electric car brand have slid by almost 40% this year.

Markets are running on hope

Alexander Rankine
Markets editor

There is still no end in sight to Donald Trump's "great patriotic wars", writes Michelle Cottle in The New York Times. The US president kept up the pressure on Beijing this week: during a state visit to Japan (see page 11) he warned that "we're not ready to make a deal" and that tariffs on hundreds of billions of dollars' worth of Chinese goods could "go up very, very substantially, very easily". As the economic toll of the dispute becomes more apparent, the Trump administration has taken to reminding Americans that "patriotism means sacrifice".

Nor is China in any mood to back down, note Andrew Batson and Chen Long for Gavekal Research. For his part, Chinese leader Xi Jinping has referred to a "new Long March", but the metaphor is "not a very encouraging one… only a fraction of the soldiers who started the Long March survived".

So far, commodities markets have been one of the most notable casualties of the deterioration in trans-Pacific relations. Oil recorded its biggest weekly loss of the year, with West Texas Intermediate prices plunging 6% in a single day. Concern that global growth will slow has also hit copper prices. The industrial metal, a good proxy for the health of the world economy, has given back nearly all of its gains for 2019, after falling 9% from a high last month.

Powell the banker – can he fix it?

©Getty Images

Central banks to the rescue?

Yet beyond commodities, trade war-induced stockmarket losses have so far been modest, notes Michael Mackenzie in the Financial Times. The MSCI All World Index is only 4.5% below its April high and is up 10% for the year so far. Investors are still betting that China and the US have a limited appetite for mutual punishment and – more importantly perhaps – that "major central banks will keep juicing up the financial system".

Futures contracts reveal that investors believe there is a roughly 80% chance of at least one interest-rate cut by the end of the year. Yet minutes from the Federal Reserve's most recent policy meeting showed that the US central bank is content to remain on hold for the time being, writes Nick Timiraos in The Wall Street Journal. Remarks by Fed chairman Jerome Powell suggest it will take more bad news than markets expect to trigger policy easing, says Diane Swonk of Grant Thornton.

However, trade tensions may be prompting a broader reappraisal of the health of the economy, says John Authers on Bloomberg. With the ten-year US treasury yield hitting a 19-month low this week, traders are "back to worrying about stagnation and decline" – despite a strong US labour market. "Call it scaremongering if you like," adds Paul Ashworth of Capital Economics, but several recent US data releases carried "the unmistakable whiff of a recession." The Markit manufacturing index hit a near-decade low, while the services index also plumbed three-year depths. Retail and motor-vehicle sales are "weak". Markets may be betting that this will prompt central bank intervention, but "monetary policy isn't a magic wand".

Shocks often erupt after a long build-up, says Mackenzie – "otherwise known as the boiling frog syndrome". Mortgage and credit excesses had been apparent from 2005, but investors stayed on board to squeeze markets "for a little extra return" before the 2007 crisis. This bull market may have further to run – but as risks mount and valuations remain high, "the frog is getting hot".

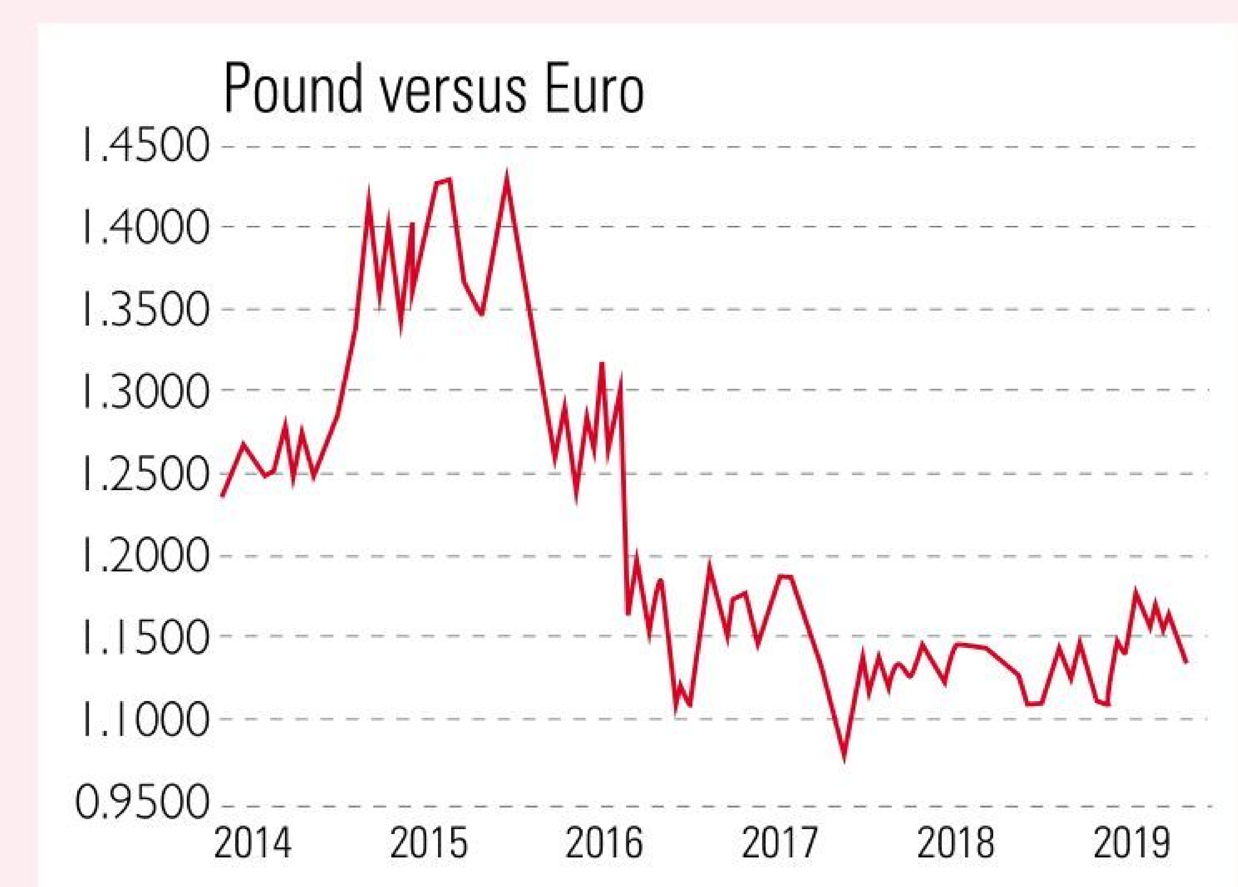
The pound's wild week

The pound hit four-month lows against the dollar last week amid another bout of political turbulence at Westminster. Sterling fell to $1.26, its lowest level since January, before recovering slightly after Prime Minister Theresa May announced her resignation. It also fell as low as €1.133 against the euro.

May has been one of the worst months since 2016 for sterling, which has shed more than 3% as traders unwound bets that politicians would eventually agree on a Brexit deal. The pound – which tends to be a "risk-on" trade – has also been hit by the wider flight from risky assets as trade tensions mount, writes Katie Martin in the Financial Times, leaving many investors sitting on the sidelines.

A hard Brexit instigated by current Tory leadership favourite Boris Johnson is seen as "the worst-case scenario" by markets, says Anooja Debnath on Bloomberg. Yet traders have not quite made up their minds about Johnson's intentions, and the chance of a snap election all make the outlook even "murkier".

With the path towards a Brexit resolution no clearer than it was three years ago, the real surprise is that the rout in the pound has not been worse, says David Smith in The Sunday Times. Dean Turner of UBS thinks a no-deal would see sterling plunge to $1.15 and €0.97, while a reversal of Brexit could see a "swift rebound" to $1.58. Yet whoever becomes prime minister next will "find themselves in exactly the same position" as May, says Karen Ward of JP Morgan, hampered by Parliament's unwillingness to back a deal or to allow a no-deal.



"The last word" is with Parliament, agrees Jon Sindreu in The Wall Street Journal. "As chaotic as a Johnson-led government could be," the most likely outcome is still a customs union or another form of "soft" Brexit. For all the "gyrations", sterling is basically in the same place against the euro as it was two years ago. "The latest move likely won't mean much in the long run."

©iStockphotos

India: set to join the global top three

Narendra Modi's Bharatiya Janata Party (BJP) is now India's "natural party of government", says The Economist. The centre-right party won a second landslide victory and another five-year term in a country where incumbents are usually sent packing. The result sent the main BSE Sensex Index surging to a record high.

Turning things around

The nation of 1.35 billion people has been overshadowed in recent decades by the rise of China, with a cocktail of corruption, a "Licence Raj" of complex regulations, and shaky government finances, all conspiring to hold back development. Modi has made some bold reforms since he came to power in 2014, shaking up antiquated bankruptcy laws and implementing a sales tax. India is now poised to overtake Britain as the world's fifth-biggest economy, and the BJP is planning for it to be number three (behind China and the US) by 2030.

The prime minister can boast of presiding over the world's fastest-growing big economy, says James Crabtree in The Times. With the economy expanding at about 7%, India is already contributing as much to global growth as the UK, France and Germany combined.

A Modi victory may not deliver economic reform

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Yet Modi has not delivered the "Thatcher-style economic revolution" his enthusiasts hoped for. India hasn't achieved the double-digit expansion of the type China enjoyed at its peak, and the BJP has failed to create millions of promised jobs. A leaked report has put the unemployment rate at a 45-year high.

Modi's pro-business stance went missing in a campaign dominated by "nationalist rhetoric", says Tom Miller for Gavekal Research. Yet with the opposition "obliterated", he now has a chance to push through more radical policies, such as privatising heavily indebted state-owned banks and loosening labour laws that keep people out of work. With growth set to slow to below 6.5% by the end of the year and investment spending lacklustre, he will know that bold action is required. Infrastructure investment is another positive, says The Economist – the BJP plans to build "100 new airports and 50 metro systems".

Priced for growth

Indian stocks have beaten the broader MSCI Emerging Markets Index since 2014, but that has left them expensive. On 18 times forward earnings, the Indian market is near "the top of its ten-year range", notes Lex in the Financial Times. Weaker credit growth and the introduction of a much-needed value-added tax system have hit corporate earnings growth, which is now down into single digits. Those who have previously hailed India as the world's next "economic miracle machine" have been disappointed.

Yet the country's long-term growth prospects remain "compelling" despite the price, says Jonathan Jones in The Daily Telegraph. The demographics are excellent – half the population is under 25 – and the middle class is expanding rapidly. That should drive growth in consumption – which accounts for about 70% of GDP – from $1.5trn today to $6trn by 2030, according to the World Economic Forum.

Whatever Modi does with his new mandate, reforms enacted in his first term will bear fruit in the second, argues Craig Mellow for Barron's. Against a "backdrop of global crabbiness", the fact that "voters in the world's largest democracy think their country is on the right track" is a hopeful sign. Our favourite way to get exposure is via the **Aberdeen New India Investment Trust (LSE: ANII)**, which is on an 8.5% discount to net asset value. David Stevenson also suggests several other funds on page 18.

Viewpoint

"If you're one of that breed of free marketeers who don't believe Facebook should be broken up... try listening to Chris Hughes. The Facebook co-founder and friend of Mark Zuckerberg says governments... have stood by... as the Zuck... has built himself more personal power than anyone on the planet... He controls the algorithms that dictate what news billions of people consume, which media they watch and who they talk to. He has the power to follow their hobbies, interests and opinions, and... to monetise that knowledge... The decisions from monopoly watchdogs to allow him to buy Instagram and WhatsApp mean he controls the vast majority of platforms used by the 70% of Americans using social media. These deals have destroyed competition... There was another man who would have agreed with Hughes. His name was Adam Smith."

Jim Armitage, Evening Standard

China's trade war trump card

Rare earth metals are not as scarce as the name might suggest. However, China is by far the dominant supplier to the US, accounting for about 80% of American imports (and 71% of the entire global supply of mined rare earth minerals). The metals – a group of 17 elements such as neodymium and yttrium – are used in applications ranging from military and industrial lasers to energy-saving light fittings. Speculation that China might restrict access to rare earths as a negotiating tool in its trade war with the US increased last week after President Xi Jinping visited a rare-earth facility in Jiangxi. As a result, the share prices of many rare-earth producers (including China Rare Earth Holdings, featured here) have enjoyed a spike higher.

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

Three to buy

Bunzl
The Sunday Telegraph
A record of reliable performance has made this distributor of paper plates and surgical gloves something of a support services "pin-up". Exposure to the US used to be a boon as a weak pound flattered revenues, but news of a hiccup stateside – underlying revenue growth has disappointed – sent investors "running for cover". It is a sign that the "solid returns" of the past may be harder to come by, but on 16.5 times this year's earnings and with scope to grow through acquisitions, it's a buy. *2,090p*

IG Group
The Times
Britain's biggest spread-betting firm has had a torrid few years, squeezed between tougher regulations on one side and periods of relative calm in markets (which reduces the number of punters) on the other. This is a "racy industry", but a lot of the risks are in the price and the outlook has brightened: the return of volatility in recent months is bringing back customers, while management is focusing on growth opportunities in Japan and Hong Kong after new European rules clipped its wings. Buy. *534.25p*

Tesco
Shares
A decision to raise its full-year dividend to 5.77p is a testament to the defensive qualities of the UK's biggest grocer. Investors fear that competition from discounters Lidl and Aldi will squeeze margins at the big players, but Tesco is exposed

to the convenience-store trend and will benefit from the demise of the Asda-Sainsbury's merger. Scaling back operations at Tesco Bank shows a welcome commitment to capital discipline. *237p*

Three to sell

Royal Mail
The Mail on Sunday
News of a dividend cut "sounds the last post" for Royal Mail's investors. As letter volumes fall, management has pinned its hopes on "parcels and productivity", but the plan has failed to deliver. Chief executive Rico Back has admitted that the dividend will fall from 25p this year to 15p next, while the service also faces the prospect of renationalisation by any Corbyn-led government (see page 20). A 7%+ yield may still tempt "die-hard income

seekers", but everyone else should sell. *211p*

Dignity
Investors Chronicle
The number-two player in UK funerals used to deliver strong profits. Growing competition has shown this results from "a poorly functioning market" rather than any competitive advantage, prompting a Competition and Markets Authority probe. Average income per funeral fell from £3,222 to £2,973 last year as management fought for market share. A "mammoth" debt pile adds to the risks. *659p*

Kier
Investors Chronicle
More than a year on from the demise of Carillion, sentiment towards construction firms such as Kier remains "at rock bottom". A "startling likeness" to the fallen outsourcer in the way in which Kier accounts for supply-chain finance is not helping matters and means that the company's real debt situation has "arguably been understated". The shares might look good value – they are changing hands for "next to nothing" – but continuing pressure on margins and a near-80% cut in the dividend mean that there is little upside in prospect. *312.5p*

...and the rest

Barron's
The market has shrugged off Facebook's plans to launch a crypto-currency (see page 7) – experience with Apple Pay has shown that **Mastercard**, **Visa** and **PayPal** have staying power *($257; $164.25; $112.5)*.

The Daily Telegraph
Ediston Property Investment trust has raised its dividend, but a move into retail parks is too bold for our taste, given the current climate – sell *(104.25p)*. A 60% share-price plunge at recruiter **Staffline** following a negative trading update looks overdone – hold *(326.5p)*.

Investors Chronicle
More households than ever are switching energy suppliers, which should underpin growth at price-comparison website **moneysupermarket.com** *(370p)*. Strong demand for rented houses and a shortage of new housing means reliable and growing income for residential landlord **Grainger** *(259.5p)*.

The Mail on Sunday
Aim-listed cell-therapy group **MaxCyte** is working with top pharmaceutical groups and has the backing of some big institutional investors – expect the shares to rise *(161p)*.

Shares
(Stem) science, technology, engineering and maths recruiter **SThree** trades at a 30%-40% discount to global peers despite great growth prospects and strong international diversification *(290p)*. Media business and data-analytics specialist **Euromoney** issued a forecast-beating trading update – buy *(1,376p)*.

The Times
The US move against Chinese tech has clouded the outlook for Cardiff-based chipmaker **IQE**, but it is well-placed to benefit from 5G – hold until the "Huawei fog lifts" *(70.25p)*.

A German view

Qiagen is a core healthcare holding, says WirtschaftsWoche. The Dutch-German group provides a wide range of products to help diagnose diseases. Its most famous offering is QuantiFERON, a blood test to identify tuberculosis that has been applied to 60 million people. "Demand is huge" – 1.6 million die of the disease every year, reports the World Health Organisation. QuantiFERON accounts for a tenth of sales, while new tests for meningitis could be approved in the US soon. Oncology is a growing industry for Qiagen too – testing the effect of various treatments helps doctors tailor treatments to patients. Sales are expected to grow by 7% to €1.4bn in 2019 – a 15th successive year of growth.

IPO watch

Finally, an initial public offering (IPO) outside the tech sector: Hollywood talent agency Endeavour (whose clients include singer Rihanna and actress Charlize Theron) plans to float later this year. The group, valued at $6.3bn in 2017, has diversified into fashion, marketing and sports, notes the Financial Times. In 2016 it bought UFC, the mixed martial arts league, for $4bn, one of the biggest sports deals on record. But most of its sales stem from licensing or creating content for television and streaming networks. Cashing in on the content craze bodes well for long-term growth. A record 500 television shows were commissioned last year, thanks to the burgeoning streaming industry.

City talk

● If only Marks & Spencer got paid every time it promises a "transformation", writes Alistair Osborne in The Times. In 2010, Sir Stuart Rose promised to "fundamentally transform the way M&S does business". Now boss Steve Rowe has crammed 36 iterations of the word or a variant thereof into the latest full-year figures. Underlying food sales were down 2.3% and profits before tax fell by 9.9%. When Rowe took over three years ago, the shares were around £4. Now they are below 250p, and he's "cut the dividend by 40%". This is all "a bit too transformational".

● Facebook's plan to create its own cryptocurrency is reminiscent of something that "Dr Evil from the Austin

Powers movies might come up with", says Lionel Laurent on Bloomberg. The new system – "GlobalCoin" – will allow users to make digital payments across a dozen countries – "more than the eurozone started with". Facebook is an "incredibly powerful centralised" empire that tracks its users' behaviour for the benefit of advertisers. Now it wants to know "where and how they spend their money". This is a long way from Bitcoin's "decentralised libertarian principles".

● It is rare to encounter much "plain-speaking honesty" in the City, says Jim Armitage in the Evening Standard. So it's good to see that troubled retailer Mothercare has dedicated a long section of its results to giving shareholders the explanation "they deserve for last year's catastrophic shares crash". Boardroom conflicts distracted from efforts to cut costs. The cash crunch was worsened by City advisers who collected £10m in fees. Yet honesty may not help Mothercare survive a digital world. Store sales fell 8.9% – unsurprising – but an 8% decline in online sales is much more alarming.

