**FUNDS** *P15*
Drinking to success in Georgia

**PERSONAL FINANCE** *P22*
Last chance to make the banks hand back your PPI premiums

**PLUS**
Female artists in the frame
**COLLECTABLES** *P31*

# MONEYWEEK

**MAKE IT, KEEP IT, SPEND IT**

**9 AUGUST 2019 | ISSUE 959 | £4.25**


# Top of the class

## Profit from the high-tech future of education

*Page 18*

32>
9 771472 206108

**BRITAIN'S BEST-SELLING FINANCIAL MAGAZINE**

**MONEYWEEK.COM**

# WHAT ARE YOUR FUNDS DOING FOR THE WORLD?

**The Liontrust Sustainable Investment team seeks companies that will help to create a cleaner, safer and healthier society in the future and generate attractive returns for investors.**

Past performance is not a guide to future performance. This advertisement should not be construed as advice for investment. Do remember that the value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested.

For more information visit us at

liontrust.co.uk/sustainable

ZSL LET'S WORK FOR WILDLIFE Proud supporters of ZSL's Asiatic lion campaign

Proud Partners with Durham Cricket

LIONTRUST
COURAGE · POWER · PRIDE

Issued by Liontrust Fund Partners LLP (2 Savoy Court, London WC2R 0EZ), authorised and regulated in the UK by the Financial Conduct Authority (FRN 518165) to undertake regulated investment business.

# From the executive editor...

It's been a hectic week for markets, driven by the fallout from the latest Federal Reserve decision and Donald Trump's reaction to it (see page 4). At times like these it's easy to look at "big picture" distortions caused by central banks, or at divisive policy issues such as Brexit (see page 8), and shrug our shoulders in despair. But rather than get distracted by negative bond yields or political mudslinging, it would be more productive to pay attention to addressing the many damaging distortions and bad incentives lurking within our tax system. These are well within the ability of politicians and technocrats to resolve – mainly because they created them in the first place.

©Shutterstock

Gordon Brown: the stealth-tax artist

*"The distortions in our tax system have been created by one thing: a lack of political spine"*

In an excellent article for The Times this week, Paul Johnson of the Institute for Fiscal Studies think tank highlights the problem of "fiscal drag". Johnson notes that "more and more elements of the income-tax system do not respond to rising prices or incomes at all". In 2010, a new top tax rate of 50% was introduced for those earning over £150,000. It was later cut to 45%, but the threshold stayed the same. That same year, a 60% marginal rate on incomes between £100,000 and £120,000-odd was introduced (in the form of the personal allowance being withdrawn). And in 2013, the child benefit taper was introduced for households with a parent earning £50,000 or above, creating another huge marginal tax rate. None of these thresholds has risen since, which as Johnson points out means they represent "hidden annual tax rises". Nor (as the word "hidden" implies) is this policy of dragging ever more people into higher tax bands something that has ever been made explicit to any voter, by any party.

Johnson rightly argues that indexation (whereby tax bands rise with inflation) should be the norm, and that chancellors should have to justify any departure from this norm. But the point goes deeper than this. Our tax system has become so complicated and bloated that any significant rise in your income can trigger interactions with the pension and benefits system that render the pay rise almost more hassle than it's worth (and this is before we even start on how Scotland's slightly different income-tax bands have created all sorts of added twists for those living there). I can't help but wonder if this might have some bearing on Britain's infamously low productivity.

Most of these distortions have been generated by one thing: a lack of political spine. Stealth taxes have been a problem throughout history, but Gordon Brown turned them into an art form in his time as chancellor, and his successors have been all too willing to follow suit. Now those chickens are coming home to roost. Never mind "people's QE" or post-Brexit "stimulus spending" – simplify the tax system, make it easy for people to understand how much of their own hard-earned money they will actually be allowed to keep, and you'll boost the economy in a far more sustainable – not to mention honest – manner.

*A quick reminder – if you're up in Edinburgh this month, don't miss Dominic Frisby and Merryn Somerset Webb hosting a panel discussion on politics, economics and investment at Panmure House (Adam Smith's last home). Dominic is hosting until 16 August, and Merryn takes over from 17 August (and I'm a guest on the 22 and 23). Book now at tickets.edfringe.com.*

John Stepek

**John Stepek**
editor@moneyweek.com

## White elephant of the week

©Alamy

A new children's hospital in Edinburgh, built by private consortium IHSL under the "non-profit distributing system" – the Scottish government's version of the Private Finance Initiative (PFI) – is still empty, despite the NHS taking possession in February. The new Royal Hospital for Children and Young People cost £150m to build, reports the BBC, but the full price over 25 years will be £432m, including maintenance and facilities management costs. NHS Lothian says it has been paying £1.4m a month to IHSL since taking over the building. The hospital was supposed to open in July, but it failed to do so due to safety concerns relating to its ventilation systems. NHS Lothian said it is not possible to estimate when it can be occupied.

Cover illustration: Adam Stower. Photos: Getty Images; Kazbegi; iStockphotos

## Good week for:

**Taxpayers** will see a £1bn windfall after RBS said it would pay a total of £1.7bn in dividends for the first half of the year, reports The Guardian. The bank made a net profit of £2bn, its best result for over ten years. However, it said it was "very unlikely" to meet profit targets next year. The government still owns 62% of RBS after a £45.5bn bailout during the financial crisis (see page 7).

A copy of *Harry Potter and the Philosopher's Stone*, bought for £1 from a Staffordshire library 20 years ago, has fetched £28,500 at auction. The book was a first edition that contained two typographical errors on the cover. Just 500 were printed, with 300 being sent to libraries. The **anonymous owner** bought the book to read on holiday, then forgot about it.

## Bad week for:

Pop star **Katy Perry** must pay Marcus Gray, a Christian rapper who goes by the name of Flame, $2.7m after a US court ruled she had copied "an important part" of one of Flame's songs. Perry (pictured) must pay $550,000 from her own earnings, with her record company paying the balance. Her lawyer called the ruling a "travesty of justice".

Radio presenter **Zoe Ball** has lost 780,000 listeners from her Radio 2 breakfast show since taking over the slot in January – almost 9% of her audience. Ball is among the BBC's top earners – she was paid £380,000 for hosting the show for the first three months of the year, plus hosting a weekly Saturday show for the nine months prior to taking over the breakfast role.

©Getty Images

# Trump's tariffs put pressure on the Fed

**Alex Rankine**
Markets editor

Donald Trump is "crazy like a fox", says Niall Ferguson in The Sunday Times. The old American phrase well describes the president's ingenious knack for getting what he wants. Last week his bullying campaign against Federal Reserve chairman Jerome Powell yielded the first interest-rate cut in a decade. Yet Trump wants more than the quarter-point reduction that Powell offered up. The solution? The president tweeted that he intends to impose fresh tariffs of 10% on $300bn of Chinese goods from the start of September. The resulting trade chaos only increases the pressure on the Fed for further easing to clear up the mess.

The unexpected trade-war escalation roiled markets. Monday was the worst day of the year so far for US stocks, with the S&P 500 shedding 3%. That came on the heels of a 3.1% slide last week, the worst weekly performance of the year so far. The FTSE 100 lost 2.5% on Monday, its worst performance since December last year. Powell did his "best impression" of a "Fed chair making his own data-driven decision", says Felix Salmon on Axios, but no one was fooled about what had forced his hand. His insistence that the rate cut was driven by "trade policy uncertainty" is belied by the fact that US growth remains strong and unemployment is at its lowest level since 1969.

In any case, falling interest rates are not "much of a reason to buy stocks", says Justin Lahart in The Wall Street Journal. With the second-quarter earnings season in full swing, it is hard to describe company results as "anything more than a disappointment". FactSet data shows that on current estimates, S&P 500 earnings slipped 2.2% in the second quarter compared with the year before. Yet US shares are still "dancing near record highs".

*Donald Trump: crazy like a fox?*

©Getty Images

### Easy money won't save markets

Those expecting rate cuts to elongate the bull run should look at the historical record, adds Michael Wilson of Morgan Stanley. The start of past rate-cutting cycles in 2001 and 2007 heralded hard periods for stocks – as they should, given that rate cutting usually accompanies slowdowns.

As for the trade war escalation, that is "not a new risk, it was simply overlooked". That's why the return of Trump's "tariff man" act elicited a much bigger market reaction than Powell's widely anticipated rate cut announcement. US investors no longer believe that trade wars are "easy to win", says Oliver Jones of Capital Economics. Last summer the conflict was regarded as "almost a non-issue", but with no resolution in sight, markets are now heeding the Fed's message that the global trade situation brings real downside risk.

With rhetoric on both sides becoming heated – China this week accused Washington of "deliberately destroying international order" – people should stop asking "when will the trade war end", says Dan Harris on the China Law Blog. Economists who say that both sides will gain from a deal are neglecting the wider political picture. Domestic pressures and geopolitical imperatives mean that this conflict is not going away. "The US-China cold war has begun" (see below).

## The currency war gets serious

The "trade war has now become a currency war", says The Wall Street Journal. That "raises the potential economic harm to another level".

This week, the yuan (or renminbi), China's currency, weakened to the point where one US dollar could buy more than seven yuan. That's the weakest level in a decade and a number that has been widely viewed as a "line in the sand" that the Chinese authorities would avoid breaching. The move drew a swift response from the US Treasury, which formally branded Beijing a "currency manipulator". US officials fear that China is trying to lessen the impact of tariffs; a weaker currency makes Chinese exports cheaper overseas.

US claims of currency manipulation come "absurdly late", says John Authers on Bloomberg. Beijing "manipulated its currency lower for many years", but of late it has been doing the opposite. Rising US interest rates and tariffs would normally drive the yuan down against the dollar. The only reason it hasn't fallen further to date is because authorities have intervened – but to prop it up, not to weaken it. The dip in the currency was simply down to Beijing allowing the market to "do what it wanted to do". Nevertheless, this is a clear sign that "goodwill has been withdrawn".

While the latest fall is small in percentage terms, the breaching of the symbolic seven mark tells a bigger story, notes Gareth Leather of Capital Economics. "The government has all but given up on reaching a trade deal with the US, and is now more concerned about offsetting the damage to their economy."

Like most commentators, I view the yuan's fall as a targeted effort by Beijing to irritate Washington, says Louis Gave of Gavekal Research. Yet we must also stay alert to a more alarming possibility. If policymakers have concluded that domestic producers could desperately do with a devaluation, then it could be a sign that all is not rosy with China's economy. If the yuan becomes structurally weaker, then in the long term, "instead of being a driver of global growth, China will be a headwind".

©iStockphotos

## Silver is set to follow gold

With gold rallying 10% so far this year in dollar terms, some investors are starting to pay attention to "the yellow metal's sidekick", says Debbie Carlson for US News & World Report. Sometimes dubbed "poor man's gold" – silver trades on about $16.50/oz, compared with $1,500/oz for gold – silver prices are up 4.5% so far this year.

Demand from retail investors is a key catalyst for silver, adds Myra Saefong in Barron's. The World Silver Survey shows that "global investment in silver bars and coins grew 20% last year", yet supply is tight: 2018 also brought "a third consecutive annual decline in global production of the metal".

Yet unlike gold, which is used almost entirely as a store of wealth and in jewellery, the silver price is driven by both investment and industrial demand. And silver's rally this year has been depressed by concerns about the latter, says Capital Economics. But recent weeks have brought a wave of "safe-haven buying" that is likely to support the price for the rest of the year.

In fact, with so many investors looking for safety, it is surprising that silver prices have "lagged so far behind" this year's gold rally, says Jon Sindreu in The Wall Street Journal. As of early July, the ratio of gold to silver stood at a 24-year high. History shows that on a one-year time horizon the two precious metals are closely correlated. That leaves plenty of scope for silver to follow gold higher.

# Forget EMs, focus on Asia

"Does investing in emerging markets [EMs] still make sense?" asks Jonathan Wheatley in the Financial Times. Money managers have always known that the likes of India, Brazil and Mexico are likely to serve up political and business turmoil, but that was balanced by the expectation of strong long-term growth.

Yet the investment risks inherent in these markets have not yielded higher returns, says Jonathan Jones in The Daily Telegraph. The MSCI World index has returned 177% over the past decade, far outstripping the 93% delivered by the emerging markets index.

The turn of the millennium saw the BRICs –Brazil, Russia, India, China – "in their pomp", says The Economist's Free Exchange column. Poverty rates tumbled and many believed that "convergence" between the developed and developing worlds was inevitable. Yet Latin America has been losing ground to the United States since 2013 on a real output per person basis, with sub-Saharan Africa following a similar path since 2014. That has left Asia as "the last outpost of convergence" – which is what makes India's recent growth slowdown a cause for wider concern. With China also recording its slowest growth for almost 30 years in the second quarter, many are asking whether the EM story still makes sense.

©Getty Images
*Indonesia: still struggling up the greasy pole of growth*

### An arbitrary category

Certainly, an index that groups together "over half of the world's GDP and a much larger share of its population" is a blunt instrument, says Duncan Weldon in Prospect magazine. Supposedly "emerging" South Korea now has a GDP per capita higher than that of "developed" market Italy, for example. And while problems in Argentina and Turkey last year sparked talk of a "new crisis for emerging markets", in practice there was no generalised panic that spread beyond these countries – unlike previous occasions such as the 1997 Asian financial crisis. That is an auspicious sign for "sound emerging economies". Now more than ever it will pay for investors to "be careful and do their homework on individual markets".

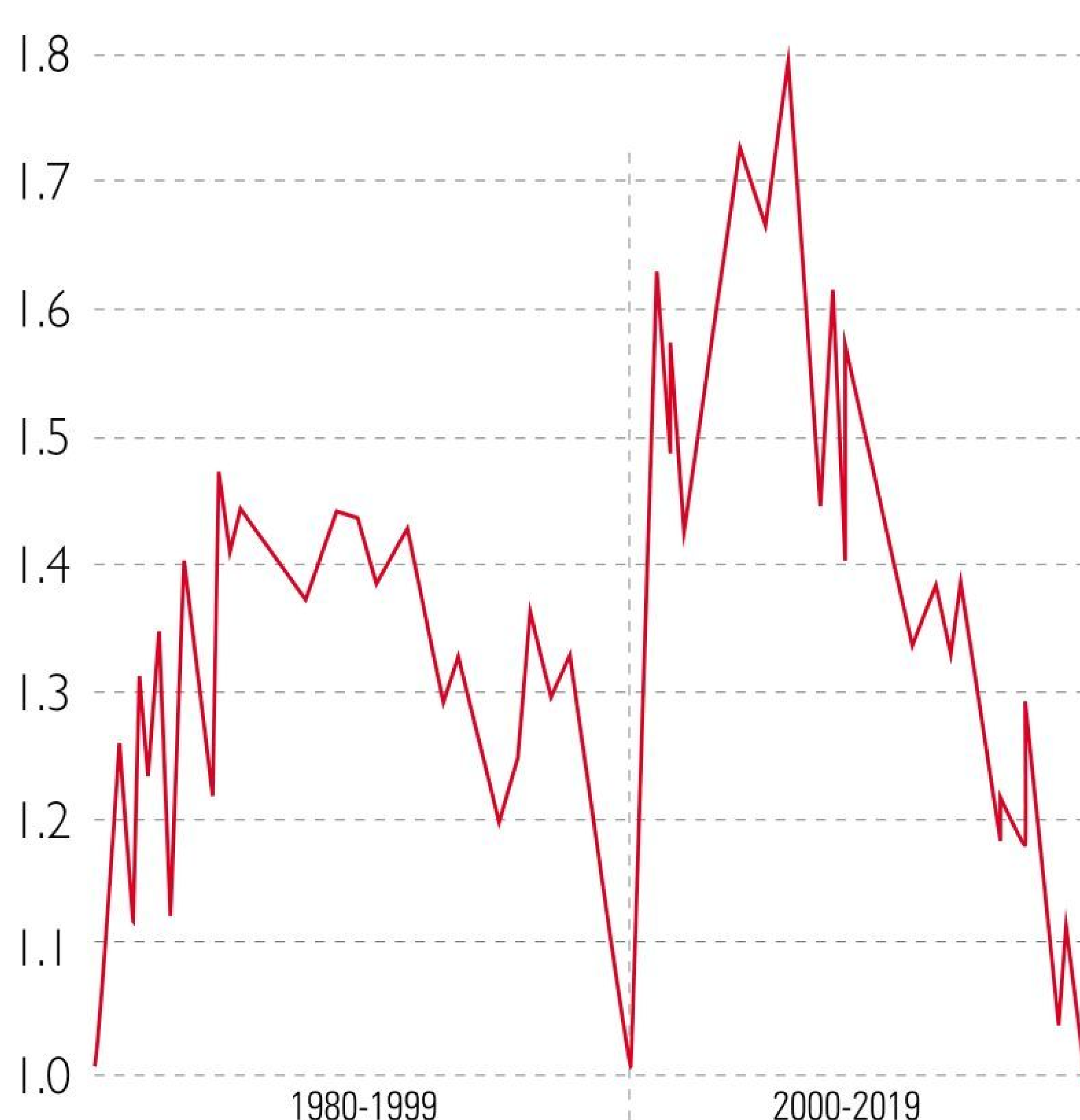
Emerging markets as an investment class are "fast approaching a watershed", says Michael Power in the Financial Times. The MSCI Emerging Markets index is now "far too varied to be truly meaningful" as a barometer of how emerging economies are performing. Investors would do better to distinguish emerging Asia – a region where nearly every nation's GDP and productivity growth has beaten the developed world since 2000 – from the likes of Brazil and Russia, where performance remains more closely tied to commodity cycles and the US dollar. With the likes of Thailand, Malaysia and Indonesia also waiting in the wings, the next decade is likely to see emerging Asia move "towards the centre" of the global investment story.

## Viewpoint

"The Fed's decision [to cut rates] was an error because lowering already negative real interest rates will further feed speculative and unproductive investments and exacerbate financial instability. While there are legitimate signs of an economic slowdown both domestically and abroad, lowering interest rates is the wrong cure. Growth is slowing partly because of trade tensions, but primarily because economic actors must devote increasing amounts of capital to servicing exploding debt burdens … US companies are more bloated with debt than before the Great Financial Crisis and they are increasingly forced to deal with their growing debt burdens. If business activity slips, they are in trouble … Many companies need to focus on keeping their lenders happy, which limits their ability to grow their businesses."

**Michael Lewitt, The Credit Strategist**

## ■ A new low for value stocks




Over the very long term, value stocks (those that trade at lower valuations than the wider market) have tended to beat growth stocks (those that trade at higher valuations). However, in the shorter term, growth stocks can do better than value stocks for sustained periods – and that's been the trend for around a decade now. The outperformance of growth has been so great since the eve of the global financial crisis that the MSCI World Value index is trading at it's lowest level relative to the MSCI World Growth index since the peak of the dotcom bubble, says Justina Lee on Bloomberg. That point marked the start of a boom in value stocks – they beat their growth peers by 50% over the next 12 months. Will it be the same story this time?

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

## Three to buy

**Imperial Brands**
*Motley Fool UK*
Demand for cigarettes has fallen in the UK, with average daily consumption now down to less than one third of its 1973 peak. Yet sales of traditional tobacco products at the West-to-Gauloises maker are holding up well and it is also making inroads into the burgeoning "next-generation" market through significant investments in Canadian cannabis operators. The shares trade on a "muted" price/earnings ratio of 13.2, which is cheap compared with other FTSE 100 firms and a reasonable entry point into a good defensive stock. *2,136p*

**Inditex**
*Money Observer*
British investors looking to diversify their income should remember that dividends do not end at Dover. European companies have improved their willingness to hand over their profits in recent years. One of the best examples is this Spanish retailer, which owns high-street chain Zara. Between 2001 and 2018 the dividend grew at a 24% compound annual-growth rate, with a cumulative €20bn paid out to shareholders. *€26.87*

**Softcat**
*Shares*
The world is moving online, but for many small and medium-sized businesses and public-sector bodies, managing a raft of different IT products is a challenge. This FTSE 250 business solves that problem by acting as a "trusted point of contact" for clients, offering advice and selling on third-party software and hardware. Revenue has jumped from £50m to £1bn over 15 years and Softcat is now the UK's second-largest value-added reseller. A 2020 price/earnings multiple of 26.8 is not cheap, but the market is underestimating the growth potential. *959.5p*

## Three to sell

**Berkeley Energia**
*The Sunday Times*
This aspiring uranium miner is pinning its hopes on a project near Salamanca, Spain. The plan to extract nuclear fuel in a stable country that is close to end markets in western Europe carries obvious attractions. Yet that may also prove its undoing. Nuclear energy brings tricky politics and the Spanish government has been dragging its feet about granting permits. The shares have fallen more than 60% in the past year – but barring a sudden change in the political picture in Madrid, they could yet "have further to fall". Sell. *15.75p*

**Lookers**
*Investors Chronicle*
The UK's largest vendor of Mercedes-Benz vehicles appears vulnerable as a cocktail of risks – including low consumer confidence, retail-sector woes and new emissions regulations – take their toll on the shares. The car industry depends on frictionless and tariff-free trade between the UK and Europe, prompting industry lobby groups to warn about the dangers of a no-deal Brexit. Yet Lookers' forecasts are based on the assumption that Britain leaves the EU in an orderly fashion. That hope could prove a hostage to fortune. *45.25p*

**Sports Direct**
*The Daily Telegraph*
There is so much going wrong at Mike Ashley's high-street retailer that "it's hard to know where to start": delays to its biannual results, "terminal" problems at recently acquired House of Fraser and a shock £605m tax demand by Belgian authorities. Management appears to have been distracted by a string of acquisitions, which have included Game Digital, Sofa.com and Evans Cycles. It's time for investors to admit defeat. *214.5p*

## ...and the rest

**Investors Chronicle**
**National Express's** decision to quit UK rail two years ago and focus on its international bus operation looks prescient as rivals are continuing to struggle. A forecast dividend yield of 4.2% is appealing *(425p)*. Impressive growth looks set to continue at textile rental and cleaning specialist **Johnson Service** *(169.5p)*. Wealth manager **AFH Financial** boasts a "clear acquisition-led strategy in a structurally undersupplied and fragmented market" *(344p)*.

