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The one thing Gordon Brown got right



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How much gold does China really have?



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The world's most expensive watch

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# MONEYWEEK

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## No false dawn

Wake up to Japan

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## From the editor-in-chief..



At our Edinburgh show earlier this year, Ruffer's Alex Chartres told us that global geopolitics had become a black swan machine. Unexpected things just keep happening. Imagine telling someone, even five years ago, that globalisation was not unstoppable. That the US would be led by a politician who would challenge the symbiotic relationship between the US and China and start a trade war – one with every chance of turning into a long cold war.

Imagine telling anyone ten years ago that the UK would be in the middle of an election, the winner of which could be an old-fashioned socialist ideologue with a history of promising asset appropriation (see pages 8 and 12). Imagine telling the same person that in 2019 technology companies would be almost universally considered close to evil, and that vast multinationals were to be forced to pay tax at reasonable levels in each country in which they operate. Nuts, they would have said. If a company can grow to be bigger than a small country (see page 18) which country can control it?

But here's the thing that might have floored that person even more – the idea that one 16-year-old girl might single-handedly change the valuation of an entire industry. "If there is one name everyone in the airline industry knows today that it perhaps didn't know a year ago, it's Greta



Greta Thunberg: just one of many political risks

**"What if would-be airline passengers start taking the train instead?"**

Thunberg," says Virgin Atlantic boss Shai Weiss. So they should. The word *flygskam* (Swedish for "flight shame") was barely used before November 2018, says Citibank but, thanks to Greta, its use "has been growing in a parabolic fashion". An awful lot of people say they just aren't going to fly anymore. Airport valuations rest on a couple of vital assumptions – that rates will stay low and that passenger numbers will keep rising. I'll leave the former for another time. But the latter is far from a given.

What if would-be passengers stick to the train? What if those that don't, have to pay for carbon offsets (via taxes or extra charges)? That, on Citibank data, would cost them \$3.8bn a year by 2025. If the airlines took on the cost instead (in an effort to keep people flying and their volume assumptions valid) it would use up 27% of all airline profits. Doing the

same offsetting for corporate consumers would cost another 17%. How's that for an anti-globalisation black swan?

How do you invest in a world of relentless political risk like this? Make sure the assets you own offer some sort of cushion against the unexpected (airports don't). Perhaps they are undervalued, have low levels of debt – or are even sitting on unusually large amounts of cash. We aren't the first to wonder about this. It has looked like time for investors to shift out of high-growth, high-priced firms and into those offering more margin for error for some

time now. There has already, says John Authers on Bloomberg, been a "big shift" towards value stocks ("those that look cheap relative to their fundamentals"). We will be taking a wider look at value in a few issues' time. But this week, we look at the value and income available to those brave enough to invest in Japan (see page 24). Japan has long been viewed as a no-go for anyone who cares about the way shareholders are treated. That's changing – and it is throwing up huge opportunities for the open minded. This is the most underowned developed market in the world. It really shouldn't be.

**Merryn Somerset Webb**  
editor@moneyweek.com

### Warning of the week

"Any swine with more cunning than conscience" can pretend to be a financial adviser on the internet, says Libby Purves in The Times. But it seems we've still not learned to distrust them. Nearly two-thirds of people would trust a complete stranger who had contacted them to offer pensions advice, reveals a survey of 45-65 year olds by the Financial Conduct Authority and the Pensions Regulator. That trust could prove costly. The average amount lost to fraudsters in 2018 was £82,000. And being highly educated is no defence. People with a university degree are 40% more likely to accept a "free pensions review" – a common scam tactic – from a company they've never heard of before. And with interest rates firmly at rock bottom, the "scams look ever more tempting". Beware.



Cover illustration: Howard McWilliam. Photos: Alamy

### Good week for:

**A mystery buyer** who picked up a Chinese vase from a Hertfordshire charity shop for just £1 has raked in £484,000 after it was sold at auction, reports The Sun. The owner at first listed the 18th-century vase, which bears the mark of the Qianlong Emperor, on eBay. But frenzied bidding led him to suspect it was worth more than he thought, and he removed it from sale to have it valued. The seller said he was "ecstatic" at the outcome.

A handful of companies, including **Goldman Sachs, Morgan Stanley** and **Canson Capital Partners**, which have been advising on the London Stock Exchange's £27bn acquisition of financial data group Refinitiv, will share fees of £281m. The LSE "declined to comment on suggestions the fees were high, even for such a sizeable and complex deal", says Patrick Hosking in The Times.

### Bad week for:

**A prospective purchaser** who took a £200,000 Porsche for a test drive in Cardiff was involved in a five-car pile-up a mile from the showroom, reports the Mail Online. Only 1,000 examples of the 911 GT2 RS have been made and it is the most powerful 911 ever built. It can go from zero to 60 in 2.8 seconds and has a top speed of over 200mph. The driver says the brakes failed.

**Saracens rugby club** has been hit with a £5.3m fine – English rugby's biggest-ever financial penalty – and docked 35 points after breaching the league's salary-cap rules. Rival clubs are not happy with the punishment and have demanded the club be relegated or excluded from the Premiership entirely.



© Image courtesy of Sworders Fine Art Auctioneers



# Investors decide the bull is back



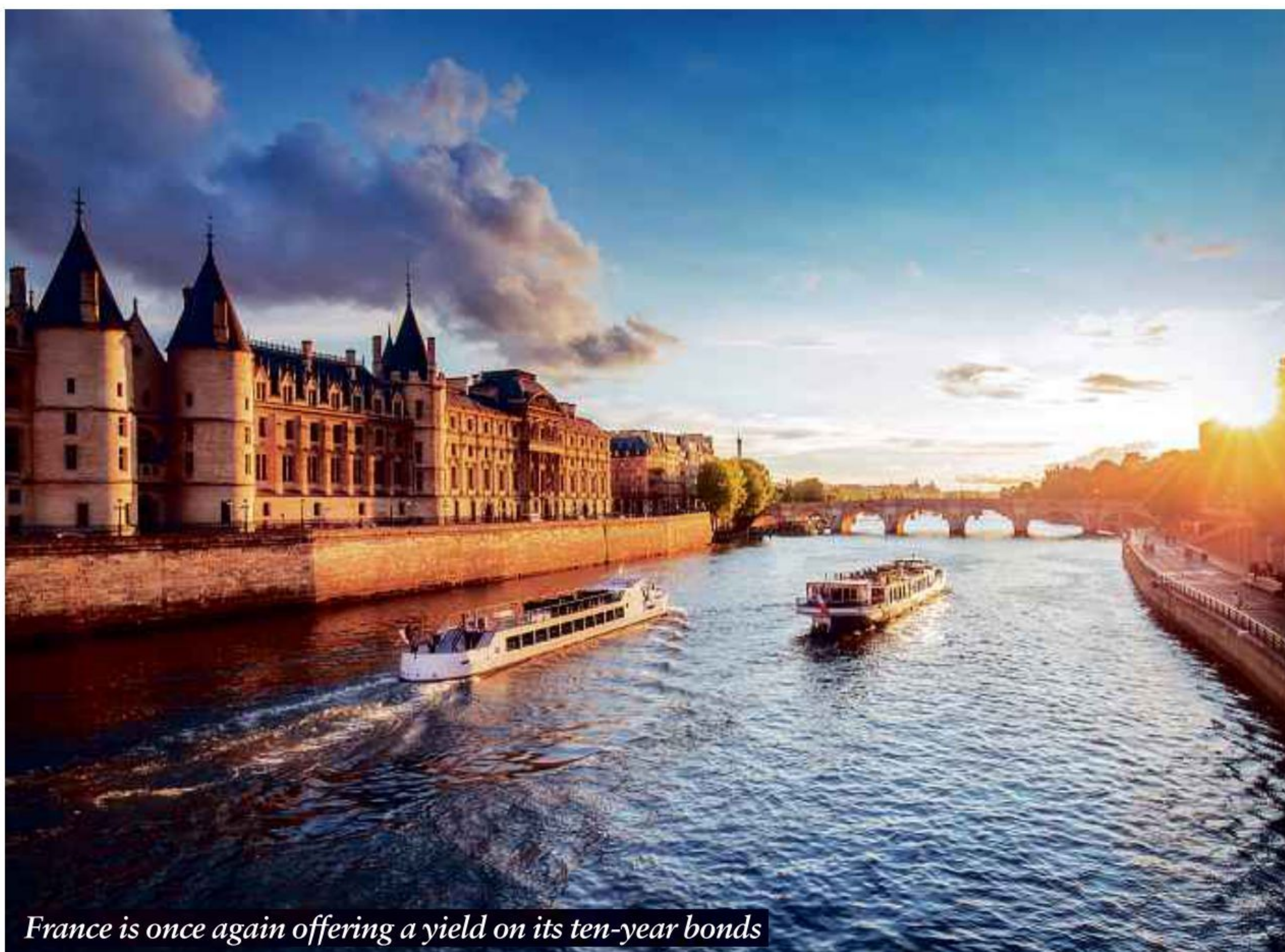
**Alex Rankine**  
Markets editor

“The pendulum is swinging back”, says Michael Mackenzie in the Financial Times. Investors have spent much of this year worrying that the US-China trade war would trigger a “hard landing” for the global economy. Yet though a trade resolution remains murky (see box below), markets have suddenly decided that it is time to be bullish. America’s S&P 500 has now made five straight weeks of gains, its joint-longest winning streak for two years, notes Stan Choe for The Associated Press. The FTSE All-World index has gained more than 4% in the past month.

## The flight from safety

Perhaps more significantly, investors have also been bailing out of safe-haven assets. The ten-year US treasury yield is now up to 1.94% from a low of 1.50% just last month. The yields on ten-year French and Belgian government bonds turned positive for the first time since mid-July last week. Positive sentiment has also taken its toll on gold, the ultimate safe haven. The yellow metal has fallen to a three-month low, although it remains up more than 12% for the year-to-date.

The real surprise is that this rally comes against the backdrop of underwhelming US corporate earnings, says Alexandra Scaggs in Barron’s. S&P 500 earnings per share are set to decline for the first time since 2016 in the third quarter. That matters because stock valuations are fundamentally based on the profits of the underlying businesses. All else being equal, “when earnings decline, stocks should fall in turn”. Yet most analysts have now called a bottom to the earnings slump, says



France is once again offering a yield on its ten-year bonds

Gunjan Banerji in The Wall Street Journal. Many on Wall Street expect earnings growth to accelerate next year and the US economy to dodge a recession. That is keeping markets in buoyant spirits for now.

## Buy high, sell high

The latest moves are less a matter of optimism than of “relief that things aren’t getting any worse”, says Robert Burgess on Bloomberg. Far from a case of euphoria, investors are showing “almost unprecedented restraint”. Data from the Investment Company Institute shows that US investors have poured “almost half a trillion dollars into cash” this year, the largest such inflow since the 2008 financial crisis. Yet studies crunching information all the way back to the 1920s suggest that

those who buy into stock indexes when they hit record highs are more often than not rewarded with superior risk-adjusted returns. It wouldn’t be the first time that this decade-long equity bull market has reasserted itself, says Gavyn Davies in the FT. There have been several transient phases of weakness over the past decade, particularly 2011-14 and again in 2016-18. Both periods ended with “extremely powerful surges in risk assets”.

With central banks back in loosening mode there is plenty of money sloshing around markets. On the other hand, global growth is materially weaker this time as China de-leverages its shadow banks. That could make this rally a tepid affair. “Equity returns next year may be adequate, but not great.”

## Will the yuan’s recovery last?

“China very much wants to make a deal”, US president Donald Trump declared over the weekend. “Their supply chain is all broken, like an egg.” Rumours that a forthcoming “phase one” deal between Washington and Beijing could include the rollback of some existing tariffs sent China’s yuan through the symbolically important seven-to-the-dollar mark for the first time since August last week. It reached 6.98 to the greenback.

China’s currency made headlines over the summer when policymakers in Beijing allowed it to fall to an 11-year low against the dollar, sparking US claims that the country was a “currency manipulator”. The value of the



The yuan has reached a three-month high

yuan is set through a “managed float” system, with the price determined by a combination of market forces and central bank intervention. August’s move above the seven-to-the-dollar mark, previously regarded as a “line

in the sand”, triggered speculation that a larger slump was coming.

Such a fall would have wide-reaching economic implications, potentially triggering a retaliatory “currency war” and sending a

deflationary shock through the global economy. Yet the yuan’s newfound strength didn’t last long, writes Tian Chen for Bloomberg News. With conflicting signals coming from negotiators, the yuan spent “less than two days on the strong side of seven” before falling back.

The date and location of the signing of the much vaunted “partial trade deal” have yet to be confirmed. Analysts expect the currency to finish the year above seven to the dollar. “We wouldn’t get too excited about the yuan,” says Dominic Schneider of UBS Global Wealth Management. Economic activity in China remains weak and “the pendulum of trade tensions can shift quickly”.



## Cheap money flood buoys US housing

America's housing market "keeps humming along", says Paul La Monica for CNN Business. Builders' sentiment in October reached its highest level since February 2018, according to the National Association of Home Builders. With the Federal Reserve cutting interest rates, cheaper mortgages are likely to prompt more young renters to buy.

America is still far from a repeat of the mid-2000s boom that gave the world the sub-prime crisis. The data paints a picture of only "modest strength", says Laura Kusisto for The Wall Street Journal. The average national home price rose 3.2% in the year to the end of August.

Growth has been strongest in affordable markets such as Phoenix, Arizona. Prices in richly valued west-coast cities are stagnating. American homeowners have their "property-developer president" to thank for the buoyant market, say Prashant Gopal and Christopher Condon on Bloomberg. Donald Trump has a property tycoon's instinctive aversion for high interest rates. His trade war and endless harangues have forced the central bank to cut interest rates. Mortgage rates remain nearly as cheap as they've ever been despite unemployment that is at 50-year lows. That leaves the sector hooked on cheap money. But "if mortgage rates rise even modestly, the housing market will go from rip roaring to a deep freeze", says Mark Zandi of Moody's Analytics.

# Spain: the next Italy?

Spanish prime minister Pedro Sánchez's decision to call a fourth election in four years was "a bet that failed", says The Economist. Sánchez's socialists emerged as the biggest party, but are no closer to being able to form a majority in the country's fractured parliament than they were before Sunday's vote. "Much hard bargaining lies ahead."

The Spanish economy is likely to prosper despite further political stalemate, says Jessica Hinds for Capital Economics. Neither the Catalan independence crisis nor previous bouts of political gridlock have dented one of the eurozone's fastest-growing economies.

The benchmark IBEX 35 stockmarket index is up 43% since its 2012 nadir, although at about 9,300 it remains well short of the pre-crisis high of 15,945 in 2008.

### A fading growth star

Spain was one of the European nations worst affected by the financial crisis, with unemployment spiking above 26% in 2013. That prompted politicians to pass difficult structural reforms. The result was an impressive recovery, which saw the country notch up 3.2% growth in 2016 and 3.1% in 2017, above the eurozone average.

Bond and equity markets remained "broadly flat" on



news that Sánchez had again failed to secure a majority, says Christopher Thompson for Breakingviews. Yet growth is slowing. The International Monetary Fund expects GDP growth of 2.2% this year and less than 2% next year.

The most likely scenario now is that Sánchez will do a deal with the anti-austerity Podemos and separatist parties, which could bring a fiscally irresponsible spending splurge and more divisions over regional autonomy. "Spain could swiftly go from German to Italian."

Yet, as former prime minister Felipe González puts it, while Spain has an Italian-style parliament, it has no "Italian politicians" to master it, says Daniel Dombey in the Financial Times. The result is likely to be not crisis but

"policy stasis", say Cedric Gemehl and Nick Andrews for Capital Economics. This isn't just a Spanish phenomenon: the UK and Germany have had similar problems of late.

On a cyclically adjusted price/earnings ratio of 14 and a dividend yield of 4.1%, Spain's equities are some of the cheapest in Europe. That partly reflects the fact that the local stockmarket is weighted towards the unloved, and risky, banking sector (Santander is the single largest component of the MSCI Spain index).

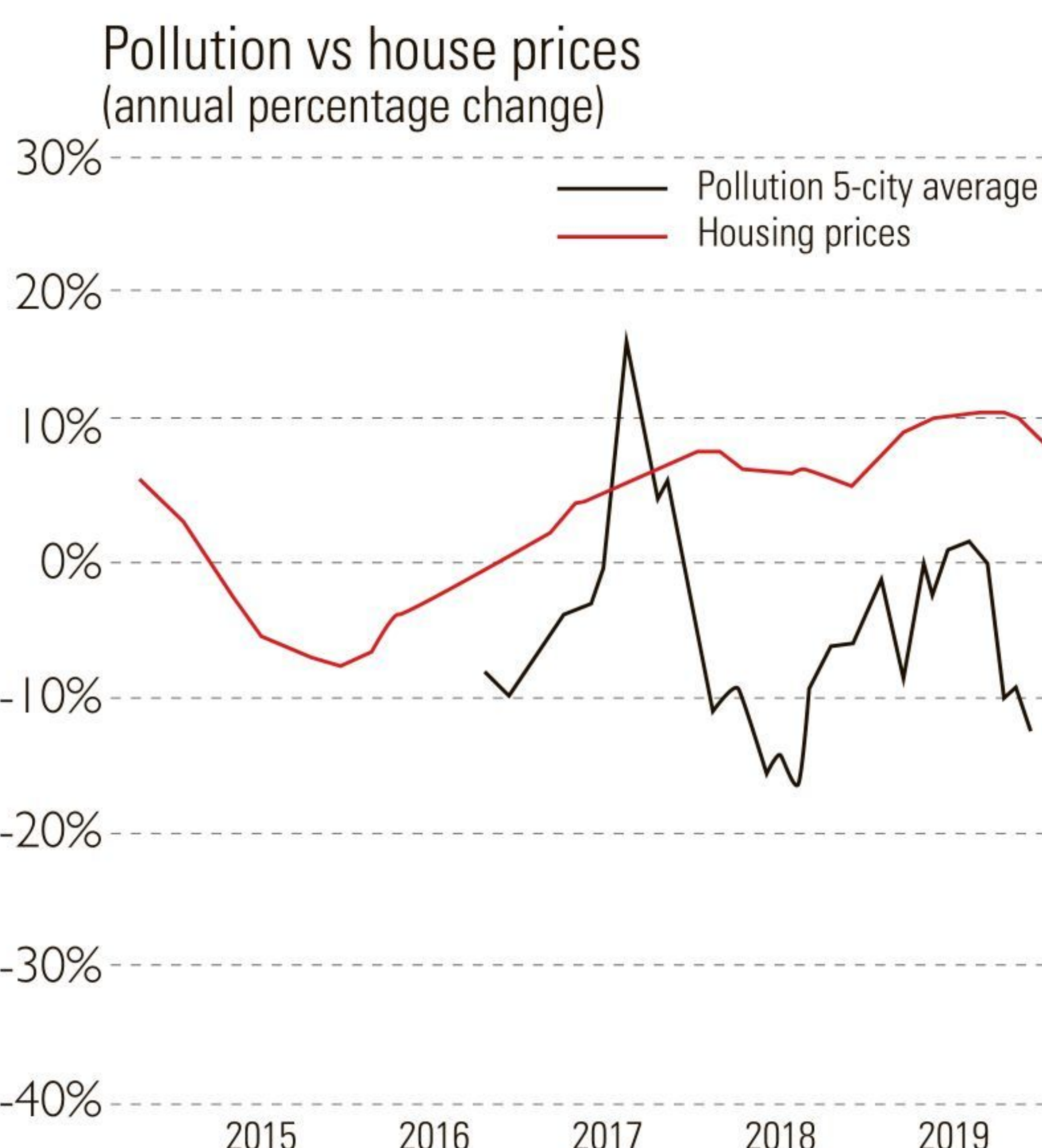
That may deter some. Yet the IBEX 35 also includes businesses such as Zara-owner Inditex and Amadeus, a leading provider of IT for the global travel industry. The economy is still forecast to outgrow the wider eurozone. Just watch out for the banks.

### Viewpoint

"Data covering... trucks [and] chemical tankers... indicate real problems in the industrial economy. Manufacturers seem to have little faith consumers will keep buying at the rates they are. And, given how much consumer spending is debt-financed, they're probably right to be cautious. Strong retail spending is not necessarily positive. Consider this... from a report from November 2007. 'The Friday after Thanksgiving is known for heavy spending in retail stores, but it's clear that consumers are increasingly turning to the internet to make their holiday purchases... Online spending on Black Friday has historically represented an early indicator of... [the] rest of the season... That the 22% growth rate versus last year is outpacing the overall growth rate for the first three weeks of the season [is] a sign of positive momentum.' The Great Recession began one month [later]."

John Mauldin, Mauldin Economics

## China's smog index heralds weakness



Trying to gauge the state of the Chinese economy is often like peering through smog; official statistics are widely deemed unreliable. But smog itself, or rather the absence of it, backs up other recent signs that growth has come off the boil, as Nathaniel Taplin points out in The Wall Street Journal. Air pollution correlates best with the "housing-driven heavy industry sector". Pollution levels in five major cities climbed along with the "last two big run-ups" in house prices in early 2017 and late 2018. Pollution levels are "now trending sharply lower again". The PMI survey tracking construction is down sharply year-on-year, and overall house price growth has eased to an annual pace of 8%, compared with 11% in mid-2019.



