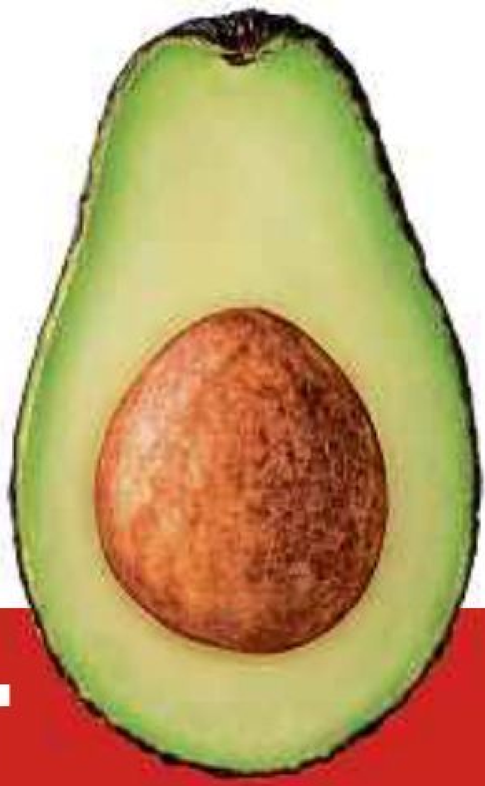
ANALYSIS *P24*
Latin America is ripe for bargain hunting



PROFILE *P31*
The central banker who beat inflation

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MONEYWEEK

MAKE IT, KEEP IT, SPEND IT

13 DECEMBER 2019 | ISSUE 977 | £4.25

Lightning strikes twice

Another shock for property funds

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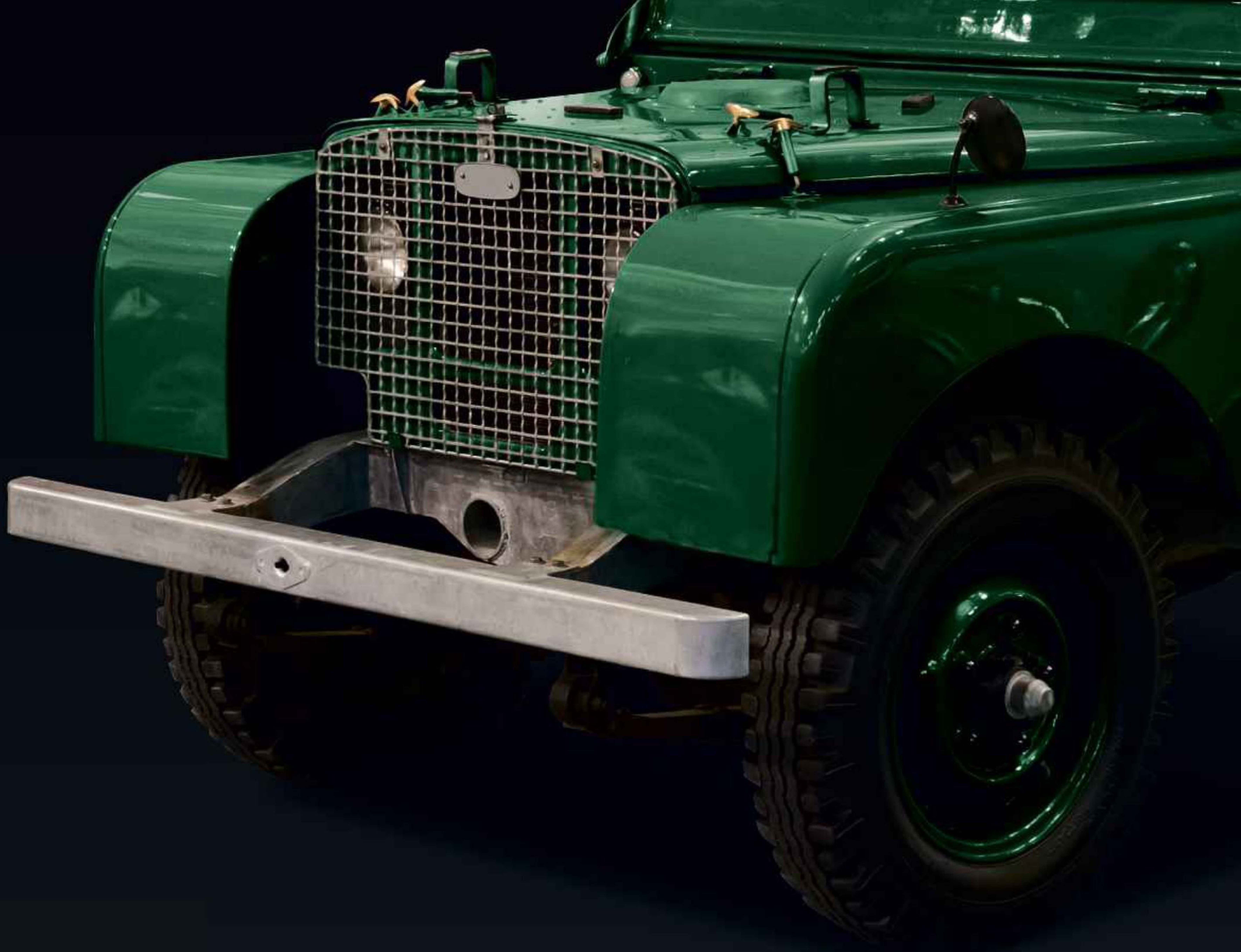

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MoneyWeek

13 December 2019 | Issue 977

Britain's best-selling financial magazine

From the editor-in-chief...

This has been a more than usually bad-tempered election campaign. We are going to press just as it ends, so as I write, I'm afraid I still don't know what the outcome is. However, here's what we do know: regardless of who has how many seats in Parliament this morning, they are starting in a pretty good place. Yes, we still have a budget deficit, and yes, all the party promises of more, more and then a little more spending during the campaign were uncomfortable. But nonetheless, the work done over the last decade has seen the budget deficit as a percentage of GDP fall to a mere 1.2% by last March. Practically balanced.

Whichever of these two has won, the message is: don't mess it up

©Shutterstock

"The UK is in pretty good shape. Let's hope our new prime minister at least keeps it that way"

The employment rate is 76%. The unemployment rate is 3.8%. Real (after-inflation) wages are rising. Our economy isn't booming, but it is still growing (despite the hideous investment-deterring parliamentary indecision of the last three years). The UK is climbing the global educational ranks – even with spending on education more tightly controlled than many would like, we are now 14th in science and reading and 18th in maths (out of 79 countries). The NHS, despite Labour telling us every couple of years that we have 24 hours to save it, trundles on. Not perfect. Very far from being the best system in the world. But still there, offering free-at-point-of-use healthcare to 67 million people.

New statistics out this week from the Office for National Statistics tell us that between 2001 and 2019 there was a "statistically significant decrease" in the mortality rate for the under 75s. That's good. And while high house prices and an ageing population are making the wealth inequality statistics pop up (it's happening in the US too – see Bill on page 42), we are well on the way to making the UK a shareholder democracy and sorting out our pension problems at the same time (unlike, say, France – see page 19). Thanks in large part to auto-enrolment, 42% of total UK wealth is held in pensions (from 34% in 2006-2008) and most working people now have stakes in the equity market. They can also hold those stakes increasingly cheaply (see Ruth on the new Vanguard Sipp on page 23). It's also worth noting that amid all the talk of inequality, when it comes to opportunity, the UK is, as Peter Saunders puts it in his new book on the subject (see my blog at moneyweek.com), "remarkably fluid and open".

There's bad news of course. Gross government debt is still around 80% of GDP. Our housing woes are still with us (see page 28 for one way we can sort this out). Too many working people are caught up in the welfare state. The low interest-rate environment is causing no end of trouble and could be with us for some time (even Australia is about to start quantitative easing – see page 5). Productivity growth is horrible and it's easy to be anxious about the future of work in a world of robots. But the core point is that the UK is in pretty good shape. Let's hope that whoever is about to be prime minister, at the very least keeps it like that.

If you can't bring yourself to think about the future of the UK today, turn to page 24, where James looks at how best to invest in the Pacific Alliance nations. Chile Colombia, Mexico and Peru might have their problems, but (rather like the UK) they don't have nearly as many as investors seem to think. If even that doesn't do it for you, turn to page 38. Forget politics. Think about Christmas wine instead.

Merryn Somerset Webb
editor@moneyweek.com

Bad investment of the week

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Around 1,500 investors who bought £5.8m in mini-bonds from Mexican-food chain Chilango could be left with "virtually" nothing as the group tries to restructure its finances, reports Anna Menin in City AM. Chilango has filed proposals for a compulsory voluntary arrangement to stave off administration. Bondholders will be offered the choice of cashing out at 10p in the pound, or swapping their bonds (originally marketed with an 8% yield) for preference shares. While these would carry an 8% annual dividend, this would only be payable "dependent on the success of the company". Given that Chilango is currently loss-making, it's not much comfort. Creditors have until 3 January to vote on the plan.

Good week for:

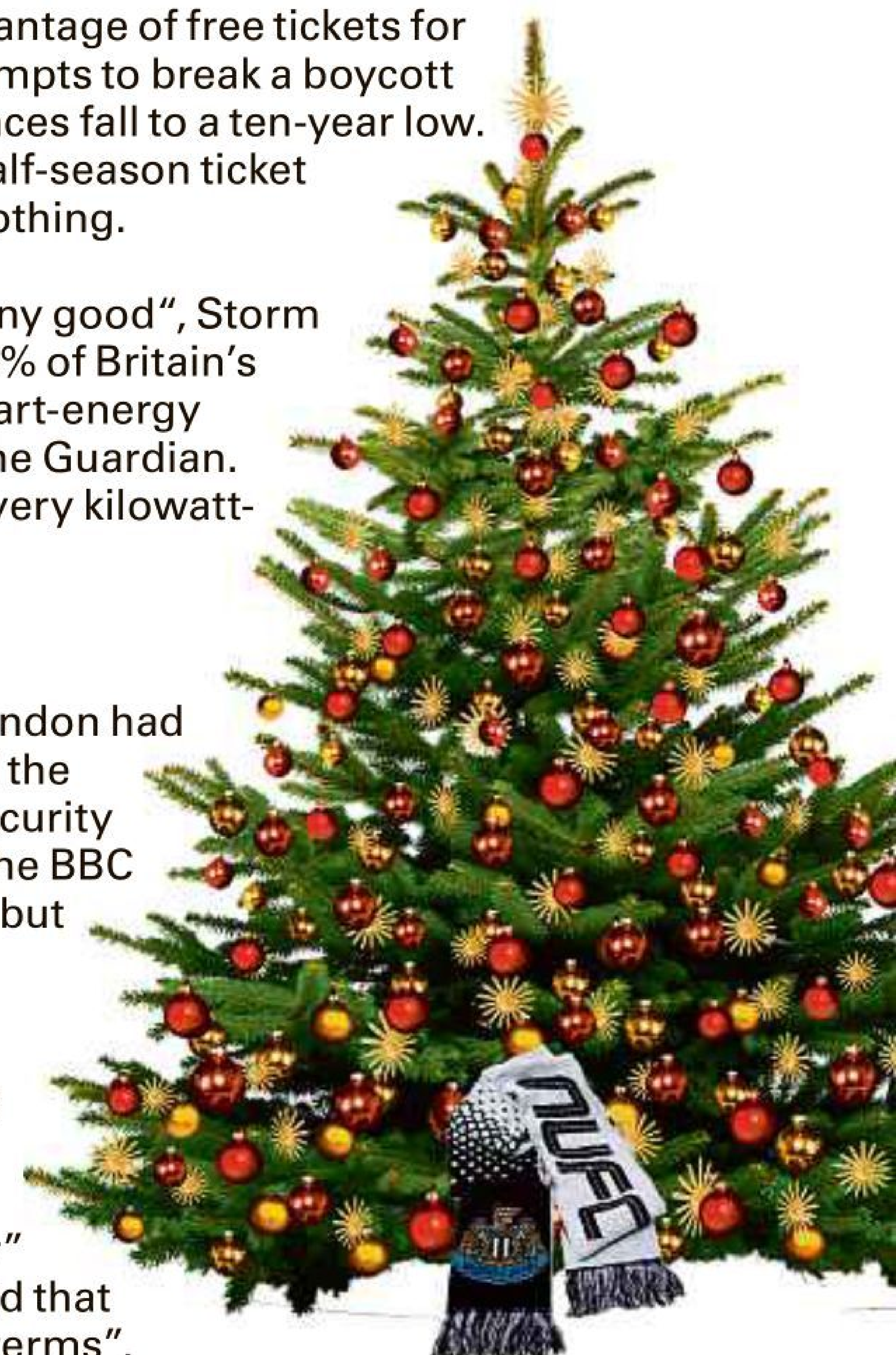
Supporters of Newcastle United FC can take advantage of free tickets for the rest of the season as owner Mike Ashley attempts to break a boycott against his time in charge that has seen attendances fall to a ten-year low. Current season-ticket holders can claim a free-half-season ticket entitling holders to watch ten home games for nothing.

Proving that "it's an ill wind that blows nobody any good", Storm Atiyah helped **UK windfarms** generate almost 45% of Britain's electricity last Sunday. Customers on some "smart-energy tariffs" were even paid to use the excess, says The Guardian. Octopus Energy paid 2,000 customers 5.6p for every kilowatt-hour used in certain overnight periods.

Bad week for:

Staff at the BBC's New Broadcasting House in London had their festive cheer quashed after bosses decided the corporation's 16-foot Christmas tree posed a "security risk" and tore it down a week after installing it. The BBC refused to say how much it had paid for the tree, but similar examples cost around "£2,000 fully decorated", says The Daily Telegraph.

Vinegar producers in Modena have failed in a bid to stop others using the term "balsamic". The phrase "Balsamic vinegar from Modena" has been protected as an EU "geographical indicator" since 2009, but the European Court of Justice said that protection did not extend to "non-geographical terms".



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

Markets are in a festive mood

Alex Rankine
Markets editor

Chinese factory activity has reached a three-year high

©Getty Images

"Politics creates short-term volatility," but "at the end of the day the business cycle matters above all", Andrew Milligan of Aberdeen Standard Investments tells Michael Mackenzie in the Financial Times. "Political and protectionist noise" has repeatedly rattled markets this year, says Mackenzie, but with the MSCI World index up more than 21% and the FTSE All-World index loitering just shy of all-time highs, 2019 has been a reminder that deeper factors than yesterday's headlines drive stockmarket returns.

The global economy is on the mend

Donald Trump provoked renewed alarm last week when he announced surprise tariffs against Brazil, Argentina and France. On Sunday Washington is due to impose new levies on $160bn of Chinese imports. One does wonder "whether investors are beginning to tire of the task of tracking the tantrums and are only really pretending to care", writes Jonathan Allum in The Blah! newsletter. "Volatility is draining out of share prices" and, for all the trade distractions, the global economy is "gathering a little momentum".

Last Friday's US job numbers cheered markets. November's 266,000 gain in non-farm payrolls came in far above forecasts, reassuring traders that American consumers, a key pillar of global growth, will continue to spend freely. That sent the Dow Jones Industrial Average up 1.2%, reports Fred Imbert on CNBC, its best showing since early October.

Many of the global economy's recent problems have come from the manufacturing sector, says John Authers on Bloomberg. Widget makers have "run into serious trouble" even as the service sector has "continued serenely" in Europe and elsewhere. But now order and inventory data from multiple countries suggests that we are finally "nearing the end of a slowdown in the manufacturing cycle". A tentative recovery is under way.

A question of confidence

It is no mystery why markets have enjoyed a strong year, says Louis Gave of Gavekal Research. "We now live in a world where almost every central bank and every finance ministry is stimulating at the same time." What's more, this comes at a time when unemployment in "the US, Japan, Germany and the UK" is at generational lows.

This summer's yield-curve inversion left markets "braced for an instant recession", says Authers. But then central bankers rode to the rescue. The latter part of this year has been marked by a surge in monetary liquidity across the developed world. The result is that "animal spirits" are back, but history shows that such "extreme whipsawing of sentiment can set us up beautifully for financial accidents".

Market participants are certainly determined to end the year in festive spirits, says Barbara Kollmeyer on MarketWatch. Deutsche Bank strategists kicked off December by declaring that the global economy is heading for better times. The Caixin PMI gauge of Chinese factory activity hit a three-year high last month. "Is that you, Santa Claus?"

The bond bubble has yet again failed to burst

2019 looks set to go down as the year in which the bond bubble yet again failed to burst, says Sid Verma on Bloomberg. An almighty rally in debt markets this year saw as much as $17trn in government, and some corporate, debt trading at negative yields by late August.

Bond yields rise as prices fall. By the end of November, the amount of negative yielding debt had fallen back to roughly $12trn as investors jumped back into stocks, but that is still a long way from a rout. In a world short of the "safe" assets that investors crave, 2020 is likely to serve up more of the same.

The bubble hasn't burst, but the air might be seeping out, says Randall Forsyth in Barron's. The yield on Austria's 100-year bond, which doesn't mature until 20 September 2117, fell to a minuscule 0.61% over the summer, but is now back above 1%. That marks a 20% decline in the value of the underlying bond, but still looks "bubblicious" given the risks of investing in a country with such a turbulent history. In October even the Greek government managed to sell €487.5m of short-dated bonds on a negative yield. That is partly thanks to central bank quantitative easing policies. It also suggests that bond markets are remarkably relaxed about profligate governments, says Tommy Stubbington in the Financial Times. With monetary policy widely recognised as being out of ammunition, many would welcome a "pivot" to greater fiscal stimulus in developed economies. That would mean more debt issuance and, perhaps, slightly more sensible yields.

Bond investors beware, says Michael Mackenzie in the Financial Times. With bond yields now so low, or even negative, there is little room for them to act as effective ballast in the case of a nasty market shock.

Austria's turbulent history makes its 100-year bond a risky proposition

©iStockphotos

Yet another fiscal boost in Japan

Japan's latest stimulus is to heal a "self-inflicted wound", says Megumi Fujikawa for The Wall Street Journal. Prime Minister Shinzo Abe has announced a ¥13.2trn (£97.9bn) fiscal package to finance the repair of damage caused by October's Typhoon Hagibis, put new digital technology into schools and reward shoppers for spending money.

The hope is that the package will deliver a 1.4% boost to GDP and offset the negative effect of October's consumption tax hike. The rise from 8% to 10% saw retail sales plummet 7.1% on a year before. Large fiscal stimulus was a hallmark of Abe's early period in power when he pulled all available levers in an effort to end Japan's long period of stagnation. Yet with Japan running the highest government debt levels in the developed world, he had pledged to start running a tighter ship, says Motoko Rich for The New York Times. The new stimulus threatens to continue "Japan's cycle of borrowing and spending to stoke growth" that never quite seems to end.

Still, Japan remains a buy. The government's debt woes are not shared by the private sector, which has net cash of ¥50trn on its balance sheets. Big business is also becoming more focused on paying out dividends. And the market's forward price/earnings ratio of 11 is at a 48-year low, making Japan the world's cheapest developed market.

Australia heads for QE

Will Australia be the next big economy to join the quantitative easing (QE) club? Slowing growth has prompted the Reserve Bank of Australia (RBA), the country's central bank, to cut interest rates three times this year to a record low of 0.75%. Yet with few signs of an economic revival, there is growing speculation that next year will bring more drastic measures, says David Taylor for ABC. The RBA can "probably only cut interest rates" by another 0.5% before the policy loses its effectiveness. Analysts are predicting that QE will be rolled out come the second half of next year.

©Alamy

Investors in the "lucky country" will need a lot of luck in 2020

Annualised growth of 1.7% in the third quarter doesn't seem so bad, says Tim Colebatch for Inside Story. Yet that masks the fact that growth is being driven by a fast-rising population. On a GDP-per-head basis Australia is set to be the worst performer among industrialised economies next year. Living standards are stagnating.

The debt overhang from an almighty housing bubble is acting as a significant drag on growth. By mid-2015, interest-only loans accounted for 46% of all new mortgages. While house prices have now come back down to earth, household debt levels remain equivalent to 120% of GDP, compared to 87% in the UK and just 53% in Germany.

Weighed down by debt

All that debt is hampering attempts to stimulate the economy, says Greg Jericho in The Guardian. Canberra has served up some A$4bn (£2.07bn) in tax cuts, yet Jim Stanford of the Australia Institute estimates that "not a single dollar of the tax cut is visible in aggregate consumer spending" for the most recent quarter. Instead of using the extra money to go to the shops, Australians have opted to "pay off bills or put it straight on [the] mortgage". Private sector demand is falling: sales of new cars were down 9.8% year-on-year in November.

During previous slowdowns Australia could rely on massive commodity exports to China to bolster growth. The Middle Kingdom accounts for more than 26% of all the country's exports. Yet with Chinese growth sagging the "lucky country's" 27-year-long recession-free run is facing strong headwinds.

Australian stocks have not been as gloomy as the real economy. The country's S&P/ASX 200 is up by more than 20% so far this year, close to the global average performance. The market's 4.4% dividend yield will also be tempting. On the other hand, lower-for-longer interest rates will lower the profitability of the scandal-ridden financial sector, which makes up a chunky 30% of the ASX 200 index. Bloomberg data predicts that Australian companies will post the worst profit growth in the entire Asia-Pacific region next year. Investors in "the lucky country" will need more luck than ever before.

