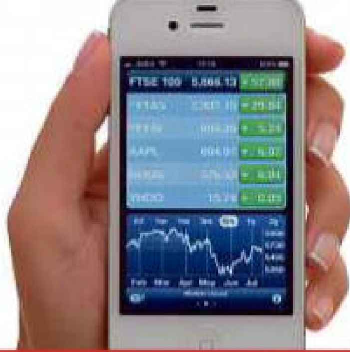
STRATEGY *P13*
The UK is still in the bargain basement

ANALYSIS *P24*
How to master your emotions when you trade



PLUS
A camera with cachet
TOYS *P34*

MoneyWeek

MAKE IT, KEEP IT, SPEND IT

3 SEPTEMBER 2021 | ISSUE 1067 | £4.50

Primed to pop

What to do when the US bubble bursts

Page 20

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MoneyWeek

3 September 2021 | Issue 1067

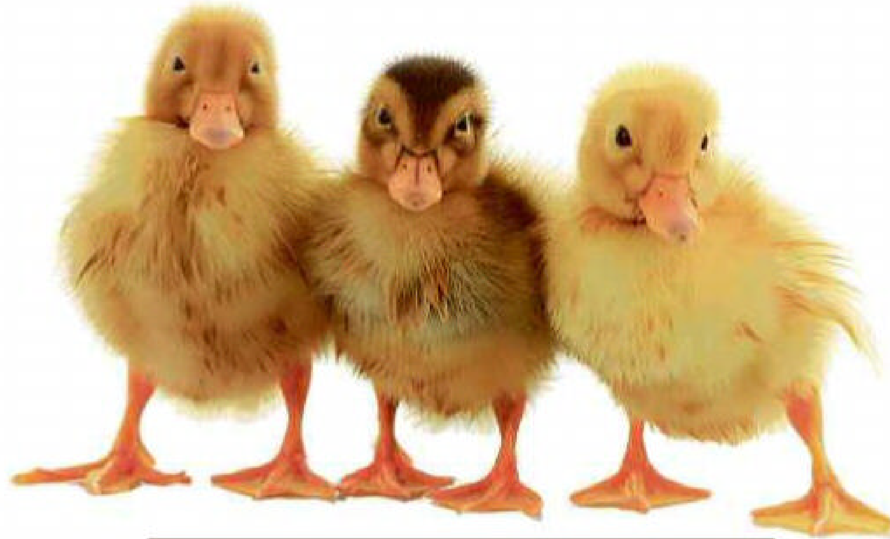
Britain's best-selling financial magazine

From the editor-in-chief...

Levels of public debt not seen since World War II (see page 4). A labour shortage. Fast-rising inflation. More new Covid-19 variants. Small businesses suffering from supply crunches. Chaos in Afghanistan (see page 8). Rising mutterings about inequality (even in the Hamptons – see page 36). Anti-wealth and anti-market policies in China (see pages 5 and 10). Ridiculously high equity valuations in the US. It's a lot for markets to cope with. You'd think they'd wobble some. But no. Instead, the melt-up just keeps going – and the S&P 500 just keeps hitting record highs.

Should you worry? There are stories you can tell to make yourself feel a bit better (stockmarkets are nothing more than a sum of stories). You could perhaps argue that US earnings estimates are rising so fast that it makes everything look kind of OK. S&P 500 stocks as a whole beat analysts' estimates nicely in both the first and second quarters – so everyone is now busy upgrading their forecasts for the year. The higher these go (S&P average forecast operating earnings per share are now at a record high) the less awful valuations look, and the easier it is to justify endlessly rising stockmarkets.

You could also argue that the Federal Reserve is clearly very conscious of the stockmarket (maybe too conscious) and will be keeping rates so low for so long that if you want an income of any kind, there is no alternative to the stockmarket (see page 4). You might also note that companies must be feeling pretty optimistic: stock issuance is currently at its highest level ever in the US – "blowing away the last high set in the run up to the Tech Bubble", say the analysts at asset manager GMO. And this isn't just about new firms coming to market (the Spacs – special purpose acquisition companies – you have heard so much about). Instead, most new issuance is coming from "seasoned companies".



When the ducks are quacking, it's time to feed them

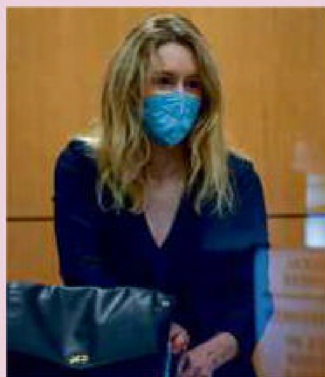
"At some point, absolute rather than relative valuations will matter. That will be a shock"

Unfortunately, none of these things are quite enough. Analysts have a trying tendency to extrapolate everything – basing forecasts not on actual predictions of the future, but on assumptions that it will be almost identical to the immediate past. Yardeni Research notes that the average analyst estimate of forward earnings for US energy companies is up 1,558% since last year's lockdown lows. In lockdown analysts assumed lockdown forever. Out of lockdown they perhaps assume pent-up demand release forever. The latter is as unlikely now as the former was then. As for issuance, it would be nice to think that it reflected companies being full of brilliant ideas as to productive ways to use the cash. However, it is just as likely, as GMO say, to reflect that "Wall Street knows an eager, price-insensitive buyer when it sees one... when the ducks are quacking, it's time to feed 'em".

And interest rates? It makes some sense to think about markets in relative terms, but at some point absolutes will matter too. When that happens, eager, price-insensitive buyers will be in for a shock. With that in mind, let us bore you again with the suggestion that you bring some of your cash home – to the UK market. Too many investors have been telling themselves miserable Brexit stories for too long (see page 13). Those who found our exit from the EU very distressing might find some release in this (everyone likes to be right), but dwelling on it now comes with a cost. The UK is not as cheap as it was, but it is much cheaper than most other markets. If we don't buy it, private-equity firms will soon own the lot. And we won't like that.

Merryn Somerset Webb
editor@moneyweek.com

Trial of the week



The trial of **Elizabeth Holmes** (pictured), the founder of blood-testing start-up Theranos, began this week in "one of the biggest trials involving alleged fraud in Silicon Valley", reports the Financial Times. Holmes has been accused of defrauding investors and patients by making false claims about Theranos's blood tests and its finances. Theranos was valued by investors at as much as $9bn and hailed as revolutionary before collapsing after evidenced mounted against the accuracy of its blood-testing technology, which it claimed could conduct a range of tests using just a few drops of blood. The group had struck a deal with pharmacy chain Walgreens, before The Wall Street Journal revealed in 2015 that it had used generic diagnostic equipment instead of its own technology to perform many tests. Ramesh Balwani, Holmes's ex-boyfriend and former president of Theranos, goes on trial separately next year. Both plead not guilty.

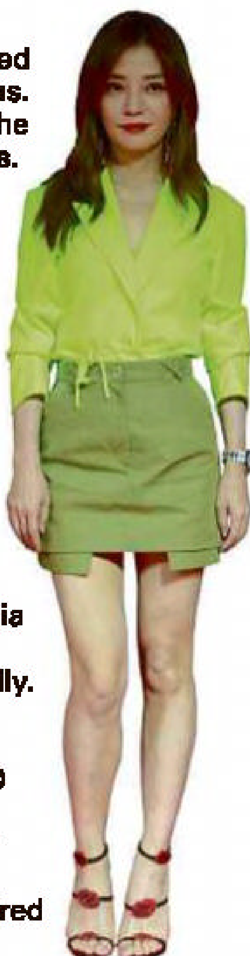
Cover illustration: Howard McWilliam. Photos: Alamy; iStockphotos; Sony

Good week for:

Manchester United's share price jumped 8% after the football club re-signed Cristiano Ronaldo (who originally left the club in 2009) from Italy's Juventus. The jump is good news for investors with fund manager Nick Train, says The Daily Telegraph – his Lindsell Train UK Equity fund owns 4.8% of the shares.

A 12-year-old schoolboy has made the equivalent of £290,000 in sales of his digital artwork of whales. **Benyamin Ahmed** cashed in on the boom in non-fungible tokens (NFTs), and is keeping his earnings in the form of cryptocurrency ether (which means their value could go up or down significantly from here), reports the BBC. He is currently working on his third series, a superhero-themed collection.

Bad week for:



Zhao Wei (pictured) – also known as Vicky Zhao – one of China's most popular and wealthiest actresses, is apparently being erased from history. Bloomberg reports that Zhao's films are being removed from streaming sites and her name scrubbed from credits, while her online fan club has been shut down – a move that hit shares in Weibo, the social-media company that hosted the fan site. Beijing has been cracking down on "celebrity culture", but it's not clear why Zhao has been targeted specifically.

A £15m Gauguin painting owned by the **Tate** has been declared a fake, an embarrassing blow for the gallery, which featured it in its blockbuster 2010 exhibition, Gauguin: Maker of Myth. *Tahitians*, an unfinished piece, was bought by the Tate in 1917. It was downgraded by the Wildenstein Plattner Institute in New York, but doubts had already been raised by French art historian Fabrice Fourmanoir, who believed it to be the work of Charles Alfred Le Moine, who lived in Polynesia during the same period as Gauguin.

©Getty Images; iStockphotos

So much for the taper tantrum

Alex Rankine
Markets editor

US Federal Reserve chairman Jerome Powell's speech on reducing liquidity offered something for everyone

©Getty Images

The dreaded "taper tantrum" has turned out to be a "taper whimper", says Will Denyer of Gavekal Research. US Federal Reserve chairman Jerome Powell's speech at the Jackson Hole conference confirmed plans to cut monetary stimulus later this year. You would expect liquidity-addicted investors to be upset by that prospect, but they took the speech "in their stride".

Taper yes, rate hikes no

The Jackson Hole "jamboree" had been "looming over the market for months", says Katie Martin in the Financial Times. The event often sees a central banker "say something silly" that upsets traders. Powell chose to play it safe, allaying concerns about overly hasty monetary tightening.

The Fed is currently buying $120bn-worth of US government bonds and mortgage-backed securities (MBS) with printed money every month as part of its emergency response to the pandemic. With the recovery under way it needs to start cutting back (or "tapering") that support. But it is a treacherous path: in 2013 a similar move by then-chair Ben Bernanke triggered the "taper tantrum". The resulting turmoil saw bond yields spike and emerging-market stocks sell off.

Jerome Powell has not repeated Bernanke's mistakes. He has so far skilfully "avoided miscommunication" of the type that caused the 2013 tantrum, says John Authers on Bloomberg. Stocks rose following the speech; markets had feared Powell might announce a more rapid tightening of monetary policy. Instead, he remained vague on the exact timetable for tapering and made clear that outright interest-rate rises were still a distant prospect. "He managed to couple confirmation that a taper is imminent with reassurance that rake hikes aren't." Markets reacted positively. The Nasdaq and S&P 500 indices rose to new record highs. The latter is up by more than 22% so far this year. US government bond yields fell (bond prices move inversely to yields).

How to talk like a central banker

Powell's speech had "something for everyone", says Lisa Beilfuss in Barron's. "Hiring is strong but could be better; the Delta variant may or may not be [a] problem." Every line that hinted at future monetary tightening "was caveated by a reminder of why it isn't" imminent. The only theme Powell really insisted on was the idea that high inflation is transient. Much now rests on what happens in September, when economists hope reopening schools will ease America's labour shortages: "the labour shortage is the root of the everything-shortage" that is driving prices higher. The spread of the Delta variant in America may prove a "wild card" that determines whether that happens or not.

Powell's speech was an exercise in stalling for time, says Paul Ashworth of Capital Economics. He has resisted pressure from colleagues who want tapering to begin within weeks. We think the Fed will wait until its November meeting "to announce a $15bn reduction in the monthly pace of its Treasury securities purchases and a $7.5bn reduction in MBS purchases".

Global debt pile reaches war-time levels

Climate change could cause South Africa to default on its debt by 2050

©iStockphotos

The world's governments "have rolled out $16trn of fiscal measures to prevent economic collapse during the pandemic", says Enda Curran on Bloomberg. That has left us with "war-time era" debt levels. The UK's government debt-to-GDP ratio is expected to hit 113% in 2026, up from 85.2% pre-pandemic, one of the biggest increases among all advanced economies. Ultra-low interest rates on government bonds – the UK's ten-year gilt currently yields 0.623% – are keeping these debt levels manageable for now, says James McCormack of credit rating agency Fitch. Yet in the longer-term a "fiscal adjustment" (spending cuts and higher taxes) will probably be needed to get global government finances back on track.

Climate change will worsen debt dynamics over the coming decades, say Dhara Ranasinghe and Karin Strohecker on Reuters. "While developing countries are inherently more vulnerable to rising sea levels and drought, richer ones will not escape." A report by index provider FTSE Russell finds that "Malaysia, South Africa, Mexico and even... Italy may default on debt by 2050". Many nations could also be heading for climate-induced credit downgrades, leading to higher borrowing costs and more onerous national debts.

As during the 1970s, "the economy looks shaky and society is becoming more fractious", says Liam Halligan in The Daily Telegraph. "The emerging parallels between contemporary British trends and those weird, dysfunctional years... are stark." Even the Afghan debacle is reminiscent of "America's 1975 retreat from Saigon". By 1976 "a near-bankrupt Britain" was forced to beg the International Monetary Fund for a bailout. This time too, "after years of high borrowing and mass money-printing... a fiscal reckoning... seems inevitable".

Gold regains some of its shine

Gold prices perked up this week after US Federal Reserve chair Jerome Powell's Jackson Hole speech (see page 4). The yellow metal hit $1,820 /oz, a four-week high, on Monday. Powell hinted that US interest-rate hikes were still some way away. Low interest rates and the threat of inflation are good for gold. In sterling terms, gold cost £1,315/oz this week, down by 5% since 1 January.

The US dollar weakened following Powell's comments. A weaker dollar is good for gold because the yellow metal is usually priced in dollars. "Gold has gained 4,160% across the last five decades against the dollar", says Russ Mould in Shares. Gold bugs spy parallels with the inflationary surge of the 1970s, not least because the US government is again "running welfare programmes… it cannot afford".

This year's global recovery has pushed investors out of gold and into stocks, where they can bank dividends, says Stefan Wagstyl in the Financial Times. If interest rates do rise then "bonds would start generating higher incomes, making gold (and other incomeless assets) less attractive". It may take another crisis to trigger a big gold rally, as when prices soared to all-time highs last year. But there are certainly plenty of geopolitical tensions to worry about, while "the planned exit from the unprecedented global easy money regime is… fraught with danger".

Delta dents Vietnam's growth

For much of the pandemic, "the globe marvelled" at Vietnam's "incredibly low Covid-19 infection numbers and negligible death rate", says William Pesek in Nikkei Asia. Yet governments across Southeast Asia became complacent, assuming that "large-scale vaccination… could wait". Now, thanks to the Delta strain of Covid-19, the region is suffering from its worst wave of the disease since the pandemic began. Less than 3% of Vietnam's population is fully vaccinated; much of the country has been placed in lockdown.

©iStockphotos
The economy remains a regional outperformer

Stocks stay buoyant

Still, Hanoi has raised its "vaccination ambitions". The health ministry aims to get 50% of adults jabbed by the end of the year and 70% by the end of March 2022. Investors have a "half-glass-full view". Bill Stoops of Dragon Capital Group thinks stocks could rise by 10% as vaccination gets going. The benchmark VN index has gained more than 20% since 1 January, but is down by 6% since early July as Delta has taken hold.

Southeast Asia's Delta woes are putting new stress on global supply chains, say Jon Emont and Lam Le in The Wall Street Journal. "A gap has formed" between surging goods demand in vaccinated countries and "the capacity of sparsely vaccinated manufacturing countries to meet it". Closed factories and ports have left multinationals in the "lurch". Adidas, which sources 28% of its apparel from the country, says most of its Vietnamese suppliers' factory capacity has been unavailable since mid-July". That could mean $600m in lost sales during the second half of the year.

There are also growing concerns about coffee supplies. Vietnam is a leading producer of robusta beans, the variety used in instant coffee. A lockdown in the southern city of Ho Chi Minh is delaying shipments. Global coffee prices had already spiked following drought and frosts in Brazil. Strict movement controls mean that GDP now looks likely to grow by 5% this year, down from a previous forecast of 6.7%, says Chua Han Teng of DBS Bank. It's not just manufacturers that are hurting. In many places "non-essential businesses and restaurants" have been closed, which is also weighing on the domestic service sector. Still, Vietnam is an outperformer: Vietnam's economy actually grew last year. That should continue. "Growing interest in Vietnam as a production base" is driving strong foreign investment. The economy is "increasingly integrated into the global electronics value chain".

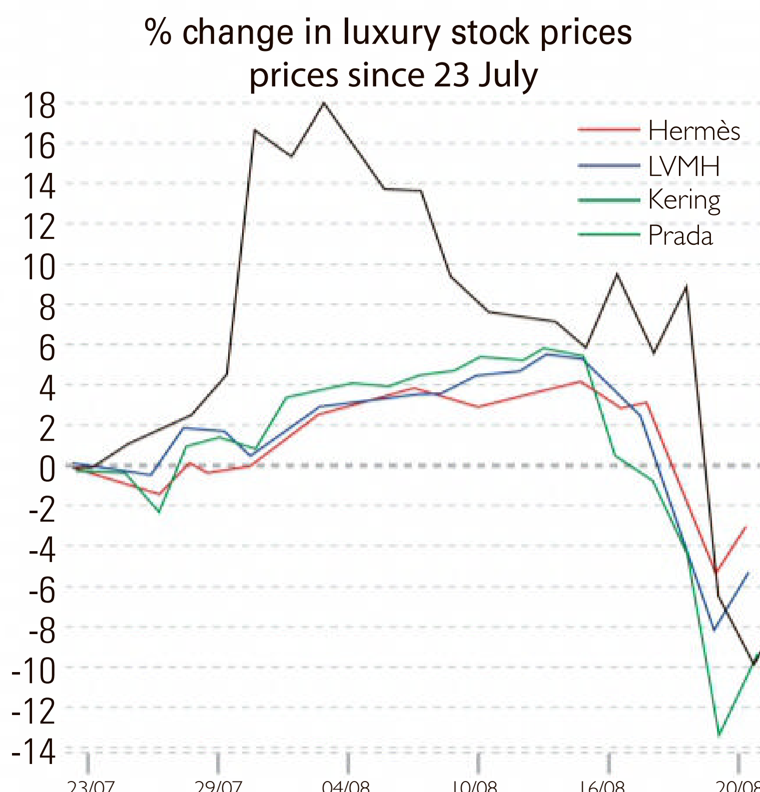
Profits at Vietnamese firms are set to grow by 11% in 2021, says Mary McDougall in Investors' Chronicle. That compares with 7% for Asia ex-Japan as a whole. A "young, enterprising and large workforce" should mean that it remains one of the world's fastest growing economies. "For patient investors, Vietnam has great fundamentals."

Viewpoint

"Trading desks in Tokyo have fallen silent… Nobody bought Japan's ten-year government bond in over-the-counter trading on 3 August… in the world's second-largest market for sovereign bonds… the Bank of Japan [has been] hoovering up securities… its assets run to around 130% of GDP [and it] holds almost half of Japan's sovereign bonds… huge asset purchases [do not seem to have led to the] negative market consequences that critics feared. Bond dealers bleat about liquidity in surveys, but bid-ask spreads – a measure of the gap between the price at which buyers are willing to buy and sellers are willing to sell – in the trading that does occur have been contained… Large-scale quantitative easing may have made certain maturities scarcer, but that effect has been muted by the [Bank's] willingness to lend bonds to the private sector through… collateral schemes."

Buttonwood, The Economist

Luxury sector's growth engine sputters



Luxury brands have long looked to China as their "growth engine", says Laure Guilbault for Vogue Business. So, when the country's government recently announced plans to "regulate excessively high incomes", the sector's shares tumbled by 12.85% in a single week. Measures might include higher taxes on luxury products or crackdowns on online sales channels and influencers. It is becoming less socially acceptable for China's super-rich to flaunt their wealth. Luxury brands say the country's growing middle class bodes well. But while wealth redistribution "may boost sales of affordable luxury [and] cosmetics", it isn't necessarily going to help a Louis Vuitton or a Gucci, says Erwan Rambourg of HSBC.

