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*Source: Morningstar, performance period 30/06/1985 to 30/06/2019, Total Return net of fees, GBP. **One investment is the Japan Special Situations basket of 18 Japanese stocks.

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MoneyWeek

4 October 2019 | Issue 967

Britain's best-selling financial magazine

From the editor-in-chief...

Most of the questions surrounding Brexit are quite hard to answer. Is the backstop really so bad? Why can't we just stick with EFTA? How can you have a border which has none of the normal mechanics of a border (see page 8)? What does Jeremy Corbyn actually want? If a majority of MPs really think Boris Johnson is unfit for office, why can't we have an election? Will we ever actually be allowed to leave the EU? All tricky stuff.

Good news, then, that there are a couple of questions we can give fairly definitive answers to. Here's one for you. Is Boris Johnson being controlled by a mysterious cabal of international financiers working to force a no-deal Brexit so that they can make vast profits from shorting the UK's currency and equity markets? That the answer to this is "yes" is being taken as a given on social media. Even ex-chancellor Philip Hammond seems to give the idea some credence. Johnson, he says, is backed by financiers who "bet billions on a hard Brexit" and are therefore keen on an exit that produces maximum disruption. Hmmm.

The problem with the theory, as the Financial Times points out, is that "it doesn't make any sense". The stocks being shorted at the moment mostly have non-Brexit reasons for being shorted (they are over-leveraged or poorly managed in the main). At the same time the timelines are all wrong (no one has the faintest idea when this will all end). And, of course, the whole thing is too complicated. Hedge funds mostly like to bet on things that have a defined range of outcomes. Brexit has dozens of possible outcomes. Let's say the cabal existed. Let's say they somehow forced Johnson into a no-deal. It is not a given that the pound would then fall. What if, on 1 November, just as on 1 January 2000, the world did not end? Maybe sterling would bounce. It's impossible to say. And that makes big bets stupidly risky.

©Getty Images

Boris Johnson: some Brexit questions are harder than others

"Is a mysterious cabal of financiers forcing Boris Johnson into a hard Brexit? Eh, no"

It is easy to see where the impulse to attribute blame in this way comes from. We live, rather as in the 1930s, in an age of anger against big corporations, big banks, and anger with the idea that gangs of crony capitalists are conspiring against the rest of us. There is sense in some of this – finance is too powerful; globalisation has created too many losers in the developed world; and there does need to be a fightback against oligopolistic power.

But extending the knowledge that capitalism isn't all it could be into the idea that Brexit is somehow being driven by a group of disaster-loving baddies (while comforting for remainers still searching for an explanation as to why anyone would ever disagree with them) is just silly. Monied baddies have better (and easier) things to bet on. The answer to the question, then, is no. Boris Johnson is not being controlled by a mysterious cabal of international financiers. If only other questions on Brexit were so easy to answer.

Those of you who can't cope with much more of this kind of thing should skip the politics pages this week and turn to page 36, where we list some of the most remote properties for sale around the world today. The estate in Colorado should insulate you from Brexit chat pretty well. If you can't stretch to that level of psychological protection, a nice calming walk in the woods might also help. See travel, page 35. And if you haven't yet signed up for our wealth summit in November, go to moneyweekwealthsummit.co.uk to do so.

Merryn Somerset Webb
editor@moneyweek.com

Legal victory of the week

©iStockphotos

Around 40,000 UK expats in Spain are celebrating after winning a legal victory that confirms the legal status of 327,000 homes in the southern region of Andalucia. Many had bought their villas in good faith, but fell victim to unscrupulous estate agents, says Graham Keeley in The Times. The villas turned out to have been built on rural land without planning permission, which rendered the properties worthless, as owners were unable to sell. Many of the homes were even threatened with demolition. The law was changed after the regional Socialist government, which had been in power for 36 years, was replaced by a coalition of the centre-right Popular Party of Andalucia and the liberal Citizens' Party, backed by the far-right Vox Party.

Cover illustration: Howard McWilliam. Photos: Alamy; Getty Images; Julien's Auctions

Good week for:

Youth workers **Jamie Cutteridge** and **James Fawcett** have been handed a 95-year rent-free lease on a Victorian convent in Norfolk after winning a *Dragon's Den*-style competition. They will set up a religious order for children, providing retreats and "digital detoxes". The pair beat 60 other entrants to pitch to a panel of nuns, who can no longer afford to maintain the buildings.

An anonymous woman in her 90s, who was having her house cleared prior to selling it, has been told that a painting hanging in her kitchen is an early Renaissance masterpiece by Florentine painter Cimabue, reports The Guardian. The painting, valued at between $4m and $6m, will be auctioned in the town of Senlis, near Paris, this month.

Bad week for:

Carmaker **Volkswagen** is facing a collective lawsuit brought by 400,000 German car owners who want compensation for the "Dieselgate" scandal that has already cost the company £30bn, reports the Financial Times. VW is confident that the claim, the first under Germany's new "declaratory model action" system (similar in some ways to US "class action" lawsuits), will not succeed, saying "it is hard to imagine that any settlement will be concluded".

Liverpool FC has failed in its bid to trademark the city's name. The Intellectual Property Office rejected the application on grounds of the city's "geographical significance". The football club was hoping to crack down on rogue traders who produce fake Liverpool FC merchandise, following the example of clubs such as Tottenham Hotspur and Chelsea who succeeded in similar bids, says the BBC.

©Getty Images

China at 70: a crucial turning point

Alex Rankine
Markets editor

Can China's leaders keep the good times rolling?

©Getty Images

After a remarkable four decades of "headlong growth" China is approaching a crucial turning point, say Louis Kuijs and Gary Duncan in the South China Morning Post. The country this week marked 70 years since Mao Zedong's communists took power with a military parade in Beijing.

For all the fuss about the trade war, China's CSI 300 index is up by 28% so far this year, with investors reassured by official promises of "selective stimulus". Yet with the economy registering its slowest growth in 27 years in the second quarter and total debt topping 300% of GDP, can the leadership keep the good times rolling?

From Cultural Revolution to capitalism

China's Communist Party has now held on to power for one year more than the Soviet Union's Communist Party did, notes Anna Fifield for The Washington Post. The last 70 years have been tumultuous. The first three decades of the People's Republic were marked by "massive famine, political chaos and the repression of the Cultural Revolution". Yet in the 1980s Deng Xiaoping initiated an "astonishing transformation", combining free-market reforms with tough political repression that kept the Communist Party in power.

China is now the world's second-largest economy and looks poised to overtake the US at some point in the next decade. Its GDP per capita has risen from a derisory $200 at the Republic's founding in 1949 to more than $10,000. Communist China "now accounts for one-third of global sales of luxury goods". The post-reform era delivered the "fastest sustained expansion by a major economy in history", say Kuijs and Duncan. Growth averaged 9.5% per year and GDP doubled every eight years, helping to lift "850 million people out of poverty". In 1981, 90% of China's people lived in extreme poverty. By 2013 the figure had slumped to less than 2%.

Getting old before it gets rich?

Much of China's growth was driven by the nation's ability to "provide cheaper labour than other industrialised nations at a massive scale", says Ben Winck for Business Insider. Yet as wages have risen, the country is losing that competitive edge to neighbours such as Vietnam. That could eventually see the Middle Kingdom caught in a classic "middle-income trap" of the type that has plagued Latin American states; it could get stuck at this level of wealth and fail to become a developed economy. Yet unlike many other emerging markets, China also has to contend with an ageing population. The working age population has been shrinking since 2015, and the population as a whole is likely to begin falling as early as 2032, according to Richard Koo of Nomura. A protracted trade war threatens to undermine the manufacturing industries that once drove spectacular growth.

But the next decade risks being marred by slowing income growth and widening inequality, says Nathaniel Taplin for The Wall Street Journal. Beijing may turn to "even more nationalism to paper over the cracks". For investors in Asia and beyond "this is a worrying and volatile mix."

Will Hong Kong remain a major financial centre?

Protests in Hong Kong have overshadowed the festivities in Beijing, says Sebastian McCarthy in City A.M. Under the "one country, two systems" framework instituted after its return to China in 1997, Hong Kong has retained significant autonomy over its own affairs. Yet Beijing is increasingly undermining its freedoms.

Over the last four months a quarter of the population has marched to demand the scrapping of a bill that would have allowed extradition to mainland courts, says The Economist. It was a "stunning vote of no confidence in China's communist-controlled legal system". The bill has now been withdrawn, but the wider pro-democracy movement it triggered remains vibrant.

The territory has become a powder keg

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The unrest has cast doubt on whether the territory can retain its status as one the world's pre-eminent financial hubs, says Jacky Wong in The Wall Street Journal. Hong Kong owes its success to its position as a gateway into the vast Chinese market. Mainland companies make up about 70% of the local stockmarket. If businesses shift to other hubs such as Shanghai or Singapore then the city faces an "existential threat".

At the time of Hong Kong's handover from the UK to China, it represented 16% of China's total GDP, compared with 3% today, says Alexander Chipman Koty in China Briefing. Yet the territory remains vital as a source of capital flows for the mainland. Roughly 64% of foreign direct investment into China goes through Hong Kong. The Heritage Foundation has ranked the city's economy as the world's freest for 25 years in a row; mainland China is number 100. Talk of the "death of Hong Kong" is over the top. Yet the days when investors could regard the territory as a "bastion of stability" are over. It is turning into a "politically unpredictable" powder keg.

US housing shows signs of life

America's "sluggish housing market" seems to be "regaining its footing", says Lucia Mutikani for Reuters. Housing starts and building permits soared to a 12-year high in August. New-home sales were up 7.1% from the previous month. Interest-rate cuts by the Federal Reserve, which feed through into lower mortgage rates, are boosting demand.

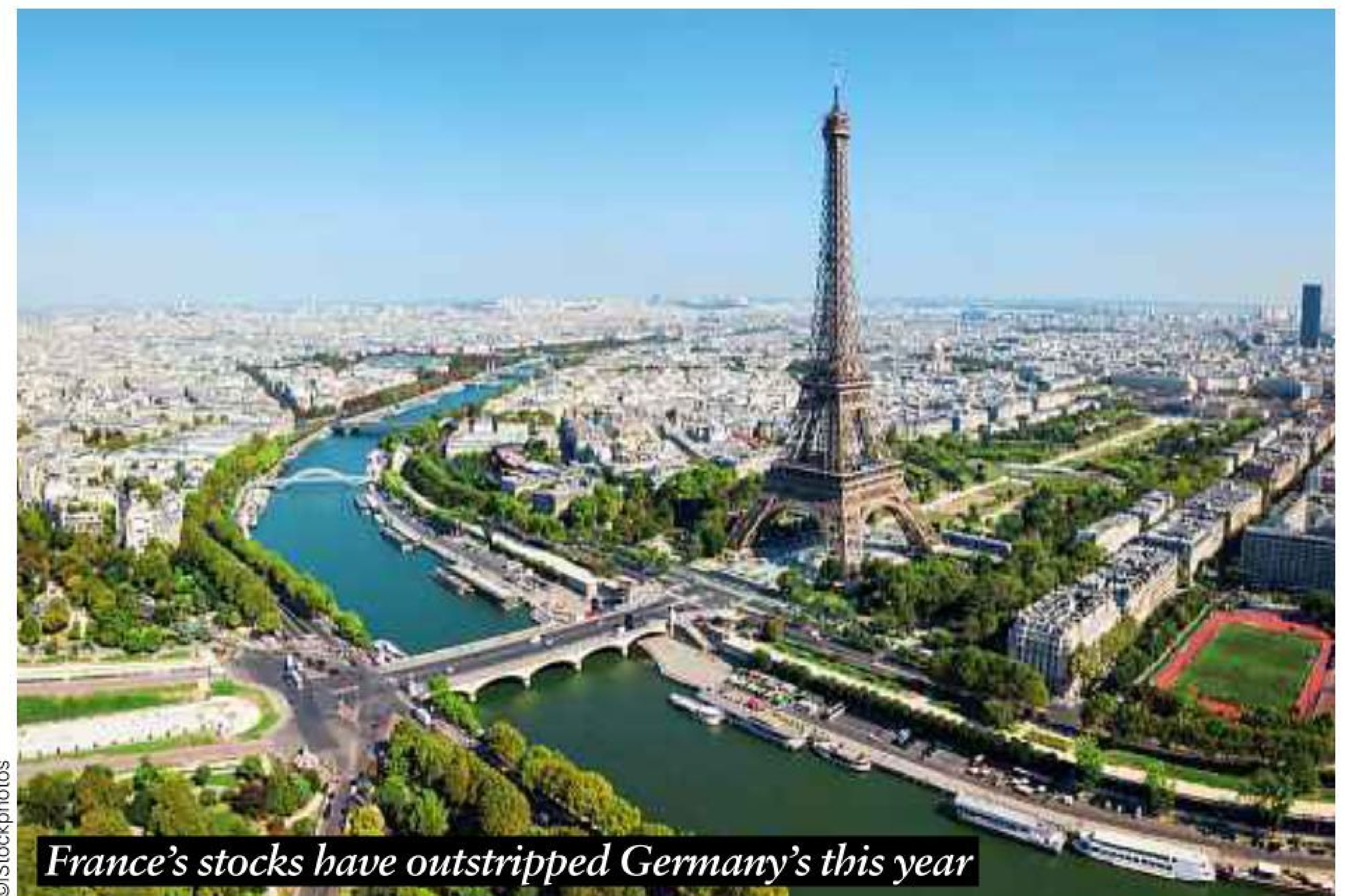
A speculative bubble in US housing was at the heart of the 2007 sub-prime mortgage fiasco that preceded the global financial crisis. Zack Guzman on Yahoo Finance notes that between 1997 and 2005 the median US house price rocketed 75% in real terms, as measured by the S&P CoreLogic Case-Shiller index. House prices then fell 33% and hit a nadir in the early 2010s. Yet as economist Robert Shiller notes, between 2012 and 2018 US house price have regained 35%. The US "is slowly returning to looking at housing as a speculative investment".

This is no bubble, says Justin Lahart for The Wall Street Journal. The housing recovery looks "underwhelming" given the broader health of the economy. The sector also faces long-term headwinds: "many millennials are saddled with high levels of student debt" and are thus wary of mortgages. "Combined new and existing home sales" are at the same level as they were in 2000, when the population was far lower. A country scarred by the housing bust has yet to regain its love of property.

European stocks will bounce

"The tables have turned" between Paris and Berlin, says Silvia Amaro on CNBC. With Europe's largest economy on the brink of recession, analysts are looking to France, a country with better demographics and a more robust reform agenda, to drive European growth.

France's CAC40 index has served up an impressive 21% gain this year, outstripping the 17.5% rise in Germany's Dax. The broader pan-European STOXX Europe 600 index is up 16.6% so far this year.



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France's stocks have outstripped Germany's this year

Teutonic Torpor

The decent market performance belies a poor economic outlook. Trade-war tensions contributed to a second-quarter contraction in German GDP. With the country's September manufacturing purchasing managers' index delivering the lowest reading since 2009, many analysts think that the country has already entered a technical recession, says The Economist.

A brighter spot is the eurozone jobs data, notes Tom Rees in The Daily Telegraph. At 7.4%, unemployment is "within a whisker" of the record low achieved in 2007. Wider European Union unemployment is at its lowest level in 19 years. That should provide a "much-needed breather" for the service sector even as manufacturing sags, says Bert Colijn of ING.

The European Central Bank (ECB) has reacted to the slowdown with another wave of easy money, notes Mohamed El-Erian in The Guardian. Incoming president Christine Lagarde boasts a formidable CV, but must deal with growing criticism of the "same old medicine" of negative interest rates and bond buying.

What Europe really needs is for politicians to step in and deliver structural reforms. The likes of Germany should also loosen the purse strings, rather than offloading the job onto central bankers.

Some may think that unlikely, but investors should not underestimate the political will in European capitals, as Simon Nixon points out in The Times. The EU is in a stronger position now than it was three years ago. In Greece and Italy – two countries at the centre of concerns over financial stability – populist governments have been ousted in favour of "mainstream pro-Europeans" this year. Rising tensions between Washington and Beijing are also causing member states to "bind themselves" together more tightly than ever.

More monetary easing will do little to help the economy, but it is good news for investors: liquidity usually finds its way into markets. Much of the bad news also appears to be in the price: the German market trades on a cyclically-adjusted price-to-earnings ratio (Cape) of 17.2 and Spain, where growth has remained solid, trades on just 13.4. (See also page 33.)

Viewpoint

"Central bankers seem… flustered. Much like a long-haired Persian cat standing backwards to the wind…[it's reminiscent] of 1927 when financial pressures where mounting following the late 1925 peak in the Florida real-estate boom, which was then devastated by the horrendous hurricane that arrived on 18 September 1926. With winds as high as 150mph, the property devastation if it hit today would be in the order of $250bn. This, with the brief recession that ran from October 1926 to November 1927, prompted the Fed… to be exceptionally easy. Indeed, in July 1927 Ben Strong, chairman of the Fed, quipped to a French central banker that he was going to provide "a coup de whiskey to the stockmarket."… It was an example of the Fed's ease for the wrong reasons during yet another classic financial bubble. And it all turned out to be a coup manqué. The bigger the boom, the bigger the bust."

Bob Hoye, Halkin Services

■ Palladium hits another high

Onwards and upwards. Palladium hit another record high this week, with the spot price reaching $1,700 an ounce. It has gained a third in 2019 alone. The metal is used mainly in catalytic converters for petrol engines. Global car sales have dipped, but demand is climbing steadily owing to tougher emissions standards in China, while a shift from diesel to petrol cars in Europe following the furore over diesel emissions is also bullish. Meanwhile, supplies, which stem largely from South Africa and Russia, are not expected to increase this year, notes Henry Sanderson in the Financial Times. The rally looks set to endure, although concern over global growth and intensifying trade tension is likely to cause setbacks.

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

Three to buy

Joules
Investors Chronicle
Clothing brand Joules operates a "total retail" strategy, combining 125 shops, a wholesale business and an "extensive online operation". Management has made an "admirable job" of ensuring that the online and offline operations complement each other, taking full advantage of "all the selling channels at a modern retailer's disposal". Retail accounts for 73% of revenue; wholesale makes up the rest. Half of sales are made online and 20% of instore transactions stem from digital avenues such as click-and-collect. The stock offers an "eye-catching" 23% return on capital employed and trades on just 15 times earnings. *260p*

4imprint
The Times
This marketing group provides promotional materials such as T-shirts, mugs and umbrellas to raise the profile of its customers' brands. It is taking market share from rivals and has become the "clear market leader". The "highly cash-generative" nature of its business provides scope for "special returns" to shareholders. There are risks – low margins, its reliance on the US – but at this price the shares are "a find". *£29.50*

Porvair
Shares
Filtration expert Porvair targets niche markets with high demand and strong barriers to entry, such as aviation fuel or aluminium casting. Its business model has led to a lot of repeat business, making income predictable and locking customers in. Porvair's reputation for reliability means it is "well placed to withstand the economic knocks of the future". It has certainly "managed volatility impressively" in the past. *630p*

Three to sell

Coats Group
The Times
Coats, a member of the FTSE 250 mid-cap index, produces the threads that bind together a fifth of the world's clothes as well as materials for shoes and trainers. This wide customer base suggests the group should be "bigger and faster-growing than it is": sales were up by just 2% at the interim stage. The trouble is that most of Coats's customers are in consumer-facing sectors and thus vulnerable to shifts in confidence and consumption. The uncertain backdrop means there seems little chance of the shares escaping the 70p-90p range they have been trapped in for two years. *76p*

Cineworld
Investors Chronicle
Last year's takeover of America's Regal Entertainment made Cineworld the second-biggest global chain. However, it also added substantially to the group's debt load. And now "wobbly trading" means the interest payments "could quickly become a painful

millstone". Admissions slipped by 14.4% in the half-year to August. The US market is extremely competitive and a subscription package (unlimited films for a monthly sum) is floundering. Sell. *241p*

Dunelm
The Daily Telegraph
"There is much to like" at homewares and furniture retailer Dunelm. Like-for-like sales climbed by 7.7% last year and operating profits jumped. But after a 50% surge in 2019 the stock is vulnerable. Dunelm is on a "fat multiple" of 16.8 times forecast profits, a hefty premium to the market. That's too much given the cautious outlook and imponderables such as "consumer preferences [and] the British weather. Avoid. *868p*

...and the rest

Shares
Brexit worries have created a bargain 10% discount to net asset value (NAV) for investors in the "well-respected" mid-cap specialist **The Mercantile Investment Trust** *(210.5p).* Shares in "high-street bellwether" **Next** have had a "stellar run" since the start of the year. There's more to come from this "high-quality, cash-generative shopkeeper" *(£58.26).* While shares in **BAE Systems** can no longer

be called cheap, defence spending is rising in the US and Britain, and the contractor has proved adept at winning contracts. Buy *(563.2p).*

The Daily Telegraph
National security fears have put private-equity firm Advent International's takeover of defence company **Cobham** on hold. Investors must wait for clarity from the Competition and Markets Authority, although the market reckons the deal will go through *(159.8p).* Despite "political concerns", utility **SSE** still looks like a "solid income option for yield seekers". Hold *(£12.21).* Buy cigarette filter-maker **Essentra** for the "respectable" 5% dividend yield *(416p).*

The Mail on Sunday
The investment trust **3i Infrastructure** consistently hits its target of delivering shareholder returns of 8% to 10%. Stash away a few shares on the dips *(£2.92).*

Investors Chronicle
Russian miner **Polymetal International** is "one of the strongest" plays on a rising gold price and still looks cheap *(1,150p).* Risk management software supplier **Ideagen** is priced for rapid sales growth – a speculative punt *(145.5p).* **Scottish Mortgage Investment Trust's** big stakes in high-growth companies "could well continue to pay off" in the long run. "Get in cheap" *(509.78p).*

An American view

Tapestry has gone out of fashion, says Avi Salzman in Barron's. Shares in the holding company for luxury fashion and accessory brands Coach, Kate Spade and Stuart Weitzman have slipped by a quarter this year, with poor sales at Kate Spade unnerving investors. But the jitters look overdone. Coach, which accounts for 71% of sales, continues to grow solidly and is doing well in China. The other two brands are expanding all over Asia. With the stock on just 11 times forward earnings, investors are getting paid to wait for the offerings at Kate Spade to come back into fashion: the dividend yield is around 5% and Tapestry plans to buy back shares worth 4% of its market value this year.

IPO watch

"You say losses and cash burn; I say investments," Peloton's co-founder and CEO John Foley told the Financial Times. Investors clearly don't think much of his spin, however: the shares in the American fitness-equipment provider slipped by 11% when they made their debut on the Nasdaq on 26 September. Peloton's sales doubled to $915m in the year to July 2019, but losses quadrupled to $196m. Wall Street's interest in companies "without a clear path to profitability" is dwindling, notes the FT's Richard Henderson. The shares began trading at $27, implying a valuation of $7.7bn. But they fell by 15% before regaining a little of the lost ground.