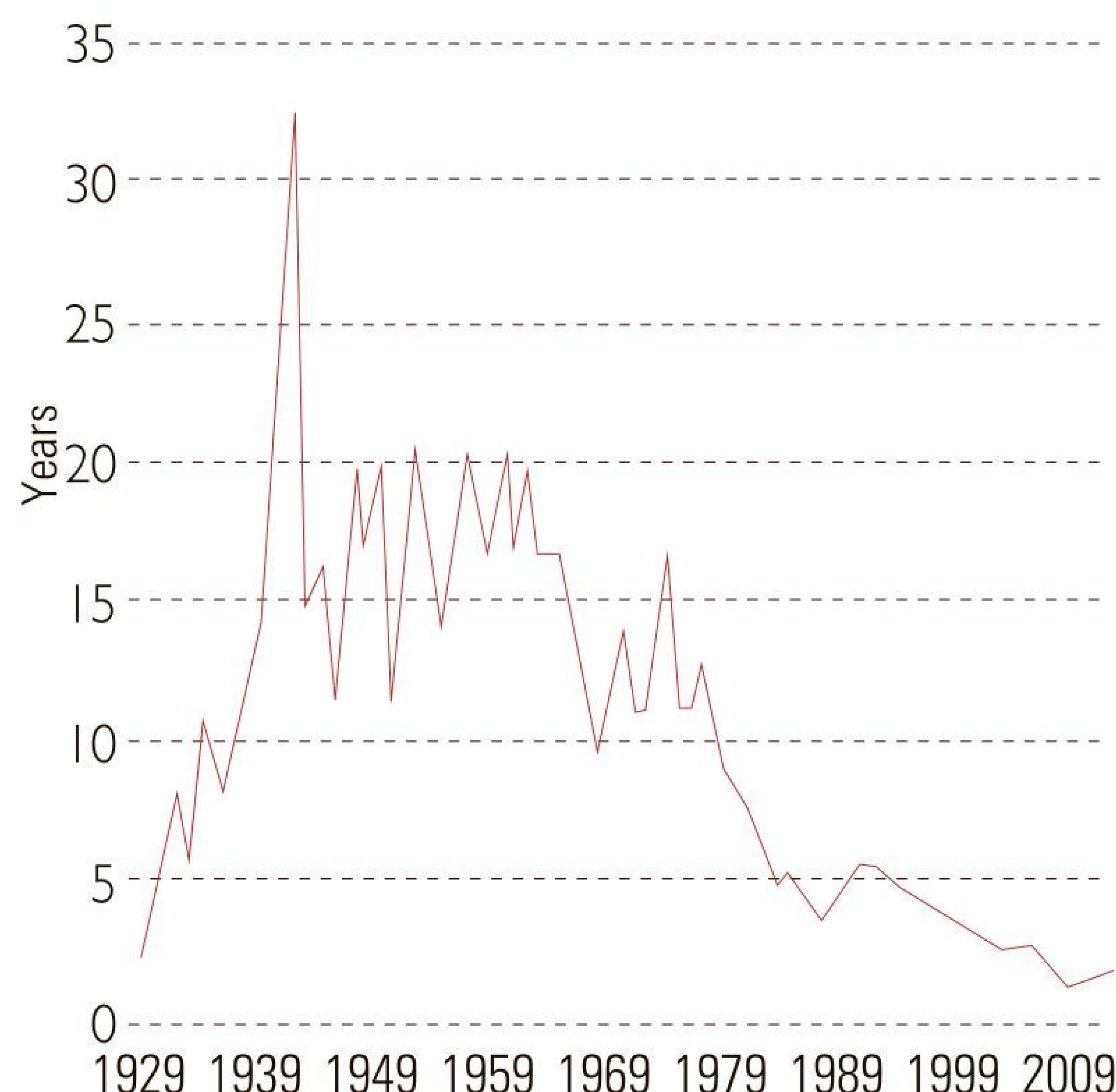
Viewpoint

"The way that the modern economy works is to reward the rich for being, well, rich. Between 1965 and the late 1990s, household wealth was between three and four times GDP. In the last 20 years, though, it has jumped to just over seven times. In the past decade, a £350,000 investment would have earned as much as someone slogging their guts out on £26,000 a year. Wealth pays more than work does. The wealthy have the Bank of England to thank for driving up asset prices with quantitative easing and low interest rates... taxes on capital amounted to 1.5% of GDP in 2007... and were still 1.5% of GDP last year... Taxes on property in that time fell from 2.8% to 2.7% of GDP. Yet the richest 0.1% who earn [over] £513,000... take a fifth of their income in dividends or capital gains, which are more lightly taxed than an income of £55,000... taxing capital is more meritocratic than taxing pay."

Philip Aldrick, The Times

■ So much for "stocks for the long term"

Average holding period for US stocks



Source: Ned Davis Research/The Times

Whatever happened to the notion of "stocks for the long term"? Far too many investors make the mistake of trying to time the market, says Mark Atherton in The Times, which means they jump in and out so frequently that dealing costs (and the missed opportunities they forfeit by being impatient) erode their returns. Professional investors do this too. The upshot is that the average holding period for US stocks plunged from 30 years just before the Second World War to less than two by 2012, according to America's Ned Davis Research. It's high time we all adhered to Warren Buffett's maxim that you shouldn't buy a stock unless you wouldn't mind if the market closed for a decade and you couldn't sell it.

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

Three to buy

Codemasters
The Sunday Telegraph
"Music, books and video" are shifting onto tablets so fast that come Christmas morning Father Christmas has "very little to leave under the tree" these days. Developer Codemasters, which is best known for its motor-racing games, is at the forefront of the trend, with 62% of first half revenues coming from digital downloads. Digital technology reduces the need to invest in physical stock, which raises margins and makes it easier to monetise back catalogues. On a forecast price/earnings multiple of less than 12 the shares are also noticeably cheaper than those of industry peers. Buy. *239p*

Tatton Asset Management
The Sunday Times
New rules governing how financial advisers earn commission mean that they are increasingly outsourcing the work of stock-picking to online investment platforms. Assets under management at such platforms have doubled from £250bn to £500bn over the past five years and this fund manager is one of those in "the sweet spot". Pre-tax profits rose 20% in the first six months and the dividend has leapt 75% over the past two years. It remains to be seen whether the model is capable of weathering a serious downturn, but current trends make for an auspicious outlook. *236p*

Reach
Shares
Previously known as Trinity Mirror, the publisher of the Daily Mirror has suffered greatly from the decline of print media. Yet few appreciate the promising growth in the group's digital operations. Its titles' websites have 40 million unique visitors per month and enjoyed "market-leading advertising share" during this summer's Champions' League final. On a price/earnings ratio of 2.5, this is a "compelling opportunity". *98p*

Three to sell

Croda
The Daily Telegraph
What's not to like about a business with a "powerful market position", returns on capital of more than 20% and a two-decade run of rising dividends? This chemicals business develops products used in cosmetic creams and lotions, agricultural crop care and high-performance coatings. It is undoubtedly well run, but investors are asked to pay dearly for that feeling of security. A forecast price/earnings ratio of 26 and a sub-2% dividend yield look excessive, especially given that sales and earnings were "broadly flat" in the first half. Avoid. *4,964p*

Macy's
Barron's
Shares in the leading operator of American department stores are down by nearly half this year and investors should not expect a "miracle on 34th" Street this Christmas. Macy's is best-known for the glitz of its Manhattan flagship store, but most of its 600-odd shops

do not cater to a particularly well-heeled clientele. The stock costs just six times this year's projected earnings, yet at a time of strong US consumer spending there is "no excuse" for recent struggles. *$15*

Glencore
Motley Fool UK
Shares in this "mining colossus" are down 26% so far this year and prospects for 2020 are dim. A slowing global economy and concerns about the implications for commodity demand have hit the entire sector. Closer to home, news of a Serious Fraud Office probe over "suspicions of bribery" will mean a nervy New Year for investors. Analysts are predicting a 55% bounceback in net profit next year, but that looks "far-fetched". *220p*

...and the rest

The Daily Telegraph
The BlackRock Frontiers Investment Trust provides exposure to the likes of the Philippines and Nigeria, "far-flung" but potentially undervalued parts of the world. Buy *(128p)*. "Under-the-radar tech star" **Boku** builds systems that let users buy Apple's and Spotify's products without a bank account. Buy *(82.5p)*.

Investors Chronicle
This is the "most lucrative time for defence spending since the end of the Cold War" so buy into a turnaround at defence giant **Babcock International** *(590.5p)*. Zoo simulation game *Planet Zoo* is just one of independent game studio **Frontier Development's** recent successful releases. It boasts a growing portfolio and looks good value *(1,212p)*.

Shares
UK smaller companies are unloved at present, but sentiment is on the turn. **Montanaro UK Smaller Companies Trust** offers a way to buy in and pays a tempting 4.8% dividend yield *(131p)*. Talk of new competition from Amazon and Walmart has dented **Ocado's** share price, but this could be an opportunity to "top up on weakness" in a firm with global growth prospects *(1,219p)*. Excellent first-half results at **Pets At Home** make this a rare turnaround success story. Keep buying *(242.5p)*.

The Times
A structural undersupply of self-storage space and "solid demand" make

shares in **Lok'nStore** worth owning *(642p)*. A new CEO and turnaround plan will encourage some to look again at consumer goods giant **Reckitt Benckiser**, but the shares seem fully valued at the current price *(5,914p)*.

A German view

When Deutsche Telekom (DT) said it would enter the streaming wars many dismissed it as hopelessly late to a sector dominated by the likes of Netflix and Amazon, says, Arno Konkel in Focus Money. But the streaming market is far from saturated as people increasingly opt for the convenience of television on demand via the internet. One estimate says the German market can grow by another 40% to €1.5bn in four years. DT boasts 13 million broadband connections, so there is plenty of scope for enticing customers with its streaming package. It has also bolstered its sports television offerings by securing the broadcasting rights to the UEFA Euro 2024 competition. The stock yields 4.3%.

IPO watch

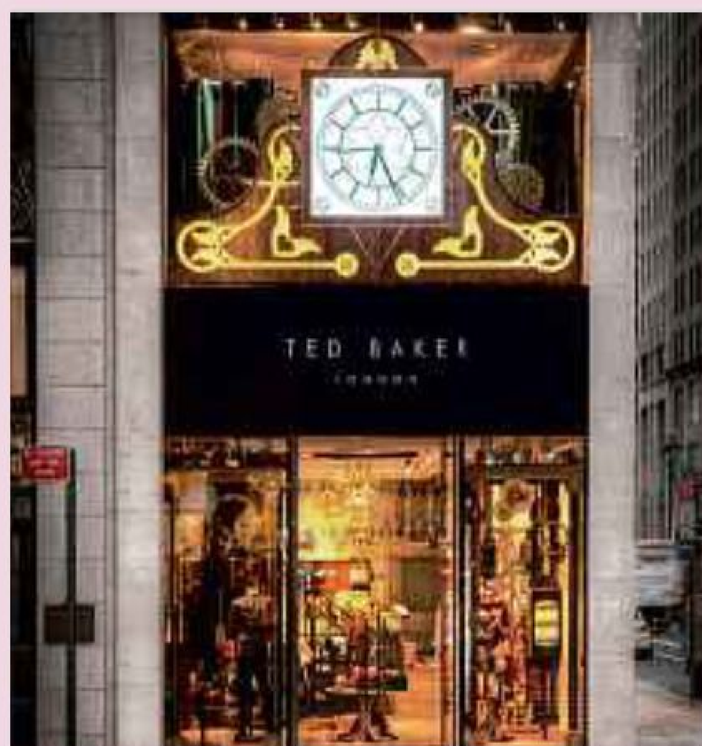
Denmark's Astralis Group has become the first e-sports team to go public. It floated on Nasdaq's Copenhagen exchange for small companies on Monday in a bid to raise up to $22m. E-sports, in which video-game players take each other on in front of spectators (who watch on streaming websites or in actual stadiums) has become a big business. The global market is worth $1.1bn and has doubled since 2016. The sector will be worth around $2bn in 2020, with an estimated 595 million people worldwide set to become spectators by then. Astralis is ranked the world's number one in the popular shooting game *Counter-Strike* and has won millions of dollars in prize money.

©Getty Images; iStockphotos

City talk

● Once synonymous with elite investors, Goldman Sachs is shifting towards the "wider consumer market", says Lex in the Financial Times. It has already bought a stake in online investment manager Nutmeg. Now it plans to launch its own robo-advisory service for those "with as little as $5,000 to invest". While it's a good idea to try and reduce the earnings volatility that comes from its investment banking division, the changes could backfire if the shift towards the "mass market" tarnishes Goldman's "gilt-edged brand". Shareholders seem worried: the stock has trailed rivals by 39% over the past three years.

● Things are "going from bad to worse" at Ted Baker, says Zoe Wood in The Guardian. The company's stock has slumped by 83% in 2019 and it has warned that



profits could fall by 90% this year. The chairman and chief executive have quit. Not only are Ted Baker's finances in a mess, but it has also fallen out of favour with shoppers. Those clinging to the idea of a rescue bid by the disgraced founder Ray Kelvin should note that his pockets are "not as deep as they used to be".

● With Deutsche Bank undergoing its "deepest restructuring in decades," the results of a recent staff update on progress should be "sobering" says Bloomberg's Elisa Martinuzzi. With revenue from its core businesses now expected to grow by "just 1% a year through 2022", CEO Christian Sewing is pinning his hopes on "a spike in revenue" at its scaled-backed securities unit to hit its overall targets. This seemingly contradicts the whole point of the restructuring, which is "to rein in the company's dependence on volatile trading businesses". Sewing has also admitted that Deutsche may miss his target of an 8% return on equity.

Aramco: top *and* flop

Saudi Arabia's state-owned oil giant Aramco has finally made it to market. But the regime struggled mightily to get it there. Matthew Partridge reports

The world's biggest initial public offering (IPO) has finally reached the Saudi stock exchange, say Kate Kelly and Stanley Reed in The New York Times. The sale of 1.5% of Saudi Arabia's state owned oil company, Saudi Aramco, early this week raised $25.6bn, eclipsing the $25bn raised by the Chinese online firm, Alibaba on the New York Stock Exchange in 2014 and making the entire company worth $1.7trn. The shares bounced by 10% on their first day, boosting the firm's value to $1.9trn.

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Crown Prince Mohammed bin Salman: has he made Riyadh more repressive?

Context is everything

The Saudi regime might point to the money raised to claim that the flotation is a "triumph", but "context is everything" says Nils Pratley in The Guardian. After all, the original plan "was to shoot for $2tn and sell 5% of the shares, rather than the 1.5% that have been dispatched". The Saudis were also pinning their hopes on listing Aramco on a foreign stock exchange. Given that outside investors don't own a "meaningful slug of the equity", it's fair to say that "the real IPO hasn't happened yet".

There are many reasons why the Aramco IPO has fallen short of expectations, says George Hay on Breakingviews. Firstly, the $2trn valuation was always optimistic given Aramco's "myriad environmental, social and governance headaches". The backlash after the brutal murder of journalist Jamal Khashoggi by agents of the Saudi crown meant that the idea of listing it abroad had to be scrapped. The "hubris" of the Saudi government's decision to revive the IPO in the face of an Iranian drone strike on Aramco's facilities also meant that "foreign investors largely held back", forcing Aramco to reduce the portion of shares floated to 1.5%.

Despite the problems, the Saudi energy minister has predicted that it will hit a value of $2trn sooner rather than later – and he may be right, says Bloomberg's Liam Denning. The kingdom is pulling out every stop to make sure that the price of oil is as high as possible, starting with a recent cut in oil production, in order to offset the impact of high US shale oil, which remains abundant. Meanwhile, Aramco's inclusion in emerging market indices "will undoubtedly suck some passive money toward it". Still, oil will have to go up to around $100 a barrel to justify a valuation at that level.

The longer-term implications of the deal for Saudi society are also unclear, says the Financial Times. The fact that "for all the doubts it is finally happening" has proved to some that "nothing is off-limits" in the era of Crown Prince Mohammed bin Salman. Still, even if the regime has carried out some gradual economic and social liberalisation, business is still "reeling" after the imprisonment of 300 princes and tycoons last year, while separate crackdowns targeting bloggers, female activists, journalists, clerics and academics have reinforced the belief that "Riyadh has become more repressive under Prince Mohammed".

Yet more trouble at Tullow

Tullow Oil shares have plunged to a 16-year low after the company slashed its annual production forecast from 87,000 barrels of oil a day currently to 70,000, say Julia Kollewe and Jillian Ambrose in The Guardian. Tullow has also scrapped its dividend and announced that its CEO and exploration director have left.

Investors should be used to trouble at Tullow. Problems have "dogged the company" for the last seven years. Just last week Tullow told investors that two major projects in Guyana may be "less lucrative" than initially projected.

Given this "annus horribilis", it's only right that it's "the end of the road" for the executives,

says Anthony Hilton in the Evening Standard. But still worse news may be on the way, since the dividend suspension and spending cuts won't be enough to cover the "daily cash shortfall of nearly a million dollars", especially given the group's large debt load. The best shareholders can hope for is a takeover by the likes of Exxon or a private-equity firm, though buyers may not feel Tullow's "accident-prone assets" are worth the trouble.

Tullow's "market meltdown" is yet more bad news for those investors who "jumped in" after the 2015 oil-price slump believing it was a chance to snag "a quality investment at a temporarily depressed price", says Robert Smith in the Financial Times. While this optimism allowed Tullow to raised $705m in 2017, a look across the Atlantic would have shown that even the "most sophisticated investors" have "fallen on their faces" betting on recoveries at energy companies with "strained balance sheets".

EU throws green spanner in trade

Europe has big plans for the environment – making them work will be a challenge. Emily Hohler reports

Europe is about to "stake its economic future on an environmental clean-up that will overhaul the way the world's biggest single market polices businesses and manages trade relations", say Ewa Krukowska and Jonathan Stearns on Bloomberg. Under the "European Green Deal" announced by the new European Commission president, Ursula von der Leyen, the EU transition to climate neutrality would start next year. It is set to include stricter emission limits, updated energy taxes, new rules on subsidies, greener farming and a possible environmental import tax. The EU also hopes to catalyse global action and uphold the Paris Agreement. The US has "turned its back on the accord" and some of the world's biggest carbon dioxide emitters including China, India and Japan have "so far failed" to translate their pledges into action.

Ursula von der Leyen is plotting a big shake-up

©Getty Images

Grand ambition, limited tools

Although an overwhelming majority of EU citizens support climate action (93%) and it was the Green Deal which helped to clinch von der Leyen's appointment, with the European Parliament's "fragmented" political groups largely uniting behind her programme, it paves the way for "months of lobbying and political fighting". The rules require the support of EU governments and the bloc's assembly. "Expect every word and comma to be analysed by national governments, parliamentarians, companies, industry lobbies and environmental activists."

Nor will opposition be limited to the EU, says Alan Beattie in the Financial Times. For growing numbers of developing countries, "translating these European ideals into trade policy evokes darker traditions of protectionism and oppression". Brazil's president, Jair Bolsonaro, and Malaysia's prime minister, Mahathir Mohamad, whose countries stand to lose access to the EU market because of poor environmental stewardship, have even used the word "colonialism". If the likes of Brazil and Malaysia divert trade to economies with less stringent criteria, the EU's actions could prove counterproductive.

The truth is, von der Leyen's team have "limited tools" to combat climate change without causing problems to international trade. Some measures, such as standardising low-energy designs for electrical goods, may be relatively simple, but "heavier-duty policies" such as extending the EU's emissions trading scheme to shipping and aviation are much harder as they become international issues. The idea of a carbon border tax (an import tariff equal to the difference between the EU carbon price and that of the exporting country) would, in practice, be "fiendishly difficult" to implement because of the complexity of international supply chains. The EU would need to assess the carbon footprint of each imported component. The EU's ambition has the potential to "cause diplomatic conflicts across the world".

There are other obstacles, says Jillian Ambrose in The Guardian. Take the Energy Charter Treaty, an "obscure" cold-war-era policy designed to protect Western energy firms, which is increasingly being used to challenge climate policies. Unless it undergoes a "fundamental overhaul" it will continue to put a spanner in the works. More generally, we also have to face some harsh facts, says The Economist. To "stand a good chance of scraping under the 2% target" (the maximum temperature rise over pre-industrial levels as decreed by the Paris climate agreement) would "require cuts far more stringent than the large emitting nations are currently offering". As a result, the accord also envisages significant carbon capture and storage. On this front, there is an "encouraging buzz, but not yet much more".

Democrat Adam Schiff announces Trump's impeachment

Donald Trump formally charged

On Tuesday, Democrats in the House of Representatives introduced two articles of impeachment against Donald Trump, charging the US president for "obstruction of justice and abuse of power" in his dealings with Ukraine, reports The Independent. Democrats say the president abused his power in demanding investigations from Ukraine to aid him in his 2020 re-election, while withholding military aid as it fights a war with Russia-backed insurgents. In a phone call with Ukrainian President Volodymyr Zelensky on 25 July, Trump asked him to announce an investigation into the "conspiracy theory" that Ukraine, not Russia, was responsible for the hacking of US Democrats in the 2016 election in a bid to give the idea credence, say Laurence Arnold and Billy House on Bloomberg. A week earlier, Trump had directed the withholding of $391m in military aid. The money was eventually released on 11 September, when it became known that a US intelligence official had filed a whistle-blower complaint.

"The notion that Ukraine meddled in the election is false," says USA Today. While some Ukrainian officials expressed support for Hillary Clinton and concern about Trump because of his friendly stance towards Russia, which has attacked Ukraine's sovereignty, there's no evidence that Ukraine's government tried to influence the outcome.

"Where is this headed?" asks Bloomberg. If the House Judiciary Committee approves the articles, a majority (and expected) vote on either or both by the House, where Democrats hold 234 of the 435 seats, would send it to the Senate. There it would take a two-thirds majority to have Trump removed from office. Although this an "extremely high bar", particularly since Republicans hold 53 of the 100 seats, should Trump be impeached in the House but acquitted in the Senate, the matter is likely to become a "top issue in the 2020 election".