©Alamy; Getty Images

A motoring mega-merger

A proposed merger between car giants Fiat Chrysler and Renault could be good news for both companies. Alex Rankine reports

The car industry is going through its biggest changes "for 125 years" as the age of internal combustion draws to a close, writes Larry Elliott in The Guardian. That is forcing companies fearful of becoming "museum pieces" into ever-larger combinations. Italian-American carmaker Fiat Chrysler Automobiles (FCA) confirmed on Monday that it is seeking a merger with French peer Renault. The tie-up would create the world's third-biggest carmaker, or the largest if Renault partner Nissan's production is included. Shares in both companies shot up by more than 16% on news of the talks.

Looks good on paper

FCA doesn't say "merger of equals", but that is what's on offer, says Stephen Wilmot in The Wall Street Journal. The plan is for a 50:50 merger of each firm's share capital, so that €5bn in anticipated cost savings can be shared equally. The move is "very sensible" at a time when car sales are stagnating in the US, China and the EU.

The deal looks wise on paper, agrees The Economist. The threat from Silicon Valley has created an urgent need for investment in technologies such as electric vehicles (EVs) and self-driving cars. Industry consolidation avoids that expensive work being duplicated pointlessly. Joint development of engines and platforms – the base component of a vehicle – will also make a big contribution to the mooted €5bn a year in savings. The two firms also complement one another geographically, with FCA strong in America, and Renault's power base in Europe.

The history of car mega-mergers is not a happy one, notes John Gapper in the Financial Times. The FCA-Renault tie-up is almost the same size as the industry's "worst deal failure" – Daimler's $37bn combination with Chrysler in 1998, which was eventually dissolved in 2007 "to everyone's relief". Yet the decision to pursue a full merger rather than a looser alliance could prove canny. As last year's downfall of former Renault-Nissan-Mitsubishi alliance boss Carlos

Jean-Dominique Senard: low key

Ghosn attests, "alliances that look solid to outsiders often conceal unresolved tensions". It is far harder to unravel a merger.

Ghosn's downfall, as well as the untimely death of FCA boss Sergio Marchionne last year, actually cleared the way to a deal, says Wilmot. Mergers of equals are usually derailed by ego, but plans for Renault's low-key chairman Jean-Dominique Senard to become CEO would help to keep the proposed behemoth on an even keel.

The planned deal leaves Renault's Japanese alliance partner Nissan "in a bind", says The New York Times. Renault executives reportedly kept Nissan boss Hiroto Saikawa "in the dark" about the talks, a slight which will only aggravate Franco-Japanese tensions. Renault and Nissan have too many joint plans for the future of their alliance to be in doubt, reports Julien Bonnet for France's BFMTV. Nevertheless, the FCA merger plan is "not a positive" for Japan's second-biggest carmaker, says TIW analyst Satoru Takada. As its partner bulks up, Nissan's position in the alliance "will be diminished".

Britain's ten most-hated shares

These are the UK's ten most unpopular firms, based on the percentage of stock being shorted (the "short interest"). Short-sellers aim to profit from falling prices, so it helps to see what they're betting against. The list can also highlight stocks that may bounce on unexpected good news when short-sellers are forced out of their positions. Levels of short interest in miner Anglo American have fallen sharply after a surge in iron ore prices. Sentiment has turned against educational publisher Pearson after two of its biggest rivals, Cengage and McGraw-Hill Education, agreed an all-share merger deal earlier this month.

Company	Sector	Short interest on 29 May (%)	Short interest on 30 April (%)
Arrow Global	Financial Services	11.0	11.6
Metro Bank	Financial Services	10.48	11.28
Jupiter Fund Mgmt	Financial Services	10.48	9.3
AA	Support Services	9.96	9.78
Debenhams	General Retailers	9.53	NEW ENTRY
John Wood Group	Oil Services	9.32	9.42
Marks & Spencer	General Retailers	9.09	9.57
Anglo American	Mining	9.08	12.37
Babcock International	Defence	8.89	NEW ENTRY
Pearson	Media	8.84	NEW ENTRY

What does Brexit mean now?

Brexit means Brexit, insisted the outgoing PM. It didn't. But nothing else has changed. Emily Hohler reports

There are many good reasons not to take the UK's European Parliamentary election results too seriously, says Robert Shrimsley in the Financial Times. Two-thirds of the public did not vote. The 5.8 million who voted for the Brexit party, helping it to secure 29 seats, is "considerably fewer" than the 17.4 million who voted Leave in the referendum; and the 6.7 million who voted for anti-Brexit parties is far below the 16.1 millon who voted Remain in 2016. These votes arguably, therefore, represent the "outer limits of the hardline vote", suggesting that everyone else is open to compromise. "But political narratives, once established, are very hard to shift." As the two major parties have failed to honour the referendum result, positions have hardened. The Tories were "humiliated", recording their worst-ever result in any election, and Labour didn't do much better.

Johnson would face "huge rhetorical challenges" as PM

The possible ways forward

It certainly hasn't, says the BBC. Labour came fifth with just ten seats. Under pressure from key allies including John McDonnell, the shadow chancellor, and Diane Abbott, the shadow home secretary, who believe that Labour was punished for its lack of clarity on Brexit, Jeremy Corbyn now looks set to "unambiguously" back a second Brexit referendum, says Oliver Wright in The Times. Not all of Corbyn's supporters agree. Len McCluskey, leader of union Unite, argues that Labour should not "further alienate its Brexit supporters" and should "hold its nerve" because the true prize, now that there is a "serious prospect of a no-deal Tory prime minister", is the "possibility of a looming general election".

Theresa May is to step aside on 7 June, and the options for the new prime minister look limited, says Daniel Finkelstein in The Times. Essentially, he or she can try to resolve Brexit either by holding an election or by a second referendum. "Look at the alternatives." Might a new government that looks serious about no-deal get a genuinely "fresh offer" from Brussels? Improbable (and the EU has once again ruled this out, notes Jon Stone in The Independent). Could a no-deal government "power on without parliament's support and without falling"? Unlikely. Could a new leader push May's deal through in their honeymoon period? Ditto. "The reality is that in this parliament, there isn't a majority for any solution to Brexit… So you either change the parliament or you seek to make the decision outside parliament." That means an election or a referendum. No Conservative MP wants a general election. If there's one before the government has delivered Brexit, the Tories might not just be defeated, but "flattened".

There is another possible denouement, says Matthew Parris in The Spectator. Our new PM, having vowed to get a better deal from Brussels during the leadership contest on pain of leaving without a deal, will have to "hotfoot it to Brussels" and return empty-handed. He will then be under pressure to get the UK out of the EU with a no deal or "managed" no deal, which Parliament will then prevent. He will then be "in a bind" for promising the electorate something he couldn't deliver and will have to break it to voters, by 31 October, that we aren't leaving the EU. The "most important" quality of the next Tory leader will therefore be the ability to break bad news. Who better placed to pull off the "huge rhetorical challenge" of explaining why the government has decided to revoke Article 50 and return to the drawing board to reconsider Brexit without any "pesky" EU-imposed deadlines than Boris Johnson? For Remainers, this outcome – and the "indefinite delay" to Brexit it brings – may be the "silver lining" to the "dark cloud" of a Johnson premiership.

Barnier: it's time for a New Green Deal

©Getty Images

A green wave sweeps Europe

As Brits focus on Brexit, "another story is emerging: the green wave", says Fraser Nelson in The Spectator. From Ireland to Germany, Green parties made big gains in last week's European elections, emerging as the fourth-largest bloc in the European Parliament, with 69 out of 751 seats. It is a Europe-wide trend and "challenges the idea of voters taking their allotted space in a left vs right, or even globalist vs nationalist spectrum".

After years of "operating from the periphery", the Greens now have enough seats to make themselves a "near-essential partner in any functioning coalition", says Jim Brunsden in the Financial Times. The Parliament's centre-right, centre-left and liberal parties could try to work together, but their majority would be "fragile, and highly vulnerable to internal splits".

But is the rise of the Greens driven primarily by "environmental concerns or frustration with established political parties"? ask Valentine Pop and Ruth Bender in The Wall Street Journal. In Britain, where the Green Party's share of the vote rose from 4.6% to 12%, the second-most cited reason for voting Green was to show dissatisfaction with the Brexit impasse. Green support was also "overwhelmingly" concentrated in Western Europe, and many politicians in other parts of the EU are "hostile to Green policies". This could create fresh conflicts. Nor should we forget that green policies have"stumbled", even in the West. France's *gilets jaunes* protests were aimed at new environmentally friendly taxes. Now, however, these results could "embolden" President Emmanuel Macron to push ahead with green reforms. Some politicians from European's traditional centre had already sensed the change in mood. Last month, Michel Barnier advocated a European New Green Deal. "The best time to launch a Green EU Deal was years ago. The next best time is now."

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Nottingham

Business rates strike again: High-street chemist Boots is planning to shut around 200 of its 2,485 stores, reports Mark Kleinman on Sky News. Decisions have yet to be made over which stores are to close, but US owner Walgreens will take advantage of expiring leases, as well as close branches where there is already another Boots shop nearby, "sources close to the company" said. Walgreens is seeking to save $1.5bn by 2022, as part of its "significant" restructuring programme. The Nottingham-based pharmacy chain is one of Britain's biggest retailers as measured by number of outlets, employing 56,000 people. However, footfall has declined as customers increasingly shop online. The large number of shops has also kept its business-rate tax bill (which is calculated on property value) high. Last year, Boots paid £144m on sales of £8.8bn, compared with online retail giant Amazon, which paid just £63.4m on sales of £11.5bn, notes Matt Oliver in the Daily Mail. Last week, Boots UK chief executive Sebastian James told the Treasury Select Committee that business rates were "a real problem". Debenhams, New Look and Topshop all have plans to close stores.

Rome

Italian debt fears rise again: Buoyed by his party's resounding success in the European elections, Italy's deputy prime minister Matteo Salvini has said he will now devote his energy to changing the EU's "old and obsolete rules". The European Commission is considering a disciplinary procedure for Italy over its failure to cut its debt as part of the EU's regular monitoring process, which could lead to a €3.5bn penalty, says Bloomberg. This would escalate a "budget tussle" between Brussels and Rome that "roiled" markets at the end of 2018, prompting a "bond sell-off". This week, yields rose amid fears of a repeat – the yield on ten-year bonds rose to 2.69% on Tuesday, while the cost of credit-default swaps, a form of insurance on government debt, "rose sharply", says The Wall Street Journal. The widening spread between the yield on ten-year Italian and German debt is explained "in part by a recent rush into German bonds as a safe haven", but yields on similar Spanish and Portuguese debt dipped.

Oslo

Pensions giant cuts out sin: Norway's biggest pension fund, KLP, is selling its holdings that derive more than 5% from alcohol or gambling. The Oslo-based fund has $80bn in assets under management on behalf of around a million public-sector workers. Beer brewers AB InBev, Heineken and Greene King, champagne producer LVMH, and spirits maker Diageo, are among the 90 stocks to have been cut, along with bookmaker Paddy Power Betfair. "We want to invest the pension funds we manage in… businesses which to a greater extent contribute to a safe and better world for everyone," says KLP's chief executive Sverre Thornes. The fund doesn't expect the sales to have a "significant impact" over the long term, while the proceeds will be reinvested in the fund's other holdings. KLP has form when it comes to "ethical investing", having sold stocks that derived more than half of its revenues from coal five years ago, and from this month, revenues of more than 5%. The fund has also purged itself of companies related to pornography and cannabis and, since 1999, tobacco.

The way we live now: Amazon wants to read your mind

Amazon is developing a wearable tech device that can read emotions, says Matt Day on Bloomberg. According to an unnamed source, the wrist-worn device (codenamed "Dylan") interacts with the wearer's smartphone, and can listen to its wearer's voice via its microphones. It has been described as a "health and wellness" product, but could also make suggestions to the wearer on how to interact with others based on what it judges their mood to be. Lab126, the hardware developers behind Amazon's Fire smartphone, is said to have teamed up with the Alexa (Amazon's digital assistant) voice software team to work on the device. Not all Amazon projects come to market, and it isn't certain this one will. But it could have another use – selling you stuff based on your mood. "A wearable that reads emotions could work well for targeting advertisements, but what happens if it says you're feeling stressed when you're not, or detects happiness when you're really down?" asks Fortune's Don Reisinger. "It could make you question your own feelings."

"Alexa, stop telling me I'm in a bad mood"

Beijing

Chinese government seizes bank: The China Banking and Insurance Regulatory Commission (CBIRC) seized control of regional lender Baoshang for a year last Friday, citing "serious" credit risks. It was the first bank seizure in more than two decades and prompted China's central bank to intervene with a net ¥150bn cash injection to avoid a credit crunch as nervousness spread through the local market. The interbank repurchase rate (the rate at which China's banks lend to one another) hit its highest level in a month, while yields on NCDs – short-term debt instruments that allow smaller banks to lend to weaker borrowers – also rose. Baoshang's bonds were suspended at the start of the week due to rising yields. At least 70% of interbank debts exceeding ¥50m owed by Baoshang would be initially guaranteed by regulators, Chinese financial magazine Caixin Global reported. The bank is 70% owned by the Tomorrow Group conglomerate, whose former chairman Xiao Jianhua has not been seen in two years. Many of China's regional banks indulged in "non-traditional lending" in a rush to drive profit growth, says Bloomberg.

Regional lender Baoshang: a serious credit risk

Japan

Rolling out the red carpet for Trump: "All the pomp and pageantry in the world couldn't paper over the tensions" between President Donald Trump and Japanese Prime Minister Shinzo Abe on the two most pressing issues of Trump's recent four-day state visit to Tokyo: North Korea and trade, reports Associated Press News. While playing up their close friendship and the long-standing ties between the two countries, Trump brushed off the significance of North Korean short-range missile tests that have "rattled" Japan, and reiterated his threats to impose "potentially devastating" car tariffs on the country during deliberations over a hoped-for trade deal. Iran was also discussed, with Trump – who recently ordered an additional 1,500 troops to the Middle East – raising the idea that Abe could leverage Japan's good relations with Iran to act as a possible intermediary, says Ashley Parker in The Washington Post. Abe, for his part, concentrated on pandering to his guest's love of flattery, literally laying out the red carpet as part of an elaborate ceremony during which Trump became the first foreign leader to meet the new Japanese emperor.

New Delhi

Africa's second-biggest mobile-phone operator ponders London listing: Airtel Africa, owned by India's Bharti Airtel, is considering listing a quarter of its shares on the London Stock Exchange, says Chris Johnston in The Daily Telegraph. The company could also list in Nigeria, which is its biggest market, accounting for a third of its 100 million subscribers across 14 sub-Saharan countries. Airtel Africa has spent heavily in the past, fending off Vodafone-controlled rival Vodacom. It has since put its finances in order by applying an "asset-light" business model. Pre-tax profits came in at $372m in the year to March, from a loss of $652m previously. Even so, it still has debts of around $4bn, which it hopes to cut by raising $1bn from the London listing. Airtel Africa raised $1.25bn in a funding round last year that drew investment from six big names, including SoftBank and Temasek, and valued the business at $4.4bn. The company's service benefits millions of Africans with no access to banks, says its chief executive, Raghunath Mandava. "These fast-growing markets provide us with a great opportunity to grow both our telecom and payments businesses."

Hanoi

China's pain is Vietnam's gain: Vietnam's trade surplus with the US has surged by 45.5% year-on-year to $13.5bn in the first quarter of this year, says Steve Johnson in the Financial Times. The Southeast Asian country has taken advantage of US president Donald Trump's escalating trade war with China to undercut its huge neighbour to the north. Imports to the US of Chinese goods covered by tariffs fell by 27.6% in the first three months of 2019, compared with the same period the previous year, according to Thomas Costerg of Pictet Wealth Management. By contrast, US imports of Vietnamese products in the tariffed categories rose by 35% in the same period – much higher than the 11% in categories not covered by tariffs. "The Vietnamese exports are taking up the baton… or there has been some rerouting through Vietnam of Chinese goods," Costerg tells the FT. "For a small country… it's pretty impressive." And Vietnam isn't the only winner in the wider region. South Korea increased its trade surplus with the US by 71% to $6.4bn in the first quarter, Taiwan by 29% to $5.2bn, Bangladesh by 23% to $1.4bn, and Cambodia by 24% to $998m.

Is inequality on the rise?

It isn't – at least not in Britain – and not in purely economic terms as measured by income. But the big picture is more complicated. Simon Wilson reports

What has happened?

The Institute for Fiscal Studies (IFS) has launched a new five-year project, the Deaton Review, which aims to analyse the nature and causes of inequalities – primarily in the UK, but also globally – and "develop a comprehensive agenda for change".
The purpose of the review, chaired by the Nobel laureate economist Sir Angus Deaton, is not just to look at the gap between rich and poor, but also to carry out the "most comprehensive scientific analysis of inequalities yet attempted" – including of differences relating to health outcomes, political participation, educational attainment, and so on, as well as differences related to gender, ethnicity and geography. To begin with, the IFS has published a paper focused on economic inequality.

How does Britain do by global standards?

The UK has a relatively high level of income inequality compared with similar countries, but the widely held idea that it has got worse over the past decade is wrong. The most commonly used measure of income inequality is the Gini coefficient: zero represents complete equality (all households earn the same) and one represents complete inequality (in which one household has all the income). The UK is among the more unequal of similar developed countries, with a figure of 0.35 (on the most recent OECD figures). That puts us alongside the likes of New Zealand and South Korea. OECD countries that are notably more unequal than us include the US, Mexico and South Africa. In turn, we are more unequal than almost every other country in the EU.

But it's not getting worse?

Not in recent decades, no. In the 1960s the UK's Gini score was around 0.25 (where the likes of Iceland, Norway and Denmark are now). It zoomed up in the 1980s to just under 0.35, where it has stayed, more or less, for the past 30 years. And in the past ten years it has in fact fallen a little, from slightly more than 0.35 to just below. Another popular measure of income inequality is the "90:10 ratio", which is the household income of the 90th percentile person (that is, one of the richest) expressed as a multiple of the person at the tenth percentile. Currently, that ratio is four (the 90th percentile person's household income is four times as big as the tenth's). But after shooting up from three in the late 1970s to almost 4.5 in 1990, it has gradually fallen back over the past 30 years. This means that rather than becoming more unequal, says the IFS, "household incomes are now more evenly distributed across most of the distribution than they were 25 years ago".

There's more to poverty than income

©Getty Images

What about the very wealthiest?

Here the picture is mixed. The share of wealth owned by the top 1% of the population is about 20%, which is not especially high by developed-world standards, and is lower than in Denmark or Germany, for example. Over the course of the 20th century, the top percentile's share of wealth collapsed as developed countries became far more equal – in the case of Britain from more than 70% in 1900 to around 14% in the mid-1980s. Since then, it has ticked up again, and in the last few years has plateaued at the 20% mark, around the same level as the late 1970s. That gentle rise reflects a more marked rise in incomes at the very top. The share of household net income going to the richest 1% of households rose sharply from 3% in the late 1970s (on IFS figures) to 8% now. Strikingly, though, the whole of that jump happened in the 1980s and 1990s. Since 2000, the proportion has remained close to 8%.

