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MONEYWEEK

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The Brexit tug of war

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Britain's best-selling financial magazine

From the editor-in-chief...

A few months ago in an article headlined "15 business and finance writers this billionaire always reads", US columnist and asset manager Ken Fisher noted that he always reads me, for the simple reason that "Merryn Somerset Webb attacks virtually everything I believe in". Everyone likes a challenge. He will be surprised then to find that I agree with much of what he has written in a Financial Times article this week.

Conventional monetary policy assumes, he says, that low interest rates (which make borrowing cheaper) will make people want to borrow more. But beyond a certain point that isn't true. Very low rates kill the profitability of loans (by crunching the spread between the rate at which a bank can borrow and that at which it can lend – see page 18). This makes it hard to think that the lower they go the more banks will lend. If, for example, the pushing down of rates via quantitative easing (QE) really worked, loan growth and inflation would have risen during periods of QE. They did not.

Also, moving from low rates to super-low rates doesn't make much difference to businesses, given their margins of forecasting error: "businesses won't launch more projects because of quarter-point – or even full-point – rate cuts. If a project isn't profitable at current rates, it isn't worth doing at fractionally lower ones – even 0%". The answer to our current woes then is not to keep cutting rates and introducing new rounds of QE (as the European Central Bank has and the Federal Reserve is about to), but to reverse the whole thing. The result of this return to monetary sanity would be "near magic". Loans would flow as banks could make money on them again. Business investment would accelerate everywhere and in the UK the stage would be set for a "post-Brexit pop", with banks clamouring to lend just as firms "get the clarity needed to deploy pent-up plans".

Kristalina Georgieva: not sure about negative rates

©Shutterstock

"A return to sanity on interest rates would have a near-magical impact on the economy"

We are not convinced we would do this at the speed Fisher suggests (crashing bond prices would have nasty consequences). But on QE not working as advertised? We are convinced. Bill Bonner agrees pretty wholeheartedly (see page 42). Matthew Lynn agrees too – see page 18. And even the International Monetary Fund, under its new leadership, is getting agitated about monetary policy. Its new head, Kristalina Georgieva, said in her first speech this week that her team is looking closely at the impact negative interest rates are having. We suspect that the closer she looks, the more unintended consequences she will find.

For something more positive, turn to page 24, where John Stepek explains how the (slightly overegged) misery over Brexit has produced some fantastic investment opportunities in the UK. We hear constantly from global investors about how hard it is to find yield. They clearly aren't looking very hard: the FTSE 100 yields 4% and some of our biggest stocks pay over 5%. Next look at page 5 for an update on Vietnam, one of the few emerging markets we like. Finally, for those of you who have had enough of your jobs, on page 30 we look at how to use Airbnb to make money and on page 39 at how, if you are very frugal (and negative rates and stockmarket crashes don't destroy your finances), you can retire by 40. Perhaps not in such a way as to be able to afford a new Land Rover Defender (see page 38), but definitely in such a way as to have time to do a little protesting (see page 8).

Merryn Somerset Webb
editor@moneyweek.com

Loser of the week

©Getty Images

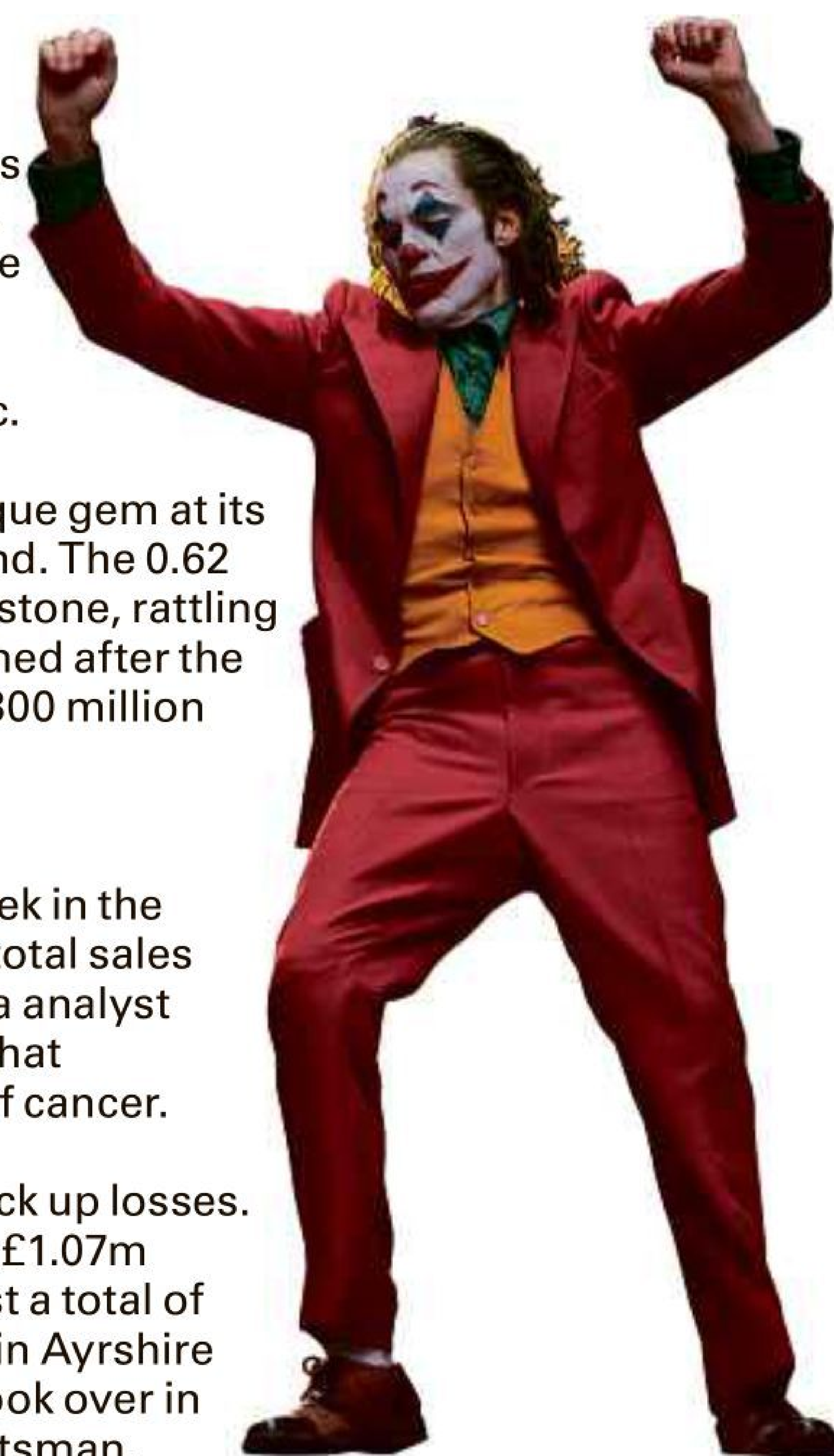
Musician Pete Doherty has been banned from driving for six months and fined £9,200 after being caught speeding four times by the same camera in Kent, reports the Daily Mirror. Doherty, lead singer in The Libertines and Babyshambles, told Folkestone magistrates that he earned £10,000 a month. He said that a broken dashboard light meant he was unable to see the speedometer in his VW van. After sentencing, Doherty warned that he had "a feeling that I might be back in here soon", mentioning that he had been stopped by police while riding an electric scooter along the seafront. In response, the chairman of the bench, Andrew Henderson, said the ban would include "this electric scooter you mentioned as well".

Cover illustration: Howard McWilliam. Photos: Getty Images; Shutterstock

Good week for:

Warner Bros' latest film, ***Joker***, has been a huge hit despite – or perhaps because of – the controversy it has generated. The film took $96m in the US, says Wired, and an estimated $140.5m in the rest of the world. The film, which stars Joaquin Phoenix as the deranged villain from the *Batman* comics (pictured), has been criticised for its violence, and even its choice of music.

Russian diamond miner Alrosa has unearthed a unique gem at its Nyurba mine in Siberia – a diamond within a diamond. The 0.62 carat stone is hollow. Inside it is a second 0.02 carat stone, rattling around. The priceless "matryoshka" diamond – named after the traditional Russian doll – is estimated to be around 800 million years old, reports Bloomberg.



©Warner Bros

Bad week for:

The value of **bacon** sales fell by more than £1m a week in the past year, reports the Daily Mail. In the year to July, total sales fell by 4.7% to £1.2bn, according to figures from data analyst Kantar. The fall has been blamed on health reports that suggested processed meat could increase the risk of cancer.

Donald Trump's Scottish golf courses continue to rack up losses. The Trump International Scotland, in Balmedie, lost £1.07m before tax in the year to July, says the BBC. It has lost a total of £9.5m since opening in 2012. The Turnberry course in Ayrshire saw losses double last year to £10m. Since Trump took over in 2014, the course has lost nearly £43m, says The Scotsman.

Traders keep their faith in the Fed

Cris Sholto Heaton
Investment columnist

Investors are always cheered by the thought of interest-rate cuts

©Getty Images

"Bad economic data emerges, stockmarkets fall. Investors then predict an interest-rate cut, and stocks rise," says John Foley on Breakingviews. That familiar pattern played out again last week in the US, when the S&P 500 closed higher even though the latest Institute for Supply Management (ISM) surveys suggested a contraction in the manufacturing sector and a sharp slowdown in services. Yet while it's not entirely a shock that US growth is slowing down after more than a decade of steady expansion, the market's reaction "certainly looks too sanguine".

Most economists still don't expect a recession: consensus forecasts are for around 2% annualised growth in the next two quarters. But what if the slowdown worsens? The push to impeach President Donald Trump means that odds of Democrats and Republicans co-operating on measures to boost the economy – such as tax cuts, extended unemployment payments or infrastructure programmes – are slim. And in that situation, the idea that the US Federal Reserve can hold off a recession by rate cuts alone is optimistic. "Monetary policy has its limits."

The economy is still in good shape

There's no need to worry too much, says Randall Forsyth in Barron's. The ISM surveys still point to an economy that is growing overall. And harder economic numbers look more encouraging: unemployment has fallen to 3.5%, the lowest it's been since 1969, when The Beatles' *Abbey Road* – coincidentally just re-released – was topping the charts. Meanwhile, the non-farm payrolls report (see below), which measures new jobs added, only missed expectations because data for the past two months has been revised upwards.

In short, the economy is still in decent shape. The reality is that growth is slowing at least partly because of the effects of the previous round of rate rises. And with monetary policy now "tilted away from restraint" and inflation low, the Fed should have enough "leeway to lower rates to sustain the expansion" – and by extension the equity bull market.

Jobs are the last thing to go

The Fed itself might not be quite so confident, says Justin Lahart in The Wall Street Journal. Yes, the employment data will come as a relief, but rate-setters are aware that "jobs are one of the last things to go when the economy turns sour, with companies cutting back on other items, such as advertising and capital spending, first". What's more, firms have been cautious in adding employees since the crisis, so they have "little fat to cut in their workforces" and may not begin firing unless they see an outright drop in demand. "At that point, the economy might not just be at risk of falling into a recession, but already in one." So the Fed will cut next month and continue cutting "as long as those alarm bells keep ringing".

That may well keep the boom going. Still, MoneyWeek suggests having 5%-10% of your portfolio in hedges such as gold – which tends to do well in bear markets – in case the Fed's efforts ultimately fall flat.

The overhyped statistic that moves markets

The Bureau of Labor Statistics' monthly non-farm payrolls report sounds immensely dull, but it is one of the most closely watched pieces of economic data in the US. As the name implies, this tracks employment outside the agricultural sector – the reason for leaving out farm jobs is that they tend to be both highly seasonal and difficult to count. The figures also exclude many workers in government, private households, non-profit organisations and the self-employed, but in total they cover jobs contributing to around 80% of GDP.

The latest data is normally released on the first Friday of the following month (ie, the report for September was out on Friday 4 October), so it's available extremely quickly compared to many other statistics. This explains why markets latch onto it. The only problem is that it's not very useful: Bloomberg columnist Barry Ritholtz described it as "the most overhyped, over-analysed, overemphasised, least-understood economic release known to mankind".

Non-farm payrolls are a crude gauge of employment

©Getty Images

There are two obvious weaknesses. First, the US workforce is almost 165 million. The net number of jobs added in any report is tiny by comparison: the October figure was 136,000 – ie, less than a tenth of 1%. In short, each month's change is a rounding error.

Second, this is a very noisy set of data subject to major revisions after one month, two months and then annually for many years. In the latest release, the number for August was revised from 130,000 to 168,000 – almost 30% higher. Over time, the cumulative revisions are enormous.

The long-term trend is useful for identifying the start and end of recessions and other major shifts, but only with enough hindsight. Making investment decisions based on the monthly release is nonsense. But that doesn't stop markets doing so.

India's banking crisis deepens

Yes Bank "could use a helping hand", says Una Galani on Breakingviews. Bad loans at the private-sector bank – the fourth-largest in India by assets – are rising and the lender needs fresh capital to plug the gap. But with its shares down by 80% this year, investors are reluctant to step forward. And India has "no up-to-date framework on how to deal with troubled financial institutions", so it's unclear how the policymakers will resolve the issue, even though it's certain that "allowing Yes Bank to flail would be the worst decision".

Yes is "a particularly marked example", but it is "not alone in its troubles", says The Economist. "India's banks are obviously faltering" as they deal with "the overhang from a splurge of bad lending years ago" – much of it to struggling property developers, industrial groups and to non-bank lenders (several of which have failed over the past year). In one example, police are investigating an alleged "vast lending fraud" at Punjab & Maharastra Co-operative Bank (PMC), a small lender that had 70% of its loan book tied to one bankrupt property developer.

The latter marks a new phase in the crisis because it's the first deposit-taking institution to fail, says Andy Mukherjee on Bloomberg. That could send savers fleeing to the most reliable banks, worsening the liquidity of weaker ones. "PMC Bank is too tiny to pose a systemic threat, but a small dead canary in a coal mine is still a large warning sign."

Winning Trump's trade war

There's been one clear winner in the US-China trade war so far, says Chris Matthews on MarketWatch – Vietnam. The Southeast Asian country has become "a popular destination for new manufacturing investments as multinational firms seek to reorganise their supply chains to avoid US tariffs on Chinese exports".

Labour costs in Vietnam are still low compared with China, while business is considerably easier compared with other low-cost locations, such as India. This meant that the country was already attracting manufacturers, but the trade dispute has accelerated the process. And even if China and the US come to an accord, the trend is unlikely to reverse.

"A lot of US companies will be thinking very hard about their supply chain and they want to reduce their dependence on China," Laurent Saltiel of AllianceBernstein, a fund manager, tells MarketWatch. "It's too risky to be exposed to just one country."

The results are already showing up in the trade data, adds the Financial Times. "Export growth has collapsed across Asia this year," but "Vietnam is an exception." Shipments of goods such as phones, computers and electronics have all continued to record strong increases. Exports to the US – Vietnam's number-one trading partner – have outperformed: its trade surplus with America is on track to reach $50bn this year – not a trivial amount for a $240bn economy.

©iStockphotos

Vietnam is one of the world's most promising emerging markets

These figures have already caught the eye of Donald Trump: back in June, he berated the country for treating the US "'even worse' than China on trade" and imposed huge tariffs on steel imports. But Vietnam quickly responded by pledging to buy more from the US in the hope of tempering Trump's wrath.

Officials reiterated that commitment again last month, including a plan for a $5bn liquefied natural gas terminal and power plant that would increase imports from America while helping to meet Vietnam's rising demand for energy.

The next big thing

It remains to be seen how much Vietnam will really benefit from US-China tensions – but many investors see it as the developing world's next big thing anyway, says Tom Stevenson in The Daily Telegraph. Growth is solid, debt and inflation are under control and the currency is stable. The population of 95 million people is young (half are working age, two-thirds under 35), educated and ambitious. Infrastructure is poor, but improving fast.

"The country has more going for it than any emerging market in Asia or anywhere else," says Stevenson. MoneyWeek agrees. We suggest looking at **Vietnam Enterprise Investments (LSE: VEIL)**, currently on a discount to net asset value of 11%.

Viewpoint

"Elon Musk has been mercifully quiet [of late]... but WeDontWork's Adam Neumann [has] picked up the slack with his flailing efforts to bring his money-losing train wreck of a company public... Recent reporting [has] described Neumann as even more megalomaniacal than Musk, which is quite a feat though hardly conducive to... long-term business success... Neumann likes to muse about living forever [or] becoming... the first trillionaire... The fact that an individual who behaves like a total buffoon is indulged by institutional investors illustrates how detached from reality the so-called global elite has become and how inflated the current stockmarket bubble and particularly the tech market bubble has grown... groupthink... leads investors... to ignore not only its obvious absurdity, but also the dangers it poses to financial and societal stability."

Michael Lewitt, The Credit Strategist

■ Dr. Copper diagnoses ailing economy

"Dr. Copper has delivered a verdict and it is not good," says Neil Hume in the Financial Times. The red metal is used in a wide array of industries, notably electronics and construction, so it is widely deemed a barometer of global activity. The price has slipped by a fifth this year and is now at a near-two-year low of around $5,600 a tonne. A gauge of US manufacturing has hit a decade-low, while its eurozone equivalent has fallen to a seven-year trough. Weakening demand has negated the impact of a 2% drop in mined supply this year. Longer term, however, the outlook for copper is auspicious: an electric car uses three times as much copper as a conventional one, while miners have struggled to find big, high-quality deposits.

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

Three to buy

Alliance Pharma
Shares
Alliance's "asset-light" business model, whereby it owns the product licences for over 90 pharmaceutical and healthcare products, but outsources the "capital intensive" activities such as manufacturing and logistics, is unique. It also makes the company "very cash generative". Sales and profits have grown by 21% a year over the last five years. That makes the shares, on just 13.4 times next year's earnings, "too cheap". Buy. *71.6p*

Speedy Hire
Investors Chronicle
This tool-hire firm has weathered the collapse of Carillion and the "dark days of 2015" that saw two profit warnings, and is now in better shape than its competitors. It has invested in predictive analytics and artificial intelligence in order to allocate equipment around its network of depots more efficiently, which has driven up its utilisation rate and its return on capital employed. Wider construction weakness and the "huge potential bear point" that is Brexit make it a risky play. But with the shares losing ground recently, now may prove "a good time to buy into a long-term recovery story". Buy. *50.6p*

NCC
Daily Telegraph
Cybersecurity firm NCC has done well since being spun out of the state-owned National Computing Centre 20 years ago. But it has had "more lows than highs" recently, including a profit warning in January. However, the staffing problems it encountered, caused by a shortage of skilled IT workers, are now largely solved, while underlying sales are growing and debt is falling. The stock is cheaper than its peers. It's "worth tucking away". *179.2p*

Three to sell

Patient Capital Trust
The Daily Telegraph
We have "run out of patience" with Patient Capital. The 34.3% discount to net asset value (NAV) appears enticing, but as the trust owns mostly immature unlisted assets, gauging their value is difficult and so the discount is "more art than science"; note that the value of several companies has been written down recently. Meanwhile, Neil Woodford has now simply made too many mistakes for this mess to be dismissed as "a run of poor form". His £1m sale of his own shares in July hardly helps matters. Investors should cut their losses and get out. *43p*

Restaurant Group
Investors Chronicle
It looks as though Restaurant Group may have "bitten off more than it can chew" by buying Wagamama. The chain provides a "sprinkle of pan-Asian magic" to counterbalance tired leisure-centre-based brands such as Chiquito and Frankie & Benny's. But net debt has

soared sixfold from £25.7m to £317m to finance the purchase. And this burden "gives limited wigggle-room" now that higher costs and increasingly rattled consumers have become major "sources of uncertainty". Sell. *140p*

Keyword Studios
The Times
This former provider of translation services for software firms has moved into the video-games market. It is expanding rapidly through both organic growth and six or seven takeovers of start-up games services companies a year. It has "embedded itself" with the top developers, such as Sega, Activision and Nintendo. Nonetheless, a "racy tech-market rating" of 29.8 times forecast earnings is simply too high. Avoid. *1,195p*

...and the rest

Shares
Serviced office group **IWG** is embracing a franchising model that should free up plenty of cash for shareholders. Buy *(409.3p)*. Car-fuel systems manufacturer **TI Fluid Systems** is in pole position to deliver a greener future. "The shares remain too cheap and don't reflect the quality of the business." *(195.6p)*.

Investors Chronicle
Gamma Communications, a provider of voice, data and mobile services for companies, thrives on the "anytime, anywhere" work culture. Its UK business "is running smoothly" and it is set for further growth – buy *(1,085p)*. Gift cards and stationary maker **IG Design** has bought its way into the US market. Past performance suggests it should succeed there *(604p)*.

The Times
Johnson Matthey, the leader in catalytic converters, has made "big strides" thanks to demands for cleaner air. Its battery business, eLNO, could be a gamechanger for electric cars too *(2,830p)*. Medical equipment-maker **ConvaTec** was relegated to the FTSE 250 when its share price deteriorated. A turnaround programme has since set it on the road to recovery *(176p)*.

The Daily Telegraph
There is still work to be done at **AG Barr**, which makes soft drinks including Irn Bru. But interim results suggest July's profit warning may have been a "blip". Buy (579p). Sales of printed books are falling faster than expected,while publisher **Pearson** is struggling to make up the lost ground in digital sales. Avoid *(738p)*. Sliding house prices have hit **ULS Technology**, which supplies software platforms to businesses involved in the property market. Hold *(44.1p)*.

A German view

France's aerospace and defence group Safran is one of the companies affected by the grounding of Boeing's 737 Max planes, says WirtschaftsWoche. But the company, whose products range from aircraft engines and interiors to missile-propulsion systems, also supplies Boeing's rival Airbus, so it is guaranteed to profit from the secular growth of the global aviation market. Its high-tech systems will help it exploit the rising demand for quiet and energy-efficient engines, while a recent takeover will bolster its sales of aircraft cabins and cockpit equipment. Safran will also be involved in the construction of a Franco-German fighter jet. It's "a long-term bet on Europe's aviation and defence technology".