**The Mail on Sunday**
British Gas owner **Centrica's** shares are at their lowest point since 1997 amid woeful performance – investors should "Tell Sid" to sell *(73p)*. Cash-generative **Greggs'** bargain offering leaves the bakery chain well-placed to ride out any economic downturn *(2,190p)*.

**Shares**
Miner **Centamin** is starting to "win back the market's favour" after previous disappointments *(129.5p)*. Shares in Irn Bru-maker **AG Barr** are down almost 40% since June after a punishing profit warning – this could be an opportunity to buy into a defensive soft-drinks business on the cheap *(620p)*. Rising US healthcare costs are a long-term tailwind for billing and healthcare analytics software supplier **Craneware** *(1,875p)*. Premium drinks maker **Fever-Tree's** shares have been on a rollercoaster ride, but growth prospects in America make it time to buy *(2,079p)*.

**The Times**
Brexit woes, staff pay rises and a price war have driven shares in **Ryanair** to a four-and-a-half-year low, but history shows that the airline always comes out ahead of the competition – buy *(€9.54)*.

## A German view

**The "micromobility" market, encompassing electric bicycles, scooters and kick scooters, is starting to motor, says German business weekly Der Aktionär. McKinsey reckons it is expanding twice as fast as the car-sharing sector and could be worth $500bn worldwide by 2030. No wonder: a quarter of the world's population live in cities with over one million inhabitants, and surveys suggest that 15% of this group could opt for a smaller, nimbler alternative to a car. This bodes well for China's Nasdaq-listed Niu Technologies, which sells high-end scooters that can travel for up 100km without recharging. A partnership with Volkswagen has put a rocket under revenues – Niu should be in the black by next year.**

## IPO watch

Vodafone has revealed plans to spin off the business that operates its network of European mobile-phone transmission towers and list it on the stock exchange by 2020 in a bid to reduce its huge debt pile. The listed company would be Europe's largest tower operator, with 61,700 masts in ten countries, and could generate annual revenue of €1.7bn and profits of €900m, reckons Barron's. It should be operational by next May. Vodafone has spent big on 5G licences – almost €4bn in Germany and Italy and £317m in the UK, which contributed to the €7.6bn annual loss it posted in May. The sale could bring in as much as €20bn, says The Guardian.

## City talk

● Investors in Goals Soccer Centres are about to learn the hard way that "dirty play gets you kicked out of UK markets, just as it gets you kicked out of football", says the Lex column in the Financial Times. The chain, part-owned by retail tycoon Mike Ashley (see below), will leave the Aim exchange next month after its new auditor, BDO, accused the group of accounting fraud, with allegations of misconduct against former CEO Keith Rogers and ex-chief financial officer Bill Gow. The blow comes as the firm has been hit by "weak demand for kickabouts", which have squeezed margins to 17%, half the level of five years ago. The scandal is also bad news for KPMG, which audited Goals between 2002 and 2018, as well as Aim itself, which is still reeling from the allegations of fraud at Patisserie Valerie.

● Mike Ashley's Sport Direct has finally gained control of Jack Wills for £12.7m, but fans of the clothing brand should watch out, says Jim Armitage in the Evening Standard. While it was "poorly run" by its private-equity owners, its designs, fabrics and factories remained "high quality, with decent values on sustainability and ethics". If Sports Direct's treatment of Karrimor is anything to go by, "he'll close a few stores, pump the clothes out through House of Fraser and move manufacturing to cheap Asian factories". Ashley will "get his money back by Christmas", but the brand will "wither".

● Aston Martin may be 007's car of choice, but the luxury auto maker has gone bust seven times, and could be about to do so again, says Alistair Osborne in The Times. The share price has already slid from £19 last October to just under £5 after disastrous half-year figures. Aston Martin needs to find £300m a year to fund its promises to more than double production, but borrowing the cash may prove impossible – ratings agency Moody's has cut its credit rating. Perhaps the board's compensation should be suspended until the mess is dealt with. That would at least leave them feeling "as carsick as the investors".

©Getty Images

# No relief for RBS investors

Britain's remaining semi-nationalised bank has just paid a special dividend – but shareholders are anything but happy. Matthew Partridge reports

On Friday, the Royal Bank of Scotland (RBS) announced that it had made £2bn in net profit, its "best result for more than a decade", reports Sean Farrell in The Guardian. As a result, it will pay a total of £1.7bn in dividends for the first half of its financial year, partly funded by the sale of a stake in a Saudi Arabian bank. It's only the second time that shareholders have received money since the end of 2007. Naturally, the biggest winner will be the government, which will receive around £1bn, thanks to the fact that it still owns 62% of RBS.

Ross McEwan, the chief executive, argues that the decision to pay a special dividend means the bank is finally "serving the real economy of the UK and the Republic of Ireland", says Harriet Russell in The Daily Telegraph. However, investors evidently beg to differ – the news actually "caused a slump in the bank's share price". This was due to the fact that RBS not only "missed analysts' expectations for its underlying net income", but also indicated that it is "unlikely" to achieve certain targets next year because of "Brexit-related economic and political uncertainty".

*Ross McEwan: no successor has yet been named*

### A long stay in purgatory beckons

The market is quite right to be sceptical, says Christopher Thompson for Breaking Views. While shareholders may be "cash starved", any relief provided by the special dividend can only offer a "temporary balm" for the challenges RBS faces. Instead of "spraying cash", RBS should have taken advantage of the revenue from the sale to shore up its "vaunted spare capital cushion of around £4bn". After all, this cushion is likely to come under severe pressure if a no-deal Brexit leads to an economic downturn that causes bad debt charges to "spike".

Brexit is far from the only problem that RBS has to face, adds Elisa Martinuzzi on Bloomberg. Other issues include "trade tensions, low interest rates and fierce competition in the UK mortgage market". There's also the risk of RBS "being broken up" in the event that a hard-left government led by Jeremy Corbyn takes power. That's not to mention the lingering impact of "a string of expensive legal settlements over past misdeeds", from "benchmark-rigging" to the marketing of "toxic" mortgage-backed securities. Given all these problems, RBS (and its shareholders) look to be stuck in an "uncomfortable purgatory" for a while longer.

Given RBS's problems, it is more important than ever that a successor to McEwan, who will be departing for Australia early next year, is found as soon as possible, says Ben Martin in The Times. However, while the City is "eager to learn" who will fill the New Zealander's shoes, there was "no update" on RBS's succession plan, other than that the bank is making "good progress". At the moment, the leading internal candidates for the role are Alison Rose and Mark Bailie, while HSBC's Ian Stuart has also been "sounded out".

# Renault and Nissan: reboot or divorce?

In an attempt to salvage the "fraying alliance" between Renault and Nissan, the two carmakers have opened talks on the idea of Renault reducing its 43% stake in its Japanese partner, says the Financial Times. The arrangement has been "a source of tension" for the two, especially as the latter "holds only a 15% non-voting stake in Renault". The size of the cut is yet to be agreed – Nissan is thought to be aiming for 20%-25%, while the French carmaker is thinking 30%-35%.

About time too, say Jacky Wong and Stephen Wilmot in The Wall Street Journal. While Renault has been "reluctant" to cut its stake, such a move could help "reboot" the relationship

with Nissan, which in turn would allow it to restart deal talks with Fiat Chrysler, which were vetoed by a French government "worried that Nissan wasn't completely on board". Also, the move "would free up capital for Renault, potentially helping to negotiate more favourable terms with Fiat Chrysler". Indeed, Renault's shareholders have already reacted positively – shares rose as soon as the news came out.

This isn't a reboot of the relationship – more the first stages of a divorce, says Bloomberg's David Fickling. Internal Nissan emails imply that Nissan's ultimate goal is to cut Renault's stake to around 5%-10%. This suggests the Japanese company is only interested in maintaining the "appearance of an alliance" rather than substantive ties. The "writing is on the wall" for any further integration, or any of the "ambitious activities", such as the development of modular designs, that were pushed under former CEO Carlos Ghosn (pictured).

## Betting on politics

**Boris Johnson's victory in the Conservative leadership contest at the end of last month means that several of my most long-standing bets have been settled. I backed Johnson to become the next Tory leader (along with five other candidates) in July 2017, followed by a bet on him becoming the next PM in October 2017. I also correctly advised you to bet against Jacob Rees-Mogg becoming Tory leader in February 2018 and tipped Sajid Javid and others to become the next chancellor in March 2018.**

**Not all of my bets paid off. Johnson got two-thirds of the vote in the final ballot of members,**

**beating my prediction that he would only get between 40% and 60%. I also predicted back in April 2018 that Theresa May would go as Conservative leader before either Vince Cable or Jeremy Corbyn. Although she resigned in early June, Johnson didn't replace her until late July, just after Jo Swinson (pictured) won the Liberal Democrat leadership contest.**

**Betfair's decision to go with the later date is controversial to say the least. That said, it can argue that as a betting exchange it doesn't have a vested interest in the outcome – if it had recognised the earlier date then those who had bet on Vince Cable being the first to depart would have had cause to complain.**

**Still, if you had followed my advice and combined the bets you would have made a profit of 14% on the six bets. If you had treated each part of the bet separately you would have made 24.7% profit from 21 bets.**

# Modi takes control in Kashmir

Tensions are escalating in the disputed Indian territory. Matthew Partridge reports

India has "reopened old wounds inflicted at the founding of the modern Indian state" by revoking long-standing constitutional provision that granted autonomy and other special protections to Jammu and Kashmir, India's only Muslim-majority state, says Amy Kazmin in the FT. India is also downgrading Jammu and Kashmir from the status of a fully fledged state to a so-called union territory, giving New Delhi more control over the local administration, including its police. Modi's government argues that the moves will "tackle legal backwardness in a region living in the past and to make the government work better for its citizens" and that they will lead "to a burst of development".

*New Delhi has taken back powers over Kashmir*

### Remaking India in Modi's image

Nonsense, says Mihir Sharma on Bloomberg. Private investment in India has collapsed to a 14-year low. If the government can't get the private sector to invest in "peaceful, relatively developed parts of India", what makes officials think businesses will rush to invest in "one of the most militarised and troubled parts of the world"? Talk of "global connectivity" is laughable – "a single highway leads from Kashmir's capital through the mountains to the rest of India and, following a terror attack at the beginning of the year, that road is now monopolised by the military".

By forcibly cutting off communications with the rest of India, the Modi government has "ground down and humiliated Kashmiris" as part of a project "to remake the entirety of India in accordance with Modi's ideology", says Kapil Komireddi in The Guardian. Modi is not only fulfilling "a long-standing Hindu nationalist yearning to domesticate the region's dissenting Muslim majority", but also using them "as an example to other Indian states, a demonstration that nobody is immune from his untrammelled authority". With organised political opposition to Modi and the ruling Bharatiya Janata Party "being meticulously wiped out", we can be certain that what has happened in Kashmir "will be repeated elsewhere".

Modi's move is also likely to enrage Pakistan, which claims parts of Kashmir, says The New York Times. The territory has "driven India and Pakistan to war" on several occasions, which has left its residents "trapped in a low-intensity conflict" between a few hundred young militants and tens of thousands of Indian troops. Pakistan's prime minister has "lashed out" at Modi, accusing him of seeking "to establish a state that represses all other religious groups". Yet Pakistan is hardly blameless: it has a "long history" of covertly backing militant groups inside the Indian-administered areas of Kashmir.

With troops gathering on the de-facto border between Indian and Pakistani-controlled parts of Kashmir, "the chances of serious escalation are increasing by the day", says The Times. Relations between the two countries are "particularly raw" since the death of 40 Indian paramilitary police in a suicide bombing in February. Modi needs to consider whether he wants to go down in history as a "modernising peacemaker", or as a "leader willing to risk regional security for the dubious ambitions of his nationalist sympathisers".

## Can MPs stop a no-deal Brexit?

*Johnson: lion – or paper tiger?*

Prime Minister Boris Johnson's senior adviser, Dominic Cummings, has sent a "defiant warning to MPs" that they have left it "too late" to block Britain leaving the EU without a deal on 31 October. "Politicians don't get to choose which votes they respect," he said, arguing that even if there were a "clear majority" against no-deal, there is nothing they can do to prevent it. He argues that even if MPs passed a vote of no confidence, Johnson "could simply call a general election in November, ensuring Parliament was not sitting" on the exit deadline.

Parliament could, however, install an alternative government after a vote of no confidence, says Vernon Bogdanor in The Guardian. It could also legislate to delay Brexit, or revoke Article 50 entirely. However, MPs need to be aware that "a no-deal Brexit can be prevented only by legislation, not by a mere expression of parliamentary opinion". Getting these measures, or a vote of no confidence, through Parliament in the face of active opposition from the government "will be a Herculean task".

Forcibly stopping no-deal will require MPs to navigate some treacherous constitutional waters and that may be a task that's beyond them, especially given Jeremy Corbyn's insistence that he would head any unity government, says Robert Shrimsley in the FT. Still, the prospect of a no-deal exit is unlikely to allow Johnson to succeed in extracting the necessary concessions from the EU, nor persuade them to make "side deals" that could smooth a no-deal Brexit. If Brussels calls Johnson's bluff, the PM may end up looking more like a paper tiger than a lion.

©Getty Images

# Pensions are better when they're together

**Plus get £50 to £1,000 cashback**

Apply by 17 Sept '19
Exclusions, T&Cs apply

**When you bring your pensions together in a Fidelity Self-Invested Personal Pension (SIPP) you can take control of your retirement savings and be ready for the future you want.**

- Easy to see and manage in one place
- Low cost, so you keep more of your money
- Wide investment choice with award-winning guidance

Get your money working harder. Call us today or visit fidelity.co.uk/cashback to bring your pensions together in a Fidelity SIPP.

The value of investments can go down as well as up, so you may not get back the amount you originally invest. You cannot normally access money in a SIPP until age 55. Pension transfers can be complex and pensions with safeguarded benefits and advised transfers are not eligible for this offer. Please read our pension transfer factsheet, cashback T&Cs and exit fees T&Cs.

## Get cashback

Get £50 to £1,000 cashback if you apply to transfer your pensions, ISAs or other investments to us by 17 September 2019 (exclusions, T&Cs apply).

For more info:

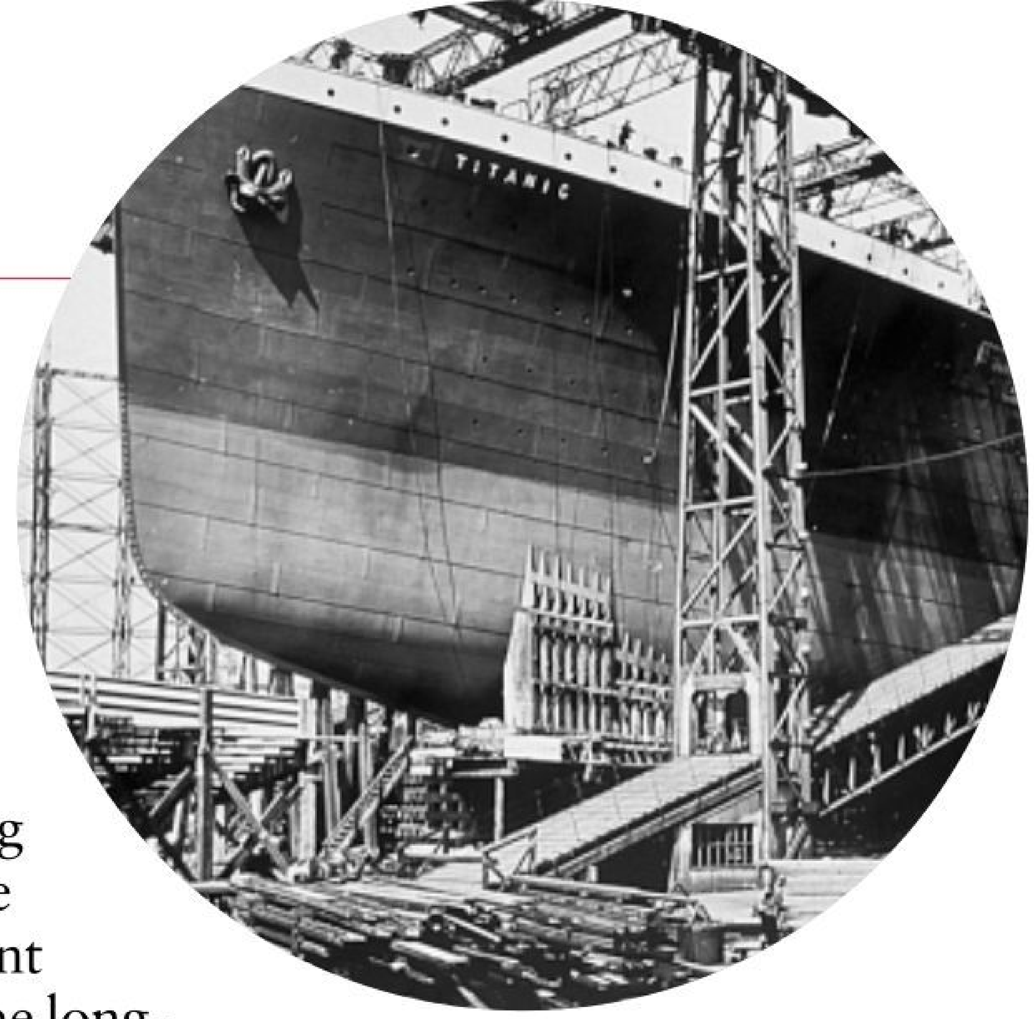
**0800 358 7487**

**fidelity.co.uk/cashback**

Lines are open Monday to Friday 8am to 6pm and Saturdays 9am to 2pm

**ISAs | Pensions | Funds | Shares**

Issued by Financial Administration Services Limited, authorised and regulated by the Financial Conduct Authority Fidelity, Fidelity International, the Fidelity International logo and F symbol are trademarks of FIL Limited. UKM0619/24263/CSO9170/170919

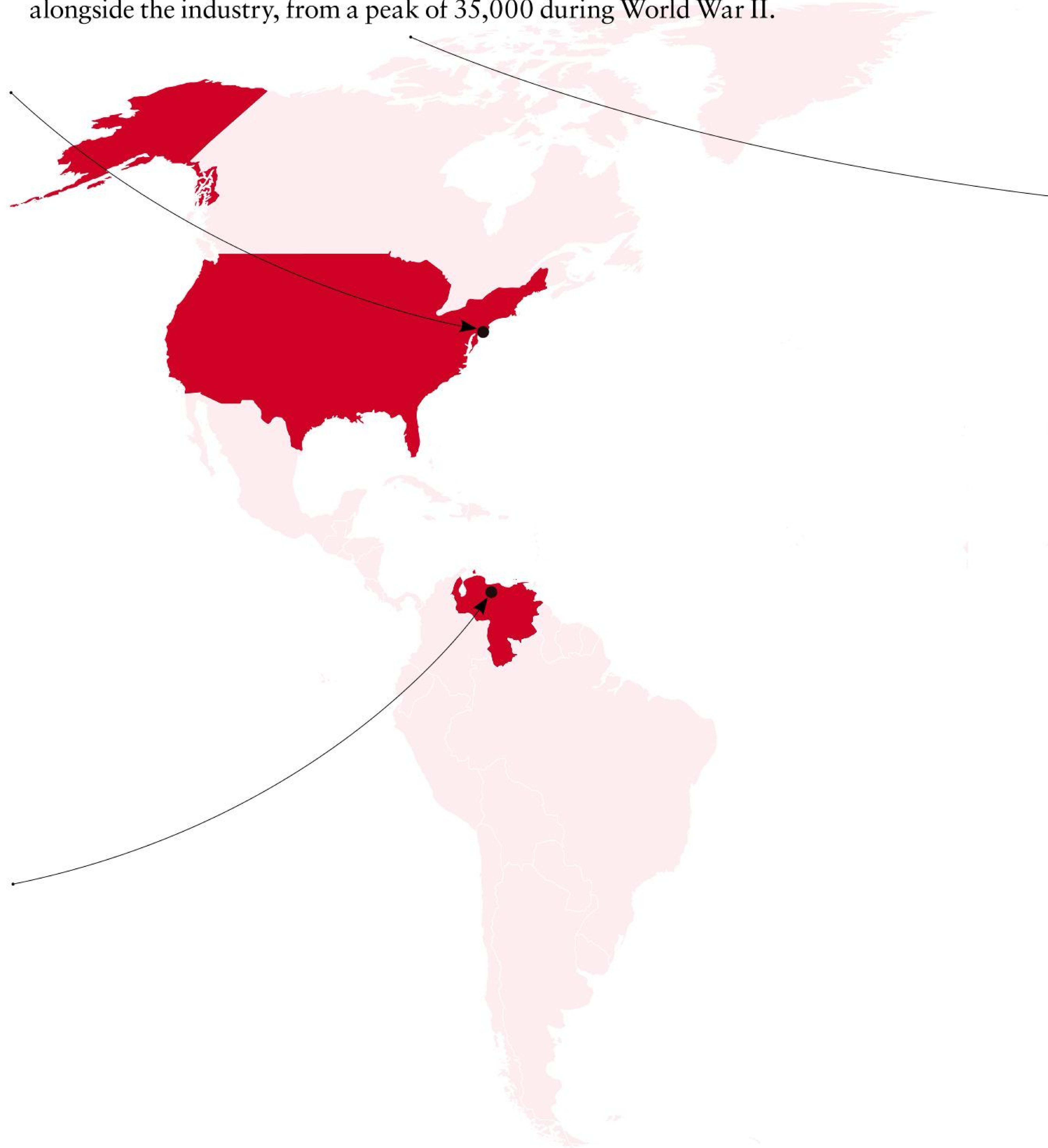



## New York

**Barneys files for bankruptcy**: Iconic department store chain Barneys New York has filed for Chapter 11 proceedings. Under US law, that gives the retailer certain protections from its creditors while it restructures. Its owner, the hedge fund Perry Capital, struck a deal with Gordon Brothers and turnaround specialists Hilco Global to extend $75m in additional financing to Barneys. Of its 22 locations, all in the US, 15 will close, including stores in Chicago, Seattle and Las Vegas. However, the prestigious Madison Avenue flagship store in Manhattan will stay open, despite its annual rent almost doubling to $30m, following an arbiter ruling last August. Higher rents have added to Barneys' woes at a time when footfall has been falling at its other stores due to competition from online retailers. "While difficult decisions had to be made, this process will allow us to reset our financial position and maintain our long-standing vendor relationships," said CEO Daniella Vitale. A buyer is being sought for the business. Barneys had previously filed for Chapter 11 in 1996, when the founding Pressman family fell out with their investors, the Japanese department store group, Isetan, notes The New York Times. "However, the retail landscape was much different then."