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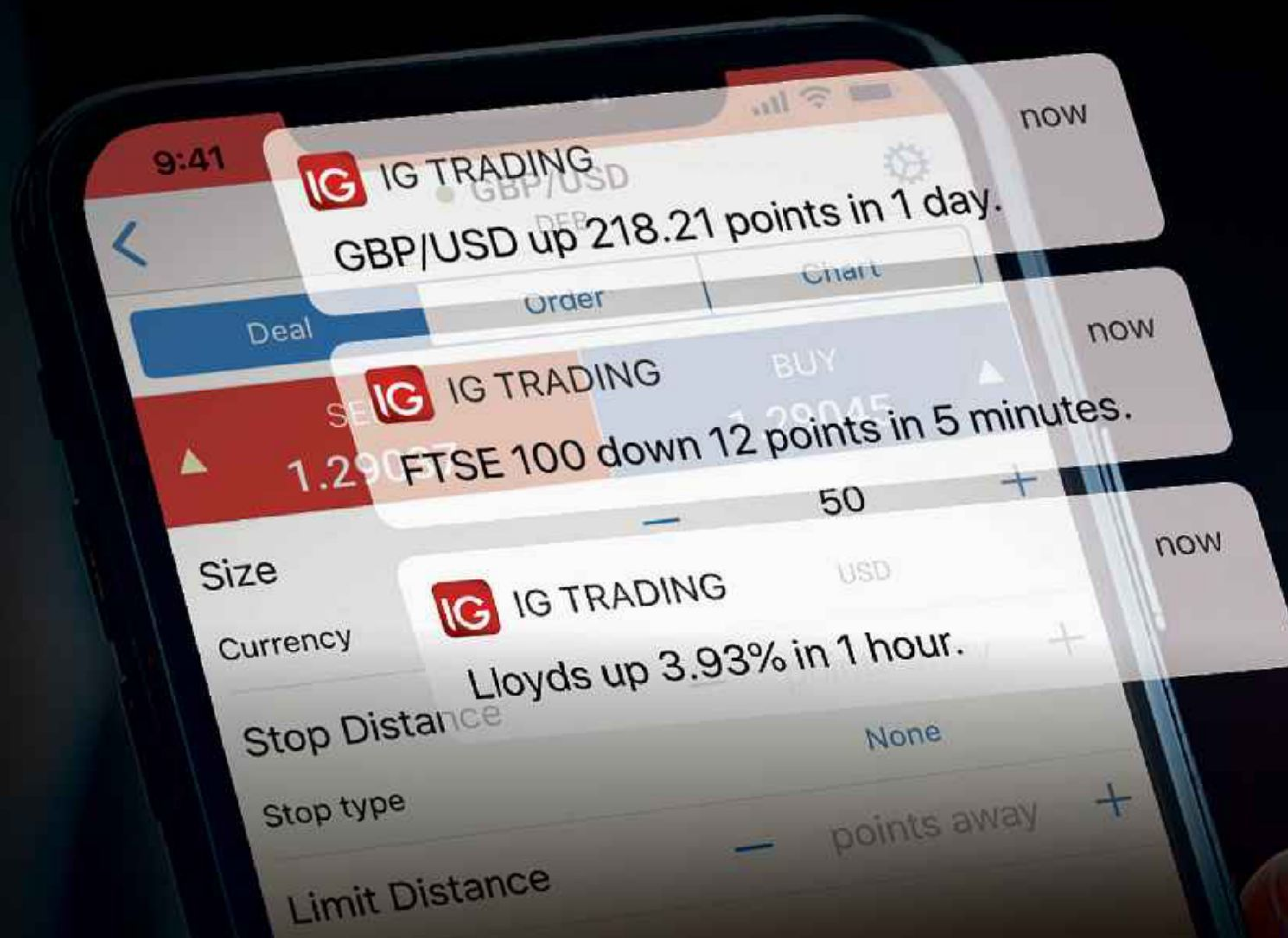

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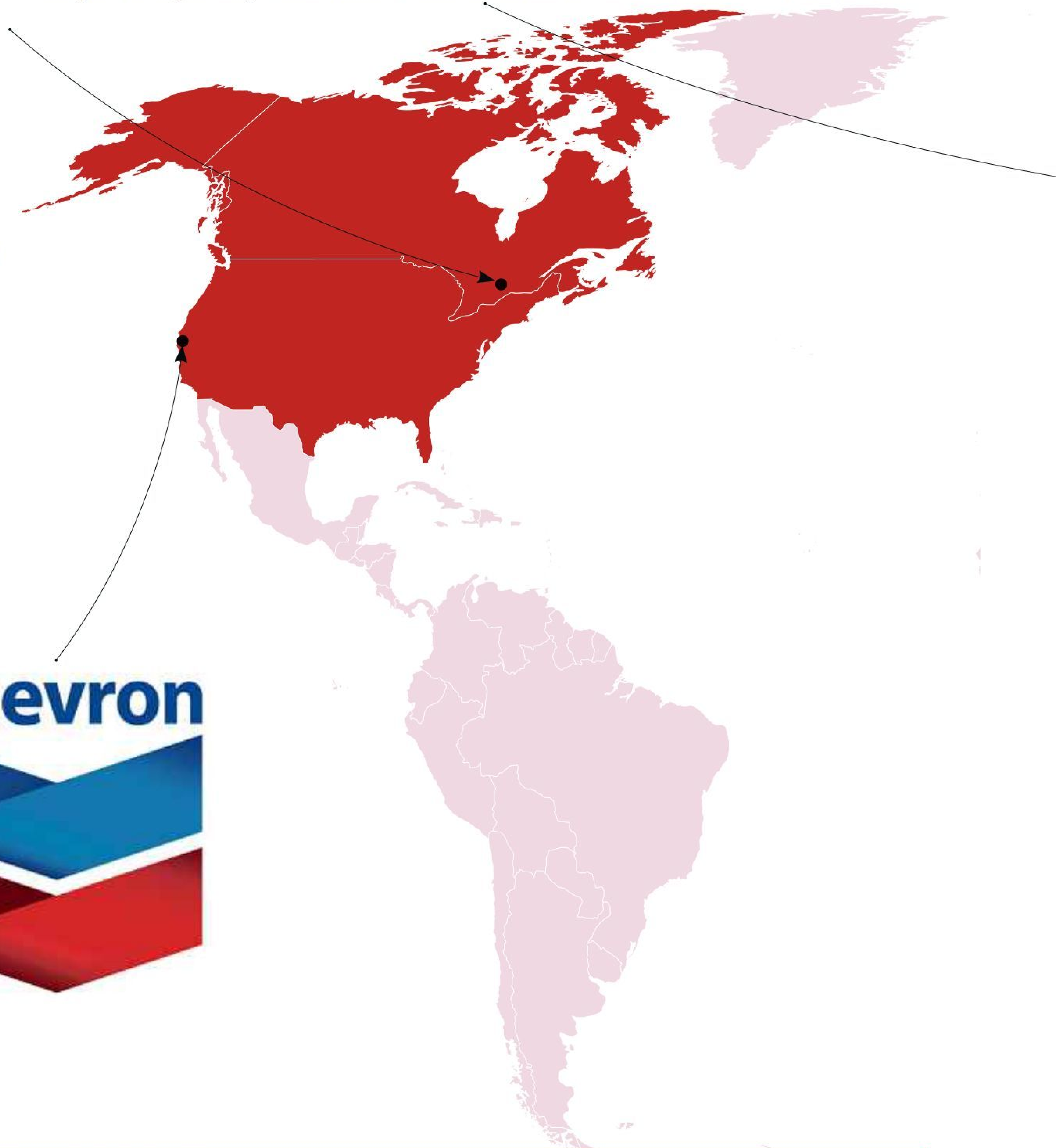
Ottawa

Trudeau begins second term: Canadian prime minister Justin Trudeau has embarked on his second term, with tax cuts and climate change being his top priorities, says Paul Vieira in The Wall Street Journal. Cutting taxes for middle-income earners will be the first policy priority, but Trudeau also vowed to be more aggressive on environmental policy. He promised tax breaks of C$5.6bn (£3.2bn) to households by increasing the amount of annual income exempt from tax. In his "speech from the throne", a ceremonial event marking the start of a new parliamentary session, Trudeau also promised to fight climate change while continuing to support "the hardworking women and men in Canada's natural resources sectors". However, his speech contained no policy specifics. He also promised a ban on military-style assault rifles and a national plan to cover the cost of prescription drugs. Political analysts have said his policies and legislation will be crafted with an "eye toward getting the support" of at least one other party, as this time he is the head of a minority government. The Canadian economy "unexpectedly shed jobs" in November and the unemployment rate rose to 5.9%, its highest level in over a year, says Kim Mackrael in the same paper. On the plus side, inflation remains "on target" and business investment climbed by 2.6% during the third quarter.

Edinburgh

Mark Barnett gets the boot: Neil Woodford's successor at Invesco, Mark Barnett (pictured) has been sacked as manager of the Edinburgh Investment Trust, says Dylan Lobo in CityWire. He will be replaced by Majedie Asset Management's James de Uphaugh. The board made the decision following a period of poor performance. The trust has underperformed its benchmark for the past three years, with its net asset value up by just 1.6% over this period, compared with a 21% gain in the FTSE All Share. The news comes as a "fresh blow" for Barnett, as he is also in talks with the board of his other trust, Perpetual Income & Growth, over that fund's unimpressive performance. At the end of last month his role at Invesco was "scaled back" as his £8.8bn worth of funds "languish at the bottom of the performance charts" amid heavy withdrawals by investors. Fund platform Morningstar downgraded the Invesco Income and High Income funds in November citing their heavy weighting towards smaller, illiquid companies, which could make it harder to fund investors' withdrawals.



San Ramon, California

Chevron writes down $10bn of assets: America's second-largest oil company, Chevron, is to write down the value of its assets – in particular its Appalachian shale gas assets – by between $10bn and $11bn as it responds to a glut of natural gas on the market. The boom in shale discoveries over the past decade has depressed commodity prices, with the amount of natural gas produced exceeding consumption since 2017, notes The Wall Street Journal. US gas prices are now at a 20-year low. Last month Spain's Repsol wrote down its oil and gas assets by €4.8bn and in October BP took a €2.6bn charge. Other companies are expected to follow suit. The rise of cleaner energy, meanwhile, is expected to dent demand for fossil fuels. "We have to invest in the highest-return projects in the world we see ahead of us," said Chevron's CEO, Mike Wirth, "and that's a different world from the one that lies behind us." Still, change won't come overnight. "The world runs on oil and gas today and any energy transition will take time."

The way we live now: how busy people watch television

Who is busy enough to want to watch something on fast forward? Quite a few of us, apparently. Netflix is trialling a feature that allows viewers to fast-forward content up to 1.5 times the normal speed without compromising sound quality, says Simon Kelner in the i newspaper. "We're much too busy and important to be directed by programme makers about how much time we have to devote to their art." Not surprisingly, film directors and cinephiles are up in arms. Director Judd Apatow suggested viewers "go invent their own personal machines" if they wanted to watch *The Godfather* in a mere 90 minutes, adding that "streamers should not be allowed to present content which is not the way it was intended". Netflix has stressed that it might not become a permanent feature, but pointed out that a "new generation of viewers brought up on the distractions and fragmentations of the digital world are likely to welcome it". But where does it end? asks Kelner. "Will we soon be able to edit our lives to cut out the tedious sections? This feels "like the beginning of the end".

You can now squeeze a long show into your tea break

©Getty Images; Netflix

Helsinki

Youngest leader sworn in: Sanna Marin, 34, became the world's youngest prime minister when she was sworn in this week after being elected to the position by Finland's leading Social Democrat party. The country's government resigned last week after the Centre Party said it had lost confidence in Social Democrat prime minister Antii Rinne over his handling of a postal strike. Marin is set to head a female-led coalition: of the five parties in power, four are run by women. The parties have decided to stay in coalition and push ahead with their existing policy programme, but said there would be a reshuffle and that the full cabinet would be announced this week. Marin's premiership would preserve a leftwing coalition that has come under pressure from "an increasingly popular conservative opposition, amid a weakening economy and growing pressure on Finland's expansive welfare state", says Rick Noack in The Washington Post. Marin is soon likely to be eclipsed as the world's youngest sitting head of government by Austria's Sebastian Kurz, 33, a conservative who is still trying to build a coalition after he came first in elections in September.

Another spring chicken on the world stage

Warsaw

Polish emigrants turn tail: The number of Poles living abroad has fallen for the first time in eight years, says James Shotter in the Financial Times. By 2018, 2.5 million were based abroad, but the figure declined by 85,000 last year. The drop is "almost entirely" because of a decline in the number living in the UK, according to Polish statistics. The population is expected to shrink by 12% by 2050, implying a dwindling labour market, so the ruling Law and Justice party hopes that more emigrants will return, enticed by the booming economy. GDP growth dipped below 4% last quarter for the first time in three years; Poland's large domestic market offsets its exposure to the eurozone's business cycle. Polish prime minister Mateusz Morawiecki said the country's income per capita was at least 5% lower as a result of the emigration wave of recent years, adding that it was "a huge tax that Poland has paid to… the West". Hundreds of thousands of young Poles moved to the UK after Poland joined the EU in 2004. By 2016 there were an estimated 911,000 Polish-born UK residents.

Berlin

German economy shows signs of recovery: German investors' sentiment has risen to its highest level in almost two years, notes Martin Arnold in the Financial Times. The ZEW research institute's monthly index of investors' morale showed an increase to 10.7 in December from -2.1 a month earlier. It is the first positive reading since April and the highest level since February 2018. Investors have been relieved that Germany narrowly avoided recession with growth of 0.1% in the third quarter. The economy is unusually dependent on exports and its manufacturers have suffered collateral damage from this year's US-China trade war. But there has been better news on that front recently: strong demand from non-European countries increased the value of German goods sold abroad by 4.6% in October, compared with a 0.1% increase in sales to European countries. The hope now is that the "manufacturing powerhouse", which accounts for almost a third of eurozone output, can avoid contracting in the final quarter. Further improvements in global sentiment and clarity on Brexit would fuel optimism. A stable German labour market, which bodes well for consumption, should help too.

Johannesburg

South Africa's lights go out: South Africa announced the biggest rolling power blackouts in its history after troubled state-owned utility Eskom said that around a quarter of its generating capacity had failed owing to breakdowns and heavy rains soaking the coal used as fuel. Failure to provide adequate power for Africa's most developed economy highlights the serious challenges faced by President Cyril Ramaphosa (pictured) as he tries to boost"flagging growth rates" and introduce "much-needed reforms" in a country bedevilled by an unemployment rate of 30% and violent crime, says Elena Mazneva on Bloomberg. His government is "fighting a losing battle to overhaul several state-owned companies that were hollowed out by corruption and mismanagement" under Ramaphosa's predecessor Jacob Zuma, adds the Financial Times. Eskom is $30bn in debt. Power cuts earlier this year nearly tipped South Africa into recession and the current outages are expected to continue all week. At the heart of the crisis lie two massive new coal-fired power stations that are years behind schedule and riddled with technical faults.

World's trade referee leaves the pitch

The World Trade Organisation (WTO), which has been the final arbiter in trade disputes for decades, has been crippled by the Trump administration. Why, and what happens now? Simon Wilson reports

Robert Lighthizer and President Trump have reined in the WTO

©Getty Images

What is the World Trade Organisation?

It is the Geneva-based organisation of 164 member states – encompassing all major economies including China – that sets the rule book for trade between nations and acts as a referee when disputes arise. The WTO's forerunner, the General Agreement on Tariffs and Trade (GATT), was founded in 1947 by 23 countries. GATT's key principle of non-discrimination on tariffs (all members have to treat all other members equally as "most favoured nations" unless they have separate free-trade agreements) remains core to the WTO, but its rules reach beyond tariffs to (for example) regulations on food safety and agricultural subsidies. And whereas GATT was a multilateral treaty, the WTO (founded in 1995) is an international organisation with enforcement mechanisms and a quasi-appeal court (the "appellate body") whose decisions, made by judges, are binding.

Has it been a success?

Certainly, the WTO and GATT before it have contributed over the past 70 years to falling tariffs and increased global trade. In 1947, the average tariff charged by GATT signatories was 22%, a big disincentive to trade. By 1999, it was under 5% and today the average weighted tariff charged by the US and EU is about 1.6%. In the 1950s, international trade accounted for about 8% of the world economy; today it makes up about 30% of a vastly bigger pie. So overall, international rules-based co-operation has been a success story for boosting trade.

What do critics say?

It's past its sell-by date. Since 2001, when the unproductive "Doha round" of trade talks began, further progress on the WTO's trade liberalisation agenda has all but stalled; the far more significant advances have been in regional or bilateral free-trade deals. As the world has changed and the WTO has ballooned to 164 members, the WTO has become too bureaucratic, unwieldy and slow; and too weak when it comes to modern forms of protectionism, such as rules governing state subsidies, intellectual property and trade in services. In particular, it has failed to rein in China's protectionist policies. The US, in particular, has long been angry about the latter – and about what it sees as the quasi-judicial overreach of WTO's appeal court.

Why is the WTO in the news?

Because this week the workings of the appellate body – a panel of (originally) seven judges who are the ultimate arbiters of trade disputes between nations – ignominiously ground to a halt. New judges added to the body must be approved by all members, but since July 2017, six months after Donald Trump took office, Washington has been blocking all such appointments. The WTO judges serve fixed terms and, due to the lack of replacements, the number has gradually dwindled to three, the minimum permissible. On Wednesday another two retired (leaving just one, from China) meaning the body can't take on any new cases, and the US has successfully strangled its ability to function.

What's America's problem?

The US has several grievances and many of them pre-date the Trump administration. These include complaints about how long appeals take (many years) and how all-encompassing the legal review has become. But most arguments are "highly technical" and focus on issues such as the "methodologies used to calculate economic harms" that then determine domestic trade remedies, explains Keith Johnson in Foreign Policy. In essence, America's longstanding issue is that "in successive rulings over many years, WTO appellate judges have essentially stripped away in court trade tools that US trade negotiators" believe they never gave up at the negotiating table. That, according to US officials such as Robert Lighthizer, Trump's powerful trade representative, is a violation of the understanding that the WTO wouldn't take away rights or add obligations to any member nations.

"If there is a recession, the temptation of tit-for-tat tariffs will rise around the world"

So Trump's got a point?

He's certainly not the only one who thinks the WTO has exceeded its brief. But some trade experts are dismissive of their arguments. The fact that the appellate body routinely takes more than the mandated 90 days to issue a ruling is because it's handling far more complex cases than expected, for example. It's also because there are fewer judges to decide cases (thanks to the US not approving new ones) so the cases get dragged out. In practice, the US has won 85% of the cases it has brought to the WTO against trading partners.

So what's really going on?

"America First"; China rising. The US has been dragged before the appellate body repeatedly, especially by countries objecting to its heavy-handed use of "trade remedies" (that is, tariffs defending its producers from supposedly unfair imports). The paralysis at the WTO is thus good news for self-declared "tariff man" President Trump, argues Bryce Baschuk in The Washington Post, as he can now retaliate against America's trade partners without fear of WTO oversight. But for the rest of the world it means that "the global economy is entering a dangerous new era where economic might supersedes international law" and disputes between the big players could escalate rapidly.

What might happen?

In the worst-case scenario, the lack of a trusted referee could mark a return to the "law of the jungle", in the words of WTO boss Roberto Azevedo. Under such a scenario, "investors will pull back, the economy will lose steam and jobs will be lost – millions of jobs will be lost", he predicted. So far, the surge in global trade frictions has not caused a recession, but world trade has stopped growing and long-term investment has dropped by 20% in the first half of 2019. If there is a recession, says The Economist, the "temptation of tit-for-tat tariffs will rise across the world. When the referee leaves the pitch, anything goes."

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Share Price	6.3%	41.7%	35.1%	0.3%	-2.8%
MSCI China Index	-2.1%	26.9%	37.2%	-0.7%	1.1%

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Source: Morningstar as at 31.08.2019, bid-bid, net income reinvested.
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Another nasty shock for investors in property funds

In 2016, open-ended commercial property funds shut their doors amid panic over Brexit. Last week, it happened again. It's as if these funds aren't up to the job, says John Stepek

If we had to choose a word to sum up the most important theme in investment this year, it might be "liquidity". In summer, we saw the beginning of the end for former star fund manager Neil Woodford's asset management empire, as investors fled his funds faster than he could liquidate the assets that underpinned them. Now, liquidity has returned to haunt a section of the market that most investors might already have learned to be wary of – open-ended commercial property funds.

The Brexit panic of 2016

In summer 2016, in the wake of Britain's referendum vote to leave the European Union (EU), open-ended funds that owned commercial property were forced to prevent investors from withdrawing their money (they were "gated", in the jargon). Why? The fundamental problem is a "liquidity mismatch". Property – be it warehousing, office blocks or shops – is illiquid. Even in periods of high demand, it takes a lot more time to sell a warehouse than it does to sell, for example, a few thousand shares in BP. But open-ended funds promise investors the ability to withdraw their money on a daily basis – in other words, they offer daily liquidity. It should be clear that this is just asking for trouble. If investors want their money back faster than the fund manager can sell property to raise the cash, then sooner or later, a crunch will come.

The Brexit panic was short-lived. Funds mostly re-opened within a few months as investors realised that Brexit was a process rather than an event, and that all business activity in the UK would not suddenly come to a halt. However, deeper structural issues – such as the shift away from physical shopping centres to online retail, and increasingly aggressive rent negotiations from those retailers still eking out a living on the high street – have continued to take their toll on the value of retail property in particular. Meanwhile, Woodford's woes earlier this year have drawn more attention to the sorts of liquidity issues that wealth managers might once have swept under the carpet.

"If investors pull money out faster than properties can be sold, a crunch is inevitable"

Merry Christmas – although perhaps not for property investors

The return of liquidity woes

This all helps to explain why last week, one of the commercial property funds that last closed its doors in 2016 – the M&G Property Portfolio fund – was gated again, due to "unusually high and sustained outflows," which it blamed on "Brexit-related

Who might be next to slam the gates shut?

As we've pointed out several times, there's no good case for investors to own commercial property via open-ended funds. But if you do own these funds, what are the risks?

The M&G fund is now closed to withdrawals. When might it re-open? Ryan Hughes of AJ Bell suggests to Investment Week: "Given how long it takes to sell commercial property it is reasonable to assume this suspension may last three months or longer. M&G also needs to sell enough to raise a new cash buffer, potentially around 20%, meaning they need to sell around £500m of property." So if you own it, there is nothing you can do. To be clear, this is not a Woodford-style, "everything must go" situation. But nor is it ideal for the managers to find themselves going into the market as public forced sellers.

What about other funds? When this happened in 2016, there was a domino effect. However, M&G's fund was in a particularly tough position on this occasion. It has been the worst performer in its sector for the past three years, and is particularly exposed to the worst-hit properties. And property fund withdrawals in 2016 were far more drastic than they have been recently. As Hughes adds, about £1.6bn has been pulled from commercial property funds in the past year. That sounds like a lot – but in 2016, £2.3bn was redeemed in the three months around the referendum alone.

So it's not clear we'll see the same wave of "gating" this time. At the end of October, the M&G fund was 5% in cash. Rival funds Aberdeen UK Property and SLI UK Real Estate were quick to note that they hold 12.7% in cash and 15.7% respectively, according to the FT. As of the end of October, Portfolio Adviser notes that the most "cash-light" funds are Kames and Columbia Threadneedle, on 8.6% and 6.3% respectively.

If you hold any of these funds, or others in the sector, don't panic. But do reflect on why you own them – even, or perhaps especially, if your fund does have a big cash buffer. After all, that's eating into your returns – do you want to own property, or do you want to own an expensive and inconvenient current account? As we say in the main story, the only realistic conclusion is – own investment trusts instead.

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> *"Even if surveyors are scrupulously professional, a property portfolio's value is never more than a best guess"*

political uncertainty and ongoing structural shifts in the UK retail sector." Assets under management had fallen by more than 25% in the year to 31 October, from £3.5bn to £2.5bn. At the start of 2019, the fund had a cash buffer (from which to fund withdrawals) worth 15% of assets. By the end of October, this had fallen to less than 5%, reports Investment Week, citing FE Fundinfo data. M&G is waiving 30% of its management fee, but that's not much help to investors who are now trapped in an underperforming fund that is now worth even less than they had hoped.

Investors in other open-ended property funds have been rushing to ensure it doesn't happen to them too. The day after the M&G fund was gated, £57m was pulled out of the sector – "the worst day all year for real estate fund outflows" notes Attracta Mooney in the Financial Times, citing data from global funds network Calastone. We look at the most vulnerable funds on the left. Yet rather than fret over who's next, a better question is: why own these funds at all?

The problem with open-ended property funds

One benefit of investing in illiquid assets is that you earn a "liquidity premium". In other words, you get paid a bit extra because you know you'll have to wait to get your money out, and that getting your money out might also be tricky in certain conditions. This is thought to be one reason why, for example, smaller companies tend to outperform the wider market over time – the extra reward is down to the extra liquidity risk taken. So there is nothing wrong with commercial property itself as an investment.

However, using open-ended funds to invest in the sector makes no sense. Even if you as an investor don't want to avail yourself of the daily liquidity, the fact that a manager has to worry about it at all affects their decision making. If you buy an illiquid asset using a vehicle that promises predictable liquidity, then you are missing the whole point. If the liquidity is managed so that the fund is genuinely liquid at all times, then the manager will always be sitting on so much cash that you'll erode your returns that way. Indeed, on the very day that M&G gated its fund, an article on Morningstar asked: "Are property funds holding too much cash?" Yet if the liquidity isn't managed effectively, then you end up in the situation that M&G is in now, where the manager looks set to become a forced seller in any case – which of course means accepting worse prices than you would otherwise expect to get.

There's also the issue of valuation. The net asset value (NAV) of these funds is assessed by chartered surveyors. Yet as Patrick Hosking of The Times points out, "the cosy relationship between property funds and valuers" is "riddled with potential conflicts of interest." For example, surveyors make money on both the buying and selling of properties, and provide the funds with services such as facilities management and collecting rents. Yet they are also then meant "to put on a strictly neutral hat and value their properties" too. Like it or not, "there's inevitably pressure to please the client and to be optimistic".