IPO watch

Another company has managed to raise more than $1bn through an initial public offering (IPO) in Hong Kong despite the torrid political backdrop. Following last month's $5bn listing of the Asian unit of brewing giant Anheuser-Busch, Chinese sportswear group Topsports International has priced 930 million shares at $1.08, near the lower end of the previously indicated range, note Daniel Shane and Hudson Lockett in the Financial Times. With over 8,300 shops and 16% of the market, Topsports is the top sportswear retailer in China. It stocks brands including Adidas and Nike. Sales jumped by 22% to $4.5bn in the year to March 2019 while profits grew by a fifth to $ 300m.

City talk

● The appointment of Makoto Uchida as chief executive of Nissan means that the Nissan-Renault alliance, which "hit the skids" after the ousting of chairman Carlos Ghosn, "may soon be reinvigorated", says Liam Proud for Breakingviews. Uchida's "deep knowledge" of the benefits of collaboration will help deepen the cost-sharing relationship. Nissan urgently needs to cut costs: its margins are a sixth of rival Toyota's. Uchida will also need to take measures to stop the fall in Nissan's market share in China, America and Europe, which has caused a 13% fall in annual sales.

● Unlike Wall Street, Apple's smaller shareholders seem to be "excited" about the iPhone 11, which went on sale a fortnight ago, says Dan Gallagher in The Wall Street Journal: the stock has jumped by 38% since the new model was announced. However, while the phone "seems to be doing just fine",

investors may still be "getting ahead of themselves". The stock is trading at "the highest multiple Apple has fetched in nearly a decade". Fans claim the firm's growing services arm "warrants a higher multiple for the stock", but many of Apple's services are still "closely tied to its devices". Others won't contribute much in the short term.

● Deutsche Bank says that half of its planned 18,000 job cuts will come from Germany; Noel Quinn, HSBC's CEO, has indicated that 6% of the staff may be let go, says Elisa Martinuzzi for Bloomberg. Fresh pressure on revenue, a result of lower interest rates and greater competition in trading, and "a lingering problem with costs" leave it no choice. US banks have cut the percentage of income spent on costs from 70% to 62% since 2014, but Europe continues to spend the same percentage as it did five years ago. "More pain is needed."

HKEX beats a retreat

Hong Kong's stockmarket operator has abandoned its bid for the London Stock Exchange. It always looked unlikely to work. Matthew Partridge reports

Hong Kong Exchanges and Clearing (HKEX) will have to put its plans for "creating a global capital markets operator" on ice after abandoning its £32bn offer for the London Stock Exchange (LSE), says the Financial Times. It continues to insist that there was a "compelling rationale" for the merger, but it has recognised that its "charm offensive" has failed to persuade either the LSE's board or its investors. This was partly down to the "insufficient" amount of money that it was offering and the fact that HKEX's offer depended on the LSE giving up its plans to buy trading and data group Refinitiv for $27bn.

It's no wonder the deal failed, says Alex Brummer in the Daily Mail. A merger with Hong Kong would have offered the LSE "a huge window on Asia". But the role of Hong Kong's government in appointing the board of HKEX raised a "potentially insurmountable" governance barrier: given the ongoing repression in Hong Kong, it is "hard to see" authorities in London, Brussels and New York allowing the London clearing house, "home to trillions of pounds of derivatives contracts", to fall into "unsafe hands".

HKEX's bid for the LSE may have made little sense, but it provided an opportunity to ask "hard questions" about the Refinitiv deal, says Jim Armitage in the Evening Standard. These include why the LSE has chosen to buy the business now when it, and every other exchange, "decided against buying it a couple of years ago", and why it wants a company "led by trading terminals inferior to Bloomberg's". At the very least, some "cynical" questioning from "outside the fee-hungry City bubble would have been nice".

A blessing in disguise?

The collapse of the LSE deal may have turned out to be a "blessing in disguise" for Hong Kong, says Clara Ferreira Marques on Breakingviews. This is because the financials "were always a stretch" for HKEX, even without adding cash

Regulators would have thwarted the LSE's tie-up with Hong Kong

©Getty Images

this week to "revive talks". But adding cash to sweeten the bid and revive talks, as some investors were demanding, would have meant a "far heftier" debt burden of four or five times post-deal Ebitda. That would have rattled HKEX shareholders used to "generous payouts". Instead of chasing London, Hong Kong would be well advised to "seek out closer prey among regional rivals".

HKEX needs to pay attention to what the mainland exchanges are doing, says The Wall Street Journal. This is because they are starting to compete with Hong Kong by moving "to build their own links with the West". As a result, HKEX could find that it no longer has a monopoly on access to the Chinese market, allowing the LSE and other Western exchanges to bypass it entirely. Note that this year saw the first stock offering made via the Shanghai-London Stock Connect, an arrangement that ultimately aims to make Chinese shares available to UK investors and vice versa.

A slap in the face for GE employees

Bad news for workers at General Electric (GE). The company will be "freezing retirement benefits for 20,000 longtime employees" in order to cut billions from its pension deficit and debt pile, says Peter Wells in the Financial Times. In addition to ending the accumulation of extra benefits for members of its US final-salary scheme, GE will offer to buy out about 100,000 former employees who are members of the scheme but haven't yet retired. This is CEO Larry Culp's latest move in an ongoing effort to turn the group around.

Transferring value from employees to shareholders in this way is a "bit awkward", but also necessary, says

John Foley for Breakingviews. Shareholders have already "suffered" through dividend cuts and a share-price drop of 30% since Culp took over, so the idea that some employees will give up future benefits "isn't so mean". In any case, GE "isn't alone" in changing pension rules, with the 100 biggest US companies also slashing their unfunded liabilities.

There will be no change for retirees, while employees "will get to keep the benefits they've already accrued", says Bloomberg's Brooke Sutherland. Still, this will feel like a "slap in the face" for those employees who've stuck it out through some of the company's "darkest days". Although GE needs to reduce its debt load, the fact that workers, "are still paying the price for the company's mistakes" leaves a "bitter taste", especially since former CEO Jeff Immelt will keep his $85m in pension benefits – despite his "ill-conceived" acquisitions and buybacks.

A stupid blame game with no winners

The Brexit talks continue, but appear to be no closer to any conclusion. Emily Hohler reports

Angela Merkel and Boris Johnson

©Getty Images

A last-ditch concession from the European Union (EU) on the contentious Irish border issue was reported to be "dead on arrival", says James Tapsfield for the Mail Online. Under the terms of the offer, Northern Ireland would have remained in the EU customs union and single market until both unionists and Irish nationalists in the Northern Ireland assembly at Stormont agreed to leave – possibly as late as 2025, say Steven Swinford and Bruno Waterfield in The Times. Eurosceptic MP Iain Duncan Smith said the offer looked like "tokenism", says The Daily Telegraph. It followed bitter cross-Channel exchanges on Tuesday that had put Ireland and Germany in the spotlight. A Downing Street source claimed that a Brexit deal was "essentially impossible", because German chancellor Angela Merkel, in a reportedly "frank" conversation with Boris Johnson, had insisted that Northern Ireland must remain in a customs union with the EU (a seeming "goalpost shift"). The briefing provoked a rebuke from European Council president Donald Tusk, who accused Johnson of "playing a stupid blame game".

Could Johnson be stuck in Number 10?

"British policy is not usually transmitted to Brussels through a 700-word text message via a journalist", says Daniel Boffey in The Guardian. "But Brexit works in wonderful ways." An "explosive missive" from Number 10, bearing "all the hallmarks of Dominic Cummings" (Johnson's chief strategist), was sent to The Spectator's James Forsyth. It pointed the finger at Irish taoiseach, Leo Varadkar, saying that he had "gone very cold" since the Benn act, which took "no deal" off the table. In a "stark warning" to Dublin and Brussels, the statement added that if the deal dies, it "won't be revived" and nor would the government continue to negotiate, making any further Brexit delay "totally pointless". The "salvo" also made clear that the Tories would fight an election on the basis of "no more delays" in "a bid to outflank Nigel Farage's Brexit party".

"Vindictive threats" and a "colourfully spun" report about the "famously cautious" Merkel suggest that Cummings' "single-minded fanaticism" prevails at No 10, says Rafael Behr in The Guardian. In the absence of a deal, Johnson is legally obliged to seek an article 50 extension. This would force him to break his "do or die" pledge, but in the event of an election – in which the Tories would be greatly assisted by the weakness of Jeremy Corbyn, whose personal ratings "probe historically unfathomed depths" – he would "present it as a Dunkirk moment for the forces of Brexit".

Not that it's in the PM's gift to call an early election, notes Philip Johnston in The Daily Telegraph. Thus far, MPs have twice rejected one. He could be brought down in a vote of no confidence, but no one can agree on his replacement. The "big danger is that he is forced to agree an extension and then remains incarcerated inside No 10, unable to leave the EU, powerless to legislate and denied the election he craves". His best hope is that he has so irritated the EU that they force us out with no deal – not that they will have the stomach to do so.

They won't, agrees The Wall Street Journal. EU leaders say they're braced for a hard Brexit but they're bluffing. A recession looms in Germany, France hasn't recovered from the *gilets jaunes* protests and the EU can ill afford the "disruption to its own supply chains". Is defending the Irish border "really worth the pain Ireland would suffer from a hard Brexit?" Nor is it obvious that British voters are prepared to risk "renewed sectarian tensions" in Northern Ireland or suffer the economic consequences. Yet Johnson's strategy does seem to be boosting his party's appeal.

Are protestors helping the planet – or harming it?

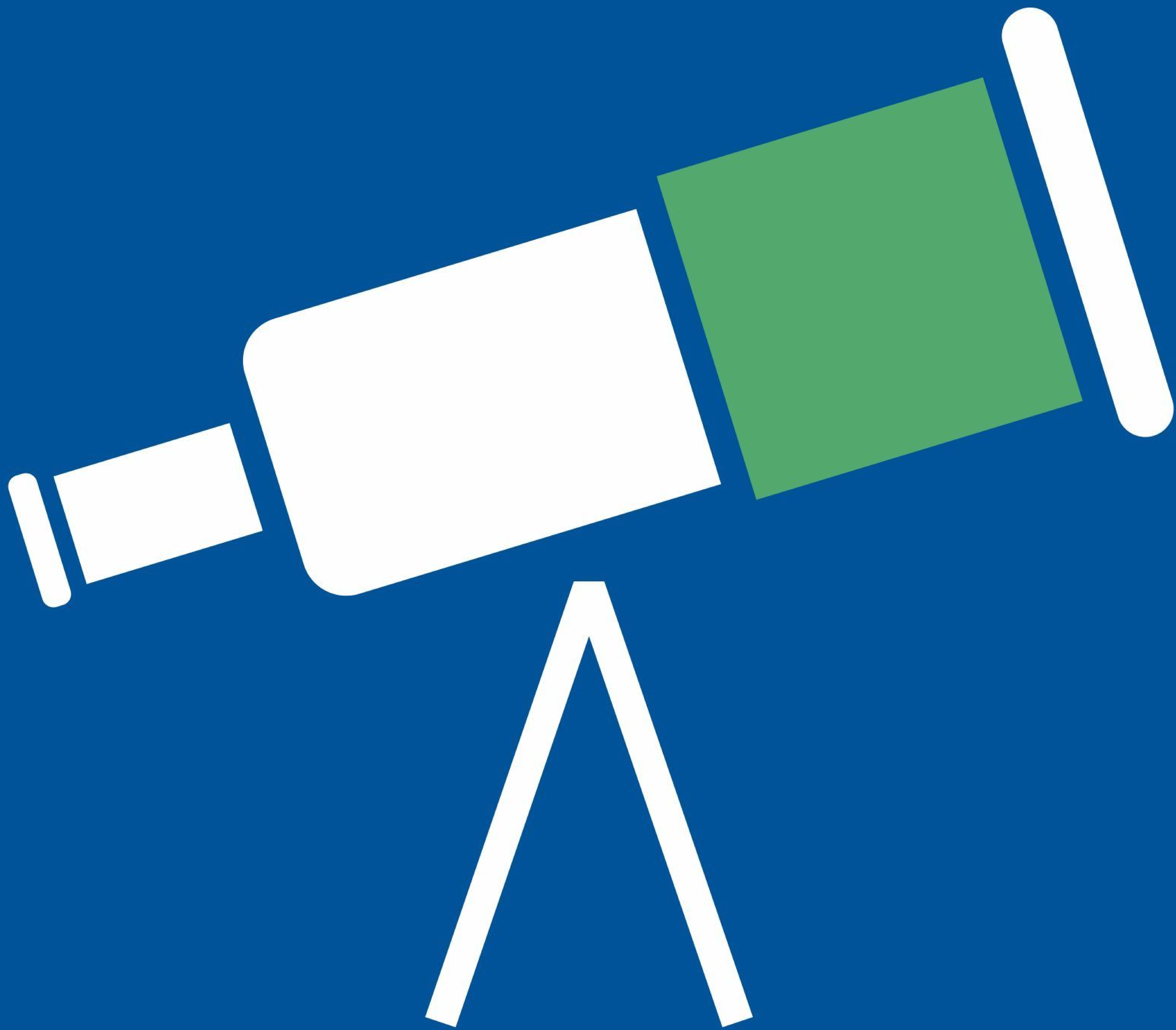
©Getty Images

The wrong road to climate salvation

Extinction Rebellion (XR) deserves some credit for giving salience to the urgent issue of climate change, says The Times. However, even as eco-warriors bring parts of London to a standstill for two weeks, their demands make it hard to "avoid the judgment" that they "might not be the ones to provide persuasive answers". Very true, says Benedict Spence in The Daily Telegraph. This "predominantly middle-class" movement is demanding the destruction of (crony) capitalism and a "powerful state apparatus to radically alter energy structures" to help the UK become carbon neutral by 2025. XR expect to be "given the OK" for this by its "citizens' assemblies" which would replace the government.

This is essentially the green movement, "buffed by PR", being used as cover for radical far-Left politics. Moreover, its demands, if met, would be "every bit as destructive" as climate change would. Quite, says an editorial in the same paper. Even if it were "remotely feasible" to eradicate carbon-based energy emissions within six years, the impact would be "calamitous". Millions would starve or die of disease and the world's poorest – who would effectively be paying the price for a mess made by the West – would be "hit hardest".

Unilever's decision to halve its use of new plastics by 2025 is a timely reminder that the "best route" to effective action "lies in persuading consumers rather than governments," says The Times. Market-led initiatives such as this should spur investment in new recycling technologies and boost collection rates, which are particularly poor in Asia and Africa. Most businesses are "keen to do their bit", not least because the "more efficient use of resources is good for business". Investment in new, cleaner technologies is "not going to come by government fiat", but from the private sector. As will the technical ingenuity that will help us "live modern lives and not despoil the planet".



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Betting on politics

When Boris Johnson became prime minister this summer, his place in the history books would have been preying on his mind. If the bookmakers are to be believed, he could well go down in history as the prime minister with the shortest term in office.

Originally, when the bookies started taking bets on his time in office you could get 3/1 (25%) on him setting a new record for brevity. Now the best that you can get is evens (50%) with Ladbrokes.

At the time of writing, Johnson has been in office for 77 days, which is 42 days less than the 119 day-stint by George Canning, our shortest-serving prime minister. He succeeded Lord Liverpool in April 1827 before dying in August of the same year.

This means that Johnson has to survive for just six more weeks

in order to have lasted longer than Canning. Thanks to the requirement of the fixed-term Parliament act, there probably isn't enough time for him for call an election that he might end up losing.

This leaves the possibility of Johnson being removed by a vote of confidence. Indeed, there is a very real prospect that he could prompt Parliament into action by refusing to send a letter to the EU requesting an extension.

However, my guess is that he will back down (or even try to push through May's original deal with a few tweaks and renamings).

In any case, I'd put the chances of him being removed by the deadline at roughly 2/1 (33%), so I don't think that the odds available on him going offer any value.

Trump's about-turn on Turkey

The US president is making waves in the Middle East. Matthew Partridge reports

In the last two days Trump has "blindsided" everyone with two announcements on Syria, says The Guardian. Firstly, he announced that the US would withdraw troops from the north-eastern area bordering Turkey, thereby "abandoning" the Kurdish-led Syrian Democratic Forces the US has formed a partnership with and effectively "giving the green light" to a Turkish invasion.

The US has abandoned Kurdish forces in Syria

Next, in response to a "furious backlash" from almost everyone, including Republicans, he threatened to "totally destroy and obliterate the economy of Turkey" if the country did anything he considered "off limits".

Is there method in his madness?

Trump's decision to withdraw from the border isn't as crazy as people are making it out to be, says Michael Doran and Michael A. Reynolds in The Wall Street Journal. The Kurdish forces have "substantial ties" to the PKK group that has been "waging armed struggle against Turkey since 1984 at a cost of tens of thousands of lives".

As a result, Turkish action in Syria is needed to "restore the balance of power between Turkey and the PKK, which American policy inadvertently overturned". A failure to let Turkey defend itself would "alienate it permanently" and push it further towards Russia.

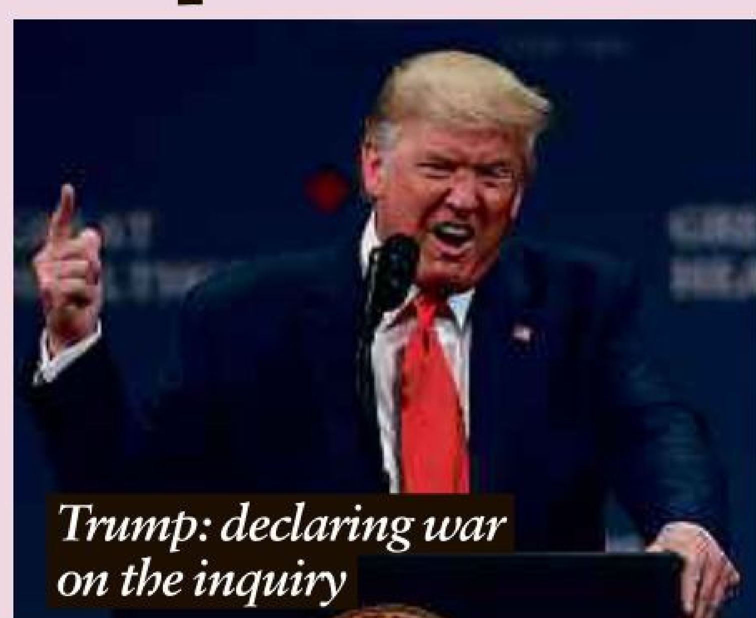
Nonsense, says The Times. While there is "some justification" for Turkey's argument that some Kurds present a "terrorist threat", they have also "borne the brunt of containing Islamic State". Instead of withdrawing, the correct solution would be to "revive peace talks between the Kurds and Ankara". By withdrawing from Syria and permitting Turkey to take over, Trump has effectively abandoned the Kurds, a move that will "dismay allies, embolden Isis and give satisfaction to autocrats".

Trump may have stabbed the Kurds in the back, but his move also presents Turkish leader Recep Tayyip Erdogan with a dilemma, says Laura Pitel in the Financial Times. On the one hand he faces pressure from those Turks "who are restlessly awaiting an operation against Syrian Kurdish militants". However, he also has to beware of "mission creep" as well as the threat of Kurdish retaliation. Their revenge could take the form of bombing in Turkish cities, or Kurdish forces could strike a deal with the Syrian despot Bashar Assad, "which would force Ankara to decide whether it wanted to fight the Syrian army". There's also the possibility of clashes with Russia.

In the worst-case scenario, there's always the risk that Trump could follow through on his threat to "destroy and obliterate" Turkey's economy if Ankara took any action in Syria, says Dasha Afanasieva for Breakingviews.

Any repeat of the US sanctions imposed last year over the detention of a US pastor "would hit the economy hard". Given that prospect, it's no surprise that, while the move "may score political points at home", it has been "less well-received by investors". Turkey's stockmarket, currency and government bonds have all fallen sharply in the past few days.

Impeachment fight gets even nastier



Trump: declaring war on the inquiry

President Trump has effectively "declared war" on the impeachment inquiry launched by the US House of Representatives, says The New York Times. The White House argues that speaker Nancy Pelosi's decision to stop White House lawyers from cross-examining witnesses and bar Republicans from calling on additional testimonies effectively turns it into a "kangaroo court" designed "to overturn the results of the 2016 election".

Impeachment technically isn't a criminal proceeding, "so the right of Mr. Trump to face his accuser doesn't apply", says The Wall Street Journal. Still, you'd think that annulling the 2016 vote of 63 million Americans is "significant enough" to require "witness transparency and a chance for both parties to test his knowledge and credibility". However, the Democrats are still attempting "to keep secret the identity of the intelligence whistleblower whose complaint started the impeachment drive". The Democrats need to realise that they won't convince undecided voters with "irregular order, secret hearings and selective leaks".

Trump thinks that he can defy the House because Republican control of the Senate (which can block removal) provides an "unbreachable wall", says Gabriel Sherman in Vanity Fair. But it isn't quite as rock-solid as he thinks. There is an "unmistakable drift" against the president within his own party, with his popularity among Republican voters failing, and even his "firewall" at Fox News "cracking". Already many Republicans "are privately war-gaming what an endgame for Trump would look like".