City talk

● It's "game-on" for Nintendo, says Jacky Wong in The Wall Street Journal. The Japanese game giant has so far been slow to tap into the $68.5bn mobile-games market. Yet *Mario Kart Tour*, its latest smartphone offering, received an impressive 20 million downloads in its first 24 hours. A popular game – which is typically free to download and makes money from sales of in-game items – "can generate revenue of more than $1bn". Games console sales will remain Nintendo's "bread and butter", but the new mobiles push suggests that it enjoys more expansive growth opportunities. With the shares up 38% this year investors seem to be taking note.

● The name's Bond, 12% bond, says Camilla Canocchi for The Daily Mail. Aston Martin has raised $150m

(£121m) to help develop its first SUV. Yet the 12% rate it will pay on the bonds until they mature in 2022 has raised questions about the health of the group's finances. The high rate suggests that investors think the business is high risk. "History shows that companies with high debt repayment obligations... can get into real trouble in a market downturn," adds Russ Mould of AJ Bell. The luxury carmaker floated a year ago and the shares have since slumped by 70% .

● America's students have barely started the new semester, says Alistair Osborne in The Times. But John Fallon, the boss at educational publisher Pearson, is already trying the "dog-ate-my-coursework routine". For all its talk of "digital transformation", Pearson has managed to serve up yet another profit shocker. Students are rapidly shifting away from print products. As Berenberg analysts note, they are "increasingly skipping paying for materials" and trying to procure them for free: "as if students would ever try that sort of caper". Only deep cost-cuts are propping up profits, "but those can't last forever".

Spy scandal at Credit Suisse

A farce worthy of a James Bond film has rocked Switzerland's second-largest bank. Clients and shareholders are appalled. Alex Rankine reports

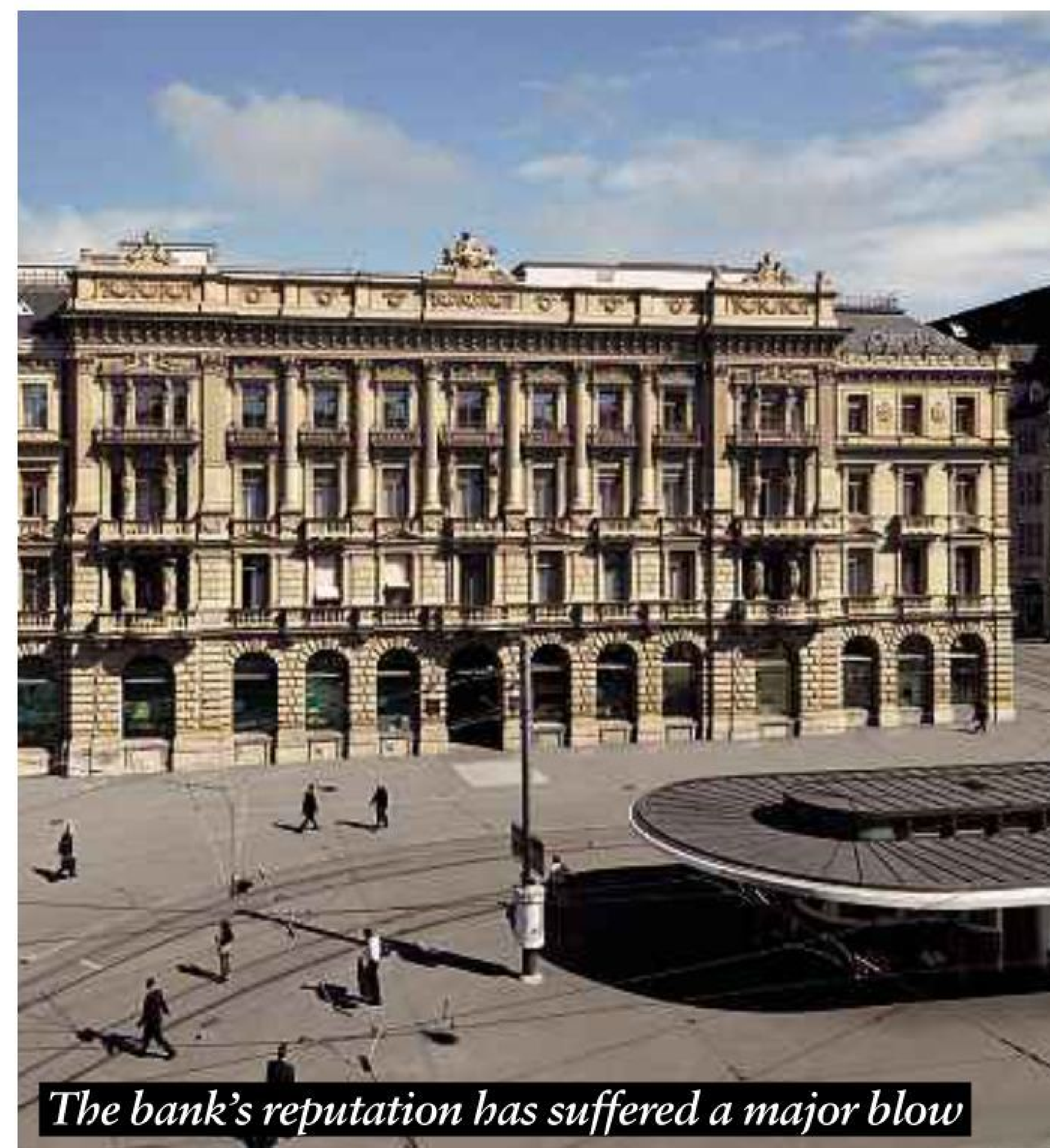
If you want to have a great career, then don't "buy a house next door to your boss", says Philippe Escande in Le Monde. A banal dispute between neighbours about trees has snowballed into an espionage scandal that has rocked the usually staid Swiss banking world.

The trouble began when Iqbal Khan, head of wealth management at Credit Suisse, moved in next door to chief executive Tidjane Thiam (see page 34) in the upmarket village of Herrliberg on the shores of Lake Zurich. Thiam's strategy has centred on growing the bank's wealth-management arm. That initially made for warm relations with Khan, who increased profits at the division by roughly 80%, notes Stephen Morris in the Financial Times. Thiam dubbed Khan a "star" and repeatedly promoted him. Yet things changed after Khan "bought, knocked down and redeveloped the house immediately next to his boss". That meant two years of noisy construction work, including weekends.

The neighbourly dispute created a "toxic" workplace environment. Hoping for a rapprochement, in January Thiam invited Khan and his wife to a cocktail party, say Rupert Neate and Julia Kollewe in The Guardian. Yet the peace offering quickly turned sour. The pair "reportedly had a heated argument about a row of trees Thiam had planted on his property that partially blocked Khan's view of the lake". With the duo barely on speaking terms, Khan decided to jump ship for rival UBS. But then the affair took an extraordinary "James Bond-style turn".

The banker who knew too much

An internal investigation at Credit Suisse this week found that chief operating officer Pierre-Olivier Bouée hired Investigo, a private detective firm, to tail Khan. Bouée was apparently concerned the Khan was planning to poach staff and clients for UBS. Matters came to a dramatic head last month. "Mr Khan alleges a group of three men chased him and his wife



The bank's reputation has suffered a major blow

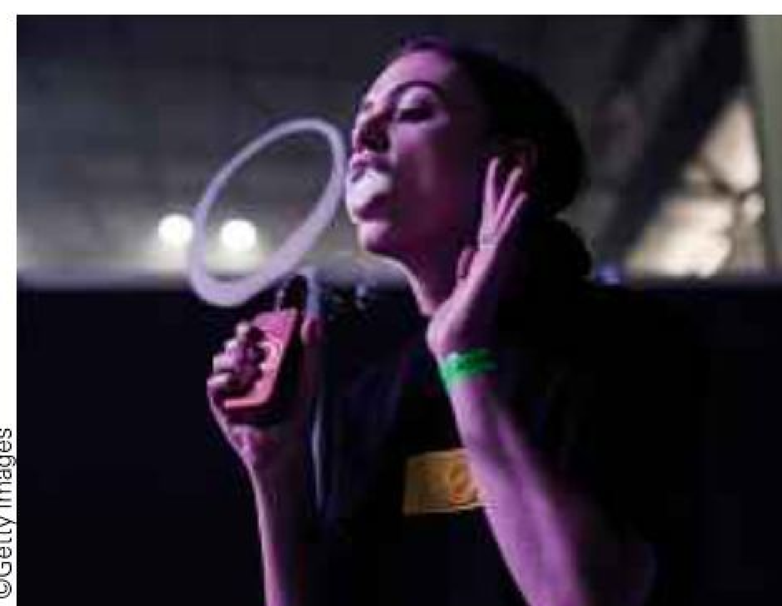
through the streets of Zurich by car and on foot, which culminated in a physical confrontation behind the Swiss National Bank," writes Morris. Investigo says that only one detective was present and that "Mr Khan chased him". Bouée has resigned over the scandal, and the investigation has cleared CEO Tidjane Thiam of wrongdoing. In a further murky twist early this week, a contractor involved in the surveillance of Khan reportedly committed suicide.

The whole incident is a huge embarrassment for a firm whose "wealthy account holders" expect "discretion and confidentiality", notes Elisa Martinuzzi for Bloomberg. It also raises serious questions about how the bank is run. Why was someone in Bouée's position able to authorise such a high-risk operation without clueing in top management? Shares in Credit Suisse are down by almost 50% since Thiam took over. Revelations about the "dark side of global finance" will not help the bank's efforts to dig itself out of that hole.

Imperial's sales go up in steam

"Investors' hopes for a new lease of life for nicotine have vanished in a cloud of steam," says Karen Kwok for Breakingviews. Growing concern in America that vaping could cause lung-related illnesses and is promoting a smoking "epidemic" among children is causing consumers to have second thoughts. Hence this week's profit warning at Imperial Brands, which wiped 13% off the stock.

The vaping revolution was supposed to be a way for "the deathstick business" to reinvent itself, says Nils Pratley in The Guardian. But talk of unexplained illnesses and a regulatory clampdown mean that the "strategic fog" is



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thickening. A £100m cut to revenue forecasts this year doesn't sound like much in the context of £7.5bn in overall group revenues, but it raises difficult questions about the future of the industry.

Shares in the firm have halved over the last three years. Yet tobacco investors are largely in it for the generous dividends. Imperial's shareholders have collected about £10bn in payouts in the last nine years.

The slump leaves the shares on a 10% dividend yield, notes Jim Armitage in The Evening Standard. Yet management has already said that future payouts will be less generous, and the latest warning raises the prospect of an outright cut.

Was it wise to invest millions in "next-generation" products for which "sales are falling, competition is tough and regulations unpredictable"? Perhaps the firm should just have stuck to selling old-fashioned fags, "paying the big divis" and letting the business "gently decline".

Boris's final offer to Brussels

The prime minister has outlined his plan for a deal with the EU. Will it pass muster? Emily Hohler reports

Johnson: doing his best to look strong and consistent

©Shutterstock

Boris Johnson formally made the EU what Downing Street called his "final offer" on Brexit on Wednesday, which includes a "fair and reasonable compromise" over the Irish border, says Lisa O'Carroll in The Guardian. The proposal is similar to Theresa May's deal, but the Irish backstop element has been replaced with a radical "two borders for four years" plan, which accepts the need for both a temporary regulatory border in the Irish Sea and customs checks between the north and south. It effectively means that although Northern Ireland will leave the customs union along with the rest of the UK at the end of the transition period on 21 December 2020, it will remain in "large parts of the EU single market" until at least 2025, says Peter Foster in The Daily Telegraph. At that point, the Northern Irish Assembly will be allowed to choose whether to remain aligned to the EU or return to following British rules.

Johnson's bid to turn the tables

Although Johnson's plan has the backing of the Democratic Unionist Party, it has already been attacked by Leo Varadkar's government in Dublin and is likely to be "summarily rejected" by the EU, which has repeatedly insisted that any proposal to replace the Irish backstop must achieve three things: "a fully open border, no impediment to north-south cooperation and no backdoor into the EU's single market". The proposals clearly fail to meet these criteria, but to meet them would either mean trapping the UK in the "commercial orbit of the EU" or, if the UK goes it alone as Brexiters want, leaving Northern Ireland behind. Johnson rejects this choice and is trying to "turn the tables" by proposing a deal that leads to a "mirror image of the border controls that Ireland has already conceded will be needed in a no deal", but with all the benefits of the Withdrawal Agreement including the £39bn Brexit bill. Of course, Johnson doesn't just have to secure EU approval, he has to command majority support for his deal in Parliament, say Anand Menon and Alan Wager in The Guardian. The EU knows that he will struggle to do this and it knows an election is "in the offing. Hence its incentive to compromise is now, well, compromised."

As was evident in his party conference speech, Johnson is doing his utmost to look "strong" and "consistent", says Daniel Finkelstein in The Times. He has an electoral strategy (appeal to Leavers), a goal (get Brexit done) and he has "made a promise that he will be judged by" (die in a ditch rather than seek an extension). The problem is that he isn't, in fact, in control. He doesn't have a Parliamentary majority, he can't force the EU to approve his deal, and he is subject to a law requiring him to extend Article 50. In reality, he can return with a deal that "falls short of all he wanted" and try to get Parliament to back it; he can refuse to seek an extension and probably lose the ensuing legal battle; he can seek the extension he promised not to; or he can resign. If he resigns, it could be seen as principled and courageous; "equally it could land as chaotic defeat, allowing Corbyn office and prestige".

Towards a second referendum?

Much rests on the actions of those Tory MPs who had the whip withdrawn and the former ministers who resigned in protest at Johnson's Brexit strategy, says Rachel Sylvester in The Times. This bloc of 22 "hold the balance of power in the Commons". Many are convinced that this crisis is caused by the "clash between representative and direct democracy" and that, Brexit being a binary issue, a referendum is preferable to an election. For the first time, there may be a Commons majority in favour of a confirmatory vote.

Kurz: Austria's wunderkind triumphs at the polls

©Getty Images

Has the tide turned for the populists?

Austria's 33-year-old Sebastian Kurz "cemented his status as the wunderkind of European conservative politics" on Sunday with a resounding electoral win, says the Financial Times. His Austrian People's Party (OVP) took 38.3% of the vote, giving it the largest lead over any other party since 1945. Kurz also inflicted a "crushing defeat" on the far-right Freedom Party (FPO), with whom he shared power until the coalition "imploded" in May following revelations that its leader, Heinz-Christian Strache, had offered lucrative government contracts in return for electoral support. The so-called Ibiza affair prompted this snap election.

The "slump in support" for the FPO reflects a pattern across Europe, says Jon Henley in The Guardian. Italy's Matteo Salvini is "out in the cold", Spain's Vox has failed to live up to expectations in the polls, and the Alternative for Germany party (AfD)'s advance has stalled. The tide against far-right populists may not have turned, but for now it has "stopped rising".

Maybe, but don't write the FPO off yet, says Justin Huggler in The Daily Telegraph. The party may choose to "sit out the next few months in opposition" in the hope that Kurz's next coalition will prove fragile, but it hasn't gone away. Given that it would be "odd" to invite the FPO back into power in any case, Kurz has few alternatives, says the FT. A coalition with the centre-left seems unlikely given that Kurz has crafted his political identity in opposition to the long era of "cosy grand coalition politics". That leaves a "tie-up with the Greens", whose support surged from 4% to 12%. There "will be big policy differences", but a shared environmental agenda could appeal to both sets of voters and Kurz has the "ideological agility to pull it off". In recent years, Austria has become "something of a political testing ground for Europe". If he succeeds, he may set a precedent for post-Merkel-era Germany.

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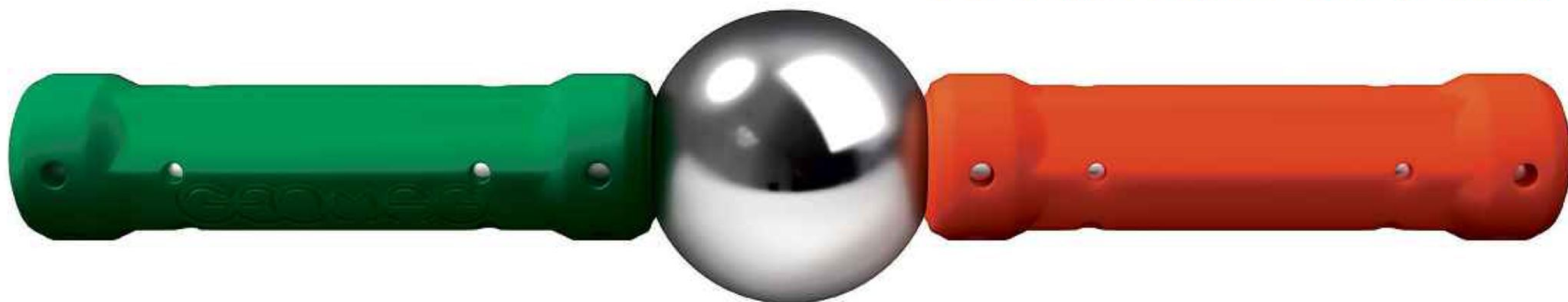

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Betting on politics

Punters had thought it a long shot, but now bettors have swung firmly behind the idea of Donald Trump being impeached by at least one House of Congress. With £578,000 matched on Betfair, the odds of Trump being impeached have shrunk to 1.53 (65.3%). Bookmaker Paddy Power is offering similar odds of 1/2 (66%), However, bettors still think that Trump will serve out his full term in office – you can get odds of 4.4 (22.7%) on him leaving before the end of the first term.

Full impeachment still seems unlikely because it requires support from two-thirds of the Senate, which means getting Republican senators to support it. Many of them may be privately happy to see the back of Trump, but few will risk the wrath of Republican voters unless there is some new shocking revelation. It's easier for the Democrats to win a vote in the House of Representatives as they need a simple majority.

Of course, just because they could win it doesn't mean they will actually manage to do so. House speaker Nancy Pelosi (pictured) is clearly worried about the potential public backlash, especially with the presidential election just over a year away. Still, on balance I would take Betfair's odds on impeachment by the House (but not the bet on him leaving office early). Even if there are no additional revelations, the Democrats have come too far to stop. Indeed, if they don't end up impeaching Trump, he will use this as evidence for his claim that the allegations were nothing more than "fake news" all along.

Digging up dirt on Trump

Are the public behind the inquiry into the president? Matthew Partridge reports

Trump: expect the unexpected

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In the aftermath of the "explosive" allegations that President Donald Trump improperly pressured Ukraine into helping him "dig up dirt" on a political rival, the Democrats seem to be winning the first round of the battle for public opinion, says The Times. Several polls show that sentiment is "shifting", with a "slim majority" of voters backing the impeachment inquiry announced by House speaker Nancy Pelosi last week. Most Republicans have kept quiet, but there are signs of attitudes shifting – two Republican governors and one congressman have apparently endorsed impeachment. Former Republican senator Jeff Flake thinks that as many as 35 of his colleagues would vote for it "if given a secret ballot".

Doing the right thing

Dream on, says Freddy Gray in The Spectator. It will be impossible for the Democrats to get the necessary two-thirds of the Senate to impeach Trump, and their attempt to "humiliate" the president "in the court of public opinion" and thus "damage him and the Republicans ahead of 2020" are doomed. The Democrats forget that Trump has "no shame" and that the public already regard all politicians as "contemptible". Impeachment proceedings won't change that. Unless Pelosi "has seen something we haven't", the only thing the Democrats will do is validate Trump's argument that they are scared of "a fair democratic fight".

It's true that impeaching Trump on the eve of a presidential election cycle could end up being "very inconvenient" for the Democrats, says Thomas Friedman in The New York Times. But doing the right thing when it's inconvenient "often indicates that it's the right thing to do". In any case, "there is still a civic pulse in this country", and while many people are prepared to overlook Trump's personal failings, "far, far more are exhausted and disgusted by him". The fact that the original complaint came from "a "non-political" CIA analyst also makes it harder for Trump to claim that this is just a partisan vendetta.

Trump's contacts with Ukraine aren't the only things that could end up going under the spotlight, as the investigation "could quickly drag in some of America's most sensitive relationships", says The Economist. The Democrats have said that they will "push for the release of details of Trump's conversations with other leaders, including Vladimir Putin, Russia's president", for example. There are also questions over why the White House went to "unusual lengths" to limit internal access to the transcripts of Trump's calls with Saudi Arabia's crown prince, Mohammed bin Salman.

Whatever the ultimate outcome of the investigation, there is already concern over how it will affect Trump's economic policies, says James Politi in the Financial Times. One view is that it could moderate Trump's protectionism as a "politically vulnerable" US president could be "more desperate" to notch up deals on trade and avoid further hits to the US and global economies, in order to preserve his "political firewall" of Republican lawmakers and conservative voters. However, there are also fears that the pressures of impeachment could make him "even more unpredictable than he has been".

A septuagenarian regime flexes it muscles

Protests in Hong Kong have reached boiling point

©Getty Images

It's 70 years since the current regime took over in China – it celebrated this week with a huge military parade in Beijing – and it's clear that the country is now "vastly different" from the "impoverished wreck" that emerged from civil war in 1949, says Pete Sweeney for Breakingviews. But this success is largely down to the fact that over the years the regime replaced dedicated communists with "pro-growth technocrats" who built infrastructure, schools and financial markets and "warmed to foreign trade and private property". The movement away from communism since 1979 in favour of a system that grants a large role to the private sector has convinced foreigners to plough an accumulated $1.6trn into the People's Republic, "helping propel domestic companies up the value chain".

Unfortunately, this economic revolution has not been mirrored in the political sphere, says The Times. Pro-democracy protests in Hong Kong "reached new heights of violence" this week when a protestor was shot, and China remains an "autocratic and repressive country". And Beijing's desire for control extends beyond its borders, says The Wall Street Journal. It is attempting to "dominate" the Asia-Pacific region by "bullying its weaker neighbours", illegally occupying islands in the South China Sea and harassing foreign ships in international waters. Its global "Belt and Road" infrastructure initiative has put China in control of foreign ports. But the regime should not underestimate the growing "global backlash" against its aggressive policies. The Party's insistence on "total political control" may yet "be the seed of its undoing".

