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for Big Tobacco



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India: has
Modi lost
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Three of the best new
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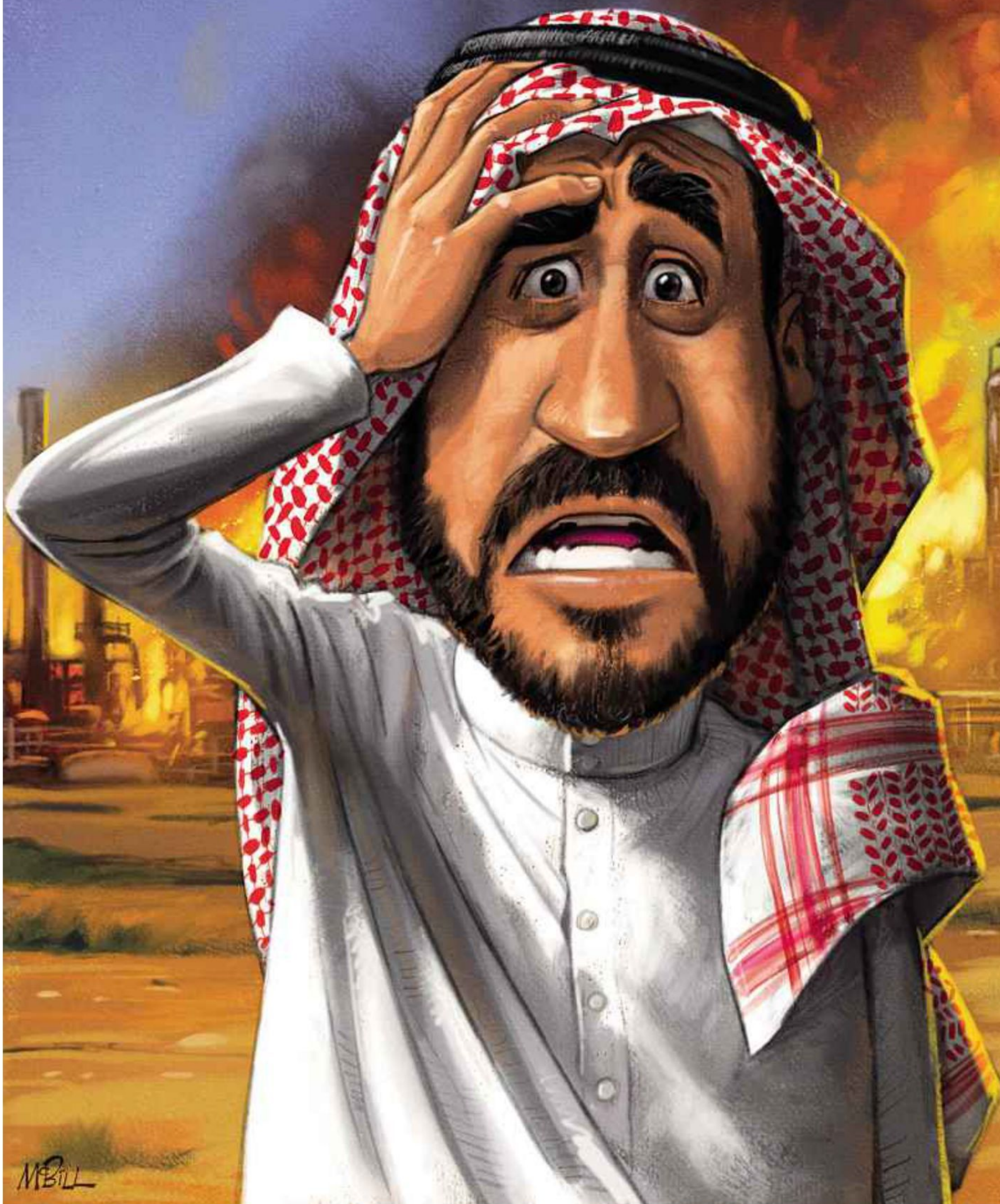
MAKE IT, KEEP IT, SPEND IT

20 SEPTEMBER 2019 | ISSUE 965 | £4.25

Oil shock

What it means for the world economy

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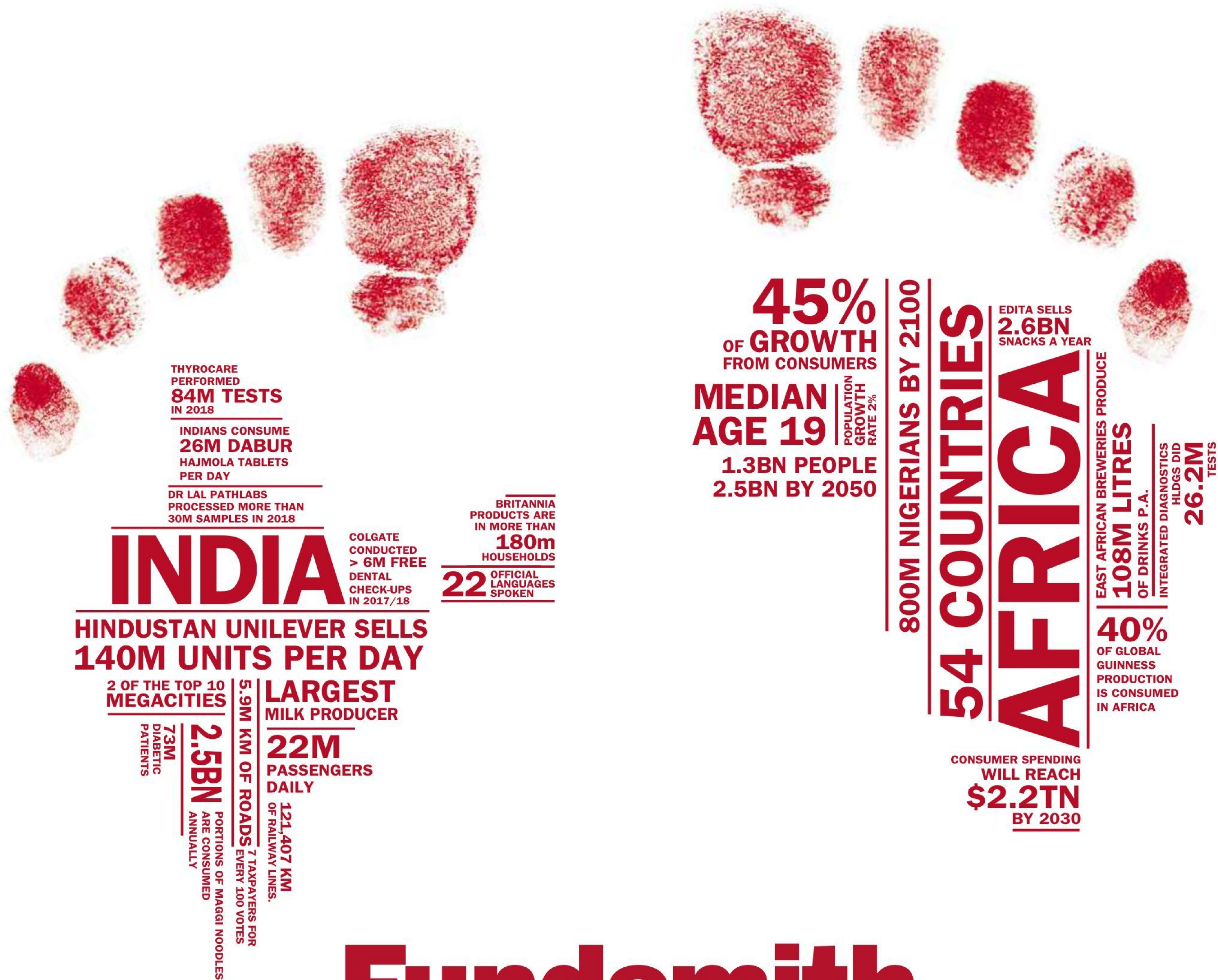


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THYROCARE PERFORMED
84M TESTS
IN 2018

INDIANS CONSUME
26M DABUR
HAJMOLA TABLETS
PER DAY

DR LAL PATHLABS
PROCESSED MORE THAN
30M SAMPLES IN 2018

INDIA

COLGATE
CONDUCTED
> 6M FREE
DENTAL
CHECK-UPS
IN 2017/18

BRITANNIA
PRODUCTS ARE
IN MORE THAN
180m
HOUSEHOLDS

22 OFFICIAL
LANGUAGES
SPOKEN

**HINDUSTAN UNILEVER SELLS
140M UNITS PER DAY**

2 OF THE TOP 10
MEGACITIES

73M
DIABETIC
PATIENTS

2.5BN
PORTIONS OF
MAGGI NOODLES
ARE CONSUMED
ANNUALLY

LARGEST
MILK PRODUCER

22M
PASSENGERS
DAILY

121,407 KM
OF RAILWAY LINES.

7 TAXPAYERS FOR
EVERY 100 VOTES

45%
OF GROWTH
FROM CONSUMERS
**MEDIAN
AGE 19**
POPULATION
GROWTH
RATE 2%
**1.3BN PEOPLE
2.5BN BY 2050**

800M NIGERIANS BY 2100

54 COUNTRIES
AFRICA

EDITA SELLS
2.6BN
SNACKS A YEAR

EAST AFRICAN BREWERIES PRODUCE
108M LITRES
OF DRINKS P.A.

40%
OF GLOBAL
GUINNESS
PRODUCTION
IS CONSUMED
IN AFRICA

INTEGRATED DIAGNOSTICS
HLDGS DID
26.2M
TESTS

CONSUMER SPENDING
WILL REACH
\$2.2TN
BY 2030

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% Total Return

Year to end June	2019	2018	2017	2016	2015
Fundsmith Emerging Equities Trust	-3.9	+7.7	+14.1	+4.0	-9.7
AIC Global Emerging Markets Sector	+1.8	+4.8	+22.8	+4.5	+4.0

Source: Financial Express Analytics

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From the editor-in-chief..



Bad news for WeWork this week. Turns out the public market just isn't that into it (see page 7). Investors reckon there is a strong chance that the model (long-term debt on buildings let out to short-term tenants, with a little free beer chucked in along the way) might be unsustainable. Given that chance, they decided that they weren't mad to pay to value the company at the \$65bn it originally thought might make sense, or for that matter, even half of \$65bn (maybe \$15bn – but really not much more).

The initial public offering (IPO) has been pulled. Perhaps investors are beginning to see sense when it comes to unicorn IPOs (see my blog at moneyweek.com for more).

Still, loss-making companies with pretend-disruptive business plans and no pathway to profit coming to market at stupid prices aren't the only thing the market reckons to be unsustainable. You can also be a highly profitable entity with a multi-decade record of paying out reliable annuity-style dividends and be just as spurned – if you are involved in any way in the fossil fuel industry, for example. Pension funds around the world, charities, family trusts and even the Church of England have been busily divesting from fossil fuel stocks in an effort to show just how much they disapprove of the whole business. This enthusiasm has so far had very little effect on the environment. As



©Getty Images

WeWork isn't working: co-founders Adam and Rebekah Neumann

“Divestment from fossil fuel stocks has reduced about zero tonnes of emissions”

Bill Gates notes, thanks to the fact that few fossil fuel businesses need to raise new capital from the market anyway, they don't care who wants or doesn't want their shares. Result? Divestment has so far “reduced about zero tonnes of emissions”.

It has, however, had a different and interesting effect: pushing share prices in the sector down, and yields in it up. Before the latest leap in the oil price (see page 4 – short-term oil bears should note that the upside risk of politics taking oil prices hostage has been a constant for as long as any of us at MoneyWeek can remember) BP was yielding 6.4%. And even on this week's price it is offering 6%. That's nice. But it might also be something to worry about. One of our big concerns is that too many companies are either not listing or going private – something that offers the returns to the few, not the many. If fossil

fuel and resources firms get more reviled and hence cheaper, they will leave public markets too (they can – they need neither the new capital nor the constant nagging). Then, just as retiring MoneyWeek readers could do with their yields, those yields won't be available anymore. That's a shame – given the choice of financing 20 years of retirement from the returns from WeWork shares (the IPO is now scheduled for October) or from the dividends being thrown off by fossil fuel firms as they run their businesses down, I know what I would choose.

Finally, a note on politics.

What happens if one way or another we end up remaining in the EU? That might seem absurd to ordinary democrats, but it isn't impossible at all given how fantastically the post-vote Remain campaign has been run (the evidence for this being that three years after a fairly clear referendum result we are still in the EU). You might think that revoking Article 50 would make everything okay again (as Jo Swinson obviously does – see page 8). We'll stick with the status quo. No change. Nothing to worry about. If you do think this however, you think wrong. Completely wrong. See page 14 for why.

Merryn Somerset Webb
editor@moneyweek.com

Business opportunity of the week



Cover illustration: Howard McWilliam. Photos: Getty Images; Farnine; iStockphotos ©Alamy

An underpopulated region in southern Italy is offering incomers up to €25,000 if they move to one of its villages, set up a business and live there for three years, reports The Guardian. Molise is Italy's second-smallest region and has a population of just 305,000, which is shrinking – 9,000 people have left in the last five years. Anyone who moves to a village with a population of less than 2,000 qualifies, says Donato Toma, the region's president. They will receive €700 a month for up to three years, as long as they set up a business. “They can open any sort of activity”, says Toma. “A bread shop, a stationery shop, a restaurant, anything. It's a way to breathe life into our towns while also increasing the population.”

Good week for:

TV personality **Amanda Holden** has been offered £1.2m to write a children's book. Holden, a judge on the show *Britain's Got Talent*, sparked a bidding war between publishers, reveals the Daily Star.

Russian comic books are enjoying a boom in sales after an outburst from the country's culture minister sparked a backlash, reports The Guardian. Vladimir Medinsky had dismissed comics, saying it was “pathetic” for adults to read them.

Bad week for:

Thieves stole a solid gold toilet worth £5m from Oxfordshire's **Blenheim Palace**, reports the BBC. The functional, 18-carat toilet was an art installation by Maurizio Cattelan, called *America*. Visitors could book three-minute slots to use it. As the toilet was plumbed in, the theft caused “significant damage and flooding”, said Thames Valley Police. A 66-year-old man has been taken into custody.

Donald Trump could be forced to release his tax returns after prosecutors in New York issued a court order that demands he release eight years of personal and corporate returns, says The Guardian. Cyrus Vance, Manhattan's district attorney, is investigating payments made to porn star Stormy Daniels during the 2016 US presidential campaign.



This shock will linger over the oil market



Alex Rankine
Markets editor

Saturday's attack on Saudi oil facilities was "the big one", says Spencer Jakab in *The Wall Street Journal*. The drone strikes on the world's largest oil processing plant at Abqaiq has forced Saudi Arabia to cut output of crude oil by 5.7 million barrels per day (mbpd), roughly 60% of its output and as much as 6% of global supply. World oil production is around 100 mbpd. Even if supplies are restored quickly, as Saudi Arabia has reportedly indicated they will be, the "technological sophistication and audacity" of this strike against critical infrastructure, for which Iran-backed Houthi fighters in Yemen have claimed responsibility, "will linger over the energy market".

A game-changer

The attack prompted the biggest one-day rise in Brent crude prices in at least 30 years. The benchmark rose by as much as 20% to over \$70 a barrel before falling back; major equity indices slipped by between 0.5% and 1%. The 5.7 mbpd taken offline is the biggest disruption to global supplies on record, topping even the outages caused by the 1979 Iranian revolution and the 1990 Gulf War.

The strike could prove a "significant game-changer", says Stephen Innes of AxiTrader. It suggests that crucial nodes in the global oil supply chain are "extremely vulnerable to terrorist attacks". So markets must start to price a bigger risk premium into oil. The slump in crude prices this year in the face of growing Iranian belligerence now looks complacent, agrees Jim Armitage in *The Evening Standard*. The "sub-\$60 trend



Around 6% of global supply has left the oil market

we've seen over the summer seems out of touch with reality".

An oversupplied market

Nevertheless, oil is still trading significantly below the \$86.70 a barrel high it hit last October. That is due to weak global demand. The International Energy Agency thinks that worldwide appetite for Opec oil in the first half of 2020 could be 1.4 mbpd lower than current output. "We are massively oversupplied," Christyan Malek of JP Morgan told Reuters, noting that "it would take five months of a five mbpd outage to take global crude supply levels back to a 40-year normal average". The main reason is booming US shale oil production. American oil output doubled in the decade after 2008 to overtake Saudi

Arabia as the world's biggest oil producer. That makes the kingdom's reserves less crucial. The fact that Opec, the oil exporters' cartel, has been voluntarily restricting supply in recent years in a bid to support prices also suggests that they have the spare capacity to cover any Saudi shortfall.

The attack itself is "unlikely to be a disaster for the global economy", writes Jennifer McKeown of Capital Economics. The biggest risk comes not from supply disruption, but rather the fact that the incident raises the odds of a "full-blown US-Iran conflict". That worst-case scenario could push oil up to \$150 per barrel and drive inflation in developed countries as much as 3% higher (see below).

The pin that pricks the bond bubble?

Markets had neglected the scope for oil to spike, says Louis Gave of Gavekal Research. The theory was that "with so much excess supply around the world, no lasting energy shock is possible". Attention focused instead on the potential for deflationary shocks from a "Chinese devaluation" or "eurozone implosion". That has helped create a record bond bubble.

Yet this week's oil price spike and talk of war in the Middle East are a reminder that "the next shock... could actually be inflationary". Inflation has already been "creeping higher, despite a strong US dollar and a weak oil price". It wouldn't be the first time an inflation shock snuffed out an equity upswing. The



The 1973/74 oil spike sparked inflation that took eight years to tame

1973/74 oil price spike "put the Nifty Fifty bull market to the sword". Indeed, the 1970s oil shock "tipped the world into recession and sparked off a bout of inflation that took nearly eight years to tame", as Russ Mould of AJ Bell points

out. "On six of the last eight occasions when oil prices have risen by more than 100% year-on-year", the global economy has slowed or even shrunk. Oil spikes are inflationary, then deflationary: the jump in inflation acts as a tax on

people and businesses, slowing consumption, investment and growth. Bond markets are foolish to think that low inflation will continue indefinitely. Still, for now oil remains a fifth lower than it was a year ago.

Western economies are also less dependent on oil these days thanks to greater energy efficiency. "Energy only absorbs 2.5% of US household consumption," says Robin Pagnamenta in *The Daily Telegraph*. In the 1970s that figure was 8%. It is the "oil-thirsty economies of Asia" that are most exposed to supply disruption. Asia, which lacks its own reserves, has grown "addicted to imports... three quarters of Saudi Aramco's oil goes to Asia".

Will there be another Gulf war?

US Secretary of State Mike Pompeo was quick to point the finger at Iran for Saturday's Abqaiq attack despite Tehran's denials. Donald Trump tweeted that America was "locked and loaded" and pledged support for his Saudi allies.

The standoff between Saudi Arabia and Iran has deep religious and political roots and is "in many ways a regional equivalent of the Cold War", says Jonathan Marcus on the BBC. The two sides are engaged in proxy conflicts, notably in Yemen where Riyadh has been conducting an unsuccessful war against Iran-backed Houthi rebels for the past four years. Neither side is prepared for a direct confrontation, but Saudi Arabia has been emboldened by the White House's support and the Abqaiq incident "could upset the apple cart". All sides have reasons to resist conflict, writes Gideon Rachman in the Financial Times. Iran would find itself outgunned by its well-armed Gulf neighbours in an all-out war. The Saudis know that crucial infrastructure – notably the kingdom's water supply – could be vulnerable to future drone attacks. Donald Trump won't want to start a war that could drive petrol prices higher before the 2020 election.

The problem is that leaders in all three capitals have "shown themselves to be erratic, emotional and prone to miscalculation". So there is significant potential for dangerous escalation on the ground and "further mayhem on the markets".

Saudi Arabia's uncertain future

For Saudi Arabia, the "stakes couldn't be any higher", says Andy Critchlow in The Daily Telegraph. The International Monetary Fund estimates that Riyadh needs oil prices around \$85 per barrel if it is to balance its budget. If it can't do that then one of the Middle East's more stable countries could face an uncertain future.

The local Tadawul stockmarket opened down 2.3% on the first day of trading after the strike on Abqaiq. The index has fallen by 16% since May.

Weaning the country off oil

The nation remains overwhelmingly dependent on oil, which accounts for about 80% of exports and more than 40% of GDP, says Abeer Abu Omar on Bloomberg. Yet even that understates petroleum's real significance: "non-oil activity is heavily dependent on state outlays financed by oil revenue".

The Saudi budget has suffered from the protracted slump in oil prices, which caused the economy to shrink in 2017 for the first time in a decade. Yet Riyadh has done little to cut back on a generous welfare system that provides many citizens with cushy government jobs. Indeed, last year the government launched a lavish new "cost-of-living allowance" reports Natasha Turak on CNBC. The measure costs more than \$13bn and



Crown Prince Mohammed's 2030 vision is blurred

is "intended to stimulate sluggish growth and shore up support" for the regime. That is vital in a country where the unemployment rate is more than 12% and more than half the population is younger than 30.

