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Why investors  
should cry for  
Argentina



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Master of many  
guises runs  
for president



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# MONEYWEEK

MAKE IT, KEEP IT, SPEND IT

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## Secret sauce

How companies keep innovating  
*Page 24*

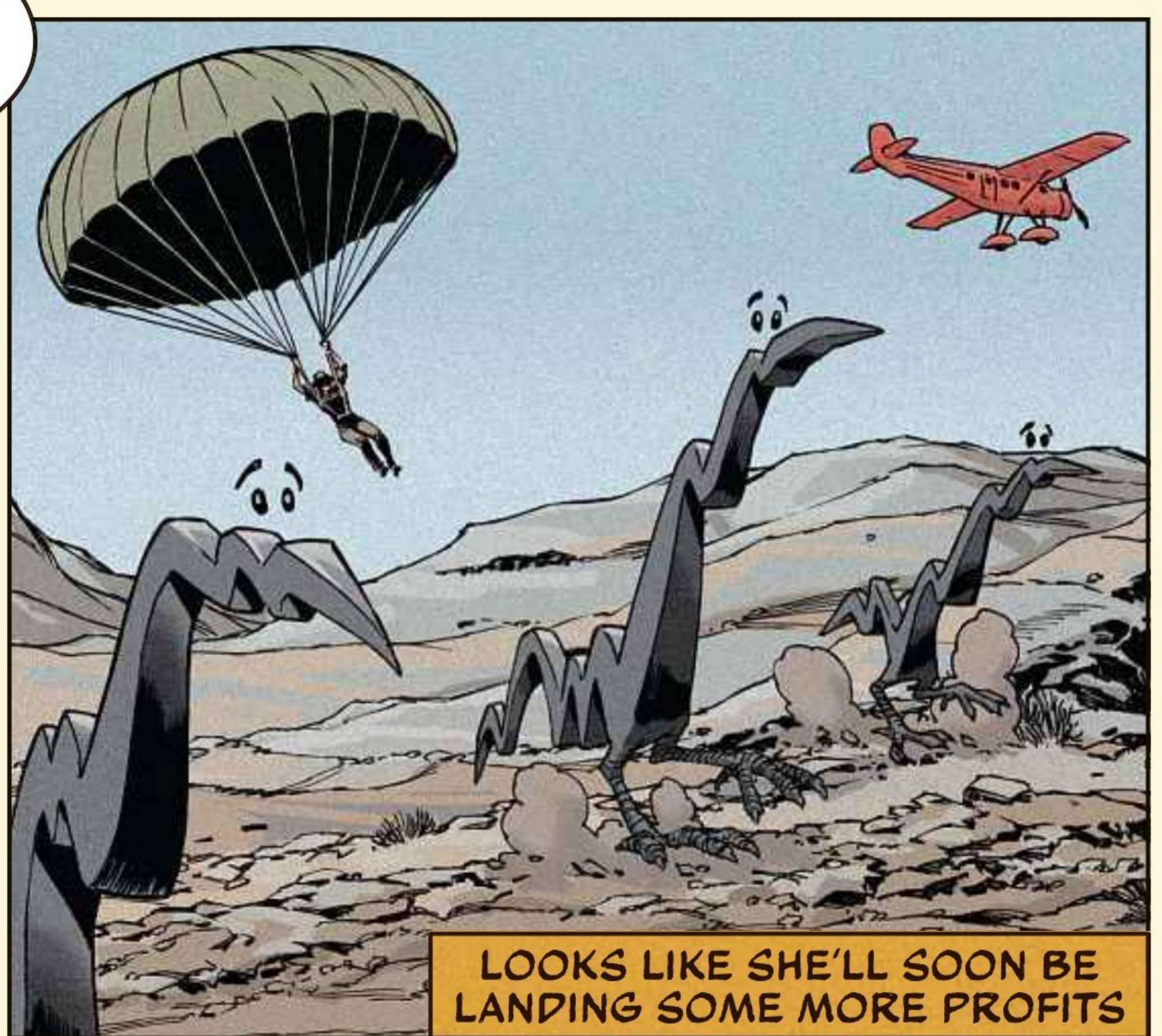
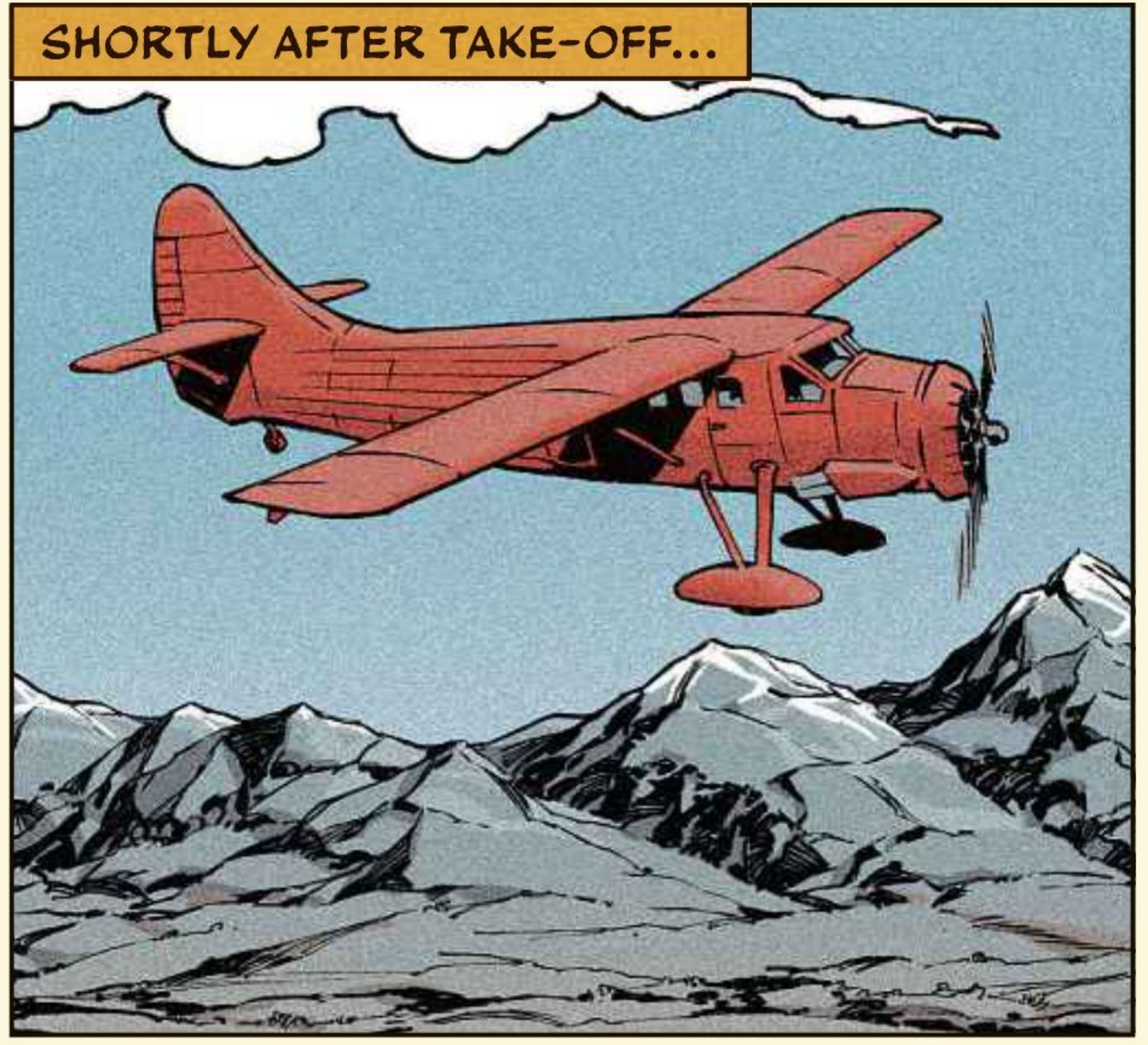
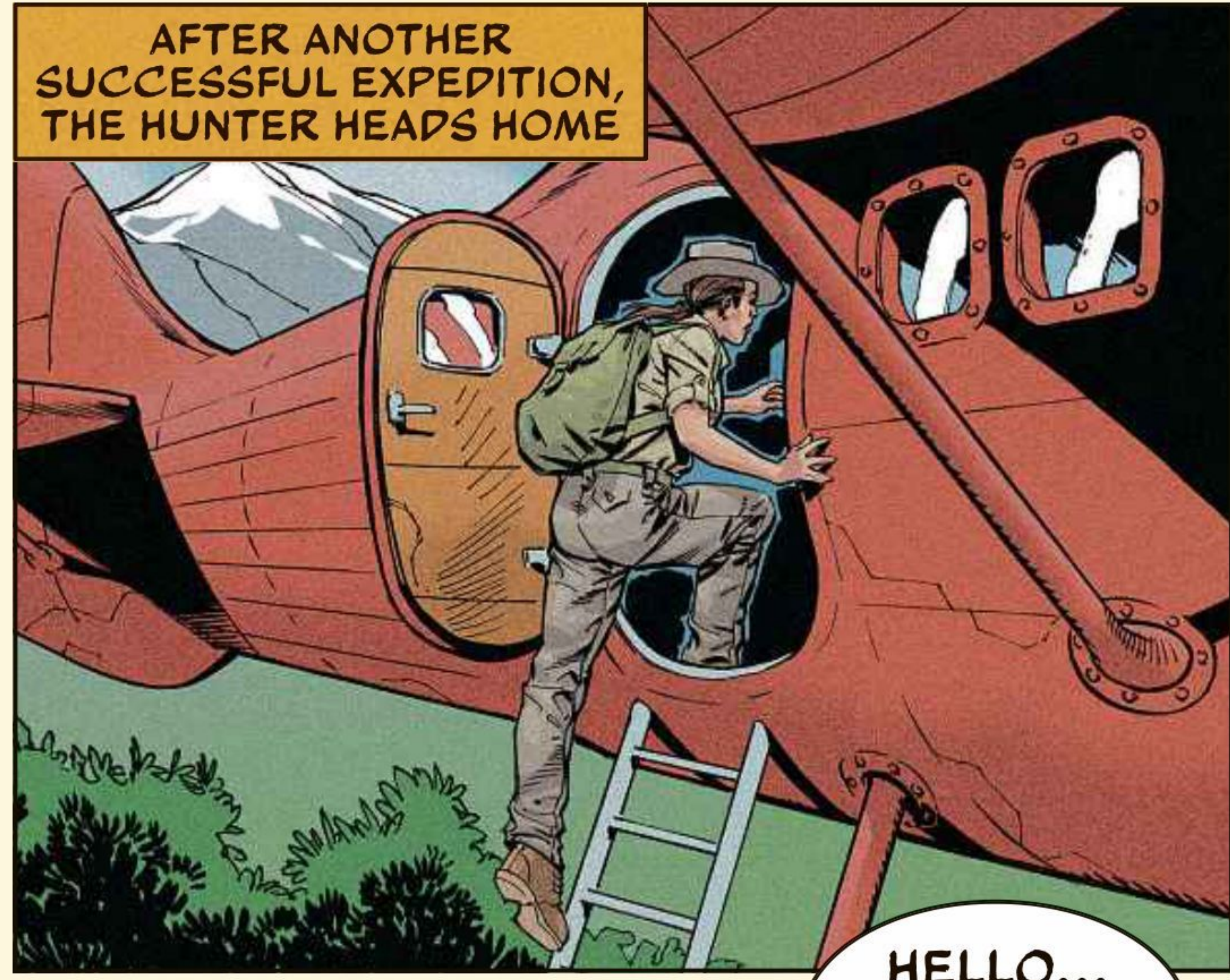


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## From the editor-in-chief...



Right. Here are your choices. Next week you can vote for Labour and £83bn of extra spending. You can vote for the Lib Dems for £63bn of extra spending, or you can vote for the Tories and £2.6bn of extra spending. We'd be over the moon if there was a party you could vote for that was prepared to open a conversation about how to cut the size of the state as a percentage of GDP, rather than keep promising to spend more, more, more. Failing that, we'd fancy a full-on revamp of the system in its entirety. We could start with the introduction of a land-value tax as a replacement for all other taxes on land and property (see page 19).

But we quite clearly aren't going to get either of those. So, if we insist on raising more money, how are we to attempt to do it? The idea of a wealth tax is obviously attractive to all politicians. But it comes with trouble – which is why almost no other OECD countries do it (17 did in 1990, four do now). It's hard to calculate, easy to avoid and hugely unpopular with anyone not making an income from their assets (even more of a problem in our low-rate days than usual). At the same time, many of the usual revenue-collecting methods are working less well than they once did: there is a reason why the trade war is focused on digital taxes this week (see page 4). Income tax revenues are increasingly elusive too: see page 22 for



Jeremy Corbyn: hey, big spender

*“We'd like to see a full-on revamp of the tax system, but we quite clearly won't get that”*

Dominic's take on wringing old-fashioned revenues out of modern gig workers, particularly now governments have removed so many people from the income tax net (43% of adults now pay none).

We look at the tax implications for you of each manifesto at [moneyweek.com](http://moneyweek.com), but it seems to us that to raise more money, more people will need to pay some income tax (successful taxes usually involve charging everyone a little bit); we will need to revisit the idea of not charging capital gains tax (CGT) on primary homes; and that of creating a gift tax. It's much easier to collect taxes from assets when those assets are on the move than when they are static. The key here, of course, is constant creative thinking rather than constant fiddling around the edges (see page 24 for how regular creative thinking works for companies too). Either way, as a reminder

of just what can happen when you decide you can spend more than you bring in long term, however creatively you manage your accounting, turn to Max's analysis of the many nightmares of Argentina on page 28. Hyperinflation doesn't tend to happen in countries with strong institutions. But even the strongest institutions have limits.

On to a few more mundane matters that deserve your attention. First, while I doubt you are still investing in any funds run by Mark Barnett at Invesco, those of you who are should turn to page 20 for Max's view on why you shouldn't be.

Second, if you are about to start on your tax return in the vague hope of getting it done by Christmas (and you are aiming to be as compliant as possible in a very complicated tax world), turn to page 31. There's a good chance you've breached your (very stupid) annual allowance. If you have it will cost you – but you might as well know how much sooner rather than later. Finally, Christmas presents. On page 5 we look at why diamonds might not be appreciated on the morning of the 25th as much as they once were. Then on page 40, we look at some things we reckon will be. Who doesn't want their own submarine?

Merryn Somerset Webb  
editor@moneyweek.com

### Losers of the week



Tal R, courtesy of the artist & Victoria Miro, London/Venice

A Danish court has ruled that two Faroese watchmakers cannot cut up a work of art to make faces for designer wristwatches, reports The Guardian. Dann Thorleifsson and Arne Leivsgard bought *Paris Chic*, by Danish artist Tal R, for £70,000 at a London gallery and hoped to chop it into 300 fragments to insert into watches to be sold for at least DKK10,000 (£1,130) each. Buyers would be able to choose which fragment would be used in their watch; one had already offered DKK41,000 (£4,644) to have the first pick. The court ruled that, while it is legal to destroy a work of art you have bought, the proposed use was an alteration of the work that contravened copyright law.

### Good week for:

**Phoebe Waller-Bridge** (pictured) has capped an impressive year of achievements by being named the “most powerful person in television” by The Radio Times. The Emmy and Bafta-award-winning writer, producer and actor was called a “phenomenal force of nature” by Charlotte Moore, the BBC's director of content.

An **anonymous gold prospector** has found the UK's largest ever gold nugget, reports the BBC. The 121.3g (4.2oz) lump, which is in two pieces that fit together like a jigsaw, was discovered at the bottom of a Scottish river using the technique of “sniping” – lying face down in the water wearing a diving mask, snorkel and dry suit. The previous record holder is the 85.7g Douglas Nugget, discovered in 2016 using the same technique.

### Bad week for:

**Boris Johnson** had to shave £400,000 off the asking price of his former marital home when he sold it recently, reports the Daily Mail. The four-bedroom, five-storey end-terrace in Islington, which he shared with his second wife, barrister Marina Wheeler, was put on the market in May for £3.75m, but eventually sold for £3.35m. The pair bought it in 2009 for £2.3m and will share the proceeds of the sale.

**Thousands of small businesses** could be plunged into debt after the collapse of a dubious digital advertising scheme, reports the BBC. They signed up to lease screens displaying advertisements, with the revenue from these expected to cover their monthly payments. The advertisements did not appear and the agency went bust, but the contract they signed means the lease payments must still be made for three years.



Cover illustration: Adam Stower. Photos: Getty Images

# Cracks spread in fragile China



**Alex Rankine**  
Markets editor

The passage through Congress of the Hong Kong Human Rights and Democracy Act, which aligns the US with Hong Kong's protesters, marks a "watershed moment in the escalating cold war" between Washington and Beijing, says Ambrose Evans-Pritchard for The Daily Telegraph. Yet, for all the "ritualistic" diplomatic protests, it probably won't stop the two sides agreeing to a phase-one trade deal.

## Keen on a deal

China's CSI 300 index fell back about 1.3% towards the end of last week after Donald Trump signed the Hong Kong bill. The yuan also weakened slightly. Yet China's decision to avoid trade-related retaliation – it stuck to banning the US Navy from Hong Kong – suggests that it does not want to upend the tariff negotiations.

There are still many sticking points, says Simon Pritchard for Gavekal Research, notably the size of the US tariff rollback and unrealistic American demands that China buy as much as \$50bn in US agricultural products.

Yet the pressure is growing on China to conclude an accord. Analysts are forecasting that annual growth will dip below 6% in the final quarter of this year and continue to fall into 2020 thanks to weaker exports and tighter domestic credit. That has sparked a rare public debate in the country about what to do, says Orange Wang in the South China Morning Post.

Prominent economist Yu Yongding recently took to the pages of the *Caijing* business magazine to declare that "it is



*Vietnam is likely to be a major growth story over the next decade*

time to brake" the "vicious [downward] spiral" before falling growth, investment and consumer spending get worse. Others are calling for an increase in the budget deficit limit above 3% to give more room for fiscal stimulus. Yet Premier Li Keqiang has ruled out a return to the "all-out stimulus" that China tried a decade ago in the wake of the global financial crisis.

China's leaders are well aware that the post-2008 stimulus "became excessive", says Simon Hunt in Halkin's Thought For The Day newsletter. Too much of the lending and spending splurge ended up in "the stockmarket, property and other speculative activities" rather than the real economy.

From local government to state-owned enterprises to a "myriad of small

banks", the indebted financial system is now paying the price. Authorities are determined not to make the same mistake again, so small, targeted stimulus measures remain the order of the day.

## Look beyond the Middle Kingdom

Over the past decade about half of all global growth has come from China, notes Louis Gave for Gavekal Research. So dominant has the Middle Kingdom become that "investors have got used to looking at emerging markets through the prism of China". Yet as China tackles its debt overhang and growth slides it is not too much of a stretch to think that the best growth stories in the next decade will be found elsewhere in the likes of "Brazil, India, Indonesia, Russia" and Vietnam.

## Trump's trade war tantrum returns

"Mount Tariff erupts again", says The Wall Street Journal. Just when you think that US president Trump's trade war antics have gone dormant, "there he goes again".

This week the US president unleashed surprise tariffs on Brazilian and Argentine steel imports. He also proposed up to 100% levies on \$2.4bn of French imports of cheese, wine and luxury goods in retaliation for a digital services tax that Washington says disproportionately targets US firms. The announcement sent stockmarkets plunging. America's S&P 500 had its worst day in almost eight weeks on Monday, while the FTSE 100 slid to a six-week low on Tuesday. The steel levies are "ludicrous", says John



*The US president has spread mayhem across two new continents*

Authurs on Bloomberg. Donald Trump says that they are in retaliation for the weakness of the Brazilian and Argentine currencies, which is hurting US farm exports. But "it is absurd to complain that Argentina, a nation with

inflation of more than 50%" that is emerging from a serious economic crisis, has a weak currency. The most likely explanation is that the president simply doesn't know what he is talking about. But it is also just possible that

people in his administration are looking to punish two key beneficiaries of China's hunt for new agricultural suppliers. It also increases the pressure on the US Federal Reserve to cut interest rates yet again.

With next year's election approaching, most traders thought Trump would shelve his trade antics, says The New York Times's DealBook. But his decision to spread tariff mayhem across two new continents shows that "no one is safe". Trump alternates between the "id and ego" of "Dow Man vs. Tariff Man", Chris Krueger of Cowen Washington Research Group tells Tory Newmyer in The Washington Post. The upshot? Don't bet on "Christmas calm" in the markets, says Newmyer.

## Have house prices turned the corner?

UK house prices are showing signs of life. Nationwide data shows that the average price of a home rose 0.8% on the year in November, the fastest pace since April. With inflation running at 1.5% and wage growth at 3.5%, that means that prices are slowly falling in real terms and becoming more affordable. The house price/earnings ratio is currently at about 6.8, below its 2017 peak of 7.3 but still well above the long-term average of 4.5.

The slowdown has been most pronounced in London, says Oliver Shah in *The Sunday Times*. Property prices in the capital dropped 5% from their 2016 peak before a recent low; sales volumes fell 40%. Yet the “bulls are beginning to paw the ground”. A 21.1% jump in the number of buyers in October and a sharp rise in the number of estate agents predicting price growth over the next 12 months suggests that the market may have turned the corner. House prices in the city picked up 1% year-on-year in October.

Yet while British house prices are now moderating compared to incomes, it may take some time for first-time buyers to feel the effect, writes Melissa Lawford in *The Daily Telegraph*. Housing market trends usually start in the most expensive properties and cities and then gradually trickle down into the wider market as people find themselves priced out, explains Hansen Lu of Capital Economics. Where London leads, the rest of the country often follows.

# Diamonds lose their shine

Diamond miners are in dire straits. The \$90bn market is being squeezed by demand and supply problems and faces a long-term threat from manufactured gemstones.

Industry giant De Beers sold 12% fewer stones at its most recent sale compared to a year before, says Alexandra Wexler in *The Wall Street Journal*. Operating earnings at the Anglo American subsidiary fell to \$518m in the first half, down 27% compared with the previous year.

A slowing global economy and US-China trade tensions have weighed on luxury demand. Tighter lending conditions in India, “where most diamonds are cut and polished”, has also disrupted the supply chain.

The “diamond midstream”, the middlemen linking those who dig the stones out of the ground to those who sell them in the world’s global cities, “is being squeezed like rarely before”, agrees Thomas Biesheuvel on Bloomberg. The industry is so oversupplied that De Beers cut its prices for the stones by 5% across the board last month.

### Mid-cap misery

However, it is not De Beers that is suffering most. Shares in the seven medium-sized miners have slumped by as much as 88% in the past year, says Alex Hamer in *Investors*



The synthetic diamond market is “exploding”

Chronicle. London-listed Petra Diamonds is down more than 78% so far this year. A heavily concentrated market compounds the problems for smaller players. The duopoly between De Beers and Russian operator Alrosa leaves the other “seven listed miners” to fight over the remaining eighth of what is already a relatively small market.

