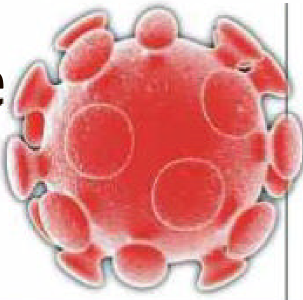
MARKETS *P4*

Counting the cost of the coronavirus



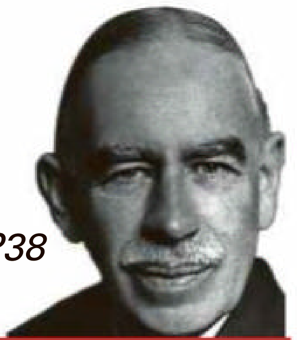
TOYS *P36*

A turbo-charged snowmobile

PLUS

J.M. Keynes's eye for art

COLLECTABLES *P38*



MoneyWeek

MAKE IT, KEEP IT, SPEND IT

7 FEBRUARY 2020 | ISSUE 985 | £4.50

Cash bonus

Income investors should head for Asia

Page 24

SCOTTISH MORTGAGE INVESTMENT TRUST

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Britain's best-selling financial magazine

From the executive editor...

January's statistics on new car sales for the UK were pretty dire. New registrations fell by more than 7% on last year. There are lots of reasons for that – shifting rules on emissions, plus fewer people falling out of financing deals (and thus upgrading to new models), saw diesel sales fall by more than a third, while petrol car sales fell by near-10%. But there was one bright spot. Demand for partly or entirely electric vehicles soared. The number of new battery-powered electric vehicles hitting the roads trebled (from a low base), while sales of various hybrid types were up sharply too.

Over in the US, shares in Tesla – king of the electric-car makers (for now) – went on an extraordinary run (see page 12). The share price has doubled since the turn of the year. I can't pretend to understand it and it's clear the stock is in some sort of mania phase. But I won't complain – it's a big holding in one of our favourite investment trusts, Scottish Mortgage.

Oh, and there was a headline-grabbing story earlier in the week when the Financial Times reported that Japanese carmaker Nissan may "double down" on production at its Sunderland plant should we end up with a "no-deal" Brexit and tariffs by the end of the year. One contingency Nissan is apparently examining (though the car group denied the story) is to close its continental European plants and focus on grabbing UK market share. Nissan also makes Britain's most popular electric car, the Leaf. A modified Leaf, we learn, has just completed the largest autonomous driving experiment seen on UK roads – the car drove itself 230 miles around British roads without a single accident.

Look mum, no hands – autonomous cars are coming

> *"It's clear that we're reaching a tipping point for electric vehicles"*

Why am I telling you all this? Well, all of these stories land in a week that has seen Britain's politicians bring forward a ban on all new cars with any form of internal combustion engine – including hybrids (those which have a battery and a petrol or diesel engine) – by 2035. Call me cynical, but that might be the sort of thing to make a big, politically crucial employer – one with a lead in electric-car development in the UK market, say – think twice about upping sticks, even if Brexit doesn't go exactly the way it hopes.

True, it's easy to put two and two together and come up with five. But whatever the specifics of the Nissan story, it's clear that a mix of factors – from political expediency to technology to genuine demand from consumers – is creating a tipping point for electric vehicles (hopefully ones that will eventually drive themselves).

It'll be expensive, of course. Philip Johnston in The Daily Telegraph points out that a full switchover would mean a £28bn-sized hole in the budget every year simply through the loss of fuel duty. And that's before you get to the investment in infrastructure required. But then again, we live in an era where government spending doesn't matter. Perhaps this is how the UK embraces Modern Monetary Theory (MMT) – the notion that a government can spend what it likes until inflation takes off.

What does this mean for investors? When it comes to bubbles, I prefer to invest in "anti-bubbles" – the assets that get neglected along the way, perhaps like oil major BP (see page 7). But as a hedge against my own bearishness and a bet on the tech, I'll also suggest our readers stick with their Scottish Mortgage holding.

John Stepek
editor@moneyweek.com

Lucky escape of the week

©PA Images

Former stockmarket trader Navinder Sarao – nicknamed the "Hound of Hounslow" in an ironic reference to the infamous "Wolf of Wall Street" – has been sentenced to a year of home detention for triggering a brief $1trn stockmarket crash in the US in 2010, say Andy Verity and Eleanor Lawrie in the BBC. Sarao, 42, who has autism, helped to cause the "flash crash" from a bedroom in his parents' house in west London. In 2015, he was arrested and extradited to the US to face charges. In 2016, he admitted to "spoofing" – using software to manipulate the US stockmarket by rapidly placing, then cancelling orders and profiting from the slower reactions of other algorithms. He also paid back $12.8m in profits from his trading to the US government. He had faced 22 charges, with a potential maximum sentence of 380 years. However, US prosecutors requested leniency from the judge, citing Sarao's "extraordinary co-operation", reports the FT.

Cover illustration: Howard McWilliam. Photos: Getty Images; iStockphotos

Good week for:

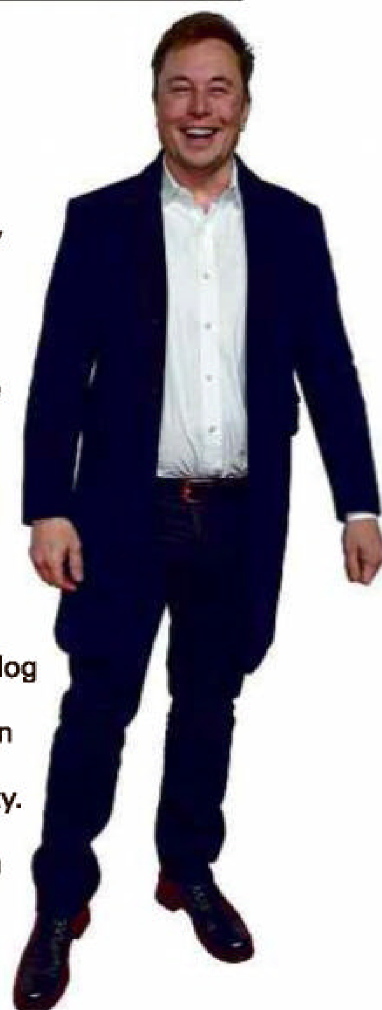
A week after being refused a mortgage, **Samantha McKay** won £250,000 playing online bingo — and bought the house outright, says Katie Pearson in the Daily Mirror. McKay, 32, and her partner had been saving for 11 years, but had recently been refused by the bank. "Gobsmacked", the couple bought a three-bed in Porthcawl, Wales, for £191,000 and a caravan for McKay's mother for £3,000.

Poems rarely pay a poet's bills, says Elizabeth Blair in NPR. So it's good news that a $4.5m grant – believed to be the largest-ever donation from a philanthropic institution – has made its way to **the Academy of American Poets**. The donation from the Andrew W. Mellon Foundation is enough to fund the Academy's Poets Laureate Fellowship programme for three years. The Foundation was created by the Mellon family of Pennsylvania, who made their money through banking and politics.

Bad week for:

Britain's financial regulator has been fined by the pensions watchdog after **Financial Conduct Authority** (FCA) chairwoman Zahida Manzoor failed to provide enough information to the FCA's pension scheme's members in her annual letter, says Ben Martin in The Times. The Pensions Regulator issued the maximum £2,000 penalty.

Investors betting against Tesla suffered record losses of $5.8bn in January after the stock hit a new high, says Richard Henderson in the FT. Investors who buy up short positions profit when a stock's value falls. But the value of those positions has plunged after the recent winning streak of Elon Musk's (pictured) firm.


©Getty Images

Feverish markets weigh cost of virus

Alex Rankine
Markets editor

The economic impact of the coronavirus could be four times greater than the cost of Sars

©Getty Images

China's stockmarket has recorded its biggest daily fall in more than four years. The CSI 300 plunged by 7.9% on Monday, its first day of trading since the coronavirus (2019-nCoV) outbreak came to dominate international headlines. Hong Kong's Hang Seng index is down by 6.5% so far this year. The FTSE 100 has fallen 3.5% since the start of January.

Gauging the damage to growth

The market retreat came as more countries tightened restrictions on travel to China. The US and Australia have banned foreign nationals who have recently visited China, while Russia has closed its border. British Airways was one of several airlines to suspend direct flights to the Middle Kingdom, with some carriers cancelling routes until March.

A national holiday has been extended and activity in provinces representing two-thirds of the country's GDP is largely on pause. That's a reminder that "it's not the disease, it's the treatment", say Andrew Batson and Ernan Cui of Gavekal Research. The economic costs of 2019-nCoV will be determined as much by the official response as by the fatality rate. These "draconian restrictions" are guaranteed to deliver a first-quarter GDP hit, but the longer-term effect will depend on how long it takes to contain the outbreak and how long tough quarantine measures remain in place.

The virus crisis will have global consequences, says Sabah Meddings in The Sunday Times. China is a key manufacturing hub for smartphones, cars and clothing brands and its growing middle class has also turned it into a "giant import market". Closed shops and factories will "hit almost every multinational". The toll on growth could reach $160bn, Warwick McKibbin of the Australian National University told Cecile Daurat on Bloomberg: four times greater than the cost of the 2003 Sars epidemic.

The Sars precedent

The 8% sell-off in Asia is scary, but investors shouldn't panic, says Jim Armitage in the Evening Standard. Chinese businesses are not worth 8% less than they were last week. Growth will "return with a vengeance" once the virus ebbs. "We'll look back on today's prices as a decent buying opportunity for China-focused stocks and funds."

The consensus is that the coronavirus will follow a similar pattern to Sars, says James Mackintosh for The Wall Street Journal. There will be a short-term hit to travel stocks, but the outbreak will be contained and the long-term fallout limited. Supportive central banks will help to ease any turbulence. Yet other precedents are less encouraging. Flu pandemics in 1957-1958 and 1968-1970 "killed one million or more people world-wide and coincided with US recessions". What's more, adds Nils Pratley in The Guardian, China is a far bigger and more connected economy now than it was in 2003. Equity valuations are much more stretched than just after the dotcom bust. "Don't panic" is sound advice, but this "hunt for reassurance from history feels absurd."

Investors eye new Chinese stimulus

Chinese policymakers have announced new measures to contain the fallout from the coronavirus, says Bloomberg News. The People's Bank of China (PBOC) pumped ¥1.2trn (£130bn) of extra liquidity into money markets on Monday. Banks have been told not to call in loans made to companies in Hubei, the province at the centre of the outbreak. Annualised first-quarter growth could sink as low as 4.5%; in 2019 GDP rose by 6.1%.

The new stimulus is limited for now. It is aimed at keeping the financial system running and offering targeted help to affected sectors and regions, say Chang Shu and David Qu of Bloomberg Economics. But once the virus is contained authorities are likely to shift towards a more general push to revive growth.

The People's Bank of China has pumped extra liquidity into the economy

©Getty Images

What would a new stimulus look like? Analysts are banking on "looser monetary policies to stimulate demand, more subsidies to bolster struggling firms, and a weaker renminbi to goose exports", write Keith Johnson and James Palmer for Foreign Policy. The latter measure would enrage Donald Trump, who has accused Beijing of currency manipulation. Add in the fact that disruption due to the coronavirus will encourage US firms to redesign their Asian supply chains and the outbreak will "only accelerate" the ongoing "decoupling" of the US and Chinese economies.

Asset managers are already positioning themselves for a new round of stimulus, says Michael Mackenzie in the Financial Times. As well as boosting emerging market equities, any Chinese easing could "move the needle for the global economy". But "wait and see what kind of stimulus arrives from China" before piling in. It remains to be seen whether all this talk of "buying the dip" is just short-term trading chatter, or whether it marks the start of a brighter period for cyclical stocks.

Virus fuss obscures US profit picture

"Earnings season is fast being forgotten" amid "cascading fear" of the coronavirus, write Elena Popina and Lu Wang for Bloomberg. Investors would usually spend the end of January scouring the latest quarterly earnings reports. Instead the market is "ruled by anxiety". Even "surprisingly strong earnings" from market stalwarts Apple and Amazon have failed to cheer people up.

It is worth keeping an eye on US corporate earnings all the same. As Maggie Fitzgerald notes on CNBC, at over 200%, "the size of the stockmarket relative to the size of the economy is at an all-time high". On another measure, the cyclically adjusted price/earnings ratio, US stock have not been this expensive since the 2000 dotcom bubble.

Unless corporate profitability picks up then those heady valuations risk crashing back down to earth. In 2019 third-quarter earnings fell by 0.4% year-on-year. If the fourth quarter is also negative then earnings will have fallen into recession. Yet the current earnings season has been "better than you think", says Jack Hough for Barron's. With two-thirds of S&P 500 companies reporting, profits that were predicted to fall 1% in the fourth quarter are down by just 0.3%. Still negative but going in the right direction. In 2020 first-quarter earnings growth should hit 4% as energy and tech stocks work through temporary setbacks that hampered 2019. "Not quite olé! but still OK."

India's reform drive weakens

What has gone wrong in India? Not long ago it was the world's fastest-growing major economy. But annual growth fell back to just 4.5% in the third quarter of last year, writes Sangeeta Khorana for Quartz. Official estimates predict the lowest growth for 11 years in the year to April 2020.

Stocks have yet to feel the gloom. India's Nifty 50 index returned 12% in 2019, a year marked by optimism that the re-election of Prime Minister Narendra Modi would bring more economic reform. Down by 3.8% so far this year, the index has still outperformed other emerging markets laid low by the coronavirus.

©Shutterstock

Investors feel that Prime Minister Modi's government is neglecting economic reforms

A growth malaise

A weak banking and finance sector lie at the root of India's growth malaise, says Khorana. Addled by bad debt and fraud, shaky financial institutions have provoked a credit crunch. That has weighed on consumer spending and businesses; investment is down from 34.4% of GDP in the 2012 financial year to around 28% this year. Unemployment hit a three-year high of 8.5% last October. New Delhi is trying to turn things around. Modi is lowering corporation tax from 30% to 22% and has cut red tape, with India climbing from 134th to 77th in the World Bank's ease of doing business index since 2014.

Yet the concern is that the newly re-elected administration is increasingly distracted, writes Milan Vaishnav in The Washington Post. The "darker truth" behind India's economic woes is that reform is no longer "at the top of the government's to-do list". Intent on building a Hindu-centric state, ministers are devoting their attention to such contentious questions as the status of Jammu and Kashmir and a controversial new citizenship law. Further reform is being neglected.

Last week's annual budget did little to revive growth prospects, adds Karan Deep Singh in The New York Times. Investors banking on a capital gains tax cut were disappointed. Modest changes to bank deposit insurance rules are not nearly enough to turn around the country's ailing financial institutions. The newly announced measures are "unlikely to revive the economy much", agrees The Economist. Even sensible ideas, such as a planned simplification of income tax, are "unimpressive on closer examination".

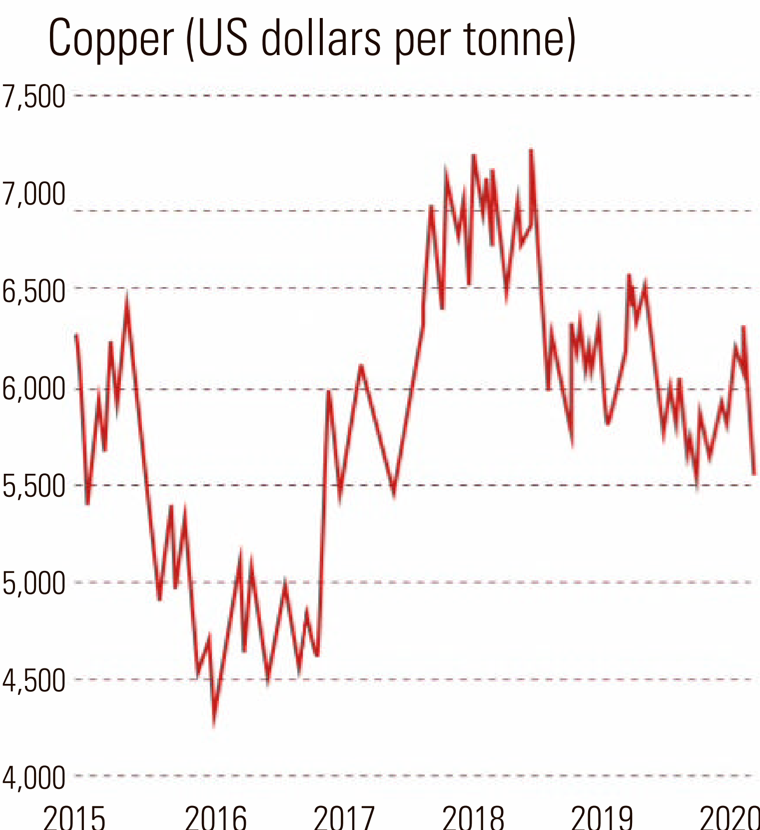
Investors must pay dearly to buy into India's slowing economy. On a price/earnings ratio of 27.5 the local market is more expensive than even the US. Other Asian markets offer better dividend yields than India's 1.3%. "India's future is fundamentally bright", says Arvind Subramanian in the Financial Times. Cheap labour, "decent institutions" and "considerable scope for growth" are all long-term assets. Yet it will take some time to work through the current thicket of problems.

Viewpoint

"Here are some ... questions for those who believe buy-and-hold is all you need... We just ended the first decade in US history without a recession, and thus no significant bear market. Do you think that is likely to continue through the 2020s? What if we have two recessions in the 2020s?... We are now clearly in the top 10% of historical [US] p/e valuations, when ten-year long-term returns historically have been the lowest on record. On an inflation-adjusted basis, you can actually have negative returns for 20 years. It took 26 years to get back to break-even from the bear market that began in 1966... We don't know the future. I get that. But I also know that every time somebody like Greenspan or Bernanke says we are in a new era, it turns out not to be the case. P/e ratios matter... Lower returns over the next ten years is a real possibility."

John Mauldin, Thoughts from the Frontline

The red metal's record losing streak

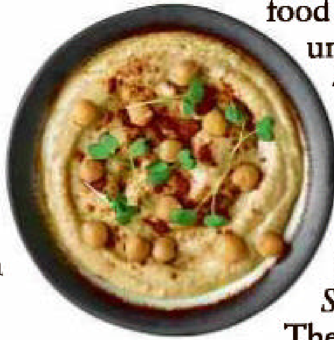


Before the coronavirus emerged, analysts were pencilling in a rise in copper prices in 2020 owing to a pick-up in global demand and a fall in inventories. Instead, the red metal has embarked on a record losing streak, with prices slipping for 12 days in a row to a six-month low. Since 20 January, when the severity of the virus became clear, prices have fallen by over a tenth, the worst performance among all the key commodities. China accounts for just over half of the world's copper demand, up from a fifth in the early 2000s. Concern over a downturn in manufacturing and construction has triggered the sell-off. Some analysts think we may now be at the stage where any signs that the outbreak is being brought under control could prompt a sharp recovery.

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

Three to buy

Bakkavor
The Mail on Sunday
The UK is a world leader in chilled food and Bakkavor is the top player. The group produces more than 12 million products every week for supermarkets, including "tons of garlic bread, hummus and every variety of pizza". Consumer sentiment is improving and there are compelling overseas opportunities in markets such as the US, where the chilled food sector remains underdeveloped. On 4.4% the dividend yield provides a "tidy income". *136p*



Renew Holdings
Shares
The government is poised to start spending more on the UK's infrastructure, which badly needs an upgrade. That spells opportunity for this engineer. Renew works on the essential maintenance of rail, water, telecoms and nuclear decommissioning. Such work is often required by regulations, so business tends to be more predictable than for engineering peers (although Renew must still win the contracts in the first place). On 12.2 times forecast earnings the shares are a reasonably-priced way to play the UK infrastructure boom. *510p*

T-Mobile
Barron's
The third-biggest US mobile operator has spent the best part of "two years in Wall Street purgatory". A proposed merger with rival Sprint has got stuck in the "regulatory maze", with the resulting uncertainty weighing on the shares. However, a court judgement in the coming weeks is likely to draw a line under this episode, and whatever happens T-Mobile is "sitting pretty". It is growing faster than its peers and the billions it would have spent on Sprint could be used to "resume share buybacks" if the merger falls through. It "doesn't need Sprint to succeed". *$79.19*

Three to sell

Moneysupermarket.com
The Sunday Telegraph
What happens when a digital disrupter is so successful that there is little more growth to grab? Founded in 1993, this price-comparison website has shaken up everything – from insurance markets to credit cards, loans, energy and broadband. Yet this is now a mature market that will only grow if the wider economy does. Heavy reliance on Google also makes customer numbers volatile. On 18.1 times this year's earnings the shares aren't expensive, but "they don't merit inclusion on a best-buy list" either. Sell. *326p*

Genus
The Sunday Times
Soaring global protein consumption means that farmers are looking for new ways to keep up with demand. That is good news for this livestock genetics firm, which helps farmers improve disease-resistance and yields. Chinese plans to rebuild pig herds after the decimation caused by African swine fever bode well. Yet the shares are up almost one-fifth over the past six months and on a price/earnings ratio of 267 there is scant further upside. Avoid. *3,080p*

Tesla
The Times
News of its first consecutive quarterly profit has sent the market valuation of Elon Musk's electric car company up to $115.5bn. Volkswagen is valued at $90bn even though it "sells more cars in a fortnight than Tesla sells in a year". Yet with the incumbents muscling in with their own electric lines there is no guarantee that Tesla will maintain its lead. Even if it does, the shares, trading on "more than 200 times this year's estimated profit", look overvalued. Sell. *$640.81*

...and the rest

The Daily Telegraph
Nasdaq-listed **CrowdStrike** is pioneering a "revolutionary new defence" against computer viruses and its sales have been doubling annually. This may be a chance to invest in a "Silicon Valley star of the future" *($59.07).*

Investors Chronicle
Those wishing to make a contrarian bet on the slumping copper price should take a look at **Central Asia Metals** *(210p).* Shares in specialist industrial play **RHI Magnesita** have hit rock-bottom but the group has reduced costs and its markets could be about to turn up. A speculative buy *(3,616p).* Commercial property group **LXI Reit** boasts a diverse and defensive portfolio encompassing healthcare, hotels, supermarkets and leisure. Buy *(135p).*

Shares
Henderson EuroTrust offers exposure to some of the best quality businesses on the continent and trades on a discount to net asset value of 7.5% *(1,208p).* Good news on all fronts means that for FTSE-250 IT reseller **Computacenter** the prospects just "get better and better". Earnings could surprise on the upside in 2020 so keep buying *(1,798p).* An expectation-beating 2019 and improving margins mean that electronics and LEDs specialist **Luceco** has had a great start to the year and the outlook remains auspicious – buy *(148p).* Investors should look past a "mixed" update by premium chocolatier **Hotel Chocolat** – the US and Japan remain compelling growth prospects *(430p).*

The Times
Buy-to-let and commercial lender **Paragon Banking Group** has a "solid strategy" and could be a takeover target *(510p).* Clinical trial specialist **Clinigen** is good value and growing fast *(979p).*

A German view

The flotation of Brazil's digital broker XP on the Nasdaq in December was vastly oversubscribed, notes Wirtschaftswoche. And you can see why. It is shaking up the Brazilian asset management sector, a cossetted industry hitherto dominated by the five big banks' expensive offerings. XP is an open platform providing access to an array of financial products and money managers; its fees are also lower. Business is booming: sales have almost tripled in three years and while XP has a 4% share of the market it now accounts for a quarter of the sector's overall growth. And unlike other digital disrupters, such as Uber, it actually makes money and has a solid balance sheet.

