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Together we thrive

From the editor-in-chief...



It's been a bad week for Marks & Spencer (see below). With its share price half of what it was five years ago, one of our most iconic retailers has been fairly unceremoniously chucked out of the FTSE 100 index. This is hardly a surprise. Younger generations haven't taken to its clothing lines. The food business is hideously competitive. And M&S is dealing with almost non-stop disruption in the retail environment in the UK. However, given that it was the fifth-largest firm in the index when it launched in the 1980s, the expulsion is still no small humiliation.

On the plus side, it is worth noting that M&S still makes a profit and that it pays a yield of 7% (with the dividend nearly twice covered by profits). That makes it the kind of firm you might not get much of a chance to invest in in the future. Think about the way that negative yields are transforming finance. If the domination of negative yields continues, says Seema Shah in the Financial Times this week, companies will "surely focus more on bond markets than equity markets". Why, when you are paid to borrow, would you look to the public markets instead?

Expect then (assuming negative yields stay with us) a long-term environment in which bad companies are propped up by stupidly cheap debt and in which the usual pipeline of investable public companies



Marks & Spencer: a giant no longer

"Expect a long-term environment in which bad companies are propped up by cheap debt"

slowly dries up. And instead, the only companies you will see coming to market are those that no one in their right mind would ever lend money to.

One example of that (much discussed by John and I on our weekly podcast) is WeCompany, parent of office-sharing company WeWork. It should be a simple business (buy office, rent bits out to other people, sometimes with beer), but you wouldn't know it from the 383-page prospectus. The firm is definitely growing. But it is also spending nearly \$2 for every \$1 it gets in revenue and as Rett Wallace of US research firm Triton points out, it offers no "narrative theory of future profitability". It does tell us that WeWork is a "community company committed to maximum global impact" and that it has a mission to "elevate the world's consciousness". But on when you might see

a real profit – the kind that may lead to dividends? Nothing. Don't buy WeWork when it has its initial public offering. Maybe buy a company you know can make money – perhaps even UK retailer Ted Baker (see page 24)?

Otherwise, if you want to cheer yourself up this week, do not turn to page 8 (you will have to read about lousy politicians and their annoying attempts to delay Brexit forever), or page 23 (car-hire stories that will upset you). Do turn to page 14 where Matthew Lynn explains the upside to populism and page 18 where our cover story looks at the fascinating future of cloud

computing – and considers how Microsoft has transformed itself to become a leader in the field. You might feel that Brexit is as important as anything gets this week.

We feel that too. But the truth is that the end of the internet as we know it, and the advent of the cloud, is likely to change our day-to-day lives an awful lot more.

PS. If you haven't already booked your seat at the MoneyWeek Wealth Summit on 22 November, visit moneyweekwealthsummit.co.uk and use the code "MWEK20" to get 20% off. But act now – tickets are limited.

Merryn Somerset Webb
editor@moneyweek.com

Scam of the week

A manager at an unnamed UK energy firm has fallen prey to a "deepfake" scam, which led him to transfer almost £200,000 of his company's money to fraudsters, says The Daily Telegraph. He received a phone call that "accurately mimicked" his boss's accent and style of speaking. He was told to send €220,000 urgently to a Hungarian bank account, and was assured that the amount would be repaid soon. When it wasn't, he grew suspicious. While he was on the phone to his real boss, the fake boss called again and the fraud was discovered. Insurance firm Euler Hermes said that email scams of this sort are common, but it was the first time it has heard of criminals successfully imitating a person's voice. But it won't be the last, it warns: "this is only the beginning: software for voice or handwriting imitation, or even deepfake videos, will open up many new possibilities for fraudsters in the future", said Euler Hermes's CEO Ron van het Hof.



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Good week for:

Tourists have been flocking to Birmingham to visit sites made famous by *Peaky Blinders* (pictured), the BBC's 1920s gangster series, reports The Guardian. A record 42.8 million people visited Britain's second city last year, with 131.4 million heading to the wider West Midlands. The number of international tourists rose by 19% to 1.1 million with the number from the US doubling. Yet the series isn't shot in Birmingham, but uses streets in Manchester and Liverpool instead.

David Kramaley, a 21-year-old amateur chess player from Swindon, is celebrating after selling his online chess-learning site for "a fee understood to be more than £1m", reports The Times. Kramaley launched Chessable in 2016. It now boasts 40,000 users, says the Financial Times. It has been bought by Norwegian world chess champion Magnus Carlsen, through his company Play Magnus AS.

Bad week for:

Britain's last working bell foundry faces closure unless it can find £5m, reports The Guardian. **Taylor's of Loughborough** has cast bells for St Paul's Cathedral and Yale University, and one of its bells can be heard on the AC/DC track *Hell's Bells*. The foundry needs to make urgent repairs to its Grade II-listed premises.

Marks & Spencer's 35-year run as one of Britain's 100 biggest public companies ended this week after it was relegated from the FTSE 100 in the index's latest reshuffle. Shares in the retailer have halved in the last five years as the high street has come under stiff competition from online retailers. Its value fell below £3.7bn, putting it outside the top 110 companies by market cap.



China toughs out trade tensions



Alex Rankine
Markets editor

“Sad! And self-defeating,” says Eugene Robinson in *The Washington Post*. It’s now clear that Donald Trump’s “ill-advised gambit of tariffs and bombast” is hurting both the US and China. Yet a president who must face the voters next year is in a much worse position to “stoically withstand the pain” than a tightly-controlled one-party state.

Global stocks swooned early this week amid the introduction of new tariffs by both sides of the trans-Pacific rift. Washington imposed duties on \$112bn (£92bn) of Chinese consumer imports including shoes, nappies and food. Beijing started applying tariffs on \$75bn of US products, including a 5% charge on crude oil imports. By the end of the year there will be levies on “nearly everything that comes to the United States from China”, say Quoc Trung Bui and Karl Russell in *The New York Times*. This year’s tariffs will raise prices and leave the average American family around \$460 worse off.

A small stimulus

China’s economy is feeling the pain too, says Freya Beamish in a Pantheon Macroeconomics note. Surveys of manufacturing activity have still to show signs of a recovery and the country’s services sector may yet “catch a cold”.

Economists have been cutting their China growth forecasts for next year, notes Bloomberg News. Most now expect GDP to grow at less than 6% in 2020. In the second quarter China’s GDP expanded at an annual rate of 6.2%, its slowest pace in 27 years. Yet fearful of inflating new bubbles, “officials have stuck



doggedly to a relatively limited roster of stimulus measures”, such as tax cuts.

It is easy to see why. Data from the Institute of International Finance shows that China’s debt-to-GDP ratio breached the 300% level in the first quarter of this year. Total corporate, household and government debt rose to 303% from 297% a year before. “China is very much past the tipping point where the debt simply can no longer be ignored,” analyst Fraser Howie told CNBC.

Playing the long game

All the signs are that past “fiscal and credit binges” will not be repeated, says Michael Mackenzie in the *Financial Times*. During moments of global uncertainty in 2009 and again in 2015 it was China that

rode “to the rescue”. Yet policymakers are now concentrating on the “structural challenge” of trying to wean the country off an export and infrastructure-led growth model. The moment for China to trigger “another synchronised global upswing has passed”.

China’s leadership has instead settled on a policy of “toughing out trade tensions”, says Andrew Batson for Gavekal Research. “Monetary and economic policy is almost ostentatiously calm,” despite Trump’s provocations, with no plans to ease lending conditions radically. Authorities are also clear that they will not stimulate the overheating housing market. “The closer the US presidential election gets, the less incentive China has to deliver Trump any reward for the trade war.”

Japan versus South Korea: Asia’s other trade war

“Decades of bickering” between South Korea and Japan are feeding an increasingly nasty trade dispute, says *The Economist*. In August, Tokyo removed its neighbour from a “White List” of trusted export destinations, prompting Seoul to respond in kind. South Korea’s chipmakers rely on imports of chemicals from Japan, but Tokyo is “signalling that it could at any moment cripple” Korea’s biggest industry, a “wildly aggressive, disproportionate threat”.

The new trade war is not helping South Korea’s export-dependent economy, say Sam Kim and Hooyeon Kim in Bloomberg. Korea’s trade data serves “as a barometer of global demand”. Yet exports



fell by 13.6% year-on-year in August, the ninth consecutive month of contraction.

Removal from the White List means that Japanese exporters will have to go through a lengthy application process to sell certain goods

to Korea, say Alex Holmes and Gareth Leather of Capital Economics. The knock-on effects could disrupt technology supply chains across Asia. Korea produces 40% of the world’s liquid crystal displays and 20% of its

semiconductors. “Vietnam, which sources over 20% of its intermediate goods imports from South Korea, is likely to be worse affected.”

Korean equities now “look screamingly cheap”, says Mike Bird in *The Wall Street Journal*. On a price-to-book ratio of 0.8, they are less expensive than “at almost any time in the past 15 years”. Yet falling global demand for cars, smartphones and computers leaves Korean industry in a bad way regardless of the trade wars. Keep your distance. As for Japan, it has worries of its own. Strong employment has so far failed to generate solid wage growth, and next month’s sales-tax rise could undermine tenuous economic growth.

Topsy-turvy stocks and bonds

Negative bond yields are “scrambling... basic assumptions of financial markets,” says John Authers on Bloomberg. The dividend yield of the S&P 500 index is now higher than the yield on the 30-year US Treasury bond. That hasn’t happened since the financial crisis. Yet back then the so-called “yield gap” closed because of plunging stock prices. This time the 30-year bond yield that has plunged as debt prices have rocketed.

The yield gap between equities and bonds reversed some time ago in UK markets, and now America has followed the trend, says Jeremy Warner in *The Daily Telegraph*. Stock investors need less protection against inflation than bond investors because companies can grow profits and dividends, while a bond coupon remains fixed. So the post-war norm has been for equities to yield less than bonds. Some see the latest development as a stockmarket buying opportunity. But if a recession is looming then dividend payouts could be cut.

That should not deter investors from taking a look at the UK market, says Siobhan Riding in *The Financial Times*. The average UK dividend yield rose to 4.8% in 2018, a 29-year high according to Link Asset Services. Over the next 12 months FTSE 100 companies should yield 4.4%. Even during the 2008-2009 recession, UK dividends only fell by 14% from peak to trough. Thus, even pricing in the risks, the yields on offer look attractive.

Down Under going down

Australia’s “terrible” second-quarter GDP figures are “among the worst we have seen this century”, says Greg Jericho in *The Guardian*. The economy expanded by a mere 0.5% in the second quarter, implying an annualised rate of 1.4%.

Still, at least Australian homeowners have something to cheer about. A credit-fuelled housing bubble has been hissing air for much of the past two years, with prices falling an average of 7.3% in the year to May. Still, nationally, prices rose 0.8% last month, the biggest jump in two years, reports James Hall for *news.com.au*. In Sydney median prices picked up 1.9% in the three months to August. That should, in theory, make consumers feel wealthier and more willing to spend.

Lucky country is out of luck

Nevertheless the “lucky country”, which has gone 28 years without a recession, may yet run out of luck. Australian prosperity has been propped up over the past decade by a housing boom and commodity exports to China. But there seems little scope for these factors to keep bolstering growth.

By mid-2015, interest-only loans made up a staggering 46% of all new mortgages, according to Bloomberg data. That prompted a clampdown by authorities on loose lending



Sydney’s housing market has rebounded – but the trend won’t last

practices. Yet household debt levels remain equivalent to an eye-watering 120% of GDP. That compares with 87% in the UK and just 53% in Germany.

What’s more, with wage growth stagnant, “Aussies just aren’t spending or eating out the way they used to”, says Jack Derwin on *Business Insider*. Retail sales fell 0.1% in July, with a larger 0.3% fall in discretionary purchases suggesting that households are actively tightening their belts.

A record 40% of Australian exports headed to China in June, reports David Uren on *aspistrategist.org.au*. “A decade ago it was just 20%.” That includes massive shipments of iron ore and coal, as well as consumer goods such as wine and baby formula.

China’s slowdown leaves Australia dangerously

exposed, says Martin Farrer in *The Guardian*. One forecast suggests that if the Middle Kingdom’s economic growth halved to 3%, then “Australia would stand to lose... more than half a million jobs”.

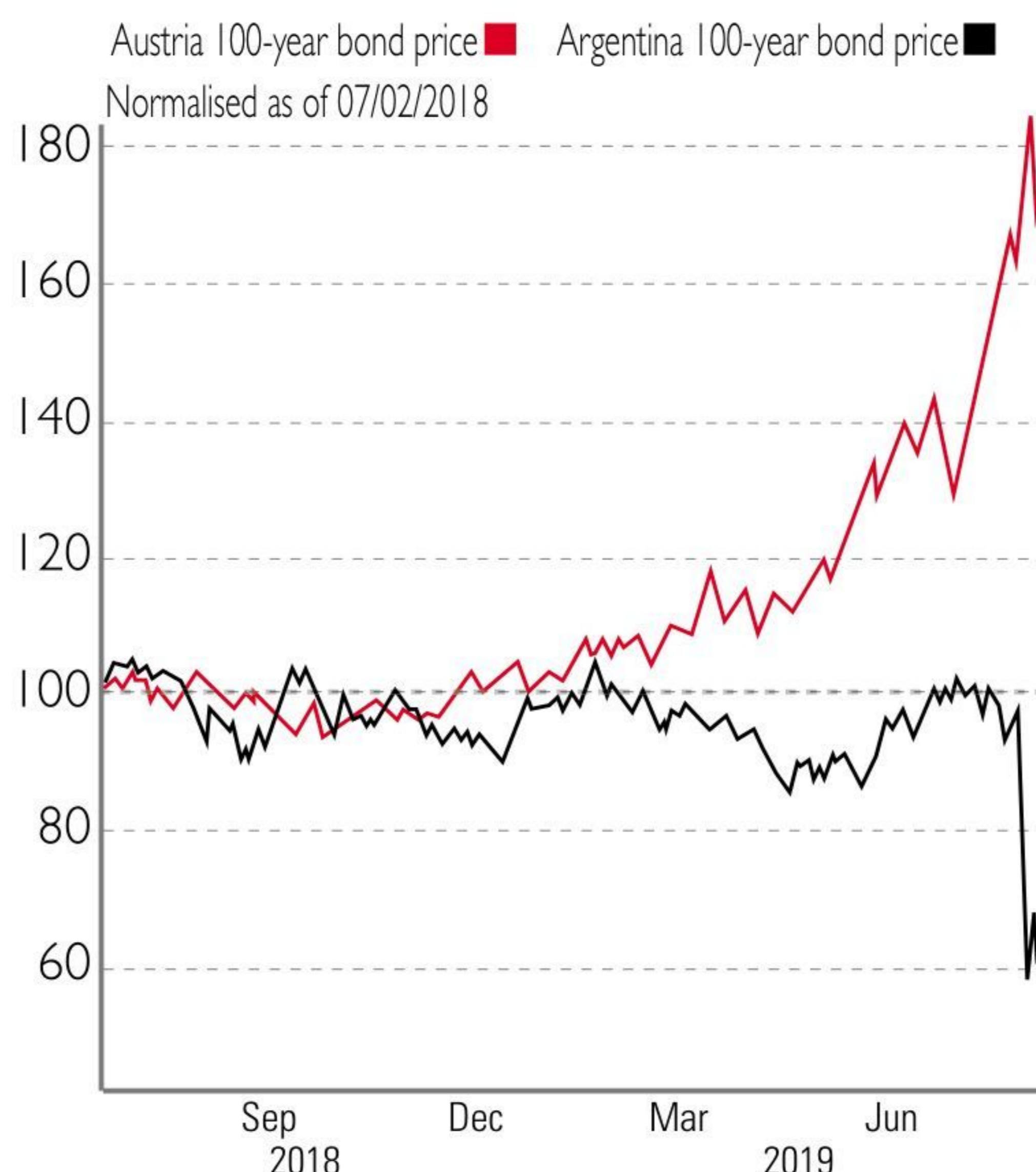
The central bank has slashed interest rates to 1%. Yet cheap debt caused many of the current problems in the first place. With little left in the monetary toolbox, it falls to the government to serve up a rescue, says Matt Wade in *The Sydney Morning Herald*. That means more spending on infrastructure and “supply-side” measures such as tax reform to encourage business investment and employment. The government shows little inclination to loosen its tight fiscal rules, however. Get set for quantitative easing.

Viewpoint

“Global fund managers [have trimmed] their allocation to equities yet again by 1% to 44.6% – the lowest representation since November 2016. The shift out of stocks was the fifth in a row (monthly)... as investors heed the deflationary message from the fixed-income market rather than look at the situation as a view that bonds are ... overly expensive... It makes sense when you consider what the unprecedented level of global trade, political and economic uncertainty has done to global business spending plans. [Meanwhile] gold prices continue to rally even in the face of a strong US dollar, which is a durable sign of a secular bull market in bullion... Gold is firming... in all currency terms, which is overwhelmingly bullish. Not only are central banks rebalancing their reserves [towards] gold, but private market flows are coming back... Holdings of gold-backed ETFs soared to a six-year high last month.”

David Rosenberg, Gluskin Sheff

A tale of two century bonds



This chart “illustrates several truths about the bond market”, says Tracy Alloway on Bloomberg. Investors keep buying Argentinian debt even though they really should know better (see page 10). The price of Argentina’s century bond has slumped by 45% as concern over the latest debt crisis has grown. At the same time, Austria’s 100-year bond has surged this year. It’s not that Austria has covered itself with glory lately; indeed, its governing coalition recently collapsed. But as yields on other, shorter-duration bonds slumped amid the latest bond rally, Austria’s yield started to look relatively juicy. “Even if fundamentals matter, no investment stands out on its own. It’s all relative to something else.”

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

Three to buy

Morgan Advanced Materials Shares

There is more demand than ever for new, smart materials for use in everything from solar panels to microchips. This materials engineer is at the cutting edge of the new industrial revolution. It makes high-performance ceramic and carbon-based products that are highly specialised, which limits competition. A disappointing few years have left the shares trading on a deep discount of less than ten times 2020 forecast earnings. That implies



considerable upside potential for shareholders. *246.25p*

Nestlé

Barron's

The world's largest packaged-foods business is "having a

great year". Shares in the Swiss corporation have gained 30% in the past 12 months as it has "[upgraded] its cupboard": a licensing deal with Starbucks and plans to launch its own pea-based burger shows that management has its finger on the consumer pulse. The group also has significant pricing power, which provides protection against inflation. On a yield of 2.3% this defensive consumer play is a competitive alternative to bonds. Expect the recent "tasty gains" to continue. *CHF108*

Tritax Big Box

The Sunday Telegraph

This real estate investment trust (Reit) is a play on the e-commerce boom. Tritax owns very large logistics warehouses in Britain, leaving it ideally placed as retailers boost their online offerings. Retail e-commerce revenue is expected to rise at "an annualised rate" of 6% until 2023. Big land investments this year give Tritax scope to "more than double" its portfolio. On a price-to-book ratio of just 0.9, the shares are a buy. *140p*

Three to sell

Photo-Me

International

Investors

Chronicle

Known for its photobooths, Photo-Me also makes unmanned equipment for use in laundry and digital-printing kiosks. It has 46,700

unattended vending

units across Europe and Asia. Falling sales and profits – caused by declining

high-street footfall – have prompted management to focus on growing operations in the "fresh juice and banking" arenas. Yet we fear that this may mean a loss of focus on the core business and the task of managing diversification across multiple markets is fraught with risk. Sell. *103p*

Sage

The Sunday Times

Britain's biggest listed tech company must reinvent itself lest it be "dragged into the corporate graveyard". The accountancy software business

is struggling to adapt to the rise of cloud-based computing, which requires it to switch to a subscription-based model. Software subscriptions rose 28% in the nine months to June. That leaves Sage a "straggler" compared with peers. With the shares down 14% since July, investors seem to be losing patience. Overseas earnings have been flattered by the weak pound. Avoid. *700p*

System1

Money Observer

This market-research agency uses insights from behavioural

science to evaluate the success of advertising campaigns. Often the best ones – such as "John Lewis Christmas advertisements" – say "next to nothing about the product", they just make people feel good. Yet for all its expertise, the business has struggled to secure work with marketers at the big brand owners and revenue has been flat. Its new Ad Ratings app – which allows advertisers to compare the performance of their advertisements with those of rivals – is a bold plan, but could prove a long shot. It is time to cut losses. Sell. *214p*

...and the rest

Investors Chronicle

Clothing retailer N Brown has a diversified portfolio and serves niche markets, yet many sales are made on credit and with arrears rising the business is badly prepared for a downturn. A recent dividend cut bodes ill too. Sell (*110p*). More and more businesses are turning to outsourcing to fulfil complex regulatory requirements. That leaves compliance specialist Marlowe with ample scope for growth in a fragmented market (*405p*).