The budget deficit is set to hit an "eye-watering" 6.5% of GDP this year, says Tom Rees in The Daily Telegraph. On current projections the kingdom will "burn through its foreign currency reserves and government debt would climb to 70% of GDP by 2023". Annual oil revenue is worth \$11,000 per Saudi at current prices, notes Critchlow, but it won't last forever.

Crown Prince Mohammed bin Salman's "Vision 2030" initiative aims to prepare Saudi Arabia for a future without oil by diversifying into sectors such as tourism and technology. The

recent move to allow women to drive was part of the broader economic reform strategy. Yet as Lauren Silva Laughlin points out in The Wall Street Journal, ambitious plans to build a futuristic city called "Neom" will "cost \$500bn".

To fund his projects, MBS' flagship initiative is to float 5% of Saudi Aramco, the state oil company. The flotation would be the biggest listing in stockmarket history. Yet it has been repeatedly delayed and the Abqaiq incident is another blow, says Nils Pratley in The Guardian. A higher oil price would normally be a boon for Aramco. But "a drone attack on a key refinery" is no longer a mere hypothetical and investors will be wary. To press ahead with the flotation for the end of this year as originally planned "would look desperate".

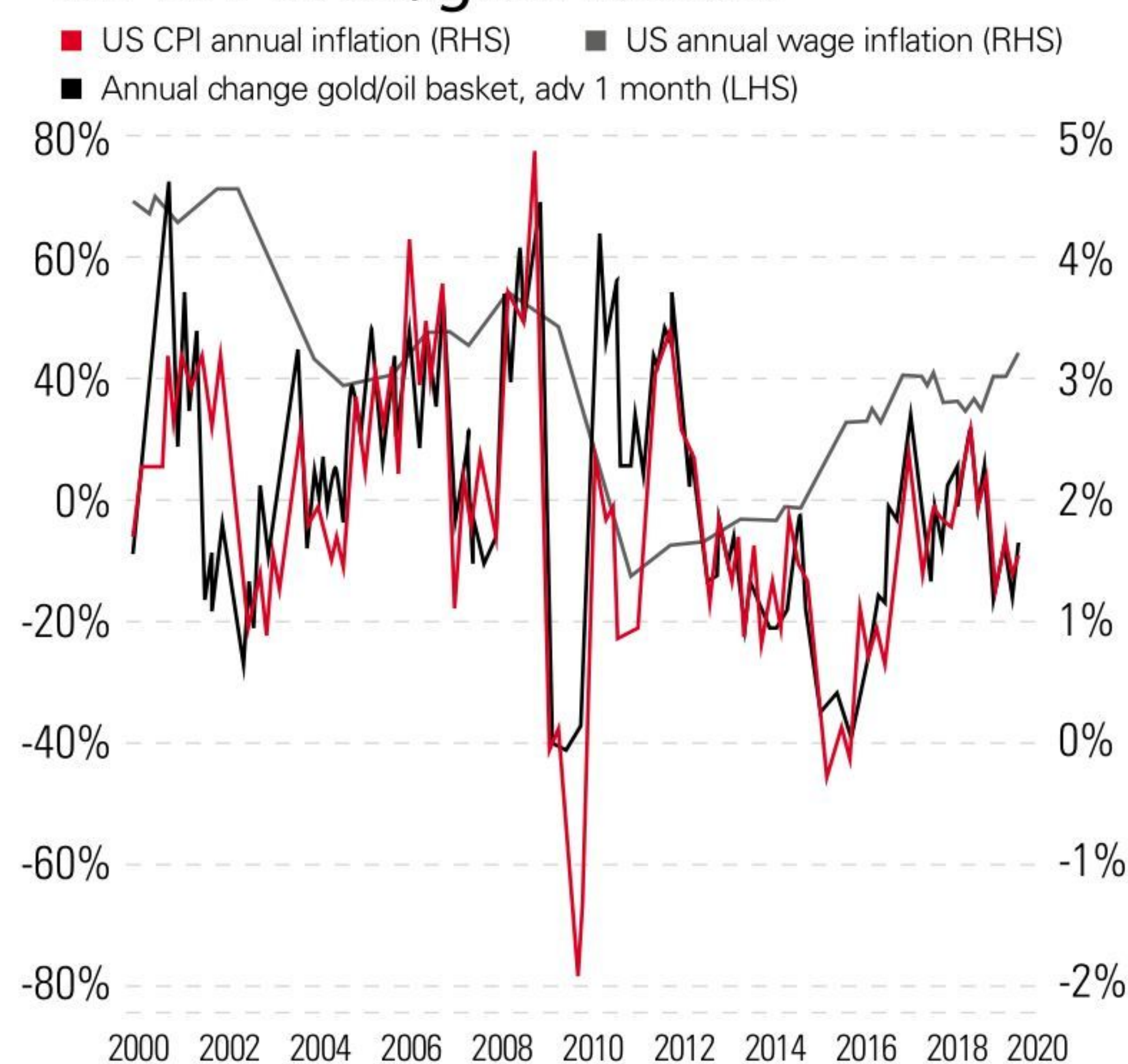
Viewpoint

"It wasn't just the attacks on Saudi Arabia that caught the eye of the bond bulls... Chinese macro data showed the world's second-largest economy cooling off more than expected in August. Industrial production growth weakened to a 4% year-on-year pace... This was the lowest print since 2002... retail sales growth dipped to... the weakest pace in four months. The mantra is the central bank is getting set to cut banking sector reserve requirements ratios once again – but this is a limited response to the magnitude of the slowdown. And in recent days, we saw both Turkey and Vietnam ease policy (along with the European Central Bank) – so we have 19 central banks... cutting rates this year and by a cumulative 1,470 basis points. The monetary authorities have turned a bit panicky even if, until this oil shock, equity investors played the classic role of Wile E. Coyote."

David Rosenberg, Gluskin Sheff

US inflation follows oil and gold

US CPI vs oil/gold basket



Source: MacroStrategy Partnership

Bonds advanced after the attack on Saudi Arabia, with investors ignoring the potential for a rise in inflation (see page 4). This chart also suggests they are being complacent. As James Ferguson of MacroStrategy Partnership points out, there is a close link between the annual percentage change in the price of an equally-weighted basket of oil and gold prices and the annual rate of America's consumer price inflation (CPI); the basket leads CPI by a month, so where it goes inflation follows. Interestingly, MacroStrategy Partnership's research suggests that this basket of oil and gold is far more closely correlated to inflation than wage growth, which is widely considered a leading indicator of consumer price rises.

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

Three to buy

Filta Group

The Mail on Sunday

This Aim-listed business specialises in managing fat, oil and grease for commercial kitchens. Filta works with more than 6,000 customers each week – including the likes of McDonald's, Pizza Hut and Hilton hotels – to drain and filter their used cooking oil. Most of the fat can be recycled, making it an environmentally-friendly operation. Many restaurants still use inefficient processes to clean their frying vats themselves, which presents



a huge growth opportunity in the UK, US and Germany. 156p

Bank of America

Barron's

Bank of America, one of America's "big four" banks,

was "almost destroyed" during the financial crisis but has since bounced back. The shares slumped to \$3.14 in March 2009 but today trade at \$30.17, a reminder that "real money is often made when others think there isn't any opportunity and the risks seem high". For all the talk of a coming recession, this is a well-run company that counts Warren Buffett as its biggest shareholder. "People will always need to borrow and manage money", while a 2.4% dividend yield is "like a cherry atop a sundae". \$30.17

Meggitt

The Times

The aerospace and defence sectors are booming. That bodes well for this engineer, which makes parts for wheels, brakes, valves and sensors. Civil aerospace accounts for 55% of revenue; three-quarters of military sales are made to the US armed forces. The £4.9bn business is set to rejoin the FTSE 100 this month after a four-year hiatus. The shares are "not overly expensive" for a well-managed firm with good growth opportunities. 632p

Three to sell

888

Shares

Higher gaming duties in the UK and Europe have dented profits at this Gibraltar-based casino. Half-year results showed that earnings before interest, tax, depreciation and amortisation fell 20% to \$41.8m. Fierce competition saw poker revenue slump 24%. That was meant to be offset by rapid growth in the casino operation, but on these numbers it remains to be seen whether the business is on a sustainable growth path. Take profits. 157p

Halfords

Investors Chronicle

Halfords sells car parts and bicycles through a network of 451 stores in the UK and Ireland, while a fifth of total sales are made online. Management has blamed the second profit warning in a year on the weather and the general gloom on the high street. The company is reacting to falling sales by trying to improve efficiencies, but a pattern of downward revisions to guidance makes us wary. This business seems to have stalled



and "a big dividend cut looks a given". 172p

Burford Capital

Motley Fool UK

This litigation finance provider has been locked in

a war of claim and counter-claim after a report from US short-seller Muddy Waters criticised its business and accounting practices. Burford has responded by replacing its finance director but there could be further downside ahead. If questions about the firm undermine Burford's ability to raise capital then its business model may be at risk. With shares on a price-to-tangible book value of 1.4, in the worst-case scenario the price could fall 30%. Don't wait around to see what happens next. 856p

...and the rest

Shares

Chemicals firm **Synthomer** is trading close to its lowest rating in a decade but is "on the cusp of global expansion" amid booming demand for its products. Just keep an eye on rising debt levels. Buy (330p). **Next** is deftly managing the move online and is one of our favourite businesses on the London

market – buy (6,134p). Shares in **AstraZeneca** hit a record high earlier this month on news of positive drug trials. Yet on the current rating any minor setback will hit the shares, so sell (6,857p).

Investors Chronicle

Language and intellectual property specialist **RWS** helps clients to navigate foreign business environments. There are promising expansion opportunities in China and there is plenty of scope to consolidate a fragmented

market. Buy (606p). A weak diamond market has hit sales at **Gem Diamonds** and with no dividend to enjoy through the bad times it is time to sell (75p).

The Mail on Sunday

Existing shareholders may wish to take some profits after shares in pet drugs maker **Dechra Pharmaceuticals** more than tripled over the past four years. However, they should hold onto most of their stake as pet ownership becomes a new status symbol in the developing world (2,890p).

The Times

Buy catering business **Compass Group**. Its US operations are booming and European markets are proving resilient (2,010p). Tech investor **Draper Esprit** is a rarity on the London exchange: "a listed venture capital firm that aims to give ordinary shareholders access to private equity-like returns". It is reasonably priced, too (464p). **Lloyds Banking Group** has turned itself around since the crisis, but its large exposure to British consumers looks unwise. Avoid (52.5p).

A German view

Care homes are a long-term growth market, says **Wirtschaftswoche**. Another one million people are expected to need carers in the next 15 years; if a third of them – the same proportion as today – end up in a home, that means another 230,000 places will be required. Private care homes are expanding very quickly. Enter France's **Orpea**, a European leader in this field. It operates 950 facilities with around 97,000 beds across 14 countries. Overall sales rose by almost 10% to €1.84bn in the first half. Homes containing another 17,400 beds are in the pipeline. The group is also eyeing up Latin America, where another 700,000 people are expected to need care over the next decade.

IPO watch

Europe has a new technology giant. **Prosus**, a collection of consumer internet investments belonging to South African e-commerce group **Naspers**, floated in Amsterdam last week. It was valued at €125bn, making it the exchange's third-biggest firm after Shell and Unilever. **Prosus** contains **Naspers'** 31% in **Tencent**, the Chinese social media group that boasts the popular **WeChat** platform. **Naspers'** \$34m punt on **Tencent** at its inception in 2001 was "one of the most lucrative bets in corporate history", says **Toby Sterling** on Reuters. **Tencent** is now worth \$130bn. **Prosus** shares are being distributed to **Naspers'** shareholders rather than being sold directly to the public.

City talk

● A new wave of arrests and searches related to the fatal collapse of Genoa's Morandi bridge has "slammed" the shares of the highway and airport manager Atlantia SpA, says Bloomberg's Tommaso Ebhardt. While not directly related to the 2018 disaster, in which 43 people died, the arrests stem from a probe into other bridges and roadways operated by the company, and involve allegations that managers made false statements on maintenance work. The Five Star party has demanded that Atlantia lose its permit to operate other Italian highways, causing an 8% dip in the share price. Still, the most likely outcome is a compromise that would involve revoking the concession to operate the roadway where the Genoa bridge was located, leaving its other permits in place.



● Whitby-based Sirius Minerals claims that a Brexit-induced "tempest in the bond markets" stopped it from raising \$500m "to build a giant fertiliser mine near the town", says Jim Armitage in the Evening Standard. Yet while former prime minister Theresa May's "ill-advised hints" of government support stoked unrealistic hopes, Whitby's fertiliser "is a niche type farmers aren't used to using". In reality the project was almost certainly "doomed to fail" in a country that has "stopped backing big mining projects".

● Shares in General Motors have fallen by 5% after United Auto Workers members voted for their first strike since 2007. But the two sides are "far too close to a deal for it to be worth continuing for long", says Antony Currie for Breaking Views. GM "has already shown that it's willing to compromise", offering to "boost wages and bonuses", and consider building new products. The UAW's chief negotiator has admitted it would likely have taken the deal had it been proposed earlier, making the strike "look almost entirely symbolic".

©Getty Images

The battle for the LSE

The Hong Kong stockmarket is muscling in on a tie-up between the London exchange and data provider Refinitiv. It is set to fail, says Matthew Partridge

Last week's takeover bid from Hong Kong Exchanges and Clearing (HKEX) for the London Stock Exchange (LSE) was met with a "withering rejection", notes Christopher Williams in The Sunday Telegraph. The LSE called HKEX's plans "simply not credible". Regulators aren't too happy about the deal either, with the Financial Conduct Authority making it clear that the proposed deal "would face tough regulatory hurdles, both in Britain and abroad". The deal comes as the LSE is in the process of negotiating a "landmark" tie-up with Refinitiv, the former Thomson Reuters trading terminals business.

"It is not hard to see why" regulators around the world are going to have "major problems" with this deal, says Jeremy Warner in The Daily Telegraph. The LSE's clearing business, with its "commanding" market share in a range of assets, means that it performs a "super-systematic" role in the financial system. While Hong Kong's government only owns 6% of HKEX, the former colony's chief executive has an "absolute" grip on the company since she "effectively appoints both the chairman and the chief executive" as well as half the board". Even in "more clement times", such political control would make this bid "extraordinarily problematic".

Refinitiv looks a much better bet

Putting politics to one side, the deal should also be rejected because "it is bad for shareholders and wrong-headed in its strategy for the LSE", says Nick King for City AM. In particular, the Hong Kong bid depends on the LSE dropping its \$27bn bid for Refinitiv. Given that the Refinitiv takeover would allow the LSE "to become a global giant in data", abandoning it in favour of a hook-up with the HKEX would not only be short sighted, but signal that the London exchange no longer has any ambitions in that area.



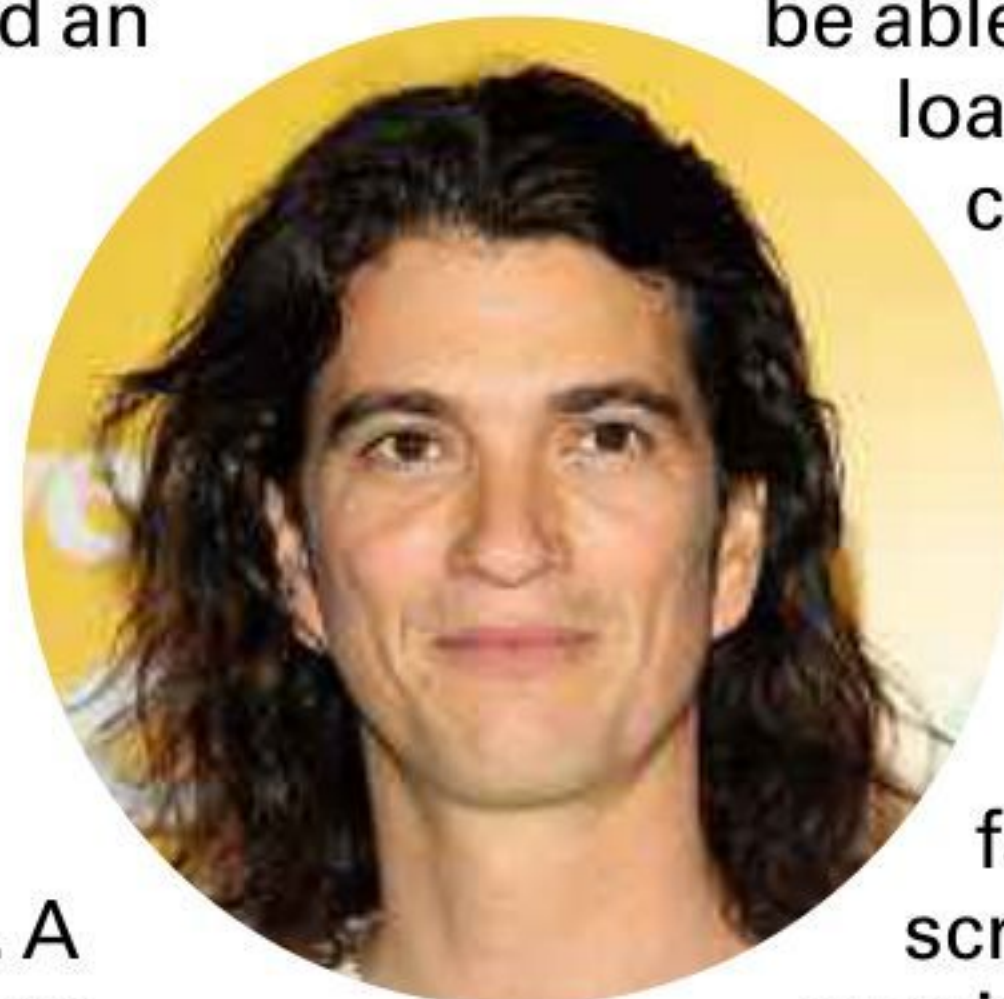
Political turmoil in Hong Kong bodes ill for its bid

The Refinitiv takeover could improve the quality of the services that the LSE provides to its customers, adds Patrick Hosking in The Times. These include "more data and more analytical tools", allowing capital to be allocated more efficiently, as well as the creation of more indices that enable investors to tailor their portfolios to their own circumstances. And some of the £575m of synergies expected by the LSE could be "passed on to customers in lower prices".

Whatever happens to the two bids, the LSE is facing some longer-term problems, says Kate Burgess in the Financial Times. This includes the "sluggish" market in initial public offerings and a "precipitous" fall in follow-on funding (secondary offerings of shares) which have fallen from £13.45bn in the first half of 2018 to £8.8bn in the same period this year. This is partly due to "uncertainty over global growth... and Brexit" but it also reflects a long-term shift away from public markets spurred by increased regulation and "ample" private capital.

WeWork on go-slow as IPO delayed

WeWork has suffered an "embarrassing setback", say Eric Platt and James Fontanella-Khan in the Financial Times. The shared office space provider is delaying its planned initial public offering (IPO). A "chilly response" from institutional investors and calls by its biggest backer, Japanese conglomerate SoftBank, to postpone the IPO have prompted it to wait a few months. While it still plans to list by the end of this year, or in early 2020, the failure to immediately list on the stockmarket means that it won't



be able to access a \$6bn loan that was contingent on a successful listing. WeWork's decision isn't surprising, says Tom Knowles in The Times. It is facing "increasing scrutiny from investors over its management practices and its ability to make a profit". Its pre-tax loss of \$1.9bn in 2018, combined with a loss of \$900m in the first half of 2019, meant that its expected valuation had been slashed from early estimates of up to \$65bn to less than \$15bn. At the same time, reports that CEO Adam Neumann (pictured) had

"cashed out more than \$700m from his company" in advance of the listing was another red flag. The delayed IPO is also bad news for SoftBank and its Vision Fund, says Bloomberg's Tim Culpan. It was depending "on this one exit to keep the Japanese company's hit machine ticking along" after both Uber and Slack fell in value. Still, it can turn the year around if it is willing to "get the bad news behind it" and "hurry along the IPOs of the other unicorns in its stable". These include the "hugely popular" Chinese video content platform ByteDance, the "world's most valuable startup" at \$75bn and Chinese ride-hailing app Didi Chuxing, worth \$56 bn.

Betting on politics



Even after recent regulatory changes designed to limit the risk to the punter, financial spread betting remains a multibillion-pound industry. Spread bets are an easy way for retail investors to take punts on price moves that would otherwise require you to buy exotic financial instruments, but you can also spread bet on politics. Sporting Index has an open market on the number of seats that each individual party could win at the next election, for example. As in ordinary spread betting, you buy or sell seats and then make (or lose) the difference between the purchase price and the final amount, multiplied by your stake per seat.