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

## Three to buy

### FDM

*The Sunday Times*

HSBC's cost-cutting drive could prove bad news for this Aim-listed IT services business, which trains and contracts out tech experts to blue-chip firms. The bank is one of FDM's biggest customers. Brexit fog has caused the shares to slump 26% since May and the uncertainty is not over yet. Still, FDM has proven its resilience through previous slumps, with the relatively cheap rates it charges customers keeping it competitive. The digital

transformation still has a long way to run, so the firm "should be a winning bet". 756p

### McDonald's Shares

The high-profile sacking of CEO Steve Easterbrook this month generated headlines, but a promising growth strategy should continue without him. The golden arches are among the world's most widely-recognised



symbols, testament to the group's unrivalled brand power. Restaurants have been refurbished and the business is investing in technology and data analytics to drive future growth. The dividend has risen for 42 years in a row. \$197

### Draper Esprit

*The Sunday Telegraph*

Private equity group Draper Esprit's £683m portfolio includes microchip maker Graphcore, analytics provider RavenPack and review site Trustpilot. These businesses are growing fast but the shares have slipped since the summer following the Neil Woodford implosion, which has raised questions about the liquidity of stakes in private firms. Yet Draper is a long way from a cash crunch and costs just 4.2 times this year's earnings. 469p

## Three to sell

### BT

*The Times*

BT's dividend yield poses a quandary. At 7.9% it is "sorely tempting", but also high enough to raise questions about whether it is vulnerable to a cut. Many shareholders bought in at the time of the Thatcher-era privatisation and regard the dividend as "sacrosanct". Yet an £11.3bn pensions shortfall and sluggish growth bode ill. Heavy investment in new broadband fibre will also depress profit growth. BT is a "highly uncertain investment..."

probably best avoided" by income seekers. 194p

### Redde

*Investors Chronicle*

Shares in this vehicle replacement specialist are down by more than a third this year and we don't expect shareholders to find any respite soon. Slow payments from insurance firms, who pick up the tab for the group's hire cars and repair services, is a growing problem but management will struggle to negotiate a better arrangement

with its powerful clients. New UK competitors should also keep up the pressure on the group's margins. Sell a business stuck in "reverse gear". 112p

### Lloyds Banking Group

*The Daily Telegraph*

A £238m after-tax loss for the third quarter at Lloyds grabbed the headlines, but some of the underlying trends are even more worrisome. Key measures of profitability and impairment charges for bad loans are moving in the wrong direction, while "lower for longer"



interest rates are a structural obstacle to any real recovery. The dividend looks safe for now, but it cannot keep rising for ever if profits are shrinking. It's time to dismount from the black horse. Sell. 57p

## ...and the rest

### The Daily Telegraph

French software business **Dassault Systèmes** uses intelligent software that vastly speeds up the processes of design and testing for its car and aerospace clients. That puts it "at the forefront of the next industrial revolution" and comes with "robust growth prospects". Buy (€136).

### Shares

Smaller homes, a more mobile population and ever more stuff mean that demand will only grow for self-storage,



so buy into **Lok'n Store's** ambitious expansion plans (574p). A forward price/earnings ratio of 16.4 is inexpensive for a business with the growth prospects and stature of this IT reseller **Computacenter** (1,367p). A good year-end trading update

has confirmed our view of media firm **Euromoney** as a high-quality business operating in an industry with significant barriers to entry – keep buying (1,378p). Don't be discouraged by a profit warning from chemicals firm **Synthomer**. The long-term fundamentals are encouraging and it is outperforming peers (287p).

### Investors Chronicle

**Spirax-Sarco Engineering** is making strides in a difficult market environment thanks to its niche product offering,

which includes steam control systems – a "top-quality play" (8,080p). Hazardous waste handling is an unglamorous business, but it spells opportunity for **Augean**. On nine-times forecast earnings, risk-tolerant investors may be able to "clean up" (158p).

### The Times

FTSE 250 publisher **Future** has taken sensible steps to deal with a changing media landscape, but on 31.7-times forecast earnings, the shares look "a little pricey" – avoid (1,418p).

## An American view

**Oshkosh** is "poised to give investors a lift", says **Leslie P. Norton** in **Barron's**. The group's offerings include construction equipment such as scissor lifts and other aerial platforms – these comprise around 50% of sales – military utility and combat vehicles, and fire engines. Oshkosh's platforms and lifts are very popular in China now that the government is clamping down on traditional bamboo scaffolding and insisting on better workplace-safety practices. Sales of military vehicles have risen in America and European countries are showing an interest too. Oshkosh boasts a 23% return on equity, compared to 16% for the S&P 500 as a whole. The stock is on just 11 times forward earnings.

## IPO watch

**Française des Jeux (FDJ)**, France's state-owned lottery operator, is about to embark on an initial public offering (IPO) in Paris. FDJ's shares will be priced between €16.50 and €19.90, valuing the company between €3.15bn and €3.8bn. It is selling a 52% stake, which will fetch between €1.23 and €1.73bn for the government. French finance minister **Bruno Le Maire** said the state, which currently holds 72% of FDJ, will retain a 20% stake, allowing it to influence governance and strategic choices. "The privatisation of companies such as... FDJ is integral to President **Emmanuel Macron's** plans to raise funds for innovation projects and boost the overall economy," says Reuters.



## City talk

● It is the role of US funds “to say what other investors in European business think privately”, says Lex in the Financial Times. So the calls by private equity group Cerberus for Deutsche Bank chairman Paul Achleitner to be replaced should be taken seriously. He has presided over Germany’s national banking champion during a period of “calamitous decline”, with the share price halving. The bank’s problem is that Deutsche has an “oversized investment bank” and a German retail bank “weakened by falling interest rates and state-sponsored competition”. The board must find someone “that foreign and domestic investors can both get behind”.

● With Nissan’s net income falling by over 70%, operating margins contracting and cash flow negative, new CEO Makoto Uchida has inherited a “pile-up”, says Pete Sweeney on Breakingviews. Costs are being slashed but “in every



major market, fewer Nissan cars are moving off the lots”. While part of this was inevitable given the need “to unwind damaging incentive programmes intended to build market share”, it still means yet more cuts to profit forecasts and dividends.

● “Not much with M&S these past 20 years has made sense”, says Chris Blackhurst in The Independent: profits have declined from £1bn to just £177m. Some of the blame must fall on “cumbersome” supply lines, “dowdy” clothing styles and the neglect of online shopping. But the biggest error has been the failure to learn that “clothes and food do not mix”. Splitting the business is “not easy” as they “share systems, employees, offices, stores [and] stockrooms”; the alternative is standing by and watching a “successful” food business being “dragged down” by a “fading” clothes one.

# Disney takes on Netflix

A major new US player has arrived in the television and film streaming market – and the UK is launching a service too. Matthew Partridge reports

This week Disney launched its new streaming service, Disney+, “with all the hoopla of a Magic Kingdom parade”, says Lex in the Financial Times. And its claim that this “is not only a new era for the company but a statement about the future of entertainment” is a rare case of the reality matching “the showman’s hyperbole”.

This is because Disney’s “vast back catalogue” makes it the “most credible challenger” to Netflix in the “great streaming wars” breaking out across the “media universe”. The move has already boosted the company’s share price.

Of course, Disney isn’t the only company “wagering billions” that consumers will pay it a monthly fee to stream TV and films over the internet, say Amol Sharma and Joe Flint in The Wall Street Journal. Apple has already entered the market while AT&T, Comcast and NBC Universal are planning to mount their challenges to “streaming juggernaut” Netflix next year. The stakes are high: surveys suggest that Americans are willing to spend an average of \$44 monthly on streaming video, up from \$14 at present. Naturally “not everyone can emerge victorious”.

This “increased competition” among platforms “seeking viewers’ time and attention” is starting to lead to “escalating budgets”, says Amanda Lotz and Raymon Lobato for Fast Company. However, competition is tempered by the fact that they “all have different catalogues, pricing and strategies”.

Note that Disney’s concentration on kids, family and its popular Marvel and *Star Wars* content, along with its “lowball pricing of \$7 per month compared with \$13 for Netflix’s most popular plan”, means that Disney+ “is pitched as a service to have alongside Netflix”. Also, while Disney and Apple “are following a more traditional US export model of media globalisation”, Netflix is “spending considerably” on non-US shows.



The streaming wars are great news for viewers

## The British entry

It’s not just American and international players that are entering the market. The BBC, ITV, Channel 4 and Channel 5 have jointly launched BritBox, a streaming services that will offer a back-catalogue of British shows, for £5.99 a month, notes Matthew Field in the Daily Telegraph. While the service “will initially be focused on box-sets of older shows”, the broadcasters are planning “exclusive series” to be aired on BritBox. As well as fending off competition, the hope is that it will give ITV “more revenues beyond traditional advertising”.

But “the jewels in BritBox’s crown” will already have aired on television and been available for no charge on iPlayer or ITV Hub, which may limit demand, says Matthew Moore in The Times. And BritBox’s library of “largely second-hand selections” pales in comparison to Netflix and Amazon’s “seemingly bottomless buckets” of “big-budget originals”. ITV’s shareholders need to temper their expectations.

## Boeing faces further turbulence

Boeing’s shares jumped by 5%, their best one-day performance in over five months, early this week after the company announced that it expects the “troubled” 737 Max jet to return to service as early as January, says Peter Wells in the Financial Times. They could even resume deliveries of the jet to customers in December. The jet has been grounded since March owing to its role in two fatal air crashes, one in October 2018 and another in March 2019, with a combined number of 346 fatalities. Even after the latest news, Boeing shares are still down 16% from their pre-crash peak.

Not so fast, says Bloomberg’s Brooke



Sutherland. Boeing “feels confident” there won’t be “further snags” in the quest for regulatory approval. However, getting the plane back in the sky “certainly isn’t the end of this story”. One problem is that airlines are signalling that they “aren’t happy” with the \$5.6bn in compensation that Boeing has offered so far.

Merely getting the planes back into service may not be enough to save the job of Boeing’s CEO Dennis Muilenburg, says Martin Rivers in The Guardian. His “apparent ignorance” of the 737 Max’s design flaws, has been undermined by a “steady trickle” of leaked documents and the testimony of whistleblowers, and suggests that he was “blinded by a desire to stay competitive with Airbus, Boeing’s European rival”. He insists he won’t resign, but Boeing’s shareholders know that the company’s future depends on the public’s confidence in “reliable, airworthy” planes.



## Betting on politics



With the election campaign well under way, it's a good time to look at some of the best bets on the Labour Party. Ladbrokes is offering odds on the outcome of a "Vote Match" between Labour and the Liberal Democrats. At the moment it is offering 1/6 (85.6%) on Labour getting more votes, and 7/2 (22.2%) on the Lib Dems. With the Lib Dems stuck at 15% in the polls, and with the millstone of their time in coalition with the Tories still hanging around their neck, I'd say that you should bet on Labour to win this particular contest.

In terms of vote shares, I think that Labour's absolute bottom is 25% of the vote, so I'd bet on Labour to get 25%-30% at 11/4 (26.7%), 30%-35% at 11/4 (26.7%) or 35%-40% at 5/1 (16.7%) with Paddy Power, and between



Labour leader  
Jeremy Corbyn

40%-50% of the vote with Ladbrokes at 10/1 (9.1%), for combined odds of 79.1%. To weight your bets properly, split a £10 betting unit by putting £3.37 on 25%-30%, £3.37 on 30%-35%, £2.11 on 35%-40% and £1.15 on 40%-50%.

At the moment Paddy Power is offering 5/6 on Labour getting more than 206.5 seats, and the same odds on them getting less. Ladbrokes is even less optimistic, suggesting putting the over/under at the slightly lower level of 204.5. I think Labour will do better as Boris Johnson will have more trouble than you'd think making inroads into the north of England. So I'm going to suggest that you take Ladbrokes' odds and back Labour to get more than 204.5 seats.

# MPs sign up to dodgy pacts

But will voters be so easily corralled? Matthew Partridge reports

In a "humbling moment", Nigel Farage, leader of the Brexit Party, has decided to "abandon half the electoral battleground in mainland Britain", says George Parker and Chris Tighe in the Financial Times. His party will not now contest any of the 317 seats won by the Conservatives at the last general election. The Conservatives' chairman, James Cleverly, insisted there "had not been any backroom deals" to secure this, although Boris Johnson has released a video committing the Tories to ending a Brexit transition period by December 2020 and seeking a more limited "Canada-plus" style trade deal with the EU.



Farage: a humbling moment

## Farage's triumph

Farage's decision has "cheered" many Tories as it appears to diminish the "threat of splitting the pro-Brexit vote", says Therese Raphael on Bloomberg. Indeed, experts estimate that 35 of the 50 smallest Conservative majorities are in Leave-voting seats. But the Brexit Party "will still be contesting seats in Leave-voting, Labour-held parts of the country, particularly in the Midlands and the North", the sort of seats that the Tories need to win in order to secure a majority. Farage may appear to be backing out of the fight in this election, but he can comfort himself with the knowledge that he has helped produce "an internal revolution" within the Conservative Party, which has been "purged" of moderates and Remainers.

Brexiters aren't the only ones trying to do deals to stitch up this election, says Andy Gregory in The Independent. In a deal that they claim is "unprecedented in modern history", the Liberal

Democrats have "brokered an electoral pact with Plaid Cymru and the Green Party not to field candidates against each other in at least 60 constituencies". This "Unite to Remain" alliance aims to "tip the balance of power away from the two largest parties and into a progressive Remain alliance".

Polls may show that a majority of voters now want to stay in the EU, but Remainers should beware, says

Jon Elledge in the New Statesman. The Liberal Democrats are hoping that doing a deal with other minor parties will help convince pro-Remain voters in the country at large that "they should consider voting for the yellow team". But this isn't the best strategy for those who want Britain to stay in the EU. The reason the Conservatives did unexpectedly badly last time was that, despite Labour leader Jeremy Corbyn's "apparent ambivalence" on Brexit, a "large chunk" of the Remain camp voted Labour anyway. If these voters move to the Lib Dems, "the main beneficiaries may end up being the Tories".

These elaborate pacts overlook the fact that, whatever party leaders may say, "voters cannot be relied on to take dictation from on high", says Rafael Behr in The Guardian. This election is not a "referendum in disguise", with voters "channelled into leave and remain streams". It is rather "a tangle of old habits and first-time departures, local cultures and personal priorities, of which Brexit is only one". Issues such as the NHS or crime might end up being just as important. The majority of voters haven't yet decided "what the question will be on 12 December, let alone what answer to give".

## HS2 becomes electoral hot potato



Will the PM back HS2?

A leaked early draft of the official review into the High Speed 2 (HS2) rail link has suggested that the government should proceed despite the potential for further cost increases, says the FT. The project, already "beset by delays, contract scandals and concerns over poor management", is about £30bn over budget, and the report

admits that the projected economic benefit from building the line has fallen from £2.30 per £1 spent in 2017 to £1.30.

Let's scrap it, says Philip Booth in The Daily Telegraph. Even if you ignore the "undisputed drain on taxpayer resources", much of the supposed benefit to the north of England is based on an analysis filled with "schoolboy errors". The estimate of "spill-over benefits", for example, is "questionable" at best, given that the claimed benefits of HS2 "are simply displacing those that would have arisen from alternative projects had £90bn been spent on other things". HS2 is a project "driven by political considerations" rather

one based on a hard-headed cost-benefit analysis.

Indeed, the leak presents the prime minister with a "politically awkward" dilemma, says The Times. The leak provides ammunition for those Tories who regard HS2 "as an expensive white elephant that will run through rural Tory-held constituencies". On the other hand, the recommendation to proceed "will be welcomed" in the Midlands and the North, where the Tories must gain seats if they are to win a majority. Indeed, many would see it as "perverse" for the PM not to give the rail link his "wholehearted backing" given his pledge to borrow 3% of GDP to expand infrastructure spending.



An hourglass with white sand falling from the top bulb into the bottom bulb, which is partially filled with blue sand. To the right of the hourglass is a stack of several coins.

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## Chicago

### Private-equity giant bids for Boots

**Boots:** Nasdaq-listed pharmacy conglomerate Walgreens Boots Alliance (WBA) has received an offer from private-equity firm KKR & Co that could amount to the world's largest leveraged buyout, says Bloomberg. The shares closed 5% higher on the news, revealed on Monday. WBA, which owns Boots in Britain, has struggled in recent years, faced with competition from its biggest rival in the US, CVS Health, and from Amazon, which has been expanding its pharmacy presence online. The share price was down by almost a fifth this year to the end of October. WBA has considered closing shops and cutting jobs to save \$1.8bn a year by 2022, says Dominic Rushe in *The Guardian*. Stefano Pessina, the vice chairman and CEO, built WBA through a series of takeovers and now owns 16% of the company. KKR assisted in the takeover of Boots Alliance in 2014, in what was Britain's biggest management buyout. WBA has a market value of \$56bn and debt of \$16.8bn.



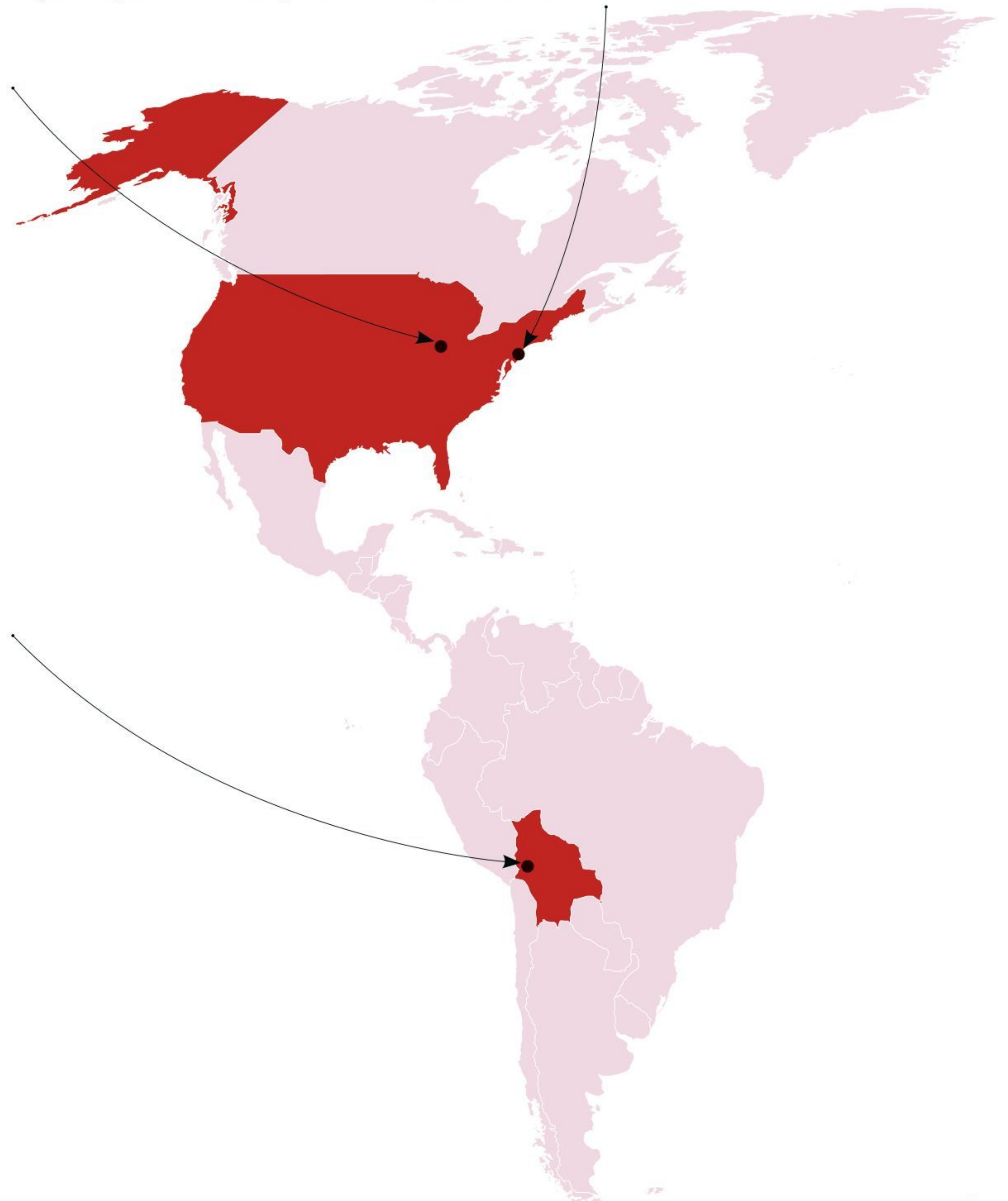
## New York

**Moody's downgrades the entire world:** After warning of a possible debt ratings downgrade for the UK last week, ratings agency Moody's has this week gone further – much further – and issued a “debt warning downgrade to the world”, reports *The Daily Telegraph*. It has cut its global sovereign outlook for 2020 from “stable” to “negative”, blaming “disruptive and unpredictable” politics, including populism and trade tensions, for damaging economic growth, leaving the economic and financial environment “prone to volatility... and sharp shifts in sentiment”. Moody's has picked out the UK, South Africa, Argentina and Hong Kong as worthy of particularly close attention. It is concerned that politicians are planning to raise public spending dramatically while having “no clear plan” of how to finance it. “There are few silver linings,” it warned. The level of global government debt has reached “levels never seen before during peacetime”, as the *Financial Times* reported recently. The debt of developed-world economies averages more than 70% of GDP, according to a report by Deutsche Bank – the highest level in the last 150 years apart from “a spike around the Second World War”.

## La Paz

**Morales's legacy is turmoil:** The Bolivian president, Evo Morales, has resigned and claimed political asylum in Mexico following weeks of violent protests brought on by “mounting evidence of vote-rigging” in the 20 October election, says *The Economist*.

Morales (pictured), seeking a fourth term, had called for fresh elections, but the commander of the Bolivian armed forces, Williams Kaliman, urged him to resign instead in the interests of stability. Morales complied while claiming he was the victim of a coup, which further inflamed protests. Second vice-president of the senate Jeanine Áñez has become interim president and promised fresh elections. But Bolivia's crisis is not over, says *The Economist*. Many still want Morales for president, and he has vowed to return “with greater strength and energy”. Morales is a Chavez-style socialist who “cut poverty in half and presided over rapid economic growth, fuelled by exports from a gas industry he nationalised”, note Michael Stott and Andres Schipani in the *FT*. But recently growth has slowed and public debt soared. Morales's departure leaves a polarised country on the brink of turmoil.



## The way we live now: getting the horn

Scientists are planning to flood the black market with fake rhino horns in an attempt to reduce illegal poaching of the endangered animals, says Nicola Davis in *The Guardian*. Last year in South Africa 769 rhinos were poached. The animals are hunted for their horns, which, when ground into a powder, are considered to be an aphrodisiac in traditional Chinese medicine.