Shares

Temple Bar Investment Trust's portfolio of cheap, dividend-paying stocks should outperform if markets turn sour (*1,170p*). An encouraging update at Middle East and Africa digital-payments operator Network International shows this is a "story with long-term growth potential" (*597p*).

The Daily Telegraph

New Zealand-based infrastructure investment trust Infratil specialises in

"alternative" assets, such as data centres and mobile-phone towers, which offer superior returns (*NZ\$4.60*).

The Times

Avoid shipbroker Clarksons: with global trade in decline and uncertainty over tariffs rampant, sentiment is anything but buoyant (*2,320p*).

Marshalls, Britain's biggest provider of paving and landscaping products, is a high-growth business that investors think will shrug off a



downturn (*692.5p*). A turnaround at Imperial Leather soaps maker PZ Cussons will take time. Trading on 16.6 times forecast earnings, the shares are not attractively priced – avoid (*205.5p*). PureTech Health invests in a promising portfolio of science and technology firms. Buy (*292p*).

A German view

Investors should dip their toes into Fluidra, says Börse Online. This family-run Spanish company is the leader in a fragmented market: it supplies all the key components of residential and commercial swimming pools (everything except the concrete and the water) and all the paraphernalia needed to maintain them. Sales and profits are set to rise now that Fluidra has completed the acquisition of a US rival, Zodiac, a key player in the industry's most important market. The overall sector turns over around €7bn a year and Fluidra aims to expand its share of the pie to €1.7bn in three years, from €1bn now. As pools age they require more looking after, while emerging markets should also drive growth.

IPO watch

This has been the worst year for European initial public offerings (IPOs) since the financial crisis. A mere 84 companies have listed this year, say Justina Lee and Swetha Gopinath on Bloomberg, raising the lowest amount of money since 2013. It hardly helps that European growth is turning down, while a dearth of fast-growing tech unicorns has tempered animal spirits too. But as on Wall Street, IPOs appear to be in structural decline. The number of stocks listed in developed Europe has fallen by 29% since 2000. There is plenty of money floating around in the private market these days, so firms remain private for longer. Cheap credit also reduces the demand for equity funding.

City talk

● After fighting off a bid from Pfizer in 2014, AstraZeneca's boss claimed that the drug company's "best days were ahead of it", says Matt Oliver in the Daily Mail. Five years on, he seems to have been proved right. The shares are at record highs, giving the group a market value of almost £100bn, and could go even higher thanks to a "blitz" of promising clinical trial results. One drug, Farxiga, could reduce a patient's risk of dying of heart failure by up to 25%; another, Brilinta, could cut the risk of heart attacks and strokes by 10% in certain patients.



● Investors looking to invest in Saudi Arabia's state-owned oil behemoth Saudi Aramco when it eventually lists may be reassured by the fact that it is replacing its chairman, the energy minister, with the man who runs the country's \$300bn sovereign wealth fund, says George Hay on Breakingviews. If so, they are being naive. The new boss is actually an even closer ally of the controversial Saudi crown prince Mohammed bin Salman than his predecessor was. Investors would still be putting their money into a company whose strategy, like "nearly everything else in Saudi Arabia", is ultimately set by the Saudi autocrat.

● The Investment Association has leaked plans to consult on shortening trading hours on the London Stock Exchange (LSE) from 8am-4.30pm to 9am-3.30pm. But traders should "keep those alarms set for the time being", says Alex Lawson in the Evening Standard. Critics point out that the move could undermine the LSE's "trading prowess", which is "underpinned by the geographical advantage of having time overlaps with Asian and American markets". With London's "status on the world stage under the microscope", such a move could be "politically divisive".

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Big Tobacco bulks up

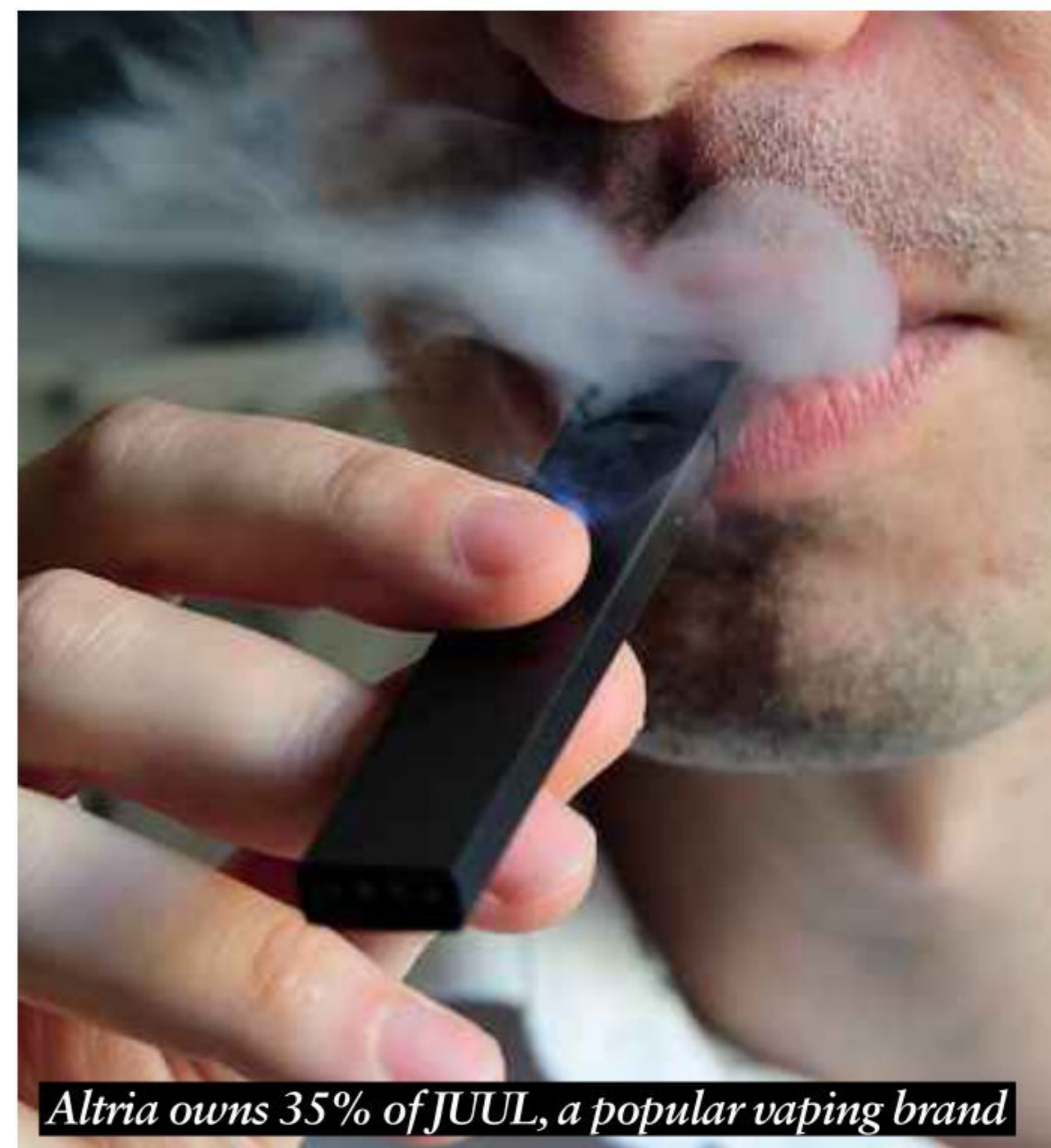
Philip Morris and Altria have reunited. This could spark another round of consolidation in the embattled industry. Matthew Partridge reports

Last week, tobacco giants Philip Morris International (PMI) and Altria, which originally split from each other in 2008, revealed that they were in "advanced talks" to create a \$200bn "blockbuster deal", say Jennifer Maloney and Cara Lombardo in The Wall Street Journal. The agreement would involve "an all-stock deal with no premium", which means that Philip Morris would control 59% of the combined entity. This "merger of equals" would involve a "balanced" name, board and management team. It could be agreed "within weeks". Both groups have been grappling with slowing demand for cigarettes and the advent of new smoking products.

The original rationale for the split didn't pan out, says Tom Buerkle on Breakingviews. The idea was that Philip Morris "would capitalise on the faster growth available in emerging markets, without the drag of US constraints", including litigation. Yet the US market hasn't proved that bad. In the last eight years, "Altria has provided shareholders with a total return of nearly 300%, including dividends", while PMI has "managed barely more than half that".

Better late than never

This isn't the first time a remeager has been considered, says The Economist. Three years ago an analyst at Wells Fargo urged PMI "to reunite with its former parent". Reuniting still makes sense today, given the "global arms race" for "reduced-risk" products, which use fewer harmful chemicals. Last year Altria bought 35% of JUUL Labs, a maker of popular high-nicotine vaporisers, for \$12.8bn. Similarly, PMI has spent \$6bn since 2008 "to develop IQOS, a smoke-free device that heats tobacco and is expected to represent 40% of its sales by 2025, up from 14% last year". This deal isn't just about Altria and PMI, say Andrew Edgecliffe-Johnson and Alice Hancock in the Financial Times. It also "reflects the profound disruption tobacco companies are facing" due to the decline in cigarette



Altria owns 35% of JUUL, a popular vaping brand

consumption and the "format war" between new technologies such as vaping and heated tobacco. At the same time, the US tobacco industry is facing "the biggest regulatory threat to cigarettes since the 1990s" as well as "deep uncertainty about how regulators will treat the new products it is counting on for growth". For example, the US Food and Drug Administration has proposed a ban on menthol cigarettes, "which account for about a third of US sales", and "more graphic health warnings on cigarette packets".

"There is more smoke and a lot more fire ahead for Big Tobacco", as it is likely "to spark further consolidation in an industry where size matters," says Sabah Meddings in The Sunday Times. With the merged company set to have annual sales of \$50bn, there will be pressure on rival BAT to do a takeover of its own to keep up. Japan Tobacco and Imperial (third and fifth globally) will also be nervous as "it's not easy being the fourth-biggest company out of four".

Tesco cashes out of mortgages

Tesco Bank has left the mortgage market by selling its £3.7bn loan book, says The Daily Telegraph. This is in line with a strategy to "slim down the number of services and products it offers to reduce costs". The 23,000 customers will be moved to Halifax, a subsidiary of Lloyds.

While supermarket banking services "were once seen as a credible threat to the dominance of major high-street banks", tighter regulation in the mortgage market and a series of digital-banking apps geared towards winning over younger customers have hampered supermarkets' financial divisions. The deal is the latest sign of the "convulsions



gripping the UK's mortgage market", says Ben Martin in The Times. These have been caused by post-crisis regulations forcing banks to separate legally their investment banking arms from their high-street businesses. As a result, the capital that lenders with a global presence would previously have been

"free to put to work across their businesses" is now "locked in their domestic divisions". This in turn has encouraged large banks such as HSBC and Barclays to put the money into mortgages, creating "intense competition" that has hit the margins of firms such as Tesco Bank.

Margins in mortgage lending are so low that although the loans were bought at a premium of 2.5%, Lloyds claims that they "would still produce better returns than issuing new loans in current market conditions", says Nicholas Megaw in the Financial Times. It is hardly surprising, then, that Lloyds was not the only bank to bid for them.

Johnson stumbles at first hurdle

The prime minister has lost a key vote. Can his Brexit strategy survive? Emily Hohler reports

Boris Johnson's Brexit policy was "facing ruin" on Tuesday, after Conservative rebels inflicted a Commons defeat that leaves Britain "on the brink of a general election" and the Conservative Party "in a state of disintegration", say George Parker, James Blitz and Sebastian Payne in the Financial Times. Twenty-one MPs including nine former cabinet ministers, led by former chancellor Philip Hammond, effectively "sacrificed their political careers" as they defied Johnson and backed moves to pass an emergency law to stop a no-deal Brexit on Wednesday. Johnson lost the key vote by 328 to 301, and immediately announced he would seek a snap election. The bill, derided by Johnson as "Jeremy Corbyn's surrender bill", forces him to seek an extension to the Article 50 exit process from the EU. Johnson's argument is that unless the EU thinks he is serious about leaving the bloc on 31 October, he won't be able to secure a better deal at the Brussels summit on 17 and 18 October.

A rock and a hard place

The shadow Brexit secretary, Keir Starmer, confirmed on Wednesday that Labour would block Johnson's efforts to trigger an early election on 15 October, calling it a "trap" (Johnson requires the backing of two thirds of MPs). Although Corbyn insists he wants a general election – and a cast-iron guarantee that it will be held on 15 October – opposition MPs fear that if they approve one before the no-deal law is on the statute book Johnson will use the Royal Prerogative to delay it until after 31 October, enabling him to "force through a no-deal Brexit", say Harry Yorke and Owen Bennett in The Daily Telegraph. Kenneth Clarke, one of the 21 rebel MPs, accused Johnson of an "obvious strategy", which is to "set conditions which make



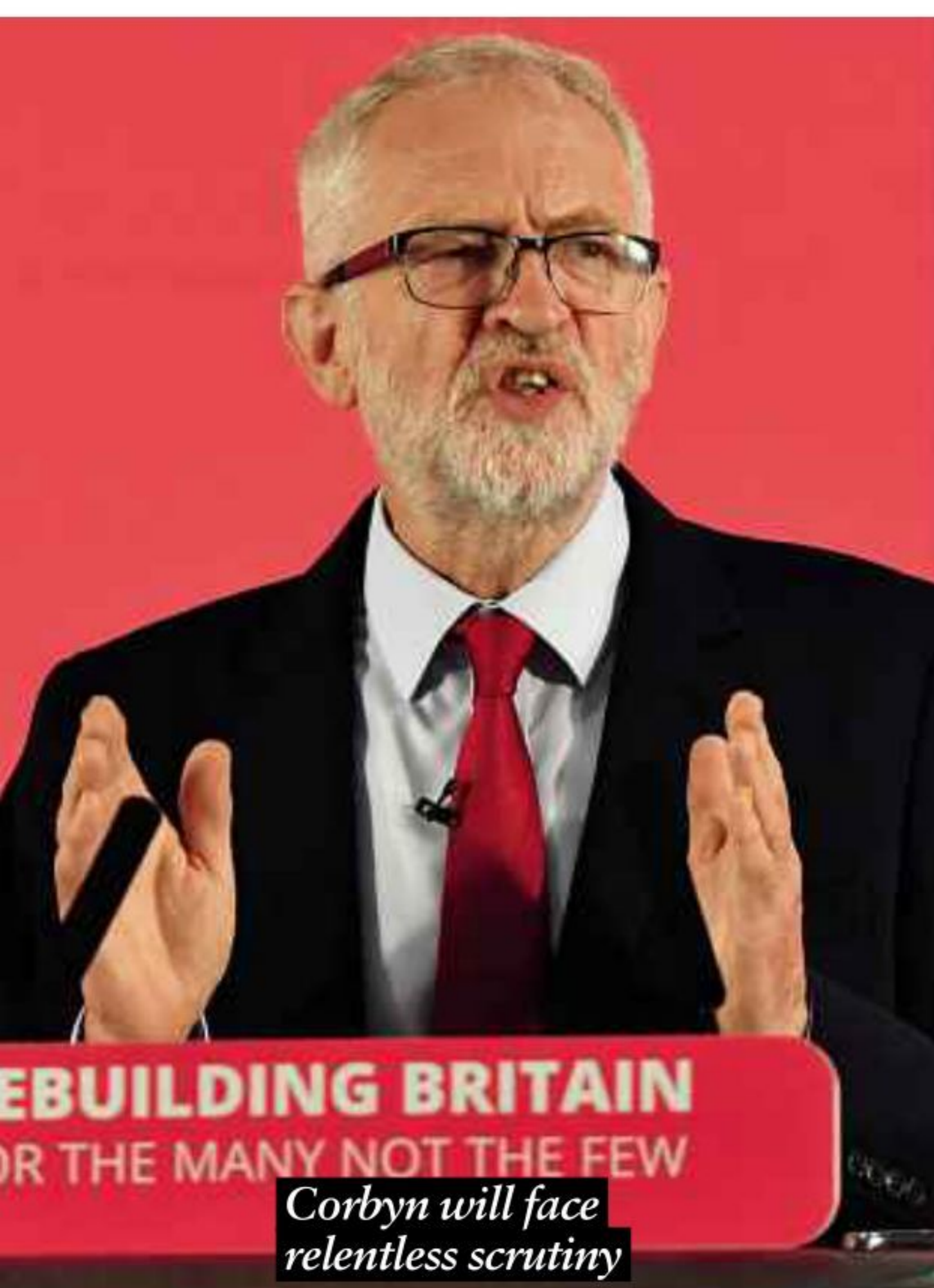
Boris Johnson: defeated by a surrender bill

no-deal inevitable, to make sure as much blame as possible is attached to the EU and to this House for that consequence", and then fight a hasty general election "before the consequences of no-deal become too obvious to the public".

There is also a chance, as Starmer has suggested, that Corbyn could table a vote of no confidence in the government. If successful, it would give MPs 14 days to try and form a new government. However, since Corbyn is the leader of the opposition and will never, while he remains leader, "accept an alternative government led by someone else", that effectively presents us with an "awkward fact", says Daniel Finkelstein in The Times. Either you put Corbyn and his "far-left advisers" in No. 10 and "proud Marxist" John McDonnell in No. 11, or you get Johnson and his "irresponsible" no deal. There is no other option. Theoretically, the Lib Dems could overtake Labour as the larger party, but "how likely is that"?

A way out of the crisis

At this point, an election is the only way to avoid a "major political and constitutional crisis", says William Hague in The Daily Telegraph. Parliament is in a state of paralysis. Even if MPs and the Lords successfully legislate this week against a no-deal Brexit and force an extension of Article 50, it is highly unlikely that Parliament will then be able to agree on a deal. If Johnson were, against the odds, able to secure a major change to the Irish backstop, there's still no guarantee that the deal would pass the Commons. And if we do leave with no deal, we simply aren't prepared for such a "radical situation" in any meaningful sense. There is still one logical solution, says Sean O'Grady in The Independent. Put the question back to the people, in its "starkest binary form": "No Deal or No Brexit. Leave or Remain?" This time it should be binding, by legislation. "And then the Brexit crisis, one way or another, will be over."



Who would win a general election?

If there is a snap election, would Boris Johnson win it? The prime minister's advisers believe that the Tories could "crunch Corbyn" by presenting the Conservatives as the champions of "the will of the people", says George Parker in the FT. But he can't be sure of a Commons majority. While polls suggest that he might take some seats from Labour in its Leave-voting heartlands, the Tories could lose up to 13 seats in Remain-voting Scotland, in the big cities where Labour remains strong, and in the south, where the Lib Dems are "resurgent". And, of course, Johnson has "already alienated moderate Conservative voters", says The Guardian.

The problem for both parties is that Brexit has reshaped the political map, with voters increasingly identifying as Leavers or Remainers, says Matthew Goodwin in The Daily Telegraph. To "offset losses in Remainia", the Tories need to capture a decent number of the 160 Labour-held seats that voted Leave, and that means appealing to the values of blue-collar Britain and speaking to voters who are "far more anxious" about capitalism and inequality than traditional Tories. If Britain is to avoid the culture wars that have "crippled" the US, the Tories also need to work fast to "repair their damaged relationship with Remainers".

As for Labour, unlike in 2017, it will be "scrutinised as a realistic alternative government"; that means a relentless focus on its Brexit policy, says Tom Harris in The Daily Telegraph. Would there be a referendum on any Labour deal? If so, would Jeremy Corbyn campaign for it or Remain? And if Labour becomes an "unapologetically pro-Remain party" (thereby alienating Labour supporters who voted Leave), would it win over voters who see the Lib Dems as a safer pro-Remain bet? Labour has been edging towards Remain, but it's clear that Corbyn's heart isn't in it. His policy of "constructive ambiguity" is "fast running out of road".

Betting on politics



The fast pace of events in Westminster means that the odds on the various Brexit- and election-related bets are moving very quickly. It therefore makes sense to turn my attention Stateside and take a look at the US presidential election.

While the actual election is still well over a year away, in less than five months the Iowa caucus will take place, the first contest in the cycle of caucuses and primaries that will determine who will face Donald Trump as the Democratic candidate.