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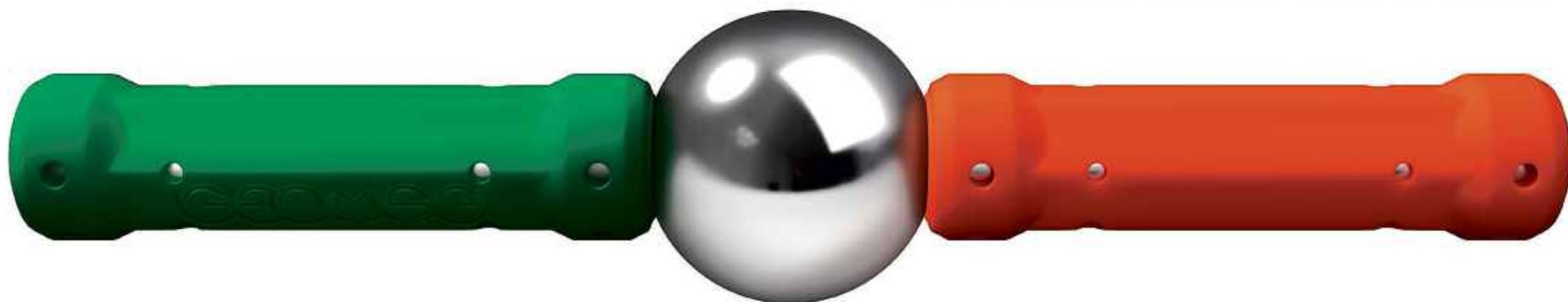

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Chicago

Boeing hops on Virgin Galactic: US aerospace giant Boeing is buying a $20m minority stake in Virgin Galactic via its HorizonX Ventures arm, says Justin Bachman on Bloomberg. The deal forms part of a collaboration with Richard Branson's California-based start-up, which is aimed at "shaping the future of human space travel", as the companies put it. Virgin Galactic is set to fly its first paying customers into space next year, when Boeing is on course to ferry its first astronauts to the International Space Station. The tie-up will also see the two companies work together on developing hypersonic air travel. While the technology needed to achieve speeds capable of drastically reducing flight times is still many years off, the partnership will allow the two companies to "really start to dig into some of these questions that need to be put in place", Virgin Galactic's CEO George Whitesides said. Boeing's investment, however, is contingent on Virgin Galactic's initial public offering (IPO) taking place before the end of the year. The private space sector could be worth $805bn by 2030, analysts at investment bank UBS predict.

Quito, Equador

Government flees uprising: Violent protests against economic reforms, including the removal of a fuel subsidy, have forced Lenín Moreno (pictured), Ecuador's president, to move the seat of government out of the capital, Quito, to the port of Guayaquil, 150 miles away. Moreno served as vice-president in the left-wing administration of his predecessor, Rafael Correa. But when elected two years ago he pledged to rid the country of its huge debt, strengthen economic ties with the US, and distance himself from his predecessor's "anti-imperialist rhetoric", notes The Wall Street Journal. As part of a deal that includes a $4.2bn loan from the International Monetary Fund, Moreno instituted austerity measures that included removing a fuel subsidy that cost $1.3bn a year. Fuel prices rose by a quarter, sparking protests led by indigenous groups and encouraged by the former president. They quickly turned violent.

London

Productivity falters: Britain's output per hour fell at the fastest rate in five years in the second quarter, according to the Office for National Statistics (ONS). The productivity measure declined by 0.5% year-on-year, following two previous quarters of flatlining. Productivity never recovered after the financial crisis, growing at a much slower rate than compared to the years before 2008, the ONS said. Before 2008 an annual productivity growth rate of 2.5% was the norm. A key source of productivity improvements is business investment, and these figures "hammer home the impact uncertainty is having on the business environment", says Tej Parikh, chief economist at the Institute of Directors. "Many companies are also trimming their investment pipelines for the year ahead to build up a cash cushion in anticipation of challenging economic conditions ahead." Productivity is crucial because "a country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker", says the BBC's Andrew Walker, quoting Nobel Prize-winning economist Paul Krugman. That declining productivity joins falls in the manufacturing and services sectors in the April-to-June period does not bode well for the short-term economic outlook.

The way we live now: state-run matchmaking services

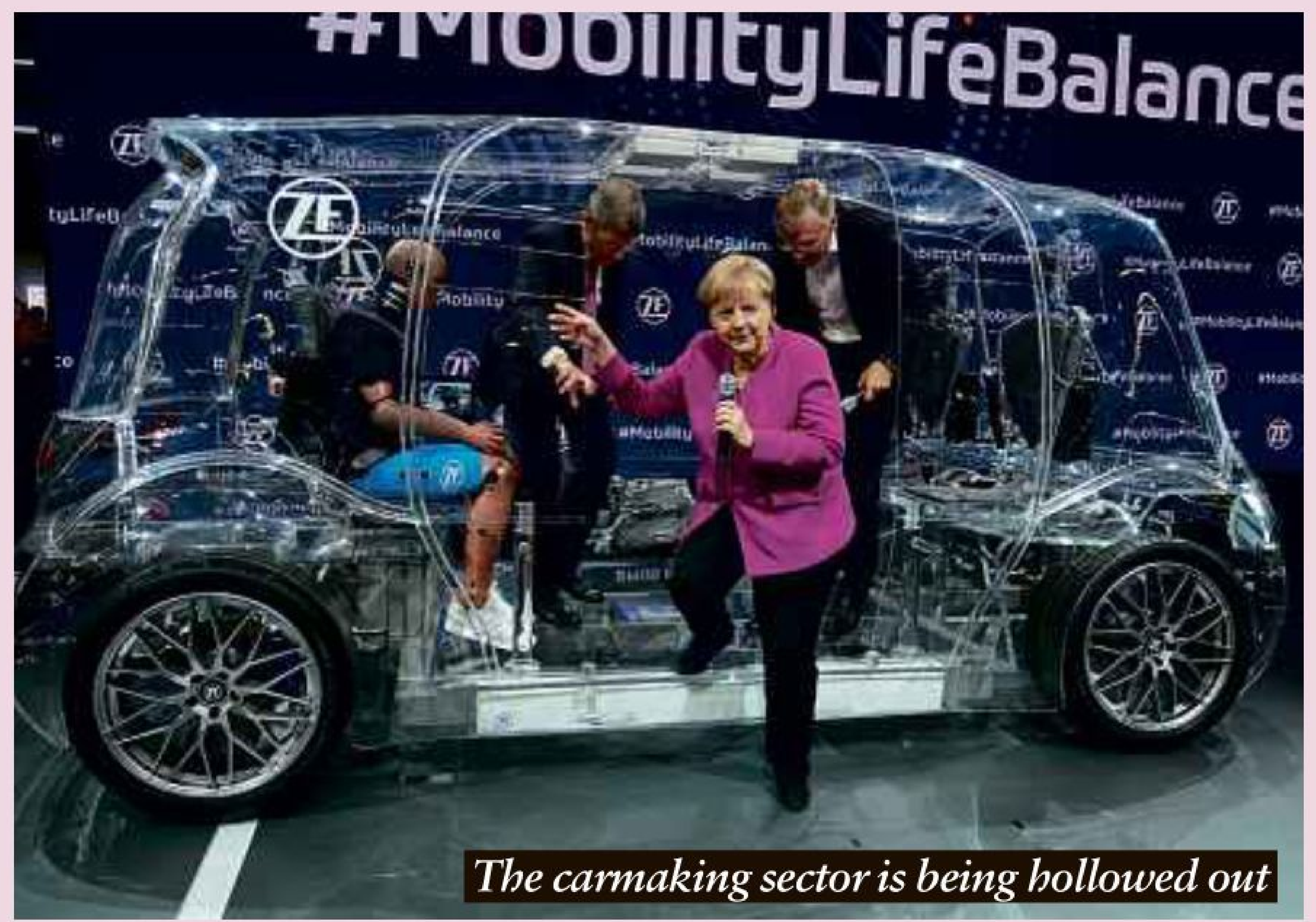
In Japan, matchmaking services that promote *iju konkatsu* (migration spouse-hunting) are typically run by an unlikely marriage-broker, says The Economist – local governments. Since many young Japanese from rural areas, particularly women, move to cities to go to university or to find a job, the dating pools back home shrink. That encourages even more young people to leave. To redress the balance, local governments, such as the one in Akita, a prefecture near the northern tip of Japan's main island, throw *konkatsu* parties . Participants fill in a form online, outlining their job, hobbies and even providing their weight. The Akita government claims to have paired off 1,350 of its residents in the past nine years of holding *konkatsu* parties. "We hope that more people from outside will marry someone from Akita to come and live here," Rumiko Saito of the Akita Marriage Support Centre tells The Economist. Meanwhile, young people in Japan have been turning to miniature robots to act as go-betweens at "speed-dating" events for those too anxious to attempt conversion, The Japan News reported earlier this year.

Your local council is trying to help you get hitched

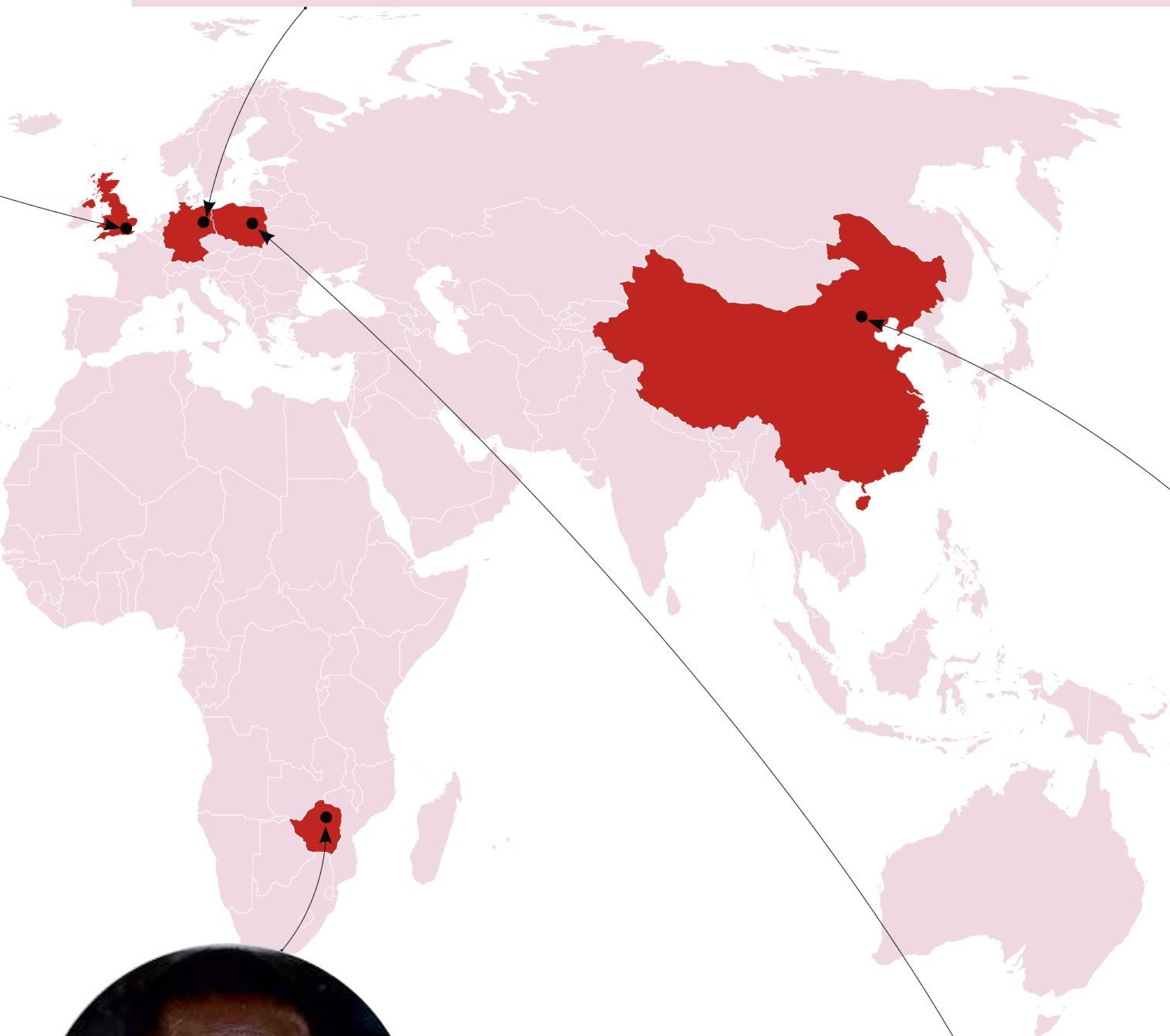
©Getty Images

Berlin

Recession is looming : German industrial output rose in August after two months of falling. But it's just a "flash in the pan", Thomas Gitzel of VP Bank told Reuters. The economy contracted by 0.1 % in the second quarter and is expected to do the same in the third, implying the first recession in six years, says the Financial Times, as the US/China trade war, uncertainty over Brexit and contraction in the carmaking industry continue to bite. Germany has been the eurozone's worst-performing large economy, with Credit Suisse dubbing it the "sick man of Europe". The banking sector is a particular worry. After five years of negative rates set by the European Central Bank damaging their profitability – they have cost €2.4bn a year – Germany's lenders are starting to pass them on to retail customers. Berliner Volksbank, the country's second-largest cooperative lender, has imposed a rate of minus 0.5% on deposits over €100,000.



The carmaking sector is being hollowed out



Beijing

Trade war intensifies: The US-China trade war has stepped up a gear even though the two sides had agreed to continue talks this week, says Bloomberg. The dispute has moved beyond tit-for-tat tariffs. On Monday the US blacklisted 28 Chinese companies, citing their involvement in human rights violations taking place in Xinjiang, a territory in northwest China where Muslim minorities are being detained and persecuted. The move hampers China's ambitions in the artificial intelligence sector as it limits companies' access to essential components. China retaliated by cutting ties with the Chinese branch of the US National Basketball Association, pulling games, sponsors, and merchandise. On Tuesday the US announced a visa ban on officials involved in the human rights violations. It was later accused by the Chinese embassy in Washington of interfering with national affairs. Meanwhile, disagreements between the EU and America threaten to open up another front in the trade war. The World Trade Organisation said the US may impose $7.5bn worth of tariffs in response to illegal EU subsidies to Airbus.

Harare

Zimbabwe goes hungry: Two powerful cyclones that have damaged farmland this year, compounded by economic mismanagement, have raised the spectre of famine, says Joseph Cotterill in the Financial Times. Zimbabwe is grappling with the economic crisis that followed the overthrow of President Robert Mugabe in 2017. The government of his successor, Emmerson Mnangagwa (pictured), has been buying grain abroad to head off the food crisis, but it is running out of time and money. Around half of the population, 8.5 million people, may not have enough to eat by early next year. Worse still, a higher proportion of the population – three million – live in cities, and cannot turn to growing their own. Decayed infrastructure will also make getting food to affected areas harder. The local currency, the Zimbabwean dollar, has slumped and inflation has hit 289%. Opposition politicians have criticised Mnangagwa's "Command Agriculture" scheme, under which farmers receive state subsidies to boost food security, claiming it is a front to reward cronies.

Warsaw

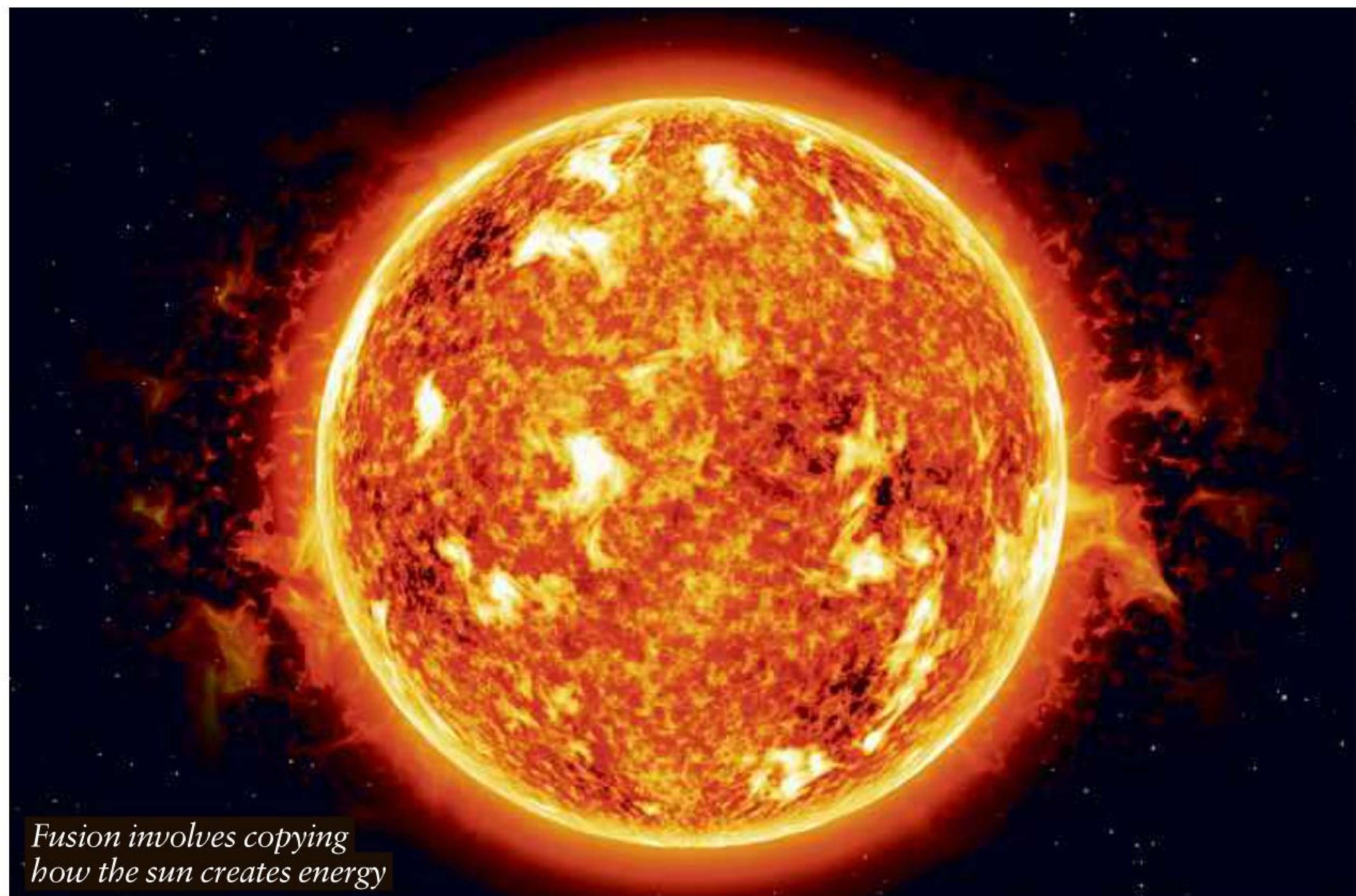
Poland's pre-election minimum-wage hike: It is almost certain that the governing right-wing Law and Justice (PiS) party will emerge victorious in Poland's election this Sunday, says Aleks Szczerbiak on the London School of Economics website. The party remains popular in spite of criticism from its opponents for undermining the rule of law because it is "trusted by voters" on socio-economic issues. It has delivered on most of the high-profile spending promises that were "key to its 2015 election victory", notably its flagship child benefit programme. This time, it has promised a "sharply higher minimum wage", to be increased in steps by a total of 78% by 2023, notes James Shotter in the Financial Times. The worry is that it will raise unemployment and encourage companies in low-skilled labour-intensive parts of the economy to replace workers with machines, while doing "little to shift investment towards higher-value, more innovative sectors".

Nuclear fusion is getting closer

Securing unlimited clean, safe and carbon-free energy for the rest of time would be revolutionary for the world economy. Is this now within sight? Simon Wilson reports

What has happened?

The UK government announced last week that it is to invest £220m to enable the UK Atomic Energy Authority (UKAEA) to design a nuclear fusion power station at the Culham Science Centre in Oxfordshire, the home of a joint European fusion research programme. The money should facilitate the completion of a design for a reactor called the Spherical Tokamak for Energy Production (STEP) by 2024. This in turn would be a step towards the projected building of a commercial-scale nuclear fusion plant by 2040. Such an achievement – here or elsewhere – would have the revolutionary potential of providing unlimited clean, safe and carbon-free energy for the rest of time.



Fusion involves copying how the sun creates energy

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Is that timescale realistic?

Almost certainly not. There is a running joke in the energy sector that the holy grail of successful nuclear fusion is just 30 years away – and always will be. Since 1953 the US government alone has spent around $30bn on fusion research. For decades, expectations of an imminent breakthrough have been thwarted. But Steven Cowley, director of the Princeton Plasma Physics Laboratory and ex-head of the UKAEA, says technological advances in supercomputing and complex modelling mean that fusion really is now within sight.

What exactly is nuclear fusion?

All existing nuclear power (as well as the bombs dropped on Hiroshima and Nagasaki) is based on "nuclear fission". This refers to the fission – the splitting – of the unstable nucleus of a single atom into two, releasing large amounts of energy. Nuclear fusion is a radically different process. It means the "fusing" together of two nuclei from two separate lighter atoms to create a single new nucleus of a heavier atom – a process that releases a vast amount of excess energy. A century ago scientists worked out that nuclear fusion is the process that powers the sun and stars, making life possible. In 1920, Arthur Eddington, an English astrophysicist, hypothesised (correctly) that the sun's energy was released by the nuclei of two hydrogen atoms fusing to form the nucleus of a helium atom.

> *"Nuclear fusion powers the sun and stars, and therefore makes life possible"*

How does that release energy?

It's because the mass of each newly formed helium nucleus is a bit less than the sum of the two hydrogen nuclei from which it was fused. Ordinarily, the positive charges of two hydrogen nuclei would repel each other, explains Jon Asmundsson of Bloomberg. But amid incredibly high temperatures and pressure, the nuclei can get close enough "for the attraction of the extremely short-range but powerful nuclear force to kick in, joining them into a single helium nucleus" – which has a bit less mass. And, in line with Einstein's famous equation, that difference in mass is released as energy. "We sometimes dream", said Arthur Eddington, "that man will one day learn how to release it... The store is well nigh inexhaustible."