Is inequality always a bad thing?

No. As Deaton points out, the perception of fairness is key. There's a big difference between a lazy "fat cat" who got his high-paying job through cronyism, and a hard-working "fat cat" who brings prosperity to others. Capitalism depends on risk-taking individuals being prepared to start businesses, and if a hugely successful entrepreneur makes a fortune by developing a popular new product, that will increase income inequality. But it will also provide work and raise tax revenues that can be (and are) spent on the common good.

> *"Household incomes are now more evenly distributed than they were 25 years ago"*

One of the most interesting charts in the IFS paper (on page 7 of the report) plots the growth in average earnings and net incomes for working households across the income distribution between 1994 and 1995 and 2017/2018. The earnings line rises steadily: the richer the household, the greater the rise in real incomes over the past 25 years. But the line showing household net income is astonishingly flat. Except for the top and bottom 5% of households, there has been a consistent real-terms rise of about 31% in net household income (after tax and benefits) across almost the whole (90%) of the income distribution. In other words, earnings inequality has risen, but overall income inequality has remained stable.

What does this imply?

That redistribution is working. In the 1980s Britain really did suffer a genuine inequality crisis, the effects of which we are probably still digesting, says Ed Conway in The Times. But "just as remarkable was what happened next". While income inequality in the US, for example, continued to rise, net income inequality in the UK has more or less flatlined, in particular due to the rapid expansion of tax credits from the late 1990s onwards. "This is, in other words, a story not of crisis, but of triumph." That's not to say everything is rosy: it isn't. Why are differences in life expectancy across social classes rising? Why are "deaths of despair" increasing in middle-aged men? Why are the poor becoming less likely to live with a partner (a key marker of health and wellbeing), while richer and better-educated people are becoming more likely to do so? Why is there far more divergence in the socio-emotional skills of young children (a key predictor of outcomes in later life) than a few decades ago? And why is the average height of an English man falling? "The sooner we drag ourselves away from our imaginary economic inequality crisis and focus on this stuff, the better."

The algorithms take over

In the US, passive fund investors are set to overtake active fund investors. What does that mean for markets?

John Stepek
Executive editor

The robots are winning

This month, US markets reached an important milestone: money invested in passively managed equity funds (at more than $4.3trn) now stands neck-and-neck with that invested in actively managed equity funds ($4.31trn), according to data provider Morningstar. Within the next month or so – given that money is still flowing into passive funds and out of active ones – passive should take the lead.

It was only a matter of time. As Julie Segal notes in Institutional Investor, 20 years ago, in 1998, "the amount investors held in active US stock funds was 6.5 times that in index funds." Yet US investors have been quicker than most to realise that active managers rarely beat the market, and that they charge too much for failing to do so. As a result, the average investor is far better off getting equity exposure via a passive fund (also known as an index or tracker fund) which simply delivers the return on the market, and charges next-to-nothing to do so. Indeed, competition over fees has grown so intense that we've seen entirely fee-free funds and even one recent effort that promises to pay investors to put money in the fund, at least while it builds scale.

Note that this does not mean that half of the money invested in US equities is under passive management – the figures only cover funds. And thus far, this is still very much a US phenomenon – by the end of February, for example, the share of UK assets in passive funds was still only 16%, reports the Investment Association. But the shift is only going to continue. And it has plenty of people raising the question again: at what point does passive investing start to impact on the utility of markets? As John Detrixhe of Quartz puts it, the fear is that "if too much money flows into funds that simply track an index, markets will become inefficient, and prices will no longer reflect the underlying value of specific assets."

"Passive funds in the US are now neck-and-neck with active ones"

At MoneyWeek, we are big fans of tracker funds, and we'd regard many of the objections against them as nothing more than desperate rearguard actions by active fund managers. As the Bank for International Settlements pointed out last year, even if we do reach the point where passive ownership is creating "greater anomalies in individual security prices", then this would "increase the gains from informed analysis and active trading, and thus spur more active investment strategies".

So in all, we're not too worried. What we would warn against is growing complacent. Just because a passive fund is a good way to invest in a market, doesn't mean a market is worth investing in. The US is still exceptionally expensive on historic measures. Passive or active, it's not a market we're keen on right now.

I wish I knew what a p/e ratio was, but I'm too embarrassed to ask

Many investors use the price/earnings (p/e) ratio as a measure of whether a share is cheap or not. There's a good reason for that – it's one of the simplest valuation measures out there. You simply take the share price, and divide by the earnings (profits) per share. So a company with a share price of 50p and earnings per share (EPS) of 5p would have a p/e ratio of ten.

A p/e ratio which is based on forecast earnings is often referred to as a forward p/e ratio, while one based on past earnings is sometimes described as a trailing p/e. P/e ratios are also sometimes referred to as "multiples", as in "Acme Widgets is trading on a multiple of ten times its earnings". In effect, a p/e of ten means you are paying £10 for each £1 of earnings, while a p/e of 20 would mean you are paying £20 per £1 of earnings. So clearly, in theory, the lower the p/e, the cheaper the share.

However, a lower p/e does not always mean that a company represents good value. If investors are only willing to pay £5 for each £1 of current earnings, say, then this implies that they don't really believe current earnings levels can be sustained. Instead, there may be serious problems that will hinder future growth or lead to falling profits.

Meanwhile, those trading on higher p/e ratios might look expensive – but in fact, might be expected to grow exceptionally strongly (for example, high-flying tech stocks typically trade on relatively high p/es).

Also bear in mind that some industries (mining and housebuilding are good examples) are extremely cyclical. They tend to trade on low multiples at the high point in the economic cycle (when they are very profitable) and high p/es at low points (when they may be loss-making). The cyclically adjusted price/earnings ratio (also known as the Cape ratio, or Shiller p/e), which averages earnings out over ten years, is one way to correct for this.

Guru watch

Kevin Landis fund manager, Firsthand Capital Management

We all know that Warren Buffett is a great investor, says Michael Brush of Marketwatch.com. But the obsessive focus on Buffett means we run the risk of neglecting other stockmarket stars who could teach us useful lessons. Kevin Landis, who runs the Firsthand Technology Opportunities Fund, is a good example, says Brush. Unlike Buffett's Berkshire Hathaway vehicle, his fund has beaten both the wider US market (the S&P 500 Index) and its peer group over the last ten years. So how does he do it?

Landis believes in owning a concentrated portfolio – if a fund manager owns fewer than 40 stocks, he notes, it puts pressure on them to get it right. "I never really thought investors should pay active money managers for their 50th-best idea." As for how to find good ideas, he suggests looking at older, incumbent tech companies – ones who are "defensively trying to hold on to their market share and relying on customer switching costs to keep the gravy train rolling" – and finding out which younger agile firms are stealing business from them. He cites online education platform Chegg as an example of an innovative player within its sector.

And when it comes to "hot" new listings (initial public offerings – IPOs), be patient. As MoneyWeek often points out, companies go public at the best possible time for the sellers, not for the buyers (taxi-hailing app Uber is a recent case in point of a major IPO flop). "You don't have to buy an IPO on day one. You don't have to buy it in year one. Wait for the right moment."

Five key tasks for the new PM's in-tray

Our next prime minister should not obsess about Brexit, but face up to other pressing issues

Matthew Lynn
City columnist

It is surprising to me that so many people still want to be prime minister. As Theresa May would surely tell you, it's a thankless job. Still, for their own mysterious reasons, lots of people seem to want the prize. In a crowded field, Boris Johnson is the clear favourite with the bookmakers to replace May as Tory leader and PM, with Dominic Raab and Michael Gove lagging behind. By Tuesday morning, ten candidates had declared, and a few more may have thrown their hat in the ring by the weekend. Conservative MPs will narrow that down to a final two, and then the question will be thrown open to the party's 160,000 members to decide on a leader.

With grim inevitably, the debate will all be about Europe. Yet the one thing we have surely learned over the last three years is that the EU doesn't make much difference to the economy one way or another. After all, just about everyone assumed we would be leaving in March, possibly without a deal. And what happened? The UK grew slightly faster in 2018 than its main competitors such as France, Germany and Italy. Employment rose to record levels. Investment continued to come into the country, the pound remained stable, and real wages started growing again.

Membership of a big, but not terribly successful, trade bloc is a useful thing to have, but hardly critical. My estimate is that it ranks seventh on the list of factors affecting the British economy, behind demographics, tax rates, levels of entrepreneurship, skills, infrastructure, and domestic regulation, but ahead of the legal system, political stability, and income distribution, which round out the top ten.

Johnson leads a crowded field

©Getty Images

You can argue with the rankings, but if you're being honest you'll surely admit that membership of the EU is only one factor among many. There are far more important things we should be worrying about.

The things we should be worried about

For one, our infrastructure needs upgrading. We should be building new runways at Heathrow and Gatwick and relaxing the green belt around London so that our single most successful city – and one of the most successful cities in the world – can continue to boom. Second, our tax competitiveness needs to be maintained as other countries cut their corporate rates. In practice, that should mean a target of taking the corporate rate down to 10%, making it the lowest in Europe. We should also cut the entrepreneur's rate of capital-gains tax down to zero so that people from around the world can start a company in the UK and keep all the money they make (after all, we'll benefit from all the income tax paid by their staff).

Third, we need to find the right kind of regulatory regime for the wave of new technologies coming through, such as drones, lab-grown meat and driverless cars. There is plenty of history to tell us that the first country to have fair regulations attracts lots of investment. Fourth, we need to reinvent employment law to take account of the booming gig economy. Staff operating flexibly deserve rights and protection, but we also don't want to punish the companies using them. We need to drive forward the boom in entrepreneurship, which has seen the number of companies in the UK triple over the last two decades, with the emergence of a vast number of micro-businesses. If we suspended national insurance and pensions contributions for the first five employees a company takes on it would help those firms expand without costing very much.

Finally, we need to extend working lives to cope with demographic change. The first developed economy to figure out a way of integrating its 70-somethings into the labour market will reap rich rewards.

All that is just for starters. The City and business need to find a way to make sure the candidates for prime minister lay out their plans for all those issues. They matter just as much as whether we are in or out of the EU and, if we do end up leaving, it will be crucial that we are competitive in every other respect. If the candidates are simply allowed to obsess about the EU, it will be a big mistake.

Who's getting what

- Shareholder advisory group Glass Lewis has advised Walmart's shareholders to vote against the remuneration packages for the US supermarket's executives, citing "a pay and performance disconnect", says Alistair Gray in the Financial Times. Chief executive **Doug McMillon** (pictured) received $23.6m for 2018 – a pay rise of 3.6%. That compares with 3% for the average Walmart worker, who took home median pay of $21,952. Shareholder returns fell 8% last year.

- Former BT boss **Gavin Patterson** bowed to shareholders' anger in agreeing to halve his bonus for last year to £572,000. The telecoms company had suggested a figure of £1.1m, but relented in light of investors' concerns over BT's performance. Even so, Patterson was paid £1.7m in total for 2018, including a salary of £847,000, £46,000 in benefits, and pension contributions of £254,000. **Philip Jansen**, who took over in February, was paid £275,000 in salary, benefits of £39,000, £41,000 in pension, and a £370,000 bonus for his first three months in the job.

- Ocado co-founder and boss **Tim Steiner** has pocketed £49.6m in share awards, along with chief financial officer **Duncan Tatton-Brown** and chief operations officer **Mark Richardson**, who both received £12.4m in shares. **Luke Jensen**, Ocado's head of technology, got shares worth £5.8m. If the shares triple within five years, Steiner stands to get £100m. A quarter of shareholders opposed Ocado's pay plans a few weeks ago.

Nice work if you can get it

The "73 lucky Britons" who were elected to the European Parliament on Sunday can look forward to drawing one of the world's biggest parliamentary pay cheques, says Andrew Byrne in The Sunday Times. MEPs earn £90,576 in salary, and they can allocate more than three times as much in expenses. They get a general allowance of £46,680 a year, with an additional £257,974 staff allowance, which is paid directly to employees. MEPs also receive a personal travel allowance of £3,675 and £275 for each day they sign the Parliament's register in Brussels or Strasbourg. Britain's MEPs take their seats on 2 July, and assuming the UK still leaves on 31 October, they will receive £45,752, and another £85,991 for staff salaries over four months, most of which will be in paid holiday as the European Parliament is in recess from 25 July until the start of September.

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Amazon muscles into new territory

Rana Foroohar
Financial Times

Should the US government buy all its supplies from Amazon? It's a pertinent question, says Rana Foroohar, thanks to what has become known as the "Amazon Amendment" to the National Defence Authorisation Act, which means that officials need to come up with an "e-commerce solution" for a sector worth $5.6trn in sales a year. Wholesalers say that this requirement will "allow Amazon to eat their lunch, just as it has in retail". The National Association of Wholesaler-Distributors is particularly riled that the General Services Administration (GSA) has already discarded options including a government-managed portal for multiple players, and remains silent on the subject of Amazon capping seller fees, which could put firms at risk of being undercut by Amazon's own lines. Wholesalers could club together and create their own platform, but this would take time and Amazon is "incredibly good at what it does". But if using Amazon is easy, it may not save taxpayers' money. A study found that existing GSA purchasing systems offered the lowest prices 80% of the time. If Amazon captures the purchasing process it will be a "net loss to the government – and society as a whole".

Three cheers for the jobs boom

Editorial
The Economist

The narrative of underpaid and exploited workers who face a precarious future due to the rise of machines is "at odds with reality", says The Economist. Most of the rich world is enjoying a jobs boom: work is not only plentiful, but is also getting better as tight labour markets enhance workers' bargaining power. In the US the unemployment rate, at 3.6%, is the lowest in 50 years. Two-thirds of the members of the OECD club of nations enjoy record-high employment. Why? Populations are more educated, websites are more efficient at matching applicants to jobs, more women work and welfare reforms appear to have worked. True, middle-skilled jobs are becoming scarcer as the structure of the economy changes and the service sector, including the gig economy, expands, but more high-skilled jobs are being created than menial ones, and low-end work is becoming better paid, in part because of higher minimum wages. "Life at the bottom of the labour market" may not be "joyous", but entry-level jobs are a better launch pad than joblessness. A failure to acknowledge this will lead to unnecessary and possibly damaging government interventions. Until a recession kills the jobs boom, "it deserves a little appreciation".

King Dollar will lose his throne

Sahil Mahtani
The Wall Street Journal

Unlikely though "dedollarisation" may seem, recent developments in foreign-exchange markets suggest it will happen, says Sahil Mahtani. Chinese "petroyuan" crude-oil futures now sit "right behind Brent and West Texas Intermediate in trade volume", while the world's central banks bought more gold last year than at any time since the US came off the gold standard in 1971. The increasing use of US sanctions is the immediate cause of dedollarisation (few have forgotten BNP Paribas's $8.9bn fine in 2014 for violating sanctions against Iran); "surging US oil production" has implications, too. If America buys less crude while the Chinese buys more, oil exporters are increasingly likely to accept non-dollar currencies. Russia, Iran and Venezuela already accept yuan. Chinese demographics also play a part. As its working-age population declines, deficits will become more common. To avoid long-standing foreign-currency debt, Chinese will need foreigners to buy assets in yuan. Major currency shifts are often rapid. During the 1970s, sterling went from accounting for just under a third of global sovereign reserves to less than 5%. The rise of a "multipolar world" could finally topple the dollar.

Sharing the costs of the trade war

Henry Olsen
The Washington Post

Farmers harmed by President Donald Trump's trade conflict with China are to receive $16bn in aid, says Henry Olsen. Yet farmers are already "one of the most subsidised and protected groups" in the US. Soybean farmers are eligible for aid under three separate programmes. It's not going to take long for others hurt by the trade war to demand "their fair share". Many manufacturers depend on Chinese steel imports to make their products. Retailers who sell cheap Chinese imports will have to raise prices if these are subjected to tariffs. And what of consumers, who will pay an estimated $767 extra per family in 2020 because of the new tariffs? The "cries for government aid will grow louder", and because Trump has set a precedent with farmers it will be "politically hard" to resist them. Given that the US is already on track to borrow more than $1trn to cover normal government spending, "that's just not tenable". Trump is "absolutely right to have started this conflict" – China has been "manipulating trade rules for decades", placing itself on course to surpass the US as a global power by 2050. "But in this war, everyone has to pitch in and do their part – including soybean farmers."

Money talks

"My mum is very concerned that my husband is going to leave me out of intimidation. I had to explain to her that the only kind of man that would leave a woman who makes more money is the kind of man that doesn't like money."
Comedian Ali Wong (pictured), in Vanity Fair

"When I first started making decent money, the first thing I said was I don't care how much things cost in the hotel mini-fridge – if it's a $5 Kit Kat, I'm going to let myself have it. I always tell people the nicest thing they can do for themselves is to buy a good bath mat."
Actor Eric Stonestreet, quoted in Metro

"A month after my father's death I was cut loose from the army in Louisiana and I went back to LA. I had $1,500 in my pocket. I broke into the apartment I had lived in with my father, which was locked up because we didn't pay the rent. There were three of his uncashed security cheques there, so I forged his name and cashed them at a liquor store, giving me $1,800. I was 17 and on the loose in LA, and looking for trouble."
Crime fiction writer James Ellroy, 71, quoted in The Big Issue

"I still have to think about the future more than Andy does because he's got a lot more money than I have. But I don't care. If you told me I didn't ever have to work again, I'd be bored."
Tennis ace Jamie Murray, who specialises in doubles, on his more famous brother, two-time Wimbledon champion Andy. Jamie has earned £3.2m in prize money; Andy, £52m

"People should not think actors have got where they have because they're talented, or have not got anywhere because they're untalented – it's about luck and hard work. When you get a chink of luck, you have to grab it with both hands."
Actress Maxine Peake, quoted in The Guardian

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Don't fear the rise of the robots

Some jobs are always going to need the human touch
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project-syndicate.org
Not a week goes by without some new report sounding the alarm about the robots taking all the jobs, says J Bradford Delong. I wouldn't worry. As the philosopher Michael Polanyi observed, humans "know more than we can tell", so we shouldn't assume that technology can replicate the function of tacit human knowledge. "Just because a computer can know everything there is to know about a car doesn't mean it can drive one."

The jobs that may go...
This distinction bears directly on the question of what humans will be doing to produce economic value in the future. Historically, the tasks that humans have performed have fallen into ten broad categories. Over the past 6,000 years, machines have gradually taken over the first six. Shifting stuff about, making stuff, feeding stuff into a machine that makes stuff, guiding the operations of the machine, and software tasks such as accounting and control of or facilitating communication and the exchange of information – all have gradually fallen or are falling into non-human hands.