Betfair and Smarkets both have online markets on the Iowa caucus, but they aren't liquid enough to be worth betting on, with only £59 and £128 wagered respectively. This leaves bookmakers Ladbrokes, which has Elizabeth Warren as the favourite at 7/4 (36.3%), followed by Joe Biden at 3/1 (25%), Bernie Sanders at 4/1 (20%), Pete



Buttigieg at 8/1 (11.1%), Kamala Harris at 10/1 (9%) and Andrew Yang at 16/1 (5.8%). Besides the more mainstream candidates, Ladbrokes is also allowing you to bet on a long tail of also-rans, including new-age guru Marianne Williamson (pictured) at 200/1 (0.5%) – though I would not recommend that you take those bets.

At the moment Warren seems to be surging, reinforced by the fact that Biden's campaign team are now downplaying his chances of winning in Iowa. Still, Biden remains ahead in some polls, so I'd recommend that you bet on Biden, Warren and Harris for combined odds of 70.3%. I'd recommend splitting a hypothetical £10 betting unit by putting £5.16 on Warren, £3.56 on Biden and £1.28 on Harris.

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Populists held at bay in Germany

But the AfD party had a good night in state elections. Matthew Partridge reports

In a “blow” to the German ruling coalition between the social democrats (SPD) and the centre-right CDU, the far-right Alternative for Germany (AfD) party made “strong gains” in two crucial state elections in eastern Germany, reports Kate Connolly in *The Guardian*. Falling support for the mainstream parties in both states was “not as severe as predicted”, however, and the SPD and CDU retained control of one state each. The AfD gained 18 percentage points in Saxony, but the CDU remained the strongest party. In Brandenburg, the AfD's rise of ten percentage points failed to stop the SPD clinging to first place.



The AfD failed to win power, but has reasons to celebrate

The results represent a disappointment for the AfD, which “was widely expected to win first place in a regional election for the first time”, says Justin Huggler in *The Daily Telegraph*. They come on top of a “disappointing” year – the AfD polled fourth in the European elections and has failed to make a breakthrough in the more populous west of the country. Indeed, the “late swing towards the established parties amid a dramatic rise in turnout” at this election may even “ease the immediate pressure” on CDU leader Annegret Kramp-Karrenbauer, who has had a difficult year.

A fragmenting political system

Not so fast, say Melissa Eddy and Katrin Bennhold in *The New York Times*. Nationwide polls show that the AfD has taken voters from the CDU. And although the two main parties have for now managed to retain their hold on power, their reduced share of the votes means that they now have

to rely on “new alliances with possibly three or even four partners” from other minority parties if they want to avoid working with the AfD, which they regard as toxic. Such elaborate coalitions will allow the AfD “to play the victim” and claim that it is being “marginalised” by the “establishment”. Far from being a disaster for the AfD, the results “confirm the continuing fragmentation of Germany's postwar political system”.

The reasons for the rise of the right

Continuing problems with the integration of the 1.5 million immigrants who entered Germany during the refugee crisis of 2015 and 2016 are “feeding the AfD's popularity”, says Leonid Bershidsky on Bloomberg. Many migrants are still “struggling” with the German language and the government has “failed to provide them with a clear path to the job market”. The best way to counter the rise of the AfD would be “a bigger investment in training, coupled with more political will to expel those who fail to integrate”.

And despite repeated plans to boost regional investment, there are still numerous “struggling communities” with several “near-empty towns with dilapidated streets” on the Polish border, says DW.com. The fact that wages and pensions are lower there than in the west, and that west Germans “still occupy the most powerful and influential positions in politics and the government”, leads many easterners to believe that they are regarded as “second-class citizens”. Issues such as these, along with that of immigration, are continuing to fuel the rise of the right.

A new lash-up takes power in Italy



Giuseppe Conte

Supporters of Italy's anti-establishment Five Star Movement (M5S) have put the “final nail in the coffin” of Matteo Salvini's hopes of forcing a general election – they voted “overwhelmingly” in favour of forming a coalition government with their “long-time enemies”, the centre-left

Democratic Party (PD), says Nick Squires in *The Daily Telegraph*. Salvini, leader of the right-wing League party, had precipitated a crisis with a confidence vote in the previous government that he led as deputy prime minister in coalition with M5S. Giuseppe Conte, an independent technocrat who served as PM with Salvini, will lead the new coalition. He will present Sergio Mattarella, Italy's president, with a list of new ministers, which will then face confidence votes in the two chambers of parliament.

Relations with the EU had been strained, but the new grouping should be friendlier, says Lisa Jucca on *Breaking Views*, having promised to tighten spending and raise

taxes. Investors had feared that the previous coalition would default on the country's debts. The more moderate tone of the new coalition has seen the yield gap between ten-year Italian government bonds and German bunds fall to its narrowest for a year. Still, the historic enmity between the PD and M5S means these “odd bedfellows” may not be together for long.

The EU needs to provide leeway over Italy's rule-breaking deficit, says the FT, overhaul its fiscal rules to allow more breathing room during downturns, and put in place an asylum system that “eases the burden on southern states”. Otherwise, Salvini's return to power will be “only a matter of time”.



Ottawa

Canada defies global gloom – for now: The Canadian economy expanded by an annualised 3.7% in the second quarter – the fastest rate of growth in two years, easily eclipsing the 2% increase seen in the US. It was the strongest expansion of gross domestic product (GDP) since the 4.4% recorded in 2017. It was chiefly due to a rebound in exports after a fall in the previous six months. Energy, farm and fishing products, along with non-metallic minerals, led the charge. Services exports also rose by 1.1%. But on balance, “this was a ‘less than meets the eye’ GDP report”, as Brian DePratto, economist at TD Bank, told *The Wall Street Journal*. The uptick in exports may not last much longer given the trade ructions between the US and China, which continue to threaten global growth, while the domestic economy lacks momentum. Business investment fell by 1.6% and consumer spending growth slowed to a crawl. Many analysts are expecting the Bank of Canada, which left its benchmark interest rate unchanged at 1.75% this week, to cut rates towards the end of the year as the outlook darkens.

Buenos Aires

Argentina’s latest debt crisis: Argentina has imposed capital controls in an attempt to stabilise markets and avoid the country’s ninth sovereign default since 1816, says *The Economist*. The spectre of default loomed after the government announced the delayed repayment of \$100bn of short-term borrowings and suggested that some longer-term debts might also “be rejigged”.

Last week, Argentina asked the International Monetary Fund (IMF), which has lent Argentina a record \$57bn, to restructure its debt payments. On August 11, President Mauricio Macri (pictured), who has been pushing a free-market reform agenda, suffered an unexpected defeat by Alberto Fernández, his populist opponent, in a primary poll that “acts as a dress rehearsal” for presidential elections in October. Investors, fearing that Fernández will return to the “reckless policies” pursued by former president Cristina Fernández de Kircher (no relation), have been rushing “to dump Argentine assets”. Argentines, meanwhile, blame the IMF’s stringent loan conditions in 2001 for the “austerity and devastating sovereign default that ensured”. Fernández has played on these fears in his bid for the presidency.



London
UK economy slows: Britain’s high-street gloom shows no sign of lifting as the latest retail figures showed that there had been no growth in the year to August 2019, according to the BRC-KPMG Retail Sales Monitor – the lowest reading on record. Separately, Barclaycard reported that consumer spending rose by just 1.3% year-on-year in August, down from 4.5% in August 2018 – a decline in real terms. Despite wage rises and high employment, consumer confidence has worsened; a survey by the European Commission suggests that over half of UK shoppers say they planned to reduce their spending. Investors’ pessimism has reduced bond yields, which in turn bodes ill for savers. The state-owned lender National Savings and Investments (NS&I) has withdrawn its popular one- and three-year bonds, because “exceptionally low gilt yields” make it cheaper to borrow from wholesale markets than from individual investors. Those who already hold the bonds will be able to roll them over at the end of the term, said NS&I, but the interest rate will be reduced by 0.25%.



The way we live now: survive the apocalypse in style

Climate change, terrorism, cyberattacks, civil unrest – you name it, Larry Hall has a luxury bunker to protect you from it, says Julie Turkewitz in *The New York Times*. Surviving the apocalypse in style is now big business in the US. Hall is one such “doomsday capitalist” turning a profit from “survival porn”, as John Hoopes, a professor at the University of Kansas, puts it. “Fear sells even better than sex,” he says. The US spent billions building such chambers during the Cold War – often in remote areas. Now developers are buying the sites cheaply on

websites such as gsaauctions.gov, and flipping the properties. “Eager customers abound.” Hall has converted a former military nuclear-missile vault somewhere in Kansas into a deluxe condominium built 15 stories into the Earth’s crust, complete with a swimming pool, saunas and a cinema. The 12 flats start from \$1.3m. The “Survival Condo” was first sold in 1967 for \$3,030, before Hall eventually bought it and spent \$20m “remodelling” it. Before that, it was just “a hole in the ground”. Encouraged by his success, Hall has bought a second vault in Kansas.



Nuclear winter outside; sunny inside

©2019 Survival Condo

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Kiev**Ukraine embarks on structural reform:**

Ukrainian president Volodymyr Zelensky (pictured) has told his government to draw up plans to allow the sale of farmland by the end of November. He also wants to start the process of selling off state-owned enterprises by April next year. While millions of Ukrainians have been given land since the 1990s, most is still owned by the state. Much is leased out to local farmers or international agricultural companies, but large plots remain unused, says Roman Olearchyk

in the Financial Times. The International Monetary Fund and the World Bank have been pressing Ukraine to establish a fully open and competitive land market, arguing that it could boost overall economic growth by 1%-2% by raising foreign direct investment. Ukraine is already one of the world's largest grain exporters, notes Reuters. Zelensky, a former comedian with no previous political experience who won the presidency in April, has vowed to root out corruption and raise living standards.



Land reform is no laughing matter

Mumbai

India cleans up its banks: Investors reacted with dismay to Indian finance minister Nirmala Sitharaman's (pictured) plans to merge ten state-owned banks into four new entities. This will lower the number of state-owned banks to 12, down from 27 in 2017, the year the government first pursued its consolidation policy in a bid to boost lending. However, shares in the bigger banks tumbled on the news of the latest mergers.

The share price of the second-largest, Punjab National Bank, lost 8%. Investors fear the balance sheets of stronger banks could be compromised by having to shoulder the bad debts on the books of their weaker rivals. Japanese bank Nomura expects "growth and profitability" to suffer in the short term. The move bodes well for the long term, however. India's public-sector banking system is in dire need of reform after years of sluggish lending caused by bad debts and poor corporate governance. The government said it would fast-track 550 billion rupees (£6.3bn) in payouts to recapitalise the state banking – part of the previously announced 700 billion-rupee package to boost the economy.

**Madrid**

Spain changes tack: Over the past year, the Spanish economy has managed to shift from an export-driven economy to one based on domestic consumption, says Daniel Dombey in the Financial Times. That has helped the eurozone's fourth-biggest economy to maintain a level of multi-year growth that is the envy of its neighbours. GDP growth of 2% is forecast for this year, compared with 0.5% for Germany and 1% for the eurozone as a whole. Domestic demand has been boosted by a 22% rise in the minimum wage and a halving of household savings this decade to 5%. "The question is how long that can go on," as an official at the central bank tells the FT. Political uncertainty also hangs over the country, with a poll pencilled in for November. Spain has been without a strong government since late 2015. What's more, the country has begun to flag under the strains of a slowdown in the currency bloc and the trade tensions in the global economy. Domestic car sales, for example, fell by 31% in August compared with a year ago, while exports were flat. The car sector and related industries account for 10% of Spain's GDP and 9% of jobs. Tourism has also struggled this summer as Britain and Germany have endured heatwaves that have kept visitors at home, says El País.

Ankara

Turkish economy recovering from recession: Higher levels of consumption have propelled Turkey's GDP growth to 1.2% in the second quarter. That was a slower rate of growth than the revised 1.6% for the previous three months, but it was still better than many analysts had expected. Year-on-year, gross domestic product (GDP) shrank by 1.5% in the second quarter, as the country "struggles to shake off" a recession "triggered by last year's currency crisis", says Reuters. That was caused by a diplomatic spat with America and "doubts about the independence of the central bank": Turkey's increasingly authoritarian leader Recep Tayyip Erdogan had urged it to cut interest rates despite high inflation. The crisis "ended years of a construction-fuelled boom driven by cheap foreign capital". Prices and interest rates soared after the Turkish lira lost 30% of its value, leading to a decline in domestic demand. Despite the latest uptick, the government's 2019 growth target of 2.3% may still be out of reach, says Bloomberg. "Given the lag in the monetary transmission mechanism... full-year growth [will fall short of] the government's estimate by some margin," says Kubilay Öztürk, an economist at Deutsche Bank AG. Still, thanks to the second-quarter performance Turkey "looks set to defy expectations for a deep full-year recession".

Can Trump really buy Greenland?

The US president's idea is not quite as preposterous as it might seem to modern minds, but why buy it when there are so many better options? Simon Wilson reports

Why the sudden interest in Greenland?

Donald Trump's offer to buy the self-governing Danish crown territory for the US from Denmark (and his impetuous decision to cancel a state visit to Denmark, a close US ally, when its prime minister pooh-poohed the idea) has put the sparsely populated island, and its future prospects, firmly on the international agenda. President Trump might claim to be sceptical about climate change, once describing it as a "hoax". But he has clearly noted what the warmer climate is doing in Greenland, where 80% of the island remains covered by ice sheet, but where the average temperature has already risen 1.5°C since the 1950s (and by 2°C in some parts of the island). The map of Greenland's coastline is rapidly changing as the ice melts and new islands emerge. And to the north Arctic sea ice is also receding, allowing for a longer shipping season.

Why is that alluring?

It's partly to do with the country's geostrategic position: Greenland was a vital site for US airbases during the second world war and the cold war era, and its importance will grow as new shipping routes open up in the high north. But it's mostly to do with the rich bounty of natural resources, including iron ore, lead, zinc, diamonds, gold, uranium, oil, natural gas and – perhaps most significantly – the rare-earth elements crucial to the manufacture of much cutting-edge technology. The US considers itself dangerously dependent on China for the supply of rare earths. But Greenland's reserves of them are estimated at nearly 40 million tonnes, a quarter of the world's total of 160 million tonnes (the main ones found in Greenland are terbium, praseodymium, lanthanum, neodymium and dysprosium). Until global warming began to melt Greenland's thick ice sheets, commercial extraction of them appeared unviable. That's changed – especially since Greenland scrapped its self-imposed ban on uranium extraction in 2013. Greenland is a relatively poor place, where 90% of the economy depends on fishing. In a few decades, the picture might be very different.

So Trump's offer makes sense?

It makes sense if you're a billionaire real-estate mogul, used to viewing the world in baldly transactional terms. Such a purchase would not only secure vital US strategic interests, and benefit both the US and Greenlanders economically, but it would also be fully "in keeping with American – and Danish – diplomatic traditions", argues Republican senator Tom Cotton in *The New York Times*. The negotiated acquisition of sovereignty is, after all, a



A tempting proposition for a real-estate mogul

©Stockphotos

"longstanding and perfectly legitimate tool of statecraft", especially in the American context. More than a third of the territory of the modern-day US was purchased from Spain (the Florida Treaty of 1819); France (the Louisiana Purchase of 1803); Mexico (the Gadsden Purchase of 1854); and Russia (the purchase of Alaska in 1867).

Why in keeping with Danish tradition?

Because Washington and Copenhagen have done this kind of deal before. In 1917, President Woodrow Wilson paid \$25m to purchase the Danish West Indies, a colony Denmark had first tried to offload in the 1850s (after slavery was abolished and the sugar plantations had rapidly become unprofitable). Following Wilson's purchase (via a treaty in which the US also recognised Danish sovereignty over Greenland) the islands were renamed the US Virgin Islands, and they remain a US territory today. By

"Greenland is not for sale. It's not Danish. Greenland belongs to Greenland"

contrast, Denmark has twice previously rebuffed US offers for Greenland. Secretary of State William Seward first tried to acquire it for the US in the 1860s, around the same time that he negotiated the purchase of Alaska. And in 1946, the Harry Truman administration offered Denmark \$100m for Greenland, arguing that the island was "indispensable to the safety" of the US in fighting the Soviets, just as it had been during the battle against the Nazis for control of the Atlantic.

So could it happen now?

No. Much has changed since the 19th century, when colonial powers felt free to buy and sell territories without the permission of the people actually living there. Through the 20th century, the doctrine of self-determination has become

an integral part of international law and custom, gaining particular strength in the context of decolonisation in the 1950s and 1960s. When the US bought Alaska from Russia in 1867, the 50,000 or so indigenous people living there were not given a say. But the idea that Greenland (home to around 56,000 mostly Inuit people) could be "sold" today is fanciful, unless it were first to become fully independent (perfectly possible) and then negotiate to sell itself directly to the US (all but unimaginable). As the Danish PM put it succinctly: "Greenland is not for sale. Greenland is not Danish. Greenland belongs to Greenland."

So what can the US do?

What it's been doing for decades: projecting its power across the globe via strategic, military and commercial partnerships, without going to the bother of actually annexing, or buying, territory. For example, the US recently signed a memorandum of understanding with Greenland to co-operate on rare earth mining to promote investment in the sector. And there is no need to buy the whole of Greenland when the US already has its Thule Air Base there. First built in 1943, these days it hosts US space-surveillance, space-control and ballistic-missile early-warning-system radar. As the Arctic opens up, it might well make sense for the US to expand the Thule base significantly, says Jim Townsend in *Foreign Policy*. To convince the Danish and Greenlandic governments, the US could offer to offset some of the annual \$670m Danish subsidy to the Greenland government, perhaps via US Air Force support contracts with Greenland's companies. Alternatively, of course, the US president could just needlessly insult the Danish prime minister and spook Greenlanders with his offer to buy them up.

Is passive investing a bubble?

Passive funds are popular for the entirely rational reason that they're mostly better than active ones



John Stepek
Executive editor

There's a "bubble in passive investing", claimed Michael Burry in an interview with Bloomberg last week. The rise in passive investing (funds which simply track the market, as opposed to active funds, which try to beat it) has resulted in money being blindly funnelled into big stocks, leaving other parts of the market neglected and undervalued, he argues. Burry bet big on the US subprime mortgage market collapsing before 2008, a move which made him a fortune and also saw Christian Bale play him in *The Big Short*, a film based on the best-selling Michael Lewis book of the same name. So naturally, his comments drew a lot of attention.

Is he right? No, is the short answer. The idea of a "bubble" implies a mania that will end in a painful collapse – like buying tech stocks with no revenues in 2000, or investing in bonds backed by mortgage loans made to people with no income in 2007. Yet it's hard to describe the rising popularity of passive funds as a frenzy, or as based on anything irrational. Passive funds are simply a cheaper way of accessing the market than active funds. Investors use them because they have realised that most active investors fail to beat the market consistently, and that it's very hard for an average investor who doesn't have a lot of time to spend on research, to find the ones who might do it. This isn't a mania – it's the natural consequence of competition driving down profit margins and boosting efficiency in an industry that had a great deal of scope for both.

Burry's assertion that passive investing may be contributing to pockets of stocks being neglected and thus cheap might have some truth to it.



Big bets: Christian Bale as Michael Burry in The Big Short

Then again, it may just be down to the fact that investors have grown fixated on growth stocks against a backdrop of falling interest rates. Index funds focus on such stocks because they are popular; they are not popular because index funds focus on them.

"Passive funds are simply a cheaper way of accessing markets"

Don't get me wrong. Passive investors in overvalued stockmarkets, lulled by a decade of consistent gains, will get the shock of their lives come the next crash. If they pull out in droves, it may even exacerbate the slide. But the reaction from owners of active funds is unlikely to be any calmer, particularly when they realise that those managing their money are mostly no better at protecting a client's wealth from the ravages of a bear market than a fully-exposed passive fund.

We're all for investing in cheap stocks (the UK is probably a decent hunting ground today). But when you do find them, we'd also suggest trying to invest in them using a cheap index fund, rather than an over-priced actively-managed one. There are plenty of bubbly-looking trends out there – but passive investing is not one.

Guru watch

Ray Dalio,
founder of
Bridgewater
Associates



In economic and political terms, today's environment has a lot in common with the late 1930s, warns Ray Dalio, founder and co-chief investment officer of Bridgewater Associates, the world's biggest hedge fund. Writing on social media site LinkedIn, Dalio says that he sees three major parallels with that era which are likely to "produce serious problems" if and when a downturn arrives.