A look back at the history of investment bank analysis, auditors, and credit ratings agencies all suggest that when professional services firms are asked to act as both independent referee and paid-for service provider to a client, the referee role is first to suffer. Yet even if surveyors are all scrupulously professional at all times, the reality is that the NAV of any commercial property portfolio will always be nothing more than a best guess. If you own a portfolio of FTSE 100 shares, then you can know the value of that portfolio almost to the penny. But every property deal is different. In short, the only people who benefit from the open-ended structure are the fund providers. It's easier to raise money for an open-ended fund and it's easier to accumulate. So it serves the purpose of a financial industry that wants to gather lots of assets that it can then charge a percentage fee on. But for the end investor, there are no benefits at all.

Opt for investment trusts instead

Britain's financial regulator, the Financial Conduct Authority, is looking at potential changes, and has been ever since the 2016 rash of gatings. Yet for the individual investor who wants to invest in commercial property, there is already a solution – investment trusts. These closed-ended funds trade on the stock market. When investors want out, they sell to other investors – the underlying portfolio doesn't change. So the manager of the trust (who is also monitored by an independent board) need never worry about building cash buffers in case of panicky redemptions. Also, the shares can trade at a discount (or a premium) to the stated NAV – in other words, these funds are revalued on a real-time basis, using the wisdom of crowds rather than a static surveyor's report.

If you own open-ended commercial property funds, then we'd suggest selling out at the next viable opportunity and reinvesting in a similar real estate investment trust. We wouldn't underestimate the challenges facing the market (and do wait for the election result) – but options that our investment columnist Max King has suggested in MoneyWeek in recent months include giant landlords **British Land (LSE: BLND)** and **Land Securities (LSE: LAND)**. Both stocks trade on a discount of around 30%, and offer a dividend yield of around 5%.

Tesco should keep its Asian assets

The £7bn the store could get for its Tesco Lotus business looks enticing. Holding on would be smarter

Matthew Lynn
City columnist

It has been a tough few years for Tesco. The UK's largest grocery chain crashed in 2014 amid an accounting scandal and it has been struggling to revive its fortunes ever since. It sold off its South Korean and Turkish chains for more than $6bn, pulled out of the US and sold off British assets such as the Giraffe restaurant chain and its mortgage business. Dave Lewis, its chief executive until he leaves next summer, understandably wanted to concentrate on turning around its core British supermarkets. In the chain's glory years, it felt it could export a winning formula and conquer the world. When it was in trouble, all those overseas units were just a distraction from the problems at home.

Flogging the crown jewels

The mooted sale of its Asian unit, if it happens, will be the biggest divestment yet. Tesco Lotus operates 2,000 stores in Thailand and Malaysia. If it is sold it could fetch £7bn and perhaps more. The whole business is worth only slightly over £20bn. Tesco Lotus is one of the major grocery chains in two fast-growing emerging markets. It is a valuable asset. If it is sold, aside from a central European unit, Tesco will be an exclusively British business. The British business faces many challenges – the rise of the discount chains, Brexit, competition from online retailers – so management needs to keep its eye on the ball. But selling the Asian unit will make the business a lot duller.

The British grocery market is saturated. There is very little prospect of any meaningful growth. There is hardly a town left that doesn't already have a supermarket.

CEO Dave Lewis: will he sell the sizzle?

Indeed, lots probably have too many. If immigration falls, as it probably will, the population will be static, so there is little prospect of demand expanding. Fewer and fewer people are going to the shops any more as retailers close on the high street and shopping centres become less attractive places to visit. We all need to eat, so we will still be buying groceries, but succeeding in the industry is going to be a dull, hard grind that will take hard work just to stand still.

By contrast, Asia offers growth. Malaysia and Thailand are still developing countries, with growth rates this year of 4.6% and 3.8% respectively. Vietnam, Indonesia and China all offer possibilities for expansion. Tesco had made a great start and started building a brand and expertise in one of the most dynamic regions of the world. If the UK business was stable, Asia could have provided the sizzle along with the steak.

Better to think of the long term

When a company gets into trouble, it is easy to think of selling off units. Some cash will be raised, shareholders will get a special dividend and the company will look in better shape for a few years. But it will sacrifice the potential for long-term growth. Associated British Foods could easily have sold off its Primark fashion chain years ago, for example. In some ways it would have made a lot of sense. But Primark now contributes much of its profits and growth. Whitbread was an old and slightly dull brewer, but its Premier Inn and Costa Coffee chains have both turned into the real drivers of its growth. Costa has now been sold to Coca-Cola, but the budget hotel chain is still thriving. Next was originally launched as a unit of the now largely forgotten Hepworth's chain and could have been sold off in its first decade, but went on to become one of the UK's most successful retailers.

The City is quick to demand that units be divested, that companies be sold off and that businesses that drift apart be demerged. It likes the deal-making and shareholders get an instant fix of cash. Yet the price in the medium-term can be a high one. A company needs to have the potential for expansion. It needs some excitement and zip. And it often needs to hang onto an asset for a very long time to realise its full potential. Tesco stripped of its Asian unit will be a simpler business. But it will also be a boring one. In truth, shareholders should worry a lot less about an instant cash injection and a lot more about long-term growth – because that is what is going to deliver over the decades.

Who's getting what

● **Ursula von der Leyen**, who took over from Jean-Claude Juncker as president of the European Commission on 1 December, is paid a salary of €28,461 a month, reports the Daily Express. When tax-free allowances are added in, this rises to around €33,400 a month. All EU staff received a pay rise of 2% on 2 December, meaning she saw an increase of just under €560 a month on her second day in the job. In her previous role as Germany's defence minister, von der Leyen (pictured) was paid €16,254 a month.

● **Mahmud Kamani** and **Carol Kane**, who set up online fashion retailer boohoo.com 13 years ago, have pocketed £142.5m after they sold part of their stakes in the business. Kamani made £99.8m by selling 35 million shares, which leaves him with a 13% stake, while Kane sold 35 million shares for £42.8m, leaving her with 2.7% of the business. A spokesman told The Daily Telegraph that the sales were intended to "help with personal financial planning".

● Department store **Fenwick** paid out dividends totalling £4.9m last year to members of the family that owns it, despite sales falling by 13.6%, racking up a pre-tax loss of £44.2m and sacking over 400 staff in an attempt to centralise operations. Despite the loss, "retained earnings of £325.6m and a £467m property portfolio put the business on a solid financial footing", says The Sunday Times. The company made a profit of £6.5m in the previous year and £14.4m the year before that.

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Nice work if you can get it

Andrea Jenkyns, a Conservative standing for re-election as MP of West Yorkshire constituency Morley and Outwood, is being paid £25,000 a year as head of a university think tank that doesn't yet exist, reports The Guardian. Jenkyns has been receiving payment since July from the University of Bolton to set up the Research Institute of Social mobility and Education (Rise), a think tank with the National Centre for Higher Education Policy. The role involves eight hours' work a week. Her campaign has also received a private cash donation of £2,000 from the university's vice-chancellor, George Holmes. Jenkyns defended the payments, saying that "the launch will happen early in the new year and I have been working to define the objectives and the structure of the think tank". The Guardian reports that Bolton University recorded a deficit of £2.9m in 2018-2019.

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The death of the liberal Brexit vision

Ben Kelly
City AM

The vision for post-Brexit Britain has "run away" from liberal Brexiteers, says Ben Kelly. I once believed that Brexit "could be a liberal project" and that we'd "have the best of both worlds". Swashbuckling Britain would become a global hub for commerce: "open for business, open for trade, open for people". However, Theresa May chose a path that Boris Johnson has "doubled down" on in his attempt to win an election-winning majority from a coalition of Leave voters. From "whipping up xenophobic hysteria" by claiming that immigration will rise to 840,000 a year under Labour, to implying that EU migrants are scroungers, the Tories have adopted a "decidedly illiberal stance". The party has also committed to an "anti-trade doctrine", a "buy British" rule for the public sector and the promotion of the "local economy" in the procurement process – a "form of protectionism... straight from the Trump and Corbyn playbook". Another benefit of Brexit, say the Tories, is to ditch state aid rules to help failing British industries. Rot. "Making a profit is evidence of a business adding value to society." No business should be too big to fail. No wonder "those who said Brexit was a nationalist project feel vindicated".

Britain's thriving TV industry

Editorial
Financial Times

With Britain facing a potentially dramatic change in its trading relationships, the creative industries are providing vital "ballast", says the Financial Times. The film, TV and music industry is the fastest-growing part of the economy, swelling by 43% since the start of 2016, compared with 6% in the service sector as a whole. This is catalysing investment, from new Sky-funded studios in Elstree to studio expansions in Belfast and a planned "Pinewood of the North" in Liverpool. This success is partly down to tax credits introduced in 2007 and extended in 2012, but it also reflects the "hunger of the entertainment giants for content" (and the American appetite for British accents). However, few think the current boom is sustainable. Netflix, Amazon, Apple and Disney are committing billions in "a 'spend-to-win' competition" and studios could empty "when the music stops". On the plus side, the sector is less exposed to Brexit than others. Abolishing freedom of movement would be a problem, but it is hard to levy a tariff on a Spotify stream, making films and music doesn't depend on imported components, and they cannot easily be substituted for one another. Overall, there are reasons for optimism.

Why it pays to go into IMF rehab

Editorial
The Economist

Pakistan is "back in rehab" less than three years after completing its last programme under the International Monetary Fund (IMF). But the "fund has not abandoned it" and "nor have investors", says The Economist. The country is "enjoying a flood of foreign capital on the promise of reform". The Karachi stock index has risen 25% in two months. This may seem strange, but a "rehab economy" is "one of the few places where investors can find high interest rates, a devalued currency and cheap-looking stocks". The rewards can be "bountiful". Rehab economies follow a familiar pattern. The cycle starts when there is a budgetary or balance-of-payments constraint. Funding dries up. Then comes capital flight. At some point the authorities, with luck, start embracing more orthodox economics to extricate themselves from their hole – letting the currency fall, ditching subsidies, using monetary policy to tame inflation. The IMF may get involved. If rich locals are persuaded to move their capital back onshore, foreigners, then stockmarket investors will follow. "When the potential is great and the price is right, there will always be people willing to bet that next time will be different."

Eggheads muscle in on factory jobs

Austen Hufford
The Wall Street Journal

University-educated workers are taking over the American factory floor, says Austen Hufford. Analysis of federal data by The Wall Street Journal reveals that new manufacturing jobs that require advanced skills are driving up the education levels of workers. Within the next three years, the sector is set to employ more graduates than workers without a degree, part of a shift that has increased output, opened the door to more women, and "reduced prospects for lower-skilled workers". Currently, more than 40% of staff have a degree. Employment in jobs requiring the most complex problem-solving skills grew 10% between 2012 and 2018, while jobs requiring the least declined 3%. Despite recent job growth – the sector has hired more than one million people since the recession – American manufacturing requires a third fewer workers than the 20 million employed at the industry's peak in 1979. Specialised job requirements have also narrowed the field and significantly pushed up salaries. Looking ahead, increasing automation is likely to continue expanding production with relatively fewer employees, while those who have been laid-off in past years are increasingly unlikely to find "suitable openings".

Money talks

"I lose a lot of things, including money. If I had all the money I've dropped, I wouldn't need to work again."
Comedian Arthur Smith (pictured), quoted in The Sunday Times

"It's hot, beautiful and there [are] tax breaks."
Singer Summer Walker on her recent move to Las Vegas, quoted in The Times

"I don't give a toss if [Tesla co-founder and CEO Elon Musk] is a visionary, a great engineer, or whatever baloney he claims. In my opinion, such a man is not fit to run a major firm... Musk is a product of our age. Entitled, arrogant, unbelievably rich and powerful, he reckons normal rules don't apply to him. He's a bit like that other serial sociopath Adam Neumann of WeWork – and we know how well that ended. He sends a clear message that it's fine for marginally socialised billionaires to act above the law."
Bill Blain, strategist at London's Shard Capital, in his blog The Morning Porridge

"If I didn't think the idea was very good but the people were, I wouldn't invest. And if I thought the people weren't very good but the idea was cracking, I still wouldn't invest."
Former Dyson CEO Martin McCourt, who now invests in engineering start-ups, quoted in The Sunday Times

"The reason a person's pay is not as good as mine is I'm obviously better."
Journalist and broadcaster Eamonn Holmes, quoted in The Sunday Telegraph

"You don't make mistakes when you don't have money... When you have too much money, you will make a lot of mistakes."
Alibaba founder Jack Ma warns students at the University of Tokyo about the downside of having too much money, quoted in the Financial Times

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We can survive under water

project-syndicate.org

The latest alarming news on climate change is that "huge swathes of densely inhabited land" will be under water by 2050, with whole cities "erased". The news has got it wrong, says Bjørn Lomborg. The claims were based on a research paper in Nature Communications, which shows that vulnerability to rising sea levels has been underestimated. That's important. But the media used the report to paint a terrifying dystopian vision.

Dystopia versus reality

The reality is more mundane. The New York Times, for example, told its readers that by 2050 southern Vietnam will "all but disappear" because it will be under water at high tide. It warned of similar effects around the world. What wasn't mentioned is that the situation projected for 2050 is "almost identical" to the situation that prevails today. People in the Mekong River Delta "literally live on the water" and for generations the land has been protected with dikes. In Vietnam's An Giang province, almost all non-mountainous land is safeguarded in this way.

In fact, it is already "under water" in the same way that much of Holland is. Schiphol, one of the world's busiest airports, is below sea level at high tide. Almost a million Londoners live below the high-tide mark. In none of these regions do people need scuba gear to get around because humanity has adapted with infrastructure. As the study shows, 110 million people worldwide live under water, almost every one of them well protected. Other research clearly shows we will be able to protect almost all of the areas now facing new threats.

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Many millions already live quite happily below sea level

Wealthier, more resilient

The United Nations Intergovernmental Panel on Climate Change has estimated that the total cost of all the negative impacts from global warming will be equivalent to society losing 0.2%-2% of income by the 2070s. Yet by then society should be 300% to 500% richer, in the UN's standard scenarios. Having an additional 40 million people living below the high-tide mark represents "a slight increase of a challenge that we have shown ourselves fully capable of addressing" in a world that will be much wealthier and more resilient. We will cope just fine.

Alarming stories in the media that twist the facts about climate change are dangerous because they "scare people unnecessarily and push policymakers toward excessively expensive measures to reduce greenhouse-gas emissions". The better solution is to "lift the world's poorest out of poverty and protect them with simple infrastructure".

France's long journey to reform

capx.co

The nationwide strikes and protests in response to President Emmanuel Macron's attempted pensions reform are only to be expected in a nation in which economics is "viewed dimly" and reform "always undertaken with a heavy heart", says Nicolas Bouzou. France is a highly centralised country with low union membership and a parliament that "wields little power". This lends itself to an "intense relationship between the French people and their president". Hence the hysteria witnessed since the "explosion of the *gilets jaunes* movement a year ago". In reality, Macron's new pensions system represents a vast improvement on the current "hodge-podge", which has 42 different schemes. Under the new regime, everyone gets a points total based on contributions, which depend on salary and number of years worked. The value of the points is fixed by the government or partner organisations. It provides "simplicity, equality of treatment and, above all, transferability". It also gives individuals complete freedom over when they retire, and it gives people an incentive to continue working. Macron has "fluffed the execution", but "do not despair". Even in France, reform happens eventually. "Things are going in the right direction, but it will be a long journey."

How to write a better CV

fastcompany.com

The New Year often inspires people to update their CV, says Adrian Granzella Larssen. But dusting off your old one and adding new bullet points is the wrong way to go. Start afresh with these tips in mind.

1. Start with attitude. More important than your CV and pitch is the attitudes, beliefs and energy you can bring to a new role. Build up your confidence before you apply – this is what will determine success. "You behave how you believe."

2. Write marketing, not history. No one's interested in your autobiography. Just as in marketing, you're trying to influence a buying decision.

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Repeat to yourself: you are what they're looking for

Show your future employer that you are what they're looking for.

3. It's not all about you. Don't emphasise what you want. Employers don't really care. They want to know how you can serve them.

4. Don't rely on job sites. Hiring managers are flooded with CVs from such sites. Instead, spend time networking and building up connections.

5. Always follow up. In a flood of CVs, it's easy for yours to get overlooked. "Don't be afraid of being too aggressive in your job search. Fortune favours the bold."

The dark side of the Nordic model

aljazeera.com

Universal public healthcare. Education that is the envy of the world. Reasonable working hours with plenty of paid leave. Top rankings in levels of happiness and human development. Scandinavians have it all, says Jason Hickel. It is worth celebrating what these societies get right. But there is a dark side. "They are an ecological disaster."

It might not seem like it. Their air is crisp and fresh; much of the region is covered in forest. Their people seem environmentally conscientious. Yet the data tells a different story. The Nordic countries have some of the highest levels of resource use and carbon-dioxide emissions in the world. Ecologists say that a sustainable level of resource use is about seven tonnes of material stuff per person per year. Scandinavians consume on average more than 32. As for emissions, the Nordic countries perform worse than the rest of Europe and only marginally better than the world's most egregious offenders. "If everyone in the world consumed like Scandinavians, we would need nearly five Earths to sustain us."

Oakley Capital is a tasty bargain

The private-equity fund is cheap, yet its investments are flourishing

Max King
Investment columnist

The Time Out market is Lisbon's top visitor attraction

©Getty Images

Although **Oakley Capital Investments (LSE: OCI)**, with £650m of assets, has been the best performer in the private-equity sector in the last year, it still trades on a 29% discount to net asset value (NAV). What makes this even more of an anomaly is the strong momentum in OCI's underlying investments.

Oakley's management launched its first fund in 2004 to invest in "controlling stakes in mid-market opportunities, backing a founder/entrepreneur in businesses with complexity", according to Steven Tredget, a partner. The subsequent three funds have been focused in three areas: consumption with a digital angle, education and technology, and media and telecommunications.

They have focused on "well-established, profitable businesses rather than turnarounds". Returns on 17 realised investments since inception have been 3.1 times cost, with a gross internal rate of return (annualised return) of 47%, although this excludes the 15 investments still held.

Finding profitable companies

OCI, the listed fund, was launched in 2007 and invests alongside other clients in the four funds. This accounts for half of OCI's portfolio, with another 36% in co-investments directly in the equity and debt of Oakley companies and the remainder held in cash and other assets for future commitments and co-investments.

The average growth in operating profits in Oakley companies in the last year has been 31% and strong performance "is set to continue". Just one of OCI's investments is valued at below cost: media and leisure group Time Out, which dates back to Fund I in 2010. This £93m (including £22m debt) investment is one of three that account for over 40% of OCI's portfolio.

Of the other two, Inspired (£92m) is one of the three largest private school groups in the world, with 50 schools and 45,000 pupils. North Sails (£39m equity, £62m debt) is a marine group "which designs and builds boats from the deck upwards, including New Zealand's winning boat in the last America's Cup".

"The fund owns one of the world's three largest private school groups"

Its attempt to build an apparel brand experienced "a false start" a few years ago, which required a change of management, but subsequent growth has been strong. Time Out listed on Aim in 2016, but Oakley still owns over 60% (40% in OCI). Its challenge has been to convert a successful publishing business into a mixed digital and print one.

Though revenue has more than doubled since 2010, the core business has continued to produce a loss, but Tredget believes that profitability is in sight. Only 20% of its business is in the UK. It now operates in 370 cities and has a "global brand audience" of 60 million, mainly young, drawn to "half a million active pages of content a year". This keeps it high on the Google search lists and its user profile attracts generic advertisers as well as those for listings.

A promising food venture

In 2013, Time Out was approached by Lisbon's mayor. He was anxious to find a use for a market hall in the red-light district. The result was an 850-seat self-service food centre with 26 restaurants and 19 bars and shops. Time Out has a 20-year lease at a "modest" rent and leases the restaurants for 30% of turnover. The quality threshold is high. Four units have Michelin stars. With no capital commitment, no front-of-house costs and high turnover, tenants earn margins of 15%-18%, compared with 5%-15% for normal restaurants.

The Time Out Market draws in 15,000 customers a day, is Lisbon's top visitor attraction and has rejuvenated its area of town while generating £5m of profits this year.

Time Out is rolling out the concept worldwide. It has launched it in the US and there are 11 more openings in the pipeline. This should be very profitable for Time Out, transforming its business and valuation to the benefit of OCI. Despite the high costs endemic in private equity owing to its management-intensive nature, (2% per annum, plus 20% of returns above 8% per annum), this adds up to a compelling investment.

Activist watch

Travel and insurance provider Saga, under pressure from activist fund Elliott Advisors, has put its care business up for sale, says Edward Thicknesse in City AM. The sale of Saga's live-in care brands Patricia White's and Country Cousins follows concern over the group's slumping share price, which has halved in the last year. The businesses made sales of £4m last year. Saga, which specialises in products for those over 50, issued a profit warning in April; it slashed its dividend and cut prices in its insurance business. Elliott bought a 5% stake in July, but has yet to make clear exactly what it hopes to achieve at Saga. Elliott is best known for its work in the US, but in Britain it has tussled with investment manager Alliance Trust and bought Waterstones, the bookshop chain, in recent years.

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Get ready for IR35

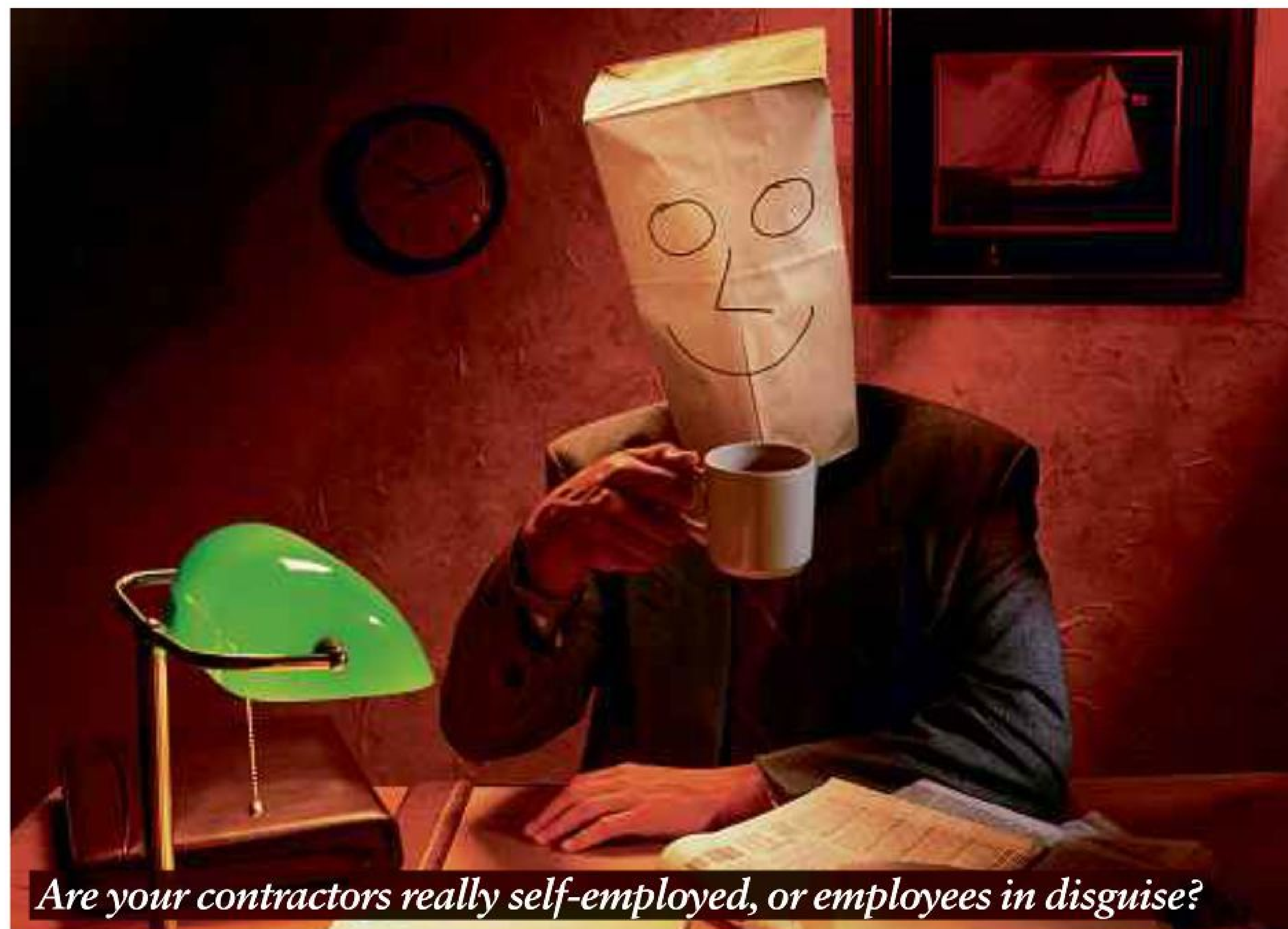
Rules distinguishing freelancers from employees are getting tougher

David Prosser
Business columnist

Reforms of the IR35 regime are due to come into force in April. The rules aim to tackle "disguised employment", where workers set themselves up as self-employed contractors to secure more favourable tax treatment. The arrangement suits employers too: they pay less national insurance.

