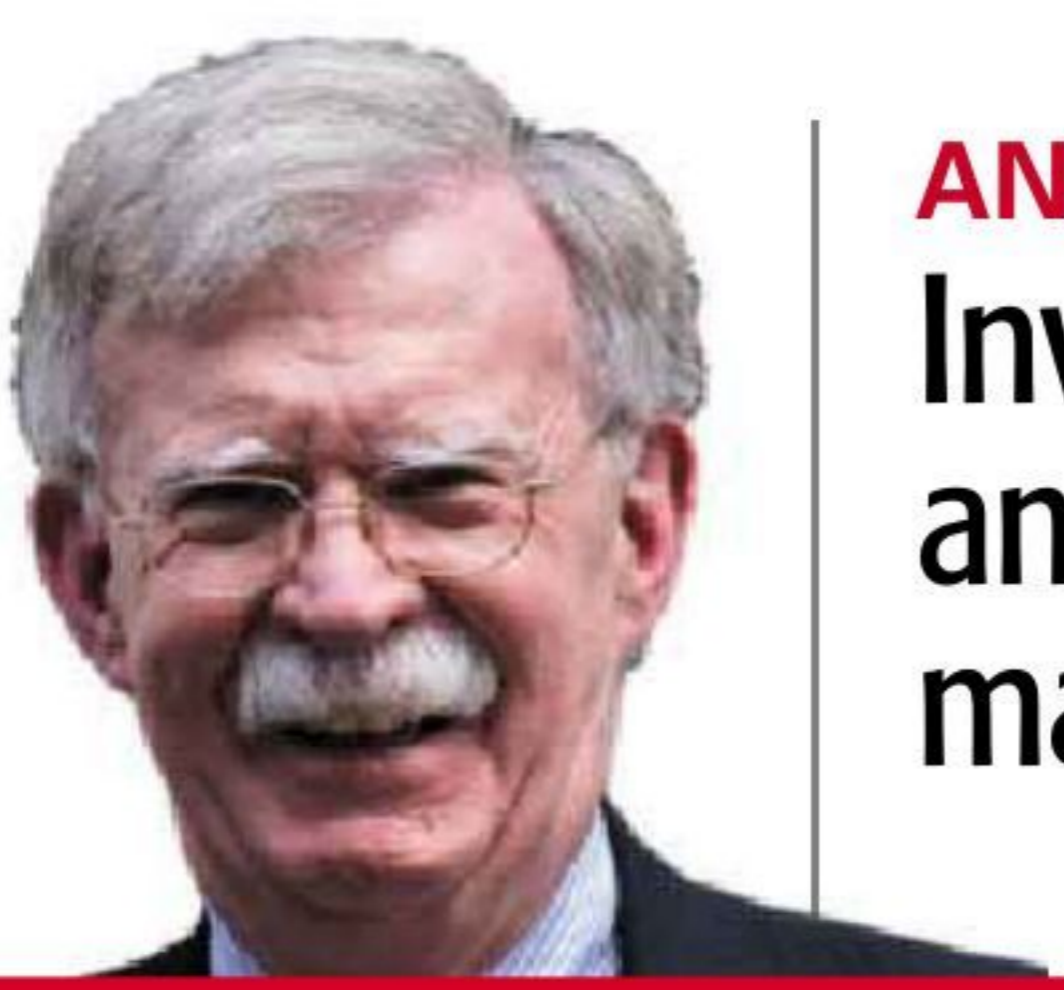


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strike a deal
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MONEYWEEK

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Surreal rate of return

The weird world of negative bond yields

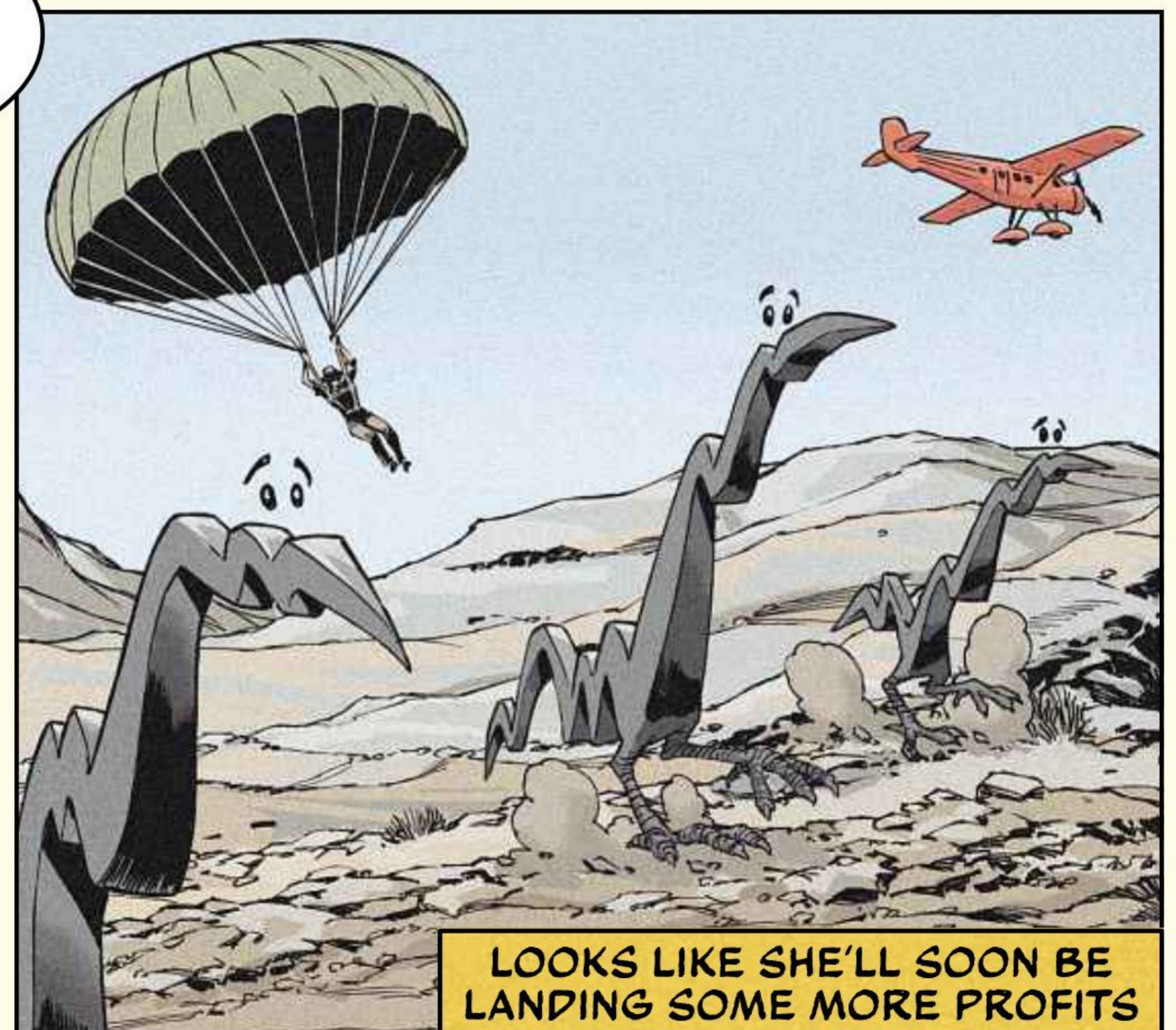
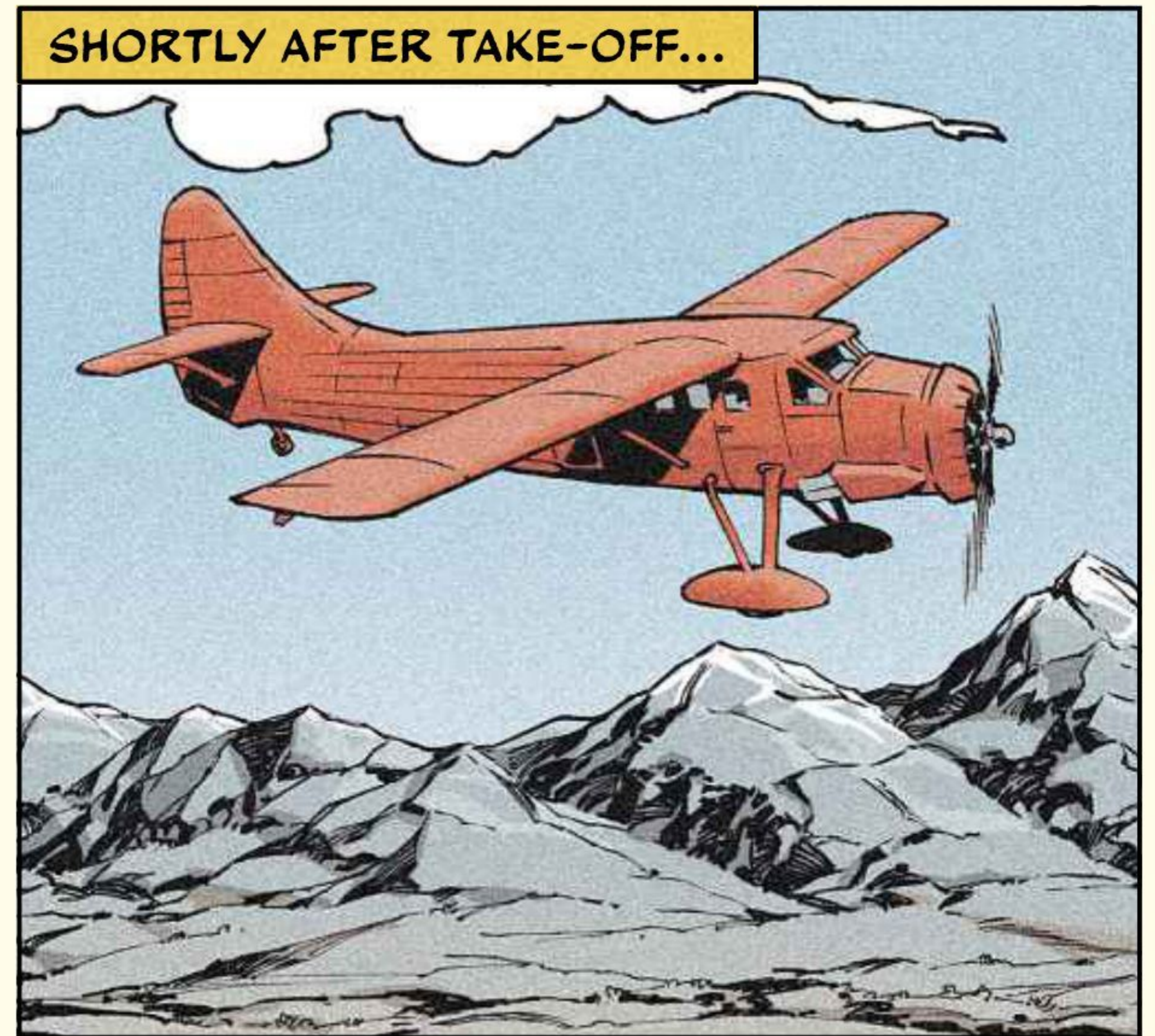
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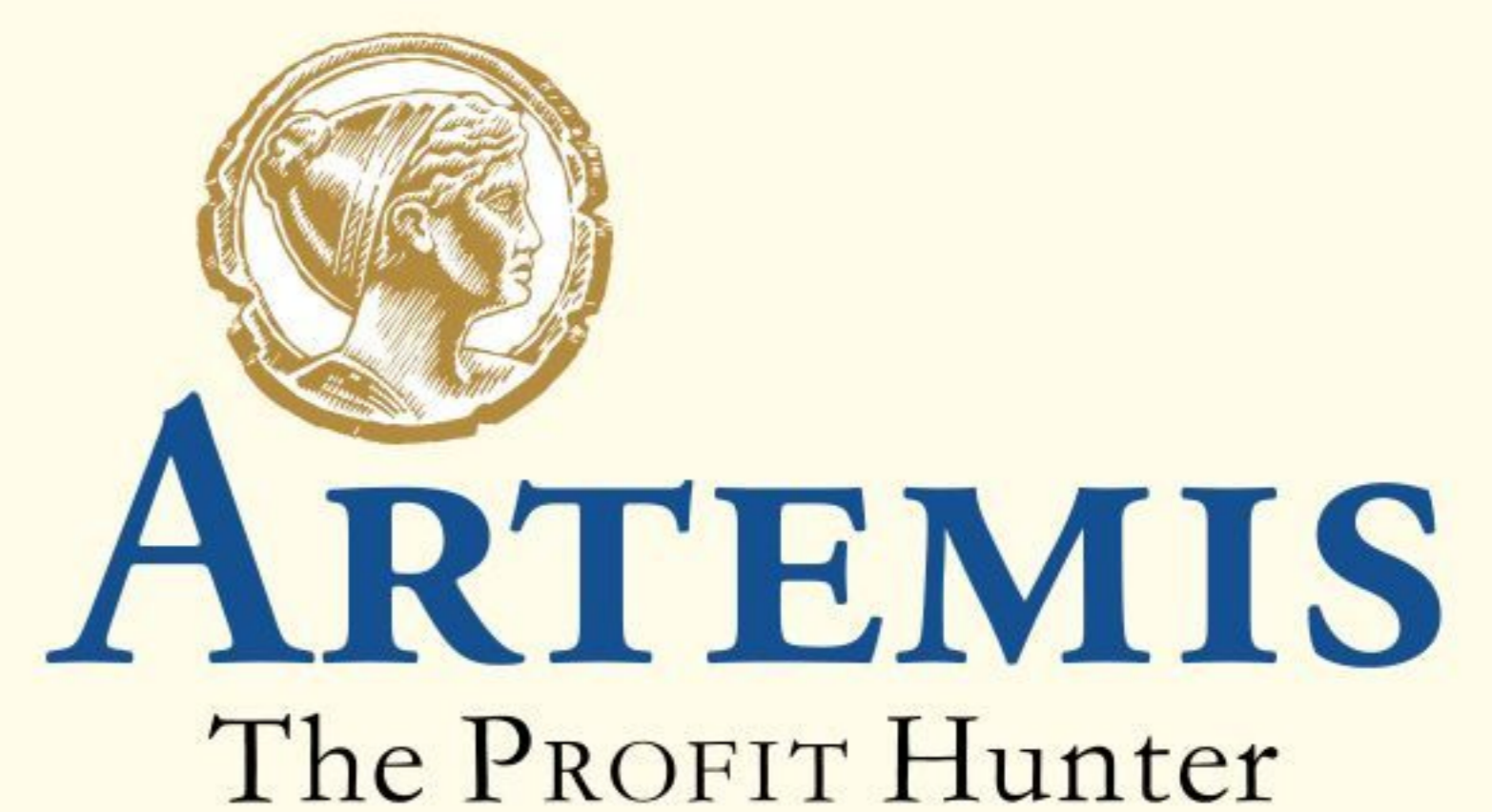
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From the executive editor ...



More global fund managers now expect a recession than at any time since 2011 (which you'll remember, was a tough year and a time when every other headline was fretting about the solvency of Greece). More global fund managers are bullish on bonds than at any time since 2008 – only 9% of them expect to see higher bond yields in the next 12 months which, given that bond yields are at record low levels in most parts of the world, is quite something. And an overall majority of fund managers expect value stocks to underperform growth over the next 12 months, the most bearish managers have been on value's relative prospects since the financial crisis.

All of this data comes from the latest Bank of America Merrill Lynch monthly survey of global asset managers, and more than anything else, it shows one thing – investors are currently positioned for extremes. You don't need to look far to see evidence of this in markets themselves. MoneyWeek readers will already be well aware that US equities are expensive by historic standards. A key part of the US yield curve has finally inverted, a pretty reliable recession signal (see page 13). And as we highlight in our cover story on page 24, bond yields across the world have plumbed extraordinary new depths (and thus bond prices have hit extraordinary new highs), with yields in Germany in



Maybe they'll need that drink: Germany looks like it's in recession or heading there

“What will stand out to any contrarian is that investors are betting heavily on deflation”

particular sliding to unheard-of lows amid fear of recession (see pages 11 and 14).

As James Ferguson of the Macro Strategy Partnership points out in a recent research note, “historically, such boundaries have determined market turning points”. The question however is: where will the markets turn next?

It's a tough call. The clearest signal for a contrarian (and if we're suggesting this is a turning point, then contrarian is what we want to be) is that investors are betting heavily on deflation. This is surprising when you look at the economic data. In the US, where the strong dollar should be exerting downward pressure on inflation, prices are rising at a rate of 2.2% a year, based on the Federal Reserve's favourite measure. Here in the UK, price inflation is rising at 2.1% a year (see page 11) and wage inflation came in at a very strong

3.9%. I'm certainly open to the idea that we might see a slowdown or even a recession in the relatively near future, but I'm far from convinced that we'll see deflation severe enough to justify bond yields at current levels.

The question of course is what to do about this. We have some ideas on page 24, and Max looks at a particularly appealing Brexit-battered sector on page 18, but perhaps the best bet at extremes is to take a chance to review your portfolio (if you haven't done so in a while). Are there any sectors where you've made a lot of money and feel you are now over-exposed? Do you

have enough gold (for insurance) and cash (for quickly jumping on opportunities)? And most importantly – do you have a clear financial plan at all? Because if you don't, the midst of a market panic is not the time to be caught without one.

If you're in Edinburgh this month, don't miss Merryn Somerset Webb hosting The Butcher, The Brewer, The Baker... and the Commentator, a panel discussion on politics and economics at Panmure House (Adam Smith's last home). It runs until 25 August (and I'm a guest on the 22 and 23). Book now at tickets.edfringe.com.

John Stepek
editor@moneyweek.com

Pay gap dispute of the week

In March, players of the US Women's national football side, which went on to win the World Cup this summer under captain Megan Rapinoe (pictured), sued the US Soccer Federation, citing pay discrimination, saying that the men's side was better paid. After the World Cup, US Soccer president Carlos Cordeiro retorted that the teams “have different pay structures, not because of gender, but because each team chose to negotiate a different compensation package” – the women's team had been paid \$34.1m in salaries and bonuses compared with \$26.4m for the men between 2010 and 2018. Part of the issue stems from the outsized bonuses that football's global governing body Fifa pays male teams compared to female ones, says The Guardian. Either way, the row has spilled over into politics. Last month, US Soccer lobbied Democratic presidential nomination candidates, Politico reported, fearful the issue could come up in debates.



Good week for:

Almost 90kg of fake saffron, worth £750,000, has been seized from a factory in Alicante, Spain. The alert was raised in 2017, when officers of **West Sussex Trading Standards** found that seven out of ten samples sold on the Sussex coast had been adulterated with cheaper parts of the plant. Two people have been arrested in Spain. A kilogram of saffron is made from the stigma of 85,000 *Crocus sativus Linnaeus* flowers and sells for around £8,000.

US-based Chase Bank has forgiven the credit card debt of its customers in **Canada** as it prepares to pull out of the country. Holders of its Amazon.ca Rewards Visa and the Marriott Rewards Premier Visa have had their balances wiped clean – one, Douglas Turner, was “over the moon” to be forgiven C\$6,157 (£3,832).

Bad week for:

The \$5m (£4.1m) **Ibrahim Prize for Achievement in African Leadership** has gone unawarded this year as judges were unable to find a worthy recipient. Winners are those leaders in Africa who have embraced democratic principles. The world's most generous annual prize, however, has only been awarded six times in the 12 years since it was established by telecoms tycoon, Mo Ibrahim. Liberia's Ellen Johnson Sirleaf (pictured) was the last winner, in 2017.

Funeral directors will be given restaurant-style ratings under plans drawn up by the industry amid accusations of over-charging. The Competition and Markets Authority is examining why the average cost of a funeral has risen by three times the rate of inflation over the past decade, to £4,271.



Trade conflict risks igniting currency war



Alex Rankine
Markets editor

“Every now and then, August belies its reputation as a sleepy month,” says Larry Elliott in *The Guardian*. Last week, China’s currency (the yuan, or renminbi) fell to an 11-year low against the US dollar, tumbling through the level of seven-to-the-dollar, previously regarded as a “line in the sand”. That prompted US authorities to brand the country a “currency manipulator” for the first time since 1994.

There is now talk of a “currency war”, says Jill Treanor on BBC News – whereby nations competitively devalue their currencies to boost exports. There are signs that this game of “beggar-thy-neighbour” has already begun. Last week brought interest-rate cuts from central banks in New Zealand, Thailand and India (see opposite). Cuts tend to weaken currencies because they prompt investors to look elsewhere for a better return.

Currency contagion and the 1930s

Currency wars are more dangerous than bilateral tariff battles, says Stephen Mihm on Bloomberg. Exporters in neutral countries get caught in the crossfire of devaluations, forcing them to “take protective measures of their own”. Recent events carry an “eerie resemblance” to the 1930s, when a “back-and-forth volley of currency devaluation and retaliatory tariffs... ripped apart the global economy”.

It’s certainly another headache for investors, says Mark Atherton in *The Times*. Renminbi weakness carries the risk of a “deflationary shock being sent around the world as markets are flooded with cheap Chinese goods”. The worsening trade dispute is also likely to spell trouble



The yuan has weakened through a key level

for big US brands such as Apple and Walmart. “China’s billion-strong army of consumers can make or break any foreign brand selling in their country.”

The yuan’s fall has “revived memories” of August 2015, when a surprise mini-devaluation panicked markets, says Steven Russolillo in *The Wall Street Journal*. “Hundreds of billions of dollars” left China in the aftermath as citizens and companies moved funds offshore.

The trade war is getting uglier

Yet today China is better prepared, says Shuli Ren on Bloomberg. Managers at acquisitive businesses that helped stoke capital flight are now, in many cases, in prison. And with low global bond yields, most Chinese investors will be content to

keep funds at home, where the ten-year bond still offers a decent 3% return.

That said, fear of renewed capital flight is likely to prevent China from pursuing a bigger fall in the yuan, notes Russolillo. “Any further sell off could also create problems for Chinese property developers” and conglomerates, which have loaded up on overseas debt, but must pay it back with yuan-based earnings. A disorderly rout is unlikely, agrees Arthur Kroeber of Gavekal Research. “At the risk of splitting hairs,” recent weakness should be seen as a depreciation rather than a devaluation, driven by genuine market forces rather than official fiat. Nevertheless, the risk is that, despite this week’s tariff reprieve (see page 10), “the US and China are close to throwing in the towel on a trade deal”.

The threat to Europe’s banks

Markets are rubbing their hands at the prospect of a “parting gift” from Mario Draghi, outgoing European Central Bank (ECB) president, says Tommy Stubbington in *The Financial Times*. Yet while the Euro Stoxx index has rallied 15% this year on the prospect of interest-rate cuts, eurozone banks have been “notably absent from the festivities”.

Negative interest rates mean banks are “charged to hold their excess reserves at the central bank”, says Tom Rees in *The Daily Telegraph*. Eurozone lenders “have paid out €21bn to the ECB since negative interest rates were introduced in 2014”. Markets expect rates to go as low as -0.6%, suggesting an epic squeeze on banks’ profitability.

Mario Draghi’s rate cuts won’t help banks



Goldman Sachs calculates that a 100-basis point cut could see a quarter of Europe’s biggest banks become “loss-making or break-even”.

The banks’ woes run deeper than negative rates, says Chen Gong in *The Brussels*

Times. Big layoffs this year at Deutsche Bank and Italy’s UniCredit suggest that the “European banking industry has not fully recovered from the financial crisis”. Where US authorities acted quickly to inject capital into banks, efforts

to deleverage Europe’s financial institutions were more haphazard.

While US bank shares have long since rallied from their financial crisis lows, eurozone bank stocks are back near their nadir, notes Charles Gave on Gavekal Research. Even the Federal Reserve’s recent rate cuts have not sparked a rally, which suggests that “central banks are out of ammunition”.