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

Six to buy

Poly
Barron's
Poly, which makes conference-room paraphernalia and office headsets, reckons there are about 50 million conference rooms around the world, but only 10% are equipped for videoconferencing. Some commuters are gradually returning to the office, but there is expected to be an increase in hybrid meetings, mixing in person and virtual participants. This presents a huge opportunity. The shares are "down to bargain-basement levels" after the fallout from an "ill-fated" merger three years ago. But the firm is recovering. It reported sales of $431m, up 21% from a year ago, for the first quarter ending in July. Video-product sales surged by 94% year-on-year and voice equipment was up by 34%. *$32*

Pepsi
The Daily Telegraph
Warren Buffett has said he will never sell a single share in Coca-Cola. But Pepsi "offers investors the better opportunity". The business case for it is stronger because it sells a greater variety of products than Coca-Cola's beverage-focused business. Pepsi boasts 23 brands that generate annual sales of more than $1bn. It is also tweaking its products "so that they move along with the times" (by switching to low-sugar versions, for instance) and seeking new markets beyond its US base. There is a threat as governments attempt to tackle obesity, but Pepsi has "dials it can twiddle" in response. *$156*

Marshalls
Investors' Chronicle
Patio and paving-slab supplier Marshalls generates just under a third of its top line from households. Sales to DIYers in the first half of the year were up by 17% from 2019. Demand is so strong that the order book has climbed to 21.4 weeks; 12 weeks would normally be considered healthy. The company has successfully passed on rising costs to its customers (container rates for shipping sandstone from India have risen tenfold). This "well-managed business" is also alleviating a shortage of HGV drivers by training new ones. Investors should buy in now. *798p*

Fulham Shore
The Sunday Times
Fulham Shore is planning to expand after the pandemic. The owner of Franco Manca has a list of 150 sites where it hopes to "plant a pizza restaurant" or one of its Mediterranean dining spots, The Real Greek. The restaurants are doing better than they were in 2019, while takeaway and delivery orders have held up post-lockdown. The company was hit hard by coronavirus. But rent deals will cut its opening costs by around £100,000. Further growth could come from overseas: the company has hired a team to run its international operations and wants to acquire new, younger brands. *18p*

Mitie
The Mail on Sunday
Outsourcing group Mitie has had a "mixed time" during the crisis. The company benefited from the need for employees to work at Covid-19 testing and vaccination centres, but it lost out on several of its office contracts. In June 2020 it diluted shareholders' capital with a rights issue to raise money to see it out of the pandemic and to acquire Interserve's "collapsed" facilities-management business. The acquisition is "bedding in well" and the company now seems to be on a "firmer footing". *74p*

J Sainsbury
Shares
The supermarket's investment in online operations paid off when it posted robust sales over Christmas. Argos, its non-food business, also "put in a strong showing" after converting in-store shoppers into online buyers during the pandemic. The group has outperformed rivals and its share of the UK grocery market has jumped from 14.8% to 15.2% in a year. Strong recent sales prompted it to upgrade its full-year earnings forecast, which could translate into an increased dividend. The stock seems to have further to go. *332p*

...and the rest

The Daily Telegraph
Real Estate Credit Investments lends money to owners or developers of different types of property. The scarcity of lenders in its chosen markets translates into higher yields without proportionately higher risk. It has paid a quarterly dividend since 2017. **BioPharma Credit** is a similar business lending to drug companies. It has never suffered a default despite the high rates it can demand on its loans, and offers a stable dividend. Buy both stocks at *156p* and *$0.98* respectively.

Investors' Chronicle
Antofagasta had a "scorcher of a first half" thanks to the rising price of copper. Profit more than doubled year-on-year to £1.75bn. The half-year dividend is well ahead of both last year and 2019. The miner has cut guidance owing to a drought in Chile, which might reduce production. But it remains a buy for now *(1,396p)*.

The Mail on Sunday
BATM's two divisions – networking and cyber, and biomedical solutions – places the company "neatly at the heart of two major preoccupations of our current age": defences against disease and defences against computer hacking. BATM did well throughout the pandemic, providing ventilators and then Covid-19 test kits. It is rolling out new diagnostic kits that test for several respiratory viruses, and a rapid test for tuberculosis. Its networking and cyber division numbers look gloomier, with revenues down slightly year-on-year, but it has promising products in its pipeline. Buy *(93p)*.

Shares
JD Sports Fashion has cashed in on the "athleisure" boom among "youthful gym-goers and fashion savvy consumers". It is set to deliver increased pre-tax profits of £550m this year, and should continue to do well as teenagers "look to refresh their personal style post-pandemic". Buy *(967p)*.

A German view

Despite having to pay out around €400m in the second half of 2021 to cover flood damage in central Europe, France's insurance giant Axa is on track for a record annual profit of €6.5bn, reckons WirtschaftsWoche. The core property-casualty division's profitability is improving, with the cost-income ratio declining to 95.8% in the first half of the year. In the investment management business, the assets under management climbed by 8% to €760m, while Axa's overall solvency ratio, a gauge of its financial stability, is a highly impressive 212%: its assets are worth more than double potential liabilities in a major crisis. What's more, the group offers a 6% dividend yield. It's a "core holding".

IPO watch

Brazil's Nubank is planning a US initial public offering (IPO) valued at more than $55.4bn following a recent funding round led by Berkshire Hathaway, says Reuters. Warren Buffett's conglomerate valued the bank at $30bn. Nubank is one of Latin America's fastest-developing financial-services firms and the world's seventh-most valuable unicorn. Last year the loan book rose to $3.45bn and losses reached $44m; in the first quarter of 2021, however, the bank turned a profit of $1.3m. Nubank issues more debit cards than its top competitor and plans to expand in Mexico and Columbia. It has also hired Morgan Stanley, Goldman Sachs and Citigroup to help with its US strategy.

©Getty Images; iStockphotos; JD Sports

City talk

● "Who'd buy a $7bn company from a used-car salesman? More than you may think," says Alistair Osborne in The Times. Used-car website Cazoo has just achieved the most valuable listing ever for a UK company on the New York Stock Exchange. It's a big success for founder and CEO Alex Chesterman (pictured), who previously set up movie-rental outfit LoveFilm and property website Zoopla, "but he still has plenty to prove" given the "stretch-limo valuation". After all, "can Cazoo really be worth more than all the UK's quoted car dealers combined?".

● If you want your future son-in-law to succeed you as CEO, "offering him a potential £100m bonus is probably not the best way to get other shareholders on board", says Andrea Felsted on Bloomberg. Yet that's what Mike Ashley wants to do at retailer Frasers (see page 14). It all seems a bit much: Ashley "will continue to be in the driver's seat" (he owns 65% of the shares), making it hard to be sure whether 31-year-old Michael Murray will really deserve the credit if Frasers does well. Perhaps it's time for Ashley to run his business away from the glare of public markets. "If [he] wants to introduce private-equity style remuneration, then he should have a private ownership structure."

● Semiconductor makers such as Newport Wafer Fab – which has just been bought by a Chinese firm – are "deep tech", says Andrew Orlowski in The Daily Telegraph, unlike "the gimmicks and novelties that capture the imagination of many ... ministers, such as food delivery and blockchain start-ups". This is where Britain still has a "world-class hi-tech sector" – yet the government seems unfazed when key firms are snapped up by foreign buyers. "Why is SW1 so oblivious?".

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Attack on the app stores

A new South Korean law is forcing Google and Apple to allow alternative payment systems in their online app shops. Alex Rankine reports

South Korea is to become the first country in the world to force technology giants to allow alternative payment systems in their app stores. A so-called "Anti-Google law" passed the country's National Assembly this week, says Kate Park for TechCrunch. It will stop Google and Apple from "forcing developers to use their in-app billing systems".

The smartphone-app market is dominated by Google (via Google Play) and Apple (via its App Store). The pair require that apps listed on their marketplaces comply with rules that critics say are unfair. Notably, in-app purchases must be transacted via their own billing systems, rather than alternative methods such as PayPal or Stripe. That allows the tech giants to bank commissions as high as 30%. App developers have long complained about this "tax", but they have little choice but to comply if they want consumers to find out about, and download, their apps.

Google's Play store enjoys whopping margins

A very wealthy middleman

In the second quarter, "Google's Play store accounted for 75% of mobile-app downloads globally", says Jiyoung Sohn in The Wall Street Journal. Apple captures 65% of "consumer spending on in-app purchases and subscriptions". Commissions are a key part of the pair's business models. Services including the app store produced $53.8bn of Apple's $274.5bn in revenue in its last fiscal year; the business unit that contains Google Play accounted for $21.7bn of parent Alphabet's $182.5bn sales.

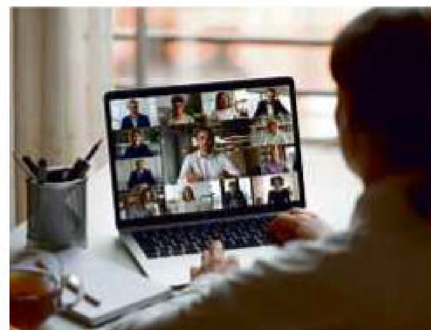
Google's store enjoyed "operating margins of more than 62% in 2019", says Lex in the Financial Times. And Apple's App store is thought to have had operating margins of 78% in the 2019 fiscal year. Google's South Korean app store is estimated to have taken in $1.3bn in commissions last year. If the law forces it to let in payment rivals, it could lose hundreds of millions of dollars. The tech giants insist that attacks on their commissions are wrong-headed. Google, for instance, says that its "service fee helps keep Android [the operating system used on many smartphones] free, giving developers the tools and global platform to access billions of consumers". Apple and Google have already cut their commissions to 15% for smaller developers in response to growing pressure.

Google and Apple can ride out a hit to their South Korean revenue, says David Heinemeier Hansson on world.hey.com/dhh. What really scares them is the precedent. Regulators worldwide will soon "be able to point to South Korea" to argue that allowing competitors' payment systems "won't bring about app Armageddon". These "app-store tollbooths" are lucrative, but "they require little to no innovation to operate, just dominant market power". Apple and Google will still make money from commissions, but greater competition will mean "that premium is likely to land somewhere between 5% and 10%, not an outrageous 30%... That's how capitalism is supposed to work!".

Zoom moves down a gear

"Communications Inc. has just had its first billion-dollar quarter," says Jon Swartz on MarketWatch. Yet Zoom's shares reacted by plunging 16%. The video platform, which became a household name during the pandemic, reported $1.02bn in revenue during the three months to July 31 and profits of $316.9m. But sales growth is slowing. "Most companies would be ecstatic" with a year-on-year sales rise of 54%, but that was down from 191% in the previous quarter.

"Zoom is still doing extremely well," says Paul La Monica for CNN. But expectations were sky-high after its shares soared 400% last year. This time last year



Zoom was reporting year-on-year revenue growth of 355%.

Fierce competition in the business video-conferencing market from Cisco, Microsoft and Google has forced Zoom to spend more on securing that growth, says Lex in the Financial Times. Sales and marketing costs have surged by 70% in a year.

The "transition from remote to in-office or hybrid working" is proving a bumpy one. Vaccines and a gradual return to the office have wiped a fifth off the stock this year.

For all the talk of "Zoom-fatigue", the platform's "reliability and pervasiveness" have made it "the go-to standard for corporations", says Tae Kim on Bloomberg. Its share of the videoconferencing market rose by 10% to 76% in the second quarter. From corporate phone systems to call-centre software, it is moving rapidly into "adjacent markets". Zoom "isn't satisfied with conquering... videoconferencing... There is more to come".

The Afghan "forever war" isn't over

America may have pulled out of Afghanistan, but the problems remain behind. Emily Hohler reports

"Joe Biden has lost touch with reality," says Dominic Green in The Daily Telegraph. The man who "campaigned on empathy" seems "bizarrely disconnected from the American public and the wider world". At Tuesday's press conference, he called the US's "shameful flight" from Afghanistan an "extraordinary success" and praised the same diplomats and intelligence experts he blamed last week for creating the "mess" in the first place. While the successes – the extraction of more than 120,000 Americans and allies within a fortnight – are "all his", the failures belong to others: the Afghans, the military, Trump, "even the British who were being exfiltrated when an Isis-K suicide bomber killed 13 Americans and dozens more Afghans last week".

Biden: still in touch with reality?

©Getty Images

Biden does not shoulder all the blame

Blaming the Biden administration is "wrong and unfair", says Stephen Walt in the Financial Times. A "smooth withdrawal may not have been possible". The Afghan government (which had 300,000 troops to the Taliban's 80,000, notes The Guardian) was a "house of cards". The US could not have made preparations to disengage because any "tangible movement" would have triggered the "collapse we have just witnessed". A "chorus of overwrought pundits, unrepentant hawks and opportunistic adversaries" are now declaring that US credibility is "in tatters", but they are wrong. "Ending an unwinnable war says nothing about a great power's willingness to fight for more vital objectives" and allied complaints that the US can no longer be trusted should be viewed as "self-interested pleading from partners accustomed to letting Uncle Sam bear a disproportionate share of the burden of collective defence". Nor can Biden be said to be entirely out of touch with public opinion, says Jennifer Rubin in The Washington Post. A poll found that 54% approve of the withdrawal even if opinion on the manner of it is "more mixed".

There were "aspects of the chaos that were probably inevitable", but the administration was "clearly caught flat-footed" by the speed of the Taliban and Biden himself has appeared "exhausted, aged, overmatched", says Ross Douthat in The New York Times. The "shambolic" withdrawal "doubled as a devastating indictment of the policies pursued by his three predecessors", which have cost roughly $2trn and built a regime that collapsed almost immediately. The withdrawal should be seen as a "punctuation mark" on a "failure so broad that it should demand purges in the Pentagon, the shamed retirement of innumerable hawkish talking heads, the razing of various NGOs and international studies programmes and the dissolution of countless consultancies and military contractors". Of course, using Biden as a scapegoat is more appealing. But if we only remember what went wrong this summer, then "we'll have learned nothing except to always double down on failure".

Business as usual for the Taliban

What next? As soon as the last US plane leaves Kabul, it will be "normal service resumed" for the Taliban, says Ross Clark in The Daily Telegraph. As long as it doesn't "openly sponsor a terrorist organisation" that attacks US interests, it is "pretty much guaranteed to be left alone". In Afghanistan, however, a "bloodbath" is now likely as the Taliban seek revenge on those who worked with Allied forces. The US has also left so much military hardware behind that the country is now in the top 15% of nations for firepower. The wider danger is that Afghanistan becomes a "breeding ground for terrorists", says Robert Clark in the same paper. This "'forever war' won't end anytime soon".

Williamson: will he face down the unions?

©Getty Images

Return to school must not falter

The return of schools could have a marked effect on Covid-19 infection numbers, testing the government's faith in vaccines and travel restrictions, and inevitably leading to calls for the "return of tighter restrictions, perhaps even lockdowns", says Ross Clark in The Spectator. In Scotland, where term started on 16 August, infections leapt from 10,039 to 21,164 in the week to 23 August and 37,917 in the week to 30 August (though this may be due to the return of holiday-makers). The government is going to have to decide whether, with 80% of adults double-jabbed and deaths still at low levels, it is prepared to "tolerate a wave of infections in schools". A recent Israeli study suggests that naturally acquired immunity might be "stronger and longer-lasting than vaccine immunity" and it may be better to allow the virus to pass through schools now instead of winter when adults find their own immunity "starting to wane".

If our children miss any more school, education secretary Gavin Williamson should be "sacked faster than you can say 'Open a window!'", says Allison Pearson in The Daily Telegraph. Young people have been the biggest losers during the pandemic – 1.2 million pupils were off school by the end of last term – and a repeat of last year's "chaos and confusion" will result in more children falling behind, adds David Blunkett in The Sun.

The "vast majority" of parents support a return to normal school routines, says Emily Carver on Conservative Home. Robert Halfon MP does too and says the government must ensure all children are kept in school. In anticipation of "pushback" from teaching unions and headteachers, a "back to school and college" campaign has been launched. This is "refreshing", but given that schools "seemingly allowed the unions to sabotage and obstruct education throughout the pandemic", it remains to be seen whether they will stick to the guidance.

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Washington DC

Home prices rocket: In June US house prices rose at their fastest annual rate since records began in 1987. The S&P CoreLogic Case-Shiller National Home Price index, which measures average house prices in major metropolitan areas, was 18.6% higher over the year, up from 16.8% in May. Ultra-low interest rates and a shortage of houses on the market are behind skyrocketing prices, says Nicole Friedman in The Wall Street Journal. Household incomes also rose quickly in July, gaining 1.1% month-on-month in the biggest jump since March, thanks to enhanced tax breaks to parents that have primed the economy for stronger growth once new cases of Covid-19 recede, says Josh Mitchell in the same paper. But household spending slowed to a monthly 0.3% in July, compared with June's 1.1% increase, hampered by the spread of the Delta variant and resulting restrictions. And global supply-chain disruption has caused the US government to double its inflation forecast last week. The Office of Management and Budget now expects the consumer price index to rise by 4.8% in the fourth quarter of 2021, up "sharply" from the 2% forecast in May.

London

Housing market to simmer down: House prices rose by a seasonally adjusted 2.1% in August month-on-month, and by a much higher-than-expected annual 11%, from 10.5% in July, according to Nationwide. The acceleration in year-over-year house-price growth reflected buyers rushing to purchase properties ahead of the reversal of the temporary rise in the stamp-duty threshold from £250,000 back to £125,000 at the end of this month, says Gabriella Dickens of Pantheon Macroeconomics. From then on, house-price growth will slow for the rest of the year, as other gauges, such as Google search data, also suggest. Nevertheless, mortgage rates have fallen sharply in recent weeks, and with the jobs market buoyant, house prices should pick up again in 2022, ending the year around 4% higher than at the close of 2021. For now, "Britons remain cautious about splashing out", say Andrew Atkinson and Libby Cherry on Bloomberg. Consumers repaid unsecured debt in July for the first time in five months as a rise in coronavirus cases and the "pingdemic" sapped confidence.

New Delhi

Growth surges – for now: India's economy grew at a record pace in the second quarter 2021. Officials were quick to trumpet annual GDP growth of 20.1%, but the April-June period also saw one of the worst outbreaks of Covid-19, driven by the Delta variant, says Andy Mukherjee on Bloomberg. An estimated 2.8 million Indians died. And the expansion comes after a 24% contraction for the same quarter the year before. Even as the second wave of Covid-19 subsided, consumers' confidence was only half as strong in July as before the pandemic. The middle class, which comprises 160 million households, is especially rattled. Private consumption, which accounts for more than half of GDP, is back to where it was four years ago. The International Monetary Fund has lowered India's GDP growth forecast to 9.5% from 12.5% for the fiscal year ending 31 March 2022, and expects the economy to grow by 8.5% the following year.

Buenos Aires

Debt deal: Argentina's Buenos Aires province is close to ending a 16-month default after it secured enough support from creditors to restructure 98% of its $7.1bn overseas debt, says Bloomberg. The country's largest, most populous, and wealthiest province will swap all the bonds it had offered to exchange except for portions of dollar-denominated notes due 2021 and euro-denominated bonds due 2020; these had been issued under separate rules. It is due to finalise the deal today. The agreement is a success for Buenos Aires governor Axel Kicillof (pictured). It comes after a sharp national 9.9% contraction in GDP in 2020, which forced nearly every province to restructure debt over the last year. The deal will save Buenos Aires $4.6bn over the next six years. The country has also extended beef export restrictions until the end of October, exacerbating tensions "with the powerful farm sector" as the government looks to boost the domestic meat supply to tackle rising food prices, says Reuters. The move comes before key mid-term elections. Centre-left president Alberto Fernández hopes to avoid a sharp increase in the cost of beef in a country "where families regularly gather to cook meat around the 'asado' grill". Soaring consumer prices bode ill for him.

The way we live now: catering to canines' every whim

Luxury meals and £20 shampoos: pet pampering goes nuts

©Butterbox

Following a pandemic-induced rise in dog sales, more solicitous owners have brought about a boom in luxury dog-care items. As the market grows for products such as gourmet dog food, companies including UK-based Butternut Box have jumped on the trend, offering a "balanced meal" of chicken, fish or veggie options for the family dog. Each dish is tailored to the dog's weight, age, physical fitness and calorie intake, with names such as "Gobble Gobble Turkey" or "Wham Bam Lamb". This level of service is rarely offered in human restaurants. Owners can also brush their dogs' teeth with a £9.50 tube of "Lila Loves It" toothpaste, apply £20 "Kiehl's" grooming shampoo or administer a £12 Snooboos Paw Balm pedicure. Some owners have even been advised to cover up their dog's smell with an extravagant blend of Jo Malone scent diffusers, costing £120 a piece. This craze of pampering canines is gathering pace; "if you needed any further evidence that the world has gone stark staring mad, then please, look no further", says Arabella Byrne in The Spectator.

©Getty Images

Brussels

Consumer prices rise: Inflation in the eurozone has risen to a near-ten-year high. Consumer-price growth in August was 3% higher than in the same month last year, up from 2.2% in July. The annual core rate of inflation, which strips out volatile food and energy prices, more than doubled to 1.6% in August, thanks partly to distortions caused by Germany's VAT cut last year, says Jack Allen-Reynolds for Capital Economics. Eurozone inflation will continue to rise in the coming months due to "temporary forces that should fade next year". Meanwhile, German manufacturing, the engine of Europe's biggest economy, "is turning into a brake in the face of a global supply crunch threatening to derail" the recovery, say Alexander Weber and Craig Trudell on Bloomberg. Supply problems are "wreaking havoc" on companies from Siemens to BMW, "and they could persist into next year, or even longer". The Bundesbank has warned that growth this year may come in under the 3.7% it forecast in June because of shortages of materials.

The motor of the German economy is sputtering

Seoul

South Korea's stimulus: South Korea has proposed a 2022 budget that would see spending rise by 8.3% to $523bn and increase government debt to 50.2% of GDP, says Song Jung-a in the Financial Times. President Moon Jae-in (pictured) insists that additional stimulus is necessary to deal with the fallout from the pandemic: a vaccine shortage and workforce hobbled by Covid-19 restrictions, coupled with "global supply chain restructuring and [a] changing international trade order". Last week, interest rates were raised in a bid to keep a lid on surging credit and "rocketing property prices". Still, the overall picture remains relatively healthy. The country is on track for GDP growth of 4% thanks to "booming exports". In the long term, however, an ageing population and the world's lowest birth rate could see South Korea follow the growth trajectory of Japan. Internationally, the country is under increasing pressure to act on climate change. South Korea's spending on the fossil-fuel sector is second only to China's. Just 5% of electricity comes from renewables.