So if you buy Labour at 230 (the current buying price) at £1 per seat, and they get 300, then you make £70. If you sell at 222 (the current selling price), then you



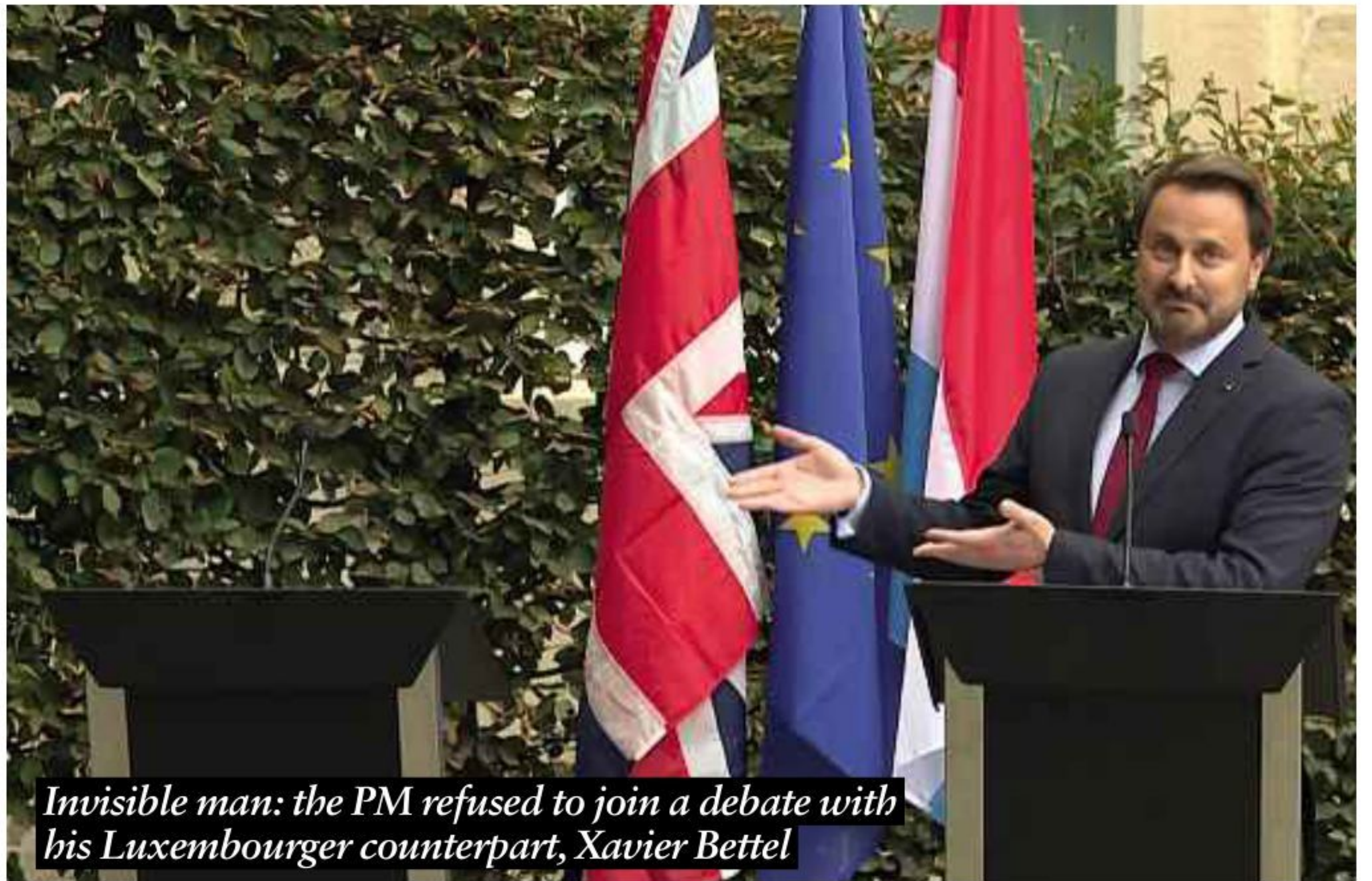
lose £78. If you think that the price no longer offers value you can close your position by selling (or buying) an equivalent amount to your original bet. There is no upfront charge, the spread-betting firms make their money on the difference (or spread) between the buying and selling price.

At the moment Sporting Index thinks that the Tories will fall short of a majority, but remain the largest party, at 302-310 seats, and that Labour will lose seats, slipping to 222-230. At the same time it expects the SNP (the party's leader, Nicola Sturgeon, pictured) to advance to 45-49, the Lib Dems to rise to 44-48, the Brexit Party to get 4-5.5 and the Greens 2-3. I'd wait until an election date has been decided before placing any bets.

Can Johnson secure a deal?

Perhaps, but the details had better be forthcoming soon. Matthew Partridge reports

Boris Johnson compared himself to the "Incredible Hulk" last week, shackled by the EU but determined to break free. By Monday he had transformed into the "Invisible Man", says Lionel Laurent on Bloomberg. Talks hosted by Luxembourg's prime minister, Xavier Bettel, ended with a press conference that the British PM refused to join due to loud protests. Bettel went ahead with the conference, mockingly gesturing to the empty podium. This was just the most obvious sign that Europe's leaders, who are still waiting for concrete proposals for a replacement for the Irish backstop, are "getting frustrated" with Johnson.



Invisible man: the PM refused to join a debate with his Luxembourg counterpart, Xavier Bettel

A new idea to replace the backstop

Although details are still not forthcoming, it seems the PM is now willing to accept some limited regulatory alignment between the Republic and Northern Ireland to avoid a hard border, but he will have to go further if he wants an agreement, says James Blitz in the FT. Johnson's idea would require alignment in areas such as industrial goods regulations, VAT and the role of the European Court of Justice. "Above all, there would still be a need to resolve Northern Ireland's status inside or outside Europe's customs union," but it is "far from clear" that sufficient progress can be made by the 17 October deadline.

If that means we are heading for a no-deal Brexit, then even the government accepts that the consequences could be severe, says The Guardian. "Operation Yellowhammer", the government's official planning for a no-deal scenario that was published last week, suggests that leaving without a deal could be "a recipe for chaos, with medical supply shortages near the top of a list of consequences that are already scaring people around the country".

Even ardent supporters of no deal "could be put off by the prospect of two-day traffic jams, energy price rises, civil unrest or a lack of clean water".

What "chaos" will look like

Calm down, says Philip Aldrick in The Times. Recovering from a no-deal Brexit will be a "long road", but predictions of "immediate chaos" are wide of the market. It is far more likely that we will get a repeat of what happened when Calais operators went on strike for 26 days in 2015. The average delay "was four to six hours" not days and, although the disruption cost the freight industry around £750,000 a day, "food got through and no car manufacturers reported supply-chain strains".

One thing that won't affect the chance of a no-deal exit is the pending case before the UK Supreme Court over the legality of the decision to prorogue parliament, says Bobby Friedman in The Daily Telegraph. Proroguing parliament did not prevent MPs passing a bill to stop no deal, and if they went back to work they'd only have to break again for the conference season anyway. What happens in court may have important implications for constitutional law, but as far as Brexit itself is concerned, the "proceedings are all mouth and very little trousers".

Lib Dems back revoking Article 50



Jo Swinson: not to be outremained

Liberal Democrat leader Jo Swinson put Brexit at the core of the next general election campaign by promising in a speech to her party's conference to revoke Article 50 should they win power, reports Peter Walker in The Guardian. Swinson dumped the party's previous policy of re-running the 2016 poll in favour of halting Brexit

without a second referendum. The pledge has been "divisive" even within the Liberal Democrats, but Swinson argued it was important to revoke because "there is no Brexit that will be good for our country".

It is an "empty pledge" as the Lib Dems have little chance of winning the majority they'd need to put it into practice, says Robert Shrimley in the FT. But it does clearly signal that, with Labour now promising a referendum on a future deal, the Lib Dems "will not allow themselves to be outremained". And with a £20m war chest allowing them to credibly contest up to 80 seats, it might prove a smart strategy. It is, however, an "entirely short-termist" one that could badly

backfire, especially if the PM manages to deliver Brexit before the next election. Even if the Lib Dems are right about the "permanent polarisation of politics", they forget that, when it comes to polarisation, "voters are already well served" by the two main parties.

Ironically, the Lib Dems' stronger position on Brexit could be good news for Boris Johnson, says James Johnson in The Times, as it could end up splitting the Remain vote, "stopping Labour from winning or holding on against the Conservatives". Cosmopolitan constituencies assumed to be "lost causes" could "suddenly become winnable" for the Tories.



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Ohio

Purdue Pharma goes bankrupt: The company at the centre of America's opioid crisis has filed for Chapter 11 bankruptcy protection, says Sanya Mansoor for Time. Purdue Pharma, controlled by the Sackler family, is being sued in various courts for using allegedly deceptive marketing practices to promote its prescription painkiller OxyContin. The decision to declare bankruptcy is part of a deal agreed with plaintiffs in Ohio, where a case due to start next month had amassed claims from 2,000 states, local governments and Native American tribes, says The Economist. Purdue will be reconstituted as a public trust and the plaintiffs will receive future proceeds from the sales of opioids as well as of drugs used to treat addiction to them (which Purdue also makes). The deal is valued at \$10bn, with perhaps \$3bn coming from the Sacklers themselves. Those who favour the deal argue that it guarantees money for the victims and avoids lengthy and expensive trials. Critics claim it is a wheeze that lets the Sacklers off the hook too easily. More than 215,000 people died in the US from overdoses related to prescription opioids between 1999 and 2017, according to the Centers for Disease Control. The number of deaths was five times higher in 2017 than 1999; nearly 50,000 Americans died in 2017 alone.

Cupertino**Apple appeals against tax payment:**

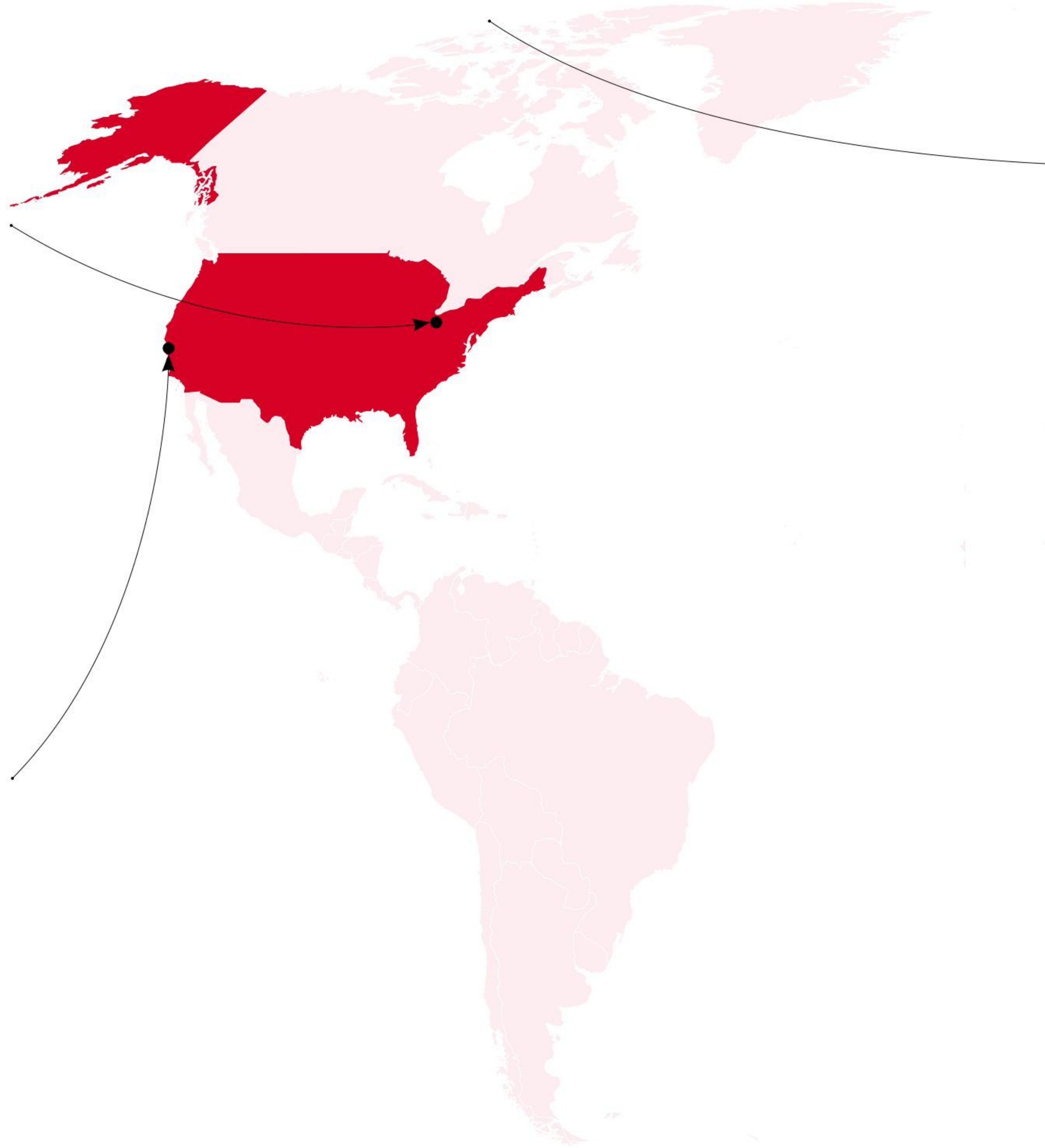
The US tech giant has told the European Union that its insistence it pay Ireland €13bn in back corporation taxes “defies reality and common sense”. The European Commission said that a deal between Dublin and Apple in 2016 was against the law because it allowed Apple to ascribe almost all its EU profits between 2004 and 2014 to two companies in Ireland, says the BBC. What's more, the Irish unit paid tax at a rate of 0.005% in 2014, reckons the Commission. The deal allegedly also gave Apple an unfair advantage over other companies doing business in Ireland. The EU's Competition Commissioner Margrethe Vestager has been vigorously pursuing tax payments from US multinationals in recent years, with Starbucks and Amazon also coming under investigation. However, Apple's delegation, led by its chief financial officer, Luca Maestri, accused the Commission of attempting to change the international tax system, and in the process, creating uncertainty for businesses. The case is set to drag on for years.

**Stockholm**

Joblessness scuppers rate rise: A large and unexpected jump in the unemployment rate looks likely to thwart the Swedish central bank's desire to take interest rates back above zero for the first time in five years. The key interest rate is currently -0.25%. The jobless rate climbed to a seasonally adjusted 7.4% in August, from 7.1% the previous month. Unemployment is now at its highest level since July 2015. Analysts had been expecting a figure of 6.8%. The Swedish krona fell 0.8% against the euro on the news, which adds to an increasingly gloomy picture. In the second quarter, the economy contracted by 0.1%, suggesting that a recession is looming. Claes Mahlen of Svenska Handelsbanken reckons that the Riksbank, the central bank, will call off planned rate rises”.



The Swedish workforce now has more leisure time

**The way we live now: working beside the pool**

Not on holiday – on hiatus

Holidays are out. Instead, ever more office workers are taking a “hiatus”, says Hilary Rose in The Times. They're not technically “out of the office”. They're still beaver away. Only “they're somewhere nicer. Hotter. With better food”. Lauren Stevenson is one member of the “savvy set”. The 38-year-old owns her own fashion and lifestyle PR company. Every August for the past three years, she has set up office in Ibiza. “I'm really focused and you have to be disciplined, but I'm working while sitting on a sunlounger, surrounded by beautiful scenery”, she tells Rose. Her partner joins her for

long weekends, but otherwise he stays at home in London looking after the dog. Stevenson always rents the same house in the southwest of the island at £3,000 a month. “The first year... I was by the pool, but when you own your own business, you have to get your job done at the same time,” she says. “I'm always accountable and my emails are always coming through... Thanks to good Wifi... people aren't office-bound any more and I've seen more and more starting to do this.” And when she returns home she feels as if she's had a break even though she's been hard at work all the time.

Kiev

Ukraine backslides on bank nationalisation: The International Monetary Fund (IMF) has warned that failing to complete the nationalisation of PrivatBank, the country's largest lender, would jeopardise the government's access to the IMF's \$3.9bn assistance programme. It expects the state to try to retrieve the \$5.5bn it spent on rescuing the bank. PrivatBank collapsed in 2016 after regulators discovered a \$5.5bn hole in its balance sheet. Legal proceedings were launched against the owners, billionaire oligarch Igor Kolomoisky and his partner Gennady Bogolyubov. The pair were accused of running a "Ponzi-like scheme" to launder money and of raiding retail deposits to fund their own firms. Kolomoisky and related parties deny the allegations and they have launched 600 lawsuits contesting the nationalisation. The president reportedly wants to reach a settlement with Kolomoisky. That has raised eyebrows as the president is Volodymyr Zelensky, a former comic who sprang to fame playing a fictional president on 1+1 – a television channel owned by the oligarch.



Oligarchs are accused of running a Ponzi scheme at Privatbank

Hohhot

China snaps up Australian baby-formula maker:

China Mengniu Dairy Co. has made an offer to buy Tasmania's organic baby-formula maker Bellamy's for A\$1.5bn (£820m). The offer price, at A\$13.25 per share, is a 59% premium on the previous day's closing price. That "will

prove painful for short sellers", says Jamie Smyth in the Financial Times: 15% of the company's stock had been lent out. China is Bellamy's biggest market but it has had trouble getting its Chinese-labelled products past the country's regulators, which has driven its share price down dramatically. China has been trying to restore its baby milk industry since the 2008 scandal in which six babies died and 300,000 were poisoned, leading consumers to switch to premium foreign brands. Mengniu, headquartered in Inner Mongolia, is Asia's second-biggest dairy company. Its offer has been accepted by Bellamy's board, but must now be approved by Australia's Foreign Investment Review Board.

**Rome**

Italy's former PM sets up new party:

Former Italian prime minister Matteo Renzi (pictured) is to break away from the centre-left Democratic Party (PD) and create his own centrist organisation. Renzi said the PD, which he helped to power in a coalition with

the populist 5-Star movement, had become nothing more than a "collective of different factions", reported Il Globo, and that his new party would "do politics differently". Around 30 sitting politicians from the PD are set to join Renzi's new party, Italia Viva, which is expected to continue to support the governing coalition. Renzi became Italy's youngest prime minister when he led the PD to victory in 2014 at the age of 39, but he resigned in December 2016 after he lost a referendum on constitutional reform. Renzi has vowed to fight the right-wing populist League Party, led by Matteo Salvini, which has around 35% of the vote, and insists his new movement will strengthen the centre-left, says The Daily Telegraph. But culture minister Dario Franceschini says it could divide the left and hasten the rise of the far right.

Jerusalem

No clarity after election: When right-wing Prime Minister Benjamin Netanyahu and his centrist main rival, Benny Gantz, both claimed electoral victory last April, both would be proven wrong, says David Horovitz in The Times of Israel. Gantz didn't have enough support to form a coalition, and Avigdor Lieberman, leader of the smaller, nationalist Yisrael Beiteinu party, proved to be less a king-maker than a "king-breaker". Neither Netanyahu nor Gantz were quick to claim victory in the re-run this week. As MoneyWeek went to press incomplete results showed Netanyahu's Likud party with 31 seats and Gantz's Blue and White party with 32 in the Knesset. This time around, "the Arab parties... have done extraordinarily well" after Netanyahu promised to annex territory in the West Bank claimed by Palestine. All the electioneering and "a caretaker government... mean that nothing serious has been done to address a growing budget deficit" of around 3.8%, say Avi Waksman, Hagai Amit and Ronny Linder in Haaretz. Given fast economic growth and full employment that is "unjustifiably high". "If the next government doesn't address the overspending, the deficit will probably come in at 4% for all of 2019."



The future of the healthier cigarette

A health scare has thrown doubt on the future of the industry catering for the growing numbers of “vapers”. Has Big Tobacco’s corporate strategy just gone up in smoke? Simon Wilson reports

What has happened?

There’s been a major public health scare in the US over the safety of e-cigarettes and vaping. In recent weeks, doctors in 33 US states have connected at least 450 cases of lung disease to their patients’ use of e-cigarettes. Seven patients have died so far. In response, the Centers for Disease Control and Prevention has warned people to consider avoiding vaping altogether. And President Trump has announced plans for a complete ban on flavoured e-cigarettes, which are blamed for a surge in vaping’s popularity among high-school students. No one knows for sure what has caused the wave of pulmonary disease – or even if it is in fact caused by, or merely correlated with, the use of e-cigarettes. Some reports suggest those affected have mostly been users of unlicensed street-bought products containing cannabis, rather than regulated shop-bought products. Even so, the regulatory and reputational fallout has the potential to devastate the industry – and dash the hopes of Big Tobacco that vaping might prove to be its commercial saviour.

What exactly are e-cigarettes?

They are electronic devices that deliver nicotine (or cannabinoids, if that’s your bag) via the inhalation of vaporised liquid instead of smoke. This liquid isn’t exactly appetising: it typically contains nicotine, propylene and glycerin, plus other chemicals and flavourings. But vaping allows users to avoid the nasty byproducts of combustion that end up killing half of smokers and – in the UK at least – is viewed chiefly as a tool for quitting smoking. Since e-cigarettes were launched at the start of the decade, so-called “open tank” vapes – in which there’s a removable mouthpiece and the vaporised liquid is manually refilled by the user – have dominated the market. “Closed tank” vapes, which use ready-made refills that screw directing onto the device’s battery, have in the past year caught up in popularity, and are expected to account for the vast bulk of future growth in the global market.