How are humans trying to tap it?

By creating extreme temperatures and pressure within a nuclear reactor, trying to get hydrogen nuclei to fuse, capturing the released energy – and finding a way of doing so that uses up less energy that it releases. Since the 1950s, scientists have identified the most efficient fusion reaction to be between two isotopes of hydrogen called deuterium and tritium. To achieve fusion, you need a very high temperature (in the order of 150 million degrees C), which means the electrons are separated from nuclei and a gas becomes a plasma, potentially enabling fusion. Second, you need sufficient plasma particle density so that lots of collisions do in fact occur. And third, you need sufficient confinement time and a way of holding the plasma in place. All ongoing attempts to achieve fusion are efforts to solve all three problems simultaneously, while capturing the released energy in an efficient manner.

What are the principal solutions?

Most scientists working on fusion base their efforts on a vessel known as a tokamak, invented in the Soviet Union in the 1950s. Tokamaks are reactors shaped like a doughnut or bagel (ie, a "torus") and use powerful magnetic fields to hold the plasma in place ("magnetic confinement"). In southern France, 35 nations are collaborating on building the biggest tokamak yet built, the Iter (originally the International Thermonuclear Experimental Reactor). It will have one million components and will cost over $20bn. It is a very long-term project: Iter hopes to commence fusion experiments in 2035. Only from 2045 might engineers start to design commercial power stations based on Iter's results. The UK's smaller STEP project is also tokamak-based.

What about the private sector?

Significant private-sector players who are also pursuing the magnetic confinement route include Commonwealth Fusion Systems (CFS), a spin-out from MIT's plasma physics lab. Another is Tokamak Energy, a spin-out from the UKAEA's Culham lab. Tokamaks are "not the only reactors in town" however, says The Economist. In Vancouver, General Fusion is pursuing what it calls "magnetised target fusion", which involves firing the particle plasma into a spherical reaction chamber, and generating a confining magnetism from the movement of the spinning particles. TAE Technologies, in California, is also working on a self-confining plasma, but using normal hydrogen and boron (rather than deuterium and tritium) and a long cylindrical reactor (called Norman). And First Light Fusion, a spin-out from Oxford University, is working on a different reactor design and a projectile method originally inspired by the pistol shrimp, a crustacean that stuns prey by snapping its long claws shut so rapidly it creates cavitation voids in the water. Watch this space.

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Don't try to beat the market

Want to make reliable long-term returns in the stockmarket? Don't bet on overpaid stock pickers

John Stepek
Executive editor

Here at MoneyWeek magazine, we are fans of so-called passive investing. Passive funds simply aim to track an underlying market – in other words, they'll try to give you the same return as the market makes, less costs. Actively managed funds, by contrast, aim to beat the market. Clearly, the latter sounds like a much better option than the former. Surely we'd all prefer to beat the market – so why do we tend to favour passive over active? For two simple reasons.

Firstly, passive funds are cheaper than active funds. Passive funds are effectively automated, whereas active funds need to employ an expensive fund manager to pick and choose stocks. Your cost of investing is one of the few things you can control. The less you spend on the process of investing, the more money you get to keep in the long run, and that can make a huge difference to your pension fund over time.

Of course, paying a higher fee would not be a problem if you could be reasonably confident that the active fund you choose would beat the market. The problem is that you can't. The most recent example of this came this week with the publication of the latest funds scorecard from S&P Dow Jones Indices. The index provider takes a regular look at how active funds have done compared with the broader markets they operate in. The results are rarely pretty and this particular update was no exception.

In the year to the end of June, just over 80% of UK equity fund managers failed to beat the UK index. In other words, only one in five active fund managers in the UK beat the market over the past year. What makes the finding even more damning is that the final quarter of 2018 was pretty brutal for markets. It's often said that while passive funds are fine for rising markets, when a bear market comes along – when markets crash – that's when an active manager truly adds value, by shielding investors from the worst of the falls. Unfortunately, as Andrew Innes of S&P Dow Jones points out, "the steep declines seen across equity markets in late 2018 were accompanied by near-ubiquitous underperformance" across the board. To add insult to injury for investors, the managers were unable to make the losses back when markets rebounded in early 2019.

"Average returns represent an above-average outcome"

Taking a passive approach to investment pays off

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We're not saying you should avoid all active managers. Some can genuinely outperform over the long run (Nick Train – in the "guru" column on the right – is a good example) and investment trusts (a type of fund that is listed on the stockmarket) have a better record than most. But for investors who need cheap, reliable exposure that guarantees average returns (which, ironically, is an above-average outcome), your first port of call should always be passive.

I wish I knew what passive funds were, but I'm too embarrassed to ask

Passive funds (also known as index funds or trackers) aim to track the performance of a particular index, such as the FTSE 100 or S&P 500 (the main US stockmarket index). The funds may hold all of the stocks in the underlying index, or sometimes just a representative sample (this is known as "physical replication"), or alternatively they might replicate the performance of the index via buying derivatives ("synthetic replication").

The goal is to have as low a tracking error (the difference between the performance of the index and the fund) as possible. A tracker that returned 5%, when the market only went up by 4%, would raise serious questions, even though it had beaten the market. Tracker funds can come in the form of open-ended funds (Oeics) or stock-exchange listed funds (exchange-traded funds, or ETFs).

The first tracker open to ordinary investors was the Vanguard Index fund, which launched in 1975. Rivals were sceptical about whether it would ever succeed, arguing that people wouldn't be satisfied with merely average performance, but the concept has caught on (particularly as active managers often fail to beat the market – see above).

A big advantage of passive investing is cost. The rampant competition in the market has driven the price of investing down to almost negligible levels for the most popular indices. For example, the iShares 100 UK Equity Index Fund charges less than 0.1% a year to track the FTSE 100 index. By contrast, an active fund within the same sector could easily charge ten times as much, if not more.

A "closet tracker" is an actively managed fund that "hugs" its underlying index to avoid underperforming the market too drastically (thus losing clients). In other words, investors in closet trackers are paying active fees, but they are getting passive returns (at best). Needless to say, you should aim to avoid such funds at all costs.

Guru watch

Nick Train, fund manager, Lindsell Train

As a fund manager, Nick Train has one of the best long-term records around. However, even he makes mistakes, as he acknowledges in his latest monthly update to investors in the Lindsell Train UK Equity fund. Train has long been a backer of troubled educational publisher Pearson. However, so far his faith in the stock has been poorly rewarded.

"Pearson delivered what has become almost a traditional profit warning in the third quarter of the academic year... We are mortified to consider how

long we have persevered with this investment." As Train notes, the stock has not resulted in a big loss for the fund. But the money could have been invested instead in better-performing stocks in the portfolio, a significant "opportunity cost".

That said, he is hanging on – for now. "If asked whether I thought there is still any hope in Pearson's strategy of taking its analogue, 20th-century intellectual property and successfully digitising it – in a way that increases its value to users – I would have to say: yes, there is still hope."

As for the wider fund, in September it lagged the market, as "value" stocks with a domestic focus rallied at the cost of international "growth" stocks. While the fund does not follow an explicit growth strategy, Train notes that his favoured companies – those with "exceptional brands or franchises" – typically have global earnings. He has no intention of changing strategy, but notes that the fund's performance "can suffer when what we own is out of favour".

Hunting down value in Asia's vast markets

It's become something of a stock market cliche over the last decade to note that money and economic power is moving East. Clearly one attraction is the strong growth prospects and healthy demographics of many Asian economies, with their well educated and relatively youthful populations.

However, there is more to successful investing than a promising big picture outlook or trend. As Nitin Bajaj, manager of the Fidelity Asian Values (LSE: FAS) investment trust points out, "I don't tend to pay much attention to newspaper headlines and macroeconomic noise, as I think my time is much better spent focusing on things I can control." Instead, what really matters is to "buy good businesses, run by good people, and buy them at a good price."

The aim of the trust is to generate long-term capital growth by investing in markets across the Asia-Pacific region (with the exception of Japan). Bajaj, a 16-year veteran of Fidelity, who has been managing portfolios for over a decade, is based in Singapore, and works with Fidelity's extensive, locally-based team of analysts to find the best opportunities from all across Asia.

Given that there are more than 17,000 listed companies in the entire region, there's plenty of scope for an active manager to hunt down overlooked and potentially mispriced opportunities. This is one reason why Bajaj has a bias towards smaller companies – not only do they have the potential to be the winners of tomorrow, they are also far more likely to have been ignored by the wider market, meaning they are also more likely to be underpriced.

Even so, "only one out of perhaps 15 or 20" companies meet his team's criteria, says Bajaj. That's partly because of his strict discipline when it comes to avoiding loss of capital. Valuation remains absolutely critical, as I believe investing is as much about protecting the downside as it is about participating in the upside. Red flags for Bajaj include unproven business models, highly indebted companies, or stocks trading on high valuation multiples.

This latter point is particularly pertinent today, as equity markets generally have benefited from an environment of low interest rates and a benign economic backdrop for around a decade now. That cannot last forever, which in turn suggests, notes Bajaj, that prospective returns from the broader market are likely to be lower than they have been over the last decade. That makes an active, value-driven, contrarian approach ever more important.

Today, he is finding some of the most attractive opportunities in India (one of his biggest holdings is Indian utility giant, Power Grid Corporation of India), Indonesia, and the Philippines. An added benefit of the investment trust structure is that Fidelity Asian Values PLC is able to invest with a long-term view, with the manager secure in the knowledge that he won't be forced to exit promising long-term positions because of concerns about fund liquidity.
As Bajaj puts it: "Stock markets will go up and down, but to make money, I believe you need a good philosophy, to stay true to that, and be willing to put in the time and effort to implement it effectively."

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Banking faces a spiral of decline

Once highly prized jobs on Wall Street or in the City have lost their allure

Matthew Lynn
City columnist

The pay was fantastic. There were palatial offices in the smartest locations. Every Christmas there was a bonus with five, or sometimes even six, zeros on the end of it. The lunches were spectacular, and the expenses unlimited. You could make yourself a millionaire by mid-career. For a couple of generations at least there was no more desirable career than banking.

They were the "masters of the universe" in Tom Wolfe's memorable phase in *The Bonfire of the Vanities*, and they could bend the world to their will. But not any more. Since the financial crash of 2008 the status of the finance industry has slipped and slipped. There has probably never been a worse time to be a banker; the industry faces a downward spiral.

A structural shift...

Every week brings yet more news of retrenchment in the industry. Around 30,000 investment-banking redundancies have been announced in the last six months alone. In New York, the number of banking jobs is falling by 2% a year, and the same is true in London. This is now an industry where there is a constant threat of losing your job and with so many banks cutting staff anyone who does get made redundant will struggle to find anything else.

It gets worse. The banks are not just responding to a temporary downturn and tightening their belts until demand picks up again. They are also facing new challenges and new forms of competition all the time. Near-zero and even negative interest rates across the world are fundamentally challenging their business model. There isn't much point in depositing any money in the bank if you don't get any meaningful interest on it, and absolutely none if you get charged a negative rate. With fewer and fewer deposits and higher mandatory capital ratios the banks can't do much lending. Banks that don't lend don't make much money, and certainly don't need many employees.

Bankers: "masters of the universe" no longer

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... caused by competition and technology

At the same time, technology is ripping through the industry. Methods of moving money from place to place, which is basically what a bank does, are changing at lightning speed. There are dozens of fintech firms that have come up with cheaper ways of making payments and new ways of making loans. The technology giants, with their vast customer bases, data-crunching expertise, and unlimited financial resources, are moving into the sector.

Amazon has launched a current account, Google and Apple have payment systems that turn your phone into a bank account, and Facebook is even launching a whole new currency, the Libra. It remains to be seen which of those new ideas work and which fail, but some will surely succeed. The traditional banks face a relentlessly declining share of the market, and as they lose customers they will keep on shrinking.

The net result? Careers are ending earlier and opportunities are evaporating. Banking used to attract the best people, and paid the highest salaries. But that is not going to be true any longer. It is unlikely that many bright graduates aspire to a job in banking. In some industries that might not be of any great consequence. But the financial markets relied on having super-bright and highly motivated staff. To prosper, they needed people who could track down deals and make them happen, who could trade furiously, and who could come up with dozens of creative and innovative new products.

Like the media, or tech industry, banking needed to attract the best people to keep growing. If it can no longer offer those people the same kind of rewards and can't keep them on board, it is likely to go into a spiral of decline. It won't have the energy or ideas it needs to keep expanding, or even to hang onto the markets it already dominates. Nor will it have the imagination to reinvent itself as the tech giants move onto its turf. It will take a while, but if banking is not much of a career any more people will lose interest and the sector will inevitably shrink and shrink.

Who's getting what

● **Bob Dudley** (pictured), the outgoing head of BP, could be in line for bonus payments of up to £40m, reports the BBC. Dudley has spent 40 years at the oil giant and has been chief executive for nine years. In that time he has received £95m in cash and shares. He has an outstanding award of bonus shares currently worth £40m, but he will only receive that amount if every performance target is hit. Dudley will be succeeded in March 2020 by Bernard Looney, currently head of BP's Upstream division.

● Healthcare company Sensyne Health paid its CEO and founder, former science minister **Lord Drayson**, a bonus of £850,000 after the company floated on the stockmarket. It also paid its chief financial officer, **Lorrie Headley**, a bonus of £200,000. But it did not disclose the payments to investors, reports The Times. The company raised £60m when it floated on Aim in August 2018, valuing it at £225m. But the stock has since fallen by 40%.

● **Science and language teachers** in England will be offered retention bonuses of up to £9,000 as the government tries to boost the number of secondary school teachers. From 2020 teachers with degrees in physics, chemistry or modern languages will be eligible for "early career payments" if they work in state schools for four years after finishing their training. The number of pupils at England's secondary schools will increase after a boom in births at the end of the 2000s.

Nice work if you can get it

Footballers at Tottenham Hotspur are feeling "overworked and underpaid", reports the Daily Mail. They are "jealous" of the club chairman Daniel Levy's salary – £6m a year. The squad feel underpaid compared with their rivals at the top of the Premier League table. Yet Harry Kane, the club's top-earning player, is on around £200,000 a week including bonuses, The Daily Telegraph reported last year. That's around £10.4m a year. Dele Alli is on around £100,000 a week, says The Times, and goalkeeper Hugo Lloris is on a similar amount. Bottom of the first team squad is Kyle Walker-Peters, who is on just £1.04m, says Spotrac, a sports finance website. The average pay at the club is around £4.25m. Players at Liverpool earn an average of £4.92m, those at Manchester City get around £6.62m, while north London rivals Arsenal pocket an average of £5.23m.

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Minimum wage hike is a major risk

Tim Harford
The Financial Times

Chancellor Sajid Javid's announcement of an increase in the minimum wage to two thirds of the median wage in 2024 may prove ill-advised, says Tim Harford. When the minimum wage was introduced in the late 1990s, only a few hundred thousand workers were paid it. Last year, the figure was two million. Had Javid's new rule been in place, nearly five million would have had their wages set by the government rather than supply and demand. That represents a "massive expansion". Additionally, most countries use a technocratic formula to set the minimum wage; both Javid and his predecessor George Osborne have politicised the issue. This is "unwise". When benefits are immediate and costs , such as possible lay-offs and fewer new hires are "delayed and hidden, it is best to delegate the decision to someone who isn't running for re-election". Finally, rebranding the minimum wage a "national living wage" is a "serious conceptual error". In a rich country, everyone should have enough to live on, "but if a decent living wage is higher than a minimum wage that would destroy jobs by the million, that is not a problem that such legislation can solve". Javid must watch out.

Rent controls: the road to hell

Emma Duncan
The Times

San Francisco and its environs have the "highest density of billionaires on the planet", but are also one of the most "visibly poor" places I have visited, says Emma Duncan. Around 8,000 of the city's 900,000 population are homeless, and they are camped out everywhere, many high on drugs or mentally disturbed. This is largely down to property prices. "The tech industry is so big and well paid that demand for property has pushed prices to insane levels." To pay the rent on a one-bedroom flat, you would need to work 300 hours on the minimum wage. Combine unaffordable rents with "negligible health provision for the poor" and you end up with a lot of mentally ill people on the streets. The response has been widespread rent controls, but they have only made things worse, discouraging people from letting, reducing supply and pushing prices up even more. The answer is to build more houses, an option favoured by the city's mayor, but both the right and left oppose it. The right want to protect the value of its property; the left distrust developers and want to keep San Francisco as it was in 1968. London is still far from this "hell", but it is heading towards it, and should take note.

Time to stop global tax dodging

Joseph Stiglitz
Project Syndicate

Tax avoidance by multinationals has had "devastating" consequences for national tax revenues and the public's "sense of fairness", says Joseph Stiglitz. These days, firms can "all too easily" relocate their headquarters and production (or simply alter how they "book" their income on paper) to whatever jurisdiction levies the lowest taxes. In 2018, 60 of the 500 largest companies paid no US tax, despite reporting joint global profits of some $80bn. The International Monetary Fund estimates that governments lose at least $500bn per year as a result of corporate tax shifting. Since the 2008 financial crisis, there has been growing demand to "rethink the taxation regime". The OECD's Base Erosion and Profit Shifting (BEPS) initiative is helping, but it doesn't tackle the underlying "transfer price system", which allows two subsidiaries of the same firm to exchange goods and services across borders, and then value that trade "at arm's length" for tax purposes. The system doesn't work well, particularly for services. How does one value a production process without the managerial services provided by headquarters? A global minimum tax is the answer.

Capitalism will solve the climate crisis

Robert Colvile
City AM

The Greta Thunbergs of this world protest that our leaders are failing to act, but in reality politicians and corporations are falling over themselves to push their green agendas, says Robert Colvile. However, activists are demanding "massive decarbonisation" while rejecting the "most sensible economic mechanisms for achieving it" such as carbon pricing. Their plan is to rip down the modern economy and revert to the wisdom of indigenous communities rather than connect them to the global market economy. It is a form of "utopian" authoritarianism: to force everyone to live as decreed by the "high priests of the left". This is "a sugary coating of environmentalism over a bitter core of hard-left, anti-growth, anti-capitalist, anti-science policies". So what is the alternative? Use the "brute power" of the market. A broad-based carbon tax, which says that carbon emissions are a bad thing, leaves the market to work out how to minimise them. Firms also need to be given an incentive to invest in innovative green technologies. There is "far wider acceptance" than activists realise that something must be done, but we need to "work with the grain of the economy, and indeed of human nature, rather than against it".

Money talks

"When I was doing cocaine in the late Seventies and early Eighties I thought I'd blown [all my money] and was broke. But [my manager] had put away a lot... for me; wouldn't let me touch it until I got my senses back... It was $2m... if I'd had that money, that would have been a big party."
American rock singer Alice Cooper, 71, quoted in The Sunday Telegraph

"It's not an intellectually challenging business. It's emotionally challenging... Fundamentally, we're talking about a group of 23-year-old millionaires kicking a piece of leather into a basket... Millions of people around the world invest their self-esteem in their ability to do that well."
Ivan Gazidis, chief executive of AC Milan, quoted in the Financial Times

"You cannot justify my wages, so I don't try. Am I still cashing the cheques? Yes, because somehow the market forces have decreed this is my value. I don't discuss money."
BBC talk show host Graham Norton, who earns £610,000 a year, on the broadcaster being forced to disclose its stars' salaries, quoted in the Daily Mail

"You can be dead right – and dead."
Oil tycoon T. Boone Pickens, quoted in Fortune

"Gary's the same as any captain of industry who's been at the top of his job for 20 years. It's all about envy, intolerance! If you don't like money then fine, give it away, good for you. But you should not stop ambition. If you work hard and do something well there should be a reward. It's crazy!"
Strictly Come Dancing judge Bruno Tonioli on the furore over television presenters' pay and *Match of the Day* presenter Gary Lineker volunteering to take a cut in his £1.75m salary, quoted in The Daily Telegraph

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The iPhone of the Sixties

The car that made wages go further

adamsmith.org/blog

It has now been more than 30 years since the death of Alec Issigonis (pictured), who died on 2 October 1988, "but not before he had revolutionised motoring for millions of us", says Madsen Piri. Issigonis was the inventor of what was the iPhone of its day – and the story of its success reminds us of an important fact about wage levels.

A revolution in motoring

Sir Alec Issigonis was born into the Greek community of Smyrna, now part of Turkey, and moved to the UK in 1923, studying at Battersea Polytechnic and going on to work in the car industry.

Issigonis was proud of the part he played in developing the Morris Minor, but he "leapt to fame" when he was tasked with designing an ultra-small car that would sip fuel in the wake of the petrol rationing that followed the Suez Crisis of 1956. Issigonis had a prototype ready the following year and the new model was launched in 1959.

The car, originally called the Morris Mini Minor and Austin Seven, was "a sensation". The "revolutionary" design made efficient use of space, meaning four adults could squeeze into the tiny car. The car had "a few teething troubles", fixed in later models, but it "gained immediate cult status". The basic model sold for just under £500 and a souped-up version by Cooper featured "amazing acceleration and grip". The cars became known simply as Minis.

A mini lesson in economics

The Mini became the best-selling car in British history and 5.3 million were produced. They were "reliable and fun" to drive – though being so close to the road "took some getting used to" – and in 1999 it was voted the second most influential car of the century, after the Model T Ford.

The Volkswagen Beetle – the original design of which, penned by Adolf Hitler, is "still in a safe deep within VW's headquarters" – came fourth in that poll. The Beetle was intended to be "the people's car", but it was not quite as revolutionary as the Mini, which "democratised motoring" by "bringing car-ownership within the range of humble pockets".

