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MoneyWeek

MAKE IT, KEEP IT, SPEND IT

20 DECEMBER 2019 | ISSUE 978 | £4.25

What's Boris got in store?

It's time to buy Britain

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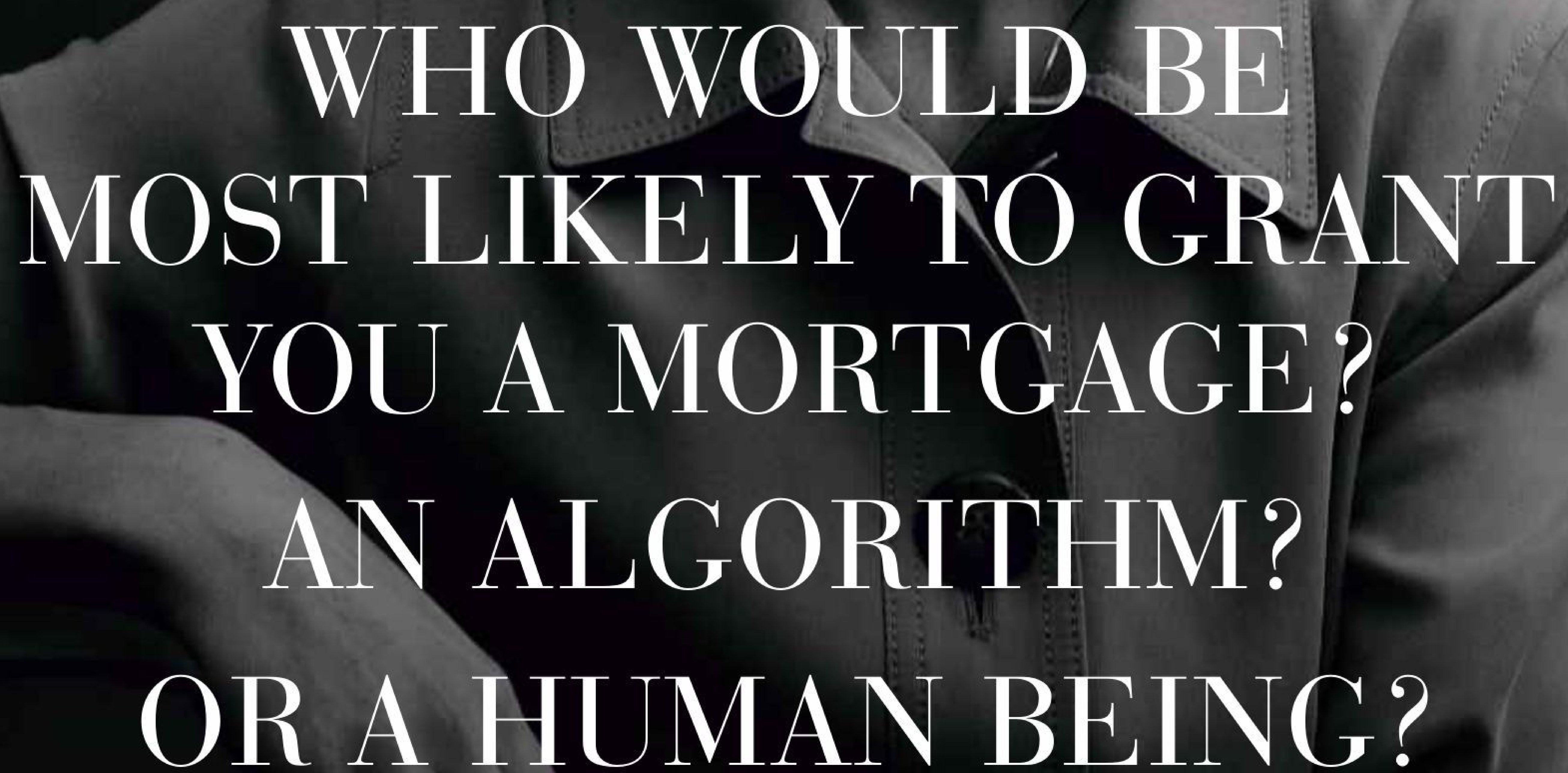

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MoneyWeek

20 December 2019 | Issue 978

Britain's best-selling financial magazine

From the editor-in-chief...

Regular readers will know I have a tendency to look for the downside in most investment situations. But from an investor's point of view, it's very hard to be anything other than deeply relieved about last week's general election result. Regardless of who you voted for, you have to accept that the outcome delivers on the thing that markets crave more than anything else – some certainty.

Britain will definitely be leaving the EU in 2020

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We now know that the UK isn't about to embark on a campaign of wholesale renationalisation. We now know that most voters aren't naive enough to look at a seemingly endless list of electoral bribes and simple solutions to complicated problems without wondering about the credibility of those making the promises. And we now know that whatever else happens, Britain will leave the European Union (EU), thus showing that our democracy is not broken as many have claimed in the last few years, but in fact working pretty much as it is supposed to – ie, facilitating change in power structures without the need for violent revolution.

"We now know that the UK isn't going to embark on a campaign of renationalisation"

There's always plenty to worry about

Put bluntly, we should be thanking our lucky stars. Yes, there are still plenty of risks ahead. The pound spiked higher on the day of the election – but then ended up right back where it started once everyone remembered that we still have to agree a long-term trade deal with the EU. Matthew Lynn looks at some of the tough choices Britain will have to make on page 18. And for all that it may not feel like it, what with the political doom and gloom that has dominated our headlines for most of 2019, Britain and most of the rest of the developing world is currently enjoying what has been a very long economic expansion. How long can the good times continue to roll along without something unexpected – a spiking oil price, say (see page 5), or even the risk that a recovery leads to pressure for interest rates to rise, finally driving interest rates higher and bursting the bond bubble (see page 4)?

There's no way of knowing. But on the upside, Britain – even after the post-election bounce – still looks cheap relative to other markets. So if you've been avoiding the UK because of Jeremy Corbyn or the Brexit chaos, now looks a good time to bring some of that money back home – for some ideas on how to do it, see pages 8 and 30.

That said, don't bring too much of your money home – too many investors have too much cash invested in their own country and if you do stick to the UK then you'll miss out on the opportunity to invest in some of the fantastic ideas dished up by our regular contributors from page 24 in this week's magazine. Our editor, Andrew, reckons Poland is looking good. Our columnist Mike takes a closer look at biotechnology. Cris looks at Singaporean real estate, while Richard checks out a cheap global consumer goods company – and that's just a handful of the ideas they've come up with.

Oh, and if you're worried you've left it too late to buy a gift for that special someone in your life, don't dash off to the all-night petrol station just yet – turn to page 38 for some last-minute ideas. And make sure you're around for next week's special New Year double issue – it features one of the best roundtable discussions we've had yet. Meanwhile, a very Merry Christmas to you all.

John Stepek
editor@moneyweek.com

Loser of the week

©Alamy

David Kowitz, an American hedge fund manager, has been ordered to repay Sotheby's the £4.5m he received as his share in the sale price of a painting that the auction house now says is a fake, reports The New York Times. Kowitz and art dealer Mark Weiss bought *Portrait of a Gentleman*, attributed to Frans Hals, in 2010 and sold it via Sotheby's to American collector Richard Hedreen a year later for £6.7m. But recently Sotheby's declared it a fake, rescinded the sale, and refunded Hedreen the sale price. Weiss settled with Sotheby's earlier this year. But Kowitz, who runs Fairlight Art Ventures fund, refused, insisting it was genuine. The judge disagreed. "The nice thing is that [the] court decided in Sotheby's favour on every single point," said Paul Lomas, a lawyer for Sotheby's.

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

Good week for:

550 of the UK's sub-postmasters are celebrating victory in a long-running legal dispute against the Post Office in which it wrongly accused them of fraud after many large discrepancies were found in franchisees' accounts. However, the problem lay with a flawed IT system, not the sub-postmasters. The Post Office admitted it had "got things wrong" and will pay a £58m settlement.

Around **200 staff of a real estate company in Baltimore** are enjoying an early Christmas after sharing $10m in bonuses. The average received among the 198 staff was $50,000, and the highest was $200,000. The bonuses were awarded to celebrate St. John Properties having developed 20 million square feet of commercial property space, says The Washington Post.

Bad week for:

A group of Franciscan nuns in Spain stand accused of the illegal sale of religious artefacts, reports The Times. A 13th-century statue from the Our Lady of the Angels convent in Granada has appeared in an antiques catalogue priced at €350,000. The dealer said he bought it from a "private individual" for €100,000, saying "I wouldn't dream of going to a convent to buy, because it's illegal".

Businessman **Stephen Shalson** is suing the owners of London's Heron Tower for £100,000, after going without broadband for two years, writes The Daily Telegraph. In 2014, Shalson, 70, bought a £3m luxury flat in the tower, but had to log in at the local library until a connection was finally installed in 2016. Heron Residences argues that broadband provision was not in the terms of the sale.

Easy money propels stocks to new highs

Alex Rankine
Markets editor

It is impossible to overstate the role of monetary support in driving this year's stockmarket gains

©Getty Images

Washington has finally agreed to "stop punching itself in the face", says Bloomberg's David Fickling. Markets cheered at the end of last week on the announcement of the long-awaited "phase one" trade deal between America and China. The MSCI All-World index hit a new all-time high on Monday on the resulting euphoria, with the Eurostoxx 600 following suit for the first time in more than four years.

A scary summer

The trade news provides a good bookend to the year, says John Authers on Bloomberg. On 1 August Donald Trump announced the planned pre-Christmas tariffs via Twitter, heralding a difficult summer for markets. The inversion of the yield curve later that month left many fearing impending recession. The 15 December tariffs had thus become something of a market totem, making their cancellation all the more sweet.

A key theme of the year has been the strong showing by safe-haven assets. The panic unleashed by Trump's trade tantrums and sagging global growth sent money flooding into bonds, dollar assets and gold. At its peak in late August as much as $17trn in government and corporate debt worldwide had a negative yield.

The dollar also defied predictions that it was set for a fall, strengthening past the seven yuan to the dollar mark this summer after China let its currency weaken. Gold is up almost 14% since 1 January. This year has "been an eventful one", says Neil Shearing of Capital Economics. Key to this have been the "dramatic u-turns" by central banks in the United States and Europe. The US Fed had been raising interest rates at the end of 2018, but weaker global growth triggered a shift to easing of a "speed and scale" that took many by surprise.

The central bank rally

The Federal Reserve has now cut interest rates three times since July, while the European Central Bank has restarted its quantitative-easing programme. The result was a rally in global equities. The S&P 500 is up 27% for the year to date, with the Eurostoxx 600 rising more than 24%. China's CSI 300 is on course to deliver a mammoth 34% gain. The FTSE 100 is up about 11.5% for the year.

That is surprising, given a year marked by shaky global growth, but stockmarkets seem to be taking their cues from central bankers. This year brought the "fastest pace of central bank easing since the financial crisis", says Michael Mackenzie in the Financial Times. It is impossible to overstate the role of monetary support in driving this year's stockmarket gains. Yet even as better global manufacturing data and a US-China trade resolution lead many to conclude that the worst has passed, central bankers are taking no chances. Policymakers have signalled that money will remain easy for "the foreseeable future". In a world of "slumbering yields", the challenge for investors now is to find a way to navigate a landscape of overpriced bonds, expensive US stocks and "limited upside". Welcome to the era of "indefinite monetary support".

China's maturing corporate bond market

Beijing cannot afford to bail out everyone

©Getty Images

"Chinese companies are defaulting on bonds in record numbers," writes Nathaniel Taplin in The Wall Street Journal. Private-sector businesses have been hit by both the trade war and a government crackdown on shadow banking. The result is that their default rate was 4% during the first 11 months of this year, compared with less than 1% two years ago. The fallout has so far been limited. But if the trouble spills over into the market for debt issued by state-owned enterprises (SOEs), which account for 90% of the bond market, we could be in for much bigger ructions.

Tewoo Group, a commodities trader, this month became the first Chinese state-owned business to default on its offshore debt in two decades, says Narayanan Somasundaram in the Nikkei Asian Review. Investors had assumed that "China would backstop its corporate enterprises and prevent an offshore bond default". Yet there is so much debt sloshing around the system that at a time of falling tax revenues the government cannot afford to bail out everyone. China is also alert to the risk of "moral hazard", says Xie Yu in The Wall Street Journal. A blanket bailout guarantee only encourages "risky bets made in the belief" that the state will foot the bill if things go wrong. With overall debt levels above 300% of GDP, Beijing can no longer extend "blithe assumptions of state support" to every SOE.

The new default trend is probably a good thing, says The Economist. "Defaults are part of any efficient bond market," making investors sensitive to risk and ensuring that they steer funds towards the best firms. Yet the "chasm" between default rates in the private and state-owned parts of the economy raises the risk that it is not the most deserving, but the most well connected, that can secure easy funding.

Rising output will keep a lid on oil

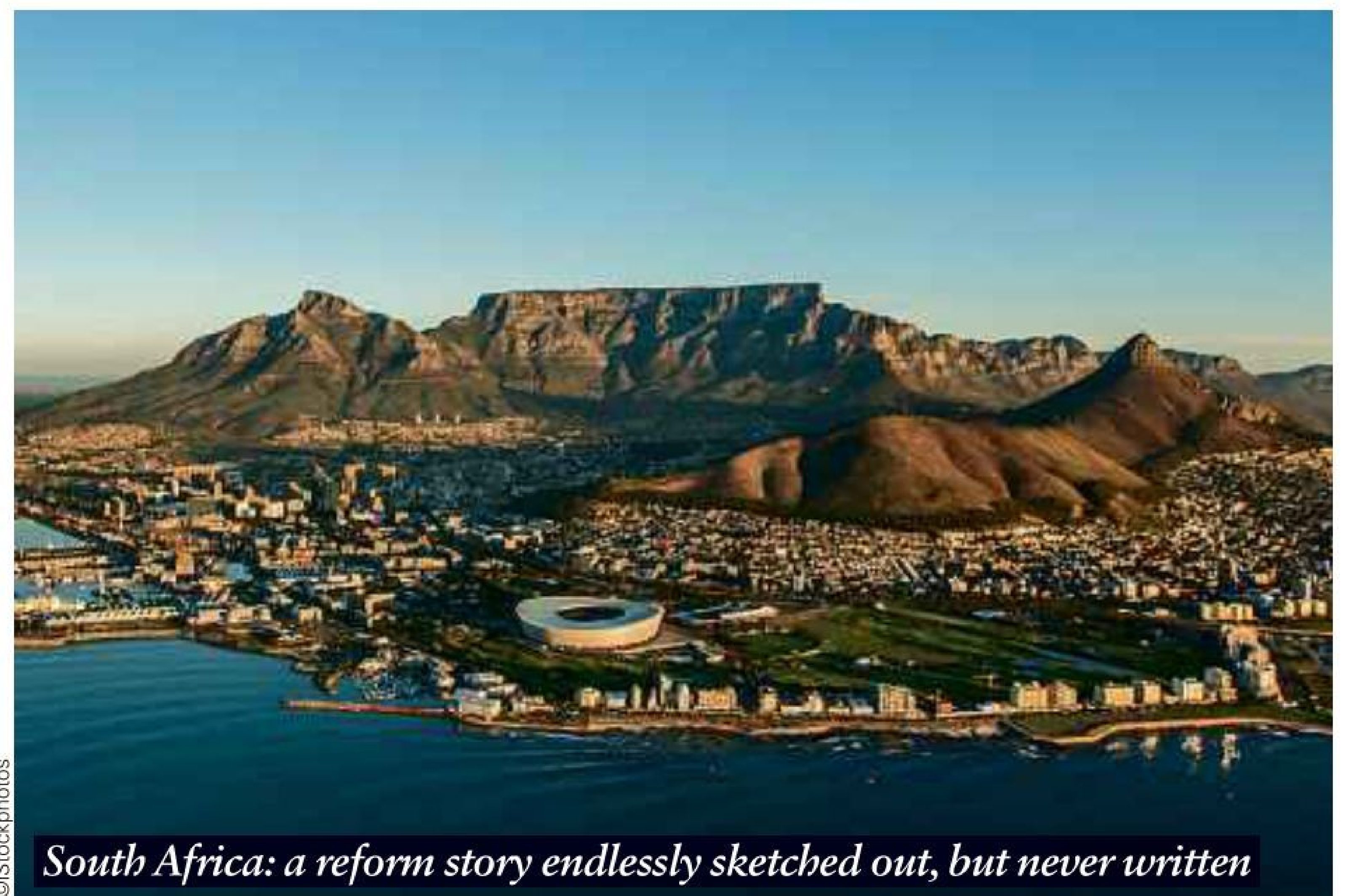
Oil has hit a three-month high above $65 a barrel following Trump's China trade deal. That is a level not seen since September's drone attack on Saudi Arabia briefly knocked out some 5% of global supply. Brent crude is up about 21% for the year, but still below April's 2019 high of $74.5. Oil bulls were given further cheer when Saudi Aramco's stock briefly soared above the symbolic valuation level of $2trn on the Saudi Tadawul index, notes Avi Salzman for Barron's. Yet Bernstein analysts reckon that at current prices the company is worth closer to $1.36trn. Political influence makes it "hard to argue that Aramco's current price is a true 'market price'".

Oil exporters' cartel Opec gave further encouragement to the bulls this month after agreeing to new production curbs, says Sarah Toy in The Wall Street Journal. The oil cartel and allies will cut output by 500,000 barrels a day until April, adding to an already existing 1.2 million barrels per day cutback. Yet the oil rally stalled at the start of this week because of scepticism over whether the deal will truly reduce global supplies next year. Nigeria and Iraq are already struggling to honour existing commitments. The International Energy Agency expects global oil inventories to rise by 700,000 barrels per day in the first quarter of 2020 due to weak global demand and rising output in non-Opec states. That could keep a lid on oil.

South Africa runs out of time

"Cyril Ramaphosa is running out of time to reform South Africa," says The Economist. The country was "ravaged" by years of corruption under his predecessor Jacob Zuma.

Ramaphosa must take on the cosy world of "pampered industries" protected from genuine competition, "cushy labour laws" that help cause a 29% unemployment rate and public servants who "do little but... embezzle". Yet his consensus-first approach suggests that he prefers to give in to vested interests rather than taking them on.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South Africa: a reform story endlessly sketched out, but never written

GDP in Africa's most industrialised country fell for the second time this year in the third quarter, prompting renewed talk of impending recession, says Roxanne Henderson on Bloomberg.

Indeed, South Africa risks losing its status as an investment destination altogether, says James Formby of Rand Merchant Bank in Johannesburg's Business Day. The solutions are clear: greater fiscal discipline, a clampdown on corruption, easing labour laws and reforming the power grid. Politicians must realise that "it's no longer five to midnight, it is midnight".

Moody's is the last credit-rating agency to grade South African sovereign debt above junk status, notes David Pilling in the Financial Times. A downgrade, and higher interest payments, would only worsen a shaky fiscal position, with public debt moving towards 70% of GDP. Energy monopoly Eskom's "clapped-out" power stations and creaking grid cannot ensure reliable power.

The firm's $30bn debt is worth 9% of the country's entire GDP, while 55% of its money is spent on "bloated coal contracts" negotiated by government cronies. Ramaphosa is "loath to take on the vested interests" that helped him gain the presidency, but if he doesn't "Eskom will drag the country down with it".

The eternal reform story

The gloom is weighing on the stockmarket. The country's FTSE/JSE Top 40 benchmark is up 11.5% so far this year, about half the global average equity performance. On a price/earnings ratio of 13.3 the market appears to offer value. But we have been here before.

South Africa is a "reform story endlessly sketched out but never written", says Buttonwood in The Economist. Years of commissions into how to unleash growth have yielded little real reform. The country still enjoys a certain "residual appeal".

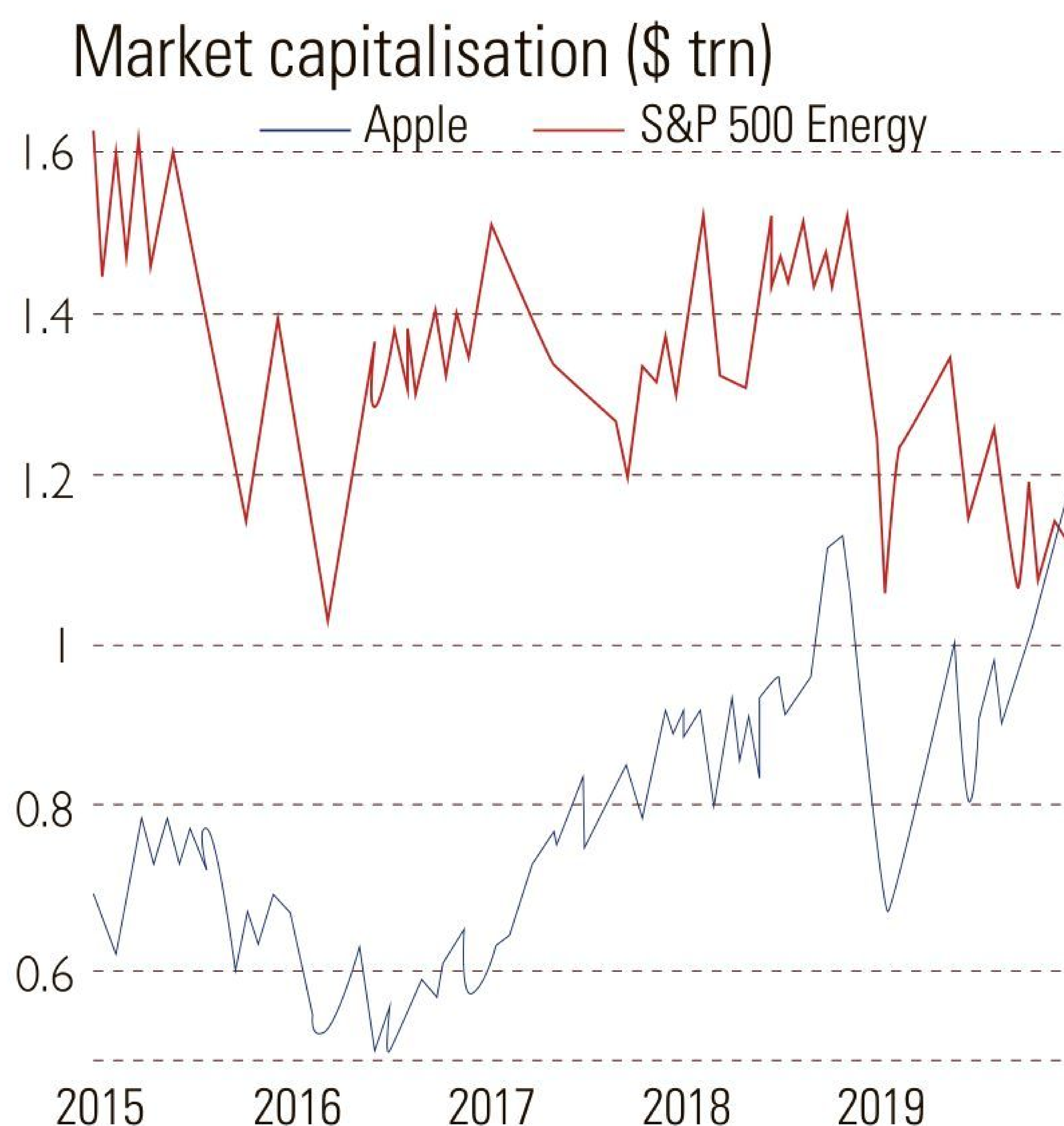
Key institutions such as the central bank and treasury are well run. Ironically, the nation's well-run companies operate in such oligopolistic conditions that they are often immune to broader economic trouble. Yet investors often choose to be "tactical" – buying in for short periods when they think markets have got carried away. In the long term, "few are valiant enough to be outright bullish".

Viewpoint

Asia-Pacific has seen much faster dividend growth than the rest of the world. Since 2009, payouts in Asia-Pacific (excluding Japan) have more than tripled, rising 216% by the end of September, an average annual increase of 12.9%. Dividends outside the region have also done well, more than doubling over the period in sterling terms (up 121%), but clearly have not been able to match the Asian advance. In the year to the end of April 2020, Henderson Far East Income expects corporate profits across the region to see low single-digit growth, but anticipates dividend growth to be faster than this, because there is room for payout ratios to expand. [Manager] Mike Kerley... says: "A key element of the investment case for Asia is a structural shift that has seen companies increasingly adopt a dividend-paying culture... this is unlocking long-term value".

Henderson Far East Income Trust

■ Apple outgrows US energy sector



A major market milestone has been reached on Wall Street. Tech giant Apple, following a 70% share-price surge this year, has eclipsed the value of the entire US energy sector, says Robin Wigglesworth on ft.com. Apple now boasts a market capitalisation of almost $1.2trn, while the S&P 500 Energy index stands at $1.12trn. Oil prices have been hampered by signs of slowing global demand, while Apple has shrugged off fears that trade tensions would dent sales and profits thanks to a strong performance from its wearables division: Apple Watches and Airpods helped give revenue an unexpected fillip in the third quarter. Apple has regained its position as America's most valuable listed company from Microsoft, worth $1.16trn.