Hong Kong

Retailers struggle: Social distancing is denting consumption in Hong Kong. Retail sales totalled HK$27.2bn ($3.5bn) in July, up by a mere 2.9% from a year ago, says Eric Lam on Bloomberg. The slowdown comes despite a government programme giving eligible residents a HK$5,000 consumption voucher. The economy is beginning to recover from a two-year recession thanks to its resilient financial-services industry and rebounding trade. But consumption remains "severely hampered" by border restrictions that have cut tourism. Meanwhile, the Hong Kong Monetary Authority and the Securities and Futures Commission are developing a system to prevent Archegos Capital-style collapses, says Tabby Kinder in the Financial Times. The project will use trade databases to identify excessive risk taking by banks and investment funds trading derivatives on the Hong Kong markets. The collapse of Archegos, the investment firm run by Bill Hwang (pictured), was "one of the most spectacular on Wall Street in a decade"; Hwang made up to $50bn of highly leveraged bets on the shares of a few US and Chinese companies using swaps, a form of derivative, resulting in $10bn of losses at its lenders when the stocks fell.

Beijing

Service sector shrinks: China's service sector shrank for the first time since February 2020 due to lockdowns triggered by outbreaks of the Delta variant, says Jonathan Cheng in The Wall Street Journal. The official non-manufacturing purchasing managers' index, which tracks the construction and services sectors, plummeted to 47.5 in August from 53.3 in July. The 50 mark separates expansion from contraction. A fall in the services subindex, which fell to 45.2 in August from 52.5 the month before, was largely to blame. The Delta outbreak began in the eastern city of Nanjing in late July and has spread to half of China's provinces. Separately, President Xi Jinping's government announced new rules to restrict children to three hours of video games per week to combat smartphone addiction. The latest curbs will allow minors under 18 only one hour of gaming on Fridays, Saturdays and Sundays and public holidays. They have hitherto been allowed to play for an hour and a half on any day. The financial hit "looks manageable for gaming giants like Tencent", says Robyn Mak on Reuters, but its stock, and that of rivals NetEase and Bilibili, plunged on the news. But Tencent says its systems for verifying identity and limiting game time are adequate, and only 2.6% of its domestic gaming revenue comes from those under 16.

Investors must think again about China

Under President Xi Jinping, the Middle Kingdom is becoming increasingly hostile to business. Foreigners pouring money in might do well to reconsider. Simon Wilson reports

What's happened?

There's a growing sense that foreign multinationals and investors have underestimated the risks of doing business in China and overestimated the benefits. From reining in tech billionaires such as Jack Ma, to making life harder for multinationals trying to access the Chinese market while staying on the right side of Beijing, all indications are that China under Xi Jinping is increasingly prioritising absolute control by the Communist Party of China (CPC) over further economic liberalisation. The first big red flag came last November when financial regulators suddenly suspended the IPO of Ma's Ant Financial, days before its listing in Hong Kong and Shanghai. Warning bells have been ringing ever since.

Such as?

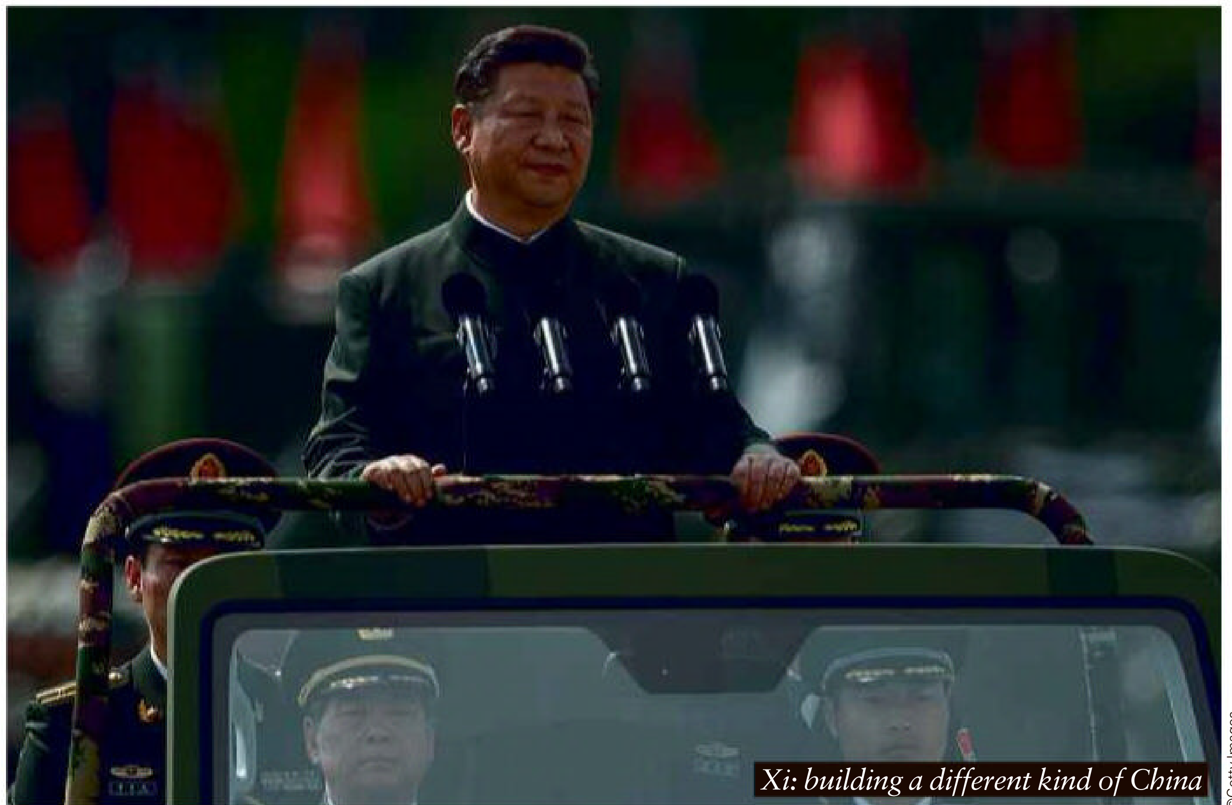
One that spooked investors was the tightening in late July of regulations governing China's $100bn private tutoring industry, banning firms that teach the school curriculum from making a profit. Specifically, the worry concerns a new ban on Chinese tutoring companies using a corporate structure known as the variable interest entity (VIE). That's essentially a holding company aimed at circumventing the strict rules banning foreigners from owning assets in key sectors, such as technology – and it's long been a primary channel for foreign investment. Both Beijing and big Western institutional investors, such as BlackRock and Fidelity, have until now been "happy to gloss over the risks of the strucure", says the Financial Times. That no longer looks so wise.

What else has got people worried?

Earlier this year China passed a new data security law that forbids firms from handing over any data to foreign officials without government permission. It strengthens the authorities' already vast powers to intervene in individual businesses, by compelling them to share data collected from social media, e-commerce, lending and other businesses, and classifying such data as a national asset. The New York listing of Chinese ride-hailing firm Didi was a salutary reminder to investors of the political/regulatory risk involved. No sooner had investors put $4.4bn into the biggest Chinese IPO in the US since Alibaba in 2014, than China's internet regulator accused it of "serious violations of laws and regulations" in collecting and using personal information.

Why was that so important?

The developments at Didi amount to "a shock-therapy type of enforcement", says Benjamin Qiu, a Hong Kong lawyer. "We could see more control by the state, with in-effect data nationalisation as the end result." The Didi fiasco was a particularly "painful reality check" for any Western investors complacent enough to think that "long totalitarianism" was a smart trade, says Niall Ferguson on Bloomberg. It has been clear for years that the symbiotic relationship between China and the US is fracturing, and that the CPC's core goal is not "global economic dominance" but retaining domestic power. As China's demographics bite, and its growth slows, that task will get harder while the "Cold War" between China and the US gets more pronounced. All that means increased risk for investors and businesses.



Xi: building a different kind of China

©Getty Images

How will that manifest itself?

Sometimes it will be in obvious ways. For example, with a new law aimed at punishing Western companies that comply with US sanctions – and which is expected to be extended to cover business based in Hong Kong. That could leave Western multinationals stuck between complying with US regulations and getting sued in China. On other fronts, the risks are increasingly more subtle. Take China's cinema industry, which has bounced back strongly this year and is by far the world's biggest theatrical marketplace. But the slice taken by US releases has slumped, according to The Hollywood Reporter – in part because the ban on foreign film releases during the peak summer period has been stricter and longer than usual in deference to the 100th anniversary of the founding of the CPC. Or consider the speech last month by Xi attacking wealth inequality: it sent the share prices of Europe's big luxury goods businesses reeling (see page 5). In 2021, China's shoppers are expected to buy 45% of all the luxury goods sold globally, according to Jefferies, up from 37% in 2019. A drive by Beijing to rein in the rich would be bad news for makers of posh handbags and investors are reassessing the risks.

> *"Investors beware: Xi is putting in place an updated version of Mao's party"*

Who else is suffering?

Some multinationals are already suffering from collateral damage. Ericsson, for example, the global number two maker of cellular equipment, reported in mid-July that its sales in China had plunged, and warned that its market share there was set to shrink sharply in coming months. The reason, it believes, is Sweden's decision late last year to ban Huawei from the buildout of its 5G network. Multinationals in every industry doing business in China "are acutely aware that as the geopolitical environment worsens, all the money and effort they have put into building their businesses there could be at risk", says Rob Powell in Newsweek. In the worst case scenario, that means confiscation. This week's uncertainty over the status of Arm China – reported to have declared unilateral independence from its UK-based, Softbank-owned parent – will have added to the fears.

What should investors do?

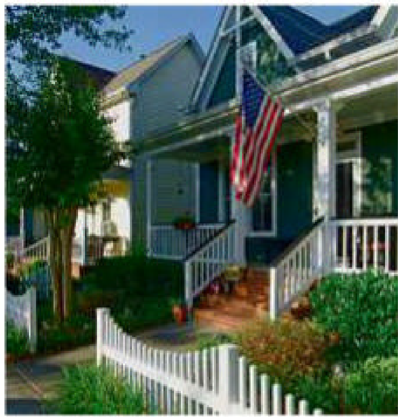
Prepare for turbulence, says George Soros in the FT. Foreign investors who put money into China find it hard to recognise all these increased risks because China has confronted so many difficulties and come through. "But Xi's China is not the China they know. He is putting in place an updated version of Mao Zedong's party. No investor has any experience of that China because there were no stockmarkets in Mao's time. Hence the rude awakening that awaits them."

Guru watch

John Paulson, founder, Paulson & Co

"Cryptocurrencies are a bubble. I'd describe them as a limited supply of nothing... once the exuberance wears off... they will go to zero." Billionaire investor John Paulson – who gained fame in 2007 by making $20bn for himself and his investors by shorting bonds backed by US subprime mortgages ahead of the financial crisis – isn't keen on bitcoin, he tells Carlyle Group's founder David Rubenstein on Bloomberg.

Paulson, 65, prefers a more traditional form of money – gold. "We believe that gold does very well in times of inflation. The last time gold went parabolic was



in the 1970s, when we had two years of double-digit inflation." Paulson argues that this is mainly down to the fact that the supply of gold is very limited compared with the total volume of financial assets. "As inflation picks up, people try and get out of fixed income. They try to get out of cash. And the logical place to go is gold."

Partly due to gold's relatively tame performance in the years following the financial crisis, Paulson has yet to repeat the spectacular success of his "big short" trade. Last year he closed his hedge fund to outside capital and turned it into a family office, managing his own money. He has no regrets about the move: "I was never fond of raising money or going to meet investors. I found that very stressful."

His advice to investors? "Concentrate on particular areas that you know better than other people... that's what gives you an advantage." Then, perhaps ironically, given his biggest claim to fame, he adds that "the best investment for an average individual is to buy their own home".

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The UK is cheap – so buy in

UK shares trade at big discounts to global peers, even for the highest-quality shares. Get in quick before private-equity investors bag all the bargains

John Stepek
Executive editor

We've been saying for some time that UK shares are among the cheapest in the world right now, particularly compared with other developed markets. It's sometimes argued that this is mostly down to the mix of stocks listed in the UK rather than the presence of genuine bargains – the FTSE 100 specifically has too few tech stocks and too many resources stocks and is thus a dinosaur "value" index in a fast-moving "growth" world.

Yet new research from Bill Casey and Nick Kissack at Schroders suggests this is not the case. Their analysis shows that in virtually every sector bar a handful of exceptions (real estate is one), UK stocks trade at a steep discount to both US and continental European firms in the equivalent sectors. They then delve deeper, taking ten diverse "good-quality companies" (defined below) in the UK and comparing them with "their most relevant peers". On this basis, clothing retailer Next – widely viewed as one of the best companies in the sector – is still trading at a near-30% discount to its global peers. The same goes for the likes of Legal & General and Sage. The conclusion? "The discount in our view largely arises from where they are listed."

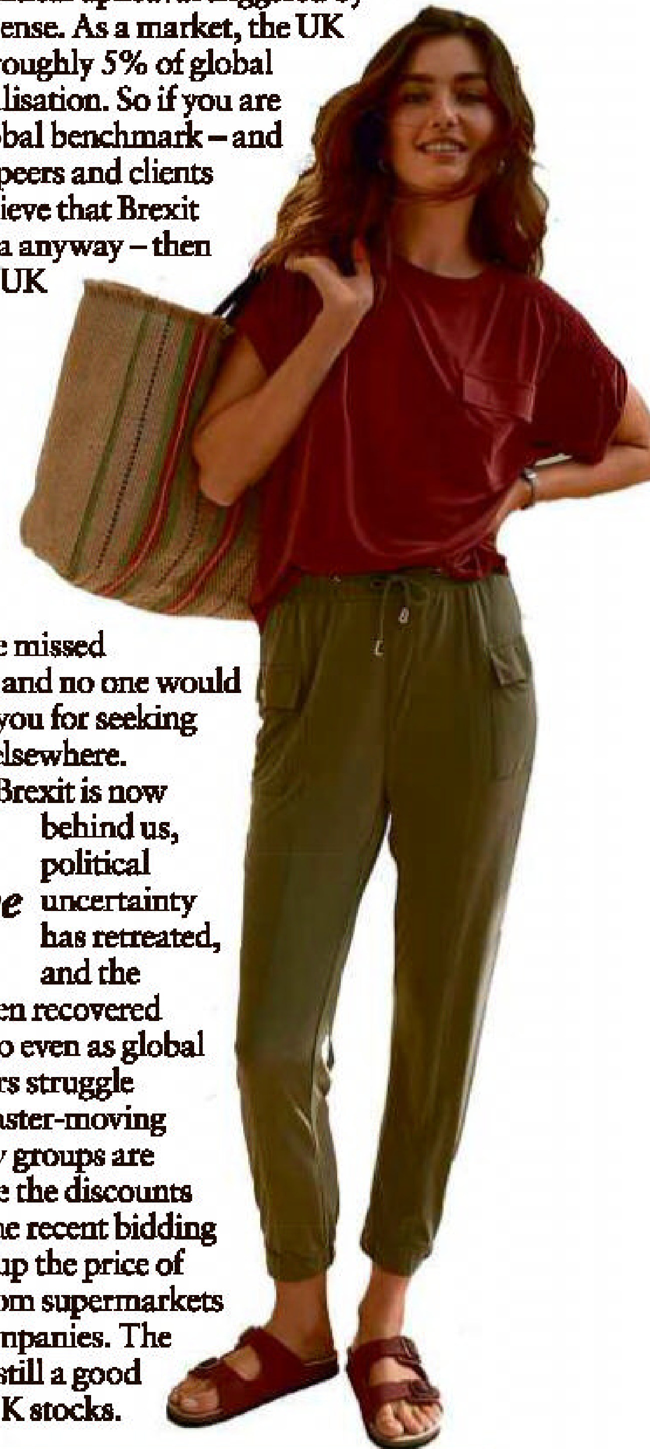
> *"Global money managers shunned the UK after Brexit"*

It's all about fear of Brexit

What has driven this discount? In short, it's a hangover from Brexit. As Casey and Kissack note, data from Refinitiv Lipper shows that "global investor allocations to UK equities have almost halved since late 2015, and the asset class has seen 25% cumulative outflows since June 2016". In other words, big money managers have been avoiding (or "underweighting") UK markets. As a result – measured in dollar terms – the UK has underperformed global markets to an extent "not seen since the early 1970s".

For global fund managers, avoiding the UK during the political upheaval triggered by Brexit made sense. As a market, the UK accounts for roughly 5% of global market capitalisation. So if you are tracking a global benchmark – and most of your peers and clients happen to believe that Brexit was a bad idea anyway – then shunning the UK is the obvious choice from a "career risk" angle. Even if it had done spectacularly well, at just 5% of the index, you wouldn't have missed out on much, and no one would have blamed you for seeking opportunity elsewhere.

However, Brexit is now behind us, political uncertainty has retreated, and the pound has even recovered some poise. So even as global fund managers struggle to catch up, faster-moving private-equity groups are piling in while the discounts last – hence the recent bidding wars driving up the price of everything from supermarkets to defence companies. The message? It's still a good time to buy UK stocks.



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

"Quality" is sometimes cited as an investment "factor" – that is, a trait shared by some stocks that has tended to result in outperformance of the wider market in the long run. Other "factors" include size (small caps tend to beat large caps) and value (cheap stocks tend to beat expensive stocks).

Precise definitions vary (Ben Johnson at funds researcher Morningstar has described quality as the "fuzziest factor"). But broadly speaking, "quality" stocks are companies that boast healthy balance sheets (low debt); earnings consistency (low earnings volatility and relatively low sensitivity to the wider economic cycle); and high-yet-sustainable profit margins (in other words, they have what Warren Buffett might call strong "moats", or barriers to competition).

In short, quality companies are well-run, reliable earners, which grow consistently and are resilient to nasty surprises out there in the wider economy. There are a number of different metrics investors might use to identify these "quality" traits. For example, return on equity (ROE) looks at earnings as a percentage of the equity that shareholders have invested in the company. Put simply, the higher the ROE relative to other companies in the sector, the better – it shows the firm is making shareholders' invested money work harder (a similar measure – return on capital – includes debt).

One enigma about the quality factor is that it shouldn't exist in an efficient market. Quality stocks are clearly less risky than low-quality ones, and thus should offer lower rewards (their "quality" should already be "priced in") rather than outperforming. Some say this is down to short-termism – investors picking headline-grabbing stocks that do well over short periods, rather than those that deliver consistently over the long term. Others are sceptical about the factor's very existence – which goes some way towards explaining its "fuzziness".

Is this Britain's most successful company?

Soho House has yet to make much profit, but it could be on the brink of creating something big

Matthew Lynn
City columnist

What's the most successful new British company of the last 20 years? You could make a good case for Ocado, or one of the rising fintech giants such as Wise, or for an artificial-intelligence start-up such as the recently listed Darktrace. You could also make a compelling case for a company that we have only recently come to think of as a global business at all: Soho House. With its listing in New York now successfully completed, the company is embarking on a round of expansion that could make it one of the biggest brands in the world.

Building a new global brand

When it reported its results last week, Membership Collective Group, as the chain is formally known, certainly showed why investors were right to back its recent initial public offering (IPO). Revenues in the second quarter were up by 118% as the group bounced back from lockdown, and its clubs started to reopen. True, there was still a net loss of $57m and it may be a while yet before it turns an actual profit, but the revenue figures are impressive and so are the plans for new clubs across the world, and the waiting list for membership of more than 63,000. With a market value of $2.2bn, if it were listed in the UK, it would be knocking on the door of the FTSE 100.

It has come a long-way from the slightly ramshackle private members' club for media types that first set up shop in Greek Street in 1995. In the years since then, Soho House has expanded to a chain of over 27 clubs, each of which generate roughly $25m of revenues. It plans to open another 16 over the next two years, as well as expanding into temporary office space, taking it into competition with rivals such as WeWork. At its IPO this year, it raised over $400m for expansion. Although it is not very profitable yet, there is no question that it has come up with something new. Lots of cities have members' clubs, and of course London, New York and many others have had the fustier gentleman's variety since Victorian times. But a global chain, with a global brand, is something new – and could be very profitable if it can be made to work.

Nick Jones, founder of Soho House: caught in a contradiction

©Shutterstock

The problem, though, is that that will be lot harder in practice than it is in theory. Right now Soho House faces what is just about the hardest task in business: it has to take exclusivity and turn it into a huge business. The two may seem incompatible. If you are exclusive, people want to belong, but there are not many spaces. Once you become a mass-market product, there are plenty of spaces, but no one wants to join because it has lost its cachet. Soho House could be caught out by that contradiction. It has to expand to make profits. But expanding may also kill off the brand.

Follow Mercedes, not Thorntons

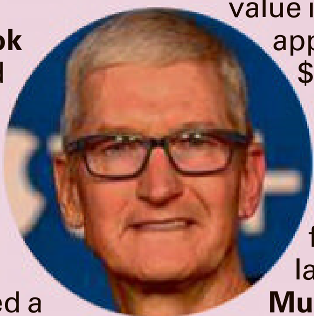
It is not impossible. LVMH has been doing it for years and made itself into one of Europe's biggest firms in the process. The French company owns brands such as Louis Vuitton, Moët & Chandon, Dior, Marc Jacobs and Bulgari. It has managed to keep all of them expanding, while maintaining their exclusive status. Mercedes has managed it as well: it sells more than two million new vehicles every year, but a Merc is still a very classy car. Apple seems to be pulling off the same trick.

But it is not easy. Lots of firms have not managed it. When it was owned by Ford, Jaguar produced a series of mediocre models that trashed the brand. It is hard to imagine anyone feels especially exclusive in a Ralph Lauren Polo shirt anymore, or one by Pierre Cardin. A bottle of Jacob's Creek wine isn't going to impress your dinner party guests especially, and neither will a Jamie Oliver sauce. Over the years, many brands have been pushed out into the mass market and slapped as a quick label on lots of products. It's not long before you become about as stylish as Brut aftershave or a box of Thorntons.

A very delicate balance has to be maintained, in other words. If Soho House can work out how to do that it can build a huge company. Shareholders are staking a lot on Soho House being one of the tiny handful that manage it.