The risk is that if eurozone banks get into more trouble, then they will reduce lending, creating “a vicious cycle” of sliding growth, says Chen. “In the context of global trade war and economic slowdown, this vulnerability may eventually evolve into a trigger for a new global economic crisis.” (See page 24.)

Crude oil is back in a bear market

Talk of a global economic slowdown is like a “bubonic plague for oil demand”, Robert McNally of Rapidan Energy Group tells *The Wall Street Journal*. Last week Brent crude slid into a bear market after dropping more than 20% since its April high. The European oil benchmark was trading this week at less than \$61 per barrel.

The falls came as the International Energy Agency (IEA) cut its forecasts for worldwide oil demand for this year and next, reports Matt Egan for CNN. The IEA says that “oil demand grew at the weakest pace since 2008” during the first five months of 2019. In developed nations oil demand has fallen for three quarters in a row. “That hasn’t happened since 2014.”

The slump is a surprise given the rocky supply picture, writes Andy Critchlow in *The Daily Telegraph*. Tensions in the straits of Hormuz have raised fears of global shipments being “choked off” by Iran, whilst sanctions on Tehran and Venezuela have also squeezed supply. Yet the rise of shale technology means that the US is now the world’s largest producer of crude. Oil major Shell says its US wells can “turn a profit at \$35 per barrel”. That puts oil cartel Opec in a bind. “Arab kingpins” need prices closer to \$80 a barrel to sustain “their high-spending autocratic economies”. Yet further production cuts would be difficult to enforce and could ignite the ire of Trump. “Opec has no easy answer.”

India’s star is at risk of fading

Has India lost its shine? Shares in the world’s second-most populous nation rode to a record high in early June on the back of re-election for Prime Minister Narendra Modi, notes Benjamin Parkin in *The Financial Times*. Yet the benchmark Nifty index is now down 9% and has just had its worst July for 17 years.

The country’s central bank cut interest rates to a nine-year low last week as it seeks to reignite growth, which currently sits at a five-year low, writes Corinne Abrams in *The Wall Street Journal*. Many had hoped that India’s domestically-focused economy would be insulated from global trade tensions, but there are plenty of local problems instead. Private investment hit a 14-year low at the start of this year. “Government spending is capped by budget restrictions and consumers seem to be reining in spending.”

Many of the problems can be traced back to a shaky financial system, writes Yigal Chazan in *The Diplomat*. India’s state banks are “mired in a non-performing loan crisis, with some \$150bn of bad loans”. And a confidence crisis in the nation’s overleveraged non-banking financial sector – or “shadow banks” – has seen them rein in lending as well. The result is a credit squeeze that is making life difficult for business.



Narendra Modi: can he continue to reform India?

A growth mirage

Official data show that India lost its title as the world’s fastest-growing major economy to China in the first quarter of this year, with growth falling to an annual rate of 5.8%. Yet even that figure may be artificially inflated.

India’s boast of “miracle” 7.5% growth has attracted more than \$350bn in foreign investment over the past seven years, says *The Economist*. Yet Arvind Subramanian, India’s former chief economic adviser, estimates that figures have been overstated by about 2.5% a year ever since 2011. If he is correct, then “rather than outperforming China, India has underperformed Indonesia”.

Those betting that Modi would take bold measures to revive the economy have also

been disappointed, reports Parkin. The latest annual budget was judged a missed opportunity to initiate the kind of bold reforms needed if he is to hit ambitious growth targets.

In the long run there is still much to like in India. Half of the population is under 25 and the middle class is rapidly expanding. The McKinsey Global Institute forecasts that by 2025 “India will have 69 cities with a population of more than one million each”. By 2030, Mumbai’s economy alone will be bigger than the whole of Malaysia’s economy is today.

Yet with a drumbeat of bad news hitting sentiment, and stockmarket valuations elevated – shares trade on a price/earnings ratio of 27.5 – the coming months are unlikely to bring investors much joy.

Viewpoint

“The British authorities have been doing a great deal to prepare. People say they are asleep but I can assure you that they are highly professional and they are ready... There are certain individuals in the UK who are whipping up this catastrophism for their own reasons. This has provoked a lot of concern but basically ‘c’est la bulls**t’. Nothing is going to happen the day after Brexit... Britain will be a third country, that’s all, and there is no reason why this should lead to any problems. If both sides do their homework, traffic will be completely fluid... [Brexit in March] would have been a huge problem because nobody believed it was going to happen and they were all dragging their feet. But we have seven more months and this time they are getting ready.”

Jean-Marc Puissesseau, president of Port Boulogne Calais, on post-Brexit disruption, quoted in *The Daily Telegraph*

Argentina shocks investors (for a change)



Investors betting that Argentina had turned over a new leaf were given a nasty reminder of the country’s past this week as a shock election result (see page 10) raised the worrying prospect that reformist president Mauricio Macri could lose out to his populist Peronist rival, Alberto Fernández, in elections in October. Asset prices in the country collapsed amid fears that a Fernández-led government could default on its debt. Casualties included Michael Hasenstab, a star bond fund manager at US asset manager Franklin Templeton, who had made big bets on Argentina. His funds lost nearly \$1.8bn in a single day as the peso fell hard against the US dollar and the yield on Argentina’s sovereign bonds soared (and prices fell).

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

Three to buy



AstraZeneca

The Sunday Telegraph

It has been a tough decade at this pharmaceutical giant, with core earnings per share down by 32% as patents expire. Yet the shares have beaten the

FTSE 100 during that time, as the City bets on management's efforts to refresh the product pipeline and restore financial discipline. Latest half-year results show rising sales, suggesting the turnaround is succeeding. The stock is not cheap, but long-term global growth in demand for healthcare leaves it "on the cusp of a golden age". 7,351p

Smith & Nephew

Shares

This medical devices group operates in three areas –

orthopaedics, sports medicine and wound care. Half-year results showed encouraging growth in underlying revenue and operating margins. On 21.4 times forecast earnings the shares aren't cheap, but with earnings in an "upgrade trend", investors are likely to take a greater interest in the stock. The group owns competitive products in markets that look set to enjoy strong growth. There is also about \$1.5bn of headroom on the balance sheet for acquisitions, which could boost future returns. 1,909p

TMT Investments

The Mail on Sunday

This Aim-listed group has interests in 25 unlisted tech businesses, of which the most notable is cab firm Bolt – formerly known as Taxify. It was founded in 2010 and has since made almost \$40m by selling stakes in successful investments – this year it sold a \$23m stake in software business Wrike, a huge return on the \$1m invested in 2012. In all, TMT could prove "a rewarding punt for the adventurous investor". \$3.69

Three to sell

BT Group

Motley Fool UK

Shares in this telecoms giant have been "in a down trend for almost four years". Recent first-quarter results provided no relief. Revenue, EBITDA and normalised free cash flow all continued to slide, while net debt creeps higher. A large pension deficit leaves the business ill-prepared for any slump. The near-8% dividend yield looks tempting, but the risk of further capital loss more than outweighs it. BT is cheap for "very good reasons". 180p

IAG

Investors Chronicle

A planned pilots' strike this month will do nothing to endear British Airways to passengers during the summer travel season. Parent company IAG was recently fined a record £183m by UK authorities for failing to protect customers' data in the wake of a cyberattack last year. Plans to spend about £20bn on 200 Boeing 737 Max jets look like a hostage to fortune as the accident-prone aircraft remains grounded worldwide.



Competition in Europe has squeezed operating margins and puts the dividend under pressure. Sell. 454p

Pendragon

The Sunday Times

These are "lean times on Britain's forecourts". Confusion

over future fuel-tax policies and higher car-financing costs saw new car registrations drop 4.1% in July, the fifth successive monthly decline. The owner of Evans Halshaw and Stratstone has been focusing on used cars, but its Car Store operation has a glut of unsold stock and is expected to lose £25m this year. The threat of a disruptive Brexit, plus shaky consumer confidence, are big risks for the industry. The shares trade at their lowest level for seven years, but are still not cheap enough. Avoid. 11.25p

...and the rest

The Daily Telegraph

The JP Morgan European Smaller Companies trust offers exposure to an overlooked sector where valuations are reasonable (368p). Pawnbroker H&T is adding to its estate through acquisitions and is expanding into personal loans and foreign currency. It looks good value on a price/earnings ratio of 11 (325p). Document management expert Restore is in a "sweet spot" as consumers become more aware of data privacy issues and businesses face greater legal pressure

to manage information responsibly (440p).

Investors Chronicle

The corporate training market is worth an estimated \$365bn and its digital segment is growing fast – that spells huge opportunity for Learning Technologies (105p). Shares in electronic specialist XP Power are down 40% this year due to the US-China trade war, but with management shifting production from China to Vietnam we think this is a buying opportunity for patient

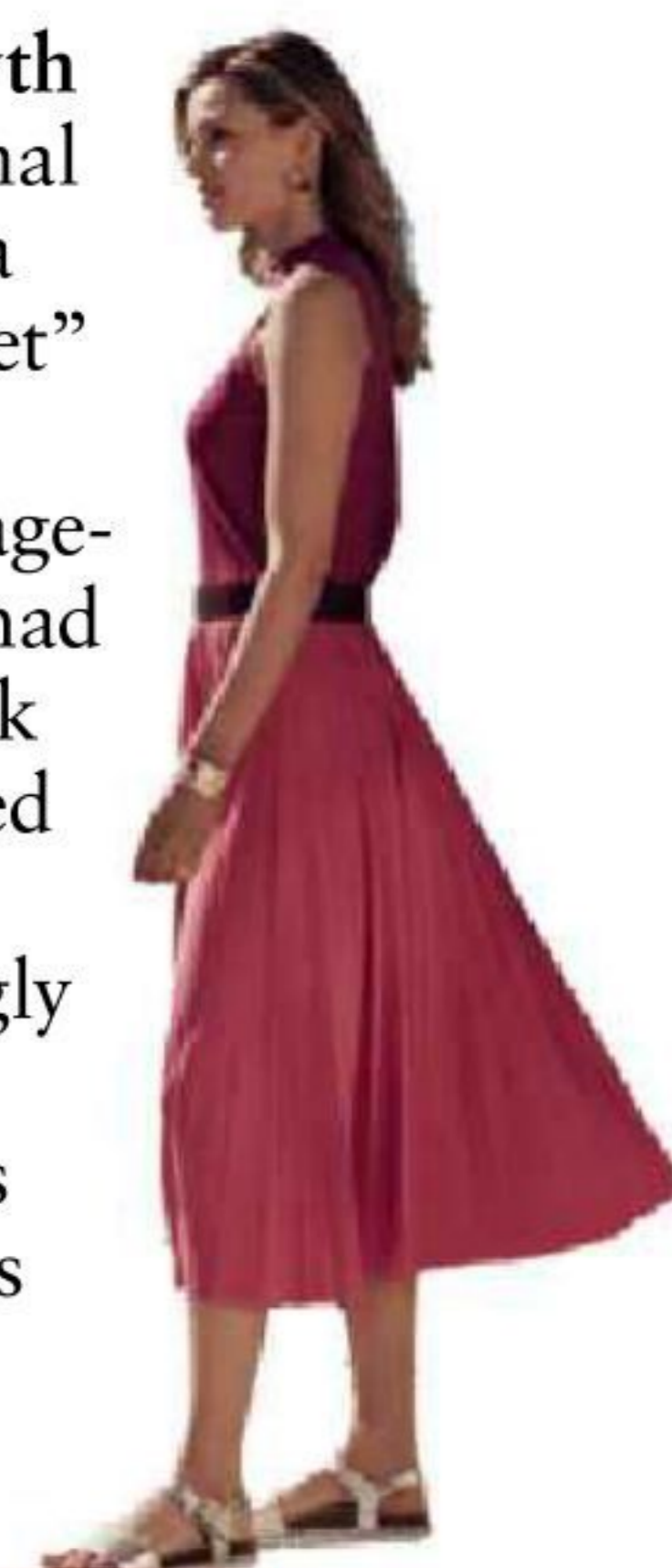
investors (2,010p). The onward march of ecommerce and a shortage of city logistics space creates an auspicious outlook for Warehouse REIT (104p).

The Mail on Sunday

Favourable global travel trends have left investors in airport cafe owner SSP Group basking in special dividend pay outs and strong share-price growth. Shareholders sitting on large gains may wish to bank some of their profits, but they should "keep at least half as a long-term investment" (707p).

Shares

Baillie Gifford US Growth Trust taps into exceptional growth firms in America – it's an "invest and forget" option for the long-term (142.5p). Shares in sausage-skin maker Devro have had a turbulent time, but look to have recently "regained some sizzle...keep the faith" (204p). Surprisingly positive second-quarter trading at Next suggests it could reward investors despite the high-street gloom (5,920p).



An American view

Radio station giant iHeartMedia (Nasdaq: IHRT) "is ready for its next chapter", says Andrew Bary in Barron's. The company came out of Chapter 11 bankruptcy in May, with its debt levels slashed from \$16bn to \$5.8bn. At around \$13 a share, the group trades on a price/earnings ratio of less than eight, and the free cash-flow yield looks high on 20%. With nearly 850 radio stations, iHeartMedia "reaches 90% of the adult population" in the US every month, "and it is well-positioned in the fast-growing and competitive digital streaming and podcasting businesses". Hamed Khorsand, analyst with BWS Financial, reckons the stock could go as high as \$30.

IPO watch

Saudi Arabia's state-owned oil giant Saudi Aramco reiterated this week that it still plans to go public. The statement came as it announced its first-half results, during its first ever earnings call with investors. In the six months to the end of June, Aramco made \$46.9bn in profit. That was down from \$53.2bn for the same period last year, due to a drop in oil prices over the intervening period. The timing remains uncertain – earlier this year, Aramco had suggested it would consider listing before 2021, notes The Guardian. Khalid al-Dabbagh, a senior executive, said: "the timing... is a shareholder issue. They will announce it depending on their perception of the optimal conditions".

City talk

● Despite its shares being hit by its association with the Woodford Equity Income fund debacle (see page 18), Hargreaves Lansdown is “still raking it in”, says James Coney in *The Sunday Times*. However, if it wants fully to recover its lost reputation it needs to do more than “just tinker... with the wording on its best-buy lists”. For a start, it must end the “distasteful profiteering” from customers who keep cash, which now accounts for 11% of its assets under management. It also needs to end the “disgusting” exit penalty of £25 per stock plus £25 when customers move to a rival. Such a move would show that it is committed to “fairness”.

● Last week, Cathay Pacific’s chairman stated that the airline “would not intervene” against staff who participate in the ongoing protests in Hong Kong, says Clara Ferreira Marques for *Breakingviews*.

But the firm, “which is a local institution” employing 27,000 people, has now changed course, stating that it will “yield to Beijing’s civil aviation authority, including by submitting crew lists for flights to and over China”. Such a reversal was always on the cards: “Cathay has no domestic market and can ill-afford the loss of mainland passengers”. All the same, it’s an “unwelcome reminder” to investors “of just how tight Beijing’s grip is”. Others “may soon find themselves... caught between China and a hard place”.

● The decision by Turkish tour mogul Neset Kockar to buy an 8% stake in Thomas Cook recently sent the tour operator’s shares soaring on hopes of a “rival rescue plan”, says Roland Head in *The Motley Fool*. But they have since fallen back, as the group admitted that it needs more money to keep it going this winter. It was always a long shot – even if Kockar had access to the kind of funds needed, banks and other lenders are already working with China’s Fosun and “may be reluctant to start anew”. And even if his proposals were successful, “lenders won’t agree to accept losses on their loans if shareholders are being bought out”.

©Getty Images; Shutterstock

Uber hits the brakes

As competition and costs mount, will the ride-sharing app ever live up to its potential? Matthew Partridge reports

News that Uber “lost \$5.24bn in the last three months, its largest-ever quarterly loss”, and worse than analysts had expected, sent the ride-hailing firm’s shares “sliding 10%”, says Dominic Rushe in *The Guardian*. Meanwhile, revenues rose by only 14% – “the smallest percentage on record” – to \$3.17bn, rather than the \$3.3bn hoped for. The weak showing has investors worried, especially as Uber’s “shares have only closed above their initial public offering (IPO) price of \$45 twice since its share sale”.

Uber’s investors should calm down, says Jim Edwards for *Business Insider*. After all, the company suffered “a paper write-off, not an actual loss of cash”. The main reason behind its technical loss is that it issued \$3.9bn in shares as compensation for staff. True, it also increased its various operational expenses, “such as marketing, research and development, and salaries” and administration costs, but those can all be “cut in the future if need be” and show that “the company is investing in its own growth”. With “a long way to go before it tops out”, those selling their stock right now are “idiots”.

Tough competition and fickle customers

Nonsense, says Jamie Powell in the *Financial Times*. The only reason why the company grew its cash on hand is due to the recent public offering. In any case, Uber is not a start-up, but a “decade old global brand, whose core business – ride sharing – is now growing at just 2%”. As a result, it is “scrambling for new growth” like “Oracle, IBM or perhaps even the modern-day Apple”. However, unlike Uber, “all of these companies have ‘cash cow’ products which help to keep the buybacks and dividends flowing, as well as funding future bets”.

Unfortunately, Uber can’t replicate the profitability of more established technology firms because the market for ride-hailing “is flooded with competition”, says Will Bedingfield for *Gizmodo*. While online retailers such as



Is it time to disembark from Uber?

Amazon and Alibaba invest huge sums in distribution centres and “win the market with quite involved consumer products”, when it comes to online cabs, consumers typically have multiple apps on their phone and “just go with whoever is busy or wherever they can get the peak pricing”. The ride-sharing business “has given Uber scale and capital” – but it needs to find a sub-sector that has “structural profitability”, or else it will “run out of road”.

One solution would be for Uber to establish a “dominant” market position in ride-hailing, says *The Economist*. However, on recent form it looks like investors may “have a long wait” – indeed, it looks as though Uber is the one losing market share to its rivals. One competitor, Lyft, recently reported a 72% jump in revenue “as it eats into Uber’s market share”. Despite assurances from both firms that competition between the two is “easing a little”, fares “will remain low and losses will continue to mount while it remains so intense”.

Burford blasts back at short-sellers

Litigation financier and star Aim stock Burford Capital has launched a “fierce attack” on short-selling hedge fund Muddy Waters (see page 30), accusing it of “illegal market manipulation”, reports Tom Rees in *The Daily Telegraph*. Last week Muddy Waters issued a report arguing that Burford is “egregiously misrepresenting” its returns and is “a perfect storm for an accounting fiasco”.

Burford’s share price slid, wiping more than £1bn off its market value, but rebounded somewhat after it issued a rebuttal, and counter-accused Muddy Waters. The hedge fund, for its part, denies any foul play, retorting: “The only



manipulation is that of Burford’s return metrics, accounts and disclosures”. Each party has reported the other to the regulator, the Financial Conduct Authority.

There is “a bad smell about this latest exercise” in short-selling and running, says Jeremy Warner, also in *The Daily Telegraph*. There is

nothing wrong with short-selling as such, “but when publication is conjoined with a large short position, it all gets a little suspect”.

Yet while the short-seller “has gone too far with some of his attacks”, Burford could do a lot more to address concerns over its “byzantine governance”, says Chris Bryant on *Bloomberg*. For example, “given the level of managerial subjectivity involved in determining the value of the legal cases funded by the company... it’s troubling that the chief executive and finance director are husband and wife”. If Burford wants to recover the confidence of investors, “it should rethink, quickly”.

Clashes escalate in Hong Kong

Hong Kong's protests have grown and the demands are more radical. Emily Hohler reports

"Hong Kong is hurtling towards a showdown," says *The Times*. The threats from the Chinese Communist Party leadership are getting louder. Beijing has described protestors in the former British colony as "terrorists" and warned outside powers, including the UK, not to interfere. Paramilitary troops have been seen "apparently limbering up for action" in the nearby mainland city of Shenzhen. For now, Beijing is relying on Hong Kong police to restore order to the city, which despite its long-enjoyed reputation as one of the safest in the world, has become a setting for increasingly violent clashes between protestors and police, who began trying to break up the "largely peaceful" rallies by firing tear gas and rubber bullets, says Sophia Yan in *The Daily Telegraph*. On Tuesday, protestors brought Hong Kong's airport – one of the busiest in the world – to a standstill and officials were forced to temporarily cancel flights.

What happens next?

The recent political turmoil is the worst since Hong Kong's handover to China in 1997. When China gained control from England, it pledged autonomy for a city that has "come to define capitalism and freedom in Asia", says *The Washington Post*. But China has been gradually "whittling" away at liberties, suppressing the "umbrella movement" in 2014, refusing to allow direct elections for Hong Kong's chief executive and then, in June, attempting to impose a bill that would allow individuals to be extradited to China. Protestors said that this jeopardised Hong Kong's autonomy and could endanger critics of China who could find themselves at the mercy of the Chinese legal system, say Siobhan O'Grady and Claire Parker in the same paper. In July,



Police clashed with protestors at Hong Kong's airport this week

Hong Kong chief executive Carrie Lam, more sensitive to the demands of her "overlords in Beijing" than the "values that underlie Hong Kong's success", tried verbal obfuscation, but it didn't work. Since then, the protestors' battleground has "expanded". Their demands now extend beyond the cancellation of the bill to an investigation into policy brutality and greater democracy.

Lam, who went for weeks without appearing in public, re-emerged last week to tell reporters that Hong Kongers had to "set aside differences" to end the chaos and avoid a major economic crisis, and accused protestors of trying to "topple Hong Kong". Apprehension has driven Hong Kong's stockmarket to its lowest this year, reports Noah Sin on Reuters.

So what happens next? China has stood firm behind Lam and the state media is calling the protests a "colour revolution" instigated by the US. The prospect of military intervention is starting to look

more likely, say O'Grady and Parker. The protests are the biggest "public resistance" to Xi Jinping's authority since he took power in 2012, and China's Communist Party is determined not to look weak.

Beyond batons and bullets

"Uneasy memories of the gunning down of crowds at Tiananmen Square" should act as a deterrent, says *The Times*. Xi could give his approval for most of the demands of the protestors without losing face. And Britain, which "still has a moral responsibility to the territory", needs to explain that "such concessions would not be a sign of weakness but an act of self-interest. Stability doesn't have to be enforced with the baton and the bullet." It doesn't, agrees *The Washington Post*. The alternative is a "dead end" that could damage both Hong Kong and China economically and politically. "A cliff edge looms, and China's leaders should turn back before it is too late."



Salvini: can he govern alone?

Italy's coalition falls apart

Italy may be heading for a snap general election as early as October after Matteo Salvini, the deputy prime minister and leader of the hard-right League party, announced that the 14-month-old coalition with the populist Five Star Movement was "irrevocably broken" due to policy differences, says Nick Squires in *The Daily Telegraph*. With his party polling at around 38%, Salvini's desire to "seize the momentum" is understandable, says Hannah Roberts in the FT. However, his ambitions were dealt a blow on Tuesday after Italy's opposition parties and his erstwhile coalition partner united to vote down an immediate vote of no confidence in the government. The collaboration

suggests "that an alternative majority to the government could potentially be found after the confidence vote", which will now take place on 20 August.

The world is now wondering "what Italy will look like" if Salvini is given the chance to rule as western Europe's first hard-right, populist, anti-immigrant prime minister, says Tom Kington in *The Times*. Despite comparisons with Mussolini, Salvini is unlikely to "dismantle" democracy, and he understands that "Italy must choose the US before Russia". But Salvini thrives on finding and demonising enemies, and he will "find none bigger, or handier, than Brussels as he tries to push through his plans

for a 15% flat tax and make pensions more generous, ignoring European Union demands to trim Italy's huge €2.4trn national debt". If he forms an alliance with the hard-right Brothers of Italy, euroscepticism is likely to rise, although there is "good reason" to expect Salvini to moderate his approach. He is likely to negotiate harder, but he has already promised that Italy will not "dump" the euro, a "move that spelt potential doom for the entire eurozone". Nevertheless, notes *The Wall Street Journal*, in a foretaste of what could be a "rocky few months", Italian bank stocks "plunged" last Friday in response to Salvini's move.