## Belfast

**Harland and Wolff goes under**: The shipyard that built the Titanic has gone into administration, with accountants BDO taking over at Harland and Wolff Heavy Industries. Unions representing the 120 staff have called on the government to nationalise the firm, saying it would be cheaper in the long run, while workers have been protesting at the site for several days. "We know the government has naval contracts it can put here to ensure the long-term future," said Labour shadow chancellor John McDonnell on Monday, during a visit to the shipyard, but the government argued that it is "ultimately a commercial issue". Norwegian owner Dolphin Drilling filed for bankruptcy in June. Since 1974, the two huge yellow cranes, "Samson" and "Goliath", have loomed over Belfast and the company traces its history to 1861. Yet, undercut from abroad and with fewer liners ordered, staff numbers have declined alongside the industry, from a peak of 35,000 during World War II.



## Caracas

**Venezuela under US embargo**: US president Donald Trump has signed an executive order that freezes all assets belonging to the Venezuelan government of Nicolás Maduro (pictured), and bans transactions with it, unless exempted. It's the first such action directed at a government in the western hemisphere in over 30 years, says The Wall Street Journal. Venezuela joins a list of nations that includes North Korea, Iran, Syria and Cuba. More than 100 individuals and entities, such as state-owned oil company Petróleos de Venezuela, were already under US sanctions. Further sanctions are threatened on those who continue to engage in business with Venezuela's government or offer it support. Trump had previously said he was minded to raise sanctions against Maduro's government, given the support it receives from Russia and China. The US has recognised the leader of the national assembly, Juan Guaidó, as acting president since January, following presidential elections last year that were widely seen as having been rigged. Venezuela's economic crisis stems from years of government mismanagement.

## The way we live now: Christianity and crazy golf

*The "Fairway to Heaven"*

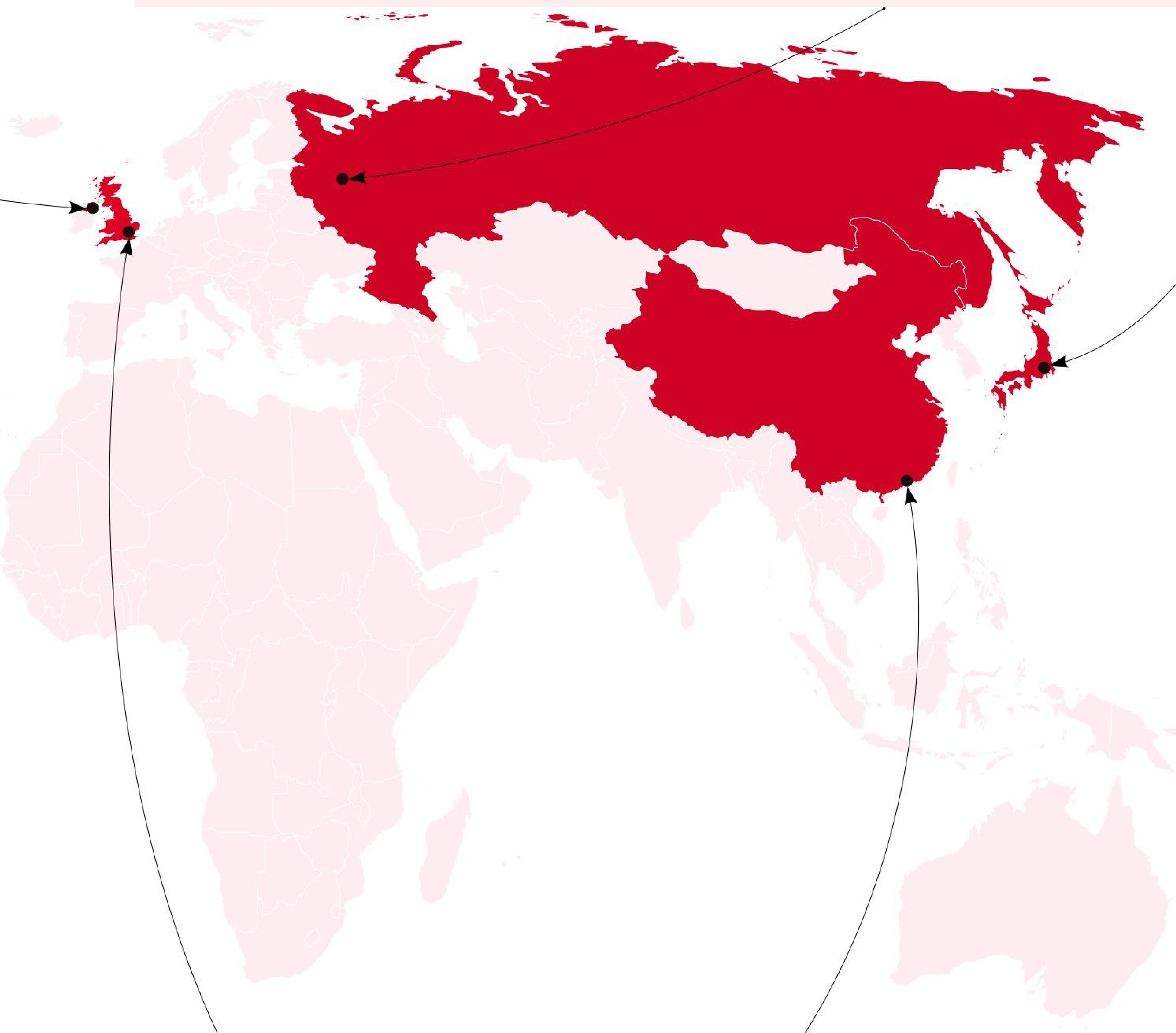
"Rochester Cathedral has opened a crazy golf course in its nave, allowing visitors to putt their way round the 11th-century building," says Kaya Burgess in The Times. Critics have "questioned the holiness of hosting nine holes in a place of worship". Fans have christened it the "Fairway to Heaven". It's all part of a move to breathe new life into ancient cathedrals. "Many face severe financial struggles," despite congregations having risen by 10% in a decade. But dignity is too high a price to pay, says self-confessed Catholic convert Tim Stanley in The Daily Telegraph. And Rochester is far from alone. There is, for example, "creative yoga" underneath a giant model of the planet Earth called "Gaia" at Peterborough Cathedral; at Norwich Cathedral, you will find a 50ft helter-skelter. The idea is "to open up conversations about faith", but "they are making faith look ridiculous", says Stanley. "If the modern world hates Christianity, then I'm fine with that: it's part of our history, par for the course. It shows that we stand for something profound enough to inspire emotion. The moment the world starts laughing at us, however, we're doomed."

©Getty Images

*Protestors in Moscow are being detained*

## Moscow

**Protestors arrested:** Around 1,000 protestors have been detained by authorities in Moscow. The banned rallies began in response to the disqualification of opposition candidates in city council elections to be held next month. Police used batons on demonstrators, and protestors are being processed through the courts. Lyubov Sobol, a high-profile lawyer and video blogger, was seen being dragged away last week before she could attend a rally and opposition leader Alexei Navalny has languished in jail for a month. State media has sought to deflect attention from the unrest by reporting on forest fires in Siberia and a city-sponsored barbecue festival, The Wall Street Journal reports. "What the authorities don't want is protests in Moscow sparking protests in megalopolises across the country," says Lev Gudkov, head of Moscow-based pollster Levada-Center. "That's the nightmare scenario." Criticism of Vladimir Putin's government has grown, fuelled by years of international sanctions that have taken their toll on the economy.



## Tokyo

**South Korea dropped from trade list:** Japan has removed South Korea from its list of preferred trading partners, prompting threats of reciprocal action from Seoul. Japanese trade minister Hiroshige Seko (pictured) cited security concerns over how South Korea handled its products, denying it had anything to do with a dispute over wartime reparations. The restrictions come into force on 28 August. Last month, Japan restricted exports of materials to South Korea's tech sector – a move seen as protectionist by Seoul. The US fears the fallout could spread to its shores. Both Japan and South Korea make parts for US products. US secretary of state Mike Pompeo mediated between the two in Thailand last Friday, without any success. In theory, preferential status speeds up trade, but Seko denied it would hit global trade. "As long as Japan grants approvals well, there might not be a big impact," Je Hyun-jung, director at the Center for Trade Studies and Cooperation in Seoul, tells The Wall Street Journal.

## London

**Stockbroker sinks:** Broker SVS Securities has collapsed after the regulator, the Financial Conduct Authority (FCA), banned it from trading and stopped it from selling its own and its clients' assets. "Acting on intelligence received about the assets in which SVS invested its clients' money, we conducted urgent supervisory work and identified serious concerns about the way in which the business was operating," the FCA said. SVS had focused on the junior Aim market as well as foreign exchange. It made pre-tax profits of £247,560 on revenues of £41.3m in the 12 months to the end of June 2018 and employed 53 staff, the latest Companies House filings show. Its demise is the latest setback for stockbroking, says The Times. MiFID II rules introduced last year changed the way brokers could be paid by fund managers for research, resulting in less research being produced. Last year the industry was also hit by the collapse of Beaufort Securities, a broker that is under indictment in the US and was shut down by the FCA in March last year.

## Hong Kong

**China eyes protesters:** Mass demonstrations in Hong Kong have entered their third month. What began as protests over a controversial bill that would have allowed extraditions to the Chinese mainland has grown into demands for the semi-autonomous city's leader, Chief Executive Carrie Lam, to stand down, and for democratic reform. The latter is viewed by Beijing as a challenge to its authority. For now, although Chinese soldiers have been present in the former British colony since the handover in 1997, Beijing has left the Hong Kong police to tackle protestors. Observers fear that could change. China warned protestors on Tuesday not to "mistake restraint for weakness", and released a video at the start of the month showing the People's Liberation Army being drilled in riot control. "China no longer views Hong Kong as the valuable window to the global financial world," says Henny Sender in the Financial Times. "It has gone from being a highly regarded relative to a rival."

# Central banks turn on the money hose

After a decade of extraordinary monetary policies, central banks had started a long, slow march back to normality. They hadn't got very far before turning back again. Alex Rankine reports

These extraordinary times began with Greenspan

©Shutterstock

### What's happened?

Central banks around the world are back in easing mode. The Federal Reserve delivered a quarter-point interest-rate cut last week despite data suggesting the US economy remains robust (see page 4). The European Central Bank (ECB) has also taken an increasingly dovish line and is widely expected to cut rates this September – the main deposit rate is already -0.4% – and to resume bond purchases later this year. Some want even more radical measures. Last month Larry Fink, CEO of asset manager BlackRock, called on the bank to use quantitative easing (QE) to buy up European stocks. For such a prominent capitalist to advocate what amounts to the partial nationalisation of the stockmarket is a sign of the extraordinary times we live in.

### How easy has money become?

The era of loose monetary policy arguably dates back as far as 1995, when US Fed chairman Alan Greenspan delivered an "insurance cut" in the midst of an expansion. Average rates continued to fall in the aftermath of the dotcom slump, but it was the 2007-2008 financial crisis that delivered the largest and most enduring cuts. In 2007 the Bank of England (BoE) base rate was 5.5%. Prompted by the crisis, rates fell to 0.5% a decade ago, then the lowest level in its 325-year history. What was supposed to be an emergency measure has turned into the new normal. Today, UK interest rates are still just 0.75%. With the cost of borrowing near zero, central banks turned to a more unorthodox policy tool.

### What is quantitative easing?

A central bank electronically creates new money and spends it in the financial system, usually by buying up government bonds. By bidding up bond prices, the returns available to investors from bonds fall. That is supposed to prompt savers and institutional investors to direct cash towards slightly riskier investments, such as corporate debt and equities. The theory goes that this makes it easier for businesses in the real economy to borrow, stimulating investment and boosting flagging demand. At their height, central-bank QE policies dumped as much as $14trn into the global economy. The BoE and the Fed purchased assets amounting to a quarter of the GDP of their respective economies. The ECB's programme equalled 40% of the eurozone's economy; at almost 100% of GDP, the Bank of Japan's (BoJ) balance sheet is the world champion.

### Did it work?

With the collapse of Lehman Brothers unleashing financial contagion, the display of central-bank firepower helped to ensure that the financial crisis and resulting recession were not even more severe. Their performance compares favourably with the destruction wreaked by hawkish central bankers during the Great Depression. Yet, as Doug Noland of the Credit Bubble Bulletin argues, the cure has now become worse than the disease. Like "steady doses of antibiotics", the overuse of these policy tools has rendered them ineffective. Low interest rates have turned into a "narcotic" for sustaining unsound booms. As the 2013 "taper tantrum" revealed, markets wilt whenever bankers try to wean them off their addiction to cheap money.

### What are the problems?

QE has been too successful at easing credit conditions. Capitalism depends on the "creative destruction" of badly run or outdated businesses. Yet a recent analysis by KPMG suggested that as many as one in seven UK firms might have collapsed without the help of easy money. Such "zombies" may be playing a role in Britain's productivity problem. It also speaks to a broader issue: loose money has created a financial wonderland of distorted price signals and asset values detached from their fundamentals.

*"One in seven UK firms might have collapsed without the help of easy money"*

### So it blows up bubbles?

Yes. The values of stocks and bonds usually move inversely: the latter are a safe haven to which investors turn in a storm, the former a riskier option for when times are sunnier. Yet the wall of money unleashed by central banks has seen the two rally together this year. Interest rates on about $13trn of debt worldwide have now turned negative, particularly in Europe. Even sovereigns as risky as Italy are able to borrow for a decade at rates well below 2%. This looks dangerously like a bubble, says Noland. The "bond vigilantes" who used to keep profligate governments in line are "extinct".

### Are we in for a nasty reckoning?

Loose money is raising the risks. As well as encouraging spendthrift governments, businesses have also binged on debt. As a share of GDP, US corporate debt levels are now close to where they were before the great recession. Yet investors are so desperate for yield that they are happy to extend cash to risky borrowers. "More money is going to be lost by more people reaching for yield… than all the theft and fraud combined in the last 50 years," says John Mauldin in his Thoughts from the Frontline newsletter. What is clear is that by driving rallies in the kinds of financial assets that the rich disproportionately own – stocks and bonds – QE has stoked wealth inequality within Western societies.

### What will central bankers do next?

The hunt is on for alternatives to QE, of which Larry Fink's suggestion is only one. As Eric Lonergan puts it in the FT, one proposal is for central bankers to simply give people money, perhaps in the form of a direct transfer into everyone's account. Another route to the same end is a "dual interest-rate" policy that sees savers given high rates and borrowers lower ones, with QE funding the difference. Yet attempts to buy up stocks, or even give people shopping vouchers, have already been tried in Japan, the country that pioneered ultra-loose money. Japan's experience shows that for nations that fall into the trap of ultra-loose money, the outcome is not a dramatic crash, but decades of slow growth, anaemic inflation and eye-watering levels of debt.

# Picking winning stocks matters

Just a few stocks account for the lion's share of overall market gains. How can you make sure you own them?

**John Stepek**
Executive editor

A couple of years ago, a stockmarket study by Hendrik Bessembinder and a team of researchers from Arizona State University caused a bit of a splash in the financial world. The 2017 paper looked at the performance of more than 26,000 US stocks over the 90 years from 1926. In all, concluded the researchers, the entire gain in the stockmarket over that period was "attributable to the best-performing 4% of listed stocks". Meanwhile, just under 60% of stocks returned less than the safest of safe assets (one-month US Treasuries, the equivalent of cash) over their entire lifetimes. In short, if you missed out on a handful of stocks, you were destined to make subpar returns, despite taking all the extra risk of owning stocks.

Last month, Bessembinder and team put out a new study. This time, they looked at the performance of 62,000 stocks from around the world, from 1990 to 2018. The findings were even more unnerving for stockmarket investors. Again, around 60% of stocks failed to beat one-month Treasuries. Overall, a mere 1.3% of listed companies accounted for "all the market gains" over that period, notes Barry Ritholtz for Bloomberg. And it was even worse outside the US, "with less than 1% of all equities driving all of the net appreciation in share prices". Five companies alone – tech groups Apple, Microsoft, Alphabet (Google) and Amazon, along with oil giant Exxon Mobil – accounted for more than 8% of the net shareholder wealth created by global stockmarkets. And as Ritholtz adds, the fact that we've seen two decent-sized boom and bust cycles over that period means it's less likely

*Exxon Mobil: a long-term winner*

that the results are purely a fluke of some sort. So what should investors make of this?

It's yet another excellent argument – beyond cost – for favouring passive funds that merely track an index rather than trying to beat it. If history shows that a vanishingly small number of stocks in any given index actually make money for their owners over the long run, and we believe that this will continue into the future (past performance is of course, no guide to future performance, but it's the only one we've got), then the only way to be as sure as can be that you will benefit from these gains is to own all of the stocks in the index. It's also another reminder of the need to diversify.

> *"A handful of stocks account for almost all the gains in markets"*

However, as Ritholtz points out, it's not all bad news for active investors. Perhaps such managers need to focus less on which stocks to buy, and more on which to avoid. "If screens could eliminate some of the long-term losers, it might not only improve returns, but could help to justify fees higher than simple indexing." Finding active managers who are able to pull this off consistently, unfortunately, is another matter.

## I wish I knew what a PEG ratio was, but I'm too embarrassed to ask

A price/earnings-to-growth (PEG) ratio is used to try to spot shares that are undervalued relative to their growth prospects. Well-known investors Peter Lynch and Jim Slater both highlighted it in their writing as part of their stockpicking process. The ratio compares a company's price/earnings (p/e) ratio with the expected growth in its earnings per share (EPS).

To calculate it, you first find the p/e ratio, which is simply the share price divided by EPS. This gives you an idea of how much investors are currently willing to pay per £1 of historic or future earnings. You then look at how quickly earnings are expected to grow in the future (by using analysts' estimates, for example). To get the PEG ratio, you simply divide the p/e ratio by the expected annual earnings growth. Broadly speaking, a ratio below one is on the cheap side, and above one is expensive, with a PEG of one representing "fair value", according to Lynch.

The PEG ratio is seen by some investors as a better way to weigh up a company's value than relying on the p/e alone, because it takes growth into account. A rapidly growing company – all else being equal – should trade on a higher p/e than a slow-growing one. So the PEG ratio can be a useful tool for comparing companies in similar industries. For example, one company might have a p/e of 15, but expected earnings growth of 20%, giving it a PEG ratio of 0.75 (15/20). Its rival may also have a p/e of 15, but expected earnings growth of 5%, giving it a PEG ratio of three.

As with most ratios, the PEG is only useful in certain circumstances and in combination with other forms of financial analysis. A PEG ratio won't help you much with a slow-growing (or shrinking) company and earnings forecasts must always be taken with a hefty pinch of salt. Yet as a starting point to screen for promising high-growth companies, it can be a useful tool.

©Getty Images

## Guru watch

**David Rosenberg, chief economist, Gluskin Sheff**

This is a "Potemkin market", says David Rosenberg of Gluskin Sheff – it might look normal on the surface, but dig deeper and it's anything but. Even "after ten years of free money" from central banks, "we are stuck in a deflationary debt trap", the oft-bearish analyst argues. This unpromising, disinflationary backdrop has helped to prop up equities, but only because low interest rates have enabled companies "to buy back their stock in droves and mask a downturn in corporate profits".

You need only look at the global bond market to see that we are in unprecedented territory. Around "$15trn [£12.4trn] of global investment grade bonds" now trades with a negative coupon (in other words, investors holding until maturity are guaranteed to lose money, in nominal terms at least). Meanwhile, "safe haven" assets such as gold, the Japanese yen and the Swiss franc are doing well – indeed, the yellow metal has outperformed the S&P 500 so far this year – while "risk-on" assets such as oil and iron ore have been hit by the "weakening global demand outlook".

Another sign that investors should be cautious? Warren Buffett (pictured) has been pulling money out of stocks this year. During the three months to the end of June, the US investor's investment vehicle, Berkshire Hathaway, sold $1bn more worth of stocks than it bought, according to Bloomberg. So "someone out there with deep pockets recognises that the 'fundamentals' are not so great after all", notes Rosenberg.

# HSBC is at a crossroads

What route it takes next will determine whether it can remain a leader in global banking

**Matthew Lynn**
City columnist

John Flint had only served for 18 months as chief executive of HSBC, one of the world's biggest banks, and had barely had enough time to make any changes to its strategy or operations, and then he was gone. On Monday morning, HSBC announced that he was stepping down and that an interim leader would be installed while it searched for a permanent replacement.

Flint's ousting may appear harsh. A long time HSBC banker, he rose to the top and the results that were released at the same time as the news of his departure were hardly terrible. HSBC chalked up a 16% rise in profits, and announced a $1bn share buyback programme. There is no crisis and no hint of scandal. Compared with most of its rivals across Europe, it is in robust health.

And yet its performance has been plodding. On Flint's watch, the shares have dropped by 17%. Since the start of this year they have drifted aimlessly while the rest of the market stormed ahead. Flint's plans for investing more in IT, for trying to turn around its American unit, and for concentrating on growth in China, were all worthy enough. But they were hardly setting the world on fire. His successor will need to make some hard choices.

First, he or she will need to decide whether its real opportunities are in Asia, Europe or the US. It is impossible to focus on all of them. More importantly, the bank needs to decide whether, in a world where China and the US are engaged in a bitter trade war, and where most of Europe is putting restrictions on Chinese investment, it can straddle that divide. It is great to be a bridge between East and West, but it may turn into a no-man's land. HSBC may have to split into Chinese and European/US wings, perhaps in a loose confederation with the same brand and similar shareholdings, but separate management.