IPO watch

The Indian government has surprised investors by proposing a "mammoth" initial public offering (IPO) of state-run behemoth Life Insurance Corp (LIC) to meet its asset-sale target, says Anirban Nag on Bloomberg. The proposal has been compared to the flotation of Saudi Aramco, which became the world's biggest IPO on record in December, raising $25bn. With tax revenue dwindling for a third year in a row, Finance minister Nirmala Sitharaman sorely needs the 2.1trn rupees ($29bn) she intends to raise by selling state-owned assets. LIC boasts assets of 31trn rupees ($435bn). The flotation is being pencilled in for next spring.

City talk

● Leslie Wexner, CEO of L Brands, is a "retail legend", says Lex in the Financial Times. He turned Abercrombie & Fitch, The Limited and Express into "big national chains". But he's also the longest-serving boss of an S&P 500 company, having run L Brands since 1963. This can lead to some "strange views": he is convinced that "shopping malls will bounce back", while smartphones are "just a fad". The news that Wexner is set to step down is thus "welcome". His exit will facilitate the sale of the Victoria's Secret chain, where sales and margins have collapsed.

● Sports Direct's investment in Debenhams was "wiped out" when the department store chain collapsed, says Andrea Felsted on Bloomberg. But CEO Mike Ashley's purchase of a 12.5% stake in Mulberry "has all the

©Getty Images

hallmarks of a winner". Not only are Mulberry shares "well below their peak", but there's a clear strategic rationale. Mulberry can take the sports chain "upmarket". Still, if Ashley ultimately wants to take control of Mulberry he'll have to convince the Ong family, which owns 56% of Mulberry, to sell. That won't be easy.

● Smartphones with multiple cameras are all the rage these days. That explains why Japanese electronics giant Sony has just increased its earnings estimate for the year ending in March 2020 by 9% from its previous forecast, says River Davis in The Wall Street Journal. Sony is the top producer of image sensors used in cameras. The advent of Samsung and Huawei phones with four cameras, along with the release last September of the iPhone 11 Pro, which boasts three, boosted sales in the sensor division by 29% year-on-year in the latest quarter. The shares have now gained 50% in 12 months.

BP boss boosts dividend

The group's departing CEO Bob Dudley has given shareholders a parting gift. They would be happier if oil prices were higher. Matthew Partridge reports

The outgoing BP chief executive, Bob Dudley, about to retire after nearly a decade in charge of the oil giant, has delivered a "parting gift" to shareholders by unexpectedly increasing the company's dividend, says Jillian Ambrose in The Guardian.

The decline in the oil price has reduced BP's profits to $2.6bn in the fourth quarter of 2019 from $3.5bn in the same period of 2018. But the energy giant still did better than most people had been expecting. As a result, BP's shares immediately surged by 3.5% on the news.

BP's latest results may be "better than expected", but the dividend increase is still surprising, says Emily Gosden in The Times. In October Brian Gilvary, BP's chief financial officer, had said that a hike was "unlikely" before the new CEO took charge given the need to focus on debt reduction.

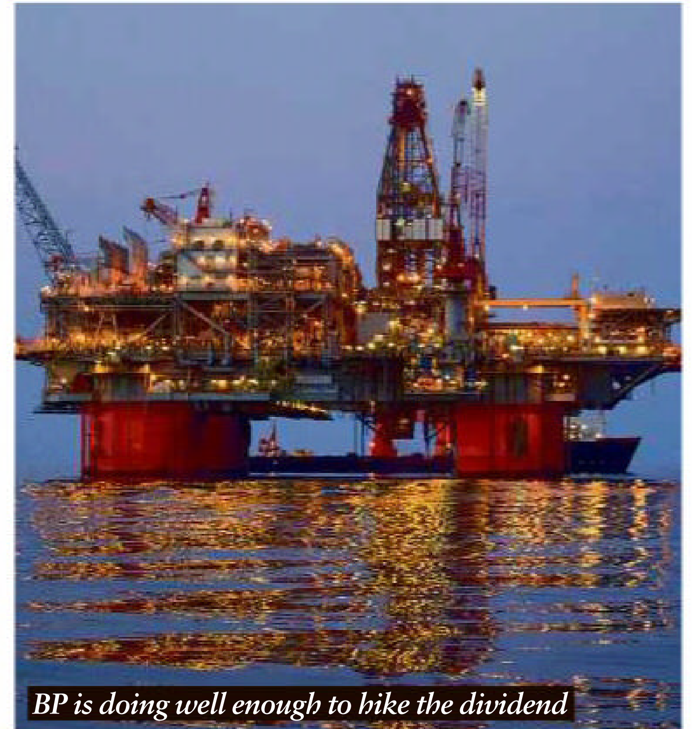
However, Gilvary now believes that a dividend increase can be justified given "strong operational momentum" and "growing free cash flow". There has also been substantial progress on asset sales and debt reduction, with Gilvary announcing that BP plans to sell a further $5bn of assets by mid-2021.

Standing out from the competition

Increasing BP's dividend makes sense given that high yields "are the only thing attracting many investors to the industry in a world increasingly aware of the impact of fossil fuels on climate change and falling energy prices", says Laura Hurst on Bloomberg.

It also helps distinguish BP from its peers, who have experienced a "bleak earnings season" so far. However, pressure from fund managers means that no matter how well BP is doing financially, one of its key tasks now "will be to convince investors and the wider public that BP is doing enough to tackle climate change".

If prices were $70 a barrel there would be plenty of financial leeway for new CEO



BP is doing well enough to hike the dividend

Bernard Looney to satisfy activists by setting a "meaningful target" to reduce emissions and invest more in renewable energy, says George Hay on Breakingviews. As it is, he'll have a hard enough task keeping shareholders on board, since the current price of $55 a barrel is not far off the $50 a barrel level needed by BP to cover its capital expenditure and dividends. Overall, while the dividend hike may be enough to secure Dudley's legacy, it more than "slightly" cramps Looney's style.

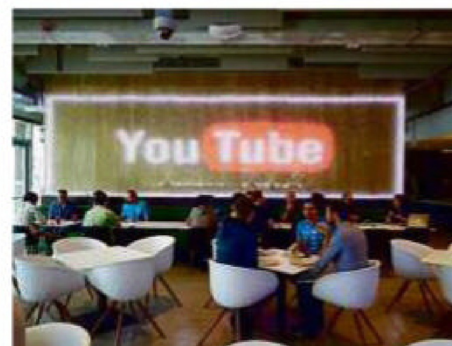
Further falls in the price of oil are certainly not out of the question, says Anjli Raval in the Financial Times. BP has admitted that if the deadly coronavirus outbreak continues to spread it could end up "cutting global oil demand growth by 40% this year".

Perhaps the only way to halt the current bear market in oil is for Opec , the exporters' cartel, to agree "emergency production" cuts with Russia that are drastic enough to bring prices back above $65 a barrel.

Google searches for new growth business

Is this the end of a rally that has seen Alphabet shares rise by 17% in the last three months? The stock of Google's parent company slipped by 4% this week after its latest quarterly figures, says Richard Waters for the Financial Times. Sales grew by only 18% year-on-year, lower than the growth the market had anticipated. This "was caused almost entirely by a shortfall in Google's non-advertising businesses", which now comprise a fifth of the group total.

Investors will be "disappointed" by the results, says Gina Chon on Breakingviews. Still, they should welcome the "increased transparency" that comes



with Alphabet's decision to break down revenue and profits by its various divisions. It shows that some parts of Alphabet are still growing extremely quickly, with revenue from YouTube advertisements and the cloud computing division jumping by more than 30% and nearly 53% respectively.

While new CEO Sundar Pichai will still have to "accelerate growth and navigate through regulatory challenges", shareholders should be reassured by the fact that he is "open to more honest grading".

But greater disclosure also raises an awkward question, says Lex in the Financial Times. Is there a business in the portfolio apart from advertising that can drive future growth? YouTube TV "is far from becoming the next Netflix", while self-driving car group Waymo and other ideas "keep sucking up money and producing little". "If Google has another revenue model waiting in the wings it is not saying."

Eyes on the Brexit prize

Freed from EU rules, Britain is set to "prosper mightily", says the prime minister. Emily Hohler reports

Boris Johnson on Monday said he was prepared to sever links with the EU without a trade deal if Brussels insisted on tying us closely to its rules, says the Financial Times. Johnson said that a "Canada-style" trade deal, free of tariffs and quotas, was the goal, but said the UK could still "prosper mightily" if a free-trade agreement wasn't in place by the end of the transition period on 31 December. This contradicts government analysis from November 2018 which suggested that a Canada-style deal would cost between 4.9% and 6.7% of GDP over the next 15 years. Johnson's "salvo" came as Brussels published its draft mandate for talks, calling for the continued application of EU state-aid rules in Britain, alongside its environmental and labour laws.

The PM stands "a good chance of winning" in trade talks with the EU

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A bridge over troubled fishing waters

Johnson has "already rejected" these stipulations and "other parts of Brussels' vision", including its insistence that the European Court of Justice (ECJ) would continue to have a major role to play, says Jim Brunsden, also in the FT. Then there's the EU's insistence that it will "suspend law-enforcement cooperation" if Britain repeals the Human Rights Act. "Getting rid of that legislation is a longstanding goal" for the Tory party, which argues that it makes it too hard to deport foreign criminals. Other "vexed issues" include the EU's determination to maintain access to British fishing waters.

Nonetheless, Johnson's belligerence is baffling, says Simon Jenkins in The Guardian. There is no evidence that Britain would prosper if we were to end up with a relationship similar to that which the EU has with Canada, or even Australia, which has been mentioned and is code for "no deal at all". We do 50% of our trade with the EU. Trade is about "muscle" and the UK is "about to lose the muscle of EU collective negotiation". There is no way some "notional boost" in trade with China or the US can compensate for what a hard Brexit would cost the economy.

But we do have muscle, says Michael Fabricant in The Daily Telegraph. It is not in the EU's interests to start a trade war. The bloc exports far more to the UK than vice versa. Johnson "stands a good chance of winning" his zero tariffs. Playing hardball is the right approach, agrees William Hague in the same paper. The "negotiating nightmares of recent years" mean that Johnson and his team are unlikely to relinquish their main "points of leverage" until an agreement is nearly reached and are "prepared to have a row with the EU up-front".

Crucially, the prime minister says that departing from EU rules does not mean lowering our standards, on everything from maternity leave to the minimum wage (both of which are already better than in many EU countries). Expectations that disagreements could be adjudicated by the ECJ and that Britain, an independent state, could be bound by EU regulations, are "unreasonable". However, the "greatest danger" is not that ministers cave in on this point, but that Britain fails to capitalise on the opportunity, maintaining standards while attracting investors, entrepreneurs and global talent.

The Brexit prize is even greater than that, says Jeremy Warner, also in The Daily Telegraph. The "big hope" is that it will act as a catalyst to address domestic problems such as the north/south divide or poor education levels, which have "little or nothing" to do with the EU. In terms of growth, the 2018 forecast is meaningless. It was based on the assumption of a bare-bones trade deal and all else remaining the same. "This is extraordinarily unlikely." After Brexit, "there will be no more excuses. It's compete or die."

Car makers face new challenges

©Getty Images

Has Nissan warmed to Brexit?

Nissan has drawn up plans to "pull out of mainland Europe" and "double down on the UK" in the event that a hard Brexit leads to tariffs on car exports, reports the Financial Times. If imported cars become more expensive, Nissan's UK-made models would have a "competitive edge". Insiders think the firm could increase its market share from 4% to as much as 20%."For the moment, this is only a scenario, and one which Nissan officially denies", despite the apparent confidence of the FT's reporting, says Ross Clark in The Spectator. However, it makes sense, and it's a"reminder that the boot is not on the EU's foot when it comes to trade negotiations".

Nissan not only denied the story, it said that the kind of Brexit Boris Johnson was "flirting with" – a hard Brexit where we would trade on WTO rules – would have "dire consequences", says David Smith in The Times. Still, it's worth asking whether the plan – which is based on the old idea of "import substitution behind a tariff wall" – would work. The fact is, in all simulations, import substitutions are "greatly outweighed by the negative effects on trade with our largest export market". In terms of Nissan, the idea that a 10% tariff on imported cars (much of which might be absorbed by manufacturers) would encourage UK car buyers to switch en masse to Nissan or other British-made cars seems very unlikely.

"There is also a simple matter of arithmetic". Last year 2.31 million new cars were registered in the UK. Production for the home market was 247,138, a market share of slightly less than 11%. If Nissan really is planning to increase its UK market share from 4% to 20%, that would be "not only five times what it sells to the home market now but also nearly double what the whole industry sells into the home market". And if import substitution is unlikely to work for cars, it is less likely to work for the "many products this country has ceased to make".

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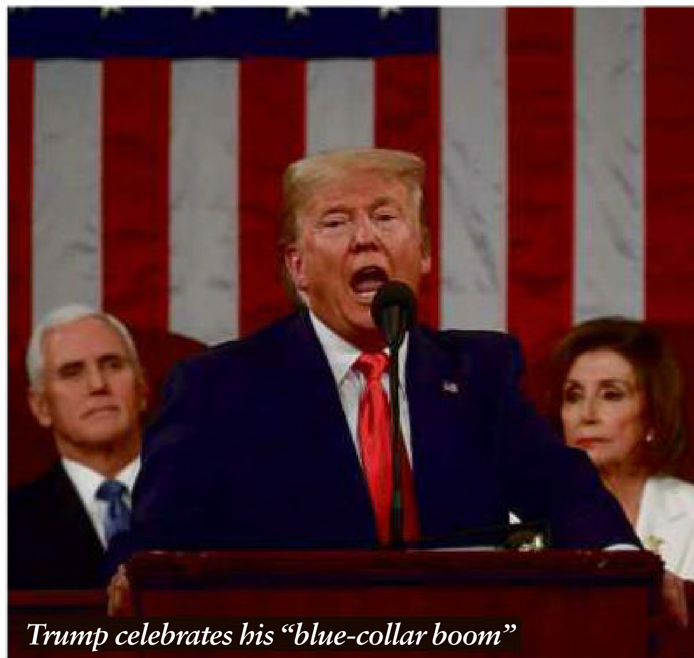
President clears way for election

Donald Trump comes out of his trial looking peachy. Matthew Partridge reports

The US Senate looked almost certain to acquit President Donald Trump of charges of abuse of power and obstruction of Congress as MoneyWeek went to press. That will "further clear the skies over the White House", says Tom McCarthy in The Guardian. The trial was hardly a nailbiter though. Several Republican senators said they were undecided when the impeachment process began, yet all but one rallied around the president, putting a two-thirds majority, which was required to remove Trump, "out of reach".


Trump celebrates his "blue-collar boom"

©Shutterstock

A dangerous precedent

Quite right too, says Andrew McCarthy in the New York Post. The original impeachment enquiry in the House of Representatives was a "shoddy" affair – the president's team was, for example, "denied the right to cross-examine witnesses and present evidence". And even if Trump were guilty of having abused his office, his behaviour falls well short of the "high crimes and misdemeanours" that could command a consensus for removal. The spectacle has from the start been driven more by Democrats' need to appease activists who have "wanted the president impeached since the night he defeated Hillary Clinton" than for justice.

The Republicans can hardly be absolved of fault, says The New York Times. Right from the beginning they claimed the impeachment process was being "rushed" and that the president was being denied "basic procedural protections"; yet later they "refused to hear from a single witness" or "demand a single document from the White House". As well as undermining the rule of law, an acquittal sends a dangerous message to Trump as it's now "hard to envision anything that this president could do that would require Republican senators to vote for his removal".

A strained speech

Trump ignored the impeachment drama completely during his annual State of the Union speech, seizing instead on the "unparalleled success" of the US economy under his stewardship, says Henry Zeffman in The Times. His speech was marked by "intense animosity" between Republicans and Democrats, but Trump remained unruffled and staked his claim for having created a "blue-collar boom" and "restoring our nation's manufacturing might". He also hailed his success in trade deals with Mexico, Canada and China.

The fact that he focused on the economy in his speech is "a sign of how much he'll lean on the issue heading into the November election", says Bloomberg, but it's not clear he deserves credit for a "tight" labour market and an economic expansion "now in its record eleventh year". Besides, his gloating may be premature. The rosy picture Trump painted glosses over the fact that "wage growth has slowed, the employment participation rate still hasn't recovered its pre-recession level and the nation's overall income inequality is widening". The economy is now showing signs of slowing, with factories planning investment cuts this year for the first time since 2009. Trump's tense speech concluded with a final say from House Speaker Nancy Pelosi, sitting behind Trump as he spoke. As the president concluded, she picked up her copy of his remarks and tore it in half.

Trump is the real winner in Iowa

Pete Buttigieg: top of the pack

The Iowa caucus of the Democratic Party, which marks the start of the presidential primary season, has been "mired in confusion and recriminations" after a technical mishap snarled the vote count, causing the results to be delayed by more than a day, says The Wall Street Journal. With some votes still to be reported as MoneyWeek went to press, the provisional results showed former South Bend mayor Pete Buttigieg and Senator Bernie Sanders "at the top of the Democratic pack". It looked like there could be a "split verdict", with Sanders slightly ahead in the popular vote, but behind in the race for the most delegates, with the latter determining the official winner.

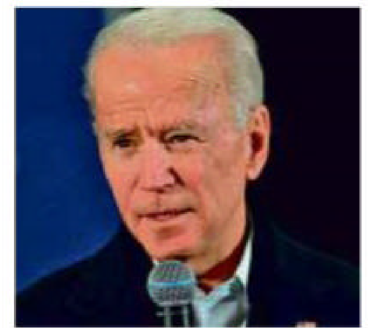
The results represent a triumph for Buttigieg, says Ross Douthat in The New York Times. He outperformed expectations, watched former vice-president Joe Biden "sink dramatically", and is now clear "to claim to be the viable moderate alternative to Sanders and socialism". Sanders will take comfort from the fact that, unlike Biden, Buttigieg has little support in many national polls and no traction with minority voters.

Donald Trump is the real winner from the debacle, says The Economist. The "chaos" over the results and "public dismay" over the party's organisation is likely to rub off on the person who ends up as the Democratic nominee. And despite the "unusually warm" winter weather, turnout seems to be around the level of four years ago, when voters were "notoriously unhappy" with their choice of candidates. This suggests that, despite the much larger field this time, there is still "little overall enthusiasm" for any of the candidates.

Betting on politics

At the time of writing, the overall winner of the Iowa caucus (see bottom story, left) was still undecided, but punters on Betfair have decided that, in terms of the overall contest for the overall nomination, former vice-president Joe Biden (pictured) is the big loser. Bernie Sanders is the favourite on Betfair at 2.92 (34.2%), with Michael Bloomberg in second place at 5.5 (18%). Biden, who was at one point favourite, is now in third at 6.2 (16.1%). Breathing down his neck in fourth place is Pete Buttigieg at 7 (14.2%). Elizabeth Warren is a long way behind the rest of the pack at 17.5 (5.7%).

Donald Trump is now firmly odds-on to be re-elected in November, with Betfair putting his chances at 1.77 (56.5%). Sanders is in second place at 15.1%, while Bloomberg is third at 9.6 (10.4%), with Biden now all the way out at 14



(7.1%) and Buttigieg at 17.5 (5.7%). Interestingly, if you divide the leading candidates' chances of being elected by their chances of getting the nomination, it implies that Sanders, Buttigieg and Biden would be underdogs in a match-up with Trump. Betfair's punters have Bloomberg as a favourite.

I think that the punters are substantially overestimating the chances of Trump being re-elected, as even now his approval ratings are under 50%. Factor in the likelihood of the coronavirus hitting world economic growth, and I'd bet that he is still on course for an election defeat. That said, if you already took the advice that I made in August to bet against his re-election, I wouldn't put any more money on it.

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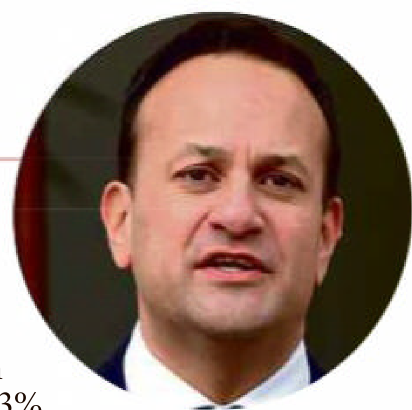
Atlanta

ICE offers to buy Ebay: Atlanta-based Intercontinental Exchange (ICE), which owns the New York Stock Exchange, has offered around $30bn to buy online marketplace eBay, according to The Wall Street Journal. ICE says it "approached eBay to explore a range of potential opportunities that might create value for the shareholders of both companies", but added that "eBay has not engaged in a meaningful way". Should a deal go ahead, ICE could expect to a pay a premium over eBay's $28bn market value. The rumours lifted eBay's shares by 8.8%, while shareholders in ICE were less thrilled: the stock fell 7.5%. "Acquiring eBay would be an unusual move for… ICE, which in its 20-year history has largely stuck to running marketplaces for financial instruments such as stocks and derivatives, rather than… consumer goods," say The Wall Street Journal's Cara Lombardo and Corrie Driebusch. Nevertheless, "ICE has a history of buying underperforming trading platforms and making them more profitable". It "may see an opening to apply its technological expertise connecting buyers and sellers to eBay's core e-commerce site, covering everything from electronics to collectables".