Who's getting what

● Apple's chief executive **Tim Cook** (pictured) has sold $752m worth of shares in the technology giant after receiving the final tranche of a stock award that he was granted a decade ago, in 2011, when he took over as chief executive from the firm's founder, Steve Jobs, says the Financial Times. Since then, the company's share price has risen by around ten times, qualifying Cook for the maximum possible payout under the terms of the award. Apple's market value is now approaching $2.5trn.



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● Sports Direct's founder Mike Ashley's future son-in-law, **Michael Murray**, has been offered a £100m bonus if, as chief executive of Frasers Group, he can raise the share price from its current level of £6.50 to £15 for 30 trading days before October 2025, says BBC News. Murray is due to take over in the top job from Ashley in May next year, when Ashley steps down. Shareholders will get a vote on the proposed bonus scheme at the end of this month.

● **John van Kuffeler**, "one of the leading figures in subprime lending", is expected to be in line for a pay-off of around a year's salary after "abruptly quitting" as chief executive of his "struggling" company, Non-Standard Finance, says The Times. His departure was seen as a necessary step in the company's attempt to raise around £80m in cash from investors to help stabilise the business. Van Kuffeler earned £342,000 in salary last year.

Nice work if you can get it

London-based tech workers are in demand as Silicon Valley behemoths scale up their operations in Britain, says Sam Shead for CNBC. Google, Facebook, Amazon, Apple, Microsoft, Palantir and Twitter already employ tens of thousands of tech workers in "swanky" offices across the capital, and some have major expansions under way. Google's parent company, Alphabet, is building a "vast complex" in King's Cross for around 8,000 workers; a few miles away, Apple is planning to move 1,400 staff to a new campus at Battersea Power Station. Facebook and Amazon have also opened new offices, with spaces to fill. Facebook has 266 positions open, Google 172 and Apple 103. That is driving up salary expectations among tech workers, says Oscar White, founder of travel start-up Beyonk. London start-ups will struggle to attract software developers if they offer below £80,000 a year, he says.

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ABTA V7545

Warming is opportunity for farmers

Editorial
The Economist

Climate change is likely to do "great harm to regions that feed millions" and "make a cornucopia" out of once unproductive land, says The Economist. One study predicts that for every degree temperatures rise, the yields of the three crops that supply around two-thirds of humans' calorie intake – maize, wheat and rice – will fall 7.4%, 6% and 3.2% respectively. This will happen as the global population – which will include a growing and more demanding middle class – rises to a predicted 9.7 billion by 2064. Crops are already moving towards the faster-warming poles. Wheat's migration north has even outstripped the warming trend. The "bravest investors spy opportunity in lands that currently support no farming at all", such as the boreal regions of Scandinavia. Russia, which has "long talked of higher temperatures as a boon", is now the world's largest producer of wheat and is leasing land to Asian investors for soybeans. But switching land use is not straightforward. Felling forests is controversial, the soil quality is poorer and rainfall may be insufficient. Transforming remote regions and finding workers is difficult, slow and costly. A wide range of adaptations will be needed if "food is to remain as copious" as it is today.

Big Tech is coming for the banks

Andy Mukherjee
Bloomberg

With the tech industry "creeping up" on licensed banks in India, it's time to seriously question whether banking will "meet the sorry fate of newspapers", says Andy Mukherjee. Equitas Small Finance Bank is to offer Google Pay customers up to 6.85% interest on a one-year deposit. If successful, others may follow its lead. The move has "global significance", illustrating as it does the "tenuous nature" of banks' hold on a "core operation like deposit-taking" and their vulnerability to online search, social media and e-commerce "behemoths". China's "homegrown tech titans" have already proved "how easy it is to dislodge traditional lenders", with users' real-time non-financial data showing potential as a "more powerful predictive tool" than credit scores. In terms of retail money, India's customers have shown a clear preference for using wallets such as Google Pay instead of their bank's own app to pay one another and merchants. As for Equitas, since funds will simply be "swept back into whichever bank's account it came from" after a year, it's unlikely to build a long-term relationship with savers. To combat the tech giants, India's banks will either need to become more efficient or lobby regulators to rein them in.

Inequality causes low interest rates

Neil Irwin
The New York Times

It is widely believed that decade-long low interest rates in the West have driven asset prices – and therefore inequality – sky-high, says Neil Irwin. However, research presented at the annual Jackson Hole Economic Symposium suggests the reverse: "that high inequality is the cause, not the result". In effect, a global savings glut has caused the "natural rate" of interest (the rate that neither stimulates nor slows the economy) to decline. Central bankers, in this scenario, have had to keep rates low in order to keep economies stable. But why the savings glut in the first place? The paper's authors, Atif Mian, Ludwig Straub and Amir Sufi, attribute this partly to baby boomers' retirement savings but primarily to top earners taking an increasingly large slice of the economic pie over the past 50 years. Whatever the reasons for this – technological change, decline in union power, favourable tax policies – it has led to the rich saving more, driving asset values up, interest rates down, and making the rich even richer. If the theory is correct, the forces pushing down rates are probably too powerful to fight. Regardless, at this stage even a modest rate rise could make debt obligations burdensome. Central bankers are in a "difficult spot".

The heroin lifeline for the Taliban

Jonathan Goodman
The Conversation

Economic factors, including the trade in opium and heroin, have played a huge but little-mentioned role in events in Afghanistan, says Jonathan Goodman. Taking control of key border towns, particularly Zaranj, allowed the Taliban to "fill its coffers". In Zaranj, illicit opium and heroin smuggling thrives alongside legitimate trade. Across the country, import duties account for around half of domestic revenue, with the town of Islam Qala alone generating more than £14m a month. Taking control of trading routes and markets as well as many of the key parts of the economy such as the main poppy-growing regions enabled the Taliban to "systematically tax different points along commodity chains" and impose economic restrictions on imported goods such as petrol and gas, providing further "leverage over Kabul". Political instability, conflict, Covid-19, extreme weather events and declining international funding has driven Afghans to rely on the opium economy as an "important lifeline". Last year, the land allocated for poppy cultivation rose 37%. Unfortunately, with the illicit drug trade so "deeply embedded in the accumulation and survival strategies of the Taliban", the drug problem is only likely to get worse.

Money talks

"If you visit a British university, you see 400 students passing out in media studies and only 30 engineers… When I started we were a group of mechanical engineers, but now more than 50% of our engineers are software or electronics specialists, plus fluid dynamics and battery experts and other scientists. If we're not producing those people, we're going to get poorer and poorer."
Inventor and entrepreneur James Dyson (pictured), quoted in The Sunday Times

"A prince as rich as Croesus whining about money."
Writer A.N. Wilson on Prince Harry, quoted in The Mail on Sunday

"Almost any English intellectual would feel more ashamed of standing to attention during *God Save the King* than of stealing from a poor box."
George Orwell, quoted in The Sunday Telegraph

"My son… could not believe it… [My children] think everything is easy in this world. The quality of life, the houses, the cars, the clothes… They think that it all just falls into their lap."
Football star Cristiano Ronaldo, worth an estimated £1bn, on showing his son the tiny flat in Lisbon where he began his career

"It wasn't as nice as it sounds. Wealth can fix many external problems, but it does nothing to tackle the internal ones."
Bilionaire's son Tyler Huang on growing up in luxury, quoted in Vice

"The young actors I talk to about it almost cry because that's what they most want but their agent is telling them they've got to do TV because that's where the money and fame is. Well, they want to learn how to act, and the best way to do that is by acting."
Actor Ian McKellen on the theatre providing the best training for neophytes, quoted in The Sunday Times

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The rise of the central bank

Bank of England governor Andrew Bailey faces new challenges – much like the old ones

©Getty Images

lawliberty.org

One debate that never ends is over the nature and function of a central bank, says Alex Pollock. Given the "immense financial and political importance of central banks in a world that runs entirely on the fiat currencies they create and inflate", these are critical questions. Harold James' *Making a Modern Central Bank* (Cambridge, 2020, £29.99) is instructive. It relates in detail the lengthy debates that went into the making of the modern Bank of England.

Mission accomplished

The Old Lady had had a great run as the dominant central bank in the world under the gold standard. She lost that title to the US Federal Reserve in the wake of World War I, but to this day punches above her weight internationally, not least because of what economist Paul Krugman has called her "intellectual adventurousness".

But the Bank came under "severe stress" in the 1970s, with the end of the gold standard. Two oil-price shocks gave rise to "substantial instability". The global "Great Inflation" was roaring. And the British pound slumped. It all came to a head in the "final humiliation" when Britain was forced to go to the IMF to ask for a loan in 1975. That marked the start of a long debate over the role of the central bank.

The Bank moved on from that humiliation and into a number of other challenging events and crises – Black Wednesday, the housing bust of the early 1990s, various bank collapses and panics – and in the process came to have a role in controlling inflation, promoting systemic financial stability, providing finance to combat panics and financial instability, and coordinating and regulating banks. "Then came the big redesign." The Bank of England Act of 1998 sharply focused the bank on the core function of maintaining price stability by hitting an inflation target. The Bank could choose the methods to achieve this, but it would be given the target by the government. Its role as a regulator was taken away and handed to the newly formed FSA. And, by the early 2000s, the Bank's new chief task "looked like it had been achieved with stunning success". It takes James' book 450 scholarly pages to reach this outcome, then shows in just the remaining 11 that that was far from the end of the story.

The new model was severely tested in the crisis of 2008. Central banks began to "multi-task feverishly". A new wave of institutional upheaval washed in. And, by 2017, something that looked rather more like the old Bank was being recreated. The great debate continues.

Behavioural economics in the dock

buzzfeednews.com

Dan Ariely "literally wrote the book on dishonesty", says Stephanie Lee. Ariely's *The Honest Truth About Dishonesty* was a bestseller in 2012. Now, his own honesty is in question. Ariely was the author of a landmark study that claimed to show that people who signed an honesty declaration at the beginning of a form, rather than at the end, were less likely to lie. Its findings were adopted by at least one insurance company, tested by governments around the world, taught to corporate executives and cited by academics. It is now being retracted following an investigation by a group of scientists, which found that it relied on faked data. (The study's authors all agree that the data appear to be fraudulent, but it's still unclear who made up the data or why. All authors deny responsibility.) This is just "the latest blow to the buzzy field of behavioural economics". Several high-profile findings in the field have failed to hold up under scrutiny, leading to a "replication crisis" – the growing realisation that many landmark studies cannot be repeated by others. Such studies are the basis of a growing body of work on "nudging" – the idea that we can be tricked into making better decisions. Ariely is sticking to his guns. "More signature experiments," which have yet to be published, will vindicate his ideas, he says.

The misery of a holiday

spectator.co.uk

Of all the things sacrificed in lockdown, the one least to be regretted is the poolside summer holiday, says Simon Evans. Every year we take time out to "recharge the batteries" – but inactivity "does no such thing". The misery of it dawned on just such a holiday off the coast of Mexico. Lazing around the pool with "overweight, bovine, pampered" Americans, it was obvious that the people having the most fun were the staff. The pool lizards were bored stiff. The bar stewards, waiters and pool boys alike were having the "time of their lives", even while engaged in disagreeable duties. "What I was seeing

Who's happy now?

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was something fundamental to human nature. It was the expression of the effect on one's mood of having nothing to do."

"Be not solitary, Be not idle," advised Robert Burton in his *Anatomy of Melancholy*. Samuel Johnson added a "useful footnote" – if you must be idle, be not solitary. If you must be solitary, be not idle. "I honestly doubt I have ever read wiser, and more earnest words." As Kipling wrote, "The Camel's Hump is an ugly lump/Which you may well see at the zoo/But uglier yet is the hump we get/From having too little to do."

Basic income is the road to serfdom

bournbrookmag.com

The idea of universal basic income (UBI) – that everyone should get money sufficient to live on from the state without condition – has been doing the rounds again, says Alexander Adams. The Design and Artists Copyright Society has a report promoting UBI for artists, for example. The logic is that since art is a social good and artists are often lowly paid, the state should help them out and top up their incomes. The flaw in this idea is that the vast majority of art produced is rot. The state would not be subsidising the next Constable or Hogarth, but "substandard Tracey Emins". The reason most artists remain poor is that paying customers shrewdly discern there is "nothing worth supporting".

The danger of a UBI is that aspiring but useless artists will use it as a safety net while trying to set themselves up. All the while they will be out of the workforce and gaining no useful experience for their CV. They will become entirely dependent on the support of the state, which in turn will seek to micromanage and nudge them to its own gain. "UBI is a lure on a hook. The hook is serfdom to the state."

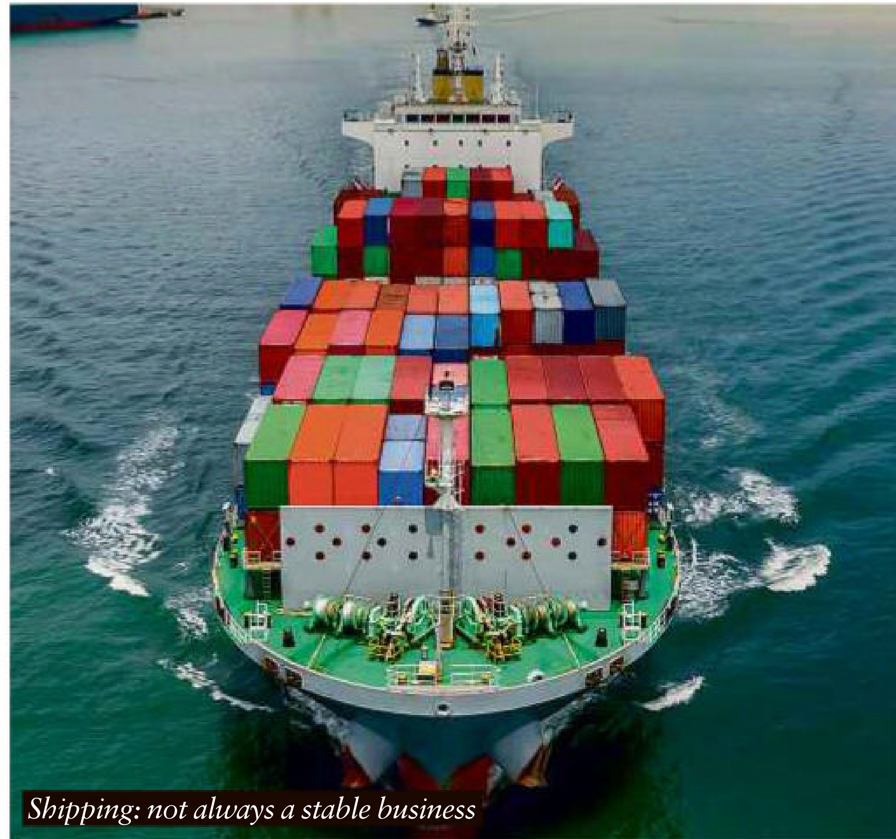
Shipping funds for steady income

Returns from owning ships are volatile, but these two trusts are trying to make the sector less risky

David Stevenson
Investment columnist

If I had to find an adjective to describe the global shipping industry, I would go for "volatile". Measures of shipping rates such as the Baltic Dry Index show that revenues from owning ships can fluctuate wildly.

In the past, investors worldwide have lost a lot of money in this sector. In 2009, a survey by data firm Scope found 17 funds in the German shipping fund sector were close to bankruptcy. Another 70 were struggling to survive. The sector has improved since then, but it hasn't fully recovered.



Shipping: not always a stable business

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London's first shipping funds

So it's probably not surprising that we had to wait until 2018 for the first shipping fund, **Tufton Oceanic (LSE: SHIP)**, to list on the London stockmarket. This fund now has a competitor, **Taylor Maritime Investments (LSE: TMI)**, and both are now trading at a large premium to their net asset value (NAV). Does that tell us that these funds have succeeded in making a volatile sector boring?

Certainly, both funds have worked hard to reduce risk. They don't use lots of complex debt. They tend to own straightforward ships such as bulk carriers and container ships. Crucially, they have both focused on a more active ship model: they'll buy cheap ships, work them hard and then if necessary trade them out.

Additionally, most of the leases seem to be of shorter durations, which means they aren't tied to one big client. For example, Tufton's list of assets show the majority of its ships will come off charter in 2023 or 2024. Short-term leases are both an advantage (they show us when the shipping cycle waxes and wanes) and a disadvantage (they've got to find someone else to charter them).

Tufton is targeting a recently revised dividend yield of 6.7% which it expects to be covered over the next 18 months. The net yield on the ships in its portfolio is running at around 14%.

Recent trading looks to be on the up, as the shipping market booms after the pandemic: NAV rose 10% over the quarter to 30 June to $1.158 per share. The fund also released numbers suggesting its assets are holding their value on the resale market: it sold the containership Kale for $21.5m, an internal rate of return of 31% and a 70% premium to depreciated replacement cost.

Taylor Maritime is the new kid on the block. It raised $253.7m when it floated in May 2021, and subsequently raised another $75m. It focuses on smaller second-hand bulk carriers and its seed portfolio held 23 ships with an average age of 11 years and an estimated remaining life of 17 years. It has since acquired nine more. The first quarterly NAV was $1.1263, a 15% increase since the fund's launch. This was driven by a 10.5% ($33.3m) increase its portfolio's value. The manager reports that charterers are seeking longer-term contracts in expectation of rising charter rates. Given this backdrop, it's not surprising that its ships are producing gross cash yields of around 20%.

A convincing case

The appeal of both funds is clear. They offer a strong, asset-backed stream of regular cash dividends in excess of 5% a year. Operating yields are well in excess of those single-digit numbers, which could imply increased payouts in time. The underlying assets are traded on a global market, so investors can take comfort from their second-hand values.

Times are good at the moment, but rates usually go into freefall for a while when the economy turns. The test will be whether the funds have managed potential volatility by picking the right ships, and whether they can keep paying out the dividends if those assets can't be leased out against a backdrop of plunging capital values. Longer-term, climate change policies are also a concern. If owners must update their fleets due to new emissions regulations, that could cut into the resale values for the wrong sort of ships.

Activist watch

US activist investor Starboard has branched out into the booming special purpose acquisition company (Spac) market, with a deal that takes data-centre operator Cyxtera Technologies public and values it at $1.5bn, says CNBC. Spacs are shell companies with no operating business of their own that are set up and listed with the aim of merging with a private firm that wants to join the stockmarket: in this case, Cyxtera merged with Starboard Value Acquisition, a Spac that listed in New York via an initial public offering in September 2020. Cyxtera will receive $493m in funding, which will be used to fund growth and pay down debt. The deal, which closed at the end of July, leaves funds run by Starboard holding 21.8% of Cyxtera.

Short positions... Scottish Mortgage's biotech bonanza

■ **Scottish Mortgage investment trust has seen a tenfold return on its investment in Boston-based biotech firm Ginkgo Bioworks, which is going public through a merger with a special purpose acquisition company (Spac), says Citywire. The trust has invested £44m since 2016 in Ginkgo Bioworks, which engineers micro-organisms for industrial use, in 2016. Now the upcoming merger with New York-listed Soaring Eagle Acquisition values the biotech firm at $17.5bn (\$12.7bn), with Scottish Mortgage's stake worth £450m. The deal will provide $2.5bn in funding for Ginkgo Bioworks, with $1.7bn coming from cash held by Soaring Eagle and $775m from a pre-merger funding round that was led by Scottish Mortgage's management company Baillie Gifford and also included Cathy Wood's ARK Investment Management among other investors. Ginkgo Bioworks recorded a net loss of $126.6m on revenue of $77m in 2020. It expects to earn $150m in revenue this year.**

■ Deutsche Bank's asset-management arm DWS is being probed by US regulators after claims from its former head of sustainability that it "overstated how widely it used sustainable-investing criteria", says The Wall Street Journal. The investigation may indicate how stringent global regulators will be towards suggestions of "greenwashing" (exaggerating the environmental or ethical standards of products) in financial services. When the EU introduced stricter regulations, the total amount invested in sustainable funds fell by $2trn from 2018 to 2020, as asset managers reclassified some of their products. US regulators have so far taken a lighter touch. Shares in DWS, which is listed separately to Deutsche Bank, fell 14%. The firm says it "firmly rejects" the "unfounded allegations".

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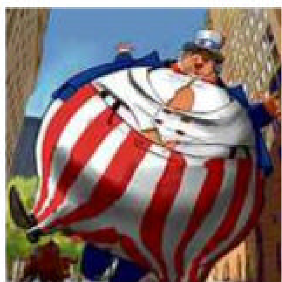
The US is in one of the greatest bubbles in financial history

Jeremy Grantham, who has a history of getting big calls right, fears slumps in several wildly overpriced markets (including UK property). He tells Merryn Somerset Webb what investors should do now



"Today, it is clear to me that this is the most dangerous package of overpriced assets we have ever seen in the US. [Bond guru] Jim Grant would say that we have the most overpriced fixed-income market in the history of man.

"That, combined with an equity market that can easily lose $5trn or $10trn, depending on the magnitude of the break, is a contender for the highest-priced market in American history." The result could be "a writedown in perceived wealth that would have no precedent".

So wrote Jeremy Grantham, co-founder and chief investment strategist of Boston-based asset management group Grantham, Mayo, Van Otterloo (GMO), a few months ago. It's a dramatic prediction from a man with a history of getting things right. For instance, he rightly dismissed the 2003-2007 stockmarket rally as "the greatest sucker rally in history", warned that the housing bubble of the mid-2000s would burst, and turned positive on stocks in March 2009.

So when we talk on the MoneyWeek podcast (moneyweek.com/jeremy-grantham-podcast) this great bubble is one of the first things I ask him about. Just how big is it? And – given that the markets have looked expensive for a long time already – how might it end?