While many contractors operate legitimately through such arrangements, HM Revenue & Customs has long suspected that employers and employees have been colluding in order to obtain a tax advantage. Many consultants should actually be taxed as employees, it believes.

From April, the IR35 tax rules will therefore require employers to take responsibility for determining the employee status of all contractors. Employers will only be able to treat those freelancers who meet strict criteria as self-employed. In many cases, those currently working as contractors will have to be brought into the pay-as-you-earn (PAYE) tax system in the same way as ordinary employees. Business groups have complained about the hassle and expense of the new rules, while freelance contractors warn that many may be unfairly penalised.



Are your contractors really self-employed, or employees in disguise?

©Getty Images

Small firms are exempt

The good news is that the smallest businesses are exempt from the reforms. Firms that meet two of three qualifying criteria – annual turnover below £10.2m, a balance sheet of no more than £5.1m and no more than 50 employees – need do nothing. But everyone else has to be ready.

Start with an audit of the freelancers and contractors that you use. How many are there and where are they deployed? Next, identify the ones likely to fall foul of the new rules because they don't match HMRC's description of self-employed consultants. The online "Check Employment Status for Tax" tool is a useful way to do this, with HMRC promising to abide by the ruling it gives as long as you've supplied accurate information.

Start communicating with contractors as soon as possible so they know you're looking into this issue; you will certainly need to tell any contractors moving to PAYE status as soon as possible. Be prepared for some push back: some contractors may seek to negotiate higher rates of pay to reflect their new tax status.

Where necessary, get contractors set up in the right way on your payroll systems as soon as you can – you may need new information to move them on to PAYE and if you use a payroll agency you will need to liaise with it at an early stage.

Finally, take legal advice on any changes you need to make to the contracts and agreements you issue to new contractors. You may also need to alter the agreements you have with existing staff.

Insure against late payment

Will your customers pay their bills? Data just released by the invoice finance company MarketFinance suggests 39% of invoices were paid late in 2019, with the average delay almost doubling from 12 days to 23 days.

And with insolvency statistics suggesting company failures have risen to a five-year high, the risk of your firm not getting paid for work that it has done is rising. That could turn a cash flow difficulty into a much more serious problem.

For some firms, trade credit insurance could be the answer. This is insurance that covers your firm against non-payment of bills – the number of claims made under such policies hit a ten-year high earlier this year, according to the Association of British Insurers.

Such policies work by assessing the risk of non-payment posed by each of your company's customers, with the insurer then covering you for outstanding debt up to a certain limit in each case. Claims up to this credit limit will be honoured in the event that the customer fails.

In addition to protection, trade credit insurance can provide useful early-warning signs, with insurers monitoring the creditworthiness of customers and issuing updates where they have concerns. But the policies can get quite technical and it's worth using an independent broker to negotiate the best deal.

Five questions for... James Constantinou, founder, Prestige Pawnbrokers

● What does your company do?
Prestige Pawnbrokers has become synonymous with securing loans against almost any high-end asset in a time when banks are unable to assist. The ability to transact within days, if not hours, of the initial appraisal has propelled it to the top in this sector.

● What is your greatest achievement?
Taking an idea and developing it into the country's leading asset lender in a sector that had stagnated for decades. Working closely with Channel 4 for the production of the show *Posh Pawn* was a major coup, with over 50 one-hour shows transmitted and repeated globally over the past six years. This secured the brand pole position in an area previously untapped by many lenders. The publicity has ensured that the public became aware that there were other options out there; the high-street bank was no longer the only choice.

● What has been your biggest challenge?
Pursuing further growth in a heavily regulated industry. Securing financial support from the usual institutions has proved to be difficult, but thinking outside of the box in terms of raising growth capital has enabled us to take the business to the next level.

©Alamy

● What are your plans for hitting your targets?
Opening more stores while adapting the business in respect of the recent downturn in retail, but the inevitable upturn in borrowing. We are cheaper than a high-street bank for short-term borrowing; that is still something the public need to be made aware of.

● What's the one piece of advice you'd give fellow entrepreneurs?
A good entrepreneur will try to reduce the risks in any venture, but the desire for gain must be greater than the fear of loss.

Get set for the Sipp price war

Vanguard is poised to shake up the market with the cheapest offering on record

Ruth Jackson-Kirby
Money columnist

Next year Vanguard, the world's second-largest fund manager, is launching Britain's cheapest private pension to date, "throwing down the gauntlet to its competitors and fuelling expectations of a price war", says Emma Agyemang in the Financial Times.

The self-invested personal pension (Sipp) will have an annual administration charge of 0.15%, capped at £375. That is far below the industry average of 0.35%, says independent analyst Platforum. There will also be no additional costs for exit fees, valuation statements or transfers.

Vanguard says the Sipp will initially only be available to people who are building up their retirement savings, not those that have already started drawing on them. A pension drawdown service is expected to launch in the next tax year.

Someone putting the full £40,000 annual pension allowance into the Vanguard Sipp would pay £172 a year in charges. The same amount in a Vanguard fund held in the most expensive platform's Sipp would cost up to £400 a year.

"Compounded over decades of pension saving, these fees can add up," says Louise Cooper in The Sunday Times. A 43-year-old investing £40,000 for the next 25 years would save almost £10,000 with Vanguard's Target Retirement fund if invested with Vanguard's Sipp instead of a higher-cost platform.

Two years ago Vanguard introduced an Isa and investment platform "credited with starting a price war that has forced [rivals] to push down their costs", says Cooper. "The Sipp, which promises to let savers sign up in just ten minutes, could shake up the market again by forcing another reduction in costs."

©Getty Images

Falling costs are about to spur interest in Sipps

Its funds are cheaper too

There's more good news. Vanguard has some of the lowest fund fees in the industry. A typical Vanguard fund comes with an average fee of 0.2%. Hargreaves Lansdown, the biggest investment platform, charges an average fund fee of 0.94%. Note too that the account-fee cap applies across all the products you hold with Vanguard, whether that's a Sipp, Isa, or a general account.

The drawback to the Vanguard Sipp is the choice of funds. "It only offers a limited own-brand selection," notes Jayna Rana on This is Money. Hargreaves Lansdown charges more – a 0.45% management fee plus fund fees and some dealing charges – but offers a full range of funds, investment trusts and UK and international shares.

Some investors will pay more in order to get access to a far wider choice of investments. But the success of Vanguard's Isa shows that many will opt for a limited selection in return for low and clear charges. "Most pensions cost more and [have] complicated fee models," Holly Mackay, founder of Boring Money, told the Financial Times. "This one is cheap and simple... unusual... in financial services."

ARIA RESORTS
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The Pacific Alliance is in the bargain basement. Buy it now

The recent political turmoil in Latin America doesn't change the auspicious long-term economic outlook for Chile, Colombia, Mexico and Peru. It spells opportunity for contrarian investors, says James McKeigue

Have you had an exciting year? The Pacific Alliance certainly has. Since I last wrote about the Latin American trade bloc in September 2018 its members – Chile, Colombia, Peru and Mexico – have lived through the type of political and economic turmoil that makes Brexit Britain appear uneventful. Chile and Colombia were upended by violent protests. Mexico's socialist president led his economy into recession. In Peru, where corruption allegations caused the imprisonment, exile or suicide of the last five presidents, the current leader has dissolved Congress in a move opponents claim was a coup.

Nevertheless, the upheaval spells opportunity for investors who believe in the long-term potential of the Pacific Alliance. The drama has panicked the market and created a buying opportunity for the brave. The solid macroeconomic fundamentals and long-term growth prospects that first prompted me to recommend the Pacific Alliance to MoneyWeek readers in 2012, one year after the bloc's creation, are still in place today. The only difference is that we can get a better deal now.

Latin America's best trade bloc

Since independence Latin America has seen countless unsuccessful customs unions and trade blocs. So when the Pacific Alliance was launched in 2011, analysts were sceptical. But its quick progress soon made it stand out from other regional groupings. Infrastructure projects, visa agreements and tariff reductions have increased the movement of people and goods, while the creation of a shared stockmarket and standardised financial-sector regulation will increase capital flows between members.

Another key characteristic is that the Pacific Alliance avoids politics and sticks to trade and investment. The tendency of other blocs to get embroiled in political matters invariably leads to problems in a polarised region. The Pacific Alliance is rightly viewed as a pro-market, pro-trade grouping, but it continued to thrive after member countries elected socialist leaders such as Peru's former president Ollanta Humala or Mexico's incumbent one, Andrés Manuel López Obrador (AMLO).

So the Pacific Alliance is here to stay. And that's good news for MoneyWeek readers because it gives investors an interesting way to play Latin America. With a combined population of more than 225 million people and a GDP of more than $2trn (not far behind Britain's $2.7trn), the Pacific Alliance offers real scale. It accounts for almost 40% of Latin America's economy, making it an interesting counterweight to Brazil, which dominates the Latin America-focused funds available to retail investors.

Then there's the economic variety on offer. From the commodity-dependent "Andean Three" of Chile, Colombia and Peru to the manufacturing powerhouse of Mexico, there is plenty of room for diversification. Finally – and this is the main reason why I'm so positive about the Alliance – there is the economic strength of its members. They are all well-managed, open economies with good demographics.

"The four economies are all open and well-managed, with good demo-graphics"

Upheaval in the Andean Three...

Still, for now violent protests have overshadowed the long-term advantages. They started in Ecuador, when an uprising of indigenous groups and students triggered by a proposal to cut fuel subsidies forced the government temporarily to flee the capital. Soon afterwards in Chile, Latin America's most-developed country, planned metro price hikes were met with a campaign of arson followed by mass protests. By November Colombia had joined the fray with a general strike and mass protest that also turned violent.

Investors didn't wait around for the analysts to come up with an explanation. The Chilean peso slipped to a record low of 857 against the US dollar, while the country's stockmarket dropped by 10%. In Colombia, the peso declined by 4%. As the protests died down in both countries financial markets started to recover, but they are still well below their September levels. Investors are – rightly – worried about the impact on short-term growth. London-based consultancy Capital Economics downgraded Chile's 2020 GDP growth forecast to 2.5% from 3.5%. But the long-term growth potential of the Pacific Alliance won't be affected by the protests.

...is not a long-term problem

Take Chile, where the protests have been the most violent and widespread. The only threat to long-term investors is if the protests force Chile to change the economic model that has made it Latin America's most developed economy. While metro fares sparked the protests, they were fuelled by legitimate grievances of the working and middle classes in a country that has the highest inequality in the OECD and a rigid social and educational hierarchy that keeps most of the best jobs for a small upper class. To quell the protests the president had to replace the entire cabinet and agree to rewrite the constitution.

But as Quinn Markwith, Latin America economist at Capital Economics notes, investors shouldn't be unduly worried. "Fundamentally, our medium-term view on the economy hasn't changed. It doesn't seem likely that the protests will have a long-lasting impact on investment. A large amount of investment relates to mining and shouldn't be affected by protests in the capital. Chile's strong public finances also mean that future spending to appease protesters is not worrying. So we're still comfortable with our 2021 GDP forecast of 3.5%."

As for Colombia, there is real frustration over the controversial and poorly implemented 2016 peace deal with Farc, the Marxist guerilla movement; austerity and a botched tax reform have also rattled people. And it's true that some protests turned violent and were met with heavy-handed security forces. But this is still a big improvement for a country where political differences have long been settled through armed conflict. That's why the impact of the Colombian protests on the country's financial markets was far more subdued than in Chile. Meanwhile, the medium-term growth prospects are encouraging. A post-protest report from credit ratings agency Standard and

©Getty Images

Riots have rocked Chile and Colombia this year

Poor's predicted it will be one of the fastest-growing major economies in Latin America between now and 2021, with growth of 3.2% in 2020.

Finally, Peru shows why investors can afford to ignore political drama when the economic fundamentals are solid. Peru's political system is broken and most of its political class, including five former presidents, seem to be corrupt. The latest display of institutional failure came when President Martín Vizcarra used a controversial interpretation of constitutional law to dissolve Congress and call for its re-election. It's a mess. Yet its economy is still set to grow by 4% in 2020.

Shared economic strengths

Ultimately the economic destiny of the Andean Three won't be decided by protests, but by copper, gold, oil and iron-ore prices. Prices are currently solid and the demand story seems steady. Of course, there are plenty of commodity-producing countries that have proved terrible investments. What I like about the Andean Three is that in recent years they have managed to ride out bear markets in their key commodities without succumbing to recession. They've also made shrewd use of their commodity bonanza to build the infrastructure needed to boost productivity. Chile's solar energy is 75% cheaper than the fossil fuels it is replacing and is helping to wean the country off imported oil. Colombia has put together Latin America's most advanced public-private partnership infrastructure programme and is starting to benefit from both the inflow of foreign direct investment (FDI) to build the projects and the productivity boost they produce. In Peru, new pipelines have brought water from across the Andes, turning the country's desert coast into a new agricultural frontier; ambitious road, rail and energy projects that have been held back by corruption scandals now look likely to be built.

Finally, they are all benefiting from a boom in alternative agricultural export crops. This trend of growing high-value niche exports such as avocados, berries and beans was pioneered by Chile 30 years ago. In Peru non-traditional crops are now the country's second-largest export and have helped non-mining exports grow from 2% of GDP in 1994 to 6% today. The boom looks likely to continue with new irrigation projects set to increase the land used for alternative agriculture by 70%. Colombia was the last to follow the trend and is now entering the avocado, berry and pineapple markets.

The push towards alternative agriculture is evident across Latin America. According to a United Nations report, fresh water, low population density and favourable climates give the region more potential to boost agricultural production than anywhere else in the world. Meanwhile, rising living standards and populations in Asia are increasing demand for these types of fresh fruit and vegetables. But the Pacific Alliance is particularly well placed to benefit from the trend because its main focus is Asia. It was set up in the belief that the 21st century will be dominated by China.

Continued on page 26

"Chile, Peru and Colombia have used the commodity bonanza to build the infrastructure needed to boost productivity"

Continued from page 25

Mexico has room to grow

Mexico was untouched by the wave of protests. That's probably because AMLO, elected last year, remains very popular. So Mexico stands out in the Pacific Alliance because it's the only country where most people are content with the political system. It's also the only member with a stagnating economy. This is largely due to AMLO's bellicose attitude towards some sectors of the economy, along with some unhelpful external events such as the General Motors strike in the US.

The incoherent economic policy, combined with the president's socialist rhetoric, has scared investors away. But the long-term fundamentals of Latin America's second-largest economy remain attractive. Take oil. His predecessor's energy-sector deregulation has been written into the constitution, so while AMLO can delay its progress, he can't reverse it. Private-sector production is expected to grow to 280,000 barrels per day by 2024, up from 50,000 this year. Mining, an area that has his support, will continue to thrive, but more because of solid commodity prices than anything the president does. FDI will return to the country's factories once the new US-Canada-Mexico trade deal is ratified.

The key drivers of the Mexican economy – mining resources, untapped hydrocarbon reserves, the potential of renewable energy to give it low-cost power generation, positive demographics and integration with US supply chains – will underpin growth in the coming decade. Mexico's institutional strength, especially its independent central bank, bodes well too; it has ensured that inflation is well under control. Indeed, one positive surprise with AMLO has been his commitment to fiscal discipline. Mexico does not have a budget deficit.

A common criticism of the Pacific Alliance is that little links Mexico to the Andean Three. Not so. Mexico's demographics, which will boost growth over the coming decade, are far more similar to the population profile in Colombia and Peru than in Chile.

Exports of avocados from the Andean Three are booming

©Getty Images

All four have strong commodity sectors, while the Andean Three are working to achieve Mexico's level of economic diversification. Mexico will always be US-focused, but the Pacific Alliance allows it to take advantage of the coming century of Asian growth.

"Mexico's erratic president can't thwart the country's development"

The region is on sale

The main reason to invest in the Pacific Alliance countries is that they are going cheap. Take the markets' cyclically adjusted price/earnings ratios (Cape). This compares the current price of a market with the average earnings over the last decade, thereby smoothing out any one-off effects from abnormal years. Chile looks great value with its stockmarket at 14.3, compared with almost 20 in late 2018. Indeed, they have all fallen, with Colombia on 16.3, Peru on 16.9, while Mexico's score of 17.9 is the first time I've seen it below 20. Lots of investors like to say that they're contrarian, but few really are. Investing in Latin American countries in the midst of political turmoil or stagnant economic growth is a genuinely contrarian play that will bring rewards over the long term.

What to buy now

An unfortunate side-effect of EU investment regulations introduced last year has been to put US-listed exchange-traded funds (ETFs) beyond the reach of UK retail investors. US providers concentrate on their own market and have decided not to shell out for the paperwork now required to sell to Europeans. So British investors cannot access a US-listed Pacific Alliance ETF. The next logical step would be to buy one of the Latin American investment trusts listed in London. But they are heavily skewed towards Brazil, so they won't reflect the Pacific Alliance's fortunes.

That means considering the individual ETFs of each member country. The only UK-listed one is Mexico. The **HSBC Mexico Capped ETF (LSE: HMEX)** tracks the MSCI Mexico Capped index, which includes all listed Mexican companies in the top 85% of the country's investable universe. The capping stops one or two large firms having an outsized position in the fund, which can be a problem with emerging market indices.

Fortunately, there is a simple way for us to get around the ETF issue. Many years ago Will Landers, the head of Latin American Equities for Brazil's BTG Pactual Asset Management, gave me a clever way to get exposure to smaller countries. "If you have a country with a clean banking system... buying a bank is often a good way to play the wider growth. It's involved in business sectors across the economy, so it's almost like buying an ETF."

That advice has served me well. In 2012 I tipped Peruvian bank **CrediCorp (NYSE: BAP)**, which had risen 81% (even more for British investors in pounds) by the time I revisited the story in 2018. But last year I decided BAP looked too pricey, so I tipped Colombia's largest bank, **Bancolombia (NYSE: CIB)**, instead. That's up 20%, so I hope that some of you bought in. If not, I think it's still a good way to invest in Colombia. It's been one of the major backers of the country's infrastructure programme and should benefit both directly, as projects are realised, and indirectly as they help stimulate wider growth.

Now that CrediCorp has fallen back a bit – it is on a forward price/earnings ratio (p/e) of 10.6 – it's a good time to buy in. In Chile I like the **Banco de Chile (NYSE: BCH)**, the country's fourth-largest bank. The Chilean financial sector is extremely well regulated, while the size of the bank means it's involved in every sector of Chile's economy. On a forward p/e of 12.9 it offers a fairly priced way to gain exposure to Chile's long-term prospects.

Commodities are a key part of the growth story for all four Pacific Alliance countries. **Antofagasta (LSE: ANTO)**, Chile's largest privately owned copper producer, is listed on the London stockmarket and comes with a healthy 4.2% dividend. **Fresnillo (LSE: FRES)**, the world's largest silver producer and Mexico's second-largest gold miner, is also listed in London and offers a 2.7% dividend yield. In Peru, **Buenaventura (NYSE: BVN)** is the big local player with a mix of copper, gold and silver mines that give it a cross section of the country's all-important mining sector. Colombia's most valuable commodity is oil and the safest way to play it is via national producer **EcoPetrol (NYSE: EC)**. The new government is keen to kick-start the sector, holding new oil and gas auctions this year, while peace with guerrillas should reduce attacks on pipelines.

YEMEN CRISIS

Photo © MSF

DR CHRIS HOOK IS PART OF THE MSF EMERGENCY TEAM

A wounded Yemeni boy is treated at MSF's field hospital in Mocha, November 2018. Photo © Guillaume Binet/MYOP

"I was a part of a team setting up a hospital in Hodeidah in Yemen. After we arrived, the city was caught up in heavy fighting and shelling, with battles taking place close to the hospital.

We were inundated with trauma cases and severely injured patients. One day six young sisters were in a house that was hit by an airstrike. Three were killed instantly and, of the three survivors, one was taken to another hospital and two came to us.

One of the girls was in a very serious condition, with multiple injuries, nasty fractures and shrapnel injuries to the abdomen and chest. The team gathered and we got to work.

I'll never forget that day. A lot of the hospital's staff were inexperienced, but we'd spent every spare moment of the previous two weeks training them and making sure that everybody knew exactly what their roles were. And in that moment, everything came together.

We had 15 or 16 people in the operating theatre, all working as a team—runners fetching stuff, the surgeons shouting: 'I need more gauze, I need suction, I need blood!' And one, two, three people would just go—one to get suction sorted, one to get the blood, one to get the gauze.

Bullets and bombs had been flying around for weeks and we'd all been scared. But in that moment, all of that fell away, and it was just us in that room, pulling together to save this little girl's life. She survived, along with many others, thanks to the hard work of everyone there.

Our work in Yemen is expensive. Providing emergency medical care in a warzone doesn't come cheap.

But working here, I've seen first-hand where that money goes. I know that we don't waste a penny when it comes to saving lives.

Thank you for your support."

WHAT IS HAPPENING IN YEMEN?

Yemen is in the midst of a war. Since March 2015, a Saudi and Emirati-led coalition has been fighting Ansar Allah forces, resulting in bombing, gun battles and widespread destruction. Ordinary people are bearing the brunt of a brutal conflict. Many clinics and hospitals have been destroyed, while those that are still functioning are in urgent need of medical supplies.