How big is that market currently?

According to Euromonitor International, the global e-cigarette and vaping products market will be worth \$19.3bn this year, a near-tripling from just \$6.9bn five years ago. The same firm projects that market to continue growing fast, to \$45bn by 2023. By far the biggest market is the US, accounting for more than a third of the total. The UK is the second biggest – followed (with less than half the size of the UK market) by France, Germany, China and Canada. Worldwide, it’s estimated that there are 41 million vapers, a big jump from



The global e-cigarette and vaping products market will be worth \$19.3bn this year

11 million in 2011. It’s still small compared with Big Tobacco, accounting for 7% of the overall US nicotine market. But it’s a profitable slice that’s growing fast, and is crucial to the industry’s future.

Is vaping safe?

The advice from Public Health England is clear: “If you don’t smoke, don’t vape,” says John Newton, its director of health improvement. “But if you smoke there is no situation where it would be better for your health to continue smoking rather than switching completely to vaping.” PHE’s advice remains that e-cigarettes are 95% less dangerous than smoking tobacco and using them “makes it much more likely you’ll quit successfully than relying on will power alone.” But just because something is far less dangerous than cigarettes doesn’t make it completely safe. Vaping hasn’t been going long enough for a scientific consensus to emerge on the level of danger, but some studies do suggest an increased risk to lung and heart health.

Should it be banned?

That would be a ridiculous overreaction, reckons The Economist. Some governments – in Egypt, Mexico, Singapore, Taiwan and Brazil – have indeed banned e-cigarettes over safety fears. But, as ever, prohibition will do more harm than good. “Forbidding e-cigarettes will lead vapers to buy illicit products – the type that are far more likely to poison them. It will also deter many law-abiding smokers from switching to something less deadly.” That said, the US, where far more previously non-smoking teens have taken up recreational vaping than in Britain, might well want

to follow the EU (including the UK), where advertising is tightly controlled and there are much lower limits on levels of (addictive) nicotine.

What’s the impact on business?

Intriguingly, tobacco stocks rose when the US unveiled its flavour ban, as investors bet that if users can’t get their preferred flavour of vapes, they are more likely to take up or revert to the real thing. But it’s more likely that in the long run the vaping scare will prove very bad news indeed for Big Tobacco, argues Sergei Klebnikov in Forbes. The scare has already thrown the \$200bn merger between Altria (the US maker of Marlboro) and Philip Morris International into uncertainty, due to the “greatest regulatory threat” faced by Big Tobacco since the 1990s. Both companies (which demerged in 2008) have invested heavily in e-cigarettes and cannabis products in an attempt to offset falling tobacco sales.

What have they done?

Altria, for example, paid \$12.8bn last year for a 35% stake in Juul, the San Francisco-based company that dominates the US market for flavoured vapes, plus \$1.8bn for 45% of cannabis firm Cronos. In the UK, tighter regulation would also be a headache for London-listed firms with big e-cigarette investments, including British American Tobacco and Imperial Brands, says Andrew Edgecliffe-Johnson in the FT. Like Altria and Philip Morris, both firms have invested heavily in alternatives to tobacco in response to consumer demand. In the case of BAT, it recently announced 2,300 job losses, specifically pledging to direct the cost savings into developing new products. If the regulatory climate does turn against vaping, at least some of that strategy might have just gone up in smoke.

“The vaping scare will prove very bad news indeed for Big Tobacco”

Mario Draghi's last hurrah

The European Central Bank boss steps down shortly. What has he achieved with his parting shot?



John Stepek
Executive editor

Last week was European Central Bank (ECB) governor Mario Draghi's penultimate monetary policy meeting before he hands over to Christine Lagarde (formerly at the International Monetary Fund). Markets had hoped for fireworks from the man widely viewed as having "saved the eurozone" at the height of the sovereign debt crisis in 2012. So did he deliver? As expected, Draghi cut interest rates from -0.4% to -0.5% . He also restarted quantitative easing (QE). The ECB will buy €20bn of eurozone sovereign bonds every month, with no end date – the purchases will continue until the ECB is ready to raise interest rates again, which may be a while.

The market and press reaction was muted. In the Financial Times, Laurence Fletcher reported "a growing acceptance that monetary policy has reached its limits." And the sense that resistance is growing to easy monetary policy wasn't helped by a front page on German newspaper Bild, accusing "Count Draghila" of sucking savers dry.

Yet Draghi may have achieved more than we think. Firstly, notes Eric Lonergan of M&G on his Philosophy of Money blog, the ECB didn't just cut rates and reactivate QE. It will also allow commercial banks to deposit more of their reserves with it at 0% , rather than charging them -0.5% . Why does this matter? It means banks can borrow funds at negative rates from other banks with excess reserves, and then deposit these with the ECB at 0% . That means they make a risk-free profit (and this comes on top of the TLTRO scheme – see below – which allows banks to borrow at as little as -0.5% to lend to the "real" economy). As far as Lonergan



European Central Bank head Mario Draghi

is concerned, "if legal, the limits to monetary policy have just been lifted... official interest rates are now having the net effect of transfers to the private sector." If so, the implication is that fears that eurozone banks will collapse are overblown, removing a key source of the market's current deflationary angst.

"The limits to monetary policy have just been lifted"

Secondly, as Cedric Gemehl of Gavekal notes, under "QE Infinity", the ECB will buy more sovereign debt than eurozone governments plan to issue next year, while keeping interest rates nailed down. That means all eurozone countries will be free to spend more money without breaking the European Union's fiscal rules. In other words, Draghi has made it as easy as he possibly can for eurozone governments to turn to fiscal policy, a line that Lagarde is also certain to push.

I'm not sure I'd buy eurozone banks yet. But if Draghi has put a floor under the sector, and given governments free rein to spend, it's another sign that markets are betting on deflation too aggressively – and not paying enough attention to the risk of inflation (see page 4).

Guru watch

Robert Shiller,
economics
professor, Yale
University



"The Great Depression, we talked ourselves into," Robert Shiller tells The Daily Telegraph. The Yale economics professor and winner of the Nobel Memorial prize, can credibly claim to have predicted the two biggest crashes of the last 20 years – the tech bust and the US housing collapse.

Now, in his latest book, *Narrative Economics*, he argues that economists must stop focusing purely on economic data, and pay more attention to another "important driver of economic change, which is narrative." Stories affect



behaviour, which in turn affects economic outcomes. For example, Shiller argues that a respect for frugality actually worsened the Depression. "It wasn't proper to live high and show off, you had to be more modest, which is a narrative that encourages curtailment of expenditure."

What narratives are we in danger of falling for today? Shiller reckons the obsession with the inverted yield curve (which is seen as a reliable indicator of pending recession) is a good example. "Before 1970 there were virtually no mentions of it." But then "it started to catch on and every successive recession had a stronger talk about an inverted yield curve... it is a self-fulfilling prophecy."

The asset that worries Shiller most today is an old enemy – US property. Prices are now slowing, after years of rapid growth, which also happened ahead of the 2006 crash. "It would not surprise me at all if in the next year or two we saw modest declines in home prices and if things play out right, there could be bigger declines."

I wish I knew what a TLTRO was, but I'm too embarrassed to ask

Targeted Longer-Term Refinancing Operations (TLTRO) are one of the "unconventional" monetary policy tools used by the European Central Bank (ECB). The ECB agrees to lend money to commercial banks over a set period at a very low rate, on condition that they lend this money out into the "real" economy (by making loans to businesses, for example). The point is to give banks a cheap source of funding that they are encouraged to lend out, in order both to raise bank profit margins and to boost economic activity and growth.

The first tranche of TLTRO loans was launched in June

2014, with a second batch following in March 2016. The third tranche was launched in June this year, and began in September. Initially the plan was that banks would be allowed to take out a two-year loan, at a rate based on the ECB's average rate plus 0.1% (with the loan getting cheaper, the more the bank lends out).

However, the rate on the loans was lowered this month as the ECB's views on future growth deteriorated (thus justifying a move to even looser monetary policy). Meanwhile, the loan period was lengthened to three years, with a repayment option at two years. In other words, the banks will be able to

access funds at a lower rate, and for a longer period of time, than before, which should boost the profitability of any loans the banks make.

Indeed, as strategist Tom Kinmouth of ABN Amro put it, the move resulted in banks benefiting from terms that were "considerably better" than previously planned – "they can now borrow from the ECB... as low as -0.5% ". In other words, "the ECB will pay banks to take money."

Of course, making money available to banks to lend is a very different matter to finding businesses and individuals who are keen to borrow the money. Some argue that cheap funds haven't driven growth higher because central banks are now "pushing on a string."

What to expect if we remain

All ready for a no-deal exit? Good. But it's not the only outcome you had better brace yourself for



Matthew Lynn
City columnist

Just about every company – at least you would hope – has by now put in place plans for a no-deal exit from the EU. But now there is something else – argh! – they have to plan for as well. Revoke and remain. The Liberal Democrats this week committed to revoking Article 50, cancelling the referendum result and staying in the EU (see page 8). The odds are not high that they will win the power to do this, but a Lib Dem-led or “national unity” government committed to it is not exactly inconceivable either. You might think business doesn't need to plan for that – that it is just the status quo and everything will carry on as before. But in reality remaining will have a big impact. This is what businesses must prepare for.

1. A raft of new laws

While we have been having an agonising debate about our departure, the EU itself has changed. It has introduced a raft of new environmental policies and is moving towards much closer harmonisation of tax rates. Takeovers are being controlled more tightly and a new fund is being created to invest in strategic industries. The UK will have to be part of that and companies will find themselves subject to all kinds of laws they had assumed wouldn't apply to them.

2. A surge of immigrants

There has been a significant drop in the number of young Europeans coming to work in the UK, especially from countries such as Poland and Hungary. Understandably, they were nervous about coming here when their status was so uncertain. But a Britain that has committed itself to remaining will suddenly be a lot



more attractive. After all, the UK still creates a lot more jobs than any other major European economy and wages have been rising. With more immigrants, the labour market will start to look very different.

3. A wave of takeovers

We know that fund managers around the world have kept well away from British equities and, a few big deals such as the Hong Kong bid for the London Stock Exchange aside, global companies haven't been interested in buying British business. Again, that was completely understandable. Who wants to invest when no one had any idea when we would leave the EU or on what terms? There are better things to do

with your money. The result? The UK is cheap compared with other major markets. If the threat of leaving evaporated, lots of money would suddenly go into the FTSE and there would be a wave of bids and deals.

4. A rise in interest rates

With growth positive, employment at record levels and with real wages growing at the fastest rate since the financial crash of 2008, there is no real reason for the Bank of England to hold rates down at “emergency” levels. Except for Brexit, of course. Logically, if that was taken off the table, then the Bank should start putting rates up again. With the global economy slowing, it might not happen right away. But it would happen quicker than if we were leaving.

5. Ever-closer union

Finally, if Britain did resolve to remain, then as a country it would be far more committed to the EU than it has ever been in the past. If we do stay, then we might as well commit to pooling sovereignty with the rest of the union, and that would mean signing up to the euro. It might take a while for our economy to converge, but it would be inevitable sooner or later.

Of course, the country would still be bitterly split on the European issue. The main opposition would either be the Brexit Party or the Conservatives, or an alliance of the two, committed to taking us out as soon as possible. The result of the referendum would not be quickly forgotten. Business would still have to live with a lot of uncertainty. But it would get used to that. The important point is this: remaining is not as disruptive as leaving. There won't be chaos at the ports, or any dramatic shortages. But it is not really the status quo either. Whichever way the UK goes, change over the next few years is certain.

Who's getting what

● A team of economists has revealed that **Hollywood actresses** earn around \$1.1m less per film than their male co-stars, says *The Observer*. This gender pay gap gets wider with age, and by the time the female stars hit 50, they are earning just under \$4m per film less. The researchers analysed wages from 1980 and 2015, and found that there has been little change for the better over time.

● **KPMG**, the accountancy, consultancy and auditing



firm, has handed partners in its restructuring division a 25% payrise. KPMG is hoping to avoid breaking its business up, after the Big Four accountancy firms were accused of conflicts of interest between the auditing and consulting parts of its business. The restructuring division has around 20 partners, reports *The Sunday Times*, and was responsible for about 5% of the firm's £2.3bn UK revenue last year. KPMG's 600 partners

were paid an average of £601,200 last year.

● **Chris Dawson**, founder of *The Range*, a chain of budget furniture and houseware shops, has paid his wife £25m in dividends for the year to February 2019. Dawson (pictured) transferred 100% of the shares in *The Range's* parent company, *Norton Group Holdings*, to his wife in 2017, a year after she moved to Jersey, says *The Daily Mirror*. The lower rate of tax in Jersey means Mrs Dawson could have saved up to £9.5m. Dawson has called *The Range* a “poor man's John Lewis”.

Nice work if you can get it

England's football players negotiated in secret to secure a £3m bonus for reaching the semi-finals of the 2018 Fifa World Cup, says *The Sun* on Sunday. The deal was struck between a group of players including Harry Kane, who earns £200,000 a week in his day job at *Tottenham Hotspur*, and Manchester City's Kyle Walker, who is on £150,000 a week. Not all the squad's players were aware of the negotiations, however, and the payment took some of them by surprise, says *The Sun*. And while the players did donate their £2,500 match fees to charity, the bonus meant an extra £137,000 each. France's Kylian Mbappé, by contrast, who played for tournament winners France, donated the whole of his £360,000 fees and bonuses to charity, as did his teammate Blaise Matuidi. England lost the semi-final 2-1 to Croatia, a performance which led to £18m in prize money for the Football Association.

The consolidation trap

Combining your pensions in a single plan isn't the no-brainer it may seem



David Prosser
Business columnist

Financial advisers and pension providers routinely tell savers to consolidate their disparate pension pots into a single plan. And with the typical worker now averaging 11 jobs over the course of their career – each with its own pension – this is often sound advice.

Holding all your pension savings in one place generates economies of scale and administrative simplicity. There is also less danger of forgetting about old pensions.

However, before you rush to transfer your old plans into a single fund, do some research. Consolidation can sometimes prove to be an expensive mistake. Many older pension schemes offered valuable benefits that it is not possible to replicate today – and which you'll lose by moving your money out of such plans.

In some cases, these benefits date from before April 2006. For example, pensions taken out since then cannot pay out more than 25% of the fund as a tax-free cash lump sum on retirement, but older schemes often offered significantly more.

Similarly, modern pension plans won't allow you to retire before the age of 55, but some older schemes let you draw your benefits earlier.



Do your research before you pile it all into one scheme

Will you forfeit income?

In addition, some pensions date back to a time when policy features reflected very different market dynamics. Many set up during the 1990s offered guaranteed annuity rates far above anything available today when converting savings into regular income; giving up those guarantees could cost you precious income in retirement.

Also consider the nuances of the current pensions system, where the rules on "small pot" pension funds can be very useful. If you have funds worth less than £10,000, you can cash them in without triggering new limits and allowances. You'll still be able to contribute to other pension plans, for example, and your lifetime pensions allowance isn't

normally affected. This can provide important flexibility that you'll lose if all your savings are in one larger fund.

Finally, check what charges you'll have to pay to close down an old pension and move the money elsewhere. Some plans, particularly older ones, feature hefty exit fees that can take a chunk out of your savings. If these fees are high, you may not have time to make up for the effect of them on your pension fund in a better plan elsewhere.

Pensions consolidation, then, isn't the no-brainer it is sometimes made out to be. For many people, it makes sense – but only once you've checked you're not falling into a trap by moving your money. Take independent financial advice if you're not sure.

Retiring later? Tell your provider

■ As life expectancies rise and people extend their careers, many will retire later than they originally anticipated. In theory, that should give you extra years to generate valuable income. But failing to share your plans with your pension provider could see you missing out.

Many savers have opted for the default investment strategies offered by providers rather than deciding on asset allocations or funds themselves. The default plans shift savers' money into less risky assets as retirement approaches: providers don't want you to be caught out by market volatility when it's too late to recover. But timing is crucial. If, say, you told your pension provider you expected to retire at age 65, but you now plan to work until 68, it will begin moving you into low-risk assets three years too early. That could mean missing out on three years of returns from higher-risk but higher-return assets.

Insurance company Aviva reckons that someone who told their provider they would retire at 65 but who actually works until 68 could forfeit £4,000 of extra pension as a result. The cost for someone with a set retirement age of 60 could be £10,000. If your retirement plans have changed since you set up any of your pensions, notify the providers. They should then update your investment strategy accordingly.

Tax tip of the week

HMRC has updated its guidance on the structures and buildings allowance (SBA). This tax relief, first announced in 2018, entitles businesses to 2% of the cost of buying or improving their business premises, provided they did so on or after 29 October 2019. The building may not have been used as a residence at any stage. Companies may claim the annual allowance for up to 50 years. The SBA requires an allowance statement identifying the structure and outlining the cost and date of the investment; if ownership changes, the buyer can only claim the SBA with a copy of the statement. If you have already handed in a return for a time in which you incurred costs that qualify for the SBA, says the tax Tips and Advice newsletter, you can change it. Individuals and firms have one year from the submission deadline to amend their return.

Doctors' pension row spreads

The government's attempts to resolve the crisis that has seen doctors refuse to take on extra shifts – or even opt for early retirement – because of pension tax rules are at risk of backfiring. Other public sector workers have now begun to demand similar concessions.

Ministers had hoped that reforms to the NHS Pension Scheme would help solve a growing staffing crisis in the health service partly caused by senior doctors choosing not to work more because of the impact on their tax bills.

The changes should mean fewer doctors are caught out by the tapered pension allowance, which

reduces the contributions that higher earners may make to pension schemes; it also levies high tax charges on those who exceed their allowances.

However, the changes have now prompted calls

from senior public servants in other professions for similar treatment. For instance, the Forces Pension Society, which represents the interests of members of the armed forces, has told ministers that many senior soldiers are being caught out in the same way as doctors.

Representatives of police and fire chiefs have made similar statements. The spreading row will increase the pressure on the Treasury to consider more fundamental pension reforms. These may include scrapping the tapered allowance altogether.



Revive the single market

Editorial
The Economist

The EU's single market "was once breathtaking in its ambition to eliminate all internal... barriers for goods, services, capital and people", says The Economist. But it has fallen badly behind the economies it was designed to shape. Ten years ago, 40 of the world's biggest listed firms by market capitalisation were headquartered in the EU. Now only two are – "in 32nd and 36th place". The benefits of the single market are clear: making a product meeting 28 national standards is more expensive than fulfilling one EU rule, while a genuine pan-European market would break down local oligopolies, lowering consumer prices, and spread innovation faster. One way to revive the single market is to ensure member states stop ignoring its rules to protect "politically connected" sectors: each country still regulates 200 professions. A bigger eurozone budget would help integrate European economies more rapidly. Concentrating on the hitherto largely neglected liberalisation of services is crucial: creating standard contracts on services such as professional liability "would make it easier for German accountants to tout for business in Italy", for instance. Europe "has few obvious levers to pull" to boost growth. "Time to tug on this one."

The case for a 0% capital gains tax

Tom Clougherty
CapX

It does seem odd, at first glance, that employment earnings are taxed at higher marginal rates than capital gains, says Tom Clougherty. But there are good reasons for this. Take two people, Spender and Saver, who each earn £100, and imagine a 20% flat tax on all income. That leaves Spender with £80, ie, 20% less than in a world without taxes. Saver, meanwhile, can only invest £80, and when he cashes in his £130 investment ten years later and his £50 profit is taxed, he is left with £120. That's 25% less than he would have in a world without taxes. Not only is this unfair, it is "economically damaging" because "our future prosperity depends heavily on private investment". Hence, economic models suggest the optimal capital gains tax (CGT) is 0%, "however politically unpalatable". CGT also dissuades investors from selling and reinvesting assets, eventually leading to a "misallocation of capital" and lower rates of growth. Because of this, raising CGT can, perversely, diminish revenues. Yes, our tax code is too complicated. True, some capital income arises from economic rents, not productive investment. But aligning tax rates would ultimately "hurt investment, damage growth and... deliver disappointing revenue gains".

A welcome change to migrant rules

Kate Andrews
City AM

Last week's announcement that the government would allow foreign students to stay in the UK for two years past their graduation date will have a "dramatic impact on people's lives", says Kate Andrews. "I should know." I graduated in 2012 two months after Theresa May's decision to "close the work visa route which had allowed overseas graduates to work for any employer for up to two years. There was no grandfather clause for those of us so close to the finish line." The "obsession with net migration figures led to the decision to kick out young, skilled, UK-trained migrants who were desperate to become British taxpayers. It was economically nonsensical." My employers went the "extra mile" to secure me a visa, but ten years on, I am "still not eligible for leave to remain, let alone citizenship". And my story is one of the most positive; those less privileged – minority groups, refugees, economic migrants – face home raids, detention and deportation. This announcement is a step in the right direction, but it ignores those who are currently at university or who graduated this summer. May's policy "affected those at the finish line, and this fantastic reversal should too".

Just how smart is the crowd?