Rhino horn can be more expensive than gold. “If the price drops and the penalty of having rhino horn is still very high, then the value proposition changes for the trader,” says Professor Fritz Vollrath, the co-author of the study, published in journal

*Scientific Reports*. The horns are made from keratin, the same protein found in hair and nails. Using horse hair, the team created a cheap, realistic substitute.

The fake horns could even be made effective, says Tom Whipple in *The Times*. Imagine a punter who wants to spend £1,000 on a little bit of rhino horn to help him through the night. He goes to a medicine man. The quack shaves off some horn, puts it into a mortar to grind into powder. But the horse-hair horn could have been laced with Viagra. That would enhance the traditional placebo with the power of modern chemistry.



*Fake horns could save the rhino from poachers*



## London

**Recession averted:** The economy expanded by 0.3% in the third quarter after contracting by 0.2% in the second, thereby dodging recession, which is defined as two consecutive quarters of negative growth. Consumer spending, the services sector and export growth all stayed strong in the three months to October, with the latter helping to close the trade deficit by £5bn to £6.4bn. However, year-on-year gross domestic product (GDP) growth slowed to 1%, the slowest rate since 2010. Lower energy prices kept inflation to a three-year low in October, with the consumer-price index (CPI) rising by just 1.5% month-on-month.

The labour market has also softened. The number of people in work fell by 58,000 in the third quarter, compared with a 114,000 rise in the previous three-month period. Unemployment also fell by 0.1% to 3.8%, which suggests people are leaving the labour force. In another sign that companies are not desperate to hire, average weekly pay growth, excluding bonuses, slipped to 3.6% in September, while the annualised quarter-on-quarter rate fell to 2.9% from 4.5%. The lower rate of pay growth shows that “demand for labour is easing”, says Andrew Wishart of Capital Economics. But with unemployment at a 45-year low, “there is no cause for alarm”.



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## Hong Kong

### Spiral of violence drags Hong

**Kong into chaos:** Anti-government protestors in Hong Kong began their third consecutive day of action on Wednesday, bringing parts of the Asian financial hub to a standstill, reports Reuters. Some transport links, schools and many businesses were closed following an escalation of violence that has seen one protestor shot dead by police and a man who remonstrated with demonstrators set on fire. Riot police have stormed university campuses, firing tear gas and viciously beating protestors. Protestors, for their part, wear banned face masks and hurl petrol bombs and bricks. Some turn up with bows and arrows. A senior police officer said that the city had been pushed to the “brink of a total breakdown”. Societal collapse now looks like a very real risk as the norms of civil society weaken and levels of violence and reprisals escalate, says the Financial Times. The chances of a peaceful resolution “appear slim indeed”, and the risks are “ever-increasing” that Beijing will launch a “bloody military intervention”. The Hang Seng index fell 2.2% on Wednesday morning, taking the fall for the week to almost 4%.

## Beruit

**Banks shut up shop:** The UN has urged Lebanon to form a “competent” new government as the country remains mired in the worst economic crisis since the 1975-90 civil war and slowing capital inflows lead to a scarcity of US dollars and worries about the country’s ability to pay for imports of basic necessities, say Nadine Awadalla and Tom Perry in Reuters. Prime Minister Saad al-Hariri (pictured) announced his resignation in late October and President Michel Aoun has said there has been no breakthrough in talks to form a new government. Banks closed for two weeks in October due to intensifying anti-government protests; they reopened in early November only to seek to “prevent capital flight by imposing restrictions on dollar withdrawals and transfers abroad”. They have shut again as staff went on strike over security fears, with customers demanding access to their money and protesters gathering outside. The protests, fuelled by anger against a corrupt ruling elite, have continued to intensify, with main routes barricaded. A local party official was shot by a soldier trying to disperse protestors this week. “The financial and economic situation is critical,” a UN official said, “and the government... cannot wait any longer to start addressing it.”



## Mumbai

**Vodafone squares up to New Delhi:** Vodafone has written off the entire value of its €3bn business in India in defiance of the Indian government’s repeated demands for it to pay more tax. Chief executive Nick Read said the demands made the business untenable and that it was in danger of going under. Vodafone has 300 million customers in India through its Vodafone Idea joint venture, along with a 30% share of the market. It is the country’s second-largest operator. In the 12 years that it has operated in the country, Vodafone has been India’s biggest foreign investor, ploughing in \$20bn. Yet last month the Supreme Court ordered the major players in India’s telecoms market to pay billions of dollars in tax, penalties and interest going back to 2003. Vodafone’s bill was the biggest at around \$4bn. “I went over there and was very, very clear that we have put multiple billions of dollars into the country over the years, but we will not put any further capital in,” Read said. Elsewhere, Vodafone’s business has been buoyant, with revenues increasing by 0.4% year-on-year to €21.9bn. The write-down of its India venture, however, pushed the company to a loss of €1.9bn. Still, “investors had already taken the view that India was effectively worthless”, says Jim Armitage in the Evening Standard. The shares rose by 3.1% on Tuesday.



# Tories and Labour turn on the taps

Austerity is officially over as both parties have outlined lavish spending plans. Overseas, too, spending and borrowing are back in fashion. Will the bond markets put up with it? Simon Wilson reports

## What's happened?

The last rites have been read over Britain's decade of austerity. Both Conservatives and Labour are promising debt-funded largesse on a scarcely imaginable scale. Last week the chancellor, Sajid Javid, who had already announced a 4.4% increase in real-terms current spending next year, promised a further £100bn of spending on capital projects over five years. Not to be outdone, Labour's John McDonnell announced a "social transformation fund" worth £150bn over five years, plus a green transformation fund worth £250bn over ten years. This week he added that he would give the NHS in England £26bn a year by 2023, £5bn more than the Tories have pledged.

## What exactly are the Tories promising?

They have decisively turned their backs on the Osborne/Hammond era, scrapping the goal of seeing overall government debt fall as a share of GDP each year. They've also junked the target of keeping annual borrowing below 2% of national income in 2020-2021, as that year's deficit (or annual overspend) was on course to be bigger than that. Javid has likewise abandoned the goal of balancing the budget by the mid-2020s. Instead, he has announced new rules giving a new Tory government more latitude to boost spending on infrastructure. He will seek to balance the current budget (ie, excluding public-sector net investment) by the middle of the next parliament. He'll limit borrowing for investment to 3% of national income (up from 2% now). And he'll aim to keep debt servicing costs below 6% of tax revenues (it's now at 4.6%). The upshot? About £22bn in extra capital spending each year.

## What about Labour?

Even more new spending – in fact more than twice as much – and debt on a rising path. While the Tories propose debt-funded spending of up to 3% of GDP a year (a level last seen in the 1970s), Labour is proposing there should be no formal limit on spending at all, so long as that spending creates value on the government balance sheet. The scale of Labour's proposed spending is vast, at up to £55bn a year extra – more than doubling net capital spending to £100bn a year. But while there are clear differences between the two parties, the "even bigger difference", according to the Resolution Foundation's James Smith, is the one "between the UK's recent economic past and its plans for the future, as both parties have signalled a major shift towards a far bigger, investment-focused state".

*"Racking up yet more debt is not the best way to prepare for adverse demographics"*

## What's going on?

Partly this is about politics: the Tories fear a repeat of their lacklustre, spending-light 2017 campaign, while Labour has an ambitious, far-left agenda. But it also reflects a broader, global shift in attitudes towards government debt in an era of ultra-low interest rates. Economists think that the age of low interest rates could endure for many years yet. In addition, it is fashionable now to believe that in a low-growth environment, state borrowing and spending is good for a nation's economy and may not compromise fiscal sustainability. The International Monetary Fund's former chief economist Olivier Blanchard said earlier this year – in what is seen by some analysts as a turning-point – that higher government debt "may have no fiscal cost" if growth rates outstrip interest rates, as is the situation today.

## So it's fine to pile up debt?

Not fine, necessarily, but the risks appear significantly lower. For example, according to the Harvard professor and ex-Obama adviser Jason Furman, "it is hard to look at Japan and think those deficit risks are not a lot smaller than a lot of people have been saying for a long time". Japan's debt-to-GDP ratio is well above 200%. By contrast, the UK's most recent official figures put our debt at 84.2% of GDP. Not nothing, then (in fact £1.822trn), but not shockingly high by international standards. Even in debt-averse Germany, economists and business leaders are pressing the government to scrap its balanced-book pledge, says Tom Rees in The Daily Telegraph.

*Hey big spender: John McDonnell plans to throw more money at the economy*



## Isn't massive borrowing a massive risk?

Yes, there are risks associated with the kind of spending splurges we are about to see in Britain – even assuming that (a) there are enough shovel-ready projects to spend tens of billions on; and (b) a lot of it isn't wasted. If the favourable borrowing environment comes to an unforeseen halt, then refinancing the debt pile becomes a potentially destabilising burden. In coming decades, warns Paul Johnson of the Institute For Fiscal Studies, the UK will need to boost public spending to cover the health, pensions and social-care costs of an older population. "Racking up debt now might not be the best way to prepare" for the "adverse demographics" down the line, he cautions. Still, bond markets remain calm about the prospect of fiscal loosening in the UK.

## Why is that?

Even fixed-income managers sceptical of UK gilts, such as Pimco's Andrew Balls, say there are "powerful forces acting against an explosive sell-off and a spike in yields". More than \$13trn in government bonds, mostly in Japan and the eurozone, are currently trading on negative yields, which means that any spike in UK gilt yields would quickly draw in buyers. "Governments will be tempted to borrow and spend without fearing an attack of the bond vigilantes." These skittish investors, who ditch bonds at the first sign of state profligacy, have been rendered impotent by a decade of central-bank money printing that has kept bond prices high and yields low or negative. Critics say governments "have a poor record in spending wisely", concludes Lex in the FT. "But... as long as growth rates exceed interest rates, more borrowing makes sense". Just watch out for the return of inflation and dearer money.





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# Don't overpay for ESG funds

Does sustainable investing pay? The evidence is mixed. But one thing matters more than anything else



**Robin Powell**  
Investment columnist

Everyone seems to be talking about sustainable investing right now. In last week's issue, John Stepek looked at the difficulties of finding out exactly what's in your "ethical" fund. But putting aside questions of morality for a moment – is investing with an eye on social impact a good idea financially? Do environmental, social and corporate governance (ESG) funds deliver higher returns than their mainstream counterparts? What does the evidence suggest?

The first question to ask is this: is there any reason why high-sustainability companies should produce higher returns than low-sustainability firms? The answer appears to be "yes". A study published in 2014 looked at data from 190 of the largest US companies between 1993 and 2010. It found that high-sustainability firms tended to conduct more long-term planning, and also measured non-financial criteria to a greater extent than their low-sustainability peers. The researchers found that such firms "significantly outperform their counterparts over the long-term, both in terms of stock market as well as accounting performance". A German study published in 2015 reached similar conclusions. Aggregating information from more than 2,000 studies, researchers found that "the business case for ESG investing is empirically very well founded". They also found that the positive correlation of high ESG scores and corporate financial performance appears stable over time, and across different sectors and regions.

## The wages of sin are pretty decent too

There is, however, another side to the story. In a study published in 2009, researchers Harrison Hong and Marcin Kacperczyk made a strong case for doing the exact opposite – investing in so-called "sin" stocks. They argued that there is a "societal norm" against, for example, betting on companies and producers of alcoholic drinks and tobacco. As a result, they showed, such stocks are less likely to appeal to "norm-constrained" institutions such as pension funds. This means their prices are relatively depressed for reasons not related to the success or otherwise of the business – and lower prices, of course, mean higher expected returns.

As a result, argues US investment author Larry Swedroe, investors shouldn't leave out the "sin stocks", and are instead better off investing in the whole market, using low-cost index funds. He recently looked at three popular ESG indices managed by MSCI. In each case, the ESG index had underperformed its mainstream peer since launch. What's more, each mainstream index beat its ESG peer while taking slightly less risk.

However, before you pile in to the "vice" stocks you've been shunning, there's something else to be aware of – index providers use different



Exxon Mobil: sustainable to some

selection criteria for their ESG trackers. Last month, for instance, Ben Leale-Green from S&P Dow Jones Indices compared the performance of the S&P 500 with its ESG equivalent. While the S&P 500 ESG Index does exclude some sin stocks, it takes a more holistic view of sustainability and simply removes stocks with the lowest ESG scores (eg, tobacco and "controversial weapons" are out, but oil giant Exxon Mobil is in). From May 2010 to the end of July 2019, the excess return over the risk-free rate for the S&P 500 ESG Index was very slightly higher than for the S&P 500, while its annualised volatility was also slightly lower. On top of this, three years ago, research by data provider Morningstar concluded that "the idea that sustainable investing is a recipe for underperformance is a myth".

## What really matters

Of course, investors should be more sceptical of data provided by companies than by independent academics. And remember that sustainable investing is still relatively new – we don't have anything like as much historical data to work on as we do with mainstream investing. That said, the evidence so far suggests that, if there is a performance penalty for sustainable investing, then it's a very small one. And you might, over the long term, receive a modest performance premium. So if you want to use ESG funds, there is no financial reason not to.

However, as with every investment, one thing you do have to focus on is the cost. Simply put, the less you pay, the more you keep for yourself. Active management is a zero-sum game before costs, and a negative-sum game after costs. It's simple arithmetic. So remember that you don't have to use expensive active funds. There are plenty of sustainable funds that are broadly passively managed. So find one that suits your ESG criteria, and don't overpay for the privilege.

*Robin Powell is editor of The Evidence-Based Investor (evidenceinvestor.com)*

## Guru watch

**Jamie Dimon,**  
chairman  
and CEO,  
JPMorgan  
Chase



The wealth gap in the US is "a huge problem," says Jamie Dimon, chairman and CEO of investment bank JPMorgan Chase. Dimon, who made \$31m last year and has been singled out for criticism by Democrat Elizabeth Warren, told Lesley Stahl in an interview for CBS News: "The wealthy have been getting wealthier... middle class incomes have been kind of flat for maybe 15 years or so and that's not particularly good in America." One big issue, he argues, is that "we haven't



done a good job growing our economy. That would've fixed a lot of that problem."

That said, he's not as concerned about recession as some are. "The consumer, which is 70% of the US economy, is quite strong. Confidence is very high. Their balance sheets are in great shape." Concerns about political turbulence are overdone too, he notes. "If you look at history and you take a newspaper and open it in any month, or any year, you'd have the same list of hugely unpredictable things... Human nature looks at fear and reacts to the short run, but there have been 50 or 60 international crises since World War II." Of all of those, he says, only the oil crisis of the 1970s impacted the global economy in the short term.

In all, "this is the most prosperous economy the world has ever seen and it is going to be a very prosperous economy for the next 100 years." As for the wealth gap, he is in favour of the idea of raising the minimum wage, but not capping executive pay. "The problems are real. It does not mean free enterprise is bad."



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### PAST PERFORMANCE

	Aug 14 – Aug 15	Aug 15 – Aug 16	Aug 16 – Aug 17	Aug 17 – Aug 18	Aug 18 – Aug 19
<b>Net Asset Value</b>	7.3%	9.9%	19.1%	8.7%	-4.9%
<b>Share Price</b>	12.4%	1.1%	28.2%	14.0%	-6.9%
<b>FTSE All Share Total Return Index</b>	-2.3%	11.7%	14.3%	4.7%	0.4%

**Past performance is not a reliable indicator of future returns.**

Source: Morningstar as at 31.08.2019, bid-bid, net income reinvested.

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# Don't squeeze our entrepreneurs

Britain's business innovators get generous tax breaks. They should keep getting them



**Matthew Lynn**  
City columnist

There were not many things Gordon Brown got right in his 13 years in government. But one thing he can claim credit for is the entrepreneurs' rate of capital-gains tax (CGT). Introduced in 2008, it allowed anyone who sold a business they had started themselves to only pay 10% in capital gains tax on the proceeds compared with 20% on any other capital gains. It was one of the most generous tax breaks offered in the world. In many other countries, the state would take 30% to 40% of anything made by company founders. In France, the rate briefly went up to 75%, which made it hard to understand why anyone would bother.

But the entrepreneurs' tax break is starting to come under attack. The Institute for Fiscal Studies think tank has just published a report calling for it to be scrapped. It argues that the relief costs the government £2.4bn a year in uncollected tax. According to the study, all the tax break has done is encourage rich people to pay themselves through a company and pay a lot less on their earnings than they otherwise would have done. In short, it had turned into yet another tax scam. That was echoed last week in evidence to MPs from Sir Edward Troup, the former head of HMRC, who called for it to be abolished.

## A simply ridiculous argument

This is madness. Sure, the tax break is generous, but the idea that it does nothing to promote genuine entrepreneurship is simply ridiculous. The IFS claims that it doesn't make much difference to entrepreneurs one way or another. Really? How do they know? People start a new company for a whole series of reasons, often quite



*Gordon Brown: he got some things right*

complex, and we will never know for sure what motivates each individual to start out on what is often a very arduous and difficult journey. But the prospect of making a lot of money is definitely part of the mix. More importantly, the lower tax rate is a sign of society's approval. It is a statement that company founders are doing something socially useful, and we want to encourage them – and that approval also helps persuade many people to try their luck.

As with any tax break, there is no question it is sometimes used by clever accountants to reduce tax bills. But it is relatively simple to tighten up on the rules to try and stop shell companies being used simply to exploit the scheme (and the rules

on property and investment companies and share options are already quite tightly written to prevent that). In truth, every tax break is exploited by smart accountants in one way or another. If that is an argument for abolishing them, then very quickly there wouldn't be any left at all.

## Our booming start-up culture

The fact is that since it was introduced the UK has created a booming start-up culture. The number of companies operating in the UK has almost doubled over the last two decades. There are now more than five million private companies, and another half a million new ones are being created every year. In cities such as London, Manchester and Bristol new companies are now among the main drivers of growth and there are hundreds of venture-capital funds willing to give them money. We don't know to what extent those entrepreneurs have been motivated by the tax break. But given that we don't know, why risk taking it away?

Thanks to entrepreneurs' relief – as well as the Enterprise Investment Scheme, which gives hugely generous tax relief to anyone investing in a new, small company; and the even more generous Seed EIS for really new businesses; and the "patent box", which allows those businesses to set the cost of researching and developing new products against their future tax bills – the UK is arguably the most welcoming major economy for entrepreneurs. The result? Hundreds of thousands of new businesses and record employment rates as those companies start to employ people. It would be crazy to put that at risk now. Indeed, if we want to make a change, why not slash the CGT rate for company founders all the way down to zero? That would really send a signal that the UK was the best place anywhere in the world to start a company.

## Who's getting what

● **Caitlyn Jenner** is reported to be the highest-paid contestant in this year's series of the ITV game show *I'm a Celebrity Get Me Out of Here*, which begins this weekend. Former decathlete Jenner (pictured), who won gold in the 1976 Olympics, will be paid £500,000 to spend up to three weeks in the Australian jungle, reports the Daily Express. Former footballer and pundit **Ian Wright** will get £400,000. Other celebrities taking part include TV presenter **Kate Garraway**, comedian



**Andrew Maxwell** and DJ **Roman Kemp**.

The average pay for contestants is between £10,000 and £80,000.

● Standard Chartered has cut £384,000 from the pay of its top two executives, **Bill Winters** and **Andy Halford**, says the FT. Winters, the CEO, has had his pension allowance halved from £474,000 to £237,000, while Halford, the chief financial officer, has seen his allowance cut from £294,000 to £147,000. In July, Winters called

shareholders "immature and unhelpful" after 40% of them failed to back the bank's remuneration policy.

● Ofcom, the media and telecoms regulator, has selected **Melanie Dawes**, to be its new CEO, says The Guardian. Dawes, currently the country's most senior female civil servant as permanent secretary at the Ministry of Housing, Local Government and Culture, will be paid £315,000 if her selection is approved by the culture secretary. She will replace Sharon White, who is leaving to take up a £1m position as chair of retailer John Lewis.

## Nice work if you can get it

**Leaders of some academy trusts, which run state-funded schools in England, are being paid "fat cat" salaries higher than the prime minister's, reports The Sunday Times. Topping the list is Sir Dan Moynihan of the Harris Federation, which runs 43 schools, mainly in south London. Including pension, he is paid between £490,000 and £500,000. Julian Drinkall is paid £290,000 as chief executive of the Academies Enterprise Trust, which runs 57 schools around the country and has been "singled out repeatedly as underperforming". Third is Sir Kevin Satchwell, who runs just one school, Telford City Technology College, and is paid £270,000. The Department for Education rules that the maximum pay for a headteacher in a school maintained by a local authority in inner London is £121,749. Academy schools can set their own pay scales.**



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## How the US gave up on free markets

David Leonhardt  
The New York Times

In the 1990s, going online or making a phone call was much more expensive in France than in the US, says David Leonhardt. These days, a package comprising broadband, cable and two mobile phones costs twice as much in America. So what's changed? As Thomas Philippon points out in his book *The Great Reversal: How America Gave Up on Free Markets*, America has become an oligopoly. "In one industry after another... a few companies have grown so large that they have the power to keep prices high." Most Americans have a choice between only two internet companies, while four airlines account for 80% of the domestic market. European big companies, however, have become "only slightly larger" in the past two decades, "rather than much larger". The difference is political: EU regulators have prevented huge mergers and encouraged competition from smaller companies, while in America, corporate lobbyists have managed to persuade regulators and legislators that bigger is always better. Yet companies are now so powerful they can charge over the odds and keep wages low. Philippon estimates that market concentration costs the typical household more than \$5,000 a year.

## Big Brother is bad for business

Michael Verfürden  
Wirtschaftswoche

The Communists who ruled East Germany relied on a vast network of spies and informants, says Michael Verfürden. And even though the state security service, or Stasi, no longer exists, it remains a key reason why the east of Germany continues to lag the west when it comes to economic growth. Constant surveillance – there was one Stasi member for every 62 people – undermines the economy because it creates a climate of mistrust, which has endured as children have observed and adopted their parents' caution and trepidation. Anyone doing business has to be able to trust potential business partners, clients and lenders; if they feel they can't, collaboration and enterprise suffers. No wonder, then, that even today, in areas where the Stasi network was especially dense, fewer people are self-employed than in regions where the network was looser. One study reckons that the legacy of fear and mistrust is responsible for up to 7% of the income differential between the east and west of Germany and accounts for around a quarter of the gap in unemployment rates. This is something for today's authoritarian regimes that like to keep a close watch on their citizens – notably China – to think about.