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Stars Group is worth a flutter

Washington DC

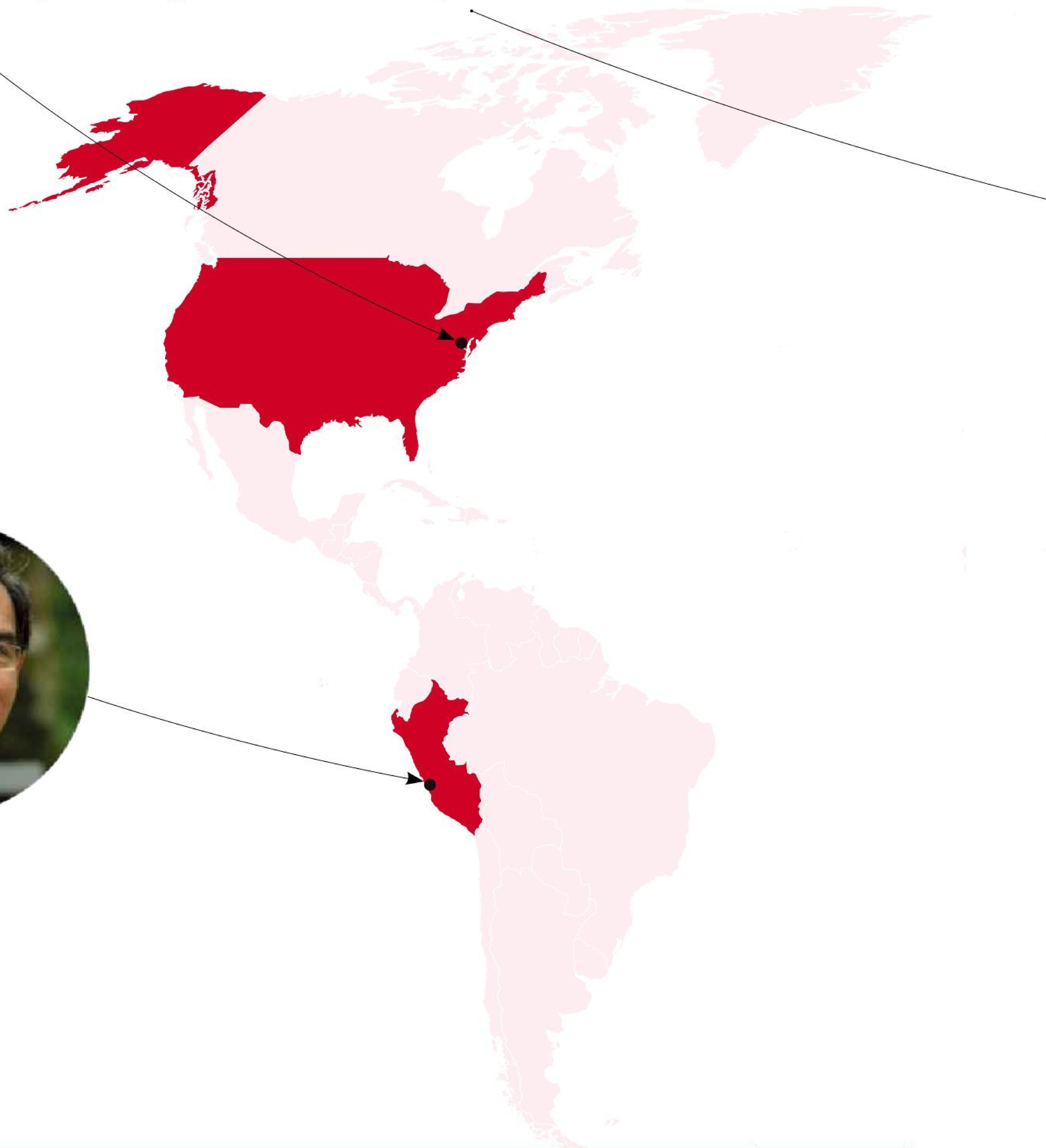
Global trade growth stalls: Global manufacturing indicators point to trade growth "at or below zero for the remainder of the year", says Capital Economics, as the global industrial downturn "drags on". Manufacturing activity in the US contracted for the second month in a row in September, says The Wall Street Journal. The Institute for Supply Management's index declined to 47.8, its lowest reading since June 2009. A reading below 50 indicates a contraction. A separate survey from IHS Markit showed activity rising, but figures for July to September marked the worst quarterly performance since 2009. It was a similar story around the world. In Europe, activity was at its weakest since October 2012; in Japan sentiment among manufacturers was at its worst in six years; and in the UK, activity fell for the sixth month in a row. The World Trade Organisation said it now expects international trade to grow by just 1.2% this year (down from 3% in 2018), the lowest annual increase since the global crisis in 2009.

Peru

A constitutional crisis erupts: President Martín Vizcarra's decision to dissolve Congress has led to a power struggle. Branding the dissolution unconstitutional, the right-wing opposition-dominated Congress suspended the president, installing the vice-president, Mercedes Aráoz, in his place. The latest row broke out when Vizcarra (pictured) won a vote of confidence over changes in the way judges are appointed to Peru's highest court, the Constitutional Tribunal, only for Congress to then instal the cousin of the head of Congress as a judge. Vizcarra said this amounted to a vote of no confidence. The courts must now decide. Dissenting lawmakers were prevented from entering Congress, while Vizcarra published photos of himself surrounded by generals. That revived memories from 1992, when a constitutional crisis led to the autocratic rule of Alberto Fujimori. However, left-leaning Vizcarra's reform agenda is largely popular with a population fed up with a corrupt elite. Both sides are considered to be pro-business. Peru's 3.9% economic growth forecast this year, fuelled by mining and infrastructure investment, is the envy of its neighbours, say Anatoly Kurmanaev and Andrea Zarate in The New York Times. For now, the country's "basic economic model will likely remain untouched".

Dublin

A bet on a rival: Flutter Entertainment, the parent company of PaddyPower Betfair, has made a $6.1bn all-share offer for Canadian online gambling firm Stars Group. Stars owns the PokerStars and Sky Betting & Gaming brands. Shareholders in Flutter would own around 54.6% of the new business, which would have a market value of $13.4bn, making it one of the biggest gambling companies in the world. Its combined revenues from online betting would be around twice as big as those of GVC, which owns Ladbrokes Coral, note analysts at investment bank Morgan Stanley. While the 38% premium that Flutter is offering to pay for Stars looks like "a sure-fire way to destroy value", says Liam Proud on Breakingviews, cost savings of $171m from synergies "alone almost justify the generous price". For CEO Peter Jackson it's "definitely worth a flutter". Earlier this year, Stars partnered with Fox Sports to provide sports betting in the US now that the practice has become legal there.



The way we live now: chatting to dead relatives

"Please hold. Your Mum knows you are waiting"

"Forget ouija boards, parting the veils and mysterious telekinetic goings-on," says The Times. The medium who supposedly puts the living in touch "with the departed is, well, dead". HereAfter, a US start-up, has a waiting list of hundreds of people to interview and record their life stories. When the interviewees die, their loved ones will be able to "consult" them through a voice-activated app, released next year. The app will use artificial intelligence (AI) to order the recordings into natural-sounding responses. For example, "someone could say, 'Mum, tell me about the day of your wedding', and their late mother's voice will narrate her memories", says Tom Knowles in the same paper. Or they can ask the departed how to deal with stress. Eventually people will be able to record their stories directly through the app. Users will pay a fee to receive their recordings, and the AI conversational tool will be available for a monthly subscription. A similar app for keeping in touch with the dead, Eterni.me, collects data from a user's social-media profiles to create an animated avatar of that person. It has been called "creepy", but the V&A is a fan. It deems it one of the top 100 projects capable of shaping the future.

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Paris

Former president dies: Jacques Chirac, the colourful centre-right politician who served two terms as prime minister and 18 years as mayor of Paris before becoming president in 1995, has died aged 86, says Adam Sage in The Times. "Despite – or perhaps because of – a career marked by corruption scandals, affairs and broken pledges" (in 2011 he was found guilty of embezzlement), news of his death provoked "little but praise". Although he was admired for his decision to resist pressure from Tony Blair and George W. Bush to join the Iraq war, domestically he achieved little, says The Times. "Stringent cutbacks" to public services announced soon after he took office sparked huge protests. After being re-elected in 2002 on a promise to heal the "social fracture" of the nation, his "timid attempts at economic reform were interrupted by a cohabitation with a Socialist government… Growth remained stagnant; unemployment high; and the public sector bloated and top-heavy." Ultimately, says the Financial Times, Chirac was "more a political survivor than a statesman; a dealmaker, not a strategist".

A political survivor, not a statesman

Tokyo

Japan raises VAT: The government of Prime Minister Shinzo Abe (pictured) has increased Japan's consumption tax from 8% to 10% as it "scrambles to cover the ever-growing cost of supporting the country's ageing population", says the Nikkei Asian Review. However, it was keen to avoid a repeat of the last time the tax was raised. The hike from 5% to 8% in 2014 hurt consumer spending and tipped Japan into recession. This time the government is taking advantage of the tax rise to encourage electronic payments. As part of a scheme that will run until June 2020, consumers paying by card rather than cash will, in some shops, receive the difference between the new and former tax rates. Retailers have to sign up to the scheme. Smaller shops can hand back up to 5%, making their goods cheaper than before the tax rise. Big retailers may not participate at all, says the Financial Times. A split rate has also been brought in for the consumption tax: food will remain taxable at 8%, while all other goods will be charged at up to 10%.

Athens

Greece grinds to a halt: Private-sector workers have followed their public-sector counterparts in staging a second nationwide walkout within a week. The protest was against labour reforms planned by the new centre-right government. Ports closed, bank services were disrupted and trains failed to run. In the bill, due to be voted on later this month, the government has pledged "to change some rules on the calling of strikes, allow some changes to collective wage pacts and set up a registry for unions, which accuse the government of trying to control or weaken them", says Reuters. Unions say they fear the changes will not bring down the unemployment rate of 17% or promote growth. However, the International Monetary Fund (IMF) and other lenders have insisted on labour-market reforms. Greece emerged from its third bailout programme in 2018, but growth remains fragile at an estimated 2% forecast for this year. The figure is above the eurozone average, says Megan Greene in the Financial Times, but "shockingly low given the depression the country endured". For now, short-term investors are back. But it is "the stickier long-term investors that Greece so desperately needs [and they] remain sceptical".

Sydney

Australia cuts interest rates to record low: The Reserve Bank of Australia (RBA) has cut interest rates by 0.25% to 0.75%, the lowest on record. It is the RBA's third cut since June. The cut drove the Australian dollar down to just US$0.67, the lowest in a decade. According to RBA governor Philip Lowe (pictured), central banks need to "take out some insurance against the possibility of a noticeable slowdown in economic growth". Australia's economy grew at just 1.4% in the year to June, says The Guardian, the lowest annual rate since 2009. Unemployment rose from 5% to 5.3% and inflation remains below its target band of between 2% and 3%, at 1.6%. Lowe is a "reluctant convert to the global fashion for ever-lower interest rates", says Jennifer Hewitt in the Australian Financial Review, but… he feels that he has little choice but "to follow suit in such an interconnected world". Many analysts have pointed out, however, that with private debt already historically high, cheaper credit is unlikely to have much impact.

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The bumpy road to a single market

The aim of converting the European nations into a unified economic zone remains an ideal to achieve for the EU. Completing the task should be a primary goal, says Simon Wilson

What is the single market?

It's the internal market, or single economic zone, encompassing all 28 current member states of the EU, and covering 500 million consumers. It's a "single" market in the sense that it seeks to guarantee the free movement of goods, services, capital and labour ("the four freedoms") throughout the bloc via common regulations, standards and laws. In addition, the four members of the European Free Trade Association (Norway, Iceland, Switzerland and Liechtenstein) participate in the single market, to differing degrees. The creation of a common market was one of the motivating forces behind the establishment of the European Economic Community (EEC) by the six signatory nations to the Treaty of Rome in 1957. Indeed, the EEC was for many years widely known, in English, as simply "the Common Market". But as with so much to do with the European project, the road to a single market was long and bumpy. Even now it's a work in progress, or an ideal to aspire to, rather than a mission accomplished.

Economic integration, at the risk of befuddling Germans, must continue

©Getty Images

How did it come about?

Free movement of goods was established as an aspiration in principle under the customs union agreed by the six founding members. Inevitably, however, the nascent EEC struggled to forge a genuine single market – and remove the intangible barriers thrown up by differing sets of regulations and standards – due to enduring protectionist attitudes and the lack of a strong political dimension to the project. However, a major legal landmark in the establishment of the single market was the Cassis de Dijon case of 1979. This delicious blackcurrant liqueur, much loved in France, was banned from sale in Germany due to a handy regulation – handy for German producers, that is – which stipulated all drinks sold as fruit liqueurs in Germany must have an alcohol content of at least 25%. The French cassis was only 15%-20%, hence the ban.

What happened?

The Germans tried to justify this on the grounds of public health, bizarrely arguing that German consumers risked getting drunk because they wouldn't know how potent the French liqueur was. But the European court chucked out the ban. In the EU jargon, this process is known as "negative integration" – ie, getting rid of any and all regulatory barriers to free movement, such as the de-facto protectionism of the German liqueur rules. A few years later, the next big shove towards integration came from the Brits. In the mid-1980s, Margaret Thatcher sent a former trade minister, Lord Arthur Cockfield, to Brussels, with a mission to overhaul the single market. He set out 300 measures needed to complete a single market, which formed the basis of the Single European Act of 1986. This was the first major revision of the Treaty of Rome, and set a deadline of 31 December 1992 for the completion of a single market that would ease trade, help businesses achieve economies of scale, spur innovation and pep up productivity.

Has it proved a success?

Broadly speaking, yes. Putting a number on it is hard to do with confidence, since it's impossible to know how Europe's economy would have developed in recent decades without the single market. But most studies suggest that it's had a positive impact on output. A 2016 analysis by the Institute for Fiscal Studies (IFS) concluded tentatively that "a figure in the region of a 5% increase to EU GDP, relative to a situation where a single market was not pursued, would not seem implausible". The IFS noted that the single market had benefited different countries to varying extents and estimated that for the UK membership of the single market was probably worth around 4% of GDP.

> *"A big shove towards integration came in the mid-1980s from Thatcher"*

But it's still incomplete?

"In parts it is incomplete and in others actively going backwards," reckons The Economist. With Britain leaving the bloc (or trying to) and trade wars looming, that's a big worry; the "health of the single market is vital to Europe's economy" and the signs are that progress is stalling. The main stumbling block is services, as abolishing barriers to trade in services is much harder – it was only in 2006 that a serious effort was begun. Implementation has been patchy and, by the EU's estimate, there are still 5,000 national regulations protecting the delivery of different types of services in the member states. That's a big problem because services – everything from banking and cloud computing to childcare and hairdressing – now make up nearly three-quarters of EU GDP. As a result, the importance of the single market is fading, and its capacity to boost Europe's economy is diminishing. Notwithstanding grand talk of a "digital single market", for example, about 40% of European websites don't sell to customers in other member states and 77% of online sales are domestic.

What could turn things round?

Over the past couple of decades Europe has been too consumed by the birth pangs of the euro – and then shaken by the eurozone debt crisis – to focus on the single market. Banks have retreated to their home markets and firms have focused more on expansion outside the EU. In terms of future progress, there's a suspicion that Germany – so dominant in manufacturing – is content with the status quo. Like France, it favours a more dirigiste industrial policy to protect favoured sectors than a strengthened single market. But the single market is worth revitalising and there are three main ways to do it, says The Economist. First, ensure that all its statutes are fully implemented,and step up enforcement measures against governments who flout the rules. Second, make the euro, which is in some ways an extension of the single market, more robust – for example, by creating a central fund insuring bank deposits. Third, continue the process of harmonisation, for example of VAT, bankruptcy laws and capital markets. Europe has few "obvious levers to pull to boost its economy. Time to tug on this one".

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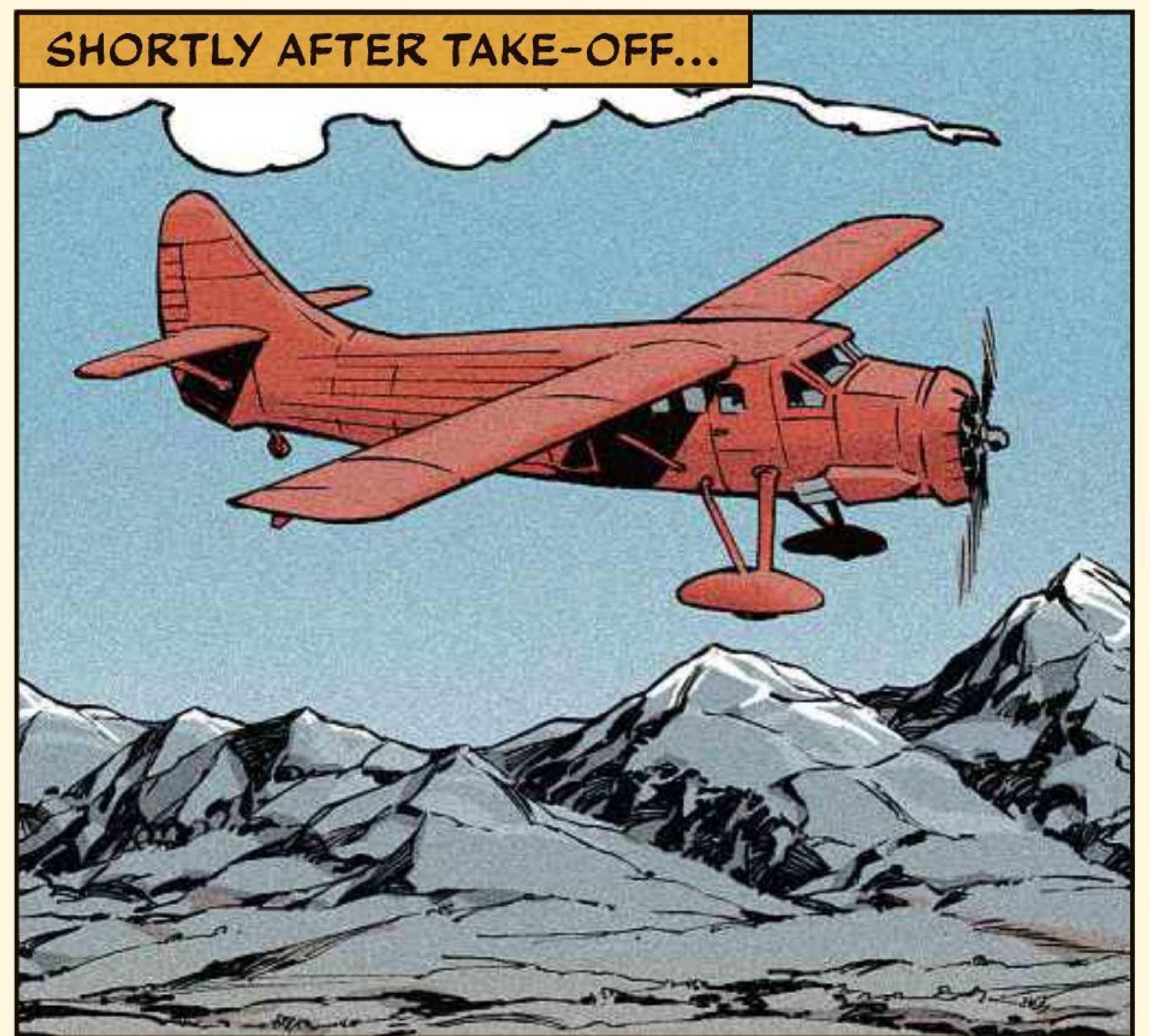

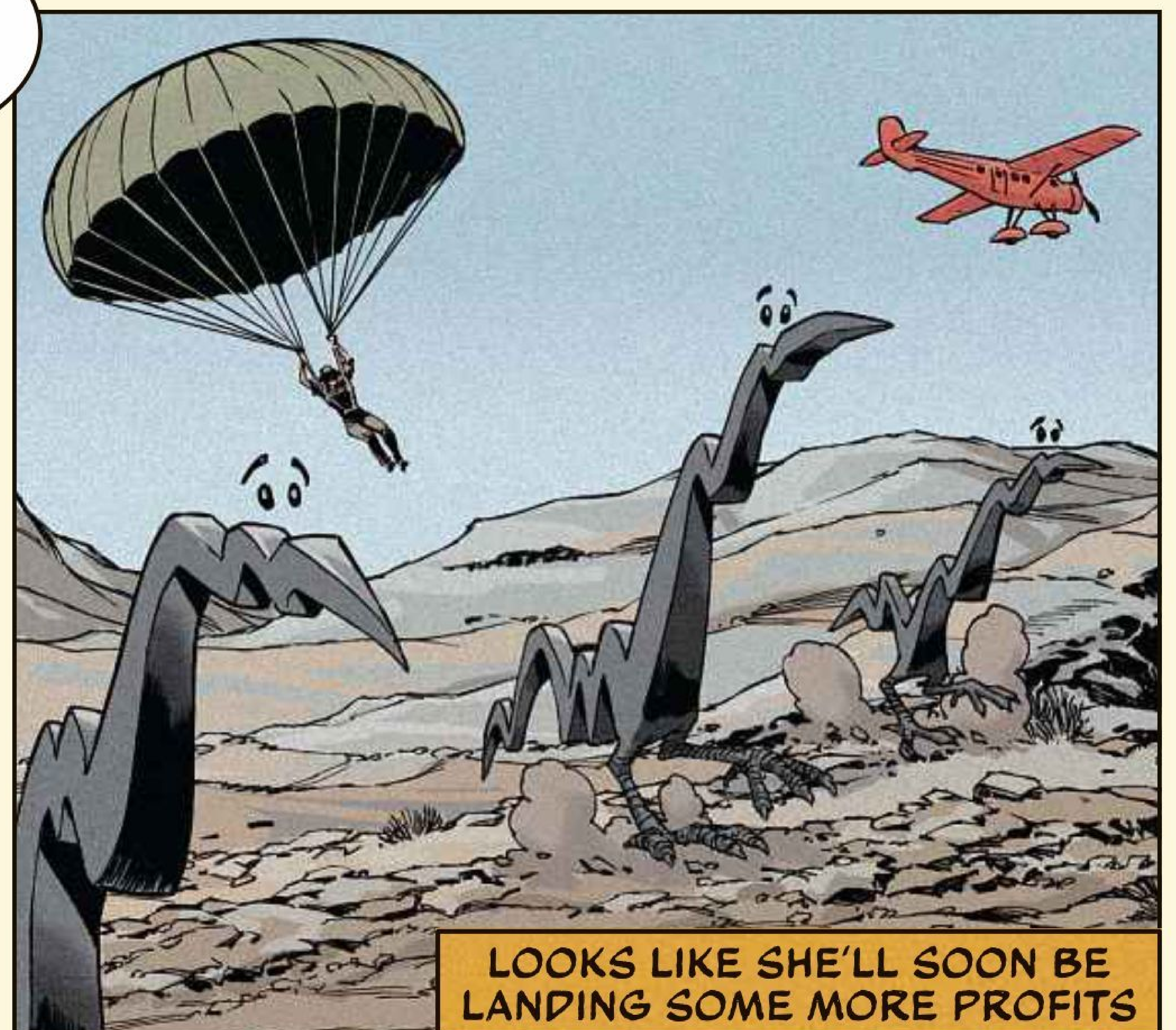

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Don't be patient with this trust

Neil Woodford's investment trust continues to remain in limbo. Don't bet on a turnaround anytime soon

John Stepek
Executive editor

Neil Woodford's woes have continued this week, with the latest grim half-year results from the investment trust he manages, Woodford Patient Capital Trust. For a full update, see the box below, but there are three key lessons investors should learn from this debacle.

