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Ten to tuck away

Stocks that will stand the test of time

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From the editor-in-chief...



MoneyWeek likes investment trusts. We write about them every week and regular readers know that we have a portfolio of favourites we follow up twice a year.

However, now might be a good time to remember what it is that makes them special. There is the fact that the capital within them is genuinely long term. You can buy and sell your shares in a trust, but (mostly) only to other investors. The capital in the trust is undisturbed by your decisions. This allows fund managers to work free from the worry that investors might throw things off by either pulling lots of money out or pouring lots in (both problems Neil Woodford has suffered from – see page 16). As long as they have the wherewithal to repay any cash they have borrowed, liquidity – how fast they can sell assets and raise money – isn't an issue.

Then there is the debt itself. Being able to borrow means you can leverage your returns in good markets, and trusts have a record of doing this pretty well. But the best thing about trusts is their boards, groups of non-executive directors who ensure the company is both fulfilling all its regulatory obligations and operating in the interests of its shareholders. This can seem complicated in the middle of a three-hour meeting dominated by internal control documents and audit reports (I sit on two investment-trust boards).



Big Tech makes us nervous

“This is a good time to remember what makes investment trusts special”

But at its core it really isn't. The most important part is making sure that the right fund-management firm and right individual manager have been employed to run the shareholders' money – and then laying down the parameters within which that manager is permitted to operate. A board then needs the experience, the independence from the manager and – crucially – the guts to fire the manager and hire another if needs be.

And so to poor Neil Woodford. On page 16 we look at some of the big questions surrounding the suspension of his income fund and on page 28 Matthew analyses one of the stocks giving him trouble. But even since we wrote those pieces more misery has come his way. According to the Financial Times, the board of the Woodford Patient Capital Trust (WPCT), the investment trust he launched in 2015,

has been asking its broker how they might be able to get rid of him.

The answer, of course, is perfectly easily. It will be a bit embarrassing and time-consuming and they will have to change the trust's name. But Woodford is on a three-month contract, so they could give him notice and have someone with a less trashed reputation and more experience in private equity in place by the autumn. This is not a board that has covered itself in glory recently and a change of manager wouldn't necessarily make this trust a buy (it's hard to call WPCT a value opportunity),

but it would be a nice reminder of why much of the investment-trust sector is. With that in mind, you might turn to page 27, where Max looks at the BlackRock Latin American Trust, which trades on an attractive discount at a time when Latin American equities are looking relatively good value. Finally, do read City View on page 18 for a reminder of why Big Tech makes us nervous and don't miss our cover story on page 24. For those of you newly enthused by the Woodford saga to DIY your investments, Stephen suggests ten stocks you can buy and hold for the long term.

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Film flop of the week



X-Men: Dark Phoenix, one of the first films to be released by Twentieth Century Fox after its takeover by Disney and the final film in the mutant-superhero *X-Men* series, is set to lose the studio \$100m after it bombed at the box office. The film, which stars *Game of Thrones* actress Sophie Turner (pictured), grossed just \$14m in the US on its opening night, and \$34m over its first weekend, the worst figures for any of the *X-Men* films. In the UK, it took just £2.75m over its opening weekend. The previous worst opening for the series was *The Wolverine* in 2013, which raked in \$53.1m in the US. The film, which cost a reported \$200m to produce, was widely panned by critics.

Cover illustration: Howard McWilliam. Photos: Fox, Alamy

Good week for:

Investors in cannabis stocks found themselves in good company this week after the Church of England said it no longer had any objections to medical marijuana. The Church Commissioners, who oversee £12.6bn, also said the Church of England would be “happy to invest” as long as the company did not make more than 10% of its revenue from the sale of recreational cannabis.

Homeowners with solar panels or wind generators are to be guaranteed payment for the electricity they feed back into the national grid. The new tariff will allow homeowners to sell up to half the electricity generated for 5.24p per unit. The average price of a kilowatt-hour (kWh) of electricity sold by electricity companies to homeowners is currently 14.37p per kWh.

Bad week for:

Sainsbury's shoppers across the country were disappointed to learn that some of the goods they bought this week could be found for far less at the Argos counter in the same shop. A Henry vacuum cleaner, for instance, was selling for £149.99 in Sainsbury's and £109 in Argos.

Richard Branson's Virgin America airline, which had been flying since 2007, was finally whitewashed out of the skies this week when the last plane had its livery painted over. Virgin America was bought by Alaska Airlines for \$2.6bn in 2016, but despite having the right to use the name until 2039, Alaska killed it off. “It's baffling and sad,” complained Branson. “When I sat down with Alaska, I genuinely believed that they would treasure the brand... why did they bother?”



Investors await rescue by the Fed



Alexander Rankine
Markets editor

That's a bit more like it, says Ben Levisohn in Barron's. America's S&P 500 Index suffered its worst May in seven years last month, losing almost 7%. Last week, however, it bounced by 4.4%, its best five-day showing in over half a year. "You had a market that became very pessimistic and then all of a sudden we had the Fed's dovish rhetoric and no Mexican tariffs," Tom Essaye of wealth management group Sevens Report Research told CNBC.

Of these two factors, the US Federal Reserve is far more important than President Trump's deal with Mexico, which many analysts reckon he had secured before he threatened the tariffs in any case. Last week the chairman of the central bank, Jerome Powell, hinted that he was more inclined to cut interest rates than he had previously been. The threat of a trade war endures and weaker recent US economic data was underscored by an unexpectedly poor payrolls report. Employment increased by a mere 75,000 in May. Economists had pencilled in a rise of 185,000.

Investors are now counting on a rate cut to bolster economic growth; liquidity also tends to find its way into asset markets, portending a further boost. But in their "joy over the prospect of Fed easing", says Justin Lahart in The Wall Street Journal, investors seem to have forgotten that cuts occur "because something bad is happening". While easier money can engineer a soft landing for the economy, as in 1995, the start of rate-cutting cycles in January 2001 and September 2007 was followed by recessions. Cuts often come too late to temper a downturn.



The US Federal Reserve has concentrated on placating investors

Too early rather than too late?

This time round, the Fed may be too early. As Gillian Tett points out in the Financial Times, US consumers, who account for two-thirds of GDP, feel more confident about the economic outlook than at any point since 2000. "That is not easy to square with rate cuts".

Neither are "robust" household spending, unemployment at 50-year lows, and wages growing by 3.1% year-on-year. Tariffs resulting from a trade war, meanwhile, would tend to push up costs and inflation. So the Fed could well end up causing a jump in inflation, which it would then have to quell with rapid rate hikes – a very nasty prospect for liquidity-addicted and overvalued stocks following a ten-year rally.

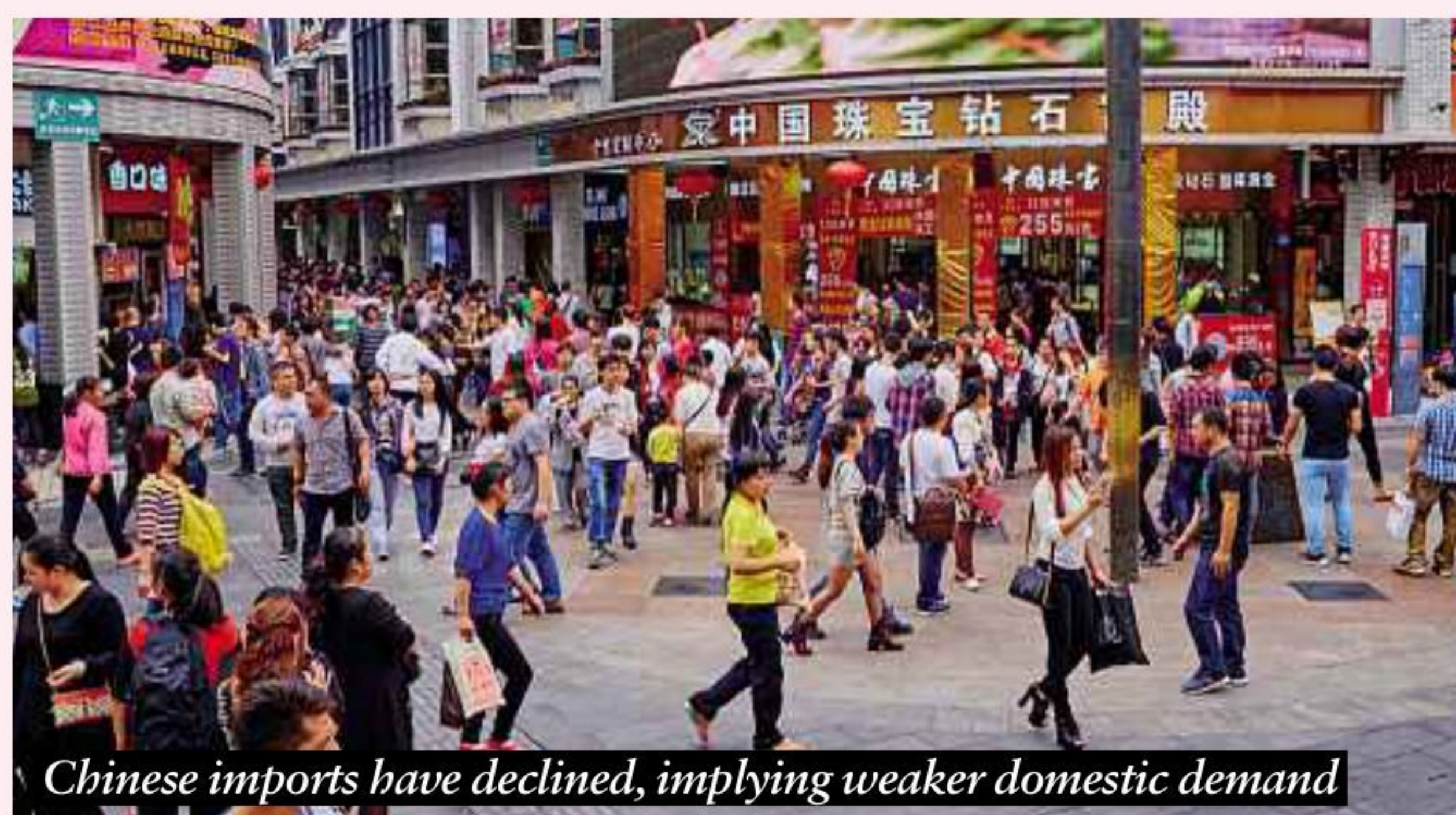
Serial bubble blowing

The broader problem here is the way the Fed since the 1980s has developed the habit of rushing in at the first sign of potential trouble, thus placating nervous investors rather than allowing the business cycle to operate properly. There has been a series of bubbles, with downswings tempered or put off by low interest rates or printed money. It's a case of "not allowing small forest fires to clear out undergrowth", says John Mauldin in Thoughts from the Frontline. "Eventually you get one very large fire." Serial bubble-blowing has left the US and world economies with record debts and extremely vulnerable to another crisis. Yet with vast sums of money already printed and rates at record lows, there is nothing to fight it with.

The yuan: a new front in the trade war?

China's currency, the yuan (also known as the renminbi), has slumped to a new low for 2019. It weakened to 6.9352 to the dollar on Monday, getting ever closer to the psychologically important seven-to-the-dollar mark that traders think risks sparking a "currency war" with Washington. Donald Trump's tariffs are putting a strain on the country's manufacturing industries. An 8.5% year-on-year drop in imports in May also points to weakening domestic demand in the Middle Kingdom.

Those pressures caused the renminbi to fall roughly 2.5% between mid-April and mid-May. A significant devaluation could mitigate the effects of tariffs by making Chinese



Chinese imports have declined, implying weaker domestic demand

exports cheaper on international markets, but may provoke Trump into levelling accusations of currency manipulation.

Until 2005, China pegged the value of its currency to the US dollar at the much weaker

level of 8.3 to the dollar. Since then it has largely pursued a "managed float" system, with the central bank using its vast foreign-exchange reserves – estimated at more than \$3trn – to limit exchange-rate volatility and buy up yuan

when its value falls too far. It has not traded above seven to the dollar since 2008.

There had been a "tacit" understanding that the authorities would defend the seven-to-the-dollar level, says Christopher Beddor on Breakingviews. Yet People's Bank of China officials have begun to hint that it is not a line in the sand.

This cautious "blurring" of the currency line is a wise move, adds Beddor. The yuan would need to depreciate another 10% fully to offset the impact on exporters of upcoming American tariffs. The central bank is "resetting expectations" while keeping just enough uncertainty about its intentions to deter currency short-sellers.

Brent: back in a bear market

Oil prices are back in a bear market, says Matthew DiLallo on Motley Fool. The price of Brent crude had rallied 50% since the start of the year to a high of \$75 a barrel in April. But price falls of as much as 5% last week took cumulative losses since May past the 20% level that marks a bear market. Brent crude is now at \$60 a barrel.

"The oil market is as complicated as I've seen it in a very long time," Douglas King of the Merchant Commodity Fund tells the Financial Times. Under normal conditions, numerous supply problems would have seen the price of "black gold" jump: oil exporters' cartel Opec and allies have been cutting output and US sanctions on Iran and Venezuela are also squeezing the market.

But conditions are changing. The latest slump appears to be demand-side driven, say Martijn Rats and Amy Sergeant in a Morgan Stanley note. Early data from the likes of the US, Australia, China and India show that year-on-year growth in oil demand "ground to a halt" between March and April. Morgan Stanley now expects oil to reach at \$65-\$70 in the second half of this year, revised down from \$75-\$80 previously.

A weaker global economy means that Opec and allies such as Russia are likely to back an extension of existing output cuts at a meeting next month, says Stephen Innes of Vanguard Markets. They will be aware that in this demanding environment, a failure to stick with the output curbs could see crude fall to \$40 per barrel.

Mexico dodges a bullet

Donald Trump's decision to call off threatened duties on Mexican imports closes the latest episode in his trade war "reality show", says Gina Chon on Breakingviews. In return, America's southern neighbour has agreed to deploy its National Guard to reduce the number of migrants heading for the US. The country had little choice but to comply with US demands, says The Economist. A "whopping 80% of Mexico's exports" head north.

A reform story gone awry

Investors in the world's largest Spanish-speaking nation have had little reason to cheer in recent years. Trump's election in 2016 unleashed the threat of protectionism.

Last year brought victory for left-wing populist Andrés Manuel López Obrador – known as AMLO – in the country's own presidential election. Mexican equities have underperformed global benchmarks over the last five years.

AMLO has set about unpicking reforms of the country's education and energy sectors passed by predecessor Enrique Peña Nieto, whose business-friendly administration was tarnished by corruption scandals.

One of the new president's "first official acts" was to end construction of a "desperately needed new airport in



Mexico City" that was already 30% complete, says Kenneth Rogoff for project-syndicate.org. Although he campaigned on a strong anti-corruption platform, AMLO's administration has "eschewed competitive bidding for more than 70% of the contracts it has awarded". Economic growth has also disappointed. Latin America's second-biggest economy shrank 0.2% in the first quarter of this year.

Still, AMLO differs from a typical Latin American populist in one crucial respect, say John Paul Rathbone and Jude Webber in the Financial Times. He has promised to balance the budget and cut public-sector salaries, including his own.

That has "kept international investors sweet" so far. For all the "unorthodox politics"

and "surface turmoil", Mexico has relatively stable economic foundations, reckons Craig Mellow in Barron's. Inflation has plunged 3% in the past 18 months to 4.4% and "all-but-inextricable links" to US industry bring a measure of reflected economic dynamism.

If the trade standoff between Beijing and Washington really is the new normal, then Mexico is the "obvious base" for US companies seeking a low-cost destination to relocate their factories, adds John Authers on Bloomberg.

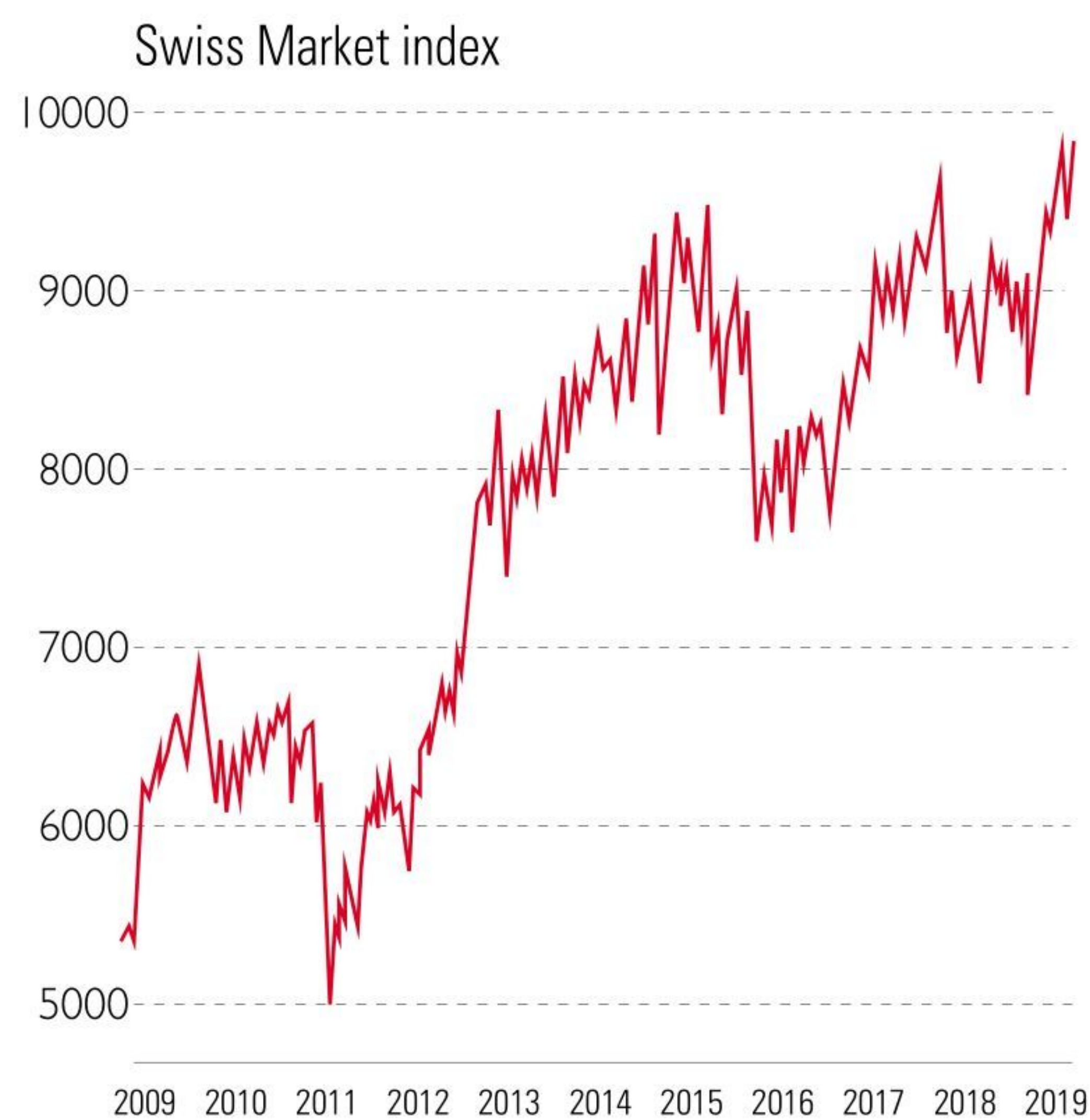
On a cyclically adjusted price/earnings (p/e) ratio – Cape – of 19, Mexican stocks are reasonably priced compared with other markets. With the tariff resolution helping the peso bounce off five-month lows, "there must be a decent chance of a rebound now".

Viewpoint

"While the US unemployment rate is currently near a 50-year low of 3.6%, that statistic doesn't tell the full story and can mask a deterioration in the labour market. The participation rate measures all active workers divided by the working-age population... When people who are unemployed grow too discouraged and stop looking for work, it causes the participation rate to go down. But as a result, the unemployment rate goes down as well because it doesn't include people who have given up. This makes the picture look better than it is. From about the late 1980s until 2008, the participation rate was around 66%... But after the crisis, the rate dropped... The latest jobs report shows it's at 62.8%... Men's labour-force participation has fallen for almost six decades... Women's labour-force participation has also been declining, although this is a... more recent phenomenon."

Michael Klein, *The Conversation*

Switzerland: a safe haven



Investors rattled by the prospect of a global slowdown and a worsening trade war are heading for Switzerland; the local stockmarket index has just hit a new record. The politically stable country compares favourably to the shaky eurozone and increasingly fraught global geopolitical backdrop, while the index also boasts more stable, dividend-paying multinationals – such as Nestlé and Roche – than other markets, as Bloomberg points out. It also bodes well that the Swiss franc, along with the Japanese yen, is deemed a safe haven when the global economy is slowing. Indeed, according to a study by JP Morgan, the franc was the best-performing currency during the last four US interest-rate cutting cycles.

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

Three to buy



Greggs

Investors Chronicle

This much-loved bakery chain's push to transform itself into a food-on-the-go specialist has yielded impressive results, with returns on capital employed rising to more than

16.5% last year. And there is still "untapped potential". January's launch of the "headline-grabbing" vegan sausage roll shows that Greggs has a good feel for consumer trends, while a burgeoning click-and-collect operation looks very promising. The potential for special dividends adds to the stock's appeal. *2,114p*

Network International Shares

Network International facilitates digital payments

in the Middle East and Africa. These markets offer significant growth potential as governments promote a shift towards an increasingly cashless society. A larger rival entering the market is a key risk, but long-term local relationships and significant prior investments are barriers to entry. An apparently steep rating of 33 times this year's earnings could prove a bargain if it delivers on excellent growth prospects; what's more, a takeover bid is always a possibility. *554p*

Workspace

The Sunday Times

All the buzz about American operator WeWork obscures the fact that Workspace has been offering similar flexible office arrangements for years. It may not boast WeWork's glamour, but then neither does it have WeWork's "eye-watering losses". It made a £137.3m pre-tax profit last year from its 64 London properties, which house 3,000 different businesses. Strong population growth in London should provide a tailwind. *867.5p*

Three to sell

Beyond Meat

Barron's

This maker of plant-based burgers and sausages has delivered a "sizzling debut" since it listed on the Nasdaq in May. Growing interest in veganism and concern about the environmental effects of animal agriculture mean that its offering has hit a "cultural sweet spot", with the shares rocketing 125% since flotation. Sales rose by 170% last year – but on more than 27 times 2019 forecast sales, the rating looks "excessive" for a business

that is still lossmaking. There is also growing competition in the "alt-meat" sector. *\$102*

Reckitt Benckiser

The Sunday Telegraph

This healthcare giant is looking a "little peaky". Sales growth has been sluggish of late, with prominent consumer brands such as Strepsils and Durex condoms suffering as more consumers switch to cheaper own-label options. The group still has time to turn things around, but the way forward remains unclear until outgoing

boss Rakesh Kapoor is replaced. Avoid. *6,395p*

Metro Bank

Motley Fool UK

2019 has proved an "annus horribilis" for this challenger bank, whose shares have lost more than two-thirds of their value since January. The rerating followed the announcement of a £350m share placing to "patch up an accounting error". The worry is that the problems could prove to be more systemic than initially claimed. Traders



certainly think so – with 12.49% of its shares sold short, Metro is now the most shorted stock on the market. Yet a valuation of 21.4 times forecast earnings still doesn't fully price in the problems. *677.5p*

...and the rest

The Daily Telegraph

Recently floated *essensys* sells the software that helps flexible workspaces run smoothly. It is a "clever niche" in a fast-growing industry – buy (*181.5p*). Full-year results show that a turnaround at precision engineering firm *Renold* is under way, but a lowly share-price rating suggests that the market is yet to catch on. (*30p*).