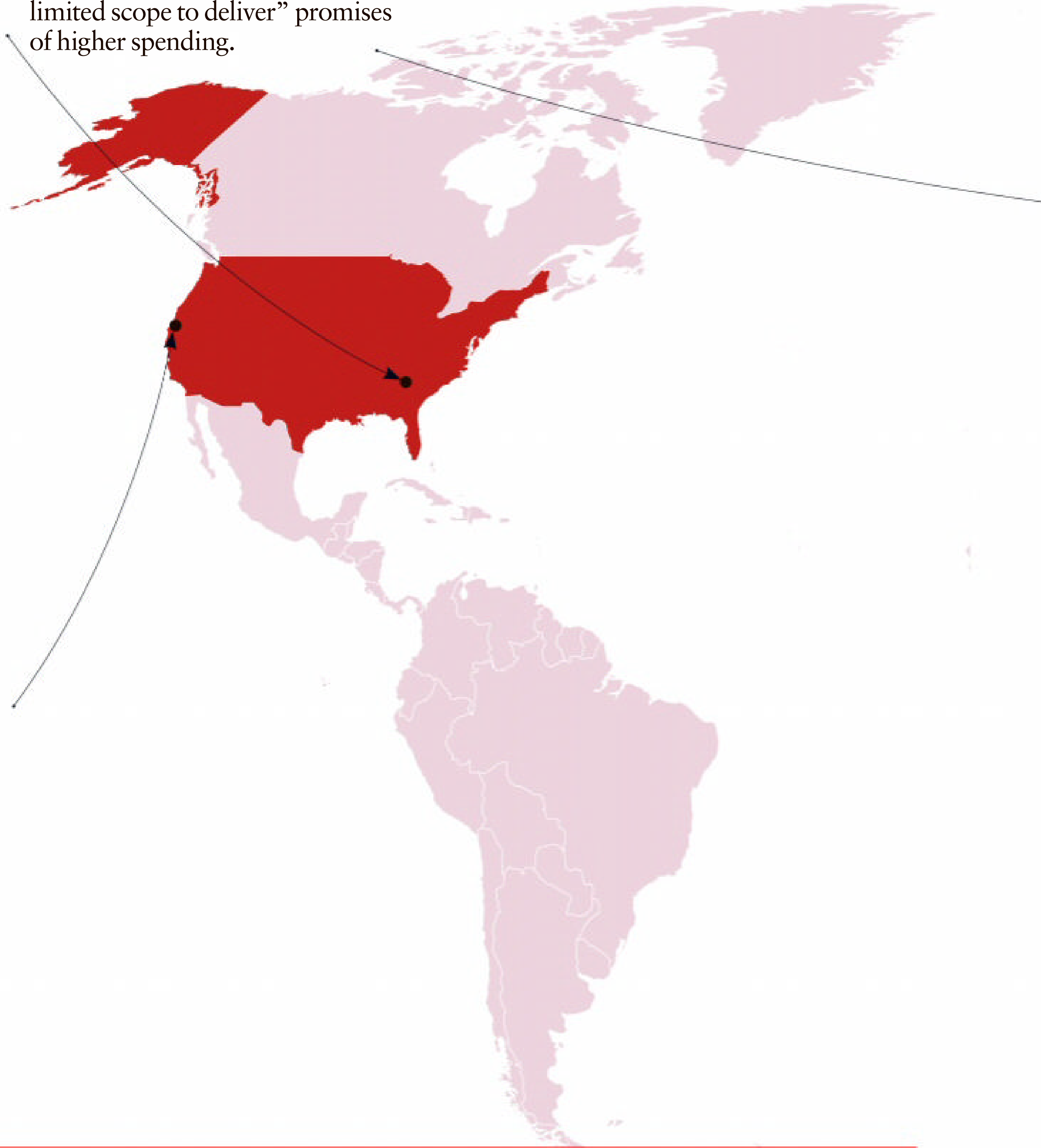
Palo Alto

Tesla begins to look profitable: Shares in electric-car manufacturer Tesla have rocketed after the company beat revenue forecasts for the fourth quarter of 2019. Sales rose to $7.4bn, surpassing Wall Street's expectations of $7bn, says Patrick McGee in the Financial Times. Net profit was $105m, down 25% from a year ago. But this marks the second quarterly net profit in a row, a "heartening" sign for investors hoping that a bet on Elon Musk's (pictured) company will pay off in the long term. Tesla's shares soared again this week, making the company the world's second-largest carmaker by market value after Toyota, say Richard Henderson and Peter Wells in the Financial Times. It is also bigger than General Motors, Ford and Fiat Chrysler combined. The stock has more than doubled since the beginning of the year; on Tuesday it gained almost a quarter. The shares were unaffected by the disclosure that Saudi Arabia's $320m sovereign fund had "all but eliminated" its stake, holding only $16.4m at the end of December. Short-sellers have been obliged to "rapidly claw back bearish bets". The decline in the value of Tesla short positions so far this year has totalled $11.6bn.

Dublin



PM heads for election defeat: Irish prime minister, Leo Varadkar (pictured), could be about to lose his job, says Aimee Donnellan on Breakingviews. Varadkar's centre-right Fine Gael party has been lagging in the polls in the run-up to an election on Saturday, 8 February. Ireland's economy grew by 6.3% in 2019, and unemployment fell below 5% from its 2012 peak of 16%. So even though the incumbent "should be sitting pretty" with Irish growth the "envy of the eurozone", an Irish Times/Ipsos MRBI poll this week found his party trailing Republican Party Fianna Fail and, "even more startling", put left-leaning Sinn Fein in the lead with 25% of the vote. Voters are concentrating on domestic problems as the spotlight has shifted from Brexit. People have been irritated by "sloppy spending". Concerns over nurse and doctor shortages, long waiting lists at hospitals, and a lack of new homes being built are key concerns. However, if Boris Johnson fails to negotiate a trade deal with the EU, growth in the Irish economy could slump to 0.7% next year, according to one estimate, and a budget surplus could turn into a deficit. Whoever wins "may find there's limited scope to deliver" promises of higher spending.



The way we live now: the cat too rich to work

Choupette's nanny is "not super-keen" on her being employed

She lives on the outskirts of Paris and has her own Instagram account, but Choupette is not a typical internet influencer. Karl Lagerfeld's "beloved" cat has revealed her "personal side" in a set of photographs uploaded to Instagram, says Peter Conradi in The Times. The cat is represented by a Paris-based talent agency and "has a lot of requests", but hasn't done anything so far because her agents are "ultra-selective". Choupette is a "model" and very easy to work with; as soon as she sees a camera, "she poses". She lives with her nanny, who is "not super keen" on her working. Not that she has to. After Lagerfeld died last February aged 85, part of his $200m fortune went to Choupette. It was "love at first sight" for Lagerfeld, who met her after a friend asked him to look after the then four-month-old kitten. Lagerfeld became "besotted" and convinced his friend to let him keep her. Choupette is not the only member of the "furry plutocracy", says The Sunday Times. There is also a "$375m German shepherd, an Italian cat with a $13m property empire, and a chicken with a $15m inheritance".

©Getty Images

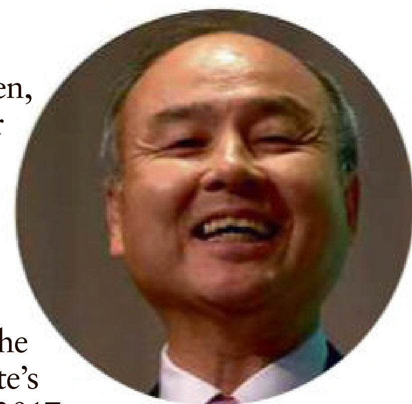
Boris has built confidence

London

Economy gathers strength: This week brought good news from both the construction and the manufacturing sector. Manufacturing showed signs of stabilising last month, emerging from an eight-month-long period of contraction, the longest since the financial crisis, says Richard Partington in The Guardian. The widely watched PMI survey tracking activity in the sector showed that factory output remained steady in January, with optimism among manufacturers hitting an eight-month high. Reduced political uncertainty after Boris Johnson's landslide victory in December, and clarity over UK's looming exit from the EU, have bolstered the construction sector too.

In December output fell at its slowest pace since May 2019 in a sign of recovery for Britain's builders. "The increase in the new orders balance to 49.5, from 44.5, and the highest levels of optimism about the 12-month outlook for demand since April 2018, suggest that the PMI will rise further over the coming months," says chief UK economist Samuel Tombs from Pantheon Macroeconomics. Meanwhile, a sentiment indicator covering both consumers and businesses has ticked up to a five-month high, says Andrew Wishart from Capital Economics. The reading is consistent with year-on-year GDP growth of 1.2%, up from 0.8% in the fourth quarter. It's another sign that "the economy has turned a corner."

Tokyo



Vision Fund exodus begins: Michael Ronen, the managing partner of US investments at SoftBank's $100bn Vision Fund, is stepping down. The former Goldman Sachs banker joined the Japanese conglomerate's tech-focused fund in 2017. He oversaw bets on transportation and logistics start-up in the US, including Getaround, GM Cruise and Nuro. His departure over "issues" at the technology conglomerate founded by Japanese billionaire Masayoshi Son (pictured) shines an awkward light on a string of embarrassing investment flops made by the Vision Fund – especially WeWork, on which it spent more than $10bn; Son orginally said it would be worth a few hundred billion one day. The troubled office-space provider had to abandon a flotation last November that it had hoped would value it at $47bn. A subsequent bailout from SoftBank implied a valuation of just $8bn. Its controversial founder, Adam Neumann, was handed $1.7bn on the way out. The Vision Fund also invested in Uber, another major disappointment of 2019.

Pretoria

Former president fails to appear in court: A South African court issued an arrest warrant for Jacob Zuma on Tuesday after the former president skipped court. Zuma faces 18 charges of fraud, racketeering and money laundering relating to a $2bn arms deal. Meanwhile, pressure is mounting on President Cyril Ramaphosa, who took office in February 2019 pledging to "ignite growth" and "reverse nine years of misrule" by Zuma, says Bloomberg. The economy is on the brink of recession and finance minister Tito Mboweni has taken to Twitter to express his frustration at policy "inertia", warning that the government's "failure to ramp up structural reforms" will result in credit-rating agency Moody's downgrading South Africa to "junk status" within months, adds Mlondi Mdluli on Fin24. The country's ailing power utility, Eskom, continues to have a "devastating impact" on the country's manufacturing industry and agricultural sector owing to continued power cuts.

Nairobi

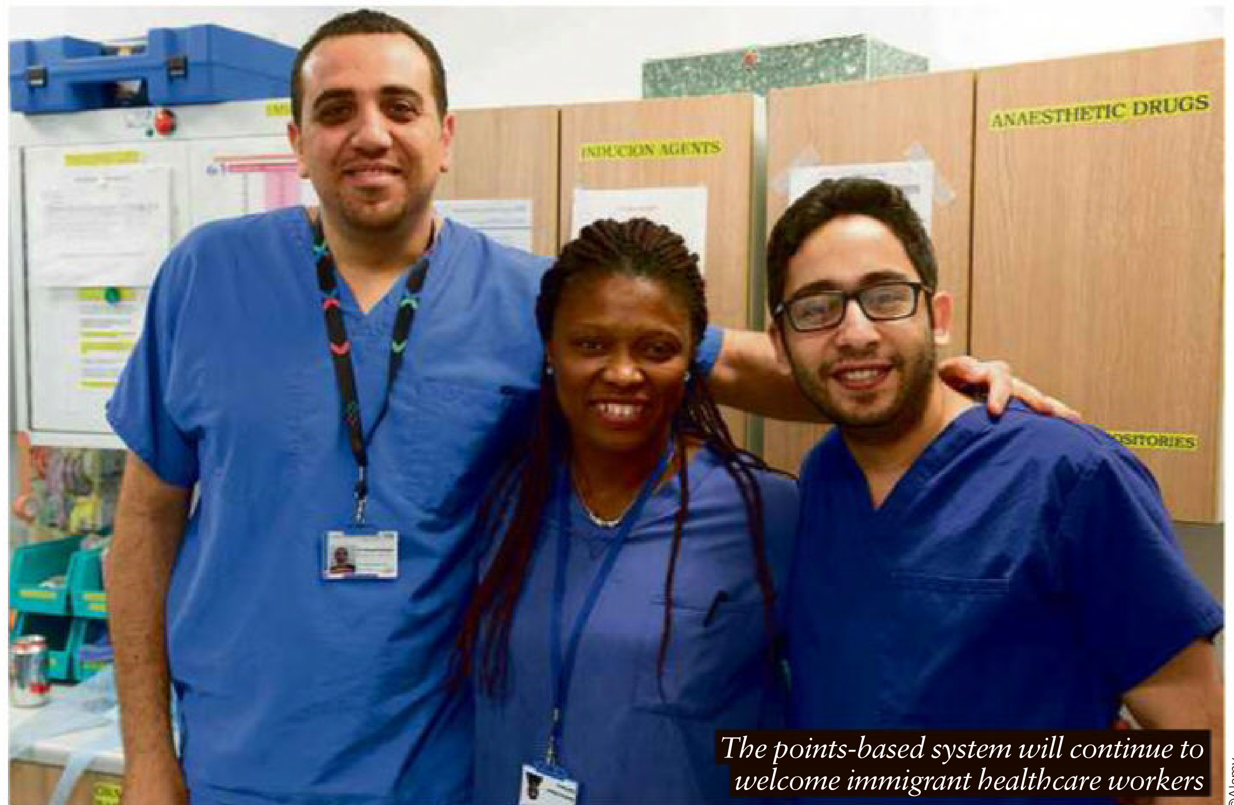
Daniel arap Moi dies: Kenya's autocratic former ruler of 24 years has died at the age of 95. He was, says The Times, "an archetypal African strongman". Moi (pictured) came to power in 1978 on the death of his mentor, Kenya's first post-independence president, Jomo Kenyatta. Four years later, Moi crushed an attempted coup and tightened his grip on power. The West stood by, careful not to anger a Cold War ally. Corruption flourished. In the early 1990s his government handed over huge sums to a company called Goldenberg International to promote its nonexistent exports of gold and diamonds. The "Goldenberg scandal" reportedly ended up costing the country 10% of its annual GDP. A crumbling economy, however, forced Moi to call Kenya's first multiparty elections, which he won amid scenes of violence. He was barred from running in 2002 and failed to get his protégé, the son of his mentor, Uhuru Kenyatta, elected. Even so, Moi's successor President Mwai Kibaki refrained from prosecuting him, despite claims that Moi's entourage had used a network of shell companies, trusts and frontmen to channel around £1bn of government funds overseas. Of that money, £4m was used to buy a property in Surrey and £2m to buy a flat in Knightsbridge.

Will Britain close its doors post-Brexit?

Details have not yet been forthcoming, but Britain will soon have a new immigration policy. What will that mean for businesses and investors? Simon Wilson reports

What changes are proposed?

Like much of what the Johnson government has got planned, the broad outline is visible, but the detail is hazy. We know for sure that once the Brexit transition period is over (which the government says will be at the end of 2020) EU nationals will no longer have the automatic right to live and work in the UK. Freedom of movement will end. Instead, "Global Britain" will treat potential immigrants from all countries equally, deploying what the government calls an "Australian points-based system" to assess applicants. Although the government has now abandoned the Conservatives' previous promises to bring net immigration below 100,000, it is clear that it wants the level to fall. "We are not going to fix on an arbitrary target," said foreign secretary Dominic Raab during the election campaign. But "by exercising a points system you bring it down year-by-year".



The points-based system will continue to welcome immigrant healthcare workers

©Alamy

What is this points-based system?

Under the Australian system, foreigners applying for a work visa are assessed and awarded "points" based on various "economically relevant characteristics" such as education, language skills and work experience. Typically, an applicant picks a "skilled occupation" from a list, and needs to score a certain number of points to be accepted. Of course, that doesn't necessarily bring immigration down: it depends how liberal or how restrictive you make your criteria. In the case of the UK, the stated goal of the system will be to attract lots of high-skilled workers, and workers in key shortage areas such as education and health, while deterring low-wage, lower-skilled workers – and gradually reducing overall net immigration. However, not everyone is convinced that such a system will work, or that it's in the best interests of the UK.

Who's sceptical?

The CBI for one. They and other business lobby groups worry that the Conservatives' plans, under which the vast majority of migrants would need a job offer, could lead to skills shortages in key industries, such as construction. If you want to build houses, you don't just need "the architects and designers", says CBI director-general Carolyn Fairburn. "You need the carpenters, the electricians, the labourers. We need people to come and help us renew our economy. It's not just the brightest and the best, it's people at all skills across our economy that we need." Even more awkwardly for the government, the Migration Advisory Committee (MAC) – an outside panel of experts tasked by government with analysing the issue and offering guidance in a report – is also sceptical. Launching its report last week, the MAC's chairman, Professor Alan Manning, dismissed the idea of a "points-based system" as a mere "soundbite" – and advised the government to have a rethink.

> *"Brexit will not mark a decisive turn towards restricting immigration"*

What did the MAC report say?

It basically recommends a hybrid arrangement: a points-based system only for skilled workers coming to the UK without a job offer (in practice a minority), plus a minimum salary threshold for people who do have a job to come to. Currently, unless they're applying for an "exceptional talent" visa (capped at 2,000 a year), would-be immigrants apply for a so-called Tier 2 general visa, which requires them to have a job offer paying at least £30,000 a year. The MAC recommends cutting that threshold to £25,600, making it easier (for example) for teachers, NHS workers and younger professionals to qualify. The government doesn't have to accept any of this – and its response has been non-committal, simply re-iterating its existing commitment to a points-based system to be introduced in 2021.

What would the effect be?

According to the MAC's analysis, the effects of its proposals compared with the current situation would mean lower overall immigration, lower economic growth and lower population growth – but a bit less pressure on public services and housing. Overall, Professor Manning thinks the changes would lead to "very small increases in GDP per capita and productivity, slightly improved public finances, slightly reduced pressure on the NHS", schools and social housing, but slightly increased pressure on the already stretched social-care sector.

Does everyone agree with this analysis?

No. The lobby group Migration Watch UK, for example, which campaigns for lower immigration, argues that failing to put an explicit cap on skilled migrants – and scrapping the promise to cut net inward migration to tens of thousands – are likely to mean a post-Brexit surge in the numbers coming to the UK. "The electorate, including those who don't usually vote Conservative, will expect Boris Johnson to keep his word on reducing immigration," said the group's chairman, Alp Mehmet. What's likely to happen in practice, says The Economist, is that the government will accept most of the MAC's recommendations for a hybrid model, but call it a "points-based system" anyway.

What do the public think?

What's most striking is the extent to which immigration has fallen down the list of voters' concerns since the 2016 referendum, says Sunder Katwala of the British Future think tank. Where once it topped electors' lists of priorities, it now ranks a lowly ninth, according to a new ICM poll. That poll found that 79% of voters want the number of high-skilled EU workers to stay the same or increase. That proportion is 65% for seasonal EU workers, and 77% for high-skilled non-EU workers. Only a slim majority (51%) want to cut low-skilled EU immigration, with 31% thinking it should remain at the current rate. In short, the UK public is pretty relaxed, wanting a "balanced" system of immigration that secures its benefits while managing its pressures. Brexit is looking "less like it will make a decisive turn towards restricting immigration", says Jonathan Portes in The Guardian. "Instead, consistent with the more benign aspects of our history, it may signal a different form of openness."

Continental Blend

The Case for European Companies

In December 2019, we became the portfolio managers of what was The European Investment Trust plc, following a decision by the board to appoint Baillie Gifford. In addition to renaming the trust as Baillie Gifford European Growth Trust plc, investors will notice a radical change in the portfolio, which has been reinvested in 40 or so companies which we believe are most likely to deliver outstanding growth over the next five to ten years.

Please remember that the value of a stock market investment and any income from it can fall as well as rise and investors may not get back the amount invested.

INVESTING FOR GROWTH

Europe is home to many outstanding businesses, from 'hidden champions', industrial companies dominating attractive niches to luxury brand businesses which benefit from heritage and provenance, and younger, disruptive, internet-enabled businesses. We believe that the best way to create sustainable and growing returns for shareholders is by investing in such innovative and adaptive businesses, regardless of geographical location or sector.

Although the trust's portfolio is similar to that of the Baillie Gifford European Fund, we will be investing in some smaller capitalisation companies of at least €500 million. This broadens the opportunity to invest to about 1,150 companies.

Over the next two to three years, we also expect to invest in unlisted companies valued at a minimum of €500 million, enabling us to invest in Europe's most exciting growth companies, listed or not. However, we will not invest more than 10 per cent of the trust's portfolio in these private companies.

We are not looking to invest in embryonic businesses or ideas, but in established businesses choosing to remain private for longer. Businesses like these tend to be asset-light and do not require much capital.

We believe that unlisted companies like these are better held within the structure of an investment trust than a fund. Our shareholders can trade in the trust's shares at the market price whenever they wish, while the closed-end structure of an investment trust means that there is never any need for us to sell any of our holdings to fund redemptions.

So far, only around 10 per cent of the world's unicorns – private companies valued at over $1 billion – have come from Europe. Yet when we speak to companies in Berlin and Stockholm, we can see that the mindset is changing.

THE TROUBLE WITH EUROPE

Investors may be cautious about investing in Europe. It lacks a technology giant, and its lacklustre stock market is dominated by large, bureaucratic multinational companies in sectors such as financials, consumer staples and even healthcare. We are not buying those companies, however. We are investing in a small number of innovative, proactive companies that happen to be domiciled in Europe.

Looking at the European market over the past 30 years, it is niche industrial businesses that have delivered the best returns, companies such as Beijer Ref, whose environmentally-friendly fridges and freezers play a key role in reducing CO2 emissions in supermarkets and other commercial premises.

SMALL CAN BE BEAUTIFUL

The internet has made it much easier for smaller companies. The old theory that economies of scale were the most important thing no longer holds. IMCD is a good example of a capital-light business. A Dutch company, it markets and distributes speciality chemicals, which are used in cosmetics, food, drink, cars, detergents, paints and medication, a growing market as more chemical companies outsource distribution.

ADAPTING TO CHANGE

We tend to like family-backed businesses, such as Atlas Copco, and NIBE, a leading manufacturer of heat pumps. These Swedish companies' business models depend on buying other family firms, and that depends on those owners being prepared to sell. We have seen that family-run Swedish businesses with a long history of successful acquisitions tend to be welcome purchasers.

Europe also has a rich provenance in leading brands such as Gucci, owned by Kering, and Cartier, owned by Richemont. We have been impressed by the way in which both companies have nurtured their brands. Although Adidas is a more mass-market brand, it has its own valuable heritage, while L'Oreal, another strong European cosmetics brand, has stayed ahead of the times.

As investors, we care most about the long-term. It is important for us to be able to trust the people running the businesses we invest in, and to know that they want to pass on the business to the next generation in even better shape than it is today.