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

Three to buy

Burberry
The Sunday Telegraph
Chief creative officer Riccardo Tisci's new product line-up has proved a hit with customers and helped drive double-digit percentage sales growth during the first half of the financial year. A new emphasis on recycled materials – including fishing nets – is boosting Burberry's environmental credentials, while its global footprint is increasingly orientated towards faster-growing markets such as China. A 24.9 price/earnings ratio is high, but the auspicious prospects justify a premium valuation. Expect the stock to become "even more fashionable among investors". *2,120p*

Learning Technologies Group
The Sunday Times
This Aim-listed corporate online trainer helps the likes of L'Oréal and the Royal Mail to improve staff skills. Management is now concentrating on moving into related markets, as shown by recent acquisitions of talent management and recruitment businesses in the US and UK. Many investors remain sceptical, yet the coming year "looks bright" – analysts forecast 38% sales growth and a 46% jump in profits. A dominant market position, plenty of scope for new acquisitions and a solid financial record suggest that there are plenty of reasons to be bullish. Buy. *122p*

QinetiQ
Shares
This defence technology firm has emerged in recent years as an "integrated global defence and security business". Overseas revenue has doubled in three years to account for 30% of the total. An average return on equity of 26.4% over the past five years and 14% operating margins demonstrate that this is a high-quality business. On 16.1 times earnings, the valuation is not demanding given the growth prospects. Buy. *353p*

Three to sell

Alphabet
The Times
Google's parent company generated a staggering $40.5bn in revenue in the third quarter alone and boasts more than $120bn in cash. Digital advertising is the group's cash cow, but regulators in the US and Europe are now gearing up to take on the Google/Facebook advertising duopoly, which they also accuse of failing to prevent the spread of disinformation. Young upstarts such as Pinterest and TikTok are grabbing market share, while Amazon's digital advertising operations cast a "menacing shadow". *$1,343*

Purplebricks
Investors Chronicle
Cost control is improving at this online estate agent, but it still has a long way to go. Marketing and other operating costs continued to outpace revenue growth in the first half, driving Purplebricks to a £1.2m operating loss. It also expects to make a £10m-£14m loss as it winds down its overextended US

and Australian operations. A 60% increase in marketing spending in Canada has yielded better results, but in the UK market share is stagnant while slowing housing transactions bode ill. Sell. *113p*

Royal Dutch Shell
Motley Fool UK
A dimming global growth outlook has seen shares in this oil major fall 9% this year, but that doesn't make it a buying opportunity. The International Energy Agency expects non-Opec supply to surge next year. Bargain hunters will like Shell's ten times forward price-to-earnings ratio and 7% dividend yield, but the odds of "more serious share-price weakness in 2020" make the juicy yield "a risk too far". *2,152.5p*

...and the rest

The Daily Telegraph
The JP Morgan American Investment Trust's balance of growth and value approaches makes it a "potential one-stop shop for your US exposure". A 0.38% ongoing annual charge is one of the lowest around *(467p)*.

Investors Chronicle
WH Smith has been pivoting towards the fast-growing travel sector for some time now and a $400m deal to buy US tourist retailer Marshall will only ease the route to more "high-

quality growth". The high-street operation also appears to be "stabilising" *(2,388p)*. A protracted period of economic uncertainty has left many small businesses showing "signs of distress". The construction sector is having a tough time, but shares in **Morgan Sindall** are up over a third this year and a post-election spending boost could bring further upside *(1,446p)*.

Shares
Those looking for upside in Japan's under-researched mid- and small-caps sector should take a look at **Aberdeen Japan Investment Trust,** which trades on an appealing 9.4% discount to net asset value (NAV) *(630p)*. British consumer confidence could be due for a bounce and **Tesco** is in "pole position to benefit" *(243.25p)*. **Computacenter's** "three-pronged" strategy of selling equipment, software and outsourced IT solutions has yielded robust profit, cash flow and dividends over the last few years. Buy *(1,652p)*.

The Times
Shares in aerospace and defence group **Babcock** are priced on just 8.3 times forecast earnings and yield 5.1%. That's a bargain for a group whose healthy order book will keep it busy *(598p)*.

A German view

Japan's car and lorry parts manufacturer Bridgestone has a finger in several promising pies, says WirtschaftsWoche. Its main business is tyres, which account for around £25bn in annual sales. The market is growing by around 4%-5% a year as the number of vehicles worldwide rises. Tyres for electric vehicles, which tend to be heavier than conventional ones, is a promising new field. The fleet management division is doing well too. Chips embedded in tyres can gauge wear and tear and bolster profitability by reducing breakdowns; the recent takeover of satellite navigation group Tom Tom helps it keep track of fleets more easily. The stock is on just 11 times 2020 earnings and yields 3.7%.

IPO watch

Business-to-business software and payments company Bill.com has had a successful initial public offering (IPO), with shares priced at $22 soaring to $35 just hours after it began trading in New York, says Donna Fuscaldo in Forbes. Bill.com, which handles small businesses' financial operations with an artificial intelligence-enabled platform, raised $216m, valuing the group at $1.6bn. The company lost $7.3m in the year to June, but investors are keen on the stock because the small companies' payments market has been neglected by big players. "With paper cheques still a mainstay of small businesses [in the US]," there is ample scope for payments firms to automate operations.

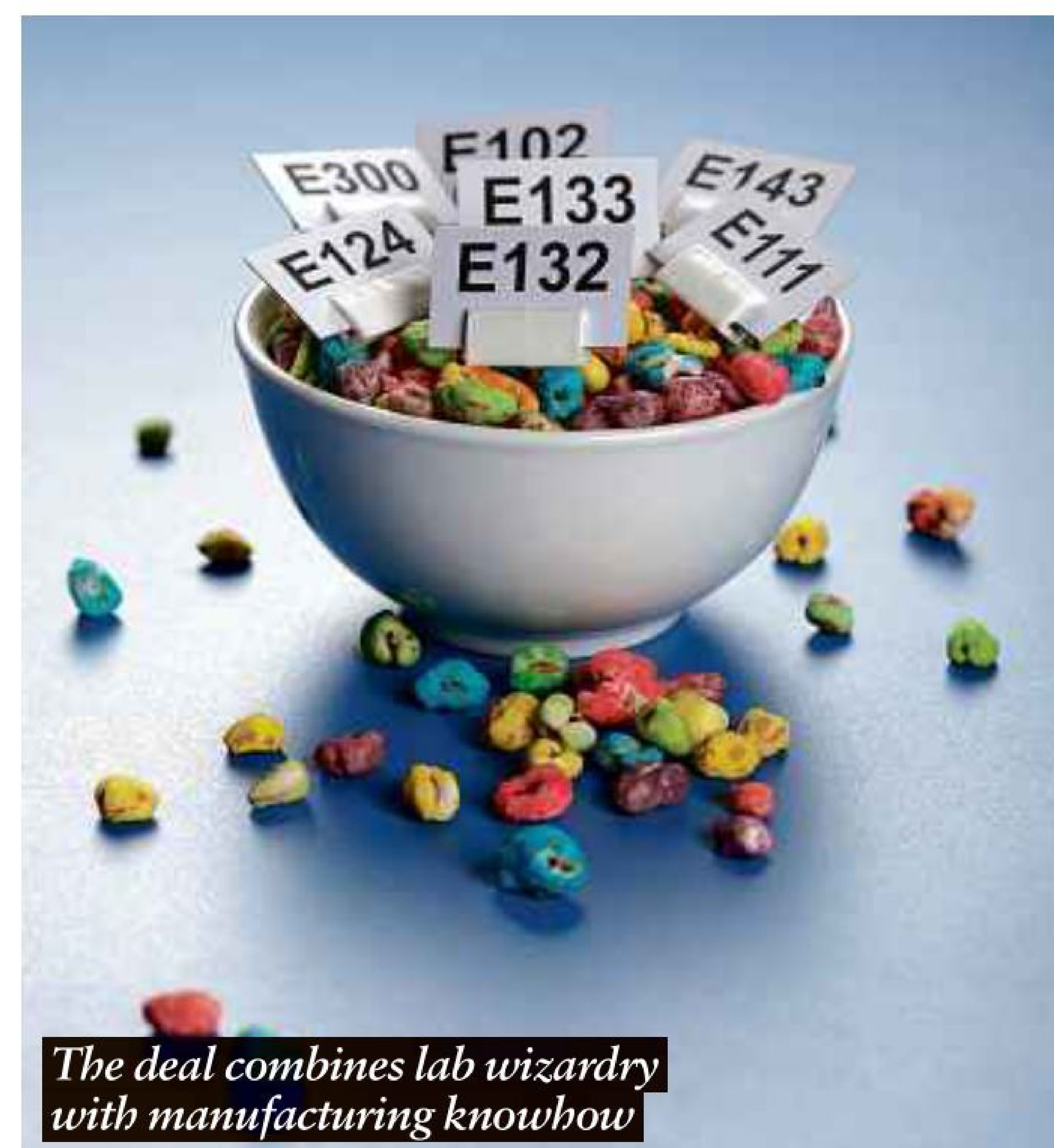
©Getty Images

IFF swallows a tasty dish

The food flavourings giant has just spent $26.2bn on DuPont's nutrition and biosciences business. Matthew Partridge reports

International Flavors & Fragrances (IFF) is on the warpath again, says the Financial Times. A year after spending $7.3bn to buy Frutarom Industries as part of its plan "to consolidate the food flavouring sector", it is splashing out another $26.2bn to buy DuPont's nutrition and biosciences business. The new company, which will be run by IFF's CEO, aims to be a "giant" in the flavourings and nutrients industry. It will have an enterprise value of $45bn and annual revenues of $11bn, employing 23,000 people and providing ingredients for "products from vegan burgers to salad dressing to laundry detergent".

While International Flavors & Fragrances has been expanding through acquisitions, DuPont has been going in the opposite direction as it looks to "salvage shareholder value" in the face of a US-China trade war that has "crimped growth", says Bloomberg. Even though DuPont merged with Dow only three years ago, the "chemical giant" created by that alliance has already undergone a large degree of fragmentation. Not only was the Dow division spun off earlier this year, but this was followed by the agriculture business, leaving the conglomerate now split into three parts.



The deal combines lab wizardry with manufacturing knowhow

A mixture of flavours

Both firms hope that the merger will enable them to "blitz" the global ingredients market while "significantly" cutting down on costs, says Michelle Toh for CNN. Both companies are projecting savings of "about $300m" within three years of closing the deal and expect the new company to achieve a "leading position in segments including soy proteins, enzymes and probiotics". In particular, they hope to take advantage of the fact that "consumers have been increasingly gravitating toward healthier and more natural flavours", which accounted for over 50% of the market in 2018.

The two companies could work better together as one, with IFF's "lab wizardry" and DuPont's manufacturing know-how encouraging big clients "to buy more natural colourings, emulsifiers and so forth", says Liam Proud on Breakingviews. Still, it looks as though DuPont's shareholders are getting the "juiciest morsels", with a $7.3bn special cash payment as well as "55.4% of the combined business". The deal will have a "slightly off odour" for IFF, who will not only be swallowing a much larger company at an "expensive valuation", but also adding a "slug of debt" as well.

The deal is also bad news for Irish firm Kerry, whom IFF pipped to the prize, says The Irish Times. Kerry had hoped that taking over part of DuPont's business would have helped it "expand in healthy bacteria strains, ingredients found in dietary supplements, cheese and bakery products, and nutritional products that prevent or treat diseases. Having lost out on a deal that would have been one of the biggest carried out by a listed Irish company, the stock has fallen by 4% this week.

Cineworld heads to Canada

By buying Canadian rival Cineplex, Britain's Cineworld has decided to be "predator rather than prey" as the industry consolidates amid competition from "big-spending streaming platforms", says Alice Hancock in the Financial Times. The deal will allow it to tap the $770m annual revenues from the Canadian box office. The acquisition comes after the company announced that it had missed full-year revenue forecasts, blaming a "disappointing run of film sequels" in the first half of 2019.

The deal has already "raised eyebrows" given Cineworld's "heavily indebted balance sheet" due to a previous $3bn purchase of US cinema operator Regal at the end of 2017, says Oliver Gill in The Daily Telegraph. While the company insists that Cineworld "can cope with this debt" because it is a "very strong cash machine", its high level of borrowing means that it is already one of the most shorted companies on the London Stock Exchange. Cineworld shareholders need to calm down, says Alec Macfarlane on breakingviews. True, more debt-driven acquisitions look "scary" after a "dreary" year at the box office. However, the deal gives Cineworld a 75% box-office market share in Canada, which is a "stable, mature market".

What's more, the return on invested capital is a "reasonable" 8.6% and the cost-savings estimate could prove "conservative", given savings on the Regal deal ended up being closer to $190m than the initial estimate of $100m. The company may well work off much of the debt in time "for the next sequel".

City talk

● Infrastructure group Costain has issued another profit warning after "taking a £20m hit on a project to turn a stretch of road in the Brecon Beacons into a dual carriageway", says Ben Marlow in the Daily Telegraph. While the "odd setback" is to be expected, the botch jobs "seem to be piling up at an alarming rate". With estimated annual profits "now less than a third of original forecasts", the dividend must be "seriously at risk". CEO Alex Vaughan insists the rest of the business is "performing well", but we've heard that before.

● Mike Ashley's strategy of "taking advantage of rivals' agony to make acquisitions" might be starting to work, says Andrea Felsted on Bloomberg. Sports Direct's shares have jumped by 27% "on the first good news for over a year". Not only will a large Belgian tax bill not be "such a big problem after all", but "green shoots of recovery" at House of Fraser mean profits will also be higher than previously expected. Finally, the sale and leaseback for Sports Direct's Shirebrook campus has "helped to halve net debt".

● Like much of the consumer goods industry, Unilever has been seeking to "reignite growth" in an attempt to "escape a period of stagnant sales", says Myles McCormick in the Financial Times. But things don't seem to be going to plan. The stock has dropped by 6% after the group admitted that it now thinks underlying sales growth for 2019 will be "slightly below" 3% instead of the 3%-5% it had previously predicted. The company blamed a slower global economy, but there is "more to it" than that. Unilever faces longer-term issues, such as "millennials ditching well-established brands" and the ascendancy of new trends such as veganism.

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How to play the Boris bounce

Whatever else Boris Johnson has planned, one thing is clear – after years in the cold, it's time to buy Britain, says John Stepek

This time last year, Britain looked virtually ungovernable. Theresa May had just survived a "no confidence" vote in the House of Commons, but her days as prime minister were numbered. With open rebellion in her own party and no way to pass her Brexit deal without getting entangled in one party or another's thicket of "red lines", the UK was gridlocked.

Fast forward to today. With the Conservatives, under Prime Minister Boris Johnson, securing a majority of 80 seats – far more than expected – Britain now has its first "solid majority government" in 14 years, as Helen Thomas of BlondeMoney puts it. Not only that, it's the first such Conservative government in 32 years. It is no exaggeration to say that "this will completely change the outlook for the country". What happens now? And what does it mean for investors?

The new politics

The most obvious change is on Brexit. Johnson's withdrawal agreement is set to go back in front of parliament on Friday 20 December, where it should now pass easily. So Britain will leave the European Union (EU) on 31 January. A "transition period" during which to negotiate a new deal with the EU then follows. The aim is to have this wrapped up by the end of next year – if not, the relationship will be governed by World Trade Organisation (WTO) rules. The government has formally ruled out any extension to the deadline, with the goal of focusing minds on getting a deal done quickly and also on showing to sceptical "leave" voters that Johnson is serious. That means markets still have the spectre of a "hard Brexit" to fret about – but at least they know that the process has a genuine end point to prepare for now.

Another big shift is that the government will be spending a lot more. One focus will be the north and the Midlands, where lifelong Labour voters turned Conservative rather than vote for Jeremy Corbyn. The new government will want to make sure that those voters don't suffer buyers' remorse, which for now looks to mean billions in extra spending on improving the rail network in particular. The other beneficiary is set to be the NHS, with the government committing to spending an extra £34bn on the health service by the 2023/2024 tax year. The Office for Budget Responsibility – the UK's public spending watchdog – is unlikely to welcome it, but Chancellor Sajid Javid (like every single one of his predecessors) will no doubt find a way to finesse the situation so that it looks as though the government is sticking to one made-up fiscal rule or another, when he finally gets to deliver his first budget in February or early March.

Finally, there's the shake-up of the civil service, under Dominic Cummings, the strategist behind both the Conservative victory and the "leave" vote in 2016. Cummings has often criticised the civil service in lengthy blogs on the topic – now he has the chance to put his ideas on improving things into practice. Overall, reports the Financial Times, the idea is "to help develop a post-Brexit economy – focusing on boosting northern England – and to update UK foreign policy based on the concept of 'global Britain'". So far that includes, among other things, a new energy and climate change department.

©Shutterstock

Prime Minister Boris Johnson celebrates hanging onto his job

"The 'Corbyn discount' is gone and we have more clarity on Brexit"

What does it all mean for investors?

From an investment point of view, the election has already achieved two main things. Firstly, it has removed the need to apply a "Corbyn discount". The share prices of companies in the sectors most at risk of nationalisation under a Labour government have been the ones to recover most resoundingly following the vote. And more broadly there is general relief that the UK has reaffirmed its commitment to free-market capitalism, rather than a return to widespread state ownership and punitive taxation. So from that point of view, the UK is no longer "uninvestable", as some particularly excitable analysts have suggested at various points over the last few years.

Secondly, it provides some certainty on the Brexit process. You may or may not be happy about Britain's decision to leave the EU and the end-state of that relationship is not yet clear. However, we do at least know that the UK will be leaving. And while the process will have several ups and downs over the coming year – Johnson's plan to rule out an extension beyond the end of next year is already rattling markets afresh – the fact that the British negotiators will no longer have to contend with being undermined at home at every turn also means the direction of travel during the process will be clearer. If nothing else, the sense of sheer pandemonium that prevailed throughout the last couple of years is now over.

How does that translate into markets? First, the pound. Sterling will bear the brunt of the ups and downs of the Brexit negotiations next year. So, as Capital Economics suggests, until our future relationship with the EU is done and dusted – which

Continued on page 10

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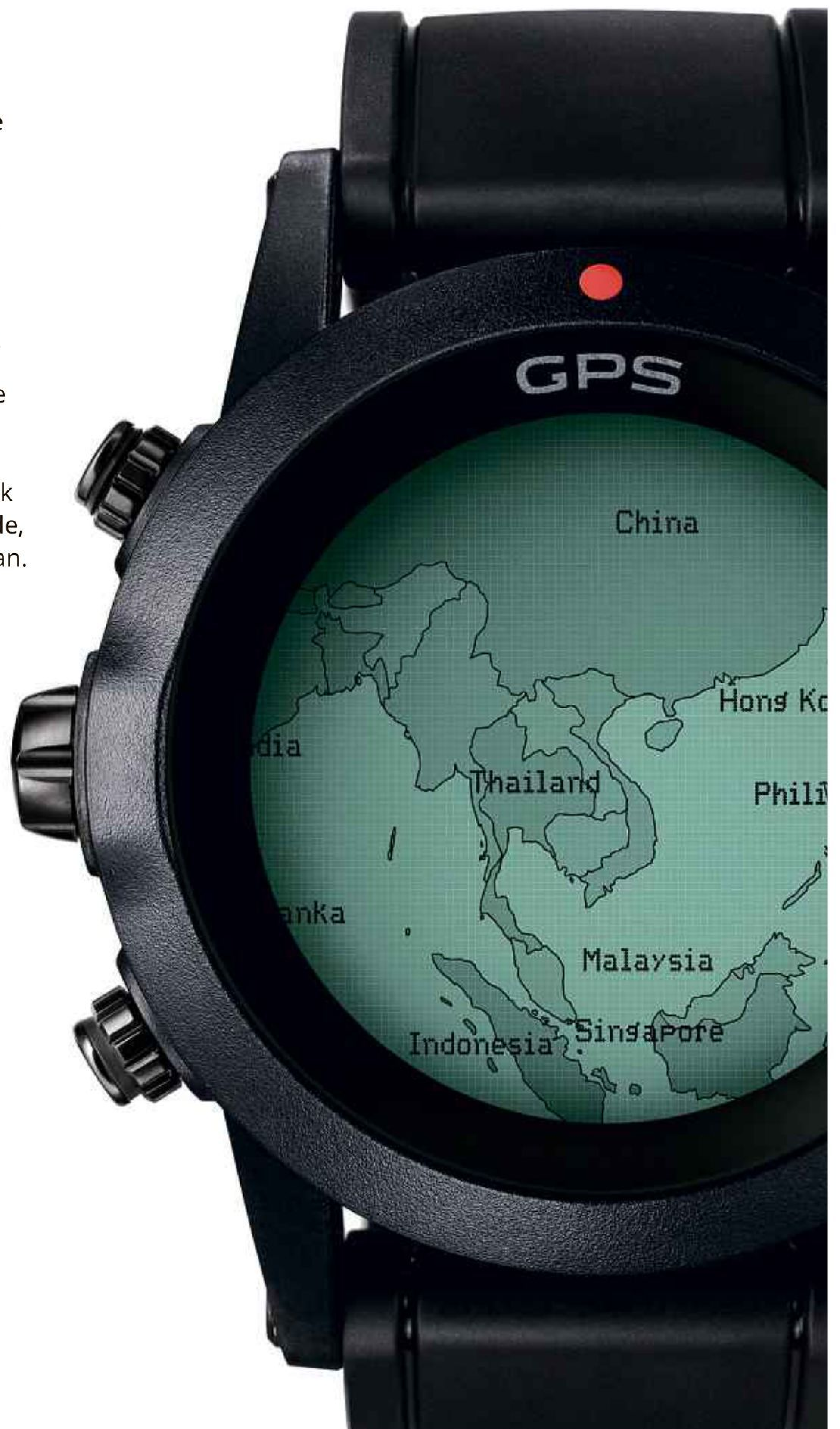

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will probably take most if not all of next year to sort out – the pound may not strengthen drastically. That said, they do expect it to reach $1.40 by the end of 2021. And in the longer term, a stronger pound seems like a good bet. Alessio de Longis at Invesco Investment Solutions tells the Financial Times that "pound strength will continue fundamentally for years to come" as capital returns to the UK, helped by "a slowly changing tide in favour of non-US assets". He reckons the pound will gain 7%-8% a year from here.

Secondly, gilts. The Conservatives don't plan to spend as much as Labour would have, but they're still planning to spend a lot more than we have been. Looser fiscal policy would normally suggest higher government bond yields, and that's probably what we'll get. That said, don't expect any drastic moves – the biggest driving force for gilt yields will still be whatever's going on in global bond markets. While global rates remain low, gilt yields will too.

"Don't expect a big post-election rebound in house prices"

Don't bet on a big bounce back for house prices

Thirdly, house prices. If you're selling a property in a prime area of the UK, particularly London and the southeast, you can expect an easier ride this year. Overseas buyers are no longer being put off by the threat of a Corbyn government and have also realised that the pound's nadir is probably now in the past. The Daily Mail reports on how one Hong Kong multi-millionaire paid £65m for a six-bedroom property in Belgravia on the day the election results came out.

However, if you're a residential landlord hoping that the good times will return, I wouldn't get your hopes up. The Tory government will be less painful for landlords than a Corbyn one would have been. But given how hard the Conservatives have already been on landlords, that's not really saying a lot. The government plans to get rid of "no-fault" evictions, create a system whereby deposits can be transferred between rentals, and impose further rules on energy efficiency. None of this is bad. But it is clear that the trend towards greater regulatory pressure on landlords won't change. So don't expect a revival in buy-to-let.

On a wider point, governments are realising that soaring house prices are no longer a political necessity, but a political liability. The government will hopefully realise that its efforts should focus on increasing good quality, affordable housing supply in areas where it's needed, rather than propping up prices through ill-considered schemes such as Help to Buy.

©Getty Images

The Corbyn discount has been lifted

The sectors and funds that should benefit

Equities are arguably where the greatest opportunity lies for investors. As Capital Economics points out, since the referendum in 2016, "UK mid- and large-cap equities have underperformed those in other major markets", whether you measure in dollar terms or local currencies. That means there's a lot of scope for UK equities to play catch-up with the rest of the world. For example, pre-2016, the UK traded on roughly the same valuation (as measured by the price/earnings ratio) as the US. Now it's 25% lower. Moreover, this is happening at a time when global investors are starting to wonder if it's time for the rest of the world to break its long period of underperformance against the US. That suggests a lot of money will be seeking the most promising turnaround plays – and the UK fits the bill.