*"HSBC needs to decide whether to ditch branch networks completely"*

## Some tough decisions

Next, the bank needs to decide whether it wants a serious position in Europe. It has a decent position in France, especially in the Paris region, and smaller operations in other places. But it is a long time since it has made a serious acquisition inside the eurozone. It needs to have a bigger presence in that market. One obvious candidate? Deutsche Bank is desperate to find a partner, and its lock on German business banking would be an obvious fit. If HSBC isn't willing to take a risk on that it might be better off pulling out of Europe completely – there isn't much point in being a marginal player.

Third, HSBC needs to decide whether it can be both a retail and capital markets bank. It has managed to avoid the disasters in investment banking that have crippled the likes of Deutsche or Royal Bank of Scotland over the years. It has kept its investment bankers disciplined and focused on making money for the parent company. And yet the tension between the two types of banking remains. HSBC might be better off choosing retail and business banking – and letting the investment bank go its own way.

Finally, it needs to make up its mind where the real growth in banking is. Over a century, HSBC has grown by taking stakes in different territories. But the real divide may not be between continents and countries, but between analogue and digital banking. Amazon and Google are now the real threat, along with dozens of new fintech companies. This may be the moment to make a radical break with the past and ditch branch networks completely.

*Flint: we blinked and he was gone*

©Getty Images

HSBC came through the financial crisis relatively unscathed. In many ways, it has one of the best positions of any global bank. It has a strong retail presence in Britain and Hong Kong. It is one of the few Western companies with deep roots in China. It has at least a presence in every major economy in the world. HSBC has the assets to become potentially the most successful financial institution of the next decade. But it is at a crossroads – and the new CEO needs to decide where it wants to go next.

# Who's getting what

● **Priti Patel**, the home secretary, was paid £1,000 an hour as a "strategic adviser" to US communications company Viasat, which supplies products and services to the Ministry of Defence. Her contract was for an expected commitment of five hours a month for three months, and ended on 31 July. Patel (pictured) is also a non-executive director of Accloud Plc, which provides accounting software to small businesses, for which she is paid £45,000 a year for working 20 hours a month, and has shares and share options in the company. Accloud made a pre-tax loss of £18.7m in the year to March 2018.

©Getty Images

● **Jane Austen** probably earned just £310 from sales of her third novel, *Mansfield Park*, the equivalent of £22,000 today, suggests the Bank of England, after research into her financial records and purchases of "Navy Fives" – securities that offered a 5% annual return. She earned £110 from the sale of the copyright of *Pride and Prejudice* and £140 from *Sense and Sensibility*. Her total income from writing is estimated at just £631 before tax, or around £45,000 in today's money.

● Burberry CEO **Marco Gobbetti** has been given 161,849 shares in the company, worth £3.7m, but is unable to sell them until 2024. Gobbetti, who took over in July 2017, was paid £3.9m last year, says This Is Money, which included £1.1m of salary and £1.3m bonus, plus pension contributions, benefits and "share-based awards".

## Nice work if you can get it

**The new education secretary, Gavin Williamson, could end up being paid more for being sacked as defence secretary by Theresa May when she was prime minister than he would if he'd stayed on in the Cabinet, says The Independent. Williamson was sacked in May after he was accused of leaking details about Cabinet discussions about Huawei's role in the UK's telecoms infrastructure, and was entitled to three months' pay – £16,870. But Boris Johnson appointed him as education secretary as soon as he became PM – just 84 days later. Meanwhile, Johnson's Cabinet reshuffle could end up costing over £260,000 in severance payments to ministers who either resigned or were sacked, reports the Daily Mirror. Fourteen Cabinet ministers are entitled to £16,876 each, while three lower level ministers can claim £7,920 each, bringing the total to £260,024.**

# Head for the frontier in Georgia

This London-listed investment fund is trading on a big discount and looks a good bet for the brave

**David Stevenson**
Investment columnist

One of the great virtues of the London stockmarket is that there's a healthy number of funds to appeal to investors looking for the next frontier. One of the lower-profile examples is Georgia, a destination that probably isn't on the radar for many people, but represents an interesting prospect for the brave investor.

*Tblisi, the Georgian capital, is looking like an attractive place to invest*

©iStockphotos

### Solid fundamentals

Georgia is a tiny state nestled on the western edge of the Caucasus mountain range. It has a population of just 3.7 million, yet boasts a number of advantages. Its government is trying to stay friendly with the West as well as with Russia – although every once in a while its overbearing northern neighbour throws a tantrum and threatens exports. National markets are steadily opening up to international competition (Turkey is one key trading partner) and Georgia is keen to position itself as a transit point in trade between Central Asia and Europe. Its lack of commodity wealth is also probably something of a positive, making local businesses work harder for their profits. The economy has been growing at a fairly steady 4% to 6% clip since 2017 with inflation on target to stay below 3%, and a rapidly improving trade deficit. National finances look stable with interest rates at 6.5% and central-bank foreign-exchange reserves steadily growing.

### A promising fund

Bank of Georgia, a local bank, has been listed on the main segment of the London Stock Exchange since the spring of 2012. Back in 2018 it decided to demerge into two separate businesses: **Bank of Georgia (LSE: BGEO)**, the banking business; and **Georgia Capital (LSE: CGEO)**, the investment fund business.

At the time I thought that this investment arm was interesting, but timing wasn't ideal and the demerger took place at net asset value (NAV), which I thought might be a bit rich. Rows then developed with Russia, which helped knock sentiment and since the demerger the shares have drifted ever lower. At the current share price of around £10 a share, the discount to NAV looks to be about 30%, which strikes me as better.

In simple terms, Georgia Capital is a hybrid fund, containing of two main components. The biggest chunk (60%) consists of substantial holdings in Bank of Georgia (19.9% stake) as well as a 57% stake in **Georgia Healthcare (LSE: GHG)**. These are both performing well. Georgia Healthcare has recently announced a dividend policy, and plans to pay out 20%-30% of annual profit. Bank of Georgia's shares are still lowly priced, trading at 1.4 times book value, on a price-to-earnings ratio of around five and a dividend yield of over 10%.

### Fast-growing private equity

The other portion of the portfolio is a fast-expanding range of private-equity holdings. Recent investments include an 80% equity interest in Green School, the leading affordable private school, and an 80% interest in Amboli, the second-largest auto-service firm. In March, Georgia Capital's drinks operation acquired the brand name and commercial assets of Kazbegi, the country's oldest beer brand, for $3.65m (£3m). Meanwhile, the renewable energy business has commissioned the 30MW first phase of the Mestiachala hydro power plant, with a further 20MW second phase under way.

This frenetic pace of activity shows up in the latest reported quarterly numbers which showed a 7.2% return in local currency terms for the first quarter of this year (3.5% in sterling terms) – comprised of a 12.1% total return in local currency from the listed portfolio companies and a 2.1% total return from the private portfolio companies. Overall, I think Georgia Capital now looks like a good bet as long as Georgia can keep on good terms with Russia.

## Activist watch

US hedge fund ValueAct "is scouring Japan for more investments as some of the country's biggest companies come under pressure from shareholders to boost profitability", says Lina Saigol in Barron's. The fund scored a notable success in Japan earlier this year, when it won a seat on the board of Olympus, the camera and medical-device maker – the first time that an American activist investor has become a director of a Japanese firm. Toshiba, the industrial conglomerate, has also appointed a non-Japanese director, as part of a settlement with King Street Capital, another US hedge fund, while Third Point – run by high-profile activist Dan Loeb – is pushing electronics giant Sony to sell its stakes in other listed firms, including Olympus.

## Short positions... Woodford walloped again

■ **Embattled fund manager Neil Woodford "suffered a new blow on Wednesday when one of his most successful investments, litigation funder Burford Capital, came under attack", say Michael O'Dwyer and Harriet Russell in The Daily Telegraph. Shares in Burford plunged by 50% after Muddy Waters, a high-profile short-seller, "accused the company of 'egregiously misrepresenting' its returns". The firm was a top ten holding in Woodford's now-suspended Equity Income Fund when details of that fund's portfolio were last provided and Woodford Investment Management held more than 7% of Burford's shares according to the latest available data. In an initial response to Muddy Waters' claims, Burford said that its "cash position and access to liquidity is strong", its "returns are robust" and it "uses the same IFRS accounting that is used widely across the financial services industry and has used consistent accounting policies for many years".**

■ "Boris Johnson's pro-Brexit backer Crispin Odey [pictured] has made a £300m bet against British businesses," say Caroline Wheeler and Rosamund Urwin in the FT. Odey's hedge fund has taken out short positions in a number of "flagship British groups" including Royal Mail and shopping-centre owner Intu. He also has a £17.6m bet against Metro Bank, the struggling challenger bank. Odey – who donated £10,000 to Johnson's leadership campaign in June – made £220m by betting that a victory for Leave in the 2016 referendum would cause the pound to crash.

18+

# 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

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

## Boris fritters away a Tory legacy

**Guto Bebb**
**The Times**

When I was elected as a Conservative MP in 2010, the incoming government was bequeathed a "financial disaster of biblical proportions", says Guto Bebb. Not for the first time, it fell to a Tory government to "clean up a mess" created while Labour was in charge, with the loose finances of the Labour government post-2001 being compounded by the impact of the great financial crash of 2008. The resulting period of austerity made for "difficult and challenging" decisions. Yet they were necessary to restore fiscal discipline, and by 2017-2018 the deficit was back down to 2% of GDP. But with government debt still at 86% of GDP, the job is not yet done. That is why it is so alarming to see our new prime minister frittering away all of that progress on a flurry of new spending promises. Worse, the splurge is not on investment for the future, but a reckless attempt to distract voters from a looming no-deal Brexit for which he and his fellow Brexiteers are responsible. The grinding years of pay freezes and budget cuts endured by the armed forces, nurses, teachers and pensioners are being betrayed. "Never has so much been sacrificed by so many to protect the reputations of so few."

## Brazil's buzz saw will harm us all

**Editorial**
**The Economist**

The world's forests provide a livelihood for 1.5 billion people and, for the other 6.2 billion of us, a "fragile and creaking" buffer against climate change, says The Economist. Yet tree loss in the tropics has accelerated by two-thirds since 2015 because of drought, logging and the appropriation of land to farm soybeans and beef. Now the Brazilian president, Jair Bolsonaro, has "gleefully taken a buzz saw" to this natural wonder in the name of development. He has been stripping parts of the forest of their protected status and, despite his law and order platform, made clear that illegal loggers have little to fear from the authorities. Since he took office, "trees have been disappearing at a rate of over two Manhattans a week". That is pushing the Amazon forest perilously close to a tipping point at which it can no longer recycle the water it needs, thereby accelerating the deforestation. Climate change is bringing that tipping point closer every year as the forest heats up. The farmers who the president claims to support will be the biggest victims if droughts scar the region and other nations boycott the products of illegally logged land. The world must make clear that it "will not tolerate Bolsonaro's vandalism".

## Hong Kong's unrest has deep roots

**Graeme Maxton**
**South China Morning Post**

Politicians wondering how to calm civil unrest in Hong Kong should start with the economy, says Graeme Maxton. Far from being a "knee-jerk" reaction to the latest policy developments or the failure to pass democratic reforms, the discontent of local residents is "deeply rooted and has been growing for many years". British colonial rule bequeathed Hong Kong "the most unrestricted neoliberal version of the free-market system on Earth" and an accompanying ideological certainty that "almost any sort of restriction on economic activity was wrong". The result is a territory with a vast gulf between rich and poor, combining low wages for the majority with "vast economic sectors dominated by a handful of enormously powerful companies". High rents leave thousands of people sleeping inside minuscule "cage homes". A weak social safety net sees the elderly "collecting cardboard on the streets well into their 80s so they can get a bowl of rice". The rising level of injustice was always going to result in widespread resentment and anger. Restoring public order in Hong Kong will not happen through heavy-handed policing. It is time the city government did "what it is there for; to govern in the interests of the majority".

## Moral purity will leave the arts broke

**Lionel Shriver**
**The Spectator**

The vice-chairman of New York's Whitney Museum of American Art has become the latest figure in the arts world to be hounded from his role by self-righteous protesters, says Lionel Shriver. Warren B Kanders has already donated $10m (£8.2m) to the institution, but his ownership of Safariland, a business that manufactures law-enforcement supplies reportedly used on the US-Mexico border, has damned him forever in the eyes of all right-on people. Kanders finally, and stiffly, resigned – presumably taking his fortune and any future donations with him. Meanwhile, in London, the British Museum is facing a clamour to jettison the sponsorship of "climate monster" BP. It is certainly a "curious version of chastisement: refusing to let people give you their money", but apparently galleries accepting tainted cash are complicit in the brand-new crime of "artwashing" – which "does not refer, alas, to refurbishing Old Masters". Cash travels through so many hands that "all money is dirty" if you go back far enough. What matters is what you do with the stuff "once you get your mitts on it". This self-congratulatory obsession with moral purity threatens to leave our great cultural institutions "beyond reproach, and broke".

## Money talks

**"You're looking at… $750,000 to $1m for one week. You have to make 'screw-it money'. I don't have my definition of screw-it money."**
CBS News anchor Gayle King (pictured) explains why her new $11m contract isn't enough to finance her dream of chartering a yacht to take a cruise, quoted in The Washington Post

**"I can spend a thousand quid by blinking. I bought two cashmere scarves in Paris: one for a friend who I was visiting here, and I thought, 'I'll have a second one for me.' I love buying presents. I also buy a lot of shoes that I think are going to be nice, and I actually never wear them."**
Singer and actress Jane Birkin, quoted in the Evening Standard

**"The salary is not fantastic in comparison with, say, the CEO of a multinational company. Most ambassadors are on around £60k, the top ones are on £110k. You might get to live in an amazing residence, but in Athens the embassy was a beautiful house with a ballroom, while the ambassador's living quarters was a two-bedroom flat in the attic."**
Peter Millett, a former ambassador to Jordan and Libya, quoted in the Evening Standard

**"To make it in [showbusiness] you need to be one of two things: either supremely talented or supremely beautiful. And you, son, are neither."**
David Croft, co-writer of *Dad's Army*, to his 17-year-old son Richard – who became a successful property developer instead – quoted in The Times

**"I look for the type of guy in London who gets up at 7am on Sunday morning when his kids are still in bed, and logs on to a poker site so that he can pick off the US drunks coming home on Saturday night. I hired a guy like that."**
British billionaire Mike Platt, co-founder of the hedge fund BlueCrest, quoted in a Price Value Partners newsletter

©Getty Images

# The EU's new climate tax

*Ursula von der Leyen "drops a bomb": she has bold plans for the environment*

©Getty Images

**bruegel.org**

The incoming president of the European Commission, Ursula von der Leyen, has "highly ambitious plans" for tackling the issue of climate change, says Jean Pisani-Ferry. In her first 100 days in office she intends to propose a European Green Deal as well as legislation that would commit the EU to becoming carbon neutral by 2050, and to halving emissions relative to 1990 levels by 2030.

But the truth is that the EU (including the UK) is a "minor contributor" to climate change. Its share of global carbon emissions has declined from 99% two centuries ago to less than 10% today (in annual, not cumulative terms). While the EU is cutting its emissions by 1.5 billion tons, in 2030 the rest of the world is likely to have increased them by 8.5 billion. Given the risks of a political backlash – von der Leyen's plans "will inevitably cost jobs, curtail wealth, reduce incomes and restrict economic opportunities, at least initially" – how can this possibly work?

## Europe's best hope

The best hope for success is the size of Europe's market, which still accounts for some 25% of world consumption. Because no global firm can afford to ignore it, the EU is a major regulatory power in areas such as consumer safety and privacy. Moreover, European standards often gain wider currency because manufacturers and service providers that have adapted to demanding EU requirements tend to adhere to them in other markets too.

Yet even this is likely to be insufficient to curb global emissions and meet the targets laid down in the Paris agreement on climate change. So von der Leyen in her address to the European Parliament "dropped a bomb": she promised to introduce a border tax aimed at preventing "carbon leakage", or the relocation of carbon-intensive production to countries outside the EU. This measure should both "correct competitive distortions and deter those tempted to abstain" from global agreements.

Such a tax will "win applause" from environmentalists, but it "won't fly easily". Free traders will "cry foul. Importers will protest. Developing countries and the US will portray the measure as protectionist aggression. And an already crumbling global trade system will suffer a new shock".

It is ironic that the EU, "which has relentlessly championed open markets", looks likely to trigger a conflict over curbs on free trade to protect the planet. "But this clash is unavoidable. How it is managed will determine both the fate of globalisation and that of the climate."

# Our invisible economic miracle

**aei.org**

Official data continues to underestimate the power of new technology, says Bret Swanson. I have estimated, for example, that to buy the basic building blocks of an iPhone XS in 1991 would have cost $28m. Yet such extraordinary progress is not captured in official statistics that measure growth. A report from Goldman Sachs, "Productivity Paradox v2.0", attempts to sum up recent work on this. It estimates that "consumer surplus" – the difference between the price consumers actually pay for a product and the price they'd be willing to pay – adds around 0.2 percentage points to nominal GDP. This is the economic value of things we are essentially enjoying for "free" – cheap broadband, Google Maps, and so on. Products and services that replace older, more easily measured products and services – Uber, Airbnb and so on – add another 0.2 percentage points. Overestimated inflation and properly accounting for the sums businesses spend on internal information technology together add another 0.6 points. All told, Goldman Sachs thinks actual annual GDP growth could be a whole percentage point higher than we think. That seems high, and the estimates are, of course uncertain, but the direction of travel seems right. New technology is boosting our economy in ways that are not always entirely visible.

# Four laws of the universe

**collaborativefund.com/blog**

Truths figured out in one field of study often apply to others, says Morgan Housel. Here are a few laws that hold universal truths.

**1. Expect miracles.** In a world with seven billion people, the odds of a one-in-a-billion event are pretty good. In the course of a life, according to the mathematician who formulated the law, miracles happen at the rate of roughly one per month.

**2. For every PhD, there is an equal and opposite PhD.** Experts tell one side of a complicated story in an infinitely complex world. Expect differences of opinion.

**3. When a measure becomes a target, it stops being a good measure.** Set a big sales target, for example, and your workers will focus on hitting the target at the expense of things that are equally important; or they'll game the system to meet the goal in a way that distorts the benefit of achieving that goal.

*Know the rules of the game*

©Stockphotos

**4. It's hard to retrace the pathway to success.** The contributing factors that lead to success are many and complex so it's hard to repeat the trick. Once a brand has lost its reputation, it remains lost, for example, and star fund managers struggle to remain stars when they change jobs.

# What does the data say? Nothing...

**qz.com**

After "millennia of relying on anecdotes, instincts and old wives' tales", today we demand that arguments be backed by data, says Andrea Jones-Rooy. That's all for the good. But it's easy to forget that data collection and analysis is a human activity. "The data doesn't say anything" – we do. It pays to be aware of the errors that can creep in to data.

There may be random errors, for example – the data recorded is just wrong for some reason. There may be systematic errors – where some data consistently makes its way into your dataset at the expense of others. If you measure public opinion from Twitter posts, for example, you may forget that most people don't tweet. Finally, there may be errors of choosing what to measure. A boss may hire someone who has been to a top university thinking this is a measure of their talent, for example, when it may just be a measure of their membership of the right class. In short, don't assume that because someone has attached a number to something that it is now the truth. Ask yourself what might be missing from the picture.

# How to profit as technology transforms the way we learn

Education and training could be a $10trn business by 2030. Innovations such as e-learning and digitisation will offer huge opportunities for investors to cash in on the boom, says Stephen Connolly

Medical breakthroughs, new technology and the disruption of established industries have become part and parcel of daily business news. By comparison, education and training can seem much less exciting, despite being critical raw materials for innovation and advance. A dynamic, cutting-edge and productive global economy is a result of a highly skilled and educated workforce. And in the same way that businesses must become increasingly nimble and adaptable with products and services, so too must the process of training the workforce of the future.

Global workers, often facing significant financial vulnerability and inequality, can see that their knowledge and skills are a passport to career progression, higher incomes, and better living and working conditions. At the same time, businesses can't allow their employees' skills to fall behind those of competitors – making corporate investment in training an imperative. These are powerful drivers: an individual's instinct to progress and a business manager's need to compete and succeed.

Serving them has helped to make education and training a significant industry with an attractive outlook. Spending on education was estimated at some $5trn (£4.1trn) in 2015 and is projected to double to $10trn by 2030, outpacing global economic growth, according to researchers HolonIQ. Witnessing the positive trends back in 2012, John Fallon, who had just taken over as chief executive of Pearson – the global education and publishing business – said that he thought education "would turn out to be the great growth industry of the 21st century".

## What education means for investors

Understanding how these changes could benefit investors requires a better appreciation of what education means. Unlike, say, the oil, mining and banking industries, there's no clear-cut sector of businesses involved in education. Furthermore, many people are used to thinking of education provision as largely a not-for-profit activity – in the UK, for example, there are state and private schools, but the latter hold charitable or similar statuses and don't have shareholders. But of course, it's for-profit businesses that are of interest to investors. They're not new and their success differs depending on the education services they offer, but their presence and influence are growing as they emerge in new niches, or even disrupt established but outdated education practices.

Think of global, borderless education emerging from an accelerating use of the still under-utilised internet; training delivered via the ubiquitous mobile phone; virtual reality applications to enhance experiences and take training to new levels; and gamification – employing video-game technology to engage with users and make them come back for more. These sorts of initiatives and breakthroughs are leading to premium share prices and strong growth expectations in other sectors. Niche and imaginative for-profit approaches to education should be little different.

*"Spending on education is forecast to reach $10trn per year by 2030"*

The best approach is to break down for-profit education into key parts: schools and colleges; e-learning and professional/trade certification; textbooks, digitisation, distance learning and virtual attendance; and student accommodation and facilities management. This in turn gives a better idea of how various education and training trends are likely to translate into growth for investors.

A world of increasing regulation, for example, means whole industries have to put their staff through courses to get certificates – often annually – under continuous professional development that confers a level of competence required to continue in their roles. Financial services in the UK are a good example. Some employees undertake more ambitious training up to, and including, masters degrees to augment skills or build specialisms – a junior lawyer studying intellectual property and patent law in-depth, perhaps. Or there are staff who must have regular training to keep their skills up to date – aircrew hours in flight simulators would be an example.