The industry also faces a longer-term threat from the rise of lab-grown diamonds, which are chemically identical to mined stones and about 40% cheaper. They are also perceived as more ethical by some consumers because of concerns about “blood diamonds” and the environmental impact of mining. Although manufactured stones still only account for about 3% of the

rough diamond market, it is a growing sector and “synthetic diamond exports from India are exploding”, says Ben Davis of Liberum Capital Markets.

Mid-cap diamond miners are at a low point, but value investors should tread carefully, says Hamer. Given the inauspicious outlook further pain could be on the way. Make sure the miners “are actually recovering before buying in”.

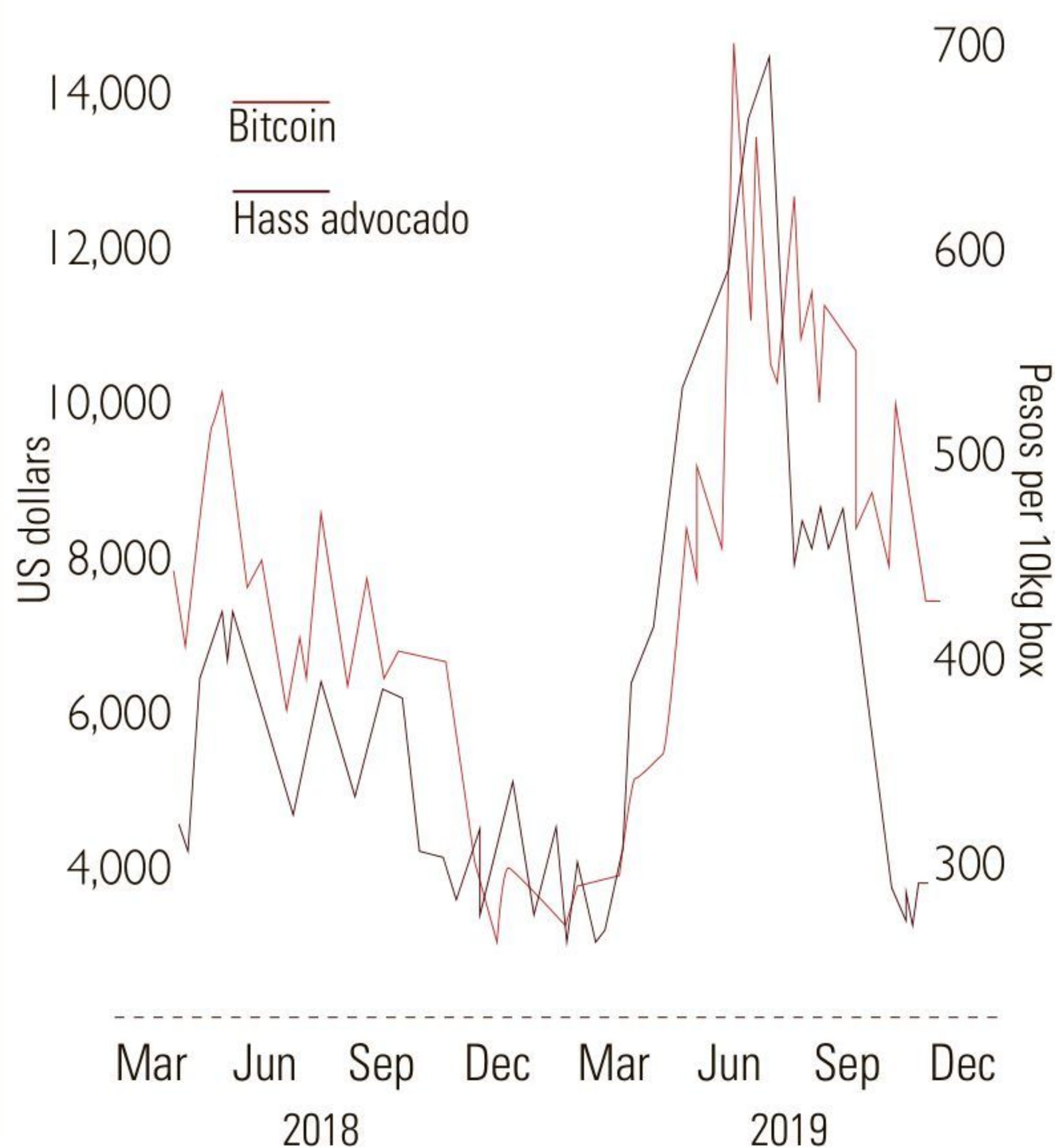
It’s not all bad, notes Edward Thicknesse in *City AM*. While overall diamond prices are weak, a single big find can still mean a tasty, albeit unpredictable, profit. Just take Petra Diamonds, which last month “sold a 20.08 carat blue diamond” found in South Africa for \$14.9m (£11.4m). It’s always good to stumble upon a “diamond in a rough year”.

## Viewpoint

“Executives carry on adding to their [huge] bonuses in spite of widespread opprobrium... [They] are behaving in much the same way as the leaders of trade unions did in the 1970s... If government tried to rein them in... trade unions would threaten strikes. If government challenges executives today they say they will take their companies and tax revenues abroad. The effect is the same, government and society are stuffed. Institutional shareholders do not put meaningful pressure on company boards because their self-interest does not allow them to; they pay themselves outrageously... Employees in union days... went along with the disruption caused by union bosses because they could [secure] pay increases. Again, why should they call them to account? Society will revolt... But like the union leaders in 1979, the executives think they are invulnerable.”

Anthony Hilton, *Evening Standard*

## Avocados and bitcoin are in sync



“Correlation is not causation” is a dictum well worth bearing in mind when it comes to finance: just because two variables appear to be linked it does not mean that one causes the other. There is a correlation between Bangladeshi butter production and US stockmarket returns, but it would be unwise to base your assessment of the latter on the former. An amusing new spurious correlation is between the price of bitcoin and Mexican Hass avocados, as Tracy Alloway notes on Bloomberg. They have nothing to do with each other beyond “superficial price action”. In fact, they are heading in different directions. The avocado market is coalescing around the Hass variety; cryptocurrencies are splitting into “ever-proliferating” new coin types.

Source: Bloomberg

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

## Three to buy

### Babcock International Shares

This defence and nuclear contractor provides “mission-critical” products and services to the UK armed forces, emergency services and civil nuclear industries. It has been through a cycle of earnings downgrades but now looks set to recover. The group's combined order book and pipeline is at a record level, and new opportunities in Canada, Norway and Australia bode well. A 5% dividend yield and a solid balance sheet make



this a “compelling long-term investment”. 590p

### Blanco

*The Mail on Sunday*  
Almost 60% of the world's population regularly use the

internet, sending millions of photos and 160 million emails every minute. That immense volume of data creates privacy risks. Blanco is one of the leading providers of data-erasure software, helping to wipe messages from old phones and electronic equipment. The firm looks well positioned at a time when companies must comply with increasingly strict laws on how they handle customer information. The group operates in 60 countries worldwide and the business is growing fast. Buy. 132p

### WPP

*Motley Fool UK*  
This “dirt-cheap” media group is “one of the most disliked stocks in the FTSE 100”. Contract losses and falling earnings have caused the share price to halve since 2017 as clients move marketing work in-house. Yet on a forward price/earnings ratio of 10.2, the shares now appear undervalued. Sales are growing again. A 6% dividend yield means that investors are effectively being paid to wait for a recovery. Buy. 995.5p

## Three to sell

### Premier Oil

*The Sunday Times*  
Why is this oil explorer the most shorted stock in the FTSE 250? Because punters trading “contracts for difference” use the firm as a proxy to bet on the oil price. That turns the share price into a “quasi-casino”. Production performance has been decent and the forthcoming sale of a field in the Gulf of Mexico could provide some upside. But for now this is a “heavily indebted” business “at the mercy” of the oil price. Avoid. 87p

### Royal Mail

*The Daily Telegraph*  
Our decision to tip Royal Mail has not proved “our finest hour”. The shares have declined by 52% over the past three years and the latest interim results brought an admission that it could make a loss next year. Addressed letter volumes have fallen 50% since 2004 and the group has failed to reconfigure its network to take full advantage of the

rise of parcel delivery amid the online shopping boom. Ongoing industrial disputes with unions are yet another headwind and cast further doubt on the dividend's sustainability. Sell. 218p



### Premier Foods

*The Times*  
Sales of Mr Kipling's “exceedingly good cakes” have sparked a profit recovery at this

group, which also sells Oxo cubes, Loyd Grossman sauces and Ambrosia creamed rice. Yet the return to profit in the first half may not be enough to turn around the company's fortunes. A £492.9m debt pile is “far too high”, accounting for more than three times profit before tax and other items. Throw in a pension fund shortfall and any dividend payment is out of the question. Activist investors are calling for the disposal of some brands, but the future strategy remains up in the air. Avoid. 40p

## ...and the rest

### The Daily Telegraph

Hold onto IMI. The engineering group is diversifying away from the volatile energy sector, but on 15.5 times forecast earnings the shares are not as cheap as they once were (1,121p). Smaller stocks look set to outperform so we like the **Aberforth Smaller Companies** investment trust (1,400p). Online fashion shop **Asos** uses cutting-edge technology to “detect buying trends” before the competition. Buy a “global retail giant in the making” (3,143p).

### The Mail on Sunday

Christmas is a key season for **IG Design**, a leading manufacturer of gift packaging and greetings cards. The share price has tripled in three years thanks to a strong performance in America. Prospects remain bright but cautious investors may wish to take profits to “brighten up their own festive season” (660p).

### Shares

Income investors looking for greater diversification should take a look at the **Middlefield**

**Canadian Income Trust**, which is London's only listed Canadian equity income fund (105p). Livestock genetics firm **Genus** should enjoy strong demand over the next few years as farmers hit by the African swine fever outbreak repopulate their herds – “stay invested” (3,078p).

### The Times

Construction group-cum-landlord **Watkin Jones** is exposed to the compelling structural growth of the residential

rental market for students, young professionals and families (224p). An improving outlook for gold and silver recently helped propel **Polymetal International**



back into the FTSE 100. The shares are tempting on a 4.6% dividend yield, but there are risks involved in investing in a miner operating in Russia. Hold (1,162p).

## A German view

The Swiss market is full of top-quality stocks, says **Wirtschaftswoche**. One of the most appealing is **Geberit**. It makes and installs water supply pipes and fittings. Products range from basins and urinals to roof-drainage systems. It is a beneficiary of the ongoing European construction boom underpinned by historically low interest rates. But Geberit barely needs this tailwind. It has always been highly efficient: its operating margin rose to 31% in the first nine months of 2019 as operating income climbed to CHF732m (£570m). The firm throws off plenty of cash to buy back shares and pay dividends. The current yield is 2%. The balance sheet is solid, with net debt at a manageable CHF533m (£416m).

## IPO watch

Beverage giant **ThaiBev** is considering floating its brewery businesses on the Singaporean stock market, says **Bloomberg**. It is likely to seek a valuation of up to \$10bn. If successful, the listing could become Singapore's biggest in nearly a decade. The spun-off entity would rank among South East Asia's biggest beer companies, roughly on par with China's **Tsingtao Brewery Co.**, but still much smaller than **Anheuser-Busch InBev's** Asian unit, which raised \$5bn in its Hong Kong initial public offering (IPO) in September. Beer consumption has flatlined in the US, Japan, and China, but Southeast Asia's expanding middle class and youthful population make it a “bright spot” for the market.

## City talk

● Although Nissan “pioneered” electric vehicles it has “lost its edge” in recent years, says Stephen Wilmot in *The Wall Street Journal*. Seizing back the initiative will be key to new CEO Makoto Uchida’s chances of reviving the company. But Nissan’s new Ariya electric sports utility vehicle, which embodies Nissan’s “hopes for the future”, won’t enter production until 2021. Still, at least the new SUV will be built on a “dedicated electric-vehicle platform” developed jointly with its partner Renault, showing that there is still life in an alliance strained by tensions over unequal cross-shareholdings and the arrest of former Nissan boss Carlos Ghosn.

● Like Amazon founder Jeff Bezos, billionaire industrialist John Elkann has decided to act as a “guardian of the free press” by getting his family’s holding company Exor to invest in the media, says Lisa Jucca for *Breakingviews*. Exor is buying the Italian media group GEDI, which includes the “struggling” newspaper *La Repubblica*, at a 64% premium. But Exor will find it hard to arrest the “decade-long” decline in Italian newspaper sales that



has reduced GEDI’s share price by 60% since 2008.

● Apple’s plans for “expensive television shows” may have generated headlines, but wireless AirPods earphones have become one of the company’s most successful new products, says Lex in the *Financial Times*. A \$249 noise-cancelling pair is especially popular. Sales of AirPods, which can be linked to other smartphones and computers and are also “fairly easy to misplace”, may end up reaching \$13bn. Such a sum would be extremely useful, given that sales of iPhones, the company’s biggest product, have “stalled”.

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moneyweek.com

# Ocado goes shopping

The internet supermarket is investing more in automated warehouses and has entered Japan. But has it overreached? Matthew Partridge reports

Ocado Group is best known for selling food on its website. But its decision to issue £500m in bonds shows that it has “staked its future on selling robots which can replace human workers at other [firms’] storage sites”, says Laura Onita in *The Daily Telegraph*. The money will be used to pay for the construction of “automated warehouses”, which it has sold to supermarkets worldwide as they fight off the likes of Amazon. Last week Ocado announced a big deal with Japanese supermarket Aeon, doubling the number of warehouses it has sold overseas.

The deal with Aeon, which could see it get a share of an estimated £7bn a year in sales by 2035, is an important step in Ocado’s journey “from an overpriced player in low-margin food deliveries to whizzy tech company”, says Lex in the *Financial Times*. However, while this change in direction has helped the share price quadruple in two years, it also comes with some risks. Ocado will have to pay the upfront costs of the warehouses, and won’t receive any revenue until they open.

## Juggling too many balls?

Getting a foothold in the “world’s fourth-biggest grocery market” certainly seems attractive, says Bloomberg’s Andrea Felstad. However, Ocado may have “bitten off more than it can chew”, especially since it “already has a lot on its plate” in delivering the exclusive partnership that it has previously agreed with the American supermarket chain Kroger Company. This partnership will see Ocado building 20 automated warehouses for Kroger over the next three years. Given the fact that the success with the Kroger project is “crucial to enhancing its credibility with clients and investors alike”, Ocado may have been better to “keep it as its priority”. Ocado’s ability to satisfy all the contracts it has signed with international grocers for their online operations isn’t the only worry, says Sam Chambers in *The Times*. Consumers



The online grocer is shifting from low-margin food to whizzy tech

increasingly expect to be able “to order groceries and have them delivered on the same day”, a demand Ocado’s out-of-town warehouses cannot meet. As a result, one of the industry’s “pre-eminent disruptors” could be facing a “wave of disruption” from not just Amazon, but also start-up Takeoff Technologies, which is installing “mini Ocado-style warehouses” inside supermarkets so that retailers can “deliver orders the day they are placed”.

Don’t panic, says Dasha Afanasieva for *Breakingviews*. The market “keeps changing its mind about the degree that Ocado’s technology is inimitable” and the extent to which it can compete with Amazon. However, as well as Aeon and Kroger, Wm Morrison, Spain’s Bon Preu, France’s Casino, Canada’s Sobeys and Sweden’s ICA have all bet on Ocado’s technology. While some of these supermarkets have only committed to one Ocado grocery-packing warehouse, “they can’t turn to a competitor within a set capacity and timeframe”.

## Yet another clanger at Ted Baker

The struggling fashion retailer Ted Baker has found “another banana to slip on”, says Camilla Canocchi on *This Is Money*. The stock fell to a ten-year low this week after it admitted that it had overstated the value of its inventory by around £25m.

The group has called in lawyers and independent accountants to investigate the issue and says it has enough cash to “cushion the impact” on the balance sheet.

However, the company’s decision to bring in external investigators suggests that there may be more serious problems “bubbling under the surface”.

The latest revelations worsen what has already been

a “torrid year” for a firm previously hailed as one of the “shining lights” of the high street, says Julia Kollwe in *The Guardian*. In March founder Ray Kelvin was forced to stand down after former and current staff complained about an alleged regime of “forced hugs” and harassment. The



firm’s profits were hit by the £2m cost of an investigation and legal matters relating to the allegations. Since then the company has issued three profit warnings and dived to a first-half loss of £23m in October, its first in more than two decades.

The fact that Ted Baker’s share price “has unravelled faster than a snagged cardy”, falling more than 80% in nine months, increases speculation that Kelvin may be tempted to return with a “cut-price buyout bid”, says Ben Marlow in *The Daily Telegraph*. However, those betting on this outcome should be aware that every “fresh clanger” makes that “an even bigger leap of faith”.

6 December 2019

MONEYWEEK

# When Johnson met Trump

The Nato summit may have been fraught – but not for Boris Johnson. Emily Hohler reports

With a week to go until polling day and Labour trailing the Tories by nine points, party leader Jeremy Corbyn needed something “to put rocket boosters under his campaign”, says Matt Chorley in *The Times*. The arrival of loose cannon Donald Trump in London this week for Nato’s 70th birthday summit – a potential “nightmare for the Tories and a dream come true for Labour” – seemed to provide a golden opportunity. What nobody could have predicted is that, so far at least, the US president has been on his “best behaviour”, leaving Corbyn “perplexed and purposeless”.

Instead of rogue tweets about chlorinated chicken or talk of unrestricted access by US firms to the NHS, Trump has said he wouldn’t want anything to do with the NHS were it “handed to us on a silver platter” – a line that could have been written for him by Downing Street strategist Dominic Cummings, says Tom Harris in *The Daily Telegraph*. As for a direct endorsement of Johnson and an attack on Corbyn, which would have suited Labour “even better”, Trump merely described Johnson as “very capable”.

For his part, Johnson is “keen to distance himself” from Trump, whose approval ratings here are “dire”, says the *Financial Times*. On Tuesday, Johnson risked his ire by insisting that he wanted to push ahead with the Conservatives’ manifesto pledge to implement a digital sales tax, mere hours after Trump threatened to punish France for imposing a similar measure.

## Corbyn’s quandary

All this leaves Corbyn “in a quandary”, says Chorley. What can he do at this late stage to “achieve campaign lift-off”? The Tories’ current poll lead is “narrowing”,



but there is no indication of a “dramatic Labour surge”. The latest YouGov poll shows that 43% of voters expect a Tory majority, while just 6% expect Labour to win outright. In all, 41% favour Johnson as prime minister and although Corbyn’s personal ratings are rising, there are no signs of people suddenly warming to him, as they did in 2017 when his ratings leapt from 15 to 39. Voters also “overwhelmingly back” the Tory response to the London Bridge terror attack with 85% wanting terrorists to serve longer sentences. “Even three-quarters of Labour voters support Johnson’s hardline stance.”

## The potential upside of Nato

Meanwhile, the meeting of Nato’s 29 members offers a potential electoral upside too, says Richard Whitman in *The Times*. In addition to the “optics” of Johnson shaking hands with a “cast of presidents and prime ministers”, it’s also an opportunity to contrast the Conservatives’

security and defence policy with that of Corbyn, “with his long-standing opposition to Nato and nuclear weapons”. Johnson spoke of Britain’s commitment to Nato as being “rock solid”, and stated that “if Nato has a motto, it is ‘one for all and all for one’”.

Yet the affinity between Trump and Johnson still causes “difficulty” for the prime minister both “inside and outside the summit”, says Rafael Behr in *The Guardian*. To European leaders, Trumpism and Brexit both look like “wrecking balls swinging into the edifice” of institutions erected to insure against future conflict. Johnson rejects this characterisation and says that Euroscepticism and Natophilia are compatible, but when trade talks begin, the prime minister will discover how binary the choice between Brussels or Washington is. The players that matter are the US, Europe and China. Britain can choose whose view it prefers, but it “isn’t in a position to dictate terms of its own”.



E.on: wielding the axe

## Twilight of the energy giants

German energy giant E.on has “lost no time in wielding the axe at its ‘English Patient’, Npower” where up to 4,500 jobs from its 5,700 workforce could go by 2021, says Alex Brummer in the *Daily Mail*. E.on, which acquired Npower as part of an asset swap with fellow German utility RWE this year, has pulled the plug after Npower posted a nine-month operating loss of £142.3m. The failure “underlines the pressure on a sector being buffeted by the unintended consequences of government policy and technological change”, says Liam Kelly in *The Times*.

A decade ago the “big six” had a combined market share of 98%. That has fallen to 72%,

according to regulator Ofgem. They have been “squeezed by fast-growing, deep-pocketed rivals” such as Ovo and Octopus, which have “slicker technology and offer better customer service”. Meanwhile, former prime minister Theresa May’s cap on energy bills has squeezed “already thin margins further”. But Npower was losing customers long before the cap, notes Alistair Osborne, also in *The Times*, partly thanks to billing errors that landed it with a £26m fine.

What about consumers? The key “challenger” brands – Shell, Ovo, Bulb and Octopus – have been billed as the “new heroes”, says Jo Butlin on the *Energyst.com*, but “let’s get

real”. They may be more efficient, but their margins are “equally skinny”. They need to fund investment as they grow, yet all four made “substantial losses” in their last financial year. Technology and carbon reduction offer huge opportunities, but businesses can’t focus on them while under such financial pressure. Ofgem and the government urgently need to take pressure off suppliers, accelerate the removal of regulatory barriers so they can offer innovative products, and “let the market operate as a market without artificial constraints”. And the media needs to stop portraying energy suppliers as public enemy number one.



**Betting on politics**



With the general election taking place on Thursday 12 December, I think you should bet on Labour to retain Edinburgh South at 2/7 (78%) with Bet365. While Labour is set to do badly in Scotland, the SNP is unlikely to overturn a majority of 15,514 in a pro-union constituency. I also think you should bet on Labour to retain Birmingham Egbaston at 4/9 (69.2%) with Bet365, especially as it would require a large Conservative swing in an area that narrowly voted to remain in the European Union.

While the Conservatives came within inches of ousting the then-MP Glenda Jackson in 2010, Hampstead and Kilburn is now a safe Labour seat. Given that the area voted heavily to remain in 2016, and the Liberal Democrats are going nowhere, the 1/4 (80%) with Bet365 on Labour



looks very good value. Similarly, Westminster North, where Labour MP Karen Buck (pictured) has a majority of 11,512, is another London seat that Labour should retain, so you should take them at 1/6 (85.7%) with Bet365.