Annaleena Parhankangas,
Hans Landstrom and
Colin Mason
The Conversation

Crowdfunding, in a little over a decade, has emerged as an important source of funding for entrepreneurs, say Annaleena Parhankangas, Hans Landstrom and Colin Mason. But while investment has flowed to more types of business than those financed by banks, crowdfunding has not "democratised finance" as much as expected. Firstly, the "crowd" has its biases; consumer-oriented ventures appeal more than science-based ones. Absent enough information, investors tend to base their decisions on those of others. Secondly, entrepreneurs differ in their ability to access the crowd; the most successful have strong personal networks, high visibility on social media and strong communication skills. Thirdly, crowdfunding has not "eliminated the issue of geography". Investors still prefer funding ventures at home. Fourthly, institutional investors are increasingly getting in on the act. Finally, there's the risk aspect. Most investors reportedly "spend less than 20 minutes per week doing their homework". Because the industry has "not gone through a full economic cycle", Lord Adair, a former chair of the City regulator, predicts that when conditions do deteriorate, losses could follow on a scale that will make "bankers look like lending geniuses".

Money talks

"I have never seen it. By all accounts it is terrible. However, I have seen the house that it built, and it is terrific."



Michael Caine (pictured) on playing the lead in the universally panned film *Jaws IV* (1987), quoted in The Guardian

"Moderation is a fatal thing. Nothing succeeds like excess."

Oscar Wilde, quoted in The New York Review of Books

"I will never invest in a football club again. It's only a good idea if you're very rich and looking for ways to waste your money. In two years you'll be very poor and won't have that problem anymore."

Multimillionaire Flavio Briatore, former commercial director of Benetton's Formula One business, quoted in The Sunday Times

"When I left Belgium it was a joke that we were paying such high transaction costs when moving house. Thirty years later and the taxes have risen here dramatically in a way that has killed the economy. Britain was the most competitive place in Europe in attracting talent. It's lost a lot of that."

Financier and former hedge-fund manager Pierre Lagrange, 57, quoted in the FT

"I would rather lose half of my shareholders than half of my shareholders' money."

Celebrated French investor Jean-Marie Eveillard, quoted in a Price Value Partners note

"In those days it wasn't cool to make a lot of money so we all pretended it wasn't happening. Then your accountant who you met every year would say: 'You've got this much in the bank. You'd better buy a house.' You'd go: 'How embarrassing. OK.'"

Martin Barre, 72, guitarist for Jethro Tull, on the band's 1970s heyday, in The Sunday Telegraph

©Getty Images

Competition isn't a cure-all

ftalphaville.ft.com

Margrethe Vestager, the EU's competition commissioner and "scourge of Silicon Valley", has won a second term in office, says Jamie Powell. She has been celebrated in the media for reining in the tech titans. But a bigger problem in Europe is chronic under-investment in the digital infrastructure that underpins the modern economy. And Vestager's heavy-handedness is partly to blame.

More M&A makes sense

Take broadband. In 2010 the EU aimed to ensure that by 2020 all Europeans would have access to much higher internet speeds of more than 30Mbps, with 50% of households having access to 100Mbps. That matters because, in the EU's judgement, high-speed networks are as important today as the development of electricity and transportation infrastructure

was a century ago. Those targets look "dead in the water". The EU's own research shows that most member states are likely to fail to achieve the 30Mbps target, and that, as of 2017, none had reached the 50% at 100Mbps target. It seems that most EU member states have not allocated sufficient funding to get up to speed, perhaps constrained by the euro area's fiscal deficit rules.

So why hasn't the private sector plugged the gap? For a private company to make a large capital investment, such as the kind required to improve internet broadband, it needs a big balance sheet, significant operating cash flow (or patient investors) and the promise of decent returns on capital. And this requires "some level of concentrated corporate power". Companies are often willing to invest, but only if the sums add up.



Vestager: blocking telecoms mergers

That is why telecoms mergers and acquisitions make sense: they create giants that don't have to worry too much about price competition, and that can "spur investment". The problem is, Vestager doesn't want to hear this. As competition commissioner, she has consistently blocked or frustrated telecoms mergers, believing that a fall in the number of players leads to higher prices for consumers.

Of course, "everyone knows that unchecked monopolies

will eventually raise prices".

But the trade-off is that, if the potential returns on capital are attractive, further investment will follow, which will be "beneficial for consumers – perhaps to the point of offsetting the higher prices".

Not long ago, European names dominated the telecoms industry – Siemens, Nokia, Ericsson. Today, it is hard to point to a single global leader. Overbearing regulation may be to blame. The EU "might want to consider changing its tack".

High spirits move markets

bankunderground.co.uk

Economists have long entertained the idea that beliefs are powerful enough to grow the economy or depress it, say Silvia Miranda-Agrippino, Sinem Hacioglu Hoke and Kristina Bluwstein. In this view, hopes of rosy times ahead are enough in themselves to drive growth. It's a "fascinating view", but hard to test. Hard, but not impossible. The authors combined data on patent applications and survey forecasts to isolate news of potential technological progress, and studied how macroeconomic data responded. They found that positive news induces a slow but steady increase in aggregate productivity. And despite the long time that it takes for news to translate into actual meaningful technological improvements, the expectation that it may happen pushes up consumption and investment, and hence output. The authors were able to determine that it is beliefs, rather than the actual future improvement, that play a crucial role in driving the expansion, accounting for close to a fifth of the variation in consumption and employment over the course of a business cycle. Stockmarkets, firms, consumers and central banks react at different speeds, depending on how equipped or willing they are to filter out the signal from the noise in reports. Stocks move first, welcoming the news with "buoyant attitude".

A financial Turing test

ofdollarsanddata.com

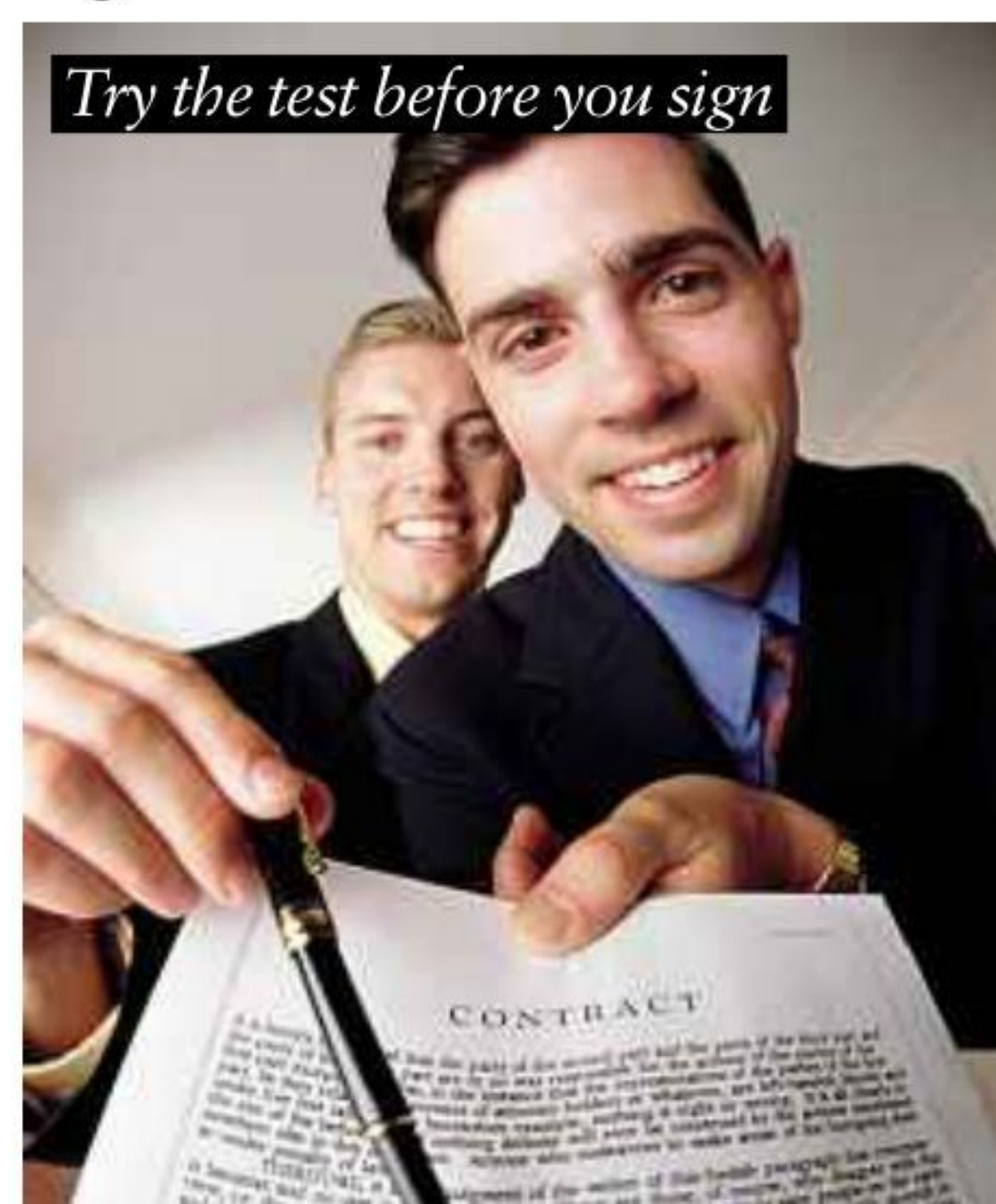
The "Turing test" is a thought experiment designed to determine whether artificial intelligence has been created, says Nick Maggiulli. You ask a screened entity questions, and from the answers you must determine whether what you are talking to is human or not.

It's a good idea to think about how you could apply this test to finance – could it help us

moneyweek.com

distinguish between financial sages and the charlatans? What question would you ask?

Some of my Twitter followers suggested asking those tested whether they time the market or know where it is heading – a sage would know that this is near



impossible to do on a consistent basis. But the question I would ask is: "How do you get rich without getting lucky?" A true sage should be identifiable if he can name the common actions that lead to financial success whoever you happen to be or whatever your circumstances in life. That should demand more from him than a soundbite. That's more than can be said for another suggestion I received: "Do you own bitcoin?" This was suggested by both bulls and bears, suggesting the answer you get will determine their tribe more than their sagacity.

Give gig workers a basic income

conversableconomist.blogspot.com

The idea of a universal basic income – where the state gives everyone cash without strings – has proven attractive to many. The devil, says Timothy Taylor, is in the detail. Is it affordable? Would it complement or replace the welfare state? Discourage work or incentivise it? End inequality – or make it worse?

A slew of new papers sheds light on these issues. An "intriguing thought" that emerges from several of them is that the arguments for a basic income may be stronger for poor countries. A basic income there can help to raise a large share of the population out of poverty at relatively low cost without the need for an effective bureaucracy. There is also a lot of evidence that unconditional cash payments in such countries are effective at lifting people out of poverty. Another argument is that employment in such countries is often sporadic, with many people working a variety of part-time gigs rather than at a single steady job. Given that some predict this is the direction employment in rich countries is heading in, basic income may yet have its day here too.

Passive investing under pressure

Investors are allocating ever greater sums to ETFs and index trackers. Regulators have taken note



David Stevenson
Investment columnist

Passive investing is on a roll. In the US both exchange-traded funds (ETFs) and passively managed funds have recorded massive inflows. Both products share the same idea: keep costs low and eliminate the risk of an active fund manager underperforming a benchmark index by just buying the stocks inside an index.

The 20 American index funds with the largest net inflows over the past three years raked in a combined \$626bn. Those funds, nearly all of which are ETFs, hold a combined \$1.4trn. One key factor driving this has been lower costs.

Costs have fallen fast

The average expense ratio of America's top 20 funds is 0.07%, nearly 0.4% lower than last year's figure of 0.48%, according to fund platform Morningstar. The industry's largest index tracker, the Vanguard Total Stock Market Index Fund Admiral Shares (VTSAX), boasts an expense ratio of 0.04% and net three-year inflows of \$19.4bn.

The advent of fee-free ETFs is pushing overall investment costs ever lower. US giant Fidelity and US-based fintech firm SoFi both recently brought out a 0%-fee ETF. But cost isn't everything. Demand for passive funds is being driven by poor returns from their competitors. Around 40% of active managers are outperforming



Most active managers underperform the market

their benchmarks on a three-year basis so far in 2019, an improvement on 2018's 30% but down on the long-term average of 45%. American index research firm S&P Dow Jones keeps a close eye on active versus passive fund managers with a regular survey in the US called SPIVA. It says that in 2018 68.83% of domestic equity funds underperformed the S&P Composite 1500.

Over ten or 15 years, 80% or more of active managers across all categories underperformed their respective benchmarks. No wonder passive investing is so popular. In my opinion the US passive funds are likely to eclipse active ones and reach 75% market share in ten years. In Europe it may take longer.

The powerful Big Three

But a backlash against passive funds is building. The key issue is regulatory concerns about market power and potentially uncompetitive behaviour.

Most of the passive industry's gains have been dominated by just three asset managers: BlackRock, State Street Global Advisors, and Vanguard. Together, they control around 80% of ETF assets in the US in around 600 products.

No wonder the US Securities and Exchange Commission (SEC) recently launched an "outreach initiative" to investigate this issue. It isn't simply a question of three big players dominating one sector.

I wouldn't be surprised to see them focus on how many

big stocks now share the same shareholders on their registers. A few years ago it emerged that Apple, JP Morgan Chase and Citigroup's major three shareholders were the Big Three passive fund managers; this is the case for many other US companies. A 2014 study, entitled Anticompetitive Effects Of Common Ownership, looked into the effects of competing firms having the same asset managers as major shareholders.

It highlighted concerns "that partial common ownership of natural competitors by overlapping sets of investors can reduce firms' incentives to compete: the benefits to one firm of competing aggressively – for example, gains in market share – come at the expense of firms that are part of the same investors' portfolio, reducing total portfolio value." The upshot, Harvard Law's Einer Huage told ETF Insight, is that the Big Three's dominance "could lead to antitrust liability."

The big asset managers, especially Vanguard and BlackRock, are beginning to wake up to the danger and promising a much more activist approach to governance. I have my doubts though whether this will amount to much.

My guess is that regulators won't be fooled by talk about greater interest in, say, more active proxy voting to keep boards in check. They'll smell a *de facto* scale-based oligopoly and keep interfering, slowly eroding the dominance of the big players.

Adventurous new ETFs launch in Britain

ETFs are having a growing impact on the UK market, especially among technologically savvy investors who use online dealing platforms. Freertrade has a major focus on ETFs and online bank Revolut is also avidly promoting ETFs on its brand new share dealing service. Australian challenger Stake – soon to launch in the UK with fee-free US shares – will also be concentrating on the huge pool of American ETFs.

This growing demand is percolating through to the major ETF issuers, who are getting more adventurous with their new ideas. Over the last few months we've seen several interesting new products launched. Here are the ones that have caught my eye:

■ **Lyxor US Curve Steepening 2-10 UCITS ETF (STPU):** a first-of-its-kind European ETF that delivers positive returns when two-year US Treasury yields steepen against ten-year yields. This is potentially a great product for investors who believe the yield curve will invert and keep on inverting.

■ **Lyxor MSCI Emerging Markets ex China UCITS ETF (EMXC):** the first First ETF in Europe that offers investors exposure to emerging markets without China. A play for investors concerned about the escalating trade war between the US and China but still keen on one of the world's fastest-growing economies.

■ **The WisdomTree Cloud Computing UCITS ETF (WCLD):** an ETF that offers exposure to US-listed companies focused on cloud computing technology. It sits nicely alongside the existing **Han-Gins ETF Cloud Technology ETF (SKPY)**, which has returned 61% over the last year and 27% over the last six months.

■ **The UBS ETF EURO STOXX 50 ESG UCITS ETF (E50ESG):** for the first time ever investors can gain exposure to a well known index with an Environmental and Social Governance (ESG) tilt – something for the ethical millennials and ESG segment of the market.

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AIC Global Sector Average	15.4%	5.6%	39.1%	20.6%	4.6%

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Why Modi's magic now looks like an illusion

Investors are losing confidence in India's prime minister and his promise of further reforms. The country's potential remains intact, but be prepared for some short-term bumps, says Cris Sholto Heaton

When Narendra Modi won a landslide victory in India's general election in May, stocks quickly surged to a new high. Modi and his Bharatiya Janata Party (BJP) are widely seen as more business-friendly than the opposition, and investors hoped that a larger majority would allow the prime minister to speed up the economic reforms that he promised when he won a first term in office in 2014.

Unfortunately, Modi's most decisive move since his re-election has prioritised a different side of his agenda. At the beginning of August, the government revoked the special constitutional status that applied to Jammu and Kashmir in northern India, which previously gave this state a degree of administrative autonomy. Although this was in the BJP's manifesto and has been a long-standing goal for the party, it was a controversial decision, since Jammu and Kashmir is an extremely sensitive region both domestically (it is India's only Muslim-majority state) and internationally (it lies on the border with Pakistan and China and includes several areas held by one country but claimed by another).

The area has problems that defy easy solutions – including a long history of religious violence and abuses by the security services – and require careful handling. So the government's decision to push ahead with this change reawakened fears about Modi's authoritarianism and his increasingly overt embrace of Hindu nationalism (an ideology that holds that India is the Hindu homeland and people of other faiths can live there only on sufferance).

For non-partisans, there has always been a trade-off to having Modi in power: the expectation that his economic reforms will help India develop faster is set against doubts about the impact of his other views and policies on religious tolerance and stability. Serious questions about this go back almost two decades, to his controversial record as chief minister of Gujarat from 2001 to 2014. Supporters argue that his decisions there helped deliver strong growth in the state during his time in office, but critics say he was at least partly responsible for inflaming an appalling outbreak of violence between Hindus and Muslims in 2002 that left hundreds, possibly thousands, dead. The Jammu and Kashmir decision has reawakened these concerns about his judgement on social and religious issues, just as his economic competence is coming under greater scrutiny.

A very mixed record

For all the talk of India's recent success, the reality is Modi's economic achievements in the last few years are scander than his supporters claim. On the plus side, there is the introduction of a new national goods and services tax – a reform that is rather more totemic than it sounds, because it helps reduce some of the barriers to trade between states by doing away with a hotchpotch of different sales taxes and duties imposed by regional governments. A new bankruptcy code also aims to curb the problem of heavily indebted companies that continually fail to pay their creditors.

However, a decision to withdraw most large-denomination banknotes from circulation abruptly

in 2016 was at best a bold idea badly executed – it was intended help tackle corruption, tax evasion and counterfeiting, but caused huge disruption without ultimately achieving much. And outright negatives include weakening the independence of the Reserve Bank of India late last year in order to dip into its reserves to help fund public spending (and pay for some populist pledges ahead of the election) and to take the heat off some undercapitalised public-sector banks (and let them continue lending to politically important businesses).

Since the election, the government has announced welcome plans to change the country's restrictive employment laws, although it remains to be seen how ambitious these will be and how successful Modi will be in pushing them through in the face of inevitable strong opposition. This could be an important breakthrough, however: a radical shake-up would be the single most effective move the government could take to transform the manufacturing sector.

Set against that, the July budget was light on reform and heavy on new taxes and duties. These included a tax surcharge aimed at the wealthy that would have hit foreign institutional investors (FIIs) as well – the measure has since been refined, but rattled FIIs still took \$4bn out of Indian shares in the last two months, having invested \$11bn in the first half of the year.

The growth illusion

There are also awkward questions about how well the economy has really performed in recent years. Officially, GDP has grown at 7% or more per year since 2011-2012. But this is at odds with other data, such as the sluggishness of business investment, and many analysts believe growth is being overestimated due to faults in a new method for calculating GDP. The true rate of growth may have been under 5%, according to a paper by Arvind Subramanian, formerly the country's chief economic adviser and now at Harvard University.

In any case, growth is now clearly slowing: at just 5% year-on-year officially, the latest quarter was the weakest result since early 2013, largely on the back of strains in consumer spending. This is at least partly due to ongoing problems in the non-banking financial company (NBFC) sector, India's shadow-banking industry. In recent years, these firms have supplied around one-third of new loans, especially to consumers, small business and housing – but ever since IL&FS, a large infrastructure-focused NBFC, defaulted last year, investors have become more reluctant to lend to them. This in turn means that NBFCs have been unable to extend as many new loans, which has affected sectors such as automobiles and consumer durables, which depend on a steady flow of credit to finance purchases.

Economists are already starting to revise down forecasts for next year on the back of these trends, but some of the risks facing the global economy could well make matters worse. For example, India imports around 80% of its oil supply, so if this week's spike in the price of oil is sustained, it will increase the

“The true rate of GDP growth may have been under 5% per year, rather than the official 7%”



Narendra Modi: not a magician

trade deficit and probably feed through into inflation and hurt domestic demand.

The case for India

Still, even if one doesn't think Modi and the BJP are doing a particularly good job of managing the country right now – and even if India and the world in general may be approaching the end of the current economic cycle – that doesn't demolish the long-term argument for investing there.

The core of the investment case is pretty simple. India has a vast population (over 1.3 billion, second only to China) and good demographics (the average age is 29). That creates an enormous potential market for growth for decades to come. There are no other countries in the world of that scale – the next biggest emerging market is Indonesia, with around 270 million people – and companies that can capitalise on the opportunity may grow to enormous scale.