A slow, 12-year build-up

It's big. This has been one of the longest economic upswings we have ever seen. Take out the Covid-19 "blip" (a quick down and up) and "the long, slow build-up had gone on for 12 years". At the end of a long upswing such as this, "you're likely to have very substantial profit margins, and if history repeats itself, investors are likely to consider that the high profit margins will last forever".

That's the first part of making a bubble: "Very strong economics extrapolated into the indefinite future." The second part is easy money, which we also obviously have in spades.

Ex-Fed chair Alan Greenspan may have introduced America's "aggressively pro-asset formula" of cheap money and moral hazard back in the 1990s – but today, rates are the lowest in history and we have just seen the biggest increase in the money supply ever too (a 25% year-on-year rise in the US).

Things have been pretty stimulative outside the US but in most places this just means being at the "top end of their historical range". Not so in the US, which has "broken way out" in terms of both government and Federal Reserve stimulus. It's the same with equity markets. Most are at "merely normally high prices", but the US is a candidate for the highest-priced market in its history.

"Industry has become more monopolistic and concentrated than ever before"

Big Tech's extraordinary performance

What makes this worse than a bog-standard bubble? Capitalism, says Grantham, "particularly in the US [which] is a little fat and happy". The US Department of Justice has allowed industry to become far more monopolistic and concentrated than ever before. But at the same time, companies are less aggressive than they once were. Between the 1960s and the 1990s market share was all that mattered. Now many of the big firms focus on profit margins, using cash flow to do buybacks, for example (something executives love anyway as it works so well with their stock options and is "very low in career risk").

Look at profit margins in the US and the rest of the world and again you see the difference. In the rest of the world, profit margins have stayed reasonably high but the US has "crashed up to record highs" with a "fairly astonishing 80% gain over the rest of the world in profits". Even more astonishing however is the fact that something like 85% of this is accounted for by the huge tech companies. "The performance of [Big Tech] has been extraordinary – there's been literally nothing like it in history, anywhere."

Take Apple, the company with the biggest market value in the world. Last quarter it announced that sales had risen by 50% in the past 12 months. "Give me a break, this is the largest company in the world," says Grantham. Traditionally, a brilliant year for a company of this size would mean growth of, say, 5%-6%. There is no precedent for this kind of expansion. "One has to admit these are exceptional companies."

The secret to America's success

So here's an interesting question: why is it that the US has such a dominant share of these great new interesting firms? The answer to that one, says Grantham, is the venture-capital industry. American exceptionalism is not what it was, but one place where it is still very much on the go is here.

The US has two-thirds of the world's great research universities, something venture capital really feeds off. It also has the right attitude to risk. Americans "forgive failure, they go back and try again, and they throw money at new ideas, and they'll do 20 new deals, where the careful Germans will do one.

"And so, they have many more failures, but when the smoke clears out of the wreckage of the internet, the Amazons, and for a while the AOLs, tend to be American, and they own these great new enterprises. So, I look at [Big Tech] and I say: where did they come from? And the answer is, they all jumped out of the venture capital industry in the last few decades."

Still, none of this really justifies the valuations, particularly since the tide may be beginning to turn: note the way in which China has been "bashing its new, special, powerful monopolistic entries". So what will be the thing that brings this bubble down?

Where is the pin?

There is no point in looking for a pin, says Grantham. "No one can tell you what the pin was in 1929. We're not even certain in 2000. It's more like air leaking out of a balloon. You get to a point of maximum confidence, of maximum leverage, maximum debt, and then the air begins to leak… because tomorrow is a little less optimistic than yesterday."

There are, however, warning signs. "Before the great bubbles ended in 1929, 1972 and in 2000, in the

©Apple Inc

There is no precedent for the kind of expansion produced by tech giant Apple

US, the three great events of the 20th century, there was a very strange period in which, on the upside, the super-risky, super-speculative stocks started to underperform."

Think of it in terms of "confidence termites". They start with the speculative stuff and gradually reach the rest of the market. This time round we are tracking that path "quite nicely". When Grantham and I spoke (four weeks ago now), the Spac (special purpose acquisition company) index, bitcoin and Tesla were all substantially off their highs. The Biden stimulus and the good vaccine news have pushed this bubble out longer than Grantham ever expected – as has the huge breadth of market participation. In 2000 it also seemed as though everyone was in the market.

Watch out for the "confidence termites"

"My favourite story, which is completely accurate, was that [in] the local greasy spoon... in the financial district of Boston [there were eight] television sets [and] all but one of them would be showing talking heads from MSNBC and CNN and [the eighth] would be showing replays of the Patriots football team. And a year earlier... eight out of eight were showing the Red Sox."

You see something similar today: endless talk about Tesla sales and huge numbers of new traders in the market, all too many of them using options. Grantham reckons the termites will have made it to the rest of the market by the end of the year.

Where to look now

Oh dear. Is there anywhere safe for investors, I ask? Back in 2000 there were plenty of cheap things around – houses weren't horribly overpriced, and neither was the bond market; and value stocks were actually cheap. Grantham agrees there is much to worry about if you are looking at the kind of things that get the confidence termites going: the coming of the bezzle (the fraud cases that appear at the end of bubbles); more evidence that this bout of inflation is not transitory; and, in the US in particular, a worsening of the pandemic.

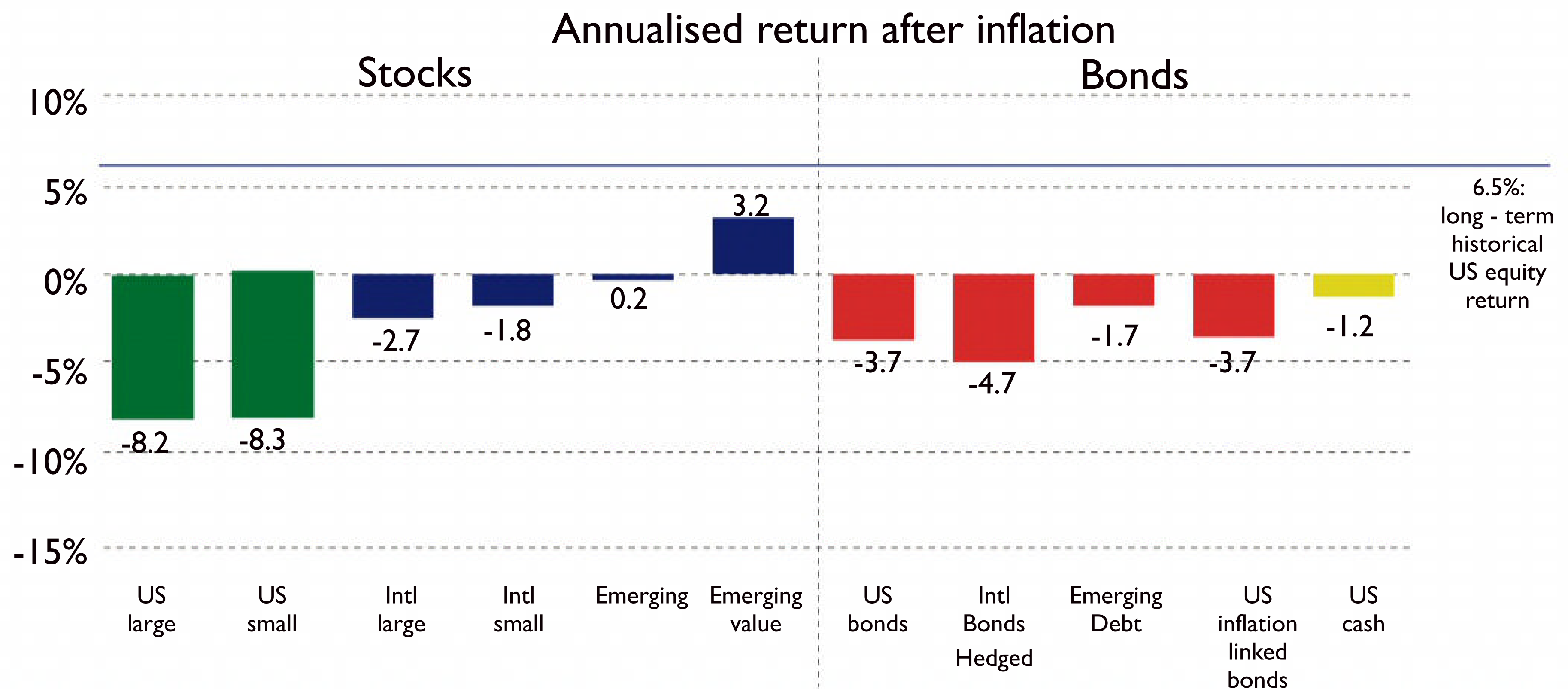
On the plus side there are some relatively safe havens. One place you really should have some money is in US venture capital. "It's far and away the most virile part of American capitalism. It has all the ideas. All the best and brightest now come into venture capital, all starting their new firms, as they should."

His own Grantham Foundation for the Protection of the Environment has moved its assets to 70% venture capital, with much of that focused on the wall of money heading for decarbonisation.

There will be huge amounts of money "trying to get into the new ideas... and they will really prosper."

"All the best and brightest now come into US venture capital"

Continued on page 22



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And the established green companies will also be beneficiaries. GMO has had a climate-change fund for the last several years, for example. "It's doing extremely well. And it will get hurt in the burst, but it's a global fund. It will go down less. It will come back quicker. It will run further."

Beyond that, note that overall the equity market is not as overdone as bonds and real estate (the UK housing market, he says, is a "humdinger" – see below), so if you stay out of the US, choose carefully and emphasise emerging markets.

When the US market collapses all markets will temporarily, at least, come down in sympathy (this is a reason to hold some cash so you can pick up the bargains by the way). However, "you will make a respectable return. Not as much as you would like, but a respectable return" over ten or 20 years. GMO's current forecasts of annualised seven-year returns for various asset classes (see chart above) suggest that the best value is in this area – high starting valuations imply poor long-term returns. (For context, US stocks have returned an annual 6.5% after inflation over the very long term.)

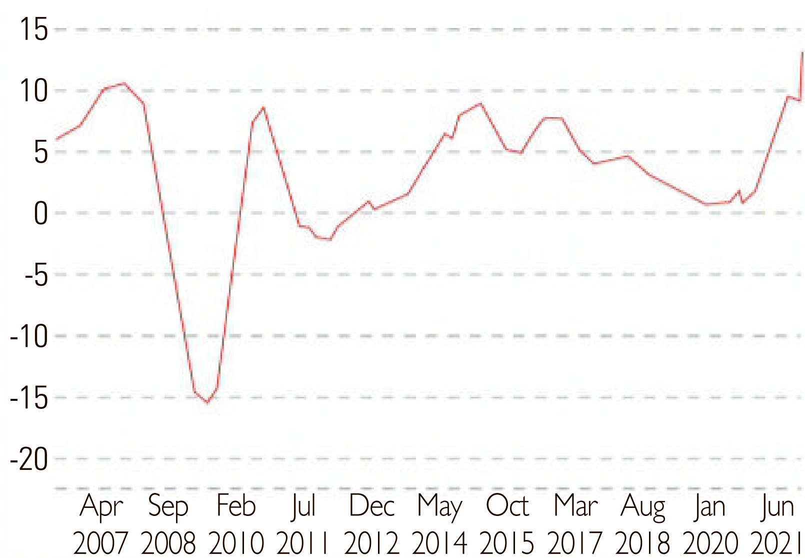
Grantham would also suggest steering your portfolio towards value stocks, which are "about as cheap as it gets… compared to the other half of the market". Perhaps buy "the cheaper low-growth stocks in emerging [markets] and carefully-selected other developed countries" (not the US). But whatever you do, do not let yourself believe that everything is fine. It isn't. This "is a really splendid speculation", says Grantham, "and of course it will end badly".

"Keep cash on hand so you can pick up some bargains"

There will be "hell to pay" in the UK property market

"One day there is going to be hell to pay." That's Jeremy Grantham's verdict on the UK property market. Why? Two reasons. First, it is overpriced, and second because while it is possible to get reasonably long fixed-rate mortgages (Nationwide has a five-year deal at just under 1%), in general, "you guys have floating rates, like Canada, Australia, and New Zealand. That means that when rates rise a large number of borrowers will see their monthly payments shoot up.

"Some of those borrowers will turn into forced sellers; given that markets are priced at the margin, prices will crash. In the US it won't be so bad: we have fixed rates. So, yes, our market will crash and it will be painful, but not nearly as painful as it will be in Britain."



What can we do? When it comes to mortgages, "go and get the longest one you can", says Grantham. If the ten-year offering seems a little more expensive than you would like, "pay up a little" and get it anyway. You may feel as though you are overpaying for a while but that won't make you wrong. "Everybody feels stupid at the top of the bull market, basically." Everyone feels they should have taken more risk – leveraged their assets a bit more.

What usually happens however is that they capitulate and do just that "just in time to get wiped out... The market, in its own way, must have a lot of fun." However this is not just about the UK. Housing in most of the world is about as bubbly as it has ever been. In the US, prices as a multiple of family income are now higher than they were in the great housing bubble of 2006 and 2007.

That "in itself is quite amazing". And remember that when that bubble deflated it took $8trn of "perceived wealth" ("perceived" because the house itself doesn't change just because its price rises) down with it. The same day of reckoning will come to global markets again. The only thing in the UK's favour is how slow it is at building houses. Last time round the markets that really cracked – Spain, Ireland and the US – were the ones that built and built. Those that did not (the UK, Australia, and Canada) were not hit so hard.

However, there is little doubt in Grantham's mind that we won't escape so lightly this time. With prices up by 13.2% in the year to June (the data is from the Office for National Statistics – see chart) housing inflation is at a 17-year high. When the crash comes to the UK, says Grantham, it will be a "humdinger".

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Get the better of your biases when you trade stocks

There are eight key psychological pitfalls that can part inexperienced investors from their money. Michael Taylor explains what they are – and how you can overcome them

Trading is one of the most brutal pursuits on the planet. There is little risk of physical harm such as a broken appendage or being punched in the face, but psychologically it can be difficult and at times, even stressful. I've heard of traders who've put their entire house deposit into the market and lost it; some have squandered their life savings betting on a single stock.

Trading can be profitable, but it can also be cruel. Sometimes you can do everything right and still lose money. You can have an edge, but nothing is guaranteed. Still, there are many things that we can do to increase our chances of success. We can control our entries, our exits, our position-sizing, risk management, how well we actively manage and monitor the trade – and also our mindset and psychology.

The best traders are able to master themselves. Many people believe that brokers, market makers and other market participants are their competition. But it's you who will break your own rules, lack discipline and succumb to the fear of missing out (Fomo). In this article, we look at eight of the most common trading biases and learn how to combat them.

Loss aversion

Aversion to loss is potentially the most threatening cognitive bias. Loss aversion is the theory that we feel the pain of loss twice as much as we feel the pleasure of a gain. The theory was the result of work done by Daniel Kahneman and Amos Tversky, who are considered the fathers of behavioural economics (their work is well worth reading for anyone involved in financial markets).

Loss aversion comes into play because we don't want to sell losing trades or positions lest we feel the pain of a loss. But here's the rub: if the market has marked your merchandise down, you've already lost. A famous trading dictum posits that "it's only a loss if you sell". This is a fantasy. If it affects your net worth, it's a real loss.

One way to beat loss aversion is by knowing your maximum risk before you place the trade and knowing when you'll sell if the trade goes the wrong way (set a stop-loss). When the time comes, you simply follow your plan and get out. Another way to combat loss aversion is to take small positions. Bigger positions exaggerate our emotions, so the bigger the position, the more likely you are to be seduced by loss aversion and move your stop-loss further down. Before you know it, you can end up losing a lot more. Don't take positions without knowing your downside and having a plan.

Gambler's fallacy

Gambler's fallacy is another common bias in new traders and investors. It occurs when a person believes that after a string of losing trades they are more likely to achieve success because they're "due a winner".

"Just because you've lost ten trades in a row doesn't mean you can't lose another ten"

Controlling our own psychology is easier said than done

Unfortunately, all trades are independent of each other. Just because you've lost ten trades in a row doesn't mean you can't lose another ten. In the same way, the odds of a coin landing on tails after hitting ten heads in a row is still 50%.

Gambler's fallacy can often tempt people into sizing up in order to chase back losses because they feel they must now win. Never be tempted to size up when losing – this only increases your risk and raises the odds of making mistakes.

Attribution bias

Attribution bias describes a scenario in which traders ascribe success to themselves, but blame others when things go wrong. For example, after a losing trade a trader who has a heavy attribution bias may decide to blame their broker, the market, or their keyboard, even if they broke all their trading rules and it's clearly their own fault.

Nobody likes to blame themselves, but this is a core tenet that characterises successful traders. Taking responsibility for your own decisions – even if the fault genuinely was not yours – is an excellent way to grow as a trader. Don't fall into the trap of blaming others. Instead, consider what you could have done better.

Endowment bias

The endowment effect is when we believe that something we own is worth more purely by virtue of us owning it. Everyone believes their house is the nicest on the street. Whenever we buy a stock, we value it more highly than we would if we didn't own it. That means we're at our most objective when we don't have a position. Therefore we should do our research and plan

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> *"Most traders don't keep a journal – but most traders don't make money either"*

our trading before we take a position. Once we press buy, we lose our objectivity.

Bandwagon bias

The bandwagon effect makes it hard for us to go against the crowd. Warren Buffett once said in order to get rich you need to "sell when everyone is greedy and buy when everyone is fearful". This is easier said than done. Everyone wants to buy the dip until there is a dip. Everyone wants to be a contrarian, but nobody wants to risk losses. Contrarians can look silly for long periods of time until they're proved right – if they ever are.

In February 2020 when China shut down, I thought it was only a matter of time before Covid-19 reached other countries. Yet when Italy started going into lockdown the markets remained at all-time highs. It was as if the market had completely discounted the fact that we were heading straight into a global pandemic. I thought going short the indices and waiting for the market to react would be an excellent trade. If I was wrong, I could close the trade easily.

But I didn't take the plunge. Why? Because the markets were at record highs. I thought that if the smartest minds in the world were dismissing the virus as nothing then they must be right. Everyone was bullish and I talked myself out of heavily shorting the market right before global stocks collapsed. It's a lesson I cherish and one I'll always remember. Sometimes you must stray from the crowd in order to outperform.

Recency bias

The recency bias is a cognitive bias whereby we put more weight on information and experiences that are more recent. For example, a chief financial officer leaving a company may cause some investors to sell. They believe it's a red flag, but if you look at most companies this is merely noise over the longer term. Recency bias sees investors place more emphasis on the recent news, which ultimately has scant impact.

Traders can also fall victim to this bias. A trader with five losing trades in a row may decide that their strategy doesn't work because it hasn't worked the last five times. But this is simply variance. Traders can overcome this bias by tracking their results and maintaining belief in their edge: their tactical or strategic approach that they believe tips the odds in their favour over the long run. If you know your edge and have the discipline to follow it, then this should give you the confidence to keep going and avoid recency bias.

Confirmation bias

Confirmation bias is a classic bias. Everyone likes to be right and nobody likes to be wrong. But confirmation bias is dangerous to those who are unaware of it because we actively seek out information that tells us we're right rather instead of looking at the opposing view. Those who are heavily influenced by confirmation bias can attack others who have a different opinion. This is because they are so emotionally invested that their opinion becomes a part of their identity. Bulletin boards are loaded with confirmation bias, with everyone singing from the same hymn sheet. Anyone asking about the downside or posting a negative view will be attacked and reported.

When I was a new trader, I was in a Twitter group full of shareholders in Cloudtag, a personal fitness-monitoring device maker. The product had been delayed twice and I started asking questions – only to be removed from the chat. I then realised this was a full-on bubble and sold my stock into strength, but sadly many shareholders are still holding shares that have been delisted from brokerage accounts even today.

Confirmation bias is dangerous because it can cloud your judgement. Even those who are aware of the bias aren't immune to it. The best traders actively seek out the downside and what can go wrong on the trade because they know that they alone are responsible for their results . Next time you find yourself in a trade, ask yourself: "What is the person on the other side of my trade thinking?" Because there will be someone on the other side of your trade, and they might just be right.

Blind-spot bias

Blind-spot bias reflects the ease with which we can point out others' mistakes and biases, but not see our own. This is because we're detached from the situation and not bogged down in so many details. That allows us to assess how they're going wrong. The problem with this is that we're unable to spot these same mistakes in ourselves and therefore we leave ourselves wide open.

One way we can tackle this is to team up with another trader and swap ideas, notes and trades. Your trading journal should also give you enough quantitative and qualitative data to allow you to discern commonalities in where you're going wrong. Most traders don't keep a trading journal – but most traders don't make money either.

Understanding and tackling these eight biases will greatly improve your trading. However, there are many biases and the onus is on you to keep improving your knowledge and manage your emotions effectively. For more information on biases, I'd recommend *Thinking, Fast and Slow* by Daniel Kahneman.

Michael's monthly stock-trading newsletter Buy the Breakout *is free from his website: shiftingshares.com/newsletter*

Best banks for students

Pocket the perks, but don't forget to check the overdraft

Alex Rankine
Markets editor

Free cash! Student discounts! Vouchers! Interest-free overdrafts! Banks have been rolling out the usual perks in a bid to attract new university students. By doing so, they hope to catch today's freshers before they become tomorrow's graduate earners – and, hopefully, long-term loyal customers.

This year's deals have something to suit all tastes. For the studious, Barclays gives a 12-month subscription to Perlego, an online library of academic and non-fiction books. The budding bon vivant may be tempted by a NatWest and Royal Bank of Scotland's offer of a Tastecard, which gives restaurant discounts. Then there is hard cash: HSBC pays £80 plus a £20 Uber Eats voucher. However, while incentives like these are eye-catching, it is the interest-free overdrafts that matter most for many students.