What should you buy? You could opt for a simple UK tracker fund – Capital Economics reckons the UK MSCI index will rise by about 17% by the end of 2021, versus around 10% for the US and Europe. But if you're looking for more specific exposure, then domestically focused small companies are the ones that have lagged the most. Options include **BlackRock Throgmorton Trust (LSE: THRG)**, **BlackRock Smaller Companies (LSE: BRSC)** and **Henderson Smaller Companies (LSE: HSL)**, all of which have stellar ten-year records. For a direct play on mid-caps, the **FTSE 250-focused Schroder UK Mid Cap Trust (LSE: SCP)** has done well over the past year, but still trades on a discount to net asset value of 8%.

Another option is to go for a value-focused UK investment trust – one that invests in the companies with most scope for recovery. One that we regularly mention is **Temple Bar (LSE: TMPL)**. One of the fund's top holdings is outsourcing group Capita, which analysts at Mirabaud earlier this year singled out as a strong stock pick for anyone looking for cheap companies that could benefit from extra UK government spending. Temple Bar also owns most of the UK's high-street banks, all of which should be helped by both the lifting of the Corbyn discount and the added clarity on Brexit. Alternatively, you could opt for the **Aurora Trust (LSE: ARR)**, which has a similar bias towards value investing. However you decide to get exposure, we'd argue that with the pound likely to rise in the longer run and relative political stability on the cards for several years, now is almost certainly a good time to increase your allocation to UK equities in your portfolio.

Betting on politics

The election result may have surprised many people, but it's proved profitable for this column. Only two of the big picture bets – Labour getting more than 204.5 seats and the SNP winning less than 44.5 – failed to pay off. The ones that did win were: Labour getting more votes than the Lib Democrats, Labour getting between 25% and 50% of the vote, Lib Democrats getting less than 20% of the vote, Lib Democrats getting ten to 39 seats and the SNP getting 30-48 seats, and the failure of Nigel Farage to get elected and the Brexit Party to win a single seat.

In terms of the bets on individual seats, I tipped 14 out of the 15 constituencies correctly, though admittedly many of them were at relatively short odds. These included Labour victories in Islington North; Manchester Withington; Birmingham Yardley; Brighton Kempdown; Islington South and Finsbury; Vauxhall; Eltham; Bermondsey and Old Southwark; Edinburgh South; Birmingham Edgbaston; Hampstead and Kilburn; Westminster North; Bristol West and Leicester East. The only tip that didn't pay off was in Burnley, where Labour's Julie Cooper lost to the Conservatives.

Overall, my 25 single and grouped bets made an average profit of 19.7%. Counting each part of the grouped bets individually, the 32 bets made a nearly identical return of 18.5%. Looking forward, the major betting event of 2020 will be the elections in the US for president, House of Representatives and the US Senate. Indeed, even though the vote will not take place until November, £8m has already matched on Betfair, and £552,640 on Smarkets, on who will be elected president.

By Matthew Partridge

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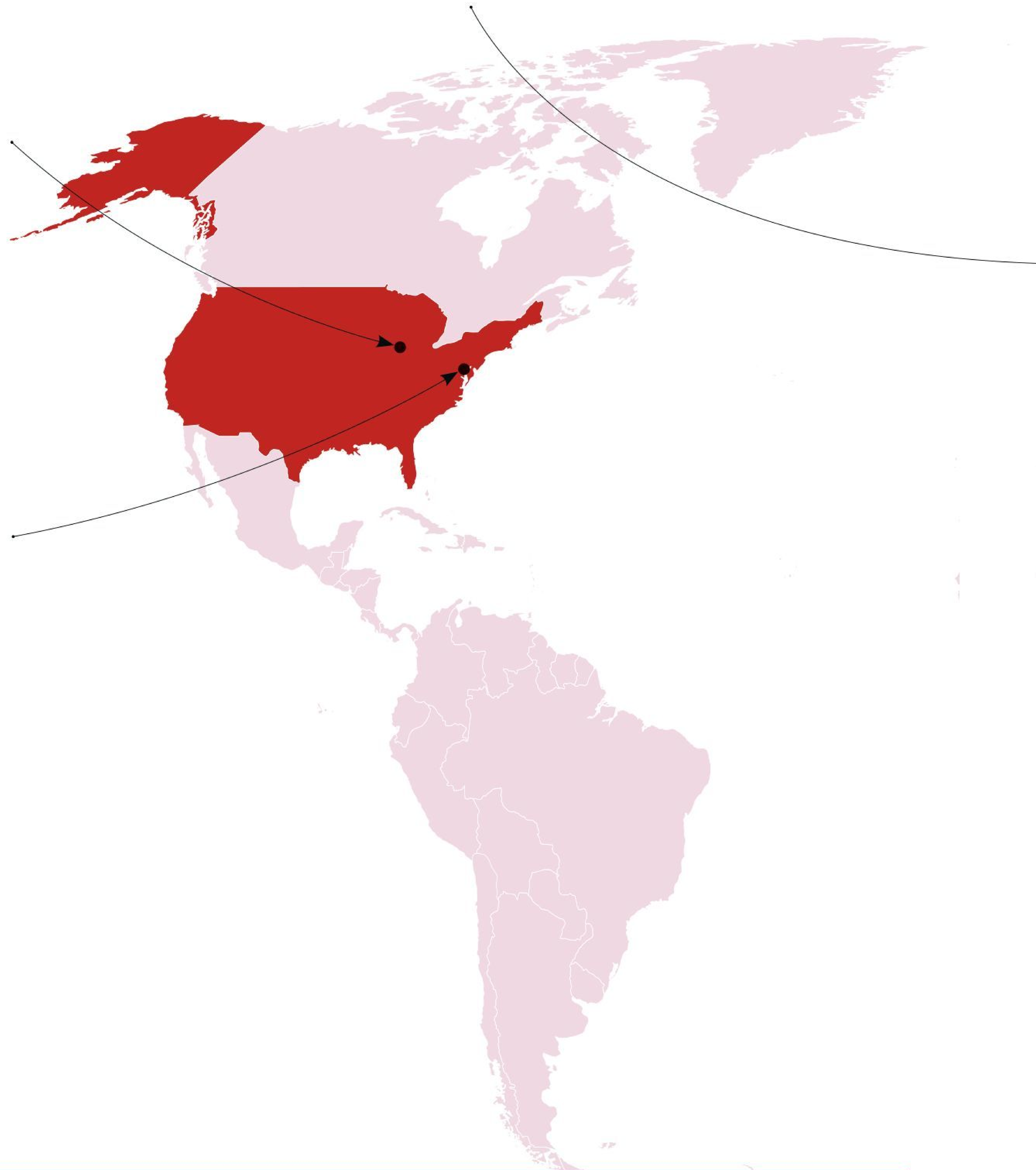
Chicago

Boeing suspends disaster jet: Boeing will suspend commercial production of its 737 Max aircraft in January following two fatal crashes in five months. The model has been grounded since March after two crashes in Indonesia and Ethiopia killed 346 people. The cost of grounding the aircraft had already eclipsed $9bn. The announcement comes after the Federal Aviation Administration said it would not approve the plane's return to service before 2020. Boeing had continued to produce 737 Max jets at a rate of 42 per month, producing a total of 375 undelivered planes. The ongoing crisis reduced third-quarter revenue to $19.9bn from $25.1bn for the same quarter last year. The decision will ricochet through Boeing's supply chain, affecting companies ranging from Spirit AeroSystems, which makes fuselages, to Britain's aerospace and defence groups Ultra Electronics and Meggitt. Southwest Airlines, the largest 737 Max customer, has reached a confidential compensation agreement with Boeing for a portion of the projected $830m loss in operating income in 2019 as a result of the grounding.

London

Another rival for Uber: Indian ride-hailing group Ola, set to launch in London next month, has promised to wage a "price war" in an attempt to break into London's "fiercely competitive" market, says Simon Duke in The Times. Ola, which is backed by Softbank, is hoping to benefit from the problems at Uber. The American company is set to lose its licence after a ruling by Transport for London stating Uber was not "fit and proper" to hold a licence. By "charging keen prices to attract customers and lower commissions to lure drivers", Simon Smith, managing director of Ola's operations outside Europe, believes the company will break even "rapidly". Ola, founded in 2010 by 34-year-old Bhavish Aggarwal, is one of India's best-funded technology businesses. The company has raised over $2.6bn, and is valued at around $6.5bn. Reports say it aims for a stockmarket float in 2021. Ola has yet to reveal its prices or how much it will charge drivers, but has said it will waive commissions in the first two months.



Washington DC

US Supreme Court probes Trump's finances: The Supreme Court will hear three cases about President Donald Trump's financial records in March 2020, says CNBC's Tucker Higgins. Trump is the first president in over 40 years not to make his tax records public voluntarily and he has "fought vigorously" to shield his finances. The president has asked the justices to reverse three lower court rulings that would require his accounting firm and two of his banks to hand over financial records to investigators. The first case stems from an investigation led by New York District Attorney Cyrus Vance. It is examining how the Trump Organization accounted for hush-money payments made to porn star Stormy Daniels and Playboy model Karen McDougal, who alleged affairs with Trump in the months before the 2016 presidential election. This investigation is also demanding a decade of the president's tax returns. The second and third involve subpoenas issued by congressional committees led by Democrats in the House of Representatives. They are seeking financial documents covering 2011-2018. The Court's decision is expected in June 2020.

The way we live now: detecting drunks in rubbish bins

Few things are more likely to ruin a good night out than getting blind drunk, climbing into a recycling bin, falling asleep, and being crushed to death by a garbage processor. So it's excellent news for inebriates everywhere that experts have developed a"human detector" for industrial bins in order to stop rubbish collectors from tipping people into the backs of lorries, says Phoebe Southworth in The Sunday Telegraph. British manufacturer Total Waste Solutions (TWS) has built the very first "human detector" so workers have an "extra layer of protection against unwittingly tipping out bins with people inside". Unknowingly dumping people into lorries has resulted in 20 deaths over the last ten years. TWS came up with a device that fits onto the bin's exterior and is programmed to detect movement, gas, temperature and humidity. The device's light turns green if no one has been in the container since it was last emptied and it will turn red if someone has been or is inside. It can store data for up to 30 days, helping to identify "high-risk" bins that people are more likely to climb inside.

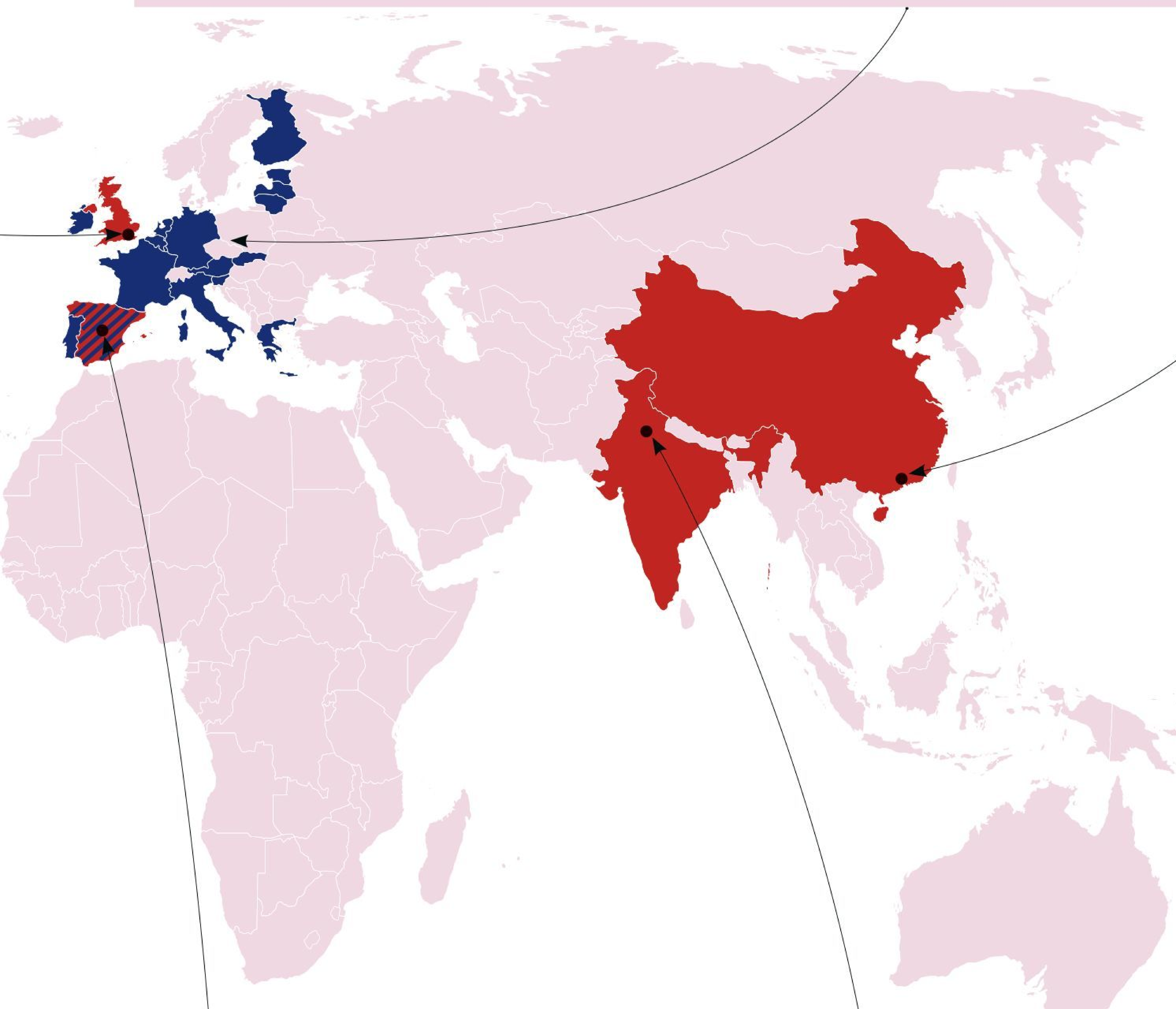
Bins near pubs are "high-risk" for inebriates

©Getty Images; iStockphotos

Eurozone

Economy to limp into 2020: The eurozone's economy "closes out 2019 mired in its worst spell since 2013", Chris Williamson of IHS Markit told City AM. The composite PMI indicator, which tracks activity in both the manufacturing and services sectors, registered a score of 50.6 for December, a fraction above September's six-year low. Anything below 50 indicates a contraction. Manufacturing embarked on its 11th straight month of decline, mostly due to German factories struggling. The country saw its manufacturing PMI slip to 43, the first fall after marginal rises in the previous two months. Germany is especially export-dependent and has been shaken by the global trade war. It's not all bad news, however. The PMI tracking eurozone services ticked up to a four-month high, while the German economy may also be bottoming out. The Ifo business confidence indicator has climbed for a third month in a row. The news follows last week's increase in Germany's investors' confidence survey to a seven-year high. Signs of a trade deal between the US and China, along with supportive central banks (see page 4) provide scope for growth to strengthen.

German factories struggled in 2019



Shenzhen

Huawei causes conundrum in Germany: Lawmakers from Germany's two governing parties have agreed a bill that would effectively exclude China's telecoms giant Huawei from the country's rollout of 5G networks, says Guy Chazan in the Financial Times. Although the draft bill does not mention Huawei by name, it states that suppliers at "risk of state influence" should be deemed "untrustworthy" and avoided. Chancellor Angela Merkel has been under "intense pressure" from Washington and her own intelligence agencies to take a tougher stance with Huawei, which many fear could be used by Beijing to conduct espionage or cyber sabotage. So far she has resisted the pressure, fearing that a ban could prompt retaliatory measures, which China's ambassador to Germany has been swift to threaten. This leaves Berlin with a "real conundrum", says The Washington Post. Banning Huawei makes sense from a security standpoint and would keep Washington happy, yet China is Germany's third-biggest export market. Germany also has one of the worst mobile networks in Europe and a ban could delay its ambitious 5G deployment plans by at least two years.

Madrid

More hot air on climate change: The longest United Nations climate talks on record have ended having "failed to produce real action", says The Economist. There were several major sticking points, including an inability to get delegates from nearly 200 nations to agree to cut emissions "more and faster than promised so far" to avert a critical 1.5°C temperature rise, but the Madrid talks will be mainly remembered for the failure to reach agreement on regulations for new international carbon markets. These are critical in the battle against climate change. Analysis by America's Environmental Defense Fund finds that such markets could "theoretically reduce the cost of meeting climate targets" by 59%-79%. If those savings were reinvested in "further efforts to mitigate emissions, cumulative reduction in global emissions between 2020 and 2035 could potentially be double what is... on the table in national pledges under the Paris agreement". A deal has been deferred until March 2020.

New Delhi

Citizenship law sparks unrest: A new law that allows non-Muslim immigrants from neighbouring, mostly Muslim, countries to obtain Indian citizenship has sparked violent protests from New Delhi to Assam, says Una Galani on Breakingviews. Some object to the Citizenship Amendment Bill because "they see it as anti-Muslim, aggravating religious tensions". India's population is 80% Hindu and hardliners in Prime Minister Narendra Modi's ruling Bharatiya Janata Party have become "increasingly emboldened" to push a Hindu nationalist agenda, as Bloomberg points out. Others, in Assam and less developed north-eastern states, "fear an influx of outsiders regardless of creed". The timing is poor. In less than 18 months, economic growth has "sputtered" from an annual pace of 8% to 4.5%, the weakest in six years, while unemployment is near 45-year highs, says the Nikkei Economic Review. As Modi (pictured) observed in 2014, the economy needs to grow at 8% just to absorb those entering the workforce. The latest political unrest is raising concerns that the ruling party's political agenda is taking precedence, says Galani. This is "hardly reassuring to the overseas capitalists India needs". Foreign direct investment has been flatlining for two years. India's economic problems "require urgent attention and political friction can only distract".

The great French pensions revolt

Workers in France are on strike and taking to the streets to protest against President Macron's reforms. We've seen this play before – but this time the ending may be different. Simon Wilson reports

What's going on in France?

The country has been crippled for the past two weeks by strikes and street protests against President Macron's planned pension reforms, which he hopes will streamline a complex and outdated system. The reforms aim to encourage (but not force) people to work longer, encourage job mobility and (in the long run) shrink the cost to the state. The current system is a hotch-potch of 42 different sector-specific schemes, each with different levels of contributions and benefits, and which grant early retirement on high pensions to particular groups, such as rail workers and Paris bus drivers. The state pension kicks in at 62 and France spends 14% of GDP on public pensions, among the highest in the world (the OECD average is 8%).

French protests are a "dragon that must be slain"

©Getty Images

What are Macron's proposals?

Under Macron's plan, France will move to a single, universal state pension system based on average salaries and how long people have worked, rather than final salaries. Those with stop-start careers, including many women, will benefit. There'd be a monthly minimum of €1,000 (higher than in the UK); the reforms would be introduced gradually between 2022 and 2037; and the legal retirement age would remain at 62, although incentives will coax workers to stay on longer. The government says the new system will be "fairer", although one obvious effect of the gradualist approach will be to push the biggest burden of the changes onto younger generations. Many workers, though, fear that they will see their pensions and privileges slashed – and are taking to the streets in protest.

Sounds familiar...

Macron is not the first president to attempt reform only to meet with mass protests. If there is a sense of déjà vu, it's because there have been street protests in France against pension reforms in 1993, 1995, 1999, 2003, 2007 and 2010. What typically happens, says John Lichfield in The Guardian, is that after a period of conflict the two sides – government and people – "retire, exhausted. Small concessions of ground are made. No clear goals are scored by either side." This time round, the precedent being widely cited is 1995, when the "France versus Jacques Chirac and Alain Juppé game went into prolonged extra time (three weeks of transport strikes) before the government caved in more or less completely. A rare, undisputed goal for 'the people'."

"It looks stormy across the Channel, but the overall picture is one of quiet progress"

Who will win this time round?

The turmoil is ongoing. Macron's side has been weakened by the enforced resignation, on Monday, of his pensions tsar, Jean-Paul Delevoye. He had failed to disclose 13 private-sector positions he held alongside his cabinet role. So it's possible Macron will come to regret his ambition. He has pushed through difficult reforms to the tax system, the railways and the labour market, and has only just fought the *gilets jaunes* movement to a standstill. A period of quiet retrenchment might have been wise. The reason he is pursuing the issue so doggedly, says Lichfield, is he wants to change the way the country thinks. Pensions reform has become the great symbol of a "supposedly immovable France. It is, Macron believes, a dragon that must be slain if the country is to be prepared for the opportunities and cruel tests of the 21st century".

How's France doing more broadly?

Not badly. It is less exposed to slowdowns in global trade and manufacturing – and to Donald Trump's trade wars – than Germany, say. And while German growth in GDP has slowed sharply, to the point of recession, France's growth is holding up reasonably well (the economy is projected to expand by 1.3% in 2019). There are even signs of hope in the notoriously rigid labour market. France still has the highest jobless rate in the EU after Italy, Spain and Greece, but it fell to its lowest level in a decade in the second quarter, to 8.5%. Macron's target of cutting it to 7% by the end of his term in 2022, from 9.7% at the start, now looks feasible.

How has he reformed labour markets?

Macron has made long-term contracts less onerous for employers by capping the cost of unfair dismissal, says Hannah Copeland in the FT – and he has also reformed taxes and benefits to make low-wage work more attractive. He has also accelerated training and skills initiatives, including a five-year, €15bn scheme to train long-term and young unemployed people, while at the same time tightening unemployment benefits for higher earners (who enjoyed especially generous treatment, with benefits based on previous salary levels). "His plan is more systematic and consistent than previous governments," argues Stéphane Carcillo, head of the OECD's jobs and income division. According to the OECD, France now has a more flexible labour market when it comes to permanent workers than Germany, Italy or Sweden. It also has the second-lowest tax rate in the OECD for people on the minimum wage, after Japan.

So things are looking up for France?

Broadly, yes. The hard data on consumer demand, business investment and overall growth in the final quarter of 2019 are "encouraging", says Julien Manceaux of ING. However, the beginning of 2020 has the potential to be "accident prone". Business investment growth is set to abate with "the manufacturing slowdown and a renewed period of uncertainty triggered by social unrest". Meanwhile, the labour market – which is "still the main factor supporting current growth– could also slow down earlier than expected because of this instability, sending consumer confidence back down," says the ING analyst. Looking further ahead, the key positive is that (notwithstanding the strikes and protests) Macron's structural-reform agenda remains in place, argues Cédric Gemehl of Gavekal Research. That should continue to improve the long-term growth potential of the French economy. Things across the Channel currently look stormy, but the overall picture is one of quiet progress.

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Emerging markets, hidden risks

Developing countries look cheap compared with developed markets, but earnings may be less trustworthy

Cris Sholto Heaton
Investment columnist

Investing in emerging markets (EMs) has felt distinctly uncomfortable lately. At a time when developed markets are performing well, the MSCI Emerging Markets index is still down by around 6% in US dollar terms since the start of 2018. By contrast, the S&P 500 has gone on to set regular record highs and even the underperforming FTSE 100 is not far off its peak.