Investors Chronicle

A forward price/earnings (p/e) ratio of 11 at wealth manager *Quilter* is cheap for a

business in a growing sector less burdened by regulation than other financial service providers (*132p*). *Dotdigital's* software helps firms improve customers' engagement through personalised marketing campaigns. Growth and cash generation are robust and it is diversifying sales internationally (*100p*). Copper-gold explorer *SolGold* offers exposure to long-term demand for copper and could prove a takeover target (*30p*).



Shares

Pub and brewing business *Marston's* has repositioned itself amid tough trading for pubs. It now accounts for 40% of the UK bottled-ale market and also offers a 7.3% dividend yield (*107.2p*). First-half revenue jumped 61% at wealth manager *AFH Financial* (*385p*).

The Times

Sub-prime lender *Non-Standard*

Finance's attempted hostile takeover of *Provident Financial* has collapsed under regulatory scrutiny. It's *Provident* that has a bigger doorstep operation, longer track record, and better prospects (*518p*). The renamed *BMO Commercial Property Trust* (formerly *Foreign & Colonial Property Trust*) is worryingly exposed to the "crisis gripping the high street": avoid (*121p*). Precision engineer *IMI* is suffering from downturns in its oil and gas, vehicle and nuclear markets: avoid (*916p*).

A German view

Investors expect the government to concentrate on infrastructure during Indian prime minister Narendra Modi's second term, says *WirtschaftsWoche*. Enter *Larsen & Toubro (L&T)*, the country's biggest engineering and construction group, whose offerings range from tunnels and bridges to water-treatment facilities and oil platforms. *L&T* doubled its sales in Modi's first five-year term and a record order book of \$43bn presages plenty more vigorous growth ahead. A coastal motorway in the Mumbai area and the expansion of New Delhi's airport are key current projects. State-owned investment group *LIC* is a major shareholder, which "can't hurt" when it comes to securing important contracts.

IPO watch

German car giant Volkswagen (VW) plans to spin off its heavy-duty lorry division, known as *Traton*, with the shares to be listed in Frankfurt and Stockholm. It will sell 10%-20% of *Traton's* shares. The initial public offering (IPO) was first announced in March, but was shelved when a volatile market thwarted VW's attempt to sell a 25% stake for €6bn. This time the valuation will be less ambitious. Truck stocks trade on higher valuations than car stocks as they are less capital intensive. VW is on a price/earnings ratio of five. A higher multiple for *Traton* should also give VW's shares a boost: the carmaker will still own most of the spun-off group, says Stephen Wilmot in *The Wall Street Journal*.

City talk

● Facebook's shares have surged in the past few years amid "explosive growth" in advertising revenue, says Ben Harrington in *The Mail on Sunday*. However, Aaron Greenspan, who went to Harvard at the same time as Facebook founder Mark Zuckerberg, has accused the social-media giant of perpetrating the "largest fraud in corporate history". He argues that as many as half of all accounts could be fake, which means that advertisers "are not actually reaching the audiences they believe they have paid for". Advertising accounts for 99% of Facebook's sales. Greenspan thinks the shares could halve in two years.



● Shares in Beyond Meat have fallen after JP Morgan suggested the company's share price is "now beyond reason". That's not surprising, says CNN's Paul La Monica. The shares have jumped by 570% since the recent initial public offering (IPO); this "seems like a classic case of investor mania". The company is loss-making and has reported only \$40m of quarterly sales. Yet it was valued at \$10bn this week, making it worth more than 71 of the 500 companies in the blue-chip S&P 500 index.

● Merger talks between aerospace and defence giants United Technology Corp and Raytheon are big news, says Brooke Sutherland for Bloomberg. A tie-up will create a "powerhouse" that would rank second only to Boeing. United Technology in particular stands to benefit from increasing exposure to the defence industry at a time when "commercial air traffic growth may be wobbling" and US President Trump is pushing to boost military spending to post-World War II highs. But even the civilian aerospace side will benefit from increased negotiating leverage and economies of scale at a time when Boeing is running into problems, creating a gap in the market.

Renault's sputtering alliance

The French carmaker's fraught alliance with Nissan has so far prevented a deal with Fiat Chrysler. Will that change? Matthew Partridge reports

The French government has hinted that it may reduce its stake in Renault, and get Renault to reduce its stake in Nissan, in order to repair the "fraught alliance" with the Japanese carmaker and revive a proposed merger with Fiat Chrysler (FCA), reports the *Financial Times*. While FCA blamed the "abrupt collapse" of talks with Renault on "the adverse political environment in France", Paris has insisted that it was willing to waive most of its initial objections. It claims that the only substantive issue preventing progress was the failure to secure approval from Nissan.

If the French government is serious about making changes to its relationship with both Renault and Nissan, then the FCA-Renault deal "may not be entirely dead", say Liam Proud and Pete Sweeney on *Breakingviews*. If Renault "sold some shares in its Japanese partner, and the government also reduced its influence over the French group, Nissan might decide to support the merger". Currently Nissan is worried that any merger would end up with its influence being diluted even further. What's more, the French government has some leverage of its own, as its threat to veto a structural overhaul at the Japanese company gives Nissan "an extra incentive to play ball".

Renault has repair work to do

Renault should spend less time dreaming of a "flashy new suitor" and instead "be nicer to its long-time partner", says Jacky Wong in *The Wall Street Journal*. Threatening to block Nissan's governance changes "will merely undermine trust further in the already tense relationship between the two carmakers". This is especially the case because the proposed changes, such as setting up board committees for remuneration and audit, "are long overdue". It is not in Renault's interest to leave Nissan in "governance limbo" any longer. It would be "madness" for Renault to ditch the alliance with



Ghosn has left a void

Nissan, add Ben Dooley and Jack Ewing in *The New York Times*. This is because such alliances "take years to deliver benefits". Besides, there are signs that FCA is already starting to make alternative arrangements. Last Monday it announced a preliminary agreement with tech company Aurora "to develop self-driving vehicles".

The latest twists and turns remind us of how good former Nissan boss Carlos Ghosn was at "balancing the needs of two countries with a history of national pride and state interference in industry", says Lionel Laurent on Bloomberg. It's "remarkable" that he was "able to push a sickly Nissan" into adopting "truly revolutionary changes" after the creation of the alliance, including "an end to cosy deals with historical suppliers, massive job cuts, and the ceding of control to non-Japanese executives". While arguably "too much power was concentrated in the hands of one man", he's "clearly left a void, which has been filled by squabbling".

Will Fosun rescue Thomas Cook?

Some "good news" has arrived at last for Thomas Cook's shareholders, says the *Financial Times*. China's Fosun International Ltd is considering bidding for the beleaguered British travel company's tour operating division. Fosun's bid comes shortly after Thomas Cook outlined plans to sell its airline in order to gain access to a new £300m financing facility. Whatever happens with Fosun, the airline sale is likely to go ahead since, under EU rules, the Chinese group wouldn't be allowed to own a majority stake in it anyway.

If you own shares in Thomas Cook, you shouldn't get carried away, since a sale to Fosun "is unlikely to leave investors



much wealthier", says Lex in the FT. Even after this week's uptick, the stock is still 90% below last year's peak. While it is "a vintage brand plenty of Chinese tourists would appreciate", high indebtedness "weakens Thomas Cook's hand" in talks with Fosun, which has already spent £200m on an 18% stake. Thomas

Cook's shareholders should be grateful if they get anything, since the alternative is "complete wipeout", says Christopher Williams in *The Daily Telegraph*. Remember, "it won't be the shareholders calling the shots in this situation" as it's "the banks and hedge funds that hold the company's distressed bonds" who have the final say on the deal. They will judge it on Fosun's "plans for the future".

If they are not convinced that Fosun's plans "come with cash to pay down debt", they could choose to take control of the company themselves. That would also mean that Fosun's £200m investment would be reduced to ashes.

Who will deliver Brexit?

The Tories have one issue on their plate – and it's seasoned with plenty of snake oil. Emily Hohler reports

“When Donald Tusk, the European Council president, warned Britain in April not to ‘waste’ the extra time it had been granted to sort out its position on Brexit”, he probably didn't have the Tory leadership contest in mind, say George Parker and Sebastian Payne in the Financial Times. This week, much of the debate has revolved around the idea that, unless Britain can renegotiate its Brexit deal, it will leave with no deal on 31 October. However, Jean-Claude Juncker repeated on Tuesday that the draft withdrawal deal would not be reopened, and there is still no majority for a no-deal Brexit in the Commons. The Tory leadership contest is “taking place on a different plane”.

Boris Johnson, the frontrunner, says he will see through his promise to ensure that Britain leaves on the 31st, with or without a deal. Andrea Leadsom “insisted that the EU would agree to rewrite the deal”. Dominic Raab is talking of “suspending Parliament” to force through his vision of Brexit, says the Financial Times's Robert Shrimley (though Labour is moving to prevent this). Esther McVey is refusing to rule out this gambit, too.

Gymnastic manoeuvres towards the exit

Raab's “wild notion is symptomatic of the way Tory mania has mutated, from a belief that Brexit can work wonders, to a state of not really caring what it achieves as long as it is done”, says Rafael Behr in The Guardian. Most Tory MPs know perfectly well that the “whole enterprise is a warehouse full of snake oil” – and all of the leadership candidates' manifestos are based on the same impossible “gymnastic manoeuvre” that delivers Brexit without making contact with “other countries and Parliament”. So, there is a “twisted logic in giving the sales job to Boris Johnson,



Johnson: the Tories' most talented charlatan

©Getty Images

their most talented charlatan” – even if, notes Alex Massie in The Spectator, his supporters struggle to “point to a single notable or qualifying achievement” that indicates he would make a good PM.

Regardless, Johnson is leading the field by a long margin, commanding the support of at least 80 MPs, more than twice that of his closest rivals, says Daniel Capurro in The Daily Telegraph. Jeremy Hunt – whose “central pitch”, notes the FT's James Blitz, is that he is “a wiser and more pragmatic figure than Mr Johnson” – has the backing of 30 MPs. Michael Gove, who may have had his chances scuppered by revelations of his cocaine use, has 31.

Johnson is also fighting this contest in “propitious circumstances”, says James Forsyth in The Spectator. He is the Tories' most obvious answer to the Brexit party, and the least like Theresa May (parties always “overcorrect when picking a successor”). The “conundrum” for the Tories is that they need a “proven vote

winner” like Johnson, but they are also “desperate to avoid the very election they need him to fight until Brexit is delivered”, says Philip Johnston in The Daily Telegraph. If Johnson were to push for a no-deal Brexit by 31 October, his “short-lived government” would be brought down in a vote of no confidence.

“Mind you, this assumes that when Johnson says he will seek a no-deal Brexit, he means it.” But once he encounters refusal in Brussels, he will surely realise that the “only way out” is another general election or referendum, with the Tories campaigning unambiguously for Leave and Labour morphing into the “champions of Remain”. Johnson may even do a deal with Nigel Farage. But “until Brexit is sorted”, any “promises and attempts to redefine Conservatism are irrelevant”. The country “craves clarity, direction and a leader who can provide it... Without Johnson, arguably, Brexit would never have happened. Now he has to deliver it.”



Gove has reckless big ideas

©Getty Images

Tories discover the magic money tree

Many of the ten Tory leadership candidates have “set off” on the race “kicking great lumps out of fiscal orthodoxy” and “spraying us all with whopping great promises” about their tax and spending plans, says Alf Young in The Times.

Dominic Raab says that he will raise the starting point at which national insurance contributions are levied from just over £8,600 to £12,500 and cut 5p off basic-rate income tax over five years. The total cost of this would be £32bn a year. Boris Johnson promises to raise the point at which higher-rate income tax is levied in England from £50,000 to £80,000, offsetting the cost by extending the national-insurance

threshold to the same level – a move that will appeal hugely to rich pensioners (who no longer pay for their state pension, and who, not coincidentally, are well represented in the party's membership and will be choosing Theresa May's successor). Johnson is also refusing to pay our £39bn debt to the EU, “making Britain a rogue state”, says Polly Toynbee in The Guardian. Meanwhile, Jeremy Hunt wants to slash UK corporation tax from 19% to 12.5%, at a cost of £13bn a year (it was 28% ten years ago), and increase defence spending by at least £20bn a year.

As for Michael Gove's big idea to abolish VAT, which raises nearly £140bn a year, and

replace it with a sales tax, that would be the “biggest, riskiest and most disruptive change” in the tax system in more than 50 years, says Paul Johnson, director of the Institute for Fiscal Studies, in The Times. He should perhaps ask himself why countries around the world are moving in “precisely the opposite direction”. British politics has “become so routinely shocking that sometimes you have to remember to be surprised”, says Robert Shrimley in the Financial Times. “Supposedly serious candidates” are trashing economic discipline. “The once fabled ‘magic money tree’ is now a veritable arboretum of impossible pledges.”



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Betting on politics



With the contest to become the next Conservative leader heating up (see page 14), punters are pouring money into the betting exchanges. In all, £3.85m has been wagered on Betfair on the identity of the next Conservative leader; on Smarkets £1.8m has been bet. At the moment Boris Johnson is the clear favourite, at 1.66 (60.2%) on Betfair, followed by Jeremy Hunt on 7 (14.2%), Andrea Leadsom on 9.4 (10.6%) and Michael Gove on 17 (5.8%).

There are also a lot of subsidiary markets to consider. A total of £53,000 has already been wagered on Betfair on who will make the final two, for example. In this case the leading candidates are Boris Johnson at 1.26 (79.3%), Hunt at 1.4 (71.2%), Michael Gove at 3.7 (27.2%), Rory Stewart



at 3.9 (25.6%), Andrea Leadsom (pictured) at 6 (16.7%) and Dominic Raab at 10 (10%). There has even been £9,469 bet on the number of MP ballots, with four currently the favourite at 2.66 (37.5%), followed by three (36.2%).

As I have already made tips on the identity of the winner in the summer of 2017, and conscious of my rule not to bet on the same contest twice, I'm going to have to stand aside. I think it unlikely that Leadsom could make the final two, but the odds may have shifted by the time this reaches you, with the first ballot due to start to take place on Thursday, so I can't formally recommend betting against her.

Hong Kong makes a stand

China's power grab is thwarted by mass protests. Matthew Partridge reports

"Protesters fought pitched battles with police in central Hong Kong on Wednesday in an eruption of public anger against an extradition bill that critics see as a threat to the territory's civic freedoms and rule of law," says the Financial Times. Yet despite mass protests, including a rally that was "Hong Kong's largest since its handover in 1997 to China from Britain", Hong Kong's leader "has vowed to push ahead with the bill". The protests did succeed, however, in delaying the debate in Hong Kong's Beijing-dominated Legislative Council. The police escalated the conflict, using pepper spray, rubber bullets and tear gas against protestors.



Police pepper sprayed protesters at Wednesday's rally

The threat to freedom

The numbers of protestors has astounded even the organisers, with a turnout equivalent to one in seven of the population, says The Guardian. But it is not surprising that people are angry. The proposed laws "are the latest and most decisive breach of China's commitment to maintain Hong Kong's way of life for 50 years after its handover from Britain in 1997". The bill will remove the firewall between the two countries' legal systems, which will expose both Hong Kong's residents and those who travel there to "the whims of the Chinese Communist party, which controls the mainland's courts and is handy at mustering convenient legal cases".

China's moves aren't just a threat to political freedom in Hong Kong, but will also cause "long-term damage, financial and otherwise", says Robyn Mak for Breakingviews. Hong Kong's attractiveness to firms "depends in large

part on its autonomy and rule of law". Compromising these "will have devastating implications" for the local economy. The erosion of trust between Hong Kong's leader Carrie Lam and the private sector, which has also protested against the bill, makes it unlikely that private developers will be willing to take part in her scheme to build more houses for the middle class to solve the region's housing crisis.

The "uncomfortable reality" for Beijing is that "the maintenance of Hong Kong's autonomy is the basis on which the city gets preferential treatment from foreign governments", says Ben Bland for Bloomberg. US law allows the president to revoke Hong Kong's privileges unilaterally, which would "punish the Chinese state-owned companies, tycoons and officials who use Hong Kong as an entry point to the global financial system". Such action is unlikely for now, but the pressure to enact sanctions will grow "if Beijing keeps squeezing".

It's not just those in Hong Kong who should be worried, says Con Coughlin in The Daily Telegraph. This latest "power grab" is just part of a wider context that includes the militarisation of the South China Sea, and China's "Belt and Road" initiative, which critics claim has "lured impoverished nations into taking out loans they can ill afford, thereby making them Chinese vassals in all but name". Beijing's latest move is yet another reason for Britain's ministers to be "cautious" when considering the long-term implications of trade with China, whether that's allowing Huawei access to the new 5G mobile telecoms network or welcoming investment in new nuclear power stations.

Britain seeks its place in post-Brexit world

Korea - UK Free Trade Agt

자 : 2019년 6월 10일(월) 장소 : 롯데호텔서울 에미



First steps to new trade deals

Britain has taken "a big step towards shoring up worldwide trade relations in the event of a no-deal Brexit" by signing a stopgap agreement with South Korea, the first Asian country to sign such an accord, says the Financial Times. The government hopes to reduce the disruption to trade from Brexit by "replicating the accords that the EU has struck with the rest of

the world". The UK is one of South Korea's major trading partners with bilateral trade that has increased "by an average of 12% a year since the EU-South Korea free trade agreement was signed" and was worth £13.3bn in 2017.

The deal represents progress, but the task of rolling over existing EU trade deals remains far from complete, says Callum Jones in The Times. Business groups have welcomed the deal in the hope that it could inspire similar agreements with countries such as Canada and Japan. But there are about 40 other preferential agreements between the EU and some 70 countries that Whitehall officials have been seeking to replicate,

and which would expire in the event of a no-deal Brexit.

The process of rolling over existing deals is incomplete and the negotiation of completely new ones, especially with the US, looks no nearer, says The Economist. President Trump backtracked from his comments last week that "everything should be on the table" in a US-UK agreement, including "access to the NHS", but US negotiating documents make it clear that the US will look for "more NHS contracts and higher drug prices". That will make any future deal politically difficult – not least because "Congress has said it will not ratify any trade deal if Brexit is seen to threaten peace in Northern Ireland".

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Together we thrive

San Francisco

Salesforce snaps up Tableau: Cloud-computing company Salesforce has agreed to buy Tableau Software for more than \$15.7bn in stock, say Asa Fitch and Kimberly Chin in *The Wall Street Journal*. Salesforce helps its customers to move their data to the cloud (where it is stored and processed online rather than on a firm's computers), while Tableau sells analytics software to businesses that allows them to understand their customers better. The California-based giant is paying a 42% premium to Tableau's share price. The hope is that Tableau will add at least \$350m to Salesforce's sales of around \$13bn this year. The purchase is by far Salesforce's biggest acquisition in a shopping spree that included MuleSoft last year, for which it paid \$6.5bn. It also marks Salesforce's entrance into the "business intelligence" market. Investors reacted with scepticism, amid concerns that revenue growth is slowing. The company's shares suffered their worst day in seven months, while Tableau's jumped 34%. Days earlier Google parent company Alphabet had agreed to buy business analytics start-up Looker for \$2.6bn in cash. Alphabet and Salesforce have both sought "to shore up their competitive stances against an older but wiser software behemoth, Microsoft" in "the exploding arena of Big Data", says Therese Poletti on MarketWatch.

Buenos Aires

Presidential candidates are equally unpopular:

There are just days left for candidates to register for Argentina's presidential elections at the end of October. While incumbent president Mauricio Macri (pictured) has been accused of running the economy into the ground, his main challenger, former president Cristina Fernández de Kirchner, is equally unpopular, according to Uruguayan news agency MercoPress. A leaked opinion poll of 2,254 voters by Synopsis posed the question: which candidate do you not want to win? Macri and Fernández both came out on top with 46.5%. The poll also predicted Macri would edge ahead in the election by less than one percentage point once undecided voters had been added. Other polls continue to show an advantage for Kirchner, notes Benedict Mander in the *Financial Times*. Macri, who has been in charge since 2015, is more business-friendly, but has been hampered by inflation of 55% and an ongoing recession, although a ray of hope came in April when the economy grew for the first time in months – by 1.2% compared with March.



Seattle

Amazon gets indigestion: Amazon is to close its online food delivery business in the US after failing to make any headway in the fiercely competitive market. Amazon Restaurants began in Seattle in 2015, but by May 2019 had expanded to just 25 US cities. The sector is dominated by three companies – Grubhub, DoorDash and Uber Eats, with a joint 80% of the market – but it is "very labour intensive", food-industry analyst Phil Lempert told *The Wall Street Journal*, and "financially... a disaster". That hasn't stopped investors piling in, however. Last year, DoorDash raised \$1bn in funding. Grubhub went public in 2014 and is currently worth approximately \$6bn after peaking at more than \$13bn in September last year.



Amazon bit off more than it could chew

©Alamy



The way we live now: get a makeover from a machine



Your clothes are carefully selected by algorithms

Fashion start-up Stitch Fix is "a more sequined version of a vegetable delivery box", says Helen Rumbelow in *The Times*. You fill in an 80-question survey about your tastes for a one-off £10 "styling fee" and let algorithms pick out clothes for you from its warehouse. A human stylist does a final pass of the items that are put in a box and sent to your door. If you keep anything the styling fee is redeemed. It is addictive – who wouldn't want their own stylist? It's the "you shall go to the ball!" fantasy element that sets Stitch Fix apart from regular mail-order shopping. Founder Katrina Lake "did

not become one of the wealthiest self-made women in America by flogging jeans". (Stitch Fix is valued at \$2bn.) "She is flogging dreams." The Silicon Valley start-up has now arrived in Britain. It has three million customers in the US, and social media is "flooded" with its excited "unboxing" videos. Rumbelow's own box contains a "far-too-see-through-for-me white shirt", she says. "Another diaphanous dark shirt... and a dress with a leaf print that I sort of like, but not enough... It is a massive disappointment. I sign up for another one immediately."

London

Employment at a record high: The number of people in work rose to a record 32.75 million in the three months to April, according to the Office for National Statistics (ONS). Unemployment fell by 34,000 to 1.3 million, keeping the rate steady at 3.8% – the lowest since 1974. Scientific and professional work were the main drivers behind the rise in employment, with the health, communications, entertainment and manufacturing sectors also performing well. The shrinking labour pool has led to higher pay growth as the “demand for labour is starting to give workers more bargaining power”, says Tim Wallace in *The Daily Telegraph*. Regular wages rose by 3.4% year-on-year, while total earnings rose by 3.1% due to weaker bonus pay-outs. Either way, earnings easily outpaced inflation, which rose by 2.1% over the same period. Still, “given that output fell in April, the rise in employment points to even weaker productivity”, says Capital Economics. That implies “pressure on firms’ margins” as employees demand more pay. “Eventually” this will stoke inflation.