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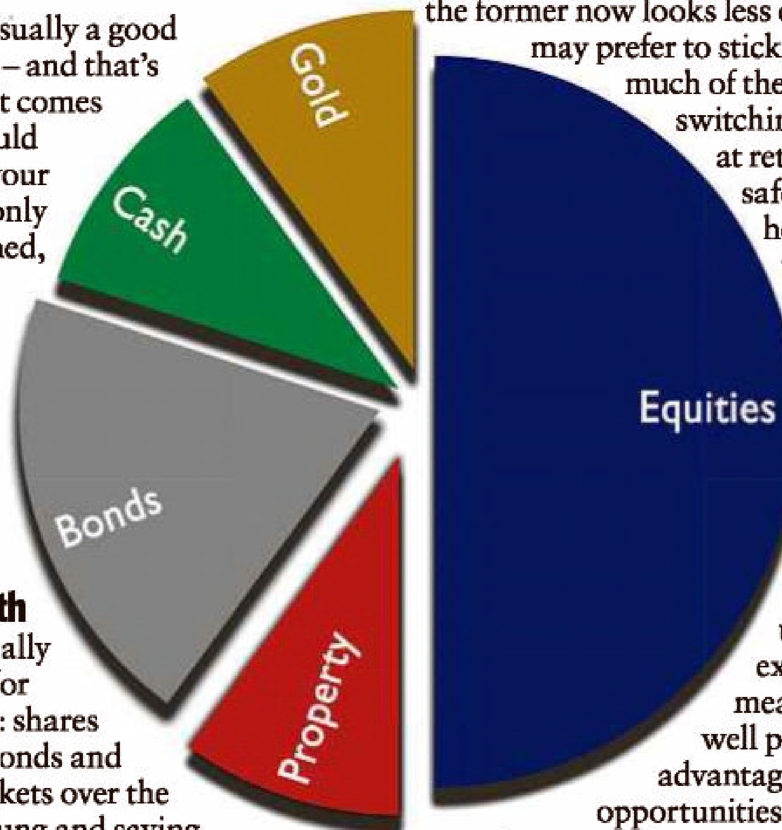
The only assets that matter

Every investor's needs are different – but most can be met by the right combination of five investments

Cris Sholto Heaton
Investment columnist



Keeping it simple is usually a good principle in investing – and that's definitely true when it comes to deciding what should make up the core of your portfolio. There are only a handful of established, transparent and proven asset classes that have distinctive properties. Striking the right balance between them is the first decision in any investment strategy.

Investing for growth

Equities have historically been the best choice for growing your wealth: shares have outperformed bonds and cash in all major markets over the long run. If you're young and saving for a distant retirement, you might have almost all your portfolio in the stockmarket. But shares are volatile, so an older investor who wants their wealth to be more stable might choose to keep just half (or even less) of their assets in shares.

Your **property** should mean far more than your house: it could include offices, shopping centres, factories or warehouses. History suggests commercial property returns will be lower than equities, but this asset brings steady income and useful diversification (it may do better during periods of high inflation, for instance). Most of us will invest in property through Reits (see below), which might make up 10%-20% of a balanced portfolio.

Defending your wealth

Bonds have two main roles: as a steady source of income and as a safer asset that does well when shares swoon. With yields as low as they are, the former now looks less compelling: investors may prefer to stick with equities for much of their income instead of switching entirely into bonds at retirement. But holding safe government bonds helps balance the volatility of stocks, so they could still make up around a quarter of a balanced portfolio even at today's meagre yields.

Cash provides a buffer for unexpected expenses, but also means that you are well placed to take advantage of any buying opportunities the market throws up. But too much cash will be a major drag on your returns. An allocation of 5%-10% is sensible in most circumstances (on top of any cash that you expect to need soon – for example, a deposit to buy a house).

Finally, there's **gold**. Some investors suggest holding commodities in general, but the yellow metal is the only one with a strong case for being a core holding. Gold pays no dividends or interest; in fact, it usually costs you a small amount in storage or management fees to own it. But it's a highly liquid and trusted asset that consistently does well during crises. Keeping 5%-10% of your money in gold is a simple way of insuring against a major meltdown.

I wish I knew what Reits were, but I'm too embarrassed to ask

A real estate investment trust (Reit) is a company that owns and leases out property. The exact rules governing how Reits work vary in different countries, but they must usually pay out most of their property income to shareholders each year (a minimum of 90% is typical). They may be allowed to develop properties as well as owning and leasing them, but rent must make up the majority of their income. They may also be subject to other restrictions, such as caps on leverage (the amount they can borrow against their assets).

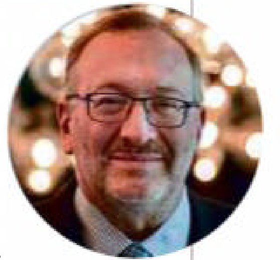
The compensation for these restrictions is that Reits pay no corporation tax on eligible income and capital gains – unlike traditional property companies, which must pay corporation tax. Instead, shareholders will pay income tax at the relevant rate on the income distributed to them each year. This makes Reits more tax efficient than most other property investment vehicles, because it avoids income being taxed twice.

Reits typically focus on one or two sectors, such as offices, shopping malls or warehouses, rather than covering the entire property market. The range of available Reits also includes specialists in relatively niche sectors such as self-storage units or data-centre facilities.

Investors can easily build a diversified portfolio of commercial property by selecting Reits from different sectors and different countries, or by buying an exchange traded fund (ETF) that tracks a broad index of property companies.

The share price of Reits can be volatile (in common with most property-related stocks), especially during periods of crisis when they may be more volatile than the wider stockmarket. However, Reits are much more liquid than direct investment in property or even open-ended property funds (which may struggle to sell assets quickly and can be forced to suspend redemptions if lots of investors want to exit at the same time).

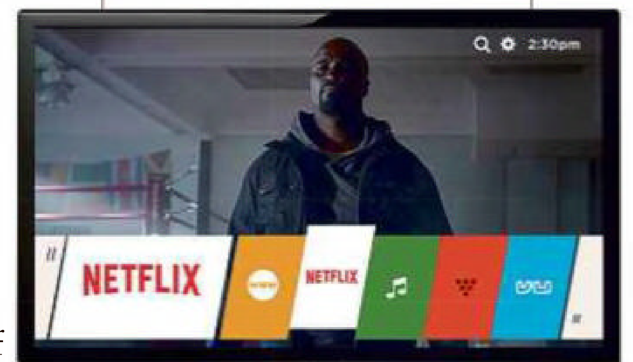
Guru watch



Seth Klarman, chief executive, Baupost

"Today's trend-following environment has left Baupost looking flat-footed," says Seth Klarman, the co-founder of the $29bn hedge fund, in his latest letter to investors. Baupost returned less than 10% in 2019, compared to a gain of 30% for the S&P 500 index.

The shortfall was largely due to its focus on value stocks, which are out of favour to an extent that is exceptional by historical standards. "The relative underperfomance of small cap value has been only more extreme twice in history – in 1929, right before the Great Depression, and in 1999, at the height of the tech bubble." Klarman blames this in part on the growing influence of passive investing and index funds, and the way that they draw money into a narrow set of companies. "Stocks not included in prominent indices relentlessly lag, while the beneficiaries of such inflows move more or less in tandem, sometimes regardless of diverging fundamentals."



Yet Baupost has "utter confidence" that a focus on value will pay off, "knowing that the rocket fuel that propelled markets in 2019 will run out". When it does, the reckoning will be grim for "high-flying and often profitless upstarts" such as Netflix, Uber and Tesla. The failed initial public offering and subsequent bailout of WeWork is a reminder of how abrupt this might be. "Investing is not a sprint but a marathon. Over the long run, major mispricings are eventually corrected ... because short-term illusions are pierced and enduring characteristics become more apparent."

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Winners and losers from a hard Brexit

Our exit from the EU is likely to be of the hard variety. Investors should back the industries that will flourish

Matthew Lynn
City columnist

We don't yet know what Britain's trade deal with the EU will look like once the transitional arrangement runs out at the end of this year. One thing is starting to become clear, however. Boris Johnson's government, with a secure majority in Parliament, will refuse alignment with future EU rules and stick to that position, even if it means that a deal is not possible and we have to trade under WTO rules instead. Big business groups are not going to be happy about that, but it doesn't make much sense for an economy the size of Britain's to allow its regulations to be set permanently by an organisation it is not a member of. This creates an opportunity for investors.

The losers

The hit will be taken by any major manufacturing business with supply chains that stretch across Europe. The carmakers will be in trouble (although a few, such as Nissan, may be able to ramp up sales in the UK to make up for it – see page 8). Rules of origin, tariffs and quotas will mean that logistics freeze up, just-in-time production systems have to be scrapped and tariffs of up to 10% may be faced in some markets. That is going to hurt. Car manufacturers are going to suffer, both in the UK and in Europe, and so will the parts suppliers and dealers who depend on car sales.

Chemicals and drugs makers might get hit and so might clothes, shoes and textiles manufacturers. And there may be losers in financial services if passporting rights for the City are lost as a result of failing to reach a deal: it won't make a lot of difference to the banks, but fund managers and insurers may find themselves frozen out of lucrative European markets or forced to open units in Paris or Frankfurt.

Wave goodbye and say hello to new opportunities

©Alamy

The winners

The losers will do a lot of lobbying and make a lot of noise. But there will also be some big winners if we free ourselves from the rules that come out of Brussels. Such as? First, and most obviously, technology. Over the last decade the EU has pushed through ever-stricter controls on tech companies. It is still hitting them with a constant round of fines and restrictions – a potential ban on facial recognition, a hugely exciting new technology, is just the latest example. That may protect privacy, to some degree, but it also makes it harder for companies and entrepreneurs to innovate. The UK already has the leading tech hub in Europe. With lighter regulations, our tech firms can flourish, as can all the venture-capital houses that put money into them.

Next, finance. Sure, some of the big traditional asset managers and insurers may lose out. But the EU has also been imposing round after round of rules and regulations on finance. The City has always thrived as a global centre of innovation and excellence. From fintech, to cryptocurrencies, to crowd-funding, to financing emerging markets and new technologies, the smaller, nimbler finance firms will find business a lot easier if we set our own distinct rules from the EU.

Thirdly, retailers. True, there may be problems with supply chains. But shops will benefit hugely from being able to source the cheapest goods from around the world. We have been so used to EU quotas and tariffs – 16% on oranges, for example, or 8% on coffee, even though both are remarkably hard to grow in this country – that it will probably come as a surprise when we see how much cheaper products can be bought elsewhere. A round of price cuts may tempt people back into the shops again.

Finally, food production and agriculture. The industry has grown used to EU controls, but they never worked for the UK. We were stuck with a food industry hooked on subsidies and dominated by controls. And yet from lab-grown and substitute meats to vertical farms, agriculture is about to go through a technological revolution. The giant agri-businesses of France and Spain will oppose that fiercely, but freed from their lobbying the UK can pioneer those industries – which makes sense for a country that gave up on self-sufficiency decades ago. Farming will look very different with rules set in the UK, but it will also be a lot more profitable.

Who's getting what

● **David Cameron** has earned £1.6m since stepping down as prime minister following the Brexit referendum in 2016, says The Guardian. The accounts for the Office of David Cameron show that he made £836,168 in the year to 30 April 2019, up from £790,274 the previous year. While earnings are not broken down, Cameron (pictured) makes money from speaking engagements and media deals. The accounts also show that an investment property, valued at £128,190, was bought last April.

©Getty Images

● The CEO of the Submarine Delivery Agency, **Ian Booth**, has been handed a £185,000 bonus. Together with his £280,000 salary, his total pay package comes to £465,000. The agency was set up in 2018 to oversee the replacement for the Trident nuclear deterrent, as well as maintain Britain's existing submarine fleet, says The Times. Projects have been running years behind schedule and "billions over budget". Submarine-related infrastructure had doubled in price to £2.5bn, according to the National Audit Office.

● Tobacco giant Imperial Brands is facing a backlash from equal pay campaigners over how much it pays its new chief executive, **Stefan Bomhard**, says The Daily Telegraph. The former chief of car firm Inchcape is to be paid up to £900,000 more than his predecessor, Alison Cooper, who ran the business for nine years. Bomhard's maximum pay, including target-related bonuses, will be £8.4m, compared to the maximum £7.5m a year Cooper earned.

Nice work if you can get it

Asset managers received bigger pay rises than investment bankers last year as rising stockmarkets boosted the returns of fund houses, according to data from Emolument, a salary-comparison company. The global median pay for asset management staff, including bonuses, rose by 16.4% compared with 2018 to $167,000. Investment banking staff, on the other hand, received a pay rise of 12.4%, but at $218,000 a year, were still better paid. Rising stockmarkets translated into higher returns for fund houses last year, but "stockpickers… continue to see investors flee their funds, raising questions about the outlook for pay in 2020", says Attracta Mooney in the Financial Times. "I wouldn't be optimistic over the coming bonus round [for asset managers]," Carl Sjöström, founder of business consultancy Viti Solutions, tells the paper. "Bonuses last year were up mainly due to 2017 being so poor."

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The return of split-capital trusts

These funds fell out of favour after a scandal in the early 2000s. Here are two worth a look

Max King
Investment columnist

It is more than 15 years since the split-capital trust scandal broke. Up to 50,000 investors lost money after investing in the late 1990s in trusts that were described as low-risk, but turned out to be anything but. These trusts had share capital divided between zero-dividend preference shares ("ZDPs" – see box below), whose value accumulated year by year in fixed steps during a limited life, and ordinary share capital, sometimes further divided into income and capital shares. In the 1990s, all sets of shareholders prospered. But the 2000-2003 bear market often wiped out not only the ordinary shareholders, but also the preferred shareholders.

The aftermath of the crash

Losses to investors were estimated at £620m, with up to 40 trusts going bust and 21 investment firms being censored. The surviving trusts had limited lives and so were, in due course, wound up.

A small number of split-capital trusts still survive, having refinanced their ZDPs when they matured at a lower cost and a lower proportion of total capital. Prominent among these is **Aberforth Split Level Income Trust (LSE: ASIT)**. The ZDPs made up only 20% of the capital at relaunch, escalating in value at 3.5% per annum.

Bovis Homes is among the key holdings of the Aberforth Split Level Income Trust

©Alamy

This made the hurdle for the ordinary shares to produce a positive return modest. Alongside Aberforth's other funds, including the better-known Aberforth Smaller Companies Trust, ASIT invests in smaller companies with a focus on value, rather than the growth style that predominates in the sector. Aberforth avoids Aim-listed companies and ASIT has a firm tilt towards income, resulting in the shares yielding 4.6%.

With £51m of ZDPs compared with £174m of ordinary capital at the end of November, ASIT is still highly geared relative to conventionally structured trusts. This, the focus on value and the underperformance of smaller companies all resulted in disappointing performance for the first two years of the new company's life.

But there has been a marked pick-up in recent months. The shares, at 94p, still trade at a 9% discount to net asset value (NAV), a discount destined to disappear when the trust winds up in 2024. Until then, a better climate for smaller companies in general and value stocks in particular, compounded by the leverage offered by the ZDPs, promises an exciting ride.

There are 66 holdings, none worth more than 3% of the portfolio. The largest are Brewin Dolphin, Rank Group, Go-Ahead and Bovis Homes. Exposure to industrials and consumer services is high (a combined 67%), but exposure to technology, resources and healthcare is low (6%). Just under 40% of the portfolio is invested in FTSE 250 mid-cap stocks, which, together with the value style, should reduce the risks in the portfolio.

A nimbler alternative

Chelverton UK Dividend Trust (LSE: SDV) is similar, but 40% of the portfolio is invested in Aim and only 17% in the FTSE 250. Around £62m of assets are divided between £47m of ordinary shares and £15m of ZDPs, so it's a lot smaller than ASIT, but perhaps it can be nimbler in the less liquid stocks.

A portfolio yield of 4.9% enables a dividend yield of 4.4%, well covered by earnings, with the shares trading on a discount to net asset value of below 5%. As with ASIT, performance has picked up recently after a dull few years, but the long-term record is excellent. Its 74 holdings (26 on Aim), with only one over 3%, are also similar to ASIT, but the sector exposure looks better spread. Both trusts have highly regarded veteran managers.

In 2020 smaller firms are likely to perform well, while a UK-orientated portfolio should turn from a liability into an asset. Throw in the potential for returns to be enhanced by the gearing offered by the low-cost ZDPs and both trusts could continue their recent run.

Woodford watch

The Woodford Income Focus fund will reopen on 13 February, says Harry Robertson in City AM. The fund is set to resume trading the day before, according to Aberdeen Standard Investments (ASI), which took over the fund in December. The £268m fund was frozen by administrator Link Fund Solutions after Woodford's business imploded following a crisis at his flagship Equity Income fund. Ryan Hughes, head of active portfolios at stockbroker AJ Bell, said the news will bring "welcome relief" to investors who have been left in the dark since October. However, ASI has said it will operate a "more concentrated investment portfolio": the fund will reopen with a different portfolio from when it was suspended.

I wish I knew what zeroes were, but I'm too embarrassed to ask

A zero-dividend preference share (also known as a "zero" or "ZDP") is a type of preference share issued by investment trusts. Like ordinary shares, they are bought and sold on the stockmarket. But unlike ordinary shares, a zero has a limited life span.

A zero aims to pay investors a fixed amount when the investment trust winds up – this is known as the "redemption value". The "promised yield" on a zero is the effective annual yield paid out to those who hold the shares until maturity.

As with other preference shares, zeroes are typically higher up the queue than ordinary shareholders when it comes to being paid (although they still rank behind debt). So while zero holders won't share in any upside if the trust does better than expected, they are also more likely to get their money back if the trust underperforms (although this is not guaranteed).

The reverse is true for ordinary shareholders in such a trust – the "gearing" provided by the zeroes will amplify both gains and losses for the trust.

Zeroes can be useful for investors who require predictable (though not guaranteed) payouts at fixed points. They can also be useful for tax planning – profits are taxed as capital gains rather than income, which may appeal to those who don't typically use up their full annual capital-gains allowance. As with other shares, they can be held in a tax wrapper, such as a pension or individual savings account (Isa).

Similarly to bonds, all zeroes have different conditions attached, so do be sure to check the small print before you invest.

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"Human capitalism" needs legs

Ed Conway
The Times

Britain "might have voted for a Tory government", but many of the policies due to be enacted are "straight from the Labour manifesto", says Ed Conway. Labour wanted to ensure public investment wasn't skewed towards London, to nationalise rail franchises, and to revamp capital-gains tax and abolish entrepreneurs' relief to prevent the rich paying less tax than the lowest paid. Yet the "nature of what might eventually be called" the economic model of Chancellor Sajid Javid, "left-leaning" though it is, relates more to what Javid calls "human capitalism". This concept questions the traditional favouring of investment in physical capital rather than people – a trend that explains the UK's lamentable levels of skills and qualifications and persistently low productivity – and may lead to a notable investment in early years support and ensuring equality of opportunity since "problems begin long before the workplace". Javid's real challenge, however, is that while human capitalism may boost productivity a decade from now, it will do little to generate enough economic growth to satisfy Boris Johnson and "give the impression that Brexit has been a success". That being so, he "may not be around long enough to put any of it in place".

Free delivery will break small firms

Amanda Mull
The Atlantic

The "apotheosis of e-commerce" is when customers barely notice that they are shopping, says Amanda Mull. And "masking" the costs of shipping is the "most potent tool" online stores have to persuade people to click "buy". In a 2018 survey, shipping charges were cited as the "most common reason" for people abandoning their carts. But, thanks largely to Amazon, free shipping has "warped" our idea of what it means to shop online. "Free" shipping is no longer an "occasional incentive", but something that "closely resembles a consumer requirement". Blame Amazon Prime, the $119 annual programme with more than 100 million American members, which promises unlimited two-day shipping to almost anywhere in the US. The "trick" Amazon pulled off was to "divorce shipping costs almost entirely" from buying behaviour. But while other "mega-retailers" can compete (they pay less per package for shipping), the same is not true of small businesses. Etsy sellers now lose their position in search listings if they don't offer free shipping, making it harder for people to find them. But many can't afford to raise their prices either. The "insatiable demand for this perk" could break "mom-and-pop retail for good".

Malaysia's deep nexus of cronies

Imran Shamsunahar
Nikkei Asian Review

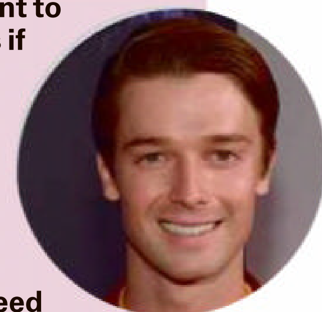
Two years ago, Mahathir Mohamad's new government promised to "put a halt to decades of crony capitalism" that culminated in the misappropriation of $4.5bn from 1MDB, a state-owned infrastructure fund set up by the previous prime minister, Najib Razak, says Imran Shamsunahar. Despite the pledge, little seems to have changed. "One area Mahathir promised to look into" was the governance of Malaysia's government-linked companies, or GLCs, in which the government holds a controlling stake. GLCs are "ubiquitous" and enjoy a "virtual monopoly" in some sectors. Under Najib, GLCs played a "key role" in Malaysia's "notorious system of patronage, channelling rents to party members and well-connected businessmen" in the form of contracts, permits and financial aid. So far, Mahathir has consolidated his power by getting GLCs to report to his department or other ministries headed by political allies rather than the finance ministry. "Promises to halt political appointments to the boards of GLCs were also forgotten." He appointed himself chairman of the country's sovereign wealth fund. It is clear much more needs to be done to address "the deep nexus between business and politics".

Put the small print in plain English

Moira O'Neill
Financial Times

The investment industry should stop insisting on the use of Latin and Greek terms, says Moira O'Neill. It's confusing and potentially misleading. Take the widespread use of *ex-ante* and *ex-post* charges disclosures, referring to expected and actual costs. The terms also feature in regulations called MiFID II, which are "ironically" designed to increase transparency in financial markets. Then there are the letters alpha and beta used to gauge fund managers' performance: alpha is the excess or active return that a fund gives above a benchmark; beta is a measurement of volatility. And what about "*ad valorem*", which, when used as a charging basis on investments, means that the greater the value of your investment, the bigger the charge for receiving advice on it? The term is used by advisers, accountancy firms and wealth managers, and raises the question, are they just using it in a "bid to sound clever and distract you from paying higher rates"? A recent survey of more than 2,000 adults found that only 17% knew what it meant. For those with large portfolios, fixed fees are likely to be more cost effective and provide a better basis for comparison. It's high time investment firms communicated in plain English.

Money talks



"I don't want to come off as if I've done everything on my own, because I haven't. I wouldn't have been able to proceed with the investment without my parents. Of course that investment turned into millions and millions..."
Actor Patrick Schwarzenegger (pictured), son of Arnold, on his successful investment in Blaze Pizza, a restaurant chain with 350 outlets, quoted in The Times

"I did not know anything about investing or how to manage money and I used to hide my money in a sock in my wardrobe. Then I forgot about it […] I wish I had learnt about finances earlier. If you just put money in a sock, it will not grow."
Alina Cojocaru, the lead principal dancer with the English National Ballet on being bad with money, quoted in The Sunday Telegraph

"In a hole the size of HS2, the only thing to do is keep digging."
Prime Minister Boris Johnson on the struggling high-speed rail project, quoted in The Sunday Times

"There are two things that are important in politics. The first is money, and I can't remember what the second one is."
US senator Mark Hanna (1837-1904), quoted in The New York Times

"People who don't know poverty haven't lived, quite frankly. You know everything is conditional."
Golden Globe-winning actor Brian Cox, quoted in The Guardian

"I thought if I'd had a book published I'd never have to worry again about making ends meet. How wrong was I? *The Kids* sold 20,000 copies and I think I made £700 from it, which in 1976 wasn't too bad, but it didn't even get me out of the gin factory."
Journalist and author Tony Parsons, quoted in The Sunday Times

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Populism has only just begun

Farage: no one's laughing now

©Getty Images

newsweek.com

The battle to free Britain from the bureaucratic, anti-democratic, supranational structures based in Brussels has dominated my life for the last 27 years, says Nigel Farage. For much of that time, I felt that I might become a patron saint of lost causes. But at 11pm last Friday, a grassroots rebellion that just ten years ago was opposed by Britain's entire political and media class finally succeeded and Britain left the European Union.