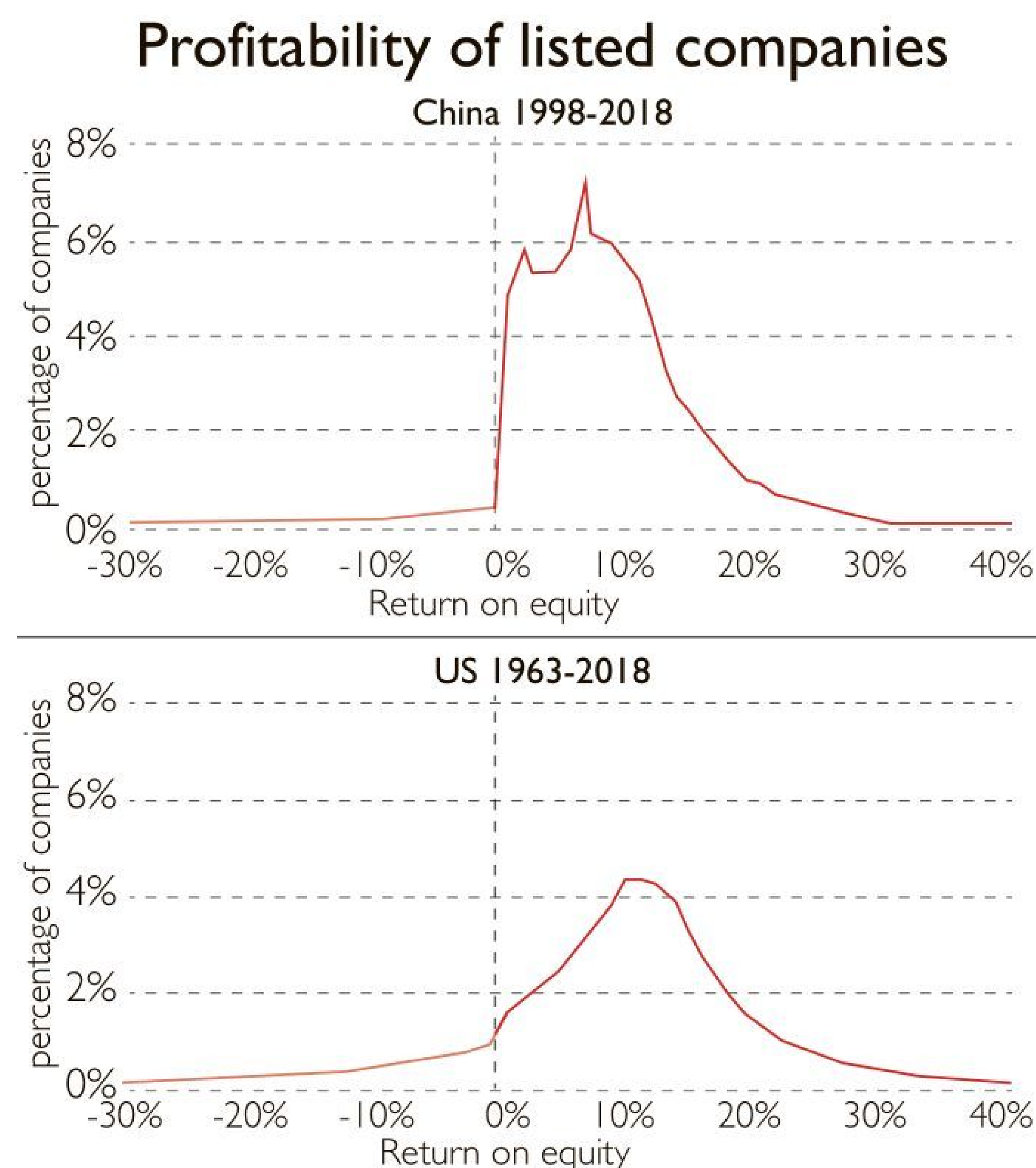
Value-orientated investors will comfort themselves that emerging markets look pretty cheap. The MSCI EM trades on a price/earnings ratio of around 14, compared with 22.5 for the US and 17 for Europe. You'd expect emerging markets to trade at lower valuations than developed ones because they carry greater political and economic risks. But a gap like that should compensate you for quite a lot of risks.

Emerging markets are also more biased towards cyclical sectors: the MSCI EM has around 25% in financials and 15% in energy and metals, compared with 13% and 7% respectively for the US. So purely in terms of the mix of earnings, there's good reason for emerging markets to trade a bit more cheaply. However, this can be easily taken into account.

"There's good reason for EMs to trade a bit more cheaply"

The creative accounting challenge

The more difficult problem is whether those reported earnings are trustworthy. We all know that companies sometime manipulate earnings, either to make themselves look better or disguise outright fraud. So is this problem consistently worse in emerging markets? Some recent research by Rayliant Global Advisors, an Asia-focused investment manager, suggests that it is.



If we look at the distribution of companies' return on equity (ROE – see below), we'd expect to see that a few companies report very negative ROE (ie, big losses) and very positive ROE (big profits), but most results to cluster around an average. This will vary between markets, but would probably be somewhere between 5% and 15%. The result should be a fairly smooth, symmetrical curve (ie, close to what statisticians call a bell curve or a normal distribution).

If you do this for a market like the US or UK, that's what you get, says Rayliant. Companies are a bit more likely to report earnings that are just above zero than you'd expect, but you have to look closely. But if you do the same for China or any of the other big emerging markets, you see a jump near zero. The unavoidable conclusion is that a substantial number of firms are reporting misleading results and may be making losses.

EMs are probably still quite a bit cheaper than developed markets and hence offer better long-term prospects. But dodgy accounting means they are unlikely to be as cheap as they look.

I wish I knew what return on equity was, but I'm too embarrassed to ask

Return on equity (ROE) is a useful measure of how good a company is at turning money that belongs to investors into profitable activity. It is calculated by dividing the company's post-tax profits (also known as net income) by the value of its shareholders' equity (which is the amount of money that would theoretically be available to pay to shareholders if all its assets were sold and its debts paid off). A more efficient company will typically have a higher ROE – although sustainable ROEs vary between industries and sectors, so you should compare the firm to close peers to get an idea of how well it is performing.

Let's assume Company A has profits of £100m and equity of £500m. That gives it an ROE of 20% (£100m ÷ £500m). All else being equal, that means it is probably a better-quality organisation than Company B, which has profits of £200m and equity of £2bn – an ROE of 10%. Equity investors are seeing their money work twice as hard in the first company as in the second, which bodes well for future returns, and for what the firm will earn from profits that it doesn't pay out as dividends.

A high, stable ROE can be a sign of a very good company. It is wise to calculate ROE over at least five years and preferably longer, as cyclical businesses can show a very high ROE over short periods while having low average returns over the long run.

ROE's weakness is that firms with lots of debt and little equity may show a higher ROE than less-leveraged rivals, even though they may not be better (they may well be riskier due to the extra debt). So you should also look at return on capital employed (ROCE), which takes all sources of financing into account. Let's assume that Company A also has debt of £500m – meaning it makes a return of £100m on capital employed of £1bn, giving it an ROCE of 10%. Company B has no debt at all, meaning that its ROCE is also 10%. So Company A no longer looks superior.

Guru watch

Francisco García Paramés, chief investment officer at Cobas Asset Management

Renowned value investor Francisco García Paramés was successful in getting clients to follow him when he left Spain's Bestinver and set up his own firm three years ago, says El País; he now manages around €2bn at Cobas. "Profitability, on the other hand, has not accompanied [him]." By the middle of this year, Paramés' global funds had delivered 17 straight quarters of losses – almost equalling the run of 20 down months he suffered from July 2007 to March 2009.

The crucial difference a decade ago was that most investors were losing money during the global financial crisis, but today markets are performing well, notes Citywire. Hence Paramés was lagging 1,507th out of 1,511 global equity managers over three years. His luck has not improved much since: a profit warning by steel giant Thyssenkrupp last month added to the list of shocks for the man dubbed the "European Warren Buffett", says El Confidencial.

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Yet the real problem has been the "huge discrepancy" between hot tech, telecom, and media stocks and traditional firms that remain out of favour, says Paramés in a recent update for investors. This is worse than it was in 1998-2000 during the dotcom bubble: passive investing strategies, which account for 50% of the total in US equity funds, have distorted markets. "These phenomena are temporary;" ultimately stock prices must reflect "the ability of companies to generate profits". But with the distortions so large, value investors will need to show "a little more patience".

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Four ways to shape post-Brexit Britain

One part of the debate is thankfully over. A more important one must now begin

Matthew Lynn
City columnist

Last Thursday, we finally ended the debate. With Boris Johnson re-elected as prime minister with a thumping majority, there is no question now of a second referendum or cancelling Brexit. We will be out at the end of next month. The trouble is, that is just the start of the debate. Amid all the heat and fury, we have hardly spent any time discussing what kind of post-Brexit economy we want. For four decades, British governments have not had much control over immigration, none over trade policy or tariffs, and huge swathes of regulation were handed to Brussels. It won't happen on 1 February because there will be a transitional agreement, but over the course of the next year we will take back control of those decisions again. What should we do with it?

Keep the floodgates ajar

First, immigration. The PM has at least given some hints on that. He has committed himself to an Australian-style points system. The trouble is, we haven't seen any detail. Australia is a high immigration country, with more than eight people moving there every year for every 1,000 inhabitants, compared with only four for this country. It is hard to see doubling the rate of immigration going down very well in all the northern constituencies that voted Tory for the first time last week. That probably wasn't exactly what they had in mind. It makes a lot of sense to adopt the points system, selecting migrants on the basis of skills, education, language and age. But we will need to restrict the overall numbers as well. How many? In the last year, net migration was 219,000, and at that level employment and real wages grew. So around 200,000 net immigrants picked on the basis of skills and education would be about right.

Should we go with Trump?

Next, we need to decide whether we want a free-trade agreement with the US or the EU. Can't we have both? Unfortunately, probably not. The two blocs have such different, and diverging, regulatory systems, they are not likely to be compatible (which is why the EU hasn't ever managed to complete a trade deal with America). It is going to be a tough choice. The EU accounts for 46% of our exports, compared with about 20% for the US. It is a bigger market and a lot closer. Against that, the US is a more natural partner for our services/finance/technology-based economy. And it is growing a lot faster. In the short term, a deal with the EU makes more sense. In the medium term, the US will prove a better bet.

Thirdly, if we aren't bound by EU tariffs any more, what kind of import duties do we want to impose? Brussels imposes some stiff external tariffs. There is a 10% levy on imported cars, for example. Oranges from outside the EU face a 17% levy. Most food has some kind of tariff, as does clothing and most manufactured goods. None of those made much sense for Britain: tariffs on citrus fruit, for example, were great for southern Europe, but not so much for a damp and chilly UK where – surprise, surprise – lemons are hard to grow. Farmers will argue furiously for some form of protection to continue, and so will the car makers and any other industry that feels threatened by global competition. We should ignore them. The only workable policy for Britain is unilateral free trade with zero tariffs on everything regardless of whether other countries reciprocate.

Open up for business

Finally, we need to make the UK the most business-friendly developed country in the world. The EU has used single market legislation to take control of huge swathes of regulation and because it is a bureaucracy dominated by corporate lobbyists it has increasingly used that to protect established companies. You can see that most clearly in technology where an endless stream of rules dressed up as safeguards for consumers have crippled the continent's ability to compete. We will see it all over again in emerging industries such as driverless cars, robotics and AI. The EU's instinctive reflex is to ban innovation. Outside, we should design a light-touch regulatory system that is on the side of entrepreneurs and consumers – and not of ageing cartels.

Who's getting what

● Actress **Reece Witherspoon** (right) has hit back at accusations that her and co-star **Jennifer Aniston**'s salary for the Apple TV+ drama *The Morning Show* is too high. Each is reported to be earning £2m per episode, says Hollywood Reporter. "Why is that bothersome?" she asks. "These companies are real smart, and if they agree to pay us, they're doing it for a reason. They probably had a lot of lawyers and a lot of business people decide on that number because they knew they were going to make more than that back."

● **Kevin Johnson**, CEO of coffee chain Starbucks, could be in line for a £50m payout in three years' time, says Bloomberg. He will pick up the cash if, by the end of September 2022, the share price has outperformed 80% of the stocks in the S&P 500 index. Rosalind Brewer, the chief operating officer, has a bonus on similar terms that could net her $10m. Johnson has an "annual target compensation" of £15.6m, which includes salary, bonus and long-term incentives. The average Starbucks employee is paid just $12,754, although most work part time.

● Every partner at accountants **KPMG** had their pay cut by £50,000 last year, says The Daily Telegraph, following "a string of failings in its audit business". The firm has been fined £24m since the middle of last year for flawed work it carried out for Ted Baker, Co-op Bank and BNY Mellon, among others. Pre-tax profit fell by 14% to £307m. The average payout per partner fell by 7% to £640,000.

Nice work if you can get it

Instagram "influencers" – people who have cultivated a "personal brand", have large numbers of followers on the image-based social media platform and who get paid to promote companies' products – don't need a particularly huge audience to make money, says the Daily Mirror. To earn the average UK salary of £29,000 a year, they need to have amassed 42,585 followers and post eight posts and eight "stories" per month. If they post half as often, they will need 108,200 followers. To earn the National Living Wage (£16,010), they need just 19,050 followers. The average age of an influencer is 28, 77% are female, 71% have a degree, and a quarter of influencers say their parents "don't understand" what their job entails. The average number of hours worked is just 30 per week. The figures come from a new report in to the platform by inspire.me, a Norwegian social-media marketing consultancy.

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	Aug 14 – Aug 15	Aug 15 – Aug 16	Aug 16 – Aug 17	Aug 17 – Aug 18	Aug 18 – Aug 19
Net Asset Value	12.0%	41.8%	29.0%	1.0%	-5.7%
Share Price	6.3%	41.7%	35.1%	0.3%	-2.8%
MSCI China Index	-2.1%	26.9%	37.2%	-0.7%	1.1%

Past performance is not a reliable indicator of future returns.
Source: Morningstar as at 31.08.2019, bid-bid, net income reinvested.
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Source for consumers: The World Bank as at 15 July 2019. The latest annual reports and factsheets can be obtained from our website at **www.fidelity.co.uk/its** or by calling 0800 41 41 10. The full prospectus may also be obtained from Fidelity. Fidelity Investment Trusts are managed by FIL Investments International. Issued by Financial Administration Services Limited, authorised and regulated by the Financial Conduct Authority. Fidelity, Fidelity International, the Fidelity International logo and F symbol are trademarks of FIL Limited. UKM0819/24885/SSO/1219

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The Tories need a new language

Tom Welsh
The Daily Telegraph

The Marxists have been "routed" and Brexit is now a "racing certainty", says Tom Welsh, bringing with it the possibility of economic liberation from the "monstrous ambitions of the euro bureaucracy". But if we now have a government "stuffed with neo-Thatcherites", the "shift left in our politics" is also "undeniable". To win over Labour voters, the government promised to invest, spend and subsidise in a way that would once have "been deplored as statist". This is problematic. There has been little effort to "buttress free-market ideas among the public" and "next to zero thought" as to how those ideas should be applied within a Tory party that is "more working-class and less London-centric". How can "unrestrained free trade" be reconciled with voters' desire to buy British? How can multinationals, particularly tech firms, be reined in without destroying the UK's business-friendly environment? The next five years do not necessarily have to be a series of capitulations to the left. Capitalism is a wealth-spreading, blue-collar project and a "latent dislike" of the state is in part why voters deserted Corbyn. But for too long, neo-Thatcherites have been playing a "defensive game". The Tories need a new language.

Private equity is no bogeyman

Andy Puzder
The Wall Street Journal

In her "continuing effort to punish success", Senator Elizabeth Warren's "subtly titled Stop Wall Street Looting Act" would put private-equity investors in a discrete legal category and make them responsible for the liabilities of the companies in which they invest, "including debt, legal judgments and pension-related obligations", says Andy Puzder. This would "dramatically reduce" their incentive to invest in struggling businesses. It is unfair to portray private equity as a bogeyman. When the firm of which I was CEO, CKE Restaurants, was bought by a private-equity firm in 2010, we were able to expand, create jobs and "lay the groundwork for growth". This positive experience is the rule rather than the exception. Private-equity firms invest if they think they can add value, aiming to create stronger, more profitable firms that they can sell at a profit. They often take big risks. This, and the fact that they usually tie up investors' money for three to seven years, means they need high returns. If things go wrong they will damage their reputation and lose investors (which are often employee pension funds). Attacking the industry may be a good campaign tactic; destroying it would harm workers, firms and investors.

Ousted MPs face a bright future

Editorial
The Economist

Ministers and civil servants out of a job following the election can look forward to a "comfortable afterlife" at private firms, says The Economist. However, this year's cohort will be under "particular scrutiny". Although private firms argue that employing "public-service minded people" is a good thing, a series of official reports has "examined potential abuses and recommended reform". Ministers often look for jobs in areas "where they used to run policy" and although Acoba, the Advisory Committee on Business Appointments, won't allow former public servants to "lobby their old department" for two years, the "real worry is that jobs may be rewards for decisions taken while in office". Tony Blair's "post-office earning spree was embarrassing". George Osborne's job portfolio also "draws flak". "Oft-used revolving doors", notably those between HMRC and the Big Four and between the Ministry of Defence and arms firms are particularly worrying. One risk is that taxpayers get worse value for money. A bigger risk is trust. The problem isn't going away, particularly since Boris Johnson, scolded last year for returning to The Daily Telegraph prior to receiving Acoba's approval, might "try and curb its clout".

Are airlines unfairly maligned?

Chris Bryant
Bloomberg

Aviation's fuel-tax exemption and emissions allowances are to be reviewed under the EU's Green Deal, provoking "noisy" complaints, says Chris Bryant. The airlines, which contribute around 2% of global emissions, think they are being "unfairly maligned". However, unlike road transport (which is far more polluting), they lack a convincing plan to decarbonise. More fuel-efficient aircraft and better air-traffic management only go so far. Who will pay most for polluting raises difficult questions about economic growth and fairness. In England, the top 10% of most frequent fliers take more than 50% of flights; nearly half the population don't fly at all. Airlines themselves can't even agree whether to punish business elites or weekend city breakers. Ryanair says that aviation taxes are a levy on the poor; Wizz, which doesn't have business-class cabins, has called for those of rivals to be banned. While cramming passengers in has made the two Europe's most efficient carriers in emissions terms, older carriers brand their €10 tickets irresponsible. Whatever happens, we should be under no illusions. The Green Deal is billed as a "growth strategy", but it will "involve hard decisions".

Money talks

"[People used to] say, 'You're handsome. You should be a model.' But it didn't make sense to me… 'We are in the gutter. How could I be a model?'…We couldn't pay our rent; we couldn't keep the lights on; we had to steal food just to eat."
Jeremy Meeks (pictured), whose prison mugshot went viral, leading to a career as a model, says people had always noticed his looks while he was a teenage member of one of California's gangs, quoted in The Sunday Times

"My mum helps me manage my life and I have to answer to her if I don't save. I bought an Audi TT sports car recently and had to put it past her first."
Model Eyal Booker, 24, quoted in The Sunday Times

"Politics is the art of looking for trouble, finding it whether it exists or not, diagnosing it incorrectly and applying the wrong remedies."
Ernest Benn (Tony's uncle) in 1944, quoted on Twitter

"I don't understand why those bankers make so much money – it's ridiculous!"
Former US Federal Reserve chairman Paul Volcker, who was famously thrifty and deplored Wall Street's wage inflation, quoted in the Financial Times

"You couldn't really live on the money you'd make from an album these days. It's lucky there are so many festivals."
Guy Garvey, lead singer of rock band Elbow, quoted in The Observer

"My mother had people telling her, 'Stop ploughing what little money you've got into that child [on dance classes], no one gets off this housing estate.' My mother said, 'As long as she walks those miles in the rain to the dance class, I will support her.'"
Strictly Come Dancing judge Shirley Ballas, quoted in The Sunday Telegraph

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Why we need more indices

Measurement can help us solve many ills

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bloomberg.com/opinion

The first step to solving intractable problems is to quantify them, says Tyler Cowen. "Measurement can be a remarkably effective tool for social change." International student assessments, for example, have helped boost educational attainment. The World Bank's Doing Business index gives countries an incentive to streamline their regulations. Transparency International's Corruption Perceptions index does the same for those tackling corruption.

Indices are "informative, easy to digest and can even be fun" – witness the Rapture Ready index, which measures how close we are to the end times. This raises the question: what new ones do we most need now?

A Christmas wish list

Commentators have claimed that we are in the midst of a loneliness epidemic. That seems plausible. But just how bad is the problem? Different studies paint different pictures – systematically bringing the data together into one figure would be helpful. Relatedly, how about a stress index?

There should also be an innovation index to "measure the positive impact of ingenuity". The US is the world leader when it comes to Nobel laureates, start-ups, tech companies and medical innovations, and in many other areas that contribute to economic progress. "Just how much does the rest of the world benefit from US creativity?"

The US is less impressive when it comes to building infrastructure. Construction of Manhattan's Second Avenue subway line, for example, started in 1972 and the first phase of building was only completed in 2017. In contrast, construction of the core New York City subway system, with 28 stations, began in 1900 and finished in 1904. Similarly, construction of the Empire State Building took only 410 days. Why do so many infrastructure projects today take so long? "And if the process of improving and reshaping the environment to further human progress is now so much slower, doesn't it make sense to try to measure this decline for the purpose of eventual improvement? Given the need for a greener energy infrastructure, this is a matter of the utmost urgency."

Speaking of energy infrastructure, how about, finally, a "severity index" for climate change? Estimates of the cost of climate change have been rising, and some now suggest they could run as high as 10% of GDP by 2100. Things look bad. But exactly how bad? An index would be tricky to construct and vulnerable to political bias, but it would "at least help make vivid the dilemmas we face".

The worst trade deal ever made

cato.org/blog

Donald Trump famously called the North American Free Trade Agreement the worst trade deal ever made. The need to debate that claim is now moot, says Daniel Ikenson. Nafta's likely successor, the US-Mexico-Canada agreement, or USMCA, now holds that distinction. There's a reason the words "free trade" don't appear in the name. The deal does not bring about much in the way of trade liberalisation and instead reflects the shared objectives of the Trump administration's economic nationalists and the labour left of Congress – to strengthen the enforcement provisions, discourage companies from investing in and operating factories in Mexico, and the scaling back of investment protections. Notably the deal doesn't include any significant new US market-opening provisions, which "really is unprecedented for a US trade agreement". In aggregate, the new rules "encourage less efficient production processes and virtually ensure higher costs and higher-priced products". That, perversely, could result in more producers shifting North American production to Asia and elsewhere, and relying more on imports from outside the region. "Paying a 2.5% tariff instead of zero-tariffs with much higher production and compliance costs might be the profit-maximising alternative."

The flat price of music

rollingstone.com

Of all the things you can buy for a tenner, one month's unlimited access to 50 million songs must represent one of the best value, says Amy Wang. Better yet, the price is immune to inflation – it hasn't budged in 12 years. Why? It has been restrained by competition. With a dozen streaming platforms all offering the same service, it's risky for any one to raise prices. And unlike with video-streaming services, they can't sneak in a price rise hoping their audience is sufficiently hooked on the latest blockbuster series not to notice. It doesn't help that all services are competing with the likes of Amazon and Apple, which are rich enough to run theirs at a loss.

This may change in the coming year as the need to make profits becomes more urgent. One option for the providers is to raise fees in regions that will tolerate it. Another is going more niche – music lovers are frustrated with generic offerings and might pay extra for tailored ones. The fear, though, is that the £10 figure is too entrenched in people's mind for it to budge. "It's a... tough game," as one industry insider laments. "Music is like a utility now; you switch it on and it's there."

Central bankers keep the faith

ftalphaville.ft.com

You'd think central banks would just give up, says Claire Jones. Despite pumping trillions into the economy and offering cheap and plentiful supplies of money to banks, inflation just will not budge. "It's been the ultimate unreliable boyfriend, offering glimmers of hope – that perpetually end up dashed."

Policy makers, though, have "kept the faith". They've "been getting stood up for more than a decade now", yet they still expect inflation to respond to their efforts. The Federal Reserve's latest projections show that it expects to hit its 2% target in 2022, and then to keep it there for the long run. They have been saying exactly the same thing formally since mid-2015. Yet since 2006, inflation has bounced around waywardly, roughly in a range between 0% and 3%.

"Poor things. Some think the answer lies with the central banks' own low expectations of themselves and want them to push inflation to overshoot their goals. We'd rather they moved on and admitted that they don't have nearly as much control over prices as they like to think."

Hipgnosis strikes discordant note

A fund hoping to profit from song royalties sounds beguiling, but is best avoided for now

Max King
Investment Columnist

With bond yields so low, the hunt continues for reliable sources of income that can be packaged up into a fund. The main stipulation for these funds to be regarded as "alternative assets" is that their returns are deemed to be "uncorrelated" to equity markets: insensitive to the economic cycle.

Merck Mercuriadis, a music-industry professional, had the bright idea of creating a listed company, Hipgnosis (LSE: SONG) that would buy up the rights to songs and then collect the royalties from music streaming, which has largely replaced physical ownership and permanent downloads as the preferred way to listen.

The film Bohemian Rhapsody, *about Queen's frontman Freddie Mercury, gave the band's sales a huge boost*

©Alamy

Songs' enduring appeal

After the excitement of first release, endless radio play and chart-topping success, the popularity of "hits" fades but does not disappear. Many songs have enduring appeal that lasts for decades, perhaps enhanced by their use in films, TV and advertising. For example, the release of the film *Bohemian Rhapsody* gave a huge boost to Queen's songs.

Yet management of long-term music rights requires very different skills from short-term promotion. The income streams are usually small and the performing artist or production company is happy to sell the revenue stream. Hipgnosis raised an initial £200m in the summer of 2018 to buy these rights and a further £424m subsequently.

It bought 43 catalogues with around 11,500 songs for an average 12.6 times revenue, resulting in an 8% yield. From this must be deducted management fees to Mercuriadis's company of 1% per annum, but the net return of 7% may be enhanced by the moderate use of debt for acquisitions. Dividends of 5p a share provide a yield of 4.9% on a share price of 103p.

The target return above 10% per annum requires growth in income and here the story gets more difficult. Christopher Brown, the funds analyst at JP Morgan Cazenove, thinks that streaming can grow music industry revenues by 10% per annum until 2030, but there is no certainty that Hipgnosis will match this.

Predicting the success or failure of new artists and songs is a challenge that defeats most industry experts; to predict the popularity of past successes many years ahead is even more difficult.