... and the ones that won't
The old joke that every computer needs an additional command of "do what I mean" brings us to the seventh category, where one actually writes the software, translating tasks into code. In the eighth, one provides a human connection. In the ninth, one acts as cheerleader, manager or arbiter for other humans. And in the tenth, one thinks critically about complex problems and comes up with solutions. This gives us cause for hope since, in the case of the last two especially, the task is inherently emotional and psychological, and requires tacit knowledge of social and cultural circumstances that cannot be codified into routine commands for computers to follow.

As economist David Autor notes in a 2015 paper, although car manufacturers use robots to fit windscreens, replacing broken windscreens remains a task for humans since "removing a broken windshield, preparing the windshield frame to accept a replacement, and fitting a replacement into that frame demand more real-time adaptability than any contemporary robot can cost-effectively approach".

Some might counter that artificial intelligence will overcome all these kinds of difficulties too, but even so, if the "rise of the robots" represents a threat, it won't be salient within the next two generations. For now, we should worry less about the robots taking our jobs "and more about the role of technology in spreading disinformation".

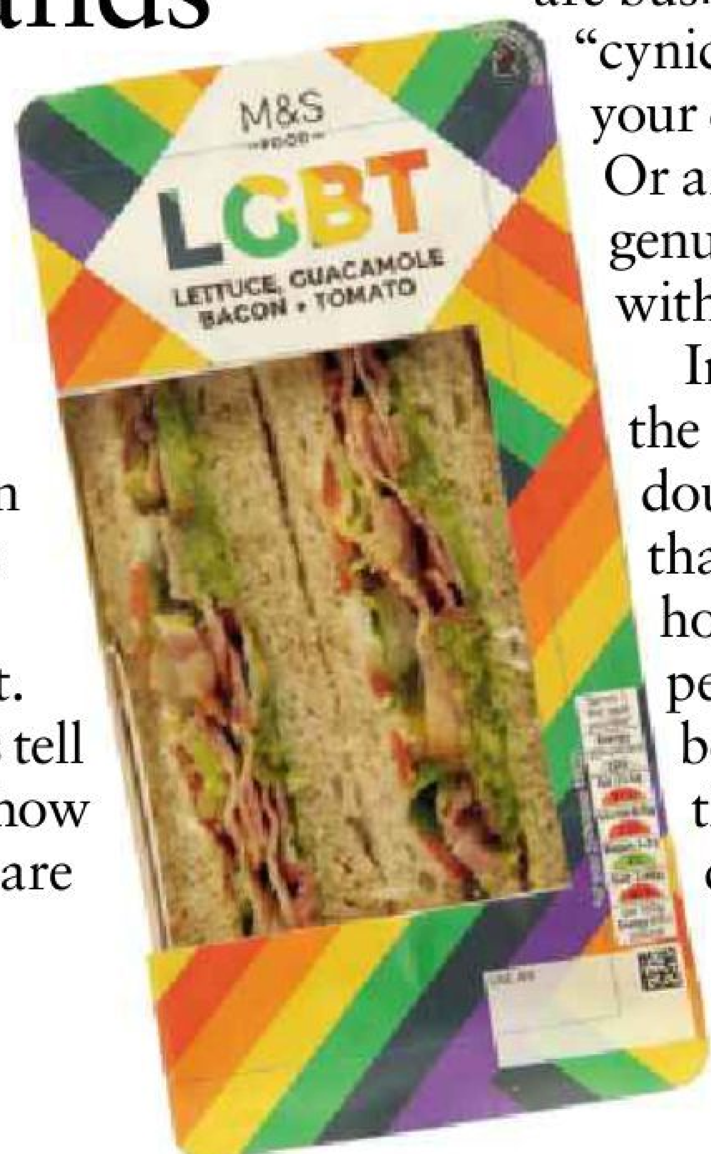
Go wild and boost the economy

unherd.com
Fifteen years ago the owners of Knepp Castle estate near Horsham, West Sussex, gave up on "financially ruinous" dairy farming and instead let nature take its course, says Amy-Jane Beer. Knepp now feels like a parallel universe: red deer and Tamworth pigs roam freely through thickets of hawthorn and dog rose, and there's a "riotous cacophony" of birdsong. A new plan by Rewilding Britain, a campaign group, calls for billions of pounds of farm subsidies to be redirected towards creating more places like Knepp. The group claims this would benefit not just the local environment, but be good for the climate, farmers and struggling rural economies too – in the UK, tourism already brings in more revenue (£18.6bn) and provides more jobs than farming.

True rewilding requires lots of land and the reintroduction of apex predators such as wolves. This can be tricky to achieve. But "wilding" brings huge benefits too and can happen in your back garden or a window box. Even small measures can lead to a "healing" of our biodiversity and climate crises, and do so at "startling" speeds. Grow wild flowers. Mow the lawn less often. Put up hedges, not fences, leave room for ponds and log piles, tolerate scruffy corners. You'll see a difference in a matter of weeks.

The power of woke brands

theguardian.com
When Marks & Spencer launched its LGBT sandwich – your classic BLT with some "gay" guacamole thrown in – I was asked if I was offended by it, says Owen Jones. I wasn't. But the incident does tell us something about how today's culture wars are affecting business. By flashing their support for just causes – by "woke-washing" their brands – are businesses just "cynically preying on your conscience"? Or are they genuinely concerned with social justice?



In the case of the sandwich, no doubt the charity that supports homeless LGBT people will benefit from the sums M&S donated. But the amounts are barely more than a couple of fun runners could raise. More likely is that younger people tend to be on one side in the culture wars, and their anger is seen as something to be monetised.

Some companies do pass the integrity test. Cosmetics firm Lush, for example, privately donates funds to good causes without fanfare. But nevertheless the phenomenon feeds an illusion – that buying a woke brand will do anything to change the world for the better – even if it does help corporations "rake in billions of pounds".

We need to heal the Brexit divide

hitchensblog.mailonsunday.co.uk
A "frightening omen" has appeared that bodes ill for Britain, says Peter Hitchens – empty seats in the House of Commons during Prime Minister's Questions. The "central ritual" of our democracy has now become so dull that quite a few MPs can no longer be bothered to turn up. This is a clear sign that "something is seriously wrong".

In the 1980s, the country was divided into two mutually hostile tribes. But the divisions were reflected in our parliament – in a twice weekly joust between Neil Kinnock and Margaret Thatcher. Because the issues that divided us were addressed, nobody felt "voiceless and forgotten".

Today the country is again divided. The rise of Jeremy Corbyn and the Brexit result are symptoms of a divide between what we might call the "Daily Mail" party and the "Guardian" party. The things that divide these parties are vital, living issues – morals, law and justice, immigration, patriotism – and it is time they were "debated and settled in the proper old British way. If they are not, then I see nothing but trouble ahead".

Look to Asia for opportunities

India and Indonesia are well-placed for growth, and there are plenty of ways to invest

David Stevenson
Investment columnist

We in the UK may be transfixed by Brexit, but out in the rest of the world there are numerous interesting developments for adventurous investors to keep a close eye on.

The key country to watch is India, especially now that Prime Minister Narendra Modi has been resoundingly re-elected. Although doubts about his reformist zeal have intensified over the last few years, Modi's BJP party has delivered on around 50 key reforms. It's worth highlighting real progress on rural electrification; a reform of how benefits are transferred to people; and significant investment in building toilets and new roads.

Despite criticism, Modi has made progress

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There's obviously lots still to do, not least in job creation for the young population, as well as in boosting low farm incomes. However, the political stability should help India become the world's third-largest economy by 2030. And if China becomes more of a "frenemy" than a friend to the Western world, then India could be on the receiving end of more foreign direct investment.

With GDP growth averaging around 7%, and inflation rates stabilised below 5%, the scene is set for some of that "super-growth" the BJP has been promising foreign investors for some years now. Indian equities remain expensive though, and my hunch is that British investors need to tread with care in this complex and sometimes opaque market. My preference is for the actively managed funds in this sector, with four investment trusts topping my list: **Aberdeen New India (LSE: ANII)**, **Ashoka India (LSE: AIE)**, **India Capital Growth** (LSE: IGC) and **JPMorgan Indian** (LSE: JII). If you are determined to use an index tracker, maybe consider the **Xtrackers Nifty 50 Swap Exchange-Traded Fund** (ETF) (LSE: XNIF).

Indonesia settles down

Another country that could benefit from big Asian trends is Indonesia. The return to power of Joko Widodo (Jokowi), with more than 55% of the vote, is a sign that this once volatile country is settling down. On paper, it should be a powerhouse of southeast Asia, with a huge population, abundant natural resources and a tradition of moderate religious observance. Nationalism, to date, hasn't been too strong a force. The president is also sensible, reform-minded and ecumenical in religious terms, although he has been pushed into supporting more conservative Islamic policies in recent years. His convincing re-election should be a big positive, although foreign investors had largely factored it in – the Jakarta Composite index dropped 8% from its pre-election level, tracking the weakness in Asian equities and the recent soft economic data.

There's value in banks

That weakness is largely because Indonesia is facing its own domestic economic issues – there's been a fall in exports growth, which coincided with the rise in oil prices. This has once again raised concerns over the current-account deficit (importing more than it exports), turning the rupiah into one of the worst-performing currencies in Asia.

However, Asian equities analysts at French bank Société Générale reckon matters could improve, with the recent softness in the economic data to recede in the second half of this year, led by improved investment and consumption activity. "With Jokowi's return and the elections out of the way, we expect government spending to shift back to public investment." Société Générale analysts are keen on local Indonesian banks, with price/earnings (p/e) ratios running at around 14. This represent good value, with 2019 earnings-per-share growth estimates remaining unperturbed at 14%. Banks constitute a large part of the local index, which is tracked by ETFs **Xtrackers MSCI Indonesia** (LSE: XMID) and **HSBC MSCI Indonesia** (LSE: HIDR).

Activist watch

Activist investor ValueAct Capital has told Merlin Entertainments, owner of attractions Alton Towers, Legoland and Madame Tussauds, to put itself up for sale, say Oliver Gill and Michael O'Dwyer in The Daily Telegraph. ValueAct, which owns a 9.3% stake in Merlin, believes the City doesn't see the true value in the world's second-largest visitor attraction group. Merlin has "struggled" as a public company, said Value Act, which also criticised the "excessive focus" of analysts on short-term results. A private buyout of the company could value it at a premium of more than a third, reckons the activist.

Short positions... property trusts snap up bargains

■ **Terry Smith is to step back from the day-to-day running of the Fundsmith Emerging Equities Trust, says Patrick Hosking in The Times. Since its launch in 2014 the fund, which invests in consumer goods companies in emerging economies, has returned 23.7%, relative to 49.1% for emerging markets generally. The fund's underperformance can partly be explained by a sell-off in the Indian market, where it has 40% of its assets, and by the success of Chinese internet companies, banks and insurers, which it has shunned. Smith will continue to play a part in the "big investment decisions" of the trust, but will no longer vet small position changes, handing this responsibility to newly appointed portfolio managers. "I'm not running away from this," he said. "I've still got a lot of money personally in the trust, but I think it will get more out of me because of this changing role."**

■ Real estate investment trusts are "snapping up" cut-price properties from open-ended property funds, which have had to sell properties in order to pay back customers selling out. Closed-end investment trusts, which have a set number of shares, don't have this problem (though their shares may trade below their underlying net asset value). Real-estate investment trusts LXI, Regional and Warehouse Reit are among the trusts to have taken advantage of this supply of discounted property.

■ The British Empire Trust changed its name this week to the AVI Global Trust, in an attempt to "more accurately reflect" where the company invests. There will be no change to the fund's investment philosophy, it said.

Know your mortgage broker

When picking a mortgage broker, it's important to know the different types, and how much you should expect to pay

Sarah Moore
Investment editor

A broker can save on paperwork

©iStockphotos

When our fixed-rate mortgage period was nearing its end, a combination of poor planning on our part, and an apparent reluctance from our broker to respond to emails, meant that we ended up paying the much more expensive variable rate on our old mortgage for two months before we could switch to a new fixed-rate deal. This left us wondering why we'd gone through a broker in the first place. So what are the key benefits of doing so?

The most obvious one is that they search the market to find the best possible deal for your particular situation, saving you the effort. Another positive is that they should do the bulk of the arrangement work for you – although you will still have to fill out a lot of forms. In the ideal situation, the whole thing should be arranged more quickly than doing it yourself, as your broker should have a good idea of which products you should meet the requirements for.

Broadly, there are two types of broker. Tied brokers can only offer products from one lender, or from a limited list of lenders if they're "multi-tied". They may be able to get you a good deal because of that relationship, but you will be limited in terms of product choice. By contrast, "whole-of-market" brokers check a wide range of products to find the best one for you. Yet even these brokers may not be able to access every product out there, as there are some mortgages that are only available if you go direct to the lender.

"In an ideal world, using a mortgage broker should save you time and hassle"

Don't pay more than 1%

When it comes to fees, brokers need to tell you at the start of the process how much you should expect to pay. It may be that they charge you nothing, and make their money instead from commission paid to them by the lender.

Almost all lenders pay brokers a "procuration fee" of roughly 0.35% of the money borrowed, says Money Saving Expert (MSE). However, brokers may also charge you a fee directly, on top of, or instead of, the commission (so they may ask you to pay, and then refund you any commission they earn). "No reputable broker should charge more than around 1% of the mortgage value," says MSE. "If yours charges more, walk away." Ideally, you don't want to have to pay a lot before you've completed on the property, as you may not be able to get this money back if the purchase falls through.

Finally, remember that you can always just go straight to your bank or building society for your mortgage – they will still give you advice, and this will generally be free. Just keep in mind that they will obviously only tell you about their own products – they're under no obligation to point out a better deal from the bank next door. So make sure you've looked at the rest of the market first to check you're getting a good deal.

This route is probably best suited to people who are remortgaging, and so know exactly what they're looking for, rather than those who are entirely new to the market. Note that if you go to the bank rather than using a broker, this will still count as taking advice on your mortgage. In the event that you have to make a complaint about the product you go with, this adds a layer of protection that you wouldn't have if you'd chosen to go "execution-only" – this is when you refuse advice and make all decisions yourself.

Pocket money... Tesco Bank leaves mortgage market behind

■ Consumers are still being duped into paying for services provided free by government agencies, says Harry Brennan in The Daily Telegraph. Middleman sites run unofficial websites that make money from people applying for things like holiday visas, driving-licence changes and stamp-duty refunds – they often charge hefty fees or commission for services that could have been accessed at no charge if the person had gone direct to the government. Unfortunately, it's not always easy to tell that a website is not that of a government agency, and such websites often appear at the top of a Google search. One example is ukdrivinglicenceservices.co.uk, which charges for services that are free or much cheaper via official channels, including £48 plus a service charge for changing the address on a driver's licence, which is free via the DVLA. The best way to avoid being fooled by such websites is to start from gov.uk itself, the government's own website, when searching for the service you want.

■ British Gas is restricting its cheapest dual-fuel tariff to customers who have a smart meter installed, says Kenza Bryan in The Sunday Times. The company's Energy Plus Protection Green tariff fixes rates until May 2020 and costs £938 per year, based on an average level of consumption. However, customers who refuse to have a smart meter installed within three months of signing up will be switched to a deal costing an average £1,228. Cheap deals from SSE, Npower, Eon and Ovo also require smart meters, says comparison website Compare the Market.

■ Tesco Bank is to stop offering mortgages to new customers, and plans to sell its £3.7bn portfolio of existing loans, says Rupert Jones in The Guardian. Its 23,000 customers will see no change for the time being, and don't need to take action, says Tesco. And in the event of a sale of the loans to another company, people's mortgage rates and repayments will not be affected, it said. Tesco's announcement came in the same week that consumer body Which confirmed it is to close its mortgage-broker arm, a sign of how competitive the market is at the moment.

How to insulate your wealth from a Corbyn government

The European Parliamentary elections and PM Theresa May's resignation have opened up a path to power for a Labour government led by Jeremy Corbyn, and he's not exactly investor-friendly, says John Stepek

©Getty Images

Britain hasn't had anything that could be described as a hard-left government since 1979, when Margaret Thatcher ousted Jim Callaghan's Labour government. That could be about to change. We can't say exactly how likely a Jeremy Corbyn-led government is. But in the wake of the European elections and Theresa May's resignation as prime minister, it's certainly a possibility. The Conservative party is torn between "hard" Brexiteers such as Boris Johnson and near-Remainers such as Rory Stewart, yet both factions would agree on one thing – given their drubbing in the European elections (see page 8), it would be best to delay a general election for as long as possible (5 May 2022 is currently the next scheduled date).

But the parliamentary arithmetic remains against the new leader. As Samuel Tombs of Pantheon Macroeconomics points out, "the Conservative party has already lost four MPs this year. It would take only a further three to defect and actively vote against the government or six to abstain in a confidence vote to bring it down". So any attempt to drive through a "no-deal" Brexit, while not 100% doomed to fail, seems a very long shot – bear in mind that Labour can call a vote of no confidence at any time.

Meanwhile, Labour is now tepidly backing a second referendum, in response to its own losses to the Lib Dems and Greens. If the party can overcome internal squabbles (not to mention a formal investigation into institutional anti-semitism), then it's quite possible that with the help of dedicated "Remain" MPs, Labour could topple any Conservative government led by a would-be "hard" Brexiteer and then trigger a general election. In short, a Corbyn government is hardly a sure thing, but you'd be unwise not to consider it as a potential outcome. So what are Labour's plans? And how would it affect your wealth? Here's our step-by-step guide to preparing your finances as best you can.

Nationalisation: sell utilities – buy green energy

Labour plans to take the railways, utilities and postal service back into public hands, with the current owners being compensated with government bonds. That's concerning enough for investors in the private companies currently running those services. What's more worrying still is that Labour has used the example of the financial-crisis era nationalisation of Northern Rock – a bank that was insolvent and would have been worth nothing in the open market – to argue that Parliament can set the price at which any company is taken over by the state. Moreover, Labour's basic argument for renationalisation is that private owners have milked these companies for profits, and thus deserve no sympathy if they lose some of that money when nationalisation takes place.

"Taking utilities back into state ownership could mean big losses for investors"

As the Financial Times points out, the most obvious reference measures for nationalisation could mean big losses for investors in utility companies. For example, notes the FT, water company Severn Trent has a market cap of around £4.6bn. If it were to be nationalised at its book value, the government would pay less than £1bn. Another option – valuing the firm based on its regulated capital value (a measure used by the regulator) – is less scary, but at £4bn it's still a 13% discount for the government and a big loss for owners. And this is typical for the sector.

Infrastructure fund HICL makes the point that Labour's nationalisation plans could hit 8.7 million pensions invested in the sector, the majority of which (59%) are held by public-sector workers. It also notes that infrastructure requires investment, which requires investors, which is not likely to happen if said investors are concerned about the arbitrary confiscation of assets. Legal challenges to any nationalisation that seems more like outright confiscation are likely, of course, but there's no guarantee of such challenges succeeding. In short, as Russ Mould of AJ Bell tells The Times: "The only thing you can really do if you are seriously worried about the nationalisation threat is to take pre-emptive action and hit the sell button". Mould also notes that outsourcing companies are very close to the firing line too – although admittedly, we've never been keen on that sector in MoneyWeek in any case.