Watch what managers do, not what they say: in the half-year report, Woodford says he still believes the trust "will ultimately reward the patient investor". Yet he sold £1m – roughly 60% of his holding – of shares in Patient Capital in July. Apparently it was to pay a tax bill, but given that Woodford is not short of a bob or two, it seems odd he couldn't find another way to raise the funds. Anyone with an ounce of scepticism has to question whether he has any real faith in the trust.

The less liquid the asset, the less reliable the valuation: because investment trusts are listed companies, the share price has no direct link to the value of the underlying portfolio (the net asset value, or NAV). So sometimes the trust will trade at a discount to the NAV, enabling you to pick up £1-worth of assets for, say, 90p. But can you trust the NAV? If the fund runs a portfolio of FTSE 100 stocks, the answer is "yes" – you can get an independent, rapidly-updated valuation almost instantly. But if the portfolio is made up of private firms, then the valuation is not only static for months at a time, it is also merely the opinion of a handful of individuals, which can never match the "wisdom of crowds". The fact that Patient Capital's NAV has been revised down from 97p at the start of this year to 65p today – just nine months later! – shows that the wide discount does not indicate a bargain – it indicates a NAV that simply cannot be trusted.

Turnarounds don't start until the "kitchen sink" moment: if Patient Capital is to have any hope of rehabilitation, then Woodford needs to go, and a new manager needs to come in and ruthlessly assess the portfolio. That would be very painful, but it would give the market a sense of confidence in whatever value is deemed to remain in the trust. The fact that Woodford is still in place as manager points to two scenarios, neither of which is reassuring for investors. The board may still be overly influenced by Woodford – it's hard to fire a manager at the best of times, let alone when his name is on the trust. But even more worryingly, the board may simply be struggling to find another manager to take the trust on. Given the mess they'd inherit, that's perhaps no surprise.

In short, we wouldn't go near it and probably won't re-evaluate that view until Woodford is gone (assuming that ever happens). Avoid if you don't own – sell if you do.

Why Patient Capital might struggle to take a long-term view

In June, Neil Woodford had to suspend his Woodford Equity Income fund. The open-ended fund held too many illiquid assets that he was unable to sell rapidly enough to fund a flood of people asking for their money back. The fund remains closed to withdrawals.

Technically, as an investment trust, Woodford Patient Capital doesn't have this problem – to get out, you just sell your shares on the stockmarket. But liquidity is still proving a headache in other ways.

Firstly, the fact that the income fund and the trust share a lot of overlapping holdings – ones that the income fund is under pressure to sell – means the valuation of each of these companies (most of which are hard to value at the best of times) is under real pressure. This has been one driver of the huge write down in the trust's net asset value (NAV) since the start of the year (see above).

Another problem is that the trust has employed "gearing" – ie, it has invested using borrowed money. This borrowing facility is limited to 20% of NAV. The trouble is, that means that if the NAV falls, the gearing must be cut. That in turn puts pressure on the trust to sell off assets – exactly the scenario that an investment trust is designed to avoid. So much for long-term capital.

The trust is trying to tackle this in two ways. Firstly, it is likely to propose changing its investment policy to allow unlisted companies to exceed 80% of the portfolio's value (Alan Brierley of Investec tells The Times that, save for the listing of a big holding on the obscure Nex exchange, the trust's illiquid holdings already run at 90%). This will mean the more liquid shares can be sold to pay down borrowing.

Secondly, the trust needs to renew its borrowing facility by 16 January next year. As Matthew Vincent points out in the Financial Times's Lombard column, this short-term deadline, rather than long-term investing, is now the board's main priority.

Guru watch

Gervais Williams, fund manager, Miton

Miton fund manager Gervais Williams is worried about recession. The recent inversion of the yield curve in the US (where long-term interest rates are lower than short-term ones) has historically predicted a downturn, and the problem is that central banks today don't have much room to cut interest rates. As Williams tells Jennifer Hill of Citywire's Investment Trust Insider: "We have recessions from time to time, but how do we get out of it this time?"

As a result, he has been taking out "downside

protection" in the form of put options, which will pay out if the FTSE 100 slides. "They cost money, but if things get really nasty it's nice to have an asset that goes up."

Williams is, however, more relaxed about Brexit. "A chaotic Brexit isn't very likely. There might be short-term queues on motorways or difficulty getting foodstuffs over the border… but we've seen this type of thing before." Indeed, with his focus on small and micro-cap stocks, he sees it as a potential opportunity.

For one thing, UK stocks are far cheaper than their US counterparts. As a result, "there is an astonishingly attractive potential for the UK market to enjoy a period of outperformance over other markets". He also expects to see plenty of takeovers after Brexit has been resolved, particularly among small companies with overseas earnings, as caution over the UK economy has left small stocks looking particularly cheap. "I don't ever remember seeing such a disparity between the majors and the micro caps."

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Europe's radical monetary experiment

As the economy sinks, the eurozone's central bank is thinking big. That's worrying

Matthew Lynn
City columnist

There are signs that pressure is building for a radical monetary experiment in the eurozone. Over the past four years, the central bank has printed more than €2trn euros, flooded the banking system with money, bought up government bonds and slashed interest rates down below zero in an effort to boost its flagging economy.
In 2017 and 2018, all that printed cash briefly fired life into the European economy. But now it is flagging again. Germany is close to an outright recession, growth is tepid in France, and Italy is no closer to a sustained recovery than it has been since it joined the euro 20 years ago. This is the problem facing Christine Lagarde when she takes over next month as president of the European Central Bank (ECB). It seems certain she will have to do more. But what?

Will MMT go mainstream?

The ECB can't cut interest rates any more and it has already bought up almost all the bonds it is allowed to. If it wants to go any further then it needs to come up with something different. The outgoing president of the ECB, Mario Draghi, last week spoke approvingly of "modern monetary theory", the economic theory that the government can take on almost unlimited debt financed by the central bank so long as inflation isn't a problem, then use that money to finance its spending. There have been plenty of other hints the bank is looking at some form of "people's QE" – putting printed money directly in people's pockets. It remains to be seen whether it actually happens or not. But there is no question it is under discussion. There is a problem, however – and not just the obvious one that it may not work. It will create even worse political divisions within the eurozone than exist already. Why? Because it is Germany that will benefit.

Christine Lagarde is due to take over at the money-printers

©Getty Images

Of all the countries within the zone, the one that most needs a fiscal boost right now is Germany. It is the major economy in the most trouble – its export-driven model is running out of steam, and its massive car industry is over-reliant on big, highly polluting diesel vehicles at precisely the moment when the world has turned against them. It needs to find a way of kickstarting domestic demand, and the most obvious way to do that is with higher government spending. Chancellor Angela Merkel has already announced plans to spend €50bn on environmental initiatives and more infrastructure spending is likely to be unleashed soon. There is even a debate underway about relaxing the constitutional requirement to balance the budget.

In fact, Germany could easily afford all of that with more borrowing. Its debt-to-GDP ratio is only 60% and its bonds are on negative yields. Borrowing could hardly get any cheaper. And yet instead it looks as if the ECB will simply come along and print the money for it. What that means is that the whole zone will in effect finance a blast of infrastructure spending in Germany.

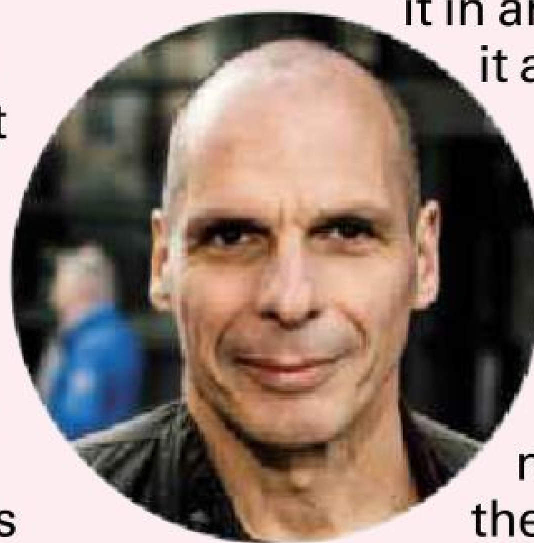
The winner takes it all

Right from the launch of the euro two decades ago, it has been clear there has been one big winner from the project: Germany. From the start, it locked in a low exchange rate that massively boosted its exports. Ever since the euro was launched, Germany has grown consistently faster than France (the two countries used to be more or less equal) and far, far faster than any of its southern European rivals. In effect, the euro has sucked demand and jobs from the rest of the zone and shifted them to Germany.

Now it looks as if it will be the main beneficiary of the next round of printed money as well. Demand will be boosted in that country, with money that it will never have to pay back. Its wages will continue to grow, it will renew its roads, railways, airports and energy systems, and it will do so at the expense of its neighbours. That's great for Germany. But it is hardly fair on the other countries – especially those that received no form of fiscal boost when they were in deep trouble. The other countries have already started to notice they are stuck in a monetary system that only works for Germany. Helicopter money will just confirm that all over again – and create an inevitable backlash.

Who's getting what

- Celebrity chef **Jamie Oliver** paid himself £5.2m last year, reports The Guardian, down from £8.6m the year before. The payments were in the form of dividends from his company, Jamie Oliver Holdings, which includes restaurants, publishing, licensing and TV revenue. Sales increased to £43.5m, but profits almost halved to £7.8m. The UK restaurant business went bust this year with the loss of 1,000 jobs, despite the parent company pumping £4.8m of new money into it in an attempt to keep it afloat.



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- Former Greek finance minister **Yanis Varoufakis** (pictured) has made €970,000 in the last three years from his books, speaking engagements and consultancy work, says The Times. Varoufakis made his name as the anti-austerity finance minister in the left-wing Syriza government of Alexis Tsipras in 2015, as Greece struggled to deal with its huge debts and the demands of the EU. Varoufakis appealed for his countrymen to adopt "humble and frugal" lifestyles to deal with the financial crisis.

- Shareholders at Purplebricks estate agents are being urged to rebel against senior management bonuses, says The Sunday Times. Shareholder advisory service ISS has recommended investors vote against the firm's financial statements at its AGM, as pay is not linked to performance. Former CEO **Michael Bruce** is reported to have been paid £273,000 last year. Purplebricks says its executive are "not especially well paid".

Nice work if you can get it

Former Labour foreign secretary David Miliband is getting paid almost $1m as president and CEO of the International Rescue Committee, a humanitarian charity based in New York, reports The Mail on Sunday. That's a rise of more than $240,000 over the previous year. Miliband's $911,796 income is made up of a basic salary of $861,209 (around £700,000) plus $50,587 in "other compensation". The charity's top 12 best-paid officials get more than £4m between them, says the Mail, which has increased by £1.1m in four years. It has received around £107m from the UK's Department of International Development in the last two years to run refugee and poverty-relief projects around the world. "This salary is in the middle of the range of New York's non-profit CEO salaries," said the IRC in a statement. The information was revealed in the charity's tax return.

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Labour's boost for the super-rich

Toby Young
The Spectator

Private schools could not have received better PR, says Toby Young. The Labour party has promised to abolish them because of the "huge advantages they confer". In reality, the attainment gap between private schools and state schools is shrinking and their other advantages are "wildly overstated". The very best state schools, such as the Michaela Community School, now outperform leading private schools. A 2018 study found that although private-school children get better GCSE results on average, this is almost entirely down to factors that have "nothing to do with the schools" (eg, IQ, parental socioeconomic status and genes). But Labour's policy-makers (some of whom educate their own children privately) are influenced by anxious, middle-class parents who "overestimate" the effects of education on a child's opportunities in life. If private schools were scrapped, Labour would effectively "save the super-rich a fortune at no cost to their children's futures". A Harrow education equates to a trust fund of £200,000-plus, which, unlike an education, is a tangible benefit. "Little wonder, then, that all those public schoolboys are bug-eyed Corbynistas. They know which side their bread is buttered on."

Climate may spark the next crisis

Gillian Tett
Financial Times

If investors need more than Greta Thunberg's "impassioned plea" to wake up to climate change, they should take a look at the recent report by Principles for Responsible Investment, says Gillian Tett. It warns of a coming "market shock" as a result of financial markets failing adequately to price in the "likely near-term policy response to climate change". Examples of possible "disorderly" pricing shocks could come from coastal regions such as Florida, which could "deliver asset-price shocks for lenders, insurers and homeowners", and drought-prone areas of southern Europe, which could do likewise. Jupiter, an advisory group, forecasts a "tripling of losses from flood damage" in southern Florida in the next ten to 20 years. The resulting insurance hikes could spark mortgage defaults on a scale of the 2007 subprime crisis. A major problem is that only a small number of experts understand the risks; even professional asset managers "struggle to work out the probabilities embedded in insurance forecasts". It would be nice to imagine such reports prodding key players into timely action, but don't bet on it. History tells us that "extreme information asymmetries" produce market shocks. Why should this be any different?

Big Pharma needs a big shake-up

Diarmaid McDonald
The Guardian

I hope that Labour delivers on its policy commitments with regards to medicines, says Diarmaid McDonald. Currently, innovation is driven by the profits that drug companies hope to make during the 20-year monopolies they are granted through the patent system. During this time, they can charge whatever they like. Too often, the medicines that we most need are not the most profitable, so we're left with "little or no" investment in antibiotics or treatments for diseases affecting the poor. And despite the public funding that underpins much vital research, firms often go on to charge hugely inflated prices. Take Orkambi, a drug for cystic fibrosis, for which the US firm Vertex Pharmaceuticals wants £105,000 per patient a year. The NHS has refused; to accept would set a bad precedent. Labour has committed the party to suspending drug monopolies if they refuse to offer the NHS a fair price and wants to apply affordability conditions to any research funding. It also wants to establish a publicly owned pharmaceutical company to supply low-cost medicines to the NHS and introduce an entirely new incentive model to allow the public to steer research priorities. Change cannot come too soon.

The IMF facilitates corruption

Bernhard Reinsberg and Thomas Stubbs
The Conversation

Corruption, which deprives nations of income to spend on public services, is "one of the greatest obstacles to economic development", depriving public coffers of an estimated $2.6trn a year, say Bernhard Reinsberg and Thomas Stubbs. The finger is often pointed at unaccountable political leaders in resource-rich countries, but global institutions play a part too. Take the International Monetary Fund (IMF), which provides bailouts to countries in difficulty and demands reforms in return. Although some reforms help to curb corruption (for instance by building more effective tax administrations), as our three-year research project reveals, reforms aimed at liberalising economies increase corruption. These reforms seek to reduce the role of the state by privatising state-owned firms, deregulating markets and making public-sector lay-offs and wage cuts. The problem is that when the interests of powerful groups are threatened, they "use all means available to them" to preserve those privileges. For example, when large public assets go up for sale well-connected elites bribe public officials involved in the sale. Unless the IMF can find ways to compensate interest groups for their losses, "corruption will thrive".

Money talks

"Musicians are often notoriously shambolic at taking care of business, which leaves the window wide open for the wolves to come loping in. We had terrible contracts and the people we paid to look after us were naturally more concerned with what was in it for them. It turned out that we had huge tax problems. Unbeknown to us, our accountant hadn't paid our taxes for two years – the two years when we were making the most money. I suppose he just kept getting extensions, trying to look for loopholes and tax shelters, which might be one reason for the big townhouse on East 72nd Street."
Debbie Harry of Blondie (pictured) on the band's financial problems in the 1980s, quoted in The Sunday Times

"If socialists understood economics, they would not be socialists."
Economist Friedrich August von Hayek, quoted in a Price Value Partners newsletter

"Society needs to make a choice about whether it wants to attract really good people into politics. The reason the expenses system got out of hand was because successive governments held MPs' pay down and told them instead to claim allowances up to the maximum, often without receipts."
Former foreign secretary Jack Straw on MPs' pay, quoted in The Sunday Telegraph

"For much of my career I have felt rather like the junior butler trying to blag a seat at His Lordship's dining table."
BBC radio presenter John Humphrys on his humble background, quoted in The Times

"A hedge fund is a compensation scheme masquerading as an asset class."
An anonymous joke, quoted on Twitter

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Rural business needs a hand

The countryside is key if Britain is to thrive post-Brexit

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capx.co

When we think of the UK's economy, financial services in London and manufacturing in industrial towns and cities tend to come to mind. But as the prime minister said during the Tory leadership contest, the countryside will be key to kickstarting the economy post-Brexit, says Tim Breitmeyer. Rural Britain is home to 9.3 million people and generates some £320bn in gross value added each year in the UK, including £246bn in England alone. There are 500,000 rural businesses in the UK and some 25% of them will suffer in a no-deal Brexit situation.

A place of graft

If Boris Johnson is to deliver on his promises, and if rural businesses are to survive in the economic climate that may lie ahead, he must "unlock the vast untapped potential of rural Britain". The countryside, after all, is "not just a holiday destination for burned-out Londoners, but also a place of graft, dynamism and entrepreneurship". Here are three ways to give the countryside a helping hand.

First, better broadband. At the present time there is "a chasm" between the cities and the countryside in terms of connectivity, and closing it could deliver enormous benefits for rural communities. Nearly half a million homes in rural areas have poor or slow broadband and unlocking the digital potential of rural areas could add £12bn to the national economy. As it is, entrepreneurs and workers in the countryside must move to the city, and that is "to the detriment of every aspect of rural life".

Second, more affordable housing. The shortfall in this has big implications for equality, social cohesion and the wider economy. Rural business owners are ready to build, but they are held back by bureaucracy and the disincentives in the planning and tax system. The government should introduce a conditional exemption from inheritance tax for housing that is let out as an affordable home.

Third, support for tourism. The weaker pound, tighter household budgets and rising concerns over climate change mean many more people are staying in the UK for their holiday. Visit Britain, the national tourism agency, expects the industry to be worth £257bn a year, or 10% of GDP, by 2025. But to encourage as many people as possible to holiday at home, we need coordinated campaigns and marketing, and support at the local level. "With the potential not just to feed the nation, but also to power our economy, house our communities and ensure we can all go on holiday, the rural economy's impact should not be underestimated."

The dogma that won't die

project-syndicate.org

China recently announced that it would eliminate capital controls to allow unfettered short-term foreign inflows (so-called hot money). Argentina, in the face of yet another economic crisis, has just reimposed them. Both episodes reveal the intellectual hold that financial globalisation has on neoliberal policymakers, say economists Arvind Subramanian and Dani Rodrik. Why, after all, would China abandon such controls now? And what took Argentina so long to adopt such obviously necessary measures? The International Monetary Fund now allows for restrictions on capital flows as a last resort for weathering cyclical surges, but "the dogma remains intact". In the current context of chronic anaemic growth and persistently low long-term interest rates in advanced economies, there is a danger that developing economies will be tempted to tap foreign borrowing as a route to growth. If China had succumbed to this orthodoxy earlier, in the late 1990s when its "economic miracle" was becoming evident, the likely result would have been a surge in foreign capital chasing high Chinese returns, rapid appreciation of the renminbi, slower export growth and lost dynamism. "China's export machine would not have become the juggernaut that it is" if it had not protected itself from hot money.

How to do small talk

nytimes.com

Office workers have become increasingly adept at avoiding small talk, hurriedly diving into their computer screens, headphones on, says Lindsay Mannering. That's a mistake. Small talk builds rapport and trust, which helps grease the wheels of working life. It may even help you get promoted. But making the leap can be anxiety-inducing. Here's how to do it.

1. Be anxious instead about not doing it. Small talk can be torture, but not doing it can equally make us feel bad about ourselves. Only connect!

2. Remember, you're more likeable than you think. If a conversation goes badly, the other person is probably blaming themselves too. Don't judge yourself too harshly.

Don't worry, it's almost over

©Getty Images

3. Plan. Having a few core questions or stories up your sleeve can help you get over the initial anxiety.

4. Avoid the ping-pong of "How are you? Good, how are you?" by saying why you're good – tell them about the book show you're enjoying, or where there's good coffee.

5. Don't panic, it's almost over. Small talk needn't last long, and it's okay to have an exit planned. "Have a good day!" is perfectly acceptable.

Don't fall for this failed policy

iea.org.uk

European Commission officials have drawn up far-reaching plans for a new €100bn fund to create European "national champions" in industries where the bloc lags, says Matteo Baccaglini. It is a bad idea. The state is rarely any good at predicting future winners. State grants to national champions squander taxpayers' money on inefficient and bloated companies, taking capital away from entrepreneurial start-ups.

When governments take to nurturing favoured industries, unhealthy relations are formed that stifle competition and frustrate proper regulation. Consumers and taxpayers foot the bill through wasteful spending, higher prices and lower-quality goods. When the policy of promoting national champions such as British Leyland was abandoned by Britain in the 1980s, productivity improved and chronic overstaffing was alleviated.

Thankfully, the incoming team at the Commission, which begins in November, has publicly denied all knowledge of these plans. There is hope these national champions will fall at the first hurdle.

Canada's dependable dividends

America's northern neighbour is often dismissed as dull, but it looks exciting for income seekers

David Stevenson
Investment Columnist

I have always enjoyed investigating adventurous investment ideas. So, when I say that income-oriented investors seeking to build a diversified portfolio of funds should be searching worldwide for new ideas and sources of dividend income, I'm sure you'd expect me to highlight locations that are suitably exotic. Not Canada.

As in boring Canada. Cold Canada. The colony that got away with all that mineral wealth and spare land. My father spent many prosperous years there in the 1950s, but never showed any great desire to go back – "bloody cold" was the only comment I recall him making.

Teeming Toronto

But on my last visit to downtown Toronto I think I can safely say that he wouldn't remotely have recognised it. Toronto is now in the running to overtake London as a city of the world: a teeming metropolis full of people from every corner of the globe. Teeming Toronto aside, Canada deserves more recognition by investors and not just for the usual reasons, such as its safe banking sector or its rampant housing market. Canada boasts a robustness and reliability that I think is hugely appealing, although thrill seekers will also find plenty to admire: local stock exchanges offer a range of small caps with racy investment themes (notably in the energy and cannabis sectors).

Toronto rivals London as a multicultural metropolis

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An overlooked Canadian trust

This brings me to a London-listed fund that I think nicely sums up the core appeal of Canada – it's dull yet dependable. The **Middlefield Canadian Income Trust (LSE: MCT)** has been on the London Stock Exchange for over a decade, but its market cap is still only a fraction over £100m.