At the same time, there are individuals who pay to undertake study to enhance their career prospects at their own expense and in their own time. Global population growth and an expanding middle class are drivers of this trend. Competition for good jobs and careers is high and, for many, the investment required is a price worth paying. In countries such as the UK, a common piece of urban wisdom passed on is the importance of saving for a deposit to get on – and stay on – the housing ladder. In areas such as London, however, it's redundant for many younger first-time buyers who have been priced out of the market and for whom the prospect of owning a property seems to keep getting further away. For the ambitious, accelerating their careers and income can be attractive as a means of catching-up. Rather than putting down a deposit for bricks and mortar, some are choosing to invest to lay down the building blocks of better jobs. The words of 18th-century US politician Benjamin Franklin seem as relevant today as they doubtless were more than 200 years ago: "An investment in knowledge always pays the best interest".

## Global demand

Look beyond the UK to regions such as the Far East and the demand for further education is higher than in developed markets. The global middle class, a grouping that represented barely 5% of the global population in 1950, could make up nearly two-thirds by 2030, says The Brookings Institution think-tank in Washington. In 2015 the middle class spent $35trn on goods and services, a figure expected to leap to $64trn by 2030. Only a fraction of that increased spending will be from today's advanced economies – it's mostly coming from countries such as India, China, Vietnam, Indonesia and Brazil. Education is likely to be a big beneficiary of the increased private-spending power – and is likely to be further boosted in some countries by government support.

These factors together are making for a particularly fast-growing learning sector. But it goes both ways – other countries with ageing, rather than younger, populations still need to push education. Getting

©Alamy

*Technologies such as virtual reality will play an increasingly important role in the classroom*

older in a demographically older population may mean working beyond typical retirement age. That will require more ongoing development training and refreshing skills to switch to more suitable employment.

And, once in retirement, a number of people return to education to pursue personal interests. This is an important distinction to note because, unlike career development and corporate training, it plays into the theme of millennial aspiration. There is undoubtedly a shift that favours personal experiences and a more balanced lifestyle. Education is one route to fulfilling this – it's less about degrees and more about bite-sized courses in skills such as painting or music as well as life-coaching and mentoring.

More importantly, perhaps, those who can learn from and understand how millennials respond to this type of training can design the kinds of corporate courses that will engage and prove popular with them – millennials are growing into a dominant force socially and in the workforce.

### Digitising education

There are many elements to education, but the most profitable hunting ground for investors is likely to be in innovation and the disruption of traditional approaches. Among the areas where this is occurring is digitising the delivery of courses and the further development of qualifications that can be achieved online without physically attending a bricks-and-mortar institution. This significantly opens up education to many more people anywhere in the world as the physical limits of capacity are removed. And, once the initial investment in developing the course, online portal and content has been made, each new pupil becomes extremely profitable over multiple course cycles even with syllabus updates and revisions. Not everyone can access colleges due to time and mobility constraints or personal commitments, and this should underpin demand for online distance learning, which is already showing good growth. Babson Survey Research Group, which has analysed trends in the US, reports consistently rising uptake of online courses for well over a decade. And the US Department of Education reports that 15.7% of all students in 2017 were enrolled exclusively on an online course, up 4% compared with 2016. A further 6.4% were studying online as well as taking other courses.

Major textbook publishers such as Pearson and McGraw-Hill have been going digital and reducing physical printing. What were once simply books are becoming interactive study aids, or even developing into standalone course modules. Accelerating digitisation goes hand in hand with online education offerings, although digital books also have wide application with students in traditional colleges.

### E-learning goes mobile

Many of the approaches being adopted at colleges and other institutions to engage with students remotely in a compelling way are being picked up by e-learning developers. This is not unique to the corporate world (there are many subjects that aren't work-based at all), but e-learning has been especially fast in establishing itself as a routine part of life for workers as employers seek to boost skills or put in place a programme of short courses that help meet legal or regulatory requirements. This can mean anything from setting out health-and-safety rules, defining what

**Continued on page 20**

*"Major textbook publishers have been going digital and reducing physical print"*

Continued from page 19

discrimination is, or knowing when a customer should be suspected of an offence such as money laundering.

E-learning has already established itself as a multi-billion dollar global industry set to grow at the best part of 10% a year to 2025, according to researchers at Global Market Insights. Unsurprisingly, therefore, e-learning has attracted major players from software, consultancy and cloud computing, including Microsoft, Oracle, Citrix and Cisco Systems. Much of the training is undertaken on desktop computers, but there is a strong drive to make it as flexible and accessible as possible. The mobile phone is increasingly seen as the platform of choice for short courses and training. While e-learning can still seem novel and unfamiliar to employers, its expansion and the use of technology used in broader education is making people more familiar with it, and happier to use it.

## Making training fun

Providers of training recognise, however, that it must be engaging and compelling because, for many, sitting down and completing online courses can come to be regarded as a distraction and a chore. Techniques are being borrowed from the world of gaming, for example, to help with this.

Work in these areas loosely falls under the umbrella of an aspect of the training industry referred to as education technology, or EdTech for short. Getting people to engage with learning is critical. At the global level, more than 380 million children complete primary education unable to read or carry out basic maths, according to the United Nations Educational, Scientific and Cultural Organisation (Unesco). Anything that motivates them to want to learn and practise is no bad thing. For workers, meantime, who think they are familiar with e-learning, there's much still to come. Forget the clunky PC-based slides with the ten-question quiz. Get ready for enhanced digital whiteboards; machine learning and artificial intelligence developments that assess whether an employee really understands and shift the training dynamically; virtual reality to make training as realistic and practical as possible; and adaptive learning in which computers monitor where employees' skills are weak and direct individual programmes of learning until they're satisfied that gaps have been filled.

©Getty Images

*The gamification of education is one way to keep people learning for longer*

*"E-learning is set to grow at 10% per year to 2025"*

## Physical institutions won't disappear

Of course, despite all these advances there will still be universities, colleges and many other types of learning institution. Investors will be drawn to the advanced developments, but there are still more down-to-earth ways to profit from education. An important one is real estate – specifically, student accommodation. Good centres of academic excellence want to attract well-funded and competent students from all over the world. Modern, secure accommodation can be an important consideration. Building in certain locations allows property developers to demonstrate a required commitment to social provision. For investors, the rental streams, particularly from financially-backed overseas students with few alternative living options, can be reliable. This increases by seeking out the most committed students who are less likely to drop out – masters or PhD students, for example.

So there are clearly many options for investors in the broad world of education. Below we look at some stocks that give exposure to many of these themes.

## Four plays on the education sector

UK-listed **Pearson (LSE: PSON)** has been trying to grow market share by digitising its academic materials and textbooks. It is also active across education more broadly, with e-learning, professional certifications and virtual schools. Adjusting to the changing nature of education has been a drawn-out process and there have been disappointments for investors. However, there are signs that a revival is finally gaining traction – while recent half-year sales were up just 2%, profits rose 35% to £144m, and the market responded positively. Pearson has still got progress to make and critics to disprove, but this could be a good opportunity to buy into a long-awaited turnaround. The shares trade on a price/earnings (p/e) ratio of 14, with a dividend yield of 2.35%.

An alternative in the textbook market is **Chegg (NYSE: CHGG)**. Once simply a seller of textbooks, this US-based business has successfully transformed itself into a dynamic digital education-service company with its main operations being renting out textbooks to hard-up students and online tutoring and support. The share price has been hitting fresh highs earlier this year. It continues to grow and is becoming profitable. Expectations are upbeat, meaning the shares are highly valued, on a forecast p/e ratio of 60. But its domestic market still represents a huge opportunity in which competitors have frequently struggled to build effective business models and perhaps lack the more grassroots engagement with students that Chegg seems to have.

Although much smaller, **K12 (NYSE: LRN)** has attracted investors with its model of offering public and private online schooling with ground-breaking curricula and technology solutions. There is a proven market for this among those educators and parents who feel children are not reaching their potential in traditional settings. The shares trade on a p/e of 32.

Leading UK student accommodation provider **Unite Group (LSE: UTG)** has recently agreed a deal to buy around 24,000 student beds at mid to high-quality institutions, taking its total bed count to 73,000 in 173 properties in 27 UK locations. The company is now valued at nearly £3bn, with its net assets valued at around £2.7bn by analysts. Free cash flow is strong and the stock currently yields 3.2%. The dividend is expected to grow around 13% a year, taking the yield to over 4% by 2021.

Unfortunately, investing in EdTech is not so easy because many of the emerging companies tend to be owned privately and aren't listed on stockmarkets. It's a common problem with emerging tech. Some of these companies will eventually be listed. In the meantime, Pearson, Chegg and K12 are all firms that bring exposure to EdTech – they're developing their own technology, investing in small ventures and collaborating with others, so investors can get into EdTech opportunities under the cover of established broader businesses.

# Snap up a bargain at auction

## It's a buyer's market today, but you still need to do your due diligence before bidding

**Alexander Garrett**
Property writer

©Alamy
*Buying at auction means you can close the deal much faster*

You might not realise it from the popularity of shows such as *Homes Under the Hammer,* but property auctions are suffering a slowdown. In the last year, £2.7bn-worth of residential property was sold through auctions in the UK – a sizeable figure, but down almost 14% on the previous 12 months due to fears about Brexit and other economic uncertainties. That downturn means it's very much a buyer's market right now, says Chris Coleman-Smith, head of auctions at property company Savills. Three or four years ago, the boot was on the other foot.

Still, if you're a potential buyer considering bidding at auction for the first time in the hope of getting a good deal, there are a few tricks to learn before bidding. If you're attracted to auctions solely because the guide price looks like a steal, you may well be disappointed when a property sells for much more. It's not necessarily a trick to get people along – but it is an example of why you need to understand the subtleties of the process. "The guide price should really be seen as a guide to the reserve – the lowest price the seller will accept," says veteran auctioneer Clive Emson. "There's a protocol among auction houses that the reserve price should be within the parameters of the guide price, or if the guide is a single figure it should be no more than 10% above it."

In fact, while bidders are generally looking for a bargain when they venture into the auction room, there is a more compelling reason for being there. "You can go in and walk out a couple of hours later with a contract," says Coleman-Smith. "That's something you can't do in an estate agent. When you buy through private treaty, the owner can change their mind a couple of months down the road and decide they don't want to sell."

### Be ready before you bid

Of course, that speed and certainty also means that there is little margin for error. It's very different to making a first offer through an estate agent and then getting cold feet. So you need to do your due diligence and preparation before your bid goes in. Prices are the easy part: start by looking at comparable properties that have sold close by. Sites such as Rightmove and Zoopla, as well as the Land Registry, have a time delay before sold prices are posted, but you can get more immediate data from EIG, which covers all the main auctioneers and posts their sales data within days.

There are usually viewing days before the auction when you can see a property you've decided to target. There will also be a legal pack containing all the key documents, such as searches and the title deeds. Studying this in detail is crucial – it could alert you to major potential problems. "I had one property I was interested in, a flat in Brixton," says property investor Samantha Collett. "But when I examined the documents I found there was no right of way over the communal stairway, so I decided not to go ahead."

Many properties in an auction catalogue will be there because they are difficult to sell, so make sure you're aware of any problems. Taking a friendly builder along to look at your prospective purchase is a good idea, since they can highlight any glaring issues, such as subsidence, and how much it will cost to fix.

If your bid is successful, you will need to have a 10% deposit available that you can transfer on the spot (you should also bring two sets of ID to prove who you are, for anti-money-laundering purposes). From that point, you will typically have around four weeks until completion, when the rest of the price is due. So you should already have these funds secured before your bid – whether in the form of cash, a solid mortgage offer or a bridging loan.

## A piece of Kennedy history

Red Gate Farm is "a big piece of Kennedy history", says Vanity Fair. This 340-acre estate in Massachusetts was bought by Jacqueline Kennedy Onassis, the widow of former president John F. Kennedy, in 1979 for $1m. Originally a sheep farm with a small hunting cabin, Red Gate Farm was redesigned by architect Hugh Newell Jacobsen to include an elegant Cape Cod-style home and guest house facing a mile of Atlantic beachfront. Rachel Lambert Mellon, who had redesigned the White House Rose Garden when Kennedy Onassis was First Lady, laid out the grounds. The estate is for sale for $65m via Christie's International Real Estate.

*Jackie O's $65m estate*

## Guess the price...Well Cottage, Frampton, Dorset

**A detached, 18th-century thatched cottage in the Dorset village of Frampton, next to the River Frome. This four-bedroom property combines period features, such as beamed ceilings and an inglenook fireplace, with modern touches, including a heated swimming pool in the landscaped gardens. The gardens are a particular feature of the property and include a vegetable patch, greenhouse, water feature and summer house. But can you guess the asking price? Answer on the side of this box.**

£525,000+ DOMVS 01305-757300.

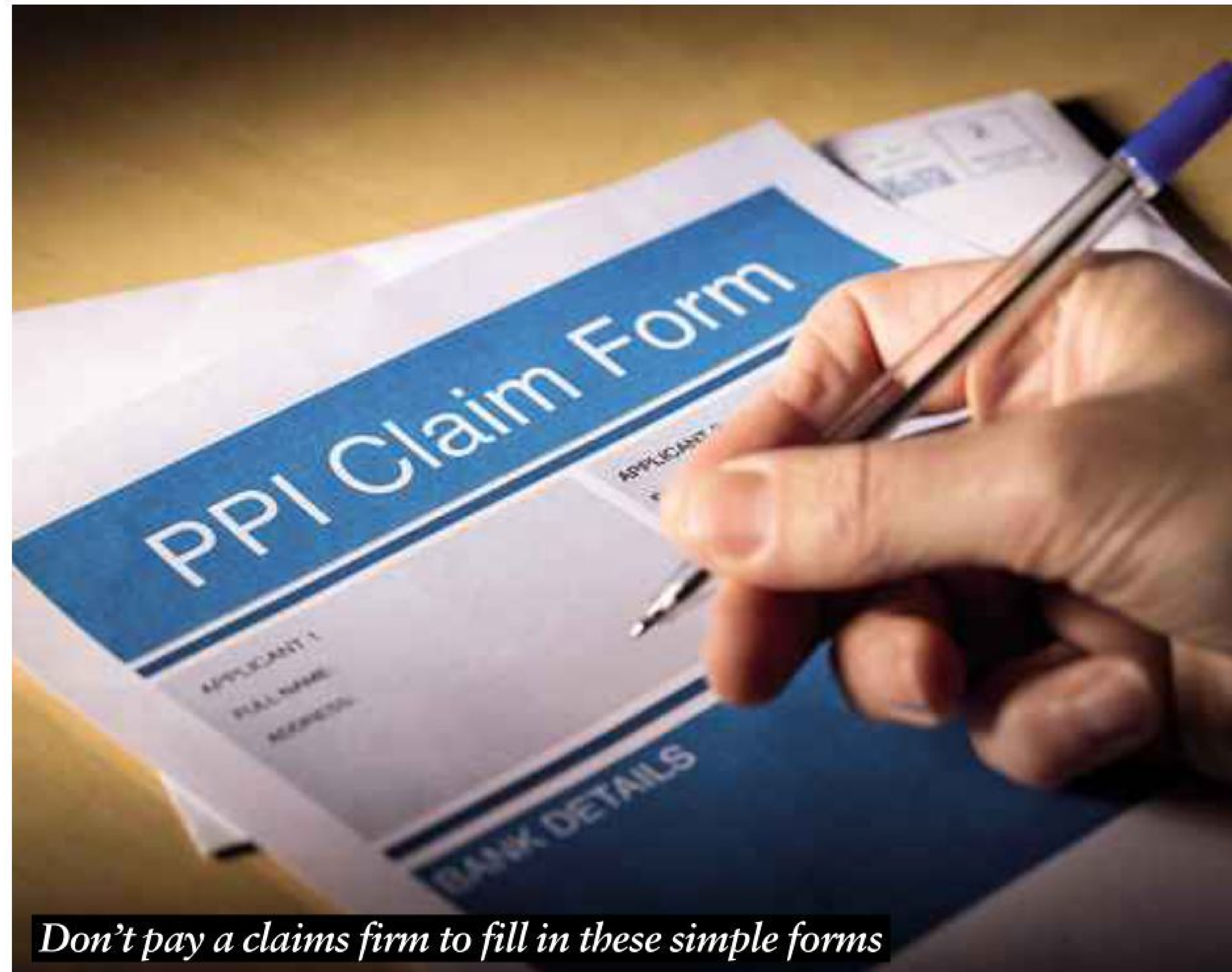
# Don't miss the PPI deadline

## Make sure you file your compensation claim for mis-sold payment protection insurance by 29 August

**Ruth Jackson-Kirby**
Investment columnist

Since the payment protection insurance (PPI) scandal began in 2006 more than £35.7bn has been handed out in compensation. Claims-handling firms have grown rich and banks have seen their profits severely dented. But an era is soon coming to an end. You only have until 29 August to submit a new PPI claim. Any received after that will automatically be rejected.

Almost a third of people owed money for mis-sold payment protection insurance have yet to make a claim, says Adam Williams in The Daily Telegraph. As many as 64 million PPI policies were sold in the UK, mainly in the 1990s and 2000s. They were sold alongside loans, credit cards and other borrowing with sales pitches telling people it would help them meet their repayments if they became ill or unemployed. Yet policies were often sold to those who were not eligible and exclusions in the small print meant many people would never be able to make a claim.




*Don't pay a claims firm to fill in these simple forms*

©Alamy

Research by the Financial Conduct Authority (FCA) has found that "72% of UK adults hit a 'significant milestone' during the 1990s and 2000s that might have required taking out a financial product linked to PPI", says Rupert Jones in The Guardian. "Forty-nine percent bought a car, 35% purchased a house and 27% got married. More than four in ten people recalled taking out credit to help fund these, including products that commonly had PPI attached, such as loans, mortgages, credit cards or store cards."

Mis-selling happened in a number of ways: you were mis-sold PPI if you were told it was compulsory to take it out, if it was added without your knowledge, or if it wasn't a suitable product for your circumstances. The latter restriction could apply if you were unemployed, self-employed, retired, or had a medical condition that would stop you from working – all of which could have meant you wouldn't have been able to claim on the policy.

Getting your money back is a simple process. There are plenty of claims-handling firms offering to fill out the paperwork for you, but they can take up to 20% of your compensation. Given the average payout is £1,700, you'll be paying them £340 to fill out a couple of forms. Better to do it yourself. The FCA has a list of providers that sold PPI on its website, so you can check if anyone you've had products with is on there. You can then go to your provider's website to fill out a claims form, or download a template letter from moneysavingexpert.com or which.co.uk and send that off.

"It's free to do yourself and you don't need to worry about paperwork," says Emma Stranack who runs the FCA's PPI campaign. "You just need your date of birth and previous home addresses to get started."


# 5 Reasons to Buy Physical Gold...

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

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

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

4 **Scarcity** - Deposits of gold are relatively scarce and new supplies of physical gold is limited. This natural scarcity and high production cost is the ultimate reason why gold holds value.

5 **No counterparty risk** - When you invest in physical gold you own it outright. You are not reliant on banks or financial institutions. In contrast, gold futures, gold certificates or ETF's all involve counterparty risk.

**5 Reasons to buy from the UK's No.1***

1. Low premium investment gold and silver.
2. Free insured next day delivery.
3. Live product prices updated every two minutes.
4. Over 250,000 orders delivered worldwide.
5. Knowledgeable and friendly customer services.

BullionByPost
The UK's No.1 Online Bullion Dealer*

**0800 084 8888**
**www.BullionByPost.co.uk**

*Source: Experian Hitwise based on market share of UK internet visits March 2016 - March 2017

# Annuities back in favour

The flexibility of drawdown doesn't always trump a secure income

**David Prosser**
Business columnist

*Annuity sales have survived – despite George Osborne*

©Getty Images

When George Osborne, the then-chancellor of the exchequer, announced that pension savers would no longer have to use their funds to buy an annuity on retirement, many people in the pensions industry thought that annuity sales would dry up. Most savers would jump at the chance to draw an income directly from their pension funds, or simply to cash the whole thing in, advisers reasoned. A product requiring savers to lock into a fixed rate of income for life at the time of their retirement could hardly compete.

But while annuity sales slumped during 2016 and 2017, the market showed signs of recovery last year. And in 2019, providers such as Legal & General have reported increased sales. That's partly because of pension schemes buying annuity contracts in bulk, but demand from individuals has risen as well – and not only from savers whose pension funds are too small for income drawdown to be practical. The financial advice group LEBC says the average saver buying an annuity through it during the first four months of the year had a pension fund worth around £177,000 – that was 17% more than last year.

Underlying this new-found enthusiasm for annuities is recognition of the value of the certainty they offer – that is, an income guaranteed for as long as you live. Clearly, they still have some significant drawbacks: they are inflexible compared to income drawdown, they offer less scope for leaving unused savings to your family after your death and annuity rates remain low by historical standards. For many savers, however, these will be prices worth paying for a low-maintenance approach to financial planning that offers security for your retirement.

*"The annuity market has become more bespoke"*

Moreover, while average rates have fallen this year, the annuity market has become more competitive, with providers offering an increasingly bespoke range of products. These not only offer higher incomes to many savers – including people in certain areas of the country, those retiring from particular professions, and those with health problems – but also many more product features.

This makes the choice harder for those coming up to retirement. If you want absolute certainty about your retirement income for life, an annuity is your best option. But even if you can afford to take some risk, you may still decide an annuity is the better choice for part or all of your savings.

## Get advice before buying an annuity

Anyone considering buying an annuity on retirement should get specialist support with the purchase. The recent scandal at Standard Life – the insurer was last month fined £30m for offering its staff big bonuses for selling annuities that may have disadvantaged customers – underlines the potential pitfalls.

The golden rule is that pension savers should always investigate the open market option. You are not required to buy the annuity on offer from the provider that looks after your pension fund – and it is likely you'll get a better deal elsewhere. The Money Advice Service's online annuity comparison tool is a good place to start to familiarise yourself with the sort of choices you'll need to make in picking an annuity contract. But specialist annuity advisers can help you narrow down the field and secure the highest possible pension income given your circumstances. Your age, gender, health, former occupation, geographical location and lifestyle will all make a difference to the income you can secure. Research published by Hargreaves Lansdown last year suggested 56% of savers could be entitled to an enhanced pension because of one or more of these factors – with an average uplift of 14% on offer – so getting advice on how to maximise your annuity income will pay off.