Betting on politics



What with all the political turmoil in the UK, it's easy to forget that the US presidential election cycle is in full swing. It is still well over a year before the general election in November 2020, and it's six months before the first primary caucus next February, but the candidates for the Democratic nomination are campaigning vigorously. The next round of TV debates is only a fortnight away and there are rumours that many of the fringe candidates will drop out if they fail to do well enough in terms of polls and



fundraising to earn the right to take part. With 24 candidates officially running, even if half the field drops out, that still leaves an unprecedented number left in the contest. According to Betfair, the favourite, former vice-president Joe Biden has odds of 3.9, which gives him only an implied 25.6% chance of winning the nomination. The other leading candidates are Elizabeth Warren (pictured) at 3.95 (25.3%), Bernie Sanders at 7.2 (13.9%), Kamala Harris at 7.6 (13.2%) and Pete Buttigieg at 7.5 (13.5%). However, the best value to be found is on the outcome of the general election. Ladbrokes is offering bets on the number of electoral college votes Donald Trump will get. Since I think the eventual Democratic candidate will win comfortably, you should take the 8/1 (11.1%) on Trump getting less than 200 votes and the 3/1 (25%) on him getting between 200-249 for combined odds of 36.1%. To weight your bet properly you should put £6.93 on 200-249 and £3.07 on less than 200.

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US embraces global Britain

America says Britain will be first in line for a trade deal. Matthew Partridge reports

John Bolton, the US national security adviser, has made a dramatic intervention in the Brexit debate, saying that the US supports a no-deal Brexit and that the UK would be “first in line” for a trade deal, reports the BBC. Although it may not be possible to do a complete free-trade agreement all in one go, especially for contentious areas such as agriculture and financial services, Washington is willing to offer “an accelerated series of trade deals” on a “sector-by-sector” basis, starting with an agreement on manufacturing. Bolton says the US understands “the importance of doing as much as possible as rapidly as possible before the 31 October exit date”.



John Bolton: standing up for the UK

Simon Nixon in The Times. And post-Brexit Britain will be in a worse position than the EU was in the TTIP talks – the UK's leverage as a market of 60 million “will be far less than as part of a market of 450 million”. Despite its rhetoric, the Trump administration has made it clear that even a limited trade deal “will come at a high political price”, with a large number of conditions. That makes it far from guaranteed that a US-UK deal would be able to get through Parliament.

A new relationship with the US

Indeed, it's not as if the Trump administration is supporting a hard Brexit out of a desire to make Britain more powerful, or out of respect for British sovereignty, says Gaby Hinsliff in The Guardian. It is to ensure the UK follows the US line more closely on a range of foreign-policy issues. These include “uncritical support” for the US-approved line on everything from Iran to climate change. Such subservience would reduce us to the status of a “satrapy” – a tame outpost of the US empire.

No one “should be under any illusions” that a deal with the US “would be straightforward”, says The Daily Telegraph. But still, the promises made by John Bolton and others in the White House show “that the US, or at least the current administration, is with us”. The fact that “the world's greatest economic and military power” is “throwing its weight behind us so enthusiastically” undermines the idea that Brexit will leave us “solitary” and “cut off from influence and allies”. Boris Johnson should cultivate this relationship by making his first foreign visit to Washington.

The political price of a deal

The chances of the US and UK agreeing a sector-by-sector trade deal in time for the 31 October deadline are very low, reckons Alan Beattie in the Financial Times. The Trump administration “is concerned about the UK being crippled by Brexit” and many Republicans are open to offering Britain “unspecified help”. However, Congress needs to approve any deal and it is “hard to imagine” a piecemeal deal – particularly one excluding agriculture – “being warmly received on Capitol Hill”. What's more, the speaker of the House of Representatives, Nancy Pelosi, “has repeatedly said she will block any US-UK deal that does not respect Ireland's interest in the Good Friday Agreement”.

The failure of the Transatlantic Trade and Investment Partnership (TTIP), a previously proposed free-trade deal between the US and EU, shows that coming to agreement in such trade negotiations is easier said than done, says

Moscow rocked by protests



Protests have turned violent

Protesters in Russia turned out in force last Saturday for what was the largest demonstration in Moscow in years, reports Andrew Kramer in The New York Times. Around 50,000 people protested against the decision to ban opposition candidates in a city election, far more than “the few thousand” who turned up at previous protests this summer.

Riot police responded violently, beating hundreds and arresting more than 2,500. Dozens of opposition leaders remain in jail.

The episode shows that the Kremlin “won't allow even the symbolic electoral presence” of opposition, says Alexey Kovalev in The Guardian. But if Putin and his allies think that they can solve the problem with batons and mass arrests, they could find themselves “sorely disappointed”. Protesters are now much better prepared than they were just a few years ago – pro bono lawyers work around the clock to provide legal assistance, independent websites track arrests and cover the sham trials and civil society is “much more active”.

Putin's hardline approach may backfire, says Leonid Bershidsky on Bloomberg. The protests started small because “few care about the largely powerless city legislature”. But by cracking down harshly, Putin has shifted the central issue from the election to the disproportionate use of force. This is potentially powerful as the police are traditionally disliked in Russia because of “widespread cruelty and corruption”. The regime would regard a climbdown as a sign of weakness, yet more beatings “could lead to an out-of-control escalation”. “Putin is taking a risk by allowing the violence to continue.”

Washington DC

Trump holds back: Import tariffs of 10% on some Chinese goods, imposed as a result of Donald Trump's trade war with the country, have been postponed until 15 December to avoid hurting American consumers in the lead-up to Christmas. The reprieve covers certain electronics, including mobile phones, laptops, and video-game consoles, as well as some toys, clothing and footwear. The announcement from the US trade representative's office came moments after Liu He, China's vice-premier, had conducted a phone call with US trade officials, reports BBC News. Tariffs on the rest of the \$300bn of goods, announced by President Donald Trump at the start of the month, will go ahead as planned. The delay proves the lie behind Trump's assertion that the only sufferers in his trade war with China will be the Chinese, says Heather Long in *The Washington Post* – a US family of four would pay about \$350 more a year if the full cost of Trump's latest tariffs was passed to consumers, according to the Tax Foundation, as US-based think tank. "Trump didn't want to be the Grinch that stole Christmas," says Phil Levy, an economist in the George W. Bush administration. "This seems to me like the administration is retreating."

Buenos Aires

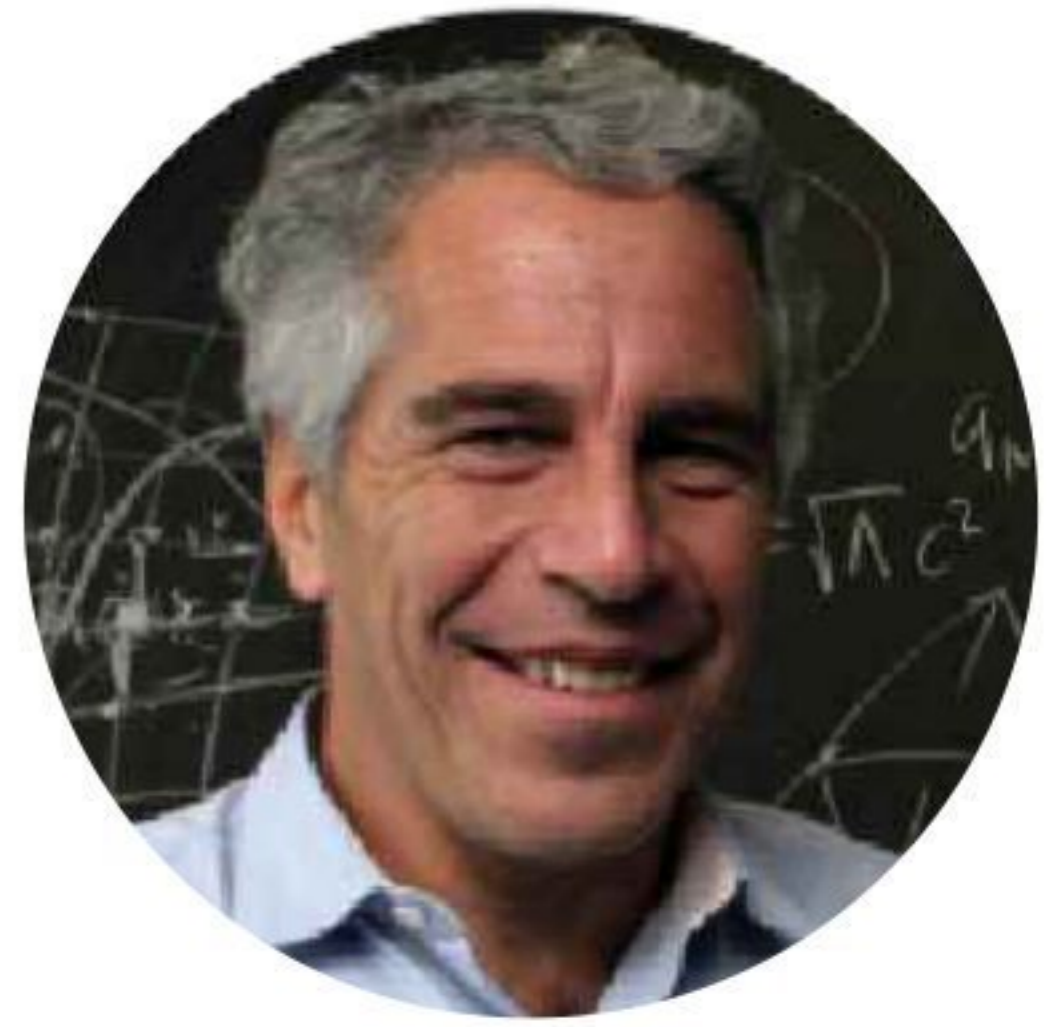
Shock election result unnerves investors:

Argentina is once again "on the cusp of a full-blown financial crisis", say Sydney Maki and Aline Oyamada on Bloomberg. President Mauricio Macri (pictured) was trounced in primary elections over the weekend by his populist opponent, Alberto Fernández, who took a bigger-than-expected 15-point lead, causing the peso to plummet more than 25% on Monday and investors to dump the country's "stocks, bonds and currency en masse". A "defiant" Macri insisted that his government would be re-elected in October, allowing his reformist project to continue, reports the FT. However, his defeat "threw the doors open to the very real possibility" that a more protectionist government will take power and "unravel the hard-won gains that Macri made to regain the trust of the international markets", says Bloomberg. There are fears that Fernández and his running mate, the former president Cristina Fernández de Kirchner, will renegotiate debts and the \$56bn programme with the IMF. The country has billions in foreign-currency debt due over the next year. Investors fear the worst: during Kirchner's eight years in office, the country was "marked by currency controls, data manipulation and protectionist policies on trade".



New York

Case against Epstein will continue: Jeffrey Epstein (pictured), the disgraced financier accused of sex trafficking underage girls, is dead. He was found dead in his cell at the Metropolitan Correctional Centre in Manhattan on Saturday, where he was awaiting trial, and his death was later declared a suicide, says Moira Donegan in *The Guardian*. He had been on suicide watch since being found on the floor of his cell in July, but was reportedly not being monitored at the time of his death. On Friday, records were unsealed from a civil suit brought by one of his alleged victims against Ghislaine Maxwell, the "British publishing heiress and socialite who was Epstein's long-time lover, employee and alleged co-conspirator". The victim claims that the well-connected Epstein was "at the centre of an international web of sex trafficking" and supplied young women and girls to powerful and famous men, including Prince Andrew. Although Epstein will now not have to face up to his crimes, on Tuesday the FBI raided his private island in the Caribbean, signalling that the case against him and his alleged co-conspirators continues.



The way we live now: badly shaken, not stirred

The timing is impeccable. Hard on the heels of the success of the critically acclaimed HBO mini-series *Chernobyl*, a team of researchers have produced the first bottle of "Atomik" vodka. The spirit is made from water and rye grown on land within the exclusion zone that was created following the nuclear meltdown in 1986. The drink is made from rye that remains "slightly contaminated" from the radioactive fallout and water from the Chernobyl aquifer. "I tremble when I pick [the bottle] up," Professor Jim Smith of the University of Portsmouth tells the BBC. Not because of any danger from the

radioactivity – the vodka is "no more radioactive than any other" because, during distillation, impurities stay in the waste product. But rather because, so far, this is the only bottle in existence. Profits from the Chernobyl Spirit Company will eventually go towards helping communities in Ukraine that are still recovering from the disaster. "With only one bottle produced so far, it will be a while before Atomik martinis are available – but Prof Smith and the team hope to produce 500 bottles this year, selling it initially to the rising number of tourists who now visit the exclusion zone."



London

Rail fares to rise: Consumer price inflation rose to 2.1% in July – higher than the expected 1.9%. The rise in the price of goods, such as computer games, toys, hotel rooms, clothing and shoes – all used to calculate the consumer price index (CPI) – was driven in part by a weaker pound, making imported goods more expensive. Regular wages (ie, excluding bonuses) rose by 3.9% in the second quarter compared with the previous year – the fastest rate in 11 years, data also out this week showed. However, the number of job-seekers

crept up by 31,000 to 1.3 million in the second quarter, taking the jobless rate to 3.9%. That, along with cheaper fuel prices that are expected from the falling price of oil, may help to contain inflation. The retail price index (RPI) measure of inflation fell to 2.8% in July. The figure is used to calculate rail-fare rises in the new year, despite RPI being an older measure and one that is no longer a national statistic. It tends to be higher than CPI. The yearly cost of commuting is expected to rise by around £100 for many rail passengers, says BBC News.



Their wallets will also be squeezed

Berlin

Europe's biggest economy

shrinks: The German economy contracted by 0.1% in the second quarter, leading to fears that the country is edging towards a recession (defined as two shrinking quarters in a row). The fall wasn't totally unexpected, however. The latest results from the ZEW survey of financial market experts, released the day before the GDP data, showed sentiment had fallen to -44.1, its lowest level since December 2011. Estimates from a Reuters poll had been much more optimistic, forecasting the figure at 28.5. In July, the survey figure had stood at 24.5%. The latest survey reading represents a significant deterioration in sentiment, weighed down by the US-China trade war that has caught export-heavy economies, such as Germany's, in the cross-fire. Its troubled car industry, for example, accounts for 5% of GDP. Nor will Germany be immune to a no-deal Brexit. Britain is the country's fifth-biggest export market globally. Germany only avoided a recession last year "by a whisker", notes Tom Rees in *The Daily Telegraph*. It may "fail to escape a second time". (See also *City View*, page 14.)

Addis Ababa

Ethiopia opens up: The National Bank of Ethiopia has issued its first business licence to a foreign-owned company – a significant first step in reformist prime minister Abiy Ahmed's plan to liberalise the economy. New York-based Africa Asset Finance Company (AAFC) was granted the licence, allowing it to lease imported equipment, such as farm machinery and computer servers, to Ethiopian businesses under local-currency contracts. In so doing, it will allow industry to bypass the currency and capacity constraints that have become barriers to growth, AAFC's chief executive, Frans Van Schaik, tells the *Financial Times*. The tightly controlled Ethiopian economy has been expanding by around 10% a year over the decade to 2017. But in a country where sectors are under government control, profits are reinvested in infrastructure, health and education. Ahmed (pictured) believes that by taking a more liberal approach to the economy, and opening these sectors to outside investment, growth could be accelerated even faster, while also alleviating Ethiopia's chronic lack of foreign exchange.



Singapore

Growth outlook worsens: Singapore cut its growth forecast to between zero and 1% for this year as it, and the wider region, feel the effects of the US-China trade war. The figure had been put at between 1.5% and 2.5%, according to the Ministry of Trade and Industry. Gross domestic product (GDP) shrank by 3.3% in the second quarter compared with the first, raising fears that the country is heading for recession, says CNN. "Against this challenging external macroeconomic backdrop [caused by the trade war] and the deepening downturn in the global electronics cycle, the Singapore economy is likely to continue to face strong headwinds for the rest of the year," the ministry said. Owing to its size, Singapore is particularly sensitive to regional economic upsets, although it isn't alone in feeling the effects. "As a small and open economy, Singapore is one of the economies that feel it first," Selena Ling, head of treasury research and strategy at Oversea-Chinese Banking Corporation, tells Bloomberg. "We see growth being downgraded in a number of different places... This is the trend for most of Asia at the moment." Prime Minister Lee Hsien Loong has said he is open to fiscal stimulus measures.

Should we protect national champions?

Ever since the Thatcher era, Britain has been relaxed about the nationality of buyers of its industrial assets. But is that always wise? Alex Rankine reports

What's happened?

UK defence business Cobham agreed last month to a £4bn takeover offer by US private-equity group Advent International. The buyout of the 85-year-old aviation pioneer has sparked concern that highly specialised air-to-air refuelling technology could be transferred to the US. The family of the group's founder, which still retains a 1.5% stake in the business, is among those publicly opposing the deal. In a letter to the defence secretary, Lady Cobham wrote that "there are real risks in the takeover to UK security and to important hi-tech jobs".

What's the problem?

Private-equity buyers are often accused of asset stripping – selling off parts of a company to realise a quick profit and failing to invest in the research and human capital needed for long-term success. In the case of a UK defence business those concerns are particularly acute because asset stripping threatens to destroy domestic know-how. In the worst-case scenario, that could leave the Ministry of Defence dependent on foreign suppliers for crucial military kit. Another concern is technology transfer. The recent outcry about Huawei's involvement in the UK's 5G network is only the most well-known case. Notable Chinese purchases in the past decade have included the port of Piraeus in Greece, the hostile takeover of German robotics specialist Kuka and the buyout of Sweden's Volvo. There are worries that such deals could allow the theft of intellectual property, or facilitate spying.

How do the UK's rules compare?

Ever since the Thatcher revolution, British takeover policy has been based on the principle that it doesn't matter who owns the country's businesses so long as they deliver for consumers. Scarred by the failed nationalisations of the 1970s – British Leyland is the most famous example – Whitehall decided that markets know best. The result is what is sometimes dubbed the "Wimbledon effect" – London has flourished as a global business hub despite a relative dearth of British champions.

So, we're open to all comers then?

Not quite. Britain has been progressively tightening its foreign-ownership laws ever since the wildly unpopular 2010 Kraft Heinz takeover of Cadbury, which highlighted the ease with which foreign businesses could swoop in on established British names and slash jobs. Concern about Chinese and Russian espionage has sparked more recent reforms on national security grounds. Last June the



government lowered the threshold at which ministers can intervene in takeovers from businesses with a turnover of £70m to all those with a turnover of at least £1m.

What about national security?

Theresa May's government also launched a consultation that proposed changes to the current regime, with corporate bosses required to notify authorities about potential deals that endanger national security. The new rules cover not only takeovers, but also all sales of assets and intellectual property – and are similar to existing rules in places such as Japan, Australia and Germany. But although British ministers enjoy ever greater powers to intervene, in practice the preferred approach is not to block deals, but to seek guarantees. Yet promises can be broken. Last year authorities waved through buyout firm Melrose's £8bn takeover of engineer and defence supplier GKN in return for an undertaking to continue investing in the UK. Yet in April Melrose announced plans to close a GKN factory in Birmingham.

Is security really the issue?

Politicians facing re-election have huge incentives to tinker in the national economy in order to score short-term political points and "national security" can provide a plausible-sounding cover story for all kind of tinkering. Donald Trump invoked it last year when he imposed steel tariffs on the EU. No one doubts that steel is a crucial input for the US military and civilian economy, says Theodore Moran on voxeu.org. Yet the global industry is so fragmented that no external supplier could realistically withhold steel from US purchasers for political

reasons. That suggests that national security should only be invoked in quite narrowly drawn cases where a technology is crucial and difficult to replace.

How important is foreign investment?

Foreign direct investment (FDI) often brings with it new management techniques and technology that can whip failing industries into shape. And about half the productivity gap between Britain and America is down to bad management, says The Economist. Economic research across several industries suggests that the "David Brents" in British boardrooms have much to learn from their peers overseas. Evidence shows that foreign-owned businesses invest more in research and development, which boosts productivity and wages. A study by the OECD think tank found that in Britain wages in foreign-owned companies were about 5% higher than they would have been were the firm under British ownership. Bad takeovers make headlines, but there are successes too. Carmaker Jaguar Land Rover, for example, "revived after it was bought by India's Tata Group" in 2008.

What next for takeovers?

Chinese interest in foreign acquisitions has fallen in recent years as Western regulators become more suspicious and Beijing clamps down on capital flight. The Cobham acquisition suggests the next wave of foreign takeovers is instead likely to come from US buyout firms. Loose monetary policy has prompted investors looking for a decent yield to pour funds into private equity. The result is that the value of leveraged buyouts hit \$256bn in the first six months of this year, says Refinitiv, the highest since the financial crisis. Expect more takeovers and more debates about whether it's worth protecting Britain's industrial base.

"In practice, the preferred approach is not to block deals, but to seek guarantees"

The yield curve finally inverts

The moment investors have been fearing arrived this week. But what is a yield curve and why does it matter?



John Stepek
Executive editor

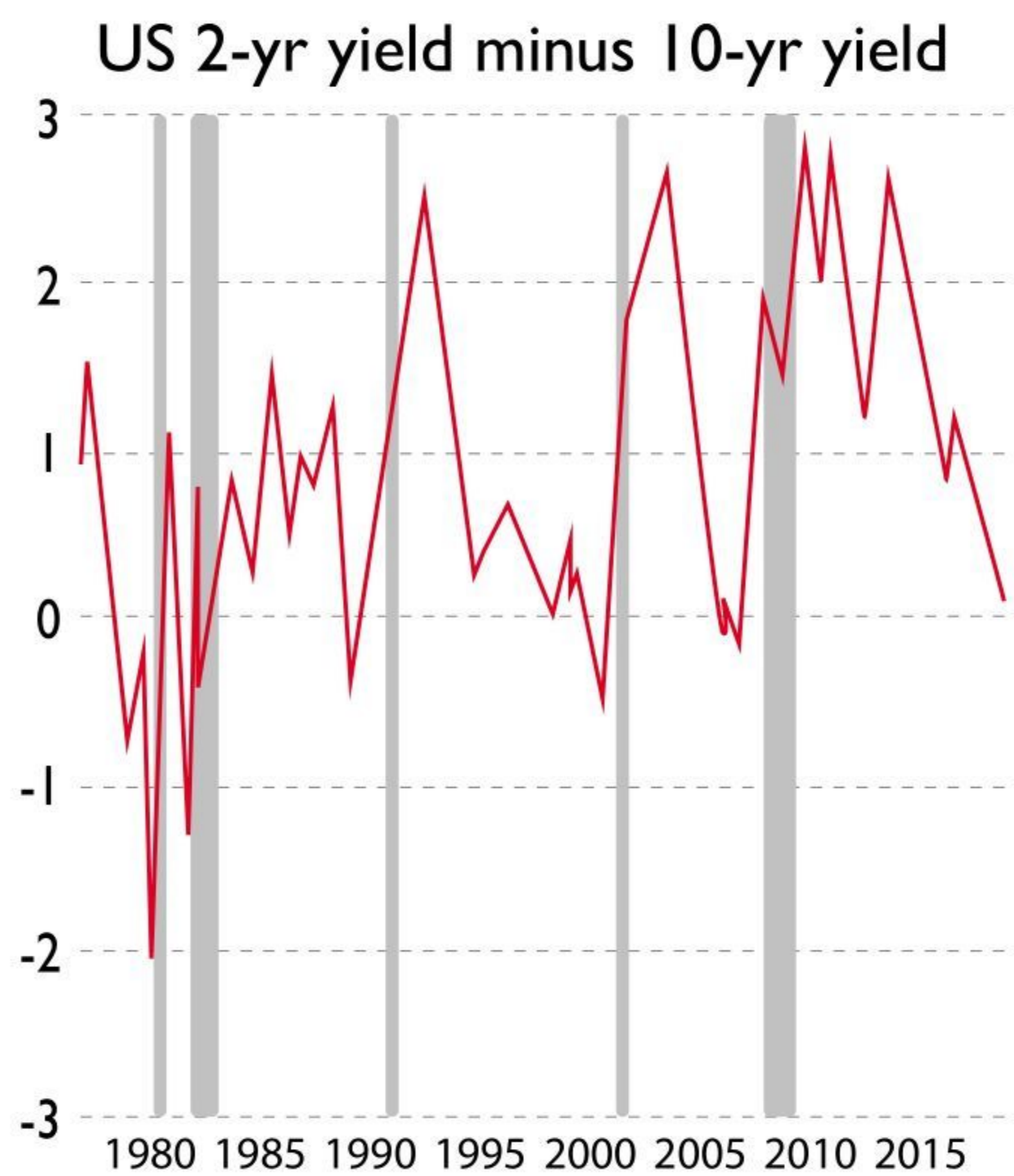
It's finally happened. One of the more reliable recession indicators has signalled that a downturn is on its way. Earlier this week, after years of hovering threateningly on the threshold, the US yield curve finally inverted.