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YEMEN FIGURES*

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1,213,677	people treated in MSF emergency rooms

* March 2015 to September 2019

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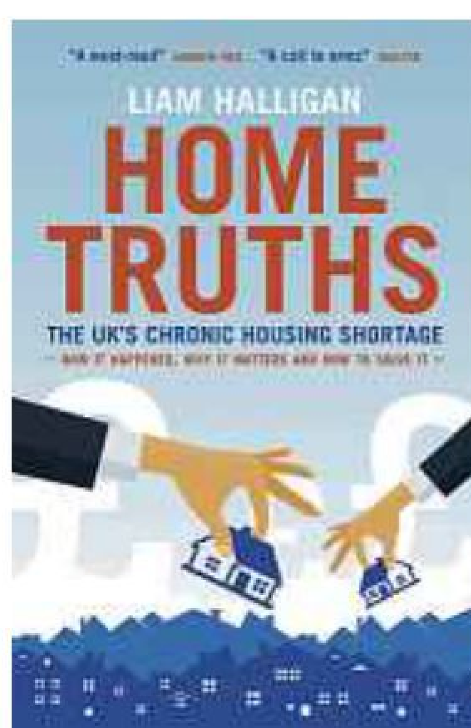
How to solve Britain's crippling housing crisis

Apart from Brexit, housing is the most pressing issue facing the incoming government. A new book explains what it should do. Max King reports

Aside from a few half-baked proposals and some conjured-up targets for extra house-building, the general election campaign was strangely silent on the issue of housing. Yet, as Liam Halligan says in the introduction to his book *Home Truths*, "housing is the most pressing domestic challenge facing the UK today. Far too few homes have been built over the last 30 years; relentless demand, in the face of inadequate supply, has seen prices spiral upwards". With "millions of hard-working people denied the security and stability of home ownership" and condemned to a rental market in which costs have also spiralled upwards, politics is undergoing a "significant radicalisation". "Growing numbers of voters entering middle age, even high-earning professionals, now face the locked door of housing unaffordability and, quite understandably, feel capitalism isn't working for them. For today's young adults, the housing market is a source of social immobility, resentment and rancour."



We need to build more

Halligan chronicles the origins of this crisis, its evolution and the misguided policies that have exacerbated it before explaining his solutions. Home ownership in the UK has fallen from 73% in 2007 to 63% now, with the fall most startling in the age groups below 44 and in London. The reason is simple: "the average UK house price rose 219% in real terms between 1985 and 2015, compared with just 10% in Germany, 28% in Italy and 120% in France".

A rising population and growing numbers of households have increased the demand for housing while rising incomes and ultra-low interest rates have increased affordability. But whereas first-time buyers may be able to afford the interest costs of a mortgage, the capital repayments, which now account for most of the monthly cost, are a daunting challenge. Moreover, high rental costs mean that potential buyers struggle to save up for the required deposit without parental help.

The supply response, Halligan shows, has been dismal, resulting in a huge backlog of latent demand – a shortfall of up to 2.3 million over the last 20 years, according to Professor Paul Cheshire of the London School of Economics. The Barker review of housing supply of 2004 identified a requirement for 250,000 completions a year, but that number hasn't been reached consistently since the mid 1980s and is now 300,000. Moreover, many of the houses built have been sub-standard. The collapse of local authority construction since the 1970s, now seeing a very modest revival, means that the number of households on local authority waiting lists is still more than one million; housing associations only add some 30,000 properties a year. "Affordable housing" is not affordable to many and the annual cost of housing benefit has multiplied sevenfold to £23bn since the mid-1980s.

"Home ownership in the UK has fallen from 73% in 2007 to 63% now. The reason is simple: price"

©Getty Images

Politicians have been no help with building houses

The lack of supply is widely blamed on the planning-permission process, the prevalence of "not in my backyard" opposition and England being "crowded". Yet Halligan shows that housing densities in London and other cities are low and that just 1.1% of all land in England is covered by domestic buildings (including gardens). Planning reforms have resulted in a significant increase in permissions – to 370,000 in 2017 – yet Shelter, a charity, estimates that one in three planning permissions granted between 2012 and 2016 have remained unbuilt. The "green belt" is widely regarded as sacrosanct, but much of it is far from green. Having more than doubled since 1979, it now covers more than 13% of England's land area, yet releasing just 3% of it would provide space for almost three million houses.

The policies we need

The government has poured money into Help to Buy, raising prices and swelling housebuilders' profits. Halligan argues it should focus instead on increasing the supply of housing. To counteract the current incentive for housebuilders to hoard land, planning permission should be viewed as a "contract to build", with stiff penalties for undue delay. An increasingly oligopolistic industry should be made more competitive by encouraging smaller builders. "If the state released just one-twentieth of its land for development, that would be enough, at current average densities, to build well over two million homes." Local authorities should be empowered to form local development corporations and buy land at existing use prices, then grant themselves planning permission before selling the plots to developers and capturing the uplift in value. Elsewhere, half the uplift in value from granting planning permission should accrue to local authorities to finance infrastructure investment and social housing.

Will these measures be adopted? Chancellor Sajid Javid told Halligan that radical steps are needed "once Brexit is done, housing is easily the most important domestic policy issue we face". Yet we have seen 18 housing ministers in little more than 20 years. Read this thoroughly researched, forensically argued and utterly convincing book and hope for the best.

How my 2019 tips fared

This year's winners include Bellway, JD Sports and Taylor Wimpey

Matthew Partridge
Senior writer

Every year I use the final trading page of the year to review my performance, starting with the positions I closed. I began 2019 with 12 open positions consisting of five longs (Greene King, Shire, Saga, Cineworld and John Laing Group) and seven shorts (Netflix, Twitter, Snap, bitcoin, Just Eat, Weis Markets and Rightmove). Over the course of the year each of them was closed (though I've since suggested fresh short positions in Twitter, Netflix and bitcoin and had an ill-fated attempt to revisit my Just Eat short).

The first of the positions to go were Shire and Saga. They were both closed in issue 929. Shire made a profit of £365 while Saga lost £525. In issue 935 I closed Netflix at a loss of £150. Snap I ditched four weeks later at a loss of £109.

I closed bitcoin in issue 943, making a large profit of £1,744, along with Twitter, with which I earned £19. I also sold out of Just Eat at a loss of £228. I took profits of £932 on Greene King in issue 945 and a small profit of £44 on Cineworld (947). Rightmove was closed in issue 951 at a loss of £920. Finally, I closed John Laing Group (959), earning £216 and Weis Markets (973), making £400.

The year's 21 trades

In addition to my 12 positions carried over from 2018, I also offered 21 trading ideas during the course of this year, eight of which were closed. In issue 931 I tipped recruitment agency Hays, only to have to close it in 959 with losses of £56.

In issue 937 I revisited my Tesla short, but closed the position at a loss of £480 in issue 971. A long bet on screed producer Somero I opened in issue 939 was closed in issue 951, losing £950. I abandoned a long tip on retailer Superdry made in issue 943 in 969, losing £488.

In issue 945 I suggested that you take a short position on image-sharing site Pinterest, which was covered in 959 at a loss of £1,000. Another attempt to short online delivery firm Just Eat in 949 lost £900, while my tip on construction firm Kier in issue 951 had to be covered in less than a fortnight, setting me back £525. My long tip on the retailer Ted Baker in issue 963 ended up being closed in issue 969 at a loss of £880. Finally, my long position in JD Sports in 929 ended up being closed this issue, for a profit of £1,400. Overall, eight out of the 21 positions I closed made money. The 13 that didn't helped produce a net loss of £2,091 on the closed positions.

"Eleven of thirteen open positions are making money"

Netflix, which streams shows such as The Spy, *was a short position this year*

©Netflix

The best performers

The good news is that while my closed positions lost money, the tips that are still open have done much better. At present there are 12 tips – seven long positions and five shorts, all made this year. Seven of eight longs and four of five shorts are in the black. Storage space company Safestore was recommended in issue 933 and has produced £840.

Builder Bellway (935) is making £2,508. Bausch Health Companies (959), the company formed from the remains of Valeant, is making £781.50. International Consolidated Airlines Group (967), is making £680. Builder Taylor Wimpey, recommended in issue 973, is making £100. The only tip in the red is packaging firm DS Smith, tipped in issue 975, which is losing £140.

I suggested shorting the digital currency bitcoin (955), a trade currently making a profit of £642. I sold Netflix short again in 957, making a small profit of £24. My Uber short, which I made in 961, is £744 in the black.

Furniture retailer Wayfair (969) is making £577 in profit. The only losing short position is Twitter, which I returned to a few weeks ago in issue 971. It is making a small loss of £40.

Overall, my long positions are making a net profit of £5,259, while my shorts are jointly worth £1,946. This works out at a combined profit of £7,205, so I am making a total profit of £2,381 on all the tips that I have made since this page's inception three years ago.

I don't advocate closing any of the open positions. But I'd suggest raising the stop-loss for these stocks to new levels: for Safestore, 700p; Bellway, 3,225p; Bausch Health Companies, $25; Volkswagen, €130; ICAG, 420p; Taylor Wimpey, 130p and DS Smith to 300p.

Trading techniques... weather and stocks

Bookmakers around the country may have slashed the odds on a white Christmas this year, but experts are unsure whether snow, rain or sunshine has any impact on stockmarket prices. Sunshine has long been associated with boosting the economy through higher consumer and leisure spending, although it can also reduce demand for services such as energy. Given the well-documented link between levels of depression and the lack of vitamin D produced by sunlight, it would seem logical that sunshine could make investors more optimistic about the future.

One piece of evidence in favour of sunshine having a positive impact stems from a 2003 study by David Hirshleifer and Tyler Shumway for the University of Michigan Business School. Hirshleifer and Shumway examined daily stockmarket prices for 26 countries between 1982 and 1997 and compared them with weather records for that day. They found that the most important weather factor was sunshine, with the stockmarket doing better on perfectly sunny days than on perfectly cloudy days. Cloudiness was associated with negative returns for stockmarkets in 22 out of the 26 countries.

But Hirshleifer and Shumway's work comes with several caveats. Firstly, with the exceptions of New York, Helsinki, Paris and Vienna, the effect was not statistically significant, so the correlation could have occurred by chance.

Following this strategy not only requires keeping track of the weather, but also frequent buying and selling, which would drastically increase trading costs and lower returns. Finally, even if sunshine does have an impact on returns, there is no evidence of a link between equities and rain or snow.

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Value investors' patience will be rewarded

A professional investor tells us where he'd put his money. This week: Hugh Sergeant of River & Mercantile and Alliance Trust highlights three favourites

Being a value investor, seeking strong companies trading at a discount to their true worth has been the biggest challenge of recent years. Value investing is a strategy that has been out of favour not only this year, but for more than a decade. During this period there have been occasional glimpses of light at the end of the tunnel, but rare occasions of sustained reward for adopting a value approach.

Nonetheless, we are sticking by our core principles and committing to traditional value and recovery factors. Stocks such as the three we highlight below are, we believe, showing attractive levels of medium-term profit and cash-flow growth. Key value factors are yet to emerge from a bear market, but the potential for healthy profits and cash flow to help generate strong returns over the medium to long term is significant.

An outstanding outsourcing group

Capita (LSE: CPI), the UK's largest business process outsourcing company, has been one of the best performers out of the stocks we select for the Alliance Trust global equity portfolio.

> *"China's internet giant Baidu is investing in video and autonomous vehicles"*

It is benefiting from wide-ranging changes made by the CEO appointed in December 2017 that are now starting to come through. Cost reductions of £175m by 2020 are running ahead of schedule, and management says it is confident of ultimately earning more than 10% on operating margins.

The group has an estimated market share of between 25% and 30%, broadly split between the public and private sector. The share price has risen by around 50% since we first purchased the stock, but it nonetheless remains, in our opinion, very attractively valued.

China's Google

While its share price has been hit by a short-term downturn in its core search business, **Baidu's (Nasdaq: BIDU)** current valuation remains an immense bargain. It is a mega-cap company, the so-called "Google of China", and it has undergone a period of significant reinvestment into areas such as video, artificial intelligence and autonomous vehicles.

However, it is this reinvestment that has temporarily depressed profitability. Coupled with some investors' general fears about the Chinese economy, this has left Baidu trading at a very attractive valuation. We believe there is an exceptional medium-term buying opportunity here and we have increased our position in the stock in the past year.

Prada will come back into fashion

Prada (Hong Kong: 1913) is synonymous with high-end fashion, but has suffered on the stockmarket in recent years due to a slowdown in sales in a rapidly evolving consumer marketplace. A slowdown in China, a key market for luxury brands, has also dented Prada's fortunes and led to drastic falls in its share price over the last five years.

Nonetheless, it is a household name working hard to improve its position. We hold it in the belief that we will benefit from the company's improving outlook. Management has already begun to take action to address the underlying issues holding the brand back and we believe that a strong recovery is in the pipeline. Its valuation is at a discount in terms of both historic and peer group measures. The scope for share-price gains from these depressed levels remains significant and worth waiting patiently for.

If only you'd invested in...

Softcat (LSE: SCT) is a software reseller and IT infrastructure provider for private companies and public bodies. The last financial year, which ended on 31 July, was a success, with revenue up by 29% to £992m and gross profit climbing by just over a fifth to £211m. The number of customers has risen along with profit per customer. Growth has continued into Softcat's first quarter and the management team is looking forward "with confidence" to 2020. Since floating on the stock exchange in 2015 the shares have quadrupled and are up by 87% in the last year.

Be glad you didn't buy...

Riverstone Energy (LSE: RSE) is a private equity fund that invests exclusively in the global energy sector. It has had a "turbulent" few months, says chairman Richard Hayden, with a weak oil price denting performance. The trust currently trades at a steep and widening discount to its net asset value (NAV), which currently stands at around 60%. The share price has been falling since mid-2017 and has now declined so far that the company was last week relegated from the FTSE 250 index. The stock has slumped by 66% in the last 12 months.

©The Telegraph 2019

The banking ace who crushed inflation

Paul Volcker, who died last week aged 92, was an inspirational figure whose controversial policies helped inaugurate the modern era. Jane Lewis reports

If anyone came to epitomise the power of the independent central banker before the phenomenon became fashionable it was Paul Volcker, the former Federal Reserve chairman who has died aged 92, says the Financial Times. "A towering figure in every sense" – he stood at 6ft 7in – Volcker helped shape American policy for six decades, serving under multiple US presidents, from John F. Kennedy to Barack Obama. Appointed to chair the Fed by Jimmy Carter in 1979, his defining achievement was vanquishing "the scourge of inflation that ravaged America's prestige and power in the 1970s and early 1980s".

An inspirational figure

Volcker delivered shock therapy, pushing interest rates as high as 20% and driving the economy into recession, notes The Wall Street Journal. "The cost was steep," says The New York Times – both to ordinary Americans and to Volcker himself. As consumers stopped buying houses and cars, millions of workers lost their jobs and "angry homebuilders" nailed chunks of timber to the Fed's marble HQ in Washington in protest. Yet Volcker's victory over inflation "inaugurated an era" in which politicians "largely deferred to the central bank, allowing technocrats to chart the course of monetary policy".

Volcker became an inspirational figure to his successors. Ben Bernanke, who chaired the Fed from 2006 to 2014, kept on his bookshelf one of the chunks of wood that Volcker received during the anti-inflation campaign. As he observed this week, Volcker "personified the idea of doing something politically unpopular, but economically necessary".

"Volcker personified the idea of doing something politically unpopular, but economically necessary"

Paul Adolph Volcker Jr was born in New Jersey in 1927. He was the grandson of a German immigrant tea and coffee salesman. His father was an engineer who, as "city manager" of suburban Teaneck, helped steer the local community through the Depression, says The Daily Telegraph. From him, Volcker "first acquired beliefs in... the importance of economic stability and the relative unimportance of his own material wealth". In later life, he famously favoured drugstore cigars and cheap, ill-fitting suits.

After Princeton and Harvard, where he took a masters in public administration, Volcker joined the US Treasury. In 1957 he moved to the private sector, joining Chase Manhattan as head of research. Volcker went on to interlace long stretches of public service with a lucrative career on Wall Street – most prominently at investment bank Wolfensohn & Co. But his reputation for "austere integrity" and stubborn "probity" made him a popular choice as an independent arbiter, says The New York Times. Those qualities were put to good use after the 2008 banking crisis when he framed what became known as the "Volcker Rule" – essentially restricting banks from making investments not intended to benefit customers, but to increase their own bottom lines.

The end of the age of respect

"Volcker was unfortunate enough to live just long enough to watch the thing he spent the last decade crafting and defending callously and cynically killed," says Jon Shazar on Dealbreaker – the Trump administration plans "to loosen" the rule. Still, at least he won't have to watch things get any worse. "We're in a hell of a mess in every direction," he told The New York Times last year. "Respect for government, respect for the Supreme Court, respect for the president, it's all gone."

Great frauds in history...
Joel Steinger and the Mutual Benefits Corporation

Joel Steinger was born in Brooklyn in 1949 and in later life became friends with the gangster Meyer Lansky (known as the "Mob's Accountant"), after his brother redecorated Lansky's house. Steinger eventually married the daughter of a Miami banker, who is alleged to have been one of Lansky's associates. After a spell working at his father-in-law's import/export firm, Steinger set up a boiler room selling phoney commodity options, resulting in a conviction for fraud and a lifetime ban from the securities industry. This didn't stop him running a variety of scams related to investments in everything from oil wells to diet pizza. In 1994 Steinger set up the Mutual Benefits Corporation (MBC).

What was the scam?

MBC specialised in selling viaticals, shares in the life-insurance policies of the terminally ill. MBC would buy the life-insurance policies of Aids patients at a discount to the death benefits and sell portions of them on to investors, with part of the money supposedly set aside to cover any remaining insurance premiums. Many of the medical reports that MBC provided to investors were doctored so that the patients' prognoses appeared worse than they were. Steinger started skimming off large sums of money, relying on money from new sales to cover premium costs.

What happened next?

Despite hundreds of complaints from investors angry that 90% of patients were living much longer than expected, lax oversight from state regulators and a botched investigation in 1998 by the Securities and Exchange Commission allowed MBC to operate for more than a decade. In 2001 the doctor who made many of the false estimates of life expectancy was arrested for fraud and eventually turned on Steinger in return for a lighter sentence. As a result, the SEC finally shut down MBC in 2004 and Steinger would be sentenced to 20 years in prison in 2014.

Lessons for investors

According to estimates from US authorities, around 30,000 investors lost around three-quarters of the estimated $1.25bn that MBC raised. The viaticals industry is notoriously prone to fraud (indeed, MBC argued that it was the only honest operator in the industry) as investors are essentially relying on doctors' guesswork. In general, situations where a seller has much a better idea of an asset's true value than the buyer (information asymmetry) should be avoided.

©Getty Images

MoneyWeek Wine Club

Epic wines for entertaining

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

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

Matthew

Matthew Jukes

FROM **£7.60** PER BOTTLE

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

~~£10.95~~ **£10**

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

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

CASE PRICE: £60

~~£12.50~~ **£11.50**

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

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

CASE PRICE: £69

~~£19.90~~ **£18.40**

2017 Jim Barry, Assyritko, Clare Valley, South Australia

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

CASE PRICE: £110.40

~~£8.20~~ **£7.60**

2018 Tanners Merlot, Pays d'Oc, France

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

CASE PRICE: £45.60

~~£14.95~~ **£13.80**

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

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

CASE PRICE: £82.80

~~£16.50~~ **£15.20**

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

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

CASE PRICE: £91.20

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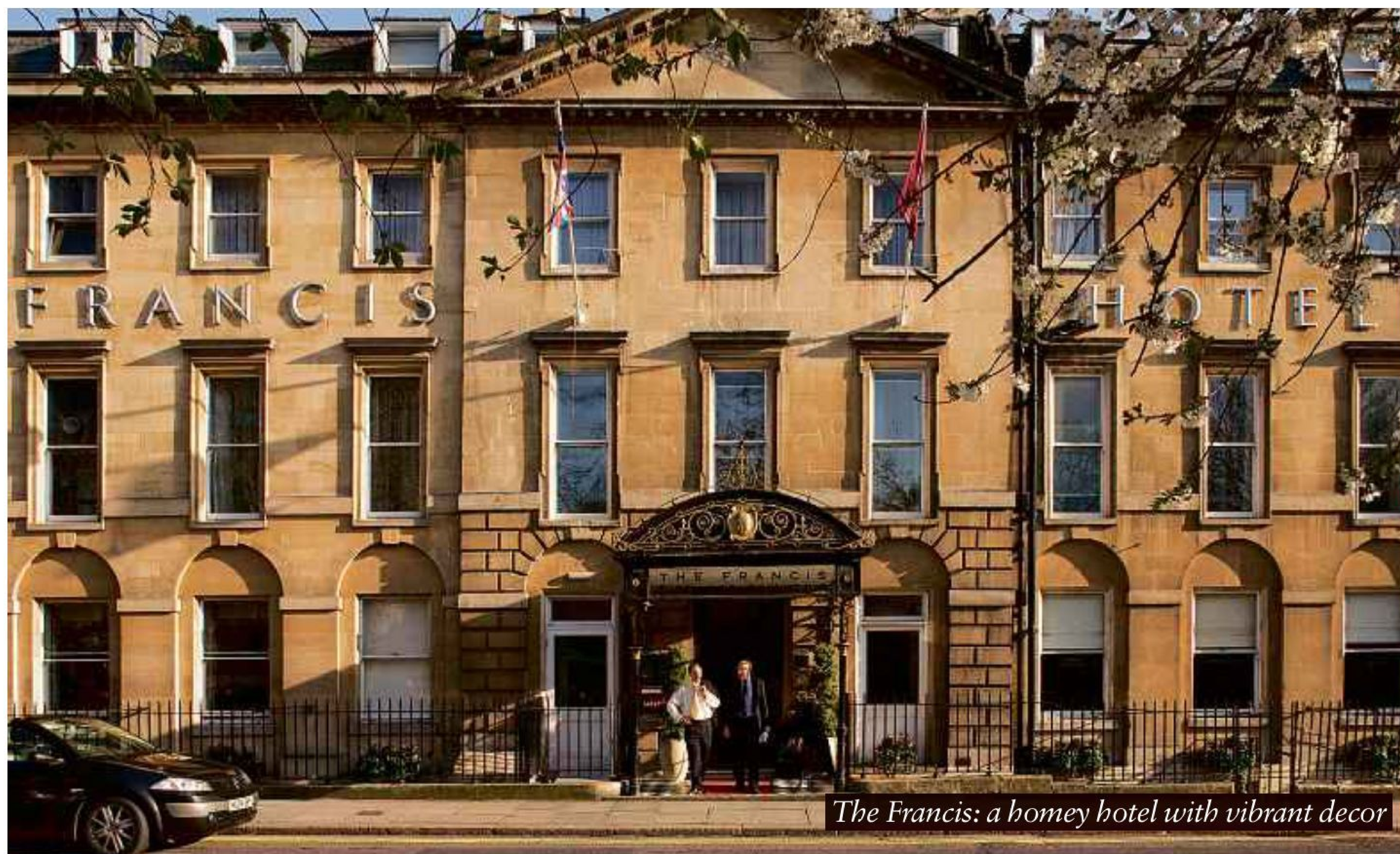
An oasis of calm in Bath

The Francis Hotel is a tourist destination in its own right, says Nicole Garcia Merida



The Francis: a homey hotel with vibrant decor

Legend has it that the hot springs of Bath were discovered by a prince after he was exiled from his kingdom due to an incurable skin disease. After weeks of wandering the countryside, it took a single dip in the thermal baths' magical waters to restore him to his former glory. He travelled back to his kingdom, where he became King of the Britons, and later returned to the springs to found the city of Bath.