I'd also take Paddy Power's 1/5 (83.3%) on Labour to retain Bristol West. While the Lib Dems won this seat in 2005 and again in 2010, Labour's Thangam Debbonaire captured it in 2015, and then retained it two years later with a majority of more than 37,000 with the Lib Dems behind both the Greens and the Conservatives. Finally, I'd bet on Labour to win Leicester East at 2/9 (81.8%) with Bet365 as this is one of the safest seats in the country with a majority of 22,428.

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# A bloody crackdown in Iran

Protests in Iran could be reaching a tipping point. Matthew Partridge reports

The Iranian regime has acknowledged that security forces killed civilians in “the deadliest crackdown on demonstrations in the 40-year history of the Islamic Republic”, reports Michael Safi in The Guardian. While there are no official estimates of the death toll, charity Amnesty International thinks at least 208 protestors have been killed, a figure that will “almost certainly increase” as more information emerges. In addition, about 7,000 people have been arrested, with reports that some families are being forced to make extortionate payments to have the bodies of victims returned to them.



Supreme Leader Ali Khamenei

## Another Iranian revolution?

This isn't the first time that Iran's government has attempted to crush protests, says Sune Engel Rasmussen in The Wall Street Journal. In 2017 and 2018, demonstrators across the country decrying “poor economic conditions” and “government corruption” were also met with violence. However, while the latest protests were triggered by the “sudden removal of subsidies on gasoline”, the evidence suggests that the discontent goes deeper than a hike in the petrol price – it is driven by a sense of “lost hope and political paralysis”.

The fact that hundreds have been killed in just a few days suggests “something more seismic” is at work this time, says Ishaan Tharoor in The Washington Post. The brutality of the government's response suggests that Iran's Supreme Leader Ali Khamenei is worried about the regime's survival, with many experts suggesting that this latest massacre could

backfire on the regime in the same way that a crackdown on protestors in 1978 “preceded the downfall of Iran's shah and the rise of the Islamic Republic”. Even if Khamenei isn't immediately overthrown, the bloodletting could “ultimately manifest itself in politics down the road”.

## Breaking sanctions

Don't bet on the regime crumbling soon, says

Thomas Friedman in The New York Times. These protests, along with those in Lebanon and Iraq, show that Middle Easterners are tired of the “arbitrary rule of militias, thugs or autocrats”. Unfortunately, their chances of taking power are “remote”. Tehran is willing to arrest or kill as many demonstrators as it takes “to retain its grip on Iraq, Syria and Lebanon, not to mention at home”. The ayatollahs are “arguably the biggest enemy of pluralistic democracy in the region today”.

Still, even if the protests don't lead to immediate political change, they do represent a “crisis of legitimacy” for Tehran, says Eli Lake on Bloomberg. The anger is far more widespread than during the 2009 election protests – the last major challenge to the Iranian regime – with even Iranian Kurds, who have traditionally stayed out of politics, joining in. So, it's bizarre that many countries, including the UK, are currently assisting the regime by developing a bartering system, Instex, to help Iran evade US oil sanctions. “If history is any guide, Iranians will not soon forget the violence and torment their regime has inflicted on them. Nor will they forget those foreign powers that offered that regime an economic lifeline.”

## A jolt for Germany's unhappy marriage



Walter-Borjans and Esken: the SPD's new bosses

The election of a “new leftwing leadership duo”, as co-heads of Germany's Social Democrats (SPD), throws the future of Angela Merkel's government in Germany into doubt, says Kate Connolly in The Guardian. Norbert Walter-Borjans and Saskia Esken, the new leaders of Germany's second-largest party, have pledged to

renegotiate the terms of their alliance with Merkel's Christian Democrats, threatening to “pull the plug” on the coalition unless they get “major concessions”. Demands are likely to include: raising the minimum wage; abandoning the commitment to balancing the federal budget; and taking a “more radical approach” to climate policy.

The coalition has always felt like an “arranged marriage”, says Anne McElvoy in the Evening Standard, only held together “by fear of what life as a political singleton might be like when Germany's economic outlook is dour”. However, SPD members who backed the pair in the hope of breaking the partnership up should think

again. The old industrial base that sustained the SPD has “shrivelled”, while other voters “can pick from alternatives which reflect their geography and demographic”.

Yet many party members viewed the pair as the only alternative to “more of the same”, says Jeremy Cliffe in the New Statesman. Being Merkel's junior coalition partner for ten out the last 14 years has hardly been good for the SPD. Since 2005, it has had 11 different leaders, and seen its vote share drop from 34% to 20.5% in 2017. And even if the coalition fails, Merkel will either “reluctantly” form a minority government, or come to an “informal arrangement” with the Greens.

### Mountain View, California

#### Google duo step down:

“Not since Bill Gates said in 2006 that he was quitting his day job at Microsoft have the founders of a leading US tech company chosen to simply walk away,” says Richard Waters in the Financial Times.

Google’s co-founders Larry Page and Sergey Brin (pictured, left to right) have stepped down with immediate effect from technology conglomerate Alphabet, Google’s parent company, where they were CEO and president respectively. Sundar Pichai, chief executive officer at Google, will take on the additional position of chief executive at Alphabet. The duo, “one of the most successful double management acts in history”, will remain involved as co-founders, shareholders, and members of the company’s board of directors, but have said it is “time to simplify” the company’s management. They will instead concentrate on Alphabet’s “moonshot ventures”, such as the company’s driverless car project and Glass, the augmented reality glasses that could also be used to record video.

### Valletta

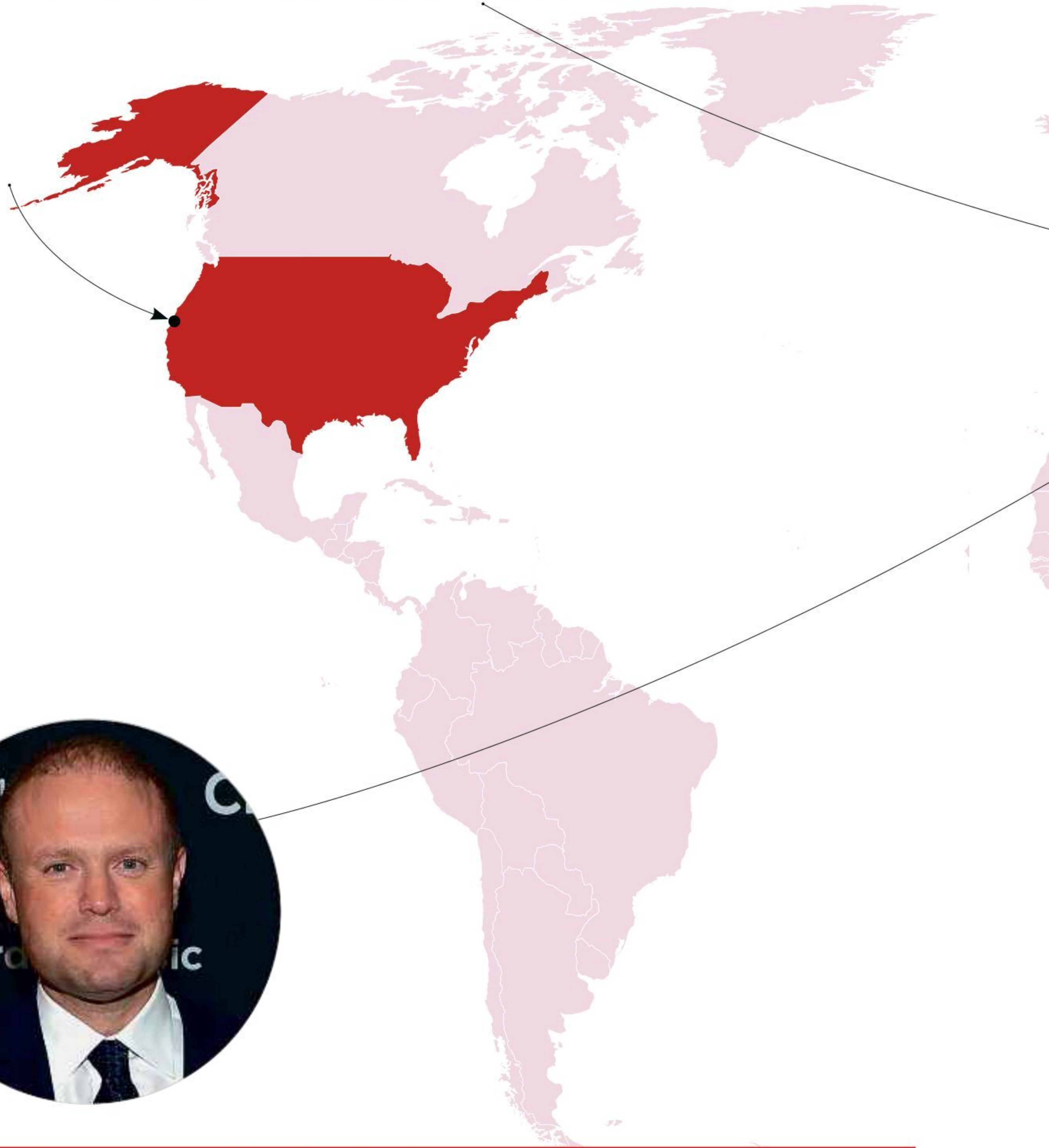
#### PM resigns over murdered journalist scandal:

Malta’s prime minister Joseph Muscat (pictured) has resigned, plunging the country deeper into the crisis triggered by the murder of journalist Daphne Caruana Galizia, says Juliette Garside in The Guardian. Muscat resigned in a televised address, stating he would stay on as leader of the Labour party until 12 January 2020, when the parliamentary party will decide on a new leader. Caruana Galizia was killed in October 2017 when a bomb exploded under the driver’s seat of her hire car. She had previously exposed corruption at the highest level in Muscat’s government when she revealed that Maltese government minister Konrad Mizzi and Muscat’s chief of staff, Keith Schembri, were named in the Panama Papers. Malta’s richest man, the property and gambling tycoon Yorgen Fenech, was charged on Saturday with complicity in Caruana Galizia’s murder. Journalists have uncovered links between Fenech and Schembri, who was arrested this week. Chris Fearn, the deputy prime minister, and transport minister Ian Borg are expected to enter the race for leadership.



### Paris

**French on strike again:** France was bracing itself for the biggest strikes in years this week, with workers at SNCF (France’s national rail company) and RATP (Paris’ regional transport authority) walking out, says Alex Ledson in Forbes. The strike includes union members across the public sector, including lorry drivers, air-traffic controllers, ambulance drivers, hospital staff, teachers, and postal workers. The country could come to an “actual standstill”, in protest against President Emmanuel Macron’s proposed pension reforms. Macron’s ideas hardly sound outlandish. He wants to streamline the current pension system, lumping 42 separate arrangements into one, and introduce a points system of retirement that would threaten the early retirement age of many public service workers. Macron also wants to change the way pensions are calculated to trim payouts. At present pensions are based on the salary a person received for the last six months of their working life and the most lucrative 25 years of a career. Macron’s pension system would take into account every year, meaning those with lower salaries for years or periods of unemployment will see less money. Unions have warned that the standstill could continue for weeks.



## The way we live now: a restaurant so exclusive you can't make a booking

The loss of a Michelin star can be upsetting for a chef. So you would expect the loss of three to be downright traumatic. But not necessarily. It had, after all, “never been easy to make a reservation” at Jiro Ono’s tiny Sukiyabashi Jiro sushi restaurant in the upmarket Tokyo district of Ginza, says Justin McCurry in The Guardian. Chef Joël Robuchon, singer Katy Perry, and actor Hugh Jackman have all eaten there, while former US president Barack Obama described the food as “the best I’ve ever had” when a guest of Japanese prime minister Shinzo Abe in 2014. So,

Ono, now in his 90s, has stopped taking reservations. That decision has ruled Sushi Jiro, as the restaurant is known, out of the elite Michelin Guide. It had been awarded three stars in the guide’s first Tokyo edition in 2007. Now only regulars, the well connected, and those staying in luxury hotels can actually get in, all of whom must be willing to part with ¥40,000 (£280). But all is not lost for the general public. One of Ono’s sons runs a branch of the restaurant that is still open to them. They must make do with just the two Michelin stars, though.



Jiro Ono: please stay away from my restaurant

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## Moscow

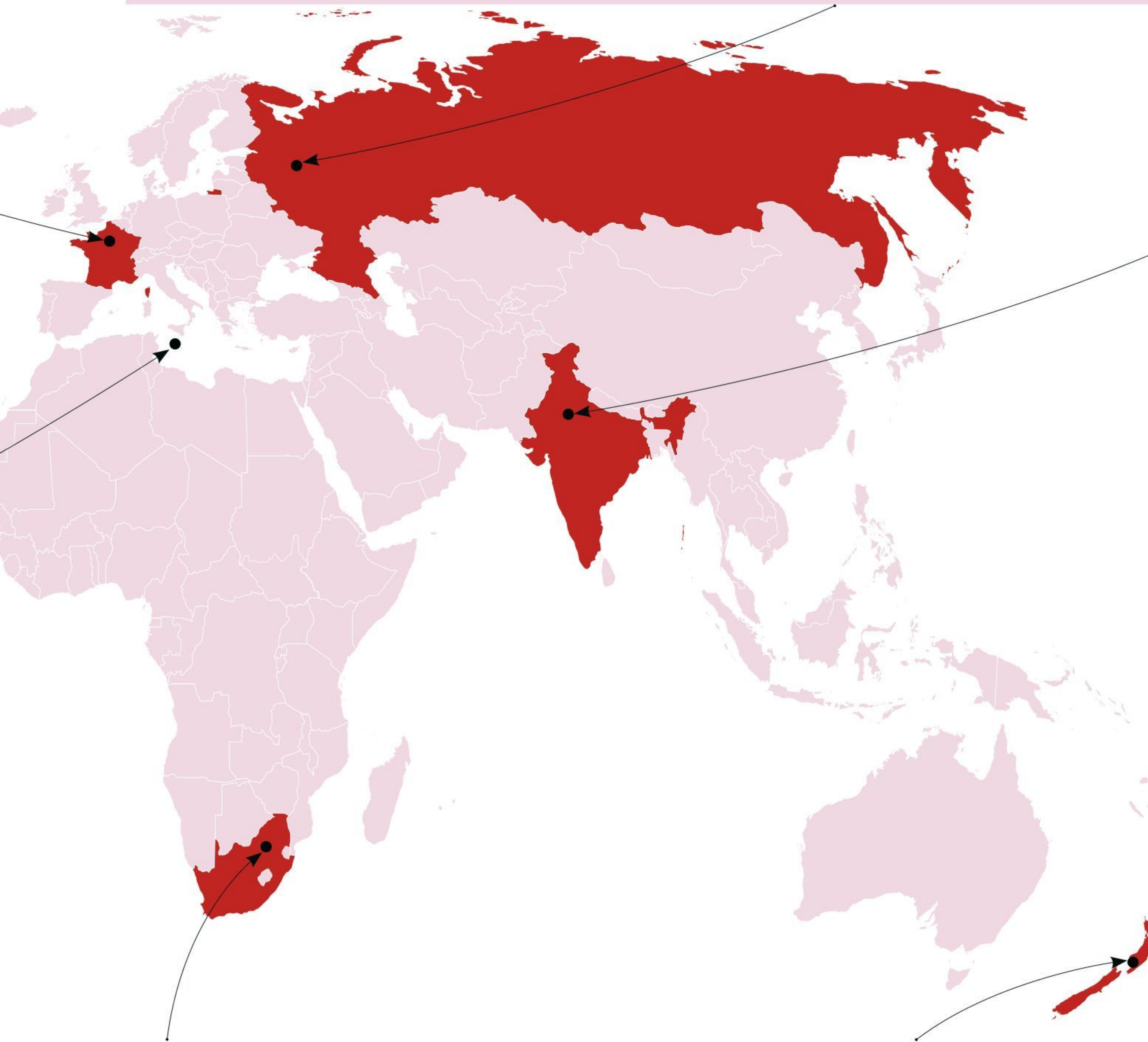
### Russia extends media clampdown:

President Vladimir Putin on Monday signed amendments to Russia's "foreign agent" media law that will require individuals to register as "foreign agents" if they publish "printed audio, audiovisual or other reports and materials" and receive funding from foreign governments, organisations or individuals, says the BBC. The amendments have been condemned by the EU, Amnesty International and the Organisation for Security and Cooperation in Europe (OSCE). Since 2017, groups have had to use the "foreign agent" label on their publications and "submit detailed

paperwork to the authorities" or face fines. That law – and label – now extends to individuals too. Like many of Russia's laws restricting freedom of expression, the amended law is "likely to be applied selectively in order to serve as a deterrent", says Anton Troianovski in *The New York Times*. But if Russians generally don't "face outright censorship online", they "increasingly fear legal consequences for posting anti-government messages". The new law places an additional financial and administrative burden on journalists, experts and bloggers and could have a "considerable chilling effect", warns the OSCE's Harlem Désir.



Vladimir Putin sees journalists as "foreign agents"



## New Delhi

### Economy turns down:

Indian annual GDP growth hit a six-year low of 4.5% in the third quarter, say Vrishti Beniwal and Anirban Nag in *The Washington Post*. The past few years have seen growth of 7%-8%, but "a crisis among shadow banks, weak rural spending and a global slowdown" owing to the US-China trade war have jointly slowed the economy. Shadow banks, non-bank lenders that fund everyone from entrepreneurs to tycoons, have been in trouble since IL&FS Ltd, one of the largest, defaulted last year and triggered a liquidity crisis. Bloomberg's growth forecast for the year to April 2020 has been trimmed to 5.6%. This is extremely fast by developed-world standards, but India should be expanding more rapidly to catch up with other south Asian economies; its per-capita income of \$2,000 is low. And if Prime Minister Narendra Modi intends to keep his promise of expanding the economy to \$5trn by 2024, it needs to expand at an annual rate of 9%-10%. To counteract the slowdown, the government has slashed corporate taxes and eased foreign investment rules.

## Pretoria

**Economy shrinks:** The economy contracted by 0.6% in the third quarter, compared with a 3.2% expansion in the previous three months. The decline was exacerbated by a 6.1% fall in mining output in the three months to September. Manufacturing contracted by 3.9%. Household consumption fell 0.2% despite an interest-rate cut in July. In the first nine months of the year, the economy grew 0.3%, and just 0.1% year-on-year. "World trade uncertainty" is not doing "the South African economy any favours", Lukman Otunuga of trading platform FXTM told Bloomberg. "The central bank... is positioned to ease monetary policy during the first quarter of 2020" amid the increasing likelihood that South Africa will lose its last investment-grade credit rating from Moody's, a credit-ratings agency. Africa's most industrialised economy hasn't enjoyed annual growth of more than 2% since 2013, a symptom of the rising unemployment, strict labour laws and corruption that President Cyril Ramaphosa has struggled with since taking over from his populist predecessor Jacob Zuma early last year.

## Wellington

**Crackdown on foreign bungs:** The government is introducing legislation that would ban donations over NZ\$50 (£25) to political parties and candidates from abroad. It represents a sharp reduction from the current NZ\$1,500 limit and is intended to lessen "the risk of foreign interference in elections", according to justice minister Andrew Little. The names and addresses of those funding political advertisements would also be published to reduce the "avalanche of fake-news social-media" advertisements. The issue first came to the fore last year when a politician accused Simon Bridges (pictured), leader of the opposition centre-right National Party, of hiding NZ\$100,000 that came from a Chinese businessman. Fear of foreign meddling by China and Russia has grown among New Zealand's intelligence-sharing allies, consisting of Britain, Australia, Canada and the US.



# Will Mexico make progress?

Andrés Manuel López Obrador, Mexico's controversial president, has been in power for a year. Can he solve the country's chronic problems and help foster faster growth? Simon Wilson reports

## Who is AMLO?

He's Andrés Manuel López Obrador (AMLO), 66, the left-wing, anti-corruption president universally known to Mexicans by his initials. He has just marked his first year as Mexico's highly popular president. To understand AMLO's appeal, outsiders need first to understand the extent to which Mexico's politics has been wholly dominated for the past century by the Institutional Revolutionary Party (PRI), founded by leaders of the Mexican Revolution. Though it began as a leftist party, the PRI morphed over the decades into a politically fluid national party that allowed the country's elites to thrash things out among themselves before deigning to bother the people at election time. It was also brutally authoritarian when its interests were threatened. For most of its recent history, Mexico was in effect a one-party PRI state – and a textbook study in cronyism and corruption.

## Then what happened?

In the 1980s, the ruling PRI embraced privatisations and free-market capitalism, leading to a split. Like everyone else in Mexican politics, AMLO began his career as a member of the PRI. But in the 1980s he joined the left-wing party that split off from it. He later led that party, the PRD, and served as mayor of Mexico City, before becoming disillusioned with the continuing corruption of Mexican politics after narrowly losing the 2012 presidential election to the PRI candidate. AMLO's solution was to start his own Morena party (the "Movement for National Regeneration") that would end 36 years of "neo-liberal" economic governance and defeat the corrupt "power mafias" once and for all.

## So he's a populist?

He's certainly popular, with approval ratings above 60% a year on from coming to power (having beaten the PRI candidate in the 2018 election). Yet AMLO is not quite an aggressive "populist" in the sense of a Perón, or a Chávez, or even a Trump. Supporters say AMLO is more an old-fashioned leftist – overhauling the budget to introduce a raft of programmes to help small farmers, the elderly and students – but with a good streak of pragmatism, a surprising level of fiscal conservatism and a resolute focus on anti-corruption.

## What do sceptics say?

He's a populist with the potential to wreck Mexico's economy – the second biggest in Latin America – and steer the country towards authoritarianism. As president,



AMLO: a pragmatic populist?

with a strong grip on the legislature and beholden to no party chieftains, AMLO wields considerable power and critics worry he is "threatening some of Mexico's hard-won democratic gains", reckons Mary Beth Sheridan in *The Washington Post*. Critics say he is "weakening federal and civil institutions that safeguard human rights and clean elections". He is also steering cash grants to the poor and vulnerable, and circumventing the normal bureaucratic channels in the interests of limiting corruption. In short, say detractors, AMLO is using public money to build up a massive base of client-loyalists, like many Latin American leftwing populists before him.

## How's his presidency going?

Not great. AMLO campaigned on a promise to achieve 4% average growth over his six-year term – outstripping the average of 2% a year during the period since 1983. Even three months ago, the president was promising that despite evidence of a fast-slipping economy, Mexico would grow by that modest 2% this year. Instead, the economy has fallen into recession, with negative growth in the first two quarters and the likelihood of zero growth in 2019 overall. Meanwhile, Mexico's well-documented problems with violence from drug cartels have not abated.

## What's going wrong?

AMLO's view that Mexico has experienced disappointingly low growth for decades – at 2.5% over the past 25 years it's around half the emerging market average – is widely shared. "But his solution is more controversial," says the *Financial Times*.