Clearly its managers have had a hard time getting UK investors excited about its mandate. The trust's cautious focus on dividend payouts and quality business franchises may appeal to some, but for most investors Canada's bigger brother to the south tends to grab all the limelight. The US typifies the attraction of growth stocks, whereas Canadian stocks seem a bit parochial.

"Canada is deemed a safe haven in a volatile world"

But I think Middlefield deserves a second hearing for adventurous types keen to build a portfolio of diversified income-producing equities through funds. In terms of net asset value (NAV) it has fairly consistently beaten its benchmark, the S&P/TSX Composite High Dividend index, although in share-price terms it has lagged recently.

The fund's discount to NAV is now a rather toppy 15%, which strikes me as a bit harsh given its performance. Then again, Middlefield's portfolio isn't piled high with cutting-edge US technology stocks.

Peer under the bonnet

Nevertheless, a contrarian investor poking around in the trust's portfolio may find some cause for concern. The first point is that the fund is actually 25% invested in US equities, but not any old stocks – big, well-known, globe-spanning stocks such as JP Morgan Chase, which is its biggest holding. Then there is telecoms giant AT&T, the very definition of boring. Next up the fund also has a fairly chunky investment in real-estate funds and assets. That sparks all those old worries about overpriced Canadian property prices. Furthermore, there is a big allocation to pipeline companies such as Pembina and Gibson. For those of us worried about the long march towards decarbonisation, that raises all sorts of red flags. So you can see why there have been some concerns and why marketing this small fund has been a bit of a slog.

A different perspective

But each of these worries can also be seen as a potential strength. The US assets it is buying are high-quality large caps that are sensibly valued. Those Canadian real-estate assets are also probably a safe, defensive bet, especially in a country experiencing huge waves of immigration that are pushing up property prices.

Canada has plenty of land, but no one seems to want to build on the 99.99% outside the city limits of Toronto, Montreal and Vancouver. Meanwhile, pipeline businesses are in the most cash-focused, non-volatile part of the hydrocarbon complex and might have some long-term value even if we extensively decarbonise (although I have my doubts on this score on a 20- to 30-year timeframe).

A juicy yield

Equity income-oriented investors need some diversification in their dividend payouts and I think Canada fits the bill perfectly. By buying into Middlefield you get an actively managed portfolio of relatively boring, cash-rich businesses churning out a dividend yield around 5%, while the fund is also trading well below its NAV.

Even if we are in the late stage in the equity cycle, Middlefield's collection of defensive assets should provide some downside protection alongside that dividend. And remember that Canada is widely deemed a safe haven in a volatile world. Governments of both the centre left and right are sensible and tend to mind their own business. They abide by the rule of law and refrain from indulging in monomaniacal twitter storms. Canada will be a port in the coming storm.

Activist watch

Shares in America's Emerson Electric have risen on the news that D.E. Shaw, a hedge fund, has taken a stake in the firm and is agitating for change, says Al Root in Barron's. "This looks like another situation where an activist [investor] tries to unlock value by breaking a large firm into smaller pieces." Emerson is a 129-year-old industrial conglomerate with a market capitalisation of $40bn. Products range from compressors used in air-conditioning and refrigeration to power tools. Industrial conglomerates "have been getting smaller for years"; this is evidently "the era of managerial focus" for the industrial sector. United Technologies, DowDuPont and Honeywell are three recent examples of conglomerates breaking up. D.E. Shaw is also reportedly keen to push through a share buyback worth around $7bn funded by borrowing, adds Scott Deveau on Bloomberg. The stock has slipped by 14% in the past year.

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The cycles in the metals market: when will zinc and copper shine?

The prices of two of the world's most important industrial commodities have slipped over the past few years. Dominic Frisby assesses the outlook and explains how to cash in on the next upswing

The oldest man-made object in the world is made of copper. A tiny awl found in a grave in what is now Israel, it dates back some 7,000 years. Copper would become a key component of the bronze age. Price records don't go that far back, but in modern times it has tended to move in very long cycles: 30 years of feast followed by 30 years of famine.

Between 1885 and 1945 the price was pretty consistent around the 15 cents per pound (lb) mark. There'd be the odd period when it slipped below that level – notably in 1929 (when it went below five cents/lb) – and the odd period when it surged to 20 cents and above – notably during World War I, when it got to 30 cents. Otherwise 14-15 cents was the norm. After World War II a bull market began that lasted some 30 years or more.

In 1974 copper hit a high around $1.50. It had risen 1,000%. But it would be another 30 years before that high was surpassed. Only in 2005 did copper get through the $1.50/lb mark. Once it got through $1.50 in 2005, copper took off like a rocket. This was the great commodities bull market of the 2000s.

The commodities bull market of the 2000s

The demands of the new Asian middle class, especially China's, were inexhaustible. Economies were booming: wherever there is construction, especially of infrastructure, there is copper demand. After decades of underinvestment in exploration and development, new copper supply could not match that demand. New discoveries were few and far between. Better still, the dollar was mired in a multi-year bear market. The conditions for copper could not have been better.

The first high came in at just over $4/lb in 2006. Five years of incredible volatility followed. In 2008 copper lost 75% of its value, before it eventually rocketed to its final, all-time high in early 2011, of $4.65/lb. From 61 cents to $4.65/lb: not quite a 1,000% gain, as in the previous bull market, but not far off. Ever since, aside from a two-year relief rally (prompted by Donald Trump promising a huge increase in spending on infrastructure), the price has slid slowly.

In the 21st century the cycle has been rather less biblical. Ten years of bull market and here we are now in the eighth year of the bear. Are we nearer the bottom than the top? The current price is $2.60/lb. So we are somewhere in the middle of a range that stretches from, say, $1.50/lb on the downside and $4.60 at the top. On page 26 you will find a chart of copper over the last 15 years. I've drawn a trend line over the upper range. It's pretty clear what the current direction of travel is.

What goes up...

These long price cycles are not just common to copper. They are also typical of metals generally, whether precious or base. There is a reason for them: the nature of mining. It takes a long time and a lot of money to build a producing mine. It starts with exploration. First some prospectors have got to find a deposit. That in itself can take years. Once a discovery has been made, the deposit needs to be assessed carefully to gauge how much of it can be recovered: how big the "proved reserves" are. That again requires many millions of dollars of drilling. Once proved resources have been established, capital can then be raised to meet the cost of permits and building the mine. Another few years are spent on this.

It is normal for the journey from discovery to production to take a decade and often, depending on the size of the project, hundreds of millions of dollars. But it can take longer. In the broader economic context, this leads to boom and bust in mining. There is a shortage of a metal. Its price therefore goes up. Investors see its price going up and so they think they can make money in this metal. Millions are thrown at exploring for it, or developing old projects that, at lower prices, were uneconomic. But it takes many years before this metal gets to market. So the price of the metal keeps on rising.

... must come down

This can lead to something of a frenzy. More and more money gets thrown at mining this metal, but still supply is not increasing to meet demand. In many cases people are stockpiling the metal in expectation of higher prices. Investment decisions get less and less informed, and cash gets raised for suspect projects that will probably never get off the drawing board. Finally, those early mines start to come into production and other ways are found to increase production (such as recycling and increased mining in existing properties, processing lower-grade ore and so on). The increased supply hits the market and the price starts to fall.

All those mines in development are no longer economic at these lower prices. Investors no longer see a potential return and capital dries up. Projects shut down. People lose their jobs. And so bust comes to mining. So many lose their shirts that it is many years before investors will touch mining again. The increased production resulting from the previous boom keeps the market in balance for a while, but then sometimes many years later production starts to fall off, just as demand starts to rise again.

"Where's the money going to come from to meet this rising demand?" many start to ask. "Hang on, there's a structural shortage of metal here." The question you must ask yourself is: how far into this bear cycle are we?

Supply and demand in the copper market

The most consumed metals in the world, according to the US Geological Survey, are aluminium and iron. Then comes copper. It is cheap, versatile and conductive; electrical wiring, telecom cables and electronics account for 75% of its consumption.

Copper also finds use in purposes as diverse as birth control and killing bacteria and yeast (thanks to its microbial properties). We even need to eat small doses of copper, though this does not affect demand. We get what we need from our vegetables. An uptick in copper demand usually suggests people are investing, especially in construction, so it is indicative of economic activity. Thus we have the nickname

"People need to eat small doses of copper, but this doesn't affect demand: we get it from vegetables"

©Getty Images

In the 2000s China's demand for copper was insatiable

Dr Copper, the metal with a PhD in economics. It is a barometer of the economy. Without wishing to be too much of a grinch, this nickname dates back to a time when we didn't have the readily available information that we do now; today there are probably better measures. But the notion still makes sense.

The world's largest copper consumer is, by some margin, China. It accounts for almost 50% of global demand. The rest of Asia takes up 21%; Europe 18%; and the Americas 12%. Africa and Oceania between them account for barely 1% of global demand. Was ever there a more telling statistic about the relative state of economic expansion around the world? The world's largest producer, also by some margin, is Chile. Globally, some 21 million tonnes were produced last year, 28% of which was mined in Chile. The next-largest producer is Peru on 11%; then China (7%); then the US and the Democratic Republic of the Congo, both on about 5.7% each.

Preliminary 2019 data from the International Copper Study Group (ICSG) shows a market that is pretty much in balance. There's been a tiny fall in world mine production (1%) and a slightly smaller decline in world usage. Total world production (from both mining and secondary production such as recycling) stands around 11,740,000 tonnes, while usage stands at 11,960,000. There's a slight deficit, but not enough to spark a multi-year bull market.

The zinc cycle

Let's turn our attention next to the fourth most-consumed metal in the world, after iron, aluminium and copper. Zinc's main uses are also in the construction industry: the frames of buildings, bridges, roofs, staircases, beams and piping all contain zinc. A coating of zinc over iron or steel protects the metal beneath from rusting.

It is also used in alloys (brass and bronze), in compounds with a range of applications, particularly in batteries – from everyday AAs and AAAs to silver-zinc batteries in aerospace – and, increasingly, in fertiliser. The market for zinc is worth around $35bn a year. To put that in perspective, that's about a fifth of the size of the copper market, but around double the size of the lead and silver markets. The price is currently at $2,377 a tonne, or $1.07/lb, less than half the price of copper in other words. Just over $2/lb ($4,500/tn) was the all-time high in 2007.

The baffling thing about zinc is the extraordinarily low stockpiles on the London Metals Exchange. In late 2015 these stood at over 1.2 million tonnes. They've been in decline ever since and now sit at 2008 crash lows of just 60,000 tonnes. That should mean a supply shortage and a corresponding price rise, but it never seems to materialise.

Like copper, the zinc market is in a slight, but not significant deficit. Total production for the first half of 2019, according to the International Lead and Zinc Study Group (IZLSG) was 6,513,000 tonnes. Total usage was 6,647,000 tonnes. So there is a 134,000-tonne deficit. China is the world's largest producer. It accounts for just over 35% of global

Continued on page 26

"A zinc coating on iron or steel protects the metal beneath from rusting"

Continued from page 25

supply, with Peru in second. There has been a reduction in supply this year not only from China, but also from Peru, Finland, India, Ireland, Mexico, Turkey and the US, but this has been offset by increases in production from Australia, Namibia, South Africa and Sweden, so that global zinc production is set to rise by about 2% this year.

China is also the world's largest zinc consumer, surprise, surprise. It is a net importer, despite being the world's largest producer. According to the ILZSG, zinc usage in China remains constant. Demand has, however, fallen in Europe, Turkey and Japan, while increasing in South Korea, South Africa and the US with the net result being a modest increase in usage.

All in all then we see a market that does not seem poised for either a huge bull or bear run, just the typical annual gyrations you tend to see – that is, aside from the unusual situation with the LME inventories. The price reflects this too. Following a bonanza in the 2000s, it slumped in 2008. Then there was an anaemic recovery which began a six-year period of going pretty much nowhere. Like copper, it had something of a rally in 2016-2017, before slipping back into a downtrend.

The catalysts for the next bull market

Being a financial writer you find that having strong opinions, whether bullish or bearish, make for much better copy. But sometimes you have to accept that there isn't always a strong bearish or bullish case. My strong opinion today is largely neutral!

Copper and zinc are both in downtrends, but I don't think either are necessarily set for total disaster. The bearish scenario is that we get either a rip-roaring bull market in the US dollar or that trade war between China and the US, which I doubt either really wants, escalates into something more significant.

There are some bullish scenarios to consider as well. Widespread adoption of electric vehicles, for example, will require a huge electrical infrastructure spend. The political will, for the most, part is there. That means a lot of copper consumption. An electric vehicle uses around three times as much copper as a conventional one.

Meanwhile, keep an eye on monetary policy. modern monetary theory and people's quantitative easing (QE) are gaining a lot of traction. The latter would entail the central-bank creation of money not to buy financial assets, but to spend on improving infrastructure. We know the establishment's first instinct in the face of economic contraction is monetary expansion. QE to bail out banks would not be politically acceptable. But to spend on infrastructure would not be such a hard sell. In fact, I can see politicians desperate to buy popularity positively embracing it. That's got to be bullish for zinc and copper. Especially as a couple of years down the road it'll be coming at a time when so little has been spent on exploration and development that there won't be the metal supply to satisfy the demand. And so the mining cycle will turn once more.

"Central banks could print money to spend on infra-structure, boosting zinc and copper"

The best plays on copper and zinc

A well-balanced portfolio should always contain some exposure to industrial metals. My favourite play on both metals and energy in general is **BHP Billiton (LSE: BHP)**. It's like an all-in-one energy and metal exchange-traded fund (ETF). This £95bn market-cap company pays a yield, currently in the 5%-6% range.

You can play the metals directly via ETFs that track the price: **ETFS Copper (LSE: COPA**) or **ETFS Zinc (LSE: ZINC)**. The world's largest copper-producing companies are Codelco, owned by the Chilean government, followed by **Freeport McMoran (NYSE: FCX)**, and **Glencore (LSE: GLEN)**. Other notable producers are **Antofagasta (LSE: ANTO)** and **Rio Tinto (LSE: RIO)**. Both make the top ten. The world's largest zinc producers include Glencore, BHP Billiton, **Anglo-American (LSE: AAL)** and **KAZ Minerals (LSE: KAZ)**.

If you want some spicy, smaller-cap situations that I am optimistic about even in the event of flat or even lower metal prices, consider the following. All are listed in Canada. Let's start with the copper plays.

First, there's a company I have mentioned on these pages before, **Regulus Resources (Toronto Venture Exchange: REG)**. Regulus has a market cap around C$130m and is developing a project in northern Peru known as Antakori. Its price, like that of copper, has gone nowhere for more than two years now. It is currently running an enormous drilling programme, which is delivering terrific results. It's going to have to raise more money, probably later this year or early next, and that may provide the buying opportunity. But I can't help thinking this company should be a C$5 stock based on what it's finding. I am waiting patiently for the market to see what I do .

Second, I own **Amerigo Resources (Toronto: ARG)**. This is a producer in Chile that operates by processing fresh and historic tailings (material left over after metal has been extracted from ore) from Codelco's El Teniente mine. Its production is increasing while its costs are falling, and my hope is that the markets will give this C$122m market-cap company a rerating when it gets some more good quarters under its belt.

Then there are two zinc exploration and development plays. One is **Solitario Zinc (NYSE: XPL; Toronto: SLR)**. It has good high-grade projects in Peru and Alaska, both in partnership with majors, and a 10% interest in zinc explorer, Vendetta, operating in Australia. The cash position is about $9.5m, and has been well preserved. It has a small amount of revenue from some royalty deals. At $0.29, it has a market cap of $16m, so to my mind, it is an extraordinary value proposition at the moment. You're getting its assets for around $6m.

But beware: Solitario has been a proven value trap. A chronic lack of news flow and rotten zinc markets have done for Solitario, but it has the potential to be much higher.

My other zinc junior is **Tinka Resources (Toronto: TK)**, which appears to have made a major discovery in Peru. It costs C$0.16. This was an C$0.80 stock last year and could easily be so again if zinc gets up off the floor and the good drill results keep coming. I own shares in all the above juniors.

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Research makes a comeback

EU rules have reduced analysts' coverage of small caps. But new sources of information have sprung up, says Scott Longley

Call it the sell-side's Project Fear. Early 2018 saw the introduction of the EU's Markets in Financial Instruments Directive II (Mifid II). Thousands of pages of new rules governing the financial sector included provisions on unbundling research from other broking services.

Many feared the rules would have a debilitating effect on the amount and quality of analysts' research on UK companies, with smaller companies especially likely to be neglected. But they were only half right. Or to use analyst speak, perhaps the long-term future of research is a hold, not a sell.

One study found that the amount of sell-side research has indeed fallen post-Mifid II, with 334 listed European firms having lost their coverage entirely. "Fundamentally the make-up of the market has changed and it is now uneconomic for small-cap analysts" to do much research, says Simon French of the financial consultancy Bixteth Partners.

Filling the gap

Stephen English, investment director and head of Aim stocks at wealth manager Blankstone Sington, prides himself on finding what might be called the Aim diamonds in the rough: promising companies that don't appear on many investors' radars. In response to the dearth of coverage from big institutions, he has set about expanding his own research team in order to fill out the coverage they do still get.

"We felt we needed to supplement... good stuff... from the brokers with our own efforts," he says. "So we took on an additional research analyst and it means we can do more of our own research [to find] some great investment opportunities."

The target remains a large one. There are 780 small companies on Aim alone and the pre-Mifid II analyst landscape at least acted like a filtering system. They were performing the kind of legwork that many small-cap fund managers have been conducting for a long time, digging in to results statements and talking to management. "In terms of discovery it won't make much of an impact," says Paul Mumford, co-manager for Cavendish's UK Opportunities and Aim funds. "We have traditionally trawled through all the results to get our ideas."

More to the point, he thinks that talking to the companies directly is much more important than getting anything from an analyst. "It's about the vibes you get from the directors, particularly on the long-term outlook," he says. Other small-cap funds may be pleased to find out that their fund managers are also taking the hint and putting in a spot more tyre-kicking.

For individual investors, of course, such opportunities very rarely exist, but in this post-Woodford environment liquidity for any listed company is an issue and it means some companies are having to go the extra mile to communicate their story to a retail investor base.

Moreover, it will be small investors, those who trade in relatively small sizes, who often determine the price of many smaller companies. Firms "have the big blocks on the shareholder register, but the share price is determined by small trades," says Keith Hiscock

A chocolate retailer such as Hotel Chocolat has no trouble getting attention

©Hotel Chocolat

"The rise of independent research outfits might see more companies being covered than in the pre-Mifid II days"

of independent research house Hardman & Co. "Average trade sizes are low." Some companies have a natural advantage. A consumer-friendly product such as tonic water (Fever-Tree) or chocolate retail (Hotel Chocolat), to cite two popular smaller stocks, can leverage consumers' awareness into the investment sphere. But if, say, you are a logistics company then it will come down to engaging with investment platforms and generating press coverage.

Go your own way

Then there is the independent research approach. Edison Research, for example, has a long-standing position as a paid-for research house and its director of research, Neil Shah, points out that more and more companies are coming around to the view that they need to be more proactive in advertising their investment potential. "Companies that come to us usually have a problem," he says. "We come up with a plan of action to get [listed companies] coverage and greater recognition."

This desire for coverage on the part of both companies and investors has led recently to a plethora of independent research houses growing up in the shadow of Mifid II. The rise of companies such as Redburn, Autonomous Research and the aforementioned Hardman & Co can be viewed as being part of what Shah calls the "democratisation" of research.

Indeed, the flourishing of independent research might see more companies being covered, and in greater detail, than in the pre-Mifid II days, when large institutions did most of the research. Such a flourishing of research will more than see the analyst gap covered; it will also go towards quenching a thirst for more information among small investors. Hiscock cites evidence from the Office for National Statistics from 2016, which found that individuals have the highest propensity to hold non-FTSE 100 shares.

No wonder, says English. "It is among the small caps where you can find the real growth opportunities... this [sector] will include some companies that won't survive; that's the nature of the beast. But sift through the detritus and you can find tomorrow's winners. I think that is what retail investors are cottoning on to."

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How the PPF works

The Pension Protection Fund deals with defined-benefit schemes when an employer goes bust

David Prosser
Investment columnist

Defined-benefit scheme members at Thomas Cook will be protected
©Thomas Cook

Thousands of Thomas Cook employees facing an uncertain future can take comfort in the knowledge that their pension savings are largely protected. The Pensions Protection Fund (PPF), the government-backed lifeboat fund, exists to ensure members of a defined benefit pension scheme do not suffer financial hardship if the scheme's sponsoring employer goes bust and there aren't enough assets in the fund to pay the pensions promised.

Thomas Cook's defined-benefit scheme has 13,500 members. With the company no longer around to stand behind this guarantee, the PPF is reviewing the scheme's finances.

Who gets what when

In such cases, the PPF guarantees that scheme members already drawing their pension and over the scheme's official retirement age will continue to receive their benefits in full. In some cases, however, the pension increases they receive each year may not be as generous as their scheme had promised.

The pensions of those yet to reach retirement age are also protected. However, they are only guaranteed to receive 90% of the pension they would otherwise have expected. Payouts are also subject to a cap set as a cash sum related to your age at the time when your employer goes bust. In the current year, someone who was 60 when their employer went under wouldn't be able to receive benefits worth more than 90% of £34,285.

The 90% calculation and the cash cap apply to current employees who are active members of the scheme and to deferred members who used to work at the company. But they also apply to those who took early retirement, but have yet to reach retirement age; their pensions could then be cut.

The PPF also guarantees future pension increases for members, with pay-outs raised in line with inflation each year, but only up to a maximum of 2.5%. Members of schemes whose policies on pension increases were more generous may therefore miss out, especially in years when inflation is higher.

In other words, while the PPF provides a crucial safety net, it doesn't give all scheme members complete protection. Higher earners who had been expecting sizeable pensions worth more than the cap can sometimes be big losers.

Remember, however, that the PPF only steps in where the scheme doesn't have the assets to keep pension promises. Better-funded schemes may still be able to pay benefits out in full without the help of the PPF even after the employer has gone. Indeed, Thomas Cook's defined benefit pension scheme is understood to be in relatively good financial shape. Its trustees are currently in talks with insurers exploring options that could see it avoid the need for PPF support.

5 Reasons to Buy Physical Gold...

1 **Gold is a safe haven asset** - Gold is frequently used as a safe haven asset in times of economic turmoil or geopolitical uncertainty. For this reason many advisors recommend allocating around 5% - 15% of their portfolios to gold.

2 **Gold has a history of holding its value** - Unlike paper currency, gold has maintained its value through the ages. It is an ideal way of preserving wealth from one generation to another. Plus, UK bullion coins are not subject to Capital Gains Tax.

3 **Gold is a hedge** - Gold has historically had a weak correlation to movements in the financial markets and is frequently used as a hedge against inflation or to offset falling stock markets.

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Where there is a will...