The unemployment rate is at a 45-year low

©Getty Images

Mumbai

GDP growth exaggerated: India’s former chief economic adviser has said that the country’s economic growth rate was closer to 4.5% than the official figure of 7% between 2011 and 2017, undermining the “heady narrative of a guns-blazing India”, says Siddharth Shrikanth in the *Financial Times*. Arvind Subramanian, who advised the Indian government from 2014 to 2018, blamed a change in the method used to calculate India’s GDP and said that his team had “frequently” raised their concerns with the government. His findings will add to doubts about the reliability of India’s official statistics, which have been growing in the wake of more recent controversies, including revelations by a government agency of “multiple gaps in a database used to calculate GDP figures”. Subramanian said that the ramifications of the errors were potentially huge, including interest rates that may have been set as much as 1.5 percentage points too high and delayed action on distress in the agricultural and banking sectors. Several initiatives to put the database of the Indian economy on a firmer footing should be bearing fruit by now, says Sudipto Mundle on *Livemint*. However, with more than 50% of the labour force still dependent on agriculture and millions more working in tiny enterprises, obtaining accurate, up-to-date data is challenging.

Chisinau, Moldova

Moldova’s two governments square off: Moldova, one of Europe’s poorest countries, has found itself with two competing governments, with neither willing to give way to the other. Last weekend, Moldova’s Russia-leaning Socialist Party and pro-EU party ACUM, which came first and third respectively in February’s inconclusive elections, put their considerable differences aside and agreed to form a coalition government led by pro-Moscow president Igor Dodon and pro-EU prime minister Maia Sandu. But the incumbent Democratic Party, led by local oligarch Vlad Plahotniuc, immediately contested its legitimacy, and the Constitutional Court ruled in the Democratic Party’s favour on a technicality. A stalemate ensued. By Monday “the country had emerged with two rival governments that held two separate cabinet meetings”, says *Foreign Policy*. The EU and Russia have shown uncharacteristic unity in recognising the Socialist/ACUM coalition. It has vowed to fight corruption in the country’s state institutions, which have become “captive to the interests of wealthy tycoons”.

Melbourne



A welcome distraction for Uber

Uber Air lands in Australia: Ride-hailing service Uber has picked Melbourne to be its first trial city outside the US for its pioneering air-taxi service, joining Dallas and Los Angeles. Test flights are to begin from next year, with commercial operations starting in 2023. Uber is working with Nasa, the US Army and aircraft

manufacturers to develop the “aerial ride-sharing” service. The news comes as a welcome distraction for Uber, which posted a \$1bn loss in its first earnings report following its disappointing stockmarket debut last month. The concept has the potential to reduce traffic congestion, which costs the Australian economy an estimated \$16.5bn a year, Uber’s Eric Allison said. A journey from Melbourne to the airport, which usually takes an hour by car, will take ten minutes by Uber Air. However, “these vehicles are very low capacity, similar to what a car could carry”, Chris De Gruyter of the Centre for Urban Research, told *The Guardian*. They could also cause congestion in the sky.

Unicorns spotted in Albion

The UK has more billion-dollar technology companies, or “unicorns”, per capita than China has. That’s cause for celebration, but they need nurturing. Simon Wilson reports

What’s happened?

Theresa May opened London Tech Week – which has grown since its debut in 2014 into Europe’s biggest tech-business jamboree – with an announcement of \$1.2bn in new investments in the UK from 13 tech companies, and £358m in government support for quantum computing. Meanwhile, India’s Infosys and Japan’s NTT Data are opening innovation labs in east London, and Liliium, the Munich-based flying-taxi start-up, announced it was hiring hundreds of software engineers at a new London hub.

And what’s this about unicorns?

Most striking of all was the news, in a report by Tech Nation and Dealroom, that the UK has created 13 new tech “unicorns” over the past year (meaning start-ups now valued at more than \$1bn) and now has more unicorns – a total of 72 – than any country except the US and China. By way of comparison, Germany (our nearest European rival) has 29 and India 26. Per head of population, America (703 unicorns) is well ahead of Britain, but China (203) is behind us. Meanwhile, investors have poured a record \$5bn into UK tech start-ups since January, reinforcing the country’s status as Europe’s leading high-tech nation, the research found. More than a third of Europe’s fastest-growing tech companies are based in Britain, and there are a further 75 firms in the pipeline identified as potential future unicorns (currently valued at more than \$250m).

Who are they?

The food-delivery app Deliveroo is the best-known name. Amazon recently led Deliveroo’s latest £452m funding round, which valued the company at at least £1.5bn (and up to £3bn). But the UK’s particular strength is financial technology (fintech). For example, the millennials’ darling Monzo, known for its coral cards and clever tools to track spending, reached unicorn status last year after a £85m funding round. Monzo’s rival Revolut raised £179m last year, valuing it at £1.2bn (and is reportedly looking to raise another £400m this year). OakNorth, focused on business banking, raised nearly £350m from SoftBank last year, valuing it at £1.8bn. And Greensill, specialising in supply-chain financing, attracted a £630m investment earlier this year from Japan’s SoftBank, valuing it at £2.7bn.

Are there more?

Other fintech unicorns include mobile-payments firm SumUp, TransferWise (now worth £3bn), Radius Payment Solutions and Checkout.com (payments software). But it’s



Theresa May announces \$1.2bn in new investments in UK tech companies

not just fintech. In the field of computing, Improbable – creator of the cloud-based SpatialOS – received nearly £40m in investment from China’s NetEase, bringing its valuation up to around £1.5bn. And Graphcore, which was founded in Bristol in 2016 and creates semi-conductor processes that accelerate machine learning and AI applications, raised £157m from investors including BMW, Microsoft and Atomico, to value the firm at £1.3bn. In the field of biotech, notable new unicorns include Oxford Nanopore Technologies, Immunocore and BenevolentAI. Darktrace, which brings together biotech and cybersecurity, is worth £1.3bn just five years after launch. In e-commerce, there’s The Hut Group, and in energy supply, Ovo.

Why is the UK doing so well?

Part of it is down to London’s historic strengths as a major global hub and leader in financial services. In terms of fintech unicorns, London ranks second globally only to the Bay Area (the cluster of cities around San Francisco) for the number of unicorns created to date, at 18. But at the same time, the UK’s success reflects a “flourishing ecosystem that increasingly extends well beyond the capital”, argues The Times. Cambridge, Oxford and Manchester have produced five unicorns each; Edinburgh three; and Bristol and Leeds two each. Already, the UK technology sector employs more than two million people, and has been growing at 10% a year – far in excess of the economy as a whole. That success has happened because the UK “is able to offer access to finance, highly skilled staff, world-leading research at its universities, and high-quality services in areas such as accounting and law”.

Could Brexit ruin it all?

Unlikely. The uncertainty around Brexit has put a brake on overall business investment in the UK, but the jitters have yet to hit the tech sector. Indeed, the UK attracted 5% of global high-growth tech investment in 2018 (according to Tech Nation), whereas it accounts for only 2.2% of global GDP. In the event of a no-deal Brexit, tech firms are seen as less exposed than those that rely on complex supply chains of physical goods. No one in business will want to see post-Brexit immigration controls that discourage EU or other overseas workers from coming to the UK. But potential changes to immigration policies – conceivably placing a minimum threshold on salaries for skilled overseas workers – are likely to have less of an impact on a sector where pay is high.

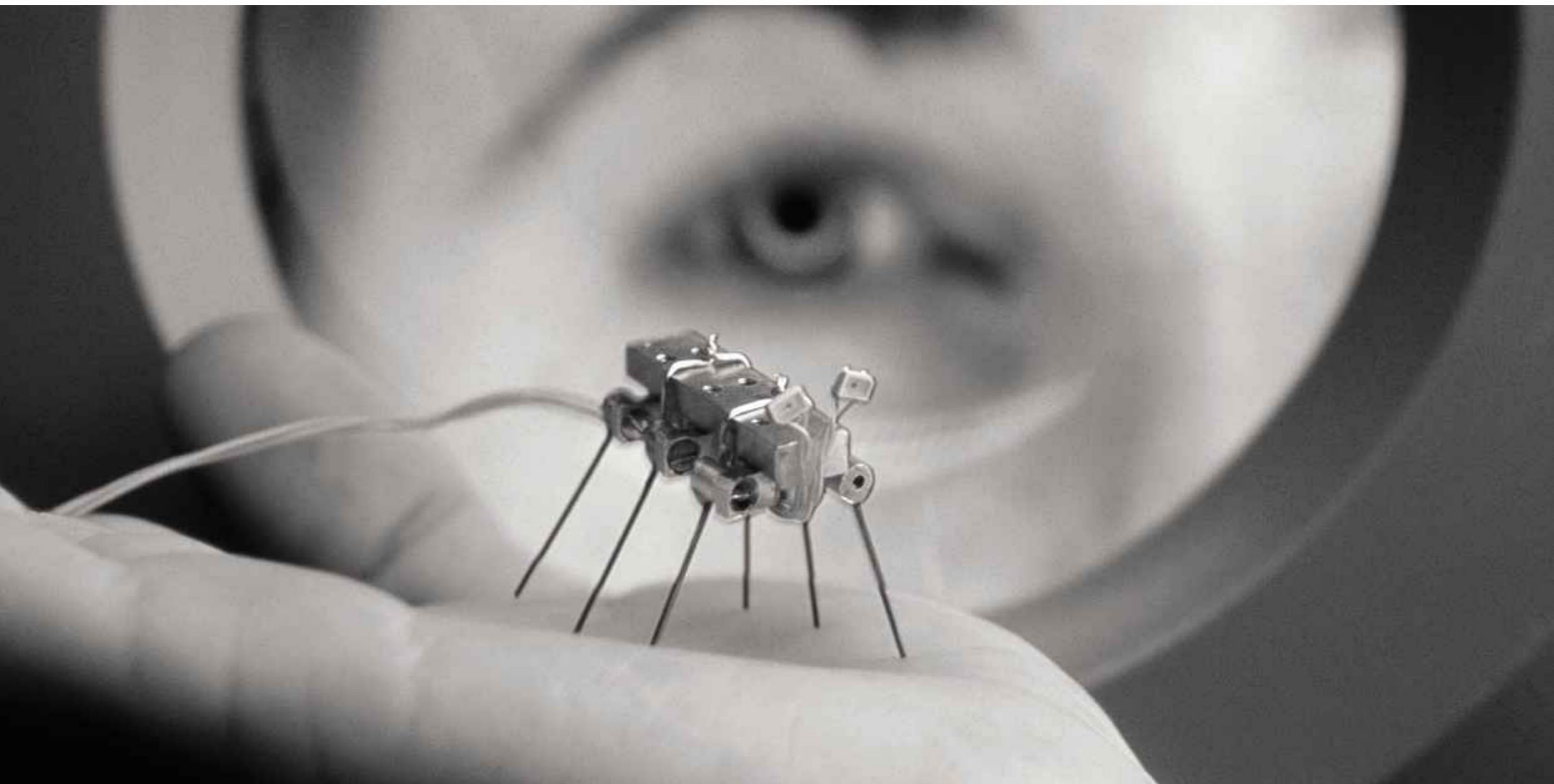
How can Britain remain a global leader?

We need to learn from the US, where massive investment in education, research and engineering in the 1950s and 1960s bore fruit in the 1970s and 1980s with the rise of Silicon Valley. That US success story was built on a culture of enterprise supercharged by an immigration system that welcomed the best brains from around the world. And we need to learn from China, the world’s number-one producer of undergraduates and PhDs in science and engineering, where the rate of research and development investment massively exceeds that of the US or Europe, and where the government supports young businesses via more than 2,500 tech incubators and accelerators. Above all, reckons the Tech Nation report, we need to foster ever more intensive collaboration between investors, entrepreneurs and other stakeholders; more openness towards investment; and increased support from the government for future leaders of technology businesses.

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The fallout from Neil Woodford's fall from grace

If you own a Woodford fund, what should you do now? And what of the other stocks affected by the former star manager's current woes? Merryn Somerset Webb has the answers

Last week Neil Woodford, one of the UK's only star fund managers, was forced to suspend dealing in his flagship Woodford Equity Income Fund (WEI). Having once had assets of nearly £10bn, the fund's bad performance and concerns over the portfolio's structure had led to mass withdrawals. This in turn led to liquidity problems: Woodford was unable to sell stocks fast enough at reasonable valuations to pay out to those cashing in without breaching regulations that limit the illiquid holdings in the WEI portfolio to 10%. Its suspension (or "gating") was the result. Since then nothing has gone right for Woodford. St. James's Place (SJP) has ended its £3.5bn relationship with Woodford. Hargreaves Lansdown (HL) has taken the fund off its Wealth 50 list and publicly called for Woodford to cut the fees on the £3.7bn he has locked up. There has been wall-to-wall media coverage (relentlessly negative) and, worse, the regulator, the Financial Conduct Authority (FCA) is talking about investigating. So what next? Below we try to answer some of the big questions on Woodford's spectacular fall from grace.

Is it possible that this is just a performance blip?

Whenever anyone talks about Woodford, they refer to his amazing record. But there might be less to this than meets the eye. His record at Invesco Perpetual was "outstanding", says Brian Dennehy of FundExpert. But that depends on how you measure it. Over the ten years to 2014 (when he set up alone), Woodford's Invesco Perpetual Income fund was a top performer compared with peer funds. But over the five years to 2014, it was placed only 33rd. Expand the comparison to all UK equity funds and it looks worse. In the ten years to 2014 it was 17th, and over five, 123rd.

Look, then, to his performance since Invesco Perpetual. WEI did fine in its first two years – up 17% against a sector average of more like 2.5%. The longer-term record is not so good. From mid-June 2014 to the end of May this year it was up 1.16%. This lagged the UK Equity Income sector average by 25%. Note that while the liquidity problems in WEI can be blamed on the unquoted stocks held, the bad performance cannot. FundExpert points, for example, to the SJP UK High Income fund, which Woodford was running for St James's Place. In May it performed even worse than WEI.

The key lesson here is probably this: Woodford's success at Invesco Perpetual was largely based on a brilliant, but very big long-term, bet – one that few others had the stamina to maintain – "a consistently large overweight in defensives, in particular utilities, tobacco, and pharmaceuticals". When that stopped working – and his style began to drift – so did his performance. It could be a blip – he has had them

"There might be less to Woodford's amazing record than meets the eye"



Woodford: who has been caught up in the fallout?

before. But it could be that his old style doesn't work anymore and his new one doesn't either.

When can I sell?

Probably not for a good few months. The liquidity problem has been an issue for a few years, so Woodford will know where all the potential buyers are, but it will still take a while to get rid of all his illiquid stocks so he can pay out investors who want to leave. When the fund does reopen, investors should prepare for the value of their holdings to be lower than when it was gated. There will be forced selling and there will be high levels of dealing costs, too. There is also still a chance that rather than restructure the fund Woodford, encouraged by the FCA, will decide to liquidate it completely and return the cash to investors.

Who can I blame for all this?

Woodford, his ego, and his management team, of course (I can't see his compliance officer moving onwards and upwards from here). He shouldn't have raised so much money (he had to take huge stakes in small firms to make it worthwhile – which is one reason his positions are so hard to sell); he shouldn't have changed his style; and he should have managed his risks rather better. But there are other culprits. HL overpromoted the fund. Its clients may be mainly DIY, but they still deserve better care than they got – particularly given how important being a champion of the smaller investor is to the HL brand.

Ratings agencies shouldn't get a free pass. Morningstar downgraded WEI last week. A little late? Nor should the independent financial advisers (IFAs) who shovelled clients into it as a "safe" branded income option, or much of the media (the Woodford PR machine was relentless, but we are supposed to see



“If you hold illiquid assets in funds, make sure that the fund structure is suitable”

through that kind of thing). Finally there is the FCA. Should it have intervened earlier?

Does the disaster tell us something about the active industry as a whole?

In some ways the crisis is very Woodford-specific. But it should prompt a wider conversation – the liquidity element could be the canary in the coalmine for what happens in the asset-management industry in the next downturn. In a report for Amundi, Pascal Blanqué (quoted by Patrick Jenkins in the Financial Times) warned about this. “Financial markets seem more and more a bigger house with smaller exit doors. The ability to transact in any meaningful size has in some way been diminished across all asset classes and that would be exacerbated in case of market turmoil.”

Bank of England governor Mark Carney worries, too. “More than £30trn of global assets are held in investment funds that promise daily liquidity... despite investing in potentially illiquid underlying assets such as (emerging market) debt.” What do you do? Note that it was liquidity issues that ignited the 2007-2008 financial crisis. Note, too, that in the hunt for returns in a low-growth world (and one in which fewer firms are listing) all too many fund managers have moved into illiquid private firms. Then make sure that if you hold illiquid assets in funds, you hold them in funds with a suitable structure (an investment trust, perhaps).

Any other lessons?

Stars come and go. Heavily branded fund managers aren't necessarily good ones. Being on a best-buy list doesn't necessarily make a fund safer or better than one not on the list. Funds can get too big for their own good. You should have a process for deciding when to buy and when to sell funds (just as you do stocks). Maybe review everything you hold every six months

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– and if you aren't going to do this, stick with passive investing. Large egos don't fit with the skills good managers require. You probably shouldn't chase star managers when they move firms. The management process used by a firm can have as much of an effect on performance as the manager himself.

Will this prompt regulatory change?

Colin Clark, Conservative MP and member of the Treasury Select Committee (TSC), has asked the FCA to look at best-buy lists “in order to stamp out conflicts of interest”. Ian Sayers of the Association of Investment Companies has also called for a review of the “commercial incentives to put one fund on the list and not others”. This matters. According to the FCA, around 20% of investors base decisions on best-buy lists despite the fact that they are entirely unregulated.

There may also be some conversation around what Alistair Osborne in The Times refers to as Woodford's “cosy connections” not only with HL and SJP, but also with brokers and individuals with myriad connections to the stocks in his funds. Finally, Nicky Morgan, chairwoman of the TSC, has written to the FCA about its “alertness to the problem”. She has also followed MoneyWeek in asking that Woodford cut the fees he's receiving on WEI – estimated to be around £100,000 a day – during the suspension period. This isn't a regulatory issue, but it might make his beleaguered investors feel mildly less hostile towards him.

Should I buy the Woodford Patient Capital Trust?

Tough call. The share price of Woodford's other big fund – a closed-ended trust designed to invest in small and unlisted companies for the very long term – is down 20% since Woodford gated WEI. The shares now cost around 63p each. That's nasty for anyone who bought at 100p at launch. But it makes sense. At the best of times it is hard to figure out what its holdings are worth (valuing unlisted stocks is, at best, an art). But right now, with doubt cast on Woodford's stock picks and crossovers (60%-70%) of holdings between the WEI and Woodford Patient Capital Trust (WPCT), it's even harder. The gated fund also owns around 10% of WPCT (yes, this is odd) – so those shares will have to be sold too.

Finally there is a potential debt problem. The Financial Times's Matthew Vincent notes the trust's debt facility expires in January. But should it breach covenants before that “it will have no choice but to sell off assets to pay off the debt” – all while WEI is selling the same assets. Talk about a fire sale. Also, the WPCT board isn't yet 100% on top of the problem. It is “closely monitoring the situation”, but we want to know what it plans to do. Will it bid for the stakes Woodford is selling? Look for a new manager? Aim to manage the discount back up? That said, there is a level of discount that would make it worth a long-term punt. Right now, the discount is 30%. Some of you will think this enough. We don't think it's quite there yet.

Should I buy shares in Hargreaves Lansdown?

Before this saga, HL shares traded on a price/earnings (p/e) ratio of around 40. Since then the share price is down 20% or so, and the p/e to 35. The problem isn't financial, it is brand. We often suggest HL to DIY investors, not because it's the cheapest platform, but because it's the biggest, most solvent, and has the best service. HL has been quick to try and salvage matters (it has waived the platform fee on the “gated” fund and dumped Woodford fast). But if it was pricey on 40 times before this incident, you should consider the risks (branding and the odds of regulatory change around best-buy lists) and probably think it expensive on 35 times now.

The tech giants should be broken up

But rather than wait and be at the mercy of regulators, they should begin the process themselves



Matthew Lynn
City columnist

The calls for the big tech companies such as Amazon, Facebook, Google and Apple to be split apart grow ever louder and more ferocious. It's an issue that has found rare cross-party consensus in the US, and the EU has already imposed massive fines for market dominance on the tech firms, and there is plenty of discussion about forcing them to split off whole units. It remains to be seen what happens.

Yet there is one move the critics haven't thought of, and that shareholders have yet to take into account. The likes of Jeff Bezos at Amazon and Sergey Brin and Larry Page at Google could learn a lesson from the greatest monopoly tycoon of all time – John D Rockefeller – and break themselves up.

A lesson from Standard Oil

A century ago, Rockefeller's Standard Oil faced equally intense criticism from anti-trust legislators and regulators. It was the dominant power in the oil industry at a time when that was becoming the most important fuel of the age. At one point it controlled more than 80% of production, refining and distribution across the US. Its tentacles spread everywhere, and its founder was by far the richest man in the world (just as Bezos is today). In 1911, the Supreme Court forced it to break up into 34 separate companies. The twist, however, was that most of them flourished and became the firms that controlled the industry for the next century. Standard Oil of New Jersey became Exxon, or Esso as it was known in the rest of the world. Standard Oil of New York turned into Mobil and eventually merged with Exxon. Standard Oil of California became Chevron. Standard



Rockefeller thrived after a shake-up

Oil of Indiana became Amoco, which eventually merged with BP.

The company fought the break-up, and so did its founder. But it didn't work out too badly in the end. As the owner of about 25% of the equity in each new unit, Rockefeller's fortune just grew and grew after the split, and the companies spun out of Standard continued to dominate the oil industry. Indeed, they still do today.

The tech giants could follow suit. Take Amazon. It could fairly easily split into three units: Amazon retail, shipping books and everything else around the world; Amazon

media, which would include its TV unit, the Kindle store, and music streaming; and Amazon web services, which would own its massive cloud-computing business. It might lose a few synergies on its Prime service, but it could easily cover that with some form of sharing arrangement. Indeed, arguably the three baby Amazons would be in better shape after a split, simply because they would be smaller and more focused.

The same is true of Alphabet, or Google. It could be split into search, covering its main website; mobile systems, which would own the Android operating system and all the apps that come with it; and web services, which would control the Play Store, and potentially all the other internet devices the company has been investing in. The chances are that each unit would keep on growing, and the two founders would have a controlling interest in all of them.

The same logic could be applied to Apple and Facebook. Apple could split into its hardware unit, making computers and phones, and a web-services unit covering TV, games and music streaming. Likewise, Facebook could split out WhatsApp from the main social-media site, and it could possibly split itself geographically as well, just as Standard Oil did a century ago.