In a nutshell, AMLO is making a huge bet on additional government investment into the state oil company, Pemex – plus infrastructure projects targeted on the poorer states – to boost the Mexican economy rather than fostering the private sector. Supporters would argue that he has already doubled old-age pensions, boosted the minimum wage, provided direct cash transfers to students and apprentices and implemented programmes to revive the rural economy in depressed southern states – all the while keeping the currency reasonably stable and not putting up taxes. Sceptics say that even cunningly targeted largesse is obviously not sustainable in an economy with such entrenched problems.

## What are they?

Mexico's economy tops a list of 36 OECD nations for hours worked, but it's the least productive and the oversupply of cheap labour is a brake on innovation. What's more, the informal sector is vast, notes Eric Martin in *Bloomberg Businessweek*. Workers on the taco carts or shoe-shine stands that proliferate in any main boulevard in Mexico City "don't pay taxes, foregoing the benefits of a social safety net". Mexico collects only 16% of GDP in taxes, skewed towards corporate taxes. But AMLO has ruled out a major tax overhaul aimed at widening the tax base. Meanwhile, corruption remains endemic. "Mexico is basically a dual economy," says Alberto Ramos, chief Latin America economist at Goldman Sachs. "Some enclaves are globally integrated. And then there's the countryside, with [poor] education... where productivity growth has been zero for 50 years." It remains to be seen whether AMLO has the ability to ameliorate all this, or whether Mexico is edging towards even greater economic and social turmoil.



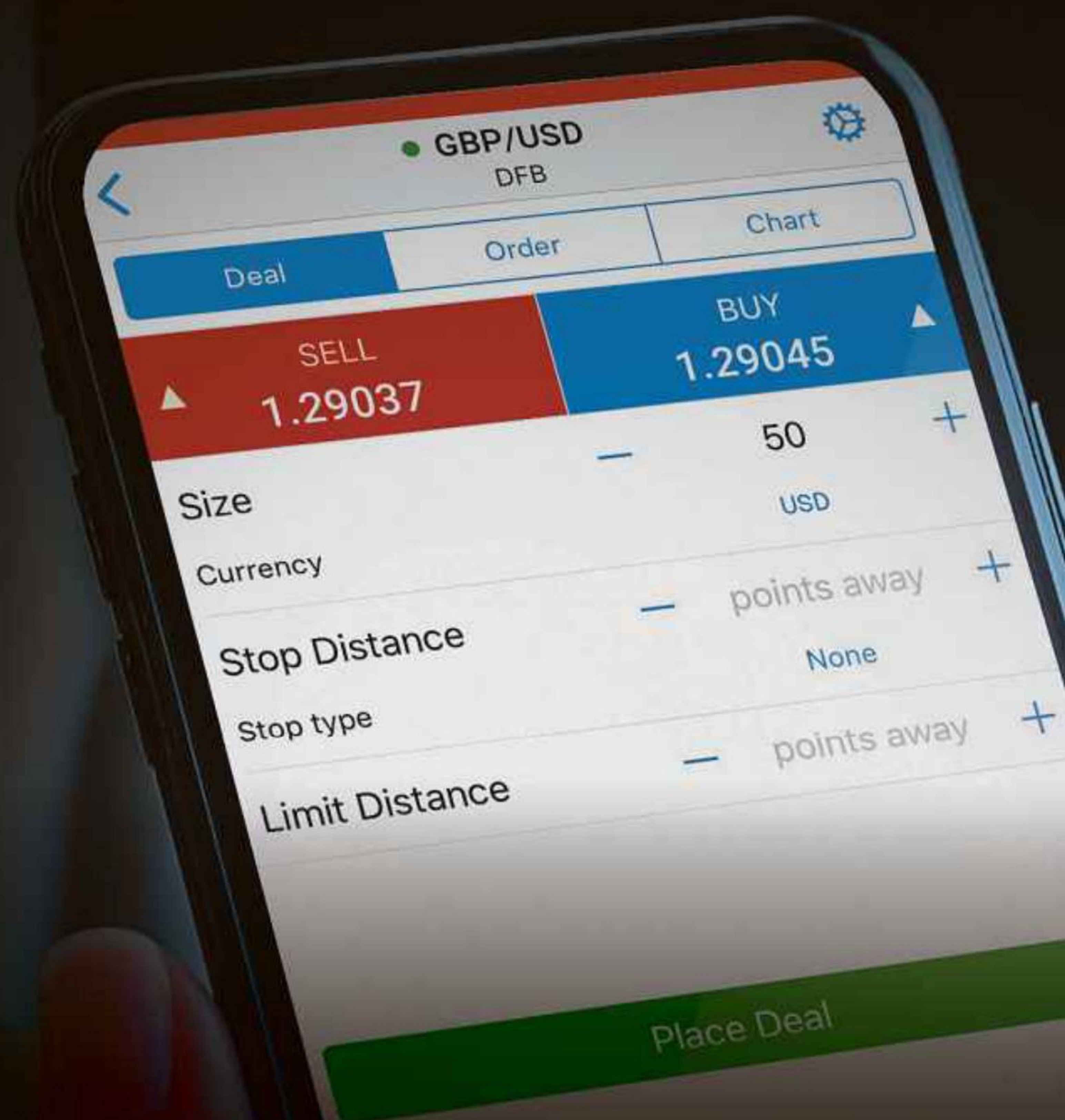
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# Is short-selling unethical?

The world's biggest pension fund is to keep some of the shares it owns out of the hands of short-sellers – why?



**John Stepek**  
Executive editor

This week, the ongoing trend towards environmental, social and governance-focused (ESG) investing claimed a surprising new scalp – short-selling. Japan's Government Pension Investment Fund (GPIF) has said that it will no longer lend certain of its shares to short-sellers (investors who bet on share prices going down, rather than up – see below for a full explanation). GPIF is influential. It's the world's biggest pension fund, with a total of \$1.6trn in assets under management. About half of that – \$733bn – is invested in equities and of the equity portion, about half again is invested in overseas equities. It's these equities that the fund has decided will no longer be loaned for the purposes of "shorting".

The reason given for the move – which "encountered a range of internal objections", report Leo Lewis and Billy Nauman in the Financial Times – is that the fund is concerned that lending its shares out could prevent it from "exercising proper stewardship over the underlying investments". That's partly because while a share is on loan the original owner loses the voting rights; and partly because the fund has no control over or direct insight into how the end borrower might be using these shares.

The idea that shorting might be added to the long roster of things that can potentially be viewed as "non-ESG" seems strange. Shorting can certainly be put to unethical uses. "Short and distort" is an underhand (and illegal) tactic whereby someone sells a company short, spreads false rumours about it and profits as a result, by closing their position once the share price falls. But this is no different to the equally illegal



*Hiromichi Mizuno, chief investment officer, GPIF*

"pump and dump" schemes that involve "going long", spreading false positive news about a company and then selling before the market realises the news is fake. Neither are good things, but no one is calling for a ban on going long. And while concerns about neglecting governance may look valid on the surface, there are ways around these problems – such as ensuring that shares are returned for voting purposes if necessary.

Other funds may or may not follow suit, depending on whether or not they deem the small but significant revenue stream to be had from lending stock as being worth the hassle. But what's probably of more concern to investors in Japan is the hint that the nation is growing less keen on activist investors. The government recently passed a law whereby foreign investors must notify regulators before they buy as little as 1% of shares in companies linked to national security. The promise of better treatment for shareholders has been a key plank propping up the case for investing in Japan. Undermining that promise would be a backwards step.

*"There is a hint here of Japan's discomfort with activists"*

## Guru watch

**Francis Brooke and Hugo Ure, fund managers, Troy Income & Growth**



Utility companies might offer appealing dividend yields right now, but investors should beware, say Francis Brooke and Hugo Ure, managers of the



**Troy Income & Growth Trust (LSE: TIGT)**. As Gavin Lumsden highlights in Citywire, in their latest annual report the pair note that they have sold their holdings in energy group Centrica, water stock Pennon and the Royal Mail.



Renationalisation under a Labour government is one risk factor. But what really concerns Brooke and Ure is the sustainability of payouts: "the extent to which these dividends are covered by cash flow and their potential to grow over time" is unclear.

In the year to 30 September the trust's share price rose by nearly 12%, while the value of its portfolio (the net asset value, or NAV) climbed by 9.7%, compared with 2.7% for the FTSE All-Share (all figures in total return terms, ie, including dividends).

Brooke and Ure note that companies such as high-street bank Lloyds and commercial property giant Land Securities "have been highly correlated with the strength of sterling and the evolution of Brexit negotiations". When the pound has been strong, they have done well, which is "a trait that will become more important if Brexit shows signs of progression". On that front, the managers are cautious. Prime Minister Boris Johnson is hoping that his decision to call a general election will lead to a Tory majority and an "end to the parliamentary deadlock", and yet "a resounding result is far from certain".

## I wish I knew what short-selling was, but I'm too embarrassed to ask

When most of us put money in the stockmarket, we go "long" – we buy shares in the belief that they will go up. Short-sellers do the opposite – they aim to profit from a share-price falling. Here's how it works. A short-seller borrows the shares from someone who already owns them (usually a fund manager) and sells them in the open market. Then, if and when the price falls, the short-seller buys the shares back at the lower price, returns them to the lender and pockets the profit.

So, for example, say you want to "short" shares in troubled high-street chain Beta Retail, which currently trades at £1 a share. You borrow 10,000

shares from an index fund (which owns them because it simply tracks the underlying index) in return for a small fee and you sell them. So you now have £10,000 (less your borrowing costs), but you owe the index fund 10,000 Beta shares. However, Beta issues a profit warning later that month, and the share price falls to 80p as a result. You buy 10,000 shares back for £8,000. You return the shares to the index fund and pocket a £2,000 profit.

Of course, if Beta had issued a surprisingly positive set of results and the share price had shot up to £1.20, say, then you'd still have to return the shares to the index fund, but in doing so,

you'd have made a loss of £2,000. And this is one of the many reasons why shorting is extremely risky and not to be undertaken lightly. If you are long, then the worst that can happen is that the share price goes to zero and you lose 100% of your money. But with short-selling your losses are technically unlimited, as there is no ceiling on how high a share price can rise.

And you have to get your timing right. Long investors can buy and hold, but "shorts" can only afford to keep their positions open for a limited time. Finally, if you're a private investor rather than a hedge fund, the easiest way to access shorting is via spread betting, which means taking the risk of betting with borrowed money.



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Together we thrive

# Central banks take on climate change

In a classic example of mission creep, Carney & Co. are going green. They are making a big mistake



**Matthew Lynn**  
City columnist

An almost permanent recession. Negative interest rates and a programme of quantitative easing that seems to get less traction with every billion that rolls off the printing presses. You might think that on taking office the new president of the European Central Bank, Christine Lagarde, already had plenty of difficult issues to deal with. And yet she has decided to add to the list by making combatting climate change central to monetary policy at the European Central Bank (ECB).

## A new bandwagon

The ECB is reviewing how to incorporate climate change explicitly into its operating mandate so that it affects everything from what bonds or equities it buys to how it funds and tests the stability of the banks. And the ECB isn't the only central bank going green.

The Bank of England's Mark Carney has already outlined plans to incorporate the potential impact of climate change in its stress tests of banks and insurers as well as taking steps to reduce its own carbon footprint (although it turns out it would take more than a thousand trees to compensate for all the flights he takes personally). The new governor may well go further.

The Fed held its first conference on climate change last month. Meanwhile, in Sweden the Riksbank has started selling debt from the provinces of Queensland and Western Australia because of their role in coal mining. The trouble is, is that really the right role for a central bank? Sure, the overwhelming scientific consensus is that climate change is a real issue. But there are



*Christine Lagarde: jumping on a fashionable cause*

democratically elected politicians rather than financial technocrats? It is very hard to see what mandate Lagarde or Carney have for that.

## Yet another central-bank bubble?

Next, it will create a bubble and encourage a misallocation of resources. One of the main proposals – and the Swedish central bank has already embarked on this – is to use the central bank's own portfolio of debt, bonds and equities to direct capital to green projects and take it away from companies and regions that generate high pollution. The next step might well be to print money specifically for climate-change projects, a kind of "Green QE".

And yet surely those projects should pay for themselves? In many cases they already do. Solar energy is now often competitive with coal and oil. Electric cars are already hugely popular. But throwing free capital at the sector will just encourage waste and subsidise projects with no commercial justification. Of all people, a central banker should know the risks of doing that.

Sure, there is some role for a central bank in preserving the environment. It may well be wise to stress test banks and insurers for whether they can cope with extreme climate change, for example, because on some of the doomsday scenarios the costs could be overwhelming. But there is a big difference between that and making it central to monetary policy – especially if that means printing money for green bonds, tilting portfolios to environmental companies, or other forms of intervention in the market. Indeed, it is hard to escape the suspicion that central bankers are simply jumping on a fashionable cause. That is not their real job – and it is not going to end well.

two big problems with making it a task for central banks.

To start with, it is an extreme example of "mission creep" Tackling climate change may well involve significant changes in the way we live our lives. We might drastically cut down on our use of cars or reorder the way we work so that we travel less and work at home more. We might ban the use of plastics in supermarkets and hand out subsidies for electric cars, impose stiff taxes on air travel, and, at the most extreme level, reorganise the economy so that it consumes far fewer raw materials and creates less waste. Those are all big questions involving tough choices. So surely they should be settled by

## Who's getting what

● Chef and TV presenter **Prue Leith** (pictured) has said that her £200,000 pay packet at her current job, judging contestants' culinary creations on *The Great British Bake Off*, is the easiest money she's ever made, according to *The Sun*. "I don't have to write a script, I don't have to learn any lines, I don't have to rehearse anything," she says. "All I have to do is walk on, eat cake, say what I think, walk off and get paid."



● Banknote printer De La Rue, which has warned that its future is in "significant doubt" as it struggles to turn its fortunes around, has been criticised for paying its former boss almost £5m, says *The Mail on Sunday*. **Martin Sutherland** was paid £4.8m between taking charge at the company in 2014 and stepping down in May this year after issuing the first of three profit warnings. The amount includes a £50,000 payoff that has been called a "reward for failure".

● Shareholders at housebuilder Bovis have rebelled against plans to change the company's bonus scheme that would raise CEO **Greg Fitzgerald's** pay to £4.1m a year if he hits his targets, reports *The Daily Telegraph*. The plan would increase share-based bonus payments to 200% of salary and cash bonuses to 150%, compared with 150% and 100% respectively in previous years. More than 30% of shareholders voted against the plan. Bovis said the plan was "in line with the industry" and that it would "continue to engage" with shareholders.

## Nice work if you can get it

Among the few people thrilled by the prospect of a third general election within four years are the nation's returning officers. Picked from the ranks of the nation's highly paid council chief executives, they command additional high fees every election. Their role is to conduct the poll and counting process, ensuring its validity, and announce the result. Tom Riordan, chief executive of Leeds City Council, has been paid £147,921.66 in fees since 2015 on top of his £182,000 salary, says *The Sunday Times*. He will get a further £28,424 for the upcoming election. Glasgow City Council's Annemarie O'Donnell has received £122,444.42 since 2015, plus £21,267 for next week's poll. She gets a salary of £176,855. And Joanne Roney, Manchester City Council's boss, who earns £205,671 for her day job, has pocketed £94,578 in the last four years and will get an extra £18,691 next week.

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| PAST PERFORMANCE |                 |                 |                 |                 |                 |
|------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|                  | Aug 14 - Aug 15 | Aug 15 - Aug 16 | Aug 16 - Aug 17 | Aug 17 - Aug 18 | Aug 18 - Aug 19 |
| Net Asset Value  | 12.0%           | 41.8%           | 29.0%           | 1.0%            | -5.7%           |
| Share Price      | 6.3%            | 41.7%           | 35.1%           | 0.3%            | -2.8%           |
| MSCI China Index | -2.1%           | 26.9%           | 37.2%           | -0.7%           | 1.1%            |

Past performance is not a reliable indicator of future returns.  
 Source: Morningstar as at 31.08.2019, bid-bid, net income reinvested.  
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## US markets are rigged, not free

Will Hutton  
The Observer

A free-trade agreement with the US is the top strategic policy aim of the Brexit right, but research by economist Thomas Philippon suggests that this is ill-advised, says Will Hutton. Philippon argues that US economic growth and per-capita incomes have lagged those of Europe for 20 years because of falling US competition. Fewer firms dominate each sector; Google, Amazon and Facebook have been allowed to become “supermonopolies”. This process “gums up everything”. When firms dominate “they invest and innovate less, they peg or raise prices and they make super-normal profits by just existing”. Investment in the US has been falling for 20 years. Prices stay high (phone bills, flights and drugs are all much more expensive in America) so wages buy less, while those at the top get ever richer. Why? Philippon’s “deadly answer” is that a US political campaign costs 50 times more than one in Europe and donor firms demand a return: protection from regulation, investigation or anti-monopoly policy. “In Europe, the reverse is true.” The EU’s competition authorities are more independent, regulations are better thought out and corporate governance is better. “Britain is about to make a vast mistake.”

## Cost-benefit analysis is absurd

Ed Conway  
The Times

The Roskill commission of the late 1960s, aimed at deciding where best to build a new runway for London, was one of the “first exercises in using cost-benefit analysis to make a key government decision”, says Ed Conway. It was soon forgotten because the model came up with a site that was hugely unpopular, but nevertheless the Treasury ordained that all critical public expenditure had to be subjected to cost-benefit calculations. Today, to get a new road built officials need to calculate a ratio to say how much will be generated for every pound invested. There are two obvious problems with this. Firstly, not all events are forecastable. How does one assess the risk, say, of a war between China and America? Secondly, by “distilling a constellation of imponderables into a single number”, such analyses “make a complex decision look deceptively straightforward”. But the real problem is a “deeper cultural one”, which is that we have become terrified of authorities expressing doubt. The correct answer as to whether an investment will make money is usually “I don’t know”, but for some reason those words are the most difficult three in the English language. “Far easier to point to a cost-benefit analysis instead.”

## Democrats target the middle class

Editorial  
The Wall Street Journal

Democratic presidential candidates insist that America could afford European-style welfare “if only it taxed the rich more heavily”, says The Wall Street Journal. “Europe’s beleaguered middle class knows better.” Take income taxes. These tend to be heavier in Europe because European countries impose their highest marginal rates on lower levels of income. So, while the US top marginal rate applies only to taxpayers earning 9.3 times the average wage, in Belgium the top rate “ensnares” those earning 1.1 times the average. European governments also impose hefty payroll taxes. These account for as much as 37% of government revenue in France and Germany. Then there’s Europe’s value-added tax averaging 21% on all consumption. And for good measure, Britain “soaks its middle class” with stamp duty. Where economists have “crunched the numbers” to see how all this affects different income groups, the result is “grim for the middle class”. Researchers at the DIW think tank in Berlin found that Germany’s median earners paid roughly the same proportion of income in taxes as the highest earners did (43%) in 2017. American middle classes beware. You will pay “because that’s where the real money is”.

## The riddle of clean energy storage

Editorial  
The Economist

A cluster of well-known billionaires are backing schemes to capture power, reflecting “one of the power business’s hardest tasks”: storing clean energy, says The Economist. Solar and wind last year produced 7% of the world’s electricity and that share is predicted to soar to around 35% by 2040. But because the sun and wind don’t produce continual power reliably, storage is essential. One answer is to store power in batteries, but so far only around 1% of renewable energy is complemented by storage and there are “still plenty of hurdles to clear”. Although the price of lithium-ion batteries dropped 85% between 2010 and 2018, they are “never going to get cheap enough” to store power for “days, let alone weeks”. There are also safety issues (batteries can overheat and catch fire) and the “patchwork” of industry regulations needs to be “smoothed” out. There are alternatives, including flow batteries, which use electrolytes in tanks of chemical solution and mechanical options such as capturing the power generated by dropping concrete blocks from a crane. Liquified gases might provide a solution. But one thing is clear: coal and gas cannot be retired before we have a long-term storage solution for power.

## Money talks

**“I didn’t want his money. I said, ‘Lucky for you, if I want a handbag, I will buy one myself. And if I want money, I will make it’. I don’t need a man to provide for me ever. Anyone who thinks that I am just a money-grubbing whore is sorely mistaken. It is always the woman who is blamed... Boris is allowed to become prime minister, but I should be allowed to be a successful entrepreneur and not just one of his women.”**



Entrepreneur Jennifer Arcuri (pictured) on the media storm surrounding her relationship with Prime Minister Boris Johnson, quoted in The Times Magazine

**“The government is finally legalising weed. Because that’s what you do when you’re broke and desperate. You sell drugs.”**  
Joke doing the rounds on Twitter and Facebook

**“The moment I could walk into a Steinway showroom in 1975, point to a Model D concert grand piano, which then cost £8,000-£9,000, put a wad of cash on the counter and say: ‘I’d like one of those please.’”**  
Composer Jeff Wayne on when he first felt wealthy, quoted in The Sunday Times

**“I’m on the train to Ebbsfleet drinking Marks & Spencer’s f\*\*\*\*\* wine, darling. I’m in economy. On my own, no entourage, no PA. Cheap cheap like a budgie me.”**  
Former glamour model Katie Price’s drink-fuelled rant last week after being declared bankrupt, quoted in The Sun

**“My mother was... an artist and got a scholarship to The New School in New York, while my dad [Hollywood star Martin Sheen] was given a bus ticket and \$200 from the priest and sent to New York to pursue a career as an actor... So they understood when I said to them that I want to be an actor.”**  
Actor Emilio Estevez, quoted in The Big Issue

# A ceasefire in the culture wars

[bloomberg.com/opinion](https://www.bloomberg.com/opinion)

America's culture wars long ago opened new fronts against businesses and their brands, says Conor Sen. Media networks have split into those catering for liberals and conservatives. In sports, the National Basketball Association and Nascar car racing have pulled in opposite directions, culturally speaking. Even the jeans you wear are an issue – San Francisco-based Levi's caters more for liberals; Wrangler more for conservatives.

## Geographical expansion...

Some brands, though, are moving towards a ceasefire. Starbucks and Chick-fil-A, the second- and third-biggest of America's restaurant chains, have had to deal with their share of cultural controversies in the past. But as the chains have expanded and their customer base grown, they have had to

"pivot away from their regional origins" and make their offerings more universal.

Starbucks, for example, started out in Seattle, catering for an urban, liberal, mainly white cultural base. Once it had conquered US cities, though, it moved into the rest of the US, which meant "drive-through windows for car-centric middle America", a more welcoming environment for blacks and changing the menu to cater for a wider range of tastes.

For Chick-fil-A, the challenge has been "to evolve from a company whose culture was heavily influenced by the religious ethos of its founder, a devout Southern Baptist". As with Starbucks, geographic expansion came before cultural change. As recently as 2013, Chick-fil-A had more locations in Alabama than it had on the entire West Coast. Liberal customers and those outside



Everyone is welcome in a Starbucks

of the South were down on the firm because of its opposition to same-sex marriage. It reversed position in 2012 and opened its first store in New York in 2015. Its reputation lingered – its first store in the UK was closed amid gay-rights protests – but it has changed policies to "placate the demands of activists" and its menu now features cold-brew coffee, kale and quinoa.