First, let's explain what that actually means. A yield curve compares the yield on bonds (IOUs issued by governments or corporations) that have the same credit quality, but different maturities (the time remaining until the date that your capital is returned). A healthy yield curve slopes up from left to right – in other words, bonds with longer maturities yield more than shorter-term ones. That makes sense – for most of us, most of the time, money today should be worth more than the same amount of money in a year's time. So we expect to get paid for waiting.

As the yield curve “flattens” – that is to say, the gap between the yield on long-term debt and that on short-term gets smaller – it indicates that investors are more hesitant about future prospects. It suggests markets expect future rates to be little changed from current ones, which implies in turn that growth will be mediocre, and incapable of driving inflation and therefore interest rates higher.

Finally, when the curve inverts – namely, longer-term yields are below shorter-term ones – it implies that investors are very pessimistic. They are happy to lock in long-term yields today, because they expect them to be even lower in the future, which suggests they expect low inflation, or even deflation, which tends to go hand in hand with recessions.

In the US, the yield curve between the three-month and the ten-year US Treasury inverted



some time ago. But the big news this week is that the curve between the two-year and the ten-year has also inverted. Why does that matter? Because the same thing has happened prior to every single one of the last seven US

“It’s hard to see any reason to dismiss this gloomy signal”

recessions, with recession following inversion within 24 months. There has only been one “false positive” in that time – the curve inverted in summer 1998. At that point, the Federal Reserve under Alan Greenspan undertook a series of cuts and a recession didn't take place until March 2001.

On this occasion, it may not be so easy. The Fed cut rates last month, but the market deemed it insufficient. Unless we see more drastic action, it's hard to see any reason to dismiss this signal. That said, note that stocks tend to continue to rise for some months after the curve initially inverts – Credit Suisse reckons that since 1978 US stocks have typically risen for an average of about 18 months after the initial inversion. But it's another good reason to be wary of this overvalued market. (See also page 24.)

Guru watch

Howard Marks,
founder,
Oaktree
Capital
Management



“I don't think the stockmarket is delirious,” distressed debt investor and author Howard Marks tells Dan Weil of The Wall Street Journal. “Valuations aren't terribly high.” And even though the US is now well into its “longest recovery on record”, it's also been “the slowest since World War II. That suggests not so many excesses have built up”.

But when it comes to debt, and government spending in particular, Marks is less sanguine. “It's worrisome that the government is applying



stimulus in the 11th year of economic recovery, running a massive deficit and adding so much to the national debt, yet no one seems to be worried.” That's not to say that something bad will definitely happen, but overspending can have consequences, notes Marks.

Running a budget deficit in order “to build a port or bridge” with a high “internal rate of return” seems logical. But that's not where government spending tends to go. “If you look at societies running hyperinflation, you don't want to live in them. Large budget deficits can lead to that... I've always been told that you can't print an infinite amount of money without something going wrong.”

That said, for all the low interest rates and quantitative easing we've experienced so far, inflation has yet to jump. This, notes Marks, is “very mysterious... it makes me wonder whether the orthodoxy is wrong. As the saying goes, ‘It isn't what you don't know that gets you into trouble. It's what you know for sure that just isn't so.’”

I wish I knew what **duration** was, but I'm too embarrassed to ask

“Duration” is a measure of risk related to bonds. It describes how sensitive a given bond is to movements in interest rates. Think of the relationship between bond prices and interest rates as being like a seesaw: when one side (interest rates, for example) goes up, the other (in this case, bond prices) goes down.

Duration (which can be found in the fact sheet of most bond funds) tells you the likely percentage change in a bond's price in response to a one percentage point (100 basis points) change in interest rates. The higher the duration, the higher the “interest-rate risk” of the bond – that is, the larger the

change in price for any given change in interest rates. Duration also tells you how long (in years) it will take for you to recoup the price you paid for the bond in the form of income from its coupons (interest payments) and the return of the original capital.

So if a bond has a duration of ten years, that means you will have to hold on to it for ten years to recoup the original purchase price. It also indicates that a single percentage point rise in interest rates would cause the bond price to fall by 10% (while a single percentage point drop in interest rates would cause the bond price to rise by 10%).

As a rough guide, the duration of a bond increases along with maturity – so the longer a bond has to go until it repays its face value, the longer its duration. Also, the lower the yield on the bond, the higher its duration – the longer it takes for you to get paid back.

All else being equal, a high-duration bond is riskier (more volatile) than a low-duration bond. For zero-coupon bonds (bonds that don't pay any income at all), the duration is always the remaining time to the bond's maturity. For interest-paying bonds, duration is always less than its maturity (because you will have made back your original investment at some point before the maturity date).

Why German exports are falling

Project Fear failed to move us Brits, but it should really have put the wind up the Germans



Matthew Lynn
City columnist

For a long time, Germany has been an exporting powerhouse. Its brilliantly efficient factories churn out well-engineered, fantastically designed products that sell for premium prices around the world. Europe's largest economy is also the world's third-largest exporter and, at more than \$300bn annually, it also runs by far the world's largest trade surplus. Dominated by pharmaceuticals, medical equipment, machine tools and cars, it has few equals.

Brexit headwinds

That may be about to change. In May, seasonally adjusted exports were down by 1.1%. The figures for June, published last Friday, were expected to show a rebound, but instead they fell again, with another 0.1% decline over the month. Over the year as a whole, exports are now down 8%. There are lots of reasons for that. China is slowing and is no longer so dependent on German imports. The US is not buying as much as it was and many eurozone countries have weak consumer demand. But there is one other crucial factor: Brexit.

Germany's exports to the UK are especially weak. Overall, German exports to Britain are down 4% year on year, on Commerzbank's figures. A couple of years ago we were their third-biggest export market, but this year we have dropped to fifth, and we are still falling. "In April and May, German exporters sold almost as much to Austria as to the UK," noted investment bank ING dryly in an analysis of the latest figures. It hardly needed to add that Austria's population is just eight million compared with our 65 million. In truth, the British market is in free fall. According

to research from Deutsche Bank, pharmaceuticals has been the sector hardest hit, with exports from that industry down by 40%. Car exports are now down by more than 20%.

There are some short-term factors at work there. Sterling depreciated sharply after the referendum, and that made all exports from the eurozone less competitive. At the same time the British economy has been weakening and firms fearful of a no-deal exit have been postponing investment.

We've been Brexiting for years

But there is a bigger picture as well. Our trade flows with the eurozone have been declining rapidly for years now. From accounting for close on 60% of our trade, once imports and exports are combined, it is now down below 50%. It has been falling by a percentage point a year for more than a decade. Brexit has accelerated that.

Companies have understandably stepped up their efforts to find new markets and new sources of imports over the years we have been arguing about Brexit. And the areas where the UK has been strong in the last few years, such as technology, culture, business and legal services, and engineering, have all been a lot stronger outside Europe than within it. We sell less and less to countries such as Germany every year, and now we buy less and less from them as well. In many ways our vote to leave the EU was



Germany's industrial engine has stalled

simply a matter of the politics catching up with the economics – measured by trade, we had been leaving for years.

That doesn't matter hugely to the UK. We had a massive trade deficit with Europe, and with Germany in particular, so we have relatively little to lose if there is a further decline. By definition, it wasn't working very well for us, otherwise we would not have had such a big deficit. But it will matter to the countries where exports fall sharply. They were running big surpluses, and so jobs and company profits were all boosted by easy access to the British market. Once that is lost, it won't easily be replaced.

Germany will survive just fine, of course. It has plenty of great companies and lots of other major markets. The UK will still be one of them. But it is now clear that Germany will suffer significant damage. It is almost certainly too late now for Germany's government to change tack and try to engineer a softer Brexit. But as its economy suffers long-term damage, there may well be a reckoning for the leaders who failed to broker a compromise that worked for both sides.

Who's getting what

● Reckitt Benckiser's new CEO from next month, **Laxman Narasimhan**, is being greeted with a golden hello in the form of replacement shares and cash awards he forfeited when he left the top job at PepsiCo. His share award is worth £5.3m, but a maximum of 156,274 shares could vest if performance conditions are met in full, raising the value to £9.3m, based on Reckitt's current share price. His cash awards could rise from £2.3m to £4.6m. These both come on top of his £950,000 annual salary, of which 10% can be earned in pension allowance; a potential

bonus of 120% of salary; and a long-term incentive grant of 75,000 shares and 150,000 options, which are set to vest in 2022 and are based on performance.

● HSBC's outgoing boss, **John Flint**, will receive a £3.1m pay-off. He had been in the job for just 18 months, but the bank had grown frustrated with its lacklustre performance and pace of change, says The Times. Nevertheless, Flint has been designated a "good leaver" and he is therefore entitled to long-term incentive awards, including one for last year worth £3.8m.

● **John Pettigrew**, CEO of National Grid, was paid a £497,000 relocation allowance in 2016 when he took over at the top and moved to London, says The Sun on Sunday. His total pay for 2018/2019 is £4.562m, up from £3.648m the year before. His salary was up 6.4% at £944,000. Labour MP Chris Evans branded the pay package "a national disgrace" in light of the recent power cut that affected a million people. "There shouldn't be rewards for failure," he told the newspaper. "Questions need to be raised over the chief executive's pay and bonuses for next year."

Nice work if you can get it

"Members of the Royal Family have been paid hundreds of thousands of pounds to introduce contacts and give advice" to Dr Johnny Hon, a Hong Kong businessman, Glen Keogh reveals in the Daily Mail. **Zara Tindall** (pictured), the Queen's granddaughter, was paid £100,000 for a non-executive directorship at the Global Group of companies, owned by Hon. She was appointed to advise on horse racing for a sports investment arm. The Duchess of York was paid almost £300,000 from a firm chaired by Dr Hon, as well as a £72,000-a-year retainer for her non-executive directorship of his film-investment company in Hong Kong. Hon told the paper that the main role in the directorship was "to introduce a few people to me in Hong Kong".



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What is limp inflation concealing?

Editorial
The Economist

After the referendum, as sterling tumbled, some firms selling to the UK decided to shrink their products rather than raise prices, says The Economist. Remember Toblerone's disappearing peaks? But if Brexit made the phenomenon "more visible", the reality is that prices of consumer goods often don't move neatly according to supply and demand, but instead move "oddly". Firms such as H&M don't sell their thousands of products at thousands of different price points, but slot them into a dozen or so price points that rarely change. If market conditions change, instead of "tweaking the price", products are often redesigned to "fit the price". A consequence of this is that "inflation does not respond to economic conditions as much as it used to". Firms' aversion to increasing prices may be "as much a consequence of limp inflation as a contributor to it". When inflation is running at 5%, a 5.5% price hike doesn't deter consumers in the way that a 0.5% hike after years of no change might. Labour markets are affected, too. Low inflation means firms can't mask wage cuts; instead, they might axe holiday time or perks. In short, muted inflation figures may be concealing a "more turbulent economic picture".

Moonshot prices for mundanity

Peter Franklin
UnHerd

When the HS2 rail project was given the go-ahead in 2009, it had an initial price tag of £32bn, says Peter Franklin. This has since ballooned to an official budget of £56bn, though pessimists say that the final price tag could breach £100bn. For that kind of money, "you have to ask what we could have had instead". How about a Hyperloop? A Hyperloop is a Maglev train that is able to achieve extraordinary speeds of around 700mph because it travels in a tube from which most of the air has been sucked out. Hyperloop Transportation Technologies appears to be on the brink of building the first commercial project in the United Arab Emirates, allowing the 150km trip from Abu Dhabi to Dubai to be made 12 minutes. The cost is estimated at around \$20m-\$40m per kilometre. HS2 will cut the journey time between Birmingham to London by around 30 minutes – in 2026. According to my imperfect "back-of-a-fag packet calculation", a Hyperloop running the length of the 532km HS2 track would cost \$21.3bn. Hinkley Point C and the Heathrow expansion are other examples of the UK spending vast sums on "underwhelming technology". Why are we "paying moonshot prices for mundane results"?

Launch the US "green deal" in Asia

Christopher Balding
Nikkei Asian Review

As the US presidential campaign begins in earnest, Congress remains fractured between progressive Democrats pushing their "Green New Deal" and Republicans advocating more security spending to "address rising Chinese power", says Christopher Balding. "Imagine if the two agendas were merged," with a Development Green New Deal supporting projects to curb carbon emissions in Asia and Africa, where China happens to be pouring in resources to build infrastructure under its Belt and Road Initiative. As it stands the Green New Deal, costed at around \$10trn, would have "far less impact" on global CO2 emissions than comparable spending in Asia. While US emissions have been falling between 2005 and 2016, globally they have risen 59%, largely because Asia is experiencing much faster economic growth and relying heavily on coal power. At the same time much of Asia and Africa not only have plenty of sun and wind, but also have barely extant energy grids. A Development Green New Deal could move "development in a climate-friendly direction", while addressing bipartisan concerns about rising Chinese influence in the region by allowing the US to nurture its own relationships. "A win-win result."

The rise of the alienated servant class

Derek Thompson
The Atlantic

In an age of high inequality, work catering to the "whims of the wealthy" has become one of the fastest-growing industries, says Derek Thompson. This is ostensibly good news: as manufacturing jobs have declined, service jobs are a vital source of work for those without a college degree. They are disproportionately carried out by women and immigrants. However, such employment can be exploitative. Take the example of full-time staff in New York nail salons, which employ workers who have to endure long commutes from cheaper neighbourhoods and are "notorious" for flouting labour regulations. Then there is the "Uber for X" economy, the "nebulous network of people contracted through online marketplaces". Here, the business models rely on the "strategic avoidance" of laws that regulate minimum wages and overtime. Whereas the nannies, house cleaners and cooks of the past had "little to no recourse" to the law, they were at least integrated into family life. While many contractors will, of course, relish the autonomy (and perhaps anonymity) of these apps, the ultimate price is "broader alienation". There is something "queasy" about the emergence of this "new underclass of urban servants".

Money talks

"Money, career and art are the three reasons to do a job, and if you can get two out of three you should do the job."



It's quite a good formula."

Actor David Tennant (pictured) on his career approach, quoted in The Sunday Times

"Try to get what you want and then want what you actually get."

Actor and writer Alan Alda, quoted in the Financial Times magazine

"You don't measure success by what sells or how much you have. I measure it by my enjoyment of the process. The rest is just part of the game."

Musician Lenny Kravitz, quoted in The Times

"The people who tell you not to worry about money have clearly always had it."

Best-selling crime writer Mark Billingham, quoted in The Times

"I've spent my entire life wanting to be successful, trying to get away from hardship, or from seeing my Mum sad."

Musician Sam Fender, quoted in The Observer

"I've been doing voice-overs for the TV and radio ads for the *Now That's What I Call Music!* series of compilation albums ever since *Now 21!* in the early 1990s. I've done 81 of them. That's been pretty lucrative – so much so that I jokingly called it *Now That's What I Call School Fees.*"

Radio DJ Mark Goodier on his most profitable work, quoted in The Sunday Times

"As her mother, I will always worry about whether she is earning enough to pay her bills, but it brings me joy to see her so happy and doing so well."

TV chef and writer Lorraine Pascale on her daughter Ella Balinska, who is about to appear in the *Charlie's Angels* reboot, quoted in the Mail on Sunday

©Getty Images

Beware the tech utopians

project-syndicate.org

The application of the scientific method to social problems has paid “huge dividends”, says Daron Acemoglu. Medical and technological innovations, for example, have made our lives more comfortable than they were. But history is also replete with disasters caused by “the power of science and the zeal to improve the human condition”. Efforts to scientifically boost agricultural yields in the context of collectivisation in the Soviet Union, for example, led to mass starvation. Enthusiasts for digital technologies may be making the same mistake.

There’s no doubt that such technologies have transformed how we communicate, work, shop, learn and entertain ourselves. And there is more to come – artificial intelligence, Big Data and the “internet of things” could transform healthcare, energy, transportation, agriculture, the natural environment, and even our bodies and minds. But there are dangers.

The problems around social media are a perfect example of what can happen when digital entrepreneurs and corporations “move fast and break things” with no regard for social context

and evolved behaviours. “The rich and variegated patterns of communication that exist offline” have been replaced by “standardised and limited modes of communication” on platforms such as Twitter and Facebook, for example. As a result, the “nuance of face-to-face communication and of news mediated by trusted outlets have been obliterated”. The intention no doubt was to connect people, but the result is “a morass of propaganda, disinformation, hate speech and bullying”.

Putting tech in its place

There are two forces that can constrain technology to ensure that it serves and empowers rather than enslaves us. The first is the market. The success of today’s technologies depends on decisions made by consumers and businesses around the world, rather than the plans of authoritarian states. That constrains the harm they can do. But the market constraint must also be “bolstered” by

democratic politics. Every state has a proper role to play in the economy and democratic politics drives the demand for regulation. Consumers, workers, and citizens should be more aware of the threat from technology, “for we are the only ones who can stop it”.



How to nurture family firms

weforum.org

In my home region of the Middle East, family businesses play an outsized role in the economy, accounting for more than three-quarters of private-sector jobs, says Hassan Jameel. Family firms are therefore key to growth. Yet they face particular challenges. The natural bond between family members gives them a commitment to long-term strategic thinking and shared values that is hard to replicate in other corporate environments. That same advantage can, however, give rise to low transparency and poor treatment of investors, partners and employees from outside the family. It is essential to find a balance, gradually shifting company culture from the kitchen-table planning appropriate for start-ups to the boardroom approach of big companies. As firms grow, families must also learn to let go of old ways and hand over power and responsibilities to the younger generation. Succession planning is essential for seniors who want to ensure their values and guiding principles endure, yet a survey by PwC this year showed that 69% of family businesses in the Middle East (and 85% globally) have no formal succession plan in place. “Nurturing the next generation of leaders in a family business is, unsurprisingly, a delicate mix of good corporate practice and good parenting.”

Five enemies of clear thinking

hbr.org

We make about 2,000 decisions every waking hour, and what we decide determines our reality, says Mike Erwin. Avoid the following enemies of good decision making and you’ll improve your health, relationships and how you spend your time at work.

Decision fatigue. Mental energy is not infinite. Make the biggest decisions while fresh.

Distraction. Technology

puts us in a state of continuous distraction. Make time to unplug from the internet.

Multi-tasking. Modern work life demands it, but it’s better to kill one bird with one stone. When it comes to important



decisions, focus deeply on the task at hand.

Emotions. Speak when angry and you’ll make the best speech you’ll ever regret. Develop self-control. Walk away when you’re keyed up and return to the task at hand when you’re calm.

Analysis paralysis. Technology has gifted us an abundance of information, but it’s easy to feel overwhelmed. Usually what you need is not more time or new information, but to review the pertinent information at hand, set a deadline for making a decision, and then stick to it.

Don’t just give voters what they want

stumblingandmumbling.typepad.com

What explains the level of support for a no-deal Brexit, given that it is in no one’s interest? It’s a matter of identity, says Chris Dillow. Consider the level of support for Jeremy Corbyn among the young. This is not because younger people are inherently more leftist – in the 1987 general election the Tories had a big lead among them. What changed? Home ownership. There’s a reason Thatcher was keen on it. Perhaps an analogous thing is going on among the older, wealthier people who favour no-deal. Retirement changes one’s self-identity. If you “no longer spend your days worrying about suppliers or customers, then the salience of economic interests declines”. This “gap can be filled by nationalism”.

Such identities do not arise automatically, but are “created by political processes”. This is one reason why the idea of politics as “giving people what they want” is “deeply flawed”. A big part of politics lies in “not just responding to preferences, but in shaping them”. Thatcher and Lenin knew this – too many of their epigones don’t.

Bag a Brexit bargain

UK commercial property stocks look unreasonably cheap, says Max King



Max King
Investment columnist

The malaise affecting domestically orientated UK stocks has hit the property sector hard. While the All Share index returned 1% over one year to the end of July and 27% over three, the FTSE Real Estate sector's returns were -10.6% and 4.5% respectively. Some of this reflects the well-known problems of the retail sector; historic overexpansion, excessive rents, business rates, online competition, and the use of creditor voluntary arrangements (CVAs) by distressed retailers to cut their rental costs and break contracts. However, says Marcus Phayre-Mudge, manager of TR Property Investment Trust (LSE: TRY), share prices have recently been hit "by an additional level of Brexit risk", especially as "the market has finally woken up to the real possibility of no-deal".

It's not as bad as it looks

Yet, notes Phayre-Mudge, "there have been no areas of oversupply for commercial property. Investment volumes in the City are at ten-year highs, with the occupational market, especially the technology and media sectors, happy to pay up for quality office space". London office rents overall are falling, but this could



UK property stocks have been hit too hard

be temporary as investment decisions are postponed.

"Meanwhile, we are utterly

"The market has detached itself from rational valuation"

confident of the industrial, logistics, healthcare, student accommodation and self-storage sectors."

TR's portfolio has returned 3% over one year and 28% over three. Much of this is due to 62% of the fund being invested in Europe and only 38% in the UK (of which 7% is in directly held property). European stocks have returned 60% in sterling in the last three years, helped by steady growth and low interest rates. Employment growth is pushing up office rentals in

all major European cities by "high single-digit percentages", while only 10% of retail sales in Europe are online compared with 20% in the UK. Retail rents are also lower, so property values have held up much better. The German housing market has been hit by a rent freeze proposed by the Berlin state government, but "there is very little contagion to the rest of Germany". Phayre-Mudge also thinks the proposal may be overruled as unconstitutional and that it is discounted in any case in the share prices of his favoured stocks, LEG Immobilien (Xetra: LEG) and Vonovia (Xetra: VNA).

Meanwhile, low rates in both the UK and Europe have

"been a positive factor overall". He remains confident on the outlook; in the UK, "the market has detached itself from a rational valuation and it looks hard for share prices... to drop further, even if the physical market gets worse". Shares in the trust trade just above net asset value (NAV – the value of the underlying portfolio), yield more than 3%, and look an excellent long-term core holding, with a built-in hedge against lower sterling, both from its European investments and from the benefit to UK firms – especially in London – from a weaker currency.