So what should you consider buying in place of your utility stocks? You could go for global utilities instead (although bear in mind that political risk isn't only rising in the UK), via a fund such as **EcoFin Global Utilities & Infrastructure Trust (LSE: EGL)**, which trades on a discount of around 10% and yields around 4.5%. Its top holding is US-listed NextEra Energy, a Florida utility and one of the largest renewable energy companies in the world, notes Motley Fool. On that point, one sector that Labour hopes to supercharge as part of its nationalisation plans is the renewables business. To achieve that (which no doubt will be tougher than it looks), it will need battery storage. That's where a relatively new investment trust, **Gresham House Energy Storage (LSE: GRID)** comes in. The fund looks to invest in and generate income from large-scale energy storage systems located around the UK. And last week David Stevenson suggested looking at **SDCL Energy Efficiency Income (LSE: SEIT)**, which helps to fund energy efficiency projects.

Tax and savings: use your allowances while you can

Unlike former chancellor and prime minister Gordon Brown, shadow chancellor John McDonnell doesn't believe in stealth taxes. He's more than happy to talk about how much higher taxes are heading. On income tax, the top rate will go back up to 50%, and be imposed on annual earnings above £123,000. The 45% rate, which currently kicks in at £150,000, will start at £80,000. Capital-gains tax (CGT) is likely to go back up to 18% (basic) from 10%, and to 28% (higher-rate taxpayers) from 20%, and while Labour hasn't mentioned it for fear of alienating voters, the rules on inheritance tax could well change too. Then there's the new financial transactions tax – a 0.2% charge on all financial transactions. Finally, a one-off wealth tax of 20% on assets above a certain threshold (high-value residential property is the most obvious

McDonnell and Corbyn: not intensely relaxed with people getting rich

target, as it's hard to move offshore) has been floated in the past.

What does all of this mean? If you have some control over when you take your salary (for example, you run your own business), then consider bringing as much of that forward as you can. If you're an employee, there's not a lot you can do, but do be sure to use up as much of your pension (£40,000 a year for most taxpayers, plus any left over from the prior three years) and individual savings account (Isa – £20,000 a year for adults, and don't forget your children's Junior Isas) allowances as possible – these may well be cut should Labour come to power. The tax breaks on pensions almost certainly will (tax relief on higher-rate taxpayers has been a sitting duck for many years now, but it's hard to imagine that a McDonnell chancellorship wouldn't finally put an end to it).

It's also worth reviewing your portfolio. If you have investments sitting outside an Isa or your pension, look at your potential capital-gains liability, remembering there is an annual allowance of £12,000 per person. If you can transfer assets to a partner on a lower tax bracket (which does not trigger a CGT charge), then it is well worth considering, as is sharing assets generally in order to maximise your allowances.

The economy: heading for inflation

Under Labour, public spending is likely to outstrip tax revenues. Whatever the manifesto argues, the problem with getting "the rich" to pay for everything is that they already pay a great deal (remember that the top 1% of income-tax payers generate more than a quarter of income-tax revenues, for example), and that even if they don't just up and leave the UK (many can't), there simply isn't enough to fund all of Labour's spending promises. That's before you start to consider how a financial transaction tax might impact on activity in the financial sector, which is also a big tax payer (if there's one way to make financial institutions act on those Brexit relocation plans they've been threatening to put together, a transaction tax is it). Meanwhile, rising taxes, more government intervention, and a general sense of hostility to wealth creation are not conducive to an entrepreneurial environment. As a result, tax forecasts are almost certainly over-optimistic, while spending plans rarely come in on budget – so we are likely to see a deterioration in the public finances, which were only just beginning to get back towards something approaching an even keel.

For now, the "bond vigilantes" in the markets don't care about deficits, national debt, or inflation. They are rigidly focused on deflation and recession risk, and on finding what they regard as "safe-haven" assets to buy. So in the first instance, unless the tone taken by the new government was truly radical, then we suspect UK government bonds (gilts) would be slow to react, particularly if a new Labour government also looked likely to result in a very soft Brexit, or no Brexit at all. But in the longer run, higher spending should weaken the pound, boost inflation, and drive interest rates higher and government bond prices lower (ie, the cost of borrowing should rise). And if Labour did decide to turn to Modern Monetary Theory (MMT) to "solve" the problem – printing money to fund government spending directly, rather than borrowing it – then that could rapidly drive inflation an awful lot higher.

"Higher spending should weaken the pound and boost inflation"

Continued on page 22

Continued from page 21

So a weaker pound and inflation are likely in the long run. And that's something to bear in mind when looking at your portfolio. Be wary of domestic assets that can be easily targeted by a tax-hungry government – residential property is the most obvious such investment. It's already proved a popular target for Conservative politicians, so it's hard to imagine a Corbyn administration relaxing the rules on private landlords. If you're relying on buy-to-let to pay your pension, act to diversify your portfolio now – you don't necessarily have to sell off all your properties, but don't have all your eggs in that basket.

That said, deciding on what to invest in instead is not straightforward. We have suggested investing in the UK in recent months due to Brexit-inspired caution among global fund managers and the ridiculously low level of the pound, and I wouldn't necessarily reverse that – a Corbyn government is not a certainty and British assets are pricing in a fair bit of pain already. However, you should still have a significant chunk of your portfolio in global assets. Bear in mind that the UK accounts for only about 6% of total world stockmarket capitalisation, so even having 10% of your portfolio in UK stocks makes you "overweight" in global terms.

If you own individual stocks, you have to consider – what is the political risk here? Conduct an overview of your current portfolio and ask yourself how vulnerable each component is. Retailers aren't at risk of being nationalised anytime soon, for example. But how would they cope with a much higher minimum wage, or rising property taxes? Higher corporation tax will hit domestic companies – who don't have the luxury of shifting their tax base – harder than big multinationals. Then there's the complexities of Labour's plan to force large, listed companies to save 10% of their shares in employee trusts.

In terms of funds that could be useful in protecting against inflation and also give you global exposure to attractive markets, the **Ruffer Total Return Fund** owns a big chunk of index-linked gilts, a bit of gold, and plenty of US and Japanese equities. And if you're looking for one particularly attractive foreign market, we still rather like Vietnam – which also appears to be one of the biggest beneficiaries so far of the trade war with China (see page 11). Two options are **Vietnam Enterprise Investments** (**LSE: VEIL**) and **VinaCapital Vietnam Opportunity Fund** (**LSE: VOF**).

Investing: fear of (capital) flying

What impact could a Corbyn-led government have on markets? As Edward Smith noted in FTAdviser last year, when François Mitterrand came to power in France in 1981, on a platform of nationalisation and wealth taxes, the French market slid by 35% relative to global equities within five weeks, while the franc was devalued several times amid capital outflows. Of course, it's hard to compare early 1980s France to late 2010s Britain, but capital flight is a concern of which Labour is aware. McDonnell spoke at the Labour party conference in 2017 of "war gaming-type scenario planning" to deal with a potential run on the pound if the party came to power.

Could capital controls (rules that restrict the volume of money that can leave – or enter – the country) return? It's not beyond the realms of possibility. But regardless of such fears, be sure to avoid elaborate tax-planning ruses – we wouldn't be surprised to see scam merchants pitching lots of these ideas via email and cold calls if a Corbyn government looms, but "tax avoidance" and "tax evasion" have rapidly become synonymous even under the Tories, so if it fails the sniff test, don't go anywhere near it. If you are seriously concerned about capital controls, then physical gold is one easily portable asset to own for emergencies. Other options are to open an overseas broker or bank account – bear in mind that consumer-protection regimes will differ form our own.

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Portugal: worth considering even if Corbyn doesn't win

The ultimate option, of course, is to leave the UK altogether. According to The Economist, for example, "well-heeled types… have been buying property on Guernsey... attracted by its flat 20% income-tax rate and lack of capital-gains or inheritance taxes". Merryn has written about the easiest ways to get a second passport before (see moneyweek.com/passport), which might be worth looking into. But you don't necessarily have to get a new passport to move abroad – appealing options in the sun include Portugal, which has an attractive approach to pension taxation, plus an established, popular "golden visa" regime; or Cyprus, which is also tax-efficient, and open to wealthy immigrants. So if you are in a position to make a move and are genuinely considering doing so, now is the time to start investigating your options in more detail.

"Review your portfolio and ask – what is the level of political risk here?"

Don't be complacent – the world has changed

A final point – if you think this all sounds far-fetched or exaggerated, remember that this is only because we're at the tail-end of an era in which politicians, regardless of party, rarely disagreed on the best way to run the economy. They would tweak taxes and benefits according to taste, but largely believed in free markets and globalisation, and as Peter Mandelson so memorably put it, were "intensely relaxed about people getting filthy rich as long as they [paid] their taxes". For better or worse, this is not the world in which we live any more. This isn't necessarily a bad thing – at MoneyWeek we often complain about over-generous executive pay, and a lack of accountability.

But where we'd favour simplification and increased transparency as a solution, instead the dead hand of government has been growing ever heavier. The post-2010 Tory party has steered far closer to "nanny knows best" than to the free-wheeling Thatcherite era. People still get rich, but no one is remotely relaxed about it. And under Corbyn, this would get worse. In the Corbyn-ista view, the economy is a zero-sum game. If one person has, another must lack. Therefore, personal wealth is always theft – if you are wealthier than average, it must be because you've exploited or stolen from someone else. Given that starting point, pretty much all private property becomes fair game. It's just a matter of what you think you can get away with. So don't delay – start preparing now.

Running out of human workers? Better buy robots

Record high employment means that businesses are turning to automation – Merryn Somerset Webb asks Walter Price of Allianz Technology Trust about the best ways to invest

Horrible news for British strawberry lovers, says The Guardian: this year's crop – which has started to ripen two weeks early, thanks to the good spring weather – may end up rotting on the ground. Why? A shortage of fruit-pickers. Growers across Europe are "competing for labour". Demand is high everywhere (hence better deals on pay, bonuses and accommodation), but supply is falling fast: wages in Romania (where most EU fruit-pickers come from) have risen such that workers no longer make six times the local rate abroad, but more like three-and-a-half times. That rather changes the incentive – and the supply of strawberries (see page 17).

Or so the story goes. But if the worriers were to look a little deeper into it, they might find that the picking panic is overdone. Enter Fieldwork Robotics, a spinout from the University of Plymouth, that has developed a fruit-picking robot (a "mechanical arm and hand that runs on wheels", says The Times), which will apparently be able to pick 25,000 berries a day. Exciting stuff. But no surprise, I suspect, to Walter Price, manager of Allianz Technology Trust. Nothing, he says, drives spending on new technology more than a shortage of labour. Between 1948 and 1967, tech spending leapt from around 0.5% of US GDP to 1.5%. Between 1991 and 1999, it went from 2.9% to 4.7%. Now, as another shortage begins, it is rising again. It is currently at around 3.5%, says Price, and is forecast (by Fundstrat) to rise to 5.5% by 2050 as firms rush to invest in labour-replacing automation (Fundstrat suggests the US will see a shortfall of 8.2 million workers over the next decade alone).

Follow this logic and it makes sense that tech stocks should outperform in periods of labour shortage (as everyone rushes to buy their products), while firms that are "heavily reliant on labour to add value" lose out. Conveniently, that is exactly what the data shows. When we met last week, Price produced a series of charts (check out our Instagram feed at @moneyweekuk to see some of them) showing that in past periods of labour shortage, tech stocks trounced consumer staples. The same is true of the (so far short) period since the labour market started tightening in the US in 2015. If the past repeats, tech stocks should outperform for another couple of decades at least.

Which tech stocks will do best?

This hypothesis fits neatly with many of the themes we have been discussing in MoneyWeek for years. We have, for example, argued that cheap and tax credit-subsidised labour lies at the heart of our productivity problem: after all, if workers are so cheap that you can hire as many as you like without denting your margins, why invest in new technology that (in the short term) will? Quite. So what kind of tech stocks does Price have in mind? Right now, mostly mid-caps that can exploit areas of "innovative disruption". He particularly likes cloud computing. We are, he says, at an "inflection point" where cost-sensitive firms and governments are favouring the cloud and "software as a service" over one-off product purchases.

"Nothing drives spending on new technology more than a shortage of labour"

©Getty Images

The robots are coming to a field near you

Robotics and automation also feature heavily in his 50-70 stock portfolio, for the demographic reasons mentioned above, as well as a drive by Western governments to regain traction in manufacturing, and to remain competitive with emerging markets: Price and I agree that one effect of Donald Trump's tariffs will be accelerated reshoring, for example. One stock to watch is **Teradyne (Nasdaq: TER)**, says Price – it is valued as though it were just an automatic test-equipment maker, but it also makes robots for the defence industry as well as for warehousing and manufacturing, and should be valued as such.

Tech stocks – less expensive than they look?

So what of prices? We've written many times that we aren't convinced the tech sector can hold at today's prices, and the forward price/earnings (p/e) ratio of the trust of more than 30 times won't look reasonable to anyone who judges value by p/e (see my interview with Lyrical Asset Management's Andrew Wellington from three weeks ago). But Price thinks they aren't unreasonable. Comparisons with the tech bubble of the late 1990s are silly, he says. Back then valuations were unsupported by earnings, cash flows, and the ability of firms to return those cash flows to investors. That's not the case now: in this cycle, growth is supported by real earnings and real cash. In a low-growth world, it's one of the few areas that is generating real growth by creating new markets and significantly changing old ones (the car market is being transformed by tech, for example).

The fund has a good record of outperformance (up 550% since 2007, beating the index by 180%); isn't too expensive (although it does have a performance fee attached to it); and is run in the kind of high-conviction way we approve of (the active share is around 85%, so it is far from being a closet index tracker). If you want to be in the US tech sector (84% of the portfolio), but can't quite cope with too much of the FANGS, it is worth a look.

Foxtons continues to struggle

The estate agent is having a terrible time of it – investors should steer clear

Sarah Moore
Investment editor

Foxtons estate agents has acquired a reputation for being flashy and a bit brash. Unfortunately, while this may have paid off in the days of the property boom, the approach hasn't translated into as many sales over the past few years.

Having reported in February its first full-year losses since going public in 2013, Foxtons' first-quarter results for 2019 made for similarly gloomy reading when the company reported this month. The number of houses sold was at "record-low levels", which was put down to Brexit uncertainty dampening consumer confidence (though we tend to think the slowing of the UK housing market is more down to the government's crackdown on the buy-to-let sector, which has made it a far less appealing investment prospect).

Total revenue for the first three months of the year was £23.8m, from £24.5m in the first quarter of last year. While sales revenue was down 13% (from £8.2m in 2018 to £7.1m), lettings revenue was up 2%, from £14.3m to £14.6m.

"Foxtons shares are down 84% since March 2014"

The market was not impressed – the share price fell by 5%, and is now down a staggering 84% from its March 2014 high of 363p, although still off the lows of summer 2018.

Not so flash and brash these days

As well as reporting uninspiring results, Foxtons has also recently come in for criticism for awarding chief executive Nick Budden and finance chief Mark Berry bonuses totalling £389,000 for 2018, up from £371,000 the year before. This came despite the fact that 22% of Foxton shareholders voted against the remuneration package. It was then announced last week that Berry was set to leave the business at the end of July, "by mutual agreement".

At the moment, Foxtons doesn't look like an appealing investment. The estate-agent sector as a whole has struggled over the past few years, due to the prolonged slowdown in the housing market. However, Foxtons may have been affected particularly badly because of its specialisation in high-value London property. It's not just about Brexit uncertainty and the ailing buy-to-let market; luxury property from New York to Sydney has been struggling as governments become less welcoming to ultra-wealthy overseas investors.

Don't rush to buy

Analysts have taken a slightly more optimistic, if somewhat resigned, view on Foxtons. "The London market is still as difficult as it has ever been, but those numbers suggest it's not getting a whole heap worse," says Numis. And "while near-term earnings momentum remains weak, Foxtons remains well placed to benefit from a market recovery", said Berenberg. That is all very well – but it assumes that a recovery is on the horizon. Given its disappointing recent performance, its decision at the beginning of the year to axe its dividend completely, and the fact that we wouldn't bet the house on an imminent revival in the property market, we would suggest investors continue to steer clear of Foxtons for now.

5 Reasons to Buy Physical Gold...

1. **Gold is a safe haven asset** - Gold is frequently used as a safe haven asset in times of economic turmoil or geopolitical uncertainty. For this reason many advisors recommend allocating around 5% - 15% of their portfolios to gold.
2. **Gold has a history of holding its value** - Unlike paper currency, gold has maintained its value through the ages. It is an ideal way of preserving wealth from one generation to another. Plus, UK bullion coins are not subject to Capital Gains Tax.
3. **Gold is a hedge** - Gold has historically had a weak correlation to movements in the financial markets and is frequently used as a hedge against inflation or to offset falling stock markets.
4. **Scarcity** - Deposits of gold are relatively scarce and new supplies of physical gold is limited. This natural scarcity and high production cost is the ultimate reason why gold holds value.
5. **No counterparty risk** - When you invest in physical gold you own it outright. You are not reliant on banks or financial institutions. In contrast, gold futures, gold certificates or ETF's all involve counterparty risk.

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Another bite at Just Eat

The takeaway group faces tough competition and slowing growth

Matthew Partridge
Senior writer

Double-digit growth is a thing of the past

It's safe to say that my suggestion to short online food delivery firm Just Eat last September (issue 915) didn't work out particularly well. After I made the tip, it rose in price from 660p to 735p. Eventually I decided that, as it was making a loss after six months, enough was enough and that the best thing to do was to cover your position and close the trade at a loss of £228. In retrospect, I'd have been better off saying nothing, as the price subsequently crashed by nearly 20%, to below the original level of my "short" tip, at 620p. So why am I suggesting that you short it again now?

Just Eat has been hit by two key negative pieces of news. In the last few weeks, online behemoth Amazon announced it was making a major investment in Just Eat's rival, Deliveroo. While Just Eat acts purely as a portal linking consumers with restaurants, Deliveroo actually delivers the food itself, and is even starting to dip its toes into operating its own kitchens. While each approach has advantages and disadvantages, Deliveroo could use Amazon's money, logistical expertise and delivery network (especially the Amazon Prime service) to develop its model to the point where the group has an overwhelming advantage, especially among those who want their food delivered extra rapidly.

It's not just Amazon

But the tie-up between Amazon and Deliveroo isn't the only threat to Just Eat. When the taxi-hailing app, Uber, listed at the start of this month, it placed a lot of emphasis on Uber Eats, its online delivery service. With Uber under pressure to keep growing at all costs (which will only be increased by its disappointing performance after listing), it's possible that it could try to take market share from Just Eat by cutting the cost of Uber Eats. Indeed, there are already rumours that it is about to offer unlimited free deliveries for a flat monthly price of £8 a month.