Bezos, Page and Brin are, without doubt, the smartest businessmen in the world. Their one final stroke of

“Bezos, Page and Brin are, without doubt, the smartest businessmen in the world”

genius would be to orchestrate their own break-up. It would protect their empires from the threat of

an imposed break-up, and allow them to control the process rather than leaving it at the mercy of regulators and politicians. And it would make them even richer and more powerful – even if that is probably not quite what their critics have in mind.

Who's getting what

● **High Court judges** are to get a 16% pay rise – more than £26,400 a year – bringing their annual salaries to £215,000, says The Times. The extra is being paid in an effort to counter a shortage of judges, with more than 10% of judicial positions in the High Court vacant. More money may not fix the problem however, with judges' morale sapped by a long-running pensions dispute with the government; complaints that court infrastructure is in disrepair; legal-aid cuts



leading to many litigants going unrepresented; and a rise in violence in courtrooms.

● **A director at investment group Lindsell Train** – unnamed, but which the FT speculates is either Nick Train or Michael Lindsell – has become one of the country's best-paid fund managers after receiving £8.2m last year, up from £5.7m in the previous year. That trumps the £6.7m handed to Schroders chief executive **Peter Harrison** and the £7.4m taken home

by Prudential CEO **Mike Wells**, but is less than half the £16.6m handed to “star bond manager” **Richard Woolnough**, also of Prudential. Lindsell Train made a pre-tax profit of £55.6m last year.

● **Jolyon Harrison**, chief executive of housebuilder and landbanker MJ Gleeson, left his job with “immediate effect” this week after a row over his pay package. Harrison was paid almost £3m last year, and £2.8m in 2017 – a “sizeable package”, says Sky News, for a company with a market capitalisation of just £483.6m.

Nice work if you can get it

TV presenter **Caroline Flack** will be paid **£250,000 for three months' work presenting the dating show Love Island**. In addition to her pay, she will get **£1m for wearing clothes from retailer River Island**, reports Capital FM. Contestants, however, will get just **£250 a week, up from £200 a week last year**. However, a good run on the show could lead to much more, with personal appearances, social-media “influencing” and brand sponsorships bringing in money on top of the **£50,000 prize**. The biggest earners from past shows are reputed to be **Alex and Olivia Bowen**, who have earned **£4m since being on the show in 2016**, despite finishing second. They were paid **£25,000 by a magazine when they got married and earn £2,000 per sponsored post on Instagram**. **Amber Davies**, who won in 2017, has made **£1.6m from modelling deals and Instagram posts and now appears in the West End musical 9 to 5**.



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The NHS is on the table in trade talks

Philip Aldrick
The Times

We have been reassured that the NHS “isn’t on the table in trade talks” with the US, says Philip Aldrick. That’s not quite true. Our patient records could be – and we wouldn’t even know. US tech firms could sweep, then mine our anonymised data, develop new tools and apps and “sell them back to the NHS”, pocketing a slice of the UK’s £170bn annual health budget. Indeed, three stated “negotiating objectives” for a trade deal with the UK are to prohibit local data storage (which would allow UK information to be held on servers in the US); to provide full market access for US medical devices; and to prohibit “disclosure of computer source code or algorithms”. Add it together and “it looks like the US wants data access, powers to use that data under its own laws, full intellectual property protection for its algorithms and an unrestricted market in which to sell its final product”. The UK would get the same in return, but because the likes of Google and Amazon are moving into the healthcare space, the playing field isn’t level. The NHS holds the most comprehensive, extensive health data, and post-Brexit, the EU’s GDPR data-protection rules might not protect it from “grasping American interference”.

Egypt teeters on the brink of disaster

Yehia Hamed
Foreign Policy

Egypt is being called the “hottest emerging market” after repositioning itself as a “global investment destination” last year, says Yehia Hamed. But this “obscures a darker reality”. A World Bank report calculates that “some 60%” of the population were “poor or vulnerable”. Living conditions are “sliding rapidly”. A “grand deception lies at the heart of Egypt’s miraculous recovery”, and its architects are the government of President Abdel Fattah al-Sisi and the International Monetary Fund. The government’s “chronic mismanagement” of the public finances has resulted in ballooning debt. The government currently spends 38% of its budget on interest repayments alone; 58% when you add in loans and instalments. Such meagre spending on public services, in a country of 100 million, “should alarm those in Europe too”. Egypt could “soon be bankrupt”, the first step towards state failure. The repercussions of this are “almost unimaginable”. Think of the exodus that followed Libya’s failure. The IMF, which has effectively got Egypt to cut public spending to deal with its “economic disequilibrium”, has “got a lot to answer for”. To prevent Egypt from falling into the “abyss”, political solutions are needed.

Red tape is strangling small firms

Mike Cherry
The Daily Telegraph

Confidence among the 5.6 million small firms that constitute 99% of Britain’s business community is plummeting, says Mike Cherry. According to the Federation Of Small Businesses (FSB)’s latest small-business index, the headline confidence measure stands at -8.8%, down 22 points on last year. This follows April’s introduction of a “raft” of new rules, one of which is the requirement for firms to submit quarterly online VAT returns via HMRC-approved software. This will cost an average of £564 in the first year, and that’s before factoring in the cost in admin and training. This “wheeze” is just one aspect of the “regulatory offensive” that has hit small businesses, which includes a rise in the hourly National Living Wage to £8.21 and a jump in the minimum total contribution to pension auto-enrolment schemes from 5% to 8% of qualifying employee earnings. The average smaller business is now spending £480,000 on policy-linked costs every year, up by £60,000 since 2011. For many, a large proportion of these costs is business rates, which net local authorities £25bn a year. For the first time in 20 years, the the number of small businesses fell last year. “If policymakers aren’t careful, we could be heading for a repeat.”

A slow drift into socialism

Editorial
The Economist

America leads the way when it comes to employee ownership, says The Economist. Well-known firms including Procter & Gamble, Southwest Airlines and Starbucks are part or wholly worker-owned. The number of Americans enrolled in stock-ownership plans has risen from 13.5 million in 2010 to 14.3 million in 2016. “But today left-wing politicians are pushing capitalism for the masses perilously close to socialism.” Bernie Sanders, a candidate for the Democratic presidential nomination in 2020, wants to force big firms to give a portion of their stocks to a fund controlled by employees, which would pay regular dividends. The UK’s Jeremy Corbyn is proposing something similar. Other presidential hopefuls including Elizabeth Warren link the “lowly position” of workers with wealth inequality. “Compelling” firms to give away shares to workers “jeopardises a delicate compromise between progressives and conservatives” that has helped advance the cause of employee ownership. The government could offer modest inducements, but the best bet may be to “rekindle a spirit of self-interest among businessmen. They enjoy a disproportionate share of capitalism’s rewards – and worry about its fate.”

Money talks

“I come from a background of privilege, very much so, and so, yes, it was a world that I recognised... but definitely not to that extent. I’ve never had a pot of just caviar for breakfast.”

Socialite, model and actress Poppy Delevingne (pictured) on playing a super-rich newlywed in the television series *Riviera*, quoted in The Sunday Times



“Jamie Oliver has given nearly everybody a reason to dislike him in the course of his career, not least by snatching Turkey Twizzlers from one generation and imposing a sugar tax on the next. He has been instrumental in ruining Coco Pops, Ribena and Lucozade and has even managed to annoy the TV company that employs him by calling for a ban on so-called ‘junk food’ advertising. You can only get away with this for so long. The public have voted with their feet and exacted their revenge on this evildoer.”

Commentator Christopher Snowden on the collapse of Jamie Oliver’s restaurant chain, writing on the Velvet Glove, Iron Fist blog

“I react pragmatically. Where the market works, I’m for that. Where the government is necessary, I’m for that. I’m deeply suspicious of somebody who says, ‘I’m in favour of privatisation’ or ‘I’m deeply in favour of public ownership’. I’m in favour of whatever works in the particular case.”

Economist JK Galbraith, quoted in the Financial Times

“I’m famous, I get famous-person treatment. You don’t want to be an ahole, but slowly if people start removing obstacles for you, if you live in a world where you never have to sit in line, where people don’t confront you, where they don’t tell you the truth, that’s what you become.”**

Actress Gwyneth Paltrow, quoted in The Times

©Getty Images

Rogue rich guys tackle the climate

vox.com

“Eccentric entrepreneur” Russ George has spent much of his career divided between ambitious environmental projects, such as cold fusion and reforestation. His latest plan is to save the earth from climate catastrophe with “ocean restoration”, says Kelsey Piper. The idea is to dump tons of iron dust in the seas. The result, claims George, will be to trigger an algae bloom. This boosts stocks of fish such as salmon that feed on algae – good news for fishermen – and the uneaten algae takes up carbon from the atmosphere before sinking to the ocean floor and dying off, essentially capturing the carbon.

A chaotic future

This is not just an idea – George tried it out off the coast of Canada in 2012. The result was indeed a record haul of salmon that year (though whether this

was due to George’s intervention or not is unproven). George also insists that the data he would have collected would have demonstrated whether he had succeeded in capturing carbon – but unfortunately his plans were scuppered when his experiment sparked international outrage.

Critics accused him of violating international law. Canada investigated him for illegal dumping and seized his equipment. Experts are doubtful that the result would really be able to capture carbon at all. And in George’s ambitions to curb climate change unilaterally, critics see something frightening – “the dawn of an age in which actors take matters into their own hands and attempt to solve the crisis themselves”.

That could lead to a “chaotic and dangerous future”, says Janos Pasztor of the Carnegie Climate Geoengineering Governance Initiative. Imagine



if a single country, a large company, or even a wealthy individual were to take unilateral action on climate geoengineering – perhaps injecting aerosols into the stratosphere with the aim of reflecting sunlight – that would have potentially huge, but as yet unknown, effects. As the effects of climate change intensify, the “propensity toward unilateral action will grow stronger”, says Florian Rabitz, a political scientist. Stopping “rogue rich guys” doing such things would

be relatively easy. But what if China decided to go it alone?

International law in its present state is of little help and has no teeth. Until that changes, George’s projects, and larger-scale interventions from rogue activists, remain a possibility. “Give me a half tanker of iron, and I will give you an ice age,” George once said. You wouldn’t want to bet against his giving it a try. “The greatest threat to the environment,” he says, “is waiting for someone else to save it.”

The economics of rain

fee.org

It is not lack of water that causes water shortages, says Kevin Baldeosingh. Cambodia, Haiti and Rwanda have more rainfall than Australia, for example, but whereas all Australians have access to safe water, less than half of the people in the other three countries do. It is the level of development that determines access to water, not the amount of rainfall. Take Trinidad. In recent weeks the water authority has been warning citizens not to use hoses and seizing the pumps of farmers illegally watering their crops. True, Trinidad has been suffering a dry spell, but the main problem is inefficient water production. As much as 40% to 60% of the water in its decades-old mains is lost through leakage. But in addition to such technical failures is an economic one – the price of water is simply too low, and any good that is underpriced will raise demand and cause scarcity. Fredrik Segerfeldt, author of *Water for Sale*, cites evidence that the poor benefit most when the water supply is under market discipline. Yet initiatives to privatise water tend to founder on political shoals. That is a shame. Trinidad’s overstuffed system must be subsidised by \$285m annually. The Bahamas, by contrast, also suffers low rainfall, but has welcomed private companies. It suffers less from water shortages.

Are there too many tourists?

theatlantic.com

The Louvre closed due to overcrowding. Too many people clambering up Mount Everest. Barcelona and Venice inundated. Beaches and natural wonders and religious sites around the world under threat... This is “overtourism”, says Annie Lowrey. “If tourism is a capitalist phenomenon, overtourism is its demented late-capitalist cousin” – complete with selfie sticks and ecological

collapse. The root cause is macroeconomic. The poor world, particularly China, has grown richer, which means the middle class is now global. International tourist arrivals have gone from a little fewer



than 70 million in 1960 to 1.4 billion today. The backlash has now begun. As locals begin to protest about prices and overcrowding, mayors and city councils are beginning to impose taxes and regulations.

Yet there is also a backlash against the backlash. Most tourist destinations have no problem. Indeed, they welcome visitors as a vital lifeblood. They also bring “more cross-cultural exposure, investment, global connection, the democratisation of travel, and perhaps more awe and wonder... Even overtourism has its upsides”.

The central bank’s mission creep

ftalphaville.ft.com

A letter in The Guardian from a long list of distinguished signatories argues that the next governor of the Bank of England must do more to combat climate change. “Environmental breakdown is the biggest threat facing the planet,” they argue, so the new governor must take measures to accelerate “the transition of finance away from risky fossil fuels”. I don’t dispute the risk assessment, says Tony Yates, a former Bank economist, but it does not follow that it is the central bank’s job to act.

In so far as climate risks pose systemic risks to financial stability, they become a legitimate concern of the central bank. But it is not clear that the climate is now bearing on financial stability – certainly not more so than populism, trade wars, or even military conflict. Central banks are already too involved in politically controversial matters. The Bank has more than enough to do as it is and we don’t need a governor who grandstands on political topics. Climate change is to be tackled by legislation, taxes and subsidies, imposed by an elected central government. The Old Lady need not be involved.

Letting-fees ban arrives

The move sounds positive for tenants, but the cost will be passed on



Sarah Moore
Investment editor

A ban on letting fees in England, which has been looming over landlords for several years, finally came into force a fortnight ago. The Tenant Fees Act gets rid of most fees associated with letting a property in England, including payments for viewings, credit checks, references and the drawing up of a tenancy agreement. These used to add as much as £800 to the upfront cost of renting, notes Miles Brignall in *The Guardian*.

The new rules apply to new or renewed tenancy agreements signed on or after 1 June 2019. If a tenancy was entered into before 1 June, any renewal fees agreed at the time will still be due, but only until 31 May 2020. The aim of the bill is to reduce the costs that renters face at the beginning of, and throughout, a tenancy, as well as to give them a better idea of the total cost of renting a property. Similar fees are already effectively banned in Scotland, and are set to be axed in Wales from September. A ban cannot be passed in Northern Ireland until there is a sitting assembly to do so.

The only payments that landlords or letting agents can now charge tenants (other than rent) are: a refundable deposit capped at no more than five weeks' rent (where the total annual rent is less than £50,000, or six weeks' rent if over this); a refundable holding deposit equal to no more than one week's rent; payment for early termination of the tenancy where requested by the tenant; payment for bills such as utilities and council tax; and a default fee for late payment of rent and replacement of a lost key.

Landlords who break the rules face fines of up to £5,000 for a first offence, or an unlimited fine if they break the rules again within a five-year period. Letting fees account for 20% of business turnover for letting agents, says industry trade

“Absorbing fees will cost landlords nearly £83m and letting agents £157m in the first year”



Their rent is likely to go up

body ARLA PropertyMark. That means it's likely that companies will pass these costs on to landlords, who may in turn need to put up rents in order to compensate for the added expense. The government has estimated that absorbing the cost of tenancy administration

will collectively cost landlords nearly £83m and letting agents £157m during the first year of the ban.

Whether or not you see an increase in your management fees, now may be a good time to check that you are getting a good deal from your letting agent. Where costs are passed on, ask for a breakdown of what they're spent on. And have a look at the management fees charged by other companies to check you're on a competitive rate.

Extensions extended

A temporary reprieve from the need to get full planning permission to extend your house has been made permanent.

Under the 2013 rule change, you can add a single-storey rear extension of up to six metres onto a terraced or semi-detached house, or eight metres for a detached property. Instead of requesting planning permission, you inform the council of your plans, and they then notify neighbours. If neighbours raise concerns, then the council can block the plans.

More than 110,000 extensions have been completed under the rules, according to the government. The 2013 rule change was originally intended to be temporary, but housing minister Kit Malthouse confirmed at the end of May that it would be made permanent, emphasising that it was designed to “help families extend their properties without battling through time-consuming red tape”. “This step will make it easier for families to build outwards, rather than go through the arduous process of moving to, a larger home.”

This reasoning does make some sense. And it's true that some people would rather make their home bigger than move. But there are other more long-term fixes that would also make it easier for families to move into houses of a more suitable size, such as increasing the supply of housing and thus driving down prices, or reducing stamp duty so that the costs associated with moving are lessened.

Guess the price... Hideaway Court, Sanibel, Florida

A renovated, three-bedroom, classic American white clapboard house built in 1989 on Sanibel Island, which is known for its white sand beaches. A National Wildlife Refuge covers around half the island, limiting development. The house backs onto conservation land and has its own private, deeded access to the beach. A covered porch stretches the length of the building, overlooking the landscaped gardens. The house has tiled floors and a main reception with a vaulted ceiling. French doors lead onto a porch. Can you guess the asking price? Answer on the side of the box.



\$629,000 The Bell Team at VIP Realty+1 239 472 7800.

Tony Soprano's home for sale

The New Jersey home of fictional mobster Tony Soprano is on sale for \$3.4m, says Stefanos Chen in *The New York Times*. The 5,600 sq ft property, where *The Sopranos'* lead character “scooped up his morning newspaper and swam with ducks” is set in 1.5 acres of land and comes with a detached one-bedroom guesthouse. Built in 1987 it was “a frequent filming location and the inspiration for a meticulous replica” of



Do a drive-by

the interiors at studios in New York. The new owners should prepare themselves for overzealous fans, though. People will “pull up ... get out in a dressing gown, and pick up a newspaper”, says the current owner.

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Ten to tuck away: solid stocks that will stand the test of time

A portfolio of shares should be based on some large, well-managed companies with proven business models and compelling long-term prospects. These ones fit the bill, says Stephen Connolly



Short-term trading can generate high returns. But it can also be very risky, so it doesn't make sense to allocate more than a small portion of your equity portfolio to it. What, though, is the best strategy for the rest of the equity allocation if you're interested in owning shares directly?

A portfolio needs a foundation of solid and dependable assets that can hold their own. These are companies that can be bought and tucked away for the long term, or even for life; they shouldn't need reviewing on a daily basis. They can easily sit alongside other core investments, such as investment trusts.

Adobe

Software (US)

Adobe's (Nasdaq: ADBE) brands have created not one, but two, new English words. People talk of "PDF-ing a document", and wonder if a picture has been "Photoshopped". This sort of "brand embedding" suggests a product will endure. Adobe launched in 1982, with origins in printing software, desktop publishing, typesetting and fonts. Photoshop arrived in 1989 and the PDF in 1993. Photoshop is to images what Microsoft Word is to text editing. The firm now offers a broad suite of software around document management, image and video-editing, and design. The software is widely used in offices and has a strong customer base in the creative industries, from studio teams through to freelancers. The group moved into cloud computing (whereby data is stored and managed online rather than on a user's PC) with Creative Cloud a few years ago. This offers project access across multiple locations and devices.

What makes Adobe a standout business is its early adoption of the increasingly ubiquitous subscription-based revenue model. Users no longer buy software on a disc, they rent it online. More than 90% of its revenues are now recurring. Creative Cloud and the associated Document Cloud are increasing usage at a rate of more than 20%. Adobe's track record and the potential for deals to add more client offerings mean the stock deserves its premium valuation.

Carnival Corporation

Leisure and Travel (UK)

There are two big things to get right in the cruise industry. First, whether through discounting or free extras, get those ships 100% full. Then, make sure there's plenty to sell that captive audience, from alcohol to day trips. The industry has got this down to a fine art, with passengers and profits on an upward path.

But there's still much further to go: last year's 28 million passenger total is only a small part of the multi-trillion-dollar travel market. For example, while some 50% of cruisers are American, only 3% of the country's

Below, I highlight ten such stocks. There's no particularly scientific selection process. The list that follows is just an attempt to identify companies with proven business models and management for market-beating returns over the long term. They can enhance, de-risk, or even start a sensible portfolio of individual stocks. They are what could be labelled "quality", and tend to be dominant within their sectors. I have drawn on several different regions and attempted to diversify by industry. Stocks given high values by the market, but without a demonstrably profitable business, have been ignored – so

you won't find Tesla or Uber here, for example. Following tips and one-off recommendations can lead to great gains, but at the same time portfolios can become unbalanced; sometimes too much has been invested in small caps or a particular sector, for example.

It can even be that the companies, while they appear promising, are simply too risky should the economy deteriorate. The stocks below are certainly not immune to economic volatility, but their businesses are generally built on multiple revenue streams, tempering their exposure to the business cycle. They are stocks for all seasons.

population have been on one. European market share is also relatively low, and the Far East offers great demand.

Demographics are changing favourably. Older, post-retirement travellers are important. But there's also a marked upswing in millennials seeking "experiences" with an appetite for travel. **Carnival Corporation** (LSE: CCL) is the world's biggest cruise operator, with ten brands including Carnival, Princess, Cunard and P&O. Its 100-plus ships give it about half the global industry's total passenger capacity. A large proportion of these sail the Caribbean out of the US. Carnival will be adding more than a dozen new ships over the next four years. The shares are cheap and the outlook upbeat.

Diageo

Beverages (UK)

With headquarters in London, **Diageo** (LSE: DGE) is a leading global drinks business with brands including Smirnoff, Johnnie Walker and Guinness. Branded beers and spirits are likely to be consumed for many years to come. Diageo's last reported figures beat market expectations with a broadly based performance. Recent industry trends have shown a shift in consumption towards craft and premium products and Diageo has been positioning itself accordingly.

The company has been a strong performer, and is well regarded by investors. Sales are expected to grow somewhere between 5% and 6% a year over the next few years, although the group has been known to be cautious in its guidance and could therefore surprise on the upside. The key with Diageo is its healthy balance sheet and the fact that it has big margins and generates strong cash flows that can be used to invest for growth, or be returned to shareholders.

Diageo is a long-term investment that ticks the boxes as a dependable foundation stone in any portfolio. It's not cheap compared with peers, but attracts a premium rating given its record, dependability, and brand quality. The strength of the brands with their loyal consumer base mean it has a degree of pricing power and should be able to keep revenues ahead of inflation at a minimum. With higher sales it should also

"The cruise industry has got maximising sales to a captive audience down to a fine art"



Profits at LVMH have doubled in five years

be able to eke out higher margins in future, implying further cash being returned to investors either through share buybacks or dividends. It hasn't failed to increase the latter every year for the best part of 20 years.

Johnson & Johnson

Healthcare and Medical Devices (US)

Johnson & Johnson (NYSE: JNJ) is a leading US pharmaceutical and medical-devices business operating worldwide. The 133-year-old firm boasts a strong long-term compound-growth rate. On the pharmaceutical side it is active in tumour treatments and immunology. It's also working against infectious diseases. The devices division makes disposable contact lenses, disinfection products, and orthopaedic equipment. Johnson & Johnson is a business built on several diverse, yet reliable long-term revenue streams.

The company is no stranger to litigation, like many of its pharmaceutical competitors; lawsuits have become part and parcel of investing in the sector. For example, it was recently involved in legal action concerning opioids.

Looking forward, healthcare generally remains a huge market and the demographic trends of an ageing population in developed markets, in conjunction with an emerging middle class in developing countries, are positive for pharmaceutical and medical-device businesses. Where Johnson & Johnson adds value is in its record of innovation, which it is able to back up with strong cash flow from other activities.