## Two cheers for the trade unions

Editorial  
The Economist

A costly labour dispute at General Motors recently ended. McDonald's staff, pilots and postmen have downed tools in this country. Workers are again "showing their restlessness", which may seem odd given the robust labour market, says The Economist. In fact, it is not odd, nor is it an entirely bad or unwelcome omen. When labour markets are strong, workers are emboldened. And when demand is robust, the opportunity cost of stoppages is higher, making firms likelier to settle. The case against unions has traditionally been that, as monopoly providers of labour, they extract rents, reducing economic efficiency. But when markets are uncompetitive, as in the US (see top story), collective bargaining can reduce the rents collected by dominant firms and increase economic efficiency. Unions can also be useful in retention (unionised workers have an alternative to simply quitting) and eliciting information (can a firm really not afford a pay rise? A strike will put the claim to the test). The labour movement remains diminished, not least due to its political defeat in the 1980s. Nor can it on its own expect to "fix the problem of uncompetitive markets or strike much fear into the hearts of employers. Nonetheless, workers are daring to try."

## Offer illegal migrants amnesty

Editorial  
The Spectator

Britain has become the "most successful melting pot in Europe", absorbing 2.5 million people over a decade without the far-right backlash seen in much of the continent, says The Spectator. Yet it has been estimated that there are now 1.2 million undocumented migrants living in the UK – more than the population of Birmingham. They have been living peacefully here for years, raising families, paying taxes and contributing to our societies. But their lack of formal paperwork puts them at risk of expulsion. This is "absurd". It is also "inhumane" and "fundamentally un-British" – a recent Pew study showed that Brits are more likely than any other Europeans to say that migrants make the country stronger, which is why the Windrush scandal was so damaging to the Tories. It's time to offer an amnesty and bring illegal migrants out of the black economy. There is ample evidence to suggest such amnesties work – Ronald Reagan's in 1986 and Spain's in 2005 were both successes. Routes to citizenship for many illegal migrants already exist, but the next step should be to "formalise this on generous yet practical terms". Boris Johnson has long favoured such an amnesty and made the case for it. "We now need the policy."

## Money talks

**"I remember telling my mates that I was doing a film based on a Disney theme-park ride. They... said, 'Well, that's your career over then!'"**



Keira Knightley (pictured) on being cast in the first *Pirates of the Caribbean* film, which became a big hit, quoted in The Daily Telegraph

**"When a management with a reputation for brilliance tackles a business with a reputation for bad economics, it is the reputation of the business that remains intact."**  
Warren Buffett, quoted in The Sunday Times

**"It's funny – I've met other composers who have hits, and they all have the eccentricity that wealth has allowed them to have. You know, Andrew Lloyd Webber famously has art falling off his walls, and he has a couple of theatres – I'm never going to buy a theatre! You go to Stephen Sondheim's house: he's got puzzles; he's a puzzle guy. Alan Menken, composer of *The Little Mermaid*, has a tortorium [turtle house]. I'm in the market for an eccentricity."**  
Composer Lin-Manuel Miranda, quoted in The Times

**"A \$500 emergency will put a lot of families into bankruptcy, basically. That's what it was like. When I was growing up, if the car broke down, it was a state of emergency. My parents did an excellent job shielding us from it. But to me, a big part of success is not worrying if the car breaks down."**  
Actress and director Elizabeth Banks on her upbringing, quoted in The Observer

**"I want my children to have all the things I couldn't afford. Then I want to move in with them."**  
Comedian Phyllis Diller, quoted in Parade

**"If you want to be different and better, you have to bear the risk of being different and worse."**  
Investor Howard Marks, quoted in The Spectator

© Getty Images



# Britain's never had it so good

[resolutionfoundation.org](http://resolutionfoundation.org)

Good news, says Nye Cominetti: weekly pay may at last be back to the highs it reached before the financial crisis. Pay last peaked in August 2007. In 2019 prices, average weekly pay then was £513. The latest figures available show that pay was back to £511 in August this year. So with real pay growth at a healthy 2%, that suggests we are on track to hit a new peak before Christmas. "It's a cheering thought." Boris Johnson could if he chose fight this election repeating Harold Macmillan's claim that people have "never had it so good". He would be the first PM since Tony Blair to be able to do so.

## Don't crow just yet

Any such "crowing" would, of course, "be ill-advised". Pay may have recovered, but it hasn't made up the lost ground. If real pay growth had continued at

2% since August 2007, average weekly earnings would today be £138, or 27%, higher. "That is a huge gap we are unlikely ever to make up." And when Macmillan made his claim, the good news was evenly spread. That is not the case today.

If you look at the figures for hourly pay rather than weekly, and for the median rather than the mean, which will better reflect the typical experience, then pay was still 1.9% off its previous peak in April this year.

The young especially are lagging. The wages of 20-somethings were squeezed in the immediate post-recession years – their median wages fell 11% in real terms. Wages for 20-somethings have now mostly recovered to their previous peak, but wages for 30-somethings haven't, suggesting that those who were hit hard in the recession are still bearing the scars. There are



regional disparities too. In the southeast, for example, wages in April were 4% below their peak.

Lower-paying sectors have enjoyed the strongest recoveries. Pay in hospitality in April 2019 was 13% above its previous peak, for example. Pay in mining, public administration and personal services, and several other sectors, is still some way off. "This sectoral pattern largely reflects the distributional picture." Earnings for the lowest earners are 10% higher than the

previous peak in real terms, while pay at the middle and upper end still lags. This reflects the impact of the minimum wage, which has protected pay for the lowest earners.

So, is it really true that we never had it so good? On one measure, possibly yes. "And that is something to celebrate. But given the depth of the squeeze, and the many groups still waiting for their recovery, the focus should be on keeping current healthy pay growth going into 2020 and beyond."

# Bitcoin is not money, it's a game

[jpkoning.blogspot.com](http://jpkoning.blogspot.com)

Eleven years ago, bitcoin was launched and we were told it would change the world, says JP Koning. Many enthusiasts of the digital currency still believe this tale. But the truth is that bitcoin was never really a monetary phenomenon. It is rather a financial betting game – a version of the old-fashioned chain letter. It works like this. As a buyer, you must guess when (or if) another wave of buyers will emerge. If you guess right, early birds win at the expense of latecomers. And they can win big: buying £10 worth a month over the past four years would have netted you a 595% gain. It is a mind game, reminiscent of Keynes's beauty contest – you don't bet on whether you believe bitcoin is a beauty, but on whether you believe other people think it is. And bitcoin is an improvement over chain letters as the blockchain technology on which it is based makes cheating next to impossible. True, some people do use bitcoin for payments. But its popularity as a game hobbles its effectiveness as money – people don't want the value of their spending stash subject to 20% falls overnight. And game players don't want to waste their tokens buying goods and services and risk missing out on a life-changing jackpot. Bitcoin will never be money. But it meets a demand for a good financial betting game and will endure.

# No more tied knots in Vegas

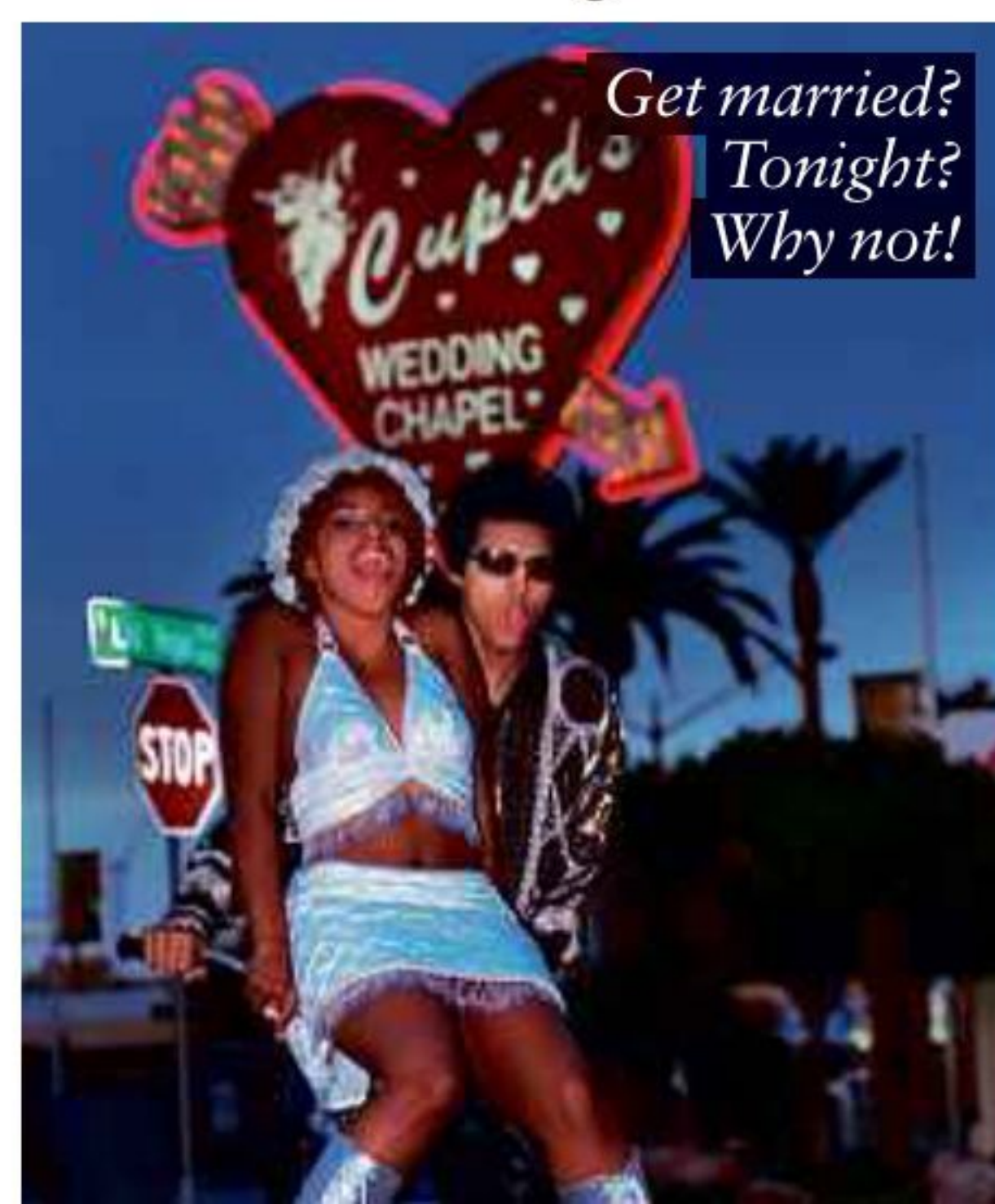
[daily.jstor.org](http://daily.jstor.org)

"Get married? In a limo? Tonight? Why not?!" It was the prospect of such whirlwind romances that attracted the likes of Frank Sinatra, Bruce Willis and Britney Spears to Las Vegas to tie the knot, not to mention thousands of other couples, says Farah Mohammed. In 2004, at the peak of the trend, 128,238 couples married there. But in recent years the flood has dried

[moneyweek.com](http://moneyweek.com)

up. The Little White Wedding Chapel was put up for sale, but has struggled to find a buyer.

That may be a hangover from the financial crisis. A 1% increase in unemployment is associated with a 1.5% decrease in marriage and



a 1.7% decrease in divorce rates, according to a study by Jessamyn Schaller in the Journal of Population Economics. "In 2009, after decades of declining marriage rates, the number of Americans aged 25 to 34 who have never married surpassed the number currently married for the first time in recorded history." This is not just bad news for Las Vegas chapels. It has obvious implications for child rearing, tax revenues and spending on welfare. An economic downturn may do more harm than we currently fully appreciate.

# The Tories could win the youth vote

[conservativehome.com](http://conservativehome.com)

Under Margaret Thatcher, the Conservative party would get 40% of the vote of those aged 30, says David Willetts. That is now down to 25%. Support among 70-year-olds used to run at about 40%. It is now almost 60%. This is little surprising. The British state is muscular and uninhibited by any doubts about its role when it comes to the over-60s. The rest of the state is a "weakling" in contrast.

Boris Johnson must bridge this age gap. The basic problem is one of saving – youngsters cannot afford a deposit for a home or to put enough away in their pensions. Auto-enrolment has given them a vehicle. Government should "put some fuel in the tank". There are various ways to do that, and to make their saving pots more flexible so it's not just about saving for retirement. But the basic principle is sound – it will help young people acquire assets, just as previous Tory governments did by selling council houses or discounted shares. This is the way to "reverse the decline of property ownership and spread opportunities to young people just as was done in the 1980s".

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# Profiting from private businesses

Don't be put off by Neil Woodford's disaster. These two funds have done well with unlisted firms



**David Stevenson**  
Investment columnist

The Woodford affair and the plunging share price of the Patient Capital Trust have been stark reminders that private companies can be highly risky and very illiquid.

But recent results from **Scottish Mortgage Investment Trust (LSE: SMT)**, the global equities investment trust run by Baillie Gifford, reminds us that investing in private businesses can be lucrative if done in the right vehicle and with a sensible long-term strategy.

Over the six months to 30 September, SMT suffered from underwhelming returns, with the net asset value (NAV) rising by just 3.2% compared with an increase of just under 10% for the FTSE All World index. But since 30 September, the fund's NAV is up 2.8% versus 0.5% for the benchmark.

## Finding the right private firms

Two of the biggest positive contributors to returns came from two private businesses: You & Mr Jones (0.8%), and Ginkgo Bioworks Series C (0.7%) and D (0.7%). The biggest losses came from large-cap listed holdings such as Alibaba, Tencent, Tesla and Netflix.

According to Numis, between the fund's first unquoted investment on 2 June 2010 and 30 September 2019, the return of all stocks initially owned in unquoted form (whether now



Large-cap listed firms such as Tesla have disappointed Scottish Mortgage

listed or not) has been 445.3% versus 341.4% for Scottish Mortgage overall, and 183.8% for the FTSE All-World.

Crucially, the fund invests in private companies that are established, often highly cash-generative companies, typically with valuations well over \$1bn.

There is an important trend at work here that helps explain SMT's approach. Many of the best businesses globally are choosing to stay private longer.

Equity analysts at Morgan Stanley (MS) also point out that private equity can use incredibly cheap debt to fund growth. The weighted-average cost of capital is near all-time lows; the cost

of equity in Europe is around 6% to 7%, while the European credit yield is under 2%.

## Stockmarkets out of fashion

Businesses that choose to list on the public markets also suffer from a number of headwinds. The MS analysts observe that "public markets have become increasingly momentum driven and short-term". Miss your earnings targets and the public markets are an unforgiving place.

Private equity, by contrast, the report suggests, "is able to take a long-term view". It is willing to finance large capital expenditures, even if these crimp profits at first, and do deals

where there is significant short-term political risk.

The real-world effects of this changing culture are clear. Overall mergers and acquisitions activity across Europe is plunging but the share of private equity transactions has rocketed.

Flotations are down substantially as more and more of these private businesses stay private. Eighty-four companies have listed in Europe this year, the fewest in a decade. And among the dwindling band of firms that do list, market-cap size is declining.

So growth businesses are choosing to stay private longer and avoid initial public offerings (IPOs). Many are also choosing to take extra growth capital from both private equity investors and outfits such as Baillie Gifford.

Add it all up and you can see why private equity funds such as **HgCapital (LSE: HGT)** are prospering. The fund's NAV is up 2.2% since 31 August, while NAV gains since 30 June have totalled 3.9%, driven by strong sales and earnings before interest, taxes, depreciation and amortisation (Ebitda) growth from the businesses in their portfolio. HGT's share price is up 39% so far this year. The Woodford Patient Capital affair is a wake-up call but private businesses are worth investing in – the trick is to work out how to build exposure to the right kind of private businesses, using the right kind of fund.

© iStockphotos

## Activist watch

Japanese beer producer Kirin has seen its plans to diversify into cosmetics and food challenged by one of its largest shareholders, say Leo Lewis and Kana Inagaki in the Financial Times. Kirin says it is keen to acquire "businesses bridging pharma and food and beverages", but UK-based Independent Franchise Partners (FP), which owns 2% of the group and has held the stock for six years, has become "increasingly dismayed by Kirin's conviction that it can deliver strong growth by branching out into... areas that have nothing to do with beer". Other investors also want Kirin to stick to its core activity instead of trying to be "an unwieldy conglomerate": the shares have fallen by a quarter since Kirin announced its shopping spree.

## Short positions... Woodford's successor downgraded

■ **Neil Woodford's protege and successor at Invesco, Mark Barnett (pictured), may be in danger of following in his footsteps in more ways than one. Barnett's Invesco Income and High Income funds, which he took over from Woodford in 2014, have been downgraded by Morningstar, says Citywire Wealth Manager's Daniel Grote. The investment research group downgraded the funds' ratings from bronze to neutral, "flagging concerns over the £8.9bn funds' heavy weighting to smaller companies". Small and micro-cap companies make up over 30% of the portfolios, raising concerns about funding withdrawals if investors rush to sell.**



■ **UK funds have suffered an outflow of £4.6bn in the third quarter amid Brexit uncertainty and the fallout from the Neil Woodford debacle, says Leke Oso Alabi in the Financial Times. Data from the Investment Association, whose 250 fund managers control £7.7trn, shows that half of the outflow was due to investors pulling "record amounts" of cash from UK equities. Jupiter, Invesco and Standard Life Aberdeen are among the fund managers to suffer withdrawals over the past few months. Adrian Lowcock, of Willis Owen, says "fears of a global slowdown and a rising possibility of a no-deal Brexit" were key worries over the summer. AJ Bell analyst Laura Suter noted the "tally of outflows" since the Brexit vote is within "touching distance" of £15bn, "leaving quite a hole in UK fund managers' portfolios".**





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# Protecting intellectual property

It's not just tech giants with new inventions that need to keep their designs and ideas safe



**David Prosser**  
Business columnist

Do you know what your company's intangible assets are and how to protect them? If not, you could be in for a shock. Government figures show that businesses invest around £140bn a year in tangible assets such as equipment and stock; they then take steps to stop such assets being stolen and are likely to insure them.

But while investment in intangible assets such as intellectual property is at a similar level – £135bn a year according to official estimates – businesses are much less likely to put protection in place.

Many small and medium-sized enterprises (SMEs) think intellectual property isn't something they need to worry about – that only high-tech firms constantly coming up with new inventions need protection.

In reality, however, your intellectual property is anything at all you've created that is unique to you. That could be a new invention, but it could also be the name of a product or service, your brand or simply how your product looks. If another business steals your idea, the damage to your business in lost revenues could



*There are several ways to safeguard your brand*

be substantial. In the UK alone, intellectual property theft runs into tens of billions of pounds each year.

The good news is that it's easier and cheaper to take steps to look after your intellectual property than you might assume. But first you need to identify what you have that needs safeguarding.

An intellectual property audit – a thorough trawl through your business to identify all your intellectual property assets – is an important first step. Understanding the value of your business's intangible assets is just as important as maintaining a register of its physical assets. Once you know what you have, you can put

safeguards in place. These will vary according to the nature of the intellectual property.

Some protection is automatically granted. For example, copyright laws automatically apply to writing, photography and other types of content creation. That could include your firm's internet pages, for example, or images you've commissioned to promote products and services.

Similarly, design rights automatically protect the shape and configuration of objects – basically, how a product is put together – for a fixed period after they are created or sold.

In other cases, you'll need to register intellectual property to protect it, potentially with the help of a specialist intellectual property lawyer. Trademark protection covers ideas such as

words, images and slogans and can help you ensure your brand remains distinctive. There are clear rules about what qualifies, and trademarks must be unique and not misleading. Registering a trademark costs £170 and you can do it online via the Gov.uk portal.

Registered designs are another option. For a £50 fee, you can register the design of a new product – its appearance, shape, decoration and configuration, for example.

## Dealing with patents

Patents are a slightly more complicated option and you probably will need specialist help to file a successful application. A patent protects a new invention, including how it works, and is likely to cost you several thousand pounds including legal fees.

Bear in mind that you can use several types of intellectual property protection at once. A new product might have its own patent, as well as trademark protection covering its name and logo, a registered design for its configuration, and copyright safeguarding the photography promoting it.

The government's Intellectual Property Office is a good starting point for finding out more about protecting your business's intangible assets, including what to do to enforce your rights if you believe they have been infringed.

## Five questions for... Rob Moore, co-founder, Progressive Property



### ● What does your firm do?

We buy properties to hold in our portfolio and to develop and convert. We have a lettings arm, which has 850 units under management, and a property training and business company, which helps people learn about property investing strategies, business, public speaking, social media and podcasting.

### ● What has been your greatest achievement?

So far, it might be becoming the UK's largest property training company. In addition, we have raised significant amounts of money for charity – more than seven figures. I have broken two public-speaking world records (one with a 46-hour speech) and we won business of the year 2016.

### ● What has been your biggest challenge?

Our biggest challenge is and always has been

growth: how do you ensure you grow, reach more people, make a better profit margin but don't get trapped with ever-increasing overheads, competition rising and challenging you, and ever-increasing staff? The challenge is always to grow sustainably to scale without burning all your cash.

### ● What are your plans for hitting your targets this year?

We want to go from national to global. We

have almost hit a ceiling with the training we can do in the UK, though we have 38% growth year-on-year so far in 2019, so it's our best year.

But we think that to scale to another level would need training in other countries. This has been forged by our media channels and social media channels, which have got us global reach. So too has my podcast, *The Disruptive Entrepreneur*, which has been downloaded in 192 countries.

### ● What is the one piece of advice you would give to fellow entrepreneurs?

Balance your own goals with the needs of the

market. In some areas you may need to be more self-serving, such as becoming successful and well-known.