## Tax tip of the week

If you receive an email promising a refund from HM Revenue & Customs, don't get carried away, says Angelique Rezicka on This is Money – "it will be a scam rather than a surprise windfall". Similarly, don't rush to hand over money if the email tells you that you're in trouble with HMRC and need to pay a penalty immediately. Tax-related frauds like these are very common. Over the past three years, people reported 2.6 million approaches from scammers, by email, phone, text and other methods (including in-person visits), according to figures obtained through a freedom of information request by Parliament Street, a think tank. The true figure will be higher since many people won't report them – but if you want to do so, send emails to phishing@hmrc.gsi.gov.uk and texts to 60599. For other scams, contact Action Fraud (0300 123 2040).

## Don't lose your pension credit

Time is running out for thousands of people to avoid missing out on a top-up to their pension income following changes to the rules introduced in May. Those affected have until 13 August to apply for pension credit. Otherwise they will lose the money for good.

The issue affects pensioner couples where one partner is eligible to claim pension credit – paid to poorer pensioners to ensure they have a guaranteed minimum income – but the other has not yet turned 65. Since May 15, couples have only been allowed to make their first claim for pension credit once both partners are aged over 65. However, those who were entitled to claim credit before the rules changed but hadn't done so were given three months' grace to make their application, even if they aren't eligible under the new system. The deadline for doing so is 13 August.

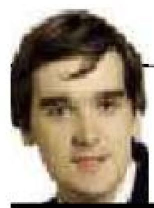
©iStockphotos

If you were already claiming pension credit before 14 May, you don't need to worry, even if your partner is not yet 65. These pensioners will continue to receive the benefit. But those who were eligible to claim but had not done so will lose the right to the money once the deadline passes – they'll then have to wait for their partners to reach the age of 65.

If you're in doubt about your eligibility, check before it's too late. Government figures suggest around one million people entitled to the credit aren't claiming it. Call the government's Pension Credit claim line 0800 99 1234 for advice.

# An ex-sinner to buy now

The company formerly known as Valeant is putting a dodgy past behind it



Matthew Partridge
Senior writer

Up until four years ago, Valeant Pharmaceuticals – now **Bausch Health Companies (NYSE: BHC)** – was regarded as one of the world's most dynamic drug companies. In 2008, J. Michael Pearson became CEO. He argued that returns from research and development (R&D) were too low and uncertain, and instead went on a buying spree, acquiring other drug and biotech firms that he considered to be particularly promising. He also instituted a more aggressive pricing policy, as well as restricting the firm's operations so as to minimise its tax liability. In the short run this successfully boosted profits. The share price rose 15-fold from 2010 to 2015, and Pearson was hailed as a genius.

*J. Michael Pearson: BHC's era of excess is over*

©Getty Images

### The fall of Valeant and rise of BHC

Then it all ended. The pricing policy, plus the company's tax management tactics, generated huge public anger, both in Canada and the US. It also became clear that much of the leap in profits was due to debatable accounting techniques, and that it was in fact losing money. In 2016, Pearson and several board members were forced to step down. By the middle of that year the share price had collapsed by 90% from its 2015 peak. Even today, the shares are worth barely more than they were nine years ago.

Given this colourful history, why should you invest in BHC now? After Pearson was forced to quit, his successor, Joseph Papa, went back to basics. Some of these changes were cosmetic moves designed to signal a new era, such as the name-change. But others were more substantive. Papa reduced debt by selling many of the firms Pearson had bought. He also decided to go back to focusing on growth through traditional research and development, rather than by buying other firms.

*"BHC has a colourful past, but the new CEO has made many positive changes"*

As a result, instead of a sprawling business empire, the rebranded BHC is now much more tightly focused, getting half of its revenue from eye care.

Yet despite all of these positive changes, it seems that many investors still associate BHC with the excesses of the Pearson era. While the share price has more than doubled since November 2017, BHC still trades at less than six times its projected 2020 earnings. This makes it look good value – it has a strong development pipeline, and its focus on eye care should mean it can benefit from long-term trends, including the ageing global population, the growth in wealth across developing countries, and the increased time we all spend in front of computer screens and devices.

Thanks to this combination of strong prospects and chronic undervaluation, as well as the fact that BHC's management looks set to announce that it has started to make a consistent profit again, I suggest that you buy at its current price of $24 at £150 per $1, compared with IG Index's minimum of £24 per $1. With a stop loss set at $18 a share, this gives you a potential downside of £900.

## Trading techniques... earnings restatements

When a company issues earnings figures, the market expects them to be accurate. However, occasionally a company issues amended figures. This can be for one of two reasons. In some cases, it has sold a revenue-generating asset and wishes to produce past figures that omit the contribution of this asset, to give investors a more realistic view of future profits. In other cases the previous figures were inaccurate, due to accounting error, improper valuing of assets, or even fraud.

Investors, of course, don't like to hear that a company's profits are lower than they were led to believe. In 2008, research firm Audit Analytics analysed 674 restatements issued by US firms in 2006. The analysis found that they generally had a negative impact on the share price.

A 2010 study by Mohammad Robbani, Sekhar Anantharaman and Rafiqul Bhuyan of California State University, Sacramento came to a similar conclusion – the latter study found that even positive restatements (where profits are revised upwards) depressed the share price. However, context matters. Audit Analytics found that restatements that were reported within periodic filings (such as quarterly earnings or annual reports) had only a short-term negative impact, with the share price quickly rebounding (implying that it's a good idea to buy such shares after the initial fall). By contrast, corrections made outside this period were more damaging over the long run, with the price worsening over time. The study also found that merger-related restatements tended to have only a tiny short-term impact, whereas those involving problems with the quality of the accounting had a severe impact, in both the short and long term.

©iStockphotos

## How my tips have fared

To put it mildly, this was not a good fortnight for my tips. Given that the FTSE has taken a battering, it's no surprise that five out of my six long tips went down. John Laing fell from 381p to 376p; JD Sports fell from 618p to 582p; Bellway fell from 2,895p to 2,868p; Superdry declined from 426p to 389p; and Safestore fell from 637p to 607p. The only long that didn't decline was Hays, which stayed at 147p. While my long positions are still collectively in the black, the net profit on them has shrunk from £1,076 to just £388.

However, if my long tips did badly, my short trades did even worse, with four out the six rising in price. Weis Markets rose from $35.61 to $38.68, and digital currency bitcoin rose from $10,252 to $11,500. Meanwhile, Just Eat surged to a peak of 780p from 642p, while Pinterest rose from $25.80 to a peak of $33.57. In both of these cases, the price rises triggered the recommended stop losses at 770p and $30 respectively. As a result, despite Tesla falling in price from $257 to $228, and Netflix dropping from $310 to $305, the profit on the short tips has gone from £893 to a loss of £1,083 (counting the losses on Pinterest and Just Eat).

Both Beyond Meat and Zoom Video Communications remain above the price at which I recommended you short them, so they are not in the portfolio. I'm also going to suggest closing the long position in Hays, since it is making a loss, after six months, as well as taking profits in John Laing (which we tipped last November). As a result, this leaves us with five long tips (including this week's tip, Bausch Health Companies) and four shorts.

# Four attractive UK income opportunities

A professional investor tells us where he'd put his money. This week: Mark Barnett, Invesco Perpetual Income and Growth Investment Trust

The UK equity market offers one of the most attractive levels of income of all global equity markets. However, this income has traditionally been generated by a concentrated mix of large-cap stocks. I seek to create a diversified portfolio of income-generating companies with the potential to grow those payments ahead of inflation over time. The ability of investments to generate sustainable free cash flow and the attitude of company management towards shareholder distributions is crucial to success. Fortunately, within the UK market, there are some very interesting areas of opportunity.

### Domestic firms hit by Brexit

Negative sentiment towards sterling and domestic companies since the EU referendum has resulted in a wide degree of polarisation within the market. Companies with substantial overseas revenues have benefited from the devaluation of sterling, but domestic-facing stocks have been derated indiscriminately. This has created an opportunity to purchase shares in businesses with strong fundamentals at attractive prices.

One area that offers evident value is real estate, where political uncertainty has placed significant pressure on valuations. Within this sector, **NewRiver Reit (LSE: NRR)** stands out. This real estate investment trust offers highly diversified income from retailers that are growing (discounters and convenience stores) and are relatively resilient to online challenge. Roughly one fifth of the portfolio is pubs, while the top-ten retailers account for less than 15% of NewRiver's rental income and there is virtually no exposure to department stores.

*"Domestic-facing stocks have derated indiscriminately"*

Retailer **Next (LSE: NXT)** is another business operating within a Brexit-hit sector, while shares face the additional challenge of the pessimistic story around high-street retailers. However, the company is challenging this narrative. Next released encouraging full-year results in May that included a 15% rise in online sales – evidence that the company's multi-channel offering allows it to see the growth of online shopping as an opportunity not a threat. Meanwhile, the increase in the annual dividend reaffirmed Next's focus on shareholder returns.

### Fears about tobacco are overdone

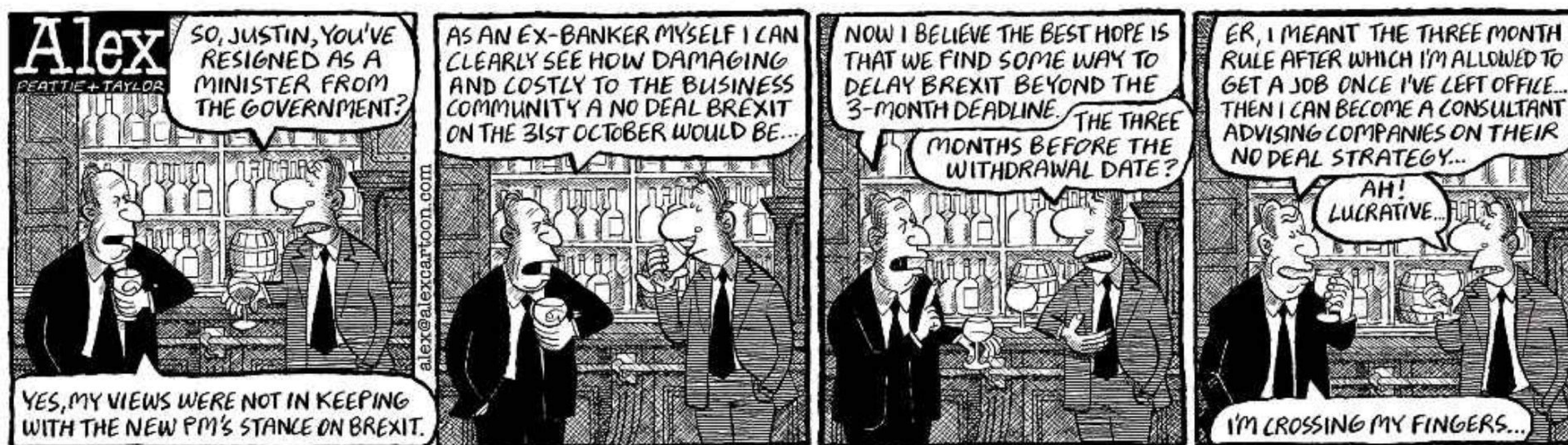
At the other end of the market, tobacco is also facing challenges. The resurgent threat of regulation and concerns around industry disruption have perturbed investors and seen valuations tumble across the sector. To my mind, this pessimism is overdone. A viable next-generation offering has become a principal part of the long-term strategy for the tobacco industry. Companies such as **Imperial Brands (LSE: IMB)** and **British American Tobacco (LSE: BATS)** are at the forefront of developing new technologies, with the resources to drive successful innovation. Furthermore, the impact of proposed legislation is unknown and will, if successful, take years to implement. If companies continue to focus on product innovation, while maintaining profit margins on traditional tobacco, they should also continue to provide a reliable source of income. The historic commitment of company management to return cash to shareholders makes tobacco stocks a very interesting area of the market, especially as they have fallen so dramatically over the past two years.

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

**London Stock Exchange Group (LSE: LSE)** operates the London and Italian stock exchanges, and provides market data and indices and a range of post-trade services, including clearing, settlement and custody. Latest results for the six months to the end of June showed revenue up by 7% to over £1bn, and operating profit up by 11% to over £533m. Last week's announcement that it will buy data provider Refinitiv for $27bn, which it hopes will allow it to compete with services such as Bloomberg, has driven the share price to an all-time high. It has risen by more than 50% in the last 12 months.

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

**CYBG (LSE: CYBG)** owns Clydesdale and Yorkshire Banks, as well as Virgin Money. The group was floated in 2016 after its then-owner, National Australia Bank, decided to get rid of its UK businesses. Despite an update in which it said trading was in line with the board's expectations, the shares dived on news that revenue had been hit by a "large volume" of customers paying off their mortgages in the third quarter. Some shareholders are also expressing anger over how much the bank is paying its top executives. The share price has fallen by 50% in the last year.

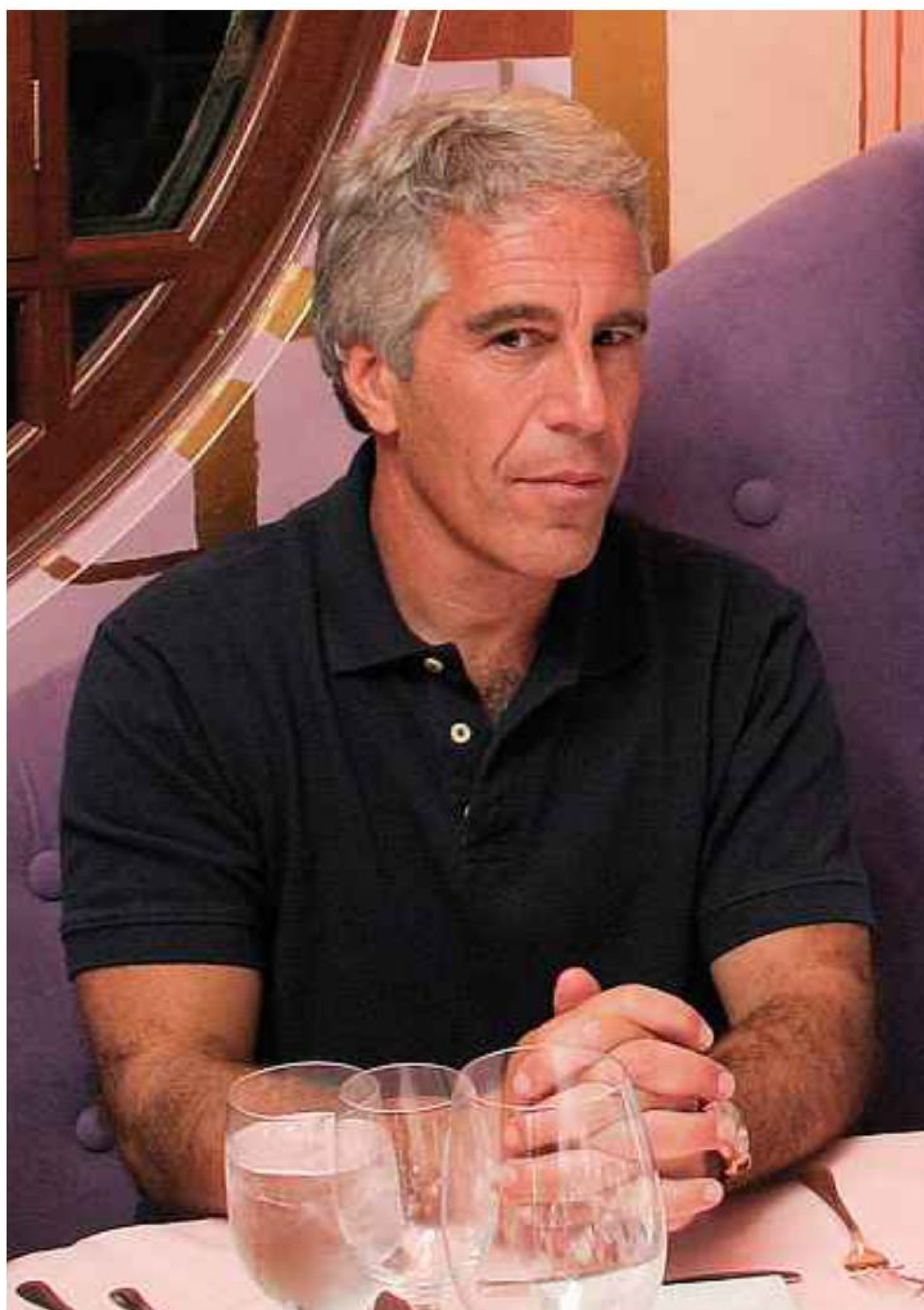



©The Telegraph 2019

# The sordid downfall of a plutocrat

Jeffrey Epstein was a financier who rubbed shoulders with the rich and powerful. Allegations of sexual abuse have brought him down. But just how did he make his money? Jane Lewis reports

When US federal prosecutors recently unsealed their indictment against Jeffrey Epstein – a New York financier with a jet-setting lifestyle and a host of famous friends in business and politics – it revealed "sordid details" of sex trafficking allegations dating back to 2002-2005, says The New York Times. Briefly put, Epstein and employees "brought dozens of vulnerable girls, some as young as 14, to his mansions in Manhattan and Florida" where he molested them for cash – and bribed them to recruit others to ensure "a steady supply". Prosecutors said that "a vast trove of lewd photos" hidden in a safe showed that Epstein – who had dodged federal charges in 2008 after reaching a notably lenient plea deal with South Florida prosecutors – was "unrepentant". His lawyers counter that the new case is just "ancient stuff". But, a decade on, it's striking how many questions still hang over Epstein. How much is he actually worth? Where did he get his money? And who exactly are his "billionaire clients"?



### Who is Jeffrey Epstein?

"There's a lot to unravel," says former Wall Street Journal editor Gerard Baker in The Times. A "central puzzle" is how a man with Epstein's history came to continue "enjoying what might be termed the normal life of an American plutocrat", rubbing shoulders with everyone from presidents (he counted both Bill Clinton and Donald Trump as friends) to princes. Plenty of lurid explanations have been advanced, including speculation that Epstein, 66, had built "a vast network" of powerful people who shared his alleged sexual predilections.

*"Epstein set up his own money-management firm, vowing only to serve billionaires"*

So who is Jeffrey Epstein? He had a humble start, says the FT. "A Coney Island native and college dropout," his father worked for the Brooklyn parks department. Epstein had a restless intelligence and charm and "gained access to a different world" when he began teaching maths at Manhattan's elite Dalton School in the 1970s. One parent was Alan "Ace" Greenberg, the Bear Stearns chairman and Wall Street legend, who offered him a job. Epstein left after five years to set up his own money management firm, vowing only to serve billionaires.

### A murky past

There's no doubt that Epstein made money – even if it wasn't as much as he liked to imply. But the question of where it came from "has confounded journalists for decades". He put it about that he was a property developer, but his only known client was Les Wexner, the retail mogul behind Victoria's Secret – and Wexner insists he hasn't dealt with him for years. Wall Street traders say Epstein "left no tracks in the financial markets" (although he once worked with Steven Hoffenberg, later convicted of running a Ponzi scheme). His company, Financial Trust Co, is incorporated in the notoriously opaque US Virgin Islands.

"It's very murky," Thomas Volscho – a US sociology professor who is writing a book about Epstein – told New York magazine. Volscho claims to have found "little bits of evidence" that "Epstein is a fraudster": for a start, he embellished his educational background. He speculates that Epstein may have been embezzling funds from the charities he supported, and was possibly involved in money laundering. There's also evidence of "blackmail", which would be in keeping with "the way Epstein operates".

Whatever the truth, the days of Epstein's pomp are almost certainly over, says the FT. He faces 45 years in prison if convicted. The whispers percolating through the Hamptons this August concern who he might take with him.

## Great frauds in history... *Marc Dreier*

**How did it begin?**

**Marc Dreier was born in Long Island, New York, in 1950 and graduated with a law degree from Harvard Law School in 1975. After two decades working at various Wall Street law firms, he left to strike out on his own and by 2000 he was experiencing modest success as a senior partner in the medium-sized law firm Dreier, Baritz & Federman. Dreier's restlessness drove the other partners away, leaving him in sole charge of the firm, which he renamed Dreier LLP. He then started to expand aggressively.**

**What was the scam?**

**To raise money for the expansion, as well as to fund a lavish lifestyle, Dreier began to borrow money from hedge funds, issuing fake bonds from a corporation, Solow Realty, run by one of his clients, Sheldon Solow. To make the scam seem convincing, Dreier constructed a fake balance sheet and offered interest rates that were slightly above the going rate. Initially Dreier hoped that the profits from his law firm would repay the loans, but with the expansion costing more money than expected, and as he acquired a taste for the high life, his firm began to turn into a traditional Ponzi scheme.**

**What happened next?**

**By 2008 the economic downturn led many investors to demand their money back. To cover these redemptions, Dreier borrowed more money from hedge funds, even holding meetings in Solow's offices (which he had access to as Solow's lawyer) and hiring someone to impersonate one of his client's executives. The hedge funds started to grow suspicious and ask questions. Dreier was finally arrested after an attempt to sell more notes, this time on behalf of the Ontario Teachers' Pension Plan, which ended in disaster when a receptionist at the fund called the police. After Dreier's arrest in November 2008, his law firm was wound up and he would eventually be sentenced to 20 years in prison. The sale of the firm's assets, as well as of Dreier's property, cut losses from the gross figure of more than $700m (£576m), but investors still ended up $400m out of pocket.**

**Lessons for investors**

**Many of the losses could have been avoided had the funds done more due diligence, rather than taking Dreier at his word. Indeed, the trigger for the collapse came when a hedge-fund analyst contacted Solow Realty directly.**

©Getty Images

# The rebirth of a Singaporean institution

The iconic Raffles hotel has reopened after an extensive renovation. Chris Carter reports

Singapore's world-famous Raffles hotel reopened last Thursday. The iconic institution had undergone a two-and-a-half-year spruce up. "We were a little tired before the restoration," Christian Westbeld, the general manager, admits to Alyson Krueger in The New York Times. At 132 years old, who wouldn't be? But now Raffles has taken on a whole new lease on life. "I don't want to say we are now hip, but we are relevant," says Westbeld. Around the vintage books and leather furnishings, millennials congregate after work, says Krueger. "But this isn't a trendy new bar or the lobby of a fashionable boutique hotel. Rather this is the Writers Bar" – a revered Singaporean institution, according to Raffles.