**... leads to mind expansion**  
American corporations used to think of their customers

as typically represented by white Christian families in the Midwest. The changes at Starbucks and Chick-fil-A suggest a new model is taking shape, with a broader demographic sweep. "People of all backgrounds are welcome. Religion is de-emphasised. In our polarised environment, there may not be many institutions that most or all Americans can embrace, but it looks as if coffee and chicken sandwiches may turn out to be the exception."

# We need more radical tax reform

[capx.co](https://www.capx.co)

One of the Tories' key election pledges has been to cut business rates, says Ben Ramanauskas. But appealing as that may seem, it will "do nothing to solve the long-term pressures facing businesses". As the Institute for Fiscal Studies points out, the burden of business rates falls on the owners of the land. As there is only a limited amount of land for businesses, especially in places like central London, any cuts to business rates will just lead to higher rents and the burden on business will remain the same.

A better idea is to scrap business rates and levy a land value tax. Under the current system, tax is levied on the "rateable value" of the property rather than the value of the land. This discourages businesses from making improvements or purchasing new machinery – "a crazy state of affairs". A land value tax would end this problem. It is also a fairer, more efficient way to raise money as it does not disincentivise productive activity. It would also help to tackle the housing crisis: the tax is levied on unused land, so it would give owners an incentive to sell to developers or allow property to be built on it. "Whoever wins the election should resist the temptation to tinker with the tax system. What the economy needs is fundamental reform. Introducing a land value tax would be a great place to start."

# Kill off the appraisal

[fs.blog](https://www.fs.blog)

If you ask people what's wrong with corporate workplaces, it won't be long before dreaded performance review or appraisal is mentioned, says Shane Parrish. People hate them for good reason. You either "come up short against the superstars, walk away having been told to just keep doing what you're doing, or leave feeling like your days are numbered". This is

counterproductive in terms of building effective corporate cultures and does not give people what they need to grow.

The root of the problem is comparison. When we compare how we are doing with how others are doing, the result is



often misery. But what matters is not how well we do compared with others, but how we do compared with what we're capable of. It is the gap between where you are and where you could be that needs closing.

The simple way to improve matters is to grade performance against the past. Is this employee learning? Improving? How can we help each other do better? "Comparing people against their past selves instead of each other is one of the most effective ways to build a culture in which everyone wants to give their best."

# What's behind the global uprising?

[glineq.blogspot.com](https://www.glineq.blogspot.com)

In 1848, 1968 and even the Arab Spring of 2011, it was possible to see what united geographically separate protests and revolts, says Branko Milanovic. But what lies behind the uprisings of 2019? What common thread runs through the *gilets jaunes* protests in France, the desire for democracy and independence in Catalonia and Hong Kong, the violent uprisings in Lebanon, Iraq, Iran, Bolivia and Chile?

The spark in all is a seemingly modest change – a rise in the price of petrol or of train fares. All have had to face unusually harsh responses from the authorities. And all seem to be driven by something more fundamental than the change that sparked it. They are all local in character, yet have a global element – they communicate and inspire and imitate each other. But what ultimately unites the protests is not any ideology, but a "desire to have one's voice heard". Vast groups of people – the poor in Chile, the young unemployed in Iran – feel ignored by the elites. The protests of 2019 presage a new breed of revolt: "the first revolution of the globalisation era".

# Invesco's Woodford contagion

The former star manager's successor, who has applied the same formula, is struggling



**Max King**  
Investment columnist

We were among the first to warn of the contagion from Neil Woodford's funds for those he left behind at Invesco when he left in 2013. Until then, he had worked closely with Mark Barnett, the manager of Perpetual Income & Growth (PLI), Keystone (KIT) and various other funds.

We concluded in June that "Barnett sticks devotedly to companies that have tried but failed to regenerate themselves. Don't be tempted by the discounts and the yields until there is some evidence that lessons have been learned."

Barnett had an opportunity to break free from Woodford's shadow in 2013, but failed to do so, continuing to focus both his portfolios and the ones he took over on the stocks that had served them well, notably tobacco, the oil majors and insurance. Barnett did not follow Woodford's plunge into private equity, perhaps because Invesco stopped him from doing so, but his portfolios held on to a ragbag of holdings in eclectic investment funds, high-yield property trusts and speculative life-sciences companies.

## Working together?

What has disturbed investors is the strong circumstantial evidence that Barnett and Woodford continued to work together, investing in the same stocks.

Both were hurt by their significant holdings in Capita, Provident Financial and Burford.

It is just about possible to argue that they

invested independently, aware of the other's holding but uninfluenced by the other except by the way of thinking they had shared at Invesco.

But these and the common holdings in "cheap" mega caps aren't the end of the story. Both invested heavily in private-equity group Oakley Capital and its listed subsidiary Time Out; both sold their holdings earlier this year, although both companies appear to be doing well. Woodford may have needed to sell, but Barnett didn't. No wonder many see them as Tweedledum and Tweedledee.

It's no surprise that Morningstar reports withdrawals of £451m from Barnett's Invesco High Income fund in the third quarter and £197m from his Income fund. Both funds have performed poorly in the last year, respectively 11% and 9% behind the sector average, but it is notable that contagion has spread to much better-performing funds in the sector. JO Hambro and Artemis income funds suffered withdrawals of £343m and £243m. Withdrawals from the Invesco funds in particular have prompted Morningstar to downgrade the Invesco funds to a "neutral" rating on account of their over-30% exposure to small-cap and micro-cap companies.

This is not because the outlook for smaller companies is poor; after a torrid time earlier in the year, they are performing well and look undervalued. But fund redemptions could snowball

and leave the Invesco funds overexposed to illiquid stocks.

## The wrong small caps

What Morningstar doesn't point out is that Invesco appears to be exposed to the wrong smaller companies, such as IP Group, e-Therapeutics, and 4d Pharma – all also owned by Woodford. Strong performance by smaller companies in general won't necessarily help Barnett.

Naturally, both he and Invesco protest that their funds are well diversified and predominantly invested in liquid stocks. They believe that the tide has turned in favour of "value" stocks, notably depressed economically sensitive domestic companies, and they may be right. But if so, why invest in a sector laggard rather than a competitor on the front foot?

If value stocks are set for a recovery, then the JO Hambro and Artemis Income funds or Temple Bar (LSE: TMPL), Murray Income (LSE: MUT) – of which MoneyWeek editor-in-chief Merryn Somerset Webb is a non-executive director – and Troy Income & Growth (LSE: TIGT) investment trusts are likely to produce better performance. They can still afford to take risks and this is the key to good returns.

The Invesco funds and trusts may be full of cheap stocks, but these have a habit of staying cheap. The skill of the value manager lies in distinguishing between "value" and "cheap" stocks. The shares of most firms that went bust looked very cheap before they were suspended. The great turnaround opportunities looked beyond redemption when they hit their lows.



*Mark Barnett: Tweedledee to Neil Woodford's Tweedledum?*

## Activist watch

Activist investor Blackwells, a hedge fund, is pushing to remove Tom Barrack as CEO of Colony Capital, insisting that his "mismanagement" of the firm has cost shareholders billions, says Svea Herbst-Bayliss in Reuters. Colony Capital's share price has dropped 20% since Barrack, billionaire friend of Donald Trump, was named CEO a year ago. Blackwells also says that a three-way merger Barrack was responsible for in 2016 cost shareholders \$6bn. Blackwells owns a 1.85% stake in the real estate and investment firm. The broker wants to place five new directors on the company's board, saying investors have "soured on the company" and will return when new leadership is established. It plans to nominate new directors at next year's annual meeting, including Bank of America Merrill Lynch executive Jennifer Hill, former Credit Suisse executive William Johnson, and former OneMain CEO Jay Levine.

## Short positions... more Woodford woe

■ Auditor Grant Thornton has consistently refused to sign off accounts issued by a £40m holding in Neil Woodford's (pictured) funds, says Daniel Grote on Citywire. The auditor said it has been unable to obtain sufficient evidence of the company's \$60m of assets. Financial statements reveal Mafic, which develops composite materials from basalt rock, had its accounts frozen in May after a supplier took legal action over unpaid bills. It's not the first time the company has been in hot water. Between 2014 and 2017, Grant Thornton issued "disclaimers of opinion" (a statement saying it was unable to form an opinion on the company's finances as it had insufficient access to evidence) over Mafic's financial statements. In June, the Woodford Equity Income fund held a £23.5m stake in the company.



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# Nations will soon find taxation more taxing

The world of work is changing as the gig economy – and the self-employed themselves – go global. That will leave a big hole in countries' coffers, says Dominic Frisby

Governments around the world have got a big problem on their hands. I wonder if many of them even realise it. What has been their biggest source of revenue for years is going to get that much harder to collect, just as their needs, whether to cover spending programmes or service debts, grow more pressing.

Across the developed world, 50% of government revenue comes from income taxes. The relationship between employer and employee has proved easy to tax: the levy is deducted at source. But that relationship is changing.

In the UK, the number of people working for themselves has grown by 50% since 2000, compared with a 6% rise in employees over the same period. London's gig economy has grown by 73% since 2010. But this is a global phenomenon. In Europe, Australia and across Asia there are similar levels of growth. By 2030, says EY (formerly Ernst & Young), a full 50% of full-time US workers will be contingent.

## Get ready to gig

In 1990, the three biggest companies in Silicon Valley employed over a million people. Today, the three biggest – Facebook, Google and Apple – have a combined market cap over 60 times higher, yet have a quarter as many employees. The largest taxi company in the world, Uber, has just 16,000 employees. The largest accommodation provider, Airbnb, has 9,053. Yet how many giggers find work as a result of Silicon Valley giants?

Some have criticised the gig economy, saying it exploits people and does not give them the protection they deserve, but surveys show much higher satisfaction levels among the self-employed than among the employed. The large majority of giggers want to stay in contingent work to progress their careers. As we live longer lives many more of us will pursue gig work in what was previously our retirement. Many will embrace multiple income streams as machines – whether artificial intelligence (AI), robot or algorithm – replace blue- and white-collar workers. Employers like it too. Freelancers dramatically reduce the costs and other burdens of employment.

The tax implications are considerable. First, there is the loss to government of employment and payroll taxes, but far bigger is the problem that income taxes will get harder to collect. At present there are few systems in place to deduct tax at source from contingent workers. There is vast scope for non-compliance, whether accidental or deliberate. America's Inland Revenue Service already attributes 44% of its \$450bn annual tax gap to the improper compliance of individual business income. In the US, 69% of freelancers surveyed did not even know they had to file quarterly returns.

*“In the US, 69% of freelancers didn't realise they had to file a quarterly tax return”*



*The world is her office*

## Chasing the self-employed

A review of employment practices commissioned by former prime minister Theresa May found that self-employed workers typically pay £2,000 a year less in tax than employees in equivalent jobs. Given that someone on the UK average salary of £27,500 would pay about £5,300 in income tax and national insurance, this is no small loss.

The response will be to raise taxes for the self-employed and to re-regulate those who employ them. Already UK freelancers who hire themselves out through limited companies have had their dividend taxes increased, while flat VAT rates for the self-employed have also been altered. Meanwhile, employers such as Uber and Hermes have come under pressure through the courts by those seeking to redefine full-time employment and gig work. Tax authorities will, I suspect, try to find ways to deduct presumed income at source from the platforms providing the work and then leave it to the individual to claim back the difference – much as withholding tax currently works in the US. But none of this is as clean and simple as old-school income tax.

Tax systems, built around a physical economy, have struggled with the intangible, globalised economy. Look at the problems they have with the likes of Amazon, Facebook and Apple. What happens when workers themselves globalise? One estimate is that by 2035, a billion of the world's six billion people will be “borderless”, working via the internet in multiple jurisdictions and never spending more than 183 days in any given one. Many will use borderless crypto money, often the most efficient system of payment across the internet, which itself is hard to tax and regulate.

The nations that adapt soonest to the realities of the new, digital, globalised economy around us will be those that thrive best. I don't see a single British politician talking about, let alone preparing for, any of this.

Daylight Robbery: How Tax Shaped Our Past And Will Change Our Future by Dominic Frisby, Penguin Business, £20. Audiobook on Audible.co.uk. Signed copies are available at dominicfrisby.com





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# Secret sauce: the key to serial innovation and profit growth

Why do some companies fizzle out and fade away while others build on a strong start? Dr Mike Tubbs looks at the key factors behind sustainable success and highlights his favourite consistent performers



What makes a company successful? Consistent profitability. And what is the key to sustainable profitability? Innovation. The ability to adapt to change and keep producing products and services people want to buy is a hallmark of successful stocks. We will look at several serial innovators to gauge what they are doing right, what they have in common and which are worth buying now. Investors can also learn from companies that once dominated their fields, but then lost their innovative edge and fell by the wayside.

## Failure has many fathers

Kodak is an interesting example of a firm that lost its edge. It once dominated the market for photographic film, materials and equipment. But Kodak failed to respond adequately to two different technological changes. The first was instant photography, where Kodak was worried by Polaroid's success and planned to introduce its own instant cameras and films in 1976 using a different approach to Polaroid. However, following Polaroid's successful launch of the SX-70 in 1972, Kodak decided to emulate Polaroid rather than come up with its own take on instant photography. This infringed Polaroid's patents and Kodak had to withdraw completely from this market in 1986 and was ordered to pay Polaroid damages of \$92.5m in 1990.

Kodak's second failure was its decision not to exploit the invention of its own engineer, Steve Sasson, who invented and patented the digital camera in the 1970s. Kodak's management realised that this invention would cannibalise its profitable film photography business and decided to hide rather than develop the invention. They justified this by focusing on the disadvantages of the large size and low resolution of their early digital cameras. Instead, they should have considered trying to reduce size and boost performance, the main ways electronic devices get better and cheaper.

## Three irreparably tarnished brands

Nokia, Xerox and MySpace are three further examples of companies whose innovative drive flagged as they became larger. Nokia was originally a paper, rubber and cables company that saw opportunities in other fields, so it moved into electronics and computers around 1970. It created the world's first cellular network, and also launched a carphone in 1982 and the first portable mobile phone in 1987.

Jarmo Ollila became CEO in 1992 and turned Nokia into a mobile-phone business, transforming it from a loss in 1991 to operating profits close to \$4bn in 1999. By 2007 Nokia had a 49.4% share of the smartphone market, but Apple introduced the iPhone later that year, followed by Samsung and others using Alphabet's Android. Nokia's market share had dropped to 3% by 2013 when it sold the business to Microsoft. Nokia had excellent hardware, but lagged its competitors in software.

Xerox was a top innovative American company of the 1960s. Its research centre invented what was effectively the Macintosh PC, but top management did

not enter the PC market: they had been traumatised by losing over \$1bn trying to enter the mini-computer market via an acquisition. Then there is MySpace, once the dominant social networking site. In 2005 Mark Zuckerberg offered to sell Facebook – then a small company – to MySpace for \$75m. MySpace's CEO, Chris De Wolfe, declined to buy and the rest is history. This is the corporate equivalent of failing to sign The Beatles. A similar mis-step was Electrolux's decision to reject James Dyson's revolutionary bagless cyclone vacuum cleaner because it would cut Electrolux's revenue from selling bags.

Kodak and Xerox are examples of companies whose research and development (R&D) departments made important innovative advances that management failed to exploit. Nokia failed to respond adequately to the opportunities clever software offered for smartphones; MySpace and Electrolux rejected golden acquisition opportunities. These are three different ways in which companies can lose their innovative drive. The common thread is a "head in the sand" response to change and new potential commercial opportunities.

## The secret of serial innovation

So much for failures; what marks out successful serial innovators? We will now look at 11 companies that fit this description. They are online retail giant Amazon; Alphabet, Google's parent company; software group Adobe; ASML, a technology hardware company; Bristol-Myers Squibb, Incyte and Regeneron, three biotechnology firms; Spain's clothing retailer Inditex, whose brands include Zara; health group Intuitive Surgical, and Halma and Spirax-Sarco, specialist engineers.

The key feature appears to be a wide "moat": an enduring competitive advantage that protects its global market position against competitors.

A combination of R&D and patents (to protect the results of R&D) is a classic way of achieving and maintaining a wide moat. This combination bodes well for long-term outperformance.

Ten of the 11 companies use R&D and patents to protect their moats. The three biotech firms have particularly high R&D with their key drugs protected by strong patents. Inditex's slightly narrower moat (it doesn't have to do R&D and in retail competitive advantages are more tenuous) rests on its strong brands, agile response to market needs and vertical integration. The third factor means it has complete control of the supply chain from manufacturing to distribution and retail: it doesn't farm anything out to other companies. All 11 companies have used acquisitions to supplement internal innovation. Spirax-Sarco, ASML and Intuitive also focus on excellent service as an important way of strengthening their moats.

## The top 11

Amazon started as an online bookstore in 1994, but expanded into online sales of practically everything, most recently food. Amazon has continued to innovate

*"In 2005 Mark Zuckerberg offered to sell Facebook to MySpace for \$75m. MySpace turned him down"*

and invest in new business areas such as a publishing arm, film and TV studios, and Amazon Web Services (AWS), which provides cloud-computing services to a multitude of companies (see page 32). AWS now commands around a one-third global market share of cloud services. It contributes around 13% of Amazon's turnover, but over 50% of its profits.

Both Alphabet and Amazon are so large that their size probably limits their future percentage growth rate, but they both have wide moats protecting their market positions. Although "elephants don't gallop", these elephants certainly canter, since their 2018 results showed substantial growth – with Alphabet's revenue up 23.5% to \$137bn with operating profitability of 22.9% and Amazon's revenue up 30.9% to \$233bn with operating profitability of 5.3% (but AWS's is 25%).

Amazon continually invests in growth through both acquisitions and the highest R&D investment in the world (\$29bn, or 12.4% of sales in 2018). Amazon is on a price/earnings (p/e) ratio of 66 for 2020, although analysts still see its inherent value as significantly higher than its current share price. Alphabet is on a much more reasonable forward p/e of 24 for 2020 and has a range of innovative businesses (AI, Waymo, Android, Maps, Play, Hardware) as well as its number-one position in online advertising and number-three position in cloud storage.

Adobe is another wide-moat company with ubiquitous software tools such as Photoshop, Illustrator and Acrobat, which dominate print, digital and video-content creation. It invests heavily in R&D (17% of sales), has high profitability and a record of sales growth, both organic (from its R&D) and via bolt-on acquisitions.

## Next-generation semiconductor production

ASML dominates the world market for precision lithography, the key step in making semiconductor chips. Its only competitor is Nikon, which has a much smaller global market share. ASML was first to market with next-generation extreme ultraviolet (EUV) lithography after two decades of R&D and its customers have just introduced their first EUV-manufactured devices. Seven EUV systems (costing around €120m each) were shipped in Q3 2019 and orders taken for 23 new EUV systems.

## Bristol-Myers Squibb (BMS)

focuses on developing immuno-oncology drugs. BMS was the first firm to gain regulators' approval for an immuno-oncology drug (Yervoy) in May 2011 (for late-stage melanoma). It followed this with Opdivo, which has now been approved for at least ten different cancers. BMS has just acquired Celgene, a company specialising in treatments

for blood cancers such as multiple myeloma and leukaemia. Over half of BMS's pipeline is devoted to oncology, as is all of Celgene's. BMS has sold off its non-core activities and is partnering drugs in areas where it is not as strong as in oncology. For example, its potential blockbuster drug for atrial fibrillation (Eliquis) is partnered with Pfizer.

Halma, a FTSE 100 firm, owns a group of companies specialising in process safety, infrastructure and environmental safety and medical technology. Products include gas-detection devices, pollution gauges, and water-pipeline leakage monitors.

Continued on page 26

*"They say elephants don't gallop, but technology giants Amazon and Alphabet are still cantering"*



Continued from page 25

It has an unparalleled record of raising its dividend by at least 5% each year for the last 40 years. To do this it maintains a high return on capital (a key gauge of profitability) and grows both organically with R&D and by using bolt-on acquisitions.

### Battling rare blood cancers

Incyte is a biotech that moved into profit for the first time in 2018. Its lead drug, Jakavi, has been developed in partnership with Swiss drug giant Novartis and approved for two rare forms of blood cancer as well as graft-versus-host disease (a fairly common complication of bone marrow transplants). Its two other approved drugs are Olumiant for rheumatoid arthritis (licensed to Eli Lilly) and a drug for myeloid leukaemia. Jakavi's main patents expire in 2026 and this should leave enough time for its pipeline to mature and generate new revenues to replace Jakavi's. However, as with all biotechs, there is the risk of late-stage clinical trial failures.

Inditex, which owns Zara and seven other brands, is a global leader in fast fashion. It can deliver the latest fashions online or via 7,000 stores with rapid stock turnover at affordable prices. It does this because the majority of its manufacturing is close to Spain; it delivers twice a week to all stores worldwide. Inditex's moat is based on its scale, ability to keep a lid on costs, fast supply chain (helped by the vertically integrated structure) and rapid design feedback. Its centralised business model enables it to expand globally at a lower cost than most competitors. These advantages enable the firm to achieve higher operating margins and help it to take market share from traditional competitors.

### Robots in the operating theatre

Intuitive Surgical is the global leader in robot-assisted keyhole surgery with its da Vinci robotic systems. The number of surgical procedures performed on da Vinci systems has soared from a thousand in 2002 to over one million in 2018. More than 70% of turnover is recurring revenue. The da Vinci systems have been vastly improved over this period, with Intuitive investing over 11% of sales in R&D.

As the market leader, Intuitive has more surgeons trained on its systems than any other company and these surgeons insist on da Vinci when they move to new hospitals without robotic surgery systems. Patients prefer hospitals able to offer the latest equipment and robotic systems are also important in this respect. These factors underpin Intuitive's wide moat.

Regeneron has developed a series of technologies to facilitate the discovery of new drugs. These include producing a wide range of monoclonal antibodies, their rapid screening for therapeutic effectiveness and special genetically humanised mice used to test human therapeutics and study human tumour models. Regeneron also has its own genetics centre that uses genomic approaches to speed up drug discovery and development. R&D investment comprises 33% of revenues. The company's emphasis is on oncology, immunology and rare diseases, although current revenues mainly derive from Eylea, the company's successful treatment for wet macular degeneration and diabetic retinopathy of the eye.

Spirax-Sarco is a global leader in products and systems used for process heating (when heat is used to produce manufactured goods). It is a FTSE 100 company that, like Halma, achieves a high return on capital and pays an increasing dividend (up 75% from 2012-2013 to 2018-2019). It invests in R&D and makes bolt-on acquisitions.