Government decisions can certainly make matters better or worse and there are plenty of points on which to be pessimistic. The BJP's Hindu-nationalist policies risk making social unrest worse. Failure to change labour laws could mean that low-cost manufacturing never emerges as a route to bring large numbers of people into a modern industrial economy and so hundreds of millions could remain stuck in subsistence farming. There seems to be little immediate prospect of serious land reform, even though the experience of other emerging economies suggests that this could both strengthen the position of small farmers and reduce headaches for infrastructure, industry

or housing developments (disputes over ownership makes land acquisition one of the biggest difficulties when doing business in India and often leads to major projects being abandoned altogether).

However, while it will be tragic if India fails to achieve its full potential and much of the population remains trapped in poverty, the country's sheer size means that even being partially successful will be a major economic shift. As such, it's a market that's impossible to ignore. The question is whether now is a good time to invest – or whether the growing evidence that Modi is not the magician that investors hoped he would be, plus the wider headwinds facing most emerging markets at this point, make it particularly vulnerable to disappointment.

Expensive as ever

Certainly Indian stocks don't look like a bargain, even if the post-election blues have seen them retreat a little from their highs. The MSCI India index today trades on a price/earnings (p/e) ratio of almost 23, compared with 13 for the MSCI Emerging Markets index. This comparison sounds slightly worse than the reality: the overall valuation of the MSCI EM is heavily affected by weightings towards markets such as China (with its superficially cheap but appalling banks) and Korea (with its highly cyclical manufacturing industries that trade on low valuations at the peak of the cycle). But it's still pricier than peers such as Indonesia (p/e of 17).

“The MSCI India index trades on a p/e of 23, compared with 13 for the MSCI Emerging Markets”

Continued on page 22

Continued from page 21

India has always been a relatively expensive market, as the chart on this page shows. The long-term p/e ratio for the BSE Sensex (India's traditional domestic equity benchmark, with a longer history than the MSCI India) has been in the high teens or low 20s for most of the last two decades or so. Historically, this has been partly justified by the fact that India's biggest companies enjoy relatively good returns: average return on equity for Sensex firms has been near or above 20% for much of this time. Consequently long-term returns have been respectable: the Sensex (and the MSCI India) have returned around 10%-11% per year on average over the past 25 years.

However, valuations today are as high as they were at the peak of the market in 2000 or 2007 – neither of which were good times to invest. Even if we wouldn't expect the market to plumb the single-digit p/es of 2008-2009 in a normal downturn, there's clearly scope for disappointment. To make matters worse, profitability is slipping: return on equity for Sensex firms was little more than 10% in 2018 (another bit of evidence that the economy has done less well in recent years than headline GDP numbers suggest).

The rupee rally runs out of steam

The currency is also a problem for foreign investors. The rupee has weakened steadily against the dollar over time, both under Modi and his predecessors, and hit an all-time low of almost 75 to the dollar in October last year. It rallied to 68 in the post-election euphoria, but has since slid again and now stands at around 72. This has a big impact on returns for overseas investors. The MSCI India has had an average total return of 6.3% per year over the last five years and 8.9% per year over the last ten years in rupee terms, but that falls to 2.9% per year and 4.9% per year respectively in US dollar terms. (The drag on returns for UK investors has been less extreme, since sterling has itself performed so badly against the dollar and most other major currencies.)



So it's difficult to be very optimistic about the near-term outlook for the Indian market. On the plus side, the economy is domestically driven and should be more insulated from a possible US-China trade spat than much of the emerging world. And there's little sign of any major internal crises brewing: the greatest risk is probably that the NBFC issues spread into the wider banking system. This could happen – some banks, already coping with bad loans extended to troubled industrial groups in recent years, also have exposure to NBFCs that may turn sour – but doesn't look like a systemic threat at present.

However, the combination of slow growth, disillusionment with Modi and the fact that the market is already richly valued could well send more investors heading for the exits – especially FIIs, which tend to have a disproportionate impact on the direction of the market. So while MoneyWeek remains enthusiastic about India for the long term, this definitely feels like a time to take a comparatively cautious approach – and my suggestions for what to buy and watch below reflect that.

“The rupee hit an all-time low of 75 to the dollar in October last year”

Four ways to invest in India

Aberdeen New India (LSE: NII) is MoneyWeek's preferred way to buy into the Indian market: not only does it have the best long-term record, but a clear focus on higher-quality companies should make it more defensive. The trust has an ongoing expense ratio of 1.17% and is on a discount to net asset value (NAV) of 13%.

The much larger **JPMorgan India (LSE: JII)** has performed similarly to Aberdeen New India over the past five years, with Aberdeen having a slight edge. However, while many of the funds' holdings overlap, there are significant differences in their sector weightings: JII has a lot more in financials (41% versus 26%) and less in consumer staples and information technology. This may make it more vulnerable if the economy weakens, as even relatively well-run banks will suffer some pain. The ongoing charge is 1.09% and the discount to NAV is 9%.

India Capital Growth (LSE: IGC) has been more volatile. Until early 2018, it was outperforming by a large distance, but since then performance has slipped in a more difficult market. This is not entirely surprising since it focuses on mid-caps and smaller companies, but it has also been exposed to the NBFC crisis, through holdings such as Dewan Housing Finance (which it has now sold) and Yes Bank (whose share price has slumped amid concerns over its loans to shadow banks and other troubled borrowers).

The trust's discount of 20% may now look tempting, but the type of investments it favours look likely to keep underperforming at this stage of the cycle. The ongoing charge last year was 1.99%, although it has announced a 0.25 percentage point cut to the management fee.

Aberdeen New India (LSE: ANII)

Share price in pence



Some other emerging-market funds are also heavily invested in India, including **Fundsmith Emerging Equity (LSE: FEET)**. This has 40% of the portfolio there – mostly in consumer goods and healthcare stocks that I like as long-term investments. Unlike the very successful Fundsmith Equity strategy, which invests in developed-market stocks,

this has lagged its benchmark market since launch. The fund has now slipped to a discount to NAV of 10%, but I'd want to see more evidence that the managers have tackled the reasons for its weak returns so far before buying. The ongoing charge last year was 1.4%, with the management fee cut by 0.25 percentage points this year.

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Cut the cost of private education

You needn't be an oligarch or an aristocrat to get your child into a top fee-paying school



Ruth Jackson-Kirby
Investment columnist

Private education has long been seen as the preserve of the wealthy. But many students at elite schools are there thanks to bursaries and scholarships. According to the Independent Schools Council one in three students at private schools receives financial assistance: either their school fees are reduced, or waived completely. Eton spent £6.5m this year providing financial assistance to more than 20% of its students.

“Growing pressure on independent schools to justify their charitable status has encouraged greater generosity,” says Lindsay Cook in the Financial Times. “At some schools, parents who apply for means-tested support could qualify even if they have a household income of £90,000.”

With almost 6,000 private schoolchildren having their places fully funded by bursaries it certainly pays to check if you meet the criteria. Most schools



Eton spent £6.5m on over a fifth of its students this year

put details of their financial assistance schemes on their website, but ask too. Some discounts, such as reductions for siblings, may not be publicised but are available.

If you apply for means-tested bursaries, bear in mind that some schools put a cap on your total assets as well as income. Parents with large properties, or rich relatives may be turned down even if their income isn't that sizeable. “If they feel

parents could afford to pay the fees by downsizing their home or asking grandparents for help, they will not be afraid to say so,” says Cook.

Meanwhile, “some private schools offer financial support to cover the cost of books, school trips and so on for families who would otherwise struggle to afford them,” says Marianna Hunt in The Daily Telegraph. “Speak to the school's admissions office.”

What if you don't qualify?

If you don't qualify for financial assistance, there are other ways you can cut your costs. Don't assume you have to be able to stump up tens of thousands of pounds upfront. Many schools allow you to spread the cost of fees with monthly direct debits. But if you can pay upfront ask if they offer discounts through a fee-in-advance scheme.

Sending a child to a private day school from the ages of 13 to 18 costs an average of £71,445, according to Brewin Dolphin. “By planning early and investing your money, you could hit this target by putting away just £300 a month,” according to Hunt. Save every month from birth until your child is due to start secondary school and you could build up that money if you achieve annual returns of 4%. It is also worth checking if grandparents want to help with school fees. If a grandparent can afford to help with gifts out of their income without it affecting their own lifestyle, it could help them reduce a future inheritance tax bill.

5 Reasons to Buy Physical Gold...

- 1 Gold is a safe haven asset** - Gold is frequently used as a safe haven asset in times of economic turmoil or geopolitical uncertainty. For this reason many advisors recommend allocating around 5% - 15% of their portfolios to gold.
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VW is ready to motor

The German carmaker is putting the emissions scandal behind it



Matthew Partridge
Senior writer

The electric ID.3 has a range of up to 550km

For the past few years Volkswagen AG (Frankfurt: VOW) has been trying to escape the shadow of the 2015 emissions scandal. The German carmaker was forced to confess that it had fitted devices to its diesel cars allowing them to cheat on emissions tests. This led to a blizzard of lawsuits, fines, a temporary halt to sales for certain lines, and even the arrest of Audi CEO Rupert Stadler last year. As a result, Volkswagen's (VW) share price is still 40% down from its pre-crisis peak in March 2015.



The smog is lifting

Recently, however, there have been two good pieces of news for the company. Firstly, it has continued to make progress with mopping up the remaining legal liabilities from the scandal, agreeing to settle a class-action lawsuit in Australia brought by customers who bought its cars before the deception was revealed. While it is still facing lawsuits in other countries, the indications are that the remaining liabilities are a fraction of the tens of billions of euros already paid out. VW says it has set aside enough money to cover these claims.

In addition to making reparations for its misdeeds, VW is getting into pole position to take advantage of the electric-car revolution. Earlier this month Porsche (which is owned by VW) released the Porsche Taycan, an all-electric roadster that aims to challenge Tesla on its core

territory of luxury high-performance cars. The Taycan also won rave reviews from the motoring press, which sees it as a game changer for the industry. Nor has VW neglected the mainstream end of the market. The recently unveiled ID.3 (which can drive up to 550km on a single battery charge) shows that VW's £27bn investment in electric cars is paying off.

Of course, the main attraction of VW's stock is its extremely low valuation: 5.5 times 2020 estimated earnings. It also trades at a 30% discount to its book value (net assets). With sales increasing at around 3% a year and VW making a return on equity of slightly more than 10% this seems unduly pessimistic.

The combination of a rock-bottom valuation, diminishing legal risk and a range of compelling products means you should go long on Volkswagen shares with IG Index at their current price of €162 at £25 per €1. In case the price slides, however, set a stop-loss at €22, which would give you a total downside of £1,000.

"VW's electric roadster, the Porsche Taycan, has won rave reviews"

How my tips have fared

My long positions have had an extremely successful fortnight. Five out of six buys have gone up in value. Safestore, which fell marginally, from 648p to 644p, was the only one to decline.

By contrast, Superdry went up from 392p to 429p, Bausch Healthcare from \$21.34 to \$23.28 and JD Sports from 626p to 718p.

Bellway also moved upwards, from 2,961 to 3,268p while Ted Baker, our latest tip, went from 929p to 1,043p.

The long tips are now making a collective profit of £3,184, the most that they have made since this column's inception.

Of course, every silver lining has a cloud, so it should come as no surprise that four out of five of my short tips have also advanced.

Weis Markets moved from \$38.23, Tesla increased from \$225 to \$285 and Bitcoin went up from \$9,895 to \$10,136.

Uber also appreciated, from \$32.57 to \$34.64. The only one of my short tips to decline was Netflix, which fell from \$294 to \$292.

Nevertheless, the fact that most of the increases were relatively minor means that my current short tips are still in the black, making a collective profit of £667.

Counting the latest tip, I now have seven long open tips and five short tips. While I don't want to close my JD Sports recommendation just yet, I suggest that you take some profits off the table by increasing the stop-loss to 675p.

I also think it would be advisable to increase the stop-loss on Safestore to 600p. Beyond Meat remains far above the \$120 that I suggested as the price at which you should start shorting it.

As a result, I have concluded that it's time for me to cancel the Beyond Meat short entirely – though I may come back to it in the next few months if the stock begins to fall.

Trading techniques... Darvas Box Trading

Box trading was a strategy developed by the dancer-turned-trader Nicholas Darvas (pictured), who wrote about it in the 1960 book called *How I Made \$2,000,000 in The Stock Market*. As the book's title suggested, Darvas claimed that his system, along with some fundamental analysis to spot industries with plenty of growth potential, helped him make \$2m in the stockmarket during an 18-month period in the late 1950s.

The idea is that shares tend to trade within a certain range, or 'box'. The upper and lower bounds are determined by the highs and lows within a certain period, such as 52 weeks. Darvas' theory is a momentum-based strategy, which involves



looking for stocks that are bursting out of the box by making new highs or lows. Provided a rise was accompanied by an increase in the volume of stock traded, and didn't reverse within a few days, Darvas would start buying the stock. To protect himself, he would place a stop-loss order that would automatically sell a

stock if it fell below the lower boundary of the box.

Like all chart-based theories, Darvas Box Trading involves a degree of subjectivity. It is up to the trader where exactly to draw the lines of the box and decide what constitutes a 'significant' breakthrough. New York regulators also accused Darvas of exaggerating his profits (although they failed to get his book banned).

However, a 2004 study by Thomas George and Chuan-Yang Hwang of the University of Houston, which looked at US stocks between 1963 and 2001, found that those making new 52-week highs tended to outperform the market, while those making new lows underperformed.

Where new middle-class shoppers will splash cash



A professional investor tells us where he'd put his money. This week: Kevin Carter, CIO and founder of the Emerging Markets Internet & Ecommerce UCITS ETF

We believe that the rise of the middle-class consumer in emerging markets is the world's most compelling long-term growth theme. Emerging markets account for 85% of the world's population and nearly 90% of its under-30s; their GDP is also growing at more than twice the rate of the developed world's (4.4% vs 1.8%). The conditions for what the consultancy McKinsey & Co. calls "the greatest growth opportunity in the history of capitalism" are now being realised.

Where consumption meets technology

At the epicentre of these macro trends in emerging markets there is what we believe to be an unprecedented growth story. As the bulk of the global middle class shifts to emerging economies, billions of people in the developing world have just begun to join the online community via low-cost smartphones.

As they raise their standards of living and purchasing power, the digitisation of their economies is accelerating, creating new tech giants on a par with or larger than their Western counterparts. Nine of the top 20 internet companies in the world are based in emerging markets; seven of them didn't exist seven years ago.

We are living through one of the greatest leaps forward in economic growth in history. Investors are looking for ways to gain targeted exposure to this secular growth story.

South American's e-commerce favourite

One company that could provide it is MercadoLibre (Nasdaq: MELI). Based in Argentina, it is the largest e-commerce platform in Latin America. Its fintech and mobile payments

platform MercadoPago has emerged as a key growth area as these platforms take advantage of the underdeveloped banking systems and have begun to exploit the trend for the smartphone to replace the wallet. With the Latin American populations averaging well below the 50% smartphone adoption threshold, this largely untapped market has yet to be fully realised.

Savings and fun in China

Pinduoduo (Nasdaq: PDD) has grown into the third-largest e-commerce platform in China in less than five years. This viral-like growth stems from the unique integration of social media into the traditional online shopping process. The company describes its approach as the "team purchase" model. People are encouraged to buy popular items in groups to secure discounts (Pinduoduo's motto is, "Together, More Savings, More Fun").

This method has facilitated rapid adoption in China's smaller cities. With only around 60% of the Chinese population owning a smartphone, the largest internet population in the world still offers ample upside.

India's top travel company

MakeMyTrip (Nasdaq: MMYT) is India's leading online travel company. It has a dominant market share and benefits from operating in the fastest-growing major economy in the world. With a smartphone penetration rate of only around 29%, approximately 4,000 people in India get their first smartphone every hour. The upside becomes obvious when you consider that nearly one billion people have yet to join this e-commerce market.

"Every hour 4,000 people in India get their first smartphone"

If only you'd invested in...

Mitchells & Butlers (LSE: MAB)

Share price in pence



Mitchells & Butlers (LSE: MAB) is a restaurant and pub operator with around 1,700 outlets across the UK. Its famous brands include All Bar One, Harvester and Nicholson's pubs. Last year's dividend cut and shareholder rebellion seem to have been shrugged off, while competitor Greene King's takeover by Hong Kong's CKA has given the broader sector a fillip. The latest trading update highlighted sales consistently ahead of the market, while the share price has risen by over 40% in the last 12 months to its highest level in over three years.

Be glad you didn't buy...

Galliford Try (LSE: GFRD)

Share price in pence



Galliford Try (LSE: GFRD) is a construction, infrastructure and housebuilding company with revenues of £2.8bn listed on the FTSE 250 mid-cap index. Losses at its construction business have doubled in the last year after high-profile projects such as the Queensferry crossing over the Firth of Forth hit trouble. Galliford is now trying to slim down – it has closed its Scottish infrastructure business and is in talks to sell its housebuilding division to Bovis for £1.1bn – and it plans to concentrate on more profitable areas. The stock has lost 37% in the last year.



The maverick who shook up Big Oil

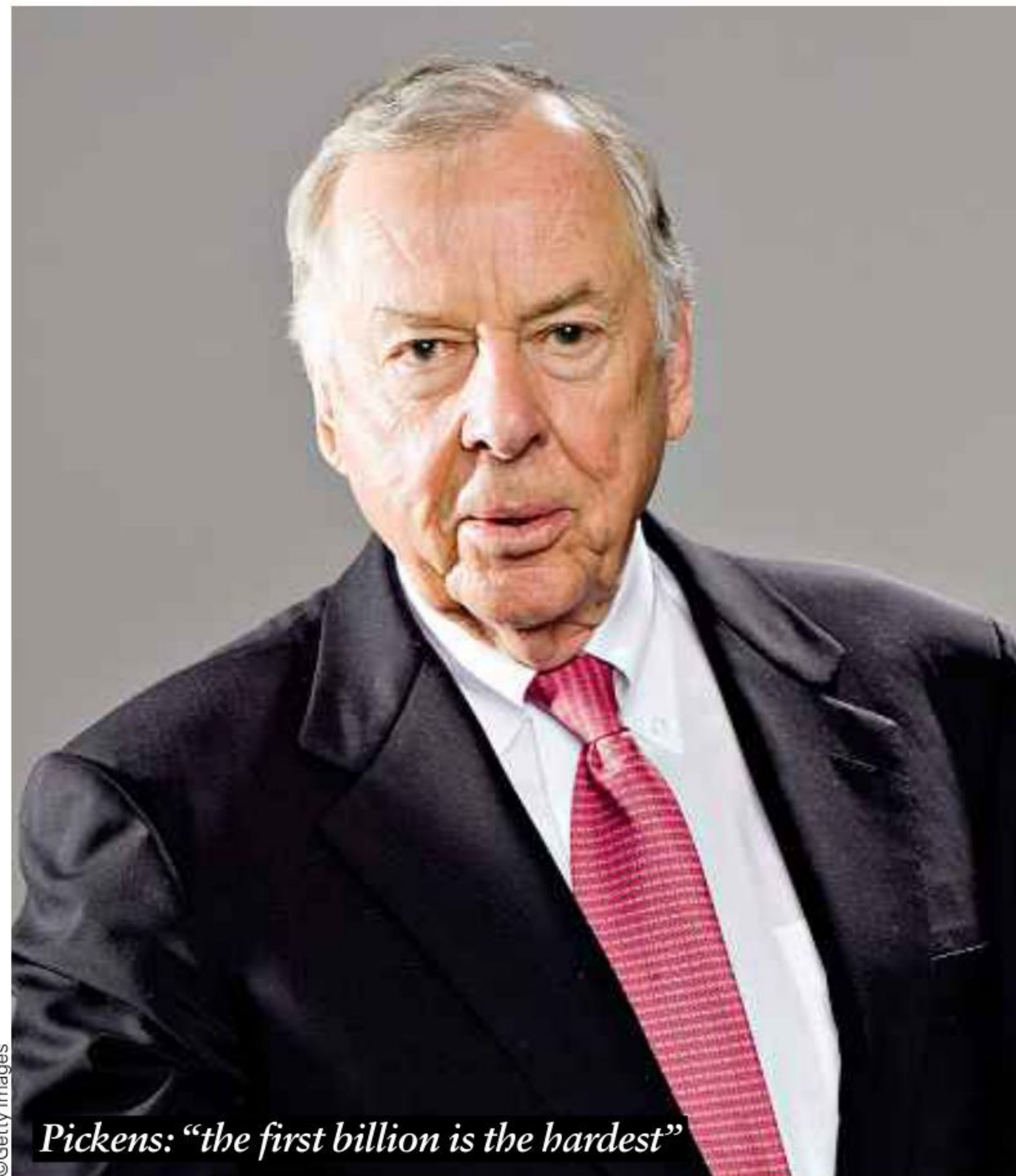
T. Boone Pickens, who has died aged 91, was a shareholder activist before it was cool and made billions of dollars in the oil trade before becoming an unlikely proponent of green energy. Alex Rankine reports

A billionaire who made his fortune from oil, only to become a firm advocate of natural gas and wind power, T. Boone Pickens was “a maverick until the end”, says Katie Mehnert for CNN Business. The “pioneering oil tycoon”, who was also a foundational figure in the rise of modern shareholder activism, died last week at the age of 91 in Dallas, Texas.