In other areas you will need to be more service-focused, concentrating on the quality of your products and services, how much you care for your clients, your community and the good that you do for your community or the planet as a whole. Balancing these two sometimes opposing forces will give you scalability and sustainability, and meet the needs of you and your market. If you don't risk anything, you risk everything.



# Beware the cash Isa scams

Fraudsters have been targeting savers by offering unrealistically high interest rates



**Ruth Jackson-Kirby**  
Money columnist

With the Bank of England's base rate still stuck at 0.75% it is extremely hard to find a decent return on cash savings. So when you see an advert for a cash individual savings account (Isa) paying "fixed returns of up to 9%", your head is likely to be turned. But it's a scam.

An investigation by The Times has found numerous websites advertising fake cash Isas "from those promising seemingly impossible double-digit returns to others pledging investment opportunities in the 'alternative market'", says the paper's Ali Hussain.

Many of the firms behind these Isas falsely claim they are regulated by the Financial Conduct Authority (FCA) or covered by the Financial Services Compensation Scheme (FSCS), which means up to £85,000 of your cash will be returned to you if the provider goes bust.

The FCA has now put several of them on its fraud warning



Too good to be true?

list. What is most worrying is you don't have to go digging to find these phoney Isas. If you tap "the best Isa rates" into Google several of these dodgy firms appear at the top of the search results "nestled between adverts for Martin Lewis's respected site Money Saving Expert and Barclays Bank", says Hussain.

"All had paid to get maximum exposure from Google and so featured high up the search engine's listings."

While Google removed ads reported to it by The Times, they soon popped up again.

Earlier this year This is Money reported the case of three readers who lost thousands in a fake Isa scam. "The victims deposited almost £100,000 into ABN Amro Asset Management, which touted inflation-busting Isa rates to savers, claiming to be a British arm of Dutch banking giant ABN Amro," says George Nixon on This is Money.

## How to spot the fakes

So how can you make sure you are putting your money into a genuine Isa? "Be suspicious of all 'too good to be true' offers", says Lucy Warwick-Ching in the Financial Times. The best rate available on a genuine cash Isa is 2.01% for UBL UK's five-year bond. A cash Isa offering far more is likely to be a scam.

The top rate for an instant-access Isa is 1.36% from Virgin Money, or 1.6% if you lock your money away for a year with Al Rayan Bank. To find real cash Isas stick to well-known comparison sites such as MoneyFacts, Moneysupermarket or Savings Champion. If you see a great deal, check the FCA's fraud warning list to see if they are aware it is a scam.

And do some research to confirm a company has the professional backing it claims to have. You can check the FCA's register to see if a firm is authorised by them. If it is, "use the contact details on the register, not the details the firm gives you" to avoid a fraudulent "clone" of a genuine entity, says Warwick-Ching.

## 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.
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# Japan has seen plenty of false dawns – but this time it's for real

Japan suffered one of the most spectacular bubbles in financial history. But today, the market is so cheap that it's practically the opposite of where it was in 1989. Merryn Somerset Webb explains how to profit



On 2 February, 1987, Newsweek's cover offered unwelcome news to Americans: "Your next boss may be Japanese". This seemed likely at the time: Japan's GDP made up 18% of global GDP; five of the world's ten largest commercial banks were Japanese; and pretty much every big commercial property development in the world had a Japanese name on it. As all great bubbles do, Japan's had started out sane. In the post-war period, Japan had very low levels of debt and infrastructure – and was strongly encouraged by the US to go for export growth (America was keen to see Japan proving the superiority of capitalism). Lending kicked off and fast translated into industrial-powerhouse-style GDP growth. Confidence grew. Over-ambition arrived.

Then came the Plaza Accord in 1985 – when the US, beginning to feel that it might have created a monster, urged Japan to strengthen the yen (to make its products less competitive with home-grown US ones). The yen rose 50%. Lending to exporters became less profitable. So Japan's banks stepped up small company and property lending – and everyone began to use the stronger yen to buy abroad. The explosion in private lending was epic. From 1985 to 1990 the value of commercial real estate loans more than doubled. The average size of a domestic mortgage doubled. Non-mortgage household debt near-tripled. Building after building "that would not be sold or even filled for years or even decades" went up, says Richard Vague in his *A Brief History of Doom*. Abroad the boom was shocking: in 1989, Mitsubishi bought the Rockefeller Centre, Sony bought Columbia Pictures and Japanese banks accounted for 20% of all property loans in California. And of course, the stockmarket, buoyed by extreme leverage and extreme optimism, went berserk.

At its 1989 peak, with the Nikkei nearing 40,000 (38,916) and most commentators expecting 45,000 by the year end, the average price/earnings (p/e) ratio

was up to nearly 70 (four times the US average) and the dividend yield was down to a mere 0.5%. The Japanese stockmarket made up 45% of the MSCI World Index. The land on which Tokyo's Imperial Palace sits was said to be worth more than all of California. This might not have been entirely true – but the fact that it was widely considered plausible tells you all you need to know about just how much of a bubble this one was.

## The end of the bubble era

Then, with debt growing faster than GDP and land valuations insane, came the inevitable crash. In 1990 the Nikkei fell 38%. By 1991 it was below 25,000. By this point, land prices were falling fast too – and the more they fell, the more the loans they backed went bad. Over the next 20 years (a good few of which spanned my own rather disappointing career as a Japanese equity broker), it just kept falling, eventually bottoming at 7,055 in 2009, by which point the crisis was thought to have cost the equivalent of 20% of Japan's GDP and the attempt to sort it out had taken the public debt-to-GDP ratio to 230% (double that of the US). Today, with Japan's GDP making up just over 4% of global GDP, the Nikkei is back to 21,700 (the market now makes up 8% of the MSCI World Index). Better than 7,000 – and up nearly 20% in the year to date – but still a long way off that 1989 peak.

So what next? Almost everyone now hates the Japanese market. Analysts have deserted it in droves; fund managers endlessly complain that no research is ever done on the stocks they hold (it mostly isn't); and 2018 saw the highest level of foreign selling in 30 years. Most private investors have fallen for Japan at some point (me more often than most) and all have been disappointed: one of the few things the Japanese stockmarket has excelled at since 1990 is false dawns.

The two most recent? Things looked good in 2005 when the telegenic Junichiro Koizumi, then-prime minister, looked as though he really would upend Japanese politics with his "no growth without structural reform" policy: postal privatisation triggered a 40% surge in the Nikkei to around 17,000, before it fell back to 8,000. Then there was a good one in late 2012, when Prime Minister Shinzo Abe kicked off his economic reforms and Bank of Japan governor Haruhiko Kuroda humoured him with a vast quantitative easing programme. The Nikkei rose 57% in a year. We told you to buy. That was perfectly good advice. The market is up 30% since. But it hasn't gained traction with international investors: Japan remains the most under-owned developed market in the world.

## This is no false dawn

Still, we are going to tell you to buy again. The first reason for this is economic. Japan has its problems – in spades. It has an ageing and declining population (without immigration, the two go hand in hand) which often makes nominal GDP growth look worse than GDP growth per head. It has dragged itself out of its deflationary quicksand, but is nowhere near achieving its 2% inflation target despite a terrifying level of national debt that will surely one day lead to a

## I wish I knew what cross-shareholdings were, but I'm too embarrassed to ask

Before World War II, Japan had a fairly shareholder-friendly stockmarket. Large parts of listed companies were controlled by *zaibatsu* (wealthy family groups), but individual shareholders were active and well treated.

That changed with World War II. Dividend payments were suspended in favour of reinvesting to support the war effort. Bank lending – as opposed to equity issuance – became the main source of company financing and the relationships between Japan's big banks and companies deepened.

After the war, the Allies dissolved the *zaibatsu* system. However, at the same time the high levels of loans taken out by companies during the war began to bite. Unable to repay loans, firms arranged debt-for-equity swaps. Suddenly the big banks were also big shareholders: the

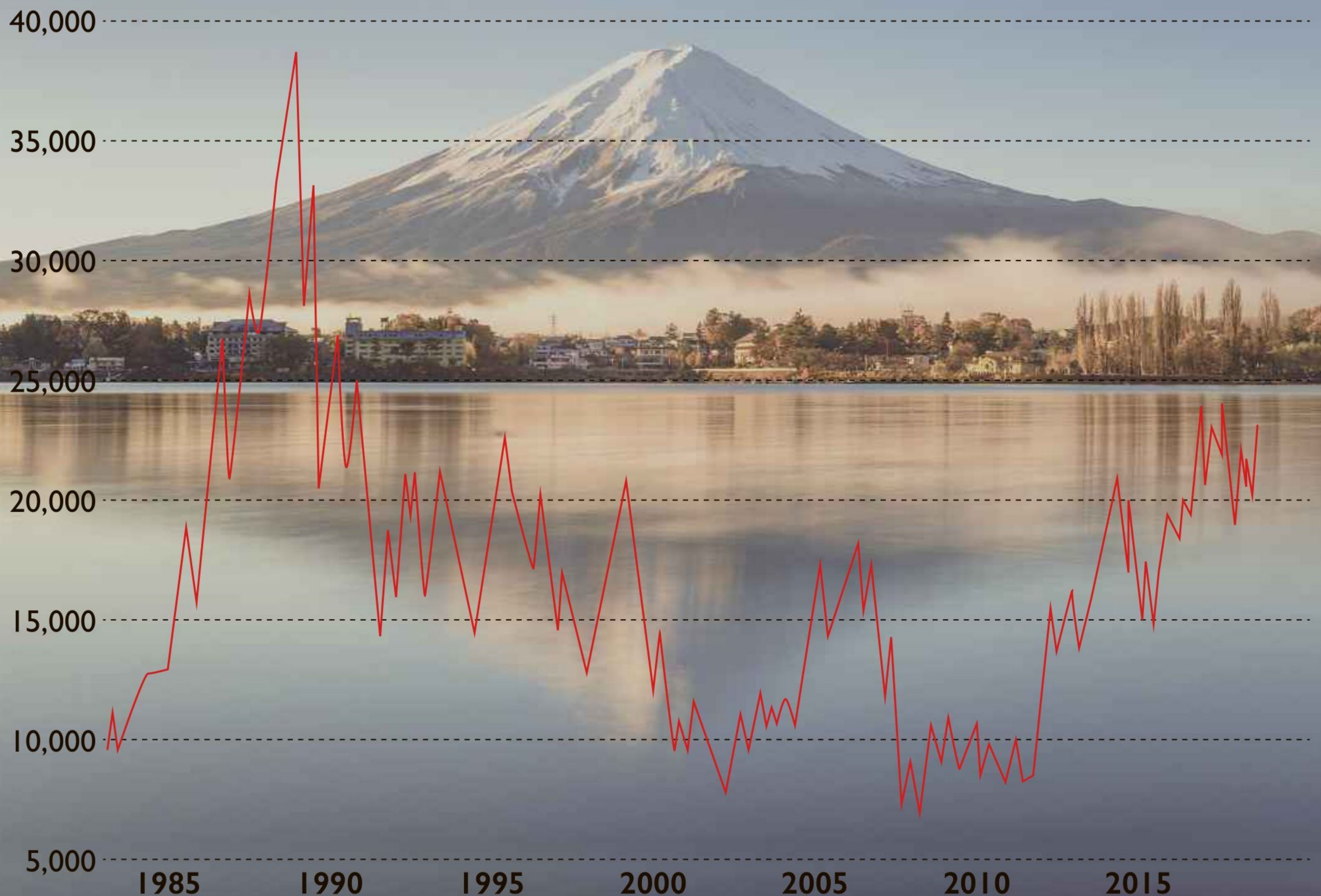
percentage of listed companies owned by financial institutions went from 10% in 1949 to 43% in 1988, says Baillie Gifford's Karen See.

Deprived of their *zaibatsu* protectors, firms also started to look around for a replacement. It came in the form of the *keiretsu* system in which groups of companies formed alliances, cemented with cross-shareholdings, to defend themselves against shareholder activism.

The result? A system in which neither the major shareholders (banks and *keiretsu* members) nor management (protected from outside investors by their bank and *keiretsu*) had their interests aligned with ordinary shareholders. That is now finally changing. Cross-shareholdings are being forcibly unwound. Japan is on a path back to being shareholder-friendly.



# Nikkei 225 index



*Re-climbing the peaks: the Nikkei is at a 27-year high*

nasty bout of inflation. With interest rates at zero and deflation still an occasional threat you probably don't need to worry about inflation in the immediate term. But keep an eye on it – the seeds of each crisis are always sown by the reaction to the last one.

Japan also, as Chris Wood of CLSA points out, has a “well-earned reputation as a play on the global cycle”. When there is an external slowdown (as there is now) the domestic economy suffers – which explains why foreign investors are net sellers this year. However on the plus side, Japan has, as Tim Price of Price Value Partners points out, “paid the piper first”. There is little any nation can do in the wake of the bursting of a huge credit bubble but to “suffer years of economic indignity” as balance sheets are repaired. In Japan that has happened. Debt (outside of the government) has fallen. In the mid-1990s the Japanese corporate sector had total net debt of about ¥350trn. It now has net cash of ¥50trn. Unemployment is low and wages are rising slightly. Abe is giving Japan the kind of political stability the rest of us only dare to dream of. He has also just announced an “agile” and “comprehensive” stimulus programme that, while its scale is still uncertain, is designed to take advantage of low interest rates to “deploy fiscal borrowing and investment proactively to invigorate investment for future growth”.

## Here's why you should buy Japan now

But the real reason for investing in Japan has little to do with most of this. It isn't macro. It's about companies – how they have adapted to Japan's macroeconomic issues and, in particular, their valuations. As noted above, debt is no longer a problem for Japan's corporate sector (unlike everywhere else). That means good performance can fast translate into rising profits when things go well. And they are – in the whole of the 1990s, total profits in Japan's corporate sector were “essentially zero”, as Mark Pearson of Arcus tells Value

Investor Insight. Now they are at record highs – and near European levels. Also good news, says Fidelity, is that earnings have started to decouple from the exchange rate, “reflecting a combination of higher top-line growth and improved profitability”. This is also supporting “greater efficiency through the upgrading and consolidation of production”.

Corporate behaviour is also slowly but surely becoming more shareholder-friendly. That's partly down to new corporate governance obligations. Listed companies must now have at least two independent directors on their boards, for example. Institutional investors are required to play a more active role as the stewards of the business. Stock-based compensation has also increased sharply (20% of firms offered it in 2015; 70%-plus do now) which has helped align the interests of management more with shareholders. This is all due to rising levels of activism in Japan by both local and foreign players (Western private equity companies are increasingly getting stuck in), and also to some voluntary corporate restructuring – the key thing here being the fall away from corporate cross-shareholdings to shares being held by professional institutional investors (see box). The latter is possibly the most important change – it has been a long time coming, but suggests the corporate shift in attitude is long term rather than simply enforced by regulation.

## Looking for dividends? Try Japan

One pleasing result has been the improved distribution of profits to shareholders (which Japanese managers have historically worked to avoid). Buybacks are up (I don't strictly approve of the financial engineering this often represents, but am letting it go for now). Special dividends are up. Ordinary dividends are up. The Topix index as a whole yields 2.7%. That's more than the

*“Japanese companies are slowly but surely becoming more shareholder-friendly”*

Continued on page 26



Continued from page 25

US market, and not far behind most European markets. It's also just a starting point for stock pickers. Edward Cartwright, chief executive of Arcus, tells me that they calculate that the top 20 income-producing stocks in his firm's main Japan strategy, if held in equal weightings, would produce a gross dividend income of 4.5%. That's about the same as the FTSE 100 – but with lower valuations, less debt and (probably) less political risk. And if you add returns from buybacks to those from dividends, you get a “cash return yield” of more like 5% from the market. Dividend cover is also better than in the West. More than half of the companies in the Topix have net cash on their balance sheets. The equivalent for the FTSE All-Share is just 29%. In Europe and the US, it is about 21%, says Karen See at Baillie Gifford. There is nothing more maddening than hearing investors with no Japanese exposure whinge about their desperate hunt for yield. If you want income, it is there for the taking.

### Where cheap stocks are incredibly cheap

The other rather exciting thing about the income you can get from Japan is the price at which you can get it. Right now, says Cartwright, on a forward p/e of 11 and on 90% of book value, it is his opinion that the Japanese market offers an “unprecedented opportunity”. We have “rarely seen p/es or p/b[s] [price/book ratios] at this level in our 21 years of investing in Japan”. P/b[s] were slightly lower after the 2008 financial crisis, and they touched these levels just before “Abenomics” in 2012 too. But the data suggests that multiples haven't been at these levels at any point in at least the last 40 years: the p/e in Japan is at a 48-year low. Japan is the world's cheapest developed market.



Bad decisions: Softbank's founder Masayoshi Son

The valuation spread is also relevant. Cheap stocks are very cheap in Japan. Expensive stocks are very expensive – so within those averages there are some extraordinary bargains. Choose a value-orientated portfolio and you can move the average valuations in it down to a bargain basement 45%-65% of book

and a p/e of five to seven. Recall that a company with steady earnings on a p/e of five adds 20% to its value every year, and you will see the point. “Imagine a stock that [boasted] margin expansion and earnings-per-share [EPS] growth, but had got cheaper,” say analysts at the Man Institute. This has actually happened in Japan. Between 2007's third quarter and that of 2019, Japan has seen 2% annualised margin expansion, and other EPS growth of 0.75%. Yet p/es have fallen. Japan, already cheap, “is becoming cheaper despite having got operationally better”. We live in an era in which the word “unprecedented” is rather overused. But on this occasion, perhaps it works rather better than usual.

A very good time to buy stocks is when they are cheap. The best time to buy stocks is when they are so cheap that other investors start to notice, and momentum is starting to build. That time might be upon us. The Nikkei is at a 27-year high (back to where it was at the start of 1992), the market is ridiculously cheap, earnings are improving, yields are globally competitive and, as evidenced by the launch of some new funds (see below) investors may be starting to see that Japan is not an uninvestable basket case, but the best place to be if you want to be a value investor and an income investor (which you do). It is, in fact, almost the exact opposite of the market it was in 1989.

*“If you want income, it's there for the taking in Japan”*

## The Japanese funds to buy now – and a stock to avoid

MoneyWeek has long recommended Baillie Gifford's Japan investment trusts (I am a non-executive director of one of them) as a way in to the market. But if it's the income end of the Topix you are keen on, look to their newish **Japan Income Growth Fund**, which was launched specifically to take advantage of Japan's changing corporate governance. It's been a long time coming, says manager Karen See, but progress is now “promising”. In 2004, 8% of the top 1,200 firms in Japan had an explicit dividend target. In 2016, 43% did. The fund yields 2.2% and while it does have growth exposure (2.7% in Softbank) it holds some older names too (2.7% in Toyota).

For purer value exposure try **AVI Japan Opportunities Trust (LSE: AJOT)**, which launched last October. The trust also yields 2.2% but takes a clear value approach: the aim is to buy high quality stocks “whose

economic value is increasing year after year”, yet whose prices imply “an extremely distressed outlook”. The managers see the “corporate governance revolution” as the catalyst that will change investor perception of Japan and drive the market up – their latest note on the matter points to the 96% year-on-year rise in share buybacks in the six months to September.

The **Lindsell Train Japanese Equity Fund** has a lower yield (1.5%), but good diversified exposure to quality companies in Japan. Meanwhile, if you are interested in value as a whole but not necessarily in a Japan-only fund, look at AVI's other trust, **AVI Global (LSE: AGT)**, which is 26% invested in Japan. Other trusts with high-ish levels of exposure to value in Japan include the **Scottish Investment Trust (LSE: SCIN)** (10%) and **BMO Global Smaller Companies (LSE: BGSC)** (10%). Also consider the **VT Price**

**Value Portfolio**, a fund of funds which holds two funds that are hard for retail investors to get exposure to – **Samarang Japan Value** (11.74% of the portfolio) and **Arcus Japan** (7.02%).

### A Japanese stock to avoid

Last week, Japanese tech investment machine Softbank reported its first quarterly loss in 14 years as the valuations of some of the investments in its Vision Fund slid. Softbank's stake in the not-quite-bankrupt office space provider WeWork was, for example, slashed in value by \$4.8bn. WeWork's total fair value is now thought to be more like \$7.8bn than the once-mooted \$47bn. In all, the \$97bn Vision Fund has written down the value of 22 holdings.

You might argue that Softbank is starting to look cheap. The share price has fallen nearly 30% since April; the Financial Times reckons it trades at about a 33% discount to the value of its investments.

And founder Masayoshi Son may pay more attention to detail in future. He has apologised for turning a “blind eye” to WeWork's governance issues. “I made a bad decision and I am deeply remorseful.”

But investors do need to worry about the opacity of its accounts, says Lex. Softbank's profit and loss is composed of “revaluations, non-cash income from affiliates and modest flows of dividends and disposal proceeds”. Its actual enterprise value is “the subject of a debate medieval theologians would find obtuse.” And who really knows how much the valuations of some investments might yet fall (is WeWork worth anything at all? Is Uber?).

Finally, look at the debt, says BreakingViews. \$45bn of debt may not seem much next to \$260bn of equity holdings – but that ignores “layers of leverage and overstates Softbank's asset value.”



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# All the gold in China: money and power goes east

The Middle Kingdom has far more gold than official figures suggest – as much as America, in fact. He who owns the yellow metal makes the rules, says Dominic Frisby

Gold divides opinion – almost as much as Brexit. For some, gold is an antiquated asset, as irrelevant to modern global finance as the horse now is to transport. Central banks only own gold out of “tradition, long-term tradition”, as Ben Bernanke, former chairman of the US Federal Reserve, famously declared in Congress back in 2011. But, for others, gold is money. The oldest, purest and soundest money there is. And he who owns the gold makes the rules, as the old saying goes.

Gold makes up 77% of US foreign exchange reserves, rather a high allocation for a mere tradition. Official records show it owns some 8,133 tonnes, most of it held in Fort Knox, making it the world’s largest owner. And the US, pretty much, does make the rules. It has the world’s most powerful military and its largest economy.