The official history tells us that the Romans were the founders of Bath, but when visiting it's easy to believe the fairy tale. It's even easier when staying at the Francis Hotel, a tourist destination in its own right. The Grade I-listed building is situated in Queen Square, a stone's throw from the restaurants, shops and attractions of the city centre.

Walking into the opulent reception fills you with a sense of instant calm – it is a relaxing refuge from the hubbub of the busy square, scented with jasmine and patchouli – and the staff are kind, attentive and efficient.

Homey rooms

All 98 bedrooms are decorated differently, in a quirky and elegant manner. Ours had a four-poster bed with petal-soft linen, a cosy reading nook with a view of the square, and a waterfall shower. The hotel's vibrant decor makes it feel homely and comfortable and there is always something to discover among the artwork displayed inside the rooms and throughout the halls.

The No. 10, the hotel's fully stocked cocktail and wine bar, has all the essentials – a complete wine list, Champagnes and classic cocktails. One of the more adventurous options is the rhubarb and honey martini topped off with pink grapefruit juice and the Paloma, which contains Ocho Reposado tequila, fresh lime juice and agave. I can personally recommend both.

For a less boozy treat, ask reception to book you into Emily's Tea Room for afternoon tea. The experience is quintessentially English – classics as well as seasonal offerings are served under a crystal chandelier. Add a glass of Prosecco if you want to start the celebrations early.

An unstuffy restaurant

Attached to the hotel is celebrity chef Raymond Blanc's French bistro, Brasserie Blanc. Elegant but not stuffy or pretentious, the restaurant provides a relaxed setting to enjoy really good food. I had the mushroom fricassée to start with and my dinner partner had moules marinière – you can't beat the classics! In hindsight I wish I'd gone the whole nine yards and ordered their special, the baked Saint-Marcellin cheese – a pot of creamy, melted mountain cheese with truffled honey and bread for dipping. The paella Valenciana followed, topped with king prawns and a soft herring fillet. Other seasonal favourites on the menu included British pheasant with cranberry, girolles, and muscat pumpkin; duck leg confit; and smoked pork belly with apple and crackling. My dinner partner forwent the specials for a classic once again – steak frites. If you manage another bite of anything after that, make it the blackcurrant pavlova. Tangy, sweet and delicate, it was an excellent final dish.

> *"Don't forget to take a dip in the fabled waters at the spa near to the Roman baths"*

A magical Christmas market

All in all, the hotel is wonderful. If you're visiting soon, head out to the Bath Christmas market. At this time of year the whole city seems to smell of mulled wine and Christmas carollers are strategically placed around the city, so you won't leave without a dose of festive music. Bath is beautiful year round, but it gets a bit more magical at Christmas time.

There's plenty to do at any time of year, however. Walk the cobbled streets in search of independent stores and enticing bakeries. Head to the Jane Austen Centre to learn about Bath's most famous resident. Wander through the Royal Crescent and down to Bath Abbey. And don't forget to take a dip in the fabled waters. You can't actually swim in the Roman baths, but there is a modern spa nearby that uses the same waters. As with the prince in the tale, it's quite likely the experience will prove restorative.

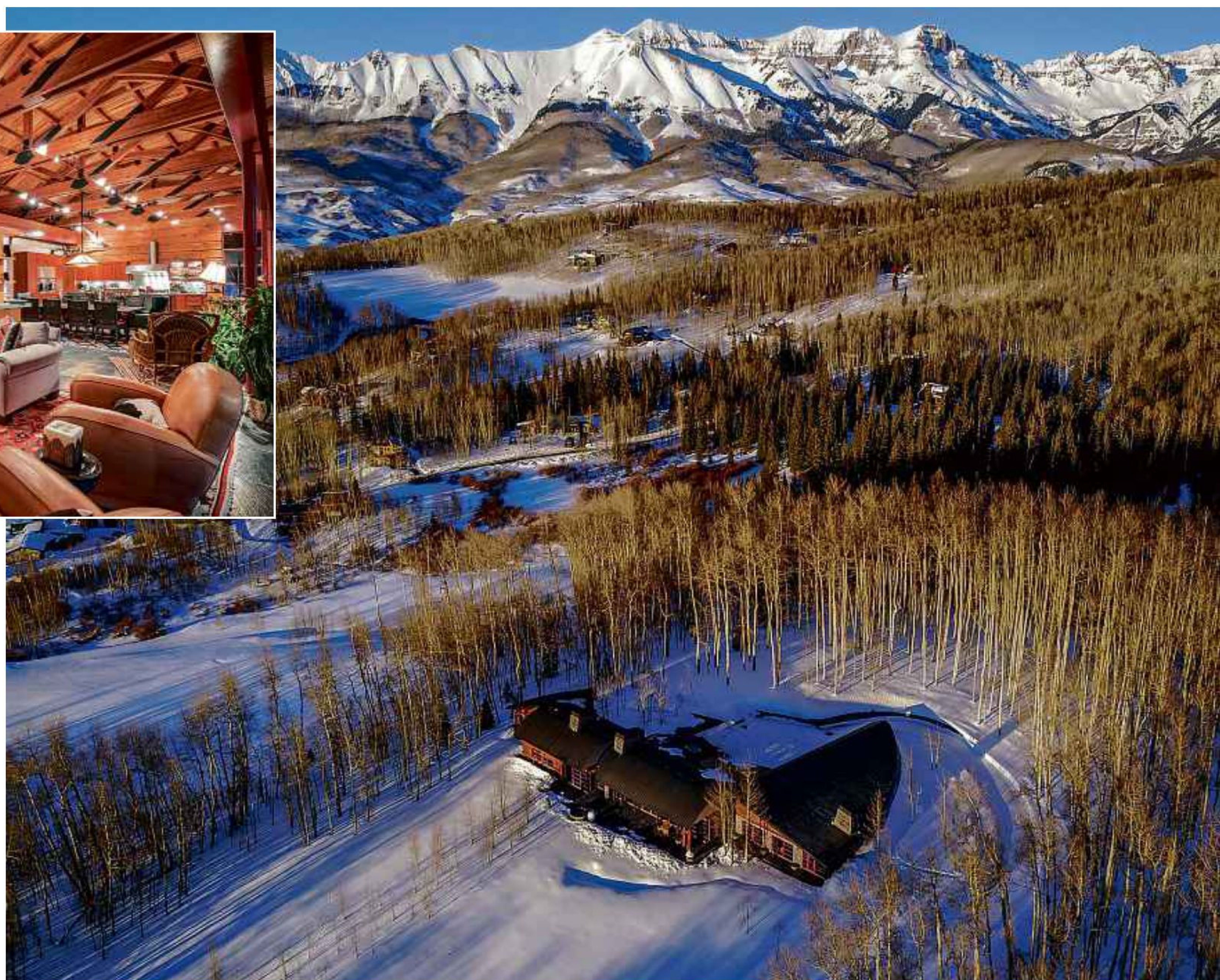
Nicole was a guest of the Francis Hotel. Classic rooms start from £129, including breakfast. See francishotel.com.

A quintessentially English afternoon tea

This week: ski homes – from a ski-in/ski-out chalet overlooking the Isère valley in Val d'Isère, France, to a property

▲ **Chalet Reith, Astberg, Reith bei Kitzbühel, Austria.** A chalet built in 2012 in Astberg, a five-minute drive from the ski slopes of the Kitzbühel Alps. It has exposed beams, open fireplaces and comes with a self-contained annexe and a wellness area with a sauna. 6 beds, 4 baths, garden. €5.25m Alpine Property Finders 020-7692 0786.

▶ **Cascade Ridge, Big Sky, Montana, US.** A ski home built this year in the upper tier of Cascade Ridge with a back door that opens onto the ski trail and far-reaching mountain views. It has a 4,548 sq ft interior and an outdoor heated pool. 6 beds, 3 baths, 3 decks, garage. $3.995m Christie's International Real Estate +1 406 539 6316.



▶ **Elk Run Drive, Telluride, Colorado, US.** A contemporary house in the ski area with floor-to-ceiling windows overlooking the valley. It has an open-plan living room with a modern fireplace, exposed stonework, wood cladding and a wooden vaulted ceiling, and a dining area with stone-tiled floors. All the rooms open onto a large terrace with a hot tub. 4 beds, 5 baths, gardens, 10.15 acres. $6.65m Sotheby's International Realty +1 970 729 0160.

built this year in Cascade Ridge, Montana, with a back door that opens onto the ski trail

Courchevel, Savoie, Rhône-Alpes, France. A modern ski chalet with direct access to the ski slopes of Courchevel. The exterior has been designed to be in keeping with the traditional chalets in the area. Behind the traditional façade lies a contemporary interior that includes an indoor swimming pool and hammam and both an indoor and an outdoor Jacuzzi. 5 beds, 5 baths, open-plan living area/kitchen, wine cellar, balcony, garage, parking. €8.9m. Knight Frank 020-3393 2691.

Chalet Linda, Megève, France. A luxury chalet in the area of Côte 2000 near the ski slopes and cross-country skiing areas. It has an open-plan living area with a free-standing fireplace, a country-style kitchen and wraparound balconies. 5 beds, 4 baths. Price on application. Sotheby's International Realty +33 (0)4 50 91 74 38.

Chalet Polanka, La Clusaz, France. A family chalet built in 2007 above the village of St-Jean-de-Sixt with panoramic views of the valley and the surrounding Aravis mountains. The chalet has a large stone fireplace, oak floors, a handcrafted oak staircase, a contemporary kitchen and comes with a self-contained studio apartment. 4 beds, 4 baths, open-plan living area, mezzanine area, laundry, garage. €1.75m Savills 020-7016 3740.

Chalet Le Rocher, Val d'Isère, France. A ski in/ski out chalet with views over the Isère valley, 350 metres from the nearest ski lifts and close to the bars and restaurants of Val d'Isère. The interiors are clad in reclaimed Mongolian wood and it has an open-plan living area with a vaulted ceiling, a log fire and a spacious dining area that seats 12 people. 7 beds, 7 baths, bar, indoor pool. €17m Athena Advisers 020-7471 4500.

Mountain Village, Colorado, US. A luxury property on a wooded hillside overlooking Mountain Village with direct access to the ski slopes. The interior is finished in cherry wood and features a circular, custom-built steel and cherry-wood staircase, marble and flagstone floors and large fireplaces. 5 beds, 8 baths, 2 receps, snooker room, cinema room, chef's kitchen, ski room, wine cellar, hot tub, elevator, balconies, 0.6 acres. $6.95m Christie's International Real Estate +1 970 728 1606.

Gourmet hampers for festive feasting

From classic Christmas treats to festive tipples, these wicker wonders cover all needs, says Natasha Langan

Abel & Cole The Merriest Jolly Hamper, Organic, £285
The organic food-delivery service has a range of organic Christmas hampers. This one comes stuffed with "indulgent organic staples, all produced in small batches from artisan suppliers", says The Independent, including everything from Champagne to award-winning ham and stilton. It's all delivered in a reusable fabric-lined hamper and the fresh food is kept chilled with bags of wool to cut down on waste. The last order date for Christmas delivery is 18 December.
abelandcole.co.uk

Betty's Perfect Christmas Hamper, £80
This Christmas hamper, presented in a traditional wicker basket, hails from the well-known Harrogate Café Tea Rooms and bakery, and is "particularly good value", says The Independent. It's filled with "top-notch" goodies, including marzipan fruits, Yorkshire gingerbread, a bottle of chardonnay and Christmas coffee, and a "knockout" Christmas cake. Order by 20 December for Christmas delivery.
bettys.co.uk

Selfridges Selection Christmas Day Hamper, £1,000
"Selfridges has curated ten smart grey wicker hampers for 2019," says Good Housekeeping. This one is bursting with produce to help you celebrate the day in style – covering everything from your morning fizz to your late night snacks. Highlights include Selfridges' selection of fine wines, spirits and champagne, smoked salmon and caviar, and an excellent selection of cheeses from the Fine Cheese Co. Last order date for Christmas delivery is 23 December.
selfridges.com

Daylesford's Kingham Hamper, £2,000
"There's a hamper for every occasion in the world of Daylesford," says Vogue – and this is its most expensive. The Kingham Hamper features the best of seasonal treats, provided either by the company's organic farm in the Cotswolds or through selected artisan producers. Take the stress out of Christmas by having all the food you could possibly need delivered in one go: from the organic turkey and ham, to Christmas cake and cheese selections and even a Daylesford Cookery School voucher (for advice on how to cook that perfect turkey). And when the party season gets too much, there's a £100 gift card to Bamford Haybarn Spa. The last order dates for UK Christmas deliver is 22 December – but popular hampers sell out early! *daylesford.com*

Fortnum & Mason The Windsor Hamper, £1,000
Fortnum & Mason is "the go-to destination for decadent delights all year round, but particularly at Christmas", says Vogue. The Windsor hamper contains a collection of outstanding products to create a truly extravagant feast, including a whole York ham, organic smoked salmon, a selection of chocolates, preserves and cakes, plus their famous teas as well as vintage port and wines. The last order date for UK Christmas delivery is 20 December.
fortnumandmason.com

Paxton & Whitfield Three Cheese & White Wine gift set, Selfridges, £55
One for the cheese lover in your life – Selfridges has partnered with Paxton & Whitfield, which has been selling fine cheese and wine from its shop in Jermyn Street in London since 1797. The hamper features three British cheeses – cheddar, goat and stilton – along with a bottle of Paxton & Whitfield's sauvignon blanc.
selfridges.com

The top festive tipples

MoneyWeek wine columnist Matthew Jukes rounds up the best wines for your Christmas meals

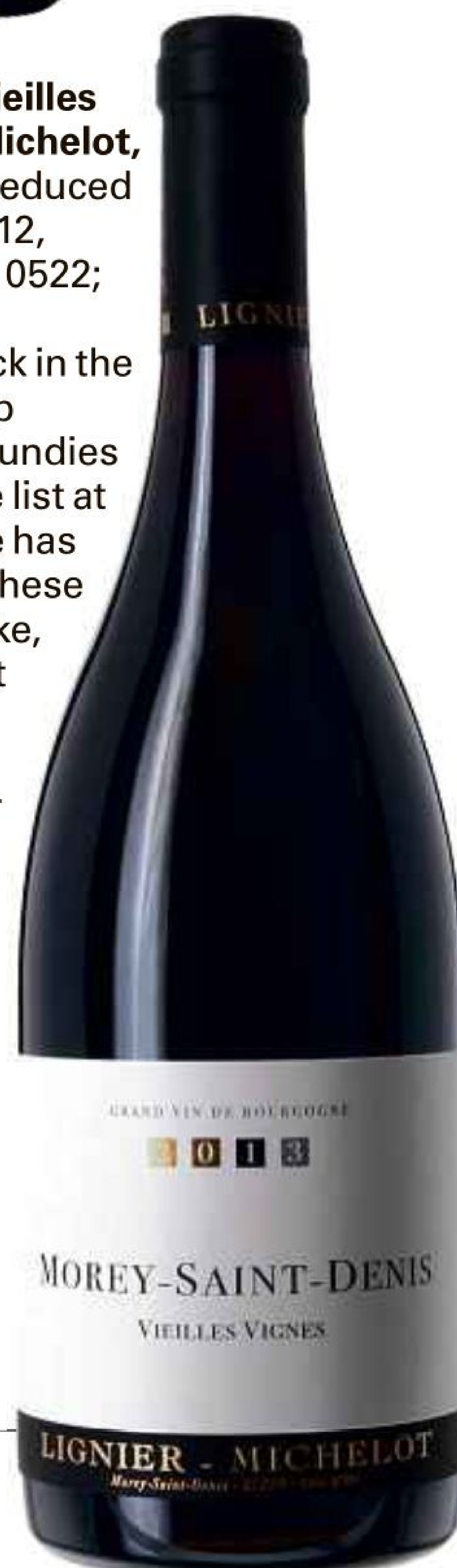
2014 Tyrrell's, Single Vineyard HVD Semillon, Hunter Valley, New South Wales, Australia (£23.99, seven branches of Waitrose; *waitrosecellar.com*). This monumental wine is made from sparse bunches of grapes harvested from vines planted in 1908! It comes from the Hunter Valley Distillery vineyard. The sandy soils here make wines with effortless beauty and no oak is used in the fermentation or maturation of this wine so it gathers its complexity from its vine age, the setting and the fact that it has spent five years slowly relaxing in the bottle. This is one of the most attractive and great-value elite wines of the year and it is the perfect way to ease yourself into your feast with a wine that will shock you with its poise and precision.

1989 Château de Millet, Bas Armagnac, France (£59.00, Yapp Brothers, 01747-860423; *yapp.co.uk*). I rarely write up digestifs in my columns, but I allow myself a special pass at Christmas and this gives me a chance to feature the knockout bottle of the year. At 30 years old, with a stunning, charry, barrel-influenced palate and a superbly mellow finish, this is an Armagnac that will reward keen lovers of great brandies and the value afforded here is nothing short of mind-blowing.

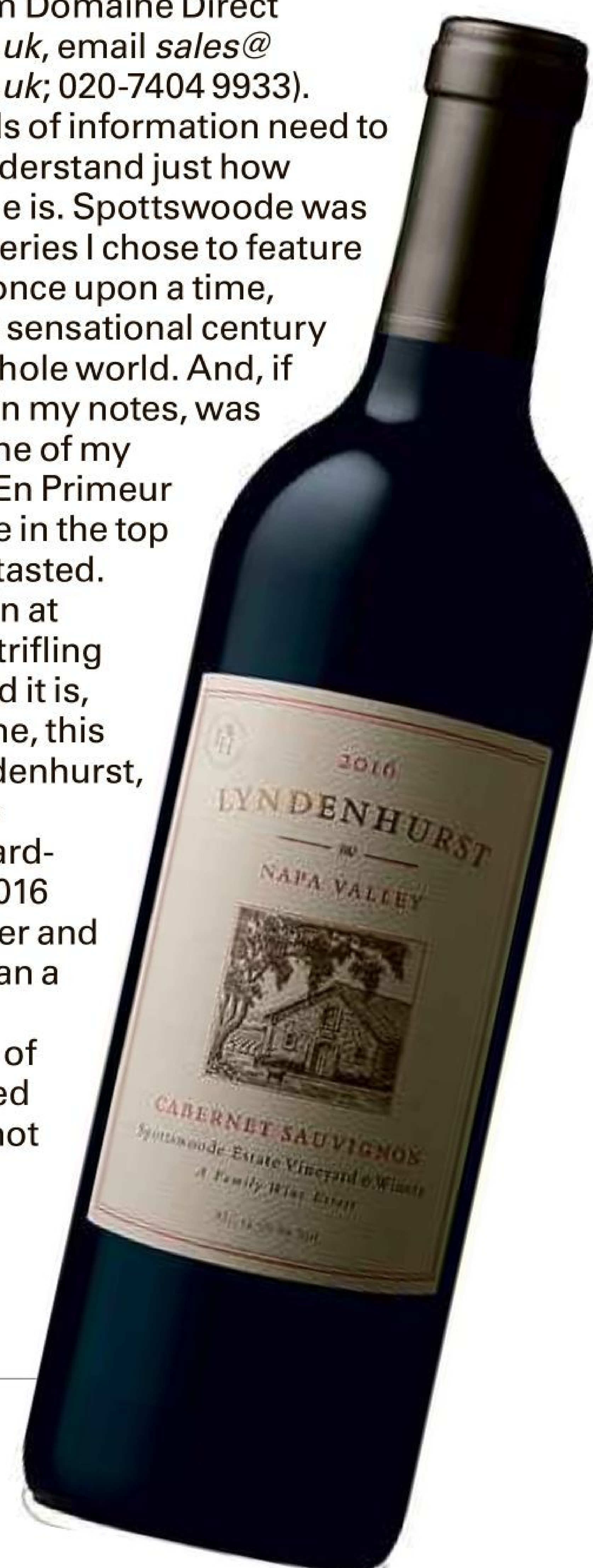
NV Billecart-Salmon, Brut Sous Bois Magnum, En Coffret, Champagne, France (£180.00, *champagnedirect.co.uk*). I adore the portfolio of Champagnes from Billecart and at this time of year my mind naturally turns to larger formats. This year, the epic Sous Bois cuvée is released in magnum format and it is packaged in a stunning wooden box. This is one of the most beautiful presents I have ever seen in the wine world and, of course, the wine itself is thrilling, too. Made from equal thirds of chardonnay, pinot noir and pinot meunier and vinified in oak barrels (the label and the box too), this is a richer, more masterful style of Champagne and it will go with everything you can think of this Christmas, including the turkey itself.

2013 Crozes-Hermitage, Domaine de Thalabert, Paul Jaboulet Aîné, Northern Rhône, France (£55.00, 150cl magnum, The Wine Society, 01438 741177; *thewinesociety.com*). I was determined to find another magnum for this piece, but when I tasted a bottle of this wine (£26.00), and it was so impressive, it waltzed straight onto this page. Imagine my excitement when Wine Soc. told me they had mags in stock as well! So here you are – an awesome, spicy, indulgent, mature syrah from one of the most historic vineyards in the Rhône, which has been owned by Jaboulet since 1834, and made by the inspirational talent that is Caroline Frey. This is the definitive wintry red and it looks monumental in magnum form!

2013 Morey-Saint-Denis, Vieilles Vignes, Domaine Lignier-Michelot, Burgundy, France (£42.95, reduced to £38.75 each for a case of 12, Lea & Sandeman, 020-7244 0522; *leaandsandeman.co.uk*). I first met Virgile Lignier back in the mid-1990s and I used to ship pallets of his stunning Burgundies back to London for my wine list at Bibendum restaurant. Time has moved on and I do not see these wines as much as I would like, but I always keep an eye out as I love the lush fruit and stunning accuracy of his wines. With six years under its belt, this old vine Morey, which comes from three parcels in the village, is drinking perfectly. There is a fair slice of whole bunch fruit here and this adds spice and aromatic detail This is my pick of all red wines this year for your turkey feast.



2016 Spottswoode, Lyndenhurst Cabernet Sauvignon, St Helena, Napa Valley, California (£75.00, minimum purchase of any 12 bottles from Domaine Direct *domainedirect.co.uk*, email *sales@domainedirect.co.uk*; 020-7404 9933). Two critical strands of information need to be conflated to understand just how incredible this wine is. Spottswoode was one of the 100 wineries I chose to feature in a book I wrote, once upon a time, detailing the most sensational century of estates in the whole world. And, if this wine's score, in my notes, was slipped into any one of my annual Bordeaux En Primeur reports it would be in the top 20 of all châteaux tasted. While the grand vin at Spottswoode is a trifling £220 per bottle and it is, admittedly, sublime, this second wine, Lyndenhurst, is every bit as epic and it is also forward-drinking. In fact, 2016 Lyndenhurst is finer and more profound than a vast majority of previous vintages of the aforementioned estate wine. I cannot recommend this enough!



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

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Avoid these Christmas gift blunders

It's a time for giving – but choose carefully if you don't want your present thrown back in your face

Christmas is a time for giving gifts to relatives, loved ones – even colleagues at work. But it's safe to say that the good people at Peloton won't be sending many presents the way of their advertising agency this year. The video advertisements for Peloton's exercise bike have been "widely derided" as "dystopian" and "sexist" and sparked a backlash that has wiped £1.1bn off the value of the firm, say Martin Belam and Joanna Partridge in The Guardian. The "dumb" commercial shows a woman receiving a £2,000 exercise bike from her partner on Christmas morning, inspiring her to record a video diary of her exercise sessions, in which she tells her partner how much the present has changed her life in the style of someone in a hostage video.