*The birthplace of the Singapore Sling*

It's all a far cry from the hotel's heyday in the late 1800s and early 1900s when Raffles was "a high-society nexus of the British and the well-heeled", says Chantal Sajan in The Straits Times. Today, "everyone is invited to schmooze, linger and savour a slice of Singapore's living heritage".

For many years, Raffles was "one of the most cutting-edge hotels around; it was the first in Singapore to have electric lights, for example, and the first to have French chefs, and to offer butler service", says Sandra Ramani in the Robb Report. Following the restoration, that still rings true. Standout in-room amenities include "a custom-crafted trunk-style mini bar with complimentary snacks, bespoke bath products from London-based perfume house Ormonde Jayne, and truly efficient iPad-based in-room tech". Three-Michelin-star chefs Alain Ducasse and Anne-Sophie Pic both have restaurants.

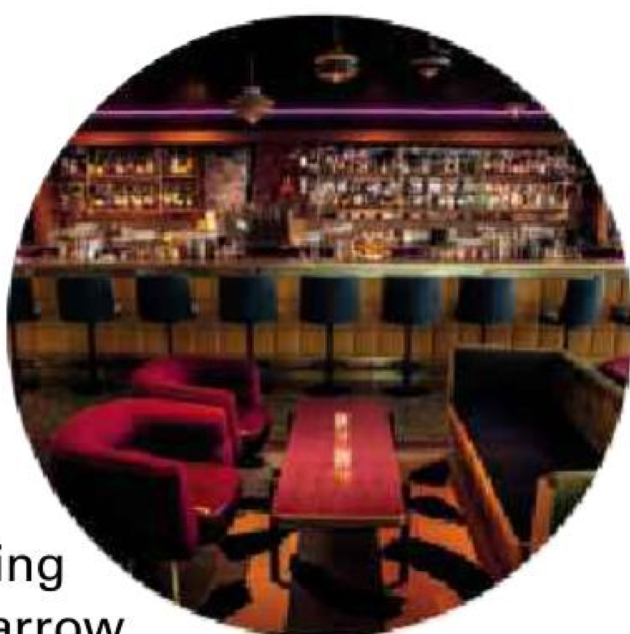
*"Everyone is invited to schmooze, linger and savour a slice of Singapore's heritage"*

Yet it's the Long Bar for which Raffles is arguably best known. The floor is covered in peanut shells. "You'd be forgiven for thinking the cleaners are on strike, until you notice the visitors, throwing shells onto the floor with wild abandon," says Tamara Hinson in The Independent. It's a tradition that harks back to when Raffles was surrounded by nut plantations rather than the skyscrapers that loom over it today. Yet it's one that goes against the grain for the law-abiding locals. "As a Singaporean I struggle sometimes, but it's liberating!" LeRoy Chan, the hotel's marketing manager, tells Hinson. It was also in this bar, in 1915, that barman Ngiam Tong Boon invented one of the world's most iconic cocktails – the Singapore Sling.

*From S$869 (£520) per night, raffles.com*

# Three of the world's best hotel bars

## Retro chic



The tides are turning for the humble hotel bar, says Kaitlyn McInnis for Maxim. Hotel cocktail bars are now taking centre stage. Sparrow (sparrowbar.com) at The Dalmar hotel in Fort Lauderdale, Florida, is a case in point. It takes its inspiration from the clean lines, natural materials and open spaces of the American modernism of the 1950s. What's more, it became the city's highest rooftop bar, when it opened in May on The Dalmar's 25th floor. "Expect a funky indoor-outdoor lounge with breathtaking views of the city and expertly crafted cocktails, including the 'Sticks and Stones', which is comprised of brandy, vermouth and champagne."

## Urban cool

The "eclectically-designed" Zetter Townhouse (thezettertownhouse.com) in Farringdon, London, "has recently undergone renovations, making the interiors all the more eye-catching", says Ella Alexander for Harper's Bazaar. "Its cocktail lounge feels like stepping inside an aristocratic home from a bygone era, with sumptuous velvet sofas, antique tables, taxidermy and open fireplaces." A new cocktail menu from "leading mixologists" Matt Whiley and Rich Woods includes house cocktail Eternal Martini, a concoction of quartz stone-washed gin, strawberry vermouth and almond flower.

## Historic vibe

"Bar Hemingway, hidden towards the back of the Ritz Paris (ritzparis.com) in the city's 1st arrondissement, is crammed with leather upholstery and memorabilia," says Zane Henry in National Geographic. The walls are decorated with tributes to Ernest Hemingway, who is said to have "liberated" the bar from the Nazis at the end of World War II by downing 51 dry Martinis in a row. "It's small and comfy, and the friendly staff are very happy to make recommendations." They specialise in classics, but visitors should also make sure to sample creations such as the Sorrento (limoncello, prosecco and orange bitters on ice) and the Clean Dirty Martini.

This week: houses with outdoor swimming pools – from a contemporary beachside property in Sao Sebastiao,

▲ **Honnington Farm House, Honnington Farm, Tunbridge Wells, Kent.** This farmhouse incorporates a single roundel oast and is set in large grounds that include a natural swimming pond. It has a three-bedroom annexe and a large kitchen with an Aga. 6 beds, 4 baths, 3 receps, conservatory, 21.83 acres. £2.5m Knight Frank 01892-772947.

▶ **Yetson House, Ashprington, South Devon.** A restored, Grade II-listed Georgian house set in landscaped gardens that include a heated swimming pool with a pool room. 5 beds, 4 baths, 3 receps, breakfast kitchen, wine cellar, 4-bedroom barn conversion, courtyard barn with kitchen, walled garden, vineyard, 8 acres. £2.5m Marchand Petit 01548-857588.

▶ **Manna Ash House, Weston Colville, Cambridgeshire.** This family house incorporates two Victorian cottages that have been extended into one property. The large gardens include a natural swimming pool with a timber deck and a thatched summer house with a changing room. 5 beds, 2 baths, 3 receps, kitchen, workshop, outbuilding with two offices and a kitchenette, 1.39 acres. £995,000 Cheffins 01223-214214.

Brazil, to a farmhouse in Newbury, Berkshire, with an outdoor pool that extends into the kitchen

**Stonehill House, Drayton, Abingdon, Oxfordshire.** A Grade II-listed, early Georgian house with later additions set in grounds that include a freshwater swimming pool and extensive barns, including one with a vaulted ceiling that is currently used as a wedding venue capable of seating 200 guests. 7 beds, 5 baths, 4 receps, breakfast kitchen, cellars, detached studio, two three-bedroom cottages, orchard, vegetable garden, 19 acres. £2.95m Savills 01865-339700.

**The Gardens, Motcombe Park, Shaftesbury, Dorset.** A renovated, 1870s house that has been extended to enlarge the kitchen. It has a wildlife pond and further land that includes a large swimming pond with an island. 5 beds, 2 baths, 3 receps, study, stables, 3 paddocks, 7.4 acres. £1.45m Jackson-Stops 01747-850858.

**Park Hill, Ealing, London W5.** A detached family house close to Ealing Broadway with a private gateway and forecourt and a large garden that includes a heated swimming pool. It has high ceilings with detailed cornicing, wooden floors, a large conservatory, and a self-contained flat on the top floor with a separate entrance at the side of the house. 8 beds, 7 baths, 4 receps, cellar. £3.75m Savills 020-8018 7100.

**Baleia Beach, Sao Sebastiao, Brazil.** A contemporary property in a beachside location, built with eucalyptus pillars that are in keeping with the natural surroundings. More than 500 native species of trees have been planted to rejuvenate the gardens. It has a private deck with an infinity pool overlooking Baleia beach and the sea beyond. 5 beds, 5 baths, recep, kitchen, games room, dock with a boat ramp, 8.65 acres. $3.98m Christie's Real Estate +55 11 307 43600.

**Norman Farm, Burghclere, Newbury, Berkshire.** This property is available in two lots. Lot one includes an extended, Grade II-listed farmhouse with a heated swimming pool that adjoins the living room and extends into the kitchen to enable swimmers to enter the water from inside the house. The cellar includes a sauna and an underground tunnel leading to the barns. 4 beds, 3 baths, 2 receps, Jacuzzi, gardens, 17.8 acres. Lot two is available by separate negotiation. £2.25m Strutt & Parker 01635-899410.

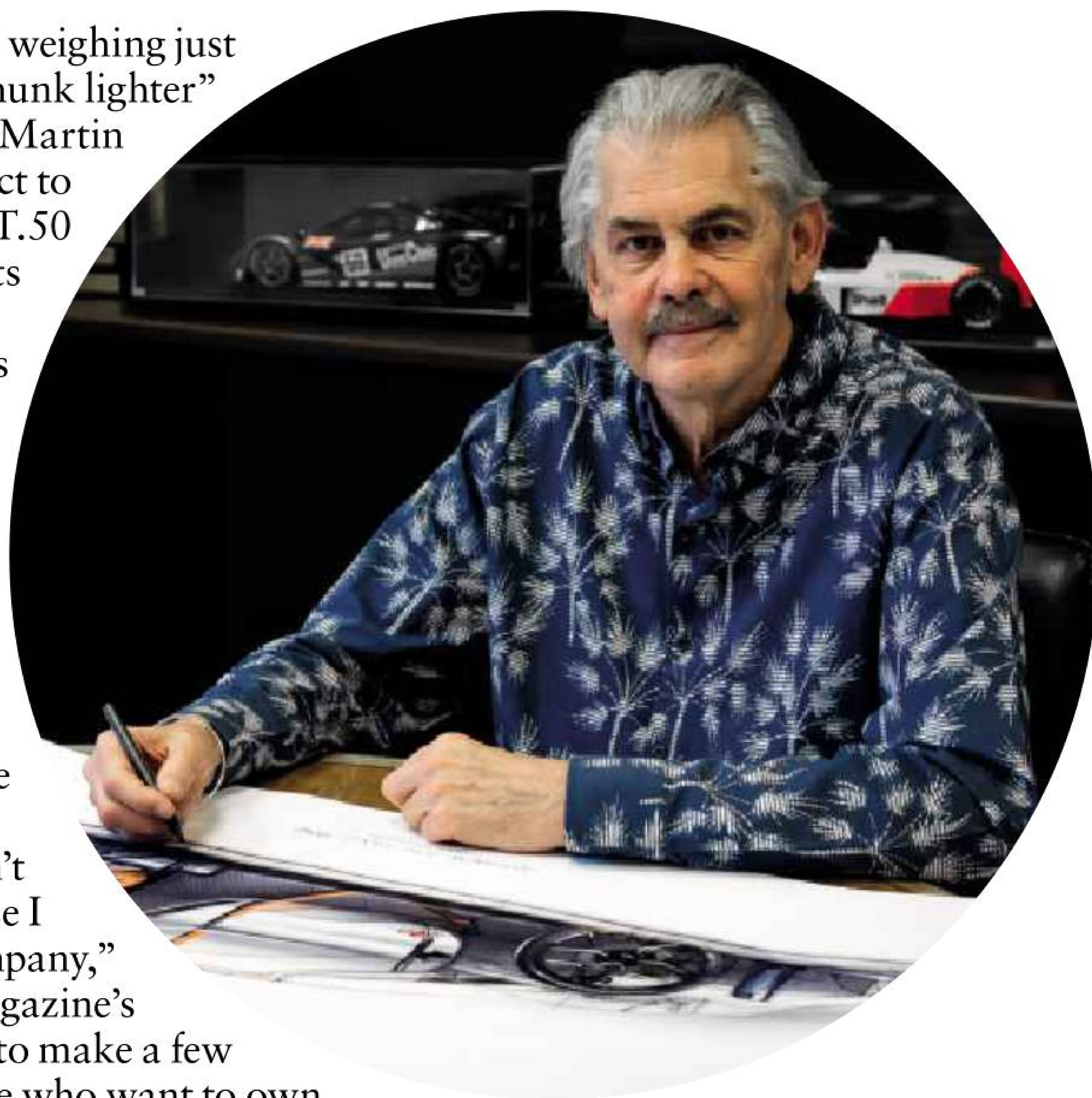
# A £2.5m work of auto-art

The spiritual successor to the McLaren F1 will be a true driving machine. Chris Carter reports

Gordon Murray, the man behind the one-time fastest car on the road, is not about to take his latest creation electric. "Just about the most ridiculous thing you could do at present is make an electric supercar," Murray (pictured) tells Autocar's Steve Cropley. "With batteries in their current state, you'd end up with something that weighed two tonnes, would go well in a straight line for a while, but wouldn't corner because of the weight, and wouldn't have much range."

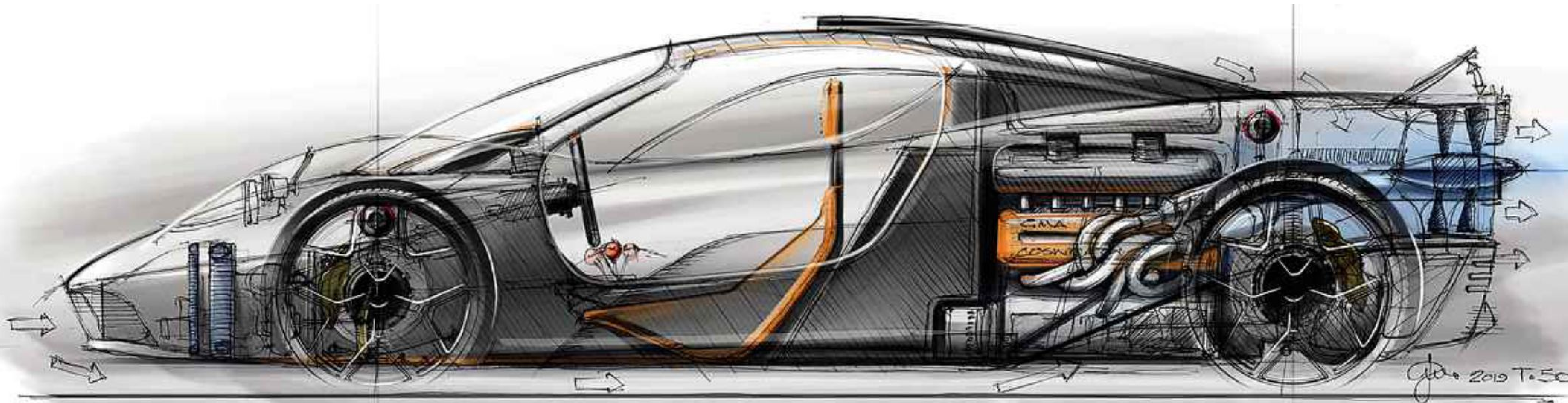
The (code-named) T.50 is the "spiritual successor" to the McLaren F1, the supercar Murray designed in the early 1990s. But it would be a mistake to call this a "purely nostalgic exercise", says Jordan Katsianis in Evo. "Murray's decision to eschew hybridisation, dual-clutch transmissions and even turbocharging is not for tradition's sake, [but] rather because of his continued desire to create his idea of a true driving machine." So the T.50 will produce "just" 650bhp and 450Nm of maximum torque. "But in the same way a Patek Philippe is less 'useful' than an Apple Watch, it's the way those numbers are delivered that is key."

What the mid-mounted mini-V12 Cosworth engine has, though, is revs, says Will Dron in The Sunday Times Driving section. "Lots of revs." The 12,100rpm red line makes it the highest-revving engine ever used in a production car. It will "no doubt ensure that it screams like a banshee when the T.50's accelerator pedal is mashed to the floor". And weighing just 980kg, it will also be "a chunk lighter" than the upcoming Aston Martin Valkyrie, "which we expect to be around 1,160kg". The T.50 will be the lightest car of its type ever made.



For now, the T.50 exists only on paper. The first cars are expected to roll off the Gordon Murray Automotive production line in Surrey in 2022. One thing's for sure, though – there will only be 100 of them for a lucky few at £2.5m a pop. "If we made 300 we could make them 800 grand, but I don't want to make 300, because I don't want to be a car company," Murray tells Top Gear magazine's Paul Horrell. "I just want to make a few very special cars for people who want to own a piece of engineering and art."

***"I don't want to make 300 – I just want to make a few very special cars"***




## Wine of the week: electrify your palate with this Txakoli

**2018 Flysch, Bodega Gorosti, Getariako Txakolina, Spain**
*£14.95, Berry Bros & Rudd, bbr.com*

**Matthew Jukes**
Wine columnist

Last week I featured the ultimate English aperitif white wine (if you missed it, you can look it up on my website or at moneyweek.com). This week, I have searched for an equally thirst-quenching style of white wine from the rest of the world. If you have yet to experience the palate-electrifying flavour of a Txakoli then you haven't lived – or rather your palate is still in snooze mode.

With only 11% alcohol and a water-white colour, this style of wine is the Basque country's gift to the world. Traditionally, you would pour this wine, ice cold, from a great height (at least 50cm) into a glass and watch the microscopic bubbles, coming from the dissolved carbon dioxide, fizzle as it settles. Don't waste a moment and then slake your thirst – your eyes will pop out of your head.

This is the starting-gun wine for a great seafood feast. It is the time-honoured aperitif in every Spanish three-star Michelin haunt. The hondarrabi zuri grape is certainly an oddball, but it has magical qualities and, like top-flight Muscadet (a very rare beast but one worth hunting down), it has a wet pebble/sea spray freshness that few wines can manage.

Flysch is the finest version of this gripping style of wine I have ever tasted in the United Kingdom. It is a small price to pay for a white-knuckle, white-wine experience. I am certain that you will enjoy the ride.

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

# Invest in female artists

That's where the value is, and prices are starting to rise. Chris Carter reports

Move over Jeff Koons and David Hockney. When it comes to making money from investing in art, it's female artists who are in the frame. Is that overstating things a bit? Koons and Hockney are both big names, who continue to attract big prices. Just look at Koons' *Rabbit*, which sold for $91.1m (£74.7m) in May – a smidgeon more than the $90.3m Hockney's *Portrait of an Artist* fetched last November. Both of those sums set the record for the most paid for an artwork at auction by a living artist – and both Koons and Hockney are, of course, male. But on the whole, it's works by post-war female artists that are appreciating at the fastest rate, according to Sotheby's Mei Moses indices, which track the repeat-sale prices of 60,000 artworks.

The Sotheby's study found that the All Art-Female (AAF) index, which comprises 2,472 repeat sales by 499 female artists, rose by 72.9% between 2012 and 2018. That compares with just 8.3% for the All Art-Male (AAM) index, which is made up of 55,706 repeat sales by 8,477 male artists. "This is in contrast to the previous 50 years in which the resale markets for both male and female artists performed roughly in parallel (albeit at different volumes)," says Michael Klein, head of Sotheby's Mei Moses. Break the data down to show works by just contemporary female artists (as opposed to all female artists) and resale prices have risen by 87.7% in those six years. (For non-contemporary female artists the figure is 30.7%.)

Works by men do still make up 90% of the market by volume and 93% by value, and that hasn't changed in the past decade, notes Klein. But that might change. One big reason for this is simply that work by women has been overlooked for so long – the pool of "undiscovered talent" is therefore deeper. When the supply of works by artists such as Jackson Pollock or Willem de Kooning are exhausted, the spotlight tends to widen to include related works by undervalued female contemporaries such as Joan Mitchell and Helen Frankenthaler. "The median compound annual returns (CARs) for works by Mitchell and Frankenthaler... resold at auction between 2014 and 2018 were 14.7% and 10.9% respectively," says Klein. For Willem de Kooning and Pollock, the figures were 7.8% and 6.5% respectively.

## Women still lag the field

Economist Clare McAndrew sounds a note of caution, however. She points to the disparity of sample sizes used by the AAF and AAM indices mentioned above. "It's really difficult for women to make it into the secondary auction market in the first place," McAndrew tells CNN. "So there's a huge bias in this data – the women it's looking at are the really successful ones." Klein disagrees, telling CNN that McAndrew's objections don't explain "why the indices tracked together closely for so long before diverging". But it's true that a few women have become phenomenally successful in recent years, not least Jenny Saville, whose 1992 portrait *Propped* sold for £9.5m last October – the most paid for an artwork by a living female artist.

Then there's Japanese artist Yayoi Kusama (pictured), who has risen almost to brand-name status. And yet, even with Saville and Kusama, the prices paid for their works still lag those of, say, Koons and Hockney by some way. Whether they still will over the next decade remains to be seen. But they have quite some catching up to do.

## Auctions

### Going...

A cricket bat signed by Australian great Don Bradman is heading for sale with Leski, an auction house in Melbourne, on 11 August. The bat has also been signed by 16 members of the infamous English "Bodyline" team of the 1930s – named for the tactic whereby balls were bowled at the bodies of Australian batsmen, which was seen as physically threatening and potentially dangerous. *Wisden*, the bible of cricket, described the matches as "probably the most unpleasant Test [series] ever played", says The Times. The seller, James Sanders, wouldn't say how much he had paid for the bat at an auction in New Zealand, but it is believed to have been "a few hundred" New Zealand dollars, says The New Zealand Herald. This time around it is expected to sell for up to A$35,000 (£19,500).

©Getty Images

### Gone...

An auction of tennis memorabilia belonging to former Wimbledon champion Boris Becker raised £680,000 last month. A silver replica of the US Open trophy that the German tennis ace won in 1989 against Czech opponent Ivan Lendl fetched the most at £150,250. Another replica, this time of the Davis Cup, sold for £52,100. The 82-lot sale was held at auctioneers Wyles Hardy & Co to help pay off debts owed by Becker after he was declared bankrupt two years ago. The auction had begun in June last year, but it was suspended when Becker claimed diplomatic immunity against an attempt to sue him, insisting his appointment as a diplomat by the Central African Republic gave him protection from any legal claims, says BBC News. The claim was eventually dropped and the auction rescheduled.