In turn, it has been able to produce blockbuster treatments with significant margins that can support further investment and boost returns to shareholders. As American stocks go, it has a decent forward yield of 2.7%, as well as a solid balance sheet. The shares are trading at around 15 times next year's earnings, which constitutes a reasonable entry point for long-term investors.

LVMH

Luxury Goods (France)

Bernard Arnault, a doyen of Parisian business and one of the world's wealthiest men, took charge of LVMH (Paris: MC) towards the end of the 1980s. The conglomerate was originally made up of the Louis Vuitton trunk and travel-goods maker, along with Moët & Chandon champagne and Hennessy cognac. With the purchase of various businesses since, including Givenchy, Guerlain, Bulgari and Christian Dior, it's now a €180bn behemoth – the world's top luxury goods group by revenue.

Sales have climbed 50% over five years with earnings doubling, and 2018 was another record-breaker for revenue. LVMH has been achieving solid sales growth in both developed and emerging markets and seems unaffected by the trade war; growth in China has been accelerating and demand for luxury goods is holding up, while consumers' appetite for products such as iPhones is slipping. Arnault's focus has been mainly on highly regarded European luxury labels and using the group's financial resources to build them internationally. While LVMH isn't immune to economic slowdowns, the global appeal of its top-notch labels gives it something of a defensive quality. It is well managed and should keep delivering market-beating returns for years.

Nestlé

Consumer food and drink (Switzerland)

There's not much Nestlé (Zurich: NESN), the world's biggest food company, doesn't do – from breakfast cereal, tea and coffee, to pet food, frozen meals and ice cream. Sales top CHF 91bn a year. Its brands will feature in most people's weekly shop somewhere, and they include Nesquik, Cheerios, Nescafé, Nespresso,

“Bernard Arnault has turned LVMH into the world's biggest luxury-goods group”

Continued on page 26

Continued from page 25

San Pellegrino, Smarties, Quality Street and Häagen-Dazs. The group has cut its exposure to beauty products, bringing in cash to invest in core food and drink products. More broadly, the group continues with its three-year turnaround strategy, which has boosted sales, and it's putting cash to work on foods with a healthier-living slant. The group's recent results have been better than forecast and shareholders are responding positively. The figures have tempered concerns that companies such as Nestlé are vulnerable to fast-moving start-ups as consumers become more quality-conscious. Nestlé will continue to thrive if it can maintain pricing and margin momentum.

Nike

Sports shoes and apparel (US)

Nike (NYSE: NKE) was founded as Blue Ribbon Sports in 1964 and has grown to become a global marketing juggernaut, with a brand synonymous with many of the top inspirational names in sport. Its ability to use these associations to create deep loyalty from its customers is widely admired, as is the design innovation that has kept it at the leading edge of its industry for 50 years. Investors and analysts still sometimes underestimate Nike, however. Worries over slowing US sales, too much out-of-date stock, or the threat of Amazon all make the rounds. Yet the shares have climbed 19% a year over the past decade, while profits have doubled to \$4.5bn.

Nike's customer base is remarkably cross-generational, with the "Swoosh" emblem visible everywhere from golf courses to high-school basketball tournaments. There's little to suggest that loyalty to Nike is fickle, and it's hard to picture the company as an "also-ran" in ten years' time. Spurs to growth include a revamped digital push with a new and popular purchasing app, plus greater use of social media. Nike is working on slashing the time it takes to bring products to market to respond faster to fashion trends and manage pricing and stock better. Significant investment in breakthrough materials developed around automated robot manufacturing could boost production and margins greatly.

L'Oréal

Beauty and cosmetics (France)

A seller of hair dye to Parisian hairdressers before World War I, L'Oréal (Paris: OR) has grown to become a global beauty and cosmetics powerhouse worth more than €120bn. The company owns and manages brands including premium labels Lancôme, Giorgio Armani and Yves Saint Laurent. The Bettencourt family – descendants of the founder – still owns a third of the company, while Nestlé has 23%. Profits have easily more than doubled over the past decade and the shares have gained in excess of 11% annually, outpacing the broader market. The most recent figures in April were ahead of expectations, thanks to strong sales around its deluxe offerings.

Taking a longer-term view, a focus on big cosmetic companies provides a good geographic spread as well as the protective diversity of a large portfolio of brands. The beauty industry is gaining from increased demand in the Far East, together with greater use of make-up among "selfie"-conscious millennials inspired by online campaigns by "influencers". The greatest growth is likely to come from premium, world-class labels that should be dependable over the long term and relatively resilient to economic downturns. Non-premium products will give support too, regardless of the wider economy, as people are extremely unlikely to stop washing their hair or moisturising.



Nike has been a sports-sector leader for 50 years

Roche

Pharmaceuticals (Switzerland)

Swiss pharmaceutical giant Roche (Zurich: ROG) is a favourite among fund managers, who point to its long record of dividend increases and cash-flow generation. Most of its revenue has come from oncology medication (dealing with cancer and tumours), although with a lot of it losing patent protection this won't be much of a growth area in future. Where there will be gains is in ophthalmology (eyes), neurosciences (nervous system around multiple sclerosis and Alzheimer's disease) and in-vitro diagnostics (sample testing and analysis), where emerging-market growth has been rapid. The neuroscience arm could see some big breakthroughs and new blockbuster drugs.

Overall sales last year were CHF57bn, a rise of 7%, almost matching the increase in research and development spending. The group is considered to have one of the strongest new development pipelines, and it has achieved numerous regulatory approvals for new treatments. With its record and potential new game-changing therapies, Roche stands out as a quality operator where the multi-year nature of research and patent time periods aligns well with the investment horizons of a long-term investor.

Visa

Payment processing (US)

Visa (NYSE: V) is one of the world's biggest card-payment companies, processing hundreds of millions of transactions a day. Each time money changes hands between consumers and businesses on its network, it takes a fee. Although often mistaken for a finance or credit business, it is in fact a long-established and highly profitable tech play. It doesn't issue cards or lend any money itself. Its clients, mainly banks, do all that with their customers. Visa gains from spending activity, all without the hassle of dealing with cardholders, or the worry that they won't be able to pay.

As brands go, few are more central to everyday life. There are around 3.3 billion Visa-badged cards worldwide – almost one for every two people. Nearly 50 million businesses accept them – from local cafes to five-star international hotels. Profits quickly mount up. Last year it made \$12.8bn on operating margins that have been at an eye-catching 60% or higher for years. Earnings are expected to keep growing in the 15%-20% range. Its global network has been decades in the making and can't easily be copied – a significant barrier to new entrants. Its only real competition is the smaller Mastercard. Digital disrupters such as Apple Pay or PayPal haven't come anywhere near it. Visa will gain long term from the driving forces of e-commerce and the shift to increasingly cash-free societies.

“People are extremely unlikely to stop washing their hair or moisturising”

The tide is turning for Brazil

The BlackRock Latin American Trust is grabbing the bull by the horns. Investors should too



Max King
Investment columnist

“Brazil is the country of tomorrow and always will be,” said Charles de Gaulle. Investors appear to agree with him, focusing their emerging markets (EM) exposure on Asia. In the 1990s, there were half a dozen investment trusts specialising in Latin America. Now there is only the £200m BlackRock Latin American Investment Trust (LSE: BRLA) and two tiddlers.

Sam Vecht, who, with Ed Kuczma, took over the management of BRLA last December, thinks the tide is about to turn. “For the first time in a long time, Latin America looks very attractive relative to other EMs,” he says. Latin Americans, he believes, have learned some hard lessons from a succession of disastrous left-wing populist governments.

The economic failure of such governments in Venezuela, Argentina, Brazil and elsewhere has ended with them stealing money, killing people, or both. Vecht is confident that the election of Andrés Manuel López Obrador as president of Mexico late last year will have different results; “a lot of the concerns are overdone”, he says. If he is wrong and Obrador conforms to the usual pattern,



the US may need Trump’s wall. Meanwhile, there is a risk that Cristina Fernández de Kirchner, who destroyed Argentina’s economy in her eight years as president, will

“Latin America looks attractive at the moment”

be returned to power later this year as her successor, Mauricio Macri, struggles to pull Argentina out of its nosedive.

The Argentines, however, have always believed that the world, and especially the banks, owe them a living. As the Mexicans say, “if you could buy an Argentine for what he is worth and sell him for what he thinks he is worth, you would make a large profit”.

Elsewhere, people expect less from their politicians. In Brazil, new president Jair Bolsonaro has promised reforms, but Vecht’s expectations are low. “Real reform in any EM is very difficult,” he says, “and politicians have a habit of promising reform and then not delivering. But some progress is likely.” With Brazil at 109 in the World Bank’s “ease of doing business” ranking, it could hardly get worse.

The case for buying now
Brazil accounts for more than 60% of the MSCI LatAm index and Vecht, always one to grab the bull by the horns, is overweight, with 70% of the portfolio invested

there. Mexican exposure is also overweight at 28%, with Argentina (not in the index) at nearly 5%. There is less than 4% invested in Chile, and nothing in Peru and Colombia. The Pacific countries have been a safe haven in recent years, but Vecht finds few compelling opportunities there. The trust has borrowed to finance the 6% overinvestment, thereby leveraging performance.

Vecht has concentrated the portfolio, with the top ten holdings accounting for 58% of the total. The focus is on large caps, though Vecht expects to diversify into mid and small caps over time. This would not necessarily be higher risk: he inherited a large holding, still 6.7% of the total, in miner Vale, whose share price fell sharply following two dam bursts at its iron-ore mines in less than four years. The largest holding at 11.3% is Petrobras, the scandal-hit Brazilian oil major. Vecht believes that the sale of non-core assets to focus on exploration and production will be good for the share price.

Vecht’s positive call on Latin America seems premature, but he is a manager worth following and his claim that a lot of bad news is discounted in share prices is unarguable. The 14.1% discount to net asset value (NAV) at which the shares trade and a yield, partly paid out of capital, of 5% of NAV, support the case for buying now.

Activist watch

Tech incubator Allied Minds has “failed to quell an aggressive campaign” by activist investor Crystal Amber, despite ditching a controversial bonus scheme as well as its chief executive, Jill Smith (pictured), says Jack Torrance in The Daily Telegraph. Richard Bernstein of Crystal Amber, which owns 3.7% of the incubator, says he is still concerned about the company’s culture of “free bets”, with “management being gifted 10% of the profits on each company, but all losses...being ignored” as part of another pay scheme. This approach “encourages risk-taking”, Bernstein told the Financial Times last month. “They run this company as if they are [Japanese tech giant] SoftBank, but they couldn’t really run a bath.”



Short positions... FCA cracks down on P2P

■ **The Financial Conduct Authority (FCA), the City regulator, is set to cap the amount people can invest in the peer-to-peer (P2P) sector. With P2P, investors lend money to other individual investors and small businesses. Potential rates of return are high, but so is the risk of default. In an attempt to ensure people aren’t overexposed to the sector, from 9 December the regulator will limit investors who are new to P2P to investing 10% of their “investable assets”. This is likely to mean investors will have to confirm that they are not risking more than that before they can invest through an online platform. Newcomers to the sector can get around the restriction if they have received regulated advice, while investors who have made two or more P2P investments in the past two years can also invest more than 10%. The announcement comes a week after P2P platform Lendy went into administration, leaving 20,000 investors waiting to see if they will get their £165m back.**

■ Global investors are preparing for turbulence. According to data provider EPFR, fixed-income funds attracted \$17.5bn worldwide in the week ending 5 June, the biggest inflow since 2015. Funds concentrating on investment-grade (top-quality) debt saw a record weekly inflow. Equity funds have suffered total withdrawals of \$155bn this year. Jitters over global growth and the likelihood of interest-rate cuts are also prime considerations for British investors. The best-selling asset class in April was fixed-income, with £1.6bn in net sales, reports the Investment Association.

Keep the faith in Kier

The engineering group has hit trouble, but the core business looks sound



Matthew Partridge
Senior writer

The turmoil at Neil Woodford's main UK fund (see page 16) has caused the share price of the companies in its portfolio to slip. The thinking is that as soon as the temporary restrictions on redemptions are lifted he will be hit by a wave of investors demanding their money back. Since Woodford won't be able to sell the less liquid investments that are at the root of the current problems, he will be forced to dump his remaining listed companies, which will push their share price down even further.

One of his holdings that was already experiencing problems before the latest slide was the engineering firm Kier Group. The stock has fallen by over 85% over the past year. The trouble began when concern about the high level of debt that Kier had accumulated forced it to raise £264m by issuing new shares. This proved to be a spectacular flop, with around 40% of shares left unsubscribed, forcing brokers who had underwritten the deal to pick up the tab. Early this year things got even worse, with Kier's management admitting that it had messed up its sums: debt was £50m higher than expected. Furthermore, its new boss, Andrew Davies, recently revealed that profits are going to be £40m below expectations

The gloom is overdone

This latest round of bad news means that some are comparing Kier to Carillion, the troubled outsourcing company that imploded in January 2018. The fact that Kier Group makes much of its money from public infrastructure projects, such as HS2 and Crossrail, as Carillion used to, has only reinforced the similarity in some people's minds.

Kier clearly has some genuine problems, but to say that it is another Carillion is taking things too far. Even after the recent profit warning, Kier



is still expected to make a profit – just a slightly smaller one. What's more, the fall in the share price has been so dramatic that it looks like an absolute bargain. Indeed, it currently trades at five times this year's earnings and twice projected 2020 profits. Even if it is forced to sell all its assets, shareholders should still come out ahead with the company trading at a discount of more than 60% to its net assets.

Overall, I think that the reduced valuation makes it a risk worth taking, so you should ignore the people who are talking about it imploding and instead go long on the company at the current price of 161p, with a stop-loss of 119p. Of course, we're not blind to the fact that it could end up falling further, especially given the possibility of further problems coming to light, as well as the issues stemming from Neil Woodford being forced into a fire sale of his fund's holdings. So while I'd normally suggest that you go long at £25 per 1p, giving you a downside of £1,050, I'll recommend instead that you reduce this to half that amount: £12.50 per 1p. This means that the downside is only £525.

“The fall in the stock has been so dramatic that Kier looks an absolute bargain”

Trading techniques... dividend cuts are bearish

The lion's share of equity returns stem from dividends. It's no surprise then that when a company announces that it is going to suspend its dividend, the market generally reacts extremely negatively. A US study by researchers Laarni Bulan, Narayanan Subramanian and Lloyd Tanlu found that between 1962 and 2001, 80% of firms that cancelled their dividends saw their shares fall over the next three days, with an average decline of 6.7%, compared with the rest of the market.

Of course, contrarian investors might argue that this negative reaction presents opportunities for buying shares on the cheap, especially if the

suspension is down to temporary factors. However, there is also evidence that the negative performance actually increases in the medium term. Indeed, Bulan, Subramanian and Tanlu also found that a year after the suspension, the average underperformance had widened to 13.9%. Furthermore, the pattern was the same even if the underlying company had previously put in a strong financial performance. This implies that it might pay to sell such shares short, even if you're not quick enough to exploit the initial fall in price.

It's not just shares in firms that completely eliminated their dividends that perform badly. Even if you broaden the sample

to include those companies that merely reduce the dividends, you get much the same result. An American study by the investment firm Ned Davis Research found that if you had put \$100 into a basket of shares that had either cut or eliminated their dividends in 1972, it would be worth only \$72 at the start of 2019 (a fall of 88% when you take inflation into account).

How my tips have fared

Over the past fortnight my tips have put in a mixed performance. Out of my seven open long positions, three have risen, two have fallen, and two have stayed exactly the same.

JD Sports increased from 618p to 621p, Hays increased from 150p to 153p, and Bellway climbed from 2,792p to 2,825p. Safestore remained at 643p and Superdry stayed at 480p.

However, John Laing Group fell from 387p to 380p, while Somero went from 367p to 290p. The losses on Somero mean that the overall profit from my long tips has fallen from £1,064 to £884.

My short tips, unfortunately, did even worse. While Weis Markets declined from \$38.46 to \$36.97, my three others went up. Pinterest rose from \$25.50 to \$27.94, Tesla rose from \$190 to \$213. Rightmove went from 559p to 585p – so it is lucky that I advocated covering your Rightmove short if it went above 580p.

Overall, if you had followed my advice you would have lost \$1,008 on Rightmove. Zoom continues to rise, reaching \$102, so it is fortunate that I recommended you wait until it falls below \$68 before beginning to short it.

Stripping out the losses on Rightmove, the short positions are making a total profit of £835, which means that all my remaining open tips are making a combined profit of £1,719, just below the losses of £1,861 on the closed positions.

I'm going to recommend that you increase the price at which you would start shorting Zoom to \$80, betting £50 per \$1. In that case, I would cover it if it goes above \$100, giving you a total downside of \$1,000. I'm also going to increase the stop loss on John Laing Group to 360p, since I tipped it over six months ago.

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Overdue action on overdrafts

A round-up of the latest personal finance news



Sarah Moore
Investment editor

■ The Financial Conduct Authority (FCA), the City regulator, is cracking down on overdraft fees in an attempt to “fix a dysfunctional overdraft market”, which, in 2016, saw 50% of banks’ unarranged overdraft fees coming from just 1.5% of customers.

The new rules, which will be in force by 6 April 2020, will stop banks and building societies from charging higher prices for unarranged overdrafts than for arranged ones, and will ban fixed daily or monthly fees for being overdrawn.

The rules will also require banks to show how much overdrafts will cost via a simple annual interest rate, so that people can easily compare accounts, and to “reiterate” guidance that refused-payment fees (what you pay if a direct debit is set to come out of your account, but there is not enough money to cover it) should “reasonably correspond to the cost of refusing payments”.



The typical cost of borrowing £100 through an unarranged overdraft should fall from £5 a day to less than 20p a day, according to the FCA.

■ HM Revenue & Customs (HMRC) has cancelled the penalties of more than 6,000 parents who were fined for failing to pay the child benefit high-income charge. Generally, you have to pay this charge if you have an individual income of more than £50,000 and either

you or your partner gets child benefit, or if someone else gets child benefit for a child living with you and they contribute at least an equal amount towards the child’s upkeep. To pay the charge you either file a tax return to pay the difference between what you received in benefits and what you were entitled to, or you opt out of child benefit. HMRC’s review into people’s penalties was triggered by complaints from thousands of parents who said

they were not aware of changes to the law in 2013, says Lucy Warwick-Ching in the Financial Times. All customers entitled to a refund will now have received one, says HMRC.

■ Just one in ten dual-fuel green tariffs on the market actually provides customers with 100% renewable energy, says comparison site Compare the Market. Products like these have become increasingly popular in recent years as people try to do their bit to help the environment.

Around one in seven households is on a “green” tariff. However, the concern is that consumers may be misinformed about just how environmentally-friendly these tariffs actually are.

Of 54 dual-fuel deals marketed as “green” tariffs, only six offered 100% renewable energy across both gas and electricity. A total of 30 didn’t provide any gas at all from renewable sources. And six used carbon-offset schemes that “have been criticised as ineffective”, notes Andrew Ellison in The Times.

5 Reasons to Buy Physical Gold...

- 1 Gold is a safe haven asset** - Gold is frequently used as a safe haven asset in times of economic turmoil or geopolitical uncertainty. For this reason many advisors recommend allocating around 5% - 15% of their portfolios to gold.
- 2 Gold has a history of holding its value** - Unlike paper currency, gold has maintained its value through the ages. It is an ideal way of preserving wealth from one generation to another. Plus, UK bullion coins are not subject to Capital Gains Tax.
- 3 Gold is a hedge** - Gold has historically had a weak correlation to movements in the financial markets and is frequently used as a hedge against inflation or to offset falling stock markets.
- 4 Scarcity** - Deposits of gold are relatively scarce and new supplies of physical gold is limited. This natural scarcity and high production cost is the ultimate reason why gold holds value.
- 5 No counterparty risk** - When you invest in physical gold you own it outright. You are not reliant on banks or financial institutions. In contrast, gold futures, gold certificates or ETF’s all involve counterparty risk.

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Brace for a buyout

Your company's final-salary scheme could be sold to an insurer



David Prosser
Business columnist

Insurance company Legal & General (L&G) is to take over the pensions of 33,000 members of engineering giant Rolls-Royce's retirement plan in the biggest-ever deal of its kind agreed in the UK. The pension buyout deal will see £4.6bn of Rolls-Royce pension scheme assets transferred to L&G, which will then be responsible for paying all benefits promised to members.

The deal is the latest in a series of pension buyouts announced by major companies with large final-salary schemes, in which members earn guaranteed retirement benefits. The transfers remove what is often companies' biggest liability from the balance sheet. The cost of meeting pension promises extending decades into the future has been an increasing drag on the finances of many companies.

What's in it for you?

For pension scheme members, meanwhile, the merits of a buy-out deal may seem less clear cut. They move from having their pension looked after by an employer they know and trust to a position where their retirement benefits are managed by an insurance company with which they may have had no previous contact.



Engineering giant Rolls-Royce has offloaded pension liabilities

However, the deals do offer potential advantages for members, to whom all pension promises must be honoured. Most significantly, as thousands of savers have discovered in recent years, employers standing behind final-salary pension schemes can and do go bust. If there aren't sufficient assets in the pension scheme to fund benefits, members must fall back on the Pension Protection Fund, which offers compensation in such cases. This can be an unnerving experience, particularly since the PPF caps compensation under certain circumstances.

By contrast, insurers should offer greater security. They manage pension scheme assets on a ring-fenced basis and are

closely supervised by financial regulators. A failure wiping out your pension is much less likely. For pension scheme members still working for the sponsoring employer, a buyout may also reduce the risk of the pension scheme itself causing the business financial trouble, and therefore improve their job security. Still, pension scheme trustees should not agree to pension buyout deals without careful scrutiny. Members whose pensions are transferred should expect to receive plenty of information from their schemes explaining the deal and the due diligence that has gone into it. If in doubt, seek further information. Contact the Pension Regulator, which polices final-salary pensions, if your concerns are not allayed.

State says it has got pension sums wrong

Approximately 360,000 people have been given incorrect forecasts of their state pension benefits, the government has confirmed.

Some 3% of all online forecasts issued to savers since 2016 are incorrect, the Department for Work and Pensions (DWP) says, often overstating what people are entitled to by £1,000 a year.

The announcement follows warnings from pension specialists that the DWP's electronic records of many people's work histories are patchy.

In particular, they may miss out periods when people had opted out of the state earnings-related pension scheme in the 1980s and 1990s, during which time they weren't building up state pension entitlement at the normal rate.

The DWP now says an investigation into its forecasting shows that up to 3% of the online statements requested by people checking their state pensions have been affected by these omissions.

Its paper-based forecasts, issued to those who write in to formally request a benefits statement rather than using the automated online system, are thought to be much more accurate.

The upshot is that anyone who has received a forecast in the past three years should now double-check their position, particularly if they have opted out of the state system at any time in the past.