An invaluable backstop

Parents may be uncomfortable with the idea of their child going into debt, but the reality is that overdrafts can be an invaluable backstop. High up-front costs for rent and books combined with lumpy student maintenance payments (which are paid only three times per year outside Scotland) mean that even a responsible student can find themselves short.

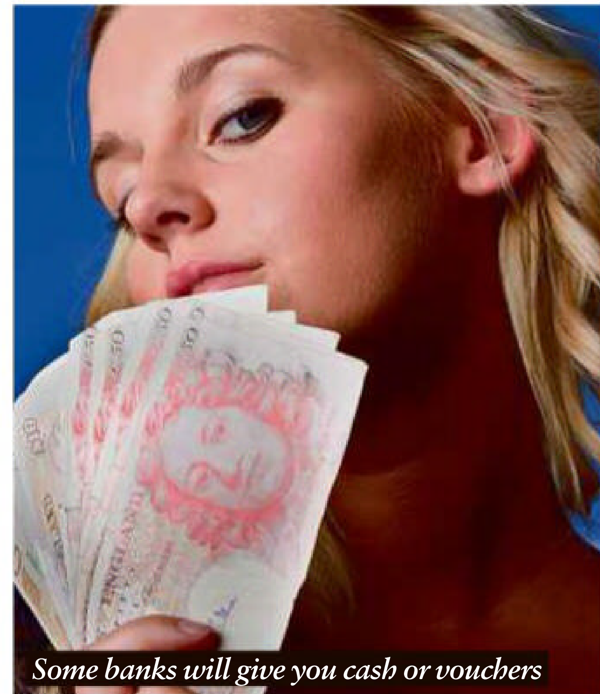
HSBC and Nationwide offer some of the highest 0% overdrafts, rising from £1,000 in the first year to up to £3,000 by the third year. However, note that a student's credit score can determine whether they are ultimately granted the maximum interest-free overdraft. "We believe you're more likely to get £1,500 out of Santander than HSBC (who advertise £3,000) over the course of your degree", says Owen Burek for Save The Student.

The Santander 123 Student Account is Save The Student's top pick this year. Its free four-year railcard is a valuable perk for those with wanderlust. Santander also figures among the top picks from MoneySavingExpert, along with HSBC's Student Bank Account and Nationwide's FlexStudent account.

"The Santander 123 Student Account offers a free four-year railcard"

Also check how long students have to pay off their overdraft once their course is over, says Alys Key on iNews. Most let newly minted graduates keep the same terms for at least a year, allowing time to pay the bank back once they start earning.

Digital banks don't offer 0% overdrafts or specialised student accounts, but many apps have digital tools that can help this smartphone-addicted generation track their spending. "Banks such as Monzo" might "work well for a secondary account for day-to-day spending and budgeting", says Rupert Jones in The Guardian.



Some banks will give you cash or vouchers

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Signing up and switching banks

Opening a student account requires a university acceptance letter or UCAS status code, as well as the usual proofs of identity and home address. Many new students opt for a bank where they already hold a child's account or savings account for their student banking, but it pays to shop around.

Those who have already opened a student account with one bank should be able to switch to a better deal without too much trouble. The Current Account Switch Service (Cass) makes it easy to transfer any payments already set up to a new account.

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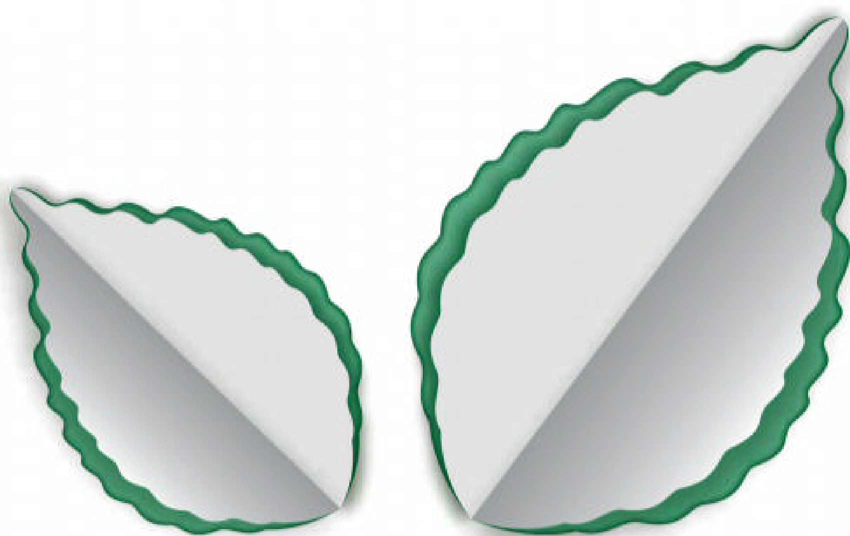

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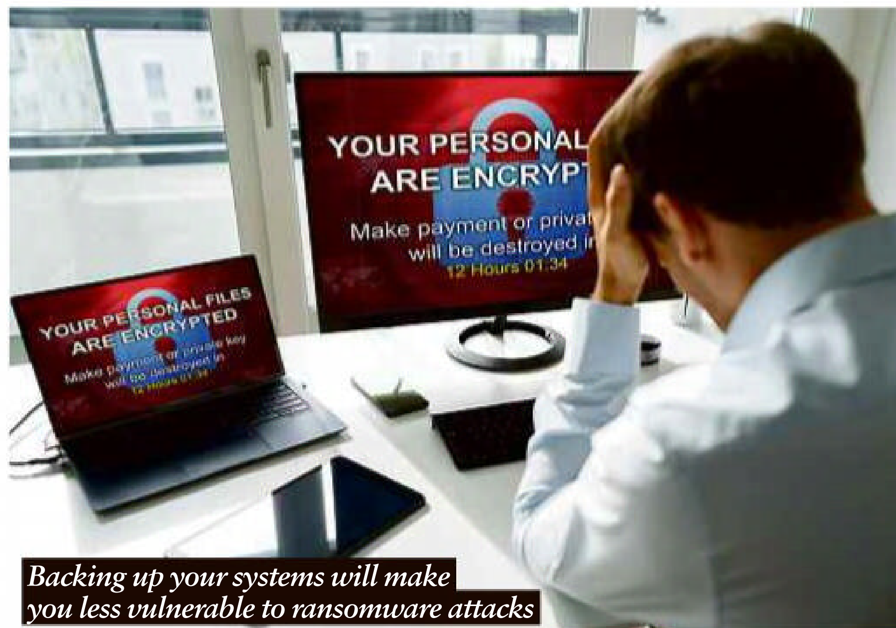
Cybersecurity is crucial

Small companies tend to neglect the defence of their digital data

David Prosser
Business columnist



Backing up your systems will make you less vulnerable to ransomware attacks

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Small and medium-sized businesses (SMEs) are underprotected from cybersecurity risk, while the pandemic has increased their vulnerability to attacks. The European Union Agency for Cybersecurity (ENISA) says a third of SMEs have experienced a cyber incident over the past five years. Half believe that a serious incident could completely sink their company.

Despite this level of risk, most SMEs have only basic protections in place. The majority of smaller firms have taken steps such as installing firewalls and anti-virus software, but only a minority routinely train staff on cybersecurity issues or use more sophisticated protection tools.

ENISA's data suggests that the five most common threats to SMEs are: phishing attacks; web-based raids; general malware; malicious insiders; and denial-of-service strikes. What's more, measures introduced by many SMEs during the pandemic, including remote-working practices and contactless-payment options, have given cyberattackers new opportunities.

The big challenge, says ENISA, is that managers are not sufficiently focused on the potentially existential threat that cyberattacks pose. As a result, their efforts to counter the threat often fall short of what is required. They don't invest enough money in cybersecurity, they fail to recruit the right type of cybersecurity expertise, and they favour seemingly quick fixes such as anti-virus software, rather than building a culture of cybersecurity awareness.

Shocking statistics

Such complacency leaves smaller firms exposed. Research published by Vodafone in early 2021 found that 41% of UK SMEs had suffered cyberattacks over the previous 12-month period, with 20% experiencing multiple attacks. It warned that as many as 1.3 million UK SMEs could collapse completely after falling victim to a cyber-attack.

ENISA's most important recommendation is that SMEs should focus on how to build stronger cultures of cybersecurity, with management working harder to build employees' awareness. The agency suggests practical steps such as regular cybersecurity audits, training for staff, the development of cybersecurity policies, and work on incident response plans.

More technical steps will also help. Too few SMEs are taking steps to secure their devices, such as installing all software patches and upgrades, encrypting data and focusing on how to manage mobile devices. Network security also needs to be reviewed, particularly as more staff work remotely. Third parties such as suppliers may also be introducing new vulnerabilities.

However, the starting point for many smaller businesses will be to recognise that they represent an attractive target. SMEs are less likely to have robust defences in place than their larger counterparts.

Even simple steps can prove hugely valuable. For example, SMEs that routinely back up their systems and data will be much less vulnerable to ransomware attacks. Firms that introduce multi-factor authentication on remote devices decrease their chances of attackers getting in this way.

Take another look at Recovery Loans

Take-up of the state-backed Recovery Loan Scheme (RLS) remains modest compared with the schemes it replaced, including the Coronavirus Business Interruption Loan Scheme (CBILS) and the Bounce Back Loan Scheme. But if your business has a CBILS debt, the RLS could be a better way to support your cashflow and business investment.

For one thing, CBILS loans were offered with repayment periods of up to six years, but many firms agreed much shorter terms. The RLS also offers terms of up to six years, so if you're struggling with the monthly repayments on CBILS, refinancing through the RLS could be a way to extend your loan term and reduce what is payable each month. The RLS also offers larger advances: loans of up to £10m compared with a £5m maximum under CBILS. So if your business needs additional funding – perhaps to finance investment – refinancing may make sense.

You may also be able to negotiate a cheaper interest rate by switching from CBILS to the RLS. If your firm's finances have improved significantly since you negotiated your first loan, refinancing might provide access to lower rates. Much depends on the approach taken by lenders. They are protected by the state's guarantee that it will cover 80% of any RLS defaults, but some are more cautious than others. Finally, if you have a Bounce Back loan rather than a CBILS facility, you can extend the repayment term to ten years if your firm is struggling.

Putting a price on the pingdemic

● Has your business thought about how to reduce its carbon emissions? If the answer is no, you're not alone. Just 11% of small businesses measure the current size of their carbon footprint, according to new research from the British Chambers of Commerce.

The business group warns that while the majority of smaller businesses recognise their customers are increasingly focused on environmental issues, many think it will be too costly and complicated to develop a plan for reducing emissions. The BCC says its newly-launched Net Zero Hub can help. It is a free resource aimed at smaller firms determined to work towards net zero.

● More than 500,000 sole traders, partners and self-employed people will be affected by the government's reforms to accounting periods, say the Chartered Institute of Taxation and the Institute of Chartered Accountants in England and Wales. The reforms of the so-called base-period rules, due to come into effect in 2022, will require many self-employed workers and sole traders to change their accounting year-end dates – and potentially to pay tax earlier than in previous years. That could result in cashflow problems for many, accountants warn.

● One in ten small-business owners face costs of more than £10,000 because of staff shortages and enforced closures related to the "pingdemic", research from Simply Business suggests. A survey of 500 small companies uncovered widespread disruption at businesses whose staff have been told to self-isolate because of potential exposure to the Covid-19 virus.

Only 31% expect changes to the rules in August – including reducing the sensitivity of the NHS Test and Trace app, and allowing people to take Covid tests rather than requiring them to self isolate – to ease their difficulties.

18+

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Three stocks improving their carbon footprint

A professional investor tells us where he'd put his money. This week: Craig Baker, head of the investment committee, Alliance Trust

We believe that steering companies with more questionable track records, or in more polluting industries, towards sustainable practices should help to manage investment risks over the long term, improve returns and benefit the planet. Here are three stocks that are proving themselves and working towards reducing their carbon footprint.

An eco-conscious cement maker

HeidelbergCement (Frankfurt: HEI) is a global leader in aggregates, cement and ready-mixed concrete production. The main component of cement is clinker, a by-product of sintering limestone (heating it so that the minerals fuse together). Its production is carbon-emission intensive.

HeidelbergCement has been increasingly focused on growing its share of the market's sustainable low-carbon products, designing factories that operate with alternative raw materials and fuels. Currently, the company allocates about 80% of its research and development (R&D) spend on reducing energy consumption in its manufacturing process.

In June 2021, the firm announced plans to build the world's first carbon-neutral cement plant in Sweden. This is expected to start operations in 2030. In 2019, it became the first cement company to announce an emissions-reduction target that is in line with the Paris Agreement on climate change, which aims to prevent a rise in the Earth's temperature over 2°C by 2050.

Playing a part in renewable energy

Steelmaker **ArcelorMittal (Amsterdam: MT)** is committed to achieving net-zero carbon emissions by 2050 and has a broad and flexible transition strategy in place. The company has identified three distinct pathways that have the potential to deliver a significant reduction in carbon emissions: clean-power steelmaking, using hydrogen and electrolysis; circular-carbon steelmaking, which uses circular-carbon energy sources that remove carbon dioxide from the atmosphere – such as waste biomass – to replace fossil fuels; and fossil-fuel carbon capture and storage, where the current method of steel production is maintained but the carbon is then captured and stored or reused, rather than emitted into the atmosphere.

The company is also making new steel products that help their customers' transition to a low-carbon future, such as materials for wind turbine construction. As the second-largest steelmaker in the world, it is well positioned to develop the required technology and capture the potential competitive advantage.

Carbon footprint improvement

BP (LSE: BP) aims to get to net zero across its operations by 2050 or sooner. It is also aiming for a 50% cut in the carbon intensity of products it sells by 2050 or sooner. The firm plans to install methane measurement at all major oil and gas processing sites by 2023 and reduce methane intensity of operations by 50%. It also intends to increase the proportion of investment into non-oil and gas businesses over time.

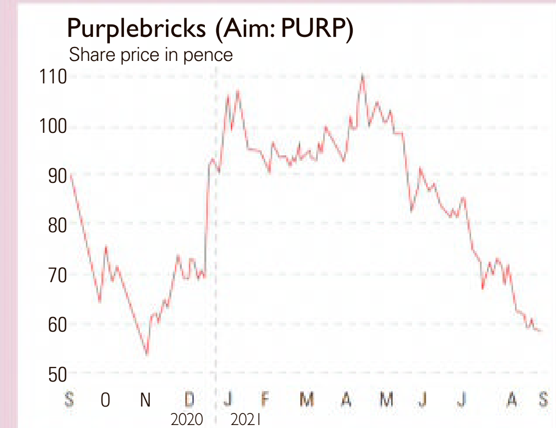
"Steering companies to sustainable practices should help manage risk"

We believe the oil and gas sector as a whole faces a profound challenge in adapting to the energy transition. But we think BP is better placed than others to manage the transition effectively due to the greater operational flexibility it has developed in the years since the Deepwater Horizon oil spill, caused by the explosion of an oil rig off the coast of Louisiana.

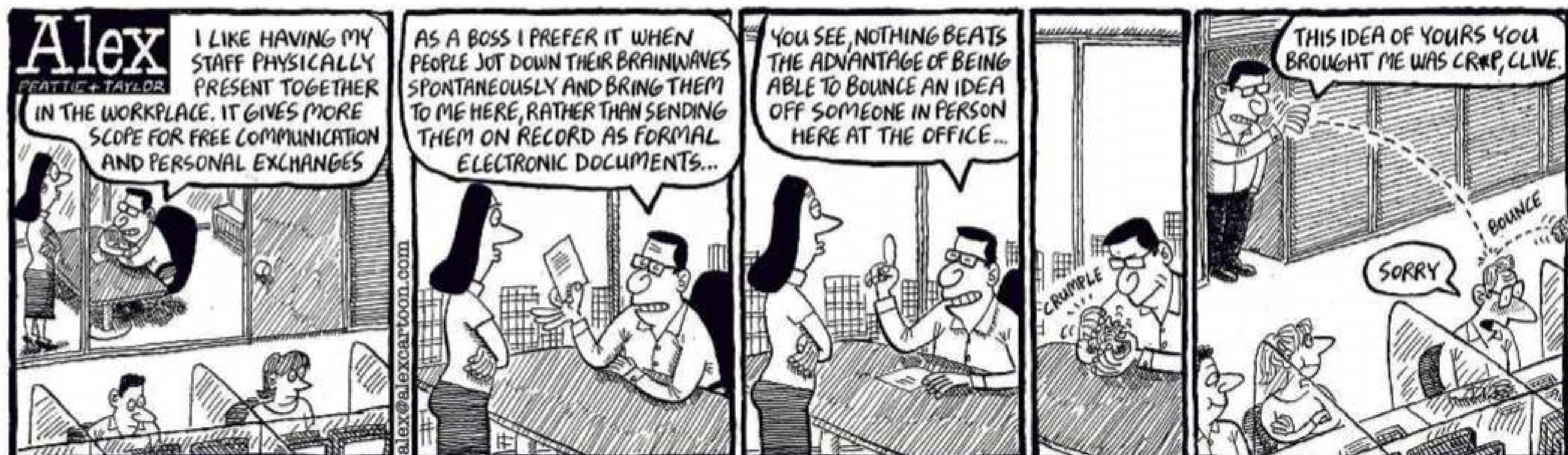
If only you'd invested in…

Brickability (Aim: BRCK) is a brick- and building-materials supplier. Despite a 13.2% drop in like-for-like revenues from the year before, due to the effect of coronavirus restrictions, it highlighted a strong recovery in its annual report for the year ending 31 March. Profits before tax sat at £11.2m, down from £12.2m in 2020. It made two strategic acquisitions last year, and says the pipeline for this year looks strong. The outlook for the construction sector is promising, with activity forecast to rise by 14% in 2021 and by 4.9% in 2022, thanks to investment in housing. The company's shares are up 125% over the last year.

Be glad you didn't buy…



Shares in real estate agent **Purplebricks (Aim: PURP)** fell after it announced an overhaul to its business model, says iNews. Instead of using self-employed sales agents, the firm will move to a fully employed workforce, which it says will help it meet increased demand. This change will bring non-recurring costs of between £3m and £4m for the 2022 financial year, while annual ongoing administration costs are expected to be £1m higher. The company reported a pre-tax profit of £3.6m for the year to April 2021 after a £90.9m increase in revenues, but its share price is down 30% over the last 12 months.



Leftist outsider who rode to power in Peru

Pedro Castillo amassed support among the left-behind as a trade-union leader before riding to power in this year's presidential race. What has the country let itself in for? Jane Lewis reports

Pedro Castillo was "a virtual unknown" before he joined this year's presidential race in Peru – eventually snatching a narrow win over his far-right rival Keiko Fujimori in June. A rural teacher and union activist who, as the Financial Times notes, rode to vote on horseback in "his trademark Stetson hat", he had campaigned on the slogan "No more poor in a rich country" – tempered with reassurances that he was "his own man", not beholden to the Marxist ideology embraced by some in the Free Peru party that had adopted him.

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"Rage against the establishment following Covid-19 was a big factor in his rise"

A taste for outsiders

Still, any expectation that Castillo might lead a moderate government were dashed almost as soon as he donned the presidential sash, says Bloomberg. A day after taking office he appointed one of Peru's most controversial politicians, Guido Bellido, as prime minister. Bellido is currently under investigation for being "an alleged apologist for terrorists" – having publicly supported members of the "Shining Path" Maoist rebel group that killed tens of thousands of Peruvians in an attempt to seize power in the 1980s and 1990s, says The Guardian. After a month of turmoil, the administration has just survived a vote of confidence motion in Parliament. It's unlikely to be the last.

That some kind of political accord has now been cobbled together is largely down to financial fears. Already reeling from one of the world's worst per capita Covid-19 death tolls and a savage recession, Peru has suffered a sobering financial shock since Castillo rode onto the scene. Stocks saw their worst crash in years on his election and the Peruvian sol has been hammered. Barclays estimates investors have pulled some $3bn out of the country since April, when the Peruvian electorate had to choose between an unreconstructed socialist or fascist government.

How did a middle-aged country primary school teacher, untried in public office, rise to take power? Peru has always "had a taste for electing outsiders", says The Economist, but none with "as little political experience or knowledge of the world" as Castillo. In his only previous bid for elected office – when he stood for mayor of a small town in 2002 – he lost. He was born in 1969 to an illiterate family of peasant farmers based in the remote Cajamarca region of the Andes. His life story resonated among millions left behind by uneven economic growth in the world's second-biggest copper exporter. He paid for his studies to become a teacher selling ice-creams on the street. As a union leader, he travelled to outlying towns and villages, amassing grassroots support. "Rage against the political establishment" following the devastation of the pandemic was a big factor in his rise. Castillo played up to it by presenting himself as a crusader, notes the BBC. He was rarely seen without two key props: the traditional white hat of his region and "a huge inflatable pencil" representing his background in education.

True to his populist credentials, Castillo has renounced the presidential palace (built on the site of the house of Francisco Pizarro, the Spanish conquistador of Peru) and vowed to draw a salary equivalent to what he was paid as a teacher. Opponents claim he's little more than a puppet of hard-left ideologues.

Creating another Venezuela?

What happens next is anyone's guess. Castillo has said he wants to "rewrite the nation's charter" along similar lines to that of other Latin American radicals such as Hugo Chávez in Venezuela. Opponents say they will resist that at all costs. Investors used to say that Peru's economy is impervious to "crazy politics", says the FT. In the current morass, they are now discovering "that politics matters after all".