There are skirmishes to come over fishing rights, the jurisdiction of the European Court of Justice and the extent to which Britain breaks away from alignment with the EU's rules. But still, 31 January marked a point of no return. The abuse that I have received over many long years is finally diminishing as Brexit becomes the mainstsream view. The globalist establishment's threats and warnings of impending financial doom have receded. The trench warfare in Parliament is over.

Project Cheer

In Brussels, the tremors are now being felt. Eurosceptics in many countries are watching the UK closely. If it is seen to prosper having released itself from the EU's tentacles, their own countries will follow suit. I hope that the courage and conviction Britain has shown will lead them by example.

There is now a new mood of optimism in the UK. The property market has perked up. Long-term investment decisions are coming out of mothballs. Populism has triumphed as we return to being a self-governing, independent, normal nation. The EU's single market, on the other hand, with its level playing field, regulations and protective tariffs, is a new economic model of corporatism, designed to stop competition. A few big businesses work with big politics to their own advantage. For small and medium-sized businesses, however, the whole thing is a nightmare. If Boris Johnson keeps his promise of freeing Britain from EU rules, we can implement a model of capitalism that will hasten the end of the European project.

This campaign is equated by opponents with modern-day fascism and inspires genuine hatred. Yet the truth is that I want European countries to return to being sovereign, independent and happy to co-operate with each other, like neighbours living in the same street. Over the next few years, I will try to help democratic groups across Europe to achieve their independence too and will continue to be Donald Trump's biggest cheerleader. Disagree with me if you like, but don't ignore me. Once, everybody laughed at my speeches. They aren't laughing now.

Take the hassle out of business

bloomberg.com/opinion

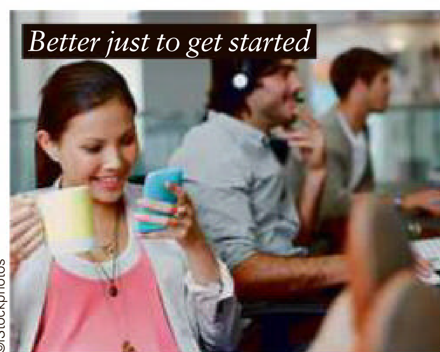
In economics it's often assumed that "the market always finds a way", says Noah Smith. Sometimes, though, the trials of doing business – transaction costs – make productive trade impossible. A world-beating investment strategy may end up making no profit once trading costs are factored in, for example. People don't bother to move house or change jobs because of the hassle. As economies grow and get more complex, such hassles multiply. Indeed, that's why companies exist in the first place – to organise production internally without the bother of trade – and why a lot of business is managed through long-term informal relationships, such as with suppliers. Increasingly, these economic truths are forgotten when lawmakers, regulators and companies make ordinary folk endure an ever-growing variety of "headaches". Claiming working benefits through the tax system, for example, can be a "huge ordeal". Even small costs such as late fees and parking tickets fall hard on the poor. Such aggravations "force poor people into a mind-set of short-term desperation that makes it very difficult to escape poverty". There is no easy answer to this, but there is a way forward. Instead of viewing each hassle as its own separate problem, policy makers need to think of these obstacles as "one unified menace".

Stop the shilly-shallying

bbc.com

As the clock ticks towards the deadline on some important work project, do you find yourself whiling away the hours watching cat videos on YouTube? You're not alone, says Christian Jarrett. But the advice usually given to "chronic procrastinators" is not good. Its generally treated as a time-management problem, as if we somehow weren't aware of how much time we're wasting. Better scheduling is not going to help.

Procrastination is really about managing our emotions. The task we're putting off is making us feel bad – perhaps it's boring, or difficult, or we're worried about failing. To make ourselves feel better, we start doing something else. Except it doesn't really make us feel better – research has shown that chronic procrastination is associated with anxiety and depression, and even colds, flu and cardiovascular disease.



Better just to get started

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What you have to do is simple, if not easy. Focus narrowly on what the next step is. Then start doing it, whether you feel like it or not. Doing this takes your mind off feelings and onto easily achievable tasks. "Once we get started, we're typically able to keep going. Getting started is everything."

Do we really want economic growth?

stumblingandmumbling.typepad.com

Former chancellor Philip Hammond claimed that no one votes to become poorer. But he was wrong, says Chris Dillow. The party of austerity won a majority in 2015; the public voted for Brexit in 2016; they supported Boris Johnson's hardline Brexit deal in the most recent election. It seems the public does not want growth.

This should not be that surprising. Studies have shown that incomes do not increase happiness. "If growth doesn't make us happier, the lack of it shouldn't trouble us too much." What matters for well-being is not absolute income, but how well we are doing relative to our peers. If the economy is stagnant, we still have as much chance at doing well on this score. Finally, growth goes along with things that many of us don't like. We'd rather live in a stagnant economy in which zombie firms preserve jobs than live through the "tumultuous, threatening growth" and creative destruction of the 1980s. This explains the Tories' new nativism: the problem with policies to revive growth is they "jeopardise vested interests".

Where to find Asia's top money machines

International dividends shouldn't only mean companies in the US or Europe – the Far East has plenty of big payouts to offer. Cris Sholto Heaton looks at some of the best choices for income from around the region

British investors traditionally treated Asia solely as a place to invest for growth. That attitude has firmly changed over the last few years, as the rising number of Asian income funds shows (see page 26). Investment firms don't launch products unless they see a market for them and years of low interest rates and shrinking bond yields have created an appetite for anything that pays a higher income.

However, unlike some of the fashionable income themes that are likely to backfire next time markets turn down, there's a very solid case for Asian companies being part of a global income portfolio for the long term. Dividend payouts have grown strongly in the region since the global financial crisis: between 2009 and 2019 total dividends in Asia rose by 220%, compared with 120% in the rest of the world, according to figures from asset manager Janus Henderson. That's partly due to earnings growth, but also due to companies returning a greater proportion of their earnings to shareholders.

Average yields in the developed Asian markets of Singapore and Hong Kong – where many companies have long had a decent dividend culture – are very respectable by global standards, at 4.2% and 3%. The FTSE 100 still yields more at 4.4%, but if you want to diversify internationally, Asia offers more than other international markets such as the US (1.8%), France (3%) and Germany (3%) – not least because you can keep more of the dividend.

Many countries deduct withholding tax (WHT) from dividends before they are paid. This can vary from 15% in the Netherlands to 35% in Switzerland. (The UK is an exception and has no WHT, which is why British investors venturing abroad are often put off when after-tax payouts turn out to be less generous than expected.) You can sometimes reclaim some of this tax, but it's a hassle. However, in Asia both Hong Kong and Singapore have no withholding tax: the yield you see is what you get (rates elsewhere in the region vary from nothing to 30%). That makes solid yields in these markets appealing, especially since these stocks are eligible to be held in a tax wrapper, such as an individual savings account (Isa).

Dividend income isn't always stable

There is one important caveat about this Asian dividend growth story that British investors should keep in mind. Companies in markets such as the UK and the US tend to aim for steady dividends, ideally increasing each year and certainly never going into reverse. Managers tend to fear – quite often rightly – that their jobs might come under threat if they preside over too many dividend cuts.

"Hong Kong and Singapore have no withholding tax on dividends"

By contrast, Asian companies are much more willing to vary their dividends in line with earnings – either by explicitly targeting a payout of a certain percentage of earnings, or by splitting the dividend into a lower regular dividend and a bigger special dividend, where the special dividend will be paid almost every year but may be dropped or trimmed if earnings are down or investment needs to go up. A run of good years – like the ones we've seen lately – can be followed by quite a big cut when the cycle turns. So you shouldn't necessarily expect Asian dividends to be as consistent as those from some other markets.

That said, Western companies vary the amount of cash they return to shareholders as well – they just tend to do it through share buybacks, which can be more easily suspended without angering investors. Asian companies historically employ buybacks much less, which for income investors is a good thing since they usually find it more convenient if the dividend goes up instead of the share price. In fact, I'd argue dividends are better than buybacks for almost all investors in almost all circumstances, not because share buybacks are a terrible idea in principle, but because companies consistently tend to do buybacks when the market is booming (and their shares are pricey) instead of in the middle of a crash when their shares are cheap.

The other point to remember is that changes in exchange rates can make overseas dividends worth less (or more) in sterling terms. Those warnings aside, Asia offers not only growing dividends but also a good range of different opportunities. I'd broadly split them into five categories. Some of these you'd find in most markets around the world, but others are much more evident or interesting in specific Asian countries.

Reaching for the riskiest yields

The first and most obvious are stocks that trade on high yields because they are out of favour. Often they're in distress, or at least they don't seem to be going anywhere. This is often the most dangerous area of income investing because typically the yields won't be sustainable and often they'll be cut much more than you expect. Consequently it's more interesting to value investors hoping for a recovery than those who want a stable income – and that means these are not really what we are looking for if we want to add some Asian stocks to an income portfolio.

These are typically one-off special situations, but there is one obvious area where it applies broadly right now: Hong Kong retailers, many of which have traditionally paid fairly decent dividends and whose shares have been battered first by the protests and upheaval in the city that started in March last year and more recently by the risk that the China coronavirus outbreak will spread to the city. A couple of these, such as clothing retailer Giordano, have long been smaller holdings in some of the Asian income funds; it now notionally yields about 13.5%, but obviously that yield will not be sustained in the short term, although it is more diversified than many of its peers (over half its revenue comes from outside Hong Kong). I hold it, but cannot recommend buying it now in these circumstances. However, it may be one to keep on your watchlist as a potential value opportunity if the twin crises start to pass.

A unique real-estate market

The second group are investments designed to pay out practically all their income to investors, most obviously real estate investment trusts (Reits – see

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Prime offices in Singapore's central business district should provide a steady income

page 16), but also trusts that own other types of business assets. Asia's most interesting Reit market is Singapore, which has a large and diverse range of Reits covering offices, retail, industrial, hospitality (for example, hotels) and other more specialist niches. Some of these Reits are backed by entirely private companies; others by government-linked companies (GLCs, firms set up decades ago by the Singaporean government to develop the local economy that still have the government as a major investor).

Under normal circumstances, I tend to see the GLC-backed Reits as the most interesting because of what they can add to a portfolio that you don't get elsewhere. They own some of the best assets in Singapore and enjoy access to relatively low-cost financing because of their status, helping them to fund other acquisitions in Singapore and abroad. You're not going to get huge increases in dividends from these. You're aiming for a fairly solid income that should rise faster than inflation over the medium term. Yields have fallen over the last few years, but are still respectable compared with other options. Examples I hold include Ascendas Reit (industrial) on 5%, CapitaLand Mall Trust (retail) on 4.7% and CapitaLand Commercial Trust (offices) on 4.3%. The last two are merging to form Asia's third-largest Reit.

Best of the blue chips

Thirdly, there are the blue-chip equities that pay a respectable yield and will hopefully grow above inflation over time. Some developed markets in Asia have a good number of blue-chip companies whose names won't be familiar to most British investors but are long established and deemed very solid. These tend to be the cornerstone of most Asian income funds. The three Singaporean banks – DBS, OCBC and UOB, on 4.7%, 4.4% and 4% respectively – are popular choices; in Hong Kong there is obviously the more familiar HSBC (7%), but also BOC Hong Kong (5.6%).

Clearly, banking dividends tend to be more vulnerable to cuts in a downturn; telecoms can be more stable. Options here include Singapore Telecommunications (5.3%), Hong Kong's HKT Trust & HKT (5.8%) and Hong Kong-listed China Mobile (4.6%). I'd also put the various parts of the Hong Kong conglomerates such as Swire (4.6%) and Jardine Matheson (3%), with their diverse range of regional businesses, in this group.

You'll also find that almost all the Asian income funds have quite a bit of their portfolio in Australia so that they can hold the Australian banks and even the resources firms. One look at the yields these offer at present and you'll understand why: National Australia Bank (9.3%), Westpac (10%), Commonwealth Bank of Australia (7.3%), and Australia and New Zealand Banking Group (8.5%). Unsurprisingly, this reflects some scepticism about what these firms will be able to pay in the future. Australia has a very long housing boom, raising questions about what may happen to bad debts when the cycle turns (when it eventually does – prices wobbled a couple of years ago, but seem to be turning up again). And an inquiry into

Continued on page 26

"Australia has had a very long housing boom – what happens when the cycle turns?"

Continued from page 25

the financial services sector has already forced banks to pay billions in compensation and penalties, and is likely to bring changes that may dent profitability in future. Personally, I wouldn't touch this sector, at least until a real recession has rampaged through the Australian economy and shares are more evidently at rock bottom; you may be bolder than me.

Hunting for higher growth

Fourth on my list are stocks that offer more dividend growth. The most notable feature of this group in Asia is the presence of the tech sector. While paying a dividend is often viewed as an admission in Western markets that a tech firm's fastest growth is behind it, that's not the case in Asia. Even China's Tencent (0.3%) pays a tiny but growing dividend. More significantly for income seekers, two of the biggest holdings in most Asian income funds – in many cases, the two largest – are Taiwan Semiconductor Manufacturing, the world's biggest independent computer chipmaker, and Samsung Electronics, which makes devices such as smartphones, tablets and TVs, as well as components and chips. They pay 2.9% and 2.4% respectively.

These yields aren't spectacular, but growth has been: Taiwan Semiconductor Manufacturing has raised its payout by an average of almost 25% per year over the past five years and Samsung Electronics by almost 29%. Both are world-leading firms; my only caveat with stocks like these is that they operate in relatively cyclical industries and so earnings and hence yields may be vulnerable in the next recession. As with any sector, don't rely on tech for too much of your income.

Rising payouts in Japan and Korea

Samsung takes us neatly into the fifth and final category: companies that are seeing a structural change in their attitude to shareholders and dividends, and beginning to pay out a lot more. The key markets here are Korea and Japan, where companies that traditionally viewed shareholders' pleas for income with bemused contempt are finally starting to lift dividends, as well as embark on other improvements to corporate governance (although income investors could do without Japan's growing enthusiasm for share buybacks under pressure from activist investors).

Samsung Electronics pays a fast-growing dividend

This may now be a reasonably familiar story to many MoneyWeek readers, but one potentially interesting niche within it is Korean preference shares. Unlike preference shares in some markets, these receive exactly the same dividends as the company's ordinary shares, but don't have voting rights. Since most of these firms have a controlling shareholder, lack of voting rights doesn't really matter, but these preference shares can still trade at substantial discounts to the ordinary shares owing to their lower liquidity and greater obscurity. They may not offer especially high yields now, but the combination of growing dividends and the potential for the discount to close if governance continues to get better could prove a powerful combination. That's why you'll sometimes see Korean preference shares pop up as a small holding in some of the Asian income funds that we look at in the box below.

"Korean and Japanese companies are paying out more to investors"

Funds to play the income theme

There are four investment trusts in the Association of Investment Companies' Asia Pacific Income sector. **Aberdeen Asian Income (LSE: AAIF), Henderson Far East Income (LSE: HFEL), JP Morgan Asian (LSE: JAI)** and **Schroder Oriental Income (LSE: SOI)**. Only Aberdeen Asian Income trades on a meaningful discount to net asset value (NAV) at present (7.5%); the others are around zero – or even a modest premium in the case of Henderson Far East Income, probably because its 6.5% yield looks so tempting compared with the 4% or so yields that the others offer.

Aberdeen Asian Income has the weakest performance in recent years, but I'd expect it to be more defensive if markets turn down. The stocks in its portfolio appear to be higher-quality, more stable names than in the Henderson or JP Morgan funds, which in my view are targeting slightly riskier yields or more aggressive share-price growth. Given that it is also on the largest discount, it would be my preferred choice of the four at present. The ongoing charge last year was 1.11%.

If you prefer open-end funds, major options include **Schroders Asian Income** (run by a different manager to the trust), **BNY Mellon Asian Income** and **Jupiter Asian Income**, all offering yields between 3.6% and 3.9%. The Jupiter fund has the highest ongoing charge, at 0.98%, but would probably be my top pick here: manager Jason Pidcock has a long record that suggests he's a relatively conservative investor.

There are a couple of Japan dividend funds, but nothing with a particular long or special track record. And with overall yields still relatively low compared with other markets, Japanese dividends are in any case more interesting either as part of a wider Asian income fund or as one of the features of a general Japan equity fund. Trying to run a pure income fund with Japanese stocks is likely to lead you into buying poor businesses purely for above-average yields.

So my suggestion for the best way to capture the improving dividend culture in Japan would be a fund such as **Lindsell Train Japanese Equity**, even though the yield of 1.4% is certainly not an income play. Manager Michael Lindsell stresses that he looks for high-quality, growing businesses that pay a dividend as part of his investment process. The ongoing charge is 0.73%.

If you prefer an investment trust, or simply a higher yield, there's the **CC Japan Income & Growth (LSE: CCJI)**, whose name makes it clear that it's more explicitly looking for a balance of yield and growth. This trust yields 2.9% and has delivered a respectable total return since its launch. The current share price is in line with NAV and the ongoing charge last year was 0.94%.

Finally, if you are interested in the same story in Korea, there is a small, niche fund that focuses specifically on the opportunity in discounted preference shares that I mentioned above: **Weiss Korea Opportunity Fund (LSE: WKOF)**, which invests solely in these instruments. It yields around 2.7%. The ongoing charge is around 1.8% and the fund currently trades at a slight premium to NAV (although its assets – the preference shares – still trade at a substantial discount to the ordinary shares in many cases).

When buying on credit makes sense

There are several reasons to consider paying with plastic

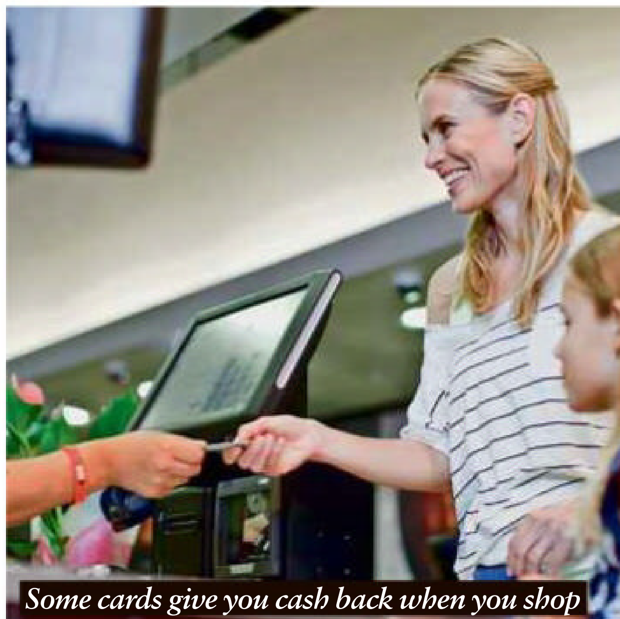
Ruth Jackson-Kirby
Money columnist

The days of bumper cashback offers or fantastic rewards with your credit card are long gone. But there are still several good reasons to pay with plastic.

One is the protection you receive thanks to Section 75 of the Consumer Credit Act. Pay for something costing between £100 and £30,000 on a credit card and the card provider is as liable as the seller if something goes wrong.

Credit-card firms are currently swamped with Section 75 claims, thanks to Thomas Cook. "The 178-year-old travel agent went into administration in September, prompting thousands of customers who had booked trips on credit cards to submit refund claims," notes Sam Barker in The Daily Telegraph.

You can put a claim in with your credit-card provider if the thing you purchased never arrives or isn't what it should have been. For example, you could claim for flights you bought if the airline goes bust, or a car that breaks down days after you bought it. You even get protection for the whole cost if you only paid the deposit on your credit card.



Some cards give you cash back when you shop

©Getty Images

Boost your debt rating

Another reason to put some of your spending on a credit card is that it improves your credit rating. It is a myth that a person who has never borrowed has the best credit rating. Lenders want to see that you are a reliable borrower; if you've never borrowed, they don't know you'll pay them back.

Using a credit card and repaying the balance in full each month – or at least never missing a minimum payment – will bolster your credit rating.

There are also financial benefits to spending on a credit card. If you can't afford to buy something outright then an interest-free credit card is still the cheapest way to borrow. For example, Sainsbury's Bank is offering 27 months of 0% interest for new spending. Just make sure you clear the debt before the interest-free period expires, otherwise you'll end up paying 20.9% interest.

Divide your debt by the length of the interest-free period and then set up a direct debit for that amount, so you don't miss a payment and clear the debt in time. "You need to make at least the minimum payment each month or you may lose the 0% deal and be charged a fee," says Sarah Coles, personal finance analyst at Hargreaves Lansdown, in The Financial Times.

If you don't need to borrow, then get paid to shop with a cashback credit card. The return on these cards isn't as good as it once was, but it is still reasonable. The top-paying card is the Amex Platinum card. It has a £25 annual fee but a 5% cashback rate for the first three months; the rate then falls to 1.25%.

But make sure you clear your balance in full each month, otherwise the 22.9% APR interest will quickly cost you more than you are earning in cashback.

Correction: There was an error in last week's piece on wills. If you are married, or in a civil partnership, and die without a will, your spouse inherits your personal possessions plus the first £270,000 of your estate. The remainder is split between your spouse and surviving children or direct descendants. If you have no direct descendants, your spouse inherits everything (rather than any part going to parents or siblings, as suggested). We apologise for the error and for any confusion caused.

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, investment gold is not subject to VAT in the UK.

3 **Gold is a hedge** - Gold has historically had a negative 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 are 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, you are reliant on firms for gold futures, gold certificates, or ETFs - exposing you to counterparty risk.

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How to tap your house for cash

The pros and cons of releasing equity from your home and moving to a smaller one

David Prosser
Business columnist

Downsizing is a better bet if you want to leave money to family

Britain's equity-release market is expected to be worth more than £5bn this year: the number of people unlocking some of the value of their home in retirement continues to grow at rates of more than 20% a year. But while this growth is understandable, with many people owning valuable properties by the time they retire but finding themselves short of disposable wealth, is equity release really the answer? Downsizing may be a better option.

The allure of equity release is obvious. If you own an expensive property outright but need more money for everyday living expenses or home improvements, travel or helping out children, an equity-release plan offers real benefits. You borrow money against the value of your house or, with some plans, sell a chunk of it. There are no repayments to make until after your death or you've moved into some form of care and the money is yours to spend how you wish. And you can stay in your own home.

Watch out for high rates

However, there are substantial downsides. While the equity-release plan market is more competitive than in the past, the cost of products is still high compared with a conventional mortgage. The average borrower pays an interest rate of 4.55%, at least twice what you'd pay for a conventional home loan. Moreover, as there is nothing to pay during your lifetime, your debt mounts up quickly due to the law of compound interest. There may be little or nothing to pass on to your heirs once the money is repaid on your death.