So the competition is growing increasingly aggressive. Which is why it's particularly concerning that growth at Just Eat also appears to finally be slowing. The company's latest quarterly earnings show that growth in the number of orders has fallen to just 7.4% year-on-year, a far cry from the double (or even triple) digit growth that it has been enjoying up until now. While the management team blamed the weather and also argued that the purchase of Hungry House distorted last year's figures, it suggests that Just Eat may be starting to reach saturation point.

> *"Slowing growth suggests that Just Eat may have reached saturation point"*

Yet despite the recent fall in its share price, the company is still valued at 38 times 2020 earnings. That seems optimistic, given that it is facing both slowing growth and tougher competition. As a result, I would suggest shorting it again at the current price of 620p. Previously I suggested you go short at £3 per 1p – this time I think you can be more aggressive, and increase this to £6 per 1p. Set a stop loss to cover your position if the price reaches 775p, which gives you a total downside risk of £930.

How my tips have fared

The last fortnight has been mixed for my seven "long" tips. Five of them have risen, with John Laing Group advancing to 387p (382p); JD Sports rising to 618p (from 611p); Hays increasing to 150p (from 146p); and Somero rising to 367p (from 365p). Superdry also rose to 480p (from 455p), while Safestore stayed steady at 643p.

However, the small gains on most of my long positions have been outweighed by the slide in housebuilder Bellway's share price, from 2,998p to 2,792p. This wiped out my profits on the trade, and cut the overall profit on my longs to £1,064.

On the short side, recently-listed Zoom's share price hasn't fallen enough yet to make it worth shorting. Pinterest did fall beneath the $25 a share level at which I suggested going short, but it has since rebounded to $25.50, so you would currently be making a loss of £100. Online estate agent Rightmove has also risen, from 549p to 559p.

The good news is that Weis Supermarkets has fallen from $40.22 to $38.46. Meanwhile, Tesla's operational and financial problems mean its share price has dropped from $231 to $190. This means that my open short tips are making a collective profit of £484.

The overall profits from the remaining short and long tips come to a total of £1,548, which is still more than the losses of £854 that I've made on the closed positions. While I won't close any positions this week, I'm going to suggest tightening some of the stop losses on my positions.

So you should increase the stop loss on John Laing Group to 350p, and raise the JD Sports stop loss to 500p. At the same time, given how far Rightmove has risen, I'm going to recommend that you cover the position if the share price goes above 580p.

Trading techniques... the index effect

A lot of money is now invested in passive "index" funds that track a particular stock market index, such as the FTSE 100 or S&P 500 (see page 13). Despite their many advantages, one flaw is that if a stock is removed from the index they are tracking, the fund must sell it, and replace it with any stocks being added to the index. Some active funds also prevent their managers from investing in stocks outside a given index. While the index providers typically announce these changes in advance to avoid a mad rush of buying and selling, fund managers still have a very limited period in which to make the changes.

The boost that inclusion in an index provides to the price of a stock (or the negative impact of being booted from an index) is known as the "index effect". Several studies have confirmed that it not only exists but can produce significant returns. For example, a 2016 study by Cameron Scari of the University of Pennsylvania found that between 1990 and 2015, shares added to the S&P 500 returned an average of 5.64% more than the overall market between the announcement of their inclusion and when it formally took effect.

Given that this effect has been known for some time, it's no surprise that most of the excess return occurs on the day of the announcement. Still, even if you had waited until the day after the announcement before buying, you would still have made a pretty decent excess return of 1.8%. However, it's a bad idea to hold on for too long, as some evidence suggests that the market overreacts to the impact of the announcement. Indeed, Scari found that in the first 30 days after the changes took effect, newly added stocks typically lagged the market.

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Fighting cybercrime

Ensuring your business is safe from cyberattacks is increasingly important

David Prosser
Business columnist

SMEs are particularly vulnerable to possible security breaches

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Small and medium-sized enterprises (SMEs) are tempting targets for cybercriminals. Their defences tend to be less sophisticated than their larger peers, but they still offer rich pickings, from valuable personal data to banking and payment systems.

New data from the government underlines the scale of the challenge now facing SMEs: 40% of small businesses and 60% of medium-sized firms have experienced some form of cybersecurity breach or attack in the past 12 months. While no organisation, large or small, can ever achieve complete security, doing the basics well is actually relatively cheap and very effective.

First, it's worth checking how physically secure your office is, as you want to restrict access to anything that would contain sensitive details, or give an attacker the information they need to try to trick you into unwittingly sharing such information.

Next, turn to digital security. Check that all your computer equipment is password-protected and that all employees use strong passwords that they change regularly. Free password-management software can be useful here. The idea is that even if an attacker does get their hands on one of your machines, it should be difficult for them to break into it. Two-factor authentication systems add a layer of protection, requiring access to a second device, such as a mobile phone, to get into the system.

The weak link

Unfortunately, even if your digital security is strong, attackers may still be able to target the weak link in the chain at many organisations – people. Training your staff on good cyber-hygiene – and keeping them up to date – is crucial; not everyone in the business has to be a cybersecurity expert, but all staff should know not to click on suspicious links in email, for example, or not to respond to messages purporting to come from colleagues or senior staff without checking their authenticity.

One sensible precaution is to limit access to each part of your computer system to those staff who actually need it. The fewer people who are logging into each part of the infrastructure – and the slimmer you can keep those systems – the fewer points of vulnerability you'll have.

With these basic measures in place, the final step is to consider investing in technological solutions to the cybersecurity problem. That doesn't have to cost the earth: there is a wide range of free or low-cost software available, particularly in the anti-virus and firewall market, aimed at SMEs. Many organisations offering these packages will also give you free advice and support.

R&D relief capped

Small businesses' access to valuable tax relief when investing in research and development (R&D) could be curtailed by attempts to crack down on fraud in the system. R&D tax credits, paid to companies investing in innovation, are currently worth around £3.5bn a year. The scheme is particularly generous to small and medium-sized enterprises (SMEs), which receive around 85% of this cash, providing valuable assistance to lossmaking firms that might otherwise struggle to invest.

This relief unlocks around £25bn of investment in innovation each year, estimate ministers. However, they are concerned that abuses of the system are increasing, via companies setting up artificial arrangements to inflate the value of the relief for which they are eligible. From April next year, the government plans to limit the value of the credits to three times the value of a company's pay-as-you-earn (PAYE) liability in the year it makes a claim.

Accountant RSM, along with trade bodies such as the BioIndustry Association, warns that the reform could disproportionately affect start-up companies and is lobbying for changes to the proposal. In the meantime, SMEs hoping to use the tax-credit scheme need to make their claims in full.

Five questions for... Karim Kaddoura, co-founder, Virtuo

What does your firm do?
Virtuo is a 100% mobile car-rental firm that removes the pain of traditional rental, including queues and reams of paperwork. The process is carried out via the Virtuo app, including booking a car, locating and unlocking it, customer service and damage reports.

What's been your firm's greatest achievement?
One of our key goals is expanding into strategic markets, so I was thrilled when Virtuo launched in London, which has the biggest car-rental market in Europe and is a hugely competitive arena. It was a really big achievement for our business and since then Virtuo has gone from strength to strength. The company has recently launched in Manchester and we will also be expanding our business to other UK cities in the near future.

What has been your biggest challenge?
It's been difficult at times to prove we aren't just another standard car-rental service. Fighting against typical industry stereotypes has occasionally stalled our progress when expanding into new locations, but we have really talented teams working together to help consumers understand the benefits of Virtuo.

What are your plans for hitting your targets?
We're still a young company compared with other players in the sector, but we have huge ambitions to transform access to car hire in rural areas. Not only are we improving the customer experience, but we're also establishing an alternative travel solution for city dwellers to explore inside and outside of their city's boundaries. As we grow, we will continue to bring innovation to our service and work with policymakers and authorities to expand Virtuo across Europe.

What's the one piece of advice you'd give to fellow entrepreneurs?
Be confident in yourself, and don't be afraid to try out new things. It's important to test ideas out, to see what works and what doesn't. It's the best way to learn, as you can better understand your failures and know what you need to improve on for the next time round.

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High-quality stocks set for high returns

A professional investor tells us where he'd put his money. This week: Hugo Ure of the Troy Income & Growth Trust highlights three favourites

The Troy Income & Growth Trust aims to provide shareholders with an attractive yield and the prospect of both income and capital growth. Historically, the key to market-beating returns with lower-than-average volatility has been investing in high-quality equities. We interpret quality as a preference for capital-light companies that can sustainably generate high returns on capital. As part of our endeavour to shield investors from excessive equity-market volatility, we employ a hard discount control policy, ensuring that not only do the trust's shares continually trade within a few percentage points of the underlying net asset value, but also that investors can enjoy significantly improved liquidity when buying and selling the trust's shares.

This pizza group will deliver

We often find franchise companies provide interesting hunting grounds and the trust currently holds shares in **Domino's Pizza (LSE: DOM)**. As with all franchise companies, the challenge for management is to balance the value that accrues for the franchise owner with the profitability of the franchisees. A concentrated franchisee base, labour-cost pressures and ambitious UK store-opening targets have conspired to unsettle this balance recently. This dislocation offers investors an opportunity to buy shares in this high-return and capital-light business at the most attractive valuations since the depths of the global financial crisis.

"Experian is at the cutting edge of the big-data trend"

A jewel of the UK market

Achieving diversification without compromising on quality has also been hugely important to our strong returns. Stocks as varied as Unilever and consumer-credit group **Experian (LSE: EXPN)** have been leading contributors to long-term performance. Experian's modest dividend yield (1.5%) and above-average price/earnings ratio of 27 make it a more unusual holding in the context of the portfolio. At its core, Experian remains a credit bureau and a crucial provider of the data that underpins society's need for fairly priced credit. What is less visible is its evolution from a simple data supplier into a developer of sophisticated software and analytics tools.

Experian enables banks, utilities and telcos to automate credit, compliance, and anti-fraud processes and now sits at the cutting edge of the big-data trend. With a sustainable growth profile and returns on equity above 30%, we are happy to forgo a more generous dividend to hold such a financially productive jewel of the UK stockmarket.

Profits in plastic

It is rare for us to own highly cyclical companies. Nonetheless, there are a handful of exceptional industrial and chemical companies that enjoy both high returns on invested capital and are insulated from downturns by robust balance sheets and a long-term approach to strategic planning. **Victrex (LSE: VCT)** is one such example. The company manufactures PEEK, a high-performance plastic used in everything from aeroplane parts to dental implants. It is testament to the company's stewardship of this technology that despite the expiry of the molecules patent many years ago, it still boasts 70% of global production and is actively growing its markets.

If only you'd invested in...

HomeServe (LSE: HSV) provides home emergency insurance and repair services to more than six million customers. Half are in the UK, the rest in the US, France and Germany. It also owns the Checkatrade rating platform, which it bought in 2017. Sales have risen every year since 2011, with revenue in the year to 31 March up 12% to £1bn and pre-tax profit up 13% to £139.5m. All areas of the business performed well, with the United States the outstanding performer. Investors have been rewarded with a 46% rise in the share price in the last year.

Be glad you didn't buy...

Kier Group (LSE: KIE) is a construction and services company, building and maintaining large infrastructure projects around the world. Much of its business comes from government contracts, but it is increasingly branching out into the private sector. The collapse of Carillion piled pressure on the company, and it has become one of the most shorted stocks in the market. A turbulent year has seen a rights issue snubbed by many investors in addition to the departure of the finance director earlier this month. The shares have fallen 69% in the last year.

A racing hero and serial entrepreneur

Niki Lauda was a legend in Formula One racing and a pretty formidable dealmaker and entrepreneur, too. His life is a testimony to the power of the will and of single-mindedness. Jane Lewis reports

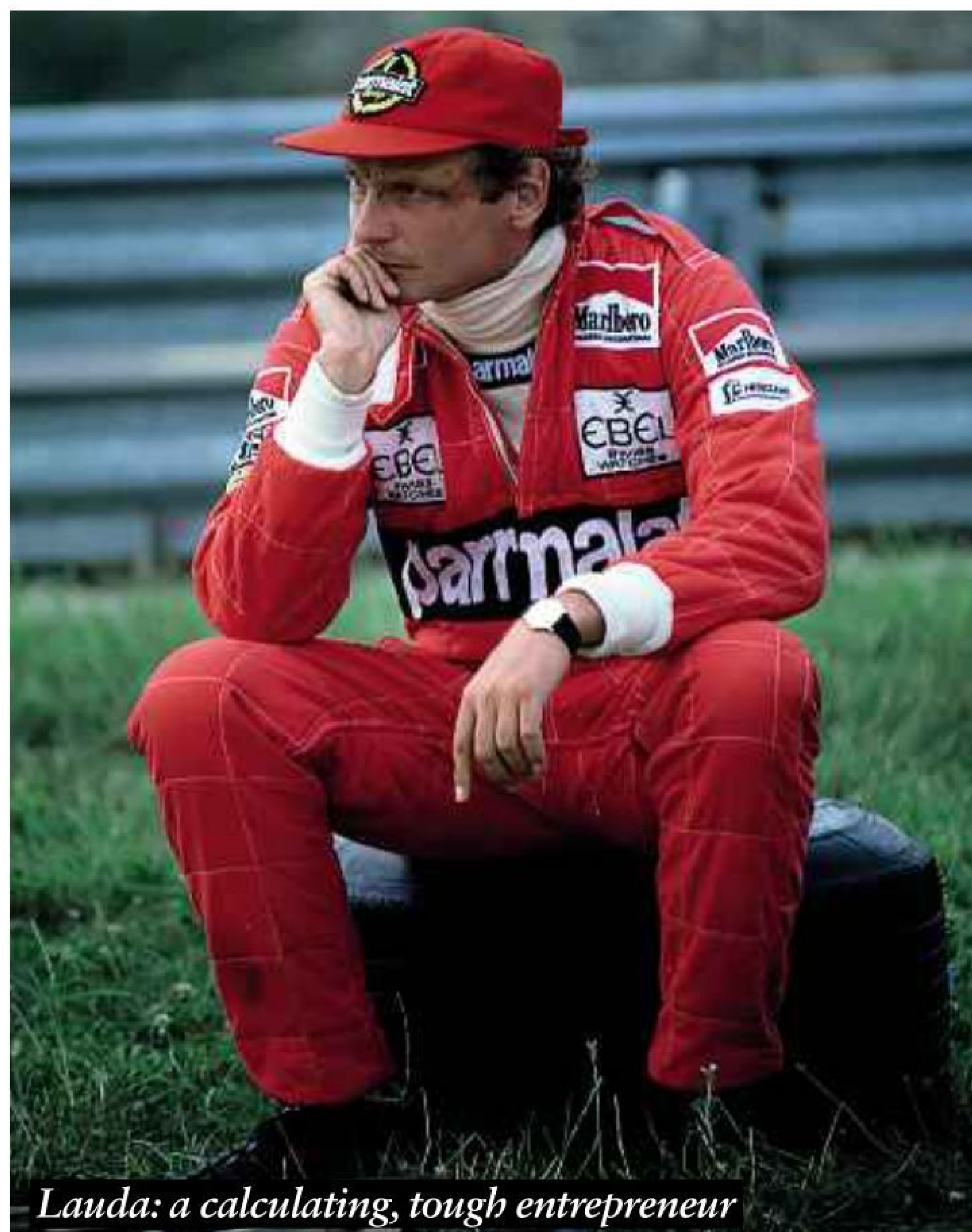
It is hard to believe Niki Lauda is dead, says Jonathan McEvoy in the Daily Mail. He was "the motor-racing legend who for so long had simply refused to die". Yet he has finally succumbed to the long-term effects of the horrific accident that "by all rights of reason should have killed him 43 years ago" when he swerved off the track at Nurburgring and "sat trapped inside his Ferrari as it burst into a fireball".

Lauda – who was 70 when he died in his sleep eight months after lung-transplant surgery – survived in 1976 and, through sheer will power, returned to racing at the Italian Grand Prix a mere 40 days after his accident. It was "arguably the greatest comeback in the history of sport". He went on to win two more world drivers' championships, later becoming a sought-after TV commentator "known for his unapologetic views", says Bloomberg. In Austria he was considered a national hero.

Far more than a boy-racer

Instantly recognisable in a trademark baseball cap that hid his burns, Lauda was a fixture of the Formula One establishment all his life, taking consulting and managerial roles with the Jaguar, Ferrari and Mercedes teams. He served as chairman of the latter, mentoring drivers including four-time champion Lewis Hamilton. What is less well-known, perhaps, is what a force this extraordinary man was in the aviation industry, too.

Over the course of a career spanning 40 years, Lauda started three different airlines – starting with Lauda Air in 1979. He later sold that at profit to Austrian Airlines and formed Niki – a budget carrier he managed to sell twice, "the last time to Ryanair". These timely exits "solidified Lauda's reputation as a clever dealmaker", but he could run an outfit too. "In an industry awash with money-losing companies," Lauda was notably profitable.



Lauda: a calculating, tough entrepreneur

"I believe in living a life that involves a lot of risk. Otherwise it would all be far too boring"

Far from being a just a boy-racer with a sideline, Lauda was a disruptive force – a calculating, tough entrepreneur who "left a lasting impression on the European aviation industry", says skift.com. According to one senior executive who knew him, "he was always eager to found a new airline to show the big ones that a small company [can do] it much better". A rare example of someone who excelled in two fields, Lauda's own take on the matter was that while motor racing was more "dangerous", running an airline was "the most difficult job in the world". The low point in his career came in 1991 when a Lauda Air Boeing 767 crashed in Thailand, killing 223 people.

An iron will

Born in Vienna in 1949, the son of a wealthy mill-owner, "Lauda struggled from the start to realise his racing dream", which was triggered when he attended his first race as a teenager, says The Times. "He was disowned by his father when he told him he wanted to become a racing driver instead of joining the family business." Without parental support, "Lauda borrowed heavily" and "hustled for drives", eventually securing his first F1 berth for the March team in 1972. Back then, many were unimpressed. "Slim and small in stature, with protruding 'rabbit teeth'", Lauda seemed to lack the machismo of the archetypal racing driver, epitomised by his arch-rival, and, later, friend, James Hunt. "Nobody thought of him as a future world champion," says his first boss at March, Max Mosley. Yet Lauda's appearance belied "an iron will and singlemindedness" – and he built a reputation as a driver who could combine "consistent speed" with "an excellent working knowledge of mechanical engineering" and an analytical brain.

"I believe in living a life that involves a lot of risk," Lauda once concluded. "If you don't take risks, you can't ever expect it to be a success. It would all be far too boring."

Great frauds in history... *Horatio Bottomley*

Born in 1860, Horatio Bottomley lost both his parents by 1865 and spent five years in an orphanage in Birmingham. He became an office boy in a firm of solicitors, and by the age of 23 was a partner in a transcription firm. Over a career spanning four decades he would find fame (and notoriety) as a company promoter and proprietor of the ultra-nationalistic magazine John Bull. Despite several bankruptcies, his skills as an orator saw him elected to Parliament twice and he was considered for a cabinet post.