Some hits go on forever, some disappear without trace and some achieve immortality from a slow start. For example, Mark Savage of the BBC points out that *Pumped Up Kicks* by Foster The People only reached number 18 in the UK when it was released in 2010, but was the most streamed song from 2010 last year with 21 million plays. Overall, 90 billion songs were streamed in 2018, an increase of 33.5% on 2017.

Skewed towards the big hits

Hipgnosis's recent interim results showed how skewed revenues from downloads and elsewhere are towards a small number of songs: 0.5% of the portfolio accounts for 43% of income.

Presumably, the copyrights for sale to Hipgnosis are the ones with the least certain future as owners will want to hang on to the most promising royalty streams.

Nevertheless, Brown, along with many hipsterish City fund managers, is an enthusiast, despite the limited record. Others point out that though the growth of streaming looks assured, the business model and the quality of the catalogue are not proven. The interim results were good, but a breakneck pace of expansion is always a cause for concern. This is a beguiling story, but best avoided for now.

Finally, the name Hipgnosis is not quite as millennial-hip as it sounds. Hipgnosis was the name of a highly successful design studio that produced many of the iconic album covers of the 1970s, including Pink Floyd's *Dark side of the Moon*. Their songs are not in the catalogue of the new Hipgnosis.

Activist watch

Shares in Rolls-Royce slipped by more than 4% last week after activist investor Bradley Singer announced that he is giving up his seat on the board, says Alan Tovey in The Daily Telegraph. Singer, chief operating officer of US investor ValueAct, was appointed to Rolls' board in 2016 after his company amassed an almost 11% stake in the company. Singer is leaving early (his contract expires in 2021), but he appears to feel he has done enough for now, noting that Rolls-Royce was "on a solid path forward". The business has restructured, selling off its marine divisions and most of its nuclear businesses. Singer joined the board after the share price had halved. ValueAct owns 9% of Rolls, a stake worth around £1.1bn.

Short positions... Soros takes on the Mail

■ Investors in disgraced fund manager Neil Woodford's flagship Woodford Equity Income Fund will receive their first payments late next month as administrators close down the fund, says the BBC's Kevin Peachey. They will be told by letter on 13 January how much they will be receiving on their first payout. Hundreds of thousands of investors are facing losses. It's the first time investors will have access to their money since the fund was frozen in June. The fund's value has fallen by 18.6% since it was suspended. At its zenith it was worth £10bn. But last week administrators said that £1.65bn has been raised from the sale of 56% of the fund to date, says Tanya Jefferies in ThisIsMoney. A final valuation of the assets will take place on 17 January and the winding up of the fund will start on 18 January. Payouts to investors will begin on 20 January. Final repayments will come after the sale of more illiquid assets and are expected to take much longer.

©Getty Images

■ Billionaire investor George Soros's (pictured) hedge fund has taken out a £16m short position against media group Daily Mail and General Trust (DMGT), which owns the Daily Mail and The Mail on Sunday, says Edward Thicknesse in City AM. SFM UK Management has made a bet worth 0.9% of the media company's shares. Various DMGT titles have been "intensely critical" of Soros, who is famously anti-Brexit, while the shares have jumped by 45% this year despite ongoing concern over dwindling print advertising revenues.

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Invest in defence, Poland and biotech

Our contributors share their favourite ideas from around the world, ranging from Singaporean property to global equities

Richard Beddard

For decades, consumer goods manufacturer **PZ Cussons (LSE: PZC)** was a reliable growth stock. But over the last five years, its fortunes have reversed.

Revenue and profit are in decline and the coffers are depleted. In 2018, PZ Cussons sharply reduced capital expenditure and did not increase the dividend for the first time in many years. It kept the financial screws tightly turned in the year to May 2019 too.

The company's problems are both self-inflicted and the result of external events. It borrowed to buy brands that have been less profitable than expected. In developed markets such as the UK and Europe, brands face increased competition on two fronts: the internet, where consumers have much more choice; and discount retailers, who have developed their own copycat products. In Nigeria, until recently one of PZ Cussons' biggest markets, the economy has been rocked by low oil prices and internal conflict. The company is profitable but contracting and last week it dispensed with its longstanding CEO. It has yet to appoint a replacement.

That's the bad news. The good news is that PZ Cussons is committed to restoring its fortunes by selling off weaker brands and rationalising in Nigeria. It is ploughing the money from disposals and the savings from efficiencies into stronger brands, typically personal care and beauty brands such as Imperial Leather soap and fake tan St.Tropez. The plan is to improve the products, differentiating them from copycats and competitors, and sell them in more countries.

PZ Cussons' share price of 192p is half its historical high in 2013. In one sense that too is good news. The collective gloom may mean the shares are undervalued on an enterprise multiple of about 12 times adjusted profit. On the other hand, there is no telling when six years of negative share price momentum will reverse. This idea, then, is for patient long-term investors only.

Jonathan Compton

I've had a storming run in my portfolios from my most overweight sector: warfare (22% of our family funds) – or for squeamish investors, defence. Great performers include America's Raytheon (missiles), Germany's Rheinmetall (best tanks in the world) and the UK's Chemring, QinetiQ and Cobham (about to delist after a successful takeover bid).

Yet among these winners has been the mangiest of dogs. In 2009 I invested at £5 per share, confirmed my brilliance as it rose to £13 in 2014 then stupidly gawped as it fell to £4.50 by the middle of 2019 as management blundered around.

I intend to double up soon, not always the smartest advice for losers but in this case I am sure that "The Force" is with me. And the company? **Babcock International (BAB: LSE)**, a truly global defence group with 70% of sales from overseas. It builds or participates in almost everything from nuclear plants to frigates, submarines, aviation and systems management. Profits are evenly spread across its land, sea, air and nuclear operations.

"Western governments have woken up to the lamentable state of their armed forces, so defence budgets are rising"

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There are plenty of ways to get on his Nice List this coming year...

The compelling numbers include a forward multiple for 2020 of a mere nine times and a 5% dividend yield. Debt is low and it trades at a smidgeon above its book value. The order book is a robust £18bn and the relatively new chair, CEO and other key appointees seem sensible.

There are actually four "Forces". Western governments have woken up to the often lamentable state of their armed forces so defence budgets are rising; the ever-nihilistic and opportunist Russian government is a clear threat and China's remorseless expansion of its armed forces is another; while the reliability of America as an ally is in doubt.

In 2019 takeover approaches were made by a private equity firm and the outsourcing group Serco. With a market capitalisation of only £3bn it is vulnerable; if it stumbles again it will be gobbled up. What's not to like?

Stephen Connolly

Think "technology" and the companies that spring most to mind are the likes of Facebook, Amazon and Google. Their success has attracted so many investors that they're what market commentators sometimes call "crowded trades". But while everyone

is focused on the leaders, other stocks in a sector can be overlooked if not ignored altogether. And this is where opportunities can lie. One area is "legacy" tech. These are the big names of yesteryear, unloved today because they have been dismissed, rightly or wrongly, as "ex-growth" — think Intel, Cisco, Oracle and SAP, for example.

One to watch in 2020 is **IBM (NYSE: IBM)**. It's slowly declining as companies switch to the cloud and other new technologies and it hasn't kept up. But it's making up for lost ground to get back on a growth track. This year, to turbo-charge its cloud computing presence, it paid $34bn for Red Hat, a well-regarded specialist that has been growing earnings at 25% annually.

It's already adding profit to IBM's bottom line and it's hoped this will accelerate next year as it sells into IBM's considerable network of existing relationships in the US and internationally.

Alongside rationalising operations and selling off non-core businesses, IBM is likely to appoint a new chief executive in 2020. Choosing Red Hat's Jim Whitehead, which would underline the group's new direction, would be well-received and help further revitalise investor interest.

It's early days but the current price/earnings ratio of just ten for an established, highly cash-generative global tech company making a push into one of the sector's fastest-growing segments is far from expensive. From these levels it won't take much in the way of positive news to give the shares a significant boost as the year progresses. Meantime, unlike most tech stocks, the downside looks limited given the big dividend yield of nearly 5% providing support.

Dominic Frisby

I'm so convinced this is going to be a big theme – not so much next year as over the next decade – that I've actually set up a holding company to invest in it: **Cypherpunk Holdings (CSE: HODL)**. That theme is privacy.

You might tell your lover something you wouldn't tell your lawyer, or your doctor something you wouldn't tell your mate. Yet information about what we read, watch, say, buy or sell online gets used for purposes beyond the original one. As the saying goes: "When the internet is free, you are the product".

That information is then used to shape behaviour and influence your decisions; to determine the content you receive – what you do, see, read or watch; to sell things to you; and to make decisions about you – the loan, the insurance or the job you are offered. In the wrong hands, it could be used against you in some way, perhaps even to spy on you. Your data could be stolen.

Only now are people starting to wake up and think about this. Regulators have taken steps, but technology is so advanced it has often moved on before any new rules are emerge. We have little idea what is being used, how or by whom. We have little say in how it is used. We have no power to object, nor any ability to amend our data. We have very little control over it. The default setting of the internet is zero privacy.

The solution is privacy technology. Protecting our privacy limits the scope others have to use our information beyond the purpose for which it was supplied. It allows greater control over our online reputation. It enables us to explore new ideas outside the mainstream, without fear of being watched. Those that know about us have power over us. Protecting privacy limits that power.

Cris Sholto Heaton

The crisis in Hong Kong over the last nine months has caused long-term damage to the territory's reputation. Its status as Asia's financial capital is no longer so secure: companies will consider other locations for their regional headquarters and wealthy individuals will think about stashing their assets elsewhere.

Singapore has the most to gain from this: it's a major financial centre that offers the stability its larger rival conspicuously now lacks. Any medium-term shift out of Hong Kong will benefit the Singapore office market, where rents are already recovering from a glut of new supply in 2016-2017. So this seems a good time to look at the local commercial-property real estate investment trusts (Reits).

These offer a decent long-term income at a time when global interest rates are set to fall again – another factor likely to help buoy their share prices over the next year. I hold **Capitaland Commercial Trust (Singapore: CCT)**, which yields around 4.5% at a price of S$1.97. This conservatively-run Reit is the largest in its sector with around S$11bn in assets and reasonably low gearing (35%). The portfolio is mostly good-quality offices in Singapore (with around 22% in Singapore retail and hotels, and 8% in Germany) that should deliver a steadily growing income as rents rise.

My suggestion last year was TKH Group, a Dutch industrial-technology firm. When I picked this, the price was around €41.70 and, at time of writing, it is €48.6 – including the dividend, that's a return of around 19% before costs. I still like TKH's mix of

Continued on page 26

"Singapore is a major financial centre offering the stability its larger rival Hong Kong now lacks"

Continued from page 25

businesses, but half-year results were soft and guidance for full-year results was trimmed in November. A forecast price/earnings ratio for 2019 of just under 19 would be okay if all was going well, but looks vulnerable to disappointment now. Take profits.

Max King

The UK small-cap trusts I recommended for 2019 struggled for most of the year but are enjoying a year-end rally. They should do well in 2020 but so should equities in general, leaving investors spoilt for choice. After minimal progress in 2019, earnings growth should accelerate in 2020, though this is largely discounted in US valuations.

It may be time for the rest of the world to catch up. After the persistent outperformance of growth over value, value investing has made a modest comeback in recent months. It's tempting to back the new trend but it has quickly turned from a contrarian to a fashionable call.

As Dudley Moore's character said to the RAF recruiter in the *Aftermyth of War* sketch in *Beyond the Fringe*: "Please. Sir, I would like to join The Few." "I'm sorry," came the reply, "there are far too many."

The high growth US technology giants may be due a pause but that doesn't mean that more moderate growth stocks won't continue to perform well. Two global trusts fit the bill well. They are both growth-orientated but have their feet firmly on the ground: the **Monks Investment Trust (LSE: MNKS)** and the **Mid Wynd International Investment Trust (LSE: MWY)**.

The former is the stable-mate of Scottish Mortgage at Baillie Gifford, the latter a former Baillie Gifford trust now managed by Artemis. Performance over one, three and five years is similar and excellent but Mid Wynd, with a market value of £250m, is much smaller.

This may enable it to be nimbler in the stockmarket should there be a need to rotate the portfolio. The shares of both trade at premiums to net asset value (you get what you pay for) and both have low dividend yields. Neither will shoot the lights out but nor will they give you sleepless nights. Given my record in 2019, you may not need to jump in now.

James McKeigue

Think of some of the great investors' calls. Soros shorting the pound, perhaps, or the hedge funds that spotted flaws in subprime. They all involve identifying a market anomaly – something that looks unsustainable over the long-term – and then betting against it continuing. At present there is a 700-mile-long anomaly in the Andes mountain range – Ecuadorian mining.

As Francisco Pizarro and his fellow conquistadores could have told you almost 500 years ago, the Andes is crammed full of gold, silver and copper. That's why we've seen large mining industries develop in Chile, Peru, Bolivia and Colombia. But not in Ecuador.

"More gold and copper has been found in Ecuador than anywhere else in the past 15 years"

That wasn't because of a lack of mineral resources. Despite the limited exploration more gold and copper has been found in Ecuador than anywhere else in the world over the last 15 years.

Instead, a combination of social and economic factors – an abundance of oil, poor infrastructure and political instability all played a part – meant Ecuador never developed a large-scale, modern mining industry. That anomaly clearly couldn't last forever. In recent years successive governments have improved conditions for international miners and in 2019 Ecuador's first-ever world-class mine began operation.

But this is just the beginning of the Ecuadorian mining boom. Twelve of the world's major mining companies have already set up offices in Ecuador and several more large projects will come onstream over the next few years. Of course, there will be hiccups on the way. Ecuador remains a politically volatile country, prone to protests.

Yet, over the long run, mining is bound to grow in Ecuador. It has the mineral resources. And as the country's politicians slowly get used to the extra tax dollars generated by mining, while increasing numbers of Ecuadorians find work in the labour-intensive industry, it will follow its Andean cousins in developing a serious mining industry.

In Peru and Chile, mining accounts for between 15% to 20% of GDP. If Ecuadorian mining grows to even half that size it will create huge wealth for investors. Fortunately for us there are two companies that give us a direct way to get in early on the story.

One is **Lundin Gold (Toronto: LUG)**, which built and operates Ecuador's first large goldmine, while the second is London-listed explorer **SolGold (LSE: SOLG)**, which has the country's most exciting portfolio of projects to develop.

John Stepek

This time last year I tipped what I thought was a very dull stock indeed – high street clothing retailer **Next (LSE: NXT)**. I saw it as a potential recovery play amid panic over both Brexit and the annual "high street bloodbath" headline frenzy. "I don't expect it to shoot the lights out," I said. I was wrong. It's up by about 75% since the tip on 28 December. I can't claim that all of my tips do that well (no, please don't write in to remind me of just how true that statement is), but I hope you acted on this one. If you did, then I don't expect it to repeat the feat this year but I'd hang on to it – it's a retail survivor and a quality stock.

So what about this year? Sticking with retail, I'm tempted to take a punt on a turnaround at **Marks & Spencer (LSE: MKS)**. Unlike Next, M&S has had a terrible year, because unlike Next, M&S is not a terribly good company. The share price is down by about 7% in the past 12 months, while the wider market is up about 11%. M&S is a perennial turnaround stock, with a long history of disappointing. But even if current chairman Archie Norman can't salvage it, the fact that the political uncertainty is now lifting in the UK (see page 8) makes me think that even a duffer like M&S will be lifted in the rush for exposure to UK plc. And in this age of activist investing, there's surely a price at which a professional troublemaker decides it's time to take a pop at the venerable brand.

The other area where I think we'll see surprises next year is the oil sector. The oil price has been noticeably subdued this year, caught between the narrative of over-supply (too much fracking) and weak demand (recession scares). If global demand is better than expected next year, and oil cartel Opec sticks to its production cuts (partly with the aim of propping up the valuation of state-owned oil giant Saudi Aramco), then oil could spring a nasty surprise on markets by heading higher. That, in turn, could be good news for energy companies which have struggled this year. So on that front, I'm going to go for another very boring stock – oil major **BP (LSE: BP)**, which is down about 6% over the past year (so roughly flat after the dividend). It's currently yielding around 6.5%.

David Stevenson

Many of the funds I closely follow had a good last year but two stand out as relative laggards – and might therefore present some opportunity over the long term.

One is Phoenix Spree Deutschland, a specialist London-listed residential property company focused on the problematic Berlin market. I will take a closer look at it early next year.

The idea you should concentrate on now is an unashamedly long-term play for the patient growth investor. Its a trust called **Syncona (LSE: SYNC)**, which is the UK's premier quoted life sciences venture capital (VC) investor. This is a world-class outfit with an excellent track record of realisations in businesses involved in the front line of biomedical research.

Biotech stocks have slipped over the past few months and that has been a reason why the share price of this VC fund has weakened considerably; at various points its looked like it might breach the 200p level. Looking at the most recent results, the net asset value of the fund was just under 200p a share, so at the current price you're not paying too much of a premium.

That reasonable pricing is because recent results showed that the portfolio had lost just under 12%, largely because of the share price decline of quoted companies Syncona holds – Nasdaq-listed Autolus, for instance. Many biotech and genomics businesses have seen significant deratings in the last few months.

That said, some of the businesses in the portfolio showed significant uplifts on valuations, notably Blue Earth Diagnostics and Achilles Therapeutics. Over the next ten years, Syncona aims to build a portfolio of 15-20 companies.

The idea is to add two or three every year in its strategic areas of focus, including cell and gene therapy. I am sure the share price will be volatile on that ten-year journey but for growth investors who aren't in a rush there is no better way of buying into private life sciences VC.

Mike Tubbs

Biotechnology is a major growth area of the 21st century. It is driving revolutions in new biologic drugs, diagnostics, crops and farm-animal genetics.

That is why I recommended a drug discovery biotech – Vertex Pharmaceuticals – for 2018 and a "picks & shovels" antibody company – Abcam – for 2019. Vertex is up 41.2% since my recommendation in early January 2018, while the FTSE 100 has lost 5.5%. Abcam is up 30.3% from December 2018 compared with a 9.2% increase in the FTSE 100.

I am staying with biotech for my 2020 recommendation and selecting a biotech with the world's largest antibody library, which it is using to generate new antibody drugs (those that stimulate the immune system). Some are developed in partnership with big pharmaceutical companies with a royalty taken on sales, while others are developed internally to retain more of the profits. The company is **MorphoSys (XETRA: MOR)** and it has a well-stocked pipeline with over 100 distinct drugs in R&D and over 70 clinical trials in progress. It has 12 big pharma partners including GSK, Johnson & Johnson, Novartis, Pfizer and Roche.

MorphoSys has just one drug on the market: Tremfya, for plaque psoriasis and psoriatic arthritis. It has partnered with Johnson & Johnson in this case. Tremfya is in ten late-stage trials for related conditions.

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Biotechnology is a key 21st-century growth industry

Meanwhile, MorphoSys is preparing to seek regulatory approval for its most advanced proprietary drug – tafasitamab for blood cancers. Excluding these two drugs, there are another 34 late-stage clinical trials in progress, including tests of an Alzheimer's drug.

MorphoSys is still loss-making with a net loss of €52.7m for the first nine months of 2019 on sales of €61m. But its healthy cash pile of €412.4m should see it through to profit. The main risk is of late-stage clinical trial failures, which delay profitability and require the raising of extra funds. The share price is around €127, up 43% from €90.50 at the start of this year. Buy.

Andrew van Sickle

People always vote with their feet, so I was struck by last week's news that the 2.5 million-strong Polish diaspora is beginning to return home: the number of Poles based abroad dropped by 85,000 last year. You can see why. Last year Poland became the first country from the region to be ranked a developed market by index provider FTSE Russell, a testament to its progress since the collapse of the Soviet bloc. It has been growing non-stop for over a quarter of a century, and over the past few years GDP has expanded by 3%-6% a year.

But there should be plenty more to come. Like the rest of the region, Poland is still converging with the wealthier part of the continent. Its GDP per capita is still around $15,500, compared with Germany's $40,000. Eastern Europe is dependent on the eurozone's business cycle, but Poland is less so than most. Exports comprise just 50% of GDP, compared with 78% for the Czech Republic. Its large domestic market tempers the impact of a continental or global downturn; Poland was the only EU country to avoid a recession in 2008-2009. With unemployment at just 3.2% and household debt a mere 35% of GDP – Britain's is 84% – there is ample scope for consumption to grow for years to come.

One potential problem to keep an eye on is the country's government, whose authoritarian and statist instincts have unnerved investors. So far, however, the ruling Law and Justice party seems to have had little impact on the population's dynamism and entrepreneurial instincts. In any case, the danger is arguably priced in. Poland is on a cyclically adjusted price/earnings ratio (Cape) of just 11, making it one of the world's cheapest stockmarkets by this measure. It doesn't deserve to be. That makes the **MSCI Poland UCITS ETF (LSE: IPOL)** worth tucking away.

"Poland is one of the cheapest stockmarkets in the world, but doesn't deserve to be"

Don't give up on P2P lending

The sector has had a torrid year and the rules are being tightened. But it's hardly game over, says David Stevenson

New rules may mean private investors can't join the party

Peer-to-peer (P2P) lending has had a miserable 2019. This sector, which includes big players such as Zopa, RateSetter and Funding Circle, as well as smaller competitors such as Assetz Capital, should be sitting pretty in our new, glorious age of low interest rates for longer. Yields of between 3% and 7% per annum should be very attractive for those willing to take on some extra risk.

Yet the year was marked by the debacle that was Lendy, a P2P property platform now in administration. Lenders will reportedly be forced to shoulder platform-wide losses even though their loans were supposed to be segregated on a loan-by-loan basis with individual borrowers. And Lendy isn't the only platform to hit the buffers recently – Funding Secure has also gone down, driven under in part by highly unusual loans to a major art dealer. One news report even suggested that a loan had been secured against a library of 5,000 Italian books.

Regulators crack down

These failures have sparked a regulatory backlash . The Financial Conduct Authority (FCA) introduced new rules on 9 December, which ordered the major platforms to introduce tests that "assess investors' knowledge and experience of P2P investments where no advice has been given to them". On paper these regulations sound sensible and cautious, but the practical effect is that all the effort required to get private investors' attention is proving costly and time-consuming. We've already seen some dramatic changes.

Many platforms are responding by dumping private investors altogether. Major property platform LendInvest has already stopped opening new lending accounts for private investors. Instead, it has chosen to focus on big institutional funders via deals with HSBC and National Australia Bank, as well as mortgage securitisations via the wholesale markets. Abandoning the private investor doesn't seem to have caused too many sleepless nights for LendInvest: its lending base now totals well over £1.8bn.

Last week alternative mortgage lender Landbay decided to close to private investors and focus on institutional money only. ThinCats, which funds small and medium-sized enterprises (SMEs) has also decided to ditch private investors. Other lenders have reacted in a slightly different way. Not long ago Zopa, for instance, decided to become a bank, which should open a whole new range of funding opportunities.

One way we can see these trends playing out is to look at the data for the sector provided by specialist research firm Brismo. It aggregates and analyses data for many of the biggest online lenders in the UK and its figures suggest that overall lending in the big platforms has only returned 3.79% after losses and fees for the last 12 months and just 0.27% for the last month. Those returns are significantly down on the 5%-6% returns seen in previous years.

Data from Brismo also points to a slowdown in lending. In the property sector, for instance, most of the online platforms have barely originated much more than a few million pounds apiece over the last three months, although LendInvest, by contrast, has lent £167m over the same period.

So, is it game over for P2P lending and alternative finance? Brismo's data suggests otherwise. Some platforms are still very much in business and lending actively. Over the last three months Zopa's main rival RateSetter has continued to originate plenty of loans: £170m has been lent over the last three months and £776m over the last year (for Zopa the equivalent figure is £881m).

Where to look now

Second-tier players such as Assetz Capital (specialising mostly in property-backed SME lending) have also continued to prosper, with just under £50m lent out over the last three months. It is hiring staff across the country.

Another stalwart is regional lender Folk2Folk, which continues to grow, especially in the south west, while property-based lender Fiztrovia Finance has grown fast, lending out over £100m in development loans in just a few months.

If all the new rules stipulated by the FCA unnerve you, but you're still interested in the sector, it may be worth looking at the more conventional routes into the sector. LendInvest's two retail bonds, for instance, (one maturing in 2022 the other 2023) are trading at a tiny fraction below the issue price and yield well over 5% in both cases.

"LendInvest's two retail bonds both yield well over 5%"

In terms of equities, the two biggest listed lending funds on the stockmarket, Pollen Street Secured Lending (which used to be called P2P Global) and VPC Speciality Lending Investments are respectively yielding 5.8% and 10%. Furthermore, their share prices seem to have stabilised after big selloffs: both funds have returned around 10% in price terms over the last 12 months.

Back in the world of online lending, both Zopa and RateSetter continue to offer investors yields of 3%-6%, depending on the product. And if these rates aren't substantial enough for you, you could even think about more adventurous options. European online lending platforms such as Mintos, based in Latvia but available Europe wide, are worth a look. Since its inception Mintos has lent out over €4bn (from 222,000 investors in over 69 countries) via third-party credit specialists throughout the developing world. This is a much riskier option, but the returns tend to be in the double digits. What's more – so far at least – there have not been very many defaults.