Firstly, central banks have reached the limits of monetary policy – cutting rates further or buying more



assets can't be expected to boost economic growth at a time when the world remains heavily indebted. Secondly, wealth inequality is creating polarisation in politics. Finally, a rising world power – China – is challenging the US, the current world power.

These issues are driving central banks to take ever more radical steps to drive bond yields down (and thus drive bond prices higher). Dalio notes that the current surge in bond prices, which is being driven by strong deflationary forces, closely mirrors the surge in gold prices that happened between 1980 and 1982 amid rocketing inflation. That was finally halted by a drastic shift in monetary policy under then-Federal Reserve chairman Paul Volcker.

Dalio stated in another note earlier this summer that he believes we are heading for a "paradigm shift" with "monetisations of debt and currency depreciations" as governments struggle to cope with the next downturn. He suggests that investors own gold to diversify portfolios away from bonds and shares.

I wish I knew what marking to market was, but I'm too embarrassed to ask

"Marking to market" simply means updating the value of an asset or a portfolio of assets to reflect the latest available prices. This is easy to do when prices are readily available and assets are highly liquid (easy to buy and sell) and fungible (one is substitutable for another). For example, the value of a portfolio of FTSE 100 shares will be reliably up to date at virtually any point you look at it.

It's harder when transactions are less frequent, and the asset involved is idiosyncratic – for example, you probably have a rough idea of what your house is worth, but you won't know for sure until you actually come to sell it, and there may be several

years between official valuations from estate agents or surveyors. The same goes for a private business, for example.

One problem in the 2008 crisis came when the market for subprime mortgage securities collapsed and banks had to mark their holdings to market. As a result, banks' liabilities outweighed their assets, blowing a massive hole in their balance sheets and rendering them effectively bankrupt.

As Robin Wigglesworth points out in the Financial Times this week, in today's financial markets, one key attraction of private equity and other unlisted assets in general for institutional investors, is the

greater flexibility enjoyed in terms of "marking to market". While the value of a portfolio of publicly-listed stocks is transparent and hard to fudge, "private capital funds enjoy more leeway on how to value their assets, making returns seem much smoother."

This in turn can boost their appeal to investors (who still tend to equate price volatility – ups and downs – with risk), by making their "risk-adjusted" returns look healthier. Yet when investors are forced to face reality (Neil Woodford's various dud bets on unlisted companies are a good example of this), they may, as Wigglesworth puts it, "come to rue their addiction to the phoney smoothness of private capital returns".

What have populists ever done for us?

Apart from the wage rises, the jobs, the tax cuts, the rising living standards...



Matthew Lynn
City columnist

They were duped, manipulated and lied to. Vladimir Putin and a few tax-dodging billionaires hacked their Facebook feeds with fake news. None of them understood that they were voting to make themselves poorer. Wherever “populist” governments have been elected, plenty of commentators have argued that their working-class supporters were in some way tricked with divisive rhetoric, and that they would suffer the most as the economy crashed. But hold on. It turns out that maybe they were just voting with their pockets.

An impressive record

By far the most significant of the countries that have broken with the liberal consensus so far has, of course, been the US. Donald Trump mobilised angry working-class voters to get himself elected in 2016. Cue predictions that this would hammer the economy and hit his core voters hardest of all. So far, that is not quite how it is playing out. The stockmarket has been strong. The economy has grown faster than expected, even if it is slowing down slightly this year. And now it turns out that wages are rising strongly as well. Measured by the hourly rate, wage growth has hit a ten-year high of 3.4%, faster than inflation at 2%, and back to the level of growth chalked up over the last three decades. Overall, real median household income has risen by \$7,000 (£5,800) since Trump was elected to \$65,000, a faster rate of growth than under Obama, and the highest figure on record, according to Sentier Research. The record so far is impressive.

“Economic disaster was predicted. That is not quite how it is playing out”



The workers have done well under Hungarian leader Viktor Orbán

Here in the UK, it has been a similar story since the “populist” vote to leave the EU in 2016. The warnings of a collapse in the economy were even more hysterical than they were for Trump. Very few of those predictions have come true either. But it is what is happening to wages that is really interesting. The latest figures show that in June earnings growth hit an 11-year high of 3.9%, well ahead of inflation at just 2%. The years of stagnant wages are clearly over. With the numbers of jobs hitting record highs as well, workers are doing better than they have for a long time.

As for Poland, unemployment has dropped to a 28-year low and wages are rising at over 7% annually. It is hardly struggling. In Hungary, wages are rising at more than 10% a year.

In truth, there is no great mystery here. Policies that are labelled populist are often pretty good for working people. A slightly more restrictive immigration policy means the labour market is tighter, especially among the low-skilled, putting upwards pressure on wages. Tax cuts and a drive to deregulate the economy boost productivity, and lift living standards.

Trump, for example, has pushed through major tax cuts and rolled back regulations, and that has led to a rise in the number of small businesses, which is already feeding through to more jobs and higher wages. In Poland, taxes keep being rolled back. This summer, the country proposed a new tax rate specifically targeted at persuading its young people to stay at home rather than move abroad: anyone under 26 will pay no income tax on earnings up to 85,000 zloty (£17,700).

Higher minimum wages help as well. In the UK, we have one of the fastest-rising minimum wages in the world. In the US, Trump has done nothing to stop states increasing mandated salaries, and the House of Representatives just passed legislation to increase the federal minimum wage for the first time since 2009.

Hard rhetoric softened with cash

True, there is plenty to complain about in the typical “populist” agenda – tariffs, tearing up trade agreements, more protectionism and often an unhealthy degree of state meddling in industry. It is often served up with some nasty rhetoric too. But as wages keep rising, it is hardly surprising that people keep voting for them.

Who's getting what

● Shareholders in pubs and brewing firm Greene King, which recently agreed to be sold for £2.7bn to Hong Kong's CK Asset Holdings, are being urged to vote against a proposed £850,000 “golden goodbye” to outgoing **CEO Rooney Anand** (pictured). Shareholder advisory service ISS says the payment is against “market standards”, says The Times. Anand, who was paid £1.6m last year and is in line for £10m from the sale, resigned last November and left in May, saying the terms



of his contract were “inadequate”.
● **New teachers** in England could be earning £30,000 a year by the 2022-2023 academic year, says the Department for Education – a £6,000 rise on current pay. The government will also pay contributions of 23.6% of salary into the teachers' pension scheme. The minimum salary for teachers outside London is currently £23,720, says the BBC, with teachers in inner London starting on £29,664.

● **Partners** at accountancy firm Deloitte UK will receive their “biggest payday in a decade”, reports the Financial Times. The firm's 699 equity partners will receive an average profit share of £882,000 for the year to June 2019, 6% higher than in 2018. Equity partners receive a share of profits based on performance, instead of a salary. As a comparison, the average payment to partners in PwC UK last year was £712,000, while partners at EY got £693,000, and KPMG partners £601,000. Deloitte's revenue rose by 11% last year to £3.97bn, it said.

Nice work if you can get it

Employees at some of Britain's biggest charities have received five-figure pay rises, boosting their already bumper pay packets, says the Daily Mail. Simon Cooke, chief executive of Marie Stopes International, saw his pay rise from £300,532 in 2017 to £434,000 last year. The pay of Lynda Thomas, CEO of Macmillan Cancer Support, rose from between £170,000 and £180,000 to between £180,000 and £190,000. The top earner at the RSPCA saw their pay jump by £30,000 to £229,999, double that of the CEO, Chris Sherwood. Wildlife charity WWF UK paid one employee almost £60,000 more than its chief executive: CEO Tanya Steele is paid £137,714, while the mystery employee received between £180,000 and £190,000, an amount described by the charity as a “one-off anomaly”. Helen Stephenson, head of the Charity Commission, said the department is “looking closely at senior pay in charities”.

A tasty new trust comes to market

JPMorgan's new fund offers a play on real assets ranging from global infrastructure to Asian property



David Stevenson
Investment columnist

This hardly seems an ideal time to launch a new investment trust on the London market. But if there is a fund that can pull off a blockbuster launch this late in the cycle, then it will almost certainly be one offering exposure to income-producing real assets.

Defying the volatile market

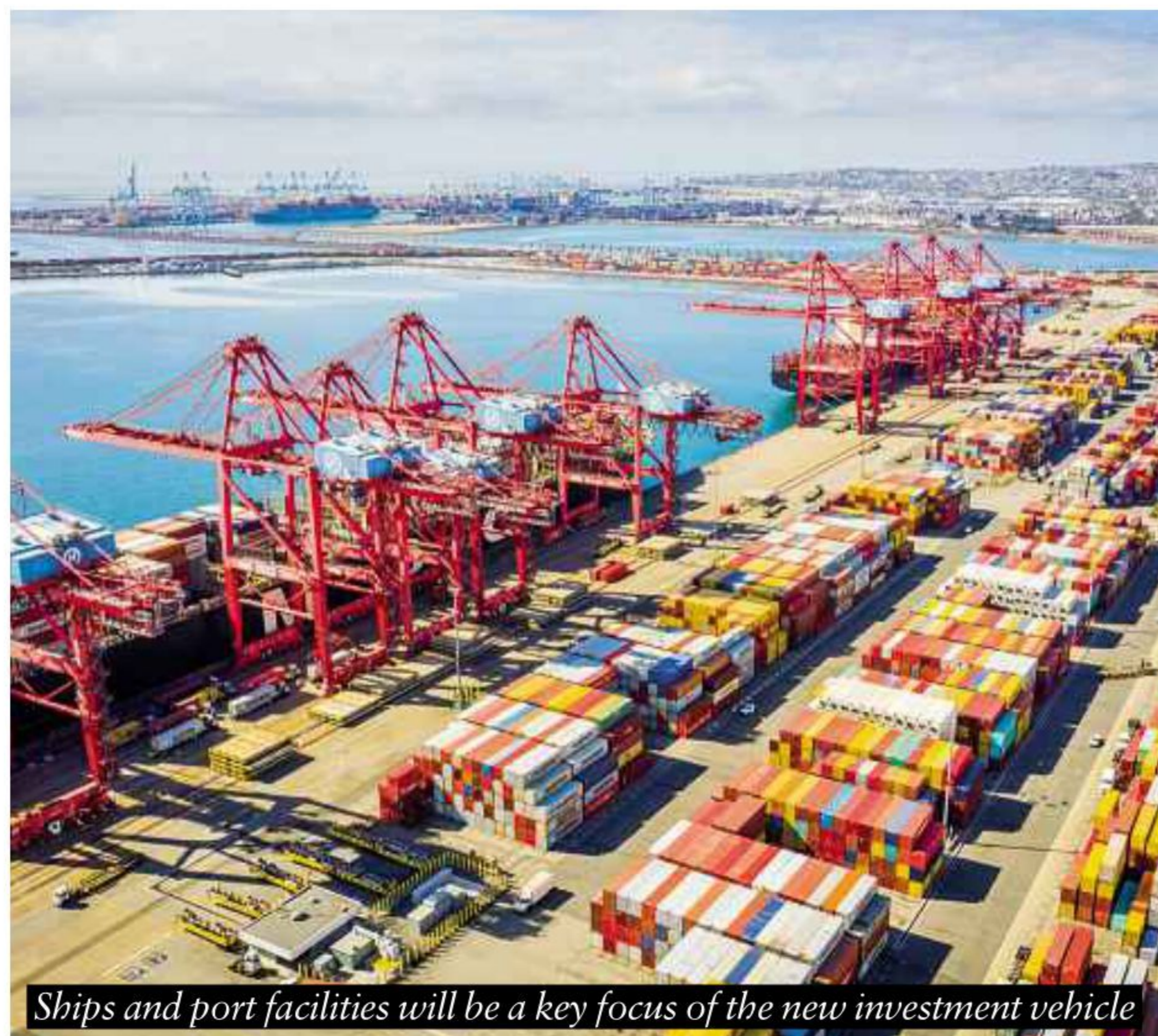
Over the past year, listed funds that have built a strong presence in everything from commercial real estate to renewables infrastructure have managed to raise more money from investors. Successful new fund launches are much less common, although we have seen some new entrants raise decent amounts of money, including the Gresham House Energy Storage fund and the US Solar fund. In the next

few weeks they may be joined by a real heavyweight in this sector:

JPMorgan. It plans to list a new British trust, **Global Core Real Assets**, with the proposed ticker of **JARA**.

Assuming this new trust pulls in a minimum of £100m, it will aim to generate an annual yield of between 4% and 6% over the long term, alongside a target total real return including income of between 7% and 9% per year.

The fund is also building on an existing platform of private funds run by JPMorgan out of something called the Global Alternative Group. This in-house outfit currently runs around \$145bn of money across a wide spectrum of



Ships and port facilities will be a key focus of the new investment vehicle

private real assets in the global infrastructure, global transportation and US and Asia Pacific real-estate sectors, which together will make up around 80% of the portfolio.

“Nothing quite as diversified is on offer in the UK”

Any money raised by the investment trust will be put to work by the Alternative Group.

A different league

This immediately puts this proposed new fund in an entirely different category from its existing peers. JPMorgan is one of the biggest banks in the world with access to its own real assets and related expertise. This isn't a small outfit desperately trying to gain a foothold in the sector.

But that isn't the only difference from other existing funds in this sector. The trust will invest across four key areas. Between 10% and 30% will be invested in global transportation assets that range

from ships to port facilities; JPMorgan is already in the top 1% of ship owners globally. Another 10%-30% will be invested in infrastructure, both traditional and renewable (JPMorgan already owns 1,000 wind turbines). The third key pillar will be global real estate, ranging from residential – the bank already owns more than 49,000 flats – to traditional commercial property.

The money in these three sectors will be supplemented by listed real estate investment trusts (Reits), mainly in America. So we have a multi-strategy fund of mostly private assets, which encompasses everything from residential flats to ships. Nothing quite as diversified is currently on offer in the UK market.

A huge global footprint

And there's one other key differentiator: geographical diversity. More than 95% of the fund will be invested abroad, with the US the largest segment, closely followed by Asia Pacific assets (over a quarter of the proposed fund). Australian-owned assets will feature prominently. There are very few funds that offer such strong foreign exposure.

As for the likely returns, the fund's marketing is highlighting the alternative characteristics of its underlying asset base, with income probably the largest and certainly most dependable component of

total returns. Still, property and infrastructure funds have been caught out in recent years by political risk (in the infrastructure segment) and concerns about the late stage of the commercial real-estate cycle.

Remember too that listed funds are affected by the general market's mood. You can be managing as alternative an asset as you want, but if the market sells off viciously, there's a good chance your share price will get caught up in the sell-off. Nevertheless, I think a long-term return target of around 8% is plausible.

A research note on the existing private funds within the JPMorgan platform suggest that they have returned an average of around 10%-11% over the last decade, while the underlying income yield from these private funds was about 5% per annum last year.

JPMorgan has also been quite canny and pitched management fees at about the market average – fees will be 0.98% at most, falling to 0.91% if £500m is raised. So the ongoing charges figure, excluding performance fees, will probably be 1.2%-1.3%, compared with a sector average of 1.24%. The slight catch is that there are also performance fees on two of the underlying strategies. On the infrastructure investment, the fee is 15% of the returns over a 7% hurdle on a rolling three-year basis, capped at a 13.5% return. On the transportation segment, the fee is the same, but with no cap.

On balance, however, I think this new trust will prove appealing to income investors. It is globally diversified and offers exposure to new niches, such as Asian real estate and global transport assets. You can buy into existing property funds at tighter prices, with discounts on offer at many funds; then again, most infrastructure funds trade closer to a 6%-10% premium. So this may not be the cheapest way to buy some of these assets, but it is simpler. The trust's initial public offering – open and available to private investors on most platforms – is set to close on 18 September.

Woodford watch

Is Neil Woodford's time at the helm of his Patient Capital Trust running out? His key ally, Steven Harris – who used to run one of the companies in the trust's portfolio – has stepped down. He is the third director to have left the struggling fund's five-member board since May. The directors have been deemed too close to Woodford, so the latest departure has fuelled speculation that he might be sacked. Meanwhile, Woodford last week blamed markets' "fixation" with a "reflationary global growth scenario" for the poor performance of his frozen flagship Equity Income fund. Energy and bank stocks, which he hadn't bought, did well. "It's everybody's fault but his," as Shore Financial Planning's Ben Yearsley told *The Sunday Times*.

WHAT IS AVAXHOME?

AVAXHOME-

the biggest Internet portal,
providing you various content:
brand new books, trending movies,
fresh magazines, hot games,
recent software, latest music releases.

Unlimited satisfaction one low price

Cheap constant access to piping hot media

Protect your downloadings from Big brother

Safer, than torrent-trackers

18 years of seamless operation and our users' satisfaction

All languages

Brand new content

One site



AVXLIVE **ICU**

AvaxHome - Your End Place

We have everything for all of your needs. Just open <https://avxlive.icu>

The future of the meat industry

Liz Specht
Wired

The production and market efficiency gains of plant-based and lab-grown meats are “compelling”, says Liz Specht. Livestock farming is difficult. Producers tend to specialise in a species because the production and rendering process is “radically different” for each one. Animals have to be impregnated, raised and killed. Farmers have to predict demand years in advance. Then there’s the “carcass balancing problem” – getting rid of the millions of tons of unwanted parts of animals. Contrast all this with a manufacturing facility for products that are plant-based or for clean meat (created by growing meat from a small cell sample), where a facility can have finished products “rolling off the line in hours or days”. The raw materials for both – protein isolates, nutrients, flavourings etc – are typically dry powders that store well. Vials of frozen animal cells can be thawed and begin dividing within hours, and manufacturers will be able to produce “cuts” according to demand, with no waste. Large-scale production of clean meat is expected to occur within a decade. While the planet arguably benefits the most from these higher production efficiencies, the gains will also be “hugely beneficial for the bottom line”.

How to solve the opioid crisis

Editorial
The New York Times

In 1998, tobacco manufacturers reached an unprecedented agreement with 46 US states over deceptive marketing practices, resulting in payouts totalling some \$125bn (£104bn), says The New York Times. Two decades later, only a fraction of that has been spent on health matters relating to tobacco use. As a wave of similar legal cases relating to the opioid crisis starts producing major payments, officials should heed this lesson. Last Monday, Johnson & Johnson was ordered to pay \$572m; on Tuesday, Purdue Pharma and the Sackler family that owns it offered to settle thousands of similar lawsuits with billions. There’s a “great deal to be done” with the cash. Some 400,000 people have died of opioid overdoses in the US over the past 20 years. The economic toll of this is estimated at a “staggering” \$78.5bn a year. So far, industry payouts have been meagre compared with firms’ profits and the cost of the crisis; the state of Oklahoma alone anticipates a spend of around \$17bn to “combat the epidemic”. And that’s “only if the money is spent as it ought to be”. As these cases are settled, plaintiffs and judges “would do well to ensure that the resulting payouts go directly to combating opioid addiction”.

Greenery boosts Grimsby

Ambrose Evans-Pritchard
The Daily Telegraph

In the 1950s, Grimsby was the biggest fishing port in the world, says Ambrose Evans-Pritchard. “By the 1990s the tradition was dead” and for years the town has been a reliable fixture in the “top ten” worst places to live. Now, however, it is undergoing a largely unnoticed “renaissance”, becoming the “nerve centre for the UK’s thriving offshore wind industry”. The Danish group Orsted has a “gleaming new hub” that manages the Hornsea One wind farm, the “biggest offshore cluster on the planet”. The array is being erected at lightning pace and will be finished this year, with 174 turbines providing 1.2GW of power, “comparable to a large nuclear reactor built in a fraction of the time”. Hornsea Two, Three and Four are lined up for the early 2020s. Siemens, Equinor and Innogy all have operations nearby. Nor is Brexit a “game-changer”. Projects more than 12 miles from the coast are technically not in the EU, so firms can import components without duties. In addition, the cost of offshore wind is tumbling swiftly and is now well below the cost of nuclear power. Decarbonising Britain’s energy initially looked like an “exorbitant cost”. It is swiftly turning into an “economic and social bonanza”.

Panda Knob falls foul of the law

Editorial
The Economist

When Annie Adamson tried to register her coffee business at Companies House, the Royal Names Team told her that she couldn’t call it Queen Bean because her connection to the Queen was “not strong enough”, says The Economist. She isn’t the only one falling foul of a “complex web of rules on the naming of businesses”. A company name must be “unique”, mustn’t offend, and must “skirt around three categories of sensitive words that require varying levels of permission from a rich assortment of government departments and private entities”. A primary list of 135 words or phrases, including “queen”, must be approved by a secretary of state or their representative. In 2018, Companies House vetoed 87 names including Panda Knob and Royal Nuts. Industry bodies and regulators are on the lookout for “would-be impostors”. So the Financial Conduct Authority will sign off any firm calling itself a “bank” and the Company of Cutlers polices the use of the word “Sheffield”. At least entrepreneurs have more words at their disposal than four years ago, when “simpler rules came into effect. Words they can now register without regulation or oversight include ‘register’, ‘regulation’ and ‘oversight’.”