What was the scam?

Bottomley was involved in several failed companies, and narrowly escaped being convicted of fraud at trials in both 1893 and 1908. The swindle that finally brought him down involved the Victory Bonds Club, which was set up in 1919. Bottomley claimed that for a minimum investment of £1 (compared with £5 for the underlying bonds), subscribers would get the chance to win prizes from a lottery funded by the interest payments. Bottomley used the money in a bid to rebuild his media empire, as well as to fund an extravagant lifestyle.

What happened next?

Bad investments, poor administration, and the high level of expenses meant that the club could only survive if it could find new investors (turning it into a *de-facto* Ponzi scheme). Unfortunately for Bottomley, investors started to lose confidence in the scheme, pulling their money out. In 1921 Reuben Bigland, Bottomley's former business partner, published a pamphlet attacking him and the club. After Bottomley lost a libel case against Bigland, he was arrested by the police, convicted of embezzling £170,000, expelled from Parliament, and served five years in prison.

Lessons for investors

Some club members who withdrew their money ended up being overpaid due to slipshod records, but those who stuck with the scheme only received back a fraction of their original investment. Always be sceptical about charismatic or charming company owners or fund managers. Bottomley was adept at getting people he had conned to invest additional money in other schemes in the promise that this would help them recover their losses – never a good idea.

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18+

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MoneyWeek
WINE CLUB

Spectacular summer wines

I have majored on white wines this month, given the season, and yet the diversity of flavours on offer here shows not only the breadth of the Yapp cellar, but also that well-selected whites can cover almost all flavour-bases when it comes to food and wine-matching. One rosé and one red complete the picture and, for a French specialist merchant, it is exciting to bring Germany and Australia into the mix. However, there is an overarching theme this month which might not necessarily be apparent and I would like to bring it to your attention. While every wine is spectacular, they are all slightly off-piste in one way or another and this is what keeps one's brain intrigued and engaged as well as one's palate thoroughly satiated. Cheers!

Matthew

Matthew Jukes

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~~£13.75~~ £12.75

2018 Reuilly Blanc, Gérard Cordier, Loire, France

From one of the lesser-known villages neighbouring Sancerre, I have followed Cordier's razor-sharp wines for nearly thirty years and this estate always rewards. Super-fresh and unnervingly adult in its dramatic delivery of acidity, this is a daring Sauvignon Blanc for those of you who find regular versions of this grape boring and predictable. If you love invigorating, action-packed, bone dry wines, this Reuilly is guaranteed to have you quaking, ever so slightly, in your boots.

£76.50 for six bottles

~~£24.75~~ £23.75

2017 Crozes-Hermitage Blanc, Alain Graillot, Northern Rhône, France

You will know that Crozes is a red wine region with only about 10% of production being white. I remember drinking my very first Graillot wine back in 1988 at Willi's Wine Bar in Paris. I have been a fan since the very first molecule passed my lips. This sensational white — made from 80% Marsanne, 20% Roussanne, and sealed with a screwcap (hoorah) — is deceptively rich, with restrained, super-classy fruit and minutes long finish. This is your main course white for top flight fish dishes this month.

£142.50 for six bottles

~~£15.75~~ £14.75

2017 Les Sorcières du Clos des Fées White, Côtes du Roussillon, France

Everything about this oddball wine is enchanting. The broomstick-riding fairy on the label, the 'white' glass bottle revealing the pale primrose hue and the uniquely engaging fruit notes which are both beguiling and curious, with a flavour which evolves in the glass. With no oak interfering with proceedings, it's the invigorating cocktail of white grapes that makes this wine so magical. Grenache Blanc, Vermentino, Roussanne and Macabeu combine to give a slippery, wild-flower and near-tropical theme. You'll be amazed at just how lip-smacking this wine is.

£88.50 for six bottles

~~£19.75~~ £18.75

Riesling Trocken, Alte Reben, Reichsgraf von Kesselstatt, Mosel, Germany

I love von Kesselstatt wines. This one is a departure from their more familiar style of off-dry, grapey, soothing elixirs. Made from older vines (Alte Reben) and keeping the residual sugar level down to a rather pinched 7g/l, this is a genuinely dry and firm Mosel Riesling. This style is grabbing headlines in top German restaurants and wine bars. I love the tension here, but it is the counterpoint between the classic Mosel nose and then the racy, taut palate. Modern and thirst-quenching (I realise that this is a wine and not a beer), this is a perfect addition to your summer wine schedule.

£112.50 for six bottles

~~£13.65~~ £12.65

2018 Lirac, La Fermade Rosé, Domaine Maby, Southern Rhône, France

The vast majority of Lirac is red and, unlike its near neighbour Tavel, it is not very well known for making rosé wines. Maby is a superstar so it should come as no surprise to hear this wine is a thriller. Silky, clean and with discreet power just humming below the surface, this is a controlled, 'foody' rosé that really impresses the palate. Drink it with any dish you care to mention — it looks the part, too. Step away from the diluted, confected stuff seen on every street corner and taste a rosé with true attitude.

£75.90 for six bottles

~~£17.95~~ £16.95

2015 Forest Hill Estate, Shiraz, Mount Barker, Western Australia

Aussie Shiraz is, obviously, a world class category of wine, but WA is not necessarily a state you would head to in search of this grape. From the cool Mount Barker wine region, some 200 miles southeast of Perth, comes this spicy, tangy, wild-berry-soaked wine which has none of the fruit-sweetness that is often associated with Shiraz from South Australia. Shaped more like a northern Rhône wine, this is a classic partner to barbecued lamb with rosemary and other similarly carnivorous, but summery, dishes. It's Yapp's palate with an Australian accent and so, no surprise, it works perfectly.

£101.70 for six bottles

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Going large in the South Island

Chris Carter enjoys the slower pace of life in New Zealand's south

©New Zealand Tourism

Kaikoura: stop off for a treat after a coastal walk

The South Island of New Zealand is home to neither the capital (Wellington) nor the biggest city (Auckland). As such, life takes a slower pace here compared with its northern neighbour. That's not to say South Islanders do things on a smaller scale too. Quite the opposite, in fact, as my partner and I found on a visit to the island last November.

The Marlborough wine region, tucked up in the north, is famous for producing some of the world's finest sauvignon blanc. It also produces rather a lot of it – 269,411 tonnes last year, accounting for 86.1% of the wine from the region. You don't have to go all the way to New Zealand to try Kiwi sauv blanc. British supermarket shelves are groaning under the weight of the stuff.

But there is another varietal that our guide, Nic, from Marlborough Wine Tours (from NZ$110, marlboroughwinetours.co.nz), introduced us to, one that is also popular in the region, and a bit of a local secret – riesling. Only 1,877 tonnes of the grapes are grown here, so to try it, you will have to hop on a plane (as if you needed an excuse). I can think of few better ways to while away a few hours after lunch than by dropping in on a bunch of local wineries, such as Framingham, to sample their excellent riesling and compare different styles. Afterwards, Nic returned us to Chateau Marlborough (from NZ$159, marlboroughnz.co.nz), our hotel in Blenheim, the region's largest town, to sleep it all off.

The wildlife is pretty big too in the South Island – or rather, just off it. Kaikoura, located 80 miles to the south of Blenheim, is one of the best places on the planet to see sperm whales all year round, and humpback whales in the winter months (June to August). In fact, with a 95% success rate, tour operator Whale Watch (NZ$150, whalewatch.co.nz) is so confident that you will spot a spouting blowhole amid the surf that they will refund you 80% of the price of your ticket if you don't. Which is why I got most of my money back. Despite getting up before dawn to board the boat, these hulking mammals didn't get the memo. Next time, maybe. Still, I did see a huge seal sunning itself on the beach once back on dry land.

The White Morph hotel (from NZ$148, whitemorph.co.nz), where we stayed, has wide views over the sea. The rooms are spacious, and some of the bathrooms come with a spa bath. There isn't a restaurant, but if you don't fancy making use of the kitchenette in the room, Kaikoura is just a short walk away. It has a lovely pub in The Whaler – perfect for a pint before heading to dinner at Zephyr across the road for "contemporary New Zealand cuisine" of local wines, lamb and fish. It was reasonably priced, too. Kaikoura also has wonderful walks along the cliffs and winding through wild meadows, with the vast sea as your backdrop. Just don't forget to stop off at the Kaikoura Seafood BBQ (55 Fyffe Quay), a roadside kiosk, on the way back. The crayfish fritter sandwich makes for a fitting treat after a long walk.

Back on the road, driving south for another 100 miles, we arrived in Christchurch.

> *"The Devil's Punchbowl. It's a fitting name"*

At lunchtime, on 22 February 2011, this pocket-sized city was rocked by a magnitude 6.3 earthquake. Years later the devastation is still visible, not least in the sombre sight of the ruined cathedral. Today, pigeons flap among the silent rafters of the nave that gapes open to the elements, while the stump of the spire is testament to the awesome power of nature in this part of the world. To get a feel of just how much power, we drove into the mountains, thrust up over millions of years by the restless tectonic plates. A two-hour drive from Christchurch takes you to Arthur's Pass National Park. The road passes through rocky formations, like megalithic sculptures strewn about the landscape, with the snow-tipped peaks of the Southern Alps rising in the distance. Leaving the car behind, we walked the 30 minutes along a trail through achingly beautiful scenery to the magnificent waterfall – The Devil's Punchbowl. It's a fitting name. Surrounded by the imposing peaks, the size and roar of the falls is at once an awesome and terrible sight to behold.

Chateau Marlborough: a perfect base for exploring Kiwi wines

This week: houses for around £600,000 – from a Georgian town house in Bungay, Suffolk, to a late 17th-century

Peelers Cottage, Enford, Pewsey, Wiltshire. A 1750s village property with a recent extension, surrounded by large gardens. It has beamed ceilings, an open fireplace and a modern fitted kitchen with a limestone floor. 4 beds, 2 baths, 3 receps. £599,950 Carter Jonas 01672-514916.

Dallars House, Hurlford, Ayrshire. This renovated Grade B-listed Georgian mansion has been divided into three flats. East wing: 5 beds, 3 baths, 2 receps, roof terrace. West wing: 3 beds, bath, recep. Three-bed ground-floor flat, 2.2 acres. £595,000+ Savills 0141-222 5875.

Samalaman House, Glenuig, Moidart, Highland. A late 17th-century property in a spectacular setting overlooking Coire Lochan and the Sound of Arisaig. It is in need of renovation and refurbishment. It comes with a 2-bed self-contained wing and a 1-bed stone-built bothy adjacent to the main house. 9 beds, 2 baths, 2 receps, study, kitchen, walled garden, coastal access, 12.4 acres. £550,000+ Knight Frank 0131-222 9600.

house overlooking the Sound of Arisaig in Moidart, Scotland

◀ **Oxnead, Bungay, Suffolk.** This Grade II-listed, three-storey Georgian townhouse has a Victorian mock-Tudor façade. The property commands far-reaching views across the water meadows of the Waveney Valley. It has high ceilings, period fireplaces and a formal drawing room with full-height elliptical sash window and a cast-iron fireplace. 4 beds, 2 baths, 6 receps, two kitchens, cellar, parking, private walled garden. £580,000 Durrants 01986-872553.

▶ **Long Cottage, Bibury, Gloucestershire.** A restored Grade II-listed 18th-century cottage in an elevated position in a village conservation area. It has open fireplaces with wood-burning stoves, a fitted kitchen with Aga. 4 beds, 2 baths, 2 receps, garden. £599,950 Jackson-Stops 01285-653334.

▲ **Ty Bryn Adda, Vaynol Park, Bangor, Gwynedd.** An 1890s former laundry house set in its own gardens in the Vaynol parkland estate. The house has quarry-tiled floors, open fireplaces with wood-burning stoves and a double-height hall with a mezzanine that is currently used as an office. 3 beds, 3 baths, recep, conservatory, breakfast kitchen, 3-bed cottage annexe, workshop. £600,000 Strutt & Parker 01244-354 800.

◀ **Ivy House, Stourmouth, Kent.** A Grade II-listed cottage set in award-winning gardens in a village ten miles from Canterbury. The cottage has beamed ceilings, two large inglenook fireplaces, a wood-burning stove, and a fitted kitchen. The gardens are laid out as a series of rooms and include an ornamental pond with a wooden bridge. 3 beds, 2 baths, recep, garden room, brick-and-timber outbuilding, garage, 0.6 acres. £599,950 Finn's 01304-612147.

▶ **Hope House, Middleton Tyas, Richmond, North Yorkshire.** This renovated, Grade II-listed, 18th-century house was formerly a public house called The Miner's Arms. It is set back from the road and retains its original walled, cobblestone access. The house has stone-mullion windows, beamed ceilings, an inglenook fireplace, and a contemporary kitchen with underfloor heating. 5 beds, 2 baths, 3 receps, stone-paved parking area, gardens. £585,000 Savills 01325-370500.

Silicon Valley upgrades the 911

Vonnen's electric motor packs the classic Porsche with even more punch. Benedict George reports

Price: £93,110 (starting price for the Carrera); £150,815 (with Vonnen Shadow Drive)
Power: 500bhp
Top speed: n/a (official performance figures not yet released)
0-60mph: 3.6 seconds (estimated)

Silicon Valley has beaten Porsche to the draw and launched its own version of a 911 hybrid, says Kyle Fortune in Car magazine. The Santa Clara-based firm Vonnen has worked out how to "pancake an electric motor between the engine and gearbox" to create a hybrid engine and has named its technology the "Shadow Drive". The electric motor adds up to 148bhp of power – that increase alone is more than the total power of a 911 engine from 1973 – while adding only around 77kg to the total weight.

It doesn't come cheap, however. The Shadow Drive system costs £57,705 to install. That's more than 60% of the £93,110 starting price for the original Carrera. That makes the hybrid adaptation an exclusive proposition. It takes the total cost to more than £150,000, and you get a less practical car into the bargain – the position of the electric motor system in the back of the car means "you will have to forgo the small amount of luggage space" that other 911 drivers enjoy, says Michael Bath on Drive Tribe.

But it will turn your modest Carrera into something significantly quicker, says Fortune. The additional motor is "seamlessly integrated", and makes the acceleration feel "vivid, oddly reminiscent of a pure electric car in its surge, but piggybacking that of a standard 911 to create a supremely well integrated whole". Vonnen reckons the hybrid drive can, with a bit of tweaking, be fitted to any 911 right back to 1965. Boxsters and Caymans, too. This hybrid is "enjoyable rather than earnest" – more about speed than saving the planet – but you needn't tell your green-leaning friends that when you boast that you have gone electric.

"It will turn your modest Porsche Carrera into something significantly quicker"

Wine of the week: a uniquely delicious Aussie shiraz

2016 Paringa Estate, Peninsula Shiraz, Mornington Peninsula, Victoria, Australia
£23.87, greatwinesdirect.co.uk

Matthew Jukes
Wine columnist

Earlier this week I launched my 100 Best Australian Wines Report for 2019/2020 at Australia House in London. This is the sixteenth year in which I have compiled this snapshot of the greatest Aussie wines in our market. The criteria for making the grade for this report are simple – the wines must be awesome and they must be available in sufficient quantities to last until at least Christmas.

This wine is spectacular, but it didn't quite make the "100 Best" list because stocks are a little tighter than I would like. Made by one of the most sought-after wineries in Australia, this is a shiraz made in one of the most famous pinot noir territories in the land. Winemaker Lindsay McCall makes both red grapes and every year he creates pinot-like shiraz and shiraz-like pinot. It is almost as if the grapes are close brothers as opposed to being from completely different families.

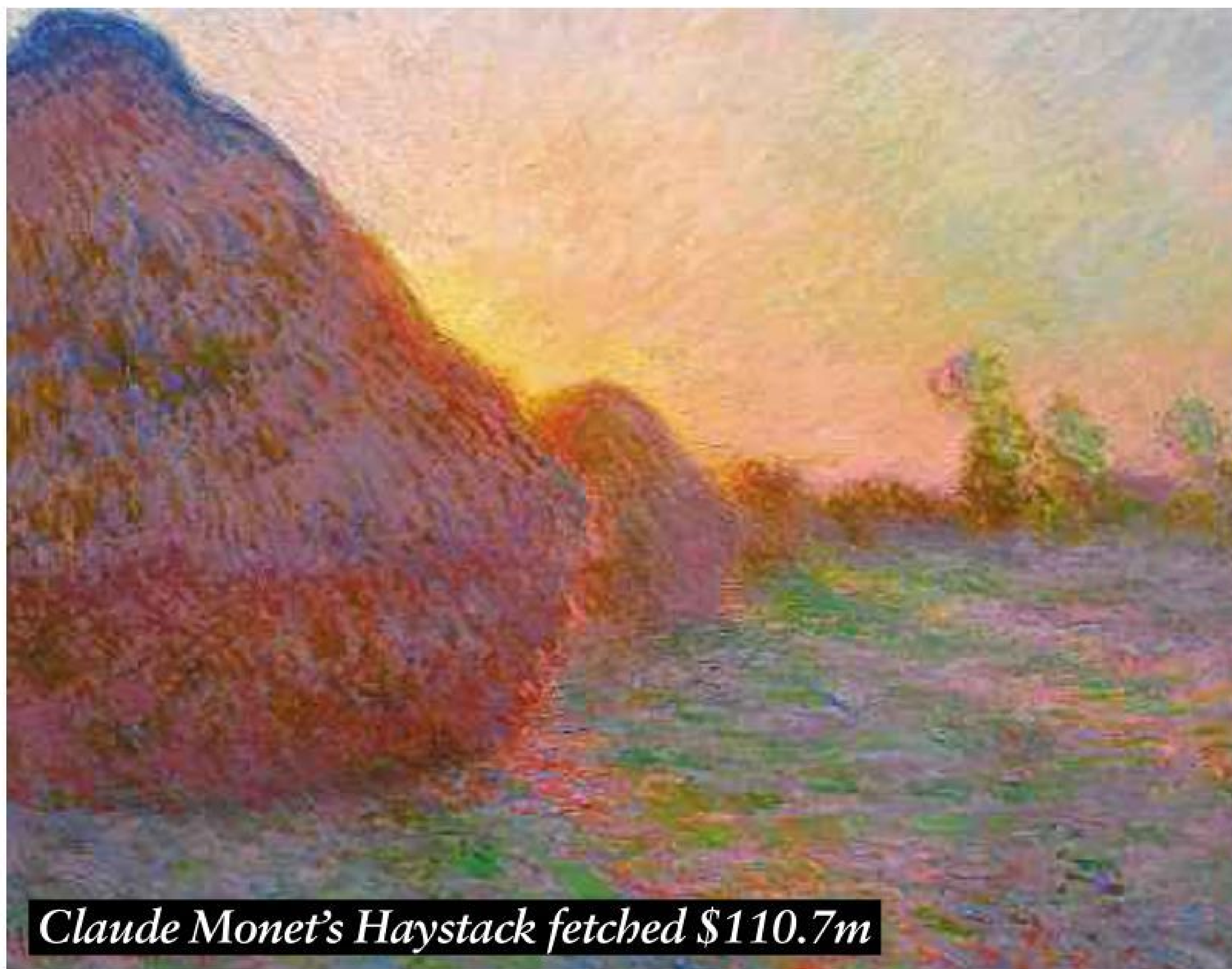
In complete contrast to the big, muscular shiraz of South Australia or the super-spicy, mineral drenched shiraz of greater Victoria, Paringa Shiraz is succulent, sensual, texturally indulgent and elegant, but with a dark hue, masses of berry notes and a liberal dusting of cinnamon spice. In short, this is a heavenly wine and it is selling at a terrific price, too. Unique and uniquely delicious, seek out this "100 Best"-grade wine soon, before it all disappears.