But there is a mighty new kid on the block in the form of China. Its economy, some argue, is already as big as America’s if GDP is assessed in terms of purchasing power parity. Its army is bigger; maybe not yet as powerful, but that day cannot be so far away.

And then there’s China’s gold. I think it has considerably more than it says it does. We know that over the past decade China has been both importing extraordinary amounts as well as mining it. When you crunch some numbers, as I’m about to here, you realise that its gold holdings could be the most important subject in global finance – and yet the least talked about. Just how much gold does China actually have? And what are the implications?

## The world’s top gold producer...

Let’s begin with some context. Total central bank gold reserves stand at around 34,500 tonnes, which is roughly 18% of the 190,000 tonnes of total above-ground supply. China’s officially stated number is 1,948 tonnes – 3% of its foreign exchange reserves. This amounts to the sixth-biggest national hoard in the world and is barely a quarter of US reserves.

Now let’s try to calculate what it really has. We’ll start with China’s production: what it has mined. South Africa had for over 100 years been the world’s largest gold producer, but in 2007 it was overtaken by China, which produced 276 tonnes that year.

China has remained the world’s largest producer ever since. Its production reached 464 tonnes in 2016. Last year’s output of 404 tonnes was still 30% higher than that of the world’s second-largest producer, Australia. Over the last decade, China has produced around 15% of all the gold mined in the world.

But here’s the thing: China keeps the gold it mines. Exporting domestic mine production is not allowed. Since 2000 China has mined 6,057 tonnes. Not all of the gold it mines will end up in government hands, of course, but already that 1,948 figure looks

*“In the last decade, China has accounted for 15% of global mined supply”*



*There is more to China’s reserves than meets the eye*

doubtful. Indeed more than 50% of Chinese gold production is state-owned. China National Gold Group Corporation alone accounts for 20%. Even though production has risen quickly, Chinese reserves are dwindling and so Chinese mining companies are acquiring assets abroad.

State-owned Shandong Gold has expanded into Argentina, Kyrgyzstan, Congo-Brazzaville and Ecuador as well as investing in listed mining companies in Australia and Canada. Zijin Mining Group has operations in Tajikistan, Kyrgyzstan, Australia, New Guinea and the Democratic Republic of Congo. Its international production exceeded domestic by 16 tonnes last year.

## ... and its biggest gold importer

As well as being the world’s largest producer, China has also become the world’s top gold importer. In 2014 it overtook India to become number one. It imports its gold from Hong Kong, Switzerland, London, Australia and Singapore.

It is hard to get precise figures, but Hong Kong does provide numbers, and we know that another 6,000 tonnes has entered the country via Hong Kong since 2000, most of it this decade. So we are now at 12,000 tonnes.

Most of the gold that enters China is sold via the Shanghai Gold Exchange (SGE), whether imported, mined or recycled. So the SGE can, loosely, act as something of a proxy for demand. And it is possible to get numbers for SGE withdrawals.

Since 2008 an astonishing 18,500 tonnes have been withdrawn from the SGE. To give you an idea of Chinese gold demand relative to the rest of the





*“China’s central bank is thought to have been on the other side of Gordon Brown’s disastrous sale at the turn of the century”*

world, in 2018 3,260 tonnes of gold were produced worldwide, and some 2,055 tonnes were withdrawn from the SGE. At least 20,000 tonnes have made their way to China one way or another this century.

### The hidden hoards

We also have to factor in to our thinking the gold that was in China, whether as bullion or jewellery, prior to 2000. The World Gold Council estimates a figure of 2,500 tonnes in privately held jewellery. Add in domestic mining and official reserves and you have around 4,000 tonnes. (What happened to privately-owned jewellery after the revolution? Did it remain private or was it confiscated by the government and sold to import other goods? A bit of both is likely.)

By the time you cobble together pre-2000 gold official reserves, mining and imports, you’re left with a figure somewhere between 20,000 and 25,000 tonnes. I’ve consulted four different expert gold analysts in different locations around the world – Ross Norman, Bron Suchecki, Koos Jansen and Nick Laird – and they all concur with this estimate.

However, both Jansen and Norman point out that there is still gold entering China that is not accounted for by SGE withdrawals. Often the People’s Bank of China (PBOC), the central bank, will not buy gold from the SGE but elsewhere. The PBOC likes to buy 12.5kg bars, which do not trade on the SGE. It will often use dollars, while the SGE sells its gold in yuan. The SGE has actually stated that only consumers buy gold over its exchange.

The PBOC may also not like to disclose all its gold purchases, which on the SGE it would have to do. It prefers “monetary gold”, which does not require

disclosure on customs reports, and therefore opts for exchanges such as London, Dubai and Switzerland, where less disclosure is required.

Indeed, it is believed that the PBOC was on the other side of the trade when Gordon Brown sold 400 tonnes of UK bullion at the bottom of the market at the turn of the century. What’s more, Norman points out that not all China’s state-owned gold is held by the PBOC. “There are other state agencies which buy gold: the State Administration of Foreign Exchange, China Investment Corporation [the sovereign wealth fund] and the military, which doesn’t have to declare its purchases.”

All in all, we are looking at a figure above 25,000 tonnes. The big question now is: how much of that gold is in state hands and how much is privately owned? China has encouraged private accumulation of gold. “50:50,” Norman estimates. Suchecki, formerly of the Perth Mint, who studies gold flows, reckons that private citizens are accumulating more like 55% of flow. But whether we’re talking about 40% or 50% of 25,000 tonnes, state-owned gold in China is considerably higher than the declared 1,948.

### Matching America’s reserves

But 20,000-25,000 tonnes in China is not far off what is in the US. Nick Laird argues that total US gold holdings – official and private – are also somewhere between 20,000 and 25,000 tonnes. Norman feels it’s lower. It was illegal for US citizens to own anything more than a small amount of gold until 1974, and so much got exported in the cash-for-gold trade that was heavily pushed in the 2000s. That scrap made its way to China too, he says.

Why would China understate its reserves? “They don’t want to embarrass America,” says Norman. “They’re not ready for that yet. “So much gold has been making its way to China without being declared,” says Norman. “It really wouldn’t surprise me to see official Chinese gold holdings at 10,000, even 12,000 tonnes.” 10,000 tonnes would equate to 11% of foreign exchange holdings. That’s about the international average. In those terms, 10,000 tonnes is not such an extraordinary number.

But there is no way China could declare such large official holdings. It would cause too much disruption. In the foreign-exchange markets a yuan backed by gold could strengthen significantly as it gained credibility from the yellow metal, and China doesn’t want that just yet; it prefers the yuan low to keep exports cheap. What’s more, if the yuan surged the government’s \$3trn-plus of US dollar foreign exchange reserves would be dramatically devalued in yuan terms, which it also almost certainly doesn’t want. And gold itself would be catapulted higher – which China wouldn’t want while it is still accumulating.

But, perhaps most of all, to declare that it had so much gold would be a direct challenge to American supremacy, almost a declaration of war. China’s not ready for that either. Not yet, anyway. The word from the London Bullion Market Association (LBMA) gold conference in Shenzhen last month is that China is developing its own gold-backed, yuan stablecoin. A stablecoin is a cryptocurrency tied to an established currency to reduce volatility; in this case the currency will be gold.

I still struggle to believe that an authoritarian regime like China would want to cede control of its currency to gold, but if China really does have designs on the US dollar’s reserve currency status, gold is the way to do it. It’s not as though it won’t have enough. If ever there were a symbol of wealth shifting from west to east, it is this incredible amount of gold making its way to China. It almost certainly already has more gold than the US. How long before it makes the rules?



# Taylor Wimpey's a winner

The housebuilder pays a generous dividend and the shares are cheap



**Matthew Partridge**  
Senior writer

The UK housing market has slowed sharply over the past few years. Depending on which index you use, national house prices are either increasing at a low year-on-year rate, or they are flat. This means that once you take inflation into account, they are starting to fall.

The situation is even worse in the capital, where prices are starting to go down in nominal terms. Still, just because the housing market has come off the boil, it doesn't mean that you can't make money from building houses: one of my most profitable tips so far has been Bellway. However, it's not the only homebuilder worth looking at.

Taylor Wimpey (LSE: TW) has delivered some very strong results, with sales nearly doubling from £2.3bn in 2013 to £4.08bn in 2018. It is expected to continue growing over the next two years, helped by a large bank of vacant plots, equivalent to around five years worth of construction. This should allow it to meet future demand.

It's important to note that most of the vacant plots that it owns are in the North, Midlands and south west of England, where prices are still rising in real terms, rather than in London and the south east, where the market is weakening.

## A juicy dividend

Taylor Wimpey has also used its resources efficiently, generating a consistent return on capital employed of around 20%. This is important because it has allowed the company to satisfy investors by paying an increasing dividend while still reinvesting enough cash to keep the business growing.

It has raised the dividend more than tenfold, from 0.69p a share in 2013 to 7.6p last year. The payout is expected to more than double to 18p this year, marking a 25-fold rise from 2013 and producing a prospective yield of 11%.

*"House prices have slipped but you can still make money building houses"*



Bricks and mortar are delivering strong results

These projections may prove overly optimistic, since the dividend would barely be covered by earnings at that level, but even the current level of 4.1% looks attractive.

Indeed, the most compelling reason to buy Taylor Wimpey shares is that they remain very cheap, trading at just over eight times 2020 earnings, perhaps because investors are overly worried about the future of the housing market.

While some of those fears may be justified, there seems to be a lot of pent-up demand in the market, with a general acceptance among politicians that more must be done to make it possible for first-time buyers to get on the property ladder.

That is becoming easier anyway now that houses are becoming more affordable amid softer prices and rising wages; note too that mortgage payments as a percentage of average wages have been improving for several years.

I therefore suggest that you go long Taylor Wimpey at the current price of 172p. Consider betting £20 per 1p, compared with IG Index's minimum stake of £1 per 1p, putting your stop-loss at 127p. This gives you total downside of £900.

## How my tips have fared

This has been a very good fortnight for both my long and short tips. Four out of my six long tips went up, with Bellway going from 3,236p to 3,253p, Bausch Health Companies increasing from \$23.75 to \$26.21 and Volkswagen advancing from €176 to €181. International Consolidated Airlines Group ticked up from 520p to 541p.

The only two to fall were JD Sports, which declined from 772p to 751p, and Safestore, which fell from 698p to 697p. Overall, my long tips are making a combined profit of £5,078, up on £4,436 a fortnight ago.

While you might expect my short tips to have gone against me, given the advance of the S&P 500, four out of the six depreciated. Bitcoin went down from \$9,400 to \$8,723 and Uber from \$33 to \$26.71.

Wayfair plunged from \$113 to \$81. Twitter also fell from \$30.30 to \$29.21. Netflix went from \$284 to \$293, while Weis Markets increased from \$37.13 to \$39.65.

However, last week Weis went above the \$40 level that I had recommended as the point at which you should take your profits. Still, even counting Weis, the profits on the short tips are £2,767, hugely up on £708.

Closing Weis and adding Taylor Wimpey means that we now have seven long tips (Bellway, Volkswagen, Bausch Health Companies, International Consolidated Airlines Group, JD Sports, Safestore and Taylor Wimpey) and five short ones (bitcoin, Uber, Wayfair, Twitter and Netflix).

Twelve positions is a manageable number, though I might consider taking profits on JD Sports, which I recommended in January, before the end of the year. I am also going to increase the stop-loss on Safestore to 650p from 625p.

## Trading techniques... elections and the FTSE

Next month we face a general election. While experts disagree about which party will be best for the economy, the evidence of the last three decades of elections suggests that, whatever the result, markets will breathe a sigh of relief when it is over.

From 1983 onwards, the FTSE All-Share rose on the day after polling day on eight out of nine occasions. While these post-election bounces tend to be small, the stockmarket surged 6% the day after the 1992 vote.

However, it's important to point out that all those post-election increases in the FTSE All Share took place when the winning party either ended up

with an overall majority, or it was clear who was going to be in charge (as in 2017).

In 2010, when there was uncertainty for nearly a week about whether the Liberal Democrats would work with David Cameron or Gordon Brown, the market actually fell by around 3% in the immediate aftermath.

This means that if you think that we'll end up in a similar situation, it might be a good



idea to avoid buying shares on the day of the general election.

In the medium term, things get a little more complicated. Recent history suggests that neither the scale of the majority nor the identity of the governing party seems to have a clear impact on the stockmarket's performance.

Indeed, research by IG Index has found that while the market fell nearly 10% in the six months following Labour's 2001 victory, it rose by a similar amount after their victory in 2005. Similarly, while it was up substantially six months after the 2010 election, it was down a similar amount half a year after David Cameron's unexpected victory in 2015.



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# High quality and high income at bargain prices



A professional investor tells us where he'd put his money. This week: David Smith of the Henderson High Income Trust selects three favourites

Henderson High Income Trust, which is celebrating its 30th anniversary this year, has been described as the "Ronseal" of investment trusts, as it delivers exactly what the name suggests. It does so by predominantly investing in UK companies but also by owning bonds, with gearing boosting the trust's overall income-paying ability.

This means that the equity portfolio doesn't have to be skewed towards the highest-yielding areas of the market, where value traps and dividend cuts are more prevalent. It can include high-quality companies with a lower yield but more sustainable dividend growth potential. The trust's investment process seeks to identify top-quality companies whose strong fundamentals have been temporarily overlooked. Here are three examples.

## Whitbread is a winner

Although trading has been disappointing of late owing to uncertainty over Britain's future relationship with the EU, the longer-term fundamentals of Whitbread (LSE: WTB) are robust and not reflected in the current valuation.

The company owns the UK's leading budget-hotel brand Premier Inn as well as pub restaurants such as Brewers Fayre and Beefeater.

Premier Inn provides a consistent and reliable product from its well invested estate and boasts strong occupancy levels. The brand also has high margins owing to its direct-distribution model (it does not rely on intermediaries when selling rooms) and has good growth opportunities in the underdeveloped German branded budget hotel market. Whitbread's valuation is also underpinned by the value of its freehold property.

## A bus group going places

National Express (LSE: NEX) is a geographically diverse bus and coach operator with its main operations in the UK, Spain, Morocco and US. Having exited UK rail, a more cyclical and operationally-gear industry, a number of years ago, the business should be more resilient in future. The company has a clear focus on delivering operational excellence and using technology to improve efficiencies. Management also supplements profit growth by using excess cash flow to make selective bolt-on acquisitions. These strengthen the firm's position in certain transport hubs. The dividend yield is attractive at 4% and should grow at near-double-digit rates over the next few years.

## A turnaround play

After a number of years of lacklustre performance, investors are neglecting Reckitt Benckiser's (LSE: RB) fundamental strengths. The company owns strong global brands – such as Nurofen, Strepsils and Gaviscon – with high market shares in consumer healthcare categories. This is an attractive market with long-term growth underpinned by supportive demographics and high barriers to entry, which deter potential competitors.

The company has appointed a new CEO with a good record of improving companies' performances. Although lower margins may be in the offing in the short term, it should be taken positively by shareholders if the money is used to reinvest in the business, through innovation and marketing, to reinvigorate growth over the longer term. Given the large valuation discount the shares trade on relative to global peers, any turnaround in the business is not currently priced in.

*"Reckitt owns strong global brands such as Nurofen, Strepsils and Gaviscon"*

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

### Petropavlovsk (LSE: POG)

Share price in pence



**Petropavlovsk (LSE: POG)** is a gold miner with operations in Russia's far east. It was founded by Peter Hambro and listed in London in 2002. The share price peaked at over 560p in 2006 but since then the company has lost virtually all its value after a tumultuous few years. The gold price fell and the company's debt ballooned, leaving it saddled with the nickname "POG the dog". In 2017 Hambro was ousted from the board. In the last year, however, things have started to look up amid a rise in the gold price. The shares have gained 65% in a year.

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

### Halfords (LSE: HFD)

Share price in pence



**Halfords (LSE: HFD)** is a car-parts and bicycle retailer. It has issued four profit warnings since chief executive Graham Stapleton arrived in January last year promising to turn the company around. It is pinning its hopes on repositioning itself away from sales and focusing on repairs, which is having some effect. But it is still making heavy weather of it and just last week was forced to cut its dividend after it reported a 2.9% fall in half-yearly sales. The share price has been in decline for the last four years, and has fallen by almost 50% in the last 12 months.





# The wolf in cashmere

Bernard Arnault, the chief at luxury group LVMH, is known for his aggressive approach to deal making. His tilt at jeweller Tiffany could be his most transformative yet. Jane Lewis reports

“They say in Paris that all roads lead to Arnault,” says the FT. The LVMH chief, whose ruthless approach to acquisitions has earned him the nickname “the wolf in cashmere”, is France’s richest man and, depending who you ask, either the second or third richest in the world, with a fortune put at \$100.4bn by Bloomberg. “His empire permeates Paris.”

Bernard Arnault’s luxury group, built over four decades, now encompasses some 70 brands – many of them vintage French names. Meanwhile, he has steadily acquired a “Medici-like influence” on the city’s culture. He is a personal friend of presidents Sarkozy and Macron, and was on hand with a €200m donation when a fire devastated Notre-Dame this year. When he visits China, he is given “a head of state’s welcome”.

## How he built his empire

“I always liked being number one,” Arnault, 70, says simply. “I did not succeed at the piano. I did not succeed at tennis...” So he focused instead on creating the number one group in the luxury sector, which he is credited with inventing. To that end, Arnault is now attempting to grab the US jeweller Tiffany & Co for \$14.5bn in a deal that would double the size of LVMH’s watches and jewellery business, notes The Daily Telegraph. Opinion is divided on the wisdom of the move. But according to one banker: “It’s a huge, transformative



*Arnault: no good on the piano, but can play the markets like a dream*

*“I hate the past. What interests me is the future. LVMH is still small. We’re just getting started”*

transaction, even for LVMH. This deal would put his empire squarely out of the reach of the rest of the luxury groups.”

Associates describe him as “driven only in one direction – forward”, says The Observer. Born in Roubaix, a rust-belt town in northern France, the son of an industrialist, he was educated at the elite École Polytechnique and worked for his father’s construction business before convincing him to concentrate on real estate. Around that time, Arnault visited the US and asked a New York taxi driver what he knew of France. “He could not name the president but he knew Dior,” he recounts. The story opened his eyes to the power of luxury brands and “stuck in his mind”, says the FT. Years later, in 1984, he took control of a bankrupt textile company

plaudits as a visionary, says The Observer. His great insight, according to former Goldman boss Lloyd Blankfein, was realising the incipient “global demand for luxury products” and building a vehicle from a motley collection of family-run businesses to tap it. The key to LVMH’s success was “first mover” advantage, notably in China, where he opened the first Louis Vuitton store in 1992 in a building with no hot water.

Although his two older children are “being groomed to take over”, age does not appear to have dimmed Arnault’s hunger for deals, says the Financial Times. “I hate the past,” he says. “What interests me is the future” – adding, without any apparent irony: “We’re still small. We’re just getting started.”

because “it owned a jewel he wanted”. He ended up acquiring Christian Dior “for a symbolic one franc”.

The next big leap, in 1989, was the hostile takeover of Louis Vuitton following a cunning manoeuvre that saw the president ousted from his family company. Arnault went on to “deploy the same playbook of ousting founders, dividing families, or driving a wedge between business partners” in a host of further acquisitions.

## A business visionary

Arnault’s “aggressive American-style approach to business” initially alarmed the French establishment. But elsewhere he gained

## Great frauds in history... Lord Kylsant and RMSPC

Owen Philipps was born in Warminster in 1863 and was apprenticed to a Newcastle shipping firm at the age of 17. In 1888 he set up his own shipping firm with his elder brother John. Three years later the brothers started acquiring shares in the Royal Mail Steam Packet Company (RMSPC). Owen went on to be appointed chairman and, over the next 25 years, RMSPC would become the parent of a sprawling group of shipping-related companies that would control around 13% of all large British ships, as well as shipbuilder Harland and Wolff. In 1923 Philipps was



granted a peerage, becoming Lord Kylsant.

### What was the scam?

RMSPC made a lot of money during World War I, mainly from transporting troops. This money was hidden away in the reserves, which was used to enable RMSPC to keep paying dividends during the second half of the 1920s, despite consistently losing money. At the same time, Kylsant manipulated the accounts, juggling losses between individual companies, to give the impression that the group was still profitable. This deception enabled RMSPC to borrow large amounts of

money, including issuing £2m worth of debentures (long term debt) to investors in 1928 (£118m in today’s money).

### What happened next?

By October 1929 overexpansion had exhausted RMSPC’s reserves and it was struggling to repay loans. In desperation, Kylsant tried to defer payment of a loan. This prompted a government audit that discovered the widespread manipulation, as well as the fact that the company was effectively bankrupt. Because of the strategic importance of the various companies, the RMSPC, and the wider group of companies, were put into trusteeship. Kylsant was tried for fraud, convicted of

misleading debenture investors and spent ten months in jail.

### Lessons for investors

The government takeover resulted in a painful restructuring that involved moving RMSPC’s ships into a new company, Royal Mail Lines, which was largely owned by creditors. RMSPC shareholders would eventually end up with nothing; the creditors of the individual subsidiaries recovered varying amounts. One red flag was the fact that the debenture prospectus didn’t break down profitability by individual year. Generally, a company being vague or opaque about financial matters is a sign that it is trying to hide something.



# Wines fit for a celebration



There is an element of rule-breaking and convention snubbing in this month's line-up of wines and this is exactly how I like it. While I have chosen a pair of classics, which is not surprising given the noble source of this month's sextet, the other four wines are clever side-steppers which do an awesome job on the nose and palate while keeping their prices keen as mustard. Yapp is a legendary wine merchant and this year marks their 50th in business. As we come to the end of their anniversary

year, this collection of stunners celebrates both the heavy-weight, world-renowned Domaines on their wine list as well as handful few scintillating newcomers. Each and every wine deserves a place on your dining room table so study the list below and then load up early for your winter season of elite entertaining.