Move your work pension

You can do better than most occupational schemes' default fund

David Prosser
Business columnist

It may be time to take your savings elsewhere

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What's the one thing you could do today to increase your wealth in retirement? If you're a member of an occupational pension scheme, there's a good chance the answer is simple: move your savings out of its default investment fund.

If, like most occupational pension-plan members, your scheme is a defined-contribution, rather than a defined-benefit scheme that pays guaranteed pensions, your pension in later life will depend on how well your money is invested. That comes down to the returns that managers achieve and the charges they deduct. On both counts default investment funds tend to score badly.

Switching should pay off

Recent research from financial adviser Hargreaves Lansdown suggests that the ten most popular funds with savers who have moved away from the default options in their pension scheme are performing far better. Over the past five years, savers in these funds have earned 5% more than those in default products.

Such outperformance can have a huge impact. A saver currently earning £28,000 who starts saving 8% of pay at age 22 and retires at 68 could expect to have a pension fund worth £191,000 if they earn an average return of 5% a year. An average return of 6% would produce £250,000.

Of course, there's no guarantee that a different fund will outperform your default option. Bear in mind, however, that employers tend to be conservative about default investment options.

If you're many years away from retirement, you can invest in higher-risk alternatives in the hope of achieving higher returns; there is plenty of time to recover from any setbacks.

As for charges, default pension funds aren't normally allowed to charge an annual fee of more than 0.75% a year. But many stay close to or at this cap and there are far cheaper alternatives available. The cheapest index tracker funds cost less than 0.1% a year.

Again, charges make a huge difference. A saver putting £100 a month into a pension for 40 years and earning an annual return of 5% would end up with a fund worth £145,000 if they paid charges of only 0.1% a year. A 0.75% fee reduces this to £124,000.

If default funds cost more and perform less well, why do nine in ten occupational pension-scheme members stick with them? Doing so is the easy option – it requires no action. But the danger of not seizing the initiative and exploring better alternatives for your savings is that you'll pay heavily for your apathy later in life.

Keep an eye on your NI contributions

Less than half the people who have retired since the introduction of the new state pension in April 2016 are eligible to claim the full value of the benefit, government statistics reveal.

Data just released on the 1.1 million Britons receiving this benefit shows that only 44% are being paid the headline rate of £168.60 a week. By contrast, two-thirds of people who retired before April 2016 and receive the old basic state pension get the full amount.

So what's going on? The shortfall reflects the fact that while claimants for the basic state pension only had to make 30 years of national insurance (NI) contributions to get the full amount, the new version of the benefit requires a 35-year record of NI payments for the maximum payment.

Missing out can prove costly, so pension experts are urging more people to ask the Department for Work and Pensions for a state pension statement well before they're due to retire.

This will enable you to check that your record is correct – both that all the years in which you've paid NI have been counted and that you have been given NI credits for periods when you were eligible for this support. These would include a spell of ill-health or unemployment. Keep in mind too that you have the option of making voluntary NI contributions to top up your record.

Tax tip of the week

The deadline for the self-assessment tax return, 31 January, is fast approaching, which also means that the number of HMRC-related scams tends to surge at this time of year. HMRC says it received 900,000 reports of attempted fraud in the 2018/2019 tax year, "a staggering figure given that most people don't bother" to report them. Beware of an email or letter including links to a tax refund or payment claim, says the Tips & Advice Tax newsletter. These messages appear convincing because they usually include an HMRC logo that looks just like the real thing. Watch out for phone calls too. HMRC will sometimes phone, but only after issuing a series of demands, so if the phone call is out of the blue, alarm bells should ring. Note too that HMRC will never request information by text. Its website has a section detailing the latest scams doing the rounds.

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Should you take a 25% lump sum?

If you're approaching retirement, think twice before exercising your right to take 25% of your pension fund savings as a tax-free cash lump sum.

If you're a member of a final-salary scheme, the tax-free lump sum available to you on retirement depends on a "commutation factor". This is the formula that determines how much cash you qualify for and, just as critically, how much annual pension income you'll forgo by taking the money. The higher the commutation factor your scheme offers, the more generous it is. But the factor also gives you a rough idea of how long you have to live to miss out overall by taking the cash. A commutation factor of 12 broadly means that 12 years into your retirement you'll have given up more in regular pension income than you received as your lump sum. Men and women aged 65 today can expect to live for another 19 and 21 years respectively. So for many people, a higher annual pension with no lump sum paid upfront will be a better bet.

In defined-contribution schemes, the calculation is more difficult. You can take a straight 25% of the fund upfront, but this will mean less annual annuity income or a smaller fund to invest if you're opting to draw cash down directly from your pension scheme. If the former, you can do some quick calculations by getting annuity quotes with and without taking the lump sum; if the latter, you'll have to make a judgement about the investment returns you're missing out on.

Where to find British stocks for all seasons

A professional investor tells us where he'd put his money. This week: Robin Geffen, head of the Liontrust Global Equity Team, selects three favourites

We believe investors looking for income from UK equities should look for an attractive yield, income growth and, importantly, corporate resilience and growth. Our approach to building a portfolio follows these rules. We split our holdings evenly between what we call "steady-Eddie", "hidden fruits", and economic-recovery stocks.

Using a combination of differing styles provides diversification and scope for strong performance at various stages of the market cycle. We also believe that seeking out large caps with high levels of dividend cover is crucial to future income and capital growth.

Slow and steady wins the race

Our so-called steady-Eddie holdings, which are core income stocks with structural growth drivers, are typically lower yielders but offer strong and consistent dividend growth.

These businesses tend to be defensive, helping to protect the overall portfolio during times of market weakness. Consumers' staples company **Reckitt Benckiser (LSE: RB)** is a steady-Eddie we favour thanks to its diverse portfolio of everyday power brands (such as Dettol, Nurofen and Vanish).

"AstraZeneca has underperformed, but its valuation has fallen too far"

Reckitt Benckiser produced a total shareholder return of 219% between 2007 and 2018, driven by stable earnings and dividends. The business is evolving into a consumer-health company, a structurally attractive subsector supported by organic growth drivers such as rising wealth in emerging markets.

Then we have our hidden fruits, which are value stocks where we have identified a catalyst for change. These tend to be our highest yielders, as they are usually companies that have gone through a difficult period. **AstraZeneca (LSE: AZN)** is a recent addition to our hidden-fruit stocks. It has underperformed recently, but several positive developments suggest the company's valuation has fallen too far.

For example, sales growth has recently increased considerably and we expect the stock to continue to improve its cash-flow generation and product pipeline, driven by both geographical and product-specific growth opportunities.

Geographically, attractive emerging markets now represent Astra's largest region by sales; China is its second-largest market. At a product level, 157 projects in the pipeline should sustain top-line momentum as Astra reinvests heavily in its new drugs, particularly cutting-edge cancer treatments with hitherto encouraging clinical success.

RSA has room to run

The final group consists of economic recovery stocks. Stocks in this category also generate higher-than-average yields. They do tend to be more volatile, but in return they offer considerable upside, given that their fortunes are more tied to the economic (or a more sector-specific) cycle.

This group includes financials such as **RSA Insurance (LSE: RSA)**, which can be volatile depending on sentiment towards the economy. But it is a stock we have researched carefully and favour given the quality of the underlying businesses, its clear operational improvements and the fact that it offers geographical diversification, with some 70% of its earnings generated overseas. It is one of several financial stocks we hold to ensure a sector-overweight position.

If only you'd invested in...

GB Group (LSE: GBG) is a technology company that focuses on fraud prevention, compliance and identity verification, using tools such as machine learning and facial recognition. It is based in Chester, but now operates globally and claims to be able to verify the identities of 60% of the world's population. In its latest update, which saw revenue and profits ahead of expectations, the company said that overseas sales had surpassed UK ones for the first time and now comprise 57% of the total. The share price has risen by 70% in the last year.

Be glad you didn't buy...

Pharos Energy (LSE: PHAR) is an oil and gas exploration company that until recently operated as SOCO International. It has productive assets off the shore of Vietnam and a recent acquisition has given it productive operations in Egypt's western desert. It has also been awarded exploration rights in the eastern Mediterranean off the coast of Israel. The depressed oil price has not been kind to the company, however, with profits falling last year. And despite a history of paying dividends, investors remain unimpressed. The share price has fallen by a third in the past year.

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CRISIS IN SOUTH SUDAN

BENEDETTA CAPELLI IS AN MSF MIDWIFE

MSF midwife Benedetta Capelli reports from Pibor, South Sudan, where floodwaters have left thousands homeless.

"Our hospital in Pibor is about 100 metres from the river. In mid-October, the river suddenly started to rise. We moved the isolation area to higher ground, then the adult and children's wards and therapeutic feeding centre.

When the water crept towards the operating theatre, we had to close it. We carried the most expensive equipment to an area we hoped would stay dry.

By now we were seriously worried. Every day the water rose by another 10 to 20 cm. For our South Sudanese staff, the distress was doubled. Just as our compound was disappearing underwater, their own homes were being flooded.

The moment we saw the water infiltrate the new 'safe' tents, we decided to look for another location for our hospital. We found a space in Pibor's marketplace, and over the following days we dismantled the hospital and moved it, piece by piece. We created an area with tents for all the main medical activities.

MSF floods intervention in Ulang, South Sudan.
Photo © Nicola Flamigni/MSF

Back in the MSF compound, the water was rising on all sides. On our final night there we all slept together in the highest-up container. We had to paddle in a plastic boat to reach the toilets. The only way to move around the hospital now is by boat—the compound has literally become part of the river.

At the temporary site in the marketplace, our team is providing consultations as well as antenatal care, deliveries and inpatient care.

The site has no electricity and is knee-deep in mud. We lost a lot of items to the flood—we now have just one oxygen concentrator. We have enough drugs to last a week. We are waiting for more, but transport—now only possible by helicopter—is challenging. The helicopter landing strip is just a thin strip of land. Waterborne diseases are a major health concern—and cholera is the biggest fear. We also expect an increase in respiratory tract infections, malaria and snakebite."

MSF has erected a 27-bed tent hospital on dry ground near Pibor. Our medical teams are treating more than 90 people every day in this makeshift facility.

WHAT IS HAPPENING IN SOUTH SUDAN?

On 30th October 2019, the government of South Sudan declared a state of emergency across 27 flood-affected areas. It is estimated that more than 908,000 people have been affected.

WHAT IS MSF DOING?

MSF is providing medical and humanitarian assistance to people affected by the floods, including the provision of clean water. Across South Sudan, MSF runs more than 12 projects providing essential medical care. In Pibor, MSF's hospital is the only facility providing inpatient and outpatient facilities, an emergency room, surgery, maternal healthcare and vaccination support.

THANK YOU

It's your financial support that enables us to operate in South Sudan. Your donation will ensure that during the floods and in their aftermath, we will continue to provide lifesaving medical care across the country. We couldn't do it without you.

DONATE NOW CALL 0800 408 3899

24 hours a day, 7 days a week or make your donation at: **msf.org.uk/floods**

YES, I wish to help Médecins Sans Frontières continue to provide medical care in South Sudan.

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Vietnam's Donald Trump

Not satisfied with a business empire that covers just about everything in his native Vietnam, property mogul Pham Nhat Vuong is making a move into the electric car business. Jane Lewis reports

There was a sinking feeling in Hanoi earlier this month when Vietnam's richest man, Pham Nhat Vuong, entered the electric-car race. Shares in his sprawling conglomerate, Vingroup, fell 2% on news that Vuong had become the latest billionaire to be seduced by this most 21st century of vanity projects and the entire benchmark VN index drooped in sympathy.

Vuong, 51, is "so intent on exporting electric vehicles to the lucrative American market in 2021" (not to mention Europe and Russia) that he's ploughing $2bn of his $9bn fortune into the new VinFast venture, notes Bloomberg. The rest will come from Vingroup. "Our ultimate goal is to create an international brand," he says – a challenge that has so far eluded him despite an eventful international business career. VinFast's "homegrown cars" certainly face an uphill struggle to succeed overseas: "Many Chinese start-ups, backed by billions in funding, have bet on the prospects for EVs [electric vehicles] in the world's biggest market, but few are making money." Even in Vietnam, Vuong faces formidable competition from established foreign players such as Toyota, Ford and Hyundai.

"Vuong is the latest billionaire to be seduced by this most 21st-century of vanity projects"

The land of Vin-everything

Vingroup's rise has mirrored that of Vietnam, one of Asia's fastest-growing economies, says the Financial Times. In fact, Vuong – the richest of the Vietnam's five billionaires – has become so dominant that "Vietnam is rapidly becoming the land of Vin-everything". The group, which started as a pot-noodle business in post-Soviet Ukraine, made its name in property and resorts before expanding into a "cradle-to-grave" enterprise. "Today a Vietnamese man or woman of a certain class might live in a Vinhome, send their children to a Vinschool (and from 2020 a VinUni), holiday at a Vinpearl resort and charge their VinFast electric scooter at a VinMart." Smartphones and now cars round out the offer.

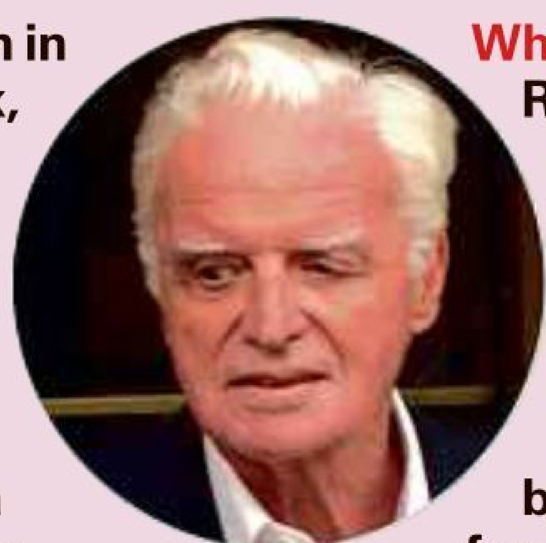
Vuong's ascent "personifies the post-Vietnam War story of this nation", says Forbes. Born in 1968 in Hanoi, his father served in the North Vietnamese air defence force and his mother ran a pavement tea-stand. The Communist North "won the war and united the country", but "lost the economic battle". Growing up in poverty, Vuong "escaped his circumstances with books". Something of a maths prodigy, he won a scholarship to study economics at the Moscow Geological Prospecting Institute. The timing of his 1993 graduation was fateful: the Soviet Union had collapsed and back at home Vietnam was experimenting with its own "Doi Moi" market-based reforms.

Post-Soviet opportunities

Newly married Vuong took advantage of the post-Soviet opportunities, making his way to Ukraine, where the couple opened a restaurant and began making instant noodles. By 2010, when he sold up to Nestlé for an estimated $150m, Vuong had become "Ukraine's processed-food king".

For years, Vuong funnelled money from his noodle empire back to Vietnam, increasingly targeting property. He began with a luxury resort, then moved into commercial property in Hanoi with such aggression that in the early years of the decade he was often described as "the Vietnamese Donald Trump". Unlike Trump, Vuong is considered "modest and down-to-earth", says The Independent. Don't let that fool you. He often plays football for Vingroup – as a striker. "Attacking is better than defending," he says. And that applies to everything.

Great frauds in history... *John Rigas and Adelphia*



John Rigas was born in Wellsville, New York, in 1924. He served in the second world war and graduated with a degree in engineering, later buying a cinema in a town in Pennsylvania. In 1952 he bought the local cable television station for $300, naming the new company Adelphia Communications Corporation. By borrowing large sums of money to fund takeovers, Adelphia was able to expand beyond the local area, eventually becoming one of the largest providers in the US of cable television, long distance telephone calls and then later broadband internet.

What was the scam?

Rigas took Adelphia public in 1986, but he retained ownership of his own private family ventures. Rigas and his family persuaded a group of bankers to lend these family ventures money on condition that the loans were jointly backed by Adelphia as well as the family's own assets. Rigas treated the overdraft as a personal slush fund, using the money to speculate on Adelphia stock and injecting money into his personal companies, including $150m in the Buffalo Sabres, a professional hockey team. These loans were hidden from both shareholders and creditors, who were unaware that Adelphia was liable for an additional $2.3bn in debt.

What happened next?

In early 2002, Adelphia finally disclosed that it was potentially liable for that $2.3bn in extra loans. When analysts demanded that the company disclose the destination of these funds, the stock plunged, prompting auditors Deloitte to refuse to sign off on the accounts, which caused the stock to fall further. The Securities and Exchange Commission, the US regulator, opened its own investigation, prompting John Rigas and his son Tim to resign. Meanwhile, creditors called in their loans, pushing Adelphia into bankruptcy. In 2004 John Rigas and his son were convicted of fraud and sentenced to jail.

Lessons for investors

It's estimated that the Rigas family embezzled at least $1bn from Adelphia. Shareholders were wiped out. With appropriate controls, family firms can be good investments as the family has the incentive to make sure the firm is properly run and the ability to hold management to account. In this case, however, poor corporate governance (including a share structure that gave the family 60% of the voting rights while holding only 20% of the company) and a general attitude that it was their firm provided fertile ground for fraud.

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Three great Christmas markets in Britain

Get out and enjoy the festive spirit at special events around the country. Chris Carter reports

Birmingham has the largest authentic German Christmas market outside of Germany

Frankfurt comes to Birmingham

If you've always wanted to explore the best Christmas markets in Germany, but haven't managed to get there, then Birmingham has the next best thing, says Julie Delahaye in the Daily Mirror. Most of the action takes place in and around Victoria Square in the city centre, where you'll find the picturesque wooden lodges. Birmingham claims that its Frankfurt Christmas Market is the "largest authentic German Christmas market outside of Germany or Austria".

That means plenty of "pretzels, schnitzels, bratwursts, glühwein and weissbier (wheat beer)", says Helen Coffey in The Independent. The market has 80-odd stalls, selling everything from wooden toys and decorations to glass baubles and hand-crafted leatherwork. Live music is performed on the main stage in Victoria Square at weekends.

Until 23 December

A Bavarian village in London

Winter Wonderland, based in London's Hyde Park, "is the best known festive extravaganza in London, drawing in thousands of people from around the country each year", say Jochan Embley and Harry Fletcher in the Evening Standard. With so much going on, you won't get bored.

To get the best traditional Christmas market experience, head to the Bavarian Village. It's packed with bars, cafes and restaurants, serving up the kind of fare you'd find in a winter market in Germany – bratwurst, flame-grilled salmon and mulled wine. There's even a beer hall for the adults and much else besides "to fuel the merriment, from roller-coasters and ice rinks to stand-up comedy and circuses".

London: a festive extravaganza

Until 5 January

Glühwein in Glasgow

It's beginning to feel a lot like Christmas in Glasgow, says Ewan Mowat for The Scottish Sun. The traditional markets have returned to bring Christmas cheer to the city centre. "'Tis the season to gorge on delicious street food, find festive gifts for loved ones and sample the German bars' steins of beer and cups of Glühwein."

And with "gifts from as far afield as Kenya and Ecuador, Glasgow's markets are a great place to track down stocking fillers with a difference", says Wanderlust. There are two Christmas markets this year, each with 50 stalls. There's one in George Square and another in St Enoch Square. "Painted Russian dolls, Italian nougat and woollen jumpers from Lapland are… among the highlights." The Bavarian beer house is a draw, as is the "Glühwein House run by Markus Kochems of the Mosel valley, one of the world's top wine producers".

Glasgow: find a stocking filler

Until 29 December

Wine of the week: a Christmas gift for the family oenophile

2013 Brolo dei Giusti, Valpolicella Superiore, Veneto, Italy

Available by the six-pack only from thefinewine company.co.uk, or for around £34.99 from glugwines.co.uk; oldbridgewine.co.uk; valvonacrolla.co.uk; stswithinswine shippers.com

Matthew Jukes
Wine columnist

My column this week is a vehicle for mentioning one of the most unusual and fascinating wines of the year. My hope is that this wine becomes the vinous gift that you can give to your trickiest and most well-informed of wine-loving friends this Christmas. They will never have tasted it before, I am sure, because it is awfully rare, and it will be sure to light up their senses with its deep, throbbing palate and peacock's tail of perfume.

Made from fruit harvested from a three-walled vineyard (Broli in the heart of Valpantena), only the very finest bunches of corvina/corvinone and rondinella are used for this wine. Using partially dried grapes, to augment the aromas and flavours and deepen the mid-palate enormously, the wine is bottled in a rather ostentatious flagon, as you can see from the accompanying image. Closer to Amarone in flavour than a standard Valpolicella, this is a wine with an enormous flavour trail which fires up your senses and leaves you feeling amazing.

It has been aged for one year in large barrels and a further two in tanks before bottling. We now have it on select merchants' shelves at six years old (see list of suppliers on the left) and this is the sweet spot for this noble wine. Decant it and let the magic happen. I wish all my readers a merry Christmas and a happy New Year.

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

This week: houses with beautiful fireplaces – from a mansion designed by John Nash in Newchapel, Pembrokeshire,

▲ **The Old Rectory, Meysey Hampton, Gloucestershire.** A Grade II-listed, 17th-century rectory set in large gardens and woodland. It retains its original wooden spiral staircase and has stone bolection-moulded fireplaces with cast-iron grates. 8 beds, 4 baths, 3 receps, swimming pool, outbuildings, 6.81 acres. £2.4m Butler Sherborn 01285-883740.

▶ **The Flint House, Overstrand, Cromer, Norfolk.** A renovated, early 19th-century brick and flint house with distinctive stone edging. It has an inglenook fireplace and a large fireplace in the living room with a wood-burning stove. 4 beds, 2 baths, 2 receps, study, workshop, parking, gardens. £635,000 Strutt & Parker 01603-617431.

▶ **Ffynone Mansion, Newchapel, Pembrokeshire.** A Grade I-listed, 1790s mansion designed by the architect John Nash with early 20th-century gardens designed by Inigo Thomas. It has a reception hall with moulded, fluted ceilings, a carved Italianate Baroque marble fireplace and carved fireplaces designed by Nash throughout. 13 beds, 6 receps, 3 flats, outbuildings, stables, pasture, woodland, 34 acres. £1.8m Savills 02920-368930.

with an Italianate Baroque marble fireplace, to a New York townhouse set above Manhattan's East River

Hensol Estate, Castle Douglas, Kirkcudbrightshire. An estate on a wooded peninsula between Woodhall Loch and Loch Ken with a Grade A-listed house replete with period features, including a marble fireplace with a Jacobean carved wooden mantelpiece. 10 beds, 4 baths, 4 receps, conservatory, gardens, 5 cottages, farmhouse, in-hand farm, steading, grazing, commercial forestry, loch frontage, 632 acres. Available in 2 lots. £2.82m+ Strutt & Parker 0131-226 2500.

Beere Manor, Cannington, Bridgwater, Somerset. A restored, Grade II-listed, 16th-century manor. It has panelled rooms and large carved fireplaces with stone surrounds. 4 beds, 3 baths, great hall, 4 receps, walled garden, orchard, barn, greenhouse, paddock, stream. 10.7 acres. £1.295m Jackson-Stops 01823-325144.