The Mini "brought a new freedom" to many people and "opened up opportunities". This is often overlooked when people talk about wage levels. They "often forget that those wages buy things that were unavailable previously". Innovative businesses make products that "make wages go further in terms of what they enable people to do". The iPhone, for example, does that – just as, "half a century earlier, thanks to the brilliance of Alec Issigonis, the Mini did the same".

We should trade with evil empires

econlib.org

I was recently taken to task for saying that I hoped China would win its trade war with the US, says American economist Scott Sumner. How could I, a libertarian, support China's murderous and illiberal regime? Why trade with a totalitarian empire like that? "The answer is simple." History suggests that "trade makes people better, both at the individual and national level". Countries that engage in international trade tend to be more peaceful than countries that do not. People in market economies tend to behave better than people in non-market economies. "If you want to bring peace and freedom to the world, trade is one of the best ways of doing so."

Of course, "history is complicated and there are exceptions to this generalisation". But when it comes to public policy, we have to consider the outcomes that are most likely. Imposing sanctions on a country to make it poorer makes sense if you are at war with that country. Otherwise, by making it poorer you also make it "more violent and repressive". America's trade war is giving the hardliners in the Chinese government the upper hand (ditto Iran). In short, I do strongly oppose China's communist regime. "Trade with the Chinese is my method of opposing it."

Hire some old 'uns

hbr.org

We are living longer and having fewer children. That means we're just going to have to work longer, say Josh Bersin and Tomas Chamorro-Premuzic. Yet companies still think of age as a disadvantage when hiring. They must get over this prejudice and bring older people back to work.

The myth is that people over the age of 65 *should* retire. Yet research shows that travel, golf and sitting round the pool cannot replace the meaning we get from work. Those who work on into old age are less likely to suffer from depression and heart attacks and loneliness. Companies that hire older workers may miss out on the "raw mental horsepower" of the young, but they gain knowledge and expertise – the "main predictors of job performance".

It's better to keep on working

Besides, many people just cannot afford to retire. In the US it costs $1m to retire at age 65, yet 21% of Americans have no savings at all; 10% have less than $5,000. If companies "can create an inclusive, fair, and meaningful experience for older employees", they'll become "more innovative, engaging, and profitable over time" and will be benefitting society at large too.

Handle economic statistics with care

conversableeconomist.blogspot.com

Are wages rising, falling, or have they remained stagnant? The answer is yes, says Timothy Taylor. A new essay from the Brookings Institution points out that the answer you get depends on the choices you make when you try to measure them. If you choose 1979 as a starting point, for example, a year just before recessions in the US in the early 1980s, wage growth will look worse than if you start in 1990.

The answer will also vary depending on the measure of inflation you use, whether you are looking at average or median wages, and on whether you focus on men or women. If we begin in 1990, use the PCE measure of inflation, include men and women, and look at the 20th percentile of wages, we see wages growing at a cumulative rate of 23%. Begin in 1979, use CPI-U-RS inflation, focus on men and look at the 20th percentile, we see wages declining by 13%.

The point applies more broadly as any comparison of economic values will involve choices of time period and a measure of inflation, among other factors. Handle with care.

The power of private equity

HG Capital Trust is a successful investor in unlisted companies that has shrugged off political uncertainty

Max King
Investment columnist

As Byzantine intrigue makes the political outlook for the UK ever more uncertain, investors continue to pull money out of equities. In July, equity funds saw the highest level of net outflows from retail investors (£1.7bn) for three years, including £1.2bn from UK funds and £400m from Europe.

Meanwhile, the better fund managers are just focusing on securing high returns whatever the challenges. Few have been more successful this year than **HG Capital Trust** (**LSE: HGT**), the listed technology-focused private equity fund with a market value approaching £1bn.

The trust is the largest single investor in the £10bn of funds managed by HG, while HG's investments in software, which boast a combined turnover of £4bn, make it the third-largest and one of the fastest-growing technology businesses in Europe.

The Byzantine intrigue of Brexit should have no impact on performance

©Getty Images

A powerful portfolio

This growth continued in the first half of the year with the net asset value (NAV, the value of the underlying portfolio) increasing by 14% to 242p per share. Profit growth in the underlying assets accounted for two-thirds of the uplift with one third attributable to an increase in valuation from 17.3 to 19.5 EV/Ebitda (equity valuation plus debt divided by earnings before tax, depreciation and amortisation).

This valuation "appears high relative to history as well as to its peers", says Charles Cade of Numis Securities, "and there is a threat that multiples could fall if there is a setback to equity markets". However, growth in the underlying businesses continues at a strong pace. Based on the top 20 investments, accounting for 88% of the portfolio, sales growth in the last 12 months was 26% and cash earnings rose 35% on margins of 28%. At such a rate of growth, the rating on prospective rather than historic cash earnings would have been in the mid-teens. Far from slowing, this growth is actually accelerating. This year it should easily exceed the compound growth in NAV over ten years of "only" 14%.

The secrets of its success

How does HGT do it? The largest investments, in Cade's words, "have little sensitivity to economic growth, reflecting a focus on fast growing, cash generative businesses with a high proportion of recurring earnings". Private equity is a highly competitive business but HG boasts of "one of the largest dedicated tech teams in Europe with over 90 executives and operators".

This enables them to find potential investments which are not being marketed, to identify additional business opportunities for them, to manage them more rigorously and to achieve high-value exits. HG is not a passive investor but actively seeking to get the most out of the companies, both operationally and strategically. This includes being "highly focused on making further accretive bolt-on acquisitions into our portfolio companies", says HG. There have been 34 of these in 2019 by eight portfolio companies.

Disposals in 2017 and 2018 at £500m were nearly twice the capital invested. The largest of these was at an impressive 80% uplift to book value, twice the average of the 11 disposals in the last 18 months. This strongly suggests that there is plenty more upside to the asset value as disposals continue and so the 5% discount to NAV at which the shares trade is much better value than it first appears.

But what about Brexit? As Cade points out, 30% of the portfolio by value at June 2019 was headquartered in the UK; but few of HG's investments trade between the UK and the EU, and none participate in physical deliveries. In addition, HG indicates that it cannot "identify any specific adverse effects of a separation in the regulatory frameworks to which any business is exposed".

Woodford watch

Neil Woodford's Equity Income fund has slumped by 20% since 31 May, days before it was suspended. Its benchmark, the FTSE All Share, has been flat, while other funds in its category fell marginally. The Equity Income fund's value has slipped to £2.93bn, so Woodford has now lost 75% of the assets he oversaw at the peak of his success in 2017, says Owen Walker in the Financial Times. The former star manager has incurred criticism for collecting over £8m in fees for the closed fund over the last four months. Meanwhile, his Patient Capital Trust is in trouble. The shares have fallen by 46% since the end of May and there may be more to come as the trust's portfolio suffers further writedowns, and confidence in Woodford's judgement dwindles (see page 6).

Short positions... K-pop provides pep

Is it time to explore the market for Korean pop music? The flagship fund of Seoul's hedge fund group AlpenRoute Asset Management has gained 81% in three years by investing in private companies such as Big Hit Entertainment, the outfit behind "K-pop" boy band BTS. Sales at Big Hit doubled last year as the band's popularity soared, says Heejin Kim on Bloomberg. BTS were topping the charts two months after AlpenRoute invested in Big Hit.

The Alpenroute Montblanc 4807 fund has been rewarded for looking beyond the stockmarket, which has performed poorly as the local economy has slowed. The local benchmark, the Kospi index, has slipped by over a fifth since January 2018. But while established companies have struggled, the start-up scene is thriving. In the past decade the number of "initial-stage companies" has doubled to around 102,000. Korea now boasts nine unicorns (private firms with a value of over $1bn).

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A turbulent September wiped 12.7% off the price of Crispin Odey's (pictured) European hedge fund. It was among those affected by the volatile stock and bond markets. Losses were partly due to Odey's bets against Lancashire Holdings and sterling, both of which rose steadily throughout the month. His bet against Metro Bank proved timely, however. The fund's 53% rebound in 2018 made it one of the world's top-performing hedge funds after three years of heavy losses, but this latest drop has left the fund down 18.1% for 2019.

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Will we stay or will we go? And what does it mean for investors?

The process of leaving the European Union has descended into a farcical war of attrition. John Stepek looks at what it all means for your money – whatever the eventual outcome.

Whichever side of the Brexit debate you're on, it's been yet another week of confusing and depressing headlines. With the 31 October deadline looming, Prime Minister Boris Johnson was meant to be having a summit with the European Union (EU) at the end of next week. The hope was that we'd have some sort of deal agreed by then, which would avoid Johnson having to ask for an extension – or to challenge the legality of the Benn act, which could force him to do so. But at the time of writing (see page 8) the state of talks means it looks as though he might not even turn up. How did we get to this stage and, more importantly, what does it mean for your money?

Setting constitutional confusions aside, ultimately Brexit has stalled for one simple reason: the parliamentary arithmetic is against it. Johnson's predecessor, Theresa May, managed to hamstring herself with her catastrophic 2017 election campaign. This left her without a majority, which in turn led to a situation where no deal – let alone one deemed acceptable by the EU – could get through Parliament. Meanwhile, it raised the hopes of all of those on both sides who would prefer Britain to "rethink and remain", removing any incentive on the EU side to compromise. As a result of all this, we now have one major party in the UK – the Liberal Democrats under Jo Swinson – which is actively campaigning on a platform of ignoring the referendum result altogether; an opposition party that is trying to be all things to all voters by calling for a second referendum, the result of which it may or may not support; and a party of government that has had to expel 21 of its own MPs, leaving it with no majority in the House of Commons.

"There are two dimensions to consider: Brexit and a Corbyn government"

As Helen Thomas of Blonde Money points out on page 26, all of this really leaves Johnson with just two choices. Either he attempts to barrel out of the EU on 31 October, hoping that some combination of momentum and legal obfuscation can carry him over the finish line; or he treats this as one long election campaign, positioning himself and the Conservative Party to recapture disillusioned voters from Nigel Farage's Brexit Party, as and when Parliament decides that it will allow a fresh general election to take place.

What this means for your money

Given where we are, what do investors need to prepare their portfolios for? It's not easy, but it's worth trying to consider scenarios that might have lasting impacts on your wealth. There are two dimensions to consider here. On the one hand you've got the Brexit outcome: will we leave, or will we remain (like it or not, the possibility of the latter needs to be considered). On the other, you've got the threat of a Labour government led by Jeremy Corbyn (again, like it or not, this would be a major change to the investment environment, the likes of which most under-50s have never seen).

On Brexit, there are three potential outcomes: "no deal", "some sort of deal" and "remain". No deal is presented as the scary option and in the short term it probably would be. But one way or another, once we leave it rapidly has to morph into being very similar to the "some sort of deal" scenario – Britain and the EU

©Getty Images

Why "remain" cannot mean "business as usual"

While we've been debating Brexit the rest of the EU has not stood still. Specifically, thanks to outgoing European Central Bank (ECB) boss Mario Draghi, quiet but significant progress has been made towards further integration. The eurozone's big problem has always been that its members are ill-suited to sharing a currency. For example, interest rates will generally be too high for Greece and too low for Germany.

To offset that requires closer fiscal integration (ie, fiscal transfers between strong and weak economies), which also means closer political integration (if voters are to accept such transfers, one member can't offer much better welfare benefits than the rest).

As the Greek sovereign-debt crisis made clear, the risk was always that these internal contradictions would blow the eurozone apart, due to the risk that an individual member – crushed by the overly strong currency – would be forced to default on its debt. But during his time at the ECB, Draghi has focused on overcoming Germany's objections to printing money to buy sovereign debt (quantitative easing – QE).

Now, thanks to Draghi, the ECB is effectively like the Bank of England or the Federal Reserve – a central bank with the ability to print money at will to avoid technical default or a banking system collapse.

So while we haven't seen a lot more political convergence, the risk of a single country going bust is all but gone.

Sure, it's not that simple. The ECB doesn't exactly have carte blanche on this, which is why it still costs Italy a bit more to borrow than Germany. But Draghi has made it politically far harder for the Germans (and the "saver" nations as a whole) to resist QE, because if a crisis blows up in future and the ECB is prevented from acting, then the blame lands on them. As Brexit has shown, no nation wants to be seen as the unreasonable one.

By extension, it now seems logical to believe that the euro will not collapse unless a member state actively votes to leave. That's possible in the longer run – indeed, my colleague Merryn Somerset Webb pointed out years ago that an exit driven by frustrated German savers voting to leave may be the most likely endgame for the euro. But that's a slow-burning problem. Even eurosceptic parties within the eurozone realise that campaigning to leave the euro itself is a vote-loser. Very few people are willing to risk seeing their banking system shut down and their savings devalued by 20%-50% overnight (depending on the country) when they revert to their previous currency regimes.

With eurozone nations effectively locked into the euro, further integration is a matter of time. That's why Christine Lagarde – a French politician and former head of the International Monetary Fund – is taking over the ECB. Draghi delivered the monetary safety net – now it's her job to weld member states together politically. It's also why Germany's Ursula von der Leyen – who, as the Financial Times notes, has said she believes in the "United States of Europe" – is now becoming European Commission president.

So in the UK we need to be more aware than ever: "remain" does not mean the "status quo". Instead, it puts us on a long-term pathway where, having seen the apparent futility of exiting the EU, we end up joining the euro.

Corbyn, Swinson and Johnson: they each want completely different things

will have to settle down to talks about the longer-term shape of the relationship. The main difference is that with no deal there's likely to be a short, sharp drop in sterling, whereas a deal would see a rally.

What about if we remain? Clearly there would be quite a bit of back and forth before we got to that point – there would need to be a general election, then perhaps a second referendum and then no doubt more discussions with the EU. That's not to mention all the political anger. But you'd expect the pound to rebound quite strongly on the prospect (although in the longer run, as we note on the left, sterling's days could well be numbered under that scenario).

In all, if you believe that UK stocks are cheap now – and with the FTSE 100 overall offering a dividend yield of about 4%, they are – then the prospect of Brexit alone shouldn't put you off topping up your portfolio. Don't touch open-ended commercial property funds (we've always said it's a bad idea to invest in illiquid assets via a fund structure that promises daily liquidity and it would be an especially bad idea in a no-deal Brexit). But you could opt for a simple tracker fund or exchange-traded fund to track the market passively (see page 16). Or if you want to delve into stock picking, then as Tom Howard notes in The Times, Swiss bank UBS this week highlighted – among others – British Airways owner **IAG** (**LSE: IAG**), advertising group **WPP** (**LSE: WPP**) and **Barclays** (**LSE: BARC**) bank as looking cheap.

What about a Corbyn government? Opinion polls suggest this is a low probability outcome, but we've heard that before. The wealthier you are, the more preparation you need to do. But at a basic level, make sure you've used up your Individual Savings Account allowance (even Corbyn would think twice about scrapping Britain's most popular tax break). If you are a residential property landlord, you absolutely must have an exit strategy in place – we can't emphasise that enough.

And something that will help in any scenario is to diversify. All investors suffer from "home bias" – we keep too much money in assets denominated in our home currencies, relative to their global importance. For example, the UK stockmarket accounts for less than 5% of global market capitalisation, while the US is on around 40%. Yet most British investors have a lot more money in the UK than in the US. There's nothing wrong with this if it's a conscious choice – indeed, we'd argue that US stocks are expensive and so you probably should be "underweight" the US. But while we feel the UK is cheap, don't neglect the rest of the world. The ever-optimistic Anatole Kaletsky of Gavekal Research reckons now could be a good time to invest in continental European stocks – "the present slump... in the euro and in European cyclical assets is likely to prove a buying opportunity and not a sign of Europe's terminal decline". **Montanaro European Smaller Companies** (**LSE: MTE**) has the best five-year track record of any investment trust in the sector, and trades on a discount of 6% *(disclosure: MoneyWeek editor-in-chief Merryn Somerset Webb is a non-executive director on the trust)*. Another option with a solid record is **JP Morgan European Smaller Companies** (**LSE: JESC**) on a discount of 15%.

> *"If you are a residential landlord, then make sure you have an exit strategy in place"*

It's "Brexit or bust" for Boris

Boris Johnson's strategy is straightforward – to make sure that he's "the people's choice" at the inevitable upcoming general election

Helen Thomas
Political analyst, Blonde Money

When an electorate is polarised, it makes political sense to pick a side. As Margaret Thatcher once said: "Standing in the middle of the road is very dangerous – you get knocked down by the traffic from both sides". The Labour party's plunge in the polls should make that clear enough. By contrast, Prime Minister Boris Johnson has taken a persistent and commanding lead since he firmly committed to delivering Brexit by 31 October, "do or die".

But now it seems that his attempt at a deal is dead, shunned as too unworkable even to begin the formal negotiating process. That leaves only the option of leaving without a deal at all – which the Benn act seeks to postpone by forcing the prime minister to ask the European Union for a three-month extension to the current Halloween deadline. How can Johnson now square the circle without breaking his promise and surrendering his lead in the polls?

One suggestion is that failing to leave might not hurt him too much, if others can be blamed for forcing him to do it. Recent surveys suggest that 83% of British voters would blame Parliament for any such delay. But more than half would still blame the prime minster – and why not? He's been in charge where others have stepped aside to argue among themselves, or merely virtue signal their protest. He had it in his power to get a deal, didn't he?

The People versus The Establishment

Our MP-by-MP analysis of Parliament has always concluded that a deal would remain elusive. Johnson has clearly reached a similar conclusion, happily expelling 21 of his own MPs while engaging in increasingly vitriolic parliamentary debate. The reality is that securing a deal is merely a sideshow against the glittering prize of a majority. This is what lies behind much of the current theatrics – the inevitable upcoming election. This vote will be a battle: "The People versus The Establishment", with Johnson portrayed as a plucky David in the face of a colluding "Stop-Brexit" Goliath.

Being blamed for breaking his 31 October promise doesn't play well into this narrative. So he will have to go a step further. His hands must be tied tighter. The Establishment must be provoked more. Downing Street leaks that its legal advisers suggest the Benn act can be challenged, providing a loophole. They could argue that it was unconstitutional to allow Parliament to bind the hands of the government on foreign treaties; that the act is incompatible with EU law; that the act is internally inconsistent (as the Kinnock amendment requires an extension only to continue dialogue over a deal, and a deal isn't even on the table).

But these are just procedural sleights of hand designed to cause distraction and mass confusion. In this confusion, with the clock ticking down, Johnson will simply emerge with a clear message: "We are out." And what will the response be from the EU, the courts, Parliament, 21 Tory MPs, the speaker? The Establishment will say, in unison: "No, you're not."

©Getty Images

Margaret Thatcher: decidedly not middle of the road

"Securing a Brexit deal is a mere sideshow: securing a majority is the real prize"

This is not about rules – it's about power

What could work better as the ultimate outrage? "You voted to 'take back control' but more than three years later, The Establishment just won't let you!" Who decides if we are out of the EU? Is it the prime minister? Or Parliament? Or the EU? Or the Supreme Court? You might have a very visceral response to that question. You might consider it beyond doubt that the answer is clearly *[insert your preferred entity's name here]*. Will you still have that conviction when the UK and the US sign a small sectoral trade deal on 1 November? What about when the UK diverges completely from EU rules in another sector on 10 November? And so on, and so on.

The truth doesn't matter in this political game. Only that each time there is a clash, the war between The People and The Establishment intensifies. And in the heat, the battle drum marches on to a general election, where everyone must pick a side. The ultimate winner will be the person who correctly predicts where the balance of public opinion will fall.

Johnson is confident that he will be rewarded for his unswerving commitment to delivering the will of the 52%. They power his determination to take the next outrageous steps in this epic Brexit saga. Time will tell if he has picked the right battles.

For more from Helen Thomas, visit blondemoney.co.uk

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Where is your child's cash?

Your offspring may have child trust funds tucked away. If so, their money is being consumed by fees

Ruth Jackson Kirby
Money columnist

Next year Britain's first child trust funds (CTFs) will start to mature. But millions of people may well have forgotten all about them. Child trust funds (CTFs) were available from 1 September 2002 to 2 January 2011. If your child was born in that period they will have received vouchers from the government to kickstart their savings. Every child received £250 (those in lower-income families got £500) to start their account, then another £250 or £500 at the age of seven. This sum was reduced to £50 in August 2010 before CTFs were abolished.

Many parents and grandparents added money to the accounts too, so some teenagers will be able to access thousands of pounds when they turn 18 and their accounts mature. But around three million "might not realise they have an account or have lost track of it, leaving £2.5bn in limbo", according to Reena Sewraz on Which.co.uk.

Are you paying too much for his savings?

©Shutterstock

On average the unclaimed accounts are worth £1,600, says Lily Canter in The Sun. Even assuming only the initial £250 government voucher was deposited, it would now be worth £800 had the CTF been invested in shares (assuming it tracked the FTSE 100). A cash-CTF would be worth £350 with accrued interest.

If you think your child may have a CTF but don't have any details you can find it via HMRC's Child Trust Fund tracing service at gov.uk/child-trust-funds. Alternatively, if you know the provider but have lost your account details you can contact them directly.

Check the charges

Even if you know exactly where your child's savings are you may want to check on them. "Many youngsters with CTFs are having their nest eggs eaten away by fees," says Kate Palmer in The Sunday Times. Half of the platforms that offer investment, or "stakeholder" CTFs are charging the maximum annual charge the government allows: 1.5%.

This "is an expensive way to save, because most CTFs are invested in tracker funds that simply mimic an index," says Palmer. There is no fund manager to pay for choosing stocks, after all.

Transfer a CTF into a Junior Isa (Jisa) where the fees are far lower. For example, AJ Bell charges 0.25% for Jisas worth less than £250,000; Charles Stanley, 0.35%. If you invested in, say, the Vanguard LifeStrategy 80% Equity fund, which charges 0.22%, your total cost on each platform would be 0.47% and 0.57% respectively, far below the fees on most CTFs.