Back in the 1980s “shareholder activists” were known by a different name, says Joe Nocera on Bloomberg. Men like Pickens who launched hostile takeover bids were dubbed “corporate raiders”. Some investment banks refused to advise anyone doing it and CEOs thought it terribly impolite to “buy a company that didn’t want to be bought”. As Pickens wrote in a 2017 Forbes column, “the notion that shareholders own the companies and managements were employees was foreign to big oil companies”, which preferred to “operate like empires... I was a disrupter before disrupters were cool”.

A life devoted to risk

The son of an Oklahoman “landman” – someone who gambles on mineral rights – Pickens soon followed his father into the oil game. After obtaining a degree in geology, he established Mesa Petroleum in 1956 with \$2,500. So began a career as a “wildcatter”; Pickens became one of the thousands who drove “around the oil states, using public phone booths as their offices... getting a crew together” to drill for oil and dreaming of hitting the big time, says Daniel Yergin in his book *The Prize: The Epic Quest for Oil, Money & Power*, quoted by CNBC.



©Getty Images

Pickens: “the first billion is the hardest”

“The best way to strike it rich was ‘prospecting via merger’”

Yet Pickens learnt that the best means to strike it rich was “prospecting via merger”, says Chris Power in *The Washington Post*. Between 1983 and 1985 he launched “three of the most daring takeover bids in US corporate history”, pursuing Gulf, Phillips Petroleum and Unocal Corp, oil behemoths far larger than Mesa. Although the bids didn’t come off, Pickens and his fellow raiders earned hundreds of millions of dollars because management were willing to pay a premium to buy back the stock and keep control of the business, a practice derided by some as “greenmailing”.

The efforts of Pickens and other raiders “helped profoundly change American corporations by forcing management to acknowledge the supremacy of the shareholder”, says Jonathan Kandell in *The New York Times*. Yet it also laid the groundwork for the modern “obsession with ever-higher share prices” and short-termism.

The oil man goes green

After a difficult period in the 1990s, Pickens reinvented himself as an unlikely proponent of green energy. He invested heavily in a wind farm in Texas and spent \$100m of his own money on a campaign for Americans to wean themselves off foreign oil and strive for energy independence.

Always flamboyant and fond of the spotlight – he was an avid Twitter user known for his “Boone-isms”, quipping that “a fool with a plan can beat a genius with no plan” and that “the first billion is the hardest” – Pickens delighted in shocking journalists. On a tour of his Texan

ranch, he would suddenly unleash a volley of blasts from his shotgun. Yet he also had a sentimental side, buying up his childhood home and rebuilding it on his Texas estate.

His bets on renewable energy proved ahead of their time, but his fortune fluctuated wildly over the years, hitting a high of \$4bn and falling as low as \$500m in 2016, according to Forbes. The one-time oil prospector remained eternally optimistic, says Power. In 2014, after he fell off the Forbes rich list, he told a reporter that “I know I can make it all back – if I have enough time”.

Great frauds in history... Harry Marks and his dodgy tips

Harry Marks was born in London in 1855 and left school at 16 to seek his fortune in America. After a brief stint as a salesman, he became a journalist in Texas, and then New York, eventually becoming editor of the *Daily Mining News*. After moving back to London in 1883 he set up the *Financial and Mining News* (later shortened to the *Financial News*), remaining editor until 1909. The

magazine focused on giving financial advice and exposing financial and public corruption.

What was the scam?

Marks’ most flagrant abuse of his position was with the *Rae-Transvaal Gold Mining Company*, a firm that he tipped heavily in his newspaper. Unknown to his readers, it was created when he acquired a farm in the Transvaal (South Africa) for £10,300, and then sold it to a shell company he had created for £50,000, half of it in shares. The company, which claimed to have discovered gold in the area, was then floated on the stockmarket in 1887 to great acclaim. After the company’s shares soared in value, Marks

discreetly sold his shares for a huge profit.

What happened next?

Despite the hype, the company made little effort to even pretend to live up to its expectations, spending a grand total of £138 on drilling equipment. As a result, the share price quickly crashed and the company was wound up in 1888, having failed to mine a single ounce of gold. Despite losing a libel action in 1890 against George Butterfield, a rival promoter, who published an exposé of the fraud (along with other evidence of Marks’ past misconduct), he escaped prosecution, and was even elected to parliament in 1895.

Lessons for investors

While the exact amount of money that Marks made from his scam is unknown, shareholders ended up losing their entire investment in the venture and even creditors only received a fraction of their money back. Even today, investing in single-mine companies remains a very high-risk proposition and you should always do your own research, and be sceptical. As Marks himself wrote, “the [stock] promoter is a species of animal in financial zoology whose position has not clearly been defined. And the City does not quite know what to do with him. It fears him, distrusts him, looks down on him, and runs after him, all in a breath.”

The stars of your next dinner party



It was a Saturday lunchtime when I visited Haynes Hanson and Clark's HQ in Chelsea to taste a few wines for this month's selection. I usually do all of my tastings at home at the weekends, but this retailer was open for business so I felt more like a real life punter than a wine writer as I tucked into the range. For the first time in my life, I didn't feel like spitting either. Not only were the wines all utterly delicious, but I was attacking them as I would a keen wine buyer rather than a note-taking

professional. Which wines did I want to buy, on the spot, and why? The answers are below. I put myself in the mindframe of a keen, dinner-party-hosting, fairly thirsty wine amateur (not much of a stretch, you might say) when I made my choices! I am certain you will agree, so dive deep in preparation for your autumn dinner party season.

Matthew Jukes

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Prices shown below are per case of 12 bottles. Wines are also available in a mixed case, giving you two bottles of each for **just £150** — it's a chance for you to try them all, and is the most popular choice with *MoneyWeek* readers!



£10.25
£8.80

2018 Parcelles Chardonnay, Christophe Réthoré Davy, Val de Loire, France

I have been trying to think of a more accurate and rewarding sub-tenner Chardy than Parcelles and I cannot come up with one! Unoaked, bright and light thanks to its cool Loire origins, and discreetly generous in the mid-palate, this pretty wine has it all. I noticed hints of ice cool Galia melon and this will give you some idea of how slippery and refreshing it is. An all-rounder, this is an elegant, classic, 'fridge door' wine for all occasions and all punters!

CASE PRICE: £105.60 — saving £17.40



£10.75
£9.25

2017 Laroque, Cabernet Franc, Cité de Carcassonne, France

It was rather exciting to find a red partner for Parcelles, and it is a rather curious 'jigsaw' piece, given that the Chardonnay is a Loire wine and Laroque uses the Loire's star red grape Cab Franc in its make-up. The reason this wine is such a success, though, is that it doesn't come from the Loire, but from a far warmer clime, down south, near the medieval city of Carcassonne. Here the grapes ripen fully and the blackberry and herb notes are juicy and mouth-filling, while not losing any of Cab Franc's trademark, refreshing acidity. This is a stellar quality, inexpensive red hero! It is simply staggering just how accurate and rewarding a seemingly simple wine like this can be.

CASE PRICE: £111 — saving £18



£14.45
£12.50

2018 Chiroubles, Domaine de la Grosse Pierre, Beaujolais, France

I have followed this Domaine for many, many years and I knew the moment I dipped my hooter in the glass that this was a stunner. The label has changed, so I might not have spotted it on the shelf, but Jim Eustace, HH&C's vinous Darth Vader, guided me to the bottle using the 'force' and I didn't look back. Silky, succulent, indulgent Beaujolais is one of France's unique vinous gifts to the world and I drink it by the gallon. The price is laughably cheap given the complexity and expertise in this wine. You simply cannot avoid buying this Chiroubles this month! Forgive me if I use the 'force', too, to implement this order.

CASE PRICE: £150 - saving £23.40



£17.75
£15.50

2017 Lirac Blanc, Comtesse Madeleine, Château de Montfaucon, Southern Rhône

This wondrous creation is from the left field, of that there is no doubt, but it is a ravishing beauty which starts like a pitch perfect aria and builds to the full crescendo banging out a rousing chorus with unbridled gusto. Made from Marsanne, Clairette, Grenache Blanc and Picpoul, this wine packs a flavour punch which is breathtaking, despite only having 13% alcohol. With hints of exotic fruit and fennel, this is a classic Southern Rhône white wine of exceptional poise and breeding, built for sophisticated main course fish dishes.

CASE PRICE: £186 — saving £27



£18.60
£16.17

2017 Mâcon-Fuissé, Les Bruyères, Domaine Dominique Cornin, Burgundy, France

Romain Cornin makes wines with exquisite control. He cites Guillemot-Michel as an inspiration and indeed this famous Domaine makes smart wine, but Cornin's own creations are, to my mind, more precise and elegant. Les Bruyères is a biodynamically grown Chardonnay with not an ounce of too much fat or muscle. It is slender, sassy and sexy but more gamine than burlesque in its demeanour. That is not to say it lacks complexity or impact on the palate, because this is a wine that stands shoulder to shoulder with those ten or fifteen pounds more expensive from starrier appellations.

CASE PRICE: £194 — saving £29.20



£15.65
£13.50

2018 Lagrein, Kellerei Kurtatsch, Alto Adige, Italy

I ducked out of France for one wine this month and it comes from an estate whose Chardonnay and Pinot Grigio I greatly admire. It was the first time that I've tasted the Lagrein from Kurtatsch, and while I am a fan of this rare grape, many are earthy or indeed a little rustic, so I don't drink it as much as I would like. This winery is famed for its gentle touch so there is nothing agricultural about this wine. It is gossamer smooth, perfumed with fruits of the forest tones and brightly crisp on the finish, too, thanks to its enlivening acidity. It is a gem of a wine and one you will adore, particularly if you're looking to vary your wine diet beyond the acknowledged classics.

CASE PRICE: £162 — saving £25.80

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All aboard for a yachting adventure

Chris Carter rounds up three of the best boating holidays

The yacht epitomises “beauty, history and class”, Ion Varouxakis, a member of a historic Greek shipping family, tells Lisa Grainger in *The Times Luxx* magazine. His wooden schooner, Aello, is a case in point. She was built in 1921 by the renowned yacht-maker Max Oertz and boasts seven sails spread over two masts. “With three little double cabins and crew quarters for seven, she is the floating equivalent of a classic car, adorned with butterfly windows through which light floods into Varouxakis’s cabin-cum-library, and handsome brass fittings and dials that would have been lifesavers before the owner added such 21st-century devices as a 235hp engine, generators and radar”, says Grainger.

Aello is the perfect classic yacht on which to potter around the Greek islands, sipping fine wines and “being rocked to sleep in cosy berths”. True, there are more



Aello epitomises “beauty, history and class”

modern yachts out there, but that doesn’t matter, says Varouxakis. “She’s a classic beauty, and that will never go out of fashion.”

From €25,000 a week; €3,800 for a day trip. See aello.gr

Throw a party in Thailand

Don’t let the stately Old World interiors fool you, says Travis Levis in the *Evening Standard*. “Underneath the sophisticated grand piano-adorned main saloon” of the newly refurbished charter yacht Titania “is a modern stern area that can be converted into a mini-nightclub” – perfect for throwing a party off the coast of Phuket in Thailand. Stewards in thematic outfits serve cocktails and deckhands are ready to aid you in “every watersport imaginable” – jet-skis, SeaBobs, kayaks, stand-up paddleboards and more. Titania has seven cabins, including two master suites, and “opulent” bathrooms. “After an adrenaline-filled day splashing around Thailand’s pristine seas and bays, massages and beauty treatments in Titania’s dedicated spa room will restore your sense of calm.”

From €525,000 a week. See burgessyachts.com



A luxury cruise to the Arctic

Actress Helen Mirren christened the Scenic Eclipse, a 551-foot megayacht, in New York last week, says Bryan Hood in the *Robb Report*. It will travel to 68 ports around the world, spending half the year in Antarctica and the Arctic, the two main cruise destinations. The yacht has its own helicopters, a fleet of Zodiac boats, a submarine and “a near-endless list of high-end amenities”. There are 114 suite-cabins, each with a living room, veranda and butler. “The \$10,000-per-night, two-bedroom Owner’s Penthouse Suite reportedly measures a staggering 2,659 square feet.”

From \$6,395 per person based on two sharing, “though polar expeditions can cost much more... helicopter and submarine rides, of course, are extra”. See scenic.co.uk

Wine of the week: two ground-breaking South African creations

2018 Jessica Saurwein, Chi Riesling, Elgin, South Africa
£24, swig.co.uk



Matthew Jukes
Wine columnist

The South African wine tasting was nothing short of eye-opening this year. All too often the annual show is a predictable mish-mash of heroes and villains, but the title of this year’s event, “New Wave”, was accurate – wineries showed their best wares and nobody dropped the ball. The wine-makers knew it, too. Their time had come and the air crackled with as much energy as the vitality displayed in their wines.

I have a battery of recommendations for you, but rather than trotting out a shopping

list I have narrowed down my selection to just two wines from one winemaker. Jessica Saurwein’s creations summed up the mood at this ground-breaking event and my featured ’18 Chi Riesling (and the ’19 sample which I also tasted and which will follow on soon) is a veritable citrus lightning strike on your senses. With as much freshness as elite Aussie Eden Valley wine and with an even more slender chassis, this is the



most invigorating dry riesling I have tasted from the Cape.

Balancing this balletic wine is 2018 Nom Pinot Noir (£45, Swig), one of the most refined and floral pinots I have tasted from South Africa. Nom stands for *nombulelo*, an expression of gratitude in Xhosa, and also *Nomkhubulwane*, a forgotten African goddess of agriculture. This wine comes from the Kaaimansgat Vineyard in Elands-kloof and Jessica captures the drama and poise of this celestial red grape.

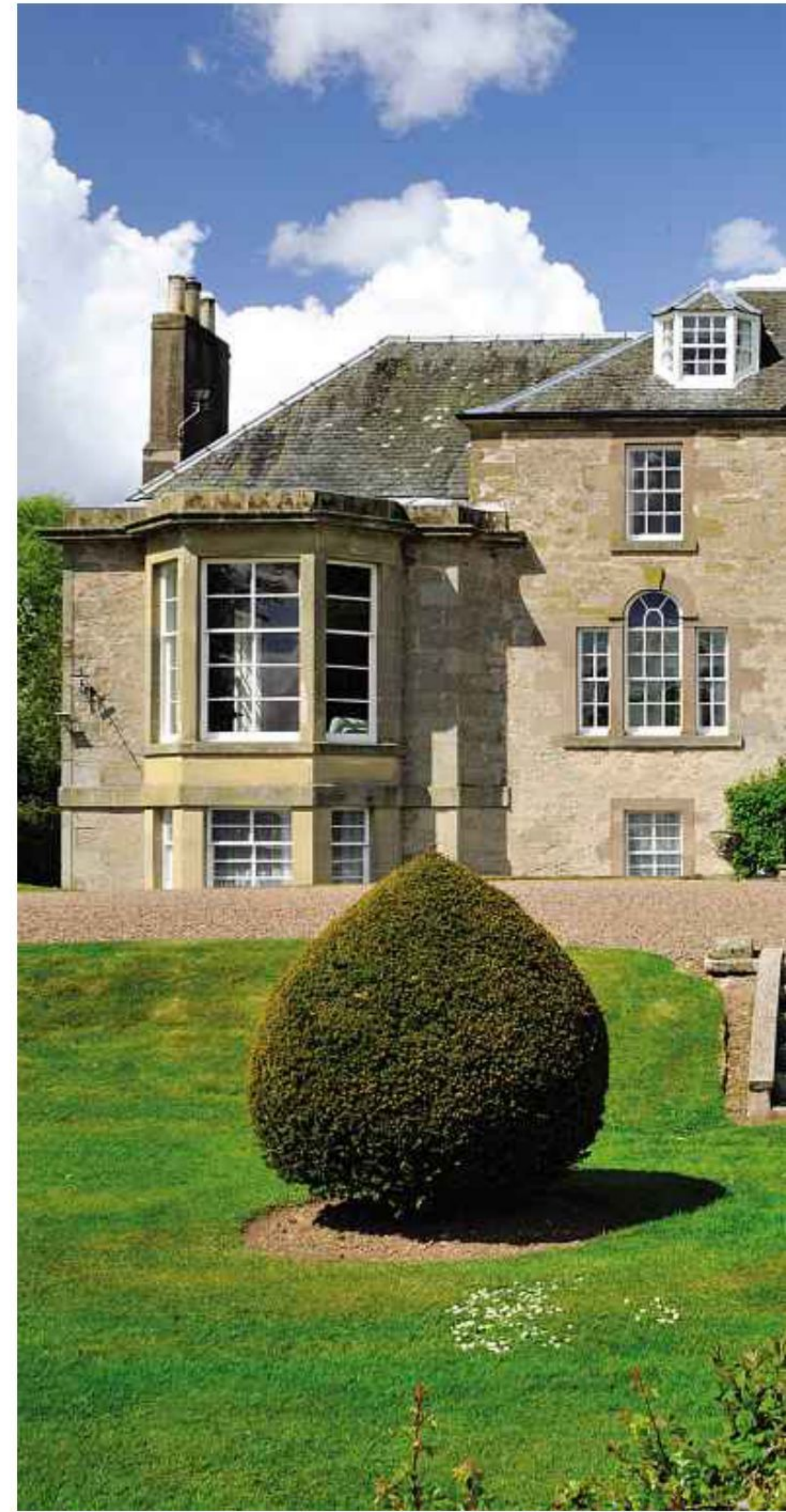
Matthew Jukes is a winner of the *International Wine & Spirit Competition’s Communicator of the Year* (matthewjukes.com)

This week: properties for around £800,000 – from a Georgian townhouse just off the seafront in Deal, Kent, to a conte



▲ **The Manor House, Fir Tree Grange, Howden Le Wear, Crook, County Durham.** This restored, Grade II-listed house was built with a timber frame in 1511 and rebuilt in stone in 1843. It has beamed ceilings and an open spindle and baluster staircase. 7 beds, 7 baths, 4 receps, breakfast kitchen, 2.2 acres. £750,000 Savills 01325-370500.

▶ **Cairnbank House, Duns, Berwickshire.** This Georgian house has two symmetrical wings that date from 1855. It has bay windows overlooking the Cheviot Hills and comes with a 2-bedroom flat, a 1-bedroom flat, a 1-bedroom house and a 2-bedroom coach house. 5 beds, 3 baths, 3 receps, gardens, 8.2 acres. £800,000+ Savills 0131-247 3700.



▶ **Higher Town Barn, Woodland Head, Yeoford, Crediton, Devon.** A barn conversion with a zinc roof and full-height sliding glass doors that take advantage of the panoramic views. It has an open-plan, L-shaped kitchen and living area with engineered oak floors and a wood-burning stove. 4 beds, 3 baths, office, gardens, 2 acres. A further 11.5 acres are available by separate negotiation. £800,000 Strutt & Parker 01392-215631.



Temporary barn conversion in Crediton, Devon, with panoramic views over the surrounding countryside



▶ **Osborne House, Tavistock, Devon.** A restored Victorian townhouse in an elevated position with panoramic views over Tavistock towards Whitchurch Down and Dartmoor. The house has sash windows, period fireplaces with marble surrounds, a 1-bedroom annex and a self-contained 2-bedroom flat with access to a paved courtyard garden. 6 beds, 6 baths, 2 receps, breakfast kitchen, study, garage, gardens. £799,950 Mansbridge Balment 01822-612345.

▶ **Thornton Grange, Gresford, Clwyd.** A Victorian house surrounded by mature gardens on the edge of a village. It has sash windows, feature fireplaces, an entrance hall with Minton-tiled floors and a landing with a domed sky lantern. 5 beds, 2 baths, 3 receps, garden room. £800,000 Strutt & Parker 01244-354880.



▶ **Netherton Hall, Netherton, Wakefield, West Yorkshire.** This Grade II-listed house dates from 1765 and is set in large gardens that overlook open greenbelt land. The house has period fireplaces, sash windows, an oak-panelled sitting room, a family room that opens onto a studio annexe and an orangery with stone-flagged floors. 7 beds, 4 baths, 3 receps, breakfast kitchen, cellars, gated entrance, summerhouse. £825,000. Carter Jonas 01423-523423.



▶ **Coppin Street, Deal, Kent.** A Grade II-listed Georgian townhouse just off the seafront within a few minutes' walk of the town centre and with sea views from the upper floors. The house has sash windows, period fireplaces and a Shaker-style fitted kitchen that leads onto a garden with side-street access. 4 beds, 2 baths, 2 receps, workshop, greenhouse, walled garden. £775,000. Bright & Bright 01304-374071.