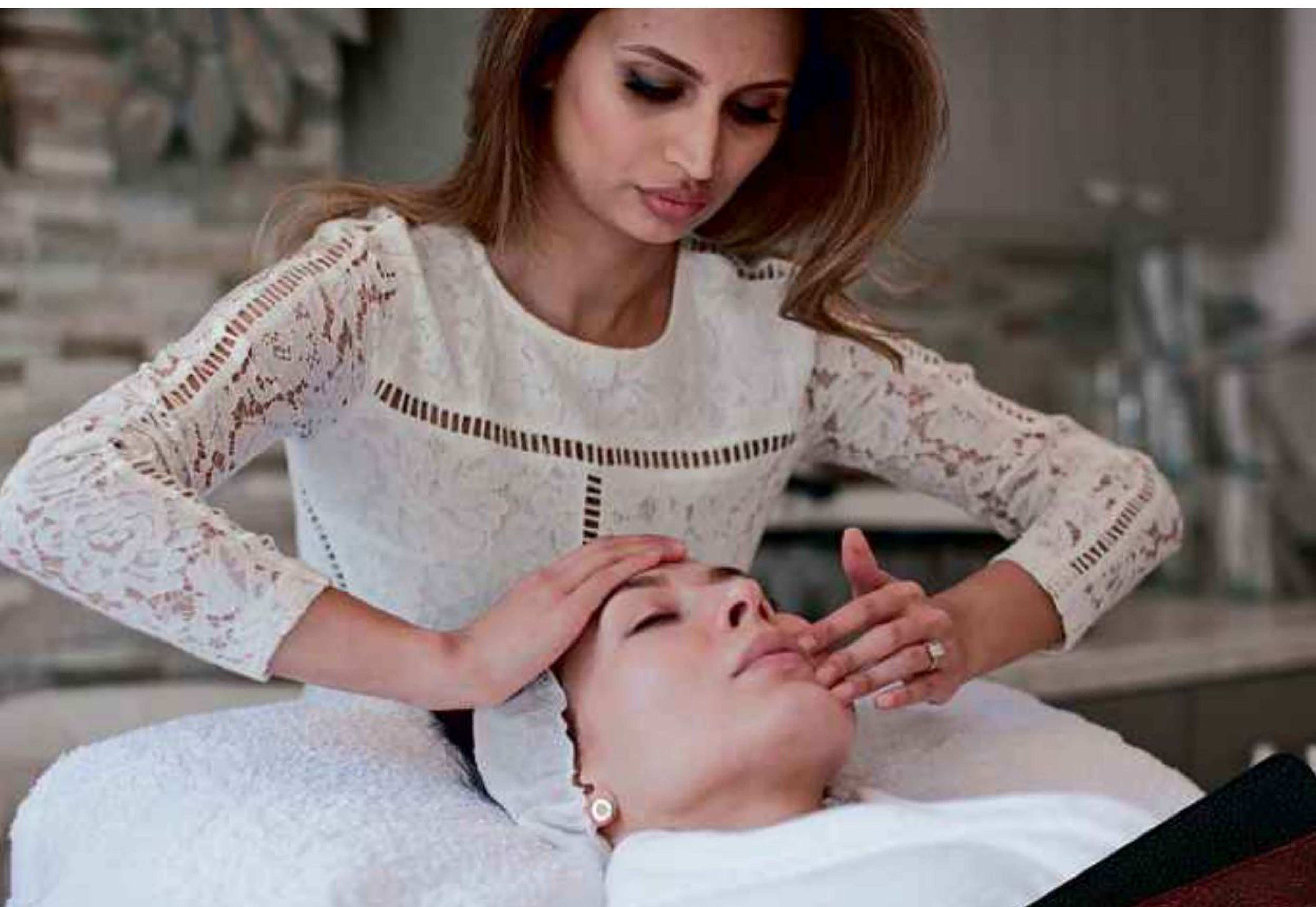
Dutch Garden, Wraysbury, Staines-Upon-Thames, TW19. A unique and substantial house decorated by the current owner in a romantic period style that includes an inset, painted ceiling depicting Saint George slaying the dragon and faux-Gothic arched windows set above a large stone fireplace with an ornate cast-iron grate. 7 beds, 6 baths, 4 receps, study, library, kitchen, cloakrooms, library terrace, courtyard gardens. £4m Waterview 020-8398 8550.

Sutton Place, New York. A townhouse set above Manhattan's East River previously owned by architect I. M. Pei, who designed the Louvre Pyramid in Paris. The house reflects his modernist aesthetic and includes a spiral staircase and marble and soapstone fireplaces of his design. 4 beds, 3 baths, 2 receps, kitchen, library, wine cellar, staff room, elevator, garden.$8m Christie's International Real Estate +1 212 974 4434.

Nonsuch House, Chippenham, Wiltshire. A small rural estate with six rental properties centred around a Grade II-listed, mid-17th century William and Mary former hunting lodge. It has a stamped Spanish leather wall cover in the hall and carved stone fireplaces throughout. 9 beds, 3 beds, 3 receps, kitchen, attics, traditional wine cellars, stables, stable yard, parkland, woodland, 59.54 acres. Further farmland is available in a separate lot. Lot 1: £3.5m. Carter Jonas 01823-428590.

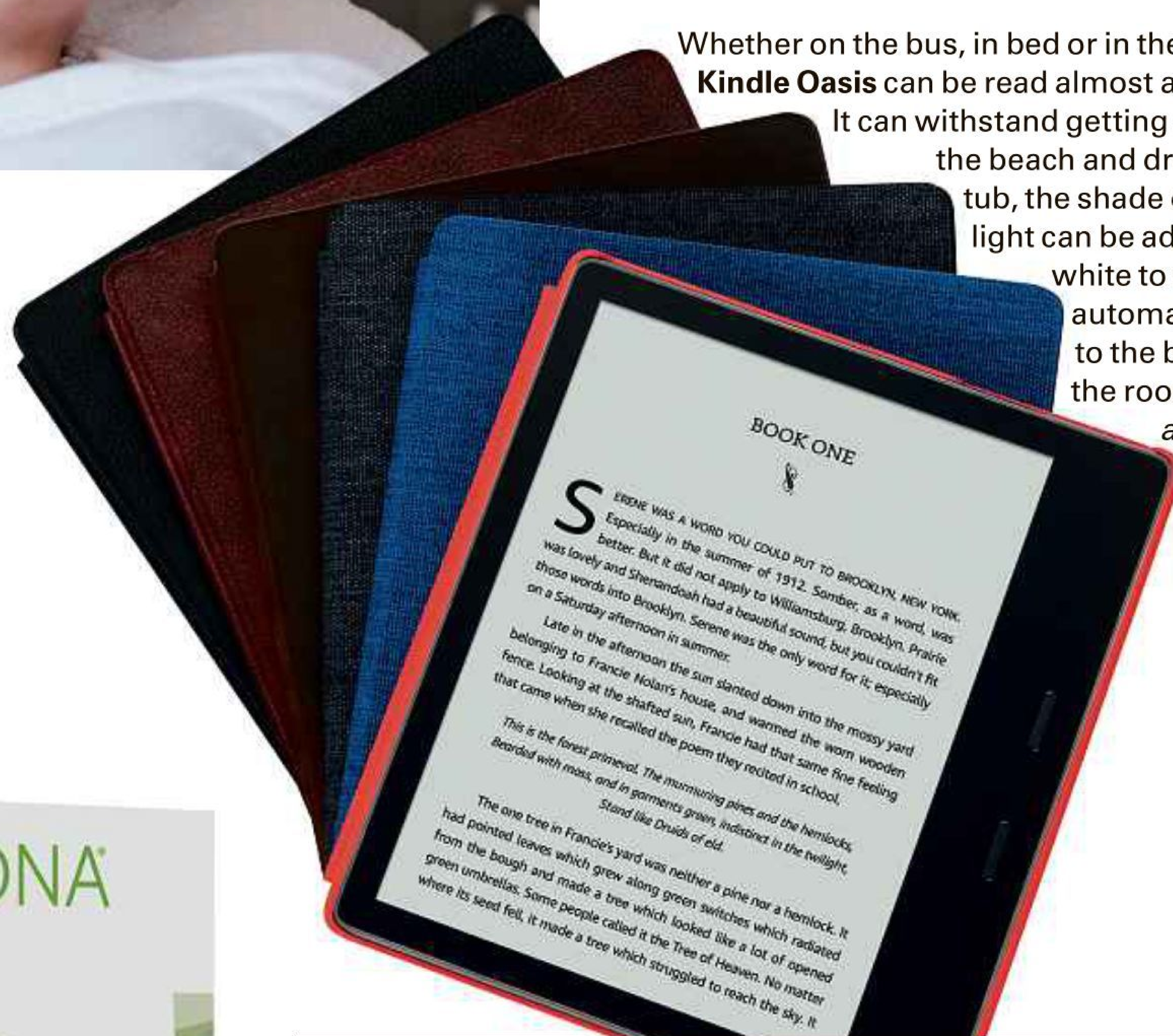
Five last-minute gifts

Have mince pies and sherry distracted you from your shopping? Fear not – these presents are bound to please. Get online and buy today

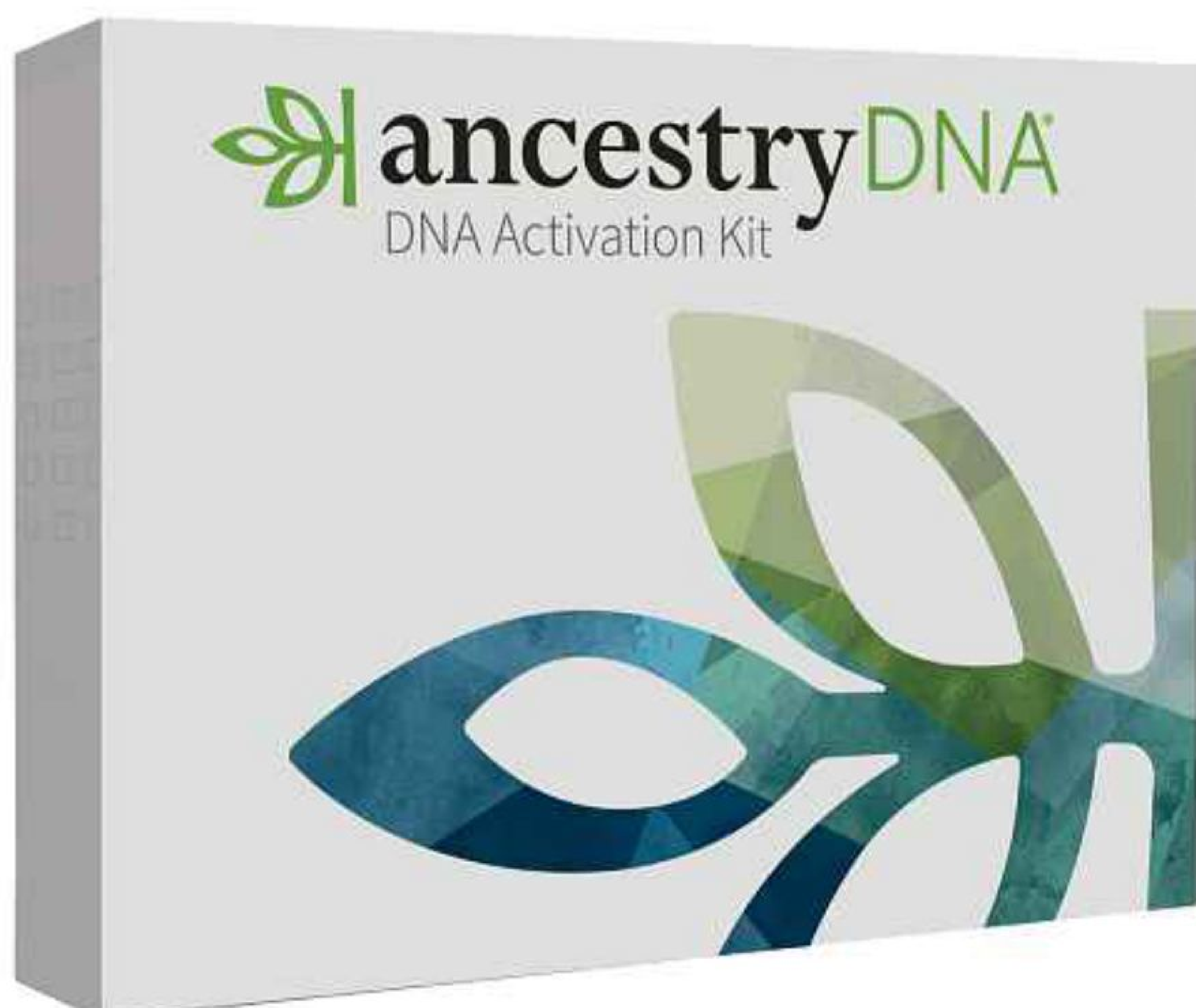


Spoil that special person in your life – and yourself – with a luxurious **Love is... spa day for two** at the Dorchester hotel in London. Relax on warmed couches in a private couple's suite before enjoying an hour-long aromatherapy massage. The stress of Christmas will slide off, leaving you and your partner feeling utterly relaxed. *£530, shop.dorchestercollection.com*

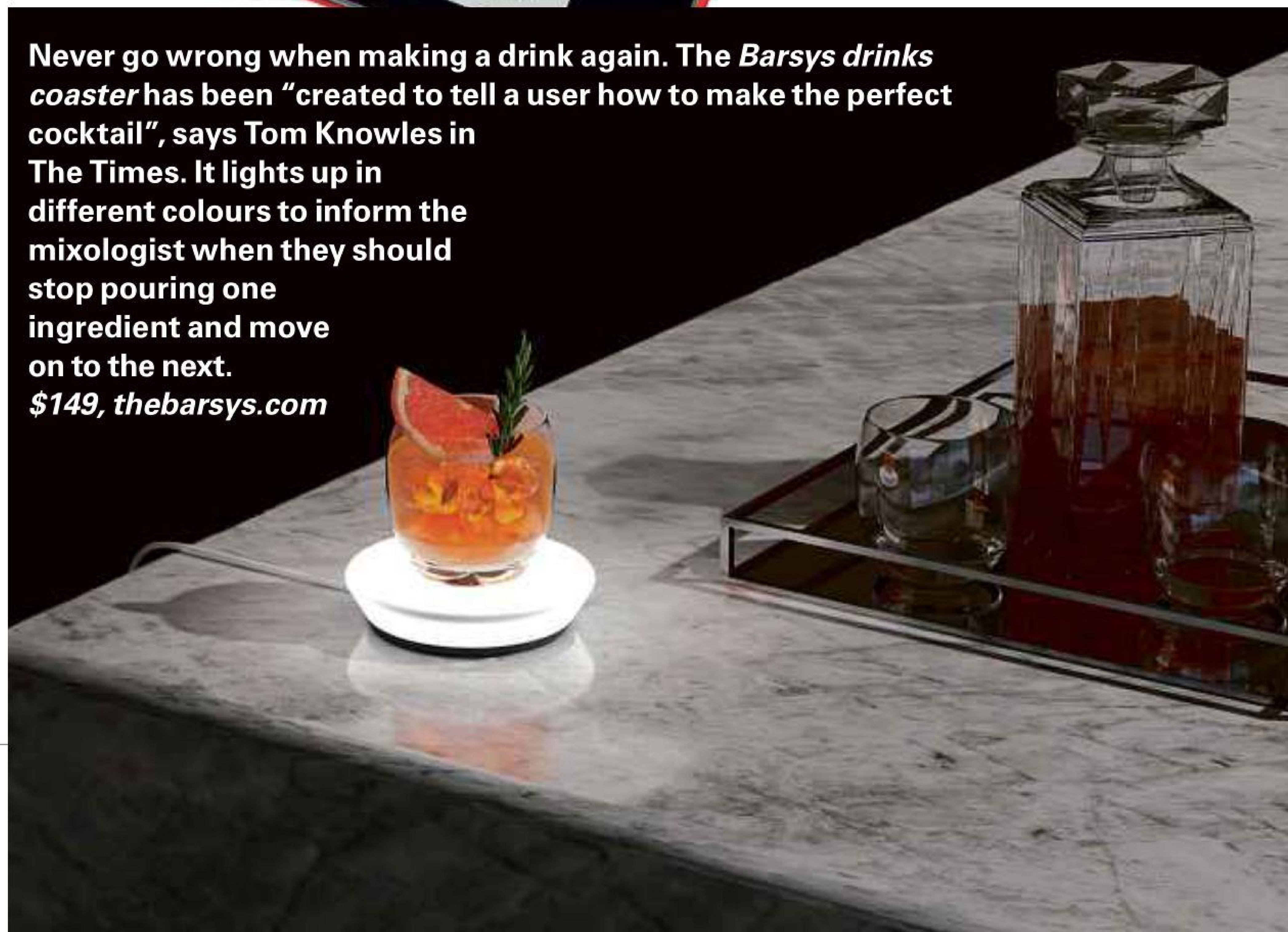
"If mum is a newbie to the world of smart home tech devices, the **Google Home Mini** is a great introduction," says Chantelle Symester in the Daily Mirror. The pebble-sized speaker syncs up to other smart devices, can set reminders and play music and podcasts, as well as read the news and update you on the weather. *£49, store.google.com*



Whether on the bus, in bed or in the bath, the **Kindle Oasis** can be read almost anywhere. It can withstand getting splashed at the beach and dropped in the tub, the shade of the screen light can be adjusted from white to amber,and it automatically adapts to the brightness in the room. *£229.99, amazon.co.uk*



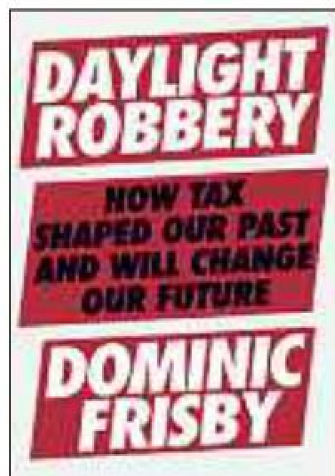
Have a sneaking suspicion your connection to Elvis is more than just spiritual? Home DNA testing kits "are all the rage", says Cat Ellis on TechRadar, and **AncestryDNA** is one of the most popular. *£79, ancestry.co.uk/dna*



Never go wrong when making a drink again. The *Barsys drinks coaster* has been "created to tell a user how to make the perfect cocktail", says Tom Knowles in The Times. It lights up in different colours to inform the mixologist when they should stop pouring one ingredient and move on to the next. *$149, thebarsys.com*

Book of the week

Daylight Robbery
How Tax Shaped Our Past and Will Change Our Future
By Dominic Frisby
Penguin, £20



This is a book about tax. If your eyes are already glazing over, that's understandable. After all, it's a dull and dry subject, is it not? Not in the hands of regular MoneyWeek contributor Dominic Frisby it isn't. Frisby is a skilled writer and, whatever your political leanings, you will find much to enjoy in this entertaining and educational romp through the history of taxation.

Frisby (pictured) shows how the tax system has played a major role in the evolution of modern society. Disputes over the level of taxation, and the way in which it is levied, have sparked anger, division and even conflict – changes in taxation were an important factor in the French Revolution and the American Civil War, for example. And tax has been shaping human life from near the beginning of our history. Starting with primitive Sumerian tribes, organised societies quickly realised that they needed some sort of levy to pay for common goods, such as providing defence. In feudal societies, serfs would have to carry out a certain amount of labour for a noble who would in turn be expected to defend them in times of war. As feudalism gave way to capitalism, governments started to tax essentials such as salt and even windows (hence the "daylight robbery" of the title). Eventually these crude and distortionary taxes were replaced with today's huge government bureaucracy, and the subsequent need to raise ever larger sums from the populace.

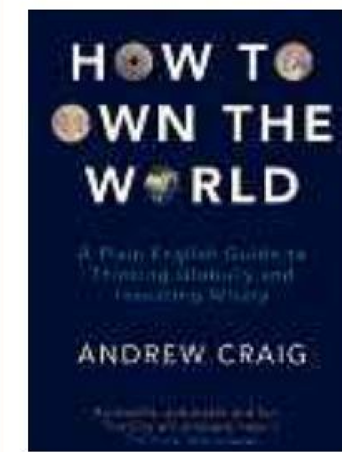
The book also looks at the present and future of taxes. Most countries today have tax codes that run to many volumes, but need that be the case? Frisby is a big admirer of what he sees as the admirable simplicity of Hong Kong's pared down tax system, and he recounts how this simplicity was a factor underlying the City-state's prosperity under British rule. Frisby argues that in the long-run governments will have no choice but to follow Hong Kong's example as globalisation and technology are already making many taxes next to impossible to collect.

As for the future, Frisby argues that the taxes that are levied need to be less distortionary – the preferential treatment of income from investments, when compared with that from earnings, has been a big factor behind the rise in income inequality, he says. Frisby suggests taking the advice of 19th-century economist Henry George and levying a tax on land value instead, which could go a long way to solving society's problems as it is not a burden on productive activity.

Countries such as Denmark have indeed already incorporated Georgist elements in to their tax system. Some readers may find Frisby's proposals a bit too radical, however, especially as he admits they would involve large cuts to public services.

Reviewed by Matthew Partridge

How to Own the World
A Plain English Guide to Thinking Globally and Investing Wisely
By Andrew Craig
John Murray Learning, £12.99



Most financial advisers lack any proper knowledge of financial markets, are hopelessly conflicted and generally offer poor value for money for their clients. Individuals would be better off taking control of their investments directly and investing for themselves. That was the argument of Andrew Craig's 2015 book, *How to Own the World*, which outlined how to build up a DIY investment portfolio that could ensure a comfortable retirement income.

This new, updated edition of that book contains a lot of new material to take account of the changes that have taken place over the past four years, such as the emergence of bitcoin. The core message, however, remains the same. Craig recommends investing in a diversified range of assets, including emerging markets, commodities and gold, and he remains concerned about the threat of inflation, arguing that governments are applying underhand methods to artificially hide the true extent to which rising prices are eroding people's real wealth.

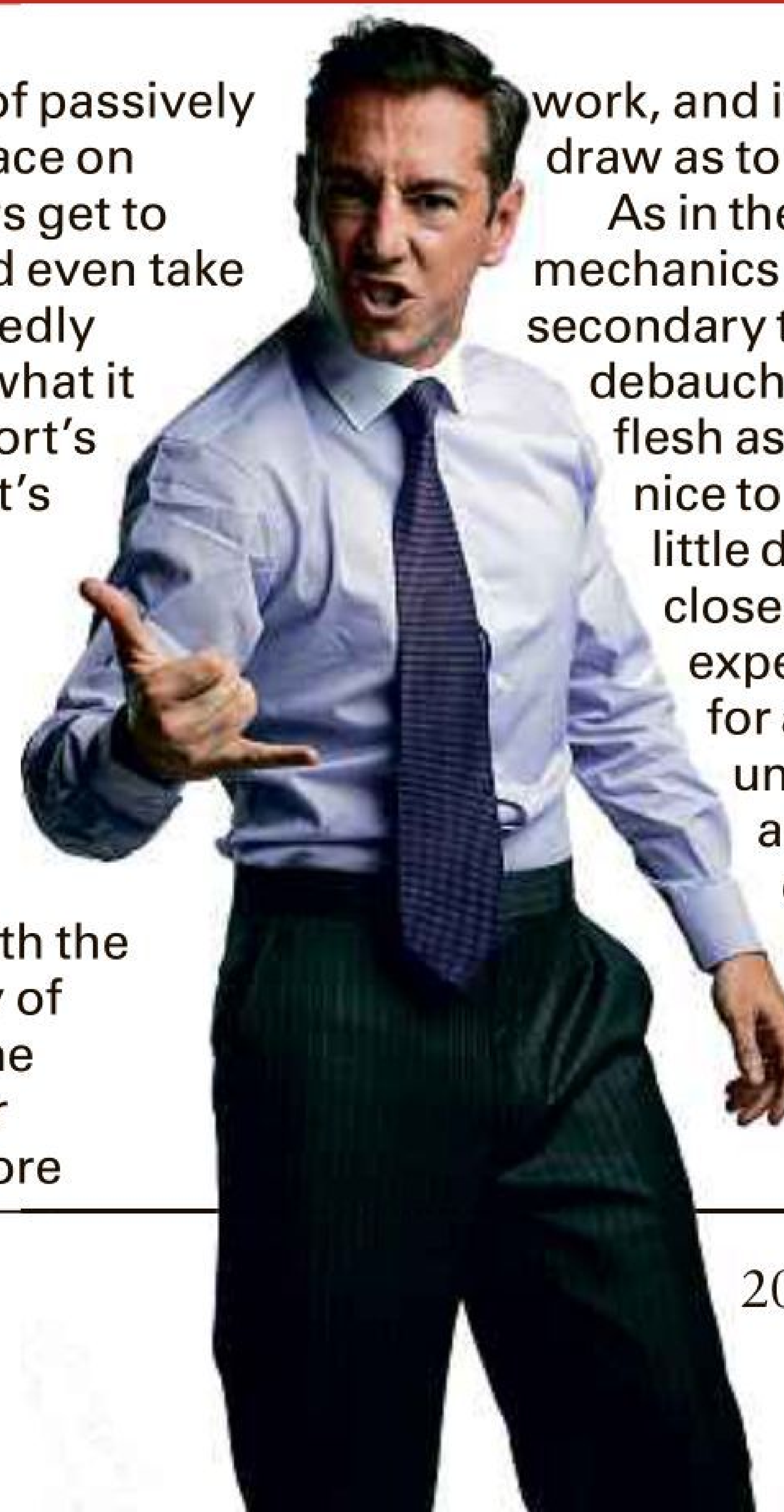
Craig is unafraid to make a lot of bold predictions – he is especially bullish on gold – but he presents both sides of the argument, so even if you do not agree with all his conclusions, you can't help but benefit from hearing what he has to say. That makes the latest version of his book a must-read for serious investors and beginners alike.

Play of the week... be a wolf for a night

The Wolf of Wall Street
Directed by Alexander Wright
Running until 19 January 2020
Tickets from £59.95, immersivewolf.com

The 2013 Hollywood film *The Wolf of Wall Street*, starring Leonardo DiCaprio as the penny-stock fraudster Jordan Belfort, was a big hit, making $392m at the box office, as well as being nominated for five Oscars. It is, as the FT puts it, the "relatively true story" of how one man manipulates the markets to make tens of millions of dollars, devouring most of the drugs in Long Island before being sentenced to 22 months in jail.