Money talks

“Don’t lend money to friends. If you want to give them money, just give it. Then there’s no awkwardness afterwards.”

Singer Sannie Charlotte Carlson (pictured), also known as Whigfield, quoted in The Sunday Times



“Ron and I discussed how moving back to California would be great for Katy’s recovery, between the LA sunshine and the amazing strides medical research had taken in the US, not to mention the steady pay cheque.”

Actress Joan Collins, now 86, on moving to the US with then-husband Ron and taking on her most successful role, Alexis in *Dynasty*, when her daughter Katy was in a coma, quoted in The Mail on Sunday

“Always be prepared to think that experts are stupid. They often are.”
Urban-planning activist Jane Jacobs, quoted on the Farnam Street blog

“If you need to ask about the costs of pool ownership, you probably can’t afford one.”

James Max in his Financial Times column on Rich People’s Problems

“The most terrifying words in the English language are: ‘I’m from the government and I’m here to help.’”

Former US president Ronald Reagan, quoted in a Price Value Partners newsletter

“If you have daughters, teach them how to code.”
Author Jeanette Winterson on the need for young women to take on the mostly male technology geeks, quoted in the Evening Standard

“In economics, things take longer to happen than you think they will, and then they happen faster than you thought they could.”

Late German economist Rudi Dornbusch, quoted by Bank of England chief Mark Carney in a speech at Jackson Hole, Wyoming

©Alamy

Blackpool has a bright future

capx.co

The northern town of Blackpool is a “national treasure” that has given millions of people happy memories of seaside holidays, says Paul Smith. But it has fallen far from its Victorian heyday, when the Blackpool Tower was built to rival the Eiffel Tower in Paris and an event to open the Winter Gardens in 1878 was attended by the mayors of nearly every English town.

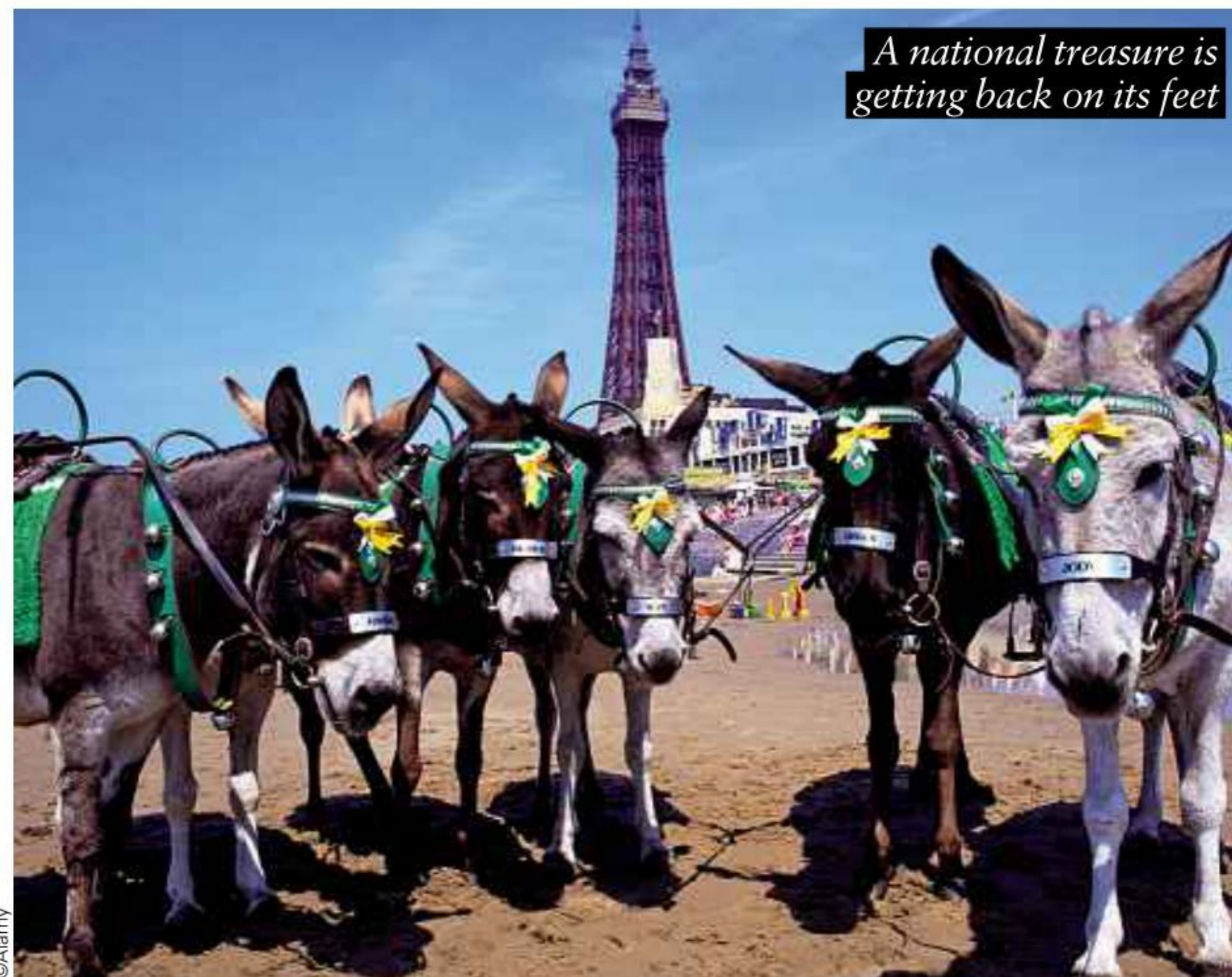
The advent of cheap package holidays to Spain in the 1960s led to a rapid change in the town's fortunes. Bed-and-breakfast properties and shops shut their doors. The town decayed. Many of the empty hotels were converted into flats, most of which house benefit claimants. Blackpool now has the greatest concentration of deprivation in the UK and the highest rate of premature deaths. Just over a quarter of the town's residents have long-term

mental-health problems and anti-depressant prescriptions are the highest in the UK.

Importing the unwell

The problems are made worse by the policies of central government. Government policy is to build more homes. Inner Blackpool needs fewer of them. There is little incentive for landlords to improve properties when they get the same amount of housing benefit regardless. Property in the town is so cheap to rent that it has attracted a huge influx of people, but “many incoming residents are escaping troubled lives in their home towns, drawn to Blackpool by memories of visits to the seaside in happier times”.

The result is a transient population that brings with it a host of people with complicated needs. Blackpool Council patches them up as best they can and then they move on. So



the town imports the unskilled, the unemployed and the unwell, and exports healthy people.

But there is hope. Blackpool's Enterprise Zone will soon have the fastest broadband speeds in the UK with the arrival of the “transatlantic loop” from New York. Once that's up and running, investment banks in Blackpool will be able to connect to the New York Stock Exchange 11 milliseconds faster than the London Stock Exchange. A new tech hub, “Silicon

Sands”, means companies can “nearshore” from London to substantially reduce costs. A new conference centre will open shortly at the historic Winter Gardens and a number of new high quality hotels are opening up. The town could do with more help from the government to tackle deprivation, but progress is being made. “Blackpool is changing from a failing seaside town to a regenerating can-do area. The town understands its problems. It has a plan, and that is a start.”

Strongmen don't deliver growth

qz.com

When people are in dire straits, they are more likely to welcome or vote in populist or authoritarian leaders in the belief that they will lead them back to better times, says Annalisa Merelli. But do the strongmen actually deliver? A new study suggests not. Researchers at the Royal Melbourne Institute of Technology and Victoria University in Melbourne, published in *The Leadership Quarterly*, shows that, between 1858 and 2010, autocratic leaders either damaged or had no impact on the economy of their countries. The researchers compared growth in per capita GDP in countries with autocratic regimes with those of democracies. They found no demonstrable growth effect connected with autocratic rule. The strongmen failed to deliver when it came to employment, health and education spending, and government debt too. Those seen as “benevolent dictators”, such as Singapore's Lee Kuan Yew or Rwanda's Paul Kagame, fared no better. The research also showed that although a population is quick to vote for a strongman to fix their problems, they are not so quick to get rid of him if he fails. Even if the economy struggles, such leaders are slow to lose popular support and be removed from power. That seems good news for Donald Trump, who fears going to the polls in the midst of a recession.

The hallmark of truth

collaborativefund.com/blog

“Simplicity is the hallmark of truth”, and that applies to financial advice as much as to anything else. And yet “the sore truth” is that it is complexity that sells, says Morgan Housel. Why? One reason is that simplicity feels too easy. Just as we don't feel we've gained anything if we don't feel pain at the gym, so we feel we've missed out on a mental workout if what we've been told is too simple.

moneyweek.com

Another is that length is often the only thing that can signal effort and thoughtfulness. You buy a long business book as it seems to indicate the author has spent more time thinking about the problem than you have. But



that doesn't mean their thinking is right and yours wrong. Finally, complexity creates a mystique around the people who profess mastery of it. You might then be more prone to take their views at face value.

A few years ago there was a trend for reducing financial plans to what could fit on an index card. But this was popular for its usefulness, not saleability. “Charge a client for ten sentences of advice and they'll leave in disgust. Give them a phone-book-size elaboration and they'll pay you a fortune and refer their friends.”

The populace leans left

leftfootforward.org

Is Britain a hotbed for radical leftists? On the one hand it would seem not, says Joe Lo. For a start, few can even understand the terms “left-wing” or “right-wing” – just half of people can identify even the most stereotypically left- or right-wing policies as being so, according to a YouGov poll.

Yet left-wing policies are mostly pretty popular. The nationalisation of utilities and the railways, for example, is popular, with even large proportions of Tory voters supporting such moves. Tory voters also support raising the minimum wage. Measures to redistribute income are also popular (although specific measures to tax the wealthy to achieve this are less so).

The most controversial left-wing views are probably opposing the monarchy and nuclear weapons. Seven in ten Britons continue to support the monarchy, and only about a quarter favour unilateral nuclear disarmament. It's no coincidence that these are the only two of the ten left-wing policies in the YouGov poll that the Labour Party left out of its last manifesto.

6 September 2019

MONEYWEEK

Internet 2.0: how to cash in on the shift to cloud computing

This technology helps companies manage their IT more efficiently and will also ensure that the world wide web and key innovations such as artificial intelligence fulfil their potential, says Stephen Connolly



The concept of cloud computing has emerged from a realisation that there are better ways for the world to manage its information technology. We examine the idea in detail in the box below, but it broadly refers to storing or managing data and delivering IT services on the internet, rather than in-house. It is revolutionising computing and business, and is here to stay. Building cloud platforms and servicing users is big, lucrative work. Tech giant Amazon now makes more money pushing its cloud offering than flogging goods online.

Migrating to the cloud

And yet it's still early days. Most businesses have just begun the journey to getting on the cloud, according to consultants McKinsey & Co, and there's a long way to go. Furthermore, plenty have tired, bespoke and cobbled-together IT systems that are well past their sell-by dates. It is so much easier, not to mention more secure, to opt for an up-to-date set-up that someone else organises for you on a cloud platform.

This means that cloud computing is no short-term flash in the pan. It's a sector set to progress over many years, driven by rising numbers of users and more complex work to help platforms' corporate customers innovate and reinvent themselves in a fast-paced digital world. Long-term forecasts are wide open, but they range between annual growth of 15% and 30%. Even if expansion came in no higher than the most conservative estimates, committed investors are unlikely to be disappointed.

Of course, merely having cloud platforms and being able to migrate businesses and revamp their IT can't in itself explain the confident belief that many large and small businesses the world over will make – and pay for – the switch from their current systems. IT can be an early victim of uncertainty and difficult trading conditions, with companies happy to “make do” and bump spending plans into the next financial year and beyond. The current global economic backdrop is volatile and the trade dispute between the US and China is compounding worries.

This could have an impact, but there are compelling practical reasons for cloud migration that are likely to

improve the bottom line for businesses. It's arguable that a weaker economic environment only makes switching to the cloud more of an imperative. Leading cloud provider Amazon showed recently that on average its customers spend \$109,718 a year running a standard web application in-house; this drops 76% to \$26,786 using Amazon's cloud. For data processing, the average cost is \$927,064 in-house, which halves to \$455,593 on the cloud. And an in-house core business application (software used to perform key tasks for the company) sets the average client back \$261,353, whereas on Amazon's cloud it's only \$111,136.

Before looking into the practical benefits in detail, however, it's first worth considering the bigger picture. Operational advantages are important, but in the case of the cloud when weighing up its significance for the future of computing and business, the whole represents more than the sum of the parts.

Joined-up computing comes of age

The joined-up computing called for by Apple co-founder Steve Jobs in 1997 is here now, increasingly permeating everyday life, as anyone with a smartphone, for example, knows. For Jobs, “carrying around these non-connected computers – with tons of data and state in them – is byzantine”. Others have made similar calls before and since. A large part of the change from then to now is down to the cloud, which allows everything to be connected seamlessly. Widely used companies and services use the cloud to provide their products and interact with customers, including Netflix, Skype, WhatsApp, Microsoft Office, Adobe, Google Docs, Facebook and LinkedIn. It's significant enough that there are people today who use the term “cloud” interchangeably with “internet”, while others talk only of the former, almost relegating the internet to obscurity.

Either way, plenty of people see the cloud as a kind of “Internet 2.0”. The internet is the infrastructure, while the cloud is the service. It's like electricity, with the internet being the cables and pylons, and the cloud the power that travels across the network into homes and businesses.

I wish I knew what cloud computing was, but I'm too embarrassed to ask

The cloud is a collective term for data and application platforms. These have been built by big companies such as Amazon and Microsoft. Their pockets are deep enough to fund the expensive data-storage centres that together make up their platforms. Access to these platforms is offered to businesses and individuals who pay fees to use them and for support.

Nowadays people are using multiple devices and applications connected across the internet. These include

mobile phones, tablets, computers, watches and TVs, as well as applications such as Netflix, Facebook and Google Maps. Connected devices are very attractive to businesses: they embed them in their customers' and users' lives all day and everywhere. This gives them a trove of live data about that individual, which, correctly processed, can offer more business and sales opportunities. If a business has high numbers of customers or access to lots of data, it is in a very strong position.

The number of users, applications and devices is continuously rising. Devices are becoming more diverse and can include car locators, home-heating sensors and heart monitors. The resulting data is growing exponentially, and processing it requires more computing power.

If the biggest cloud platforms have more capacity to do this than a firm's in-house IT set-up and it costs less to use, is more secure, more resilient and probably more technically adept, then

transitioning to the cloud is clearly very compelling.

Once on the cloud, programming language and other alignments across cloud platforms mean businesses can use them to build seamless connectivity around the world. The cloud makes growing and innovating easier for them, while the drop in costs boosts profits. It's a very significant shift in how IT and businesses function, and cloud platform shareholders are well placed to gain from this major structural change.



With the cloud, the whole world becomes a computer

The disappearing internet

This line of thinking is crucial to appreciating how fundamental the cloud is in the evolution of computing and its place in the world. It was Google's former boss Eric Schmidt who said: "The internet will disappear. There will be so many IP addresses, so many devices, sensors, things that you are wearing, things that you are interacting with, that you won't even sense it. It will be part of your presence all the time". Schmidt's view chimes with that of the highly-respected CEO of Microsoft, Satya Nadella. For him, computing and technology is becoming embedded everywhere, to the extent that it is shaping people's lives, whether at work, at home, or while socialising. As he puts it: "It's amazing to think of a world as a computer".

It's impossible not to sense the encroachment of computing into daily life, whether it's backing up every photo taken, launching a film on demand, or finding the fastest route from A to B on a satnav. This is simply the surface. Deeper down, business applications interact with customers and make decisions on consumer loans at banks, assess live traffic conditions and change travel plans, try to sell products based on past spending, and play an increasing part in health diagnostics. With advances in technology – which are happening on an almost daily basis – and the passing of generations, this will increasingly permeate our lives.

What the likes of Schmidt and Nadella are alluding to, and what is being borne out each day by our interactions with devices such as mobiles, tablets and even watches, is that the ongoing path to cloud adoption is fulfilling an early promise of the internet:

an always present, always knowing technology at your service. There is a tech industry dream of homes with everything from the plumbing to the fridge bristling with sensors that build data about how you live, augmented by your car routes and travel passes, your daily itineraries and interactions, and your spending and entertainment habits. Bits of this are already in place. Whether well-established multinationals or small-scale start-ups, businesses around the world cannot afford to ignore this.

Great leap forward

This is why the cloud is big business. It is capable of joining up more and more interactions between people and their devices, accommodating the exploding amounts of associated raw data and providing the huge computing power needed to process it meaningfully. Taken as a whole, the cloud platform is central to realising the potential of key digital themes such as big data, artificial intelligence, machine learning and algorithmic processing.

This would be a challenge for any in-house IT department. And switching to the cloud is both profitable and practical. Shift to the cloud and companies no longer have to pay upfront for software and installing other specific systems. Software doesn't date – the cloud will automatically render the latest version. The costs of staff to maintain systems disappears, and the downtime from a fully developed professional cloud platform is likely to be much lower

“These platforms are key to realising the potential of themes such as big data and artificial intelligence”

Continued on page 20

Continued from page 19

than an in-house system. Once a firm is on the cloud, its users, whether employees or customers, can access data from anywhere on any device, making everyone fully connected all the time.

Data on a professional platform is also likely to be more secure than on an in-house managed system; security is a reputational and financial risk every business wants to neutralise. And whereas a company storing its data locally will lose access to it if there's a fire or a flood, it's always available on the cloud. Above all, it's about scale. Data storage is generally pay-as-you-go. Organisations don't always need constant storage capacity and so a cloud platform gives them the flexibility to add data as and when they need it to meet the development of their businesses.

These arguments are clearly compelling. Nearly 60% of Amazon's operating profits now come from cloud activity. In fact, it's the number-one player in the sector, with some 40% share of the market. For every dollar it takes in from its more familiar e-commerce business, its operating profit is about 2.5 cents. But when it comes to cloud-related sales, it makes over 28 cents. Its cloud business is growing most rapidly too. E-commerce sales rose by 28% in 2018, but cloud sales by 47%.

Microsoft: a charging elephant

Microsoft, the second-biggest operator, has been catching up. Its latest results beat all expectations, with cloud activities the strong driver. Profits were up 22% year-on-year and the company has advised that it expects to lift sales and operating profits by double-digit percentages this year too. In its final quarter of trading, Microsoft's earnings were up a huge 49%. Remember this is a \$1trn-plus business – elephants are not supposed to move this quickly.

With strong financial results, it's not surprising that analysts have punchy expectations for growth in the overall cloud-computing sector. Gartner expects cloud-services revenue to reach \$214bn this year, up 17.5% from the \$182bn in 2018: "[This] is only the



Storing data in the cloud makes it more secure

beginning. Through to 2022, we project the market size and growth of the cloud-services industry at nearly three times the growth of overall IT services".

The big players of the future

Cloud computing will grow and become increasingly relevant to every business and individual. It frees businesses to innovate with regard to how they make money and interact with their customers. There will be new companies with fresh ideas that can flourish using the power of the cloud to build scale without the constraint of capital expenditure.

Of course, backing these individual companies could prove profitable. But the cloud operators will have a finger in every pie and benefit from the collective move to embed computer technology everywhere. Creating cloud capacity isn't cheap – building lots of data-storage centres is costly – and there are few players, with the top two well ahead of the rest. As the cloud becomes more core, the small number of operators will become increasingly powerful – no bad place for shareholders to be.

“Cloud operators will have a finger in every pie in the future of computer technology”

What to buy now

Microsoft (Nasdaq: MSFT) is a class act that has been transformed under the leadership of CEO Satya Nadella. Recent results were strong and broad-based across the group, and the outlook is upbeat. The cloud is a key focus and in this context the company should be able to exploit client relationships built on its long-standing Office and Windows products, which still drive significant revenues. These, together with Skype, LinkedIn, Surface devices and Xbox gaming consoles, make Microsoft a strong cash-flow generator. It's a very attractive long-term bet on 24 times next year's earnings.