Tax tip of the week

In May 2019 HMRC admitted that despite estimates of three million people claiming the marriage allowance tax break, the true figure was closer to 1.8 million. Its original calculations had mistakenly counted claims twice. Overall, less than half of those eligible to claim the allowance do so. The marriage allowance allows you to transfer £1,250 of your personal allowance (the amount you can earn before income tax is due) to your husband, wife or civil partner, if they earn more than you. This could reduce their tax by up to £250 in a tax year. To be eligible, your pay before tax must be below the personal allowance, and your partner's salary must be between £12,500 and £50,000: up to the threshold for higher-rate taxpayers. Note that you can backdate your claim to any tax year since 5 April 2015, if you were eligible then.

Combining a pension with property

Should you be able to raid your pension savings to fund the purchase of your first home, as housing minister James Brokenshire (pictured) has suggested?

The short answer is no. While pension savings might be an attractive target for homebuyers needing a deposit, raiding the piggy bank simply means exchanging today's problem of funding a property purchase for the problem tomorrow of funding retirement.

However, if you do want to save simultaneously for a future housing purchase and for retirement, there is already a vehicle for doing so: the Lifetime Isa, aimed at

savers between the ages of 18 and 40. Like other forms of the tax-free individual savings account, Lifetime Isas can be used to invest in cash savings, or in stocks and shares. Returns are tax-free and for each £4 you save, the government will add £1. This 25% bonus is

payable on all contributions you make until the age of 50, though you'll only get it on savings of up to £4,000 each year.

Until you reach the age of 60 you are only supposed to take money out of your account if you're using the money to purchase a property for the first time. Otherwise, there are penalties to pay on withdrawals made before your 60th birthday.

The scheme has got off to a slow start over the past couple of years, but for anyone balancing the need to save for a deposit with the need to put money by for retirement, Lifetime Isas can work well.



Profit from the growth of cities in China



A professional investor tells us where he'd put his money. This week: Damian Taylor, portfolio manager Asia at Martin Currie, highlights three promising stocks

Urbanisation is an important driver of economic growth in China. City dwellers typically have larger disposable incomes, while the movement of people from rural to urban areas also increases the need for infrastructure development.

As investors in Asia, we review major policy amendments and assess their significance as drivers of structural growth in the region; the key issue for us is the impact of the wider trends on specific listed companies. So recent changes to *hukou*, China's national residency registration system (similar to an internal passport) are certainly of interest to us, as they could further increase the urbanisation rate by encouraging rural citizens to move to China's smaller and medium-sized cities. *Hukou* provides access to education, healthcare and social-welfare benefits. The government uses it to regulate the country's population distribution.

The system is tied to the specific place where holders are registered as living, so it restricts freedom of movement and rates of urbanisation. Migrants who lack a local *hukou* pay more for social services and are barred from buying property in that area.

However, the 2019 Urbanisation Plan, published in April, lifts restrictions for new migrants to cities with populations between one and two million and lowers the threshold for developments with populations between three and five million; limits on key population groups, such as university graduates, have been removed entirely in the bigger cities.

What *hukou* means for investors

By relaxing residency rules, the Chinese government hopes to reinvigorate cities beset by net outflows and ageing

populations, while the move should also address the uneven distribution of labour. From an investment perspective, the reforms are likely to affect a wide range of sectors.

In particular, the requirements of increased urban populations will be a driver for assets including infrastructure, real estate, utilities and essential services.

A province set to profit

One potential beneficiary is **Guangdong Investment (Hong Kong: 270)**, the investment vehicle for Guangdong's provincial government.

The company provides water to Hong Kong, Shenzhen and Dongguan, giving it a stable core business. But it also has a strong property portfolio in Guangdong province that is well placed to benefit from ongoing urbanisation in the region. Likewise, **ENN Energy Holdings (HK: 2688)**, an early private-sector mover in China's gas industry, is well positioned to enjoy the benefits of increasing gas volumes from higher urbanisation as well as the country's shift in its energy mix from coal to gas.

"Retailer Dairy Farm will benefit from a richer urban customer base"

Cash in on urban consumers

Finally, companies able to tap into increased consumption in the region are also of interest. **Dairy Farm International Holdings (Singapore: DFI)**, for example, a leading pan-Asian food, home-furnishings and beauty retailer with excellent franchises across China and Southeast Asia, has a strong base of cash-generative businesses that provide a good proxy for economic growth and consumption in the region. It stands to benefit from both an increase in its urban customer base and higher rates of personal disposable incomes.

If only you'd invested in...

AG Barr (LSE: BAG)

Share price in pence



AG Barr (LSE: BAG) makes carbonated soft drinks, including Irn-Bru, which outsells Coca-Cola in Scotland. In the last year the company has managed to overcome the UK sugar tax and a global carbon-dioxide shortage, with sales in the year to 26 January up by 5.6% and profits climbing by 2.5%. Management is predicting a "more challenging" year to come, but chief executive Roger White reckons the market is "robust". Plans are afoot to branch out into lucrative energy drinks, which the company hopes will bolster sales further. The stock is up 44% in a year.

Be glad you didn't buy...

Hammerson (LSE: HMSO)

Share price in pence



Hammerson (LSE: HMSO) is a real-estate investment trust that develops and manages commercial buildings. The emphasis is on shopping centres and retail parks, mainly in the UK, but also in France and Ireland. It has had a turbulent year, selling off £1bn of properties as the retail sector has suffered. It launched and later abandoned a £3.4bn bid for rival Intu, and was itself the subject of a takeover bid by French firm Klepierre. Shareholders revolted over its executive pay structure, and the chief finance manager stepped down in May. The shares have fallen by 46% in 12 months.

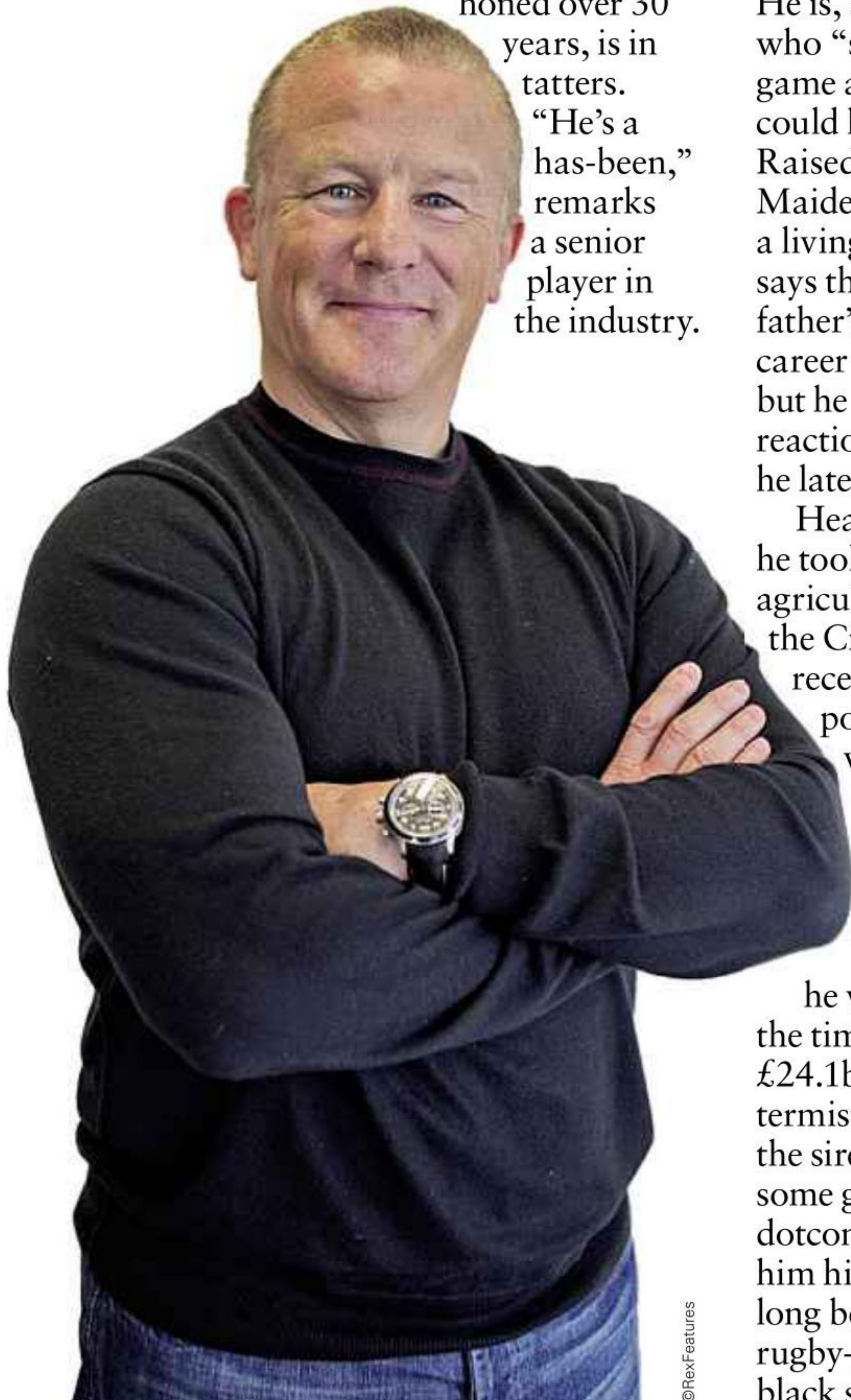


Rock-star manager gets booed off stage

Neil Woodford had humble origins, but built an enthusiastic following among retail investors by promising to make them rich. Now, they'd just like their money back. Jane Lewis reports

If the signs of hubris were there five years ago, “the fall from grace of the one-time star stock-picker” is now “almost complete”, says the Financial Times. Neil Woodford has apologised to investors whose savings remain “gated” in his flagship fund, but his reputation, carefully

honed over 30 years, is in tatters. “He’s a has-been,” remarks a senior player in the industry.



©RexFeatures

What a comedown for someone described by the BBC in 2015 as “the man who can’t stop making money”, says The Observer. Woodford’s descent from “bright star to black hole” makes Icarus look like a slouch.

Speed has always been part of the Woodford story, says the Daily Mail. He is, after all, “a frustrated fighter pilot” who “stumbled into the fund-management game almost by accident”. His background could hardly be described as privileged. Raised in Berkshire, where he attended Maidenhead Grammar, his father earned a living printing postcards. Woodford, says the Financial Times, “lamented” his father’s lack of ambition. His own first career choice was the Royal Air Force, but he failed the pilot aptitude test. “My reaction speeds were just not fast enough,” he later recalled.

Heading for Exeter University instead, he took a degree in economics and agricultural economics and arrived in the City in 1981 in the midst of a recession. “With little money in his pocket, he slept on his brother’s floor while he flitted through various jobs at the Reed Pension Fund, TSB and Eagle Star” before bagging a role at Henley-based Invesco Perpetual in 1988.

When Woodford started out, he was given £14m to manage; by the time he left Invesco, he was running £24.1bn. His investment style was long-termist and he prided himself on ignoring the siren “noise” of the market. That led to some good calls. Woodford shunned the dotcom bubble – a move that nearly cost him his job – and dumped shares in banks long before the 2008 crisis hit. “With his rugby-player’s build and penchant for black sweaters and jeans,” Woodford

“For more than 20 years he delivered on his mission to make Middle England rich”

“never looked much like the archetypal City fund manager,” says the FT. “Based in a dreary Oxfordshire industrial park, he might have passed as a dressed-down entrepreneur, or a fitness coach.” Yet for more than 20 years he delivered on his mission “to make Middle England rich” – attracting a rock-star-like following from savers, financial advisers and, later, popular investment platforms. Within two weeks of launching his own fund in 2014, he’d pulled in £1.6bn – a British record.

A passion for horses and fast cars

If Woodford’s intention was to “cash in on his enthusiastic retail following”, it was a resounding success. Over the past four years, even as his bets have soured, he has paid himself some £63m, says The Observer – a sum that must particularly nark those still paying fees for the privilege of being gated in his fund. Friends say he is “decidedly unflashy” and it’s “difficult to fathom where the money goes”. But a lot seems to go on horses. Woodford’s second marriage, to the amateur show jumper Madeleine White, has inspired “an expensive new hobby” – together they’ve built a vast equestrian complex near their home in the Cotswolds. His other passions are fast cars and racing bicycles.

Woodford’s supporters claim he is a victim of fickle investor sentiment – “he took a road less travelled”, says one: “events conspired against him”. Well, maybe. But the savers of Middle England would just like their money back.

Great frauds in history... Sarah Howe

Sarah Howe was born around 1826 in Providence, Rhode Island, in the US, and worked most of her early life as a fortune-teller in Boston. In 1875 she was arrested several times for fraud, usually for taking out multiple loans secured by the same asset, and then refusing to repay them. In 1879 she opened the Ladies’ Deposit Company. “Run by women for women,” it accepted deposits from unmarried women, and quickly won a following in Boston, attracting \$500,000 (around \$13m in today’s money) in deposits from 1,200 savers, who were attracted by the promise of getting 8% in interest each month.

What was the scam?

Howe’s bank, which she claimed was backed by a Quaker charity, operated as an early Ponzi-style scheme, taking money from depositors with promises of high interest payments, but paying that interest from later depositors rather than, as claimed, from stockmarket investment gains. Unlike Charles Ponzi’s original scheme, however, Howe’s scam cleverly placed a limit on withdrawals, allowing savers to draw only from accumulated interest payments, and not from their original capital. She justified this rule by saying that it would prevent members from frivolously wasting their money.

What happened next?

Thanks in part to the novelty of seeing a bank being run by a woman, the scheme attracted a lot of interest from the press. As a result, in September 1880 the Boston Advertiser ran a series of articles attacking the scheme, which caused the number of new depositors to dry up and existing savers to start besieging the bank demanding their money back. To begin with Howe starting repaying, handing out \$80,000, but this failed to restore confidence. She then went on the run with \$50,000 of the bank’s money before being arrested and sentenced to three years in jail for fraud.

Lessons for investors

Amazingly, given the publicity surrounding the collapse of this scheme, Howe was able to launch another one shortly after her release. This also collapsed, though not before she absconded with \$50,000. This time she got off because her victims were too embarrassed to help with the prosecution. Howe’s appeal to women is a classic example of affinity fraud – the use of social connections and/or shared identity to get victims to hand over cash without asking too many questions. It’s never a good idea to invest in the scheme of someone you consider a friend or fellow traveller without doing proper due diligence.

Spectacular summer wines



I have majored on white wines this month, given the season, and yet the diversity of flavours on offer here shows not only the breadth of the Yapp cellar, but also that well-selected whites can cover almost all flavour-bases when it comes to food and wine-matching. One rosé and one red complete the picture and, for a French specialist merchant, it is exciting to bring Germany and Australia into the mix. However, there is an overarching theme this month which might not

necessarily be apparent and I would like to bring it to your attention. While every wine is spectacular, they are all slightly off-piste in one way or another and this is what keeps one's brain intrigued and engaged as well as one's palate thoroughly satiated. Cheers!

Matthew
Matthew Jukes

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2018 Reuilly Blanc, Gérard Cordier, Loire, France

From one of the lesser-known villages neighbouring Sancerre, I have followed Cordier's razor-sharp wines for nearly thirty years and this estate always rewards. Super-fresh and unnervingly adult in its dramatic delivery of acidity, this is a daring Sauvignon Blanc for those of you who find regular versions of this grape boring, overly tropical or just downright predictable. If you love action-packed, bone dry wines, this Reuilly is guaranteed to have you quaking, ever so slightly, in your boots.

£76.50 for six bottles



2017 Crozes-Hermitage Blanc, Alain Graillot, Northern Rhône, France

You will know that Crozes is a red wine region with only about 10% of production being white. I remember drinking my very first Graillot wine, back in 1988 at Willi's Wine Bar in Paris. I have been a fan since the very first molecule passed my lips. This sensational white, made from 80% Marsanne and 20% Roussanne, is sealed with a screwcap (hoorah) and it is deceptively rich, with restrained, super-classy fruit and a minute's long finish. This is your main course white for top flight fish dishes this month. It will perform at the highest level for two or three years, too, and the screwcap will keep this gradual ageing process under control, too.

£142.50 for six bottles



2017 Les Sorcières du Clos des Fées White, Côtes du Roussillon, France

Everything about this oddball wine is enchanting. The broomstick-riding fairy on the label, the 'white' glass bottle revealing the pale primrose hue and the uniquely engaging fruit notes which are both beguiling and curious, with a flavour which evolves in the glass.

With no oak interfering with proceedings, it's the invigorating cocktail of white grapes that makes this wine so magical. Grenache Blanc, Vermentino, Roussanne and Macabeu combine to give a slippery, wild-flower and near-tropical theme. You'll be amazed at just how lip-smacking this wine is.

£88.50 for six bottles

2018 Riesling Trocken, Alte Reben, Reichsgraf von Kesselstatt, Mosel, Germany

I love von Kesselstatt wines. This one is a departure from their more familiar style of off-dry, grapey, soothing elixirs. Made from older vines (Alte Reben) and keeping the residual sugar level down to a rather pinched 7g/l, this is a genuinely dry and firm Mosel Riesling. This style is grabbing headlines in top German restaurants and wine bars. I love the tension here, but it is the counterpoint between the classic Mosel nose and then the racy, taut palate. Modern and thirst-quenching (I realise that this is a wine and not a beer), this is a perfect addition to your summer wine schedule.

£112.50 for six bottles



2018 Lirac, La Fermade Rosé, Domaine Maby, Southern Rhône, France

The vast majority of Lirac is red and, unlike its near neighbour Tavel, it is not very well known for making rosé wines. Maby is a superstar so it should come as no surprise to hear this wine is a thriller. Silky, clean and with discreet power just humming below the surface, this is a controlled, 'foody' rosé that really impresses the palate. Drink it with any dish you care to mention — it looks the part, too. Step away from the diluted, confectioned stuff seen on every street corner and taste a rosé with true attitude.

£75.90 for six bottles



2015 Forest Hill Estate, Shiraz, Mount Barker, Western Australia

Aussie Shiraz is, obviously, a world class category of wine, but WA is not necessarily a state you would head to in search of this grape. From the cool Mount Barker wine region, some 200 miles southeast of Perth, comes this spicy, tangy, wild-berry-soaked wine which has none of the fruit-sweetness that is often associated with Shiraz from South Australia. Shaped more like a northern Rhône wine, this is a classic partner to barbecued lamb with rosemary and other similarly carnivorous, but summery, dishes. It's Yapp's palate with an Australian accent and so, no surprise, it works perfectly.

£101.70 for six bottles

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Three heavenly retreats in the Maldives

In a region packed with luxury resorts, three stand out. Chris Carter reports



Kudadoo: a luxury resort where you can indulge your inner diva

The Maldives is packed with luxury resorts, says Susan d'Arcy in *The Sunday Times*. One newcomer, Kudadoo, has taken a bold step in a bid to get noticed. The resort calls it the triple-A promise. Guests are encouraged to order anything, anytime and anywhere.

Kudadoo is the "classic Indian Ocean idyll" – a "tiny

bouquet of coconut palms on bone-white sands" in the Lhaviyani Atoll, a 40-minute flight from the capital, Malé. At one end of the island, 15 pool villas are strung out over a lagoon. At the other end, the retreat houses an overwater restaurant, bar, gym and spa.

The food is "seriously good" thanks to chef Antoine Lievaux,

who has worked with the Michelin maestros Alain Ducasse and the late Joël Robuchon. There is an extensive menu, and themed dinners – Spanish, Japanese, even a Sunday roast. D'Arcy, however, had the spa tally firmly in her sights. "By 6pm on day one, I'd chalked up three fabulous hours, including sound therapy – Tibetan singing bowls

stimulating my theta brainwaves to induce relaxation," she says. "I was indeed mellow", which made it all the harder to work up the kind of prima-donna pique necessary to test the resort's triple-A promise. "Dialling up the divadom isn't easy" when you're that relaxed. *Villas from £1,992 a night, all-inclusive – kudadoo.com*

A spell of the blues

"Hidden away on a remote coral island in the Raa Atoll region, Faarufushi started welcoming guests in March this year," says Lucy Coghlan in *The Mail on Sunday's* *You* magazine. The island only has 80 villas, "but be sure to request an Ocean Retreat". These overwater bungalows are "the true showstoppers". With "crisp, modern interiors" that reflect "the graphic lines of the seemingly never-ending horizon... the floor-to-ceiling windows ensure you never miss a sunset... or even a dolphin splash in the distance". Each villa is "perfectly private, with no nosy neighbours overlooking your own personal paradise". You can enjoy a drink on the decking, or elect to dip a toe into the "clear blue sea or slip into your own infinity pool that effortlessly merges into the skyline... It's all blue from here."

In the bathroom you'll find a bath that is more of a "freeflow art installation" than a tub – one that is big enough for three. It also faces out to sea, which makes it yet "another perfect spot to while away the time". If you should opt for a beach bungalow instead, these come with "a very enviable outdoor rainforest shower". But whichever room you choose, "you are not going to be disappointed".

From around £600 a night in October, faarufushi.com



Beautiful views in Faarufushi



"At \$10,000 a night, it has everything the wealthiest of visitors could expect"

welcome of cool drinks and cold towels sets the tone for sunny refreshment in the sticky heat".

Each of the superior overwater villas "comes with a private pool, hammock, lounge chairs, day beds, bathrooms with his-and-hers sinks, indoor and outdoor showers, Molton Brown toiletries and other bathroom amenities". But to experience the island at its best, check in to the presidential suite. At \$10,000 a night, it has everything the wealthiest of visitors could expect, "not least the large deck with its own pool overlooking the ocean in privacy".

All in all, those looking for the sleekest new resort in the Maldives will have to venture further afield and pay for the privilege. "But for those looking for a dependable and easily reachable tropical paradise that has stood the test of time... the Taj remains an excellent choice, and a Maldivian classic."

From \$800 a night, tajhotels.com

A Maldivian classic

The Taj Exotica Resort & Spa is something of an original, says Matthew Hardeman in *Spear's* magazine. In 1993, it became the first resort in the Maldives to have overwater villas. Today, after several makeovers, "it still prides itself most on the hotel giant's trademark Indian hospitality, not least the myriad dining options brought to guests by its multi-Michelin-starred chefs". The Taj is located in South Malé Atoll, Emboodhu Finolhu – a short half-hour hop by speedboat from the capital. As guests arrive, "a lone drummer plays on the jetty as a familiar Maldivian

This week: houses for around £800,000 – from a converted Victorian railway station in Hindolveston, Norfolk, to



▲ **Kellisryn, Lawhitton, Launceston, Cornwall.** A barn conversion with 650ft of river frontage on the River Tamar. It has vaulted ceilings with exposed A-frames and an open-plan living/dining room with a wood-burning stove. 4 beds, 3 baths, recep, outbuildings, garden, paddocks, 4.68 acres. £800,000 Strutt & Parker 01392-215631.