Another problem is that equity-release products can be constraining, particularly if your plans change. It may be difficult to move house, with extra charges to pay. You may struggle to make repayments during your lifetime, even if you want to reduce your debt. Home-reversion plans, where you sell a chunk of your house rather than borrowing, are problematic too, since your property will effectively be valued at well below market value, reflecting the time that the equity-release provider has to wait to earn a return.

Downsizing, by contrast, carries none of these headaches. You simply sell your current property and buy a cheaper one, with the difference in value freeing up cash you use as you see fit. Your new house can be left to your heirs and there is no financial-product small print to worry about.

For many older people, selling a large family home in order to move into a more modest property also has practical benefits. Smaller houses are easier and cheaper to maintain.

Nonetheless, downsizing isn't right for everyone. If you don't have a large property, moving to a smaller one may simply not be an option. The practicalities will also depend on the dynamics of your local housing market. How much can you sell for and what will a smaller property cost? And some people do not want the emotional wrench of leaving a much-loved family home.

Downsizing also carries costs. You'll incur all the costs of moving house, including estate agents' fees, solicitors' costs and the removals firm's charges. Plus you may have to pay stamp duty on the purchase price of a new house, though stamp-duty rates are lower on cheaper properties (and zero on purchases below £125,000).

The cheaper option

Nevertheless, for most people, the total cost of downsizing is likely to be significantly lower than what your family effectively ends up paying through an equity-release product. The costs of moving house just do not compare to the cost of interest charges on a large loan rolled up over time.

In financial terms at least, downsizing is a better option than equity release for most people. If you're willing and able to consider it, this should be the first thing you consider if you're seeking to raise cash later in life.

Tax deadline update

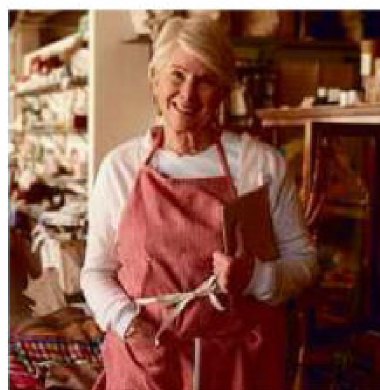
Almost one million people – 958,296, to be exact – missed last Friday's deadline for handing in a self-assessment tax return for 2018/2019 online. Last year just over one million people missed the cut-off. People who are self-employed or have more than one source of income are typically obliged to fill in this form. Around 11.1 million did get it in on time, with 700,000 filing on 31 January and 26,562 doing so less than ten minutes before midnight. Those who miss the deadline are immediately fined £100; after three months, they owe £10 a day. If they still haven't filed after six months then they owe either 5% of the tax due or £300, whichever is the greater. "Genuine excuses" for late submission will be considered, HMRC's Angela MacDonald told the BBC. These don't include being unable to log on because you were up a Welsh mountain.

Do your state pension sums

Official data suggests almost one in ten people entitled to draw their state pension do not do so immediately, while 14,000 pensioners have suspended their payouts. In return, they receive a higher pension when they do make a claim for the first time or go back to claiming.

Pension experts had expected the number of people deferring their state pension to fall sharply after a change in the rules in 2016 made it less attractive to do so. Before April 2016, you got a 10.4% increase in your pension for every year you delayed taking it, but this has now come down to 5.8%. The change means you need to live for 17 years once you start taking the money to get more overall than you would have done by claiming it straight away; previously the break-even point came after only nine years or so.

However, there's another complication to think about.



The number of people working on past retirement age is now at a record high. For many of these people, a state pension of around £9,000 a year on top of their earnings pushes them into a higher tax bracket. By deferring their pension until they stop working, they'll pay less marginal tax today – and may pay no tax at all on their state benefits when they do start claiming.

The maths will depend on your circumstances, but if you're working, the beneficial effect of lower taxes could reduce your breakeven point from deferring your state pension. It's certainly worth considering.

Boeing loses altitude

The aircraft maker's shares have slumped, but the nosedive looks far from over

Matthew Partridge
Senior writer

Boeing's space and military division is struggling too

It's been a lousy year for **Boeing's (NYSE: BA)** shareholders. After the Ethiopian Airlines disaster last March, which came shortly after a Lion Air plane of the same model, the 737 Max, had crashed in Asia, regulators around the world quickly moved to ground the plane. Boeing was forced to suspend the delivery of orders, which hit revenue.

A recent release of internal emails revealing a lack of confidence in the troubled aircraft and an apparent attempt to mislead regulators has only thrown fuel on the fire. So it's not surprising that shares have fallen by a third this year. However, it's possible that there could be worse to come.

Boeing has three main problems. In the short term the return of the 737 Max may take a lot longer than initially anticipated. Although Boeing initially assumed that it was just a matter of fixing the plane's software, as well as training pilots, it now looks as though the company may need to make more radical (and expensive) changes to the design before regulators approve its return.

Indeed, the derogatory comments about the US Federal Aviation Administration (FAA) contained in the internal emails, as well as a general perception that the FAA was just too close to Boeing, may prompt the regulator to impose stricter requirements, which could cause additional delays.

The long-term consequences

Then there are the longer-term ramifications to consider once the Max is allowed back into the air. The two disasters and subsequent events have badly damaged the reputation of the plane, so airlines will be reluctant to purchase aircraft that customers feel uneasy about flying in. Airlines are also starting to lose confidence in Boeing as a supplier, with Ryanair claiming that the crisis has curtailed its planned expansion. Both of these factors may lead to Boeing losing market share to its long-standing rival Airbus, which recently surpassed Boeing's rate of production for the first time in nearly a decade.

All these problems wouldn't matter so much if Boeing's space and military division, which accounts for around a third of its revenue, were doing well. However, despite a large increase in US military spending, defence and space sales actually fell at the end of last year, as the business lost market share to rivals Lockheed Martin and Raytheon. As a result, it is hard to see how the stock can justify a valuation of 31 times 2020 earnings, compared with 18.7 for Airbus, 17.7 for Lockheed, or 17.1 for Raytheon.

"Airlines will be loath to buy a plane people are uneasy about flying in"

Boeing's shares are close to their 52-week lows, so it's clearly suffering from negative momentum. This is therefore a good time to short the aerospace company at its current price of $318.27 at £10 per $1, compared with IG Index's minimum of £4 per $1. Cover your position at $400, which gives you at total downside of £863.

Trading techniques... are IPOs a timing tool?

An initial public offering (IPO) occurs when a privately owned company is floated on the stock exchange for the first time (as opposed to a secondary offering, where an already listed company sells additional shares to raise money). One theory holds that the number of IPOs on the market is a contrarian indicator; a high figure suggests that insiders are rushing to cash in on an overvalued market. Conversely, a low number of IPOs is an indication that insiders think that the market is undervalued, and they can get a better price in the future if they hold off.

There is some anecdotal evidence that the number of IPOs tends to increase during bull markets and fall during bear markets. For example, according to Jay Ritter of the University of Florida, there were 476 IPOs in the United States at the peak of the dotcom boom in 1999, but only 79 two years later. Similarly, while there were 157 IPOs in 2006, this had fallen to 41 by 2009. The amounts of money raised displayed a similar pattern: it fell by 85% between 1999 and 2003, and by over 60% between 2006 and 2009.

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Sadly, using IPOs to time the market can lead to you getting out of the market too early. If you had sold up in 1996, when there were a record 677 IPOs, you would have missed much of the bull market that took place during the second half of the 1990s.

The same would have happened to those who moved away from shares when the number of IPOs increased from 41 in 2009 to 206 in 2014. In any case, it's important to realise that the rise of private equity and venture capital has led to a long decline in the number of IPOs.

How my tips have fared

My long positions have generally been hit by the fall in the stockmarket triggered by the coronavirus outbreak. Five of the eight have declined.

Bausch Health Companies slipped from $30.45 to $27.91; Volkswagen from €182 to €163. International Consolidated Airlines Group dropped from 657p to 633p, while DS Smith went down from 380p to 357p. National Express slipped from 473p to 441p.

The only bright spots were Safestore, which went up from 777p to 801p, Taylor Wimpey advancing from 214p to 219p and Bellway rising from 4,055p to 4,077p. The overall profit fell from £6,254 to £5,204.

The good news, however, is that three out of my five short positions fell. Retailer Wayfair dropped from $107 to $99, social network Twitter went down from $34.22 to $32.85, and tobacco giant Philip Morris International decreased from $88.69 to $83.20.

However, the digital currency bitcoin rose from $8,659 to $9,275, which means that you would have covered your position at $9,000, for a profit of £250 had you taken my advice in the last column. Ride-hailing network Uber also advanced from $35.13 to $37.15. My remaining short tips are making a loss of £324.

Taking into account the latest tip to short Boeing, this still leaves us with eight short tips and five long positions, which is very unbalanced. With air travel likely to be hit by coronavirus, I suggest you take profits of £1,320 on International Consolidated Airlines Group. That cuts the number of long tips to a more reasonable seven. I also suggest you raise the stop loss on Safestore, which I have held for a long time, to 785p, as well as increasing the stop loss on Bellway to 3,800p (from 3,600p).

Small Aim stocks with big tax-free potential

A professional investor tells us where he'd put his money. This week: Jonathan Moyes of high net-worth investment service Wealth Club picks his top Aim stocks

In August 2013 a rule change enabled investors to hold shares listed on Aim, the London Stock Exchange's market for smaller, fast-growing companies, in their Individual Savings Accounts (Isas) for the first time. Since many Aim stocks also qualify for inheritance tax (IHT) relief, the new rule gave investors the opportunity to construct an IHT-free Aim Isa.

Building an Aim portfolio is not for everyone. Aside from having to monitor your investments, you also need to ensure they continue to qualify for IHT relief and keep meticulous records of when you bought them.

A popular no-hassle solution is to choose a ready-made, professionally managed Aim Isa. We like those run by Octopus, Blankstone Sington and Puma. But some investors will be inclined to do their own research and stock-picking. Here are three of our favourites to consider.

Opening the door to recovery

Epwin Group (Aim: EPWN) is one of the UK's largest manufacturers of PVC windows, doors and roof systems, selling mainly to the UK construction industry. Like similar companies, it has suffered from the economic slowdown and the deterioration in investors' sentiment over the last three years, which has affected its valuation.

> *"Growing consumer and corporate confidence should boost Epwin Group"*

Now, however, with the general election out of the way and the direction of travel on Brexit established, Epwin's prospects should brighten.

A recovery in both consumer and corporate spending could push its valuation and earnings higher. In the meantime, the company generates decent returns on capital (a key gauge of profitability) and is cash flow-generative. Further points in its favour are low debt and an attractive 5% dividend.

Aim's first law firm

Gateley Holdings (Aim: GTLY) was the first commercial law firm to list on the market in 2015. Since then, performance has been strong, with revenue growing by 14% a year and topping £100m for the first time in 2019.

The group is now the UK's most active corporate legal adviser, acting for all ten of the UK's largest housebuilders and five of the six largest banks. Partners hold more than 50% of the shares and the business is run conservatively, focusing on the long-term with a strong balance sheet and free cash generation. The shares currently yield over 4%, but there's also potential for long-term capital growth.

Engineering profits since 1786

Renew Holdings (Aim: RNWH) is a Leeds-based essential engineering-services company focused on the energy, environment and infrastructure markets. The company has a colourful history going back to 1786 and it listed on Aim in 2001. The company has more than doubled its profits over the last five years through organic growth and acquisitions of complementary businesses. It recently announced a strong set of results, including a 23% increase in operating profit to £38.3m for the year to September 2019, on revenues of £600.6m, and a 15% rise in the dividend to 11.5p a share, the eighth consecutive year of increases in the dividend.

With a market cap of £395m and only £10m of net debt on the balance sheet, this is an attractively valued business given its growth profile.

If only you'd invested in...

Team17 (Aim: TM17) is a video-game producer based in Wakefield that has been developing games since the days of the Commodore Amiga in the 1990s. It listed on Aim in May 2018. Its *Worms* series of games has sold over 70 million copies and this year it aims to launch more game titles than ever before. It also has revenue-sharing agreements with independent developers and recently acquired rival Yippee Entertainment in a $1.4m deal. A recent trading update raised profit estimates for the third time in seven months. The stock has risen by 118% in the last year.

Be glad you didn't buy...

Fevertree Drinks (Aim: FEVR) makes mixers for alcoholic drinks. For a long time it was a darling of the stockmarket. It listed in 2014 and embarked on a meteoric rise, climbing by over 2,000% to a peak in late 2018. Since then, however, it's all been downhill. The UK market is getting crowded so it is pinning its hopes on overseas sales. But its expansion into the US has not proved as lucrative as it hoped. And poor sales in the UK over Christmas have led to a profit warning, giving investors the jitters and driving the share price down by over 40% in the last 12 months.

The downfall of the Telecom Cowboy

Bernie Ebbers had the starring role in the greatest rags-to-riches story in US corporate history. A plot twist at the end turned it into a different kind of morality tale. Jane Lewis reports

When Bernie Ebbers' former company, Worldcom, was on the brink of collapse in 2002, the deeply religious telecoms tycoon put in an appearance at his local Baptist church in Mississippi where he regularly attended services and taught Sunday school. Ebbers, who died this week aged 78, loudly assured the congregation that "you aren't going to church with a crook", notes Reuters. A federal jury in Manhattan thought otherwise – finding him guilty of orchestrating an $11bn accounting fraud – and the "Telecom Cowboy" was sent down for 25 years.

©Getty Images

"It's easy to portray Ebbers as a villain, but the reality is closer to a Shakespearean tragedy"

From milkman to titan

The length of the sentence shocked many at the time. But this was no ordinary corporate implosion, says the Financial Times. Until eclipsed a few years later by the collapse of Lehman Brothers, Worldcom was "the biggest bankruptcy in US history"; investors lost billions. What's more, "the fraud undid what was seen as one of the great US business rags-to-riches stories of its era". Ebbers spent nearly two decades transforming a tiny company originally called Long Distance Discount Service into the country's second-largest telco after AT&T, completing more than 70 takeover deals to do it. In 1997, when it outbid BT to buy MCI for $37bn, the deal was billed as "the largest corporate merger in history".

Ebbers was "a big man in every sense of the word", says Sky News. He stood at six foot four inches but, typically dressed in a Stetson and cowboy boots, "looked bigger". Born in 1941 in Edmonton, Canada, he was the son of a travelling salesman who relocated his family to the US. Young Bernie attended school on a Navajo reservation in New Mexico, later returning to Canada to take up jobs as a bouncer and milkman. Those jobs didn't appeal, so he headed back to the US, becoming first a basketball coach and then a motel-owner in Mississippi.

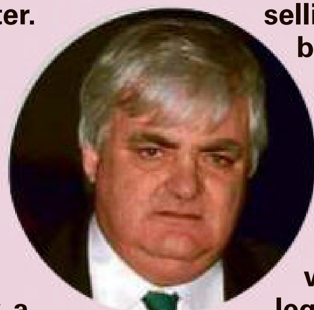
"In 1984, the opportunity do something bigger came along." Reagan's deregulation threw the telecoms sector open and Ebbers was invited by a member of his local prayer group to get stuck in. Ebbers realised early on that there was money to be made owning fibre-optic lines and Worldcom emerged as a major force in the internet revolution. All the while, Ebbers cultivated "the image of a simple 'aw shucks' Southern Baptist". For many years he didn't use a phone and claimed "he only sent his first email in 1999" – the year Worldcom's stock reached a peak value of $160bn.

The ostrich defence fails

The unravelling, when it came, was swift, says the Financial Times. Ebbers' fortunes were tied to the share price: "He had repeatedly borrowed money against the value of his Worldcom stock to buy land, other companies and yachts." When the shares fell after the dotcom bust amid worries over its debts, Ebbers implored staff to "hit the numbers". The upshot was that Worldcom began "flattering its earnings". Ebbers was ousted in 2002 owing $400m to the business. At his trial he deployed the "ostrich defence" – claiming to know nothing about it. But his "folksy manner" failed to swing the jury, particularly after his CFO, Scott Sullivan, and other directors testified against him.

Ebbers, who was released from prison on compassionate grounds a month before his death, continued to protest his innocence, blaming instead "his subordinates", says The Daily Beast. And right to the end he retained the support of many ordinary Worldcom workers. "It's easy to portray Ebbers as a supervillain, but the reality is closer to a Shakespearean tragedy," noted one punter this week. "His heart was in the right place, but he paid dearly for his arrogance."

Great frauds in history... *Peter Clowes's bondwashing scheme*



©PA Images

Peter Clowes was born in 1942 near Manchester. He started work in his parents' hardware store, followed by a stint selling turf, before becoming a salesman for International Life Insurance Company, a subsidiary of the ill-fated Investors Overseas Services. When IOS collapsed, Clowes set up Barlow Clowes. The firm was originally an advisory service focusing on guaranteed income bonds; it quickly moved into investment management, promising that it could deliver a large guaranteed tax-free return through a combination of active management and "bondwashing" (buying and selling government bonds before the interest was paid in order to minimise tax).

What was the scam?

Although bond-washing was legitimate, exploiting it for profit was difficult and costly due to high trading fees. Barlow Clowes then started diverting investors' money to pay for an expensive advertising campaign. It therefore started relying on the money from new recruits to pay the guaranteed returns of existing members, turning it into a de facto Ponzi scheme. Clowes then stopped buying government bonds altogether, instead diverting investor funds in to a large number of private companies and his own pocket.

What happened next?

The fact that Barlow Clowes had no licence to manage money aroused the suspicion of many institutions, including the Bank of England and the Treasury. However, the Department of Trade and Industry (DTI – which at that time was responsible for financial regulation) repeatedly dismissed these concerns, and even granted Barlow Clowes a retrospective licence in 1985. However, by 1988 Clowes' attempts to buy a brewery and a bank, as well as (unfounded) police concerns that he was smuggling drugs, prompted the authorities to finally shut Barlow Clowes down. In 1992 Clowes was sentenced to ten years in jail for theft.

When Barlow Clowes was wound up in 1988, investors were left £190m out of pocket (£500m today). The outcry at the DTI's inaction forced the government to pay £150m in compensation. It would take two decades for the money to be recovered (leaving a large loss to the government after taking inflation into account).

Lessons for investors

It's sensible to minimise your tax bill, but complicated schemes to reduce your obligations rarely end well and are a breeding ground for fraud.

SAVE OVER £30 on the mixed case

MONEYWEEK WINE CLUB

French wines you'll adore this month

Haynes Hanson & Clark has played an awesome hand this month with stunning wines from the Loire, Bordeaux, Burgundy and also the Rhône. This is a benchmark French selection and yet it includes wines that are not remotely predictable - nor are they commonplace! The skill of this elite merchant is to tick every flavour box on the palate while managing to keep the prices of the bottles reasonable. That is not all; every single wine on this page performs at a perfume and flavour level which belies its cost. It's what makes them perfect candidates for our exclusive wine club. Thanks Haynes Hanson & Clark for making my life extremely easy this month – I have never enjoyed my job more!

Matthew Jukes

- **All wines come personally recommended**
- **Exclusive discounts and FREE UK delivery**
- **No membership needed**

Prices shown below are per case of 12 bottles. Wines are also available in a mixed case, giving you two bottles of each for **just £160** - it's a chance for you to try them all, and is the most popular choice with *MoneyWeek* readers!

~~£12.25~~ £10.25

2018 Anjou Blanc, Domaine Alexandre Cady, Loire Valley, France

I rarely taste dry whites from Anjou but the best producers' wines often have a magical quality, and Cady's new release is nothing short of enchanting. The Chenin Blanc grape is on wonderful form here, using its organic origins to devastating effect with crystal clear apple and wild honey notes underpinned with fine acidity and a cool pebbly freshness. There is nothing chubby or tropical here - just sleek, ethereal, mesmerising fruit.

CASE PRICE: £123 – saving £24

~~£15.25~~ £12.75

2018 Quincy Villalin, Domaine Jacques Rouzé, Loire Valley, France

I have followed this wine for an eternity. I have bought it for restaurant lists, stocked it in my own cellar and poured it for all of my pals and this is long before I got to know the talented people behind the scenes at Haynes Hanson & Clark. This wine hits the high notes with me every time, smashing Sancerres and Pouilly-Fumés aside to amaze your taste buds with its acutely clean Sauvignon Blanc fruit. It hails from the finest cellar in the appellation, and is also a serious bargain!

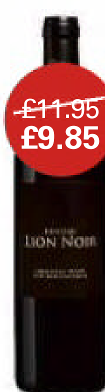
CASE PRICE: £153 – saving £30

~~£25.45~~ £21.25

2017 Chablis, 1er Cru Côte de Léchet, Domaine Daniel Dampt, Burgundy, France

Coming from one of the great estates in Chablis, Dampt is a family team and they have never let themselves get carried away with the stardust associated with being a famous winemaker dynasty. The prices are extremely fair for the calibre of mineral-soaked Chardonnay and their humility and hard work is evident in the shimmering beauty of every sip of this wine. This is the world's greatest white grape made with complete harmony and joy.

CASE PRICE: £255 – saving £50.40

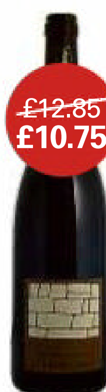


~~£11.95~~ £9.85

2016 Château Lion Noir, Côtes de Bourg, Bordeaux, France

Made from organic fruit and using a rather unusual Bordeaux blend of 70% Merlot, 20% Malbec and 10% Cabernet Franc, this is a ridiculously delicious claret for such a bonkers price. There is a degree of mid-palate richness and flesh here which is never found in ten quid red Bordeaux. I wish wines like this came along more often, but they don't, so snap this one up whilst you have the chance.

CASE PRICE: £118 – saving £25.40

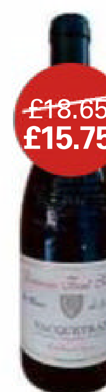


~~£12.85~~ £10.75

2018 Saumur-Champigny, Domaine des Sanzay, Loire Valley, France

Another sublime Loire wine; this one organically grown with a stunning purple ink hue. I love the label's artwork, depicting a sense of calm and style which I can assure you is found in the penetrative and soothing Cabernet Franc fruit. There is earth and leaf detail here which punctures the sleek damson and blackberry fruit and it has an aromatherapeutic effect on all who taste this Zen-like wine.

CASE PRICE: £129 – saving £25.20



~~£18.65~~ £15.75

2017 Vacqueyras, Les Hauts de la Ponche, Domaine Font Sarade,

I finish this spectacular mixed case of hero wine with a powerful, unfettered, passion-drenched GSM. Grenache brings pipe smoke, violets and sweet cherry juice notes, and the Syrah adds cool, deep wells of rich black fruit and hints of cocoa and soot, while the Mourvèdre adds mayhem, doom, malevolence and intrigue. This is a great, full-bodied red wine with a wild edge which summons up unexpected demons from your years of taste memories..