Meanwhile, shares in **Amazon (Nasdaq: AMZN)** peaked earlier this year at just over \$2,000, but have since tumbled to \$1,750 after earnings in July

missed expectations. Growth, however, remains strong, with economies of scale expanding margins. Amazon is a tricky one to recommend as the valuation is always well above market averages, but it has continued to defy sceptics and deliver. It is the number-one cloud player and has a clear market lead. Warren Buffett has invested this year. The \$1bn stake bought by his Berkshire Hathaway investment vehicle isn't huge, but nonetheless represents a vote of confidence in the group.

An alternative play on the cloud is **International Business Machines (NYSE: IBM)**. Its shares trade significantly below market averages and offer a huge 4.8% dividend, which is expected to grow. IBM has been around for a long time, but over recent

years lost direction, leaving it with low-growth legacy businesses that it is now shedding. It has bolstered its cloud capabilities through the \$33bn acquisition of Red Hat, a leader in helping businesses navigate the new opportunities, and it could be transformative. If it comes off, the upside should be rewarding, while that strong dividend provides good support.

Two firms that have successfully exploited the cloud to deliver exceptional growth and hence worth a good look, are **Adobe (Nasdaq: ADBE)** and **Intuit (Nasdaq: INTU)**. The former offers a suite of creative applications for design, publishing, photography and video. The latter produces accounting and tax software for small businesses and individuals.

Both have great records and strong prospects. They exemplify the ability to offer applications on the cloud and turn these into recurring monthly subscription fees, upending the traditional business model of one-off sales of software products.

For those who like funds, there's an American exchange-traded fund on the Nasdaq focused on the cloud industry and approved by HMRC in the UK for tax purposes. **First Trust Cloud Computing ETF (Nasdaq: SKYY)** is valued at \$2.2bn.

First Trust has delivered 15% a year for investors after costs (0.6% a year) and tracks a basket of 62 cloud-related companies with a minimum market size of \$500m. Top holdings include both Microsoft and Amazon, plus Oracle, Google-parent Alphabet and China's Alibaba.

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Should I stay or should I go?

Transfer values are on the rise, but leaving a defined-benefit scheme is risky



David Prosser
Business columnist

Financial watchdogs have made it clear that they believe transferring money out of a defined-benefit pension scheme is a bad idea for most people. And yet people continue to defy this guidance, often with the support of their independent financial adviser: 390,000 savers have transferred cash out of final-salary pension plans since the pension freedom reforms.

Now this number may be set to rise. Transfer values offered to savers considering a switch hit a record high at the end of August. A 55-year-old man expecting a £10,000 annual pension would have been offered an average transfer value of £247,000 a year ago. Today, the figure is £258,000, according to the XPS Pensions Group. The rise is down to a sharp fall in long-term gilt yields, which actuaries use to calculate the value of pension schemes' liabilities.

In practice, what you'll actually be offered depends on



You won't find that guaranteed income outside a final-salary scheme

your scheme, with different final salary pension funds setting their own transfer values according to factors such as their current level of funding and the detail of their benefits. Somewhere between 15 and 30 times the value of the guaranteed pension is typical.

Still, transfer values may climb further in the coming months. Implementing a landmark legal ruling last year on sex discrimination by

pension schemes – related to equalising pension ages – could prompt a further 5% rise.

Doing the sums

So are regulators right to insist that sticking with your final salary pension scheme is almost always the right move? Leave aside the issue of whether you believe your employer will remain solvent enough to meet its pension promises; if not, a transfer may be more

appealing. The key question is whether you can generate more retirement income by investing your transfer value wisely than your final salary scheme is promising. The big lure of a final-salary pension scheme is that guaranteed income. You can't be sure that you'll do better with investments where returns aren't guaranteed.

It may be that you're attracted to a transfer for other reasons – for example, you might want to cash in one pot of savings for a particular financial need, safe in the knowledge that you have other pension cash to fall back on. If you've thought this course of action through carefully, a transfer may make sense.

For most people, however, it looks risky, even with higher transfer values on offer. Financial regulators want people to err on the side of caution and to appreciate fully the guaranteed nature of final-salary benefits. That's why they insist that anyone moving a transfer value of more than £30,000 takes independent financial advice before proceeding.

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- 3 Gold is a hedge** - Gold has historically had a weak correlation to movements in the financial markets and is frequently used as a hedge against inflation or to offset falling stock markets.
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*Source: Experian Hitwise based on market share of UK internet visits March 2016 - March 2017

Hidden costs of car hire

Vehicle-rental firms can chase you for money long after you thought you had paid for your holiday



Ruth Jackson-Kirby
Money columnist

The summer holidays are over. But you may not have finished paying for them if you hired a car during your trip. Kate Palmer in *The Sunday Times* tells the story of Peter and Lynne Darker, who found themselves chased for a car-hire payment 15 months after their journey. To make matters worse the charge was for damage and breakdown cover after the tyre exploded on the vehicle on a motorway just 15 minutes after they hired it. This shows that “rental companies can charge for alleged damage to vehicles long after customers have returned home”, says Palmer. They can do so because they store your financial details when you hire the car and it is in the terms and conditions that they don’t have to seek your permission to take a payment. In a case covered in *The Daily Telegraph*, a “highly experienced police driver was accused of burning out the clutch and billed £1,235 five months later”.

Keep an eye on your card statement

To avoid being stung, keep an eye on your credit-card statements in the months after you hire a car. If you see a charge, question it. If you aren’t happy with the response from the rental firm “it is sometimes possible to claim back the money through your bank or credit-card provider using a chargeback”, says Palmer. Another frequent problem is a dispute over who caused damage to a hire car. Make sure you are prepared for

“Which? Travel recommends avoiding Goldcar, InterRent and their parent Europcar”



any problems by taking photos of your vehicle when you collect it and when you drop it off. Sadly, however, this may not be enough, as “hire companies’ complaints departments may ignore this evidence”, says Palmer.

Try to book with a firm that has a UK office so if there is a problem you aren’t trying to communicate across a language barrier. You also have additional support when dealing with UK firms. “If you cannot resolve a dispute with a car-rental company in the UK, use the British Vehicle Rental and Leasing Association’s conciliation service (bvrla.co.uk),” says Nick Trend in *The Daily Telegraph*.

Finally, avoid hiring a car through InterRent, Goldcar, or their parent company Europcar. In a survey by Which? Travel, an independent consumers’ organisation, these firms were ranked the worst. Almost half of those who hired with InterRent, and four in ten Goldcar customers, had a problem, says Guy Hobbs on which.co.uk.

Post-PPI claims

After more than a decade, the payment protection insurance (PPI) scandal is over: the deadline for new claims has passed. But that doesn’t mean you’ve heard the last of claims management firms’ – or, for that matter, potential scammers’ – nuisance calls and text messages. The claims groups have started offering to chase compensation for new problems.

The pension freedoms introduced in 2015 have created a new compensation problem: many people received poor advice when they accessed their pension fund. Payday lenders are also being targeted as “PPI set a precedent that firms could be retroactively punished for historic practices judged to be unfair, even if they weren’t against any rules at the time,” says Nicholas Megaw in *The Financial Times*.

There has been a 130% increase in complaints over historic charges to the Financial Ombudsman Service in the past year. “Radio advertisements that previously exhorted listeners to check if they had PPI are [now] focusing on mis-sold investment products and Isas,” adds Megaw. Compensation could be claimed if you lost money on an investment and feel your bank or financial adviser did not properly explain the risks to you.

Pocket money... inherited some money? Don't get too excited

■ If you get a call from an heir-hunting company saying you’re due an inheritance, don’t get too excited. These firms can make mistakes that leave people owing thousands of pounds. One reader of *The Daily Telegraph* was told he was entitled to a £40,000 forgotten legacy, only to find out later on that there was a closer relative who was due the inheritance. “The firm has now left him on the hook to pay back a small fortune after bungling its research, taking £12,000 in finders’ fees and cutting off all communication.”

This error isn’t an isolated incident. “Experts have said cases of mistaken identity are common,” says Harry Brennan

in *The Daily Telegraph*. If you are contacted by an heir-tracing company, you are “financially liable to hand back the full inheritance if someone with a superior claim subsequently appears”.

■ New research by Lloyds Bank has revealed that “millennials are falling victim to scams involving handing money to fraudsters more than any other age group”, reports *The Guardian*. They lose an average of £2,630 to tricksters. The over-55s, however, lose the most money per scam – £10,716 – but they

“are less likely to be duped, with a slowdown in the number of total scams” in that age group.

It seems the over-55s have become more clued-up about scams over the past few years, which has “driven fraudsters to new groups and tactics”.

Millennials are getting tricked more often because they use online banking more than other age groups.

■ HMRC is owed £1.6bn in overdue taxes for 2017/2018 by people who pay through self-assessment, notes Emma Agyemang in

The Financial Times. The sum owed for 2017/2018 is eventually expected to eclipse the £1.83bn notched up in 2016/2017 as more tax returns come in. In 2015/2016 late payments totalled £1.76bn.

People are falling behind as the economy has struggled, notes accountancy firm UHY Hacker Young. There are now also a record number of self-employed people. If you are 30 days late paying your tax bill you face a fine of 5% of the total amount owed. And HMRC may be getting tougher with those who miss the deadline. The number of late payment penalties issued, but then cancelled, fell from 23% in 2015/2016 to 22% in 2016/2017.



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Ted Baker is a bargain

The sharp decline in the fashion retailer's shares looks excessive



Matthew Partridge
Senior writer

All retailers have struggled recently, but none has had worse luck than Ted Baker (LSE: TED). Founder and chief executive Ray Kelvin was first forced to take a “leave of absence”, and then had to quit permanently in March after a personal scandal. The group then issued a profit warning this summer, noting that trading conditions were far worse than expected. As a result of all this furore, shares that were trading as high as £23.50 last September fell as low as 806p a few weeks ago. Even now they are over 60% below their 52-week high.

Nevertheless, there is plenty of evidence that the fall is due to an overreaction. A strategy of growing the business through small-scale concessions in larger stores, rather than spending large sums of money to open its own outlets, has not only helped Ted Baker nearly double sales between 2014 and 2019, but it also means that it is not lumbered with uneconomic long-term leases. It has also had enough foresight to invest in the digital side of its operations, with the result that even as the growth in physical sales slow, online sales continue to expand at double-digit rates.

Expanding in Asia

As well as trying to grow online, Ted Baker is attempting to expand its international business, especially in Asia. This summer it concluded a five-year deal that should help boost its customer base in Japan, with a subsidiary of the Sojitz conglomerate helping it sell its clothes through department stores. It is also making efforts to grow its operations in mainland China.

Closer to home, it has ended its relationship with the eternally struggling Debenhams in favour of one with Next. Overall, analysts expect sales to



continue to grow in 2020 and 2021, though not quite at the rate they initially foresaw.

There has been a lot of speculation that a consortium could take advantage of the lower price to launch a buyout of the company, taking it private. This has already caused the shares to bounce back by 15% from their summer lows. However, they may have to offer a sizeable premium to shareholders to convince them to sell. Even if this buyout offer doesn't materialise, Ted Baker could be an attractive takeover for another retail firm.

In any case, the company makes sense as a value target since it trades at just under ten times 2020 earnings. An 18% return on capital expenditure also enables it to produce a large amount of cash flow, which means that it can pay a very generous dividend yield of 5.4%.

I'd suggest that you go long on Ted Baker at the current price of 929p at £4 per 1p (compared with IG Index's minimum of £1 per 1p). I'd then set the stop loss at 709p, which would give you a potential downside of £880.

“Ted Baker has had the foresight to invest in its digital operations”

Trading techniques... picking up fallen angels

The credit ratings agencies that assess bonds have a bad reputation, not only due to their patchy record, but also because of the way they make their money. While equity analysts are paid (either directly or indirectly) by investors who use their research, bond analysts get their money from the companies whose bonds are being covered. This has led to a perception that they lack objectivity.

Many traders believe that the best trading opportunities may come from bonds that have been downgraded, especially those that have been moved from “investment grade” to “high-yield” – or “junk” – status. The rationale is that many



investors, especially large institutions or pensions funds, have strict rules limiting the number of risky bonds that they can hold. So when the bond is downgraded, or even shortly before, these investors will be forced to get rid of the bonds, even if they believe that they are actually worth holding onto.

As a result, the price of the bonds (known as “fallen angels”) falls to an unwarranted extent.

A 2016 study by Andrew Clare, Stephen Thomas and Nick Motson of Cass Business School found that the price of fallen angels typically started falling a month before they were officially downgraded and then continued to fall for nine days. But they then recovered; by a fortnight after their downgrade they had made up the lost ground. The research also found that between 2000 and 2016 a strategy of buying a portfolio of fallen angels would have outperformed the wider high-yield bond market by the equivalent of nearly 4% a year (11.04% versus 7.1%).

How my tips have fared

This has been quite a good fortnight for my long tips. Three have appreciated, two stayed the same and only one declined. JD Sports went up from 601p to 626p, Safestore from 641p to 648p and Bellway from 2,842p to 2,961p. Hays and Superdry remained the same at 146p and 392p respectively. Bausch Health Companies bucked the trend by slipping from \$21.72 to \$21.34.

Overall, my open long tips are making a net profit of £585, up from a loss of £42 a fortnight ago, with only Superdry, Hays and Bausch losing money.

My short tips have also moved in my favour, with all but one declining. Weis Markets fell from \$39.40 to \$38.23, bitcoin decreased from \$10,695 to \$9,895, Netflix from \$309 to \$294 and Uber from \$35.70 to \$32.57.

Only Tesla increased slightly, from \$224 to \$225. Overall, all of the five short tips are making money, with the group collectively \$1,395 in the black (compared with net profits of £908 in the last roundup).

I have made two short tips, Beyond Meat and Zoom Video Communications, which both remain above the price at which I suggest that you should start shorting them. So I suggest that you cancel the Zoom short entirely, though I may revisit the share if things change, because I still believe that it is overvalued. I also recommend that you close the long position in Hays, taking a small loss of £52, because it is still losing money over six months after I first tipped it.

So counting the latest tip, I have six long ideas (JD Sports, Safestore, Bellway, Superdry, Bausch Health Companies and Ted Baker), five short tips (Weis Markets, Tesla, bitcoin, Netflix and Uber), and one short bet (Beyond Meat) that will be triggered if it slips below \$120.

Green profit machines for sustainable growth



A professional investor tells us where he'd put his money. This week: Stephen Freedman of Pictet Asset Management highlights three favourites

The companies working on answers to critical environmental questions offer the prospect of attractive and lasting returns. They will benefit from rising demand for their products and services, thanks to an increasingly supportive political backdrop, consumer awareness and technological advances. Financial markets tend to underestimate the secular growth potential these drivers produce.

Our Global Environmental Opportunities strategy invests in a broad array of businesses driven by these trends. They include firms active in pollution control; water supply and technology; renewable energy; waste management and recycling; sustainable agriculture and forestry; and the dematerialised economy. The latter encompasses companies that enable manufacturers to lower their consumption of raw materials while maintaining their output.

“Equinix makes data centres more energy-efficient and reliant on renewables”

Finding sustainable stocks

But it's important to find companies that are not only heavily involved in generating environmental solutions, but also have a sustainable ecological footprint. These ones, we believe, will be in business for the long term.

To identify them we have pioneered the implementation of the “planetary boundaries” approach in our investment process. This scientific framework determines nine critical dimensions of environmental sustainability, including climate change, the loss of biodiversity and the depletion of fresh water.

Because a company's impact on the environment isn't limited to its own operations, but also includes the ecological footprint of its suppliers and of its products after sale, we make a full life-cycle analysis

(LCA) of its business model from cradle to grave. We only invest in firms that operate within safe LCA parameters compatible with planetary boundaries. This allows us to combine sustainability for the environment with sustainable growth for our investments.

Winning ways in waste management

Veolia Environnement (Paris: VIE) is a French-based, but globally active utility company that focuses on water and waste management. The company has a well-diversified customer base across municipalities and industrial companies. Its business strategy, which includes a strong focus on cities, allows it to benefit from urbanisation. It is also offering solutions to the problem of increasing water stress, particularly in emerging

economies. Veolia has grown solidly in recent years following a significant restructuring aimed at

improving cost efficiency.

Equinix (Nasdaq: EQIX) is a US real estate investment trust (Reit) that owns and operates data centres. Equinix helps firms to shift from often inefficient in-house servers to cloud computing. The company is at the leading edge of making data centres both more energy-efficient and more reliant on renewable sources. It is in the premium segment of the sector. Equinix is targeting revenue growth in the 8%-10% range over the next four years and appears set to deliver towards the higher end of that range this year.

Denmark-based Orsted (Copenhagen: ORSTED) is the top developer and operator of offshore wind farms. Having sold off its oil and gas business, it is experiencing solid growth thanks to increasing demand for, and cost-efficiency of, renewables.

If only you'd invested in...

IWG (LSE: IWG)

Share price in pence



IWG (LSE: IWG) provides serviced offices and videoconferencing facilities in 110 countries. It owns several brands, including Regus and Spaces, and competes with fashionable upstarts such as WeWork. But despite boasting more office space, more revenue and, crucially, a profit, its market value is less than 10% of the hipster disrupter's. Perhaps inspired by the latter's absurd overvaluation, it is mulling floating its US business into a separate listed company. Investors have been rewarded with a 75% rise in its share price over the last 12 months.

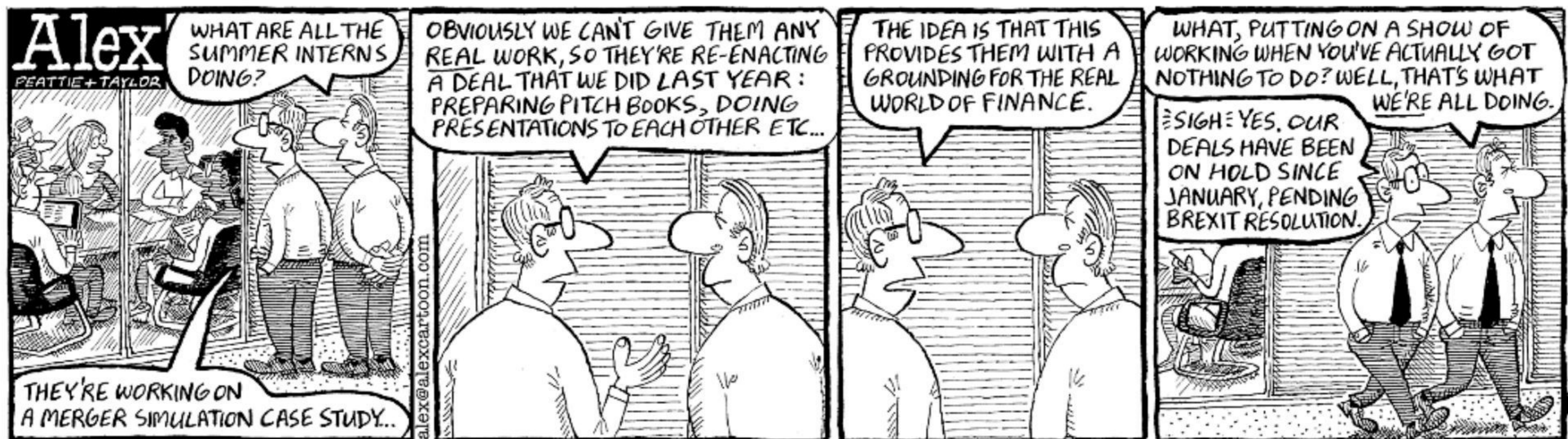
Be glad you didn't buy...

IP Group (LSE: IPO)

Share price in pence



IP Group (LSE: IPO) invests in and incubates intellectual property-based businesses. It works with universities and research institutions to spin out promising life sciences and technology businesses, including Oxford Nanopore and Ceres Power. It has formed over 300 such businesses so far. In 2018 many of its Aim-listed portfolio firms saw their share prices tumble, with the underlying value of the portfolio down by 5.9%. Add in the fact that major investor Neil Woodford has been forced to sell and it's no wonder the share price is down by more than 55% in the last year.



The billionaire who reshaped US politics

David Koch, who has died aged 79, was a kind and generous man, a great benefactor of charitable causes and the arts. But his influence on political life was resented by many. Jane Lewis reports

Over five decades, Charles and David Koch grew their father's company, Koch Industries, into a sprawling empire – operating oil pipelines and producing everything from fertilisers to paper cups, says the Financial Times. As the principal shareholders of the Wichita-based company (they latterly owned 42% each), the brothers became exceedingly rich. Last year, they were estimated to have a combined worth of \$120bn, making them the world's eighth and ninth richest billionaires. The death of David last month changes the fraternal dynamic, says The Economist. It has also cast a spotlight on plutocracy in modern America.