## The row over the other Mona Lisa

**Everybody's heard of the *Mona Lisa*. Far fewer have heard of its supposed older sister, dubbed the *Isleworth Mona Lisa* – and much less seen it. The painting (pictured) had been held in a Swiss bank vault since 1975 until it was exhibited this summer in Florence, says Philip Willan in The Times. Now Giovanni Battista Protti, a lawyer in Padua representing a minority shareholder in the painting, is pressing for it to be impounded.**

**The dispute goes back to Hugh Blaker, a British art collector, who found the painting almost a century ago. He bought it and took it home to Isleworth, west London. Hence the**

**name. Blaker later sold it to Henry Pulitzer, an American, who sold a quarter share in the artwork to the Lisbon-based porcelain-maker Leland Gilbert. Pulitzer left his remaining share to his partner, Elizabeth Meyer. When she died in 2008, an international consortium, called The Mona Lisa Foundation, bought up the Pulitzer share. The unnamed minority shareholder, who is bringing the law suit, says he wasn't consulted about the painting's latest movements. The Foundation suggests the action might have been stirred by the critical acclaim and a collection of recent academic studies that "all but establishes" that the earlier *Mona Lisa* "was executed by Leonardo". Art expert Martin Kemp is unimpressed by that. He describes the Foundation's evidence as "piles of unstable hypotheses, stacked one on another".**

# Why the rich love Mayfair clubs

Drunken and rowdy behaviour may be becoming a thing of the past, but exclusive nightclubs still thrive

I have always loved Frank Sinatra's paean of praise for the lady who was a "tramp", but for me there's only one Tramp worth knowing and that's the Mayfair club, which is celebrating its 50th anniversary this year. The institution "has long been a honeypot for the glamorous elite" and there is a "rich history of decadent stories" associated with the place, as Ella Wills points out in the Evening Standard. In the early days of the club, it was "just normal" to find The Beatles sitting next to The Rolling Stones – and even Ol' Blue Eyes himself. One evening two decades ago, "three James Bonds – Roger Moore, Sean Connery and George Lazenby – bumped into one another and ended up having dinner together".

*A honeypot for the glamorous elite: Tramp, with co-founder Johnny Gold, centre*

©Alamy

> *"The Who drummer Keith Moon was barred from the club, after destroying a chandelier by swinging from it, only to be taken back when he rang the place in tears"*

## A haunt of ne'er-do-wells

In the 1970s the club became infamous as "the nightclub where Princess Margaret felt reassured enough to let her hair down" and where her "companion" Roddy Llewellyn launched his "brief (and unsuccessful)" singing career, says Richard Kay in the Daily Mail. Other aristocratic ne'er-do-wells who frequented the club include the then-Marquess of Blandford, who was once arrested by police as he emerged in the early hours from the club to face allegations regarding a stolen cheque book and claims that he'd made off without paying taxi fares.

Still, it's best to be careful what you say about Tramp regulars. In 1990 journalist Peregrine Worsthorne found himself entangled in "an extraordinary libel action" brought by club regular and fellow journalist Andrew Neil when Worsthorne suggested (among other things) that Tramp was not a "suitable venue for editors of quality newspapers". And some years before that, a writer who had claimed that the club was a "disreputable establishment" patronised by "models that never model" and "actresses that never act" ended up having to pay "substantial damages" to Tramp's owners.

Still, Tramp's management is nothing if not forgiving, says Will Noble for Londonist. The Who drummer Keith Moon was once temporarily barred from the nightclub, after destroying a chandelier by swinging from it, only to be taken back when he rang the place in tears, wailing, "where else will I go?" Such "cringeworthy" behaviour may, however, be a thing of the past – the main problem today is that modern celebrity patrons just "like to drink water and tea". As a result, new members must splash out £1,000 for the privilege of being members – original members pay just £10 a year, the same amount that it cost when it opened.

But whatever the fee, it looks like there will be no shortage of takers. For when it comes to having a good time, "there's something about a nightclub that nowhere else can match", says Virginia Blackburn in the Daily Express. Indeed, Tramp and rivals such as Annabel's, "are far more than just places to dance" and let your hair down. They are also the perfect location for political deals, such as "secret meetings" between leaders of rival political parties. "Power, intrigue, politics, sex and all with a dancefloor – what is possibly not to like?"

Quintus Slide

## Tabloid money… why Simon Cowell deserves an Oscar

**● You have to hand it to Simon Cowell (pictured), says Vanessa Feltz in the Daily Express. "His desire for conquest is as hot approaching 60 as it was in his 20s. He's not ready to slip into ritzy retirement. There's studios to woo, scripts to commission, actors to audition and a new avenue of experience to stroll. Doubt at your peril." This is the man, after all, who launched TV talent contest *Pop Idol,* followed "in dazzling succession" by *The X Factor, American Idol* and *X Factor USA* – then "bombing back here in 2010 with the irrepressible *Britain's Got Talent*". The "only way to appear relevant is to strike out ahead of the curve, predict what people will want before they know they want it and serve it to them in bite-sized pieces to ensure they think your choices are theirs. I'd like to be there when he gets his Oscar."**

● "The pleasure of enjoying the company of Sir Graham Brady has proved a pricey business for the Cayman Islands," says Sebastian Shakespeare in the Daily Mail. The British Overseas Territory in the Caribbean invited the Tory MP and his wife on a four-day trip last month to celebrate the 60th anniversary of the Cayman constitution. The cost for flights and accommodation was £10,459 – including £4,241 for changing flight dates. "We had to come back a day early for parliamentary business," explains Brady, before admitting that he's unable to remember what the whips wanted him for. "We've had so many of these uncertain weeks," he said. Indeed. Besides which, things are likely to be slightly blurred after four days of "cultural celebrations".

● Jaden Ashman, 15, won almost £1m at the world finals of video game *Fortnite*. He says he's going to buy his mum a house, and once he's left school, turn professional. "Win, win… right? Wrong," says Jane Moore in The Sun. While "we oldies" must accept that gaming has become a career option, young lads are being exploited. "E-sports" teams have bought flats for those old enough to leave home to train in – just like those Russian hothouses for gymnasts in the 1970s. Epic, the game's developer, has facilitated gaming obsession by lowering the competition's age limit to 13. "How considerate… Even more money pouring in to its coffers as yet more kids become hooked on the gaming equivalent of crack." What happens when they stop winning?

©Getty Images

## Bridge by Andrew Robson

# Napoleonic double squeeze

This week's hero of the bygone era is former solicitor Louis Tarlo, younger brother of the more forceful Joel, and sometimes known as "Napoleon Junior" as a result.

Dealer South East-West vulnerable

North:
♠ K8
♥ K1062
♦ K10982
♣ A8

West:
♠ 7
♥ 9843
♦ Q7543
♣ 1052

East:
♠ 9532
♥ Q75
♦ 6
♣ KQ943

South:
♠ AQJ1064
♥ AJ
♦ AJ
♣ J76

**The bidding**

| South | West | North | East |
|---|---|---|---|
| 2♠* | pass | 4NT** | pass |
| 5♠*** | pass | 7♠ | pass |
| pass | pass | | |

* This was the era of the Strong Two – rather light at that.
** Taking the direct approach – asking for aces.
*** Three aces – no Roman Key Card Blackwood in those days.

West tried – rather unwisely – an aggressive Diamond lead. This ran around to declarer, Louis, who won the Knave. He drew trumps in four rounds (discarding a Heart and a Club from dummy, as West discarded all his three Clubs to match dummy's lengths). Declarer's basic plan was to set up a long Diamond, but when he next cashed the Ace of Diamonds, East discarded (a Club).

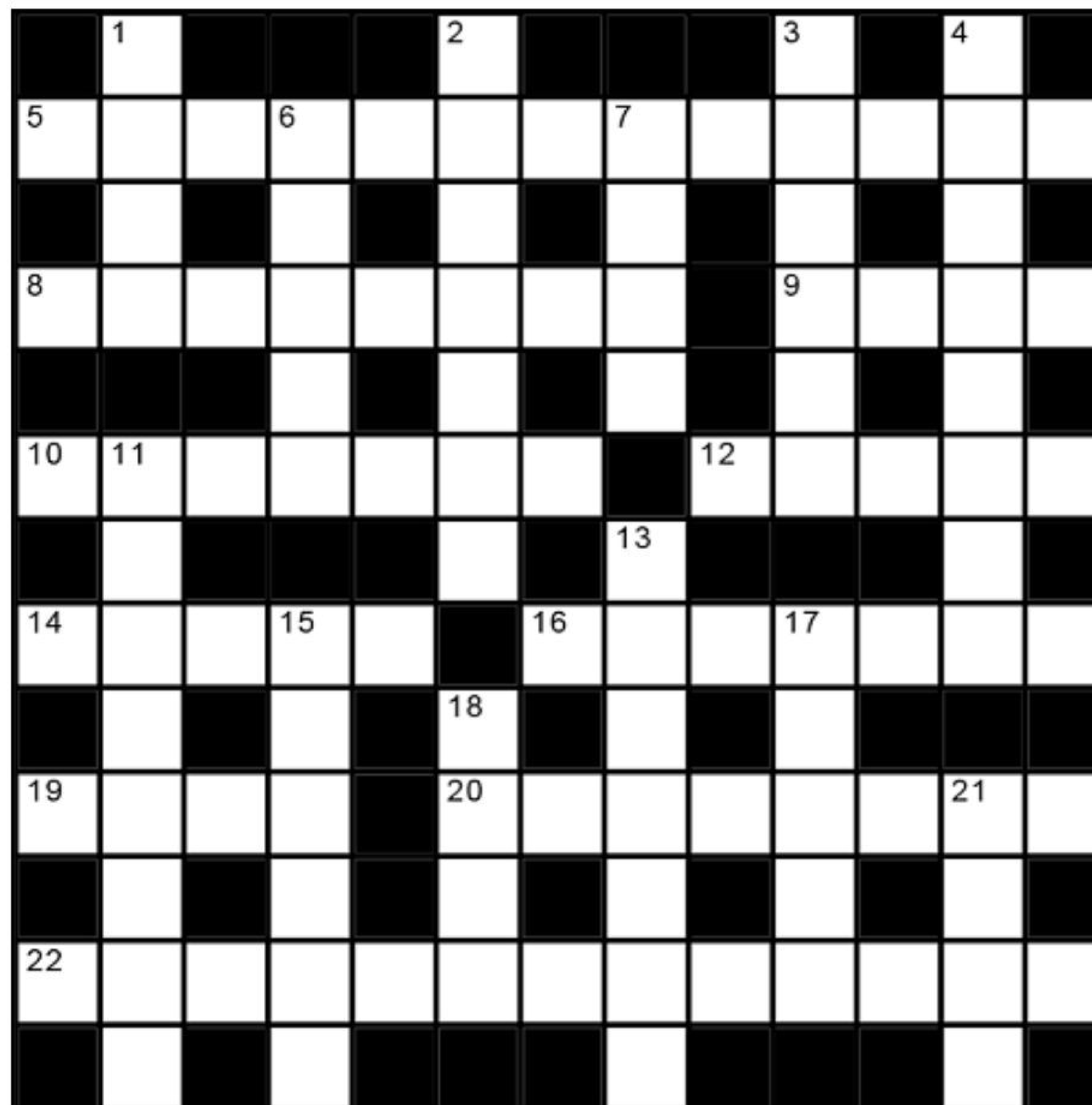
Undaunted, declarer crossed to the Ace of Clubs (West discarding a Heart), cashed the King of Diamonds (throwing a Club – as did East), then ruffed a Diamond (East throwing another Club). It appears as though declarer is a trick short, but watch what happened when he led his last trump.

West had to throw down to a doubleton Heart in order to retain the Queen of Diamonds; away went dummy's last Diamond (it had served its purpose), and East was also forced to discard a Heart in order to retain a master Club. The Ace of Hearts was cashed, a Heart to dummy's King felled East's Queen, and the last was trick taken by dummy's ten of Hearts. A perfect Double Squeeze, that acted as a simple Heart-Club squeeze on East. Thirteen tricks and grand slam made.

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

## Tim Moorey's Quick Crossword No. 959

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 19 August 2019. Answers to MoneyWeek's Quick Crossword No. 959, 31-32 Alfred Place, London, WC1E 7DP.



Across clues are mildly cryptic whereas down clues are straightforward

**ACROSS**

**5** Leave to the end tab that's for an American singer (6, 7)
**8** What champion jockey usually gets to straddle (8)
**9** Ski-lift with refreshment place, we hear (1-3)
**10** Annie is terribly stupid (7)
**12** Improvised in the Gateshead library (2-3)
**14** Collect a million with dope (5)
**16** Airborne soldier favoured protection from fire (7)
**19** Stars shop endlessly (4)
**20** Spectator attached to a beautiful lady (8)
**22** Marseilles involved with BSE in long-term French production (3, 10)

**DOWN**

**1** World's longest river (4)
**2** Quits (7)
**3** Talented (6)
**4** Heaven (8)
**6** Ancient Roman language (5)
**7** Works of, eg, Keats (4)
**11** Western county (8)
**13** Lack of success (7)
**15** Tempestuous (6)
**17** Immensely destructive weapon (1-4)
**18** They could make you bitter! (4)
**21** Flat and smooth (4)

**Name** ..................................................

**Address** ..................................................

**Solutions to 957**

**Across 1** Mash *m + has anagram* **3** Stampede *stamped + E* **9** Notable *no table* **10** Upper *(s)upper* **11** Cancellation *anagram* **13** Twenty *deceptive definition* **15** Tissue *t + issue* **17** Delicatessen *anagram* **20** Noted *no Ted* **21** Hirsute *homophone* **22** Turndown *turn + down* **23** Spas *hidden.*
**Down 1** Manx cats **2** Sit-in **4** Treble **5** Mountaineers **6** Employs **7** Euro **8** Absent-minded **12** Meanness **14** Elector **16** Cashew **18** Slump **19** Knot.

The winner of MoneyWeek Quick Crossword No. 957 is: Peter Worthington of West Sussex

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

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

## Sudoku 959

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

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.

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

MoneyWeek is available to visually impaired readers from RNIB National Talking Newspapers and Magazines in audio or etext. For details, call 0303-123 9999, or visit RNIB.org.uk.

# Beyond a joke

Fake-meat company Beyond Meat is on a tear. Buyer beware…

**Bill Bonner**
Columnist

Where's the beef? Last week, Beyond Meat – a company that sells imitation meat products – got whacked with a 12% loss. That still left the shares nearly ten times above their initial offer price. The remarkable thing about Beyond Meat is not the fake meat – health nuts, animal lovers and Seventh-day Adventists have been eating mock meat for decades. The interesting thing is what the company reveals about the whole fandango.

A few decades ago, we had the idea that maybe we would like to take our company public. So we called a friend – a partner at Alex Brown, Baltimore's premier investment firm – to find out more. "Forget it," was this old-timer's advice. "In the first place, no reputable investment banker will take it on. You're too small. And you've got to prove that you can grow and remain profitable. But if you can do that… why go public? Why give the profits to strangers? Think about it. Who's going to sell his business now if he thinks it will be more valuable in the future? Only a fool or a charlatan."

We thought for a minute about which category we should aim for. But we soon rejected the whole idea. The traditional way to make a lot of money is to start a company, work for years to prove your concept and then take it public. You sweat to get through the "growth" stage of the business. Then you get your reward and leave the public with the mature, less profitable, but more predictable, stage. Beyond Meat's entrepreneurs could have spent the next ten years mixing in a little more sunflower oil, squeezing out the last of the gluten, adding some soy extract. Eventually, they'd probably be able to produce a fair facsimile of a hamburger. Then, they could battle it out with other fake-meat producers for market share. If they were lucky, they might have got sales up to $200m or $300m, with profits of, say, $30m a year. At least investors would know what they were getting. They could take the growth rate and the profit margins, extrapolate into the future, discount the expected profit stream and come up with a reasonable idea of what the company was worth.

On the numbers given here, we might expect Beyond Meat to go public for, say, ten times earnings, giving it a market capitalisation in the region of $300m. Wouldn't that be enough? "Job well done," the investors might say. CEO Ethan Brown could feel like a success. But Brown and his team didn't wait. With less than $10m in sales, only 381 employees and zero profits they offered the company to public investors. Did the investment pros turn them away, as Alex Brown turned us away? Nope. Did investors laugh and turn up their noses? Nope. Everybody knew that Beyond Meat had no proprietary formula, no popular brand. It didn't seem to matter. The stock is still up about 200% since the close of its first day's trading.

Conagra has everything Beyond Meat lacks – staff (18,000), brands (it owns Duncan Hines, Birds Eye, Orville Redenbacher's, Hunt's and Slim Jim), sales ($9.5bn) and profits ($708m). There's the beef. A real business. With real sales and profits. Conagra plods along while Beyond Meat soars. What to make of it? For the moment, there seems no end to the dumb money... and no limit on how dumb it can get.

## The bottom line

**$1.3bn** How much "influencers" who inflate their fanbase with fake followers on social media cost brands every year globally, according to Professor Roberto Cavazos, an economist at the University of Baltimore. At least 15% of all influencers' followers on social media are not real.

**£20,000** How much Bristol University spent on consultations with students on changing the name of Senate House, an administrative building that is to become a hub for students to meet and work. The name the students eventually settled on was "Senate House".

**549m** The number of single-use plastic bags sold by supermarkets in the past year, compared with one billion in 2017/2018, according to government figures. Sales of plastic bags have fallen by 90% since a 5p charge was introduced in 2015.

**32** The percentage of children aged five to 11 years who have never been to a butcher; 23% have never visited a greengrocer, according to a Nationwide Building Society poll of 2,000 children. A quarter of those polled had never heard of a "high street".

**£500m** How much the government is to set aside to buy up British lamb and beef at predetermined prices in the event of a no-deal Brexit leading to farmers being unable to sell their produce. Currently 90% of exported British lamb goes to the European Union.

**$191.3m The worldwide box-office takings of *The Lego Movie 2: The Second Part*, which was released in February. The first film took $469.1m in 2014. Merlin Entertainments blamed "limited momentum" from the sequel for "disappointing" sales at its Legoland theme parks.**

©Warner Bros. Picture

**Editor-in-chief:** Merryn Somerset Webb
**Executive editor:** John Stepek
**Editor:** Andrew Van Sickle
**Markets editor:** Alexander Rankine
**Comment editor:** Stuart Watkins
**Politics editor:** Emily Hohler
**Digital editor:** Ben Judge
**Wealth editor:** Chris Carter
**Senior writer:** Matthew Partridge
**Contributors:** Bill Bonner, Ruth Jackson-Kirby, Max King, Jane Lewis, Matthew Lynn, David Prosser, David Stevenson, Simon Wilson

**Art director:** Kevin Cook-Fielding
**Picture editor:** Natasha Langan
**Production editor:** Mick Sharp
**Chief sub-editor:** Joanna Gibbs

**Founder:** Jolyon Connell

**Senior account manager:** Joe Teal (020-3890 3933)
**Executive director:** David Weeks (020-3890 3866)
**Chief customer officer:** Abi Spooner
**Publisher:** Kerin O'Connor
**Chief operating and financial officer:** Brett Reynolds
**Chief executive officer:** James Tye

**Subscriptions & Customer Services:**
**Tel: 0330-333 9688 (8:30am-7pm Monday to Friday, and 10am-3pm on Saturdays, UK time). Email: subscriptions@moneyweek.co.uk Web: MoneyWeek.com/contact-us Post: MoneyWeek subscriptions, Rockwood House, Perrymount Road, Haywards Heath, West Sussex, RH16 3DH. Subscription costs: £109.95 a year (credit card/cheque/direct debit), £129 in Europe and ROW £147.**

**MoneyWeek magazine is an unregulated product. Information in the magazine is for general information only and is not intended to be relied upon by individual readers in making (or not making) specific investment decisions. Appropriate independent advice should be obtained before making any such decision. MoneyWeek Ltd and its staff do not accept liability for any loss suffered by readers as a result of any investment decision.**

**Editorial queries:** Our staff are unable to respond to personal investment queries as MoneyWeek is not authorised to provide individual investment advice.

**MoneyWeek, 31-32 Alfred Place, London WC1E 7DP Tel: 020-3890 4060. Email: editor@moneyweek.com.**

Dennis

**MoneyWeek is published by MoneyWeek Ltd. MoneyWeek Ltd is a subsidiary of Dennis Publishing Ltd, 31-32 Alfred Place, London, WC1E 7DP. Phone: 020-3890 3890.**

**MoneyWeek and Money Morning are registered trade marks owned by MoneyWeek Limited. © MoneyWeek 2019**

**IISSN: 1472-2062**
**•ABC, Jan –Jun 2018: 43,933**

SIPPs | ISAs | Funds | Shares

AJBell
Youinvest

# The number cruncher

Discover your inner investor with our low cost dealing, from just £1.50.

**youinvest.co.uk**

AJ Bell Youinvest does not provide advice. Capital at risk.

AJ Bell includes AJ Bell plc and its wholly owned subsidiaries. AJ Bell Management Limited and AJ Bell Securities Limited are authorised and regulated by the Financial Conduct Authority. All companies are registered in England and Wales at 4 Exchange Quay, Salford Quays, Manchester M5 3EE

Pictet-Robotics is a compartment of the Luxembourg SICAV Pictet. The latest version of the fund's prospectus, KIID (Key Investor Information Document), regulations, annual and semi-annual reports are available free of charge on assetmanagement.pictet or at the fund's management company, Pictet Asset Management (Europe) S.A., 15, avenue J. F. Kennedy, L-1855 Luxembourg. Before making any investment decision, these documents must be read and potential investors are recommended to ascertain if this investment is suitable for them in light of their financial knowledge and experience, investment goals and financial situation, or to obtain specific advice from an industry professional. Any investment incurs risks, including the risk of capital loss. All risk factors are detailed in the prospectus.

# Want to know about megatrend investing? Talk to the pioneers.

The Pictet-Robotics fund.

For over twenty years, our thematic equity experts have accurately identified the most rewarding themes, by carefully separating enduring megatrends from fads.
Learn more at assetmanagement.pictet

PICTET
Asset Management

Building Responsible Partnerships