UK stocks for the bold

More adventurous investors may prefer to cherry-pick some of the underlying UK stocks, all of which are long-term favourites of Phayre-Mudge. **Land Securities (LSE: LAND)**, with 35% exposure to retail, trades at a 42% discount to NAV and yields nearly 6%, yet has debt at only 20% of portfolio value. The high-quality Central London office property firms **Great Portland Estates (LSE: GPOR)** and **Derwent London (LSE: DLN)** both trade on discounts to NAV of 23%, though their assets haven't fallen in value. **Shaftesbury (LSE: SHB)**, which owns retail and leisure "villages" in central London, has dropped to a discount of 25%, although it is a prime beneficiary of the tourism encouraged by lower sterling.

Activist watch

This week, troubled enterprise software provider Cloudera reached a deal with billionaire investor Carl Icahn to put two of his representatives on its board. Icahn announced that he had acquired a 12.6% stake in the group at the end of last month. However, as The Wall Street Journal points out, despite this early victory, the activist has his work cut out for him. In June, Cloudera's share price slid "after a disastrous quarterly report". The company warned of increasing competition from the likes of Amazon and Google, and said that it "expects to burn cash for the current fiscal year". Meanwhile, its chief executive Tom Reilly unexpectedly said he was stepping down. "Icahn may need a long while to make rain from this cloud."

Short positions... Woodford's kennel club

■ The latest "Spot the Dog" report is out from Bestinvest. Every six months the online broker looks at funds that have been consistently poor investments – to end up in the doghouse, a fund must have failed to beat its benchmark for three years in a row, and by more than 5% over the period as a whole. This time, 59 funds, with a total of £32.6bn of investors' assets under management, made the list.

Investors may not be surprised to learn that the worst-performing fund of the past three years turns out to have been Neil Woodford's Equity Income Fund, which is currently "gated" (ie, investors can't put money in, or more importantly, remove it). The fund missed its benchmark by 38% in the three years to the end of June. Other funds with links to Woodford that make the list include St James's Place UK High Income fund (which Woodford managed until he was fired by St James's in June), and Invesco High Income, which Woodford ran until 2013.



■ Investors in fund group Vanguard's largest sustainable exchange-traded fund (ETF) – the Vanguard US ESG Stock ETF – ended up owning shares in gunmaker Sturm Ruger & Co for just over a month, says Bloomberg. The stock was mistakenly included during a June rebalancing of the underlying FTSE Russell US All Cap Choice index, which is meant to screen out companies involved in "vice" industries, such as alcohol, gambling, tobacco and weapons manufacturing. Vanguard apologised to shareholders and the mistake has been corrected.

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What DIY builders need to know

Many of us dream of building our own homes – but how do you go about it?

Chris Menon
Property writer

Whether it's frustration with the high price of poor-quality identikit rabbit hutches, or simply the desire to have a unique home, many of us have dreamed of building our own properties. But while it can be both satisfying and profitable (self-build mortgage broker BuildStore reckons the average self-built house is worth about 25% more than it costs to construct, dependent on location), it's not a decision to take lightly – it requires plenty of planning, resilience and finance.

The practicalities

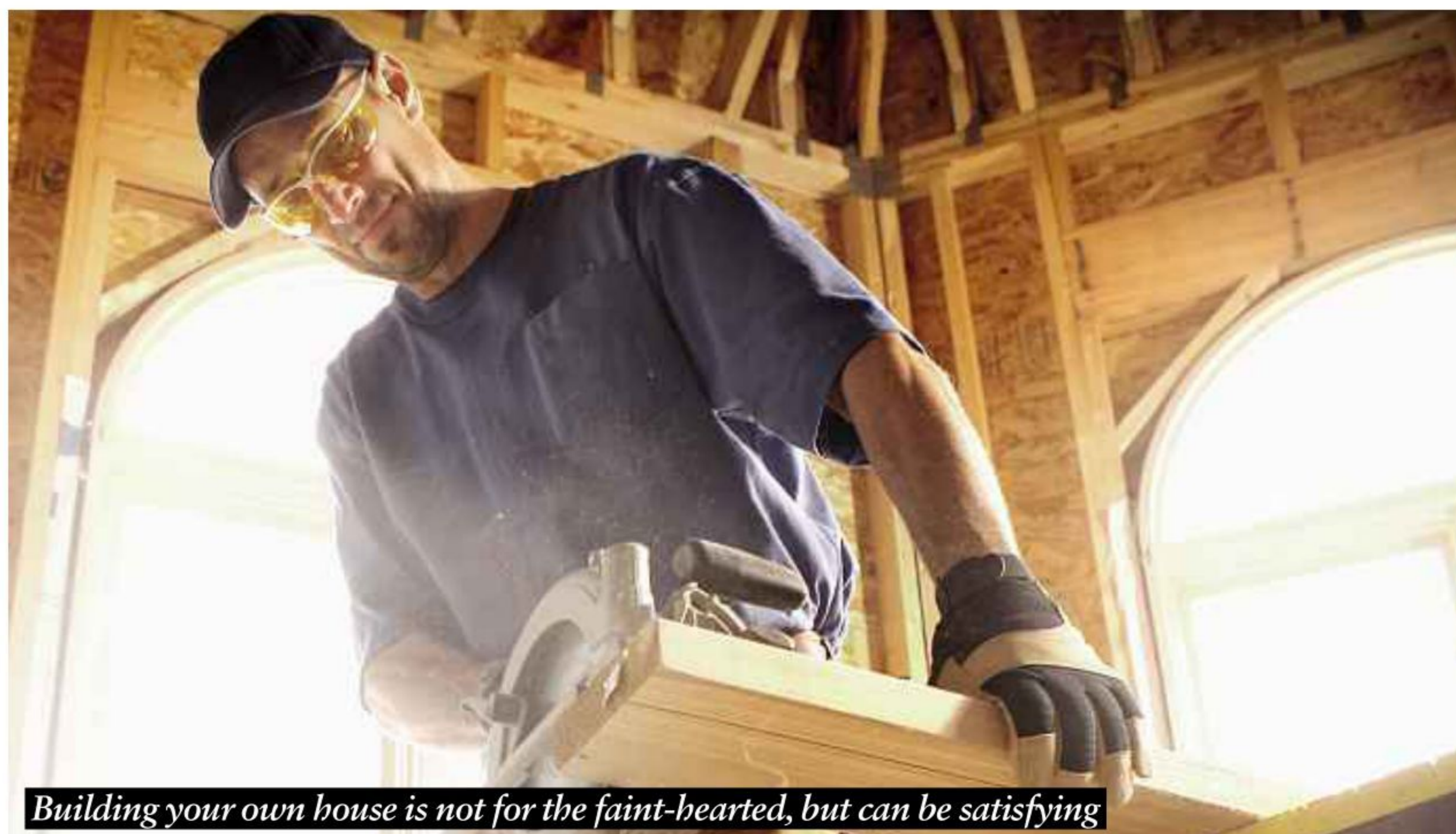
First, figure out your budget, your likely costs and location. When doing your sums, factor in a contingency of at least 10% for overspends. Once you've identified an area you'd like to build in, speak to the local planning department to get an idea of the types of developments and applications they would support, consider, or point-blank refuse – it will save you a lot of time.

Finding a suitable plot can be a long and arduous process, but there are database providers to make the search easier (PlotSearch, PlotFinder and PlotBrowser). You can also contact local councils, estate agents, farmers, landowners and generally network. Auctions are another option.

And get to know your neighbours. Obtaining planning permission can take a lot of time and they are the ones who are most likely to make or break your plans. So discuss any issues they might have in advance. Use a local architect if possible – they will know the local planning team and understand which features are favoured and discouraged, which should boost your odds of approval.

Paying for it all

Unless you're able to fund the project from savings, you'll have to borrow the money. There are various funding options, depending on your plans for the property. If you want to live in it yourself, you'll be eligible for a self-build mortgage, assuming that you plan to live there for at least three



Building your own house is not for the faint-hearted, but can be satisfying

years. Rates are currently around 4%-6% a year, for a two-year loan. This is significantly higher than a conventional loan due to the perceived risk to the lender.

Self-build mortgages differ from normal mortgages in that you plan in stages and draw down the money at specific milestones. In other respects they are very

“Make sure you get to know your neighbours – they can make or break your plans”

similar to a normal mortgage, and are based on the ability of the borrower to repay. Most lenders will require at least

outline planning permission to start the application process, and detailed planning permission before the mortgage is released.

There are two types of self-build mortgage: the arrears type, where payments are given as each stage of the build is reached; and the advance type, where payments are released at the start of each stage. The latter is better for cash-flow purposes, enabling you to draw down funds as needed to pay for labour and materials. As a general rule, you may be able to borrow up to 75% of your project costs, with lending multiples of 4.5 to five times income, based on costs and outgoings. That said, BuildStore offers a range of cost-based advance-stage mortgages that allow you to get your build under way with as little as 5% for a deposit. With a cost-based mortgage your payments are guaranteed on your project costs, irrespective of any property

valuation carried out by the lender. Some small building societies also specialise in this niche. Ones worth contacting include Saffron Building Society and Ecology Building Society.

What if you plan to let it out?

If you are planning to let the property out instead, then you'll need a short-term development loan secured against the project, or a bridging loan against an existing property. Development loans aren't income based, although a lender will check affordability. Rates differ widely across the market, influenced by the experience of the developer; the loan amount; the site location; and the ratio of the loan to gross development value; but are typically from 5%-9% a year.

Alternatively, if your existing house is unencumbered and has sufficient equity in it, you could raise 100% of your build costs with a bridging loan. This lets you buy your plot and carry out the building works, after which the loan and any outstanding mortgage can be repaid. Bridging rates typically start at 0.44% a month, based on a loan-to-value of 55%.

The build itself

A good builder can project manage and bring in all the trades. While this will add 10% to your costs, it should avoid any nasty surprises. If you're not paying for a project manager you need to be available on site to make quick decisions and ensure everything is going to plan. If you're building from scratch you'll also need to connect to services (gas, mains water, electricity) and this should be factored in as it can cost tens of thousands of pounds.

Get a structural engineer's advice early on in the build as this can save you money. The relationship with building control should also be nurtured, as your local building control office is there to help rather than catch you out, and can share a lot of valuable knowledge.

Save tax by building your own house

There is no stamp duty to pay on building costs or the value of your house once the work is done. You only have to pay duty on the cost of the plot itself if the cost is above £125,000.

Self-builders can also claim back most of the VAT

paid out on the build. The arrangements for reclaiming are set out in VAT notice 431NB, "Refunds for DIY housebuilders". You can also apply for exemption from the community infrastructure levy.

Lastly, don't forget to get a structural warranty to insure your build for defects for ten years from completion. Most lenders will insist you get one from a recognised source, such as the Local Authority Building Control.

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How the shadow economy moves markets

Exchanges taking place under the official radar may seem harmless, but they can have big effects on the wider economy. Investors should pay attention, says Jonathan Compton

A family lunch on the terrace at a mahogany table with fresh fish and excellent wine. In the distance a combine harvester gathers in the crop, while nearby the gardener, window cleaner and maid bustle about; the carers look after my old father and the nannies take care of my grandchildren. There is new tarmac on the drive, a new lick of paint on the outbuildings and our eggs and vegetables are selling well. The feeling of well-being is greatly enhanced knowing that every activity, payment or sale is outside of the recorded economy, a huge financial saving. Sadly, this scenario is just a dream, but it demonstrates the ubiquity of the “shadow economy”.

The shadow, grey, unofficial, or black market has many other names and more definitions, but a useful description is any economic activity that takes place outside government-sanctioned channels, usually to allow participants to avoid government regulations, price controls, tax and reporting. Economists bicker over what to include, but like an elephant it’s usually easy to recognise even if you struggle to define it.

All governments take the moral high ground when mobilising their forces against black markets, by emphasising the genuinely undesirable economic consequences (not to mention humanitarian costs). These consequences include the loss of revenue to fund public services – children’s healthcare is the standard emotive headline, along with education and the police. Then there are the obvious dangers of the vast market in illegal car and aeroplane parts; the devastating effects of illegal logging; the risks of poorly-manufactured pharmaceuticals, be they of the medicinal variety or insanely toxic recreational drugs. These shadow markets also punish the honest. No business can compete against those that fail to pay their property, sales and other taxes – or their staff – so there is a genuine economic cost. Yet such campaigns evade three issues: we all like to make use of such markets (tips to the waiter, or paying cleaners or gardeners); governments themselves are often the cause of their existence; and often they can be a real public good.

The world’s darkest markets

Who are the big players? Their very nature means that calculating the size of illegal or underground activities has to contain a lot of guesswork. Not that this has stopped bodies such as the IMF or EU producing data accurate to many dubious decimal points. Still, the models used to estimate black-market activity suggest that GDP in Latin America is between 30% and 50% larger than the official data would suggest (Chile is the standout good guy with activity at around 12%). In Africa it varies from 40% to more than 60% across the continent (in Nigeria, Tanzania and Zimbabwe it may even be close to the same size as the official economy). In Asia it’s no surprise that Thailand and Myanmar are the “winners” (though the relatively low

“The black economy can be a force for development and growth. It improves efficiency”



The more widespread this kind of thing, the lower the multiple estimates given for India, Pakistan and China tell me, from my first-hand experience, that this is a fairy tale).

In the more advanced countries, again the guesses are mostly what you would expect. In Switzerland and Austria the shadow economies are about 8% and 9% of GDP respectively. Japan, Australia and the UK are pretty good at between 10% and 12%; the obviously crooked regimes in Turkey, Romania and Bulgaria are at more than 30%. The US is reckoned to be the squeakiest-clean country in the world at around 7%.

To market participants, such numbers matter. Every day investors and traders pore over official data such as economic growth or retail sales and react accordingly. But if the black market is as large as it seems to be in most countries – and don’t forget such numbers do not include a host of unrecorded but semi-lawful activities such as car-boot sales, farmers’ markets, or booze runs to Calais – the true numbers might prove quite the reverse, so at best they are flying partially sighted.

An interesting exception to expectations is Scandinavia, which ranks behind the less sanctimonious UK, France, or Germany. One major reason is alcohol, which demonstrates how governments often cause black markets to arise. Finland and Sweden have strict rules on purchasing alcohol and it is highly taxed. As a result, it is normal and socially acceptable to distil at home, or to smuggle. This is not the only way in which governments stimulate black markets. Research provides consistent reasons for their emergence. Most important is the quality and incorruptibility of institutions, from legal systems to administration and tax collection. Greece is a great example: after the 2008 crash it emerged that every dentist was in the bottom tax band, yet relative



“When the economy weakens, the black market picks up the slack. Every downturn sees the shadow economy boom”

This is statistical hokum. I would not pretend that their employment markets are easy, but ask any young waiter, driver, or messenger if they are officially employed. No. Bad employment laws and bureaucracy mean they are on the payroll, but off the data. This is no bad thing as in this segment of the black market around 75% of all illegal earnings flows into the official, thus taxable, economy within weeks; otherwise, the GDP numbers would be much lower.

Where governments are particularly dim is in the use of price controls. Price controls force activity underground. Housing is a good example. Fixed rents and controls inevitably result in people gaming the system. This has long been the case in France, especially in Paris, in Sweden, and in many otherwise sensible countries. Berlin is about to introduce them as a knee-jerk reaction to the perceived problem of high rents. In Europe, including the UK, playing the fixed-rent social housing market is a popular sport, subletting the property at a higher price. Not surprisingly, governments tend to understate this problem.

A force for good

Controversially, perhaps, the black economy can also be a force for modernisation, development and growth. It improves efficiency. Mobile-phone companies in the developing world, for example, tended to be monopolies and would thus gouge their customers. I recall hearing one emerging-market entrepreneur boasting that with his telephone monopoly he could charge \$1,000 per analogue handset (more than a quarter of then average annual income) when far better digital versions could be bought overseas for \$250. The black market filled demand and he lost. The black economy can be a highly efficient provider of goods, services and necessities at an affordable price when governments fumble.

In the UK it is a sign of success that on all measures we rank as very clean, but we also rank poorly in terms of knowing how many people live and work here, so this ranking may overstate the true position. Government data, for example, tells us the number of children by area, which determines how much schools get. Application numbers show a wildly different figure. We have blundered into obvious traps too. Since 2008, successive chancellors have clung to the “alcohol escalator”, whereby duties rise at a higher rate than inflation. Revenue take was far below projections while imports of alcohol from France for “personal use” doubled. So too for cigarettes. Gambling was another blunder. Higher taxes than punters thought fair made Gibraltar boom as they moved offshore (and again revenue take fell). Gambling taxes had to be cut. The message is that consumers everywhere will turn to black markets if prices or taxes are perceived as unreasonable; hence they act as a hidden check on government policy.

Does this matter for stockmarkets? Yes, but it’s hard to prove. Thirty years ago I noticed that Thailand’s market returns correlated well to CIA opium-crop estimates. Illegal money was being recycled. More mainstream, perhaps, is the observation that while small black markets can have a useful purpose, larger ones reflect serious problems. As a simple rule of thumb, the more widespread the shadow economy, the lower the market multiple. Cleaner countries attract proportionately more investment, meaning higher employment, capital expenditure, tax receipts and returns for investors. Investors in countries with gargantuan black economies (say more than 20% of GDP) see their profits and dividends clipped by pay offs and kickbacks. Thus when you are told that “frontier” markets, such as those of Greece, eastern Europe or Thailand, are “cheap”, take five minutes to consider the black market. They may be cheap because the rampant unofficial economy has reached a tipping point.

to average income they are among the highest paid in Europe. Two-thirds of all Greek MPs had illegal offshore bank accounts. It’s little surprise that the Greek population considers paying tax to be voluntary.

Countries with high inflation, weak currencies and large current-account deficits always have giant black markets – think Venezuela, Zimbabwe, or Pakistan. Import or export controls, and thus shortages, cause a logical reaction among consumers: they buy the product on the black market. One of the main reasons for the collapse of the USSR was its basic failure to satisfy simple desires – for bread, music and blue jeans – so the entire population moved to the illegal economy.

A perhaps more arcane reason for the rise of black markets is a pegged currency. One whose exchange rate is fixed to, say, the dollar at an unrealistic rate will always fire up the unofficial economy. Long ago I visited Myanmar when the official exchange rate was a sixth of the real rate as reflected by the black market. The proceeds from selling 400 cigarettes and two bottles of Johnny Walker on the black market paid for the entire trip. Up to the 1990s, China’s currency was widely mistrusted – not least because it had disappeared four times in a century. Owning gold was illegal, yet gold trading was rampant.

Another stimulant to black markets is recession. When the regulated economy weakens, or even fails, the black market has a vital role to play in picking up the slack. Every cyclical downturn sees the shadow economy boom. If you believe the official data then youth unemployment across Europe remains stubbornly high a decade after the financial crash, at more than 40% in Greece, 30% in Spain and Italy, 20% in France and 16% across the euro area.

Navigating the weird world of negative interest rates

Investors are paying good money to be allowed to lend to governments across the world. What on earth is going on, and what does it mean for your money? John Stepek reports



What if your bank was to offer you a ten-year fixed-rate mortgage on which you had to pay absolutely no interest? Better still, at the end of the ten-year term, you'd find that you had repaid less than you actually borrowed in the first place. Sounds like a dream, doesn't it? But if you live in Denmark, it's a reality. Jyske Bank, the third-largest bank in Denmark, is now offering a ten-year deal at a rate of -0.5% a year. Meanwhile, Nordea Bank is offering 20-year deals at 0% (ie, interest free), while borrowers can already get 30-year deals at 0.5%. Of course, the flipside is that savers get 0% interest, or in some cases are charged for leaving their money in the bank (Swiss bank UBS is planning to introduce a 0.6% annual charge on deposits above €500,000).

Welcome to the whacky world of negative interest rates. Across the globe, around \$15trn-worth of government debt now trades on negative yields – in other words, debtors get paid to borrow, rather than the other way around. Negative rates have been most obvious in Japan and the eurozone. Unlike in the UK and the US, central banks in these countries have set negative base rates. The European Central Bank rate is -0.4%, while in Japan the rate is -0.1%. In Denmark, Switzerland and Sweden, rates are even lower. Yet even in the US and the UK, bond yields are close to, or at, fresh record lows and Joachim Fels of US bond giant PIMCO recently argued that investors should be prepared to see negative rates in the US too, should the Fed be forced to restart quantitative easing.

Are bonds in a bubble?

So what's going on here? The most straightforward answer is that this is nothing more than a bubble. An unusual bubble, to be sure – it's strange that an asset as dull and as sensible as a government bond should be the subject of market mania – but a bubble nonetheless. As John Authers reports on Bloomberg, Chris Watling of Longview Economics has analysed bond prices using the four criteria for defining a

bubble outlined by economist Charles Kindleberger in his 1978 classic *Manias, Panics and Crashes*. Firstly, you need a ready supply of cheap money – we have that. Secondly, debt is taken on during the process of the bubble inflating – you can certainly argue that central bank money printing counts as “debt” for these purposes. Thirdly, you need extreme valuations. As if negative yields weren't extreme enough, Watling points out that the yield on both long-term Swiss and Swedish bonds has never been lower going all the way back to 1870, while it's a similar story for long-term UK government debt going back to 1700.

It's also clear that prices have gone up in the “parabolic” manner you'd associate with bubble valuations. They might be viewed as a sober-minded, boring bunch compared with equity investors, but bond investors have made a lot of money by betting on ever-lower yields. When Austria issued 100-year debt with a yield of just over 2% back in summer 2017, people wondered who would buy it. As it turns out, in 2019 so far, that bond has made a capital gain of more than 60% as the yield has toppled (bond prices move inversely to yields). Meanwhile, German 30-year bunds have made nearly 30%, and UK 50-year gilts are on around 20%, notes Tommy Stubbington in the *Financial Times*. While many bonds are bought by pension funds (who need to match long-term liabilities with long-term assets), the Austrian bond “was an exception, with asset managers accounting for nearly two-thirds of orders, suggesting that many buyers were using the bond to take an outside bet on lower rates”. In other words, prices have been driven higher – at least in part – by pure speculation.

Finally, as was the case in the tech bubble, people are dreaming up all sorts of “new normal” explanations to justify negative yields. Some ask why savers should be compensated for taking no risks, and argue that it makes sense for bond holders to effectively be charged to park their money with governments. This makes sense on the surface, but

What to hold in a negative-yield world

No doubt you're thinking: where can I get a negative interest-rate mortgage? Unfortunately for homeowners, the UK is not quite at that stage (yet). However, it's probably worth turning to page 26 to check whether you are getting the best rate on your cash savings – you won't get a “real” return with UK inflation currently sitting at 2.1%, but you can certainly improve on the sub-1% seen on many accounts.

As for what to invest in – if we end up in the deflationary collapse scenario, then the obvious answers include more government bonds.

The trouble is, as James Ferguson points out, a lot of this is in the price. “The extreme consensus today seems particularly vulnerable to a change in inflation expectations, which, with wage growth and gold prices both growing, look particularly exposed to oil prices.”