David Koch once referred to politics as “a nasty, corrupting business”, but that didn't stop the Kochs from using their clout as owners of America's second-largest privately held business to become “the most influential donors” in US conservative politics. Latterly, the brothers fell out with President Trump: as arch free-marketers, they were critical of his tariffs and trade wars. But the rise of “the Tea Party wing of Republicanism was in part attributed to Koch money”, notes The Daily Telegraph.

Detractors have blamed the Kochs and their extensive political network (dubbed the “Kochtopus”) for undermining any serious US political action on climate change. David Koch might have gained plaudits for his great philanthropy – he gave over \$700m to medical institutions and was a generous endower of the arts in New York – but Koch Industries remained “one of America's biggest polluters”. One report in 2011 accused it of emitting carbon dioxide equivalent to five million cars.

The brothers' political and business instincts were honed at a young age growing up on a ranch in Wichita, Kansas, says

the FT. Their father, Fred, was “a fervent anti-communist who was hard on all four of his sons”, putting them to work “in the 100-degree Kansas summers, uprooting dandelions, baling hay, milking cows and digging ditches”.

Business behemoth

David went on to MIT, where he majored in chemical engineering. But the brothers' story proper began in 1967 when the father died and Charles took over running the firm, says The New York Times. Charles masterminded its overall expansion – transforming the firm that made his father a mere multimillionaire into the behemoth it is today – while David opened the division that became Koch Engineering.

In 1981, when Wall Street bankers offered the brothers “a windfall” for what was still then “an obscure, midsize energy company”, they refused – considering retaining control so vital that they fought a bitter civil war with their other brothers, Freddie and Bill, whom they eventually bought out. Charles' knack for “entrepreneurial risk-taking” saw bold moves into fossil fuels, commodities trading, chemicals, paper products and

fertilisers. And the brothers' talent for lobbying ensured they maintained their advantage. Koch Industries “inserted itself into every aspect of daily life, raking in billions along the way”. The Koch's political interests also date from the early 1980s, “when Charles reportedly pushed David to run as the vice-presidential candidate



“Koch industries inserted itself into every aspect of daily life in America, raking in billions along the way”

for the Libertarian Party” – having become concerned that the Republican nominee, Ronald Reagan, “would be too liberal”. The Libertarians won just 1% of the vote, but “paved the way for the family's outsized role in politics”.

David is remembered by his family as “a kind and generous man” who “believed he had a responsibility to a world that had given him so many opportunities”. Maybe so, says The Economist. But his life also reflects “America's enduring ability to generate huge fortunes”, its “concentrations of power” and “the many opportunities its diffuse and multi-layered democracy provides for influence-peddling”.

Great frauds in history... Robert Brennan's boiler room

Robert Brennan was born in New Jersey in 1944 and went on to set up First Jersey Securities in 1974, running it alongside two other brokerages – Hibbard Brown and LC Wegard & Company. In the 1970s and 1980s, First Jersey, which specialised in “penny stocks”, grew at a fast rate. Indeed, at its peak in the late 1980s it employed 1,200 people across multiple offices, and made profits of around \$95m a year. This allowed Brennan to indulge in a lavish lifestyle – in 1992 he splashed out \$40m (\$75m in today's money) on building the Due Process golf club.



What was the scam?

First Jersey Securities was a “boiler room” where salesmen would use high-pressure techniques to sell shares in worthless companies to unwitting investors.

At the same time, Brennan's two other brokerages would work to manipulate the stock price upwards, giving the impression that the shares were rising in value. Those brokerages would then dump their shares, causing the price to quickly collapse. Unlike later boiler-room operators, such as Jordan Belfort, Brennan would target the wider public, spending

large sums on advertising and making high-profile donations to various public causes to generate publicity (as well as discourage prosecution).

What happened next?

From the late 1970s onwards, First Jersey's activities attracted attention from regulators. Brennan, however, was able to avoid being formally convicted of anything for more than two decades by promising to scale back his business. In 1994 he was finally convicted of fraud and ordered to pay \$71.5m in compensation, as well as being banned from the securities industry, forcing him to declare bankruptcy. In 2001 he was convicted of hiding \$4.5m in

bonds and casino chips from the bankruptcy court, and was sentenced to nine years in jail. The fines Brennan was eventually forced to pay were a fraction of his clients' losses from investing in companies promoted by First Jersey. Indeed, between 1988 and 1995 alone, First Jersey defrauded clients of \$300m.

Lessons for investors

The shares of smaller companies can be a lucrative investment – research shows that they produce higher long-term returns than their larger counterparts. Yet this sector tends to account for a disproportionate number of frauds, so you need to tread especially carefully.

Three family-friendly hotels

Same problems, different views? Family holidays don't have to be like that. Chris Carter reports

The word 'luxury' doesn't often feel compatible with family-friendly holidays, but finding a destination that meets the perfect blend of romance and fun-filled activities for the children may no longer be as impossible as it sounds," says Elliot Wagland in the Evening Standard. Parklane (from €299, marriott.co.uk) is a "meticulously refurbished" resort and spa in Limassol, on the island of Cyprus. Children are welcome in all of its five restaurants, which "promise to cater for even the fussiest of taste buds". They even have their own pirate-themed, two-storey castle and pirate ship decked out with water slides in the Park Kidz complex.

Former England football star Rio Ferdinand and ex-Brighton striker Bobby Zamora set up the Parklane's Football Escapes course. During every school holiday, a former professional footballer joins Uefa-licensed coaches to train children for two hours a day. Each child gets their own Football Escapes kit and medal at the end of the week-long course. "You can watch your child's eyes light up each day as they receive expert training from the former players that Rio Ferdinand has played with or battled against, including Jamie Redknapp, Joe Cole and Dimitar Berbatov, with the players fully immersing themselves in the occasion."



Moby-style cool in Crete

Casa Cook Chania (pronounced "Hania") is the new "family-friendly version of Grecian cool", says Lorraine Candy in The Sunday Times. Located on Crete's northwest coast, it is Thomas Cook's first foray into "hipster hotels for families". "Chilled" Moby-style music permeates the foyer, while neighbouring villas have a small, private plunge pool and a "magnificent



Crete's Casa Cook Chania is perfect for hipsters with families

view" of the sea. By the main pool, "French families with ludicrously well-behaved, suntanned youngsters sipped dry Greek rosé at the bamboo bar". The children's club is "all beige bean bags and rattan chairs around a safe, small pool". Sleepovers can be arranged in a "pretty Bedouin tent". Activities include arts, crafts and cooking. Movie time is in the evenings, showing films such as Pixar's *Inside Out*, allowing you to

and weather (hopefully)," says Elisa Bray in The Independent. It doesn't have to be that way. "If you have young children and want to go to Sardinia, you can't go wrong picking a Delphina resort: there are eight on the island."

Valle dell'Erica Resort (from £145 per person, hotelvalledellerica.com), home to hotels Erica and La Licciola, has just been voted Europe's Leading Green Resort in the World Travel Awards 2019. La Licciola beach has

"The lively Ericaland miniclub in Sardinia is bursting with enthusiastic, multilingual staff"

go for cocktails – "like those child-free couples you eye with envy".

The kitchen is open all day so you don't have to schedule your day around meal times, and the menu is locally sourced. At the end of the stay, the Casa Cook (from £995 per person for a week based on four sharing, flights included, casacook.com) has passed the critical Kid Critic test. "Praise indeed."

A couple's blessing in Sardinia

"There's a saying that when you go on holiday with children, it's the same problems, just different views

a bar-cafe, as well as buckets and spades for children. The "lively Ericaland miniclub... is bursting with enthusiastic, multilingual staff". Activities include a "Robinson Crusoe" adventure sleepover and pizza-making. "Tweenagers can make use of complimentary canoes, snorkelling equipment and computer games." At mealtimes the tables are laid beautifully for "tiny diners" and parents of children under the age of three will "rejoice" at the complimentary nursery. "Remarkably the miniclub is open until 11pm." All in all, "this is an ideal resort to reclaim some couple's time".

Why not leave the kids at home?

"After just over six years of dawn wake-up calls and holidays when we might just finish reading a solitary book between games of beach football, we are finally alone again," says Robert Winnett in The Daily Telegraph. Calmness is "the first thing that hits" him and his partner on their adult-only trip to Mexico, while their son spends the week with grandma. The Hotel Esencia (from US\$700/£580 plus tax, hotelesencia.com), near Tulum on the Yucatán peninsula, was once the residence of an Italian duchess. Peacocks and large lizards roam its manicured lawns, where afternoon tea is served every day. The decor "looks like it came straight off the pages of a minimalist design magazine". And with no children in tow, there's no need for time-watching for early breakfasts and bedtime. "Suddenly we have time. Time to relax, time to... head to the bar and watch a Caribbean sunset." After a couple of hibiscus margaritas, "family life in south London seems a long way away".



This week: houses for around £500,000 – from a second-floor flat in a Victorian property in Islington, London, to



▲ **Abbey House, Oldstead, York.** A Grade II-listed, 17th-century house in a village close to the North York Moors. It has beamed ceilings, exposed stonework, an open fireplace with a wood-burning stove and a kitchen with a vaulted, beamed ceiling and an Aga. 2 beds, 2 baths, 2 receps, sun room, gardens. £475,000 Jackson-Stops 01904-625033.

▶ **Grandad's Cottage, Church Cove, The Lizard, Cornwall.** This renovated, 1780s cottage is currently used as a boutique retreat, which generates high yields. It has exposed stone walls, beamed ceilings and a wood-burning stove. 2 beds, 2 baths, recep, kitchen, covered veranda, terrace, walled garden. £500,000 Savills 01872-243200.



▶ **The Malting, Crick, Northamptonshire.** A Grade II-listed village property with a large garden with yew hedges that overlooks the village church and includes a terrace adjacent to the house. It retains its original floorboards, flagstone floors, oak staircase, leaded-mullioned windows, beamed ceilings and open fireplaces. 6 beds, 2 baths, 2 receps, breakfast kitchen, cellar, garage. £549,500 Carter Jonas 01604-608200.



a Cornish cottage used as a boutique retreat in Church Cove, The Lizard



◀ **The Manse, Carharrack, Cornwall.** This Grade II-listed house was built in the 1820s next to the village chapel for the local minister and served as the chapel manse until the 1950s. The house is in excellent condition and retains its original staircase, sash windows with working shutters and period fireplaces. It has a large kitchen, which has recently been refitted, that leads onto a separate dining room. 5 beds, 2 baths, 3 receps, garage, gardens. £450,000 Jackson-Stops 01872-261160.

▶ **Cottage, Marsworth, Buckinghamshire.** This Grade II-listed village cottage would now benefit from modernisation. It retains its exposed beams and open fireplaces, and comes with a large studio outbuilding and a substantial garden. 4 beds, 2 baths, recep, 2 kitchens. £550,000 Hunters 01442-500252.



▶ **New North Road, Islington, London.** A light, spacious apartment on the second floor of a Victorian building in the centre of Islington with easy access to Angel and Old Street underground stations. It is in excellent condition and its layout makes the most of its 589 sq ft of living space. It has access to a communal garden and has no onward chain. 2 beds, bath, recep, kitchen. £500,000 Knight Frank 020-3909 6814.



▶ **Mallards, Cerne Abbas, near Dorchester, Dorset.** This new-build village property is set at the end of a no-through lane and has been constructed in a traditional style with a brick-and-flint frontage. It has an open-plan living area with wood floors, a wood-burning stove and bifold doors leading onto the garden, which overlooks the river and includes a paved sun terrace. 4 beds, 2 baths, recep, dining kitchen. £500,000+ Fine & Country 01305-757300.

▶ **The Lodge, Tollerton, Nottinghamshire.** This Grade II-listed lodge and attached gateway were built as one of the carriage entrance ways to nearby Tollerton Hall. It is set on the edge of a village within easy reach of Nottingham and has a conical slate roof, pepperpot finials, a crest above the gated entrance, wood floors and a conservatory that leads onto a garden. 3 beds, bath, 2 receps, breakfast kitchen, garage, greenhouse, courtyard parking, 0.44 acres. £500,000+ Savills 0115-934 8020.



A fresh, green start for Porsche

The German sports-car firm has launched its first all-electric motor. And it's sensational. Chris Carter reports



Porsche and electricity seem as natural a fit as fire and ice," says Andrew Frankel in Autocar. But "if Porsche really can pull it off and produce the world's first electric production driver's car, the ramifications could be enormous". The electric car market, and Tesla in particular, had better watch out. Until the official big reveal on 4 September, much of the detail surrounding the new Porsche Taycan (pronounced "Tie-can") was still under wraps. The German carmaker did, however, lend it out for a few teasing laps of its Weissach test track.

Rumour had it that the two models of Taycan that Porsche had owned up to would be called the Turbo and Turbo S,

"The Porsche Taycan is going to give Tesla a massive headache"



says Frankel. It seems "absurd to use combustion engine terminology" ("turbo") on an electric car, and for one that is "so clearly a fresh start for Porsche", says Jack Rix in Top Gear magazine. Somebody had clearly decided that Turbo S was "the only way to tell its most loyal (read: wealthiest) customers to forget the rest, this is the one you want". But "my word it's quick – a proper fairground slug of G-Force, not a chirp from the wheels, no gearchanges to give your organs a breather... My testicles are still finding their way back down and the blood has only just returned to the front half of my body."

Indeed, so quick is the Taycan that it set a lap record for an electric four-door car – and "not just any lap record", says Sean Szymkowski on CNET's Road Show. It set a lap time of 7 minutes and 42 seconds around the legendary

Engine: twin electric motors
Power: 600bhp-plus (estimated)
Transmission: single-speed automatic, four-wheel drive
0-62mph: less than 3.5 seconds (estimated)
Top speed: 155mph (estimated)
Range: 280 miles (estimated)
Price: around £60,000

12.8-mile Nürburgring Nordschleife. That makes it a "smidge slower" than a C6-generation Corvette ZR1 and ties it with the 997-generation Porsche 911 GT3. "Those aren't exactly slow cars." After the feat, Lars Kern, the Porsche test driver, said he was "impressed at how stable the all-electric sports car handles in high-speed sections" on "the world's most challenging circuit". Not for nothing is the track nicknamed the "Green Hell".

"If the Taycan is the future, then it's a sensational reason to aim for old age," says Andreas May in Auto Express. "We can't recall such a stomach-churning effect from a production car and, acceleration aside, it's huge fun to drive. Even at this prototype stage, it's clear that Porsche is going to give Tesla a massive headache."

Wine of the week: a vital and perfectly flavoured Menetou

2017 Menetou-Salon, Domaine de l'Ermitage, Laurence et Géraud de la Farge, Loire, France
 £15, Robert Rolls, 020-3215 0011, robertrolls.com



Matthew Jukes
 Wine columnist

There are few people as respected in our wine trade as Robert Rolls. I have known him for more than 30 years, but I rarely taste his wines and I am not sure why this is. Perhaps it is that he keeps himself to himself, and his modesty and the scarcity of stock of many of his wines mean that he doesn't make too much of a fuss about his business. We bumped into each other the other day and he said he would send me a case of samples – and every wine was not only superb, but they were also all stunning value, too.

Loires, Rhône and Burgundies, and all under £25, it was this keenly priced Menetou that completely amazed me with its finesse and control. A couple of months ago I wrote up a Pouilly-Fumé, which was one of the most imposing, intense and age-worthy sauvignon blancs I have ever tasted. Domaine de l'Ermitage is almost the complete



opposite. It is vital, immediately appealing, open and giving, and perfectly flavoured from the bright citrus and herb nose to the cool, stony, mouth-watering finish. It is drinking right now and you are guaranteed to be amazed at the energy and pristine freshness of this wine. I hope that you feel moved to buy it and then take a look at Robert's collection of fascinating Domaines. I am sure he would be gracious enough to add a few MoneyWeek wine fans to his elite client list.

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

A farce staged at auction

What a botched sale tells us about the classic-car business. Chris Carter reports

Forty million... 40 million... thank you. 40 million dollars... at 40... at 500,000, 40 million 500,000. Now it is at 40 million five. Forty... 50 million dollars!" The audience oohed and ahed as Dutch auctioneer Maarten ten Holder called out the numbers. "Fifty million 500,000 now, 50 million five now, 60 million. At 60 million dollars..." "Wow," cooed a man in the crowd. "Oh my God." The numbers on the giant screen flipped higher and higher. "Sixty million, 500,000... 70 million." "What the heck?" The audience was in disbelief. They were witnessing the sale of the most expensive car in the world – or at least they thought they were. Then came the farce. "At 17 million..." The auctioneer turned to the phone bank. "It's 17, guys. It's a bit exciting to write seven zero. It might be my pronunciation." A woman groaned. "We're at 17 million dollars..."

The screen shows \$17m (£14m). The crowd booed. People walked out of the room. So went the failed auction of a car (it didn't reach its reserve price) that was already controversial before it went under the hammer at RM Sotheby's in California last month.

A buyer for the 1939 Porsche Type 64 (pictured) had been sought for years. But in vain. Ferdinand Porsche had been commissioned to build it by the Nazis a decade before setting up the famous car company that still bears his name. It has a tiny Volkswagen engine. Some collectors regard it as a "true" Porsche. Others don't. But the car's history isn't the issue. "It has got a sewing-machine-

sized engine at a fire-breathing Le Mans price," a source tells Hannah Elliott on Bloomberg. For such a hot-ticket item (the \$20m reserve price is a lot of money even for a one-of-a-kind classic car), the fact that RM Sotheby's buried the lot at 362 in a line-up of 376 suggests the auction house wasn't very confident it would sell.

The crowd in an auction room is "often a boisterous one after a day of parties and events", says CNBC's Robert Frank. This one took place towards the end of a long night during a week-long car festival and the bidding began at \$13m or \$30m, depending on whom you believe. (Auctioneer

Ten Holder has been accused of orchestrating the confusion to whip up excitement – as has been pointed out, his pronunciation

hasn't been a problem before.) RM Sotheby's says the confusion was in "no way intentional" and the result of an "unfortunate misunderstanding amplified by excitement in the room", CNBC reports. (You can watch the video at [instagram.com/tv/B1TA6h0gqRK](https://www.instagram.com/tv/B1TA6h0gqRK) and decide for yourself.)

But there's more. Witnesses in the room deny people were bidding as the price started to rack up. That would make these "chandelier bids" – where the auctioneer points to fabricated bids in the room (ie, the chandeliers).

It's legal, but generally



Not the kind of theatre that goes down well

regarded as grubby. Sotheby's (who partnered with RM Auctions in 2015) is reported by Bloomberg to be privately furious.

"It's a perfect storm right now," Paul Zuckerman, a lawyer, podcast host and car enthusiast, tells Elliott. "There are too many auction houses auctioning too many... questionable cars." If the auction houses are going to survive, "they really have to double down on curation and careful vetting of what they're selling. Reputation is everything". Nor does the controversy bode well for the classic-car sector. "Whether it's the threat of recession, broad economic volatility or too many cars crammed in too few hours, there's no denying the this year's Monterey Car Week results were depressed," says classic-car insurer Hagerty. Preliminary results showed sales this year, at \$245.5m, were 34% below 2018's \$370m.

As for the Porsche, as the car didn't reach its reserve, RM Sotheby's will continue trying to sell it. If it can't, the Porsche will go back to its owners, the billionaire Schoerghuber family. Unsold items are known as "burned" in the trade and tend to be harder to sell in future. As Zuckerman puts it: "The car is f***ed."