Most of us haven't written one. But it's crucial that you leave your financial affairs in order when you die

Ruth Jackson-Kirby
Money columnist

You might carefully hand out money in line with the inheritance-tax gifting rules and fret about whether or not you should set up a trust to protect your wealth. But have you taken one of the simplest steps to avoid an inheritance-tax bill? A will is a powerful weapon against the taxman and yet the majority of us have never bothered to write one.

If you die without a will your estate is subject to the laws of intestacy. If you are married this means jointly-held assets pass to your spouse, but the rest of your estate is divided up between your spouse and your children. Your spouse gets the first £250,000 plus half of the remainder, with the rest split between your children. The problem with this is that if everything goes to your spouse there is no inheritance tax due, but if the amount passed to your children exceeds £325,000 then they will face a tax bill. Write a will and you avoid this problem.

Another reason to have a will is to ensure your money goes to people you love. Without one your money could pass to an ex-partner you haven't divorced yet, or a distant aunt rather than your long-term partner. Unmarried partners are not included in the laws of intestacy so they would receive absolutely nothing.

There really is no excuse for not having a will. It doesn't need to be a complicated process and these days it is far from expensive. Indeed, for the next two months you can get one drawn up by a solicitor for free. "The gold standard, solicitor-drafted will can cost in excess of £150, yet November is dedicated to 'Will Aid': a scheme whereby over 500 solicitors across the UK will draft you a will for free in the hope you'll make a donation of around £100," notes Martin Lewis in the Daily Express. What's more, October is Free Wills Month, when over-55s can get a will written or updated for no charge in the hope that you will give some money to charity in your bequests.

"Sorry, he left his ex everything"

©Getty Images

"Stay up to date. Marriage invalidates any previous wills; divorce doesn't"

Unsurprisingly, free wills are popular so "anyone interested in either scheme needs to act fast to ensure they get a slot", says Laura Shannon in The Mail on Sunday. You can find participating solicitors at freewillsmonth.org.uk or willaid.org.uk.

Once you have your will don't forget to keep it up to date. Marriage invalidates any previous wills, but divorce doesn't. Also, make sure your will is stored somewhere safe where it can easily be found when you die.

The cheap and easy options

If you can't get an appointment to get your will written for free there are other options.

You can pick up a do-it-yourself will-writing kit on the high street for around £20. But this is only suitable for people with very simple financial affairs and it is easy to make mistakes that could render it invalid.

A better option may be a fixed fee will-writing service. Prices at Which and Co-op Legal Services start from £99. If you have a premium bank account, check if a will-writing service is included. Santander and NatWest both offer cut-price will-writing to premium customers. You could also be entitled to a free will through your home- or car-insurance policy if you chose to include legal cover, says Moneysaving expert.com. More Than's legal service add-on for home insurance gives you access to a will-writing service.

You could also use an online service such as Farewill.com. You answer questions online in order to create a will. It is then checked by a specialist before you are sent a link to download, print and sign. You'll pay £90 for a single will or £140 for a joint will. An added benefit is you can pay £10 a year annual subscription that allows you to update your will whenever you like.

Pocket money... investment scams are on the rise

■ New figures have revealed that "record numbers of people are losing large sums to increasingly sophisticated investment scams," says Marianna Hunt in The Sunday Telegraph.

Almost 3,500 people were victims of scams in the first half of 2019, up 152% on the same period last year, according to UK Finance.

Victims lost an average of £12,200 each and got very little of their stolen money back. Of the £43.4m stolen a mere 7% was returned.

Criminal tactics have "come a long way since the days of dodgy-looking emails riddled with spelling mistakes". Now scammers "successfully impersonate real investment firms using cloned websites and logos".

■ Some of Britain's biggest financial companies have called for the newest type of Isa to be abolished, notes Adam Williams in The Daily Telegraph. The Innovative Finance Isa (IF Isa) was introduced in 2016. It allows people to put alternative investments such as peer-to-peer (P2P) lending into an Isa wrapper. In the last tax year 31,000 people invested a total of £290m in IF Isas.

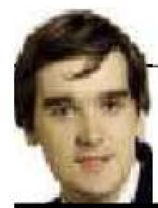
But "critics have said the Isa status can legitimise high-risk schemes". Unlike with stocks and shares Isas and cash Isas, which are protected by the Financial Services Compensation Scheme (FSCS) if the provider goes bust (as Lendy did), IF Isa holders receive no such protection. Three fund platforms – AJ Bell, Interactive Investor and The Share Centre – now want IF Isas scrapped. They argue that while the risks of stocks and shares Isas are broadly understood, IF Isas had encouraged people to put their savings into risky deals unsuitable for ordinary investors.

©Stockphotos

■ The energy-price cap fell this week. The maximum annual cost for a typical default tariff is being cut from £1,254 to £1,179. That's the tariff you will end up on if your fixed-rate deal expires. "But you could still beat it by £253 a year if you switch to a more competitive fixed or variable-rate tariff," says Kenza Bryan in The Sunday Times. Compare The Market has found that the average dual-fuel tariff costs £926, over £250 less than the cap. According to the price-comparison website there is now "a growing gap between the best-priced fixed and variable-rate tariffs and suppliers' standard variable or default deals".

IAG will regain altitude

BA's turbulence should soon pass and the business is fundamentally sound



Matthew Partridge
Senior writer

The last 15 months have been awful for shareholders in **International Consolidated Airlines Group (LSE: IAG)**: the share price has fallen by a third. This is mainly to do with problems at British Airways, one of the airlines the group owns (along with Aer Lingus, Iberia and budget carrier Vueling). Not only was BA hit with a £183m fine in July for allowing its security system to be breached, but it also suffered its first pilots' strike a few weeks ago. Hundreds of flights were cancelled, triggering widespread opprobrium.

IAG has now been forced to issue a profit warning telling investors that they should expect this year's earnings to be much lower than originally estimated. Most of this was due to the £121m cost of the BA industrial action, as well as £30m of additional costs associated with threatened future action by ground staff. However, the warning wasn't just due to striking pilots. It also highlighted unexpectedly weak demand for flights (especially on its Spanish low-cost subsidiary Vueling) as another factor likely to depress profits.

The big picture is encouraging

However, while the threats of further industrial action and slowing demand are clearly important, they must be viewed in the context of a business that has done extremely well in recent years. Over the past six years sales have increased at around 5% a year and they are expected to keep growing in the next two years.

At the same time, IAG has also managed to increase its operating margin, which has grown from a tiny 2.8% in 2013 to 15% five years later. This has enabled the group to make efficient use of its capital, achieving a return on capital employed of 14.3% (and a return on equity, another key gauge of profitability, of 32%). Meanwhile, BA seems unlikely to suffer any major damage to its reputation.

BA has grown sales by an annual 6% in recent years

"BA has grown more efficient and boasts 14.3% return on capital employed"

Another reason this could prove a good time to buy into IAG is because the fall in its share price means that it is now very cheaply valued, especially compared with other airlines. It trades at only 4.6 times 2020 earnings.

By contrast, easyJet and Ryanair are on 2020 price/earnings ratios of 12.4 and 14.6 respectively. Air France-KLM is trading at 5.7 times 2020 earnings. Other global airlines such as Delta Air Lines, which trades at 7.4 times, are also more expensive. At the same time, IAG also delivers a solid dividend yield of 3%.

With IAG's share price now up 15% since the low in August, I think the stock is a buy. I recommend you go long at the current price of 468p at £8 per 1p (IG Index's minimum stake is £1 per 1p). I also suggest that you place a stop-loss at 348p, which would give you a total downside of £960.

How my tips have fared

The last fortnight has produced mixed results for my six long tips, with half of them going up, but the other half declining.

The ones that increased are JD Sports, which went up from 718p to 750p, Safestore, which rose from 644p to 671p, and Bellway – up from 3,268p to 3,354p. However, Superdry fell from 429p to 423p, Bausch Health Companies declined from $23.28 to $20.59 and Volkswagen went down from €162 to €153. Overall, my long tips are making a profit of £2,856, which is down slightly from a surplus of £3,184 two weeks ago.

However, the performance of my short tips has been much better. Four out of five of them have depreciated. Bitcoin is now $8,331 (from $10,136), Netflix is $266 ($292), Uber is selling for $29.64 ($34.64), while Tesla is at $241 (from $285).

Only Weis Markets advanced, going up marginally to $38.32 (from $38.23). This means that if you had followed six of my open tips you would have ended up making money on each of them, for a total profit of £1,953 – up by over a thousand pounds from my last column.

Overall, my 11 open positions are making a profit of £4,809, nearly as much as the total losses on my closed positions. I have decided to increase the stop-loss on JD Sports to 700p (from 675p) and am also raising the stop-loss on Safestore to 625p (600p). I am also going to increase the stop-loss on Bellway to 3,000p.

I have, furthermore, decided that I am going to give Superdry one last chance to bounce back, but if there isn't a huge improvement I'll be recommending that you close it. Finally, I'm increasing the stop-loss on Volkswagen to €125. However, I'm not going to tinker with the stop-losses on any of the short positions.

Trading techniques... head and shoulders

Many traders argue that certain stock-price patterns tend to repeat themselves more frequently than you'd expect from chance alone. By spotting these patterns traders can use them to anticipate future price movements. One of the most popular is the "head and shoulders" pattern, which indicates that a price trend may be reversing or about to reverse, either on the downside, in the case of a "head and shoulders top", or the upside, with a "head and shoulders bottom".

In a head and shoulders top the price of the asset rises, peaks (the left shoulder), falls and then makes a new higher peak (the head), before falling again. However, the third time it peaks, it does so at a level than is significantly lower than the second peak (the right shoulder). Traders will go short when the price falls through the "neckline', the lowest point between the first and third peaks. The head and shoulders bottom is the mirror image of the top. In this case the price of an assets falls (left shoulder), partially recovers, falls some more (head), rallies a lot, falls for a third time (right shoulder), but not as far as the second time. In this case the trader would buy the share when it goes above the neckline, which in this case would be the highest point between the two shoulders.

There are some weak signs that a trading strategy based on head and shoulders patterns could work. A 1995 study found that using the technique to trade various currencies against the dollar between 1973 and 1994 produced above-average profits. In some currencies, such as the dollar against the Japanese yen, the annualised profits reached 19%. However, the returns were very volatile and didn't account for trading costs.

How to invest in the lure of luxury goods

A professional investor tells us where he'd put his money. This week: Sam Morse of the Fidelity European Values Fund PLC selects three favourites

While continental European equity markets performed well in the first half of 2019, volatility over the summer has shown that few of the issues previously troubling markets have been resolved. Trade threats rumble on and political uncertainty remains high with Brexit negotiations at an impasse. Investors have welcomed central banks' shift towards monetary easing, but there is a risk that it could fail to kick-start global economic and corporate earnings growth.

Against this uncertain backdrop, Fidelity European Values PLC remains focused on investing in attractively-valued companies able to sustain consistent dividend growth and perform well irrespective of the economic backdrop. Over the long term these types of companies tend to outperform the broader market. My portfolio contains three global luxury goods companies with defensive qualities thanks to their top-quality franchises and growing sales in emerging markets.

L'Oréal: because it's worth it

L'Oréal (Paris: OR) is the biggest cosmetics company in the world with a 13% market share. It pays a 2% dividend yield and is growing at a near-double-digit rate. The stock's total return in the next few years should exceed the market's. Its growth has been driven through the ageing of populations in developed markets and through an expanding middle class in emerging markets. L'Oréal is often considered expensive on around 25 times next year's earnings. But the beauty market is very resilient, so this company would be able to continue to grow its earnings if there is an economic downturn.

An unrivalled portfolio of brands

LVMH (Paris: MC) is the world's number-one luxury goods company. The firm has an unrivalled portfolio of brands across fashion and leather goods (such as Louis Vuitton and Christian Dior), wines and spirits (Hennessy, Moet & Chandon), perfumes and cosmetics (Givenchy) and watches and jewellery (TAG Heuer, Bulgari).

It has consistently delivered a good cash-flow return on investment coupled with strong growth and it remains well placed to benefit from the ongoing growth in luxury goods driven by middle classes in emerging markets, notably in China. Its brand equity, scale and diversification make it relatively defensive within its peer group if demand slows.

"Some customers have to wait years before they can get their hands on an item"

A name with rare cachet

Hermes (Paris: RMS) creates some of the most sought-after bags, scarves and ties in the world. In some cases customers may have to wait several years before they can actually acquire an item. This is because Hermes restricts the quantity of goods it produces so that it can ensure it retains the highest possible quality in every aspect of its work.

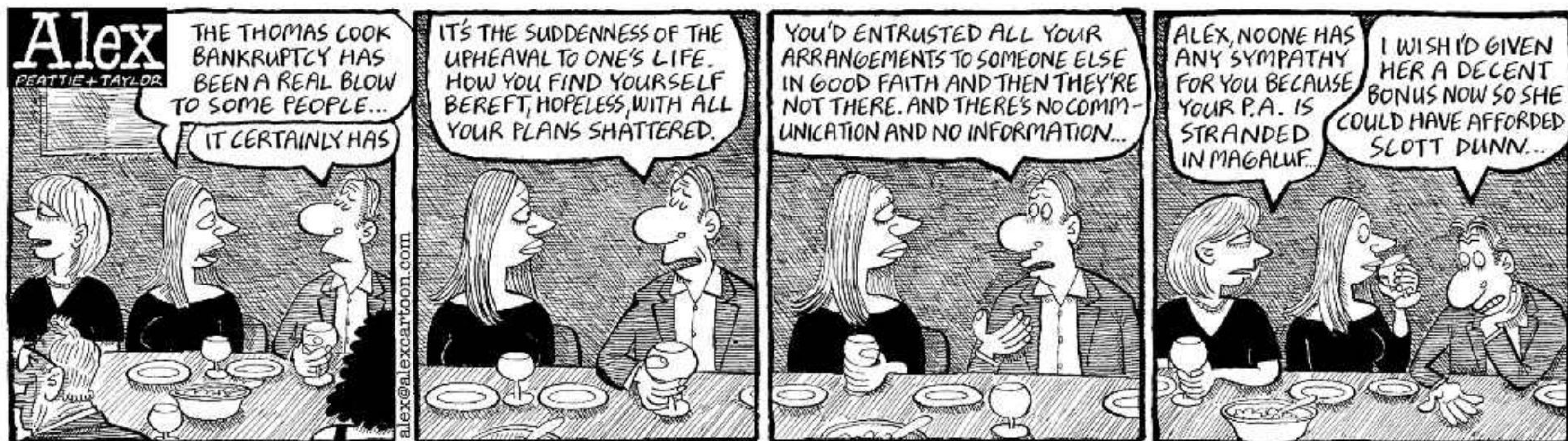
This scarcity value creates strong pricing power and also provides a buffer in periods of weaker demand, when Hermes can simply work through its waiting list. As a result Hermes has delivered an extremely consistent and defensive financial performance and this is reflected in its strong outperformance through the financial crisis in 2008/2009. Hermes trades on high multiples, but this reflects the exceptional performance since its flotation in 1993 and the extremely encouraging growth outlook from here.

If only you'd invested in...

Firstgroup (LSE: FGP) operates bus and rail services in the UK and US. In the US it owns the Greyhound intercity services, operates public bus contracts and has a fleet of over 47,000 yellow school buses, its most profitable division. It is also Britain's biggest bus operator and runs three rail franchises. It has been battling with its biggest shareholder over the future of the group. As a result, Firstgroup is to restructure and concentrate on its US bus business, selling off the UK bus operation and Greyhound coaches. Shareholders seem to approve of the plans.

Be glad you didn't buy...

In recent years **Imperial Brands (LSE: IMB)**, formerly Imperial Tobacco, has diversified from cigarettes into e-cigarettes and "vaping" products. It has also invested in the legal cannabis market. However, the "next-generation market" has hit a roadblock after a crackdown on flavoured e-cigarettes in the US. Moreover, reports of apparent lung diseases related to vaping have dented demand. A consequent profit warning last month saw the shares dive by 10%. Tougher trading conditions in markets such as Africa and Asia have also depressed the stock.



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World's coolest boss feels the heat

An internal investigation has cleared Tidjane Thiam, CEO of Credit Suisse, of allegations that he set a spy to trail a rival. But the saga has further to run yet. Jane Lewis reports

Surprise! Tidjane Thiam has been cleared by his bank's probe into its "*Big Lebowski*-esque" private-investigation scandal, says Dealbreaker. The Credit Suisse CEO "definitely had no idea that his No. 2 was tailing his turncoat former prodigy", whom Thiam had fallen out with, concluded the hastily convened inquiry – placing primary blame for the spy scandal on Thiam's top lieutenant, chief operating officer Pierre-Olivier Bouée, who (along with the bank's head of security) has been sacked. But the scandal looks far from over.

"An ardent Arsenal FC fan, committed groover and a McKinsey alumnus to boot, Thiam was deemed the ultimate 21st-century CEO"

Matey charm and a big brain

When Thiam – a City grandee as renowned for his matey charm as his business brain – arrived at Credit Suisse four years ago, after shaking up the Pru in London, the word was that the Zurich bank was lucky to get London's "coolest boss". An ardent Arsenal FC fan, committed groover and a McKinsey alumnus to boot, Thiam was deemed the ultimate 21st-century CEO. As one friend put it: "He has the passionate exuberance of an African mixed with that French-trained Cartesian mind". Who better to rise above Zurich's cosy banking world and bring serious reform to the sclerotic Swiss bank?

Thiam has certainly caused waves. Last year, Euromoney credited "the master strategist" with nothing less than "a revolution" thanks to his strategy of "shock and awe" – and made him its Banker of the Year. The magazine noted how Thiam, who'd spent the past decade in insurance, had to fight to overcome "the old snobbery" of bankers. "Under Thiam's regime, Credit Suisse has slashed its banking businesses," reducing them to mere "servants of a revived wealth-management operation." Essentially, says Dealbreaker, "Thiam has done just about everything short of hiring skywriters over Zurich to send the following message to his investment bank: 'You are not very good at your jobs'".

Heading to the top

Hitherto, the financier has always been celebrated as "an adaptable man". He's needed to be, says The Daily Telegraph. Born in Ivory Coast in 1962, the youngest of seven children, Thiam grew up in the foothills of power: his great uncle had been the country's first president. Yet for much of his childhood his father, a radio journalist, was in prison – accused of plotting to overthrow the government.

Thiam proved an outstanding student, becoming the first Ivorian to study at France's elite École Polytechnique in 1982 and later winning a scholarship to INSEAD business school. He joined McKinsey and then the World Bank, before returning to Ivory Coast in 1998 to join the government. It was a disastrous move. Thiam "lost everything" after the government was overthrown in a military coup and spent six months under house arrest.

Long tipped as a future head of the International Monetary Fund, Thiam was "the talk of the town" this summer when Christine Lagarde's departure for the European Central Bank left a vacancy, says the FT. "But the advice was allegedly to focus on the role next time round, not now." Thiam, in other words, needs this Credit Suisse scandal like a hole in the head – all the more so now it has taken "a dark turn" following the apparent suicide of a "security consultant" connected to the affair, says The Wall Street Journal. What started out as a standard bankers' feud could now pose a threat to the high-flying Thiam himself.

Great frauds in history... *Emanuel Pinez cooks the books*

Emanuel Pinez, an Israeli citizen born in 1939 in Palestine, founded a manufacturer of computer memory cards, Centennial Technologies, in 1987, floating it on the New York Stock Exchange in 1994. On the back of strong financial statements and rumours that the company was in line for a big contract from AT&T (rumours allegedly started by Pinez), Centennial's share price soared in value nearly tenfold from an initial price of $6 to a peak of $55.50 by late 1996, making it one of the best-performing stocks that year, and giving Pinez a paper fortune of $244m ($352m in today's money). He took to the high life and had homes in Canada and Switzerland.

What was the scam?

Pinez, the chief executive of the company he founded, and James Murphy, the chief financial officer, used various techniques to manipulate stated profits and revenue growth between April 1994 and January 1997. They booked sales of a fictitious product called "Flash 98", for example, overestimated inventory and overvalued fixed assets and the value of investments made by the company. In one scheme, Centennial allegedly shipped fruit baskets to customers to create fake shipping documents. Over the three years the fraud was in operation the pair overestimated profits by $40m, turning a $12m loss into a $28m profit.

What happened next?

Pinez's empire collapsed when people started to question his credentials, including his claim (later proved false) that he had graduated from the London School of Economics. By February 1997 he was arrested by the authorities on suspicion of both fraud and insider trading (he had secretly used options to bet on the stock price, allowing him to benefit from both the rise in Centennial's share price and its subsequent fall). As a result he was immediately dismissed as CEO of Centennial. Pinez and Murphy were convicted of fraud, with Pinez sentenced to five years in jail. Four other men associated with Centennial were also charged with fraud.

Lessons for investors

When news of the fraud broke, Centennial's shares collapsed, falling below $2 at one point, resulting in it being delisted from the New York Stock Exchange. Although the 20,000 shareholders, who were all but wiped out, eventually won a judgment of $207m against Pinez, very little of that amount was ultimately recovered – though auditors Coopers and Lybrand did pay $20m. Investors should have paid more attention to Pinez's chequered past. He claimed to have swum the English Channel in record time, had been dismissed from a job at Singer Company for fraud and was convicted in the 1980s of criminal copyright violations in Switzerland.

©Getty Images

Four stays in the woods

From a luxurious cabin retreat in the New Forest to a camp in a Cambodian jungle. Chris Carter reports

©Wyedean Tourism

The Forest of Dean: home once again to wild boar

"The woods… are places of endless fascination," says Jenny Walters in Country Walking magazine. "The steamy green fug of July becomes a colourful crackle at this time of year, when the trees are arguably at their most beautiful." The New Forest, in Hampshire, is the perfect place for a stroll among the trees.

Of course, the New Forest isn't really "new". It's almost 1,000 years old. It makes an appearance in the Domesday Book of 1086 as the Nova Foresta, when William the Conqueror ordained it as the first Royal Forest in England. It "rustles with diverse wildlife from snakes to nightjars to its famous ponies" and it has one of the highest concentrations of old trees in western Europe. Some of them are older than the Royal Forest itself. And like all woodland, the New Forest has its stories. King William lost two sons and a grandson in the woods through bizarre accidents; the Royal Navy felled the trees here to build its mighty ships in the 18th century.