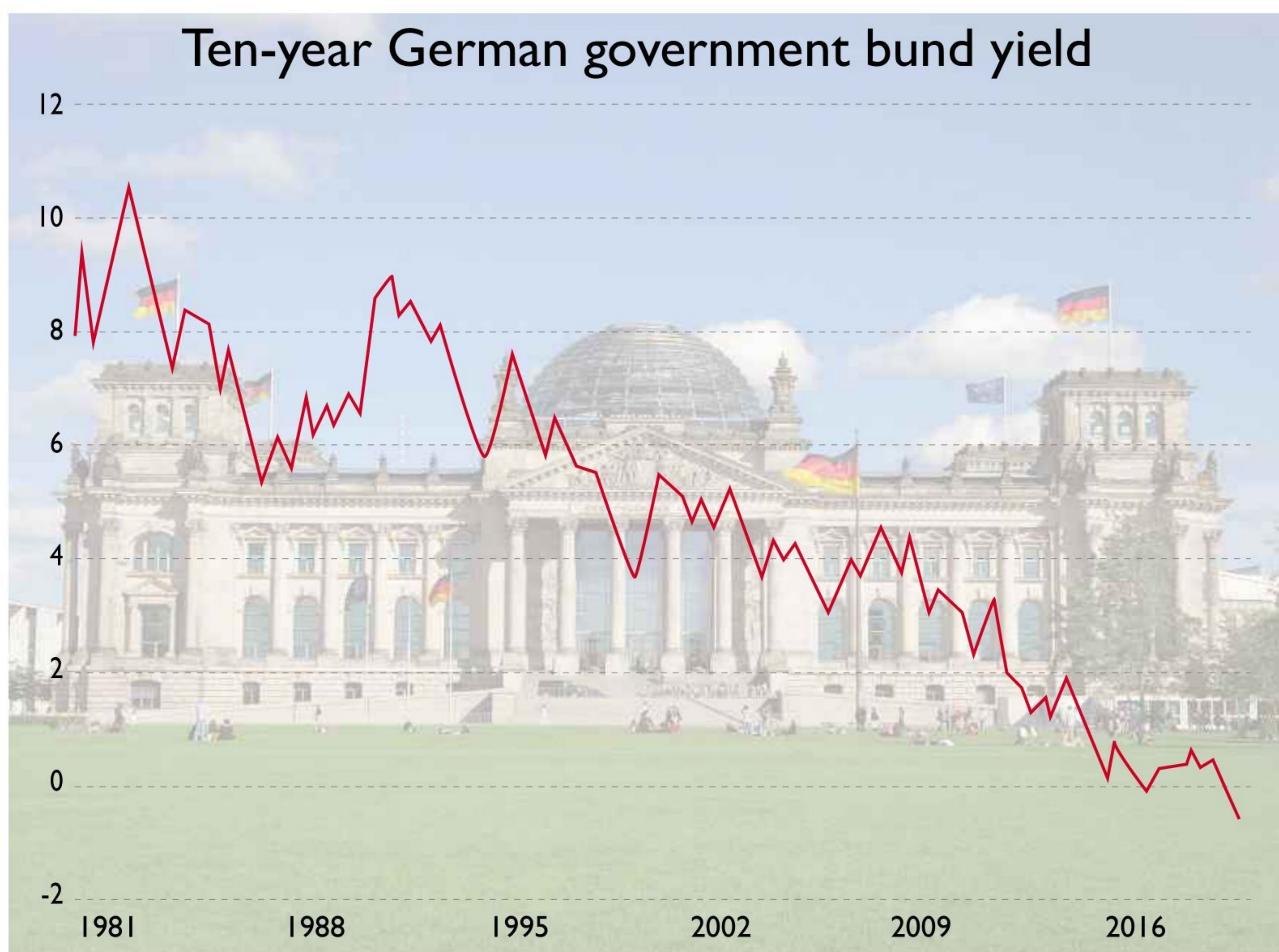
One obvious option to have in your portfolio is gold. We've always said that investors should have a 5%-10% allocation to physical gold as a core part of their portfolio, and our negative-rate world demonstrates why this is. One objection to owning gold is that it pays no

yield, and in fact costs money to store. Yet if government bonds cost money to invest in too, then this is no longer an issue. As a result, the gold price has enjoyed a strong rally this year and could have further to go. Equally, while it's a bit “have your cake and eat it”, any inflationary surprises should eventually be good for gold too – lower “real” interest rates tend to benefit the yellow metal. An easy way to get exposure is via the exchange-traded fund **ETFS Physical Gold (LSE: PHAU; PHGP for sterling-denominated version)**.

More adventurous readers might want to consider digital

currency bitcoin. If negative interest rates spread to cash deposits, the idea of owning a digital currency that can't be devalued by a central authority might not seem quite as outlandish as it does now. You can read more about how to buy bitcoin at moneyweek.com.

As for stockmarkets – the US looks too expensive, and the eurozone is vulnerable to issues with its banking sector. A better bet might be to invest closer to home, what with sterling close to record lows. Have a look at page 18 for some commercial property plays that could benefit.



“Danish homeowners can now get a 20-year, interest-free mortgage”

when you look at what’s going on in the market, it’s not in fact what’s happening. If you really believe that lending to the Austrian government for 100 years is virtually risk-free, then you’re a more trusting person than me. Instead, it looks much more like a massive, tech-stock-style momentum trade.

So the bubble explanation seems a good one. What could burst it? Either the withdrawal of cheap money (which doesn’t seem likely right now), or perhaps a reversal in sentiment on the global outlook. With Germany in recession and the US yield curve inverting (see page 13), the odds on that may not seem great. That said, with US president Donald Trump now delaying tariffs on Chinese goods until mid-December, any kindling of hope for a trade deal could stop the bond rally in its tracks, just as it did in late 2016, when yields also went massively negative. At that point, it could look nasty for bond investors. As Stubbington notes: “Although bond yields have been at historically low levels for years, fund managers have more than made up for lack of yield with hefty price gains on their portfolios as bonds rallied. Once the price gains fizzle out, they will be left contemplating an exceptionally bleak bond investing landscape”.

Or are they pointing to something far worse?

Of course, there is another explanation, which is that the unprecedented conditions in bond markets could be warning us of something that’s never happened before. Russell Napier, financial historian and analyst, notes in his “The Solid Ground” newsletter this month that the collapse in bond yields could be signalling something much more dramatic – the disintegration of the eurozone, “or at least its end as a currency”.

The problem is that negative interest rates are bad news for bank profitability, as can be seen by the slump in bank share prices, in the eurozone in particular (see page 4). Napier argues that “ever-lower levels of eurozone interest rates will stop the growth in commercial bank balance sheets and lead to a tightening in monetary policy”, which would worsen any recession in the region. He also argues

that rules introduced in the wake of the eurozone crisis, which mean that large depositors in eurozone banks can be “bailed in” should a bank prove to be insolvent, may already be having the unintended consequence of driving capital flight from the banks and into government bonds instead. “This movement of funds drives a deflationary spiral” by undermining banks’ balance sheets and ability to lend. That in turn increases the odds of a disastrous recession that could ultimately result in the introduction of capital controls in an effort to save the euro (which would, of course, only increase political anger in the region, thus undermining the project and the currency altogether).

On the other hand, a devaluation of the Chinese yuan – driven by trade pressures and a weakening economy – could be at least as disruptive. Albert Edwards of Societe Generale argues that the yuan’s recent weakness (see page 4) may not be over. “I believe the risk that Chinese policymakers lose control is very high indeed, not just in relation to the risk of capital flight... but also the clear and present vulnerability of the banking sector.”

A market of extremes

These scenarios may seem extreme to some readers, but regardless of whether you favour the “bonds are in a bubble” camp or the “bonds are issuing a dire warning” argument, there is no doubt that, as James Ferguson of the Macrostrategy Partnership points out, many markets – not just bonds – are currently at extreme levels, and therefore look vulnerable to surprises in either direction, whether inflationary or deflationary. The ratio of US equity prices to GDP (once viewed as Warren Buffett’s favourite valuation measure) is at a 60-year high, driven by “growth” stocks (which also benefit from low interest rates); gold is at a near-30-year high compared with silver (which typically only happens during a recession); and oil production is low (which could spell higher oil prices and shock those expecting ongoing “quiescent inflation”). How can you defend your portfolio? We look at potential investments to consider in the box opposite.

The benefits of sitting tight

Agreeing to lock up your cash can boost the interest rate on your savings significantly



Ruth Jackson-Kirby
Investment columnist

Our desire to be able to get at our cash in a hurry means we are missing out on billions of pounds. Research by Savings Champion has found that 82% of cash savings are now in easy-access accounts, which allow savers to withdraw their money at any time. Yet “rates are as low as 0.15% in these... moving just half of the funds to top-paying... notice accounts could earn savers billions more,” says James Coney in *The Sunday Times*.

The amount of cash held in easy-access accounts has been on the rise for years now. It currently stands at £754bn, up from £450bn in April 2012, according to the Bank of England. Part of the problem is that the number of notice accounts (which require you to wait for a set period of time between asking for your cash and receiving it) available on the market has fallen sharply over that time. But it is worth hunting one down.



Patience pays off when it comes to your savings

The Investec Notice Plus Account gives customers the option of a 95-day notice period. For the first 90 days, the interest rate is 1.7%, and then 1.75% after that. And you can still access up to 20% of your cash without notice (you’ll get a slightly higher rate if you drop this perk).

Charter Savings Bank also offers a 95-day notice account – it pays out 1.81% on balances between £5,000 and £1m,

but you can’t access any cash without notice. It may not sound like a huge interest rate, but the average rate on an instant-access savings account is just 0.62%, according to Which consumer research. If you had £5,000 in that account, you would earn £31 interest over a year. Move your cash into the Charter Savings Bank 95-day notice account and your returns treble to £90.50. As Anna Bowes from Savings Champion points out,

“if you don’t need access to your money, you can squeeze out a much better deal that makes it worth moving”.

This is especially true if you haven’t moved your savings for a while. Banks and building societies constantly launch new accounts and withdraw old ones. “They then quietly reduce the once top-paying rates, in the hope savers won’t notice,” says Sylvia Morris in the *Daily Mail*. As a result, your once “best-buy” savings account could now be paying you just 0.1% interest. This month Nationwide slashed the rate on its closed easy-access accounts, including its Flexclusive Online Saver from 0.6% to just 0.3%. Similarly, Virgin Money pays 1.16% on its Easy Access Saver Issue 32, but if your money is sitting in Issues 1 to 30, your rate has just been cut to 0.25%.

If you still want instant access to your cash, then move it to Marcus, which pays a table-topping 1.5% – but before you do so, consider if you could put at least some of it in a notice account, to lock in a better rate on a portion of your hard-earned savings.

5 Reasons to Buy Physical Gold...

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

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

How to fund your firm

Need to raise money? Look beyond the bank, says David Prosser



David Prosser
Business columnist

Small firms raised a record £6.7bn in equity funding last year, according to the British Business Bank. Meanwhile, bank lending to small businesses fell, with firms across the UK wary of increasing their debt levels. The contrasting appetites for these two different forms of finance is interesting. Traditionally, entrepreneurs have felt nervous about selling equity in their businesses, fearful of diluting their ownership rights and losing control. But in today's febrile climate, the permanent nature of equity finance is increasingly seen as a less risky choice than debt.

The good news is that whatever funding your business needs, the range of options has grown dramatically. Once banks were the only game in town – that's no longer the case.

Debt or equity finance?

In the stockmarket, funders now include business angels, crowdfunding platforms, venture capital and even private equity for larger businesses. In debt finance, the banks have been joined by invoice and asset-finance providers, loan-based crowdfunders, fintech challengers and more.

The financing you go for depends on what's important

to your business. Debt finance keeps the funder at arms-length, with no claim on your business and a return limited to the capital borrowed plus interest. It's typically quicker and easier to arrange, and the loan cost can be set against the business's tax bill.

On the other hand, loans must eventually be repaid and taking on too much debt can hold the business back. Servicing the debt – meeting repayments each month – can be a strain, particularly for a business with unpredictable cash flows. Loans typically require collateral and may impose restrictive covenants on the company's activities.

Equity finance doesn't have to be repaid or serviced, leaving the business unencumbered by a relationship with a lender. There is no collateral to put up and funders often provide softer support (such as advice) as well as finance. Earlier-stage businesses may find it easier to secure equity finance than debt.

The downside is giving up some ownership. That has

long-term consequences – you'll only be entitled to a share of future profitability and you'll make less if the business is sold. But there are also immediate impacts: even if you only sell a minority stake, you may have to consult shareholders on key decisions, or even give them formal representation; at the very least you'll have to keep them informed.

In practice, many businesses grow using a combination of debt and equity over time. But if your company does need funding, it pays to take the time to consider every option, rather than going straight to the bank.



Don't rush straight to the bank

In the news

Will the Investing in Women Code improve the availability of finance for female entrepreneurs? The government claims the initiative, unveiled last month, will be key to helping it hit its target of a 50% rise in the number of female entrepreneurs in the UK.

Signatories to the code include Royal Bank of Scotland, Barclays, Lloyds Banking Group, Santander, TSB, Metro Bank, the Co-operative Bank and Bank of Ireland UK, as well as several venture capital and business angel groups. Each has committed to making a member of its senior leadership team responsible for supporting equality in access to finance. Code members will also have to publish regular data setting out their support for female entrepreneurs.

Research suggests men in the UK are 86% more likely to access venture capital for their businesses and 56% more likely to secure angel investment. The argument is that difficulty in getting hold of financing to get their ideas off the ground is one major reason why male entrepreneurs in the UK currently outnumber their female peers two to one.

So far however, attempts to turn this around have fallen short. Market research group Beauhurst reported earlier this year that while 6% fewer men won funding for their companies last year, the decrease in numbers of deals among female-founded companies was 15%. Just 16% of 2018's equity deals went into such businesses.

Five questions for... Sabine VanderLinden, partner, Rainmaking; CEO, Startupbootcamp InsurTech

- **What does your business do?**
Rainmaking is a corporate innovation and venture development firm. We work with businesses (from early-stage start-ups to Fortune 500 firms) to solve their most urgent problems, making growth predictable and sustainable through the use of innovation and entrepreneurial tools and techniques.
- **What's been your greatest achievement?**
The success of *The*

InsurTech Book, the world's first crowdsourced insurance book, which I co-edited with three other wonderful women, is a particular highlight. The crowdsourced process helped us to select 70 top abstracts, which were converted into articles. The book was published last year, and feedback has been phenomenal. I am also proud of how I made the shift from working within large corporations to creating my own fast-growing small business, as well as helping

other smaller ventures. My experience has been especially useful in our Colab projects, where we focus on matching companies with young ventures to help solve business-critical issues while accelerating insurers' ability to build unique competitive advantage.

- **What has been your biggest challenge?**
Educating the corporate market and convincing businesses that they can develop innovation and entrepreneurship into sustainable internal

capabilities, which can drive predictable growth outcomes. This is necessary for firms to remain relevant in a constantly evolving market where the rate of change is becoming the biggest business challenge of our time.

- **What are your plans for hitting your targets?**
We believe you cannot afford to apply traditional delivery models and timescales to a world driven by new economics. The key to addressing these challenges is to focus on

building operational resilience – for example, agility and flexibility – and identifying business models that drive new sources of differentiation.

- **What's the one piece of advice you'd give?**
Change is hard, but it's a requirement for growth. You'll always have naysayers, but you need to have the confidence that you are on the right path, and to feel comfortable standing up for your values when people challenge you.

Investing in the world's most valuable resource



A professional investor tells us where he'd put his money. This week: Louis Veilleux, Senior Investment Manager, Pictet Water fund

Water is a vital natural resource. Unfortunately, less than 1% of all water on the planet is available and accessible for human use. The United Nations reckons that by 2050 the global population will have grown by 2.5 billion, so it is more important than ever to pay close attention to companies that focus on making the most of this resource. Water conservation, improved sanitation, recycling, water-quality testing and better distribution will be key to ensuring the sustainability of life on an increasingly crowded planet and, for investors, offer a potential source of long-term capital growth. Investing in water is supported by several "megatrends": social, economic, political, and technological changes that go beyond short-term market fluctuations and affect society over a significant time horizon.

Urbanisation and recycling

With two out of three people expected to live in cities in future, demand for water and the resulting waste production should grow rapidly in urban areas. This is likely to drive more innovative recycling, which in turn creates opportunities for monetising waste streams (65% of which currently have no value in the US). **Waste Management (NYSE: WM)** will be a beneficiary. Increasing market consolidation in the US will strengthen its already established position in solid waste collection. The firm could also profit significantly from developments in recycling automation over the coming years.

Scarcity is another issue. Already, 50% of the global population lives under water stress. Increasingly uneven distribution of water resources requires better water conservation. **Ecolab (NYSE: ECL)** is a

global leader in industrial water. It has created an innovative pricing mechanism, based around environmental Return on Investment (eROI), where it charges according to the water and energy savings made by its products.

Disease and infrastructure

Waterborne diseases account for more than 10% of the global burden of disease. Improved sanitation and water-quality testing is the solution, with consumer and regulatory pressure driving demand for monitoring equipment. China, for example, has committed \$60bn to tackle water and waste-water quality. **Danaher (NYSE: DHR)** has three brands that focus specifically on water quality: Trojan, Hach and ChemTreat. Danaher's gross margin stands at 55%, reflecting consumers' trust in its equipment. The management team has also positioned the company to benefit from strong structural growth in life science and diagnostics.

Constraints on public purses have led to historical underinvestment in utilities, and the need to upgrade infrastructure is ever more pressing. Water-research specialist **Envisager** forecasts that the population served by privately funded water will grow by 50% from 2015 to 1.8 billion in 2030. Water utility **Sabesp (Brazil: SBSP3)** offers water services for 25 million customers and sewage treatment for 23 million across São Paulo, a city with low sanitation coverage. Since the last national election, local government members have called for greater sanitation coverage via more private partnerships, providing long-term opportunities for investment. Public-private partnerships will be key to creating a sustainable future, a trend we expect to pick up pace in the coming years.

"Already, half of the global population lives under water stress"

If only you'd invested in...

Rentokil Initial (LSE: RTO)

Share price in pence



Rentokil Initial (LSE: RTO) is a pest-control, hygiene and workwear company that operates in 75 countries. The group is expanding aggressively, having bought 47 businesses in 2018 and 17 in the first half of 2019, and it expects to spend a further \$250m on acquisition activity this year. Revenue is up across its territories and the group is beating City forecasts, with operating profit for the six months to end-June up 11.6% versus an expected 10%. The share price has been on an upward trend for the past seven years or so, and has risen by 35% in the last 12 months alone.

Be glad you didn't buy...

Centrica (LSE: CNA)

Share price in pence



Centrica (LSE: CNA) is the UK's biggest energy provider, and the parent company of British Gas. It has suffered a "perfect storm" this year, including the government's energy price-cap, "warm weather, tough competition and nuclear plant outages" that have left it low on cash and forced it to cut its dividend, says Emily Gosden in *The Times*. The share price has fallen by more than 70% since CEO Iain Conn took over four-and-a-half years ago, leaving it in danger of being demoted from the FTSE 100. Conn announced he will step down next year, after reporting a first-half loss of £446m.





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The world's most feared short-seller

Carson Block sniffs out stocks trading on dodgily high valuations and bets against them, which unnerves his targets. Now, his reign of terror has spread to London. Jane Lewis reports

Carson Block is arguably the world's "most feared short-seller and fraud-sniffing dog", whose ten-year "reign of terror" spread from China to France, says Jon Shazar on Dealbreaker. He is now smelling blood in London. Block's hedge fund, Muddy Waters, has caused a sensation by launching a potentially ruinous "bear attack" against one of London's hottest stocks, litigation finance specialist Burford Capital, says the Financial Times. Block's career was inspired by his father, Bill, an equity analyst "with a reputation for credulity". That was "brought home" to a young Carson when an acquaintance mentioned he got his short-selling ideas "from looking at the stock Bill Block had been recommending". Block, now 43, later went to work for his father – a period he describes as "very embittering" as he was "lied to by a parade of management" from internet firms. Soon after, he quit equity analysis for law school, cutting his professional teeth as a mergers and acquisitions lawyer for Jones Day.

An adventurous streak

Described by one ex-colleague as "an arrogant guy with [a] somewhat restless streak", Block – who grew up in New Jersey – admits to having "discipline problems" from an early age, says businessinsider.com. But a brash personality and occasionally "questionable" tactics have never held him back. In his 20s, his adventurous streak took him to China. He co-wrote of his experiences in a 2007 book called *Doing Business in China for Dummies*, warning those planning on doing so that they may face "some of the most brutal negotiations" they'd ever seen.



"Investing has always been an amoral pursuit. The problem is that it is leading to immoral outcomes"

His own venture there – a self-storage company called Love Box, which bombed – was testament to that, says the FT. When Block learned that the manager of the business park housing his facility was stealing his rental payments, he stopped paying rent himself, "stocking up on food, water and a generator, and fitting the windows with iron bars" to defend the premises. He claims the experience, "which

eventually resulted in the US consulate stepping in", was formative.

A new kind of activism

It was Block's father who set him on the path to wealth and fame. Interested in Chinese firms listing in the US, he recruited Block to check out a company called Orient Paper. He visited the plant and discovered that "the machinery was basically scrap metal", he later recalled. Block's new career as a corporate investigator took off a year later in 2011, with a typically forensic report accusing Sino-Forest, a Canadian-listed Chinese forestry company, of overstating its timber holdings, notes The Economist. The stock plunged 78% in days. More importantly for Block's burgeoning reputation, he bested John Paulson, the legendary Wall Street hedge-funder, who lost \$110m (£91m) in the affair.

Block's research firm, the appositely named Muddy Waters, eventually evolved into a hedge fund with only around \$225m in assets, says the FT. The main fund has performed solidly, however, returning 20% last year. Nursing its wounds this week, Burford (which lost around £1.2bn in a day when shares crashed 60% on news of Block's short position) became the latest victim to describe his attentions as "a fundamental menace to an orderly market". Block has always rather loftily dismissed claims of cynical, parasitic behaviour. "Investing, historically, has been an amoral pursuit," he once argued on CNBC. "The problem is that amorality is leading to increasing immoral outcomes." The former rebel has become the standard bearer of a new kind of activist investment – the "moral short".

Great frauds in history... Hannu Kailajärvi

Hannu Kailajärvi was born in Finland in 1972 and went on to complete a computer science degree at a technical college before dabbling in various entrepreneurial schemes with his wife. These included a restaurant, a music bar and then an internet marketing firm. All of these ventures ended in bankruptcy. Undeterred, he set up WinClub in 2005, an investment club based on foreign-currency trading. Its name was later changed to WinCapita when the media started to query what was going on. At its peak, the scheme had 10,000 members



with more than €100m (£93m) invested in it.

What was the scam?

Kailajärvi claimed to have discovered a way to make huge returns (of 260% a year) from foreign-currency trading.

For a fee, investors could join the club, which would give them the right to invest money in the scheme. Those who bought a premium level of membership could gain additional money if they persuaded their friends to join up, as well as getting a share of their "profits" – turning it into a pyramid scheme. No actual trading took place and the money "invested" either

disappeared, or was used to repay early investors, as in other Ponzi schemes.

What happened next?

The club's website suddenly disappeared in March 2008. This led to a police investigation that resulted in Kailajärvi being arrested in December 2008. The club's remaining assets were then seized and redistributed to investors. Despite this, some investors found it hard to accept that Kailajärvi was a fraud – some even alleged that they had been the victims of a government conspiracy. Eventually, Kailajärvi was convicted of fraud, along with some other of his associates, and sentenced to four years in prison in 2011. About half of the

€100m put into the scheme was paid out to investors during the life of the fund. Most of the payments went to those who withdrew their money before the collapse; later victims only got a share of €17m. Indeed, estimates suggest that 70% of the revenue went to only 5% of WinCapita's members.

Lessons for investors

The terms "Ponzi" and "pyramid" are frequently used interchangeably to describe such frauds, but the latter are particularly toxic as they encourage people to expand the number of investors involved. Promises of bonuses for bringing in new people, or a share of their returns/fees, are a massive red flag.

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A superb South African sextet



As I was writing this piece, a news item popped up on my phone telling me that Handford Wines had just picked up the IWC Specialist Merchant of the Year for South Africa. Call me Nostradamus, but I picked this theme over a month ago as I strolled around their stunning shop in South Kensington. Owner James Handford MW and I selected so many Cape wines to taste that there seemed little point in opening bottles from any other country. Greg Sherwood MW is the driving force behind

this company's amazing South African collection, and hosts of others besides. If you have yet to be fully convinced that this country has taken its place around the wine world's top table, then this keenly priced sextet is guaranteed to get you over the line.