Great frauds in history… *the man who broke the bank at Monte Carlo*

Charles Deville Wells was born in Broxborne in Hertfordshire in 1841 and spent most of his childhood in France, becoming an engineer working in the Marseille shipyards. In about 1879 he ran a scheme to raise money to build a railway, then absconded with the money. He moved to London and tried to sell a percentage of the rights to a range of devices he claimed to have invented. In 1891 he made headlines when he won large sums at the Casino de Monte-Carlo (inspiring the famous music hall song *The Man Who Broke the Bank at Monte Carlo*). Attempts to repeat the feat failed and he was jailed in 1892 for fraud.

And then he reformed?

No. He was later jailed again for his involvement in a bogus fishing trawler syndicate. Then he moved to France, and ended up in prison for a third time. In September 1910, he founded the Rente Bimensuelle (fortnightly dividend) scheme under the alias Lucien Rivier. He claimed to have an infallible system for making small but consistent profits from fluctuations in stock prices and promised investors dividend payments of 15% a year. In reality no investment took place and the scheme was nothing more than a Ponzi-style scam with early-investors paid from new deposits.

What happened next?

News of the scheme spread by word of mouth and investors were soon depositing up to 25,000 francs a day. Initially the French authorities were powerless to do anything as banking was then largely unregulated. But when an investor claimed he hadn't received a receipt for a 500 franc note he had sent in without a covering letter, the police decided to investigate. After speaking to detectives, Rivier panicked and fled France in April 1911. The subsequent investigation uncovered his alias and he was eventually traced to Falmouth, where he was arrested in 1912 before being extradited back to France and convicted of fraud.

Lessons for investors

It's estimated that Wells' scam cost 6,000 investors 1.5 million francs, or around £60,000 at the then exchange rate (equivalent to £6m in today's money). The British authorities seized around £40,000 in assets; French investors had to share this with the investors who had lost around £30,000 (£3m) in his earlier patent scam. Investors in both scams overlooked big warnings signs, including the unrealistic returns for the Rente Bimensuelle and the fact that he didn't even bother to file patents for his "inventions".

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A Stunning Autumnal Selection

The Robert Rolls cellar is like the Old Curiosity Shop of the wine world, and my selection of six thrilling creations demonstrates perfectly the uniqueness and creativity of this wine merchant. Jack Chaddock, cellar master supreme, makes short notes on every wine submitted for me to taste. They are some of the most fascinating in our business, adding colour, detail and subtle explanations of some of the more intricate nuances in the wines. You cannot afford to miss out on tasting our MWWC wines this month because they will be sure to expand your vinous horizons.

Matthew Jukes

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Prices shown below are per case of 12 bottles. Wines are also available in a 12 bottle mixed case (2 of each of the wines) **excellently-priced at £195.00 (saving £18.40 per case).** It's a chance for you to try them all, and it is the most popular choice with readers of *MoneyWeek*.

2019 Domaine Preignes Le Neuf Viognier, Coteaux de Beziers, France

I remember a column I wrote many moons ago which stated, 'Don't buy Viognier without me.' I like fewer than 5% of Viogniers that I taste each year, because this grape is a shocker in the wrong hands – fat, oily, confected, greasy and clumsy are various crimes levelled against this grape. Preignes Le Neuf is spot on with a terrific, invigorating perfume, a slender chassis and a crisp finish. Less is way more, and this wine is a superstar with a tiny price tag.

CASE PRICE: £129

2020 Figuière Blanc, Méditerranée, France

I love the rosés from this estate, but I have never tasted this superb, forward-drinking 100% Rolle (aka Vermentino), and it is nothing short of thrilling. Superbly-dry, hauntingly floral and raspier and more combative than an ocean of Sauvignon Blanc / Semillon blends. There is a genuine essence of Provence here with sunshire infused fruit, which is as unmissable as it is enticing. It also manages to capture the brightness and innocence of its flavour on its label design, which is another skill altogether.

CASE PRICE: £150

2015 Bougogne Blanc, Les Herbeaux, Domaine Michel Caillot, France

How on earth does a Bourgogne Blanc from an old orchard in the centre of Meursault manage to age beautifully for six years and then perform like this wine does on the nose and palate? You know I am going to use the term 'mini-Meursault' here, so I will get this out of the way, but the intrinsic quality and restraint in this wine is baffling. If you want to drink effortlessly classy white Burgundy, at the top of its game, for a little over twenty quid – this is it!

CASE PRICE: £258

2017 Côtes-du-Rhône, Vieilles Vignes, Famille Gras, France

Using fifty-year-old (plus) vines and no trace of oak whatsoever, this wine is a direct expression of the exquisite Grenache, Syrah, Mourvèdre and Cinsault grapes found at this highly respected property. My short tasting note read 'Autumn in a glass' and, expanding on this, heady perfume and evocative flavour, there is silkiness here which is mesmerising, too. Famille Gras, making wine since at least the 1870's, will tell you this wine is all about the fruit – and I have not tasted fruit as focussed or as pure this year.

CASE PRICE: £161.04

2018 Les Châteliers, Anjou Gamay, Domaine Richou, Loire, France

Most of this great Gamay grape hails from Beaujolais but there is a powerful renaissance in the Loire Valley, and Les Châteliers is an elite example of what you can expect when you use tip-top organic grapes and then leave oak out of the equation altogether. The directness and lip-smacking nature of the lusty blackberry-soaked fruit here is nothing short of hypnotic and this wine, like the CdR, is tailor-made for the finest autumnal recipes.

CASE PRICE: £192.96

2016 Château Grand Peyruchet, Loupiac, Bordeaux, France

I don't think I have selected a sweet wine for the MoneyWeek Wine Club before but when this heavenly Loupiac jumped into my glass, it made the cut immediately. Grand Peyruchet, created from Sauvignon Blanc and Semillon grapes, is a dreamboat from start to finish with waxy lemons, crème anglaise, honeysuckle, apricots and patisserie tones cavorting in the glass. Add to this that this cosmic wine is a 'full' bottle and not a 'half', and this makes the price simply unmissable.

CASE PRICE: £258

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Beyond the Fringe

The Edinburgh festivals, and the city itself, remain well worth a visit, says Matthew Partridge

©Matthew Partridge

Two years ago there were mutterings that the Edinburgh Fringe, and the other associated festivals, had grown too large. Then last year's Fringe was cancelled entirely. This year saw a drastically reduced number of shows due to the Scottish government's continuing Covid-19-related restrictions. Still, despite the loss of spontaneity, the Fringe remained worth the trip and I got to see eight excellent shows in spite of the added hassle.

The much-reduced Fringe aside, Edinburgh remains a stunning city that has retained its distinctive character, with its blend of medieval, Georgian and modern architecture, all packed into an easily navigated package. The Museum of Scotland, the Scottish National Gallery and the Royal Yacht Britannia (moored in the Ocean Terminal) are all worth a visit; Edinburgh Castle is too, although currently you have to book well in advance. There is also a vibrant street-food scene – Pizza Posto on Nicolson Street serves the best pizza and bruschetta in town.

A magical photography tour

Budding photographers should also consider the Edinburgh Photography Tour. Former portrait and press photographer James Christie, who has snapped everyone from David Bowie to the Queen, combines a walking tour of the city with a masterclass on how to take professional-quality landscape photographs. Revealing hidden vantage points, he shows how taking your shot from just a slightly different angle can transform forgettable snaps into something magical (£100, jameschristie photography.com).

By limiting the size of groups and giving tour leaders freedom to go their own way, Rabbie's Tours has gained a reputation for going beyond the generic coach trip. Starting in Edinburgh, their one-day "west highlands, lochs and castles tour" takes you to ruined castles, picturesque lochs, charming villages and Inverary Castle, the home of the Duke of Argyll. During the trip, guide Graham Trotter talks you through the history and plays a carefully curated playlist of Scottish music (from £46, rabbies.com).

In nearby North Berwick, try the Scottish Seabird Centre for boat trips to the Isle of May. Famed for being the site of Scotland's first lighthouse, the Isle of May, known as the "Jewel of the Forth", is now a nature reserve teeming with wildlife, from guillemots, kittiwakes and shags to seals and puffins (although the puffins mostly leave in early August). The four-hour trip includes a detour to the Bass Rock (£50, seabird.org).

"The much-reduced Fringe aside, Edinburgh remains a stunning city that has retained its distinctive character"

A perfect boutique hotel

For the last two nights of my stay I had the privilege of being a guest at the Dunstane Houses, consisting of two Victorian villas, Dunstane House and Hampton House, on opposite sides of the road. It is currently run by Shirley and Derek Mowat, who have transformed it from a beloved guest house into Edinburgh's leading boutique hotel. It is ideally located for sports lovers and tourists as it is just a ten-minute walk to Scotland's national stadium, Murrayfield, and next to railway station Edinburgh Haymarket, just a short tram ride from Princes Street and the Royal Mile.

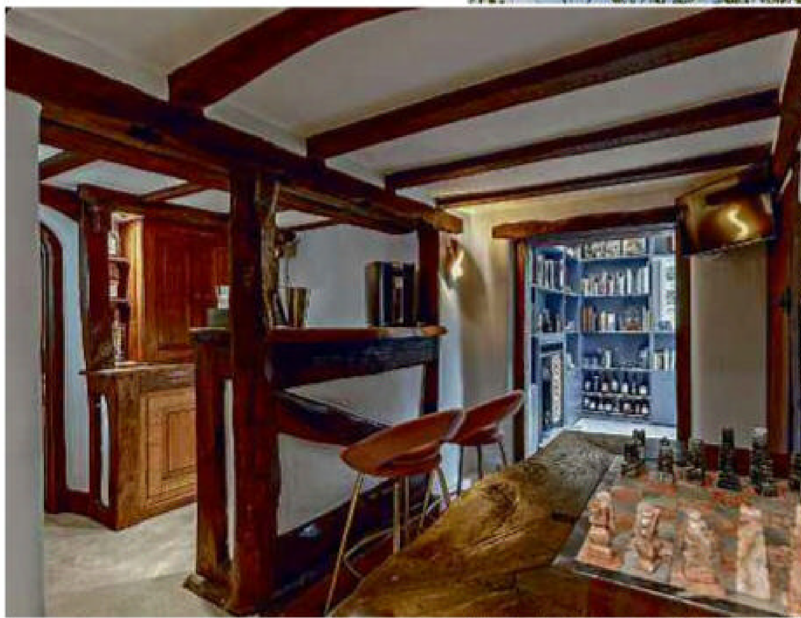
The hotel is designed around a traditional Scottish country-house theme and the owners' Orkney roots are in evidence. Each of the 35 rooms has been personalised with a distinctive design and furnishings, giving them a unique character. All are comfortable and spacious and you can be assured of a sound and restful night's sleep, and the staff are friendly, attentive and willing to go beyond the call of duty. The extensive menu will have something to sate every appetite, from light afternoon teas to a slap-up meal in the Ba' Bar and restaurant.

Double rooms from £237.25 per night. See thedunstane.com or telephone 0131-337 6169.

This week: properties for around £600,000 – from a 17th-century cottage in Westhope, Herefordshire, to a stone b

Gehawian, Aughertree, Wigton, Cumbria. A renovated, three-storey, stone-built barn conversion in the Lake District National Park with views over the Solway Firth towards Criffel in southwest Scotland. It has an oak staircase and oak floors. 4 beds, 3 baths, open-plan kitchen/living area, gardens. £600,000 Finest Properties 015394-68400.

Island Cottage, Harnham, Salisbury, Wiltshire. A period cottage in need of some updating on the banks of the River Avon with gardens overlooking the river and water meadows. It retains its beamed ceilings and has an open fireplace with a wood-burning stove. 3 beds, 2 baths, 2 receps, kitchen. £600,000 Myddelton & Major 01722-337575.

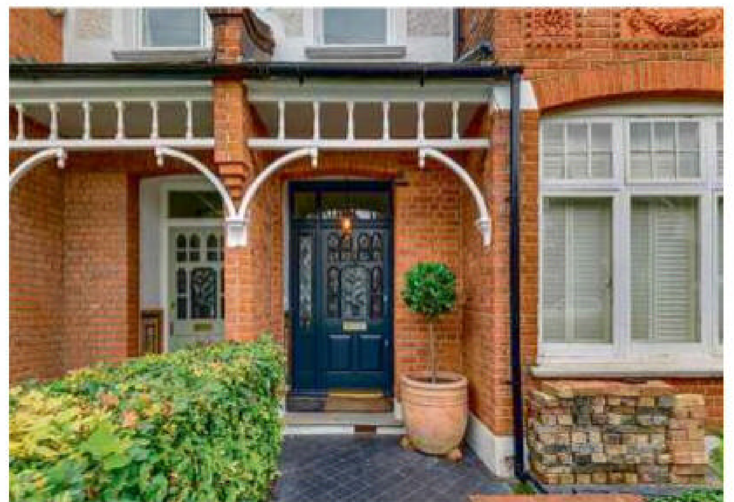


Holly Tree Cottage, Shifnal, Tong, Shropshire. A renovated, Grade II-listed, 1640s cottage set in established gardens that include an ancient holly tree. The cottage has beamed ceilings, period fireplaces, an inglenook fireplace with a wood-burning stove, a library with French doors leading onto the garden and a contemporary kitchen with an Aga. 3 beds, 3 baths, dressing room, 2 receps, bar, conservatory. £595,000 Savills 01952-239500.

barn conversion in the Lake District National Park with far-reaching views over the Solway Firth

Capel Pentwyn, Penallt, Monmouth, Wales. A converted, three-bedroom chapel dating from 1869 in a quiet, rural village. It has landscaped gardens and a raised terrace overlooking the surrounding countryside. The chapel retains its vaulted beamed ceilings, wood floor and high, arched leaded-light windows, some with their original stained glass still intact. 3 beds, 3 baths, open-plan kitchen/living room, studio, workshop. £650,000 Roscoe Rogers & Knight 01600-772929.

Pendle Road, London, SW16. A soundproofed, three-bedroom apartment on the second and third floors of a period property close to Tooting Common and mainline stations. The flat has large windows and skylights, and a bedroom with an outdoor terrace. 2 baths, recep, fitted kitchen. £625,000+ Savills 020-8673 4111.



Mistletoe Cottage, Westhope Common, Westhope, Herefordshire. An extended 17th-century cottage on a smallholding in a quiet location on the edge of Westhope Common. The cottage has an inglenook fireplace, wood-burning stoves, beamed ceilings and a contemporary kitchen. 2 beds, bath, 2 receps, study, stables, barns, 2 fenced paddocks, gardens, woodland, 2.55 acres. £575,000 Grant & Co 01531-637341.

White Lion House, Wangford, Beccles, Suffolk. This substantial former inn is in need of complete renovation. The property is situated on the village high street within walking distance of the local shops. It has a hipped slate roof, decorative chimneys and an iron balustrade above the entrance that retains its white lion statue. 6 beds, 2 baths, 4 receps, breakfast kitchen, outbuilding, 0.38 acres. £595,000 Durrants 01502-723292.

St Alkmond's Square, Shrewsbury, Shropshire. This restored, Grade II-listed house dates back in part to the 16th century and is set within a loop of the River Severn. The house retains its exposed wall and ceiling timbers, period fireplaces and deep sash windows, and has a newly fitted breakfast kitchen that leads onto a walled courtyard and a first-floor bedroom with an elevated outlook over St Alkmond's church. 4 beds, 2 baths, 2 receps, office. £550,000 Strutt & Parker 07919-128326.

A pro-level camera at an affordable price

The Sony A7c will give you high-quality photographs without breaking the bank, says Matthew Partridge

One of the defining features of a serious camera is the size of its sensor. Smartphones and cameras intended for casual snaps typically have a sensor smaller than one inch. "Prosumer" and enthusiast cameras tend to have larger ones, affording better image quality (especially in low light). Many professionals prefer to go with "full-frame" sensors, which are an attempt to replicate the 35mm format used in the days of film. Sadly, these tend to be exponentially more expensive, as well as bigger and heavier, which is why APS-C (or "crop" sensor) cameras are often considered the best compromise for hobbyists.

The good news is that recently several camera companies have been trying to produce full-frame cameras priced at a level more affordable for non-professionals. The A7c is Sony's attempt to break into this market. Weighing (and looking) almost identical to the a6100, a6400 and a6000, it is compact enough to fit in a large jacket pocket and comes with all the features you'd expect from the latest Sony cameras, including a fast, accurate autofocus that is regarded as the best available, and which can automatically track subjects' eyes. This extends to video recording and the camera has the capacity to record long clips. The body stabilisation feature allows you to take pictures at very slow speeds without camera shake. The colours seem both vivid and natural.

There are a few downsides. Firstly, in order to make it look more compact, the camera has been designed in a "rangefinder" style, with the viewfinder to the left of the lens, and the viewfinder is smaller than those for typical cameras. It also lacks a built-in flash. And although the A7c is relatively cheap compared with most full-frame cameras, it is still roughly double the price of crop-sensor alternatives.

Still, the A7c remains perhaps Sony's most advanced camera and costs only around half to two-thirds the price of its other flagship models (such as the A9 and A9 Mark II). As someone who shoots a lot of theatre, where the level of light is limited, I normally have to use special lenses to ensure that the photographs don't end up becoming too grainy. With the A7c, however, I am able to get large numbers of high-quality pictures using just the FE 28-60mm f/4-5.6 lens.

> *"The A7c is perhaps Sony's most advanced camera and is around half the price of its other flagship models"*

The Sony A7c costs £1,900 for the body only and £2,150 with the 28mm-60mm zoom lens. See sony.co.uk.

Wine of the week: a top-flight claret on the high street

2018 Château Deyrem Valentin, Cru Bourgeois Supérieur, Margaux, Bordeaux, France

£31.99, available at 218 Waitrose stores and at waitrosecellar.com

Matthew Jukes
Wine columnist

It's funny how my drinking habits have remained relatively constant over the years, even though my palate veers all over the place on account of the tens of thousands of wines that I taste. I don't think I have dipped into a single claret since writing my Bordeaux En Primeur Report back in May, but I have been quietly willing September to arrive. Each year this glorious month signals to me, at least, that the Bordeaux season is back on, and it will stay with me for the next eight months. While it is always amusing to pluck bottles from the cellar, it is very rare to find top-flight, reasonably priced bottles of claret on the high street, and it is rarer still when they happen to be drinking rather well.

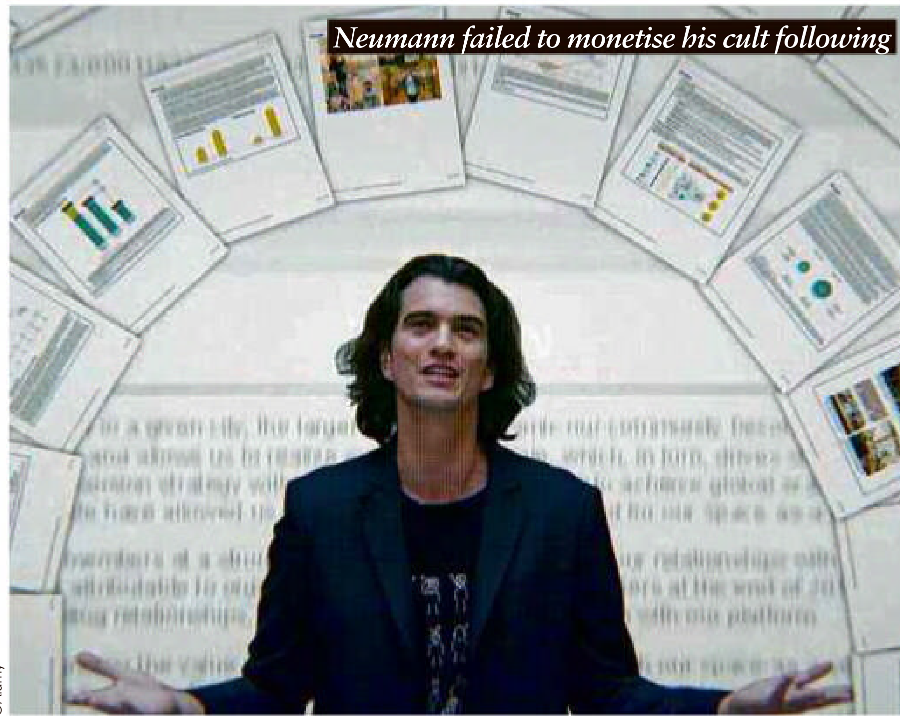
I have long been a fan of Deyrem Valentin, a hidden jewel in the Margaux crown. Made from 50% merlot, 49% cabernet sauvignon and 1% petit verdot, and spending 15 months in 50% new French oak, this classic recipe could result in any manner of flavour, but at Deyrem you can always rely on subtlety, balance, silkiness and style.

My mother told me some 50 years ago that her favourite style of red wine was Margaux. The wines these days are, on the whole, a lot more extracted and powerful than they were a couple of generations ago, but this is the sort of wine she would have adored. Deyrem has never altered its style – honed, engaging, polished and in perfect equilibrium; this is fabulous for autumnal drinking.

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

Film of the week

WeWork
Or the Making and Breaking of a $47 Billion Unicorn
Written and directed by Jed Rothstein
Available on various platforms, including Amazon Prime, £9.99


Neumann failed to monetise his cult following
©Alamy

> "This modern-day morality tale has pace and energy, and gives a sense of the optimism surrounding the firm"

The past few years have seen a huge boom in the number of unicorns (industry jargon for technology companies valued at a billion dollars or more). Near-zero interest rates, technological optimism and a bottomless pit of venture capital and private-equity money mean that an entrepreneur with an interesting idea has had little trouble securing seed money and selling out for billions before their firm becomes profitable or hits the public markets. No company has epitomised this trend more than WeWork, which rose to a valuation of $47bn at one point, before collapsing into near bankruptcy.