**Matthew Jukes**

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£14.90  
£13.90

**NV Crémant de Limoux, Cuvée Sélection Brut, Domaine Collin, France**

When I first tasted this wine, my tasting note simply said, 'best Crémant ever'. Made by the son of a Champagne-maker, Philippe Collin uses the traditional method and also a classic recipe of 80% Pinot Noir and 20% Chardonnay to make a wine which is dreamily delicious. While Limoux is a long way from Champagne, the altitude of this bijoux wine region is perfect for making elegant sparklers. With 15 months of lees ageing, this is every inch a 'cheat-Champs', but its price tag and wonderful precocity mark it out as something rare and different.

**CASE PRICE: £166.80**



£13.95  
£12.95

**2018 Lirac Blanc, La Fermade, Domaine Maby, Southern Rhône, France**

Maby makes brilliant red wines and also a rather ravishing rosé but his white, which is a rare and beguiling creature, is nothing short of sensational. Made from Grenache Blanc, Clairette and Piquepoul this is a beautifully smooth and complex wine with impressive palate weight but also remarkable freshness. There is a touch of oak here, which is well hidden from view, allowing the juicy, bold fruit to shine through. While this wine will age well, I would grab it in its youth and sink your teeth into its stunning flesh. It has enough heft to tackle your Christmas turkey.

**CASE PRICE: £155.40**



£18.95  
£17.95

**2014 Gigondas, Origine, Domaine Saint Gayan, Southern Rhône, France**

There is nothing avant garde about this listing. Saint Gayan is a Yapp stalwart and I've been drinking the wines from this estate for nigh on 30 years. It is the epitome of a wickedly toothsome Garrick red. Meaty, balanced and with great weight, this swarthy wine is, unlike many Gigondas, not too cooked or alcohol heavy. It's a wine you can drink from the word go. A classic blend of Grenache, Syrah and Mourvèdre and with little oak influence, this wine is all about the deep, dark soils of this mighty appellation. The definitive 'cheese red' for long winter nights.

**CASE PRICE: £215.40**



£10.50  
£9.50

**2018 Gros-Plant du Pays Nantais, Domaine de la Mortaine, Loire, France**

Made by Muscadet hero Sébastian Chéreau, this delicate, bone dry Gros Plant is a delightful creation. With the same flavour silhouette as a keen, vivacious Muscadet, but with a slightly trimmed price tag, this is the ultimate apero white for parties and gatherings. While Muscadet is a more popular grape/wine in the western Loire, pockets of Gros Plant still exist and this is a tip-top example. The ozone, citrus zest and wet pebble freshness of this tidy, little wine makes the mouth water and if you would like to find a perfect partner for sushi and sashimi look no further.

**CASE PRICE: £114**



£22.75  
£21.75

**2018 Fleur de Mai, Syrah, Christine Vernay, Collines Rhodaniennes, France**

Vernay is famous for its insanely well-upholstered Condrieus and malevolent Côte Rôties. While the suite of eye-wateringly expensive Condrieus have an 'entry level' Viognier, called Pied du Samson, few know that there is a red equivalent, too, called Fleur de Mai. Grown on the plateau above the Condrieu slopes, this diminutive Côte Rôtie is a thrilling wine with every element you could wish for in a forward-drinking, grand Syrah. Cracked pepper, deep plum and blackberry fruit and lashings of earth make this a serious treat. Only 500 cases are made, so this is a wine that you need to rush to secure stock of.

**CASE PRICE: £261**



£15.25  
£14.25

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

Leading with Syrah, but with Grenache and Carignan on board, we have zoomed west from the Rhône valley to Vingrau, on the outskirts of Perpignan, in the foothills of the Pyrenees. The magical label encircles a wine with masses of charm and also hidden depths of fruit. There is no oak influence here, just dark, powerful, pliable fruit and it is dusted with spices and herbs. This is your all-purpose winter red and it will make you smile and also force you to break out into bouts of uncontrollable hugging as this potion works itself into your soul.

**CASE PRICE: £171**

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# Islands for soaking up some winter sun

From an unspoilt corner of Thailand to a surfers' paradise in the Philippines. Nicole Garcia Merida reports

It's hard to find a spot in Thailand that isn't overrun with tourists. A luxury yacht that sleepily travels the coast of Mu Ko Surin National Park does the trick though, says Joanna Booth in *The Daily Telegraph*. The archipelago is made up of five islands that look like promotional pictures of heavenly Thai beaches, except these won't be teeming with tourists. Booth's "castaway-lite" experience was organised by adventure specialists Intrepid Travel, which offers an itinerary of snorkelling, swimming and tours through local villages.

Your home for the week will be the twin-masted, 164ft "megayacht" *Panorama II*, which has "25 compact but comfortable cabins, a wood-panelled lounge, a lounge-filled sun deck and a shady bar-restaurant". She sails with a maximum of 49 passengers and the pace is relaxed, the atmosphere sociable.

The tour through the turquoise Andaman sea is designed to avoid the crowds, says Booth, ensuring you enjoy beaches at their almost-deserted best and prime snorkelling spots teeming with marine life. The trip puts you in touch with authentic Thailand – you get to meet the formerly nomadic Moken in their wooden huts by the shore and the people of Ban Tale Nok, a small fishing village where the men mainly fish for a living and the women make soap, shrimp paste and cigarettes wrapped in banana leaves. *A nine-day cruise starts at £1,767 per person. See [intrepidtravel.com](http://intrepidtravel.com)*



## A land of sizzling sunshine

Tenerife, in the Canaries, is an island of two halves, says Stan Cullimore in *The Daily Mail*. The south is "a land of sizzling sunshine". The north is filled with "rainforest and bananas and with a reputation for not much else". Hotel Jardines De Nivaria is located



*The Panorama II: a perfect base for a relaxed tour of Thailand*

down in the southwest of the island, next to the beach, Playa Fanabe. "Driving up to it in our hired car, we thought it was far too posh," says Cullimore. "Our suite was larger than the ground floor of our house, with views out over the waves." The resort has everything you could ever want from a "sunny seaside holiday". There is, however, a whole island to explore. Away from the

five-year renovation, the "air of a tropical family home has been restored", with rattan furniture and hand-printed fabrics in the main building, known as the Great House, which has retained its familiar pink exterior and trademark pink and white parasols. The bedrooms in the ten two-storey cottages have been refreshed as well. There's a new pool and sun deck, with direct access to the beach and the "tranquil

*"There's a new pool and sun deck, with direct access to the beach and the tranquil waters of the Caribbean"*

beachfront tourist bars, the "friendly" town of Los Cristianos has "quiet, chic streets and a bustling little harbour".

Further east, along the southern coast, there are several "pretty" villages in easy reach. La Tejita, for example, is a "kite surfers' playground" that has Montana Roja (the red mountain) rising up in the background. *From £259. For details, see [hoteljardinesnivaria.com/en](http://hoteljardinesnivaria.com/en)*

## A gentle revamp

Cobblers Cove Hotel, on the west coast of Barbados, has been a firm favourite with British holidaymakers since the 1980s, says Nick Smith in *The Times*. Following a

waters" of the Caribbean. "The island is getting something of a gentle makeover too."

For years, Barbados has been viewed as "the ultimate fly-and-flop destination" for the rich and famous. Now, "chic dining spots... pepper the Platinum Coast, as the western side of the island is known". But on the less-visited eastern side of the island, just a handful of hardy surfers brave the beaches that are pounded by the Atlantic. It's here, however, that giant leatherback turtles come to lay their eggs much as they have always done. "So, cheers to the things that change on Barbados, and bottoms up to those that are timeless and keep drawing us back." *From £364, [cobblerscove.com](http://cobblerscove.com)*

## Siargao: the Philippines' best-kept secret

Siargao is covered in palm trees and surrounded by turquoise waters, and is one of the Philippines' "best-kept secrets", says Pearl Yan in *Hong Kong Tatler*. The island, known as the surfing capital of the Philippines, is also home to the Magupunko rock pools, a "magical spot for swimming, cliff jumping and exploring the surrounding coves and caves". Sohoton Cove is also a must-see. Head here to explore caves in the luminescent blue waters and to swim with hundreds of stingless jellyfish. Finally, head to Sugba lagoon. At the stunning blue pool you can rent snorkels and kayaks, and there's also a diving board if you're feeling brave. Stay at the Nay Palad Hideaway, a five-star, all-inclusive resort. *Prices start from \$630 per person per night. See [naypaladhideaway.com](http://naypaladhideaway.com)*



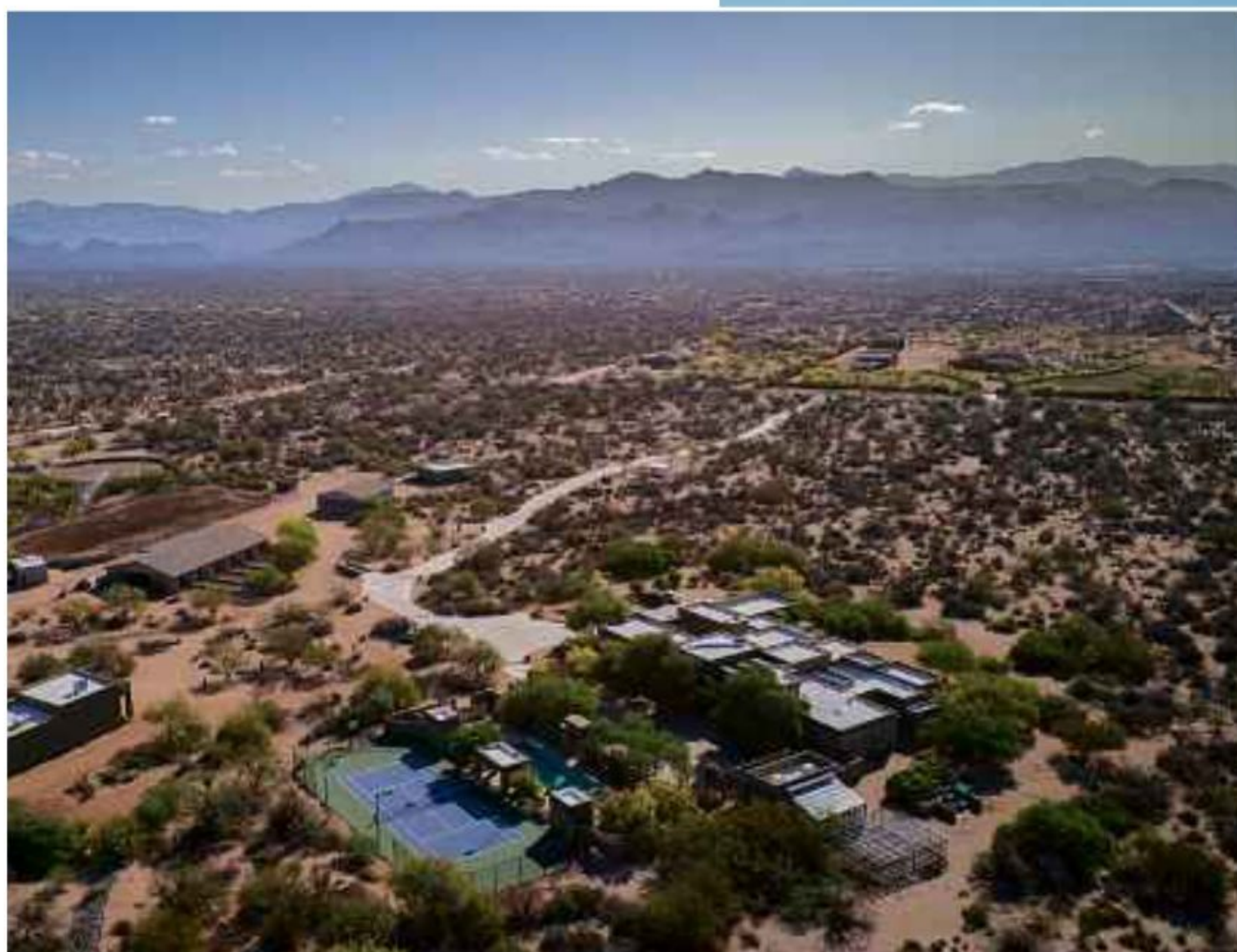


This week: working farms – from 618-acre estate with a traditional finca in Alicante, Spain, to a 17th-century farm



▲ **Broadlees Farm, Glasgow.** A traditional farmhouse with a range of farm buildings formerly used for beef cattle and 125 acres of pasture bisected by the River Earn. The house has open fireplaces, a fitted kitchen and a one-bed annexe. 4 beds, 3 baths, 3 receps, garden room, utility, billiard room. £1.3m+ Savills 0141-222 5875.

▶ **Ballavair Farm, Bride, Isle of Man.** A refurbished, traditional farmhouse and range of outbuildings overlooking Ramsey Bay. The farm comes with a pedigree Galloway herd and stock-proof fenced fields. 5 beds, 4 baths, 3 recep, 205.15 acres of pasture, 4.57 acres of woods, 0.54 miles of coastline, 212.39 acres. £2.6m Knight Frank 0131-222 9600.



▶ **Horsethief Basin and MorDo Ranch, Montana and Arizona, USA.** Two ranches are included in this sale. Horsethief Basin is a 7,000-acre black Angus cattle ranch in Montana with an 1880s log cabin and two guest houses. It comes with an estate manager and agricultural machinery. MorDo is a 100-acre ranch in Scottsdale, Arizona, with a main house, two guest houses and equestrian facilities. \$50m Christie's International Real Estate +1 480 991 2050.





house in an Area of Outstanding Natural Beauty in Painswick, Gloucestershire



◀ **Dell Farm, Painswick, Gloucestershire.** A refurbished, 17th-century farmhouse in an Area of Outstanding Natural Beauty, with 103.77 acres of meadow pasture, fenced fields, a spring-fed pond and a stream. The house has stone-mullioned windows, flagstone floors, open fireplaces and gardens landscaped by a Chelsea RHS Gold Winner. 5 bed, 4 baths, 3 receps, 2-bed cottage, barn with offices and 2-bed flat, stables, manège. £2.995m Strutt & Parker 01285-653101.

▶ **Salinas, Alicante, Spain.** A 618-acre estate with an original finca, a four-bedroom house and a range of farm buildings. It has hunting licences for boar, partridge and rabbit, 308 acres of olive and almond trees and 4,000 vines, producing an annual income of €70,000-€100,000. €3.5m Investabroad Properties 0121-616 5108.



▶ **Holme Rose, Croy, Inverness.** An estate with an 18th-century, Grade A-listed farmhouse, five cottages, a range of outbuildings and 194 acres of farmland. It offers deer stalking and salmon and sea trout fishing on the River Nairn. 8 beds, 4 baths, 3 main receps, 4-bed and 2-bed flat, C-listed walled garden, 185.42 acres grass leys, 149.02 acres woodland, 8.27 acres rough grazing, 357.97 acres. £2.35m+ Knight Frank 0131-222 9600.



▶ **Masson Lees Farm, Matlock, Derbyshire.** A refurbished, traditional four-bedroom farmhouse in open countryside one mile from Matlock. It comes with a two-bedroom cottage, a range of farm buildings, three undeveloped barns, stables for ten horses, two manèges and 26 acres of reconditioned pasture. It has a newly fitted kitchen and a cut-stone fireplace with a multi-fuel burner in the living room. £1m+ Fine & Country 01332-973888.

▶ **Pertwood Manor Farm, Hindon, Wiltshire.** An arable estate with a mid-18th century, Grade II-listed farmhouse and 599 acres of commercial arable land, pasture and pockets of woodland set in undulating countryside that provides a challenging private shoot. The house has seven bedrooms, sash windows, an open fireplace and a farmhouse kitchen with an Aga. It comes with five additional houses and cottages, a flat and a range of farm buildings, 772 acres. £12m Savills 01722-426 839.





# Honda's all-new superbike

The Fireblade has been overhauled to deliver even more power and speed. Nicole Garcia Merida reports



Price: to be confirmed. Engine: 999.9cc. Torque: 83 lb ft at 12,500rpm. Power: 215bhp at 14,500rpm. Top speed: 185mph

“It’s not the same bike with different colours, it’s not a facelift. The new Fireblade is a completely different beast,” says Cristian Predoi in DriveMag Riders. The CBR1000RR-R boasts an all-new, ultra short-stroke inline four-cylinder engine, which means the machine packs quite a punch, with a lot more speed and a lot more torque than its predecessor.

It looks like Honda really means business with the 2020 Blade, says Jordan Gibbons in Motorcycle News – it is “gunning for all-out

superbike glory”. The engine delivers an astounding 215bhp, making it more powerful than almost all its competitors.

(The only exception, the 988cc Ducati Panigale V4R, sneaks ahead with 217bhp.) And clever new technology and reworked engine details means you can “rev the engine like mad and achieve the big power figures they’ve clearly been chasing for track success”. It looks like Honda “got bored of being beaten by its rivals on road and track and pulled out all the stops to create a far sharper Blade”.

The new frame is designed to maximise feel for the rider.

*“Honda has pulled out all the stops to create a far sharper Blade”*

It is also far more aerodynamic, says Ben Purvis in Bennetts. “A trio of winglets hides behind the outer fairing panel on each side... The tank is shaped to let riders tuck in better, and the bellypan is more enclosed than any rival and runs right back to the rear wheel, where it’s shaped to deflect air and water away.” Honda has clearly not come to play with this version of the Fireblade. “When a Honda is named, every ‘R’ in its title means more performance.” The new model boasts an “R” more than its older sibling. Is it worthy? “Without a doubt.”



## Wine of the week: a sensational red from Minervois

**2016 Château Maris, Les Planels, Cru La Livinière, Minervois, Languedoc, France**  
£17.99, 167 branches of Waitrose, [waitrosecellar.com](http://waitrosecellar.com)



**Matthew Jukes**  
Wine columnist

It is often said that the La Livinière sub-region of Minervois is the finest of all. I certainly detect an energy and vibrancy to these wines that sets them apart. Of course, along with the more expressive fruit characters you often find that these wines are more structured, tannic and longer-lived. I live my wine life by the mantra that “balance is born” and so I expect the finest red wines in the world to



have well-integrated tannins from the off, and they should be in perfect equilibrium with the fruit, oak, alcohol and minerality. It is a myth that tannins alone fade as a wine ages – every element of the wine ages with these tannins so you rarely find that raucously tannic, young wines ever truly even out.

So let me introduce you to a sensational well-balanced wine that not only challenges the greats from Minervois, but also from the northern Rhône, too, it being made from 90% syrah and 10%

grenache. Les Planels is a biodynamically grown, south-facing plot, the grapes are basket-pressed, and after a four-week maceration the must is fermented in wooden vats and then matured in 15% new oak for 12 months. This wine shows spectacular equilibrium in spite of its youth and you can drink it now or forget about it for five years! The epic clay, limestone and sandstone soils underpin an utterly thrilling pepper and blackberry-soaked palate. It is one of my wines of the year.

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



# The world's most beautiful book

A stunning study of America's birds is up for auction. Chris Carter reports

John James Audubon was 35 years old when, in 1820, he embarked on his life's work – a catalogue of every species of bird alive in the US. He was bankrupt and fresh out of debtors' prison. But from an early age, Audubon had developed a fascination with birds, along with a steely determination to see his project through. He would need that perseverance.

The publication of what would become *The Birds of America* was put back time and again as the French-American naturalist (Audubon became a naturalised US citizen in 1812) stumbled upon new subjects for his study. The printing and preparation of the plates took place between 1827 and 1838.

Sadly, Audubon's book would become an invaluable record of species that have since gone extinct, such as the Carolina parakeet, Labrador duck and the passenger pigeon. In 1813, Audubon had witnessed the mass slaughter of this latter bird. "The banks of the Ohio were crowded with men and boys, incessantly shooting" at the pigeons, Audubon wrote. He had thought the future of the species safe owing to its large numbers. He was wrong. A century later, the last passenger pigeon died in Cincinnati Zoo, notes Christie's. The last Carolina parakeet was hunted down as a pest.

Audubon's own method was to shoot the birds he wanted to draw



and then use wires to place the subjects in life-like poses. In all, 1,065 life-size birds, representing 489 species, were hand-coloured on 435 etched plates. *The Birds of America* is today considered to be one of the most beautiful colour-plate books ever produced.

## Soaring values

Things got off to a rocky start, however. Audubon had intended to produce his masterwork in the US. But his criticism of the pioneering volumes of *American Ornithology*, produced by Scottish-born naturalist Alexander Wilson from 1808 and completed in 1814, after

Wilson's death, put up the backs of American naturalists and engravers. (Audubon implied not unreasonably, if not diplomatically, that his drawings were better.) Undeterred, Audubon turned to Britain, where he received a better reception. Edinburgh engraver William Home Lizars started work in 1826, before handing over to Robert Havell Jr. of London. Audubon gave lectures and exhibited his works to drum up interest. Within months, a prospectus was ready and, by the following year, 100 subscribers had been signed up at around \$1,000 each.

The Yorkshire Philosophical Society was one subscriber. It received an early and unusually large edition, known as the "double elephant folio". That copy eventually found its

way to Massachusetts, and from there, into a private collection. On 18 December, it heads to Sotheby's in New York, where it is estimated to fetch between \$6m and \$8m. That could prove conservative given that another of the 119 sets known to still exist sold for £6.5m in 2010, also with Sotheby's, but in London. It became the most expensive book sold at auction. Other sets have also sold for large sums. Christie's sold a set that had belonged to the fourth Duke of Portland for \$7.9m in 2012, selling it on last June for \$9.7m. Not a bad return in six years.

## Two Nobels under the hammer

Two Nobel Prizes in economics went up for auction with Christie's in New York at the end of October. They were awarded to John Forbes Nash Jr. and Reinhard Selten in 1994 for their contributions to game theory, which in economics can loosely be described as the science of bargaining.

Nash first came up with the kernel of what would become the "Nash equilibrium" against the backdrop of the Cold War. American military strategists had begun to apply game theory to everything from intelligence missions to bombing patterns. Nash provided a mathematical framework to modify game theory so that it better reflected reality – in particular, by introducing the concepts of cooperative and non-cooperative games. Essentially, these model scenarios in which there either is or is not agreement between players.