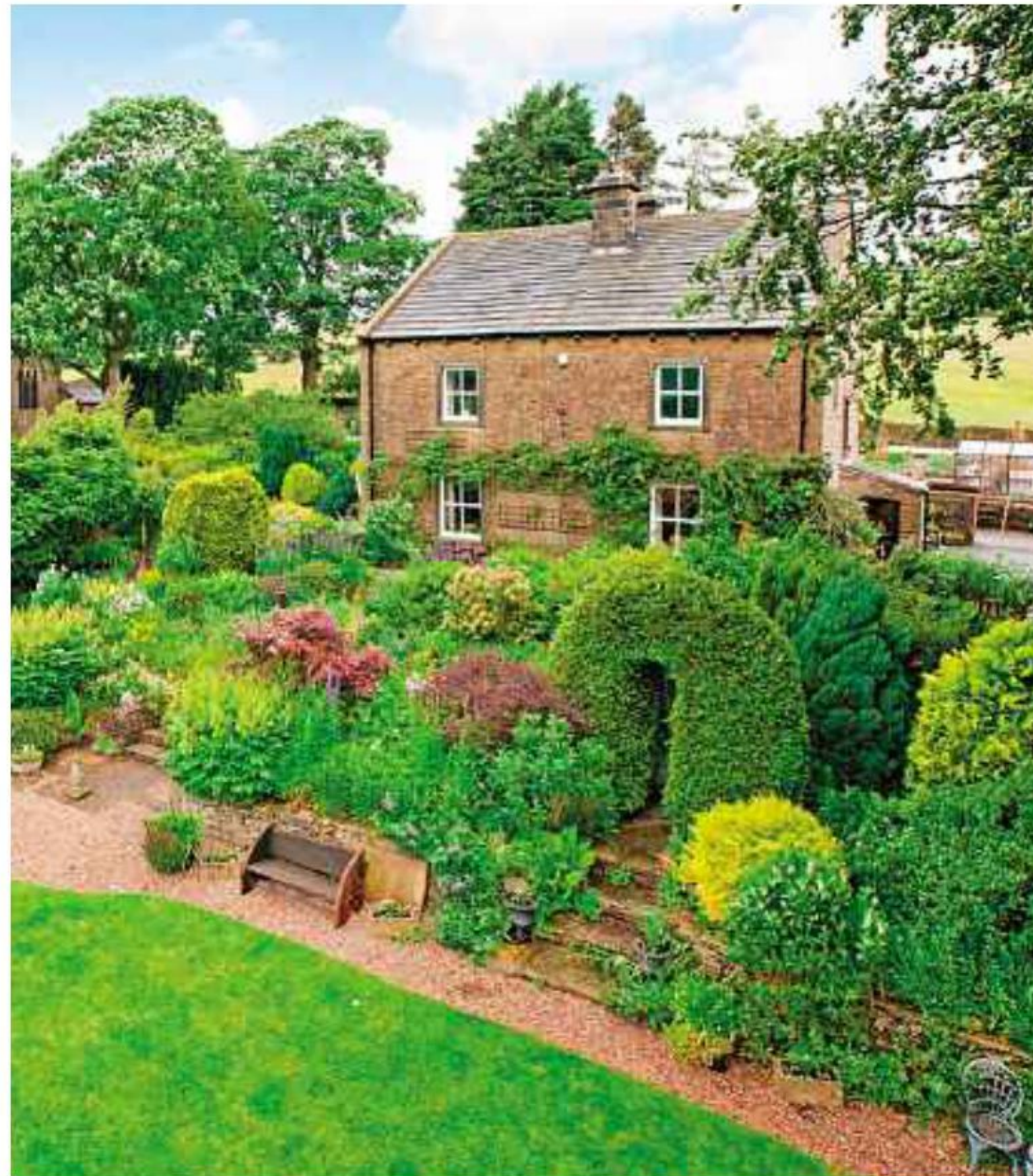
▶ **Bardmony House, Alyth, Blairgowrie, Perthshire.** This 15th-century house on the edge of the Vale of Strathmore has a Georgian façade and was extended in 1991. It has high ceilings and period fireplaces. 5 beds, 5 baths, 2 receps, study, 4-bed wing, 1-bed cottage, stables, gardens, woodland, 6.1 acres. £800,000+ Savills 0131-247 3700.



▶ **St. Augustines Court, Lynton Road, London SE1.** A two-bedroom apartment formed from the chancel of a Victorian Gothic church. The main living area has vaulted arches, decorative cornicing, columns, exposed brickwork, and statues of carved angels that can be viewed close up from a mezzanine accessed by a spiral staircase. 2 beds, 2 baths, open-plan living area/kitchen, secure entry. £800,000+ Chestertons 020-7357 7999.



a Grade II-listed Georgian townhouse within walking distance of the centre of Bath



◀ **The Old Vicarage, Lothersdale, North Yorkshire.** This 1840s former vicarage is set in large gardens and is surrounded by fields, with a church to one side. The stone-flagged entrance porch leads to a reception hall that retains its original staircase. It has a cast-iron open fireplace in the study, which has fitted floor-to-ceiling bookshelves, and a large kitchen with an Aga. 6 beds, 2 baths, 3 receps, cellar, greenhouse, polytunnel, 0.6 acres. £765,000 Hunters 01756-700544.

▶ **Beaufort West, Bath.** A Grade II-listed, Georgian townhouse close to the village of Larkhall and within walking distance of the centre of Bath. It has wooden floors, shuttered sash windows, and period fireplaces. 4 beds, 3 baths, 3 receps, kitchen, gardens. £850,000 Knight Frank 01225-325999.



▶ **Queenhill Manor, Queenhill, Upton-upon-Severn, Worcestershire.** A 16th-century, timber-framed house in need of some modernisation. It retains its exposed wall and ceiling timbers, leaded-light windows, and inglenook fireplace. 5 beds, bath, recep hall, 3 receps, study, breakfast kitchen, range of traditional brick-built outbuildings, workshop, paddock, small lake, gardens, 1.9 acres. £775,000 Knight Frank 01242-246959.



▶ **The Walk House, Wombourne, Wolverhampton.** This period property was built in 1649 and is conveniently located for commuting to Birmingham. It is surrounded by a terraced garden that includes a large vegetable plot, and it retains its original oak staircase, Minton-tiled floors, and cruciform beamed ceiling in the drawing room. 8 beds, 2 baths, 3 receps, kitchen with Aga, cellar, double garage. £825,000 Savills 01952-239500.

▶ **The Old Station, Hindolveston, Norfolk.** This converted Victorian railway station was built in the 1870s and has been extended and renovated by the current owners. It has wood floors and beamed ceilings, and the gardens include a walled kitchen garden and a Victorian railway carriage converted into a 1-bed studio. 4 beds, 3 baths, recep, garden room, 2 studies, breakfast kitchen, veranda, workshop, greenhouse, parking, 1.58 acres. £800,000 Strutt & Parker 01603-617431.



Sweden's head-turning hypercar



The extraordinary new 300mph motor from Koenigsegg will blow your mind, says Mick Sharp

Koenigsegg is proud of the fact that in Angelholm, Sweden, it produces the world's fastest car – in the world's slowest car-building factory. The quality-over-quantity manufacturer builds its frankly mind-blowing motors in hangars formerly occupied by the fighter-jet squadron of the Swedish air force. That's convenient because final testing of the all-new Jesko "hypercar", which computer simulations indicate is capable of travelling in excess of 300mph, will take place on the adjacent runway.

Christian von Koenigsegg is the company founder and CEO, and he named the Jesko after his

father, who helped him set up the supercar company when he was a broke 22-year-old. This is Christian's way of thanking his father, now 80 years old. "It certainly beats chocolates and a card," as Jack Rix puts it in Top Gear. The car didn't so much turn heads on its launch at this year's Geneva motor show in March as send them spinning.

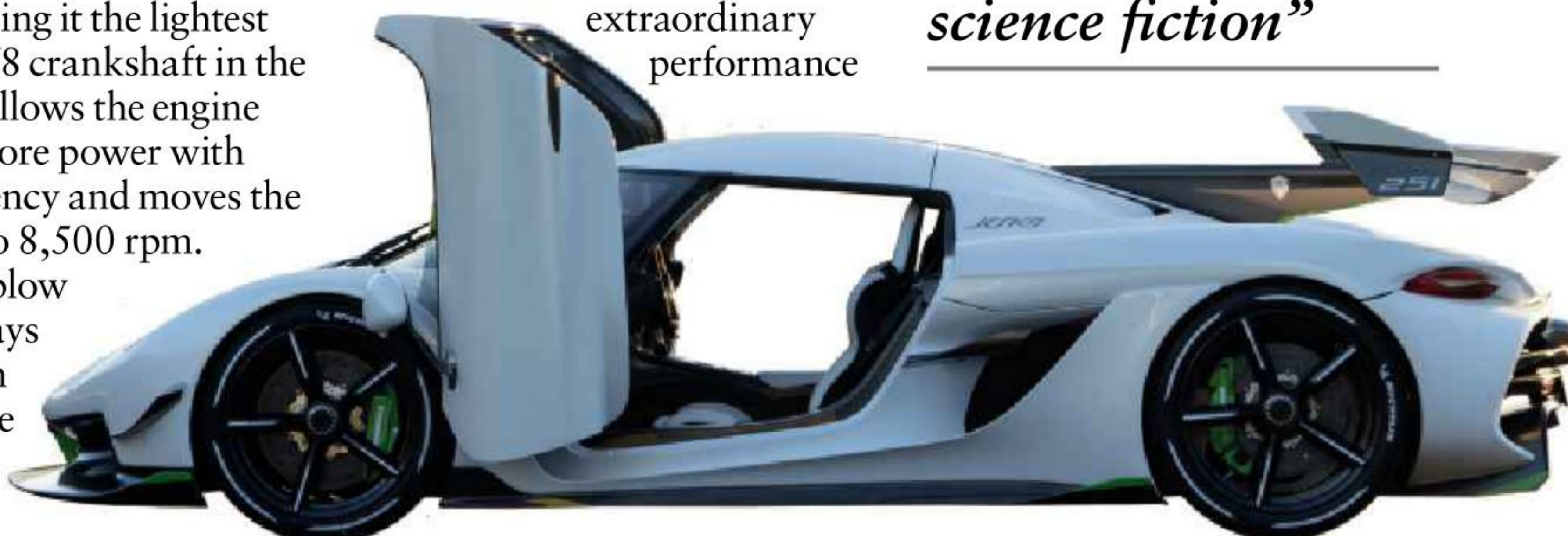
The Jesko features a twin-turbo, five-litre V8 engine with a newly designed crankshaft, which tips the scales at only 27.5 lbs, making it the lightest production V8 crankshaft in the world. This allows the engine to produce more power with greater efficiency and moves the rev limit up to 8,500 rpm. The car will blow your mind, says Kyle Hyatt on c.net.com The

performance figures "read like science fiction".

Yet a Jesko driver "won't be wanting for luxury", says Rix. The car comes with climate control, an Apple infotainment system, USB sockets and wireless charging for your phone. A screen attached to the wheel displays all relevant information – it stays level as the wheel turns around it – and an optional analogue meter on top of the dash will even tell you what G-force the car's extraordinary performance

is subjecting you to. Yet despite a starting price a little shy of £2.4m, every one of the 125 Jeskos being produced has been sold. If you've missed out, not to worry – Koenigsegg is working with electric car specialists NEVS on a larger-volume hybrid, which will set you back a mere £800,000.

"The performance figures read like science fiction"



Wine of the week: a daring red for the summer barbie

2015 CVNE, Imperial Reserva, Rioja, Spain
£19.75, selected Co-ops



Matthew Jukes
Wine columnist

I have seen this wine a few times recently and every time I taste it, I love it. It's interesting that there are quite a few merchants retailing it right now and, because of this, you might as well look around for a low price. You may be able to find it cheaper if you surf the internet for a few hours, but you will not find it on the high street for less cash than this bonkers Co-op price tag of £19.75.

CVNE is a legendary estate and 2015 is a stellar vintage. It is a fairly fleshy vintage, too, and this

means that it is drinking well already, but there is also the stamina here for this wine to develop well for a decade, too. You can have fun with this wine – opening bottles whenever you like over the next ten years and, every time, it will tell you a different story.

Made from 85% tempranillo and 15% graciano, mazuelo and garnacha grapes, all old vines, and built on a fairly sturdy 14% alcohol framework, it uses both American



and French oak in its recipe and this both accentuates its classical stance and also brings some flair. With four years of maturation, half in wood and half in bottle, this wine is already mellow and complex and I cannot think of a more daring wine for a summer barbecue – or, for that matter, an autumnal game dish, a wintry beef stew, or succulent spring lamb.

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

Is Leonardo overrated?

Da Vinci's reputation has come under scrutiny, says Chris Carter

Last month marked 500 years since Leonardo da Vinci's death. Yet few of the comments about his life that were inspired by the event have been celebratory. First, there was the attention drawn to the relative paucity of his works. Just 20 are known to exist. The artist "was notorious for beginning and never completing artworks", says Jason Daley in Smithsonian magazine. Two neuroscientists, Marco Catani and Paolo Mazzarello, posited a theory in science journal *Brain* that da Vinci had attention deficit and hyperactive disorder (ADHD). "ADHD could explain aspects of Leonardo's temperament and his strange mercurial genius," said Professor Catani of King's College London.

The \$450m question

Then there is the ongoing row over whether *Salvator Mundi* is the real thing. You may recall that *Salvator Mundi* was the painting (pictured) that fetched an eye-watering \$450m at auction in 2017. So, there's more than just pride at stake. At the Hay literary festival last month, art historian Ben Lewis spilled the beans on the fall-out when he said: "My inside sources at the Louvre... tell me that not many curators think this picture is an autograph Leonardo

da Vinci." As a sop to the buyer, thought to be Saudi Arabia's Crown Prince Mohammad bin Salman, the world-famous gallery would "exhibit it as 'workshop'" – an offer unlikely to be taken up, as Lewis explained. "If that's the case... the owner can't possibly lend it... the value will go down to somewhere north of \$1.5m." Art critic Waldemar Januszczak won't be sympathetic – he has written previously, in *The Sunday Times*, about how Christie's had "circumnavigated the knowledgeable world of the Old Master collector and headed straight for the dumb f*** with the money".

Germaine Greer is taking a contrarian line too, also at the Hay festival – this time on the *Mona Lisa*. "I remember the first time I saw the *Mona Lisa*," she said. "I go to the Louvre, get to the room, and see the most wonderful painting – which is the Raphael portrait of Baldassare Castiglione... But no one was

was fake, because it is on the right of her face. "We here interpreted the *Mona Lisa* asymmetric smile as a non genuine smile – also thought to occur when the subject lies," said lead author Dr Luca Marsili, a neurologist at the University of Cincinnati.

The Da Vinci mystique

So, why all the fuss over Leonardo? After all, the artist "died in relative obscurity, exiled in France, while overshadowed by his rivals Raphael and Michelangelo", say Jean-Pierre Isbouts and Christopher Brown, authors of *The Da Vinci Legacy*, writing on Artnet News. Rather, say the authors, our familiarity with da Vinci is down to how easily his works were copied using the "first reproducible mass medium: the copper engraving". That's especially true of *The Last Supper*, thanks to its "sheer monumentality... and the relative absence of optical effects and detail".

But the "mystique" of da Vinci

was also used to legitimise despotic rulers – consider, for example, the story that the artist was "somehow dispatched to the Sforza court of Milan by Lorenzo de' Medici", when, in reality, "Leonardo never enjoyed the patronage of the Medicis".

Louis XVI and Napoleon also both dined out on da Vinci's fame (the latter hung the *Mona Lisa* in his bedroom). It's still happening today, the

authors argue – witness the *Salvator Mundi* purchase by the "absolutist monarchy" that is the House of Saud, which was not without irony, Isbouts and Brown point out: "Imagine the irony of a ruler of the strictest Islamic nation in the world... paying nearly half a billion dollars for a portrait of Jesus Christ."



looking at it. They were all staring at this half-dead woman... As for the famous smile, this is what I call 'the Leonardo smirk'." And *The Last Supper*? It's "sloppy".

Greer's suspicions about that smile appeared to be backed up last week by US scientists, who concluded the famous half-smile

The Renaissance Man still amazes



"The moment you confront the ultimate Renaissance Man, you're hit by 500 years of hyperbole," says Mark Hudson in *The Daily Telegraph*. "The one place you can get an intimate sense of Leonardo, however, is through his drawings" – 200 of which are on display at the new exhibition, *Leonardo da Vinci: A Life in Drawing*, at the Queen's Gallery (rct.uk), until 13 October.

"The drawings show the subjects that his playful and curious mind ranged over – sometimes in a single sheet of paper and frequently of variable quality – and also the extent of his mastery of them", says Melanie McDonagh in the *Evening Standard*.

"Everything about this magnificent presentation of Leonardo's drawings amazes," says Laura Cumming in *The Observer*. "Although they have been in the Royal Collection since the 1670s, the sheer surprise of them never ceases... I doubt I will ever see a more intelligent presentation of Leonardo in my lifetime. Each of these groupings – horses, machines, visions of clouds, rock formations, deluges, and so on – would have made a whole show in itself."

The British Library in London is also holding an exhibition this summer. *Leonardo da Vinci: A Mind in Motion* features highlights taken from three of da Vinci's notebooks "to explore the inner workings of his complex mind". The exhibition runs until 8 September (bl.uk).

A licence to print money

An artist's scrawled name can add tens of thousands to the price tag of a piece of colourful paper

If, as so many people will tell you, it's not possible to tell the difference between a great work of modern art and a daub by a child, then why not mass produce some daubs of your own, pass them off as work by the greats, and make a fortune in the process? But wait, there may be sharper people ahead of me. Last month, the son of American artist Peter Max was accused of, in effect, manufacturing the "increasing stream of paintings" that issued forth from Max's studio to be sold on cruise ships, reports Will Pavia in *The Times*.

In his heyday Peter Max was a prolific painter, in "great demand", with up to ten canvases of his "bright, optimistic works" on the go at any one time. But dementia has increasingly kept the artist from his work. So Max's son Adam and his business associates allegedly hired "a team of painters, some recruited off the street", to keep the money rolling in. To lend a patina of authenticity, Max would be ushered into his studio twice a week and told to scrawl his name on the works.

Boozy auctions bring in millions

Punters were still eager to snap up these works from an artist who once joked that "the difference between a \$10,000 painting and a \$20,000 painting is a couple of inches of canvas". Boozy auctions on cruise ships proved to be particularly lucrative for all concerned, says Amy Chozick in *The New York Times*. Max's main dealer, Park West Gallery, typically sold "more than \$2m worth of art on a single big-spender cruise".



Max: in the middle of a grotesque struggle

In the last year alone, Park West Gallery made \$30m in profits, most of it from sales of paintings bearing Max's signature.

More bizarre than the allegations of fakery is the feud between members of the Max family, which has produced a grim trail of misfortune. Peter's son Adam and his wife Mary have been locked in a lengthy battle for custody of the artist and control of his business. This has seen them "trading lurid courtroom allegations of kidnapping, hired goons and attempted murder by Brazil nut" – several household employees made allegations that Ms Max sometimes put "large Brazil nuts" in his smoothies, on which he might choke. Not to be outdone, Max's daughter Libra is suing Park West, alleging that the gallery "improperly took some 23,000 works from Max's trove of 'keepers', paying approximately \$14.7m when their actual value was at least \$100m".

"The difference between a \$10,000 painting and a \$20,000 painting is a couple of inches of canvas"

It's a sad story and Peter Max is far from the only artist to be exploited in this way, say Danielle and Andy Mayoras for *Forbes*. Marvel Comics legend Stan Lee, for example, now deceased, was in later life "squarely at the centre of a power-struggle between his daughter, a former publicist, and a collector-turned-business partner" – the last, Keya Morgan, was arrested for "false imprisonment, grand theft from an elder, and elder abuse". As well as "pocketing \$262,000 in autograph sales", Morgan was also accused of "mishandling more than \$5m, exerting undue influence, and moving Lee from his home to isolate him". These are grotesqueries worthy of a Dickens novel. We live in hope of some happier endings.

Quintus Slide

Tabloid money... "the undisputed star of the show... our own dear Queen"

● "Invitations bring out my inner headmistress," says Alexandra Shulman in *The Mail on Sunday*. "And yes, that's invitations, not the annoying abbreviation 'invite' – a verb not a noun, don't you know?" It seemed churlish of Jeremy Corbyn and Sadiq Khan to refuse to attend last week's state dinner with Donald Trump, but at least they weren't "last-minute flakers". Flakers were "the bane of my life" when organising large dinners and parties for *Vogue*. "I remember the morning of the magazine's centenary gala getting a message from the agent of Anna Friel (pictured), saying she wasn't coming – she had to go to Borneo. Who has to go unexpectedly to Borneo?" There are two rules in my book. One, you reply to invitations. Two, "once you accept, you pitch up". It's become too common for people to flake out at the last minute with some lame excuse.



● Wherever I pitch up in the world, I head straight to the estate agent and imagine buying a local property, says Virginia Blackburn in the *Daily Express*. I even sometimes go and look at the properties, such as when I went to view my perfect home overlooking New York's Central Park. The only problem was that it belonged to someone else and "cost ten million smackeroots". I've also found my perfect pad in Paris, on the Île de la Cité, with a view out over the Seine and Notre Dame, a snip at €4m. Do I have that stashed away in a spare bank account? I do not. But the truth is, "I found the real home of my dreams more than 30 years ago". It's called London. "I'd never really be unfaithful to our great capital. But I can still look and lust."

● In the middle of the D-Day commemorations last week was "the undisputed, thousand-carat star of the show... our own dear Queen", says Jan Moir in the *Daily Mail*. From the moment she greeted Donald Trump at Buckingham Palace to her speech in Portsmouth, "HM proved anew that she is worth her weight in beaten gold... she was *regina in excelsis* at all times; a tiny but determined figure steering her own course through difficult diplomatic waters, always sailing onwards towards the greater national good... I simply adore the Queen. I love her square-toed shoes, her damp tweeds, the concrete invincibility of her snow-white shampoo and set. Throughout my entire life she has always been there; on stamps, coins and on the throne".

Bridge by Andrew Robson

A possible trump coup

West led the jack of hearts versus the excellent Six Spades. Winning the queen, declarer immediately crossed to the ace of diamonds and ruffed a diamond. Although unlikely to be able to set up a long diamond for the lack of dummy entries, there was still a compelling reason for this move. It shortened his trumps for a possible trump coup.

Dealer South

Neither side vulnerable

<p>♠ 2 ♥ J1053 ♦ QJ84 ♣ Q642</p>	<p>♠ K8 ♥ AK6 ♦ A10653 ♣ J93</p> <table border="1" style="margin: auto;"> <tr><td></td><td>N</td><td></td></tr> <tr><td>W</td><td></td><td>E</td></tr> <tr><td></td><td>S</td><td></td></tr> </table>		N		W		E		S		<p>♠ J763 ♥ 9872 ♦ K92 ♣ 87</p>
	N										
W		E									
	S										
	<p>♠ AQ10954 ♥ Q4 ♦ 7 ♣ AK105</p>										

The bidding

South	West	North	East
1♠	pass	2♦	pass
3♣	pass	3♥*	pass
4♠**	pass	4NT***	pass
5♠§	pass	6♠	pass
pass	pass		

- * Fourth Suit Forcing – more information please. North’s cards are too good to settle for a mere Three No Trumps.
- ** Jumping to show the powerful six-card suit and extra values.
- *** Roman Key Card Blackwood agreeing spades.
- § Two of the “five aces” (including the king of spades), plus the queen of spades.