A cult following
As Jed Rothstein's documentary makes clear, WeWork, founded by Adam Neumann, called itself a technology company, but it was essentially a real-estate firm that subdivided empty offices into co-working spaces designed for start-ups and freelancers. The idea was that the layout, and features such as free beer, would encourage social interaction between the various "members", bringing the ethos of a "social club" designed for millennials to the workplace. This approach, combined with the annual festivals it threw for staff and members, quickly gained it a devoted following.

The company's initial success quickly went to the heads of Neumann and his wife. At the same time that WeWork was burning through huge amounts of cash, it was making grandiose claims about "raising human consciousness" and starting to demand cult-like obedience from its staff. A timely investment from SoftBank's Vision Fund saved it from bankruptcy and caused its valuation to skyrocket, but this only delayed the inevitable crash. A failed attempt to take the company public revealed the flaws in its business model and organisation, and Neumann was forced to quit.

More detail would have been useful, especially on the reasons for the boom in venture capital and private equity, and the failure of competitors to replicate WeWork's success. And the need to present a clear rise-and-fall story means Neumann's last laugh – he was given a generous exit package – is relegated to a postscript. Still, the documentary tells this modern-day morality tale with pace and energy, portraying well, through interviews and footage of the Neumanns, the sense of the optimism, energy – and finally desperation that surrounded the company. Watching Neumann speak gives you an insight into how he was able to convince staff and investors, including families who had been in New York real estate for generations, to go along with his vision.

Reviewed by Matthew Partridge

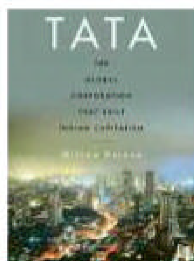
Red Knight
The unauthorised biography of Sir Keir Starmer
Michael Ashcroft
Biteback Publishing, £20

In the introduction to his biography of the Labour leader, Michael Ashcroft complains that Keir Starmer refused to give his blessing to the project. He can't have been surprised. Ashcroft is a former Conservative treasurer and is not shy about turning his fire even on his own side, most notably when he wrote a book about David Cameron alleging porcine misadventures as a student. So, as you'd expect, Ashcroft makes his best effort to find something to hold against his subject. Some of those who lived where Starmer grew up thought that his father "just was not very nice", we learn. Starmer was not deemed charismatic enough to be the best barrister of his generation. Hardly a Tom Bower-style hatchet job. Ashcroft is honest enough to accept that there just aren't that many skeletons in Starmer's closet.

Indeed, apart from a half-hearted attempt to make out that Starmer's youthful flirtation with far-left politics may mean he is more radical than he lets on, the picture that emerges is surprisingly sympathetic, considering the political affiliations of the author. Ashcroft portrays Starmer as ambitious, slightly dull and determined to keep his cards close to his chest, but also as hard-working, diligent and with a genuine sense of public service. Whether any of that will be enough to propel him into Number 10 is, of course, another question.

Book in the news... the behemoth ushering in a new age for India

Tata
The Global Corporation That Built Indian Capitalism
Mircea Raianu
Harvard University Press, £31.95



India is not only one of the world's largest economies, but also one of the fastest-growing – and its most well-known firm, the conglomerate Tata, has been at the heart of that process, says Tunku Varadarajan in The Wall Street Journal. Indeed, it is fair to say that "no other company has dominated the history of its national commerce and industry quite as much as the house of Tata in India". It is a "behemoth" – its consultancy arm alone is worth $160bn – and it remains one of the few major businesses regarded as "unstained by overt corruption". In *Tata: The Global Corporation That Built Indian Capitalism*, academic Mircea Raianu takes a deeper look at the company regarded as a "state within a state".

Raianu's book, based primarily on the company's archives, is one of the few accounts written by an outsider, which has allowed him to "take a step back and see the group from a broader, global context", says Salil Tripathi on Mint Lounge. He can, therefore, admire the group's "entrepreneurial spirit and commitment to ethical conduct" while also pointing out that its success was a result of the "confluence of colonial and corporate priorities". Indeed, two pieces of late Victorian legislation "allowed Tata to acquire land for its plants and its charity arm to establish the basis of its philanthropy", which in turn gave it plenty of "soft power". Its relations with unions and communities, however, have "worsened over time".

Raianu shows how Tata was able to "amass enough power to shield it from changing political winds", says Benjamin Parkin the Financial Times. However, as Raianu admits, there is a good chance that many of the more juicy internal records were "destroyed or deliberately concealed" to "hide uncomfortable facts, such as Tata's opium-trading roots". As a result, the book "ends up skating over these fascinating and instructive episodes" and "peters out in the late 1970s" with an "unsatisfyingly brief" epilogue. Still, the account "makes timely reading for those reflecting on whether capitalism and corporate power in India is entering a new era".

Karma for New York's well-heeled

The super-rich have moved into the Hamptons – and the merely rich are not happy about it

Over the last decade the rich have copped the blame for making many of America's most desirable areas unaffordable for ordinary people. In the case of the Hamptons, however, the rich are starting to get a taste of their own medicine – and they are not liking it one bit, says Chelsea Ritschel in The Independent. In the past, the Hamptons has been the New York resort the 1% go to to spend their summer. The rich individuals who have spent their lives holidaying there are now up in arms that this year the affluent neighbourhoods have been "overrun by the extremely rich" – an influx apparently sparked by a combination of the pandemic and former president Donald Trump's tax cuts.

It was idyllic until the billionaires moved in

©Alamy

> *"Finding somewhere to eat is now regarded as a high-wire act beyond the means of many ordinary mortals"*

Conspicuous consumption

Residents are complaining that the "gross" and "nauseating" levels of conspicuous consumption are ruining the Hamptons, says Heidi Wald in Vanity Fair. The newcomers are so careless with their money that one long-term resident found "a perfect crisp $50 bill" lying on the beach on her morning walk. Another reported that a hedge-fund manager had employed around a dozen landscapers to plant "enormous fully grown trees" next to his house at a cost of $50,000-$75,000 a day; one new visitor confessed that many of her friends ended the night with $7,000 bar bills.

The biggest complaints are of "ridiculous" prices leading to an "astronomical" cost of living, with locals driven to taking hour-long journeys in search of "dramatically cheaper groceries". And the transport doesn't come cheap either – a one-mile Uber trip costs $60; a journey between two hamlets $600-plus. The cost of eating out has also become "a touchy subject" among regulars – one "ultra-pricey" restaurant in Montauk charges $88 for a lobster cobb salad. One group of friends ended up "still hungry and a lot lighter in the wallet" after a simple meal for four set them back $300.

They should be grateful they were able to get a table, says Will Pavia in The Times. Finding somewhere to eat is now regarded as a "high-wire act beyond the means of many ordinary mortals" as there are "just too many rich people who would also like to eat dinner and are willing to offer the maître d' the use of their yacht". Indeed, one restaurateur told Pavia that a grocery-store magnate "had paid him a five-figure sum just to hold a table for him for the season", making a spot at his joint worth as much as renting a house used to be.

Even those who are able to afford the bill aren't able to escape the broader effects of higher prices. Due to "crippling supply-chain woes and labour shortages", many restaurants "can't get the food or liquor or staff", says Jennifer Gould in the New York Post. The Hamptons is, for example, in the grip of a "Champagne crisis", with restaurants considering rationing the bubbly. Not to be denied, one billionaire, griping that "not having Champagne in the Hamptons is like Maine not having lobsters", flew 15 cases of premium Champagne on his private plane from France into the Hamptons for his wife's annual birthday party. Where there's a will, there's a way.

Quintus Slide

Tabloid money… Beefy will do a great job as our trade envoy

● Actress Nicole Kidman is starring in a new adaptation of Liane Moriarty's 2018 novel *Nine Perfect Strangers*, in which she plays a sinister new-age guru. This is despite the fact that the 54-year-old (pictured), who graces the cover of Marie Claire Australia's 25th anniversary issue this month, says that when she hit 40, film bosses told her she was "too old" to carry on working in the industry. "I was frustrated, as so many women are, at… being told… 'Now you're in your 40s, we're not interested as much in your storytelling or your ideas'," she says. "Thankfully," says Jane Moore in The Sun, "she ignored them and ploughed on… But given there are over two billion women aged 40 and over in the world, it's pretty pitiful – not to mention commercially suicidal – how woefully under-represented women 'of a certain age' are on the big and small screen."

● Shame on those who sneer at the appointment of Ian Botham, "the mighty all-round cricketer", as trade envoy to Australia, says Leo McKinstry in the Daily Express. "Botham combined his extraordinary talent with an unquenchable fighting spirit and a profound sense of national pride, particularly when he was playing Australia in the Ashes." But lefties have worked themselves up into a frenzy of indignation over the appointment because they dislike his robust opinions, particularly on Brexit and the woke agenda. The government has already concluded trade agreements with 96 countries, including Australia. "With his natural dynamism, the great swashbuckling cricketer will build on that achievement."

● Lorry driving has never been a "respectable" career, says Dominic Lawson in the Daily Mail. But at least now there's more money in it, due to a shortage of drivers. Waitrose is offering drivers up to £53,780 a year, compared with £46,000 for a pensions specialist at its parent firm John Lewis, or the £45,390 national average salary for an economist. Anyone qualified for the latter role should understand why they will now earn less than a lorry driver: It's all about supply and demand. The "delivery economy" has boosted demand, but after years of wage suppression, many have quit and fewer young people are keen to start, because lorry driving is not a job with social status. And yet we can't do without them – "which is, in a way, the highest status of all".

©Amazon Prime

Bridge by Andrew Robson

No stone unturned

With 30 high-card points, you would expect North-South to make Three Notrumps comfortably. Plan the play on the Knave of Clubs lead.

Dealer South — Both sides vulnerable

North
♠ KJ2
♥ 632
♦ 653
♣ A532

West
♠ 1083
♥ J875
♦ K9
♣ J1098

East
♠ Q976
♥ Q109
♦ J1087
♣ 76

South
♠ A54
♥ AK4
♦ AQ42
♣ KQ4

The bidding

South	West	North	East
2NT	pass	3NT	end

You have eight top tricks and several chances of a ninth trick. There's the Spade finesse (low to the Knave), and a 3-3 Club split (less likely after West's lead of the suit, implying length). Both those suits can wait. Diamonds offers the best chance, and that should be our first port of call. The question is: how best to play Diamonds to make a second trick?

If Diamonds split 3-3, you'll have a long card; if East holds the King, you'll be able to promote your Queen (by leading towards it). You can increase your odds further. Win the Club with the King, cash the Ace of Diamonds, and lead a low Diamond (key plays). Here, West's short King appears and the Queen is your ninth trick. Game made.

If only low cards appear, you can win the opposing (say) Heart switch, cross to the Ace of Clubs, and towards the Queen-low of Diamonds. This Ace-and-another method of playing Diamonds costs you a third Diamond trick when East has King-low-low. However, you are interested only in increasing your chances of making a second Diamond trick.

After West wins the King of Diamonds, you can win their (say) ten of Clubs, and (now playing for the fun of an overtrick) duck a Heart. You win the defence's (say) second Heart, cross to the Ace of Clubs, back to a third Heart, cash the Ace of Spades and Queen of Diamonds, then throw East win with the fourth Diamond to lead round to dummy's King-Knave of Spades. But that's merely the icing on the cake.

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

Sudoku 1067

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

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

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

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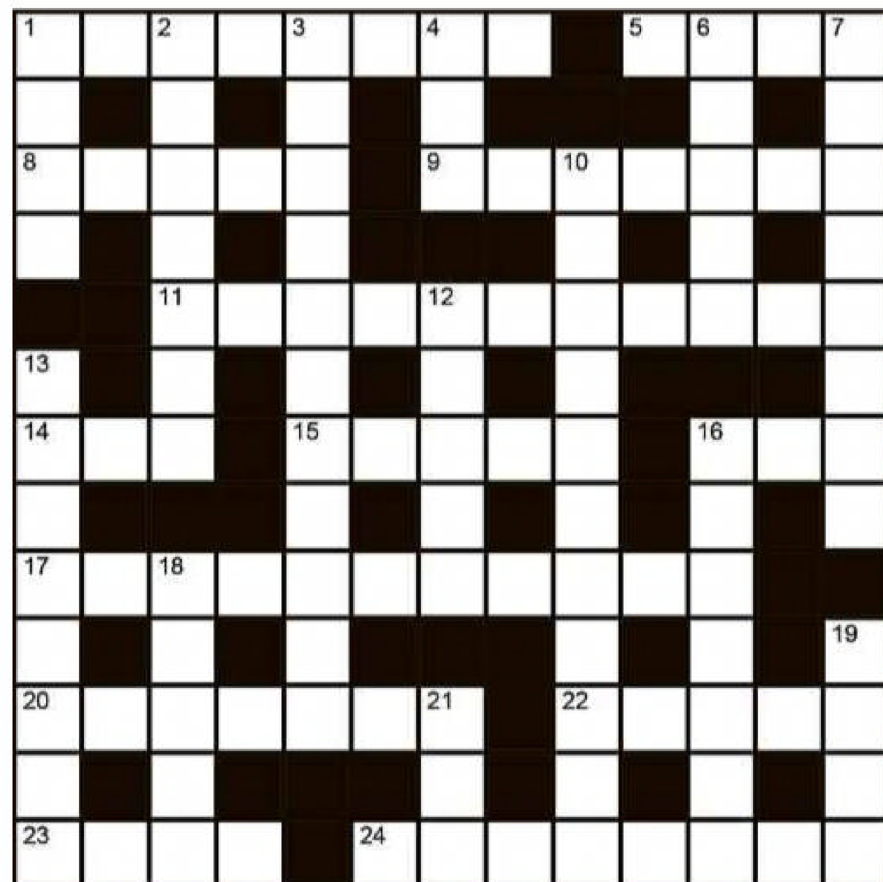
Tim Moorey's Quick Crossword No. 1067

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 13 Sept 2021. Answers to MoneyWeek's Quick Crossword No. 1067, 31-32 Alfred Place, London, WC1E 7DP.



Across clues are mildly cryptic whereas down clues are straight

ACROSS

1 Nice to be working in safe easy number (8)
5 Festivals don't start unfortunately (4)
8 Sort of canoe for Indian, say (5)
9 Gap in damaged car leads to serious complaint (7)
11 All is revealed as price of grouse increases? (3, 4,2 , 2)
14 Bit of sunshine for fish (3)
15 A home key (1, 4)
16 Atmosphere spoken of in Scottish course (3)
17 Identical twins no longer in the belfry? (4, 7)
20 Distressing experiences in troubled Sumatra (7)
22 Girl from Shropshire needed (5)
23 Thatcher's material heartlessly rendered (4)
24 Shrinks from cooking any salts (8)

DOWN

1 Footwear (4)
2 A road sign (2, 5)
3 Light fixture (11)
4 Huge, legendary bird (3)
6 Vegetables (5)
7 Proceeds hurriedly (8)
10 Past one's best (4, 3, 4)
12 Completely exhausted (3, 2)
13 A hunting beast (8)
16 Replies (7)
18 Traditional saying (5)
19 Mushrooms (4)
21 Source of energy (3)

Name ....

Address ....

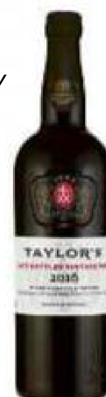
Solutions to 1065

Across 1 Shaw *hidden* 3 Trainers *ER in trains* 9 Of a sort *anagram* 10 Disco *disco(vered)* 11 Field glasses *deceptive definition* 13 Errant *anagram* 15 Bronze *Br + onze* 17 Man about town *man about to win less i* 20 Adios *hidden* 21 Odorant *anagram* 22 Doggy bag *deceptive definition* 23 Bier *homophone*. **Down** 1 Scot-free 2 Apace 4 Rattle 5 Indiscretion 6 Epstein 7 Shoo 8 Gordon Ramsay 12 Leinster 14 Reading 16 Bogota 18 Okapi 19 Bald.

The winner of MoneyWeek Quick Crossword No.1065 is: K. A. Weymouth of Wiltshire

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

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



Put the geniuses in charge

The people responsible for Afghanistan are now turning their attention to our money

Bill Bonner
Columnist

American troops are currently launching a major "reverse assault", surging out of Afghanistan like water down a toilet drain. The lesson is that there are some things we can change for the better. And some things that are better left alone.

House Democrats recently approved a roughly $3.5trn budget that "could enable sweeping changes" to the nation's economy, reports The Washington Post. That's right, the same geniuses who gave us the 20-year debacle in Afghanistan are now working on the US finances. Soon, it will be the US economy surging down the drain. Just as they tried to make sweeping changes south of the Hindu Kush, now they're aiming to make improvements south of the 49th parallel. Will they succeed? Will the US be a more prosperous place after the improvers are done with it?

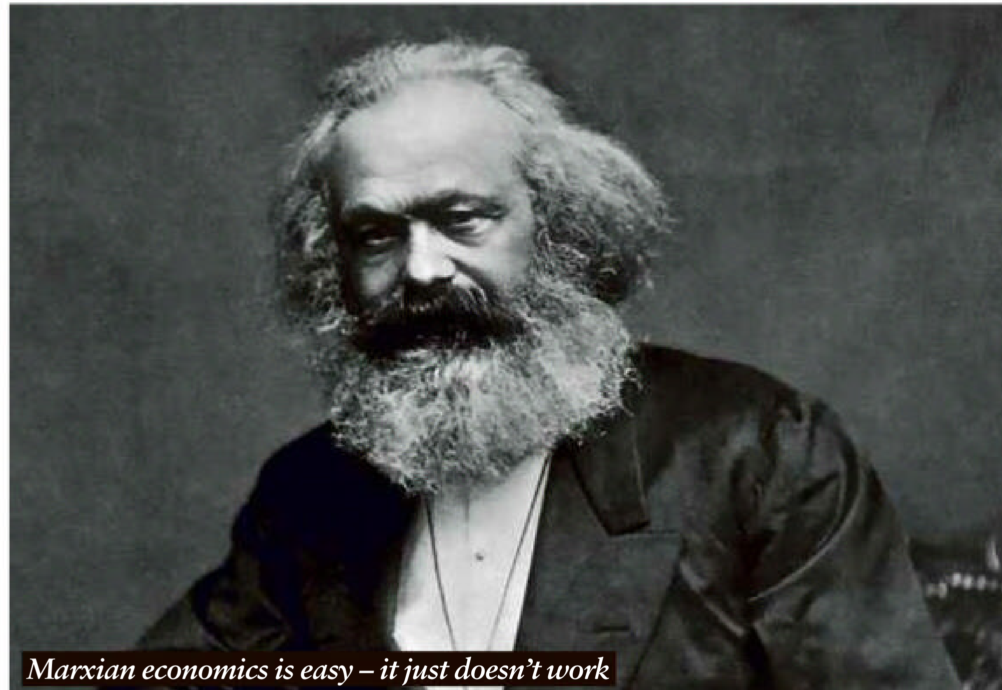
The basic fact is that money doesn't make you rich. If it were so, Zimbabwe and Venezuela would be among the richest places in the world. They've got plenty of money, all you could want of it. But their money is worthless. The US has money, too. The Federal Reserve is "printing" $120bn in new money every month. And there's plenty more where that came from. But wealth comes from supplying goods and services to others – not from money. It's win-win trades that make people wealthy, nothing more. And how do you make sure the trades are win-win? Simple. People do not go into restaurants run by bad chefs. They do not buy furniture with a reputation for falling apart. They do not buy things they neither want nor need from people they don't like or trust. So the fellow who fails to provide good products and good services at a reasonable price goes out of business. No federal programmes needed!

"Money doesn't make you rich. Supplying goods and services to others does"

But wait… surely there's something "we" can do to make a win-win economy work better? How about long-term central planning? How about price controls – perhaps only for the price of credit (interest rates)? How about providing liquidity in a pinch, or rewarding/punishing different investments so as to direct capital where "we" want it to go?

According to Marxist theory, you don't need a free economy to produce goods and services. You can do it more intelligently by organising the economy according to what you're trying to achieve. Women and men earn different salaries? Easy-peasy… Just pay them the same. Too many imports from China? Close the border! High unemployment? Create jobs. Inflation? Declare a moratorium on price increases.

See how easy it is? The only trouble is, it doesn't work. Marxian economics, price controls, grand projects and funny money have been tried many times, over many decades. Is there one example where an economy has flourished as a result? Nope. Not one.



Marxian economics is easy – it just doesn't work

©Alamy

The bottom line

£3.1m The cost of repairs to the 175-foot-high Duke of Wellington monument, near Wellington in Somerset. It has form. Money started running out shortly after construction began in 1817 and it only attained its full height in the 1890s, by which time it was already "dilapidated". It is now safe to climb to the top.

$10m How much reinsurance giant Swiss Re has agreed to pay a Swiss carbon-capture start-up to reduce its carbon footprint over ten years by sucking carbon dioxide out of the air, in the first deal of its kind. The nascent technology pumps the captured gas below the seabed where it slowly turns to rock.

49.5 How much in cryptocurrency ether (around $150,000) credit-card giant Visa has spent buying CryptoPunk #7610, one of 10,000 similar pixellated digital artworks, or non-fungible tokens (NFTs).

$100m The cost of a project that has so far failed to stop San Francisco's infamous Millennium Tower from sinking further into the ground. Completed in 2009, the city's tallest residential building, at 58 storeys, sank 18 inches and was leaning 14 inches within its first five years.

$200 The size of the monthly "surcharge" that Delta Airlines, the third-biggest airline in the US, will impose on employees who are not vaccinated against Covid-19. The airline also announced it would only give sick pay to Covid-19 sufferers who have been double-jabbed.

$500 The price of a limited-edition skateboard deck. The board had the blood of skateboarding legend Tony Hawk (pictured) infused into the paint, part of a promotion for Liquid Death Mountain Water, a canned water brand. All 100 decks sold within 20 minutes.

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