Inditex's Zara is a global leader in fast fashion

### The best bets for now

The 11 companies form three groups. The first contains six market leaders (Adobe, Alphabet, Amazon, ASML, Inditex and Intuitive Surgical) with wide moats; Inditex's moat is narrower. The second consists of three strong companies with wide product ranges and a history of growth (Bristol-Myers Squibb, Halma and Spirax-Sarco), while the third contains two biotechs that are both at present heavily dependent on revenues from one successful drug each (Incyte and Regeneron). In addition, only five of the 11 companies pay a dividend (ASML, Bristol-Myers Squibb, Halma, Inditex and Spirax-Sarco), so investors requiring an income may prefer one or more of these. Bristol offers the highest yield at 2.9%.

All the companies except Inditex invest in R&D, Amazon and Alphabet are the two largest R&D investors in the world. R&D intensity (R&D as a percentage of sales) is highest for Incyte (64%), Regeneron (33%) and Bristol-Myers Squibb (28%) because of the large investments they are making in their new drug pipelines. The prospective p/e ratios for 2020 are very high for three of the ten stocks, adding to risk – 42 for Intuitive, 47 for Incyte and 66 for Amazon.

That high p/e makes the share price sensitive to bad news, although Amazon's huge scale, cash generation and record of innovation remain appealing. Inditex's p/e is 22, but growth has slackened recently with disappointing Q2 margins. Halma, with a 2020 p/e of 36.5, looks expensive even given its high return on capital and consistent dividend increases. Wait for a lower price. Spirax-Sarco is another long-term buy, but it is on a similar 2020 p/e to Halma (34). Halma's higher growth makes it preferable.

In software and technology hardware, Alphabet with a 2020 p/e of 24 looks attractive, followed by Adobe (2020 p/e of 31.7) and ASML (p/e of 28, although ASML has the usual risk of semiconductor sector cyclicality). In biopharma both Bristol-Myers Squibb and Regeneron are well established with very reasonable 2020 p/es of nine for Bristol and 14.1 for Regeneron. Bristol has a strong pipeline, completed its acquisition of Celgene in late November and is lower risk. Regeneron's set of technologies for the discovery and rapid development of new drugs gives it strength in depth for filling its future pipeline.

In sum, the companies to look at first are Alphabet (Nasdaq: GOOGL), Bristol (NYSE: BMY) and Regeneron (Nasdaq: REGN), followed by Adobe (Nasdaq: ADBE) and ASML (Nasdaq: ASML). For Halma (LSE: HLMA) and Amazon (Nasdaq: AMZN), wait for the price to dip.

*“Intuitive Surgical is the global leader in robot-assisted keyhole surgery”*

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# How Argentina embarked on the road to ruin

A century ago, the South American country was economically on a par with France and Germany. Left-wing populism may now have irretrievably ruined it, says Max King

There is no mystery about the route to national prosperity: a high level of domestically financed investment supported by respect for property rights, the rule of law and low taxation. Other factors, such as the avoidance of wars, stable democratic rule and benign regulation make it easier for countries to stay on track. Good infrastructure, education and healthcare are as much a consequence of development as a cause of it.

Britain's development was no "revolution", industrial or otherwise, but a long period of accelerated growth preceded by an equally long period in which the supportive conditions fell into place. Other countries have usually needed a kick-start such as the opening of the country to agriculture or the discovery of natural resources, with the initial capital provided from overseas. In time, local entrepreneurs emerge, domestic savings are built up and value-adding businesses first supplement, then take over from the primary industries.

Argentina followed this path successfully, becoming one of the richest countries in the world in per-capita terms by 1914, on a par with France and Germany. The election of Juan Perón in 1946 triggered a disastrous spiral of decline that continues to the present day and is probably irreversible.

## Post-independence teething problems

Independence from Spain in 1810 saw Argentina embrace immigration and trade, while agriculture spread through the Buenos Aires hinterland. But the export of meat and grain was ruled out by slow ships and an inability to preserve food. The first debt default in 1827, a civil war and a disastrous war against Paraguay hardly helped.

In the second half of the 19th century, growth accelerated thanks to the commercialisation of refrigeration in the 1880s, the advent of canning and a consequent boom in exports. The British weren't the only ones to tame the Pampas but they built and owned the railways, the port terminals, the slaughterhouses, the ships and the services, such as finance, needed to get the goods to market. Argentina was never ruled by the British, but the economy was controlled by them rather than the southern Europeans who accounted for most of the immigration. When Argentina defaulted a second time in 1890 in the Barings crisis, investors saw this as an opportunity to put more money in.

Argentina continued to prosper between the wars, despite the Great Depression, the resultant drop in agricultural prices and a military coup in 1930. In response to tariffs against its beef, notably by the UK, which pursued "imperial preference", farmers switched output to grains and governments pursued a policy of industrial-import substitution, a rational



Juan and Eva Perón introduced leftist populism to Argentina

attempt to diversify the economy and move it away from a dependence on agriculture. It was the military coup of 1943, led by Juan Perón, and his election as president in 1946 that proved a major turning point.

Perón, egged on by his glamorous, egocentric and politically ambitious wife, introduced what we now think of as left-wing populism to Argentina. His policies of nationalisation, exchange controls, unionisation of the labour force, higher taxation and redistribution were not remarkable by the standards of the time; more damaging was a legacy of class envy, nationalism, a sense of entitlement and a disregard for the law. The Supreme Court was politicised, removing a key constraint on his administration, the opposition leader arrested and the mob encouraged to ransack bastions of wealth. The economy stagnated and inflation took off, eventually leading to Perón's ousting by the military. Elected presidents, including a brief return to power by Perón, and military rule alternated until 1983. After that, governments alternated between Perónists and Radicals.

## Four defaults and hyperinflation

In the decades before 1992, no serious attempt to change economic course was attempted. Argentina defaulted on its debts four more times and so bad was inflation that 13 zeros were knocked off the currency. Argentines learned to switch their savings into dollars and take them out of the country while net immigration reversed, inevitably with the ablest, the ambitious and the prosperous leaving. But in 1992, the newly elected Perónist president, Carlos Menem, decided that enough was enough. Inflation was brought down, market reforms, including

*“Perón’s legacy was class envy, a sense of entitlement and disregard for the law”*



*“The exchange rate is 60 pesos to the US dollar. It will soon be time to knock off some more zeros”*

privatisation, were introduced and the budget deficit cut back. The new peso was tied at parity to the dollar, supported by the International Monetary Fund (IMF) and capital inflows. For a while the strategy seemed to be working, but dollar strength, an emerging-market crisis and falling agricultural prices put the economy under pressure. The national aversion to austerity led to mounting unrest; the deeply entrenched view that the world owed Argentina a living hadn't gone away.

### The point of no return

In 2001, Argentina passed the point of no return. It defaulted again, the currency was devalued by two thirds and even dollars held in domestic bank accounts were forcibly converted into pesos at parity, then devalued. In a desperate attempt to reduce inflation, utility prices were frozen and exchange controls brought back. The government led by Néstor Kirchner sought to bolster its finances by taxing exports as well as imports and, in 2008, by seizing the assets of private pension funds in return for the promise of inflation-indexed pay-as-you-go pensions. The value of these was then eroded by rigging the inflation data to show a fraction of the true rate.

The consequence was a collapse in infrastructure investment, the discouragement of investment in export businesses, and a massive currency black market. Nationalisation at

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rock-bottom prices infuriated foreign investors. For good measure, both Néstor Kirchner and his wife Cristina, who succeeded him as president, filled their own pockets. By 2014, with inflation at 40%, another default inevitable and the economy in recession, the voters had had enough. The next year, they elected Mauricio Macri as president to sort out the mess.

### Macri missed his chance

He never stood a chance. The devaluation of the currency from its official rate of nine to its black market rate of 14 wasn't enough. Understandably, Macri was reluctant to take on the heavily unionised and bloated public sector, so taxes remained high. The familiar cycle of inflation and devaluation continued so that the exchange rate is now 60 pesos to the dollar. It will soon be time to knock off some more zeros. In the October 2019 election, the Perónists, with Cristina Kirchner pulling the strings, returned to power. For now, there is stability. Tough new exchange controls have lessened the downward pressure on the peso and economic activity is sustained by a rush to spend spare pesos, whose value is being rapidly eroded by an inflation rate of 50%. The stability won't last. In 2017, foreign investors, transfixed by a 7.9% yield, naively spent \$2.75bn on a 100-year bond. It has already lost half its value and the other half will surely follow.

Over the last 70 years, successive governments have ensured that there are no domestic savings and hence negligible investment. The rule of law and property rights have been undermined to the point of collapse, while punitive taxation and exchange controls prop up the black market and informal economy. There, all activity is directed towards earning dollars to take out of the country and finance emigration, which keeps alive the entrepreneurial spirit. Countries that Argentina once looked down on, such as Chile, Mexico and Uruguay, have overtaken it in terms of GDP per capita. The example of Venezuela, also once one of the world's richest countries, shows that things can get much, much worse.

### A warning for Britain

What relevance does all this have for the UK? Here, we are used to the idea that when governments make strategic mistakes, they see the error of their ways and perform a U-turn. At the next election, the public throw them out of office and replace them with a different government that sorts out the mess. Lasting damage is avoided and economic growth continues until the next mistake or external shock throws the country temporarily off balance again.

Argentina shows that this does not necessarily happen. Governments there pursue irreversible change that they believe is in the national interest, but proves to be a delusion brought about by a preference for ideology over experience. In response to failure, they don't U-turn but double down, put their foot on the accelerator and blame internal or external saboteurs. Core supporters are bought off, opposition suppressed and elections rigged. Even if the election is lost, sorting out the economic mess requires austerity, devaluation and the removal of price controls by the new government.

The resulting inflation and erosion of living standards ensures that the new government doesn't last long, the ideologues return to power and embark on new, crazy schemes. As savings and able citizens flee, the economy spirals downwards and life is dominated by acrimony, demagoguery, corruption, violence and repression. But that could never happen here, could it?

# Mini-bonds: big trouble

Investors have been seduced by the high interest rates on these products, but they're not as safe as they seem



**Ruth Jackson-Kirby**  
Money columnist

Last week the Financial Conduct Authority (FCA), the financial services regulator, announced that it was finally cracking down on mini-bonds. As of January 2020, they will no longer be marketed to retail investors.

A mini-bond is a form of debt security. You lend your money to a company in return for a high regular income, while you will get your original stake back when the bond matures. The interest rate is typically around 8%.

But a high return implies high risk. Companies don't have to be authorised by the FCA to issue mini-bonds and the products are unregulated. Mini-bonds can't be traded, so once you've invested your money is locked away until maturity. If the company goes bust during that time, you may not get your money back. In January London Capital & Finance (LCF) went bust after collecting £237m from almost 12,000 investors, who may now lose their savings.

## Too little, too late?

While it is good news that the FCA is taking action to curb the mini-bond market, it isn't going to protect everyone from investing in these very high-risk products. The ban only covers "mini-bonds designed to raise funds that are lent on to third parties, invested in other companies, or used to develop property", says Robert Smith in the Financial Times. "It is not banning mini-bonds entirely." Firms using them to fund their



*With mini-bonds your money is locked away until maturity*

©Getty Images

own operations will be exempt. So, the notorious "burrito bond" marketed by Mexican restaurant chain Chilango earlier this year would still be allowed. That attracted £3.7m in investments after offering investors free burritos. Today Chilango is facing financial problems.

The key issue with mini-bonds is that companies are increasingly marketing them at ordinary investors. "The businesses involved would typically face short shrift from professional fixed-income investors because of their dubious cash flows or weak asset bases," says Smith.

But inexperienced investors see a rate of return far above what they can get from their bank. Along with the word bond, which is usually associated with a relatively safe investment, that makes them appealing. Note too that the FCA ban only applies to regulated firms, so "investors... still need to be on their guard for scams and be wary of anything that looks too good to be true", says Jonathan Jones in The Daily Telegraph.

**"The firms involved would get short shrift from professional bond investors"**

## Christmas credit-card crunch

If you are planning on putting Christmas spending on plastic, watch out. The average interest rate on a new credit card is now a record 25.1% and interest-free cards are more elusive. Banks have been under pressure to help lower household debt. Halifax, Tesco Bank, Lloyds Bank, MBNA and Barclaycard have all increased their interest rates, while the number of interest-free deals has fallen and the 0% period is getting shorter. But you can still get 26 months to pay off your spending with MBNA's 0% purchase credit card.

If you pay off your credit card in full each month you won't be charged interest. In that case you should look for a rewards credit card and enjoy the perks of staying in the black. American Express's Platinum Everyday card pays 5% cashback for the first three months (up to 1% thereafter). If you've built up some debt on a credit card, shift it to a 0% balance transfer card to avoid a high interest rate. Virgin Money offers a 29-month interest-free period, but you'll pay a 3% fee to move your balance onto the card. If you don't need that long to clear your debt, Santander has an 18-month interest-free period for balance transfers with no fee.

## Pocket money... peer-to-peer lender gets a lifeline

■ HSBC and Santander are set to refund millions of pounds to customers after "failing to alert hundreds of thousands of account holders that they had gone into an unauthorised overdraft", says Mark Sweny in The Guardian.

Over 100,000 customers will share £8m from HSBC after the bank failed to send them texts warning them that they had gone into the red. It is a legal requirement for banks to send text alerts about unauthorised overdrafts.

Santander has failed to meet that standard too, "but has so far been unable to provide... details on how many customers have been affected and how much it will refund".

■ Peer-to-peer (P2P) lender Zopa is "on track to secure a £130m capital lifeline it needs to become a challenger bank", says Kate Beioley in the Financial Times.

The funding will mean that the lending platform acquires the regulatory capital required to prove it is "financially strong enough to become a bank". This marks a "turning point for the industry, which needed to evolve following the collapse of some smaller players and rising customer defaults".

Zopa has only just managed to secure the funding it needs, which "raises questions about P2P as a sustainable business model," says Emma Dunkley in The Times. City regulator Lord

Turner said four years ago that losses in the P2P sector over the next decade would "make the worst bankers look like absolute lending geniuses". Two peer-to-peer lenders have collapsed this year – Lendy and FundingSecure. Zopa's pre-tax losses grew to £18.3m last year compared with a £5.5m loss in 2017, largely due to investment in setting up its bank, says Dunkley. Zopa's move into banking will allow it to expand its funding base as it will be able to receive retail deposits. It plans to launch fixed-term savings accounts and its own credit card.

■ Challenger banks are outdoing the high-street stalwarts by providing "better customer service and easier-to-use apps", reports David Byers in The Times.

Consumers' group Which has named First Direct, Starling Bank and Monzo the best banks for current accounts, "giving them high marks for customer service, their account application processes, communications and transparency of charges". However, traditional banks failed to make it into the top six. Only Nationwide Building Society made the cut from the old names.





# Don't get caught by the cap

It's easier to breach your annual pension contributions allowance than you might think



**David Prosser**  
Business columnist

Thousands of savers may face an unexpected tax bill and late payment charges because they have unwittingly contributed too much to their pension schemes, HM Revenue & Customs is warning. In its latest newsletter for pension scheme administrators, the tax authority said it knew some savers had not reported that they had breached the annual allowance for pension contributions – and asked schemes to remind members to declare such breaches on their self-assessment tax returns.

In principle, the system is simple, with most people entitled to make up to £40,000 of contributions into private pension plans tax-free. Contributions above this cap then give rise to a tax bill at the saver's marginal rate of tax, typically 40% or 45%.

But in practice it's easy to go over the allowance without realising it. The cap applies across all the pension schemes to which you contribute. That can catch out people saving both at work and with a private plan. The allowance also

includes contributions

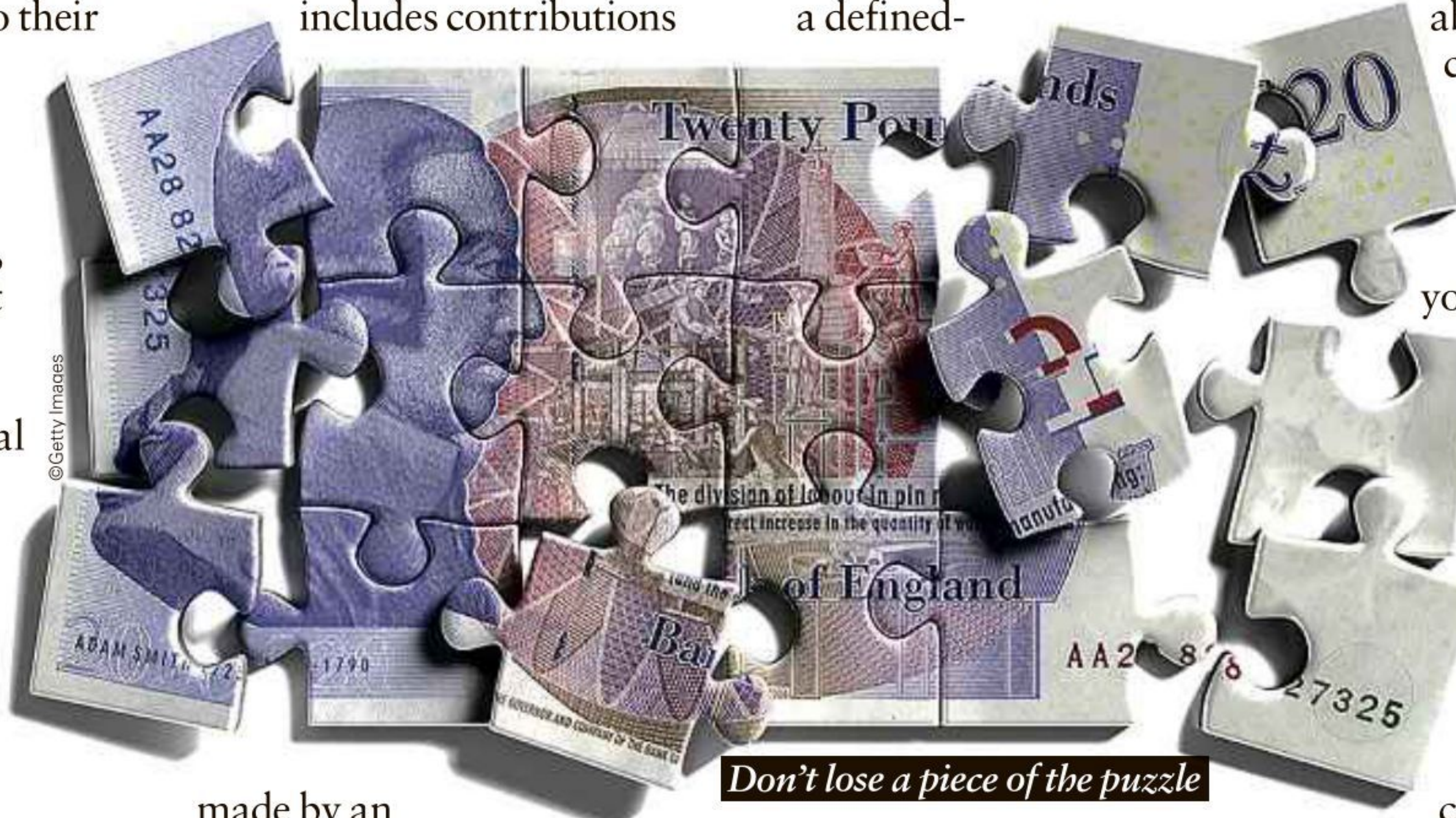
falls to £10,000 for those on annual incomes of £210,000 or more. Some savers have not factored this in.

Another problem is that while it's straightforward to work out what you and your employer have paid into a defined-

If you're a member of a pension scheme at work, it will tell you if it knows for sure that you have breached the annual allowance. But pension scheme managers don't have access to the full detail of your finances. They won't know about other schemes you're contributing to. They won't necessarily realise you're affected by the tapered annual allowance. That your scheme hasn't issued you with an annual allowance warning therefore doesn't mean you're in the clear.

It's vital that you check your position carefully before completing your self-assessment tax return. If you're in a defined benefit scheme, ask for an annual allowance statement so you can see exactly how much of it you've used up.

In other types of scheme, make sure you're taking employers' contributions into account when calculating your position. And if you think you may be affected by the tapered annual allowance, check what your exact allowance is.



made by an employer on your behalf, or any other third party, so you need to add these to your total.

The tapered annual allowance causes additional problems. Higher earners get a reduced annual allowance; it comes down by £1 for every £2 earned above £150,000 and

contribution scheme, the calculation is more complicated for defined-benefit schemes. Here, it's the annual rise in the value of your pension scheme benefits that counts towards the annual allowance, though the formula for assessing this is tricky.



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# Tomorrow's winners will capture the cloud



A professional investor tells us where he'd put his money. This week: Anthony Ginsberg of the HAN-GINS Cloud Technology UCITS ETF picks three favourites

We believe that there is a major opportunity in "cloud" technology. Today, this market accounts for almost 60% of total US technology spending; investment in this field is set to rise by 18% this year alone, reaching \$214bn, according to Gartner, a research group. Cloud computing describes the trend whereby companies are increasingly paying subscriptions for software and renting computer power online rather than buying applications that run on their own servers. They are also storing and managing more and more data online as the cloud becomes more reliable and secure.

Businesses increasingly consider the cloud cost-effective and safe. For example, AT&T just agreed to shift most internal business applications to Azure. Without cloud-based technology to support them, Uber, Netflix and Airbnb would not exist.

## The top companies

Amid a volatile period for the so-called FAANG tech superstars, it is the giants of cloud technology that are holding up the best. Amazon and Microsoft, and to a lesser extent Alphabet (Google), have all been

increasing spending on cloud technology in recent years, and there is unlikely to be any let up this year. A significant portion of Amazon's profits now come from its Amazon Web Services (AWS) division, which leads the growing cloud computing market. Its earnings now account for more than 50% of Amazon's total. Microsoft has almost doubled its revenues in this sector since 2015.

For now, we believe companies such as IBM – which recently acquired software firm Red Hat – will be big winners as multinationals seek their help transferring

and sharing their IT data across multiple clouds. Whichever platform shows signs of becoming dominant in this area will probably become a winner next year. Here are three to watch.

## Turning data into strategy

**Splunk (Nasdaq: SPLK)** produces software that makes machine data accessible across an organisation – by identifying data patterns, diagnosing problems and providing intelligence for business operations. Making sense of the growing amount of data the digital world is generating is a top priority for many enterprises. Splunk has forecast that the amount of data production each year will be 44 times greater in 2020 than a decade ago. Double-digit growth at Splunk in 2018 was driven by companies' continued interest in trying to interpret the unusable and unwieldy data they generate.

## Providing cloud hardware

**Seagate Technology (Nasdaq: STX)** is a US data storage company and currently the world's second-largest maker of hard-disk drives and related storage products. Clients include all the largest cloud infrastructure providers, notably Amazon, Google, Apple and Facebook. The growing demand for the hardware used for cloud computing will help drive revenues.