A future clothes horse is put through its paces

> *"Exercise equipment and dubious cash incentives are more likely to provoke anger than gratitude"*

There are better ways of spending £2,000 than buying something that will inevitably end up in use as a clothes horse, says Christina Hopkinson in The Daily Telegraph. But worse than the waste of money is the "passive aggression" of giving a gift that implies you are dissatisfied with your partner's appearance. Still, it could be worse. A friend of Hopkinson knew a man who offered his wife "£10 for every pound in weight she dropped so she could save it up and buy a pretty dress".

Exercise equipment and dubious cash incentives aren't the only things more likely to provoke anger than gratitude. A £300 Dyson hairdryer, for example, may be "a feat of engineering that cost £50m, four years and 600 prototypes to develop", but you should think twice about buying one if your partner recently had her hair cut short. And if you're going to be generous, second thoughts are not allowed. One former boyfriend splurged on an "exquisite pair of Manolo Blahnik heels", says Hopkinson, only to demand that they be returned to him shortly after a break-up. He was evidently planning, in a twist on the Cinderella story, to "restrict his future search for love to girls with size five-and-a-half feet".

Don't be mean

The most important thing to avoid when giving Christmas gifts is being mean, says Esther Rantzen in the Daily Mail. While working as a sound effects assistant early in her career, Rantzen fell in love with a radio producer who was "the worst present-giver in the world". One Christmas "he opened his desk drawer to reveal two identical packages, one for his secretary and the other for me". Rantzen's gift turned out to be lipstick and nail varnish "in the most unflattering shade of deep purple"; she hoped the secretary got the same thing. Generous and thoughtful gifts will never be forgotten, though, even if they fall flat. Rantzen's late husband once hired a plane to circle the house with a banner inscribed "Desi loves Essie" only for the pilot to get the wrong address. Rantzen was "thrilled" nevertheless at the extravagance of the gift.

The lesson here seems to be that while "cheap and sexist" presents are unforgivable, those that are "generous and sexist" will be tolerated – which suggests that maybe a fancy exercise bike might not be such a bad gift after all. "As Zsa Zsa Gabor once said, 'I never hated a man enough to give him his diamonds back'."

Quintus Slide

Tabloid money... competitions aren't what they used to be

● **Judges are "rolling over obligingly" and divvying up prize money between contestants because they can't decide on a winner, says Jennifer Selway in the Sunday Express. First the Booker Prize's £50,000 was split between Margaret Atwood (pictured) and Bernardine Evaristo. Then the Literary Review Bad Sex in Fiction award, a prize for the most "poorly written, redundant, or downright cringeworthy passages of sexual description", went to two winners. Now the Turner Prize's £40,000 cash prize has been split between the four artists on the shortlist because the "cheeky blighters asked for it to be that way". Clearly, says Alexandra Shulman in the Daily Mail, "competitions aren't what they used to be".**

● Hargreaves Lansdown is once again promoting funds other experts "will not touch with asbestos gloves", says Jeff Prestridge in The Mail on Sunday. The broker, a vocal supporter of the failed Woodford Equity Income fund right up to its suspension, is now sending out a "positive note" about Invesco Income and Invesco High Income, in spite of their recent downgrade by Morningstar due to "stock selection issues". The funds are now managed by Woodford protégé Mark Barnett. Is this yet another glaring example of Hargreaves Lansdown misleading a lot of investors? After the "Woodford fiasco" the recommendation seems "astonishing". But you know what they say about old dogs.

● Some schools are taking the idea of policing pupils' food choices too far, says Karren Brady in The Sun. Dinner ladies are patrolling the canteen, confiscating chocolate then sending the parents stern letters about their "snack misdemeanours". Others follow pupils home and stop them from entering the local chippy. But is all this really the teachers' job? "I don't think so," says Brady. "And if I was a parent of a child being told what to eat by someone other than me, I'd be furious." It's parents who should be making better choices. Some people say it comes down to money – that junk food is cheaper than healthy food. But "you don't have to spend a fortune to eat well". Just look at food blogger Jack Monroe, who has written a book on how to cook well with tinned food.

©Getty Images

Bridge by Andrew Robson

Golden switch

West, English international David Gold, led the four of Hearts to East's Queen and declarer's Ace. At trick two, declarer led a trump to dummy's King and a trump back to his nine and West's Ace. Now what?

Dealer South East-West vulnerable

North: ♠ K8 ♥ K96 ♦ Q2 ♣ QJ10754

West: ♠ A2 ♥ J854 ♦ K986 ♣ A83

East: ♠ 6543 ♥ Q1032 ♦ 53 ♣ K96

South: ♠ QJ1097 ♥ A7 ♦ AJ1074 ♣ 2

The bidding

South	West	North	East
1♠	pass	2♣	pass
2♦	pass	2♥*	pass
3♦**	pass	4♠***	pass
pass	pass		

* An optimistic Fourth Suit Forcing – "We're going to game, please give me more information".
** Showing the five-five shape.
*** Wisely rejecting Three No Trumps for the lack of heart stoppers.

Say West woodenly continues with a Heart. Declarer wins dummy's King and runs the Queen of Diamonds. West may duck (best), but declarer then crosses to his Ace (finesse the Knave and West wins then promptly gives his partner a ruff, wins the Club return, and gives his partner another Diamond ruff – down two). He draws East's trumps, concedes the Knave of Diamonds to West's King and, with Diamonds established, claims ten tricks.

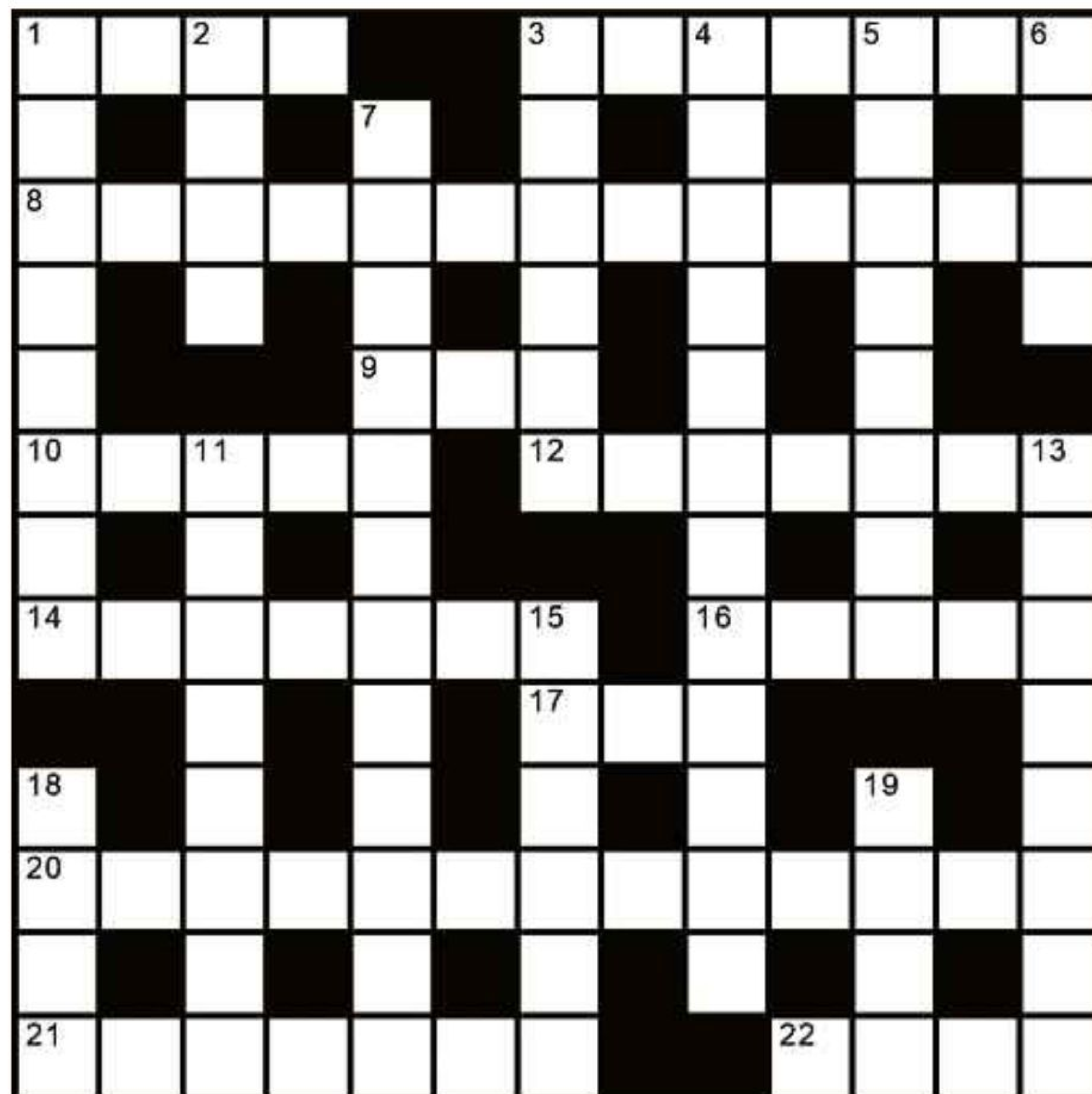
Knowing trumps were splitting four-two and that declarer still had to dislodge the King of Diamonds, West sought to force declarer to ruff in his hand. To this end, he found the fine switch at trick four to a low Club away from his Ace (key play). Declarer played dummy's queen, East winning the King and returning a Club.

If declarer ruffed and drew East's two remaining trumps, West would cash the Ace of Clubs when he won the King of Diamonds. When declarer chose to discard, West won the Ace and reverted to a Heart, removing dummy's late entry to the Clubs. Declarer now had to lose to the King of Diamonds – down one.

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

Tim Moorey's Quick Crossword No. 977

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 2 Jan 2020. Answers to MoneyWeek's Quick Crossword No. 977, 31-32 Alfred Place, London, WC1E 7DP.



Across clues are mildly cryptic whereas down clues are straight

ACROSS

1 Ready for some sport (4)
3 Some mollusc, all opalescent? (7)
8 You won't see me travelling in mere trimarans (6, 7)
9 Note single performance cut short (3)
10 Frenchman briefly seen in a certain WW1 battle site (5)
12 Not all clientele men taking part (7)
14 Parted company in Croatian resort but not down (5, 2)
16 Wader in Rhone possibly (5)
17 Poem was outstanding as heard (3)
20 Audacious enterprises in a part of St Paul's (13)
21 Opposes awkward sisters (7)
22 Duty that's ours (4)

DOWN

1 Athletes on horses perhaps (8)
2 Cooked potatoes (4)
3 Specimen (6)
4 Device to disguise domestic smells (3 ,9)
5 Period of boredom in France (8)
6 Left fortified wine (4)
7 After-dinner drinks (7, 5)
11 Indian Ocean islands (8)
13 Moroccan port (8)
15 Temporary shops or restaurants (3-3)
18 Just (4)
19 Enter (2, 2)

Name ....

Address ....

Solutions to 975

Across **1** Killjoy **5** Moped **8** Arabs *anagram* **9** Caterer *anagram* **10** Twenty-twenty **12** United **14** Moaner *Mona Lisa* **16** Decimal point *anagram* **19** Sheikhs *homophone* **20** Auden *due inside an* **21** Angst *first letters* **22** Release *re-lease* **Down** **1** Khartoum **2** Leave **3** Just the ticket **4** Yachts **5** Mother-of-pearl **6** Puritan **7** Dory **11** Pretence **13** Iceberg **15** Caesar **17** India **18** Asia.

The winner of MoneyWeek Quick Crossword No.975 is: John Allinson of London.

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

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

Sudoku 977

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

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.

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

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Mind the US wealth gap

For most of the country, the Great Recession of 2009 never ended

Bill Bonner
Columnist

Washington's average annual wage of $69,000 is the country's third-highest

Donald Trump was right about Baltimore. It is a "disgusting, rat and rodent-infested mess". But it has its charms, in a low-rent kind of way. It is quirky. It is funky. Housing is relatively cheap. And the city makes it easy to feel superior, since half the fauna you meet on the downtown streets are either the walking wounded or petty criminals.

A half hour down Interstate 95, it is a different story completely. Where Baltimore is wild and poor, Washington is tame and one of the richest cities in the nation. It has fancy restaurants, houses worth millions, sleek offices. There, the people you meet on the street are powerful movers and shakers. Grand larceny is their game… not petty thievery.

The average annual wage in Washington – third-highest in the nation – is $69,000. In Baltimore, it is only $56,000. And between Baltimore's prosperous northern suburbs, old and new, and the inner city of West Baltimore, there is an even greater gulf. In the northern suburbs live the doctors, lawyers and insurance salesmen. In West Baltimore struggle the addicts, unwed mothers, and gangsta teens. Not that one group is necessarily better than the other; we don't know who goes to Heaven. But they are different. And homogenising them all as Baltimorians, or even just as Americans, does us a disservice.

The person born into a prosperous family can expect to live into his 80s. But enter the world west of Martin Luther King Jr. Boulevard and life expectancies fall to barely 60; you might as well live in Haiti. Averages obscure the picture. Put nine street vagrants together with Elon Musk, whose net worth is about $26.5bn. You'll get an average net worth of $2.65bn each. But nine out of ten of them are still begging.

> *"Over the past decade unemployment has risen in 56% of US counties"*

A similar statistical fog hangs over the nation. Tara Westover in The Atlantic notes that in recent years growth has been hyper-concentrated in our cities, which are hubs of technology and finance. The hinterlands, which rely on agriculture and manufacturing – what you might call the "old economy" – have sunk into a deep decline. There are places in the United States where the recession never ended. A study examining the US county by county shows that people in 2,278 counties have become poorer over the past ten years. As best as we can tell, that means 73% of US counties are in a depression.

Over the past ten years unemployment has increased in 56% of US counties. Labour force participation has decreased in 60% of US counties. The poverty rate has increased in 87% of them. Inflation-adjusted wage growth has decreased in 98% of US counties. Not a pretty picture. Neither in Baltimore, nor the rest of the nation.

The bottom line

£963 The average annual interest payment per person incurred on credit cards in Britain, The Money Charity estimates. One person was declared insolvent every four minutes between July and September.

£281.78 How much the average British woman spends every year on her work Christmas party. The figure from fashion retailer Oasis includes travel, accommodation, make-up, hair and outfit.

6,891 The number of houses worth £1m and over sold in the first half of the year, a rise of 5% on the same period in 2018, according to an analysis of Land Registry data for The Times. The Northeast saw the biggest rise in such sales (663%), followed by the East Midlands (233%), and Yorkshire and the Humber (228%). London sales fell by 5%.

$150,000 The asking price for a banana duct-taped to a wall. The art installation by Maurizio Cattelan, the Italian artist famous for making the gold toilet stolen from Blenheim Palace in September, was on display at the Art Basel Miami Beach exhibition last week. Two other "editions" of the work, called Comedian, reportedly sold for $120,000 each.

12m The number of novelty Christmas jumpers expected to be sold this year. Research suggests that most Christmas jumpers contain some plastic.

£7,000 The price at which tickets to Ed Sheeran's (pictured) concert at London's Royal Albert Hall were reselling for on resale website Viagogo, prompting the singer to clamp down on touts, his manager has said in court. The tickets to the show in March 2017, in which Sheeran performed for free, had originally cost £75.

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

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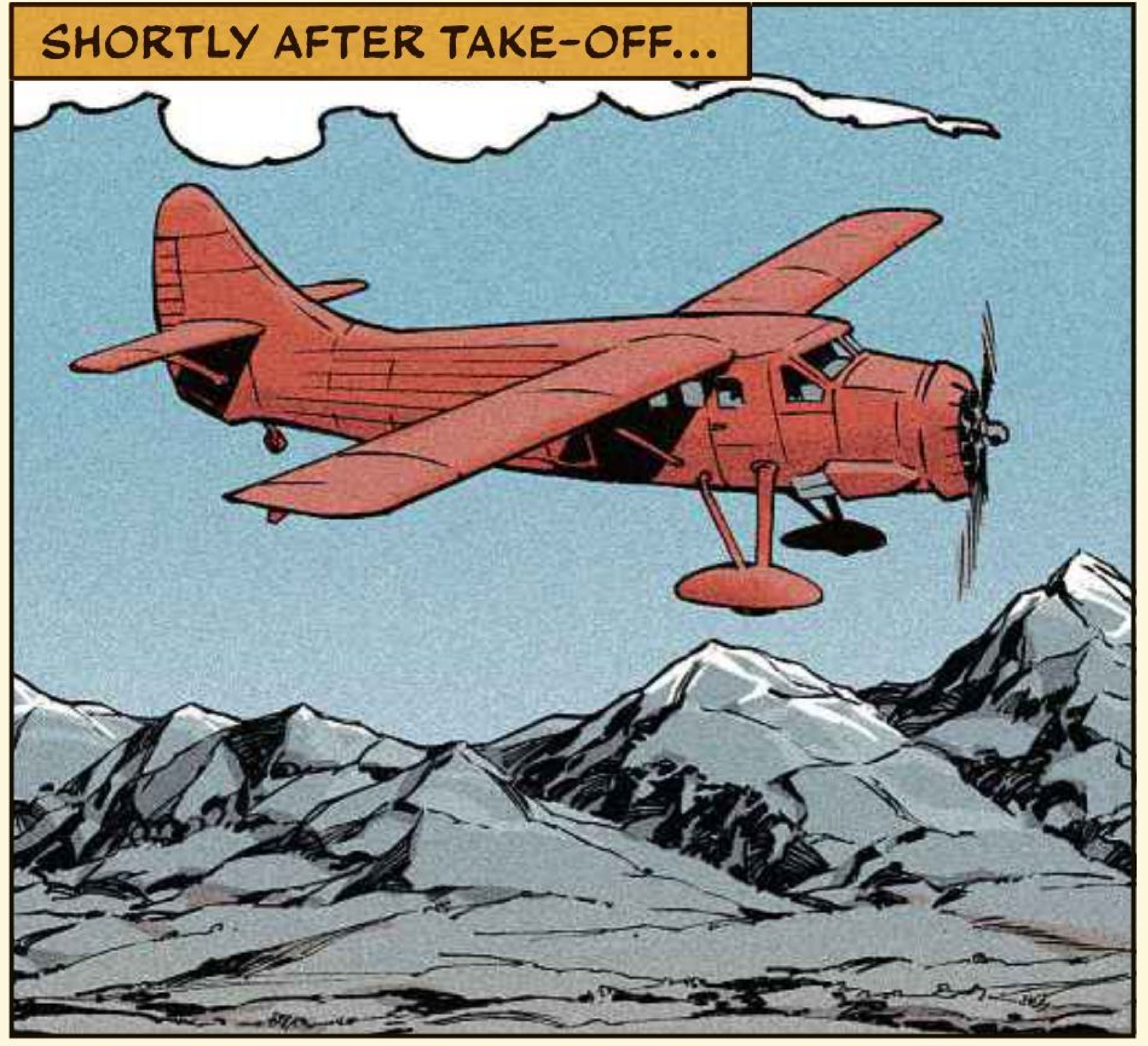

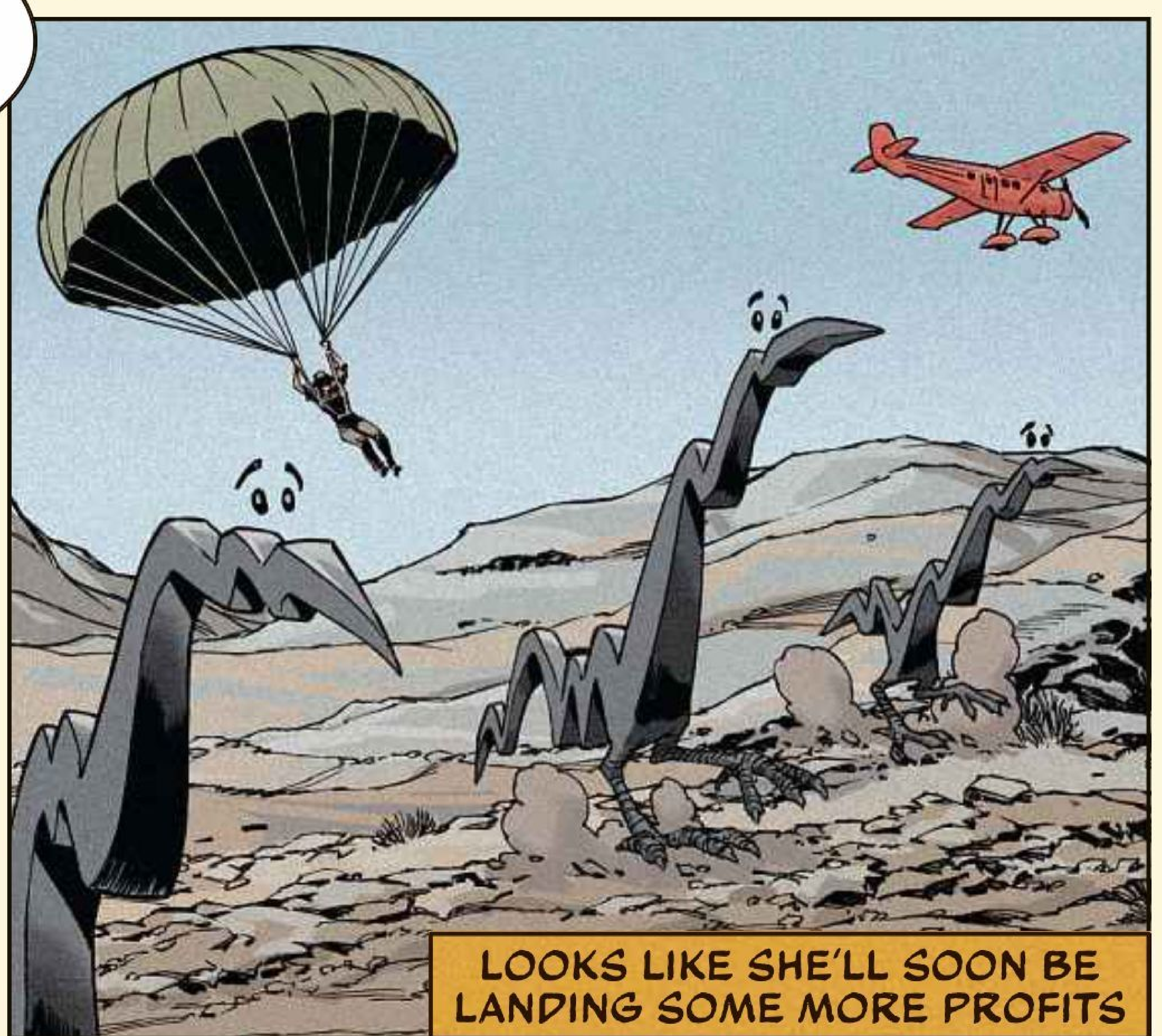

At times like these, the financial world can be both complex and daunting. And yet, there are still healthy Profits to be had. For those active enough (and astute enough) to track them down. The truth is, for the seasoned hunter, today's environment is just another action-packed instalment in their continuing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

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