"Classic-car sales this year, at \$245.5m, were 34% down on last year's"

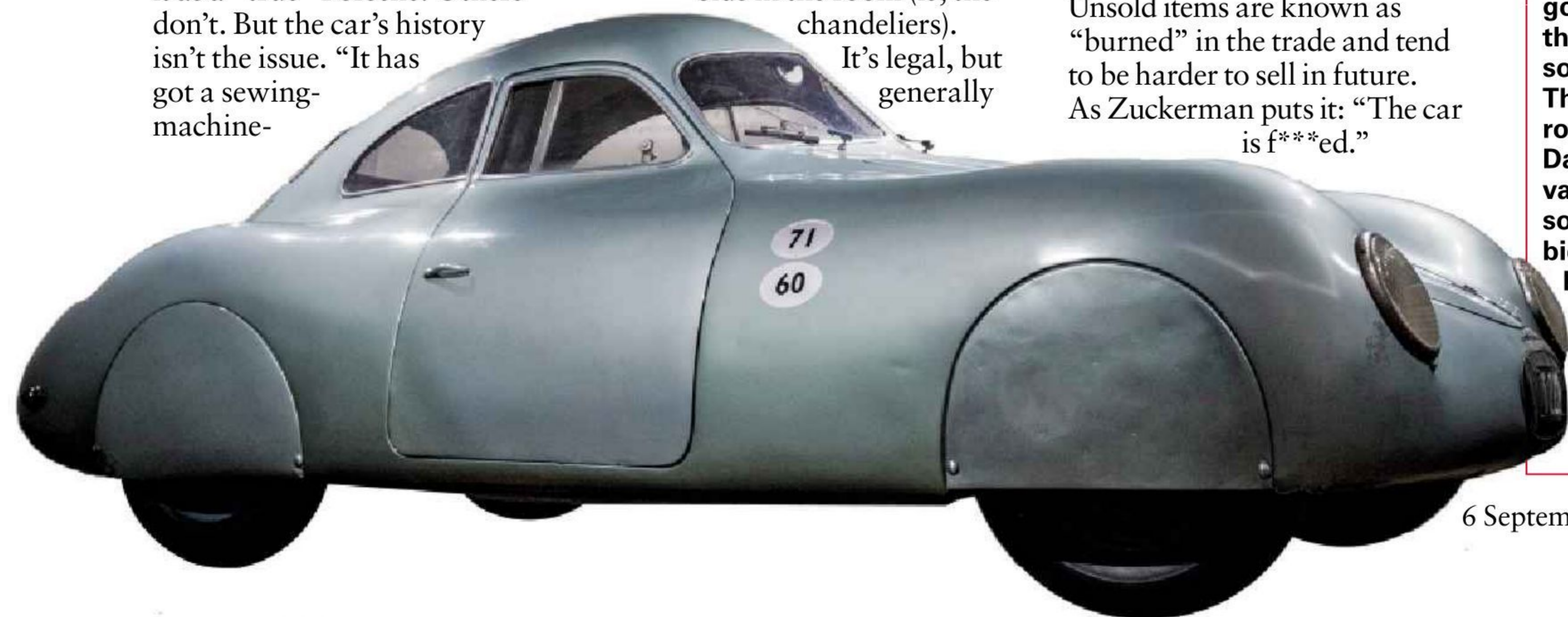
Grab a share of "passion assets"

Sports cars, fine art and rare first-edition books are usually beyond the reach of the average investor, says Paul Sullivan in *The New York Times*. Now tech companies are offering investors the chance to buy a share of such "passion assets" at a fraction of the price of buying the whole thing.

The idea is that investors can buy exposure to an asset class that is generally independent of moves in the stockmarket. Rally Rd, for example, recently sold a Ferrari F430 to a private collector, booking a 17% profit. And Masterworks is offering shares in a painting by Andy Warhol of Marilyn Monroe along the lines of the peer-to-peer investment model.

A word of caution, however. "Securitisation makes sense when there's cash flow generated by the underlying assets," Steven Schwarcz, a professor at Duke University School of Law, tells Sullivan. But cars, art and wine pay no such income, and the investor only gets paid if and when the underlying asset (which tends to be illiquid), or its shares, are sold.

Police auctions are another way for collectors to pick up items on the cheap. An auction of seized goods in Newport raised £150,000 last month with Wilsons Auctions. The luxury goods, worth more than £2.3m, were sold with no reserve. That meant an 18ct rose gold Rolex Daytona (pictured), valued at £27,450, was sold to the highest bidder for £20,000. A house in Grimsby sold for £34,000, and a Ferrari 360 Modena, linked to drug offences in Malta, went for £33,000.



Give our royals an upgrade

It really makes no sense to have them flying on budget airlines

Call us old-fashioned, but we can't stand all this "bicycle monarchy" nonsense. It is surely in keeping with the dignity and honour of the Crown that members of the Royal Family travel in a style suitable to their station. We were, then, naturally horrified to see the Duke and Duchess of Cambridge climbing aboard a Flybe budget airline at Norwich airport last month. They were there for the 8.40am flight to Aberdeen, with their three children and nanny, at a total cost of just £365, or £73 each, as David Brown reports in *The Times*.

The exercise has been perceived as a slight directed at the Duke's brother, Prince

Harry, the Duke of Sussex, who has faced criticism for taking four private jets in 11 days on his holidays with his wife, Meghan, Duchess of Sussex. Prince Harry, who has campaigned on the dangers of climate change, has been accused of "hypocrisy". Elton John, who stumped up the estimated £20,000 cost of the private jets and paid for carbon offsets for the journey, defended their use, saying they provided a "high level of much-needed protection".

The rise of "flight shame"

The Duke and Duchess of Sussex aren't the only aviation addicts to face a backlash, says Chris Bryant on Bloomberg. Indeed, the private-jet industry as a whole is suffering as "large corporations that once thought nothing of jetting their execs around in comfort" start scrutinising budgets and "worrying about conspicuous excess". Growing awareness of climate change has



Just a normal summer holiday to Skeggie for the Cambridges?

"Growing awareness of climate change has given the private-jet industry an image problem"

given the industry an image problem that can't be glossed over by association with the A-list. In Sweden there's even a word for it: *flygskam*, or flight shame.

It might be reassuring for the unreconstructed to know that not everyone is onboard with this eco-puritanism. Flying may be the "new smoking" for the well-to-do who live a short car ride away from all they need, or have the time to take the train instead for longer journeys, says Brian Boyd in *The Irish Times*. But if you live in Australia, Brazil, Russia or India, say, then there is no alternative to flying. "Not everyone can afford to be away from their work/family for the duration of an eco-friendly train journey." The truth is that cement production is responsible for four times the amount of carbon-dioxide emissions as aviation, yet few are bragging on social media about their resolve to forsake buildings. Those "boring us to

death" with their talk about the "end of the world" would do well to reflect on facts such as these before publicly calling for an exorcism of the "folk devil du jour".

In an ironic twist, it turns out that the budget flight of the Duke and Duchess of Cambridge may not have been quite as down with the proles as it seemed. Flybe "was apparently so keen for the royal party to travel in one of its own liveried planes" that it "ordered an Embraer 145 jet be flown from Eastern's Humberside HQ especially for the trip", says Rebecca English in the *Daily Mail*. The change in schedule meant that the original plane made a parallel journey to Scotland on its own completely empty. This produced an extra 4.5 tons of carbon – more than the combined output of the trips made by the Sussexes.

Quintus Slide

Tabloid money... BA's once-proud British brand is shooting itself in the foot

● Ruth Davidson (pictured) has quit as leader of the Scottish Conservatives because the thought of spending hundreds of hours away from her home and family, fighting another general election, filled her with dread. "What fills me with dread is the thought of being a stay-at-home mum," says Saira Khan in the *Sunday Mirror*. "Deep down, I know I'm not that woman who can spend all my days living and breathing my family... Does that make me selfish? Am I a horrible mother and wife? Why do women beat themselves up for choosing work over children? My husband doesn't feel guilty." Those early years of raising children are hard work. It's great watching your children laugh and learn. But "I found sitting in 'monkey music' classes more stressful than sitting in Alan Sugar's boardroom".



● John Caudwell, the billionaire founder of Phones 4U, is "a fascinating fellow", says Vanessa Feltz in the *Daily Express*. "He marches to the beat of his own drum, never following the pack," and at the age of 66 he has decided "the ultimate symbol of haute deco is to run a swirling river through his dining room". Now, as anyone who has ever owned a pond, or "even a Charlie Dimmock-esque water feature", will tell you, aquatic installations, big and small, are a huge amount of hassle. "Algae abound. Strange unwelcome forms of water life colonise and dominate." As for the smell, let's just say it's surprising. "As a conversation piece, there's nothing more fertile. As a picturesque adornment to a gilded castle: not recommended."

● "What in the name of Rule Britannia is going on with British Airways?" asks Lorraine Kelly in *The Sun*. Whether it's computer glitches or strikes, the airline just goes from bad to worse. With a heavy heart, "I had to cancel a long-awaited trip to Orkney" due to industrial action by pilots. Then another automated email arrived to say the flight wasn't cancelled after all. "Oops, and all that." I'm reluctant to rebook everything in case it all goes "t*ts-up again... It's infuriating, stressful and upsetting". Spare a thought, too, for the cabin crew and the BA staff at the check-in coal face, who have to deal with angry passengers. They are as badly let down as the rest of us. "It's depressing to see a once-proud and noble British brand shooting itself in the foot."

Bridge by Andrew Robson

A Machiavellian genius at play

It is often said that the standard of declarer play was higher in the early days of bridge. This may well be true – for the simple reason that more dreadful contracts were bid, necessitating those brilliancies. Take this apparently hopeless slam, featuring that Machiavellian genius Terence Reese.

Dealer South

North-South vulnerable

♠ 9732	♠ AJ64	♠ Q1085
♥ J	♥ Q752	♥ 8
♦ 765	♦ K3	♦ A982
♣ A9852	♣ QJ4	♣ 10763

	♠ K	
	♥ AK109643	
	♦ QJ104	
	♣ K	



The bidding

South	West	North	East
4♥*	pass	6♥**	pass
pass	pass		

- * Very strong by modern standards. One Heart would be considered normal.
- ** Opposite a modern-day Four Hearts, you would pass and hope to buy the contract.

West cashed the Ace of Clubs and declarer's main chance – being able to discard his King of Clubs on dummy's Ace of Spades and conceding only the Ace of Diamonds – had gone. At trick two, West switched to a Spade (why not a Diamond?), but this appeared to be only a temporary reprieve as declarer could discard only three Diamonds from hand on dummy's black suit winners.

One possibility for declarer was to try to ruff out the Queen of Spades if it was in a doubleton or trebleton holding (setting up dummy's Knave as a fourth discard). Declarer preferred to try an outrageous bluff.

Winning trick two with the King of Spades, declarer cashed the Ace of trumps, crossed over to the Queen and discarded two Diamonds on the Queen-Knave of Clubs. He then ran off all his trumps, leaving East with the decision as to what to throw on the last trump from Queen-ten of Spades and Ace of Diamonds, dummy throwing the King of Diamonds to leave the Ace-Knave of Spades.

Believing declarer held another Spade (otherwise, surely he would have taken the Ace of Spades earlier), East discarded the Ace of Diamonds, praying his partner held the Queen. This promoted declarer's last two cards, the Queen-Knave of Diamonds, and the slam was made.

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

Sudoku 963

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

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.

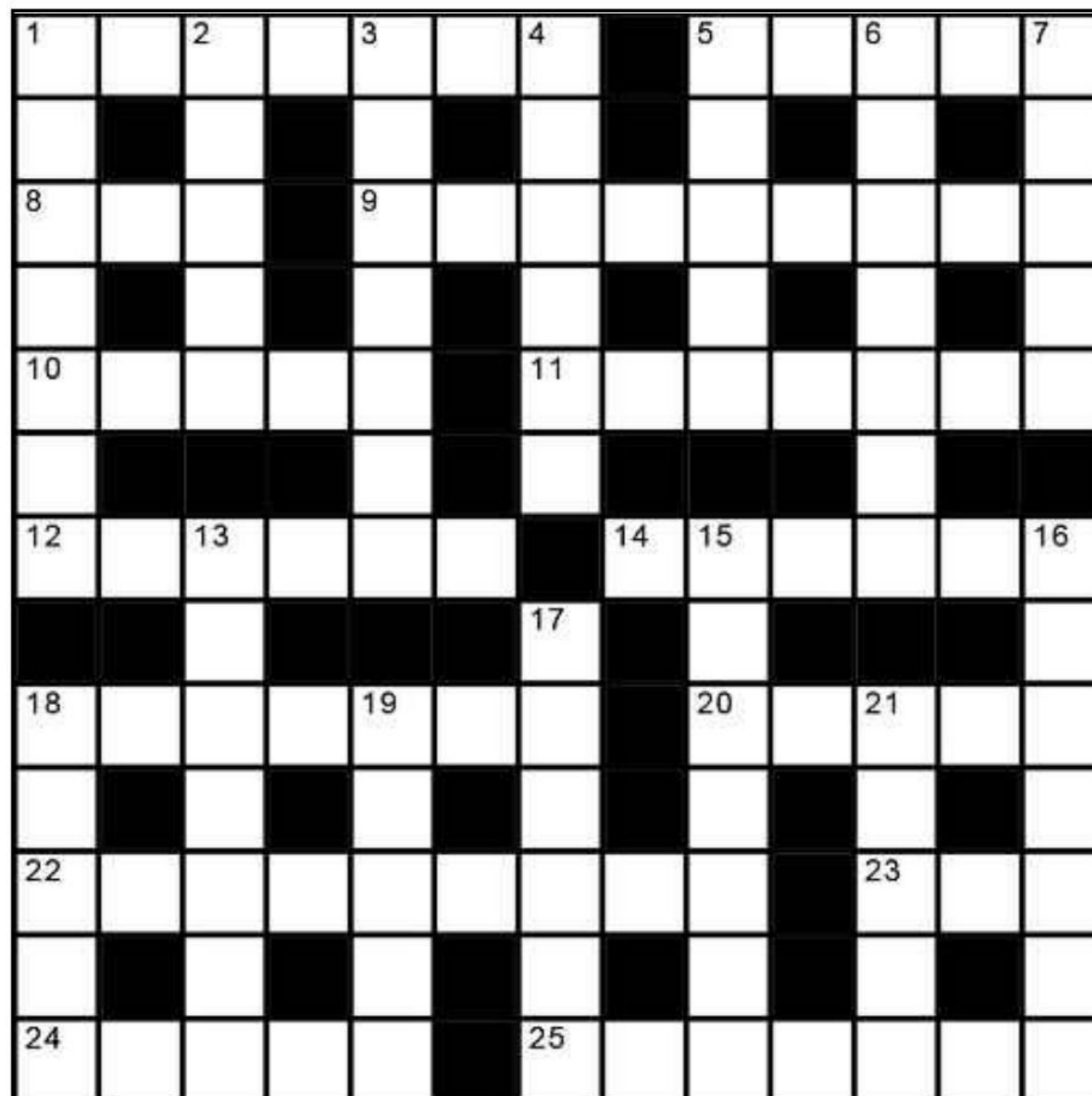
9	3	5	2	7	8	1	4	6
4	6	8	1	5	3	7	9	2
7	2	1	4	6	9	3	5	8
2	1	9	5	3	4	8	6	7
3	5	6	7	8	1	4	2	9
8	7	4	6	9	2	5	1	3
6	8	3	9	1	5	2	7	4
1	9	2	8	4	7	6	3	5
5	4	7	3	2	6	9	8	1

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Tim Moorey's Quick Crossword No. 963

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 16 September 2019. Answers to MoneyWeek Crossword No. 963, 31-32 Alfred Place, London, WC1E 7DP.



Across clues are mildly cryptic whereas down clues are straightforward

ACROSS

- 1 What you take first in Eurostar terminal? (7)
- 5 Animal a cockney may use for cooking! (5)
- 8 Tea dance? Not half! (3)
- 9 What some alcohol reformers might do for an explanation (9)
- 10 What card-player may say is perfect (5)
- 11 Stays and checks keeping mum (7)
- 12 Beef? Actually a game bird (6)
- 14 Delays in part of theatre (6)
- 18 Muslim sovereign's wife bears fruit (7)
- 20 British sports car failing to start daily (5)
- 22 Leader – one in oil trade possibly (9)
- 23 I say nothing (3)
- 24 Yarn some feel is lengthy (5)
- 25 Train for a newspaper (7)

DOWN

- 1 Dismissal (7)
- 2 Knowing (5)
- 3 Excites (7)
- 4 Sharp reply (6)
- 5 Sweeping brush (5)
- 6 A gun-dog (7)
- 7 Requirements (5)
- 13 North Sea platforms (3, 4)
- 15 A disreputable woman (7)
- 16 OAPs (7)
- 17 Relating to the sea (6)
- 18 Oil company (5)
- 19 Solo (5)
- 21 Large waterbirds (5)

Name _____

Address _____

Solutions to 961

Across 1 Séance anagram 4 Anchor deceptive definition 9 Average average 10 Wagon wag on 11 Loose loos e 12 Oversee verse in OE 13 Presbyterians anagram 16 Extinct homophone 18 Cores anagram 20 Irate (pirate) 21 Oddball deceptive definition 22 Resist hidden 23 Greens two definitions **Down** 1 Shawl 2 Awesome 3 Cease 5 New Year 6 Highs 7 Runners 8 Deportation 13 Premier 14 Bonkers 15 Acreage 17 Teams 18 Cider 19 Solos.

The winner of Quick Crossword No. 961 is: Lois Shenton of Cardiff.

Tim Moorey is author of *How To Crack Cryptic Crosswords and runs crossword workshops* (TimMoorey.info).

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



The world's greatest leaders

The best are those who do least. Investors should distrust all the others



Bill Bonner
Columnist

A reader writes in to ask if there have been any political leaders whom we have liked. We must admit, we were not fond of Bill Clinton... nor George Dubya Bush... nor Barack Obama. But the current occupant of the White House is the most amusing of all. He is not necessarily the dumbest of the lot, or the most conniving, but he is certainly the boldest. His delusions are right out in front.

Consider the claptrap in his economic pronouncements alone and it would be easy to dismiss Donald Trump as a moron. But he's so much more than that. He is probably the most gifted natural politician we've ever seen – brazen, reckless, ruthless, blockheaded, megalomaniacal – with a real genius for working a crowd. You can admire the skills and instincts he displays. You can marvel at how so many people follow his tweets without laughing. And you can even genuinely like the guy – or, at least, the character he plays on TV.

What you can't do – if you have any sense – is believe him. Or trust him. Or expect him to improve your life. Because unlike free trade, politics is essentially a zero-sum, win-lose game. And it is rigged. The politician is the one who gets control of the strong arm of



A real genius for working a crowd

government and uses it to whack his enemies, reward his friends and exploit the masses. Unless you are among the chosen ones, you are a loser. Every penny he spends, and every life lost in his battles, is one he takes from the public. And every plan he pursues interferes with the plans of the people who elected him.

The best politicians are the loafers and shirkers. They retire and plant cabbages, like Emperor Diocletian. Or they slip out of the White House to play cards and tiddle with their friends, like Warren Harding.

We've known a few politicians personally. Some were earnest and honest, merely trying to guide the Fed toward sensible policies. Some were empty-headed scoundrels, enjoying the fame and power

of the political limelight. And some were real sociopaths, sure that they knew what was best for people and eager to make sure they got it good and hard.

The trouble with the honest ones was that they never seemed to understand their own métier. Political power comes from "the barrel of a gun", as Mao put it. Earnest, well-meaning men and women are disarmed; they have no more place in politics than a vegan in a steakhouse. That leaves the field open to the rogues and the criminally insane.

The rascals are sometimes fun to watch. The insane ones are often dangerous. But a "great leader" is forever an oxymoron: the more he leads, the more damage he does. Every decent citizen knows that politicians are the chief threat to his liberty and his prosperity; he despises and distrusts them all.

"It's easy to dismiss Trump as a moron, but he's so much more than that"

The bottom line

22,373 The points accumulated by Team UK in the World Skills competition in Kazan, Russia. The trades "Olympics" includes disciplines such as aircraft maintenance, beauty therapy and landscape gardening. Britain won two gold medals, one silver, one bronze and 15 medallions of excellence, placing the UK 12th out of 62 competing countries. Russian president Vladimir Putin addressed the closing ceremony.

\$50m The combined value of fake gold bars recently discovered in bank

vaults around the world. At least 1,000 counterfeit gold kilobars, the standard 1kg size, have been found in the past three years, says The Times.

£100m The cost of the government advertising campaign, "Get ready for Brexit". It launched this week with the aim of informing the public and businesses about how to prepare for a no-deal Brexit. Britain is currently on track to leave the European Union on 31 October without an agreement.

£10,620 How much Birmingham City Council

made in fines on one busy hour – between 7am and 8am on Monday – after Sheepcote Street, a route used by commuters, became a bus lane from this week, reports The Sun. Motorists complained they hadn't been given enough warning and that the new bus-lane rules were poorly signposted.

£99,750 The cost of the most expensive necklace for sale at Pragnell, the Stratford-upon-Avon jewellers who are to present Jofra Archer (pictured) with a gold neck chain (the value of which has not been revealed). For every wicket the England bowler takes against Australia in the Ashes, Pragnell will "set one link of his chain with rubies". Archer took 13 wickets in the first three test matches.



Editor-in-chief: Merryn Somerset Webb
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MoneyWeek, 31-32 Alfred Place, London WC1E 7DP
Tel: 020-3890 4060. **Email:** editor@moneyweek.com.

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