Finally, **NetApp Inc. (Nasdaq: NTAP)** is a US hybrid cloud and data management Fortune 500 company that helps customers build and run applications on Google Cloud quickly and at scale with the right data strategy. Over 30 leading enterprises in numerous fields, including oil and gas, media and entertainment, and life sciences, are already using NetApp's service.

*"The amount of data produced annually has risen 44-fold in ten years"*

## If only you'd invested in...

### Avon Rubber (LSE: AVON)

Share price in pence



**Avon Rubber (LSE: AVON)** manufactures protective breathing equipment for the armed forces and emergency services, along with milking equipment for dairy cattle. The former division accounts for around two-thirds of the group's sales. This year has been "transformational", says CEO Paul McDonald. Avon is buying US conglomerate 3M's helmets and body armour business; McDonald wants to increase the company's presence in the security sector. Orders rose by 5% in the year to the end of September, with revenue up by 8.3%. The shares have risen by 58% in a year.

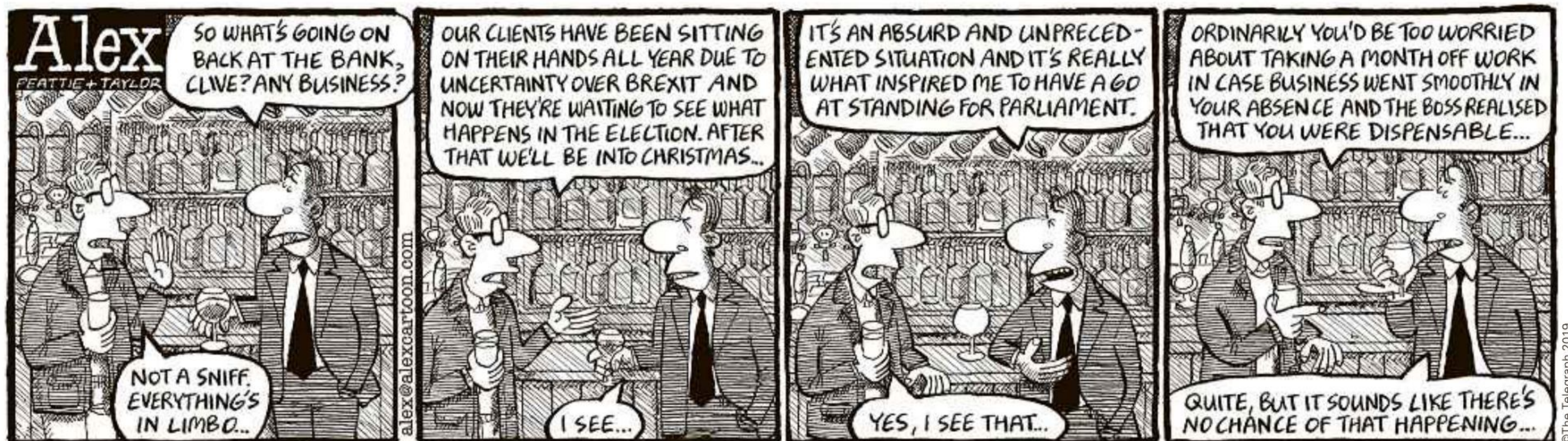
## Be glad you didn't buy...

### Purplebricks (LSE: PURP)

Share price in pence



**Purplebricks (LSE: PURP)** is an online estate agent that hopes to revolutionise the sector with its fixed-price offering. It's not been an easy ride, with the company being accused of lacking transparency in its sales volume figures and online reviews. Its foray into Australia came to nothing: the business was closed earlier this year after making big losses. The group did return to profit in the first half of the year, but investors remain unimpressed. After peaking in mid-2017, the share price has fallen by 80%, although it remains marginally above the 2015 flotation price.



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# A master of many guises

Michael Bloomberg launched his financial data company after getting fired from Wall Street. Could the billionaire media magnate and former New York mayor now become president? Jane Lewis reports

“No-one is more closely associated with New York City’s 21st century renaissance than Michael Bloomberg,” says The New York Times. Despite some personal flaws – “crankiness, a tin ear” – and a few “policy fiascoes”, the Boston-born technocrat and self-made multibillionaire (worth \$54bn) was a transformative mayor between 2002 and 2014. “Crime plummeted, schools improved, racial tensions eased, the arts flourished, tourism boomed and city coffers swelled.”



Bloomberg: a reputation for smarts, sharp edges and occasional crassness

## New York to Washington?

Now Bloomberg, who is gunning to become the Democratic presidential candidate in 2020, hopes to repeat the trick on the national stage. Call it the latest reinvention of a master of different guises, says Forward.com. A Wall Street trader turned technology innovator and media magnate, Bloomberg’s most recent incarnation, prior to running for president, was as “a vocal environmentalist” and the country’s next most philanthropic billionaire, after Jeff and MacKenzie Bezos.

Yet for all his accomplishments, he remains an enigma. Small in stature, with “a leaden tongue for public speaking and a business background based in dull analytics”, he is “fascinating as a study of multi-sector success without star quality”. “I offer myself as a doer and a problem-

*“Any computing platform invented in the 1980s that has continued to survive has accomplished something remarkable”*

solver – not a talker,” says Bloomberg, 77. That much is evident from his career path, says Joshua Chaffin in the Financial Times. Born into a working-class family, he showed no great early academic promise but nonetheless got into the prestigious John Hopkins University and then Harvard Business School.

On graduation in 1966, Bloomberg headed for Wall Street, joining Salomon Brothers where he “earned a reputation for smarts, sharp edges and occasional crassness”. That came back to bite him: “To his surprise – but not that of his colleagues – he was sacked after a 1981 merger.” Bloomberg, then 39, rebounded from this setback in style. The following

year, he ploughed his \$10m severance into a new company called Innovative Market Systems. The plan was to sell financial data using a dedicated hardware terminal, initially called Market Master, noted The Fast Company in 2015.

## Making it big

Bloomberg’s first customer was Merrill Lynch, which took 20 units. Even though he started the company during “a raging recession”, the timing was “fortuitous”. Stock exchanges from New York to Tokyo were going electronic and there was a gap in the market for “a truly sophisticated online service”. Bloomberg provided it.

By the end of the decade, sales of the renamed Bloomberg Terminal were growing at some 30% a year. “By definition, any computing platform invented in the first half the 1980s” that has continued to survive “has accomplished something remarkable”.

Bloomberg seriously “upset” established incumbents Dow Jones and Reuters – a David-and-Goliath feat that impressed many of his fellow tycoons, says Chaffin. Rupert Murdoch once described him as “the most creative media entrepreneur of our time”. Now he is “wielding his \$54bn fortune like a bludgeon”. Grabbing the White House might still seem “far-fetched” – but then so has most of his career so far.

## Great frauds in history... Takafumi Horie and Livedoor

### How did it begin?

Born in the city of Yame in 1972, Takafumi Horie studied at the University of Tokyo before dropping out to found Livin’ on the Edge (renamed Livedoor in 2004), a web-services start-up that went public in 2000. Its rapidly-growing profits and soaring share price allowed it to go on series of acquisitions. Horie’s talent for self-promotion and his willingness to engage in hostile takeovers won him an equal number of admirers and detractors. At its peak Livedoor employed 1,000 people and had a market capitalisation of \$7bn.



### What was the scam?

Livedoor’s strategy of paying shares, rather than cash, for the firms that it bought, gave it an incentive to keep the share price as high as possible: the higher the share price rose, the bigger Livedoor’s purchasing power. In order to keep Livedoor’s share price rising, Livedoor resorted to accounting manipulation, using Enron-style dummy partnerships to inflate its revenue and operating profits. In 2003-2004 the effect of this manipulation transformed losses of ¥310m (£2.2m at current exchange rates) into supposed profits of ¥5bn

(£35m). It also spread market rumours designed to boost the share price of listed subsidiaries.

### What happened next?

Livedoor’s bid for broadcaster Fuji in 2004 and Horie’s bid for Japan’s parliament in 2005 ruffled many feathers in the country’s establishment and led to increased regulatory scrutiny of Livedoor. In January 2006, Livedoor’s offices were raided by regulators and one of Livedoor’s bankers committed suicide. Horie was arrested days later and Livedoor was delisted. Horie was convicted in 2007 of fraud and sentenced to two and a half years in jail. Fund manager Yoshiaki Murakami was imprisoned for taking advantage of insider tips

from Horie about which firms he was going to try to buy.

### Lessons for Investors

Livedoor would eventually be sold to a Korean firm NDH in 2010 for only ¥6.3bn (£44.3m), a fraction of its peak value, although shareholders did get some additional money back from various lawsuits against both Livedoor and Horie himself. An acquisition spree, especially when the underlying company is barely breaking even, is a cause for concern, since companies may be tempted into manipulating accounts (as Livedoor did). Acquisitions can also be used by management to provide cover for any subsequent accounting irregularities that emerge.

# Epic wines for entertaining



As I assembled this sextet of beauties, my winter collection looked perfectly "Tanners-style": Until, that is, I reached the fifth and sixth bottles to insert into my imaginary six-pack and I broke with convention, threw caution to the wind and went all out Aussie, picking two of the most expressive and unlikely wines ever to grace this page. These two wines complete a peacock's tail of flavours for this month's case of wine, and show that nothing can be predicted when it comes to the MoneyWeek Wine Club.

These wines are available in cases of six - choose your favourite, or if you want to get the whole effect choose the mixed case which will give you one of each for a bargain £78. Thank you, Tanners, and happy drinking to you all. Enjoy!

*Matthew Jukes*  
Matthew Jukes

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Prices shown below are per case of 6 bottles. Wines are also available in a mixed case, giving you one bottle of each for just £78 — it's a chance for you to try them all, and is the most popular choice with *MoneyWeek* readers!



**2018 Sauvignon de Touraine, Les Silex, Trotignon, Loire, France**

~~£10.95~~  
**£10**  
I am happy to say this out loud, 'I love Sauvignon Blanc'. Not all examples, of course, but there are too many wine snobs out there shunning the unbridled joy of great Loire Sauvignon and this is one of the most vital and energising of all styles of white wine. An Olympic aperitif glugger, Les Silex possesses a much higher IQ than many and this is derived from its noble terroir. Along with the core citrus and green herb notes there is a minerality which is lip-smacking and noble. Let's all say it together now...

**CASE PRICE: £60**



**2017 Jim Barry, Assyritko, Clare Valley, South Australia**

~~£19.90~~  
**£18.40**  
This is one of Australia's most exciting wines of late and it is also one of the world's finest Assyrtikos. Given that this is a Greek grape, which Peter Barry lovingly imported and painstakingly planted in Clare with no idea if it would perform, this wine is something of a miracle. I love it so much that it won a coveted place in my 100 Best Australian Wines Report. Sadly, this vineyard was caught up in a bush fire not so long ago, so this is a rare item, too. If you love fabulously intellectual, bone dry white wines with perfume to die for, then this is it.

**CASE PRICE: £110.40**



**2018 Dolcetto d'Alba, Fratelli Serio e Battista Borgogno, Piemonte, Italy**

~~£14.95~~  
**£13.80**  
I am a Dolcetto fan and yet this is a grape which so often disappoints with weedy fruit and pongy aromatics. Borgogno's early-drinking 2018 is as far removed from this dodgy style as you can get. Bursting with character like a virile young Beaujolais, it also has a thrilling fruits of the forest perfume which I admire greatly. Slim and nimble on the palate, it is a red to set the scene before you move onto something more structured. As a warm-up act it is sublime!

**CASE PRICE: £82.80**



**2018 Mâcon-Vergisson, Les Rochers, Domaine Guerrin & Fils, Burgundy, France**

~~£12.50~~  
**£11.50**  
While the Sauvignon de Touraine is the classic crowd-pleasing, fridge-door white wine, Les Rochers is an altogether more serious proposition. A beautifully calm Chardonnay with little oak interference to worry the scorers, this elegant white Burgundy is disarmingly cheap for the level of class and restraint it shows on the palate. With enough oomph to step up to a fish dish and even the main event on the big day, I cannot recommend this wine enough.

**CASE PRICE: £69**



**2018 Tanners Merlot, Pays d'Oc, France**

~~£8.20~~  
**£7.60**  
Do not laugh – this is a perfectly serious entry in my pantheon of greats and the second I tasted this wine, I knew it had to feature in the MoneyWeek Wine Club. I have learned that I am not the only person to love this innocently fruit-driven and genuinely delicious wine, because it is apparently Number 3 in the Tanners wine hit parade! Tanners Buying Director Stephen Crosland nails this blending exercise with characteristic aplomb and I take my chapeau off to him.

**CASE PRICE: £45.60**



**2015 Kaesler, Stonehorse Grenache / Shiraz / Mourvèdre, Barossa, South Australia**

~~£16.50~~  
**£15.20**  
I bumped into Kaesler winemaker Stephen Dew in Melbourne a few weeks ago and it was great to catch up with this wonderfully talented man. I have known him for an eternity but we rarely see each other and so when I said that Stonehorse GSM was going to feature in my December mixed case he was genuinely moved. This is an Aussie version of a Côtes-du-Rhône and some of the vines in here date back a century. Amazingly dense and bold but with bounce and freshness, too, this is a grand finale wine to a truly great feast.

**CASE PRICE: £91.20**

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# Three of the best Christmas markets

Head to a fantastical fair in Aachen presided over by a gingerbread man. Chris Carter reports

Set against Aachen's sombre town hall in the German state of North Rhine-Westphalia, the Christmas market looks fantastical, with an added dash of Harry Potter spookiness, say Katja Schnitzler and Irene Helmes in the *Süddeutsche Zeitung*. Festive cheer permeates through the city's squares and alleys around the cathedral and town hall. In front stands the Printenmann, a six-foot-high "gingerbread" man, who serves as the Christmas market's mascot. It's said that the gingerbread men (a local speciality) have taken the form of soldiers since the early 19th century, when the people of Aachen wanted to cut the occupying armies down to size one bite at a time. However, these days, peace reigns – a message that's carried along the Aachen Crib Trail, with its festive images from different eras and cultures.

*Until 23 December*

## An authentic wonderland

For an authentic Christmas set in a festive wonderland of traditional timber-framed houses, head to Kaysersberg in the French region of Alsace, says Philippe Bohlinger in *Le Figaro*. It hasn't changed a bit in over 30 years. The decorations in this wine-growing town near Colmar, the region's capital, are perfect down to the last detail from the green Christmas tree and red bows to the non-flickering lights. Meanwhile,



Aachen: festive cheer with a dash of Harry Potter spookiness

the medieval town centre provides the ideal setting in which to immerse visitors in the ambience of the Christmas market. Foie gras, aromatic herbs, organic wine – all of the specialities of the region can be found here.

*Fridays, Saturdays and Sundays until 23 December*



## The capital of Christmas

Liège in Belgium is used to welcoming visitors with open arms, says Mathias Renaux in *Le Soir*. But during the festive period, the atmosphere in the city is even more convivial than usual. Liège was even voted the European capital of Christmas in 2018. No wonder. The city has hosted Belgium's biggest Christmas market for 32 years and it knows how to put on a show. After all, the city transforms itself into a veritable Christmas village. Visitors can shop for presents or merely stroll around, soaking up the festive atmosphere around the 200 wooden chalets and tasting local specialities.



Be sure to try a little of Belgium's *peket eau de vie* between a couple of glasses of warming mulled wine, without forgetting, of course, to visit the toboggan run installed in the Place de la Cathédrale.

*Until 30 December*

## Wine of the week: a thrilling sem-sauv blend

**2018 Aristeia Sauvignon Blanc/Semillon, Elgin, South, Africa**

£25.95, reduced to £23 on offer until 31 December, Private Cellar, 01353-721999, [privatecellar.co.uk](http://privatecellar.co.uk)



**Matthew Jukes**  
Wine columnist

I love the Aristeia wines and the new releases are the finest to date. Owner Martin Krajewski encouraged his winemaker Matt Krone to reach for the stars while putting these wines together and this year the 2018 chardonnay (with an offer price of £25 per bottle and £50 per magnum) is a suitably flamboyant creation, while the 2017 cabernet (on offer at £27 per bottle and £54 per magnum) is focused, noble, relatively forward and stunningly balanced.



My featured wine is the pick of the bunch. I am a committed fan of the top-flight sem/sauv blends from Bordeaux – after all, white Graves wines are some of the most complex and age-worthy in the world. Aristeia takes this ultra-sophisticated model and modernises its recipe, leading with racy Elgin sauvignon blanc and augmenting it with lusty, lime pith-smooched semillon. A 75/25 blend is treated to one year of maturation in 500-litre format French

oak. This serves to polish the wine, lending it an imperceptible sheen of nougat and blanched almond sophistication. The result is a wine which can, on the one hand, be drunk as a keen, citrus-imbued, classy aperitif and on the other a fully fledged main-course, fish-dish stunner. The tightrope walk between lush fruit and dramatic acidity is achieved with rare precision in this wine. I cannot recommend it enough. It takes a much-admired recipe and gives it a thrilling makeover to bring it bang up to date.

*Matthew Jukes is a winner of the International Wine & Spirit Competition's Communicator of the Year ([matthewjukes.com](http://matthewjukes.com))*

This week: properties for around £500,000 – from a thatched stone cottage in Bulwick, Northamptonshire, to a Gr



▲ **Christmas Cottage, Bulwick, Northamptonshire.** A thatched stone cottage dating from the early 1700s with later additions on the edge of a village. It overlooks open countryside and has exposed ceiling beams and an inglenook fireplace. 4 beds, 2 baths, recep, study, gardens, 0.2 acres. £535,000 Norton Rickett 01780-782999.

▶ **The Elms, Gedney Broadgate, Spalding, Lincolnshire.** A 1720s, Grade II-listed Georgian farmhouse that has been extended to include a bespoke kitchen. It retains its original marble fireplace and oak spiral staircase. 3 beds, 2 baths, 2 receps, three barns, gardens, small orchard, 0.7 acres. £500,000+ Fine & Country 01780-750200.



▶ **Higher Roskorwell Cottage, Roskorwell, Porthallow, The Lizard, Cornwall.** An 18th-century Cornish stone cottage on the cliffs above a fishing village in an Area of Outstanding Natural Beauty. It has wood ceilings, an inglenook fireplace with a wood-burning stove, a country kitchen with an oil-fired Rayburn and a therapy room in the garden with a shower and kitchenette. 3 beds, 2 baths, recep. £500,000 Savills 01872-243200.





Grade II-listed Georgian townhouse just a few minutes' walk from the train station in Rugby, Warwickshire



◀ **Hillmorton Road, Rugby, Warwickshire.** A Grade II-listed Georgian townhouse close to Rugby school and just a few minutes' walk from Rugby train station. The house retains its sash windows and open fireplaces and has been updated to include a modern extension at the rear. The extension opens onto the garden and includes a contemporary kitchen and an orangery with a vaulted glass ceiling. 5 beds, bath, 2 receps, cellar, parking. £500,000+ Fine & Country 01788-820062.

▶ **East Cottage, Long Compton, Warwickshire.** A Grade II-listed, 18th-century, mid-terraced thatched cottage with large gardens. It retains its original beamed ceilings and flagstone floors and has a large inglenook fireplace. 3 beds, bath, recep, dining kitchen. £475,000 Hayman-Joyce 01608-651188.



▶ **Allfarthing Lane, London, SW18.** A ground-floor garden flat in a Victorian terraced house close to Wandsworth Common. The flat has wood floors, an open-plan living and dining area with a modern fitted kitchen and French doors leading onto a private, south-facing garden. It comes with access to a shared cellar. Bed, bath, open-plan kitchen/living/dining area. £495,000 Savills 020-8877 1222.



▶ **Old Town, Stevenage, Hertfordshire.** A modernised Victorian semi-detached house in the centre of the old town in Stevenage. There is a contemporary extension to the rear of the property, which leads onto a large, landscaped rear garden. The house has a contemporary interior with an open-plan ground floor with a modern fitted kitchen. 3 beds, bath, 2 receps, parking. £495,000 Putterills 01438-316846.

▶ **Bramble Cottage, Stibb Green, Burbage, Marlborough.** An end of terrace, thatched cottage on the northern edge of the village close to Savernake Forest and an Area of Outstanding Natural Beauty. It dates from 1792 and has a later extension. It has exposed brickwork, an open fireplace with a wood-burning stove, a small front garden and a larger, enclosed rear garden. 3 beds, bath, 2 receps, breakfast kitchen, garage, parking. £485,000 Carter Jonas 01672-514916.



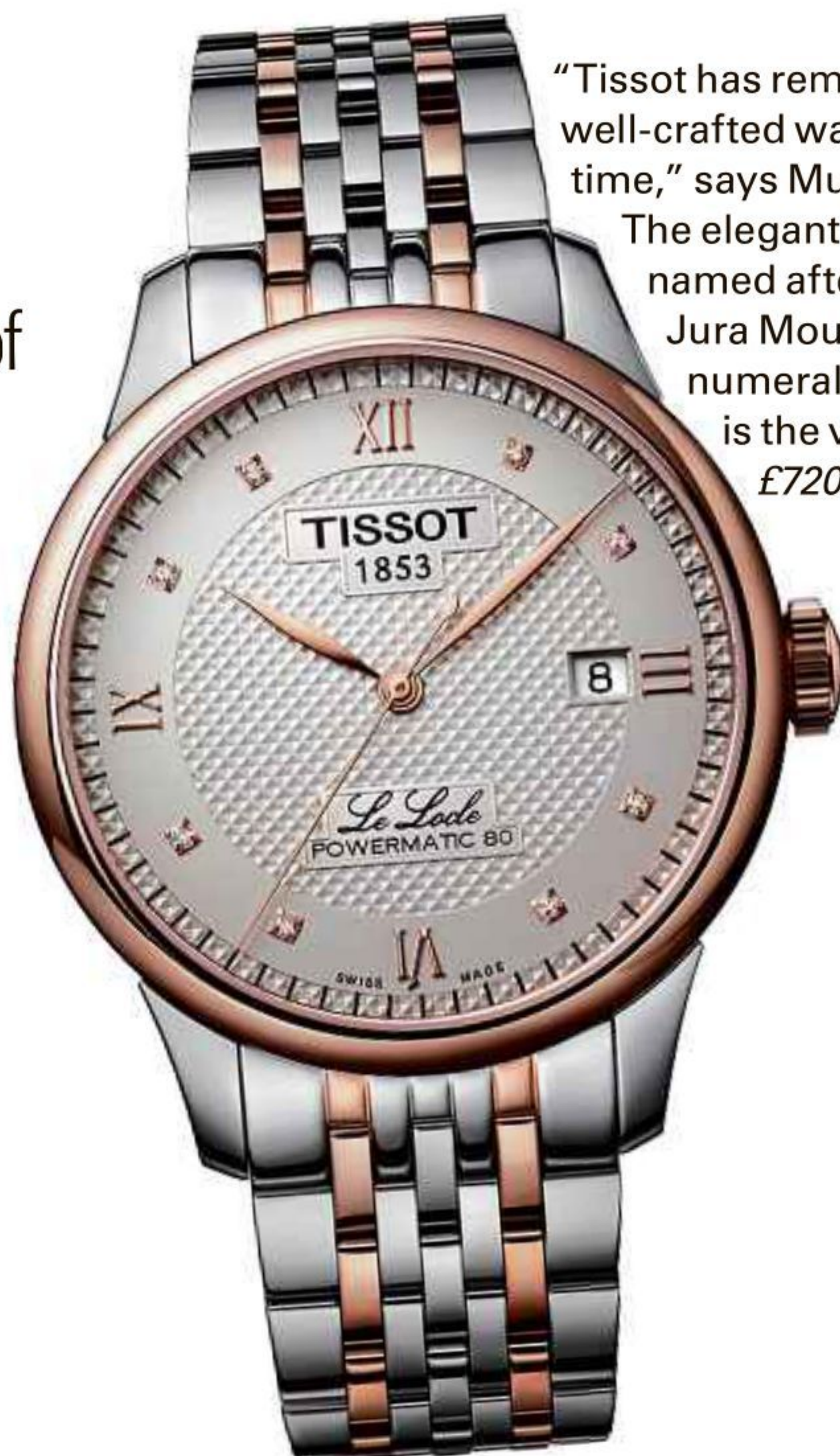
# Nine superlative stocking fillers

Christmas is just a few weeks away. If you're still stumped for what to get your loved ones, don't panic. Here is a selection of our favourite gift ideas

Not only does the traditional caramel tone of this **Double Face wool-mix cape** ooze sophistication, but it is practical, too, says Lisa Armstrong in *The Daily Telegraph*. "Throw it on over countless layers during the day and use it as a cover-up for evenings out.