CASE PRICE: £189 – saving £34.80

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Chill out at these icy retreats

Ice hotels are some of the coolest places to spend the winter. Chris Carter reports

Hôtel de Glace: more snug and warm than it looks

Wild West in the far north

The Hôtel de Glace in Quebec, Canada, is rebuilt every year to new designs, says Sophie-Claire Hoeller on Insider. But as this year marks the hotel's 20th anniversary, "the best designs from over the past two decades [are] on display". Around half of the 42 rooms are intricately decorated to a theme, such as "Wild West", "circus" or "underwater". The hotel also has a bar, a lounge with a fireplace, a faux forest with snow trees, an indoor snow slide and a "stunning" ice chapel for weddings.

The bed frame is a giant block of ice, "covered by a thin slat of wood and a surprisingly comfy mattress". With the lights turned off and trying to sleep, "the silence is deafening" – but "I was snug and warm in my sleeping bag". The cold "truly wasn't an issue".
From C$399 (£230), valcartier.com/en

An immersive art gallery

"It's 1.30am and I'm lying on a king-size, reindeer-skin covered ice-block, trying to sleep," says Laura Martin in the i newspaper. "Every part of my body – bar my nose – is tightly cocooned and warm in a hooded, heavy-duty sleeping bag, but the surrounding temperature is a teeth-chattering -4°C." The Icehotel in the Swedish village of Jukkasjärvi is 30 years old this year. It is carved out of blocks of ice hewn from the nearby Torne River in the far north.

During the day, people can wander through what is in effect an immersive art gallery. "By night, guests live among the freezing art pieces." With

the light refracting off the icy chandeliers, this could be Elsa's castle in *Frozen*. "I gasp when I walk into the shimmering Golden Ice room, which is like stepping into a diamond ring. I shudder at the giant ants staring out of their burrows in the Subterranean room and take a pew by an entire theatre stage that's been made out of frozen water."
From around SEK4,010 (£320), icehotel.com

> *"By night, guests live among the freezing ice sculptures"*

On top of the world

Tucked up in northern Norway, not far from the town of Alta, is the northernmost ice hotel in the world, and the second oldest. The Sorrisniva Igloo Hotel has been rebuilt every year since 1999 to a specific theme, such as the Vikings, Nordic myths and legends and the wildlife of the Alta valley. It had just six rooms when it started and has grown to around 30 today. There is also an ice bar and an "excellent" restaurant, says David Nikel on Forbes. But "one of the most intriguing features" is the chapel, which plays host to several weddings each year.

There is, however, much to do besides sit in your snow-clad chamber. Guests can participate in a range of activities from ice-sculpting, dog-sledding and ice fishing in the arctic, or simply relaxing in the outdoor Jacuzzi to admire the Northern Lights dancing across the sky.
From NOK 2,690 (£220), sorrisniva.no

Wine of the week: a breathtaking, lip-smacking gewürz

2018 Gewürztraminer, Domaine Weinbach, Alsace, France
£25.08, sold in cases of six, Justerini & Brooks, justerinis.com, 020-7484 6430, email: justbrooksorders@ justerinis.com

Matthew Jukes
Wine columnist

My favourite winery in the whole of Alsace is Domaine Weinbach. The old vintages look exquisite, the elite cuvées are spectacular and every wine I have tasted from there has been memorable. But there is one category of wine from this amazing producer that I rarely mention and this is remiss of me. The so-called "straightforward" or "entry-level" wines (I prefer the term "estate" wines) are simply spectacular – not just in terms of value for money, given that they come from the greatest producer in the region, but in terms of pure expression of their individual grape varieties.

My featured gewürz is the quintessential definition of this grape in crystalline, liquid, dreamy form. It is aromatically perfect with no traces of confection or, indeed, soapiness. The palate is lithe, pliable, glisteningly clean and the finish is crisp and lip-smacking. It is the greatest value and most accurate example of this grape that I know.

It is also a gastronome's most exciting food and wine-matching weapon. Gone are the days of simply saying that Alsace gewürz goes with all forms of pâté or, the awful catch-all term, "Asian food". This is a heavenly, challenging, multi-layered wine with blushingly beautiful near-tropical tones balanced by an ice cool, mid-palate brightness. It can go with anything. Weinbach's 2018 Pinot Blanc (£18.88) and 2018 Riesling Cuvée Théo (£24.68), both sold in cases of six, are also simply breathtaking.

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

This week: properties for around £500,000 – from a traditional Cotswold stone cottage with wood-burning stoves

The Lodge, Scorton, Richmond, North Yorkshire. A Grade II-listed, late-18th-century property with a separate two-bedroom cottage in the large gardens. The main house has sash windows, ornate cornicing, open fireplaces and exposed beams. 5 beds, 2 baths, 3 receps, garage, walled gardens, 0.6 acres. £525,000 Strutt & Parker 01423-561274.

West House, Dalton on Tees, Darlington, County Durham. An early 20th-century property that has been extended and upgraded while retaining period features. It has high ceilings, original fireplaces and a country-style kitchen with an Aga. 5 beds, 2 baths, 3 receps, greenhouse, access and use of a four-acre paddock. £500,000 Savills 01325-370500.

Denton Street, Wandsworth, London SW18. A refurbished garden flat in a terraced property close to Wandsworth Common and King George's Park, with good transport links into central London. It has high ceilings, parquet floors, shuttered sash windows and a Victorian fireplace in the living room. 1 bed, bath, recep, garden. £515,000 Knight Frank 020-8682 7777.

to a one-bedroom flat with a garden close to Wandsworth Common in London

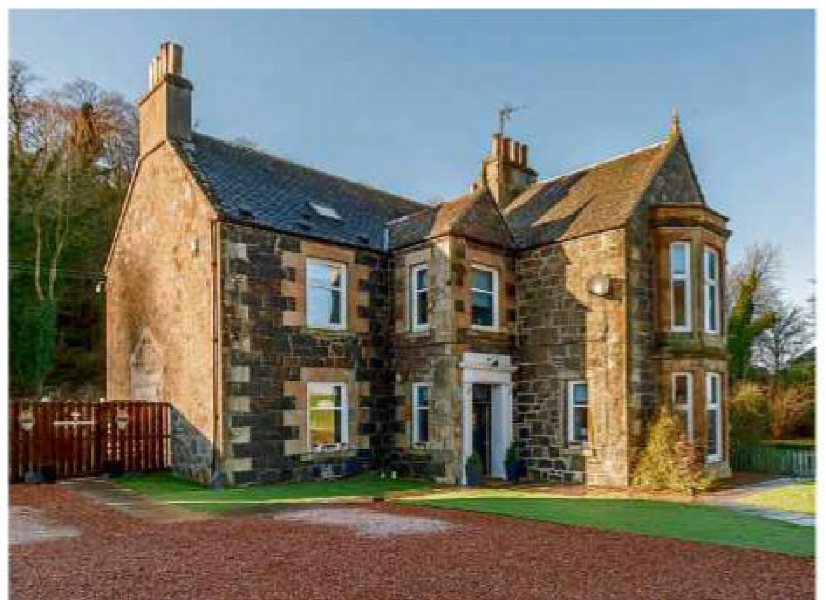
◀ **Walnut Cottage, Hawling, Gloucestershire.** This semi-detached, traditional Cotswold cottage dates from the 1850s and has views over surrounding pasture land. The interiors include feature fireplaces with wood-burning stoves, stone-framed casement windows and a recently fitted kitchen with a butler's sink. 2 beds, 2 baths, dining/living room, utility/pantry, stone outbuilding, garden. £475,000 Butler Sherborn 01451-830731.

▶ **Winstone Cottages, Brixton, near Plymouth, Devon.** A cottage in an Area of Outstanding Natural Beauty with exposed stonework, wood-burning stoves, a walled courtyard and separate garden. 3 beds, bath, 2 receps, breakfast kitchen, 0.5 acres. £520,000 Luscombe Maye 01752-880044.

◀ **Higher Tynes Cottage, St Teath, Bodmin, Cornwall.** A Cornish cottage in an elevated position with views of the countryside and Atlantic coast. The property was recently extended and renovated and it has flagstone and wood floors, open fireplaces with stone surrounds, beamed ceilings and landscaped gardens. 4 beds, 2 baths, 2 receps, breakfast kitchen, larder, parking, 0.6 acres. £560,000 Fine & Country 01208-76800.

▲ **The Rectory, Great Gonerby, Grantham, Lincolnshire.** A large rectory built in 1840 surrounded by just over half an acre of mature gardens and grounds. It is in good order generally, but would benefit from modernisation. Period features including large sash windows, wood floors and a range of outbuildings. 6 beds, 2 baths, 2 receps, coach house/garage, 0.5 acres. £495,000 Savills 01522-508908.

▶ **Burnside House, Newburgh, Fife.** A renovated manse close to a popular village with views over the surrounding countryside. The house has been modernised and has an eco-friendly heating system and triple glazing as well as retaining its original high ceilings, windows shutters, wood floors and period fireplaces, now with wood-burning stoves. 5 beds, 5 baths, 3 receps, games room, gym, breakfast kitchen, parking, gardens. £525,000+ Strutt & Parker 01738-567892.



The best kit for ski enthusiasts

Hitting the slopes for some downhill action this season? Then invest in some high-end clobber to make the experience even more enjoyable. Chris Carter reports

The 1980s are cool again and that means eye-catching all-in-one snow suits are back in fashion. But the 1980s feel only goes as deep as the nostalgia. The latest technologies in "fit, function and fabrication" have been used to make modern snow suits "water-repellent, breathable and moisture-wicking", says Ellie Davis in the Evening Standard (that is, they draw moisture away from the skin). The **JC De Castelbajac Women's Wari Ski Suit** from Rossignol has been designed with well-known French fashion designer Jean-Charles de Castelbajac. "Playful pops of colour" combine "high-performance with high-fashion". *£1,000, rossignol.com*

"Function and performance meet superior style in this premium head and eyewear combo," says Al Morgan in The Daily Telegraph. The metallic and carbon detailing gives the **Bollé V-Line Carbon helmet** a "high-end look". The tint on the visor automatically adapts to the changing light conditions, meaning just the one lens works for overcast, flat-light and "bluebird glory days". The hard plastic offers tough protection and the adjustable ventilation allows you to set the temperature. *£299, bolle.com*

Ski goggles have come on in recent years, says Jamie Carter on TechRadar. They are no longer just a dull necessity that cut down on your peripheral vision. **Vanguards ski goggles from SunGod** are the best you can buy, maximising field of view while protecting your eyes from snow, wind and harmful UV rays. You can choose the colour of the super-slim frame and strap, and from eight different goggle lenses. Each varies slightly according to the visual light transmission (VLT) – the amount of light a lens allows to pass through. *£110, sungod.co*

The **SuperDOA snowboard from Capita** is the best of the boards we have reviewed, says Mike Walker in Snow magazine. It offers a "poppy ride and plenty of all-mountain freestyle-friendly features". It is fatter through the middle of the board than its competitors, which gives good torsional stiffness for "high speed carves and stability on landings", but then thins out at the tip and tail for a little more flex and a lighter weight, making for "easy buttering and rotation". *£599.99, snowboard-asylum.com*

The new **Ski-Doo Summit 850 E-Tec Turbo** is the world's first factory-made machine to offer a turbocharged two-stroke engine and it promises to revolutionise mountain riding. Usually when riding at high altitude you can expect to lose some horse power. Not so with this snow mobile. It maintains power at altitudes of up to 8,000 feet – a feat that has never been achieved before with a two-stroke factory sled. Deep-snow lovers will be able to reach higher altitudes more easily and riders on technical terrain will have the extra power they need to traverse slopes and weave through tight trees as they challenge themselves and push their skills. *$18,099 (UK price to come), snowmobilescotland.co.uk*

"Swedish label Haglöfs has established itself as a big name in outerwear," says Men's Fitness magazine. Its **Nengal 3L Proof parka** has been developed with free skiing in mind. As such, it includes a helmet compatible hood, sleeve pocket, ventilation and zip-off snow skirt. It's made from high-performing fabric that gives breathability and high levels of protection from the elements. It even has a built-in Recco Reflector, which makes it easier for mountain rescuers to find you in the event of emergency. *£420, haglofs.com*

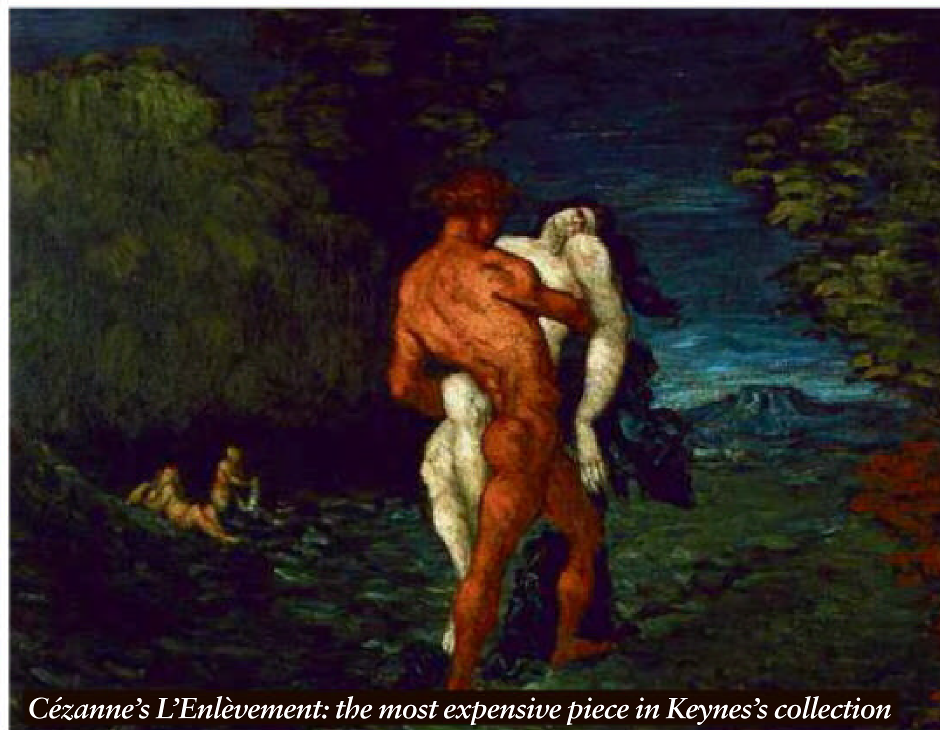
"Comfortable ski boots are an absolutely top priority on the slopes," says Ruth Doherty in the Daily Mirror. Owning your own pair is the only way to guarantee comfort for your feet. These **Salomon S/Pro 80 W ski boots** for women "are designed with your morphology in mind, providing easy step-in and a seamless liner for uncompromised performance and comfort all day". The S/Pro 80 is also available for men. *£270, snowandrock.com*

Keynes's eye for an art bargain

The economist was an avid collector, and a savvy one. Chris Carter reports

It's well known that John Maynard Keynes was one of the 20th century's most important practitioners of the dismal science. Less well known is that he was also an avid collector of the beaux arts – and quite a successful one at that. The economist spent £12,847 on building up his art collection between 1917 and 1945. That collection, according to "Art as an Asset: Evidence from Keynes the Collector", a study from the Cambridge Judge Business School, is today worth £76.2m, representing an inflation-adjusted return of 6.1% a year.

True, if Keynes had sunk his money into British stocks, and reinvested the dividends, his beneficiaries would be sitting on around £90.2m. But share certificates don't look half so good on the wall; not compared with Georges Seurat's *Study for La Grande Jatte* (1884), bought by Keynes for £400 in 1919 while he was writing *The Economic Consequences of the Peace* following World War I. Keynes' most expensive purchase was Paul Cézanne's 1867 canvas *L'Enlèvement (The Abduction)*, bought for £3,500 in 1935, while he was working on *The General Theory of Employment, Interest and Money*. The ten most expensive paintings in his 135-piece collection accounted for 80% of his total expenditure.



Cézanne's L'Enlèvement: the most expensive piece in Keynes's collection

©Alamy

Better than bonds

Part of the reason for his success was that he shunned Old Masters' paintings in favour of Impressionist and post-Impressionist works that, after a few years, became much more sought after. Not that he received much credit for it at the time. Keynes's judgment of works of art had been decried as "lamentable" by the art critic and brother-in-law of Virginia Woolf, Clive Bell, as Patrick Hosking points out in The Times. Yet Keynes's collection made 9.2 times as much profit as a typical artwork portfolio and 20 times as much as it would have had the money been invested in government bonds.

"For the art collection to have performed far better over the period than government bonds, and to have nearly matched the total return on equities, is an extraordinary outcome," say the authors of the Cambridge Judge Business School study. "The collection performed especially well shortly after purchase, suggesting that Keynes was able to buy art at attractive prices." Keynes clearly had an eye for a bargain. His search even apparently involved visiting auction houses in disguise.

Ever the public servant (he had been employed by the government), Keynes, with artists Roger Fry, Duncan Grant and Vanessa Bell, at one point convinced the Treasury to put up the funds to buy a bunch of Cezannes going cheap for the nation. But in the end, the director of the National Gallery vetoed the decision, so Keynes bought them for himself. When he died in 1946, the collection went to King's College, Cambridge, where Keynes had been a bursar. Some of the paintings are today on display at the university's Fitzwilliam Museum.

Auctions

Going...

Three neo-Impressionist "masterpieces" that were looted from Gaston Lévy, a successful Paris-based businessman and art collector, during World War II, were auctioned in London this week, says Kim Willsher in The Observer. Lévy, who was Jewish, fled to Tunisia with his English-born wife, Liliane, and daughter, where they survived the war. The "jewel of the group", *Gelée blanche, jeune paysanne faisant du feu* (1888), by Camille Pissarro, was valued at up to £12m. It, and Paul Signac's *La Corne d'Or* (1907), were both eventually returned to France and hung in the Musée d'Orsay in Paris. The third painting, *Quai de Clichy* (1887), also by Signac, had been found in the collection of German dealer Hildebrand Gurlitt. It was returned to the Lévy family last year.

Gone...

A painting by L.S. Lowry of workers in the Greater Manchester town of Pendlebury enjoying a day off had escaped the notice of art experts for 70 years, says BBC News. *The Mill, Pendlebury* (pictured), as the 1943 work is called, had been given by Lowry to Leonard D Hamilton, who later contributed to the discovery of the double-helical shape of DNA. The painting's existence only became known after his death. On 21 January the picture fetched £2.7m with Christie's in London, far in excess of its £1m upper estimate, but lower than the £5.6m paid for each of Lowry's later works, *The Football Match* (1949) and *Piccadilly Circus* (1960).

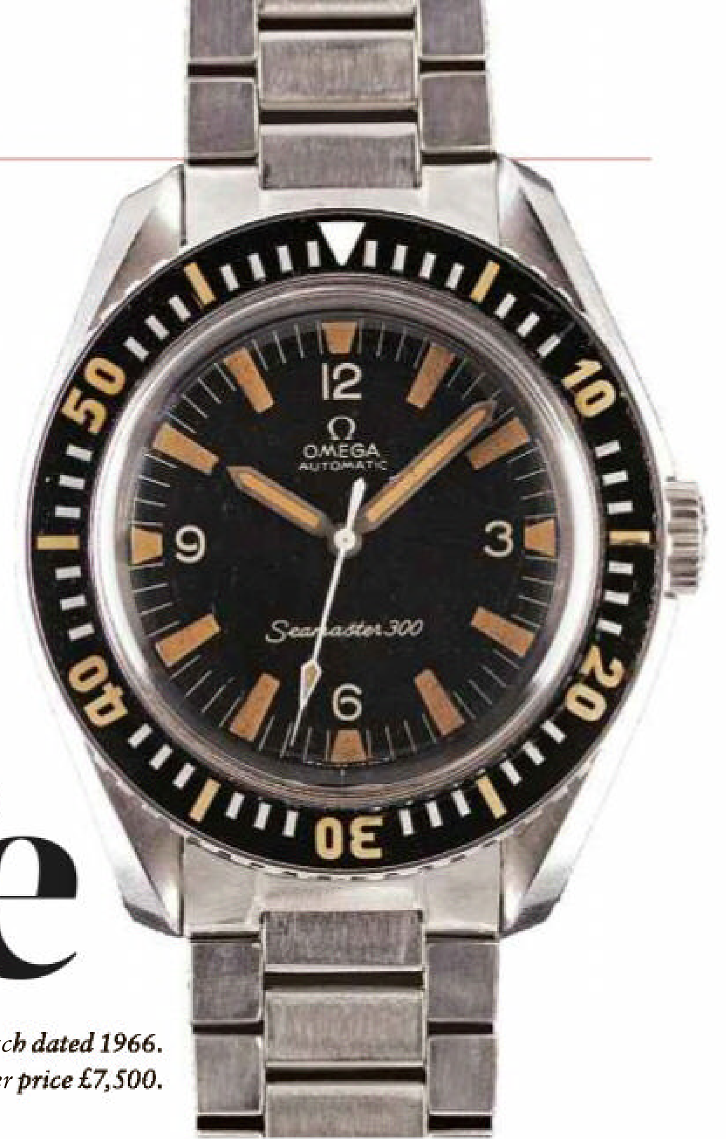
Banksy's post-Brexit art

Britain has left the European Union and the in/out war is over (at least for now). But the question remains of what to do with all those placards left over from the pro- and anti-Brexit protest marches. Anonymous street-artist Banksy (who else?) has come up with his answer – turn it into art and flog it through Sotheby's. Using a found Vote Leave placard, Banksy has added a balloon to turn "Leave" into "Love". *Vote To Love,* as the piece is called, has been given an upper estimate of £600,000 ahead of its sale on Tuesday. Before that, it had hung as part of the Royal Academy's Summer Exhibition 2018, having originally been turned down for the show when Banksy submitted the work under the pseudonym

Bryan S. Gaakman – a play on the words "Banksy anagram".

Once it had been accepted, it was given a "sardonic" price tag of £350m in the exhibition catalogue – high, even by Banksy's standards. The price was, of course, a whimsical nod to Vote Leave's infamous promise painted on the side of a bus, pledging to return that amount to the NHS every week. The rest of the art world may not be in the mood for laughing, however. The effect of Brexit on trade has placed London's art market in "limbo", says Melanie Gerlis in the Financial Times. "Most of the art market's participants were not in favour of leaving the EU, but are holding out for possible tax and fiscal-policy silver linings."

Having the time of your life



A Gentleman's Stainless Steel Omega Seamaster 300 Automatic Bracelet Watch ***dated 1966.***
Sold on thesaleroom.com by Watches of Knightsbridge, Nov 2019. Hammer ***price £7,500.***

Watches are some of the most personal objects we ever own. We set our lives by them. Every watch has a story and that story is as important as who made it, when and how. Collectors want to know who wore it, when and why. No two watches are ever the same. That's what makes them so appealing to collectors.

The market in vintage timepieces, which mostly consists of "mechanical", as opposed to quartz or digital watches, has soared by 73% over the past decade, according to the latest Knight Frank Wealth Report. And it shows no sign of stopping. Perhaps the market is driven by a sense of longing for a more hands-on, more authentic past in our age of digital domination. The love of all those minuscule cogs, wheels and springs excites the inner nerd in all of us.