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

Art's frothy period

Paintings are going for record amounts, but is it a bubble? Chris Carter reports

An astonishing $2bn changed hands at New York auction houses in a single week just a fortnight ago. Christie's brought in $1.1bn with its Impressionist and Modern Art, and Post-War and Contemporary Art sales. Jeff Koons' *Rabbit* from 1986 sold for $91.1m, setting a new highest price for an artwork by a living artist. *Bouilloire et Fruits* by Paul Cézanne from the late 1880s fetched $59.3m. And Robert Rauschenberg's *Buffalo II* from 1964 sold for $88.8m.


Claude Monet's Haystack fetched $110.7m

At Sotheby's, a 1890 painting by Claude Monet from his *Meules* (Haystacks) series raised $110.7m. It was the first time an Impressionist painting has broken the $100m barrier. When it last came up for sale in 1986, it cost just $2.5m, notes the BBC. Other high-profile lots at Sotheby's included Mark Rothko's 1960 *Untitled*, which sold for $51m, and Francis Bacon's 1952 *Study for a Head*, which fetched $50.4m. Auction house Phillips raised $135m, with Willem de Kooning's *Untitled XVI* from 1976 selling for $10.3m.

Changing tastes

"The art market may be entering its Frothy Period," says Kelly Crow in The Wall Street Journal. Collectors left behind their fears from the past few seasons and "splurged on masterpieces at the highest levels". In "another hint of exuberance", buyers also paid record sums for "young, buzzy painters", such as Brian Donnelly (known as Kaws). His 2012 portrait of the cartoon character SpongeBob SquarePants, entitled *The Walk Home*, sold at Phillips for $6m, "well above its $800,000 high estimate".

Indeed, says Tim Schneider on Artnet News, Monet's *Haystack* may have broken records at Sotheby's, but the price "somewhat belied the mood in the room and, to some extent, the reality of the bidding". William Bouguereau's *La Jeunesse de Bacchus* (1884) had been valued at $25m-$35m, for instance. It failed to sell. Auctioneer Harry Dalmeny conceded defeat at $18m, but only "after nearly two excruciating minutes of… repeating the stalled figure like a failed mantra to ward off misfortune".

Kenny Schachter, also writing for Artnet News, disagrees. Indeed, the "only froth is in the reportage… I was sitting in the same room at Sotheby's and saw something very different." Yes, the Bouguereau failed to sell, but this "football-field-sized kitsch Old Master-redux painting" was given a "stupid estimate". The highest price fetched for a painting by Bouguereau was set in 2000. It was $3.5m, "which is where it belongs… The only bubble that should burst is the perennial disparagement of the giant in plain sight: the art market." You have to appreciate its resilience.

Even so, "tastes have changed", says Scott Reyburn in The New York Times. "Impressionist and modern works that lack appeal to a contemporary sensibility can struggle to hold their value." Édouard Vuillard's post-impressionist *La Table de Toilette*, for example, sold at auction for $7.7m in 1989. This month, and three decades later, it sold for just $8m at Christie's. And while it's true that Cézanne's *Bouilloire et Fruits* fetched a high price, the competition among the three telephone bidders was "measured". For now, the "market for Impressionist and modern art isn't the place to make a quick buck".

Auctions

Going...

A Porsche Type 64 from 1939 is heading for auction at RM Sotheby's in California in mid-August. An ancestor of the 911, the Type 64 (pictured), is the earliest-known surviving Porsche, built to compete in a Berlin to Rome road race in September of that year that never happened due to World War II. After the war, the founder Ferdinand Porsche's design for the car was modified to become the Volkswagen Beetle. The Type 64 for sale was owned by the Porsche family, while a second Type 64 was confiscated by the Allies and crashed. It is expected to fetch upwards of $20m, surpassing the $14m paid for the 1970 Porsche 917 race car used in the 1971 film *Le Mans*, starring Steve McQueen.

Gone...

A 1959 Lotus Elite, first owned by Richard "Dickie" Stoop, a Battle of Britain Spitfire pilot, sold for £56,000 at Buckinghamshire-based Historics Auctioneers on 18 May. Stoop entered the car into the Le Mans race 11 days after buying it, but the car never made it to the starting line owing to a collision after a practice session. Stoop entered Le Mans ten times in his racing career. In 1966, he sold the Lotus to Porsche racing driver Patrick Guy Godfrey. It has had a string of owners since then. The last owner before it was sold had stripped it right down in order to carry out a full restoration, but died before it could be completed. The Lotus was therefore offered for sale in parts.

The world's deadliest laptop

Is it art or just a PR stunt? Either way, "the most dangerous laptop in the world", according to Forbes, was sitting in a room somewhere in New York last week. Deep Instinct, a cybersecurity firm, had commissioned artist Guo O Dong to infect a 2008 Samsung notebook with six of the most dangerous computer viruses. Taken together, they have caused $95bn in financial damage, according to the special auction website that had been created for it. The artwork is called *The Persistence of Chaos*. "These pieces of software seem so abstract, almost fake with their funny, spooky names, but I think they emphasize that the web and IRL – in real life – are not different spaces", the artist told Vice. "Malware is one of the most tangible ways that the internet can jump out of your monitor and bite you."

The computer had been "air-gapped" by software engineers, meaning it had been isolated from other computers, and once it had been sold, its ports were to be deactivated so that it wouldn't be able to spread the viruses. The buyer also had to agree to the terms of the sale, stating that the laptop was only being bought as a piece of art, or for "academic reasons". A "representative" for the $10,000 project agreed with Artnet News that it could still be "weaponised", but the terms of the sale met the requirements under US law. It sold for $1.3m on Monday, with the money going to the artist.

The high cost of the beautiful game

Going to watch a football match is an activity increasingly available only for the well-heeled

As regular readers will know, I prefer "the game for ruffians played by gentlemen" over the one that has been in the headlines. But it seems that one would have to be a gentleman, or at the least pretty well-heeled, to have the privilege of seeing whether Tottenham's Lucas Moura can repeat his Champions League semi-final hat-trick in the final in Madrid tomorrow. Supporters of Spurs and Liverpool face an "uphill challenge in trying to get to the Spanish capital" where the tournament will conclude, with some airlines charging £1,300 to fly fans from the UK to Madrid, reports Katie Wright for the BBC.

Only the privileged few will see if Moura can repeat his hat-trick

©Getty Images

"Hotels in Madrid have jacked up their prices by more than 2,000% in advance of the Champions League final. One four-person suite costs an astonishing £17,000"

Blame the market

Even those lucky enough to have pre-booked flights in advance will still face "huge bills", says Jamie Gordon in The Sun. Hotels in Madrid have "jacked up their prices by more than 2,000% in advance of the Champions League final". Indeed, the cost of a "four-person suite" at one establishment has jumped to an "astonishing" £17,000. Another hotel is offering a "junior suite with a terrace", normally available for £404 per night, "for a staggering £9,105" – although at least in this case the hotel offers a "free" breakfast.

Liverpool and Spurs supporters may complain about "whopping credit-card bills", but "this is the way markets work", says Larry Elliott in The Guardian. There are obviously a limited number of places to stay in Madrid and at times of peak demand there will be a lot of people in need of them. So if people are willing to pay inflated prices, airlines and hotels will naturally take advantage. If enough people felt the prices were excessive they could refuse to pay them, pushing prices back down.

Football365.com is not impressed with that argument, however. While it's obviously true that "where demand exceeds supply, you can charge ever higher prices", the key word "doing all the heavy lifting" is "can". There is nothing stopping the airlines and hotels from refusing to be "slaves to the system" by choosing not to gouge fans. This applies to those making a killing from official ticket prices of up to £500 as well – they need to understand that "football isn't a product the way something is in a shop". After all, "there is no other Champions League final game between Spurs and Liverpool to buy" – which means the promoters are in effect operating a "monopoly".

Still, at least Spurs and Liverpool fans could rejoice that fans of Arsenal and Chelsea had it worse. Uefa decided to host Wednesday's Europa League final in Baku – the capital of Azerbaijan – a place so inaccessible that "two of England's biggest clubs will not sell out their allocation", says Sam Wallace in The Daily Telegraph. Of course, for Uefa executives, whose "match-going lives" are one of "fast-track passport lanes, first-class travel and limousine transfers", it does not matter where the game is played. Still, one would have thought that even they would have worked out that there was something stupid about forcing football fans to fly to Tbilisi and take a minibus for seven hours to Baku.

Quintus Slide

Tabloid money… Jamie has spread himself too thin

● "Something very odd happens to cooks once you point a camera in their direction," says Virginia Blackburn in the Daily Express. "Nigella Lawson makes food preparation look like something that should only take place between consenting adults and then only after the watershed. Marco Pierre White and Gordon Ramsay both look as if they're out on day release." So, it shouldn't have come as a surprise when Jamie Oliver's restaurant chain, Jamie's Italian, went under. "The Oliver persona is cheeky chappy/cheap as chips, but the chips in his restaurants were anything but." There were also so many of his restaurants that they didn't feel exclusive either. Oliver (pictured) should have followed the example of the upmarket The River Café, where he was discovered as a young chef. Instead, "he spread himself too thin".

● "I knew something had changed at my local NatWest branch, but I didn't quite know what until the penny dropped last week," says Jeff Prestridge in The Mail on Sunday. One of the three cash machines outside had "mysteriously disappeared". It is "yet another sign" that the banks are keen to reduce our access to cash – and move us to a world of contactless and card payments. The Payment Systems Regulator (PSR) needs to act. At the moment, it is the PSR and the likes of cash-machine network LINK that decide where we can get hold of our money. "Unless the PSR takes the bull firmly by the horns soon, a cashless society will be forced upon us – and we will be powerless to do anything about it other than bemoan the loss."

● The "expectation that women should accept less than they are worth makes my blood boil," says Karren Brady in The Sun on Sunday. So well done to Karen Martin for making a stand. The BBC radio producer turned down a promotion after she discovered she was being offered £12,000 less than a man – one who had been "awarded the same job, on the same day", as Martin explained. But it was her young daughters who convinced her to take action. "What matters to us is that when we grow up, we want to be paid the same as a man for the same job," they told her. "How poignant — and how powerful," says Brady. "Sometimes you have to see things through the eyes of children to realise there is only one course of action."

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Bridge by Andrew Robson

Leaving a small trump outstanding

Normally, you'll leave a trump out only when it's the master, not a low one. But normally doesn't mean always.

Dealer South — East-West vulnerable

North
♠ K96
♥ Q10874
♦ 74
♣ Q74

West
♠ 852
♥ 5
♦ K9632
♣ J1065

East
♠ A3
♥ AKJ932
♦ 1085
♣ 82

South
♠ QJ1074
♥ 6
♦ AQJ
♣ AK93

The bidding

South	West	North	East
			1♥
1♠	pass	2♠	3♥*
4♠	end		

* Marginal, as East was planning only to rebid Two Hearts.

West led his singleton heart versus Four Spades. East won cheaply and returned a low heart. Declarer passed his first test by ruffing with the ten, and West flagged diamonds by discarding an encouraging nine. At trick three, declarer led a low spade to dummy's nine and East won with the ace and led a third heart. Declarer ruffed with the jack and West discarded another diamond. Reading West for the king for his revealing discard, declarer next led the jack of diamonds, hoping to sneak past an unwary West. But West rose with the king and exited passively with a diamond.

Winning in hand, declarer crossed to the king of spades, but (and this was key) he left the last low spade outstanding (which he placed with West, as he held five fewer hearts). Declarer cashed the queen of clubs, led to his king, and followed with his diamond winner, both opponents following.

Declarer was now certain East held a two-six-three-two shape (in ranking order), so he cashed the ace of clubs (East discarding), ruffed his fourth club with dummy's last (low) spade, and took the last trick with his queen of spades, West's eight falling helplessly underneath. Ten tricks and game made.

For all Andrew's books and flippers – including his new hardback The Next Level – see andrewrobson.co.uk

Sudoku 949

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

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

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Tim Moorey's Quick Crossword No. 949

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 10 June 2019. Answers to MoneyWeek's Quick Crossword No. 949, 31-32 Alfred Place, London, WC1E 7DP.

1		2		3		4	■	5		6		7
	■		■		■		■		■		■	
8												
	■		■		■		■	■	■		■	
9			■	10				11				
■	■		■		■		■		■	■	■	
12						■	13			14		
	■	■	■		■	15	■		■		■	■
16		17							■	18		19
	■		■	■	■		■		■		■	
20				21								
	■		■		■		■		■		■	
22					■	23						

Down clues are straightforward whereas across clues are mildly cryptic

ACROSS

1 Building material in Saudi City? Negative (7)
5 Child worker underground heard (5)
8 In disarray the senate said to be put out (13)
9 Yank's small boat? (3)
10 Female relatives ahead of supporter, a target for blame (4, 5)
12 Sounds like calmer lady tennis champion (6)
13 Danger for Chelsea's Belgian player? (6)
16 Strictly performance comes after a roll? Plenty (9)
18 Imperfect service but allowed (3)
20 Home toilet a cause of trouble (13)
22 Lodger speculated one's heard (5)
23 Space to change in front part of Boots (7)

DOWN

1 Intended (5)
2 Stupid mistake (7)
3 Gave up drinking (9)
4 Readily available (2, 4)
5 Floor covering (3)
6 Relating to the nose (5)
7 Bloodshot (3-4)
11 Drink made from cider and lager (9)
12 Trembling (7)
14 City of North Georgia (7)
15 Having a liability to someone (2, 4)
17 Auntie's husband (5)
19 A lock of hair (5)
21 Remaining after deduction of tax (3)

Name ....

Address ....

....

Solutions to 947

Across 1 Steeplechaser *anagram* 8 Breathe *B + anagram* 9 Remit *timer rev* 10 Oftentimes *of ten times* 13 Across *a cross* 14 Physio *homophone* 16 Percussion *anagram* 19 Event *even + t* 20 Mandate *man + date* 21 Reappointment *anagram*. **Down** 1 Subtotal 2 Electors 3 Put one's feet up 4 Emetic 5 Horse chestnut 6 Same 7 Rats 11 Estimate 12 Downbeat 15 Scampi 17 Herr 18 Zeta.

The winner of MoneyWeek Quick Crossword No. 947 is Patrick Smith, London N2

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

Taylor's, a family firm for 325 years, is 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.

How not to deal with a crisis

Boom and bust is part of a natural cycle. If you want a real disaster, bring in the feds

Bill Bonner
Columnist

One of the nice things about this job is that we never run out of targets. We aim for claptrap. Wherever we go, we throw a beer can out the window – we are sure to hit it. We are in Ireland, and there's plenty of targets here, too.

We have been putting the roof on our cottage in Ireland. The place was so derelict most people thought it was not worth saving. It was abandoned, like so many thousands of others in Ireland. On our little farm alone there are three of these ruins hidden in the woods – just stone walls covered with ivy, laurel, and thorn bushes. They are the remains of what was called "The Great Crumble."

Half a century ago the Irish were so burdened by derelict buildings – both grand and humble – that a minister joked that people menaced the government "by threatening to leave us their houses". The little houses crumbled as their owners starved in the famine in the mid-19th century or emigrated. The big houses succumbed to taxes, debt or IRA bombings. When prosperity finally came to Ireland, few of the rising middle class wanted to bother with the old wrecks.

Property in Ireland is currently booming as so many people arrive to work in the high-tech industries that have based their European headquarters here. Builders can't keep up with demand and so prices are soaring. The average house in Dublin is now selling for more than $600,000. This has led to what the papers are calling a "housing crisis".

They want the right, but who gets the duty?

©Getty Images

The private sector has its seasons of boom and bust. But if you want a real disaster, you need to bring in the feds. The government has reacted to the crisis by banning eviction for long-term renters. Sinn Fein, an opposition party, has proposed that the "right to housing" be enshrined in the Irish constitution. Dubliners have taken to the streets – "Housing is a human right," read the placards.

"People menaced the government by threatening to leave them their houses"

But this idea of a "right" to housing reveals the faulty plumbing of a leaky mind. In order for someone to have a right to a house, someone else would have a duty to provide it. Who is this other person who must be chained to his hammer and trowel so that the soft hands of a Dublin social activist can enjoy the warmth of a nice abode without paying for it?

What is the cause of the housing crisis? Have they no plumbers, no electricians, no carpenters? Have they no stone, no cement, no lumber? Have they no builders, eager to make a buck? Of course, they have all of those things – thousands of them. Why, then, don't they build enough houses? Where's the bottleneck? Zoning? Planning? Building codes? Mortgage industry regulations? Why not bring in the likely culprits and ask them a few questions? Instead, shyster politicians swing into action, promising a programme of house-building and rent controls. Well, that ought to do it.

The bottom line

70.7 The percentage of shoes sold in the US imported from China. Footwear firms signed an open letter last week urging President Donald Trump to end the trade war with China, saying that, in come cases, tariffs could reach as high as 67.5%.

381 The record number of permits issued by Nepal to climbers wanting to scale Mount Everest in the spring season. The permits for the "normal route" cost $11,000 (charged in US dollars). Last week, a photo taken by Nirmal Purja, a former Gurkha soldier, showed hundreds of climbers queuing to reach the summit.

400 The number of licences to be issued annually by Botswana for the shooting of elephants. Conservationists criticised the country in southern Africa for lifting the 2014 ban on hunting elephants, but Botswana says the elephant population needs to be controlled.

£700,000 The cost of developing an autonomous fruit-picking robot that has gone on trial in Britain, reports The Guardian. The robot by Fieldwork Robotics, a spinout from the University of Plymouth, is expected to pick 25,000 raspberries a day, compared to around 15,000 for a human working an eight-hour shift.

153.8bn The amount in Chinese renminbi (£17.6bn) that China and its local governments pumped into Chinese-listed companies last year, according to corporate earnings data compiled by financial database Wind. The figure is a record high.

©Royal Mint

£100,000 **The price of a rare George III gold sovereign from 1819 that is being put up for sale by the Royal Mint. The coin is being sold through a ballot, and potential buyers have until 28 June to register their interest online (royalmint.com). Only ten of the 3,574 coins originally made are thought to exist.**

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IISSN: 1472-2062
•ABC, Jan –Jun 2018: 43,933

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