At trick four, declarer cashed the ace of spades, then played a spade to dummy’s king, playing them in the unusual order to finish in dummy for another diamond ruff when West discarded (a club) on the second spade. He now held the same number of spades as East (two), a key prerequisite of the trump coup. He cashed the ace of clubs, crossed to the ace-king of hearts, and then carefully led a second club, not minding if East ruffed (a loser – at the cost of a trump trick).

When East followed to the second club, declarer rose with the king and exited with a third club, now holding queen-ten of spades over East’s jack-seven. Slam made.

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

Sudoku 951

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

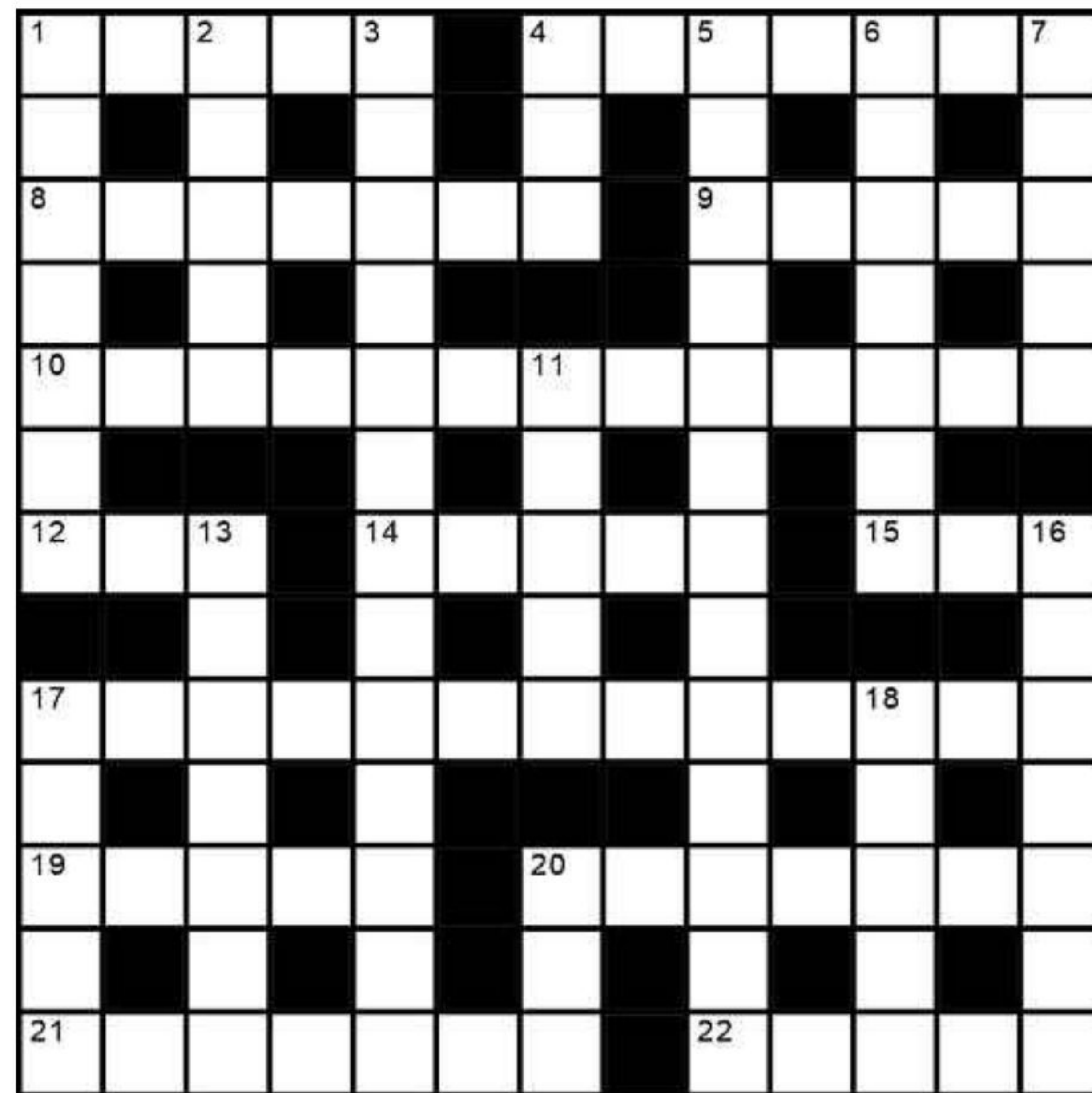
To complete MoneyWeek’s Sudoku, fill in the squares in the grid so that every row and column and each of the nine 3x3 squares contain all the digits from one to nine. The answer to last week’s puzzle is below.

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

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Tim Moorey’s Quick Crossword No. 951

A bottle of Taylor’s Late Bottled Vintage will be given to the sender of the first correct solution opened on 24 June 2019. Answers to MoneyWeek’s Quick Crossword No. 951, 31-32 Alfred Place, London, WC1E 7DP.



Down clues are straightforward whereas across clues are mildly cryptic

- | | |
|--|--|
| <p>ACROSS</p> <p>1 Possibly Rice contributes to this (5)</p> <p>4 Unusual, like policeman not on duty? (7)</p> <p>8 Odd men in continent showing forgetfulness (7)</p> <p>9 Letter showing first from Oxford? Excellent! (5)</p> <p>10 Sally lecturing has a sauce! (5, 8)</p> <p>12 Head, a crazy person! (3)</p> <p>14 American soldiers returned letter from Greece (5)</p> <p>15 Singular courage in corporation (3)</p> <p>17 One upfront in the Met on the fiddle? (13)</p> <p>19 Guys in leather gear (5)</p> <p>20 Annie is terribly stupid (7)</p> <p>21 Finish with awfully sore back (7)</p> <p>22 Hostile nation could be Yemen (5)</p> | <p>DOWN</p> <p>1 Illicit love affair (7)</p> <p>2 Relating to the kidneys (5)</p> <p>3 Hole in the wall (4, 9)</p> <p>4 Unfertilised eggs (3)</p> <p>5 Illusory state of well-being (5, 8)</p> <p>6 Nightfall (7)</p> <p>7 Strong sound of a plucked string (5)</p> <p>11 OK (5)</p> <p>13 Beer mug (7)</p> <p>16 In an abrupt manner (7)</p> <p>17 A bike (5)</p> <p>18 Two times (5)</p> <p>20 Bitter (3)</p> |
|--|--|

Name _____

Address _____

Solutions to 949
Across 1 Meccano Mecca + no 5 Minor miner homophone 8 Anaesthetised anagram 9 Tug double meaning 10 Aunt Sally aunts + ally 12 Serena S Williams homophone 13 Hazard Eden 16 Abundance a bun dance 18 Let double meaning 20 Inconvenience In + convenience 22 Guest guessed homophone 23 Toecaps anagram. **Down** 1 Meant 2 Clanger 3 Abstained 4 On hand 5 Mat 6 Nasal 7 Red-eyed 11 Snakebite 12 Shaking 14 Atlanta 15 In debt 17 Uncle 19 Tress 21 Net

The winner of MoneyWeek Quick Crossword No. 949 is Heide Wickes, Woodhall Spa
 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.



Mythical capital gains

Even good companies are lifted by the rising tide of EZ money. But be careful...



Bill Bonner
Columnist

A friend has mocked our Dow-to-gold allocation strategy – in which we only buy stocks when they are historically cheap relative to gold – which keeps us out of stocks for long and agonising periods. “You’ve been sitting on your hands for the past ten years. You won’t get much satisfaction that way,” he says. He, on the other hand, has made good money by investing in one of the oldest, most reliable companies in the country – Hershey’s. It provides real goods and services – at a profit. With a profit margin of about 15%, Hershey’s is a good business with a reliable stream of income.

But the gains didn’t come from selling chocolate. In 2010, the company sold \$5.6bn worth of chocolate. In 2018, it was up to \$7.8bn. A nice, 40% increase. But the stock went from \$27 to \$133. That’s a 390% increase... almost ten times as much. How come?

Generally, owning a profit-making business is the best way to make money because it’s part of the great win-win world of free trade – an investor deserves to be compensated for adding to the happiness and satisfaction of others. He deserves to participate in the earnings. And Hershey’s investors did. The company paid an annual dividend of about 2.2% over the last ten years – about the same as a

“Hershey’s gains didn’t come from chocolate”



Not even a great king can turn the tides of markets

ten-year Treasury. But where did the rest of the gain come from? According to theory, an investor deserves the Treasury rate plus a little more to compensate for the additional risk. But 350% more? How is that possible?

The answer is that it had nothing to do with chocolate. Investors

were unwitting accomplices to a fraud – the scam of “financialisation” we’ve discussed in these pages. The win-win world of producing goods for consumers has been upstaged by the win-lose world of financial wizardry and negative real interest rates.

According to our back-of-the-envelope calculations, the US now has about \$50trn worth of this empty, Ponzi wealth – in pumped-up stocks, bonds, and real-estate valuations. Mythical capital. Ponzi schemes work by taking in

fresh capital and pretending it is earnings. The problem is, when word gets out, the new capital disappears. So does the old. The whole thing collapses.

Likewise, from 2009 to 2019 the stockmarket took in fake capital and pretended it was real money. Wall Street doctored “earnings”, ballyhooed “better-than-expected” results, saluted share buybacks, mergers, and acquisitions, and rewarded pie-in-the-sky initial public offerings with billion-dollar valuations. And in this world, even good firms with real profits were lifted up on the tide of EZ money.

In this New Age of ultra-low rates, explained the experts, a 2% yield was pretty good. Especially when you get a 390% capital gain, too. But, like any Ponzi scheme, the “profits” are easy come, easy go. Eventually, the tide turns. And neither King Cnut nor chairman Powell can stop it.

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The bottom line

£97m How much the government has spent on consultancy fees in preparing for Brexit, according to the National Audit Office (NAO). The NAO also criticised the government for its lack of transparency in failing to publish the details of contracts early enough.

£2.4bn The amount in interest banks earned from overdrafts in 2017, with 30% of that coming from unarranged overdrafts. From April 2020, banks will no longer be able to charge daily and weekly overdraft fees.

£1trn The cost to Britain of implementing Theresa May’s plan to reduce greenhouse-gas emissions to net zero by 2050, Chancellor Philip Hammond warned the prime minister in a letter seen by the Financial Times.

1.5m How much in Thai baht (£37,750) a single durian fruit has fetched at a charity auction in Thailand – that sum is about double the previous record price paid for one of these famously pungent fruits.

38 The percentage of payments made using a debit card last year, making it Britain’s most popular method of payment, according to the banking trade body UK Finance. Cash payments accounted for 28% – 16% fewer than in 2017.

\$600m

The estimated net worth of Barbadian pop singer Rihanna (pictured), whom Forbes has named as the world’s wealthiest female musician. The bulk of Rihanna’s revenues have come from her Fenty Beauty cosmetics line, to which she

is soon to add a fashion line that will be backed by luxury goods giant LVMH.



Small share



The Share Donation Charity

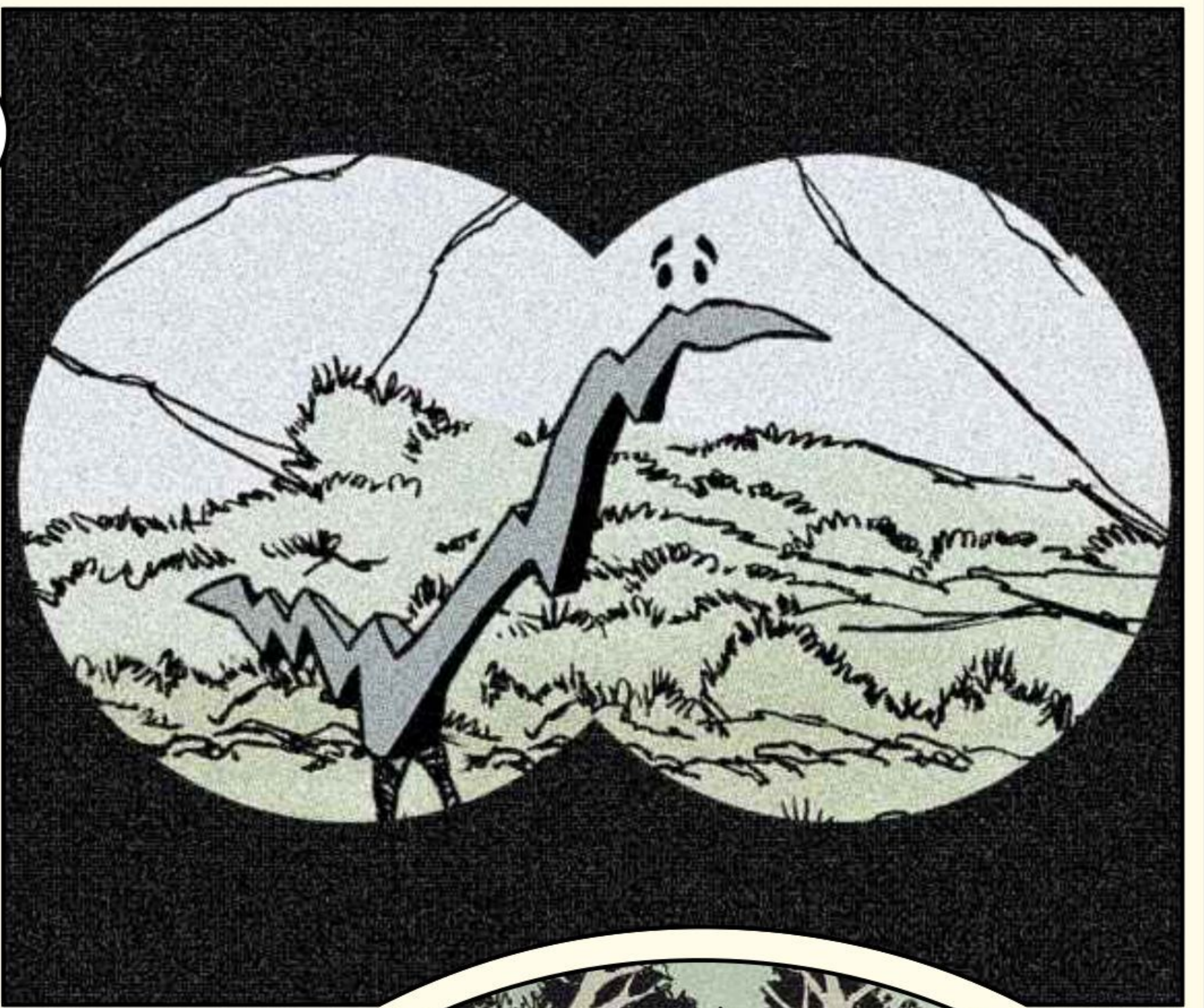
We collect small unwanted shareholdings, unlocking value from them that would otherwise go to waste. The funds we create are used to give millions of pounds to thousands of charities in the UK and Ireland. Your unwanted shares can make a difference.

[Sharegift.org](https://www.sharegift.org)

ON THE TRAIL
OF THE PROFIT



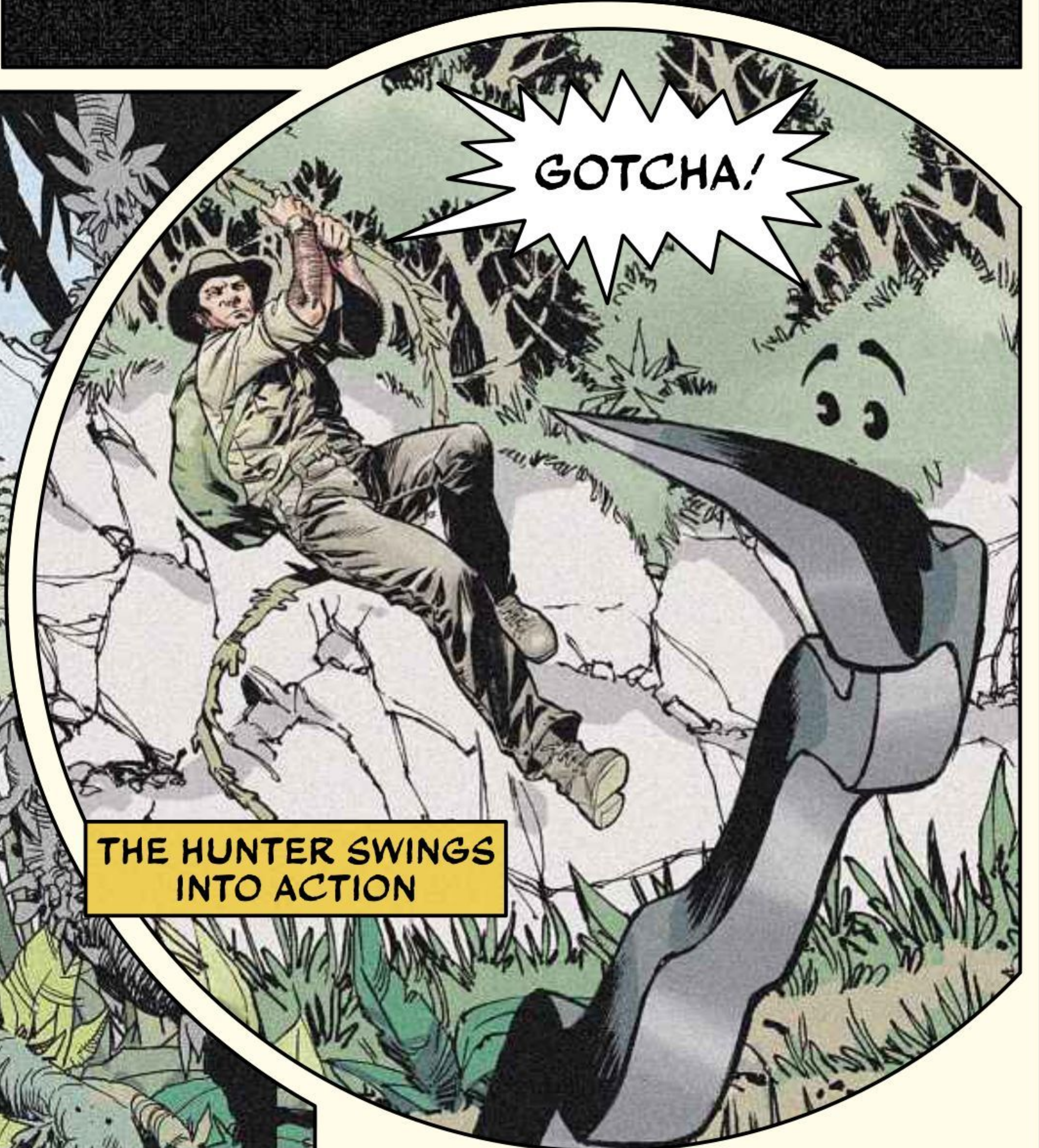
AHA!
AT LAST.



BUT THINGS AREN'T
STRAIGHTFORWARD

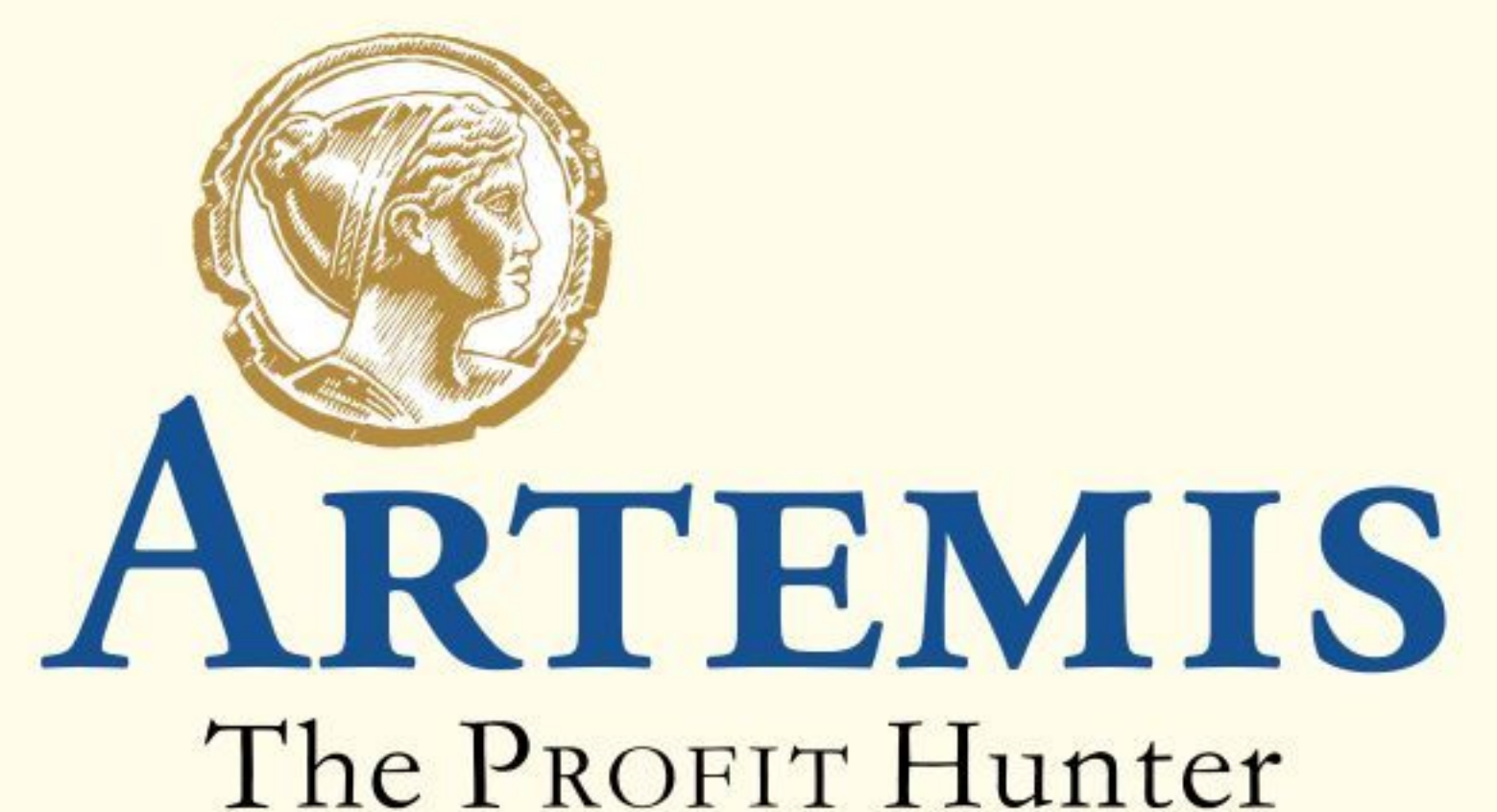


THE HUNTER SWINGS
INTO ACTION



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

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



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