The watch that actor Marlon Brando wore on the set of *Apocalypse Now* (1979) was so important to him, he refused to take it off. So, director Francis Ford Coppola allowed it into the film. It became a part of Brando's character, Colonel Kurtz, and with it, silver screen history.

So, no wonder, then, that in December, it sold for almost $2m with Phillips auction house in New York. Granted it was a Rolex to start with – a 1675 GMT-Master from 1972 to be precise. But it wouldn't have been worth that amount had Brando not scratched his name into the back.

When buying or selling a watch, it helps to have any supporting paperwork, the original box, and any photographs of the previous owner wearing it. That's especially true if we're talking about a watch that has been worn by somebody famous.

There is a wonderful black-and-white photograph of a stern-looking Brando, wearing Kurtz's dog tags, holding up the Rolex. It goes without saying, with so much history, there's no question of "restoring" a watch like this. Its kinks and scratches tell its story. Brando's watch was even missing its bezel. Importantly, however, everything else about it, minus the strap, was entirely original. And while Brando's military exploits in the film may have been fictitious, watches that have "seen action" tend also to command a premium.

Rolex Explorers and Submariners (such as the one Sean Connery wore as James Bond in *Goldfinger*), as well as Omega Seamsters and Speedmasters are names on every collector's wish list but do look out for lesser-known brands, too, such as Universal Geneve. They are all riding a wave of popularity at the moment.

Determining which watches will be tomorrow's highly prized treasures, and learning about their histories, is all part of collecting. And remember, you pay a mark-up when you shop for a new watch on the high street.

At auctions, you can find a wide range of vintage watches at attractive prices. But above all else, you can have fun while you're doing it.

A BREATH OF FRESH AIR

The UK – and international – auction scene has never been more dynamic. A generation ago bidding was done in an auction house's premises and was largely dominated by specialist dealers.

Then the internet and thesaleroom.com came along. Seasoned collectors and those just starting out were able to peruse a wide range of items online at their leisure, including those offered by smaller regional auction houses around the country.

In fact, on thesaleroom.com you can follow auctions with live audio and video feeds and bid in real-time against other people in the room. You can still choose to experience the drama of the sale in person, of course. But, together with telephone bidders, online auction buyers add an extra thrilling element to the mix.

Whether you're hunting for a vintage watch, designer handbags, art or ceramics, you'll find it among the nearly four million unique items for sale at thesaleroom.com.

We work with over 600 trusted auction houses from around the world who value and assess each item to bring you timeless treasures. Spotting the items that might gain in value is something that's all part of the collecting experience.

It's no wonder over one million people visit thesaleroom.com every month. They know we are Europe's leading marketplace for art and antiques.

For ideas and tips on buying watches and collectables at auction, thesaleroom.com has a wide range of online Buying Guides for the most popular categories, including wristwatches, jewellery, silver, whisky and glass.

Five of the best watch auctions coming up on thesaleroom.com:

10 February
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18 February
Bonhams – Watches and Wristwatches
19 February
Gardiner Houlgate – The Watch Auction
19 February
Lockdales – The Fine Sale
28 March
Watches of Knightsbridge – Fine, Rare & Collectable Timepieces

Discover these and a whole world of antiques, fine art and collectables for sale at auction on thesaleroom.com.

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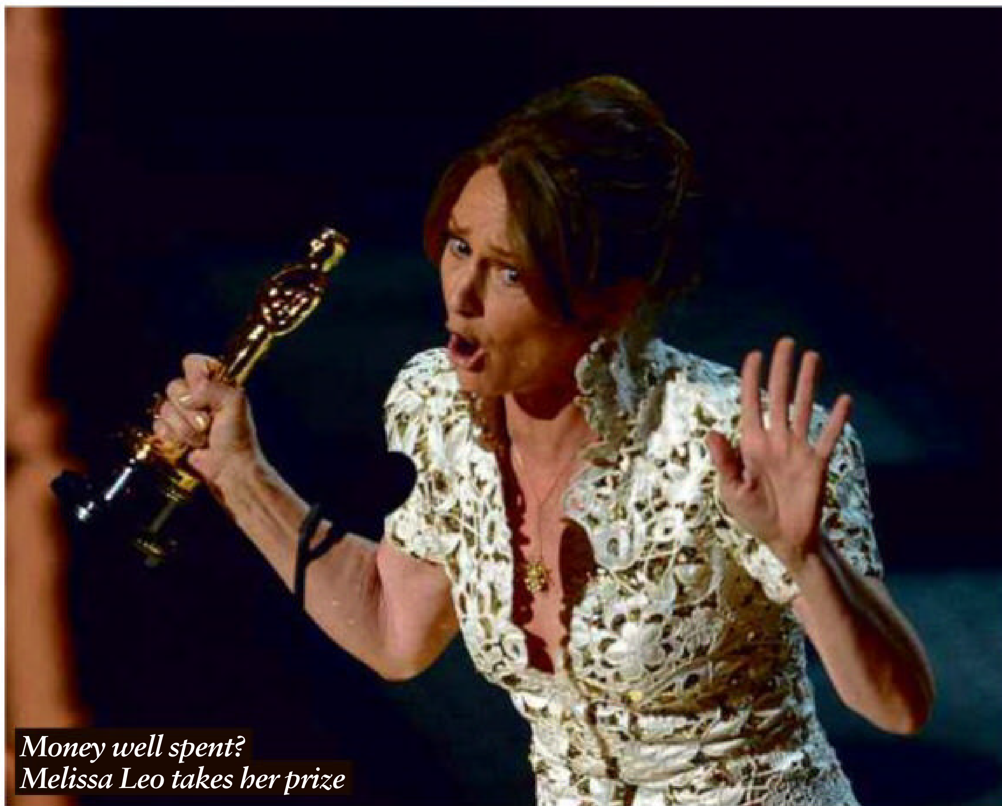
The costly scramble to grab a gong

The Oscars schmoozing began in September and ends with a nauseating display next week. Is it worth it?

Over the past few months anxious candidates have been spending millions on advertising, touring the country in an attempt to attract every last vote. No, I'm not talking about the US presidential campaign, but something that seems to be deemed of far more importance – the Oscars.

The film awards are the culmination of a PR campaign that starts around September and continues through the nominations in January, ending just before the Academy Awards ceremony in mid-February, says Patti Greco on Bustle. The campaigning involves "attending a steady stream of screenings, giving countless interviews, and shaking an ungodly number of hands". It also involves paying hard cash for "for your consideration" advertisements.



Money well spent? Melissa Leo takes her prize

©Getty Images

> *"A full-scale Oscars campaign can cost up to $30m per film"*

Experts reckon that a full-scale Oscars campaign "can cost studios up to $30m per film". Last year's heavy hitters, *A Star Is Born*, *Roma*, and *First Man*, all reportedly spent around $20m-$30m for consideration in multiple categories. Studios nearly always end up picking up the bill, but a few stars have decided to reach into their own pockets. In 2011 actress Melissa Leo was the subject of media criticism for using her own money to pay for "for your consideration" advertisements for her supporting role in *The Fighter*. Leo had the last laugh: "She landed the nomination, and won the award".

And when you look at the potential rewards, it's not surprising that studios are spending so much money in the hope of grabbing a gong. The "box-office bounce" from nomination or victory has "somewhat faded" in the US, but the international box office "is another thing", says Stephen Galloway for Variety. Much of *The Shape of Water's* $131m foreign haul followed its Oscar victory, for example, and "nobody expected *Green Book* to take in $237m overseas until it won best picture". Actors' up-front bonuses from a win are usually "modest" – $50,000 for a nomination and $100,000 for a win – but they also stand to benefit from a share of any increased revenue or profits.

What's in this year's goody bag?

Even those who don't win won't leave the ceremony empty-handed. The nominees for the four major acting awards also get a gift bag "stuffed full of goodies", says Rishma Dosani in Metro. Distinctive Assets, a marketing company that has been providing these for two decades, is promising that this year's gifts will be worth more than $100,000. The lucky recipients will receive smart bras and deodorant, six separate holidays or spa trips, and a stained-glass portrait made by artist John Thoman, "who has previously knocked up" versions of Barbara Streisand, Tom Hanks and Emily Blunt.

Presumably no animals were harmed in the making of this bag as the Oscars has this year gone vegan, a "quarter-arsed gesture that has been reported with admiration bordering on the clinical", says Marina Hyde in The Guardian. If only the gesture politics continued with awards to directors for recycling old work. Count me out. I'll give the whole thing a miss in favour of a night out at my local steakhouse.

Quintus Slide

Tabloid money… Boris's plan to bring in more boffins

● "Grab the smelling salts," says Annunziata Rees-Mogg in The Mail on Sunday. "I agree with Gary Lineker." Despite the *Match of the Day* host (pictured) being the BBC's highest-paid presenter (he earns £1,754,999 a year, plus "a big fee" for similar work on BT Sport), Lineker's controversial suggestion was that the television licence fee should be made voluntary. He termed the fee the BBC's "fundamental problem", in an interview with The Guardian. "You're forced to pay it if you want a TV, and therefore it's a tax," he said. "The public pay our salaries, so everyone is a target." He's right. Having what is, in effect, a poll tax to provide money for a national broadcaster seems antiquated and indefensible. Making the £154.50-a-year fee voluntary would, on the other hand, at least be interesting. "I wonder how many people would pay?"

● Ann Francke, head of the Chartered Management Institute, has said firms should crack down on workers talking about football because it's sexist. That "really does strike me as the world going just a teeny bit crazy", says Karren Brady in The Sun on Sunday. The desire to be seen to be politically correct is leading people "to take leave of their senses". Francke reckons football chatter leaves women feeling left out in the workplace and is "a gateway to more laddish behaviour". How does quibbling over whether a refereeing decision was correct lead to back-slapping about conquests? "It is honestly beyond me." More to the point, lots of women like talking about football too. "Francke's view is not only claptrap, it is sexist claptrap."

● Boris Johnson wants to turn Britain into "boffin central" by throwing open our doors to the world's scientists, mathematicians and engineers, says Jeremy Clarkson in The Sun. "This sounds tremendous." Britain is, after all, the country that invented the worldwide web, steam power and penicillin. But how's it going to work? "Are we going to have someone at the docks in Dover deciding who gets to come in and who doesn't?" It's very hard to spot genius. An immigrant might say he has an idea for an apple press. What's to stop him using our universities to become brilliant and then going home? "All I do know is that next year, when the door is slammed on unskilled workers, there will be an awful lot of apples in Kent that will remain unpicked."

©Getty Images

Bridge by Andrew Robson

Make no mistake at trick one

More fatal mistakes are made at trick one than at any other trick – by far. Take this week's deal from the Crockfords Cup.

Dealer East — North-South vulnerable?

North
♠ Q984
♥ A8642
♦ J4
♣ AQ

West
♠ KJ653
♥ K5
♦ K97
♣ K74

East
♠ 10
♥ Q973
♦ 1086
♣ J10986

South
♠ A72
♥ J10
♦ AQ532
♣ 532

The bidding

South	West	North	East
			pass
pass	1♠	pass*	pass
1NT**	pass	3NT***	pass
pass	pass		

* Heart suit far too ropey for a Two-level overcall.
** A protective One No Trump (ie, after two passes) normally shows 11-16 points; here it must be 11 as South did not open the bidding.
*** With spades well stopped, North opts not to mention Hearts, expecting the nine-trick game to be easier.

West led the five of Spades and declarer correctly took a time-out before playing from dummy. The way to maximise tricks in the Spade suit was to play low, take East's ten with his Ace, and score two more tricks by leading twice towards dummy's holding. However, that was an entirely inappropriate approach on this deal, for he needed to retain his Ace of Spades as an entry to his Diamonds.

Declarer made no mistake, rising with dummy's Queen of Spades at trick one (key play). Hoping for a favourable Diamond split (his only real chance), declarer then passed dummy's Knave of the suit (West ducking). A second Diamond went to his Queen and this time West won the King, switching safely to a low Club.

Successfully finessing dummy's Queen of Clubs – lucky, but not unexpected given West's opening bid – declarer crossed to his Ace of Spades and was pleased to see both opponents follow under the Ace of Diamonds. He cashed his two long Diamonds and dummy's Aces of Hearts and Clubs brought his trick total up to nine.

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

Sudoku 985

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

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.

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

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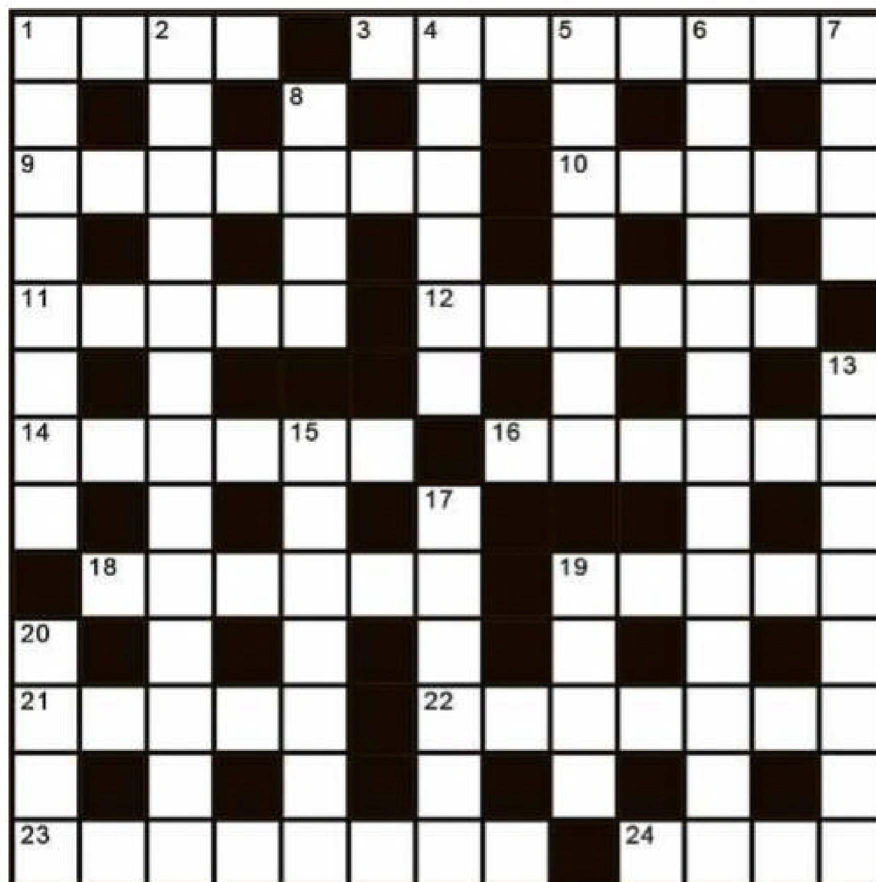
Tim Moorey's Quick Crossword No. 985

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 17 Feb 2020. Answers to MoneyWeek's Quick Crossword No. 985, 31-32 Alfred Place, London, WC1E 7DP.



Across clues are mildly cryptic whereas down clues are straight

ACROSS
1 Marries for one day? (4)
3 Serial is broadcast for Middle Eastern people (8)
9 Sheep getting some protection (7)
10 Capital units changed (5)
11 Nest one found on Great lake (5)
12 Shoot at this and you'll probably miss? (6)
14 Country's dramatic failure? (6)
16 Scare for a conductor (6)
18 Inviting a second monarch (6)
19 They can be odds! (5)
21 True terror France exported (5)
22 First-class orchestra managed failure (4, 3)
23 Member in men's clothing (8)
24 Metal found on top of building and in front (4)

DOWN
1 Guarantee (8)
2 Sort of sweetener from the West Indies (8, 5)
4 A planet (6)
5 An aerial (7)
6 United States of America (4, 2, 3, 4)
7 Neither good nor bad (2-2)
8 Pink, as a steak (4)
13 Experienced (8)
15 Letter (7)
17 Terrified (6)
19 Orient (4)
20 Boast (4)

Name ....

Address ....

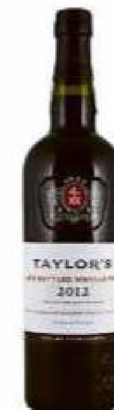
Solutions to 983

Across 1 Admit *mad anag + it* 4 Attaché *attach + e* 8 Kangaroo *2 defs* 9 Bald *I in bad* 10 Dealt *deal + t* 12 Firearm *fire arm* 13 Good reception *deceptive def* 17 Meander *me and 'err* 18 Amass *a mass* 21 Bare *bear homophone* 22 Angelica *anag* 23 Measles *lease anag in Ms* 24 Obese *deceptive def.*
Down 1 Asked 2 Manna 3 Tractor 5 Two-time 6 Ambient 7 Hilarious 11 Exonerate 14 Dangers 15 Elevate 16 Placebo 19 Agile 20 Shake.

The winner of MoneyWeek Quick Crossword No. 983 is: Michael Hughes of Kent.

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

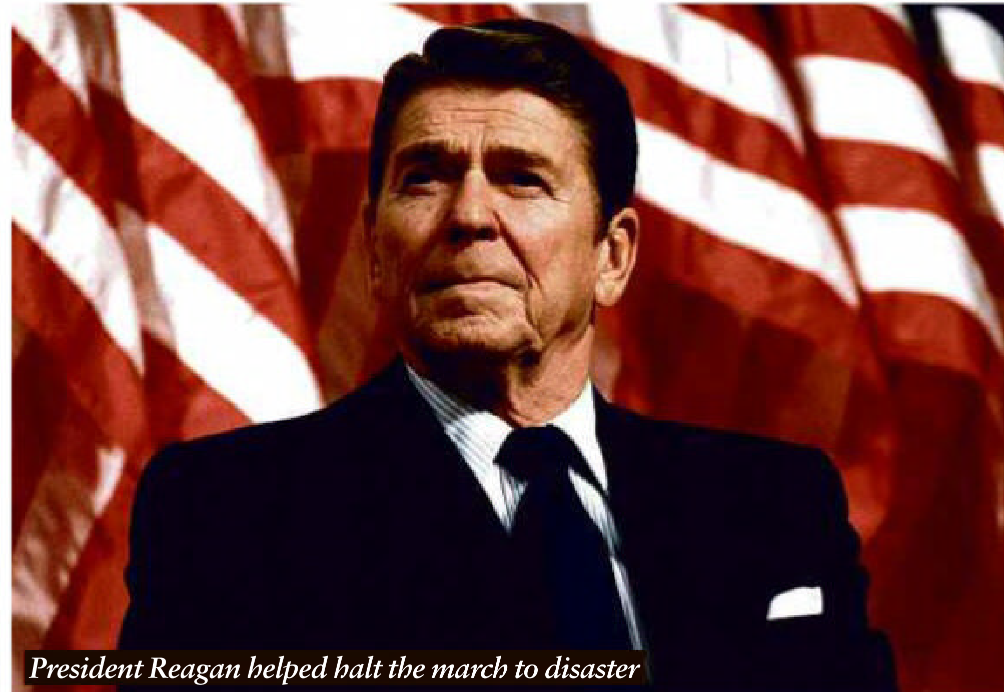
Taylor's, a family firm for 325 years, is dedicated to the production of the highest quality ports. Late Bottled Vintage is matured in wood for four to six years. The ageing process produces a high-quality, immediately drinkable wine with a long, elegant finish; ruby red in colour, with a hint of morello cherries on the nose, and cassis, plums and blackberry to taste. Try it with goat's cheese or a chocolate fondant.



One small step to calamity

Sometimes success brings a greater punishment than failure

Bill Bonner
Columnist


President Reagan helped halt the march to disaster

Inflating isn't always as easy as it looks. A determined government can always do it. But not necessarily when and how it wants. Even the best-planned robbery sometimes spins out of control. The victim fights back. The getaway car makes a wrong turn. The cops show up…

Rudolf von Havenstein had been president of the Prussian State Bank. History hath no record of a public servant more strict with himself or the nation's money. Yet, faced with the threat of the Bolshevik Revolution, and with no way to refinance Germany's government debt, he made his choice. By 1923, Germany had marks coming out of their ears.

Germany's inflation rate in 1914 was under 2%. But, in the emergency of war, the government cut the link with gold. By the time Hartley "Hot Lips" Edwards played Taps on the bugle, on 11 November 1918, marking the end of the war, there were four times as many paper marks in circulation. Prices had more than doubled. But there was no hint of the monetary disaster to come. The authorities had financed the war by printing money. Now, they figured they could print their way out of the post-war depression.

The decision seemed like the right one at the time. It prevented an immediate crisis – with mass unemployment and political upheaval. Von Havenstein knew it would cause inflation, but he considered it the lesser of two evils. One little step led to another. And five years later, when von Havenstein died, the central bank of Germany had printed some 500 quintillion marks. One US dollar was worth 4.2 trillion marks by December 1923. For all the new "money", Germans were destitute. The economy caved in. A decade later, the Nazis rose to power.

"For all the new money, Germans were destitute. The economy caved"

In 1971, the US took a similarly small step when it unpegged the dollar from gold. America's great misadventure with inflation had begun. Ten years later, it took a remarkably determined, strong-willed and clear-headed Fed chief – another Prussian, Paul Adolph Volcker – to change course. Had he not prevailed, or not had the backing of President Ronald Reagan, the experiment would probably be over by now. Inflation rates probably would have continued to rise. The economy probably would have continued to soften. Stagflation – with rising prices in a slumping economy – would have got worse. Most likely, the ongoing economic crisis would have set off a political crisis and the paper dollar system would have been abandoned.

But success often brings a greater punishment than failure. By 1923, Germany's experiment with inflation was over, after only nine years. Thanks largely to Volcker's success at saving the fake-money system, ours continues. Only God foresees what calamities it will bring.

The bottom line

$344m The cost of the Inouye telescope in Hawaii that has produced the most detailed images yet of the surface of the sun.

150bn How much in yuan (£16.4bn) China pumped into its economy this week in order to create extra liquidity for its banking sector, which has been struggling in the aftermath of the coronavirus epidemic.

$5.6m The average cost for a 30-second television advertisement during the Super Bowl last Sunday, up from $5.2m last year, according to The Hollywood Reporter. The climax to the American football season was won by the Kansas City Chiefs.

£15,000 The estimated value of a silver coin from 826 AD, featuring the face of Saxon king Ludica of Mercia and the place name "Lundenwic". Historians had thought Ludica had lost control of London to King Ecgberht of Wessex a year earlier following the Battle of Ellendun.

€500,000 The potential fine landlords in Berlin face if they breach a new law freezing rental payments for five years and capping rents for new leases at roughly their 2013 levels. Low interest rates have helped boost property prices in the German capital.

£300,000 The value of 5kg gold coins with face values of £5,000 that have been created by the Royal Mint as part of its 750-year-old ritual, the Trial of the Pyx, where coins from the Mint are independently scrutinised for quality.

$25m **How much actor Daniel Craig (pictured) will be paid to reprise the role of British secret service agent James Bond for the fifth and final time in *No Time To Die*, released in April, says The Mail on Sunday. At around three hours in duration, the film, which is still being edited, could be the longest-running in the franchise.**

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