In the middle of it all is Lyndhurst, a town that looks like one from "a children's picture book", says Anna Conrad for GQ magazine. It is also home to Lime Wood. This "five-star hotel is a country manor type, like a Tuscan retreat in the UK, with an outside terrace, cooking classes, manicured sprawling lawns and calming herbs at every corner, just in case the walk to the main entrance is too stressful". Opt for a forest suite. These "homely" luxurious cabins come with "plush" bedding and "the biggest bathrooms you'll ever witness".
£625, limewoodhotel.co.uk

Romping through the leaves

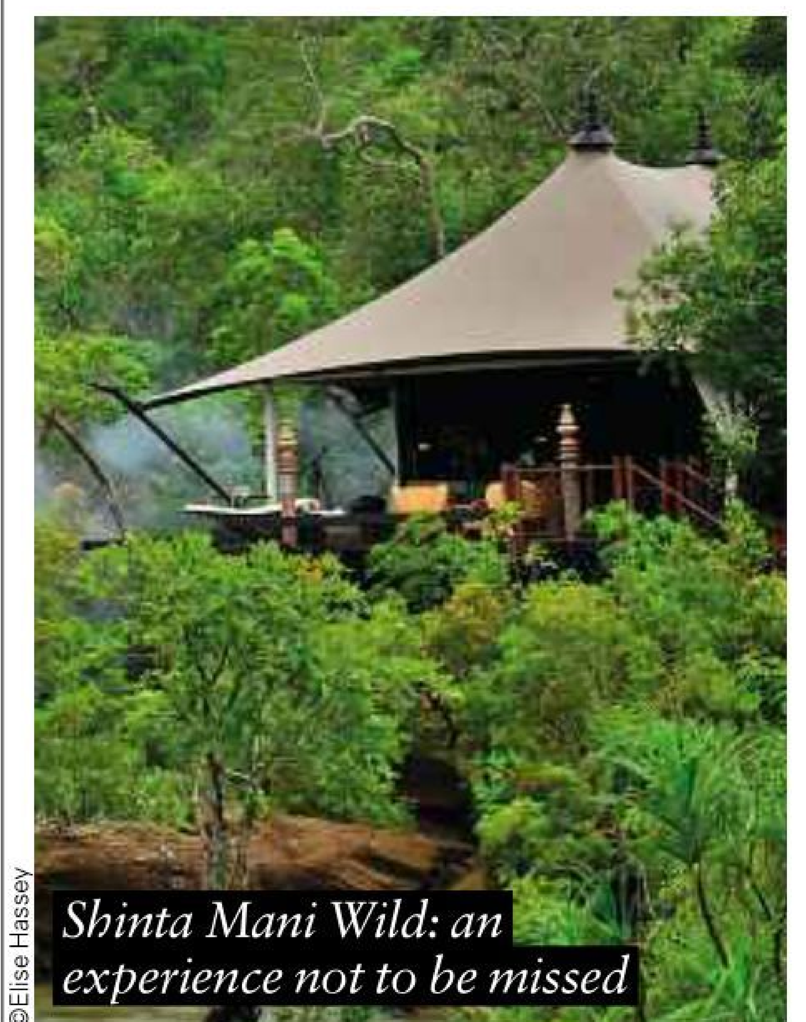
With the leaves turning shades of red and gold, the woods form a stunning backdrop for a host of activities held in the autumn months, says Rachel Dixon in The Guardian. This year, Forestry England is holding a series of ten-kilometre runs in Thetford Forest, Suffolk; Salcey Forest, Northamptonshire; and Sherwood Pines, Nottinghamshire, among others (£20, forestryengland.uk/run100). Meanwhile, the annual Tweed Valley forest festival (forest-festival.com) takes place on 19 and 20 October, celebrating "the woodland culture of the Scottish Borders". And in Northumberland, tomorrow, Northern Wilds leads a "safe and sustainable" foraging expedition in Kielder Forest (pictured left, £65 for adults, northernwilds.co.uk).

Forest of Dean

Sandwiched between the rivers Severn and Wye, the "Foresters" living in the Forest of Dean in Gloucestershire have historically been "an isolated and closed community", says Kate Edgley in The Observer. Also to be found living in the forest are an "impressive" 1,500 wild boar. They had been native to these parts before being hunted to extinction. But then, ten to 15 years ago, an anonymous breeder released a few into the woods, and they have thrived ever since. "It was 9.30pm and the light was fading" when Edgley spotted "a pair of cute stripey-backed boarlets, who shuffled along the path in front of us". Then it was back to the Tudor Farmhouse hotel, in the heart of the Forest of Dean, "where a welcome platter of cold meats and cheeses awaited us".
From £99, tudorfarmhousehotel.co.uk

Escape into the jungle

Shinta Mani Wild is a new social enterprise and "much-admired tented camp by designer Bill Bensley, set deep in the wilderness of Cambodia's Southern Cardamom National Park", says Mary Lussiana in The Daily Telegraph. Bensley's "exuberant, colourful designs" are a far cry from the "prevalent Asian Zen decor". He adds, instead, a "dusting of magic" to aid the "heady escapist vibe". Fifteen custom-designed tents "perch alongside the thundering" river Tmor Rung, affording enough privacy to afford a bath tub on the open deck. "It provides an experience not to be missed," says Lussiana. "Lying in it just after sunrise, I was wrapped in a cloak of jungle sights and sounds."
From $1,900, bensleycollection.com



©Elise Hassey

Shinta Mani Wild: an experience not to be missed

This week: properties in remote locations – from a 14th-century manor on Bodmin Moor in Cornwall, to an estate in

Esquel, Patagonia, Argentina. An estate set in more than 6,000 acres of grounds, with a forest and a 247-acre lake stocked with rainbow trout. 4 beds, 4 baths, main house of 850 sq m, guest house, indoor pool, marina. Price on application from Christie's International Real Estate +54 11 4325 4325.

Glandyfi Castle, Machynlleth, Wales. A Regency castle set on a wooded hillside with commanding views over the Dovey Estuary to the mountains of Snowdonia National Park. 10 beds, 10 baths, 3 receps, library, courtyard with guest accommodation, woodland, 31.4 acres. £2.85m Strutt & Parker 01743-284200.

Wild Horse Ranch, Leadville, Colorado, America. A ranch near Colorado's Sawatch and Mosquito mountain ranges and around 38 miles from Vail, with grounds that include two miles of private fishing rights. It has a western-style cabin and the infrastructure in place to build an additional guest cabin, main house and stables. 3 beds, 2 baths, open-plan kitchen/living area, 326 acres. $4.2m Vail Real Estate +1 970 376 0746.

Patagonia, Argentina, with more than 6,000 acres of grounds that include a forest and a 247-acre lake

◀ **Heathwaite Farm, Coniston, Cumbria.** A traditional farmstead in an elevated position with views of Coniston Water and the Old Man of Coniston in the Lake District National Park. It is currently used as a holiday home and produces an annual income of just over £80,000. 4 beds, 2 baths, 2 receps, study, kitchen, 3-bed attached cottage, barn conversion with two 2-bed apartments, further barns and outbuildings, gardens, pasture, 85.1 acres. £1.7m Carter Jonas 01539-722592.

▶ **Gobpwllau, Crickhowell, Powys.** A cottage on Sugar Loaf Mountain in the Brecon Beacons National Park. It has flagstone floors, wood-burning stoves and retains its original sash windows and wood panelling. 3 beds, bath, 2 receps, 2-storey barn, gardens, grounds, 13 acres. £630,000 Parrys 01873-858990.

◀ **Glenaros Estate, Isle of Mull, Argyll & Bute.** A sporting and farm estate on the east coast of Mull with views over the Sound of Mull. It was part of the holdings of the Duke of Argyll until around 1819 and has been the site of the Mull and Morvern Agricultural annual show every August since the 19th century. 3 beds, 1 bath, 3 receps, adjoining 3-bed cottage, 3 holiday cottages, woodland, 1,992 acres. £2m+ Knight Frank 0131-222 9600.

▲ **Basill Manor, St Clether, Launceston, Cornwall.** A Grade II-listed manor dating from the 14th century on the edge of Bodmin Moor. The main house and cottage are in need of modernisation and retain period features, including stone fireplaces, stone archways, flagstone floors and panelled walls. 12 beds, 6 baths, 4 receps, woodland, 47.3 acres. £1.5m Carter Jonas 01823-428590.

▶ **Clarghyll Hall, Alston, Cumbria.** A 16th-century, Grade II-listed country house with its own woodland. It has high ceilings, a great hall with vaulted beamed ceilings, flagstone floors and an inglenook fireplace with a wood-burning stove. The gardens include a productive kitchen garden and a stone terrace with an ornamental pond and a stone dovecote. 9 beds, 3 baths, 3 receps, library, 8.7 acres. £995,000+ Savills 01668-281611.

Bugatti's 300mph hypercar

If you found the Chiron sluggish, the French carmaker has a new model for you. Chris Carter reports

For most drivers, 262mph is quite sufficient, says Charlie Turner in Top Gear. But while the top speed of a regular Bugatti Chiron is indeed fast, it isn't fast enough for the hypercar world. There, "being the fastest takes on a whole new importance". Even then, "being the fastest is not the right expression", Bugatti's Stefan Ellrott tells Turner. "Moving boundaries would be better," he says. "Right now, the 300mph barrier for a hypercar is the boundary we would like to achieve." So, they did.

Last month, a Bugatti Chiron Super Sport 300+ Prototype was clocked at 304.77mph at Volkswagen's Ehra-Lessien track in Germany. It didn't set an official speed record for a production car – for that you need to drive in both directions and submit the average. The Chiron was also just a prototype. The record, however, is not the point, says Turner. "No owner will ever find the space to drive this fast, but the depth of engineering required to propel man and machine at this velocity oozes out of every pore of the 'regular' Chiron." As for the second quibble, the production car is on the way.

It will be powered by a tuned version of the original Chiron's quad-turbo 8.0-litre W16 engine, producing 1,578bhp, says Luke Wilkinson in Auto Express. The Super Sport 300+ will also have the lowered suspension system of the prototype, uprated brakes, a new set of lightweight magnesium-alloy wheels and a tweaked quad-exit exhaust system. Prices will start from €3.5m, with the first cars delivered in the summer of 2021.

"No owner will ever find the space to drive that fast, but the car benefits from the depth of engineering required"

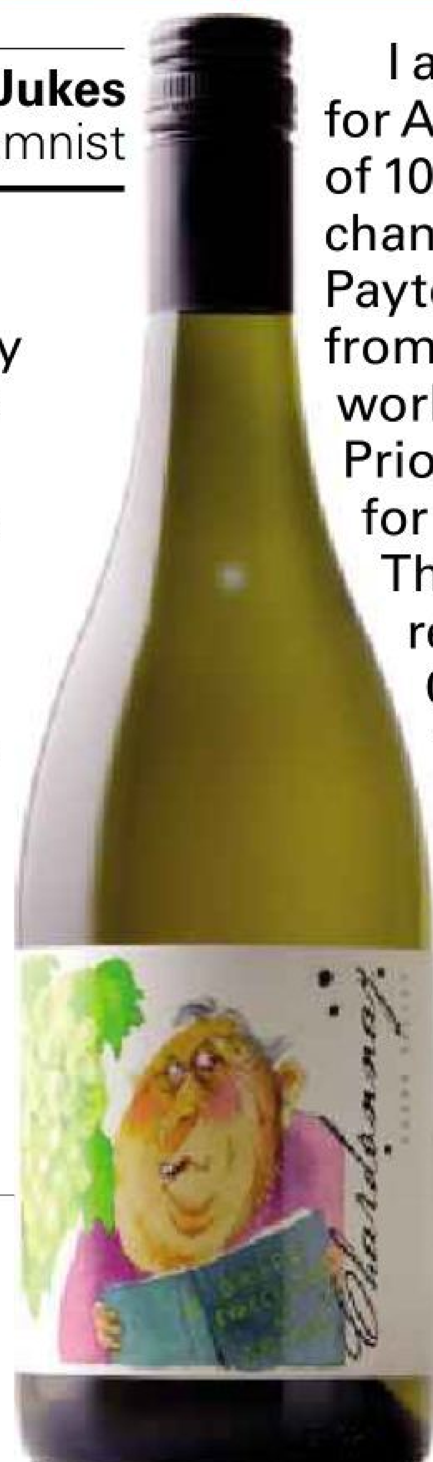
Wine of the week: a sensational Aussie chardonnay

2018 Payten & Jones, Valley Vignerons Chardonnay, Yarra Valley, Victoria, Australia

About £23.75, London Wine Shippers, 020-7622 3000; Bottle Apostle, 020-8347 7577; London Wine Shippers, 020-7622 3000; Ex Cellar, 01372-461187

Matthew Jukes
Wine columnist

I steamed around a huge Aussie tasting the other day and loved revisiting a large number of my 100 Best Australian Wines from this year's report in the same room at the same time. I kicked off my nationwide roadshow a few weekends ago at the Tate Britain with a huge tasting and dinner, celebrating wines from this year's report and also pulling older 100 Best beauties out of the cellar.



I am always on high alert for Australian wines that are of 100 Best quality and, by chance, Troy Jones from Payten & Jones flew over from Barcelona where he is working on a top-secret Priorat project, to just join us for dinner and have a yarn. This prompted me to remember his epic VV Chardonnay, which I had tasted only days earlier. Australia really is making the most remarkable and evocative Chardonnays in the world right now.

For the price of a dodgy bottle of Chablis you can drink this sensational, pristine, pin-point accurate beauty, and it shines a light on not only its region – the Yarra Valley, which is home to oceans of delicious Chardonnay – but also on its maker. Jones makes a wickedly naughty syrah, called Major Kong, which challenges every fibre of your being with its irreverence and attitude, but he can also turn his hand to a languid, shimmering, mountain-lake-cool wine like my featured Chardonnay.

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

Banksy's latest prank

An old painting has been redaubed and is up for auction. Chris Carter reports

Sotheby's must have been feeling jittery, says Jan Dalley in the Financial Times. A year after Banksy's painting *Girl With Balloon* half-shredded itself before startled bidders in the auction room, Sotheby's auctioned off another of the graffiti artist's works yesterday. Originally titled *Question Time*, the 14-foot-wide painting depicts the House of Commons with chimpanzees perched on the famous green benches in various simian poses. The speaker looks on as a solitary ape scowls at the Opposition from the dispatch box. It proved an instant hit when it was exhibited at the Bristol Museum in 2009.

Spot the difference: the new Banksy could be yours for £2m

Many Banksy experts regard it as the finest work by the anonymous artist to come to auction, says Scott Reyburn in The New York Times. Sotheby's gave it a pre-sale estimate of up to £2m. At that price, it would set a new record for Banksy. But Banksy isn't interested in records. And when selling his artworks, nothing is ever as it seems.

Morons and their money

In 2011, *Question Time* was bought by the current seller. At some time since then, the painting was renamed *Devolved Parliament*. But the auction-catalogue note failed to mention any of the other differences from the work that was shown in 2009. Sotheby's confirmed to The New York Times that it was the same painting, and, yes, there have been alterations. The removal of the two chandeliers is the most obvious. The room is now cast in a much more sombre light – a reference, perhaps, to the current "ape house" as it tears itself apart over Brexit. But look closer and you will see more subtle changes have been made. The banana in the hand of one chimpanzee that had been facing up, like a smile, has been turned upside down. Cue endless media speculation as to what Banksy has been up to.

> *"Girl With Balloon was, if anything, worth more shredded than it had been whole"*

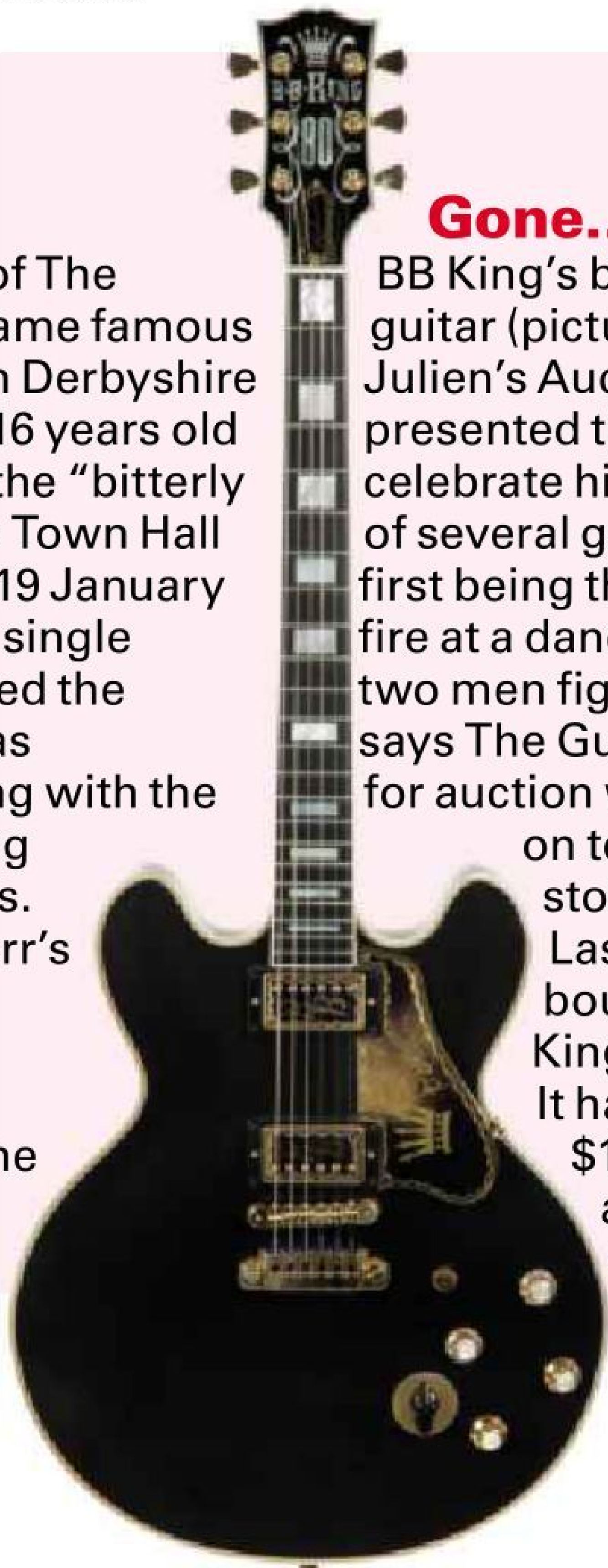
It's not surprising that *Devolved Parliament* has been endlessly pawed over given what happened the last time a Banksy was auctioned. And being pranked the last time did Sotheby's and the buyer of *Girl With Balloon* no harm. The half-shredded painting, re-authenticated by Banksy as *Love Is In The Bin*, was, if anything, worth more shredded than it had been whole.

Perhaps Sotheby's had been hoping for a repeat performance given Banksy's well-known disdain for the snobby world of art collectors. For ironically, it is in his disdain that his appeal lies. Last week, Christie's hosted an online sale of Banksy's works, called "Banksy: I can't believe you morons actually buy this sh*t" – a name Christie's took from one of the lots showing an auctioneer in a crowded sales room. "Depending on whose side you take… [the title] either worked like a charm or was an utter failure," says Eileen Kinsella on Artnet News. Buyers did exactly what "the artist derides them for" – they forked out £1.1m for 29 works by Banksy. Morons, Banksy may call them – but they are now morons with artworks from an artist who has never been more collectable.

Auctions

Going…

A scrap of paper bearing the signatures of The Beatles dating from just before they became famous is to be sold with Hansons Auctioneers in Derbyshire on 22 October. The unnamed seller was 16 years old when she and a group of friends braved the "bitterly cold" weather to see the band play at the Town Hall Ballroom in Whitchurch, Shropshire, on 19 January 1963. The Beatles had just released their single *Please Please Me*, but few people attended the gig due to wintery weather. The seller was able to spend "about 15 minutes" chatting with the band. "I remember John Lennon plonking away on the piano after the gig," she says. "At the time I didn't even know Ringo Starr's name. They were all really nice to us." On the same day, The Beatles played on ITV's *Thank Your Lucky Stars* – a performance credited with catapulting the Fab Four to fame. The autographs are expected to fetch up to £3,000.



Gone…

BB King's black Gibson ES-345 prototype guitar (pictured) has sold for $280,000 at Julien's Auctions in California. Gibson presented the blues legend with the guitar to celebrate his 80th birthday in 2005. It was one of several guitars King named "Lucille" – the first being the guitar he ran back to save from a fire at a dance hall in 1949 that was started by two men fighting over a woman called Lucille, says The Guardian. The "Lucille" that went up for auction was King's primary guitar played on tour during his later years. It was stolen in 2009, later turning up in a Las Vegas pawn shop. A collector bought it and returned the guitar to King after tracing its provenance. It had been given an upper estimate of $100,000. King died in 2015, aged 89, and the sale of items from his estate raised $1.3m in total.

The last Botticelli for $30m

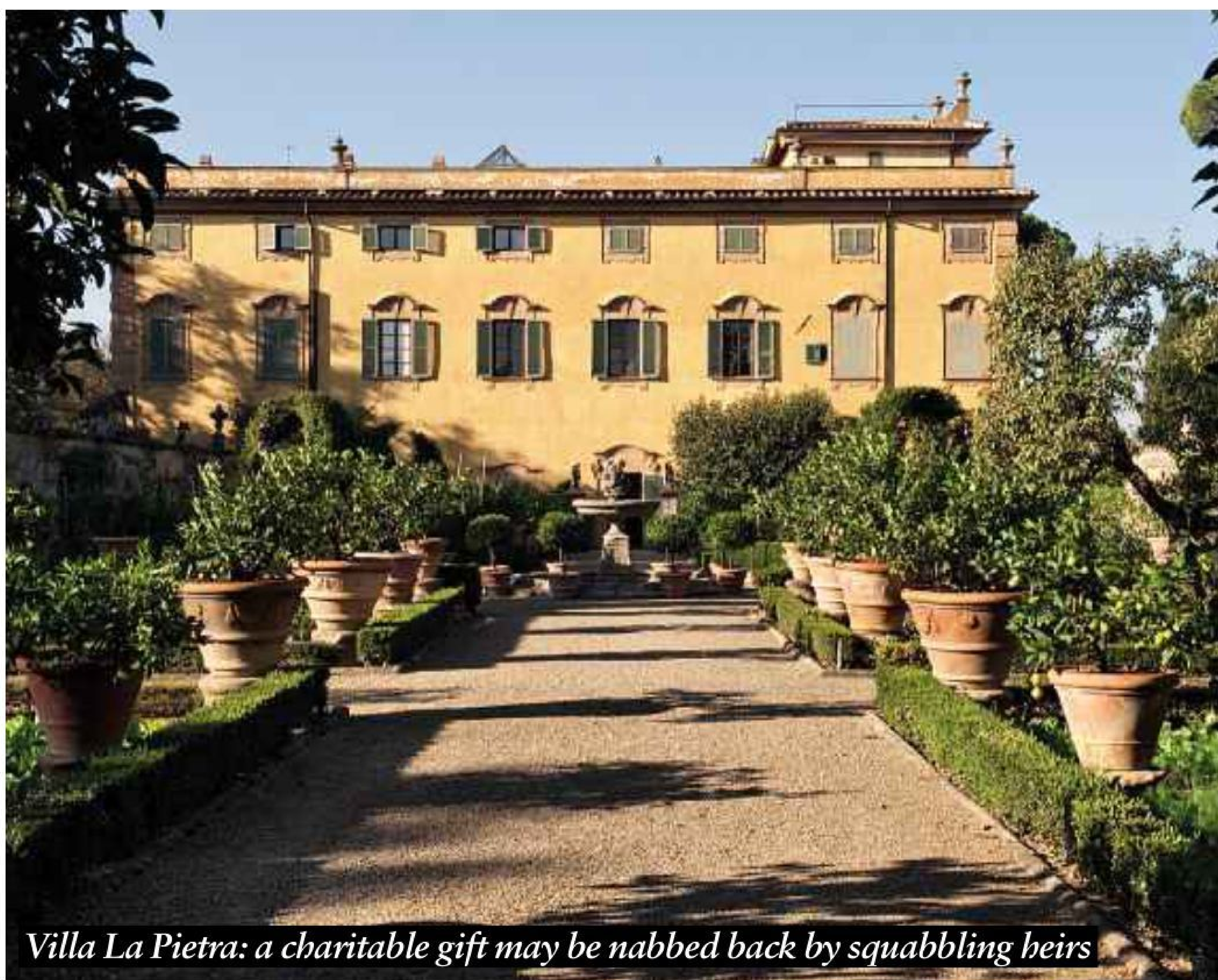
Frieze London got underway yesterday. The art fair runs until Sunday in London's Regent's Park. Frieze Masters forms part of the fair, dealing with, as you might have guessed, Old Masters – as well as works by artists up to the late 20th century. The talk of the show this year is the portrait of Michele Marullo Tarcaniota by Florentine Renaissance painter Sandro Botticelli. Marullo was a soldier, who was "known for his military prowess as well as for his poetry and literary translations", says David Sanderson in The Times. After Marullo drowned in 1500, his widow, the poet Alessandra Scala, is thought to have commissioned the portrait (pictured). The couple were later used as the basis for the main characters in George Eliot's novel *Romola*.