Matthew Jukes
Matthew Jukes

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~~£25.99~~
£24

2017 Brookdale, Chenin Blanc, Paarl

I had never tasted this wine before and it took a heartbeat for me to fall in love with it. Made by Englishman Tim Rudd, with the assistance of a rather talented winemaker by the name of Duncan Savage, there were only two 500 litre barrels (1000 bottles) made of this wine and the first two words

I wrote in my tasting notes were Grand and Cru! This is one of the most impactful and indulgent Chenin Blancs I can remember — and that includes everything I have tasted from the Loire Valley! Exotic, layered and exquisitely detailed, this is already one of my wines of the year. Bearing in mind it's Tim's first vintage, I cannot wait to see what he does next year!

CASE PRICE: £288 — saving £23.88



~~£12.99~~
£12

2018 Bosman Family Vineyards, Generation 8 Chenin Blanc, Wellington

This is a marvellous wine and it celebrates the eight generations of the Bosman family who have been 'growing wine' in Wellington since 1810. Blended across several vineyards, taking vigorous, young vine fruit to balance with older vines with

deeper flavours, this is an edgy, racy wine with lemon pith notes and lovely balance throughout. It has deceptive weight in the mid-palate which means it can step up to a fish main course if needed. There is a chalky finish which offsets the lush palate and brings it all back to order.

CASE PRICE: £144 — saving £11.88



~~£17.99~~
£16.67

2017 Flotsam & Jetsam, Heirloom Chenin Blanc, Western Cape

Flotsam & Jetsam is a diffusion brand from cult husband and wife winemaking team Chris and Suzaan Alheit of Alheit Vineyards. This wine layers flavour by combining the fruit from six different vineyards in the Swartland to make a highly complex wine. Chris and

Suzaan are discreet winemakers with little intervention or chemistry applied in the winery. They trust in the epic quality of their grapes and this wine is a perfect example of an Alheit creation. The perfume is hypnotic with juicy lemons, ripe white peaches and sticky pears. Enchanting and totally classy, this is a phenomenal wine.

CASE PRICE: £200 — saving £15.88



~~£9.50~~
£8.83

2017 Primordial Soup, Red Blend, Western Cape

The label inspiration is taken from the illustrations of Ernst Haeckel, a German naturalist, who identified and drew some of the simplest forms of life on Earth. In theory, we evolved from this primordial soup so it's rather lovely to have the chance to drink a wine inspired by these

fascinating images. This light-hearted red is a blend of Cinsault, Pinotage, Shiraz, Ruby Cabernet and Tinta Barocca. A delightful summer glugger for parties and barbecues as it's lip-smackingly juicy, but also doesn't trouble the credit card too much. Served gently chilled, this inspired blend is knockout and is the perfect first rung on the ladder for you to climb up to the next two reds!

CASE PRICE: £106 — saving £8.00



~~£17.99~~
£16.67

2017 Kloof Street by Chris & Andrea Mullineux, Swartland Rouge

Another wicked blend, this time made from 90% Syrah with Cinsault, Grenache, Tinta Barocca and Mourvèdre to fill the final 10%. If Primordial Soup is a fabulous 'house red' then Kloof Street is a proper grown-up dinner party wine. Chris and Andrea

Mullineux make some of the greatest whites, reds and sweeties in the Cape and while this is their entry level rouge it is highly engineered. I remember buying their first vintage of Kloof Street Red for Bibendum Restaurant many moons ago and customers loved it. Fast-forward to today and this wine has never been finer. Super-smooth, ultra-classy and dripping with distinction, this is an immensely satisfying wine.

CASE PRICE: £200 — saving £15.88



~~£19.99~~
£18

2016 Bohemian Syrah, Schalk Burger, Welbedacht, Wellington

My final red is a beast, but with a gentle touch. Schalk Burger senior is a giant who wore the number 6 jersey for the Springboks. His son, Schalk Burger junior, is even bigger and he achieved the same distinction and has until recently been a vital cog in the Saracens pack! Now

imagine this father and son team in red wine form. My job here is done! While this is an imposing and meaty wine, it's drinking perfectly and there is surprising tenderness and composure on the finish. Having met them both, this is something I have yet to encounter with the aforementioned gents!

CASE PRICE: £216 — saving £23.88

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The history of trade and economics

Finance buffs should check out these two new museums in France. Chris Carter reports

“Leave it the French to conceive a chic museum dedicated to finance,” says Sara Lieberman in *The Wall Street Journal*. The Cité de l’Économie (or Citéco *en bref*) opened this summer, in a building in the 17th arrondissement of Paris dating from 1882. With vaulted Gothic doorways and “intricate wooden wainscoting, the building itself is as genteel and old-school as you’d expect from a Parisian mansion turned bank turned museum.”

That is all part of the charm offensive. If it had opened inside a building resembling the European Central Bank in Frankfurt, without doubt a museum on economics would have struggled to attract visitors, says Sibylle Vincendon in French newspaper *Libération*. Fortunately, the French central bank, La Banque de France, avoided the hazard by placing its museum in a “jewel” of a building that espouses the 19th-century craze for Renaissance revival architecture – the Hotel Gaillard.

The museum amenities, however, are “resolutely contemporary”, says Martine Robert in French business daily *Les Echos*. There is a café, shop and an auditorium. Many of the exhibits are also interactive, such as the airport-style scanner that teaches you about production and globalisation, and a photo booth that allows you to print



Citéco: a chic museum of finance in a former mansion

money with your face on it. Meanwhile, in the former bank vault, Charlie Chaplain’s *The Bank* plays on a loop. The museum hopes to educate up to 180,000 visitors a year on the finer points of finance, “making economics accessible for everyone”. Tickets €12, citeco.fr

A tribute to maritime trade

Bordeaux was at one time the busiest port in Europe, says Ashlea Halpern for *Condé Nast*

Traveler. So it’s fitting that the new Musée Mer Marine “pays tribute to France’s rich maritime history”.

It uses “sea-themed art and artefacts to broach important issues such as climate change and the refugee crisis”. By early next month, the museum will have put the finishing touches to its permanent collection, presented over three storeys. The exhibits chart the evolution of navigation, and document famous naval battles.



“The museum will make economics accessible for everyone”

“A restaurant, hanging garden, and wet docks housing a fleet of restored boats will follow next summer.” Once complete, the collection will include a scale replica of the Titanic, a hand-carved Bangladeshi moon boat, and an 82-foot racing yacht, last sailed by Team China in 2007, but originally used by the French in several America’s Cup regattas. Tickets €12, mmbordeaux.com/en

Wine of the week: an epic Selvapiana with bravado and panache

2016 Chianti Rufina, Vigneto Erchi, Fattoria Selvapiana, Tuscany, Italy

About £55, stswithinswineshippers.com, oldbridgewine.co.uk, valvonacrolla.co.uk, the finewinecompany.co.uk.



Matthew Jukes
Wine columnist

Every so often I get a tip off from a fellow wine scribe about a wine I ought to have a go at. Of course, this only works when one’s pal knows the precise shape of my own palate and the Olympian standards that I adhere to in my carefully chosen recommendations. There are only a handful of people, globally, who fit the bill as critic for this critic and one of these talented tasters is Jane Parkinson – the wine expert on the BBC’s *Saturday Kitchen*. Jane found this debut vintage of Vigneto Erchi

before me and made a fuss about it on Instagram. As a life-long Selvapiana fan (this is the fourth mention for this elite estate in *MoneyWeek* since my debut in 2006), I called in a sample without delay.

What a wine! Made by the greatest producer in Chianti’s Rufina zone, this is a richer wine than many of the breezy, slender reds made by this property and this is because it comes from a south-facing



vineyard that soaks up the sun’s rays while maintaining vital freshness on its finish, thanks to the elevated Rufina topography. With a 10% French oak addition to the traditional large botti format recipe, this is a wine with a large slice of panache on top of its indisputable leagues of flair. If you are familiar with Selvapiana’s epic Chianti, Bucerchiale, then Erchi takes this model and brings even more intensity and bravado to the mix. Grazie, Jane.

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

This week: houses for around £1m – from a large property with direct frontage to the Cymyran Strait, Anglesey, to a



▲ **Black Fen, Stoke by Nayland, Suffolk.** A Grade II-listed, 17th-century village house. It has exposed beams and an inglenook fireplace, and has been refurbished to include a kitchen that leads onto a vaulted, glazed garden room. 4 beds, 3 baths, 2 receps, studio annexe with en-suite shower, barn, 1 acre. £1.1m Carter Jonas 01787-882881.

▶ **Old Cymyran, Llanfair Yn Neubwll, Anglesey.** A large house comprised of two former fishermen's cottages with direct frontage to the Cymyran Strait and a wrap-around conservatory with views towards Holy Island. 4 beds, bath, 2 receps, 2-bed flat, family room, boat store, gardens, slipway. £995,000 Jackson-Stops 01244-328361.



▶ **Smallmarsh Farm, High Bickington, Umberleigh, Devon.** A renovated, Grade II-listed, mid-17th-century house with later additions on the banks of the River Taw. It has exposed beams and an inglenook fireplace with a wood-burning stove. 4 beds, 3 baths, dressing room, 2 receps, study, kitchen, workshop, barn with kitchenette and bathroom, gardens, 14.72 acres. £1.15m Greenslade Taylor Hunt 01769-574500.



16th-century house in a private valley with a waterfall in Bayton, Worcestershire



◀ **Clayton Hall Drive, Clayton Le Moors, Accrington, Lancashire.** A five-bedroom house built in 1993 in a Georgian style, surrounded by landscaped gardens that include a walled kitchen garden, an 18th-century ice house, a ha-ha and a woodland area with numerous yew trees. It has high ceilings with ornate cornicing, stone floors, open fireplaces with wood-burnings stoves and a large kitchen with an Aga. 5 beds, 3 baths, 3 receps, garage, 23 acres. £1m+ Savills 01565-632618.

▶ **The Mill House, Bayton, Worcestershire.** A Grade II-listed, 16th-century house with later additions in a private valley with a waterfall. It has beamed ceilings and a family room with bifold doors leading onto the garden. 6 beds, 5 baths, 4 receps, 1-bed annexe, woodland, 10 acres. £1.18m Knight Frank 01905-723438.



▶ **Townley Street, London SE17.** One of two bespoke, modern properties in Elephant and Castle, which has excellent transport links. It is laid out in a New York loft style over two floors with open-plan living areas, a large contemporary kitchen and bifold doors leading onto a courtyard garden. It has two private outdoor areas as well as access to communal outdoor space. 3 beds, 2 baths, secure parking. £1m Cluttons 020-7407 3669.



▶ **The Old Tannery, Station Road, Kintbury, Berkshire.** This period village property has been updated and modernised to include a newly fitted breakfast kitchen with floor-to-ceiling sliding doors that open onto the garden. It also has a self-contained, one-bedroom annexe. The house retains its original sash windows and has an open fireplace with a wood-burning stove. 4 beds, 3 baths, 2 receps, parking. £985,000 Strutt & Parker 01635-521707.

▶ **Henwood Mill, Catherine-De-Barnes, West Midlands.** A restored, Grade II-listed former water mill in a semi-rural location close to Solihull town centre with views across open countryside. The house has heavily beamed ceilings, inglenook fireplaces, a large breakfast kitchen with oak units and granite surfaces and a mill room with many of the original mill workings. 5 beds, 3 baths, 4 receps, study, detached triple garage, gardens, grounds, 2.5 acres. £1m Hunters 01564-770707.



Hit the sofa for the summer

Computer gaming has come a long way from space invaders and shoot 'em ups. Here are seven of the best

GOD OF WAR

God of War is about what it means to be a god, but also what it means to be a man, says Keza MacDonald in *The Guardian*. As the average age of video-game developers and players has crept up, so too has what we expect from the characters. The vengeful god Kratos, who has appeared in earlier versions of the game with the sole character trait of anger, shows up in this outing with "backstory and motivation". Kratos is now father to a son who knows nothing of his god-slaying past, and the father-and-son journey makes for "one of the best games of recent years". It is "a deft intertwining of relatable familial drama and awe-inspiring mythological epic" and sets a new standard for video games, "both technologically and narratively". £49.99, all consoles



OUTER WILDS

Outer Wilds is one of the best games of 2019 so far, says Esteban Cuevas on *CBR.com*. The player must explore the world and learn as much as they can before the sun goes supernova and destroys everything in 22 minutes. The game then starts over, but with the knowledge you learned from before. You learn more and more with every play until you figure out how to prevent solar disaster.

It is "a unique game for those looking for something off the beaten path". When the world is not blowing up, it's a "nice place to potter about in" too, says Phil Savage in *PC Gamer*. Its "charming and inventive worlds" hide a "cleverly unfolding mystery" that is a "delight" to untangle. £19.99, Xbox One, Microsoft Windows, Macintosh operating systems, Linux



ARIZONA SUNSHINE

Virtual reality (VR) is "the most exciting frontier there is" in gaming, says Brittany Vincent in *Popular Mechanics*. The medium is still in its infancy, but is already "teeming with some of the coolest experiences you'll ever have" in gaming.

One of the best VR games is *Arizona Sunshine*, says Adrian Willings on *pocket-lint.com*. It is set in post-apocalyptic America and your task is to find a safe haven while fighting off the undead. The game is well crafted, there's plenty of freedom to move around

and explore, and you'll find yourself fully immersed in the virtual world. If you can, get a friend to join you in multiplayer mode – "because killing zombies with friends in virtual reality is twice the fun". From £29.99 for the *HTC Vive* and *Oculus Rift*

SEKIRO SHADOWS DIE TWICE

Japan's FromSoftware has a reputation for making challenging games with "deliberately obtuse storytelling", says Sam Kiildsen in Stuff. Its new offering is arguably harder to master than any previous game from the firm and is likely to be "the most demanding mainstream game that'll be released this year". It is set in medieval Japan and you play as

Wolf, a ninja in the service of a young lord who is kidnapped by a samurai. Your task is to rescue your charge, restore the honour of the lord and take revenge. The game will be a "major test of your reactions, skill and patience", but you'll have a lot of fun on the way. £50, all consoles



Cultist Simulator is a "morbid and deeply engrossing" single-player narrative card game where the goal is to establish a "Lovecraftian cult", says Christopher Livingston for PC Gamer. "You'll collect and study unspeakable grimoires, carry out unthinkable rituals, attract a devoted cadre of followers and find a way to finance your obsessions – all while trying not to lose your mind along the way." It's a "brilliantly written" game that keeps you enthralled with little more than a virtual tabletop covered with cards and slowly expiring timers. Impressive. £14.99, Microsoft Windows, Linux, Android, Macintosh operating systems, iOS

NO MAN'S SKY

Playing video games can be a great way to bring the family together, as long as the game is multiplayer, child-friendly and not boring, says Cameron LeBlanc on fatherly.com. One that fits the bill is *No Man's Sky*, a "beautiful and intriguing game" that is "perfect for families to explore together". You're an intergalactic traveller who sets out to explore one of millions of planets that could be "brimming with alien wildlife or toxic natural hazards", says Jade King on Trusted Reviews. The dangers are juxtaposed with beauty and the algorithm responsible for creating the game's "living, breathing worlds" has come on leaps and bounds from earlier versions. This is "one of the greatest space-exploration experiences available". £39.95, PlayStation 4, Microsoft Windows, Xbox One



RED DEAD II REDEMPTION II

This slowly paced game looks "glorious" and "boasts some of the best voice acting ever committed to the medium", says Adam Cook in Stuff. You play as a member of the Van der Linde gang, "a posse full of people out of time in a world that's moving towards civilisation". A bank job has gone wrong

and you're on the run from the law in the American Wild West. The wilderness looks "beautiful" – the only sounds around you are those of nature, "aside from the echo of gun shots and the random shouting of strangers stood in dankly lit shacks offering you sanctuary". But can you trust them? The world created is "absolutely magical" and there's never a dull moment – this is "simply one of the most incredible game worlds ever created". £50, all consoles

An offbeat take on economics

A new TV series outfrisks Freakonomics

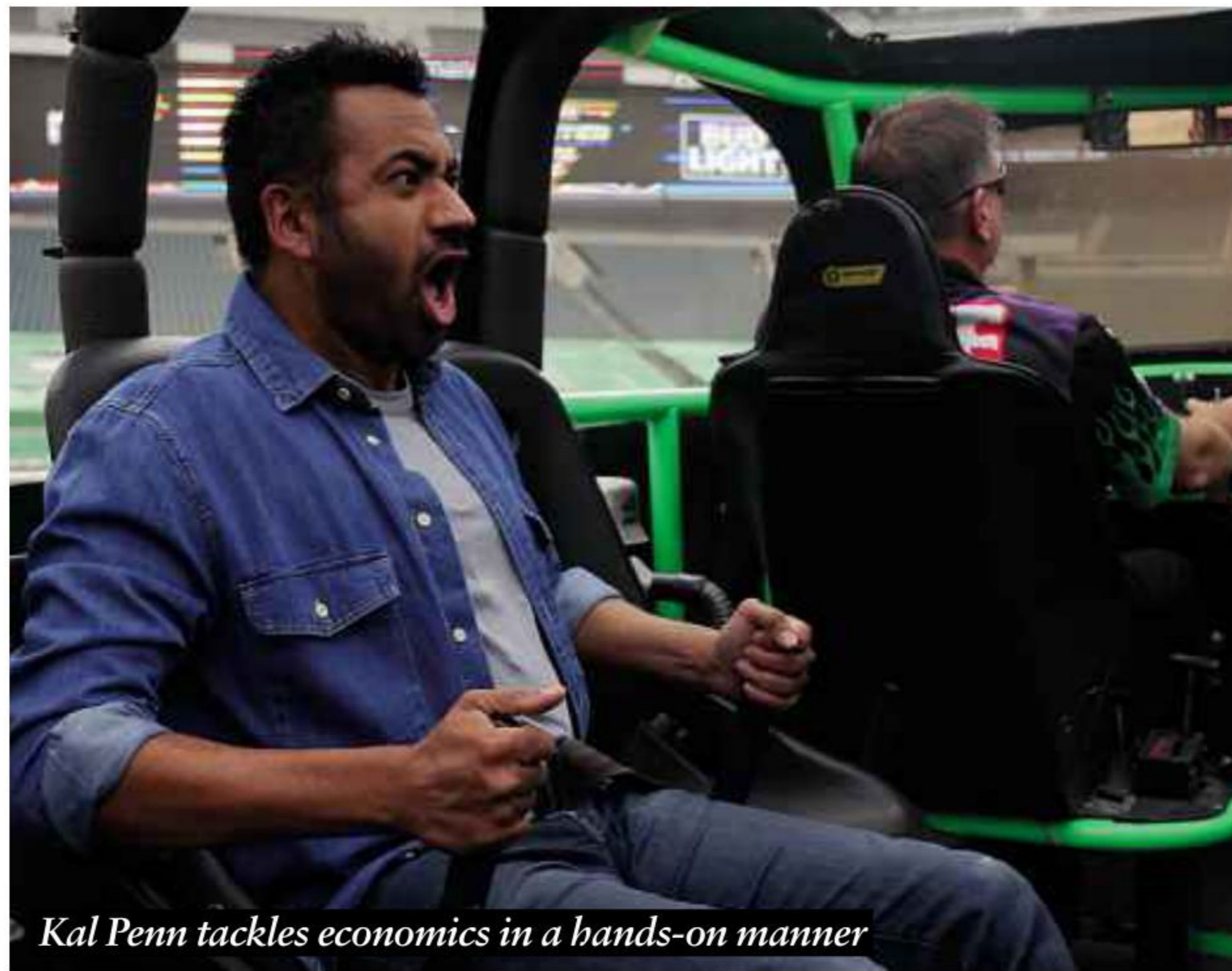
This Giant Beast That is the Global Economy

Presented by Kal Penn
Available on Amazon Prime

Economics plays an important role in our everyday life, yet the subject is still seen by many as dry and boring. Over the past decade several hit books, most notably *Freakonomics* by Stephen Dubner and Steven Levitt, have attempted to make the subject more accessible to a wider public. This Amazon Prime documentary series aims to perform a similar function on the small screen by examining some important economic issues in an offbeat way.

The series is composed of eight episodes that individually last for just over 40 minutes. Each episode deals with a particular topic that is related to the global economy, including money laundering, automation and corruption. Penn uses the topic as a hook to explore wider economic concepts, such as how competition and self-interest work to make everyone better off, or how economists attempt to put a value on human life.

The economic issues are discussed in serious interviews with experts, but these are interspersed and lightened with sequences where Penn tackles the topic in a hands-on manner. In the first episode, for example, he tries to set up his own Cypriot shell company; in the penultimate



Kal Penn tackles economics in a hands-on manner

episode he “hires” a hitman. There are even some comedy sketches – in one, the manager of a cafeteria demonstrates the many ways in which corruption can harm consumers. Another skit involves a wealthy student buying access to exams, illustrating how anti-money-laundering rules catch small-time crooks while allowing the large-scale criminals to carry on cheating.

The series has room for improvement. Some of the humorous sketches, such as the one set in Santa’s workshop, are a bit cringeworthy; other segments are a little crude, such as the one featuring an adult-products factory that concludes the second episode. Penn also tries to cram too much into every episode, which sees him flit from topic to topic at a rapid pace. Indeed, you get the feeling that the episodes would benefit

“The series is sharp and witty and gives an original take on topical issues”

from being five to ten minutes longer, or at least examining a narrower range of topics in more depth.

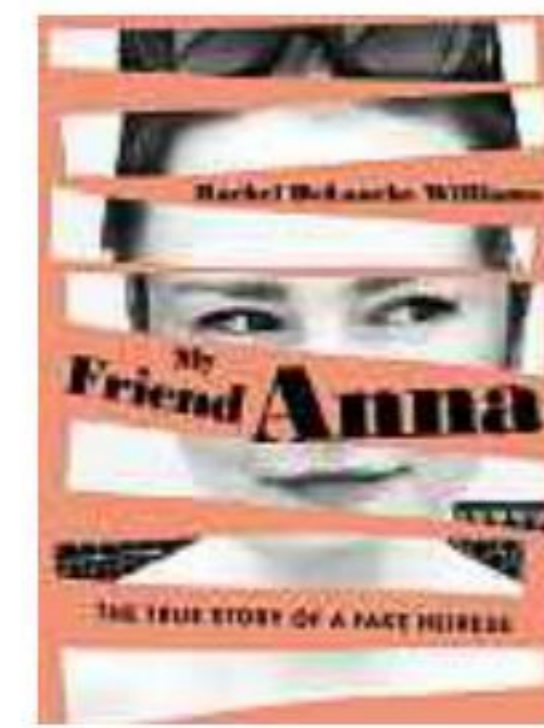
Despite these shortcomings, the series is generally sharp and witty, and provides an original take on economic topics that frequently appear in the headlines. It is also nice to see a company such as Amazon taking some risks. Let’s hope that the show encourages people who are otherwise uninterested in current affairs to think a bit more deeply about the economic underpinnings of modern life.

Reviewed by
Matthew Partridge

My Friend Anna

The true story of the fake heiress of New York City

By Rachel DeLoache Williams
Quercus, £16.99



Anna Sorokin made headlines when she was arrested for posing as a German heiress who cut a swathe through

New York, running up huge unpaid hotel and restaurant bills, and conning people out of money. She was convicted in May and sentenced to between four and 12 years in jail for fraud. This book tells the story of one of her victims, who was conned out of more than \$60,000.

The author is a former Vanity Fair photo editor who met Sorokin in a chance encounter. The two quickly became friends and Sorokin took Williams on jaunts to a series of restaurants, hotels and spas. When a problem with Sorokin’s credit card threatened to derail a holiday they were on, Williams was persuaded to hand over her credit card on the understanding that she would immediately be repaid. Instead, she not only found herself liable for the entire bill, but also failed to receive any funds, despite a constant stream of excuses, lies and promises.