It is particularly important to check the charges on a CTF if it is going to mature soon. The 1.5% cap only applies to CTFs so fees could rise substantially when your child turns 18. The government has yet to decide what will happen to CTFs when they mature; they will probably be converted into adult Isas.

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.

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How to go digital

As cash falls out of favour, updating your payment systems is key

David Prosser
Business columnist

The direction of travel is clear. Small businesses are going to have to get to grips with the shift towards a cashless society. Even the Big Issue has just announced that its sellers will soon be using contactless payments devices; many potential buyers of the magazine no longer carry cash. However, many small enterprises – around half, according to one estimate – aren't prepared to take non-cash payments.

The good news is that going cashless has never been so easy. Thanks to new technologies and fierce competition between new entrants to the financial services market, small firms for which electronic-payments systems would once have been economically unviable now have lots of options.

The best card readers

The simplest of these is to choose one of the growing number of card readers that enable you to take payments by debit or credit card. These typically link to the banking system via your phone, using either Wi-Fi or mobile data, so you can use them whether you work from a single location or on the move. The cheapest option will depend on the profile of your business.

The Big Issue will soon be offering contactless payment

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Normally, you pay a fee upfront for the card reader plus transaction fees charged as a percentage of each customer's payments. Some companies operate flat-rate percentage charges, while others offer rates that decrease as your sales volumes rise; these may be more effective for larger businesses or those that are growing quickly.

At the cheapest end of the market, SumUp's card reader costs as little as £19; you then pay 1.69% of each transaction. Square and iZettle are also good value, both charging £29 for their devices and transaction fees of 1.75%.

Alternatively, Worldpay and PayPal have a range of different transaction charges, but may be more cost-effective if your business is making electronic sales of several thousand pounds a month. Nevertheless, cost should not be your only consideration. You also need a solution that reflects the way you trade. If you want to take orders over the phone, you'll need a device that offers the "card-not-present" option. In that case, SumUp's bargain-basement deal might not be the right one for you. If you're also making sales online or through a mobile platform, look for an all-encompassing solution.

Some companies may want to consider more sophisticated options. Several electronic-payments companies offer data-analysis tools that you can use to look at how your business is trading – to identify your most valuable customers, for example. This could help you maximise profitability as well as ensure customers can pay the way they want.

Hang up on your telecoms provider

If your business is spending more than ever on phone and broadband, now is the time to look around for a better deal. The average small and medium-sized enterprise (SME) will spend around £2,050 on telecoms services this year, according to a recent Consumer Intelligence report, up almost 33% on the £1,400 that regulator Ofcom said SMEs typically spent in 2016.

For businesses increasingly dependent on technologies such as high-speed broadband, it's also worrying that more than a third of SMEs describe their telecoms provider's service as average or poor.

For now, Ofcom's data suggests that as few as one in ten SMEs change their telecoms provider each year. But the regulator has sought to encourage switching in recent years – for example, by banning providers imposing penalty charges on customers who want to take their business elsewhere. While switching may still be complicated by issues such as fixed-term contracts, it's high time more small businesses looked around for a better deal.

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Five questions for... David Luck, CEO of Capital on Tap

● What does your business do?
Capital on Tap lends money to small UK businesses, which are the backbone of our economy. It is increasingly difficult for small businesses to access the funding they need, so we have come up with a credit card specifically for them to help them grow. Our online application is quick, simple and hassle-free, providing customers with an instant decision without affecting their credit score.

● What is your greatest achievement?
We recently surpassed £1bn of funding to more than 80,000 UK small businesses. This achievement is special for us as it's a reflection of all the companies we've been able to help and the hard work the team has put in. To do it in less than seven years makes it even more satisfying.

● What has been your biggest challenge?
Serving the diverse needs of small businesses. The UK has millions of them, all with very different requirements. This in turn demands lots of innovation and product development. For example, this year we have had to create reward points for card expenditure, integrate with accounting software and revamp our customer portal. Shipping all these features at speed has been a challenge.

Credit cards for small businesses have proved lucrative

● What are your plans for hitting your targets?
Since 2016 we have doubled our customer base and revenue year-on year and plan to continue on this trajectory. We are determined to hit this target by continuing to listen to our customers. We will create the features they want in order to ensure we're the best credit card for small businesses.

● What's the one piece of advice you'd give to fellow entrepreneurs?
The best piece of advice I can give is to listen to your customers. You can waste a huge amount of time building really cool features that nobody wants. Ask your clients what they want, test it quickly and react accordingly.

Making money on Airbnb

Getting paid for the use of your spare room or house isn't as straightforward as it sounds

Hannah Smith
Investment columnist

Houseguests, like fish, start to stink after three days

©AirBnB

Renting out your property for short-term lets on Airbnb may seem an easy money-spinner. But it's not as straightforward as it sounds. There are tax, insurance and mortgage implications to consider, and that's before you even start dealing with guests.

That hasn't deterred many UK property owners from having a go: Airbnb had 223,200 active listings last year, of which 41% were for a private room in the host's primary residence and 55% were for an entire house. Properties are typically rented out for 36 nights a year, netting their owners an annual average of £3,100.

Tax breaks

Still, it's not simply a cheeky earner on the side: the money you make on Airbnb is taxable and you need to declare it to HMRC.

That said, there are some tax breaks available. You used to be able to earn £7,500 a year tax free under the government's rent-a-room scheme, but a rule change this year – dubbed "the Airbnb tax" – means this relief is now only available to those who are also living in the property at the same time. However, if you're not eligible for that, you can still earn £1,000 a year tax-free under the property income allowance.

Check your mortgage

If you have a mortgage on the property you want to list on Airbnb, you may need to ask permission from your mortgage lender first.

"There's no obligation for a lender to consent, or it could charge a fee or load your interest rate," cautions David Hollingworth, director at L&C Mortgages. He says many people just list on Airbnb without speaking to their lender, but this is not a good idea as lying by omission to your lender is mortgage fraud. Banks and building societies are realising that their customers want the option to rent out their properties, and some lenders have written this into their small print.

Nationwide, for example, will accept a certain amount of use as a B&B, as long as no more than two bedrooms are allocated to paying guests, while Metro Bank allows you to let out your property for 90 days a year, notes Hollingworth.

"You can delegate the cleaning, but it won't come cheap"

Outsource your hosting

Once the mortgage and tax administration is taken care of, there's the work of managing bookings, communicating with guests, organising cleaning and changing linen. If you don't fancy doing this yourself, there are many companies that will do it for you. But they don't come cheap.

You can usually pay them a percentage of your revenues as a commission, or they can take everything the property earns and pay you a fixed monthly fee, regardless of how your listing performs. Commission charges from companies such as Airsorted, Hostmaker, GuestReady and Your AirHost vary from 5% to 20% for "lite" to "premium" services, with many offering full-service options at a cost of 12%. Charlotte Morris and Kirsty Allsopp are both Airbnb superhosts, meaning they are experienced and highly rated. Kirsty manages her own property, a two-bed annex attached to her family home in Long Clawson, Leicestershire, while Charlotte lives abroad part-time so she uses a management company for her Hackney flat.

While Charlotte found the management company to be quite hands-on at first, the level of support dwindled over time. "I've had a ticket in about missing towels for over two months – I've given up asking. I've had brand new, unopened skincare and food stolen and was very frustrated with the lack of support on this. I've lost count of how many times I've had to call them to get them to sort stuff out," she says. "I often wonder if it's all worth it. When it works, it's a dream. But for the percentage taken and the extortionate cleaning fees applied, it's hard not to get really miffed."

Extra insurance

Kirsty has been doing Airbnb for two years and likes the ability to make money from her extra space, with more flexibility than a long-term let. Admitting she was "naïve" at first, she didn't consider the need for extra insurance. "We had a guest who opened the wood burner and a log fell and burnt the carpet. It was clearly an accident. If you claim through Airbnb they seek to recoup that money from the guest and that is paid to you. It's not insurance, which we had assumed it was. Your own home insurance won't cover areas let out so you need separate insurance."

The customer is always right

What would these superhosts say to someone who thinks Airbnb is easy money and wants to get involved? "That it's something you need to carefully consider," says Morris.

"It's a strange feeling coming back to your home knowing that a stranger has been there. Things go missing, things break, and no one takes responsibility... On the other hand, it's a great way to supplement income and, while management companies aren't perfect, it does take some of the hassle out of it. I wouldn't have been able to sustain my work and life commitments without it." Allsopp advises would-be Airbnb hosts to remember that the customer is always right, and as a host you live and die by your reviews. "Airbnb success as a host works on feedback so you always have to go the extra mile to ensure whoever is staying is happy. It's hard work, but also very rewarding. It's great to meet different people, but it's not free money."

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Robust returns in the robotics sector

A professional investor tells us where he'd put his money. This week: Peter Lingen of the Pictet-Robotics fund highlights some promising investments

The modern robotics market began in the car sector in the 1960s. Since then it has expanded relentlessly into ever more industries, fuelled by technical innovations such as exponential growth in computer processing power, electronic miniaturisation, increasingly refined sensors and controllers, new materials and more compact batteries. And robotics will remain a growth industry thanks to several secular trends, including cloud computing, autonomous driving, electric vehicles and precision medicine.

Picking the winners

We invest in companies that benefit from the growth of robotics, automation and artificial intelligence. But this is a substantial investment arena, which makes fundamental research key.

We track 400 companies globally. Insights we gain from firms, meetings with brokers and trade shows each year help us narrow the field to a concentrated portfolio of between 40 and 60 stocks.

On average, the companies generate 75% of their revenue from activities that fall within our investment criteria. They belong to highly diverse sectors: vehicle components, life-sciences, med-tech, consumer robotics, semiconductors, industrial robotics, internet infrastructure and application software.

Hiding in plain sight

We look for companies that are market leaders in emerging niches, with clear technology leadership. We like groups that invest heavily in innovation and have the confidence to invest in themselves. While some of these are highly valued, we believe that others are "hiding in plain sight".

For example, **Google (Alphabet) (Nasdaq: GOOGL)** is a business with $155bn in sales that is growing at around 20% a year. Yet it is barely monetising some of its most valuable assets, such as Google Maps and Waymo, its self-driving technology division. Alphabet trades on just 13 times adjusted earnings.

Electronic design company **Synopsys (Nasdaq: SNPS)** is another good example. It helps chip manufacturers design and build high-performance semi-conductors. As the complexity of systems increases and new companies enter the semiconductor sector, the importance of design tools increases.

In recent years the stockmarket has begun to appreciate the strategic importance of both Synopsys and its main competitor **Cadence Design Systems (Nasdaq: CDNS)**, which we also hold. We believe they continue to be an attractive investment over the medium term.

"Alphabet has barely begun to exploit assets such as Waymo and Google Maps"

A promising niche

We recently bought a position in **Altair Engineering (Nasdaq: ALTR)**, a company we've monitored since it floated in 2017. It is a leading producer of simulation software, which is bought by many of the world's top vehicle and aerospace companies.

We like Altair's business niche and we are confident that its software is increasingly relevant to a wide variety of different markets including energy, life sciences, consumer electronics and high-performance computing.

We believe Altair has good prospects for long-term growth. The success of its competitor **Ansys (Nasdaq: ANSS)**, another of our investments, shows how valuable a successful simulation/3D-design company can be in the stockmarket.

If only you'd invested in...

iEnergizer (LSE: IBPO) is an Aim-listed software and services outsourcing firm. It was founded in 2000 and now employs over 12,000 people around the world. An impressive year in which results exceeded expectations saw revenue rise by 11.8% to $174.1m and operating profit rise by 35.9% to $45.3m in the 12 months to the end of March. This excellent performance was accompanied by the first dividend in seven years. First half sales for 2018-2019 are again expected to beat forecasts. Shareholders have enjoyed a gain of over 250% in the past year.

Be glad you didn't buy...

Burford Capital (LSE: BUR) is a third-party litigation funding firm that until recently was flying high. Last year saw a 24% rise in net profits to £328m. But US hedge fund Muddy Waters has accused it of "egregiously misrepresenting" its return on investments, while poor corporate governance has also been a problem, says The Times. Burford has now launched a High Court action of its own, claiming that its recent sudden share-price fall was the result of "market manipulation", and "actionable misconduct". The stock has fallen by 56% in the last year.

The dirt nerd who keeps striking gold

Parker Schnabel was a typical Alaskan teenager when he discovered gold exploration and reality television. Still only 25, he has excelled at both for a decade. What will he do next? Jane Lewis reports

When he was growing up, Parker Schnabel viewed himself as "a pretty typical Alaskan kid". He lived for hunting. "For about five years our family hardly had to buy any meat. I was pretty proud of that." Then, in his teens, his attitude shifted, says The Times. "It was no longer deer and bears and moose" that drove Schnabel. "It was something more mysterious and compelling. It was gold."

Fans of the Discovery Channel reality show *Gold Rush* are no strangers to Schnabel's standing as "a connoisseur of dirt". He's made $20m, consistently out-earning rivals, and now lays claim to being "one of the most successful gold mining bosses in the Klondike" as well as the star of Discovery's most successful show.

Schnabel got into both mining and reality television early. He was 15, and helping to run the Big Nugget mine (a small Alaskan operation started by his nonagenerian grandfather) when a TV crew turned up to scout him. "Once they'd started filming him, they didn't want to stop. He was naturally telegenic – a teenager who had discovered gold in the way that most teenagers discover booze and parties."

"He was a teenager who discovered gold in the way most teenagers discover booze"

A punishing business

Gold mining is a punishing business, says Maxim. But Schnabel, who cites his late grandfather as his inspiration, seems to possess "wisdom and determination" beyond his age. Having outgrown Big Nugget, he moved to the vast Canadian wilderness of the Klondike when he was 19 to mine on a bigger scale. More than 100 years after the first great rush, most prospectors trying to get rich on the Klondike still fail. Schnabel has had mixed seasons, but maintains fairly consistent returns, he says, because he ploughs everything he makes "right back into the ground". For a youthful millionaire, he has austere tastes: "I don't own a boat, or any fancy cars or a fancy house. I have a big expensive sandbox instead."

Sifting through the dirt

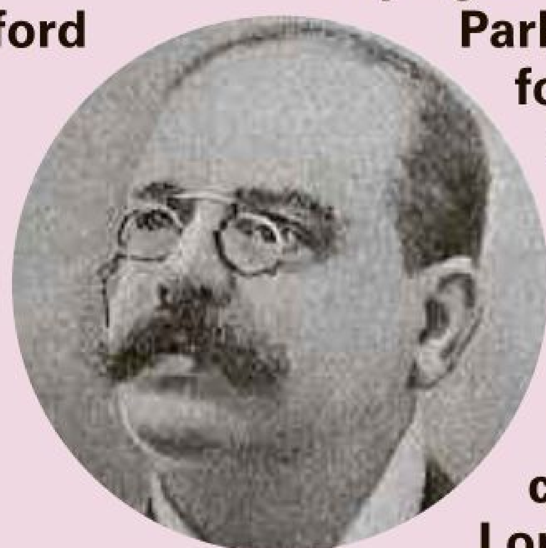
Miners have benefited from a 21st century gold bull market. Even so, turning a profit is all about logistics and, in the Klondike, they're "terrible", says The Times. To get one ounce of gold worth around $1,500 "you need to dig up enough dirt and trucks to fill roughly half of an Olympic-size swimming pool". Schnabel spends $2m on fuel alone and has to work against the clock because this far north the season is short. "To make money, you need to make a string of good decisions day in and day out. But a couple of bad ones might finish you."

It's not gold per se that turns Schnabel on. "It's just something I sell so that I can keep mining," he says: he mines to get gold; and gets gold in order to mine. Unlike most of his peers, however, the self-described "dirt nerd" has a flourishing second career to fall back upon, says Entrepreneur. Schnabel has been busy filming "offseason", making a series of adventurous *Gold Rush* offshoots. He and his crew recently "headed down from the frozen north to the jungles of Guyana… to try their luck mining for gold in the not-very-people-friendly jungle". Looking back over his career at the grand old age of 25, Schnabel concedes it's been a weird one: "For a lot of [the] time I was around nobody my own age. I was up here trying to run a business with a bunch of old guys who didn't want to be told what to do." He doesn't know what he'll do next. Maybe more mining projects, maybe more TV – maybe he'll start a weed farm. Or "I could just flip hamburgers".

Great frauds in history... *James Whitaker Wright*

How did it begin?

Born in 1846 in Stafford near Birmingham, Wright became a preacher before moving to Canada in 1870 and spending two decades promoting American mining companies. Facing multiple shareholder lawsuits, he returned home in 1889. In 1894 he set up the London and Globe Company, which focused on acquiring mines and shares in various mining companies. Touting the companies boosted their shares, allowing him to sell at a profit. He earned enough to be able to spend £250,000 (£28.4m in 2018) on buying Lea Park (now Witley Park) in Surrey in 1896, followed by an estimated £1.15m (£130.7m) on renovating it.



What was the scam?

Most of the companies that the London and Globe invested in were firms that Wright was promoting; the company also took punts on other mining companies, most of them worthless or overvalued. To maintain the illusion that it was making money, Wright falsified London and Globe's balance sheet, exaggerating the value of the mines that it owned and omitting liabilities. To enable it to keep paying dividends he also began to "juggle" cash between London and Globe and his other firms.

What happened next?

The failure of several mines that Wright had promoted, as well as revelations that he had been making payments to journalists, meant that by 1898 people were starting to ask questions about his business empire. As London and Globe's losses and debts mounted, its position became unsustainable and it collapsed in 1900, after Wright announced that it would no longer be paying dividends. Although the authorities refused to press charges, a private prosecution brought by investors caused Wright to be convicted of fraud in 1904. He committed suicide to avoid seven years in jail.

Lessons for investors

London and Globe's massive debts meant shareholders were wiped out, while creditors only got back a fraction of their money. Investors in the 13 companies that Wright had promoted lost around £8m (£846m). Whitaker was also notorious for his use of "guinea pig" directors and public figures (including a former viceroy of India) who lent his scheme credibility but lacked the financial knowledge or the inclination to scrutinise what he was doing. A board filled with celebrities or family friends is always a red flag.

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Discovering ancient wonders

Travel back in time in Cyprus, Turkey, Spain and Montserrat. Chris Carter reports

Eastern Turkey is full of ancient wonders. From Lake Van to Gaziantep – a journey of 700 kilometres lasting six days – you will encounter mosques, churches and monuments galore, says Anthony Sattin in the Financial Times. At Gobekli Tepe, "we were out of time". Not because the trip had reached its final destination, but because "we had left recorded history" behind. This small, recently discovered site is "among the most startling monuments... on Earth".