A century ago the painting was snapped up from under the nose of the famous British art collector Joseph Duveen by the Cambó family and spirited away to Spain. From 2004 it was on loan to the Prado gallery in Madrid for 12 years and it is now being offered by Spanish collector Dona Helena Cambo de Guardans and her family through Trinity Fine Art. It is, says the gallery, the last Botticelli in private hands outside Italy. But aside from finding the minimum $30m to buy the painting, would-be buyers will have to negotiate with Spain for an export licence to bring it back to Britain for good.

A cautionary tale of family feuds

More and more people are taking to the courts to fight over legacies. They should read some novels first

When I finally shuffle off this mortal coil, there will be no family feuds over which of my distant relatives gets which part of my estate – as I shall have blown the entire amount. Such good fortune is today rare. Inheritance disputes are now routine, even for "middling and lower-income families", says Libby Purves in The Times. The rise of owner-occupation and insane house prices mean that even "the most ordinary estate is worth fighting over" since "acquiring some bog-ordinary three-bedroom terrace can represent financial independence".


Villa La Pietra: a charitable gift may be nabbed back by squabbling heirs ©Alamy

> *"Inheritance disputes are now routine, even for middling and lower-income families"*

Great expectations

The rise in the number of contested wills is turning the parties into "characters in a classic novel driven by 'expectations'". And disinheriting "is not as easy as it used to be", since there is a legal requirement to make "appropriate support" for dependents, including cohabiting partners and their children. So even if the will explicitly states reasons for disinheriting someone, and the testator is certified as being of sound mind, the "claims of blood" still count, which acts "to enrich and aggravate lawyers".

The share of the assets isn't the only area where courts can overrule the wishes of the deceased, says Lucy Warwick-Ching in the Financial Times. Sir Michael Butler amassed a "vast collection" of 17th-century Chinese porcelain pots, "thought to be worth up to £8m". During his lifetime he gifted the majority of the collection to his four children equally, indicating that the collection "should be kept together for a decade after his death", a sentiment expressed in his will. Yet when two of his heirs wanted to split the collection immediately, a judge ruled that his wishes were "of no legal significance".

Permanent gifts to charity aren't immune either. Despite already living in "great luxury", the granddaughter of a late British art collector is now entitled to claim half-ownership of a $1bn collection of paintings, sculptures, tapestries and other objects that were left to New York University (NYU) in 1994, says Oli Coleman in the New York Post. Although Sir Arthur Acton's son Harold gifted his father's trove of artworks to NYU, a "decades-long court battle" in Italy has proved that "Acton also left another heir – the late Liana Beacci, daughter of Arthur's mistress, Ersilia Beacci". Liana has confirmed that she will sue NYU for half of the estate, including a share of the 14th-century Villa La Pietra.

Still, taking things to court can sometimes backfire, as the case of stepsisters Anna Winter and Deborah Cutler shows. Their parents, John and Ann Scarle, both died of hypothermia, leaving the couple's £280,000 bungalow up for grabs, reports Phoebe Southworth in The Daily Telegraph. Spurning a compromise that would have entailed a 50/50 split, Anna argued that Deborah's mother was likely to have died first, which would have led to the house passing to her via her father John. The court decided that, according to a 1925 law, John was assumed to have died first, which meant that Deborah will be "walking away with the property" while Anna has to pay "at least £150,000 in legal costs". The parallels with those classic novels are getting ever more striking.

Quintus Slide

Tabloid money… the best business brains don't come cheap

©Getty Images

● It was never probable that Blue Ivy Carter, the seven-year-old daughter of singers Beyoncé (pictured) and Jay-Z, was going to lead a "normal" life, says Karren Brady in The Sun on Sunday. Put that down to her having had her own stylist since she could walk. Even so, it's hard to fathom that at an age "when most children are still harbouring fantasies of being an astronaut, or a unicorn, little Blue Ivy, it turns out, wants to be recognised as a 'cultural icon'. Well, I say Blue Ivy, but clearly it is her parents who are pushing this agenda". They have been trying to trademark her name for years – a name she shares with a wedding-planning business. Beyoncé is "outraged" – but it makes you wonder, why does she even care?

● When companies such as Thomas Cook go to the wall, "the bosses stuff their mouths with gold as they jump into the platinum-plated lifeboats", says Brian Reade in the Daily Mirror. The tour operator's directors took £47m over the last ten years as staff bonuses were slashed. "It happens almost every time a big firm goes under, because they have contempt for public opinion and the moral consequences of their actions." Carillion bosses, for example, were allowed to "suck billions out of the public purse, while running a £600m pension deficit". It will happen again. "The next shower of amoral businessmen to pull this trick will do so in full confidence, knowing all it will lead to is momentary hand-wringing."

● But let's not be too quick to judge the management teams at the top of big companies for paying themselves loads of money, even when their businesses do come crashing down, says Jeremy Clarkson in The Sun. "After the collapse of Thomas Cook, I started to count down from ten to zero" to see how long it would take before the howls of condemnation began. But I "only got to six before everyone started blaming the fat-cat bosses who took home big lumps of cash as the company floundered". That's more than a little unfair. "Yes. It looks bad." But you have to be realistic. "When a company is in a mess, you need the best business brains to try to sort it out. And the best business brains don't come cheap".

Bridge by Andrew Robson

Conniegratulations

This week's featured hero of bridge history is Kenneth Konstam, "Connie" to all. Connie was not an analyst or a theoretician. He was an opportunist, and a most dangerous one, who worked on the theory that if you kept on overbidding, your opponents would crumble under the pressure and start presenting you with no-play games and slams. This style led him to victory in six European Championships and, in 1955, the one World Championship that the British Open team has ever won.

Dealer South Neither side vulnerable

North:
♠ Q10753
♥ –
♦ A1042
♣ AJ65

West:
♠ K
♥ KJ1087
♦ K
♣ K107432

East:
♠ J4
♥ 9642
♦ QJ965
♣ Q9

South:
♠ A9862
♥ AQ53
♦ 873
♣ 8

The bidding

South	West	North	East
1♠*	2♣	3♣**	pass
3♥	4♥	6♠***	pass
pass	double§	pass	pass
pass			

* This opening bid characterised Connie's fast and loose style.

** A good spade raise, in those days guaranteeing a club control (though not in the modern game).

*** Not the wild gamble it first appears. North has first round controls in all three side-suits and the slam is poor because South has only four points outside North's void.

§ Unclear why West thought he could defeat the slam with his aceless wonder.

West led the four of Clubs and declarer, Connie, won dummy's Ace and immediately ruffed a Club (bringing down East's Queen). He ruffed a Heart and then led a trump to his Ace, pleased to see West's King drop. He ruffed a second Heart, cashed the Queen of trumps, and then made the key play of exiting with a low Diamond.

West won his singleton King, but was endplayed. Leading a Club would set up dummy's Knave for a Diamond discard, so West tried a Heart. But declarer could ride this round to his Ace-Queen, discarding two Diamonds from dummy, lead to the Ace of Diamonds, then cross-ruff. Twelve tricks and slam made.

Did you spot that West can avoid the endplay by discarding his King of Diamonds on the Queen of trumps?

For all Andrew's books and flippers see andrewrobson.co.uk

Sudoku 967

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

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

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

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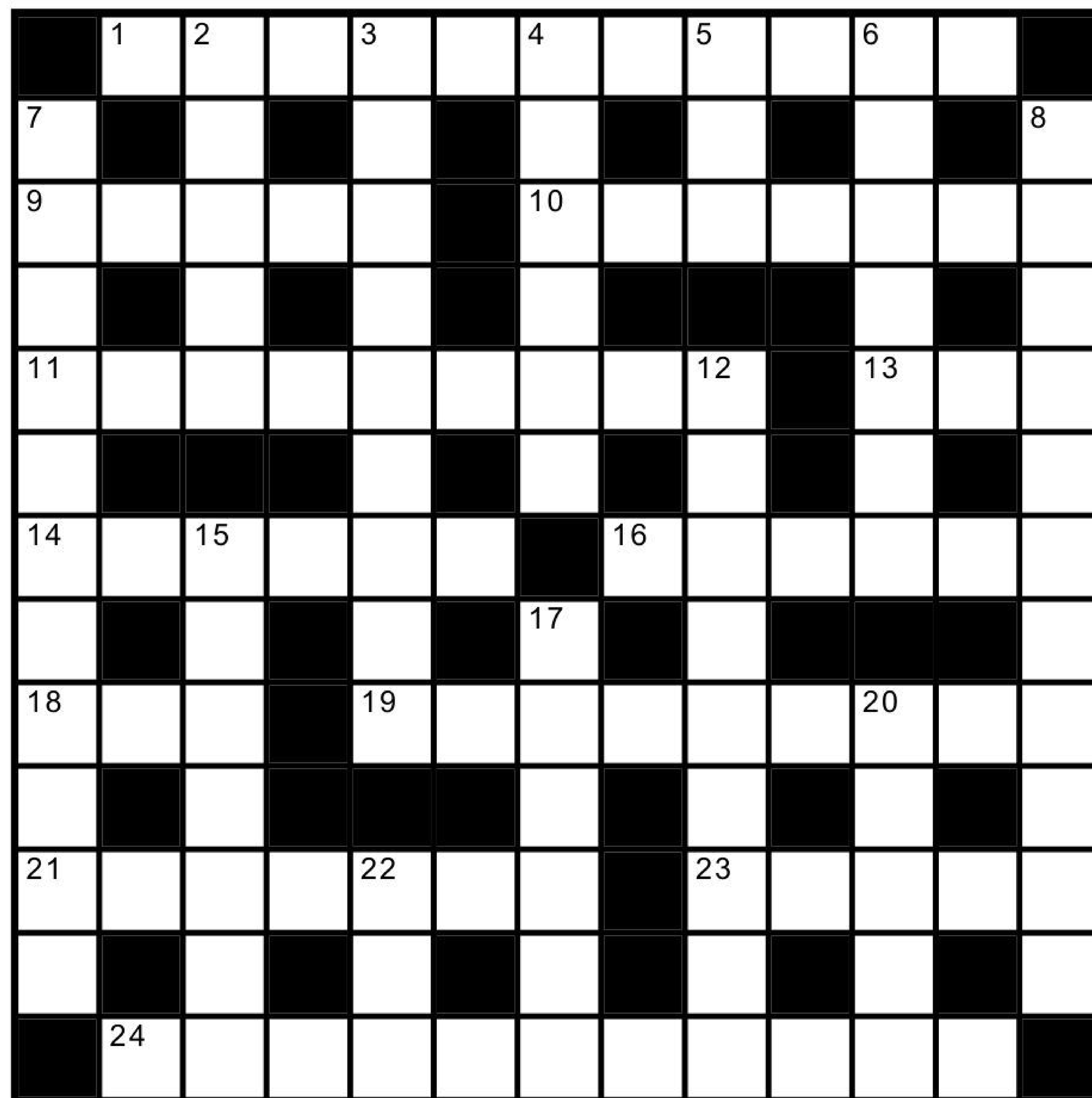
Tim Moorey's Quick Crossword No. 967

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 14 Oct 2019. Answers to MoneyWeek's Quick Crossword No. 967, 31-32 Alfred Place, London, WC1E 7DP.



Down clues are straightforward whereas across clues are mildly cryptic

ACROSS
- **1** Regular English fellow persevered (9, 2)
- **9** One part of company showing skill (5)
- **10** Shift work scheme engaging one (7)
- **11** Complaint? It's put on record first (9)
- **13** A financial daily is behind (3)
- **14** Dish in establishment re-evaluated (6)
- **16** Cook from Serbia sacked (6)
- **18** Two of the French foremost in Orleans (3)
- **19** Sketch with digital projection (9)
- **21** Part of horse seen alongside Elizabeth, head of state (7)
- **23** Automatic pistol to carry with hesitation (5)
- **24** Pour bottles out in danger area (7, 4)

DOWN
- **2** Undisguised (5)
- **3** Anything that discourages attack (9)
- **4** Enthuse (6)
- **5** Hurricane's centre (3)
- **6** Art of folding paper (7)
- **7** Diluted (7, 4)
- **8** Most popular books, say (4, 7)
- **12** Writes hurriedly (9)
- **15** Pig's foot used as food (7)
- **17** Edible mollusc (6)
- **20** Violent behaviour of, say, youths (5)
- **22** Flightless bird (3)

Name

Address

Solutions to 965

Across **1** Lab *two defs* **3** Pasta *past + a* **6** Ado *hidden* **8** Funfair *anagram* **9** Octet *Oct + ET* **10** Roger *two definitions* **12** Eyewash *E yew ash* **15** Fifteen across **17** Perform *per form* **19** Rotor *palindrome* **21** Plaza *anagram* **23** Joneses **25** Eve *eve(r)* **26** Error *(t)error* **27** Toy *two definitions* **Down** **1** Lifer **2** Ban **3** Prairie **4** Sergeant major **5** Alone **6** Aft **7** Out **11** Gofer **13** Abort **14** Has **15** Fop **16** Coroner **18** Orate **20** Risky **21** Pie **22** Ace **24** Sot.

The winner of MoneyWeek Quick Crossword No. 965 is: Peter Lewis of Shrewsbury

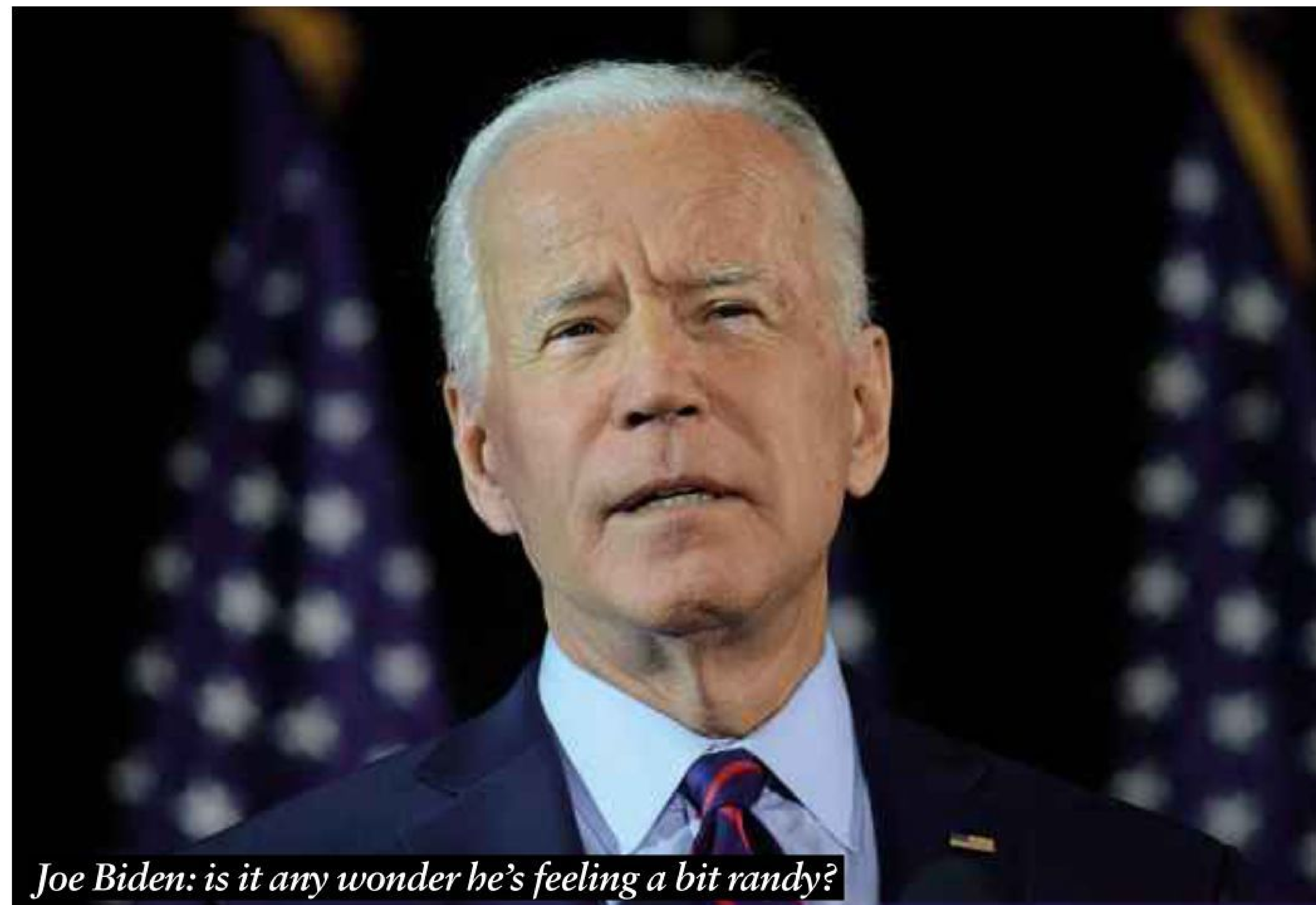
Tim Moorey is author of How To Crack Cryptic Crosswords, published by HarperCollins. See TimMoorey.info

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

The corruption stakes

When it comes to modern politics, you'd do well to fill your tank with cynicism

Bill Bonner
Columnist



Joe Biden: is it any wonder he's feeling a bit randy?

The big question inquiring minds want answered is… who's more corrupt? The Bidens or the president? Donald Trump wants the former vice-president Joe Biden and his son Hunter investigated for corruption in Ukraine. To get what he wants, Trump corruptly sought to misuse the power of his office to force the issue. This is what is at stake in the impeachment proceedings. Who is most corrupt? Surely "all of the above".

The Bidens appear to have taken advantage of an opportunity for financial gain engendered by a degenerate, full-spectrum empire. (The vice-president leaned on Ukraine's president to fire the prosecutor in an anti-corruption drive. This was widely supported in both the US and Europe, but Biden did not mention that it would also scotch corruption investigations involving his son, a lawyer who was employed by a Ukrainian gas company under investigation.) Such manoeuvring may cost taxpayers a trillion a year, but at least some Americans make a profit from it.

Trump saw his opportunity from another angle. If he could get a foreign country to snoop on the Bidens, it might boost his own odds of holding on to power. (Joe Biden is a candidate for president in the 2020 elections.) Here on the back page, we condemn neither man. Presidents, like plumbers, are rarely unsullied. And if we were in their positions, we might do the same.

"We don't condemn him. Presidents, like plumbers, are rarely unsullied"

So, we turn away from indignation and look instead at how their positions came to be. Man is easily corrupted; that will not come as news to anyone. He is always ready for a little hanky-panky if he thinks he can get away with it. But in a more honest period, a Ukrainian gas company would have little need for an American lawyer who knows little about natural gas and can't speak the national language.

But in comes a big, big empire with a deep, deep state… and the doors are unlocked and the liquor brought out. And nothing provides richer targets of opportunity, with so little personal risk, as overextended, reckless overseas meddling. Contracts are let. Experts are hired. Think tanks are engaged. Warplanes are commissioned. And the media trots behind like a camp follower.

What is really at stake is money. Money is spent to destroy a nation… and then more is spent to build it back, pretty much as it was before. And the common people have no idea what is going on. But to the insiders, every intervention has dollar signs on it. Power corrupts, goes the saying. And as the power of an empire matures, corruption spreads. "Power is the ultimate aphrodisiac," said Henry Kissinger. Is it any wonder the Bidens and the Trumps feel a little randy? You can't be too cynical about politics. The challenge is to be cynical enough. You're going to need a full tank of it to get through the next few years.

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The bottom line

$600m The cost of a space-based telescope that will be built by Nasa to act as an early warning system against threats posed by asteroids. In July, an asteroid large enough to destroy a city was detected only the day before it missed Earth by just 45,000 miles.

€137m How much the pilot strike that saw 2,325 flights cancelled last month cost British Airways in lost earnings, according to the airline's owner, International Consolidated Airlines Group (IAG). The group expects operating profits this year to be €215m lower than forecast.

€3m The value of a giant 600lb bluefin tuna caught by three fisherman off Courtmacsherry, southern Ireland, had they landed it and sold it to the Japanese market. Instead, the anglers tagged and released it as part of a conservation programme.

26m The sum in Swiss francs (£21.9m) raised from an auction near Geneva of supercars confiscated from Teodorin Nguema Obiang Mangue, the vice-president of Equatorial Guinea, whose father is the president of the impoverished African country. Lamborghinis, Ferraris and Bentleys were seized as part of a Swiss investigation into misuse of public funds.

$1.1m How much (including fees) the fibreglass and foam Darth Vader helmet, worn by British actor David Prowse in the second Star Wars film, *The Empire Strikes Back* (1980), fetched at auction in Los Angeles, with auction house Profiles in History.

99 The cost in US cents of getting a celebrity to respond to the commands you direct towards Alexa. Customers will eventually be able to choose from various celebrities and download their favourite to their Amazon digital assistants. In the case of actor Samuel L. Jackson (pictured), owners will be able to choose whether they want their Alexa to swear or not.

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