An elegant present for the classically dressed."

£280, [jigsaw-online.com](http://jigsaw-online.com)



"Tissot has remained at the apex of affordable, well-crafted watchmaking for a very long time," says Murray Clark on *Esquire.com*.

The elegant **Le Locle Powermatic 80** is named after Tissot's home in the Swiss Jura Mountains. Featuring Roman numerals and the Le Locle signature, it is the very picture of classic chic.

£720, [tissotwatches.com](http://tissotwatches.com).

"Thanks to the built-in tap and a tiny carbon dioxide regulator that runs off portable canisters, you can get a taproom-quality pour from the first sip to last" with this **uKeg 64 carbonated growler** that keeps beer fresh and carbonated, says Parker Hall in *Wired*. £139, [amazon.co.uk](http://amazon.co.uk) (£156 for copper version).



**Bang & Olufsen's Beoplay A1 Bluetooth speaker**

"punches well above its weight – the device offers supremely powerful audio, a classy design and great battery life", says Joseph Carey in the *Sunday Express*.

£230, [bang-olufsen.com](http://bang-olufsen.com)





No occasion is too special for these **Serpent Bohème 18ct yellow-gold, malachite and diamond pendant earrings**. Their luxurious sparkle is enhanced by the delicate honeycomb technique employed by French luxury jewellers Boucheron. *£11,150, selfridges.com*



Roam the ocean's depths at your leisure in the world's lightest **three-passenger submersible** currently in production. Enjoy staggering, uninterrupted views of the watery deep thanks to its revolutionary design. And when you're not going eyeball-to-eyeball with the fish, its compact size allows you to store it in your superyacht's tender garage. *£3.3m, tritonsubs.com*



These **Hybrid 100 Boxing Gloves** from Adidas have "a sleek monochrome design, as well as a moulded foam padding, a durable outer covering and a secure wrist strap", says Ellie Davis in the Evening Standard – the perfect present for the sports fanatic in your life. *£42.95, adidas.co.uk*



**Thornback and Peel's set of four cotton napkins**, featuring a charming rabbit and teacup design, is just the thing for a relaxed afternoon tea or a more formal affair, says Country Living magazine. *£45, thornbackandpeel.co.uk*

There is no better way to bring the family together, while expanding your vocabulary, than over a game of **Scrabble**. Luxury leather-goods maker Aspinal of London has produced a high-end version of the classic board game, with a hand-bound leather playing board. The drawer is lined with felt, providing a home for the 100 bridle-hide-backed letters. *£995, aspinaloflondon.com*



# Five presents for children

From a teepee hideaway for the garden to a Lego treat for Harry Potter fans

Story time just got even more imaginative with the **Toniebox Starter Set**. Just pop in the *The Snowman Tonie*, and "fly through the air with Matthew Macfayden and Benedict Cumberbatch as they narrate Raymond Briggs' classic story", says *The Guardian*. £69.95, [tonies.com](http://tonies.com) (*The Snowman Tonie*, £14.99)



**Linkimals Smooth Moves Sloth** is perfect for very little ones, says Molly Holt in the *Daily Mirror*. "It claps its hands and bobs its head along to lights, songs and music, introducing babies to music and lights to keep them amused." £34.99, [Amazon](http://Amazon)



The **Plum Great Wooden Teepee Hideaway** is a magical place and would make a great centrepiece for your garden. It will set young imaginations racing as well as provide a shady spot on a sunny day in which to read and relax. £399.99, [johnlewis.com](http://johnlewis.com)

"The **wheely suitcase-scooter hybrid** is great for taking children around town or to the airport, and it easily packs enough clothes and toys for a weekend away," says Sally Peck in *The Daily Telegraph*. £69.99, [zincflyte.com](http://zincflyte.com)



The **Harry Potter Knight Bus** has three different levels and is built with 403 Lego pieces, says Levi Winchester in *The Sun*. "It's hinged with an opening side panel, removable roof, and includes the Shrunken Head and Harry Potter's chest." £34.99, [lego.com](http://lego.com)



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# Rock stars and rolling stock

Model railways are surprisingly popular among celebrities and the general public alike

Being a pop star isn't all about sex, drugs and rock 'n' roll. In Rod Stewart's case it's also about rolling stock. Stewart has revealed "that between selling out arenas, he's been working on a massive model railway for the past quarter-century", says Ben Cost in the New York Post.

The "elaborate 1,500-square-foot layout" takes up the "entire attic of Stewart's lavish LA mansion". His dedication to the "time-consuming" railway, modelled on a fictional 1940s American city, is so immense that Stewart would splash out to "reserve an extra hotel room while touring so he could work on it".

He is also keen to help other enthusiasts. He donated £10,000 to the Market Deeping Railway Club after their exhibition was destroyed by vandals, says The Guardian. Stewart's gift, along with a surge in crowdfunded donations from other model railway fans, "has allowed the club to raise more than £107,000 for repairs, which has helped it get its display "back on track". The club was so grateful it granted Stewart honorary membership.

Stewart might be better known for partying with real-life models, but "I wasn't shocked by Rod the Modeller's pastime", says James Richardson in The Times. Like many other model train fans, he appears to be on a "Proustian quest" to recapture childhood certainties, while the "sheer delight of making little trains go around and around" may also be part of the appeal.

While many people in Britain associate such a pastime with "attics and anoraks", the reality is it involves a great degree of "artistry", as well as showing the desire "to fashion a better world, if only in miniature, one tabletop at a time".



Rod Stewart: taking a downtown train

Model railway enthusiasts include people from almost every walk of life, including "struggling actors, steampunk enthusiasts, oil-rig workers, biochemists, pensioners, students and gutsy Scottish grandmothers", so it's not surprising that Rod Stewart isn't the only celebrity to take a trip on the right side of the tracks.

For example, Jools Holland, Phil Collins and Roger Daltrey "all have layouts"; David Hasselhoff and Bruce Springsteen "are also said to dabble". Indeed, Collins was so "incredibly busy" building a model railway at his home in Switzerland that "the album he was supposed to be recording had to be put on hold".

## Neil Young's obsession

Neil Young, however, trumps them all, says Adam White in The Daily Telegraph. Four decades ago, having become a "rich hippie", he bought a vintage Lionel set

selling for thousands of dollars. This triggered an obsession that would see him buying the company and releasing "a concept album" in 2004 revolving around a fictional Californian town named Greendale, with a 500-strong limited-edition railway set for the town sold by Lionel Trains as an accompaniment". Young's own 750-foot model train collection has grown so big that he now houses it in a 2,800-foot barn "hidden deep in the hills south of San Francisco".

Quintus Slide

## Tabloid money... Jeff Bezos's charitable donation is peanuts

● Jeff Bezos (pictured), the boss and founder of online retail giant Amazon, is the world's richest man, worth an estimated £80bn, says Lucy Mangan in The Mail on Sunday. This year, he is giving \$98.5m through his Bezos Day 1 Fund to 32 organisations in the US that help shelter homeless families. But so what? "I'm no maths whiz, but – taps calculator – that is 0.09% of his net worth. It's the equivalent of someone on the UK average income of around £25,000 giving £22.50 to charity in a year." That works out at 43p a week. And that would be out of taxed income too, something – "apparently along with genuine charitable impulses" – Bezos "knows very little about".



● "I really hope builder Steve Thomson and his wife Lenka will still be smiling as broadly this time next year after their life-changing £105m EuroMillions win," says Lorraine Kelly in The Sun. They say they won't change, but even if that is true, everyone else will. Old family disputes will surface and good friends will feel awkward. They will have to deal with begging letters and forever be known as "the EuroMillions couple". We've seen it all before. It's an old cliché that money doesn't bring you happiness and "I'm pretty sure being miserable in comfort isn't all it's cracked up to be". It would have been far better to create 105 new millionaires instead of giving such a massive sum to one winner. "It's just too overwhelming."

● Yes, she might have enormous breast implants, but wasn't former glamour model Katie Price also supposed to be a shrewd businesswoman with a £40m fortune? asks Jennifer Selway in the Sunday Express. It seems not, given she has just been declared bankrupt. What with all the "break-ups, driving bans and... embarrassing public displays", Price has "become a comedy turn", but not a very funny one. In her defence, she has been a "loving mother", including to her disabled son, Harvey. She has stood up to "evil bullies" and campaigned for online abuse to be made a criminal offence, says Tony Parsons in The Sun on Sunday. Never mind that she now owes £800,000 to her creditors. "I suspect she has faced bigger battles than bankruptcy."

## Bridge by Andrew Robson

### Extra chance missed

On this week's deal from the Champions Cup, declarer missed an extra chance. He won West's King of Diamonds lead with the Ace, cashed the Ace of Clubs discarding a Diamond, drew trumps finishing in dummy then led the Jack of Hearts. East won his bare Ace, exited safely with a minor, and declarer could not avoid losing a later trick to West's Queen of Hearts. Down one.

Dealer South

Neither-side vulnerable

|   |   |   |   |     |   |  |
|---|---|---|---|-----|---|--|
| <p>♠ 10<br/>♥ Q42<br/>♦ KQ104<br/>♣ QJ853</p> | <p>♠ KQ87542<br/>♥ J1063<br/>♦ 85<br/>♣</p> | <table border="1" style="background-color: red; color: white; text-align: center; width: 40px; height: 40px;"> <tr><td>N</td></tr> <tr><td>W E</td></tr> <tr><td>S</td></tr> </table> | N | W E | S | <p>♠ 63<br/>♥ A<br/>♦ 97632<br/>♣ 109642</p> |
| N   |   |   |   |     |   |  |
| W E   |   |   |   |     |   |  |
| S   |   |   |   |     |   |  |
| <p>♠ AJ9<br/>♥ K9875<br/>♦ AJ<br/>♣ AK7</p>   |   |   |   |     |   |  |

#### The bidding

|   |   |                                       |                                      |
|---|---|---------------------------------------|--------------------------------------|
| <p><b>South</b><br/>2NT<br/>4♠**<br/>pass</p> | <p><b>West</b><br/>pass<br/>pass<br/>pass</p> | <p><b>North</b><br/>3♥*<br/>6♠***</p> | <p><b>East</b><br/>pass<br/>pass</p> |
|---|---|---------------------------------------|--------------------------------------|

- \* Transfer bid, showing five or more spades.
- \*\* Breaking the transfer with a fit and a prime hand.
- \*\*\* Practical leap, loving his void Club but not wanting to telegraph it via a technical cue-bidding action.

Declarer's main hope in his slam is that East holds the Queen of Hearts (or a good guess should East hold the guarded Ace and West the Queen – if he leads to his King). But he has an extra chance that succeeds if, as here, East holds the bare Ace. Can you spot it?

After cashing the Ace of Clubs discarding a Diamond, declarer ruffs a Diamond. He then draws trumps in two rounds, finishing in hand, cashes the King of Clubs discarding a Heart, ruffs a Club, and only then leads the Knave of Hearts.

East wins his bare Ace of Hearts, but because declarer has eliminated the minor suits, East finds himself endplayed. The lead of either minor is ruffed in hand with declarer's last trump, as a Heart is thrown from dummy. Twelve tricks and slam made.

For all Andrew's books and flippers – including his new hardback *The Next Level* – see [andrewrobson.co.uk](http://andrewrobson.co.uk)

## Sudoku 976

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

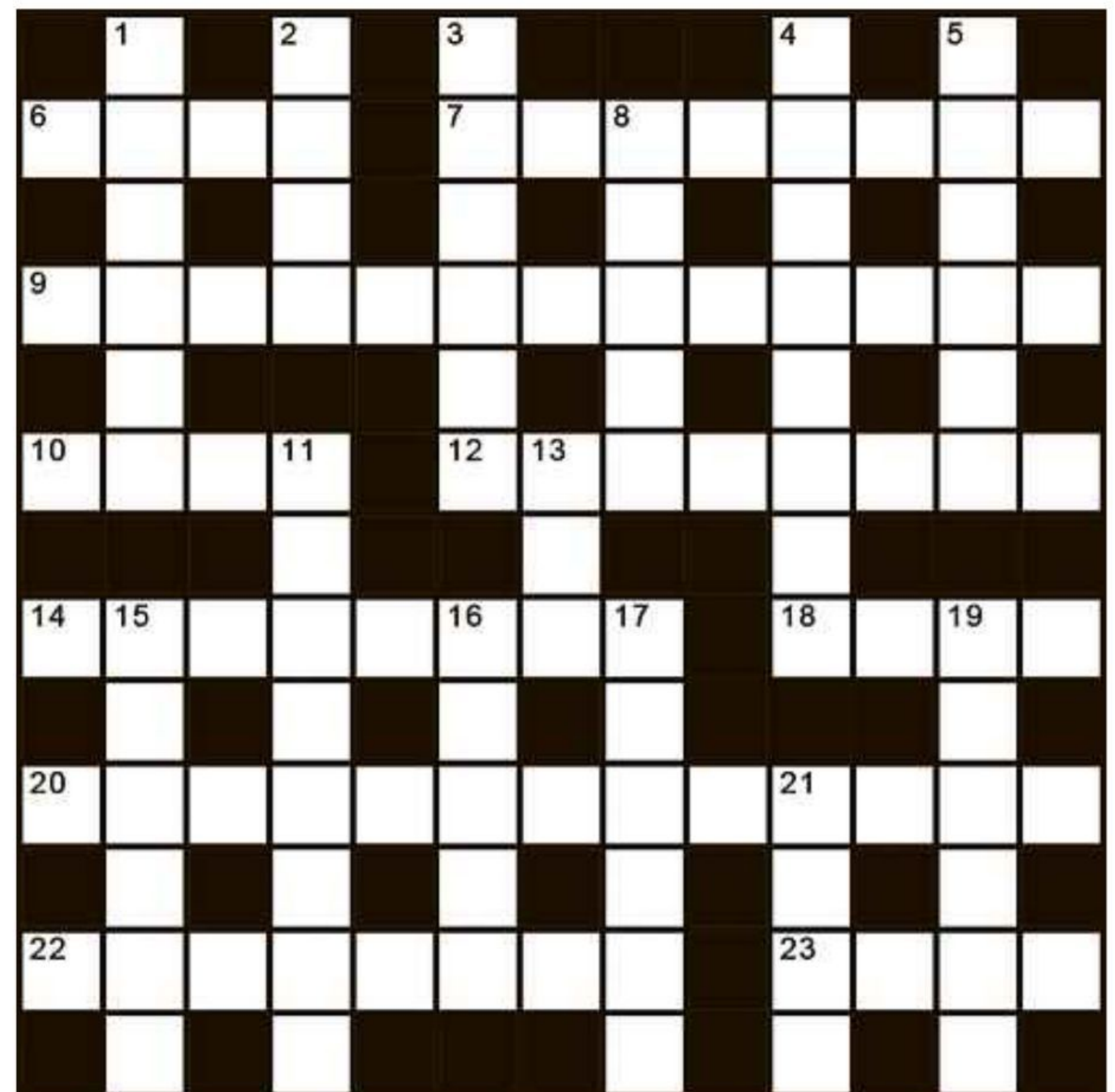
To complete MoneyWeek's Sudoku, fill in the squares in the grid so that every row and column and each of the nine 3x3 squares contain all the digits from one to nine. The answer to last week's puzzle is below.

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

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## Tim Moorey's Quick Crossword No. 976

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 16 Dec 2019. Answers to MoneyWeek's Quick Crossword No. 976, 31-32 Alfred Place, London, WC1E 7DP.



Across clues are mildly cryptic whereas down clues are straight

#### ACROSS

- 6 Spies ring for so long (4)
- 7 What's often below CV where astronauts drink? (5, 3)
- 9 Oriental group flying may be seen here at Heathrow? (7, 6)
- 10 Decline seen in nearly half of the county (4)
- 12 Servant's legal fee (8)
- 14 Minimal coverage of items essential to fiddlers (1-7)
- 18 Handel, say, or handle (4)
- 20 In which broadcast opinions heard (5, 5-3)
- 22 Ogler is a complication for harem (8)
- 23 Top copy gets a cross (4)

#### DOWN

- 1 Bathing suit, in brief (6)
- 2 Type of opera (4)
- 3 Loan shark (6)
- 4 Mistaken opinion (8)
- 5 Argue over price (6)
- 8 Assign (shares, etc) (5)
- 11 End of a railway (8)
- 13 Breakfast item (3)
- 15 Adders, say (6)
- 16 South Asian republic (5)
- 17 Precisely accurate (4, 2)
- 19 Method (6)
- 21 Lotus car (4)

Name .....

Address .....

#### Solutions to 974

**Across** 1 Islamic *anagram* 5 Staff *Staff(s)* 8 Aggregate *anagram* 9 Tee  
10 Yacht *anagram* 12 Husband 13 American Dream *anagram* 15 Caterer  
*anagram* 17 Oasis 19 Emu 20 Beefeater 22 Tasks *t asks* 23 Sleeper.  
**Down** 1 Italy 2 Lag 3 Maestri 4 Crash barriers 5 Seeks 6 Anteaters 7  
Freedom 11 Chestnuts 13 Ancient 14 Diocese 16 Robes 18 Surer 21 Tip.

The winner of MoneyWeek Quick Crossword No. 974 is:  
David Barnish of Surrey

Tim Moorey is author of *How To Crack Cryptic Crosswords*, published by HarperCollins, and runs crossword workshops ([TimMoorey.info](http://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 meaning of Thanksgiving

Few things unite all Americans. This great national myth does



**Bill Bonner**  
Columnist

Last week, American families gathered to celebrate Thanksgiving. It's a yearly ritual. But where did it come from? In a country where one's roots have meant almost nothing, where people have been ready to pick up and move at the drop of a hat, where there have been huge differences between what people think and how they live, Thanksgiving has served to provide a unified national myth. It was first declared a national holiday in 1941. Through the Depression and World War II, Thanksgiving grew in importance.

The original Thanksgiving took place in Massachusetts in 1621, hosted by a dour bunch of Puritans, who probably wouldn't have been able to enjoy a good dinner if their lives depended on it. But they certainly had a lot to be thankful for. As *The Wall Street Journal* reminds us annually, they nearly exterminated themselves in typical Yankee fashion – by wanting to boss each other around. Somehow, a precarious celebration by a feeble group of religious zealots turned into the most American holiday.

In the middle of the War Between the States, both sides would proclaim days of “thanksgiving”, following the progress of the war as we now follow the stockmarket. After each of the first and second



*A day that has grown in importance for Americans*

battles of Bull Run – which sent the Yankees fleeing back to Washington – the Confederates proclaimed days of thanksgiving. But it was Lincoln's day that stuck.

Declared after the battle of Gettysburg, Thanksgiving was set for the last Thursday in November, commemorating the Northern

victory. After the Battle of Appomattox in 1865, the South was helpless. Its natural leaders, the plantation aristocrats, were either dead, bankrupted, or discredited. Many of them went to Northern cities, such as New York or Baltimore, where, H. L. Mencken tells us, they “arrived with no baggage, save good manners and empty bellies”. Scars of war can take a long time to heal. But 154 years later, the South is the most

economically and culturally robust part of the nation.

Thanksgiving is now part of all Americans' lives. And so, all over the world, Americans, gathering in small groups like pilgrims on distant shores, celebrate the holiday. This can require a little ingenuity. Americans living in France, as we do for part of the year, have to search for the ingredients. Pumpkins are hard to pronounce – *citrouilles* – and harder to find. Cranberry sauce is unknown. But we have always somehow been able to have a very typical Thanksgiving dinner. Our wife, Elizabeth – descendant of the Puritan fathers, former resident of New York – a Yankee, in other words – and our mother – issuing from southern Maryland tobacco farmers and the French bourgeoisie – did their best with what was to hand. And we were thankful.

*“Somehow this celebration by zealots turned into the most American holiday”*

## The bottom line

**£3,067** The cost of the average annual rail season ticket from January – an increase of £84. Rail fares are set to increase by 2.7% in the new year.

**£24,910** The average price of a second-hand electric car in October, according to car advertising group Auto Trader. That compares with £14,421 for used diesel cars and £11,872 for petrol cars. A shortage of new electric cars has pushed up prices, says *The Times*.

**12.5** The percentage increase in the number of

purchases in Britain on the morning of Black Friday compared with the same morning last year, according to Barclaycard. Later in the day, transactions were running at a record 1,184 per second between 1pm and 2pm.

**10,000,000** The value in forints (£25,600) of loans offered by the Hungarian government since July to newlyweds where the woman is under 41. If they have a child within five years, the interest is cancelled. Three children cancels the debt. The number of weddings rose

by 29% year-on-year in September.

**£20m** The estimated value of a copy of the Magna Carta owned by Faversham council in Kent, which is considering selling it. The document was presented to the barons of Faversham in 1300, but the council says it has been unable to raise the funds to display the single sheet of vellum properly.

**£65** The price at which a copy of the script for the hitherto unreleased blockbuster *Star Wars: The Rise of Skywalker* appeared for sale on eBay, according to John Boyega (pictured), who plays Finn. He left it under his bed, where it was found by a cleaner. Disney managed to retrieve the script before it was sold.



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