Alexander Wright and Ciaran Bagnall have created an immersive theatre production based on the film, currently running in a network of disused hotel rooms near Moorgate in central London. The idea is that, instead of passively viewing events taking place on stage, audience members get to view events up close, and even take part themselves, supposedly experiencing first-hand what it was like to be one of Belfort's brokers or an FBI agent. It's an ambitious goal, and everyone involved has clearly put a lot of effort into creating the right atmosphere, even before the show begins. Some of the scenarios, such as the encounter with the FBI agent, provide plenty of opportunities to shape the action. Some of the other scenarios need a little more work, and it's pretty much the luck of the draw as to where one ends up.



As in the film, any detail about the mechanics of Belfort's operations is secondary to the depiction of excess and debauchery, which isn't as funny in the flesh as it is on screen. Despite this, it's nice to see people trying something a little different and it's surely the closest most people will get to experiencing what it is like to work for a crooked brokerage, or go undercover, without risking life and liberty. If you weren't too put off by the film's depiction of 1990s excess, and have realistic expectations about the degree of interactivity possible in such a production, you should enjoy this event.

Taylor Swift sticks it to the man

The pop star has gone all rock 'n' roll and lashed out at the private-equity industry

Pop star Taylor Swift is going all rock 'n' roll and sticking it to the man. Billionaire investors are getting dragged into a "vicious" battle between Swift and manager-to-the-stars Scooter Braun, who recently bought the rights to her old music, as Richard Morgan reports in the New York Post. At a recent awards ceremony, Swift blasted Braun's financial backers. They represent a "potentially harmful force" from the "unregulated world of private equity", she said, that is "buying up our music as if it is real estate".

Swift: held hostage by capitalists

©Getty Images

> *"Swift's mini-business empire includes $81m in real estate, two private jets, a huge amount of intangible property, the music rights she does own and even her own legs"*

It's good to see the talent fighting back, says Olivia Campbell in The Independent. The rise of private equity in the music industry has placed Swift's music in the hands of a man she says has "actively bullied" her in the past, a man whose clients include people who have had "public and lengthy feuds" with her, such as Kanye West and Justin Bieber. Indeed, a few weeks ago Braun and his business partner threatened "to hold the global pop star's work hostage" by refusing to allow her to perform her most well known songs unless she agreed not to re-record her hits. Wall Street has helped make the music industry "toxic".

Cry me a river

Spare me the tears, says Liz Peek in The Hill. Swift, who is worth around $400m, may consider herself the "postergirl for private-equity victimisation", but she has only herself to blame for the situation she finds herself in. The whole problem only came about as a result of the fact that she "foolishly failed to protect the rights to her own music", which were offered to her. Only after she declined to buy them back were they then "duly and legally" sold to a third party. Having realised that her decision "might have unpleasant consequences", the "spoiled star" has thrown a "hissy fit".

Indeed, Swift, who tops the Forbes list of highest-paid celebrities, should be grateful to American-style capitalism, "which made it possible for businesses to invest in her and allowed her to profit as a result", says Allysia Finley in The Wall Street Journal. These profits have funded a mini-business empire that includes $81m in real estate and two Dassault private jets, worth up to $58m each. Swift also controls a "huge amount of intangible property" including her brand, trademarks such as "Speak Now" (the title of one of her albums), the music rights she does own, and even her own legs (she has taken out a $40m insurance policy on them).

Swift may be angry about being exploited, but she should handle carefully the can of worms she is opening. As Noah Berlatsky points out for NBC News, if you take her argument about the ownership of the fruits of her labour to its logical conclusion, lots of other people will be wanting a slice of hers. Swift talks as if the albums she created are "hers and hers alone", but the fact is that "guitarists, drummers, keyboardists, video directors and mixing engineers all made artistic contributions to Swift's albums and videos". If Swift is, as she claims, being exploited by capitalism, she should realise that she herself is a capitalist living on the expropriated gains of others' labour.

Quintus Slide

Tabloid money… who looks out of touch now, Mr Corbyn?

- Labour has spent more than ten years attacking Tory leaders as out-of-touch Old Etonians, but Boris's landslide shows that it is Labour that has been out of touch, says Stephen Pollard in the Daily Express. Voters "couldn't care less where someone went to school", but they do care about "what people say, what they do – and what they want to do". Johnson must deliver on his promises to the "neglected north". The region "has never really been given the same attention as the south". Between 2008 and 2018, "public spending on transport was £739 per head in London, but only £305 in the north". Johnson intends to spend "£100bn on infrastructure projects in the north". Now the prime minister must "deliver the goods".

- **Presents, food, drink and outfits for parties will see the average Brit "splash out" an average of £973.80 on the holiday season, says Joe Gamp in The Sun. Gifts for friends and family take up more than half of the seasonal spending. Brits are also keen to "deck the halls" – half opt for a fresh Christmas tree, spending £55 on average plus £22 on updating old decorations. An average of £141 is spent on food; £68 goes on drinks. Two in five believe they spend more now on Christmas than they did five years ago; 47% confess they struggle to afford everything they want to buy. For one in ten Brits, Christmas can even cost more than an entire summer holiday. Jingle Bells? "Jingle tills" is more like it.**

- An unemployed couple from Liverpool raised £3,000 through an online fundraising appeal asking for money for Christmas presents for their seven children. Ryan Rodgers and Jenny Grimes claimed they had been wronged by changes in the benefits system and were short of cash. It might have been possible to feel sympathy for Rodgers, says Karren Brady in The Sun, if not for an interview with Grimes's mother that revealed Rodgers "squandered" his money. He was just "conning the public with a sob story" that wasn't true, she told Nic North for The Mail on Sunday. Former neighbours claim Rodgers "spent his days and nights 'off his head' on cannabis". One neighbour added: "I can't think of anyone more unsuitable to be asking for money."

©iStockphotos

Bridge by Andrew Robson

West shook his head

You're in a grand slam this week. Try to make Seven Spades on the Queen of Hearts opening lead, which you win with the king. You can count 12 tricks – seven Spades (including a Heart ruff), Ace-Kings of Hearts and Clubs, and Ace of Diamonds. The thirteenth is not so obvious.

Dealer South | Neither-side vulnerable

North
♠ 54
♥ 6
♦ A6432
♣ K10853

West
♠ 1083
♥ QJ103
♦ Q1085
♣ J7

East
♠ 97
♥ 87542
♦ K97
♣ Q96

South
♠ AKQJ62
♥ AK9
♦ J
♣ A42

The bidding

South	West	North	East
2♣*	pass	2♦**	pass
3♠***	pass	4NT§	pass
5♦§§	pass	7♠§§§	pass
pass	pass		

* Upgrading to a game-force.
** More waiting than negative in the modern style.
*** Showing a solid (ie, no loser) suit.
§ Roman Key Card Blackwood.
§§ One or (obviously) four "Aces" (including the King of trumps).
§§§ No losers, and every chance of 13 winners via suit establishment (the minors) and ruffing (hearts).

The key is to establish dummy's fifth Diamond and this will require four dummy entries. There's the Ace of Diamonds, the King of Clubs and a Heart ruff, but where's the fourth entry? The answer is you'll have to ruff a winning Heart.

At trick two, you cross to the Ace of Diamonds, then ruff a Diamond. You ruff your low Heart, ruff a third Diamond (pleased to see both opponents follow – to reveal the 4-3 split) then ruff a second Heart (actually, the ace). You ruff a fourth Diamond, draw trumps then cross to the King of Clubs to enjoy the fifth Diamond. The last trick is won by your Ace of Clubs – 13 tricks and grand slam made.

West shook his head? An opening trump lead would have removed a ruffing entry to dummy and declarer would have been an entry short to establish the fifth diamond.

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

Sudoku 978

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

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

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

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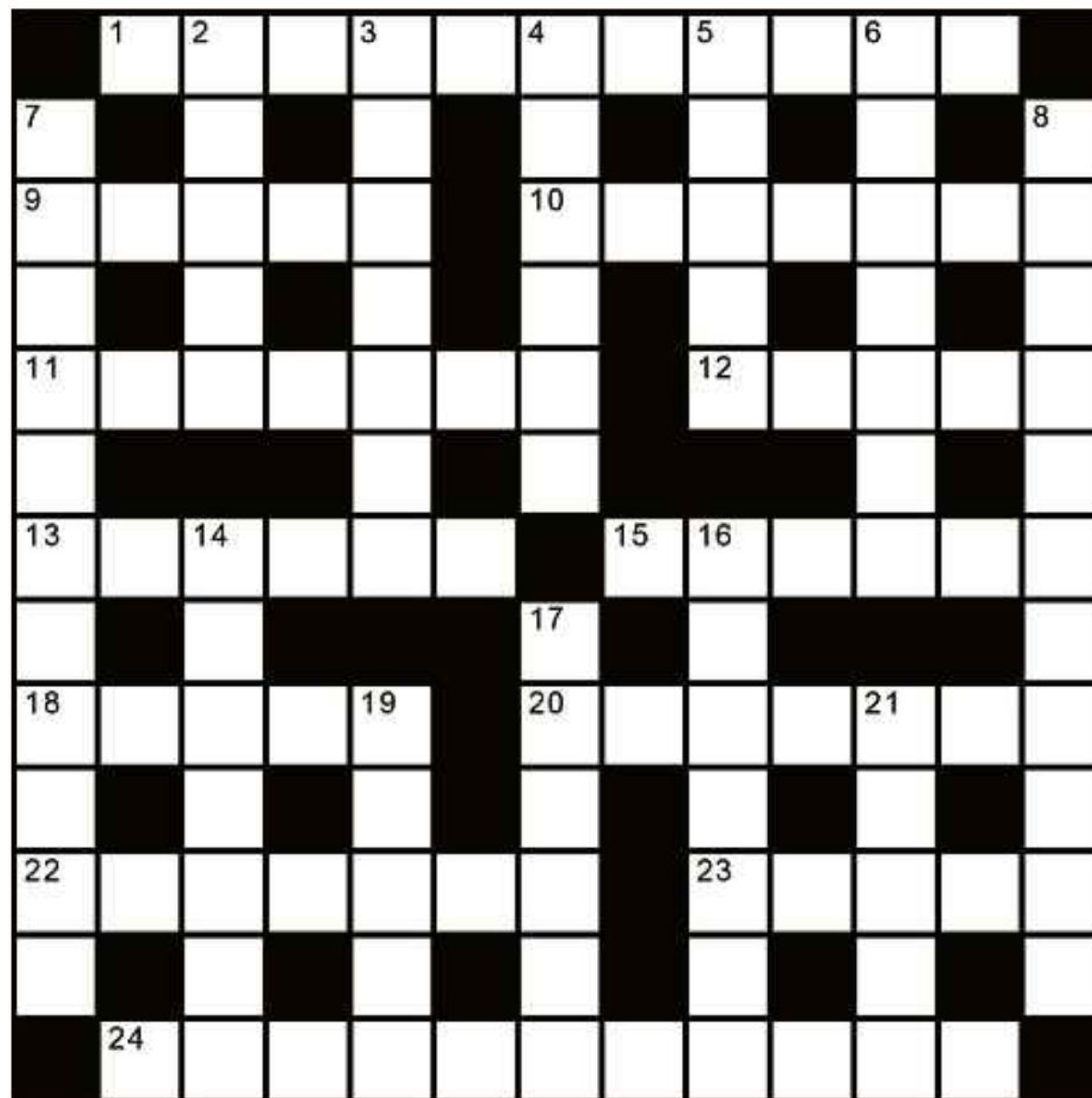
Tim Moorey's Quick Crossword No. 978

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 6 Jan 2020. Answers to MoneyWeek's Quick Crossword No. 978, 31-32 Alfred Place, London, WC1E 7DP.



Across clues are mildly cryptic whereas down clues are straight

ACROSS

1 Woman heartily improving no end of comedy (6-2-3)
9 Indian yoghurt cooked in Austria, not US (5)
10 What Bishop has in carport is rubbish (7)
11 Vest and what it's finished with! (7)
12 Women's quarters are in odd parts of home (5)
13 Small host, excessively ingratiating (6)
15 What some feminists might do to macho guys in pub (6)
18 Pacific nation making an appearance in Eton game (5)
20 Dicky Arbiter's snack (7)
22 Changed slope in Greek letter (7)
23 Relish nothing in a strenuous dance (5)
24 Sunday morning rubbish disposal? (3, 4, 4)

DOWN

2 Basic ingredient of many recipes (5)
3 City in North Holland, commercial centre of bulb industry (7)
4 Legal authority to publish (6)
5 Compass point (5)
6 Letter mix (7)
7 Compiler from Dublin is a dog! (5, 6)
8 Development of plant from seed (11)
14 Forgetfulness (7)
16 Puts air into, eg, a lawn (7)
17 Spanish general and dictator (6)
19 Improvised (2-3)
21 Commonplace (5)

Name

Address

Solutions to 976

Across 6 Ciao **7** Space bar *position on keyboard* **9** Airport lounge *anagram* **10** Wilt *Wilt(shire)* **12** Retainer *two defs* **14** G-strings **18** Name **20** Radio phone-ins *anagram* **22** Seraglio *anagram* **23** Apex *ape X*. **Down 1** Bikini **2** Soap **3** Usurer **4** Delusion **5** Haggle **8** Allot **11** Terminal **13** Egg **15** Snakes **16** Nepal **17** Spot on **19** Manner **21** Elan.

The winner of MoneyWeek Quick Crossword No. 976 is: Jean Gordon of Exmouth

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.

The saviour of funny money

Paul Volcker was a man of his word. We just wish he hadn't been so effective

Bill Bonner
Columnist

Volcker: the last honest Fed chairman

©Getty Images

Paul Volcker, the chairman of the Federal Reserve in the Carter-Reagan years, died last week. Here we look at his record and offer a salute – and a warning.

Volcker was the last honest Fed chairman. When he vowed to end stagflation in 1980, investors should have paid attention. But back then, even we didn't believe it. Already consumer price inflation had risen over 10%; we expected it to go even higher. Once an inflationary spiral gets underway, there's no stopping it. At least, that was the thinking in conservative/Austrian economic circles. By taking gold out of the dollar system, Paul Volcker and the Nixon administration had opened the gates of Hell. Now, it was "inflate or die". Either the feds continued with their EZ-credit, big-spending ways. Or, the economy would suffer a recession, which would be politically unacceptable.

Or so we thought. But we didn't know Paul Volcker. He gave investors the "Volcker shock" treatment, putting the Fed's key rate at 20%. And it worked. Inflation, as measured by the Consumer Price Index, was over 13% for 1980. Three years later, it was under 4%. Can you imagine what would happen today if the Fed put its key rate at 20% – and house-buyers found themselves paying 18% on their mortgages? Volcker was attacked by Democrats and Republicans alike. His effigy was burned. Ted Kennedy proposed abolishing the Fed. At any moment, it looked as though Reagan might crack, and cut him loose. But Reagan backed Volcker. And Volcker didn't flinch. It was an "inflate-or-die" economy. He didn't merely let it die, he pressed the pillow to its face. By 1981, the Volcker shock had created the worst recession since the Great Depression.

> *"Volcker didn't just let the economy die. He pressed the pillow to its face"*

Volcker had good reason to want to stop stagflation. He was partly responsible for it, helping to move the US off the gold standard. By 1980, the monster he created had already done to the US economy more or less what the Japanese had done to Nanking. The new paper dollar system was in shambles and Volcker was the only person who could save it. But by reestablishing the pseudo-integrity of the paper money system, Volcker set the stage for an even bigger disaster.

Did he have any doubts? Yes. As early as 1994, Volcker said that "if the overriding objective is price stability, we did better with the 19th-century gold standard and passive central banks, with currency boards, or even with 'free banking'" (where banks are free to issue their own paper currency).

A quarter century later, the game was over for Paul Volcker. Taking a final look at the scoreboard, he must have seen a big win. But we wonder… Did he finally regret his role, either for establishing the funny-money standard in 1971 or saving the system in 1980? We'll never know. But even if Volcker didn't regret it, we surely will.

The bottom line

£180,000 The amount a handwritten draft of the lyrics for Elton John's hit *Your Song* sold for at auction. The song was originally released in 1970 and written by John's longtime collaborator Bernie Taupin.

300m The number of times *Let it Go*, a song featured in Disney's hit film *Frozen*, has been played on Spotify. It's Disney's most played song on the music-streaming service and is estimated to have made around £1.1m in revenue since its release in 2013.

£26.9bn How much the UK is planning to spend on Christmas presents this year, according to personal finance comparison website finder.com. Around 60% of us are planning on cutting our spending, and around 50% are expected to spend £250 or less. The average adult will spend £512.85.

£8m The amount a rare whisky collection is expected to sell for. It's made up of 3,900 bottles and features the most expensive bottle in the world, a 1926 Fine and Rare Macallan, which sold for £1.5m.

$100,000 The cost (so far) of super-fan Bryan Ray's quest to look like singer Britney Spears. He was 17 years old when he had his first procedure and has since had more than 100. "I just thought that Britney has the entire package," he tells Metro, "and I was so drawn to her aesthetic because… she's absolutely perfect."

£264,000 The winning bid for Princess Diana's Travolta gown, which she wore in a visit to the White House in 1985. The gown was designed by Victor Edelstein and it was one of the princess's favourite garments. She wore it in a state visit to Austria in 1986, at the Royal Opera House in 1991, and in her portrait by Lord Snowden in 1997.

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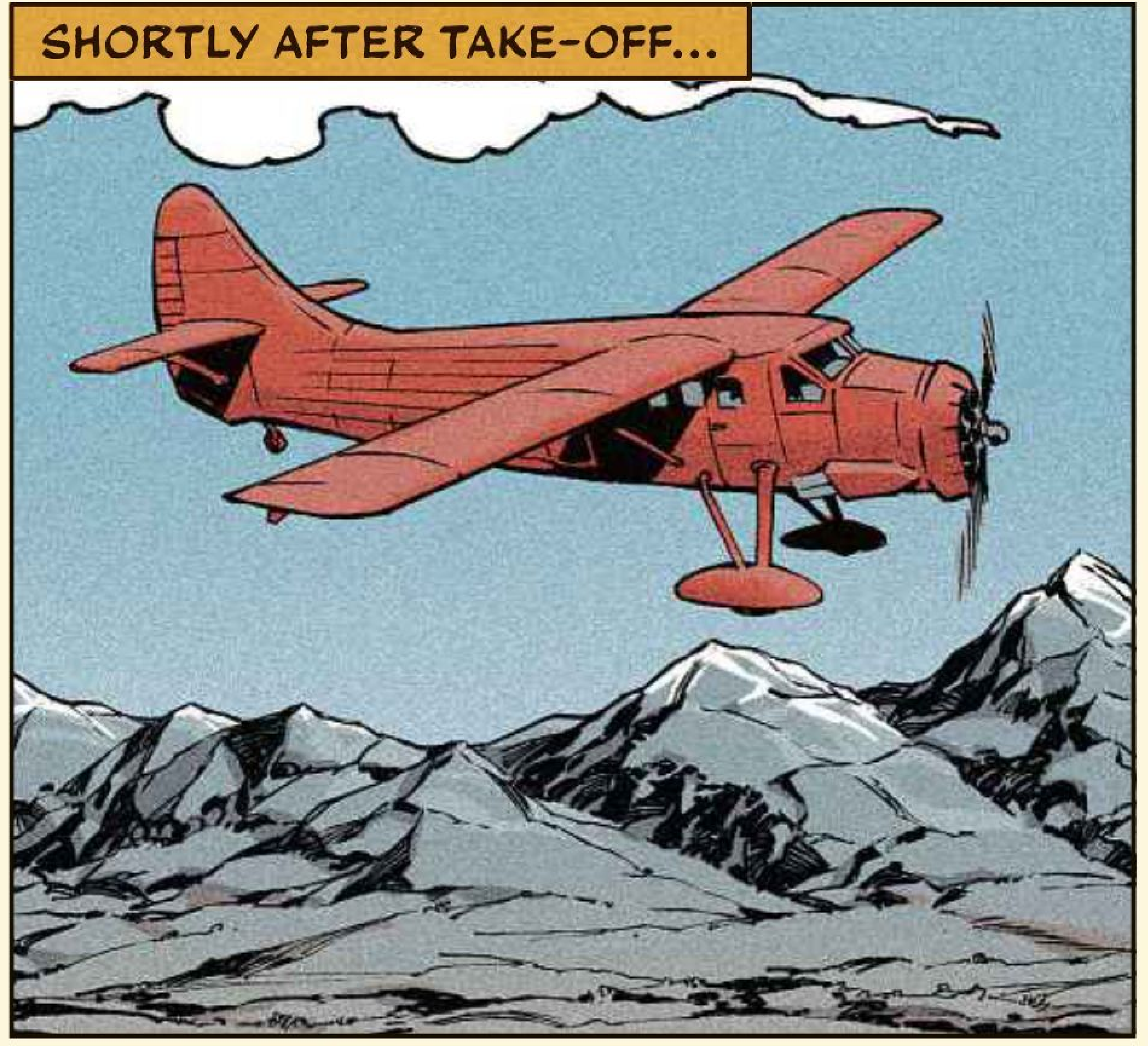
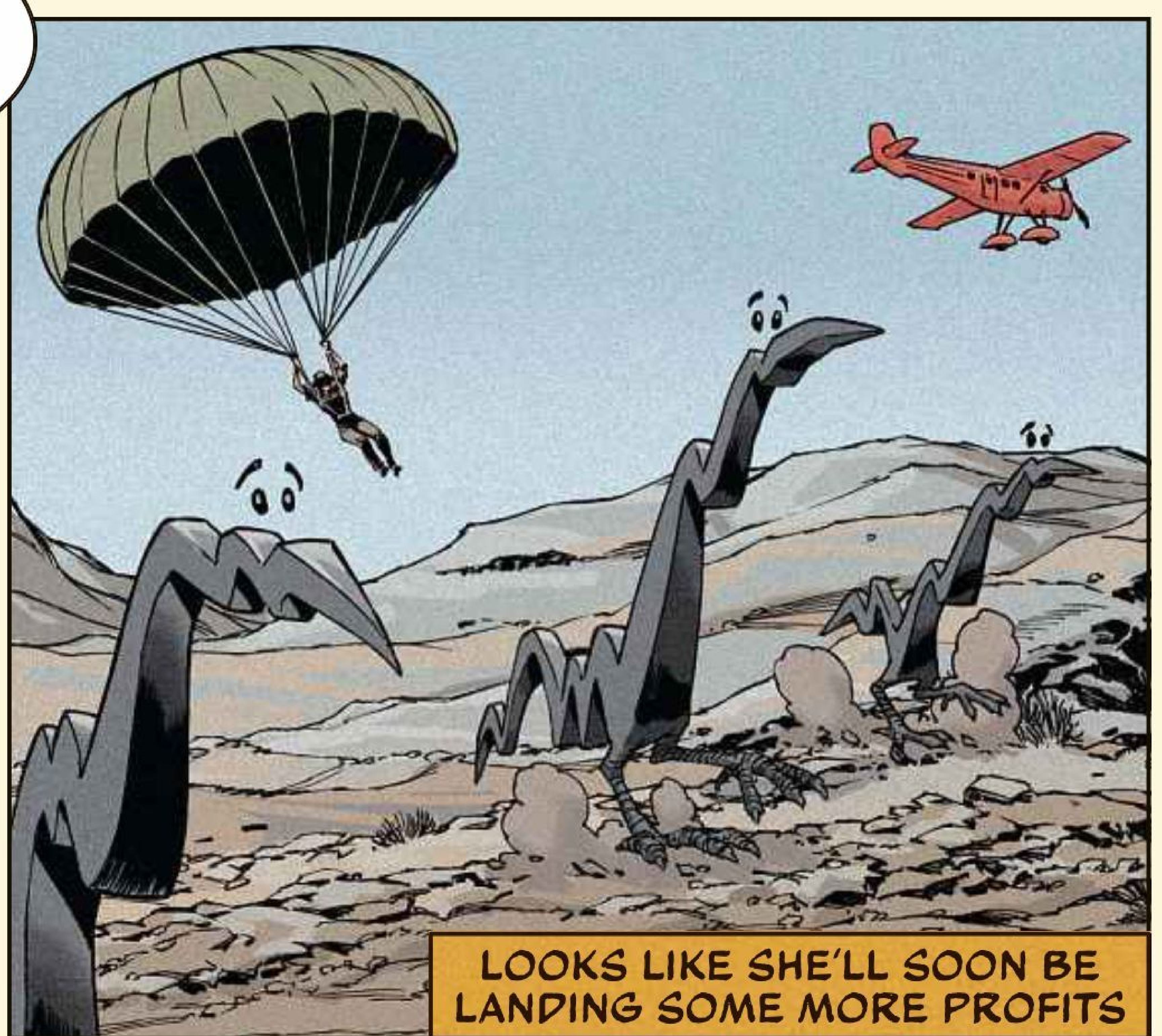
In today's environment, the hunter's *all-active* approach is more important than ever.





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