Williams is a solid writer who does a good job of explaining how she, and other intelligent people, could be taken in by such a crook. The most interesting parts of the book are those that deal with the aftermath of the holiday, and Williams’ gradual realisation that Sorokin was a systematic fraud, rather than merely an unreliable, spoilt rich kid. The book is a powerful reminder that you should think twice before trusting even friends with large sums of your money.

Book in the news... the inside story of Spain’s tumultuous crisis

After the Fall Crisis, Recovery and the Making of a New Spain

By Tobias Buck
Weidenfeld & Nicolson, £20



When Spain joined the European single-currency zone in 1999, the country’s property market went “gaga”, says Gerard DeGroot in *The Times*. Mortgages were “handed out like sweets”,

nearly six million properties were built over the next decade, and a quarter of Spain’s male workforce ended up employed in the construction industry. So when the property bubble burst, “the shockwaves of economic collapse were

felt in every corner of society”. *After the Fall* by Tobias Buck, a journalist with the *Financial Times*, examines both the “fat-cat bankers who led their country astray” and the “ordinary people who paid dearly for inane economic management”.

The book “captures the chaos of Spain’s turbulent recent history with aplomb”, says Oliver Balch in the *Financial Times*. An Anglo-German with a Spanish partner, Buck “is enough of an outsider to stand on the sidelines and look in, yet close enough to gain an inside track”. He is also willing to dig deep into the story, journeying into Catalonia’s rural villages “to unpick the causes of secessionist sentiment”, for example. The book’s real strength, however, is its “charting of the political ramifications of Spain’s crisis”, which have “been as tumultuous as the economy has been flat”.

The central villain in this “elegant and insightful” book is Mariano Rajoy, Spain’s prime minister between 2011 and 2018, says Matthew Campbell in *The Sunday Times*. In Buck’s view, the “uncompromising, uncharismatic ex-property notary from Galicia” may have succeeded in taming the economic fallout from the crisis, but he failed to inspire the Spanish people, and unintentionally fanned “separatist flames” in Catalonia. Buck sees the present ongoing crisis as part of a “continuing struggle in the story of modern Spain between the old and new, right and left, reaction and reform, the religious and secular, tradition and modernity”. But his book goes beyond politics to offer a “deeply sympathetic portrayal” of a country “whose people love nothing more than to gather at dusk for a chat in the plaza”. For all the turmoil, “Spain is a country that gets under your skin”.



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The \$100,000 shopping spree

When you're backed by a state investment fund, you can really go wild in the shops

“What is the robbing of a bank compared to the founding of a bank?” So said Bertolt Brecht. If the old Marxist were alive today he'd no doubt be having similar thoughts about sovereign wealth funds. Malaysia is still reeling from the scandal surrounding its now insolvent state-owned investment fund 1MDB. Criminal and regulatory investigations around the world have “cast an unflattering spotlight on deal-making, election spending and political patronage” in the country, say Shamim Adam, Laurence Arnold and Yudith Ho for Bloomberg. Authorities estimate that half of the \$8bn raised by bond sales was “siphoned off” to line the pockets of a few powerful individuals.

Malaysia's Marie Antoinette

One of the chief beneficiaries is allegedly Najib Razak, Malaysia's then prime minister, who received nearly \$700m in plundered funds, says Heather Chen, Kevin Ponniah and Mayuri Mei Lin for the BBC. Although initially cleared of wrongdoing, he was voted out of office by voters angry at the lifestyle of him and his wife, whose spending habits were “compared to those of Imelda Marcos and Marie Antoinette”. Indeed, when police later raided his apartments they seized \$28.6m (£21.3m) in cash, as well as a “trove of luxury goods” that included “500 luxury handbags, hundreds of watches, and 12,000 items of jewellery said to be worth up to \$273m”.

Najib is currently being tried on 42 charges, including corruption, money



Najib Razak and his wife take time out from shopping

laundering and abuse of power. But the true “mastermind” of the scheme appears to have been the Chinese-Malaysian financier Low Taek Jho (aka “Jho Low”). Low allegedly “leveraged his powerful political connections to win business for 1MDB through the payment of hundreds of millions of dollars in bribes”. He then used the funds to buy some of the world's most expensive real estate and coveted artwork and to finance Hollywood films. In a moment of supreme irony one of those films was the *The Wolf of Wall Street*.

Low was so close to Najib and his wife that witnesses at Najib's trial claim that he would personally arrange to pick up the bill for their large shopping sprees, says Independent News of Singapore. When Najib's credit card did not go through at a luxury-brand Chanel store in Hawaii, as he was trying to spend more than \$100,000 on it, for example, he texted Low to sort it

out. A similar thing happened when Najib shopped at De Grisogono, a Swiss jeweller, to buy jewellery worth millions of ringgit. As well as covering charges, Low deposited RM12.3m (\$3m) in cash into Najib's account to prevent cheques from bouncing.

The good news is that some of the ill-gotten gains seem to be trickling back into the system, says Time magazine. Malaysian authorities have seized Low's assets and persuaded those who have benefitted from his largesse to return it. Hollywood producer Joey McFarland (who says that he didn't realise the illicit source of the funds), for example, agreed to surrender a vintage French *King Kong* poster, a Jean-Michel Basquiat drawing, and several luxury watches given to him by Jho Low. Lets hope that there's more where that came from.

Quintus Slide

Tabloid money... why diamonds are a girl's best friend

● **Great British Bake Off** judge Paul Hollywood apparently asked Summer Monteys-Fullam (pictured), his now ex-girlfriend, to sign a non-disclosure agreement, says Vanessa Feltz in the *Daily Express*. She wasn't having any of it. Despite the obvious answer to Mrs Merton's evergreen question – “What first attracted you to the multi-millionaire (an estimated £10m) Paul Hollywood?” – the lady was not for silencing. But when she went back for her things, Monteys-Fullam faced a problem. She found “you can't stick a hot tub under your arm and it's tough to roar off in a £100,000 Range Rover if your ex has the keys”. There is an excellent lesson to be learned here. “Marilyn Monroe wasn't convinced ‘diamonds are a girl's best friend’ without excellent reason”, after all. “Stick the necklace in your make-up bag, the tiara in your backpack and the earrings down your bra, and you're good to go.”



● “When did owning your own home become the impossible dream?” asks Tony Parsons in *The Sun* on Sunday. The percentage of home owners aged between 25 and 34 has dropped from 55% to 35% since 2000, according to the Office for National Statistics. Two decades ago, being a young property owner was relatively normal. “But now young home owners are an endangered species.” They call this “Generation Rent”, but the cruel truth is that, these days, “millions of them can't even afford soaring rent prices”. So they are stuck living with mum and dad long after they would have otherwise flown the nest. That is destructive, because “nothing gives you a stake in society like owning your own home”.

● The recent Google Camp party in Sicily was a gathering of A-listers to discuss climate change, says Jane Moore in *The Sun*. “Or to the rest of us – a boondoggle for entitled fools. How else to describe an event attended by 200 of some of the world's richest people who arrived on eco-unfriendly private jets and luxury yachts?” Residents and hotel guests near the site of the meeting were told to avoid looking out of their windows for fear of invading the privacy of the elite, who were dining al fresco. We're talking about the “same slebs, one assumes, who regularly virtue signal their moral credentials by advocating a world without borders, where everyone should be treated the same... yada yada. If hypocrisy was a movie, they'd all be winning Oscars.”

Bridge by Andrew Robson

A sweet Stern slam

When Ely Culbertson and his powerful American team were surprisingly defeated in the first World Bridge Championship in 1937, the captain and intelligence behind the winning Australian team was Dr Paul Stern. Stern, a born authoritarian, required his team to adhere with absolute rigidity to their Viennese Club system (One Club was opened with most hands that did not contain a five-card suit – apart from Clubs). A temperamental player himself, Stern once threw a cup of cocoa at an inept partner, later dismissing the gaffe with the remark (in his heavily accented English), “There vos no sugar in it”. He had little interest in the part-score, and here is a brilliantly declared slam by Stern.

Dealer North

Neither-side vulnerable

<p>♠ Q10963 ♥ 63 ♦ J982 ♣ 106</p>	<p>♠ A75 ♥ K742 ♦ KQ4 ♣ AQ7</p> <table border="1" style="margin: auto;"> <tr><td></td><td>N</td><td></td></tr> <tr><td>W</td><td></td><td>E</td></tr> <tr><td></td><td>S</td><td></td></tr> </table> <p>♠ 842 ♥ - ♦ A1065 ♣ KJ9832</p>		N		W		E		S		<p>♠ KJ ♥ AQJ10985 ♦ 73 ♣ 54</p>
	N										
W		E									
	S										

The bidding

South	West	North	East
2♣	pass	1♥	pass
4♣*	pass	3NT	pass
pass	pass	6♣	pass

* Distinctly optimistic move towards a Club slam.

Winning the ten of trumps lead with dummy’s Queen, declarer ruffed a Heart. He led a trump to the Ace (observing the even split), ruffed a second Heart, led a Diamond to the Queen, and ruffed a third Heart. When he saw West discard (a Spade) he realised that Diamonds were unlikely to split (given East held seven Hearts). Undaunted, he crossed to the King of Diamonds and ruffed a fourth Heart (with his last trump), West discarding another Spade. At trick nine, declarer made the key play. He ducked a Spade in both hands. East won and led back a Spade, but declarer won in dummy and led his last trump (discarding a Spade from hand), squeezing West in Spades and Diamonds. Throwing the Queen of Spades would set up dummy’s last Spade; while letting go a Diamond would give declarer two tricks with his Ace-ten. Twelve tricks and slam made.

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

Sudoku 960

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

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

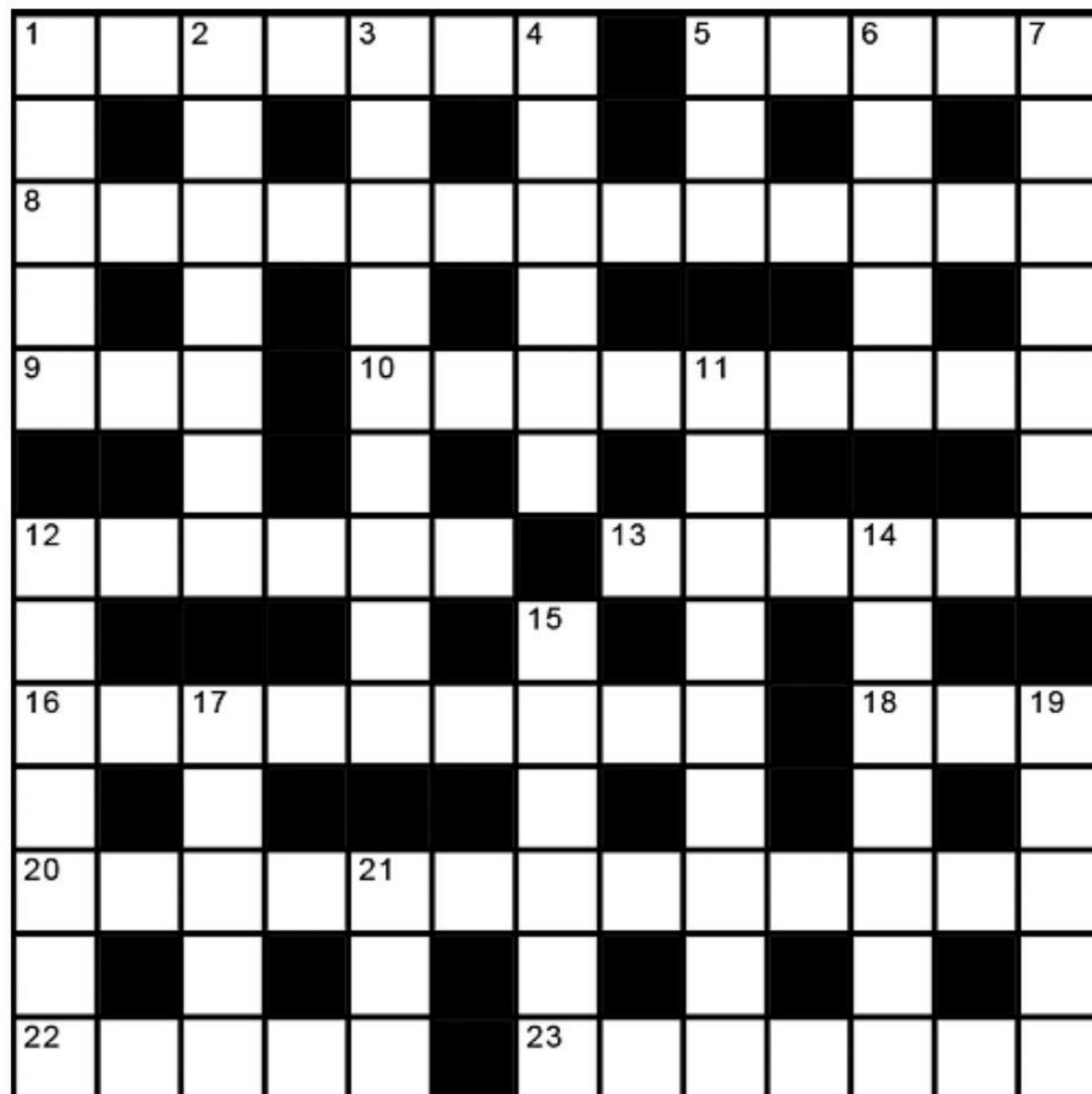
2	8	5	6	3	9	7	4	1
1	4	3	2	7	5	8	9	6
9	6	7	8	1	4	3	5	2
3	1	4	5	2	7	9	6	8
6	5	8	3	9	1	2	7	4
7	9	2	4	6	8	1	3	5
5	7	9	1	4	2	6	8	3
8	3	1	7	5	6	4	2	9
4	2	6	9	8	3	5	1	7

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Tim Moorey’s Quick Crossword No. 960

A bottle of Taylor’s Late Bottled Vintage will be given to the sender of the first correct solution opened on 26 August 2019. Answers to MoneyWeek’s Quick Crossword No. 960, 31-32 Alfred Place, London, WC1E 7DP.



Across clues are mildly cryptic whereas down clues are straightforward

ACROSS

- 1 Short sword wounded girl (7)
- 5 A first-class letter from Athens (5)
- 8 Star involved in Old West action (5, 8)
- 9 Runner in miniskirt (3)
- 10 Rig not working for lecture (5, 4)
- 12 South Coast resort out of bounds? Correct (6)
- 13 Lubricant sounding like a country (6)
- 16 Former PM happy? Almost high! (9)
- 18 Bull and swine half bolted (3)
- 20 Revised tea-time and dinner not fixed (13)
- 22 Eat a lot of Cheddar? (5)
- 23 Drunk without members (7)

DOWN

- 1 Male birds (5)
- 2 Working hard (7)
- 3 Counteracting medicines (9)
- 4 Traps (6)
- 5 Paintings (3)
- 6 Trailer (5)
- 7 Firm to the bite (2, 5)
- 11 Presenting a film (9)
- 12 Falsifying (7)
- 14 Price of an aviation ticket (7)
- 15 A pen for cattle (6)
- 17 Venomous snake (5)
- 19 Rows (5)
- 21 Little piggy for a child (3)

Name

Address

Solutions to 958

Across 1 Sidecar *two meanings* 5 Eland *E + land* 8 On air *hidden* 9 Letters *two meanings* 10 Thomas Cranmer *anagram* 11 Rating *two meanings* 12 Madras *anagram* 14 German measles *anagram* 18 Artisan *hidden* 19 Zebra *anagram of braze less n* 20 Steer *two meanings* 21 Castled *cast + led*. **Down** 1 Stoa 2 Drag out 3 Curtain raiser 4 Relic 5 Extravaganzas 6 A-team 7 Deserts 11 Ragbags 13 Relabel 15 Retie 16 Manic 17 Shard.

The winner of MoneyWeek Quick Crossword No. 958 is: Marcus Conder of Flintshire.

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

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



Prices turn screwy

Markets have been queered by governments and central banks. Gold is not fooled



Bill Bonner
Columnist

With the debt ceiling out of the way – the White House and US Congress recently came to an agreement to raise the legal cap on government borrowing – the sky’s the limit. The Treasury is preparing to issue nearly a trillion dollars’ worth of new debt. This should sink bond prices. Instead, they go up! Savvy traders are front-running the central banks. The gamblers know the score – it’s “inflate or die”. They know more rate cuts are in the offing. So they buy bonds.

At the same time, investors are getting increasingly fearful about Donald Trump’s trade wars and the prospect that they may spark a slump. And then, there’s Snapchat, Spotify, WeWork, Lyft, Uber – the whole cohort of hallucinogenic companies carried aloft by a gust of hot money. Investors don’t know what to make of it. And if they try, they give themselves headaches.

We reach for something more solid, something we can hold on to. Almost everything in the financial world has been queered by central bankers. The whole bull market – 2009-2019 – for example, was false, phoney, a fake-out by central banks. Yes, stock prices rose impressively in dollar terms. But in real-money terms – gold – the bull market of the last ten years looks like an average bear-market bounce.

“In terms of real money – gold – the bull looks like a bear-market bounce”



Lyft will take you anywhere on a gust of hot money

In gold terms, the Dow merely retraced half of its losses. You could buy the Dow with 40 ounces of gold in January 2000. By January 2011, the Dow 30 stocks cost only eight ounces. In other words, stock investors had lost 80% of their

money. Then, in the following run-up, the Dow-to-gold ratio rose to 22.

At that point, stock investors had recovered about half of what they lost – a classic bear-market bounce.

The feds can fool some of the people some of the time, and they can fool stock investors almost all the time. But they can’t fool gold. Gold is real money. It faithfully records what things are worth. And right now, it’s telling us that the stockmarket is worth less than half of what it was worth 20 years ago. We’ll pause to let you absorb that.

What this tells us is that from an economic perspective, the whole 21st century has been a bust. America’s most precious resource – its leading industrial companies – has lost half its capital value. Wall Street has been unable to add a single penny.

Why have incomes for most people gone nowhere? Why is the world \$2.50trn in debt (anti-capital) when it should be flush with more real money than ever before? Why is the US federal government running trillion-dollar deficits? Why is the Fed cutting rates? Why would anyone buy a bond with a negative rate? And how come American families are going deeper into debt when employment is at record highs? Bad omens... evil portents... mass slayings... proliferating claptrap... Prices turn screwy and the world wobbles. Surely some revelation is at hand?

The bottom line

43 The record high percentage of adults in Britain who do not pay any income tax, according to a study from the Institute for Fiscal Studies (IFS). That compares with 38% in 2010. Conversely, the top 1% of earners pay 27% of the nation’s income tax.

\$117bn The collective paper losses incurred by the world’s 500 wealthiest people on the Bloomberg Billionaires index in a single day after US stock prices tumbled on Monday of last week – the year’s biggest fall. The sell-off represented 2.1% of their collective net worth.

13 The percentage fall of non-doms in Britain to a record low of 78,300 last year, according to HM Revenue & Customs. Half of that fall – around 6,000 people – represented wealthy individuals fleeing the possibility of a Labour government after Brexit, says The Times.

\$200m The estimated figure of a deal between David Benioff and DB Weiss, the creators of hit fantasy drama *Game of Thrones*, to make programmes for film and television streaming service Netflix. Benioff and Weiss had made

Game of Thrones for American TV network HBO.

0 The number of 1p and 2p coins that were struck by the Royal Mint last year – the first time since 1972 for 1p coins and 1984 for 2p coins that production has ceased. There are an estimated 10.5 billion of the former and 6.3 billion of the latter in circulation – ample, the Treasury said.

£80m How much Manchester United has spent on signing England centre back Harry Maguire (pictured) from Premier League rivals Leicester City – a world record-breaking amount for a defender, and the second-highest price paid for a British player.



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

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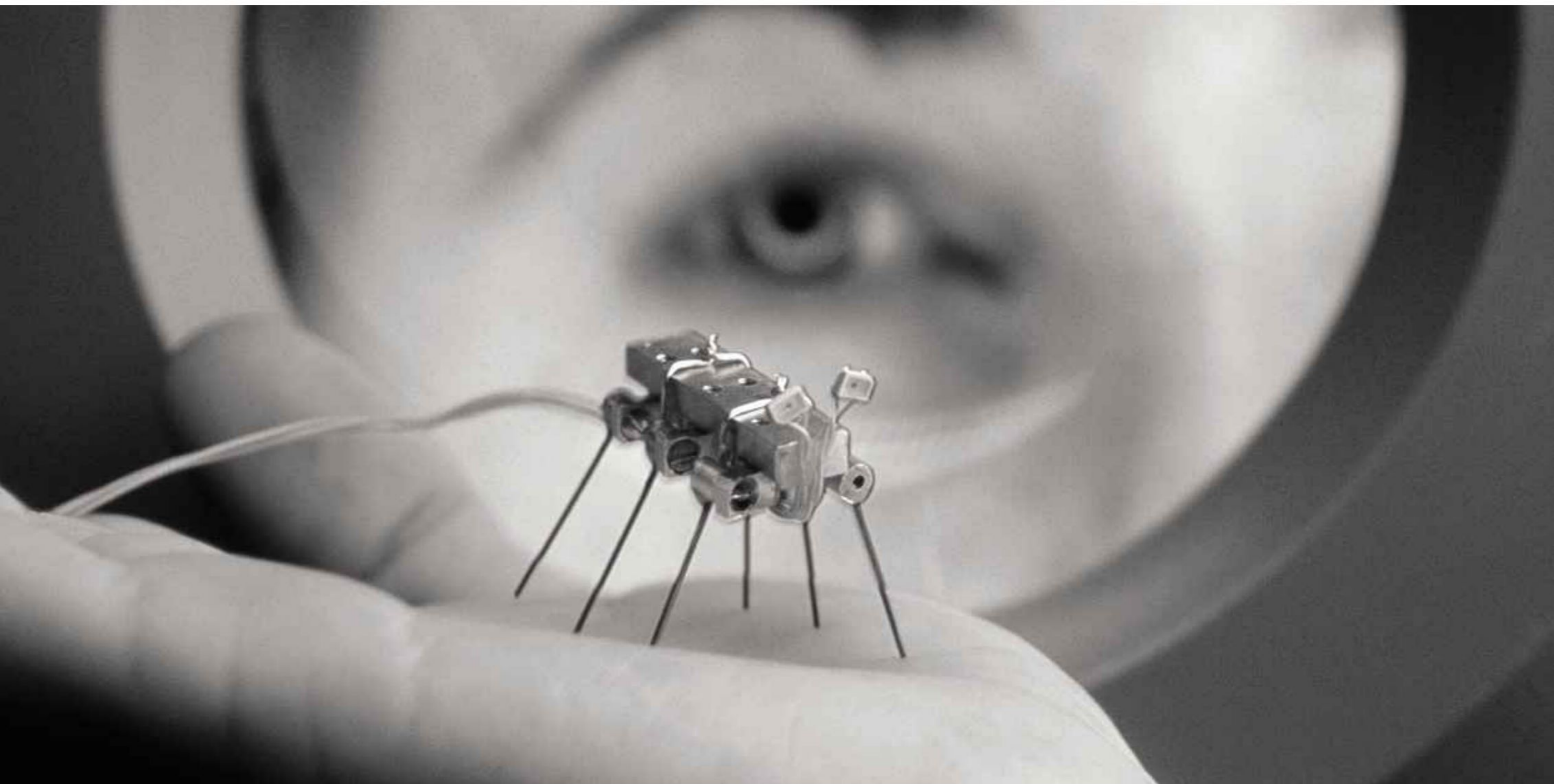
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