It was here, 7,000 years before Egypt's pyramids, that hunter-gatherers built what has been called the first temple. It consists of 20 circles of limestone pillars, some with carvings of human and animal figures. "I was here six years ago, before the publicity," says Sattin, when Klaus Schmidt, the archaeologist who excavated the site, was still alive. Then, there was an open hillside. Now, there are fences, car parks, a new visitors' centre, walkways and a huge canopy. "None of this detracts from the wonder of the place." *(A similar 13-day trip in June 2020 costs £2,895, steppestravel.com)*

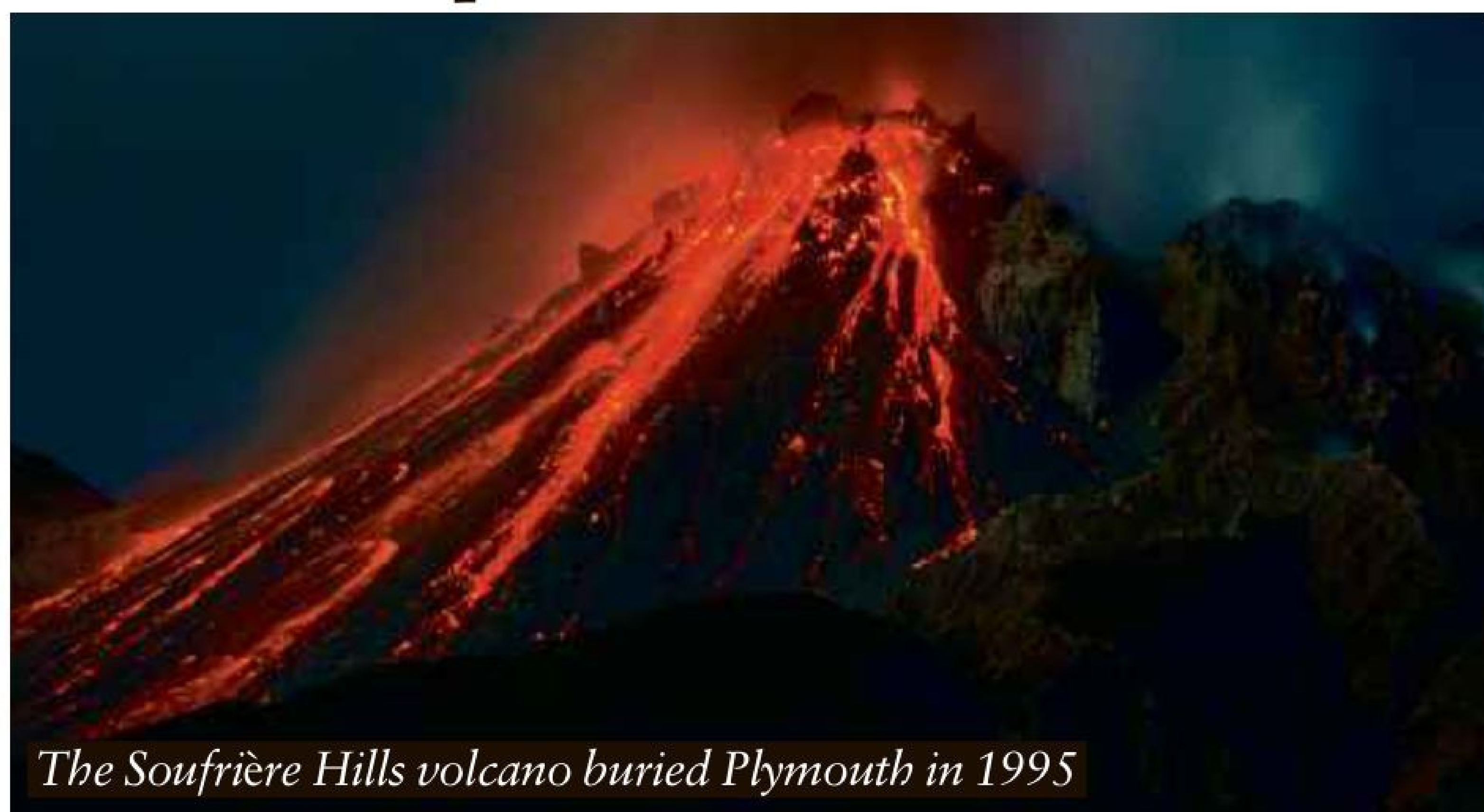
Gobekli Tepe: one of the most startling monuments in the world

©Getty Images

Ruins amid luxury

Amara is a new "ultra-deluxe" hotel on the south coast of Cyprus, says Mark Macaskill in The Sunday Times. It opened in July. "Aesthetically," Amara "hits all the right notes." There are the marbled foyers, soft tones and warm interiors. All of the 207 bedrooms are sea-facing, while the entry-level suites are "spacious and tasteful, with double basins, a walk-in shower [and a] spa bath". Outside, there are two infinity pools. But these are not the only things the landscaped gardens are hiding. That's because, "on the outskirts of the thriving town of Limassol, with the Mediterranean Sea lapping at its back gate, the Amara occupies the site of the ancient city of Amathus". You can still see the ruins, including an ancient wall that was unearthed during the hotel's construction. It is now on show in the hotel's "impressive" spa. *(From £338, amarahotel.com)*

The Pompeii of the Caribbean


The Soufrière Hills volcano buried Plymouth in 1995

©Getty Images

In 1995, the Soufrière Hills volcano erupted in Montserrat and buried the capital, Plymouth, under a thick layer of ash. The island is therefore known as "the Pompeii of the Caribbean". It is now "one of the less-trodden spots for dark tourism" – the trend of visiting areas marked by disaster, says Emma Featherstone in The Daily Telegraph. But given that tours of Plymouth are run by local guides, some of whom lived through the eruptions, "our visit didn't feel too voyeuristic". Montserrat Springs Hotel on Richmond Hill is one stop on the tour. It was once "the most luxurious" on the island, says Featherstone. Wearing foam masks, "we picked our way through the remains of a formerly plush reception area and headed out to the swimming pool, now overgrown with weeds". Guests were no longer to be seen "revelling in the views of Soufrière Hills and Plymouth below".
($159 as part of a cruise offered by Windstar, windstarcruises.com)

Exploring the past near Seville

At first glance, southwestern Spain appears largely empty, says Sorrel Downer in The Guardian. "But over ploughed fields and olive groves there are towers and ramparts... the hazy outlines of towns founded in antiquity." The ancient cities of Carmona, Écija and Osuna sit within a triangle that starts just east of Seville. While "the past is woven into the fabric of the present, just to be here is to time travel". Carmona's defensive gate, the Puerta de Sevilla, was built around 220BC. It was incorporated centuries later into an Arab *alcázar* (fortress). Beyond it lies a necropolis, with excavated urns and statues. The high white walls of the churches, convents and palaces lend the Carmona its beauty. "Few towns are better suited to aimless wandering." Stay at the Casa-Palacio de Carmona. It is a "spectacular, eccentric" 17th-century palace constructed by a conquistador after his return from Peru. *(From €98, casadecarmona.com)*

"Stay at the Casa-Palacio de Carmona. It is a 'spectacular, eccentric' palace"

This week: houses for around £600,000 – from a late 17th-century thatched cottage in Wiltshire to a maisonette

Winceby, Horncastle, Lincolnshire. A period house surrounded by gardens with views over the Lincolnshire Wolds, an Area of Outstanding Natural Beauty. It has a sun room with an arched ceiling and Gothic arched doors and windows. 4 beds, 2 baths, 3 receps, 1-bed coach house, 3.5 acres. £625,000 Hunters 01790-752151.

The Yews, Broad Town, Wiltshire. A late 17th-century thatched cottage in a rural location with an addition from 1800 and a modern extension. The gardens include a well that feeds a rivulet that runs through the grounds. 3 beds, 2 baths, 2 receps, cellar, two sheds, 0.5 acres. £595,000 Carter Jonas 01672-514916.

South Bank, Middletown, Welshpool, Powys. A detached village house in an elevated position with views towards Long Mountain. It was extended in 1872 to include the cast-iron veranda at the front. It has high ceilings and period fireplaces, and the mature gardens include a wildlife pond and a fruit orchard. 4 beds, 3 baths, 3 receps, conservatory, outbuildings, 1 acre. £595,000 Savills 01952-239500.

in London's Brackenbury Village, close to Westfield shopping centre

Whitewalls, Ninebanks, Hexham, Northumberland. A Grade II-listed house set in more than five acres of gardens that include the Whitewalls Burn. It has wood-burning stoves, a drawing room with a marble fireplace inset with a sold-fuel stove and a sun room opening onto a terrace that overlooks the West Allen Valley. 4 beds, 2 baths, 3 receps, kitchen, orchard, paddock, wild flower meadow, workshop, outbuildings. 5.4 acres. £620,000 Strutt & Parker 01670-516123.

Holly House, Dyke, Lincolnshire. A late 18th-century, Grade II-listed village house with a modern extension. It retains its beamed ceilings and exposed stonework, and has a wood-burning stove and a country-style kitchen. 5 beds, 2 baths, 2 receps, 1-bed annexe, garden, £600,000 Norton Rickett 01780-782999.

Jeddo Road, Brackenbury Village, London W12. A freehold maisonette in a period building with a shared garden close to Wendell Park and Westfield shopping centre. The maisonette retains its Edwardian sash windows and has an elegant period fireplace in the living room. It has been upgraded to include a newly refurbished kitchen and contemporary bathroom. 2 beds, bath, recep, front and rear garden. £580,000 Marsh & Parsons 020-8102 0123.

Prospect Barn, Upper Dormington, Herefordshire. A Grade II-listed barn conversion surrounded by gardens with far-reaching views across open countryside. The house has exposed beams and brickwork, an entrance hall with a vaulted ceiling and a floor-to-ceiling window, and an open-plan living room with a wood-burning stove. 5 beds, 3 baths, breakfast kitchen. £625,000 Jackson Property 01432-344779.

The White House, Hindolveston, Norfolk. A late 18th-century house on the edge of a village surrounded by mature gardens that include a timber studio. The house retains its beamed ceilings and period fireplaces and has been upgraded to include underfloor heating and a newly fitted kitchen with an oil-fired Rayburn. It has a separate dining room that leads onto the drawing room. 3 beds, 2 baths, 2 receps, stable, garden, 0.49 acres. £610,000 Savills 01603-229229.

The return of the Land Rover

The no-frills favourite of farmers and the military is back in production. Chris Carter reports

"By the time production of the long-running Land Rover Defender ended in 2016, there was no shortage of people mourning the loss of the company's seminal rugged off-roader," says Paul Hudson in The Daily Telegraph. Stricter emissions and safety standards had consigned "the go-anywhere original to the history books", says Siddharth Vikram Philip on Bloomberg. It was a sad end for a car that began production in 1948.

Now, it is back. One of the hottest launches at last month's Frankfurt Motor Show was not a million-dollar supercar, but the new Defender, an updated version of the "no-frills favourite of farmers, explorers and the military".

"Crucially," those emissions standards are no longer a problem, says Jim Holder in Autocar. The new Defender has been "engineered to meet global car regulations", including those of the world's two biggest markets – the US and China. That will help to increase the appeal of this British brand around the world. The two-litre version of the car will manage up to 25.1 miles per gallon – not "bad for a petrol engine in a car that weighs more than two tons", says Sunday Times Driving.

"It promises to be just as brilliant a mud plugger as its back-to-basics predecessor"

That's nice, but you don't buy an off-road vehicle to prowl shopping plazas, says Sean Szymkowski on CNET's Roadshow. "No, you take the darn thing off the beaten path." And the new Defender will excel off road just as its predecessor did. It has been fitted with Land Rover's new "Wade" driving programme, which allows it to drive through up to 900mm of water.

There is even word of new technology in development that will one day allow you to hop out, scout an obstacle in your path, and then steer the Defender by remote control. It promises, says Driving, to be "just as brilliant a mud plugger as its back-to-basics predecessor".

Wine of the week: a zany, paradigm-shifting creation

NV Bolé, Spumante Bianco, Emilia-Romagna, Italy

£13.50, reduced to £12.83 each by the case of six bottles and £12.15 each by the case of 12 bottles, Great Western Wine, 01225-322810, greatwesternwine.co.uk

Matthew Jukes
Wine columnist

I am always on the lookout for newly released wines and sometimes I stumble across completely zany, paradigm-shifting creations and I have to do a double-, and in this case a triple-take. Made from trebbiano with a 5% addition of local rarity famoso, this terrific sparkler uses a long and cool secondary fermentation in a tank, as opposed to a bottle, to get the wine to market as fresh and vibrant as possible.

The result is a Prosecco-style fizz, but with an awful lot more to hang onto. The bottle is stunning, the label is energetically colourful and genuinely eye-catching and the flavour is knockout. Crunchy green apple-skin tones lead the way, but it is the subtler notes of lemon blossom and faint jasmine-tea nuance that brings complexity and gravitas to the whole.

New product launches, particularly of wines that are clearly trying to buck the trend, are often disastrous, but this sparkling wine shows that it is possible to upset convention and yet still produce an entirely unexpected but epic and joyous product.

Bolé deserves to be admired and tasted by every single person who has ever sipped Italian fizz and I venture that legions will then follow its path. You cannot ignore the price, which is as keen and eye-catching as the superbly designed label!

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

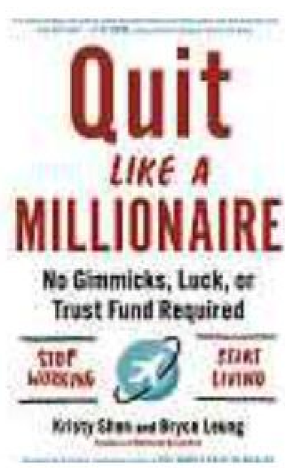
Book of the week

Quit Like a Millionaire

No Gimmicks, Luck, or Trust Fund Required

By Kristy Shen and Bryce Leung

Quercus, £12.99



FIRE (standing for financial independence, retire early) is a movement that originated in the US and this book is by two of its leaders. The idea is that if you live extremely frugally, save a large portion of your pay and invest the money in the stockmarket, you can accumulate enough to retire in your 40s, or even earlier. (The two authors were in their early 30s when they retired.) *Quit Like a Millionaire* by Kristy Shen and her husband Bryce Leung explains how anybody can achieve these goals and draws on Shen's own experience (she was born in rural China and grew up in Canada).

The opening third of the book argues for the importance of frugality and learning to treat money with respect. The next third deals with devising an investment strategy that will enable you to build up a nest egg you can live off for the rest of your life. The final part gives some advice on how to make your money go further by travelling around the world.

Shen and Leung: the couple quit their day jobs in their early 30s

> *"The idea is that if you live extremely frugally you can retire in your 40s"*

FI is good, RE up to you

Anything that encourages people to get their finances under control and avoid racking up large amounts of debt is admirable. And while some people may find Shen's obsession with cost-cutting a little extreme, others may find a verbal equivalent of a kick up the backside (combined with some academic research) more effective than other approaches. Similarly, her advice about investing in low-cost index funds and having a long-term investment plan chimes neatly with what we have been saying in this magazine for years.

However, some of Shen's advice is a bit more debatable. Her claim that index funds can "never go to zero", for example, because poorly performing stocks are automatically dropped from the index, is simply untrue. Most indexes are only rebalanced four times a year and rebalancing won't provide any protection if the entire stockmarket is dropping. Also, her assumptions about future returns from stocks and bonds seem extremely optimistic in an era when even long-term interest rates on government bonds are lower than inflation, so you will probably have to work longer than she suggests.

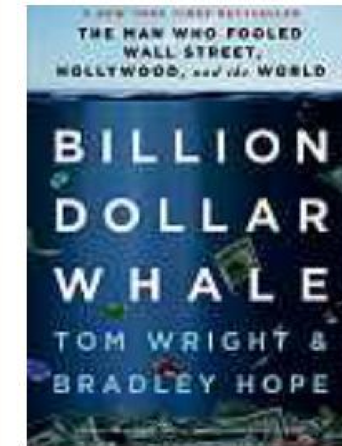
Even more importantly, many people may find the sacrifices involved: scrimping and saving, choosing a job that you might not like and living post-retirement in a country with a lower cost of living, too high a price to pay for an earlier retirement. As Shen admits, many people will prefer to use the lessons in the book to attain a degree of financial independence rather than give up work completely. Still, if you're curious about what FIRE is all about, or are looking for some tips on how you can rein in your spending, then this book will be useful.

Reviewed by Matthew Partridge

Billion Dollar Whale

By Tom Wright and Bradley Hope

Scribe (£9.99)



The 1MDB scandal, involving the theft and misuse of at least $3.5bn of dollars from Malaysia's sovereign wealth fund, is one of the biggest financial scandals to hit Asia. It has already brought down former prime minister Najib Razak. In *Billion Dollar Whale*, Wall Street Journal reporters Tom Wright and Bradley Hope give a detailed account of the imbroglio.

The main mastermind of the scam was Jho Low, the Gatsby-like financier who is currently a fugitive from justice. Although Low came from a wealthy family his desire to be feted by the rich and famous led him to devise a scheme that would enable him to fund a jet-setter lifestyle lavish enough to impress Hollywood celebrities. Ironically some of the money ended up being used to finance *The Wolf of Wall Street*, the biopic of the fraudster Jordan Belfort. Low relied on both the support of Malaysia's political establishment and the apparent moral blindness of financial institutions; the cast of supporting characters is so large that it is easy to get lost in the detail. Still, the authors strike a good balance between keeping Low's story at the centre and making it clear that 1MDB was a scandal waiting to happen. They also provide some telling anecdotes: Jordan Belfort, for instance, was so sceptical about Low that he refused a payment of $500,000 to appear at one of his events. What a pity others were less scrupulous.

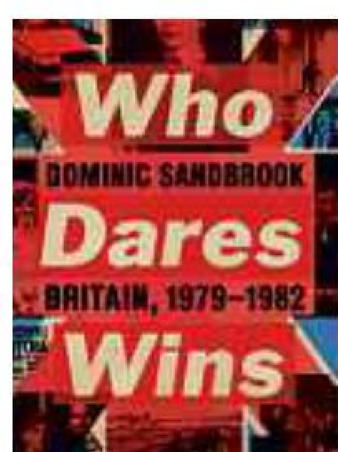
Book in the news... an even-handed account of the early years of Margaret Thatcher's premiership

Who Dares Wins

Britain, 1979–1982

By Dominic Sandbrook

Allen Lane, £35



Dominic Sandbrook is one of the best-known practitioners of a certain type of post-war British economic history that puts the political narrative in a wider social context, says Charles Moore in The Spectator. His latest follows this pattern, contextualising the first three years of Margaret Thatcher's premiership in terms of the "jolting" changes in popular culture and the economy that were at the same time "fiercely resisted and happily embraced".

The book is "scholarly, accessible, well written, witty and incisive", and "fizzes with character and anecdote", says Piers Brandon in The Sunday Times. It is an "unrivalled portrait" of the British society of this time and Sandbrook takes a nuanced view of Thatcher, dispelling "a number of popular myths about her and the doctrine that bore her name". Indeed, he makes a convincing case that Thatcherism "was not a blueprint for action so much as a set of evolving expedients" and that she was willing to be "cautious" when the situation demanded, such as when choosing the best time to take on the trade unions.

Sandbrook's treatment of Thatcher is even-handed and he contradicts the usual narrative about her time in office, says Anthony Quinn in The Observer. The victory in the Falklands, for example, is widely thought to have rescued her government from "near ignominy", but even before the invasion the Tories had been on an upswing. The received wisdom is that Thatcher set about "destroying British industry by hammering the unions, instituting monetarism and plunging the country into recession". But coal, steel and car-making had been in decline for years, and the recession would surely have happened regardless of who was in power. If the book were just a rehearsal of this scene, it would be a tough read, but it "leavens the load" by "ranging over the sights, sounds and smells of an era that looks almost quaint 40 years on". If you lived through these times, you may feel a "nice balance of piquancy and poignancy in having those years brought to life by the historian's magic wand".

"Begpacking" around the world

The privileged backpackers scrounging off developing countries are facing a backlash

I am happy to dig a few coppers out of my pocket and give them to a beggar. But I would draw the line at "begpackers": people on a gap year "passing off pampered entitlement as roughing it", as Julie Burchill puts it in The Sunday Telegraph. So I fully applaud the fact that countries all over the world are cracking down on the practice.

So who are these people and what do they do? While "it is not hard to travel on a frugal budget across the tourist hotspots of Southeast Asia", says Philip Sherwell in The Sunday Times, some Western tourists "are swapping thrift for freeloading by begging from well-meaning locals to fund their travels".

Life's a beach... and the locals will pay

©Alamy

"Some countries are asking visitors to prove they can support themselves before they are allowed in"

These scoundrels can be found "sitting on Asian streets, normally in popular shopping districts, with messages scrawled on torn cardboard asking passers-by for money". Begpackers were initially viewed as objects of "curiosity", but many locals have now grown sick at what they see as the "dishonest emotional bribery" involved in asking locals to finance holidays in countries "where there is still widespread poverty, but where giving funds often has spiritual importance".

Spongers or entrepreneurs?

Hang on, says Helen Coffey in The Independent. The idea of a "ludicrously pampered, privileged Westerner" on a "gap yah" actually begging locals for money in a country "where many struggle" to get by might be "maddening". Still, not everyone "has the readies to support themselves if the worst should happen in a foreign land". So we shouldn't rush to judge someone for asking for money "with no notion of their individual circumstances". What's more, while deliberately begging may be morally wrong, you could argue that there "is nothing wrong (or new) with busking or selling hand-made jewellery".

You could even make a case that if someone has a "rare" talent for creating "exquisite" handmade jewellery out of shells, "who are we to deny their entrepreneurial nous?" This is "hardly a conventional career choice", but the fact remains that "for many, it's far more fun to travel the world on $10 a day than to be chained to a desk".

Still, there are limits. If someone attempts to talk to me seriously about "finding themselves" at a full moon party, "I will make free to boot their handmade bracelets across the street".

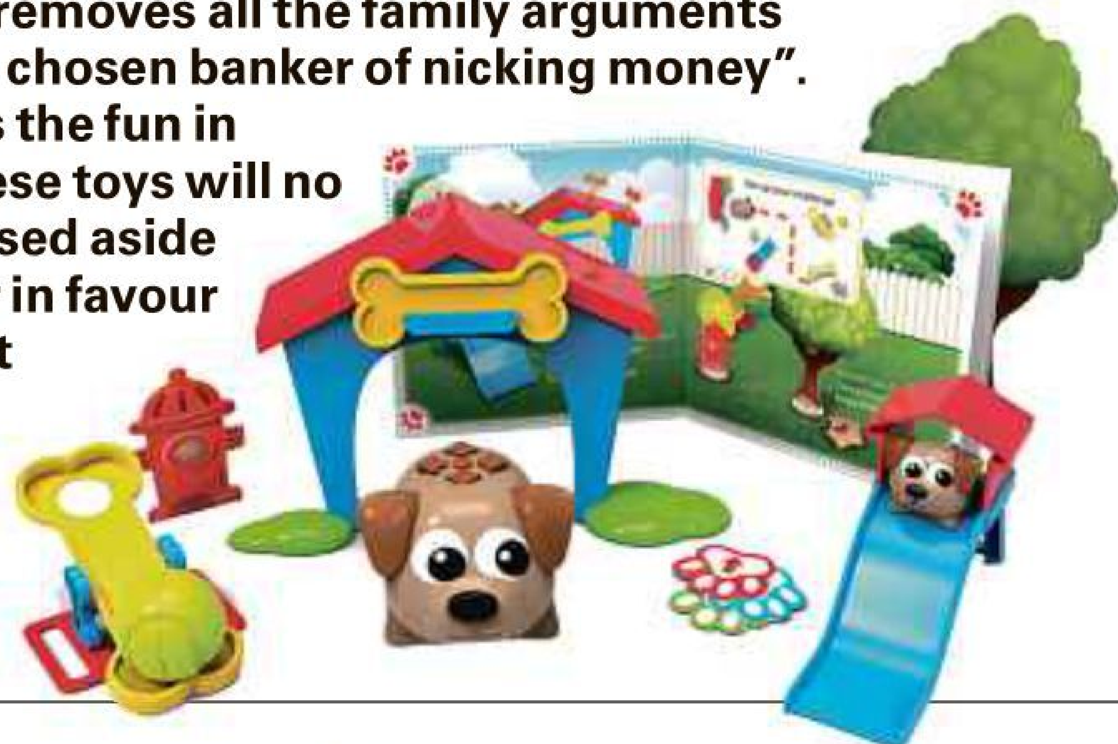
Few can muster Coffey's forbearance, however. Life is about to get a lot harder for these freeloaders. For example, authorities on the Indonesian island of Bali have said that they "are now reporting these begpackers to their embassies", as "caring for them should be the embassy's responsibility", says Qin Xie in The Sun. In some cases they could be "deported and banned from the country".