"Nash's theory of noncooperative games should... be recognised as one of the outstanding intellectual advances of the 20th century," fellow economics Nobel laureate Roger Myerson later said. It was, according to Myerson, "one of the great watershed breakthroughs in the history of social science". Nash's medal sold for \$735,000.

Selten received his 18-carat gold medal the same year for being the "first to refine the Nash equilibrium concept for analysing dynamic strategic interaction", so that it could be better applied to economic analysis and policy-making. His Nobel medal fetched \$225,000.



## Auctions Going...

A sale of 800 items that belonged to actress Doris Day, who died in May aged 97, is to be held next April with Julien's Auctions in Beverly Hills, California, on what would have been her 98th birthday. Her Golden Globe awards are expected to fetch up to \$6,000 each, a brown leather jacket worn on *The Doris Day Show* in the late 1960s is estimated to sell for around \$3,000, a red lacquer Young Chang upright piano, that was a gift from her son, has been valued at up to \$4,000, and a classic 1930 Ford convertible seen in the opening credits of her talk show *Doris Day's Best Friends* could sell for up to \$20,000. The proceeds from the sale will go to the Doris Day Animal Foundation, a charity she set up in 1978.

## Gone...

A steel Patek Philippe Grandmaster Chime became the world's most expensive watch to be sold at auction when it fetched CHF31m (£24.2m) with Christie's in Geneva last Saturday. The watch has two dials, a reversible case, and 20 complications. The price was more than ten times the watch's pre-sale high estimate, and far in excess of the record-breaking \$17.8m that was paid for the Paul Newman "Daytona" Rolex in New York in October 2017. The Grandmaster Chime is unique, a point emphasised with the words "The Only One" printed on the dial. It appeared as part of a sale called "Only Watch", an event in which watchmakers offer one-of-a-kind timepieces to raise money for research into Duchenne muscular dystrophy. The sale of 50 lots raised CHF38.6m in total.





# The Queen's fashion statement

Her Majesty has chucked out her furs. Will that be a fatal blow for the furriers?

I consider myself a friend of all creatures great and small, but some of the things one hears from animal-rights activists are enough to make anyone reach for their hunting rifles. So I was very disappointed to read that their nonsense has spread into the royal household – even the Queen is now “turning her back on fur”, says Valentine Low in *The Times*. A book by the Queen's dresser has revealed, and Buckingham Palace has confirmed, that Her Majesty “has decided that any new outfits will be made only with fake fur”. And “at least one of her outfits that was trimmed with fur is to be replaced with a substitute”.

Bethan Holt in *The Daily Telegraph* doesn't share my view and thinks that such a change is overdue. Fashion has of late, she says, become “less about choosing the right colour or silhouette” and more about “projecting your values via what you choose to wear”. The Queen grew up in an environment where an “extensive *fourrure* collection” was considered the “height of elegance” and “*de rigueur*” for a woman of her social standing. But by opting to eliminate real fur from her public wardrobe in favour of synthetic alternatives she “is now following the lead of major fashion houses such as Gucci, Burberry and Prada”.

## A chinchilla jacket for \$14,000

It's not just fashion houses that are turning away from fur, says Sapna Maheshwari in *The New York Times*. Last month the American chain Macy's, which operates 600 department stores with \$25bn in sales,



The Queen has turned her back on fur

announced it would stop selling fur by early 2021 in favour of alternatives such as “faux fur and other fabric innovations”. The ban will spell the end for such products as the \$4,000 fox-fur trim cape and the \$8,000 striped mink-fur jacket that are currently offered online, as well as the chinchilla jacket for \$14,000 that the store sells through its Bloomingdale brand.

Furriers shouldn't lose too much sleep though, says Kristina Spencer in *Vogue Business*. Despite the controversies, “fur sales in the US are on the rise, and European fur production increased by 65% between 2005 and 2015”. As you might expect given the cold climate, Russians are particularly keen on it, considering it to be a “wardrobe staple” – an estimated \$2.3bn worth of furs sold there every year. Indeed, Russian “It girls” are still willing to splurge on “colourful” furs costing “\$5,500 and up”.

But although the Queen is going fur-free, there is still hope for the rest of her family as she is “far from the only royal who enjoys wrapping up in a fur coat, or bracing against a winter's chill in a fur-trimmed hat”, says Stephanie Linning for the *Mail Online*. The Duchess of Cornwall was, for example, “roundly berated” for the Russian-style hat made of real fur that she wore at the royal family's Sandringham Christmas day church service in 2010. The Duchess of Cambridge and her husband have been “slammed” for wearing the otter fur scarves they had been given during an official tour of Canada in 2016. The Duchess was also spotted in a chestnut brown alpaca fur Sumac hat during her visit to Oslo last year. It remains to be seen whether the Queen is a trendsetter.

Quintus Slide

## Tabloid money... Olivia Colman's “distinctly left-wing face”

● Journalist Charles Moore recently wrote that Olivia Colman (pictured) was unsuited to play the Queen in *The Crown* because she had “a distinctly left-wing face”, says Brian Reade in the *Daily Mirror*. How? Does she have Arthur Scargill's sideburns? Lenin's forehead? Dennis Healey's eyebrows? No, according to Moore, “it is something to do with looking slightly resentful. The Queen has no such face.” He has a point. Colman's features “are so warm you struggle to detect the stoic coldness needed by an accident of birth to believe the national anthem should be all about keeping their cushy existence going”. Colman looks like she'd give her last quid to a rough sleeper. “The Queen looks like she'd take £369m off the taxpayer to do up her palace.”



● “Give me a tiny pot of UHT milk and a shower cap and I'm happy,” says Saira Khan in the *Sunday Mirror*. “I still get a thrill grabbing all those little shampoos, shortbreads and strange green teas” from hotel rooms. “I can't walk away from this stuff – I think it's a hangover from when I was a cash-strapped student and would fill my pockets with ketchup, mayo and sugar sachets when I was eating fry-ups in greasy cafés. It's not stealing, right?” I could open a hotel, what with all the travel-sized soaps, sewing kits, conditioners and coffee. “My family is mortified about my habit, of course. But they know who to come running to when the ketchup runs out.”

● “I've probably rescued several remote local economies by paying through the nose for something I instantly forget,” says Virginia Blackburn in the *Daily Express*. I have been in emporia in Peru so “dusty and ancient” that they look like the last time they saw a European was in the time of the Conquistadors. Yet they still took American Express. “I've got china from China and I'm still kicking myself for not buying a necklace” On Easter Island that seemed extravagantly priced in pesos but actually cost £15. Similarly, I missed out on a broom in Tanzania (long story) for 75p. “No doubt we're mugs, those of us who see the world as one giant shopping mall... [yet] I may not have millions, but I do have mementoes.”



## Bridge by Andrew Robson

### A Four Spades fan

Bidding Four Spades after the opponents bid to Four Hearts has generally been a successful ploy for me. Although in the bronze medal playoff at the last World Transnational Teams, I tried it to poor effect. They doubled, I went three down, and Four Hearts would not even have made. Fortunately, the other deals went rather better and we snuck onto the victory podium. On this week's deal, try to make Four Spades on the Ace of Hearts lead.

Dealer West

Neither side vulnerable

♠ 5	♠ J64	♠ K872
♥ A1097543	♥ Q86	♥ KJ2
♦ 94	♦ AKQ	♦ J52
♣ A106	♣ 7542	♣ K83

	N	
W		E
	S	

♠ AQ1093
♥ -
♦ 108763
♣ QJ9

### The bidding

<b>South</b>	<b>West</b>	<b>North</b>	<b>East</b>
4♠***	3♥*	pass	4♥**
pass	pass	pass	pass

- \* Weak hand with seven decent Hearts.
- \*\* Raising pre-emptively to the (ten-card) level of the Heart fit.
- \*\*\* "If in doubt, bid Four Spades over Four Hearts." It just seems to work – it's the bid the opponents rarely wish to see.

You ruff, cross to the Queen of Diamonds and run the Knave of Spades, the finesse winning, followed by a Spade to the Queen. When West discards, you have to be careful or you'll lose trump control.

You return to the King of Diamonds, both following low, and must now try to cash the Ace of Diamonds, needing East to have the outstanding Knave. When he does, you sigh with relief and can lead dummy's third Spade to your ten, cash the Ace, felling East's King, and enjoy your two long Diamonds. You concede the last three tricks and that's ten tricks and game made.

It would have been amusing if East followed with the Knave of Diamonds on the second round. You would then leave dummy's third Diamond, instead finessing the ten of Spades and discarding that blocking Ace of Diamonds on the Ace of Spades. You would now be able to cash winning Diamonds.

For all Andrew's books and flippers – including his new hardback *The Next Level* – see [andrewrobson.co.uk](http://andrewrobson.co.uk)

## Sudoku 973

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

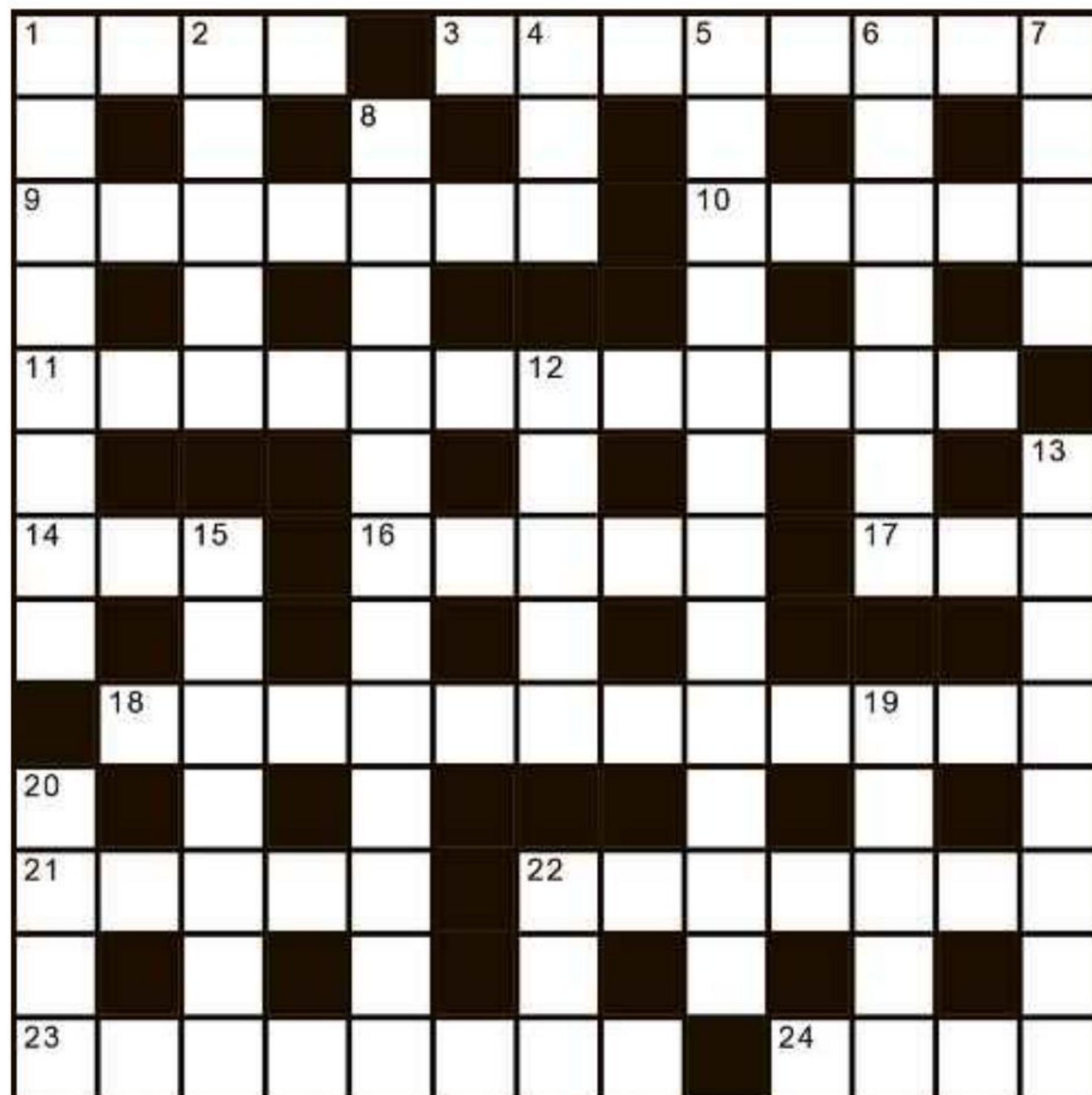
To complete MoneyWeek's Sudoku, fill in the squares in the grid so that every row and column and each of the nine 3x3 squares contain all the digits from one to nine. The answer to last week's puzzle is below.

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

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## Tim Moorey's Quick Crossword No. 973

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 25 Nov 2019. Answers to MoneyWeek's Quick Crossword No. 973, 31-32 Alfred Place, London, WC1E 7DP.



Across clues are mildly cryptic whereas down clues are straight

### ACROSS

- 1 Broken sculpture? (4)
- 3 Child on short railway with soldiers (8)
- 9 Radical change Dubai ruler reported by United Press (5-2)
- 10 Animal longing to break into laughter? (5)
- 11 Where to find improved conditions for gamblers? (1,6,5)
- 14 Prize piece of china? (3)
- 16 Fly in humid Georgia (5)
- 17 Iris's place whichever way you look at it (3)
- 18 A UK seat? (7, 5)
- 21 Some mocha if available and port (5)
- 22 Hairstyle for the team? (4, 3)
- 23 Treatment for injury in Mayo? (8)
- 24 John on board is a nut (4)

### DOWN

- 1 Iron Chancellor (8)
- 2 Charming and elegant (5)
- 4 Card game (3)
- 5 A person's most vulnerable part (8, 4)
- 6 Thick syrup (7)
- 7 Chinese currency (4)
- 8 Games held in honour of famous players (12)
- 12 One on horseback (5)
- 13 Cast down (8)
- 15 Undertaking to do something (7)
- 19 Auntie's husband (5)
- 20 African country (4)
- 22 Trick (3)

Name

Address

### Solutions to 971

**Across** 1 Jackpot 5 Macho 8 Scour 9 En suite 10 Squash rackets *deceptive definition* 11 Put off 12 Fleece 15 Steeplechase *anagram* 18 Better 19 Ideas 20 Graph 21 Risings **Down** 1 Jests 2 Croquet 3 Parts of speech *anagram* 4 Theory 5 Musical chairs *deceptive definition* 6 Chile 7 Oversee 11 Postbag 13 Eastern 14 Teaser 16 Extra 17 Risks

The winner of MoneyWeek Quick Crossword No. 971 is: Edward Moffatt of Ipswich

Tim Moorey is author of *How To Crack Cryptic Crosswords*, published by HarperCollins, and runs crossword workshops ([TimMoorey.info](http://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.





# America's raucous course

The US once pursued happiness. Now it just makes noise



**Bill Bonner**  
Columnist

“A noiseless course, not meddling with the affairs of others, unattractive of notice, is a mark that society is going on in happiness.” This is what Thomas Jefferson proposed to the US in 1802. Two hundred and sixteen winters have come and gone since that sage advice was offered. As we approach the next one, it might be time to wonder: what went wrong?

Almost immediately after taking office as America's president in 1801, Jefferson himself began to make noises, sending a military force to Tripoli and securing what was credited with being the first victorious battle of the new nation. Since then, the US has moved on to greater and greater battles, more glorious victories. And the happiness of the *americanos* has ebbed and flowed with their fortunes – both in war and in commerce.

Before the 19th century had adjourned, the noisemakers were hooting and hollering, led by one of the biggest loudmouths in American history, Teddy Roosevelt. And by the time the Spanish-American War was over, the US had its own imperial possessions – in Cuba, Guam and the Philippines. The noise increased at home as well as abroad. A central bank was created in secret and then passed into law on



Such high ideals – so what went wrong?

the day before Christmas Eve in 1913. The gold-backed dollar had lost not a penny in the previous century. In the next century, with the US Federal Reserve to protect it, it lost 96% of its value.

In 1913, also, then-President Woodrow Wilson backed an amendment giving the US government

an almost unlimited claim on the earnings of its citizens. The amendment allowed an income tax, which the Fed could set at any level they wished. This is what funded the Deep State (until the Fed took over much of the burden in the late 1980s), which used the revenue and the tax system to punish its enemies and reward itself.

After the “Revolution of 1913” – which included another

constitutional amendment stripping the states of their power to select the senators who were meant to represent them – the decibel level rose. Today, the US is the noisiest of the world's nations.

Its current president believes it is up to him to decide with whom its people trade or fight, and on what terms. Its Congress believes it has the right to tax and spend, as much as it wants, even if it leads, mathematically and inevitably, to bankruptcy. Its candidates for president – each trying to outdo the others – come up with delusional promises that can't possibly be kept.

And its money – which we drearily follow here on the back page – is an off-key racket. It is as if Americans thought they could increase their happiness with more noisy meddles... and more fake money. The gods must weep. As for us, we cover our ears.

*“The gold-backed dollar had lost not a penny in the previous century”*

## The bottom line

**\$8.3bn** How much Disney's films have taken at the global box office so far this year, reports the BBC. In North America, \$4 in every \$10 taken at cinemas is for tickets to see the studio's releases. It will launch its streaming service, Disney+, in Britain on 31 March.

**8.82m** The number of tonnes of plastic waste produced by China every year, making it the world's worst plastic polluter, according to the American Association for the Advancement of Science. Indonesia was the second

worst, producing 3.22 million tonnes, and the Philippines was third, with 1.88 million tonnes.

**\$388bn** The collective loss in wealth suffered by the world's billionaires last year, the UBS/PwC Billionaires report has found. Asia's billionaires were the hardest hit, accounting for an 8% drop in the fortunes of the continent's richest people.

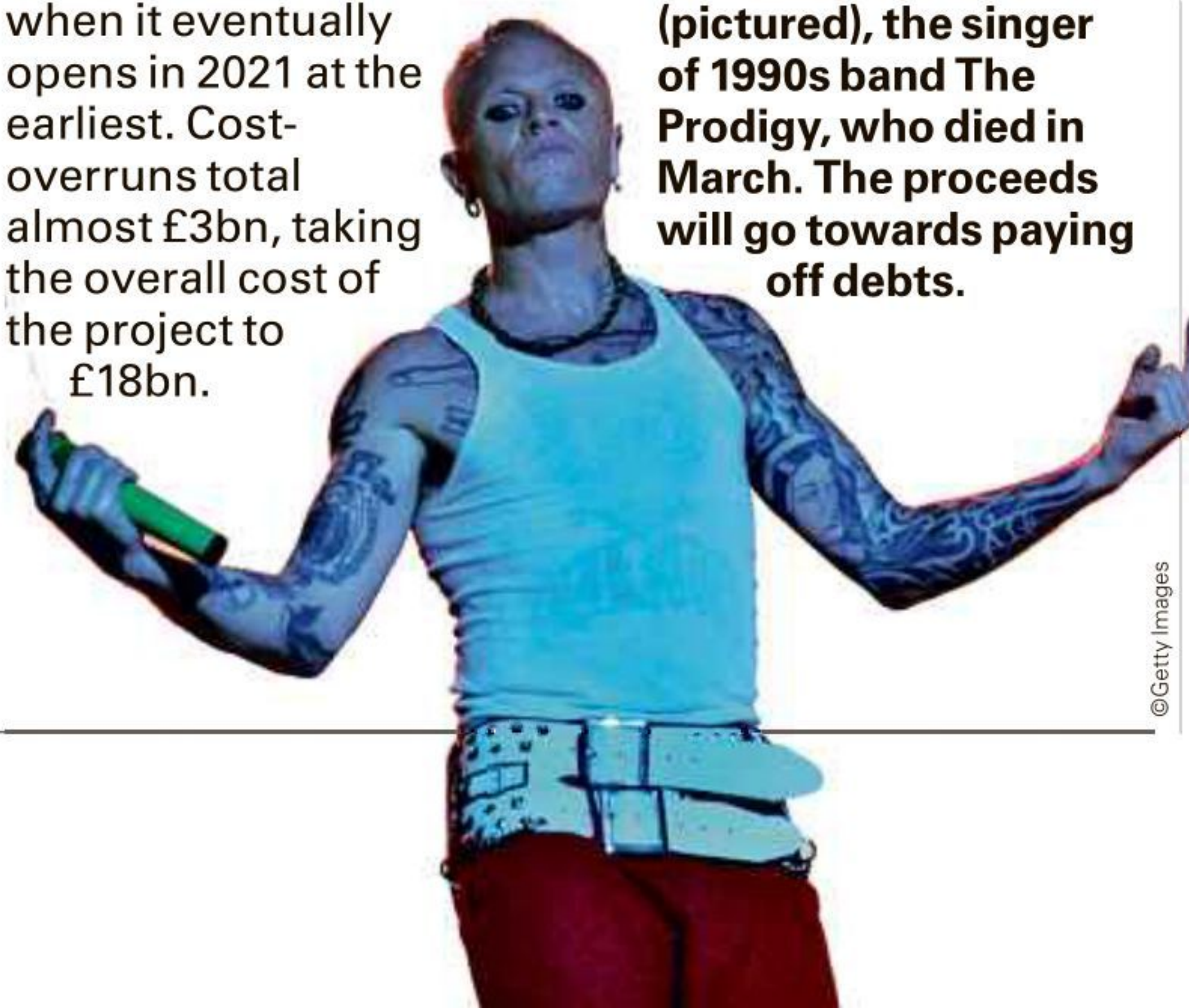
**60** The percentage of Americans who think it is “likely” that there will be a recession next year, as opposed to 35% who thought it “unlikely”, a poll

by The Washington Post and ABC News has found.

**£650m** The estimated cost of the latest delay to the construction of Crossrail, which is to be called the Elizabeth Line when it eventually opens in 2021 at the earliest. Cost-overruns total almost £3bn, taking the overall cost of the project to £18bn.

**£347,750**

The sum raised at auction house Cheffins from a sale of possessions, including gold discs and nose piercings, that belonged to Keith Flint (pictured), the singer of 1990s band The Prodigy, who died in March. The proceeds will go towards paying off debts.



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