Other countries are trying to nip the problem in the bud by making would-be tourists prove that they can support themselves before they are allowed in. For example, tourists to Thailand are now "being asked to show £455 in cash to prove they can fund their travels".

Quintus Slide

Tabloid money... teach toddlers to code for Christmas

● **"Remember the days when... all we could hope for was a spinning top and a satsuma?" asks Jane Moore in The Sun. This Christmas, toys that will be appearing on wish lists include *Coding Critters* (pictured), which explain the basics of computer coding. "Hopefully, toddlers can then teach us how to master it." Then there's *Smart Pixelator*, which supposedly "[empower] kids to pixelate any design and build 2D or 3D projects using Bluetooth connectivity". Whatever that means. There's even a cashless version of the board game *Monopoly* "that presumably removes all the family arguments accusing the chosen banker of nicking money". But "where's the fun in that?" All these toys will no doubt be tossed aside after an hour in favour of things that require only imagination – just like in the good old days.**



● Micro-scooters for adults are touted as a "nifty way of reducing our reliance on cars", says Elizabeth Day in The Mail on Sunday. And "I am perfectly well aware" of a company in the US, called Bird, that makes dockless electric scooters available for hire. It is now valued at $2bn. "I understand the convenience of their lightweight, foldable designs." It's just the self-satisfied smugness of scooter riders that really "gets to me". They believe that they can ride on the pavement and that the normal rules don't apply to them, because they are busy saving the world and getting to their next meeting about "the digital launch for their start-up hipster smoothie brand". Besides, adults on scooters just look "ridiculous".

● "All taxes are unpopular," says Richard Madeley in the Daily Express. But "most of us reserve a special corner of loathing in our hearts for inheritance tax". You work your whole life, paying your taxes along the way. "Then, when you pop your clogs, the government takes another sneaky slice. Your phantom trembles with rage. 'But you already taxed me on that money!' you wail, ratting your chains like Marley's ghost. 'You're double-dipping! I wanted my kids to have that. It's their inheritance! Give it back!'" Governments think that, because we're already dead, "death taxes" don't affect us much. But they're wrong. And if the government really wants to win voters over, it would realise that, and do something about it.

Bridge by Andrew Robson

A modest coup

Ewart Kempson (1895-1966) was a very English gentleman, although he preferred to live in the quiet of Dumfriesshire than in London's Bridge hubbub. This geographical handicap probably sidelined him somewhat from the international scene, but he was a very fine player. Kempson was famously modest in victory (and he enjoyed many), while gracious in defeat. He favoured a simple, direct approach to the auction, but he would not miss an opportunity to deceive – take this deal.

Dealer North East-West vulnerable

West	North	East	South
♠ 54	♠ A9732	♠ KQ108	♠ J6
♥ Q975	♥ 8643	♥ K2	♥ AJ10
♦ J854	♦ 103	♦ 972	♦ AKQ6
♣ K62	♣ AQ	♣ J954	♣ 10873

The bidding

South	West	North	East
		1♠*	pass
3NT**	pass	pass	pass

* Quick tricks – and North has two-and-a-half – were still in favour. Few modern players would open.

** A typical Kempson bid. He had no time for the approach-forcing style.

Uninspired by his alternatives, West tried the opening lead of dummy's suit, the five of Spades. East won the Queen and found the effective switch to a Club. Winning dummy's Queen, declarer, Kempson, led a Heart. East continued his fine defence by rising smartly with the King, and declarer took the Ace and reflected that East's Heart play suggested the suit was not going to split three-three. With only eight tricks in sight, declarer now opted for an outrageous manoeuvre.

At trick four, declarer led the six of Diamonds from his hand (key play). Can you blame West for failing to divine the position and rise with his Knave? West played low and soon saw the error of his ways, dummy's ten winning the trick. It was now a simple matter to knock out the Queen of Hearts and so score a total of one Spade, two Hearts, four Diamonds and two Clubs. Nine tricks and game made.

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

Sudoku 968

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

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.

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

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Tim Moorey's Quick Crossword No. 968

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 21 Oct 2019. Answers to MoneyWeek's Quick Crossword No. 968, 31-32 Alfred Place, London, WC1E 7DP.

1		2		■	3	4		5		6		7
	■		■	8	■		■		■		■	
9							■	10				
	■		■		■	■	■		■		■	
11						12						■
	■	■	■		■		■		■		■	13
14		15	■	16					■	17		
	■		■		■		■		■	■	■	
■	18									19		
20	■		■		■	■	■		■		■	
21					■	22						
	■		■		■		■		■		■	
23								■	24			

Across clues are mildly cryptic whereas down clues are straightforward

ACROSS
1 Daily drink (4)
3 Fighting reserve? (3, 5)
9 Fatty model seen behind a police officer (7)
10 Courage never manufactured (5)
11 Hamburger's first class? (12)
14 Poem was outstanding as heard (3)
16 Obstruct the bench (5)
17 Drink taken by schoolteacher (3)
18 Significant development when holiday's finished? (12)
21 A hit I organised in Caribbean country (5)
22 A singular dictionary in the room (7)
23 More rum for foreigner (8)
24 Butcher keen to get a joint (4)

DOWN
1 Eccentric (8)
2 Extra-terrestrial (5)
4 Bitter (3)
5 One doesn't give up power easily (7, 5)
6 Very serious (7)
7 Long journey (4)
8 In which electricity is generated (5, 7)
12 Abnormally large person (5)
13 Veteran soldier (8)
15 Before in time (7)
19 Opposite of rural (5)
20 In that manner (4)
22 Prompt (3)

Name ....

Address ....

Solutions to 966

Across **1** Bail *Gareth Bale* **3** Banjoist *ban joist* **8** Cold war **10** Mates *anagram* **11** Altercation *C in alteration* **13** Chiefs *in chefs* **15** Egrets *(r)egrets* **17** Corporation *two meanings* **20** Gismo *hidden* **21** Sikhism *seek ism homophone* **22** Strident *s + Trident* **23** Xmas *two meanings.*
Down **1** By chance **2** Inlet **4** Abroad **5** Jumping jack **6** Intense **7** Test **9** Word for word **12** Tsunamis **14** Incisor **16** Poison **18** Idiom **19** Egos.

The winner of MoneyWeek Quick Crossword No.966 is: Ms Lisa Wyatt of Bristol.

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.

When reason runs amok

You can't think your way to a correct interest rate. It just happens

Bill Bonner
Columnist

Did the iPhone really make us richer?

©iStockphotos

A crazy person, according to G.K. Chesterton, is one who has nothing left other than his power of reason. If you've ever spoken to a lunatic, you'll know what he meant. "The aliens come all the time. I kill them with my zapper." "Oh… I've never seen any aliens." "Of course not, I kill them all." Insane people have an answer for everything. In the words of Democratic presidential candidate Elizabeth Warren, they've "got a plan for that". Those plans worry us.

In 1969, an average person could work 225 hours and earn enough to buy shares in all 30 Dow firms. Today, he has to work 1,125 hours. He has become poorer. Yet some economists, such as Gale Pooley and Marian Tupy, insist the US proletarian is better off. He has less capital and time, but he has an iPhone!

"Insane people have an answer for everything. They've 'got a plan for that'"

In 1980, iPhones didn't exist. Now, we all have phone calls, trivia and distractions right at our fingertips – 24/7. And each model is more powerful than the last. In view of all this pullulating progress, say Pooley and Tupy, savers should be happy to lend at negative rates of interest. When we first saw this, we were staggered. What pit of darkness have these hapless academics wandered into now, we wondered?

Their argument is that nominal interest rates are determined by inflation. But given that the kind of innovation and invention that gave us the iPhone over the past 40 years has also massively reduced the cost of 50 "foundational commodities", in terms of the time needed on the job to pay for them, inflation is really much lower than we think it is. So if the "real" interest-rate rate is 3% and we have 6% deflation annually, that would make nominal rates of negative 3% perfectly rational.

Oh my… reason runs amok. You can imagine how fast the price of wheat declined when Kansas farmers replaced horses with tractors and mechanical harvesters. You can guess, too, that the price of steel must have taken a big slide after Andrew Carnegie put in the first Bessemer converter in the 1880s. Yet not once over that time – more than 150 years – did lenders lend at negative rates. Why not? The obvious answer: there is no necessary connection between interest rates and the planetary averages of prices for 50 foundational commodities.

Interest rates show where lenders and borrowers come together. They are never "rational". They are evolutionary, discovered, not made. You can no more reason your way to a correct interest rate than you can reason your way into love. It just happens. There was a time when economists realised this. They observed economies, the way a naturalist watches a beehive, to see how they work. Then they began to get "a plan for that". The results? Always harmful… sometimes amusing… occasionally disastrous.

The bottom line

£35m The amount held in a British bank account that a court has ruled must be sent to the Indian descendants of the last *nizam* (king) of Hyderabad, Mir Osman Ali Khan. Khan deposited £1m in the account, held by the then Pakistan high commissioner, in 1948, only for India to annex his state later that year. Pakistan had refused to hand over the money.

£100,000 The reward offered by insurer Fine Art Specie Adjusters for the safe return of an 18-carat gold toilet that was stolen from Blenheim Palace last month. The artwork, entitled *America (2016)*, has been valued at £4.8m.

$1.3bn The value of Scotch whisky exports to the US last year. From 18 October, the tipple will face a 25% tariff, along with other imported goods from the European Union, including cashmere sweaters, dairy products, pork, books and some machinery.

€57,000 The value of the tax rebate Netflix received last year from HM Revenue and Customs, the film and television streaming service stated in a filing. The firm made pre-tax profits of €2.3m in Britain on revenues of €48m last year.

£1.6m How much City regulator the Financial Conduct Authority has ordered convicted fraudsters Muhammad Aleem Mirza and Samrat Bhandari to pay the victims of their boiler-room scam, in which they cold-called and mis-sold almost worthless shares in Mirza's healthcare business. Mirza was ordered to pay £1.2m, and Bhandari £376,604.

£9m How much British singer Dua Lipa (pictured) earned from her songs and endorsements last year, according to the latest filing from her personal company, Dua Lipa Limited, says The Sun. She will have made even more from her gigs, which are handled by another company.

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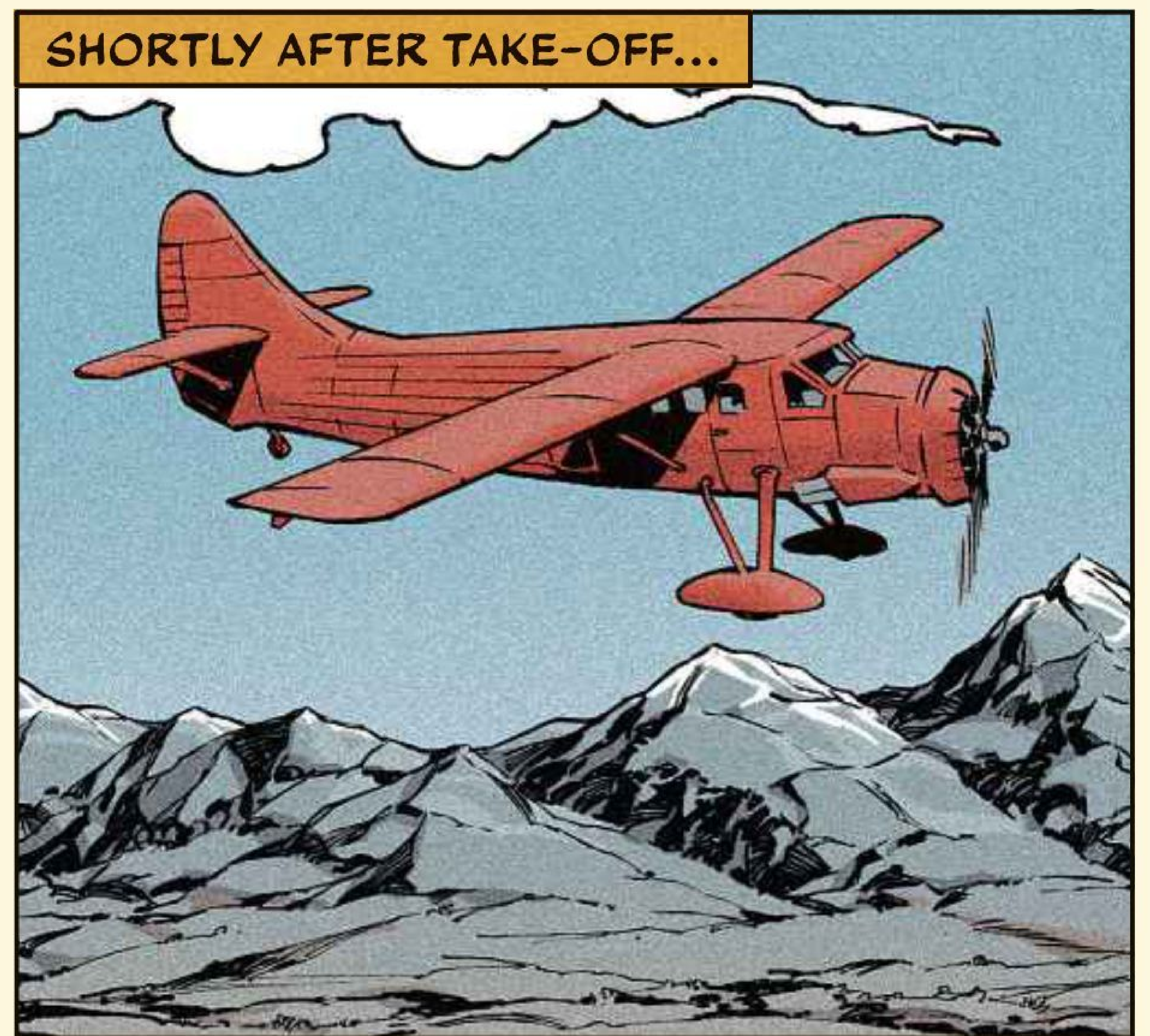
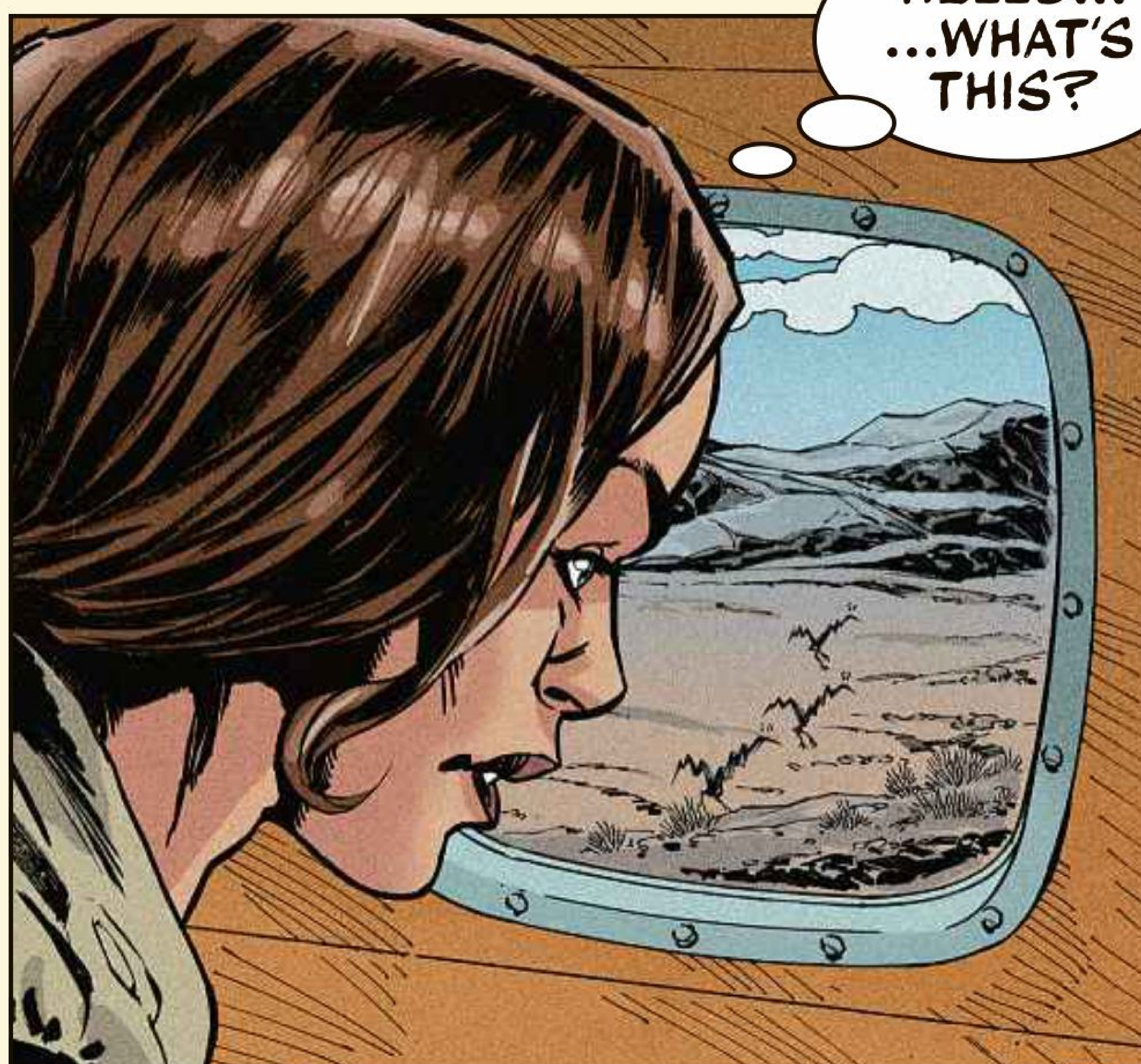
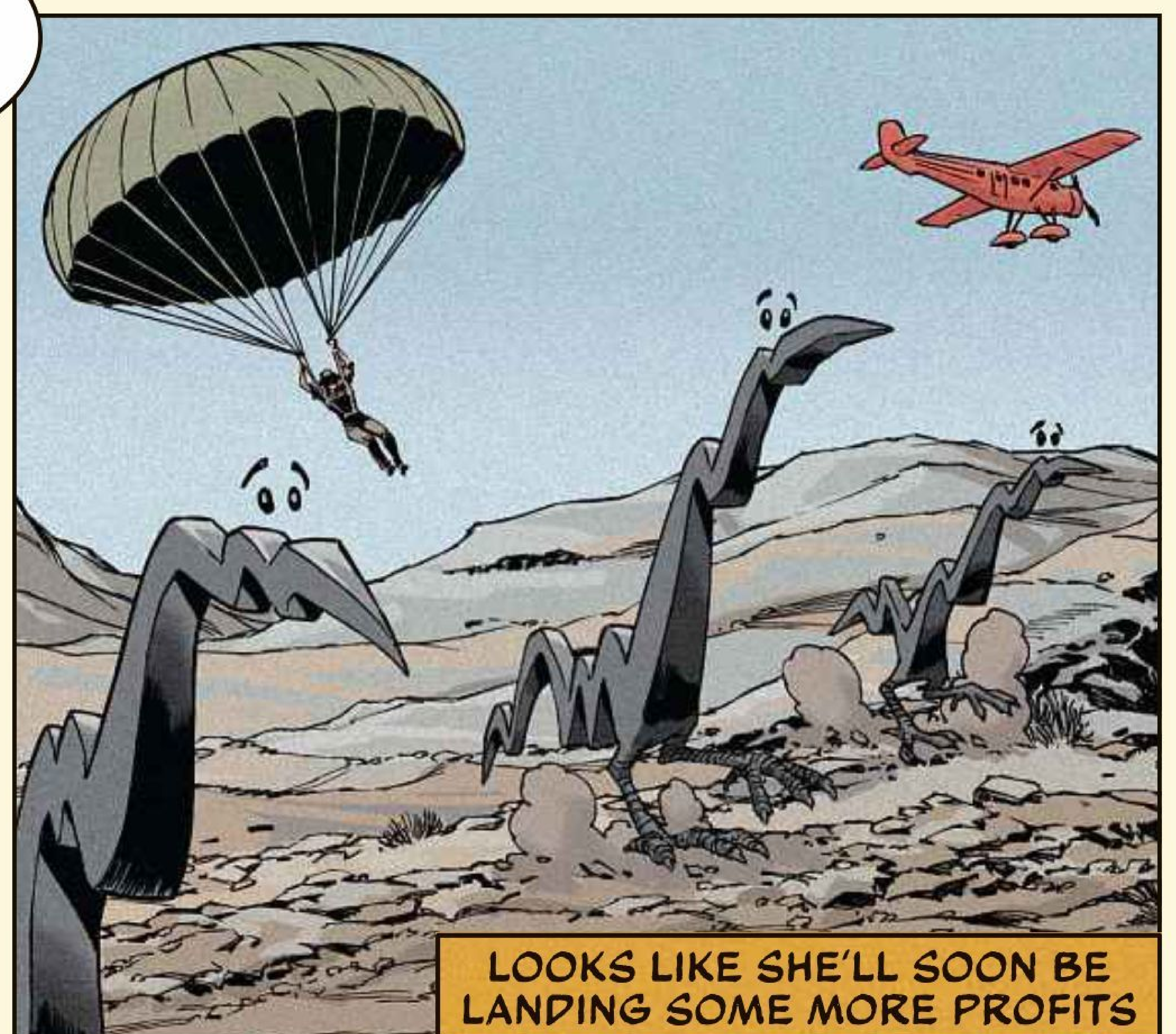
In today's environment, the hunter's *all-active* approach is more important than ever.







At times like these, the financial world can be both complex and daunting. And yet, there are still healthy Profits to be had. For those active enough (and astute enough) to track them down. The truth is, for the seasoned hunter, today's environment is just another action-packed instalment in their continuing story.

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