▶ **Burford Farm House, Marlow Bottom, Buckinghamshire.** A Grade II-listed, early 17th-century house in a village surrounded by the Chiltern beeches, woods bought by the residents and handed over to the Woodland Trust. The house has exposed wall and ceiling timbers, an inglenook fireplace, a master bedroom with a vaulted ceiling and a double-aspect kitchen with the original bread oven. 3 beds, 2 baths, 2 receps, garage, garden £800,000+ Knight Frank 01494-675368.



Three of the best new power boats

The Southampton International Boat Show is an extravaganza for yachting enthusiasts. Chris Carter reports



The beautiful people and your correspondent descended on Southampton last Friday for the opening of the International Boat Show. They in their glimmering yachts. I on the train. Yet, both they and I had come to admire the more than 300 magnificent boats moored in the purpose-built marina at Mayflower Park. Now in its 51st edition, the Boat Show is still the highlight in the sailing enthusiast's calendar – more so now than ever after the London Boat Show was cancelled this year owing to insufficient support from the industry. Ho hum, London's loss is Southampton's gain. I saw plenty of support on the first day. There are literally hundreds of stalls and stands selling everything from sou'westers to giant Honda Marine engines.

It was shaping up to be a hot day even early on. You might even have been forgiven for thinking you were attending the Boat Show's main rival in Cannes, which came to an end last weekend. Former Olympic rowing champion and team member for this year's Boat Race winners Cambridge, James Cracknell, was on hand for ribbon-cutting duties alongside reality-star-turned-fitness-guru Lucy Mecklenburgh. Then it was off to inspect the yachts.

You don't need to be an old salt to enjoy the Boat Show. It really is a great family day out. Aside from the gin palaces bobbing on the water, there is also a full-size replica of the Shtandart (pictured above), a Russian frigate that was originally launched in 1703. You can clamber aboard and see how rich Russians voyaged three centuries ago compared with how they voyage now on any of the superyachts on display. Thankfully, you don't need to be an oligarch to enjoy the day – many of the activities are free. You can try your hand at dinghy sailing, kayaking and stand-up paddleboarding with Rockley Watersports. Or you can hitch a ride on board a high-speed rigid-hulled inflatable boat (RIB) or take a slower journey on the Solent under sail. There's even a scuba-diving tank for beginners and pros alike.

There are all the drinks and foods stands that you would expect, including one serving rum cocktails. And there's live music all through the day and into the evening to serenade your

champagne drinking. Lastly, there are the stars of the show – the fabulous yachts. Here are three of our favourites from the show.

Princess V55

The all-new V55 (top right) from Plymouth-based Princess Yachts is a must-have for any self-respecting oligarch. It really is a thing of beauty. Stepping aboard the hydraulic bathing platform at the rear of the yacht, you are greeted with clean white surfaces and polished silver railings. It's touted as a "sports boat", although it's equally a party boat. The V55 is equipped with a high-quality Naim Uniti Atom audio system and waterproof speakers. There's also a dining area, barbecue and galley kitchen, complete with induction hob, microwave oven and grill, and not forgetting the fridge to keep your beer cold. There's a main deck saloon with sofa-seating. A huge flat-screen television rises up as from nowhere at the push of a button for those who can't bear to be without their fix of *Corrie*. To the right is the cockpit and, in between, the stairs, which lead down to three spacious cabins that are flooded with natural light from the large window in the hull. The master stateroom has a double bed, sofa, 40-inch television and en suite bathroom with shower. The boat's garage houses a tender and the whole thing is powered by a pair of high-power Volvo D13 engines, offering 2,000 of metric horsepower (mhp) and speeds of up to 37 knots.

Price: £1.3m (prices include VAT), princessyachts.com

Sunseeker Predator 60 EVO

The Sunseeker brand lost its way from around the 1990s. The Predator 60 EVO is Sunseeker's statement of intent that the future is going to be different. In fact, the Dorset yacht maker's flamboyant new Italian CEO, Andrea Frabetti, cut the ribbon that sent a bottle of champagne careening into the yacht's anchor on the first day of the Boat Show. While it's always painful watching good bubbly spilled, the Predator is worth the waste. It is one heck of a boat and the first of a range that prioritises comfort without sacrificing performance. The Predator 60 EVO (below right) enjoys a cutting-



“While it’s always painful watching good bubbly spilled, the Predator is worth the waste. It is one heck of a boat”

edge design, which includes a wide window-line in the hull for natural light. The helm console is ergonomically designed and boasts the latest in technological innovations, such as a Simrad touchscreen display for easy control over the ship’s systems. There are six berths in three cabins. The master stateroom spans the width of the vessel, and it is finished in a modern, contemporary style with attention paid to textures, fabrics and light. There is also a single berth for a crew member. The tender garage accommodates a Williams 325 Jet RIB that can be launched via the hydraulic bathing platform at the rear. Powered by the new Volvo Penta D13-1000 engines (among other options), the Predator can reach speeds of up to 34 knots.

Price: £1.4m, sunseeker.com

Fairline Targa 65 GTO

The Targa 65 GTO (middle right) from Fairline is on show for the first time in Britain at the Boat Show. This handsome vessel encapsulates all of the Italian flair of its designer, Alberto Mancini. It features an extended cockpit and a spacious foredeck for lounging around in the sun. The powered patio doors descend from view at the click of a button and the glazed sun-roof retracts. It comes in either a three- or a four-cabin layout. The master stateroom boasts stylish wood-panel walls and soft furnishings. The Targa 65 GTO sports two Caterpillar C18 shaft drive diesel engines at 2,300 hp or two MAN V8 1200 shaft drive diesel engines at 2,400 hp. Either way, it zips along at up to 31 knots.

Price: £1.9m, fairline.com

The Southampton International Boat Show runs until Sunday. Tickets cost £22 for adults, southamptonboatshow.com



Can you buy a performance?

Now you can, it turns out. But what do you get for your cash? Chris Carter reports

There was a time when the point of performance art was to get punters through the doors of art galleries. It was ephemeral. There was nothing “tangible” to sell. Prospective buyers would have wondered what it was they were actually supposed to be buying. That question looks to have been answered.

A fortnight ago, “A Performance Affair”, a four-day art fair, brought together 30 performance artists in Brussels. British conceptual artist David Rickard sat in a shop window, wearing a respirator mask attached to a silver balloon. As Rickard breathed, the balloon inflated. Once the balloon was fully puffed up, Rickard tied it off and started anew. By the time the art work, entitled *Exhaust*, had run its course, Rickard aimed to have inflated around 100 balloons. “Eight years ago, we’d just sell limited-edition photographs of the performance,” Will Lunn, the director of the London-based Copperfield gallery, tells Scott Reyburn in *The New York Times*. At this fair – the second of its kind – “you can acquire the performance”. A one-off enactment of *Exhaust*, complete with documentation, the balloons and respirator, costs €10,000.

Belgian artist Ariane Loze was also at the fair, sat at a table laid with china plates and cups. Her piece, *Le Banquet*, had the artist voicing different characters at a stuffy, bourgeois dinner party. For €495, the collector receives a limited edition set of the scripts.



Ariane Loze's *The Banquet*: a memento of the occasion is yours for €495

Evann Siebens, a Vancouver-based former ballet dancer, whose work involves gestures, captures the performance in a video, which is uploaded onto a memory stick and placed inside a presentation box for €1,000.

A market in experiences

For all of the billions of pounds-worth of art that passes under the hammers at Sotheby's, Christie's and Phillips, not one has been an item of live performance art, notes Reyburn. Yet, with the rise of social media, and the growing trend that values experiences over material things, it's a section of the art market that is growing. This year's Brussels' fair featured seven more artists than in 2018.

“The fair's founders, Liv Vaisberg and Will Kerr, are hoping to help build a sustainable market around the genre,” says Kate Brown on Artnet News. So this year, for the first time, the performances had to conform to

a schedule and the exhibitors had to spell out how the work could be “reactivated once acquired” and whether the objects in the piece were included in the sale.

Serbian artist Marina Abramovic is someone who has proven that performance artists can achieve greatness in their careers. She “is an art-world superstar, a pioneer of performance”, says Mark Brown in *The Guardian*. Yet even she would perhaps struggle to fulfill that last requirement concerning the objects in performances – especially when it comes to her 1977 work *Imponderabilia* – had she ever tried to “sell” them. The Royal Academy (no less) is recreating the performance as part of a retrospective next year. The performance involves the “art viewer” attempting to squeeze through a narrow doorway flanked by a man and a woman, both of whom are naked. And not an object in sight.

Auctions

Going...

A fully functioning nine-foot replica of the King Richard I steam train is going up for auction with Dreweatts in Donnington, Berkshire, on Tuesday. The 7.25-inch gauge train is a model of the green-liveried locomotive that plied the Great Western Railway in the 1920s, and was finally taken out of service in 1962 to be scrapped. It has a copper boiler, along with miniature pressure gauge, brakes, lamps and water tanks, “so it can produce steam and run” just like the real thing, says Michael Matthews of Dreweatts. It is expected to sell for £80,000.



Gone...

A tiny Fabergé sedan chair, made between 1899 and 1903, fetched £380,000 at the Cotswold Auction Company last week. It had been bought for £75 in the 1920s by a Mr Wollcombe-Boyce, and had remained in his family ever since. At just three inches high, it is one of a small number of scale furniture models made by the famous Russian jewellers. It had been given a pre-auction estimate of up to £100,000.

The art of paying less tax

Businesses could be enjoying tax breaks if only they used more frequently a scheme that allows for art donations in lieu of cash payments, says Edward Harley, who chairs the government's “acceptance in lieu” panel. This year's report from the group found that a number of museums and galleries, particularly outside London, have benefited from individuals gifting £60m so far via the scheme. Artworks that some institutions might not otherwise have been able to afford on the open market, including portraits by Flemish master Peter Paul Rubens and English painter William Hogarth, are now in



©Historic England Photo Library

their collections. A Damien Hirst sculpture, Chippendale furniture and the archives of Labour politicians Clement Attlee and Tony Benn have also been submitted. A Bernardo Bellotto painting of Venice on Ascension Day settled the most tax, worth £7m. The painting went to the English Heritage-administered Audley End house in Essex.

Harley believes big businesses could be sitting on much more. “We would welcome take-up from larger corporations,” he says. “We hope that more companies will choose to use the scheme and so contribute to protecting the UK's cultural heritage.” The trouble is that corporations such as BP have come in for a lot of criticism for their gifts, notes David Sanderson in *The Times*. It's doesn't exactly induce firms to give more.



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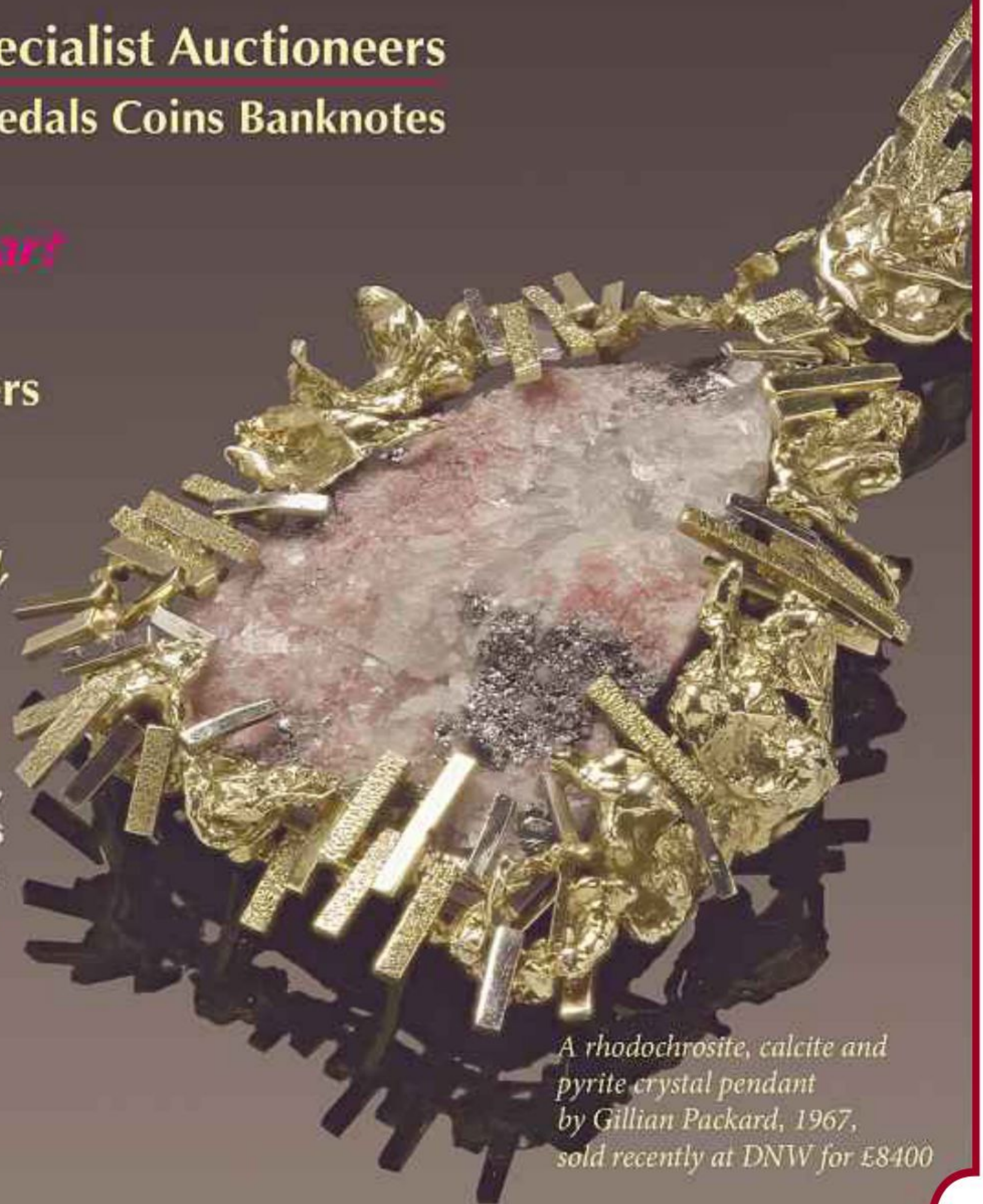
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*A rhodochrosite, calcite and
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 by Gillian Packard, 1967,
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YES, IT'S A CRYING SHAME...

... that she left it too late to apply for Hurtwood House, because it's simply the best for acting, dancing, singing, film-making – "A utopia for creative minds" – as the Good Schools Guide says.

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In defence of private schools

You'll pay through the nose, but your scions will thank you for it one day

I don't believe in reincarnation, but if I were to come back I think I'd like to be the head of a boarding school. It sounds like the perfect business model: rent a crumbling stately home, hire teachers who have been blackballed by every other educational establishment, lay on catering unfit for prisoners, and then scout around for parents willing to pay through the nose for the privilege of sending their little darlings there. Given the attractions, it's little surprise to learn that people looking to branch out from their day jobs are jumping on the private-educational bandwagon. Singer Charlotte Church, for example, has set one up in her own home – but then came a cropper when the council claimed this was illegal as she hadn't done the paperwork. Church denies she has done anything wrong and is talking to the council.

Pricing out the aristos

Still, I can't help thinking that Church is not thinking big enough. Her plans are for a "democratic school" of about 20 souls aged between nine and 12. I'd aim higher. Take the Institut Le Rosey, for example, "one of the most expensive and elite schools in the world", according to Andrew Jack in the Financial Times. It is a "rounded, multicultural school for life", it claims, with facilities that include a 28-hectare park as well as tennis courts, swimming pools, stables and a farm. There is also a \$64m arts hall with "state-of-the-art acoustics in a 1,000-seat auditorium" that "attracts top international musicians". Students can



Charlotte Church: she should aim higher

© Getty Images

also take advantage of a campus in the Alps and a yacht berthed on the Mediterranean. None of this comes cheap – the fees are \$100,000 a year. Even the scions of the aristocracy will be priced out at that level in favour of the offspring of families "with more freshly minted fortunes".

The fees in most British private schools may be a tad more modest, but think twice before signing up as the fees are usually "only the beginning" of the bill you'll end up footing, say Catherine Lally and Abby Ridsdill-Smith in The Times. Most schools "require pupils to look the part, often at great expense" – at the Garden House School in Chelsea, west London, for example, where fees are £7,850 a term, the uniform costs nearly £1,300, including a £152 Harris Tweed coat and a £30 beret. A suit for Eton (fees: £14,167 a term), complete with waistcoat, tailcoat and striped trousers, is a more modest £210;

parents of Harrovians will have to find hundreds of pounds for sports gear, on top of fees of £13,925 per term.

Still, despite the "dizzying fees" and the cost of extras, plenty of people still believe in the merits of a traditional education. "I went to boarding school aged 11" and had seven "absurdly" happy years, Sophia Money-Coutts reminisces in The Daily Telegraph. There were "fewer midnight feasts than *Malory Towers* had led me to believe", but "I was surrounded by girls who, to this day, remain my closest friends and, for many of us, being away from home and warring parents was no bad thing". So, if you're "an American tech billionaire or presenter of a TV property show and wondering where to send little Augusta, don't discount the boarding option".

Quintus Slide

Tabloid money... position yourself for the post-woke backlash

● The print version of *Marie Claire* is the latest magazine to fall prey to the digital revolution, says Alexandra Shulman in the Daily Mail. But its demise isn't solely down to the rise of the internet. Magazines have to strike a balance between what is worthy and what people actually want to read. Many mags are filling their pages with "woke" topics, such as climate change and diversity. "But that doesn't mean there isn't still an appetite for magazines that help find a great new dress for your cousin's wedding. Or a pair of boots for winter." Yet few magazines these days feel comfortable being so unapologetically consumerist. "They could be missing a trick."



● "Backpacks are the new briefcases, but with enough heft to them to inflict upon the unwary a broken nose," says Virginia Blackburn in the Daily Express. "Since when did otherwise normal commuters start carrying these monstrosities?" You can't move for them these days. "And given that most of the people sporting them are on their way into the office, why on earth do they have to be so huge?" All you really need is an apple and a book to read. And yet there they are, looking "as if they're packed with enough equipment to climb Mount Everest". One wrong move and you face being crushed into a magazine rack or swept off the platform and onto the track. "All for a 20-minute journey into work."

● Does the health secretary, Matt Hancock, have to be such a killjoy? asks Ross Clark in The Sun. Chancellor Sajid Javid plans to reintroduce duty-free booze and fags for passengers travelling between Britain and EU countries after a no-deal Brexit. That was a rare piece of good news to which "even the most miserable of Remainers could raise their half-empty glasses". It would save us £2.23 in duty on a typical bottle of wine, £7.54 for a bottle of gin and £6 for a packet of 20 cigarettes. Hancock poured cold water on the idea, citing health concerns. But is "anyone really going to take up smoking or go on a drinking binge just because it becomes a little cheaper to buy cigarettes and alcohol at an airport"?

Bridge by Andrew Robson

A rare beauty to savour

One of the most graceful players of yesteryear was Nico Gardener, father of the many-time women's world champion Nicola Smith. Your columnist had the pleasure of working for Gardener at the (now defunct) London School of Bridge, shortly before his death in 1989, and never was a hair out of place. Gardener was a great technician of the game. Take this wonderful overtaking squeeze – in a grand slam to boot, a rare beauty to savour.

Dealer East

East-West vulnerable

<p>♠ J10 ♥ J98754 ♦ K4 ♣ 964</p>	<p>♠ KQ765 ♥ A32 ♦ 97532 ♣ –</p>	<table border="1" style="background-color: red; color: white; text-align: center; width: 40px; height: 40px; margin: auto;"> <tr><td></td><td>N</td><td></td></tr> <tr><td>W</td><td></td><td>E</td></tr> <tr><td></td><td>S</td><td></td></tr> </table>		N		W		E		S		<p>♠ – ♥ 6 ♦ AQJ1086 ♣ AKQJ107</p>
	N											
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<p>♠ A98432 ♥ KQ10 ♦ – ♣ 8532</p>												

The bidding

South	West	North	East
2♠	pass	4♠	2♦
6♠	7♣*	7♠**	6♣
pass	pass	pass	double

* Holding the huge King of Diamonds.
** Knowing it will be cheap – and how.

West led the King of Diamonds and declarer ruffed. Although there seem to be no obvious losers, unless trumps split one-one, he will be a trick short to draw trumps (in two rounds), cash Hearts, and cross-ruff. A trump to dummy's Queen disclosed the expected bad news as East discarded. Declarer now cashed the Hearts, making sure he finished with dummy's Ace. He had reached a most elegant position. Dummy held King and three small trumps plus four small Diamonds; declarer held the Ace and three small Spades plus four small Clubs; East held four top Diamonds and four top Clubs. Declarer now led dummy's King of Spades and watched to see which minor East discarded. If he discarded a Diamond, declarer would let dummy's King of trumps hold the trick, then ruff three Diamonds in hand (returning to dummy via Club ruffs), so setting up a long Diamond at Trick 13. At the table East discarded a Club, but now declarer overtook the King of trumps with the Ace and was able to ruff three Clubs in dummy (returning to hand via Diamond ruffs), establishing a long Club at Trick 13. Grand Slam made.

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

Sudoku 965

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

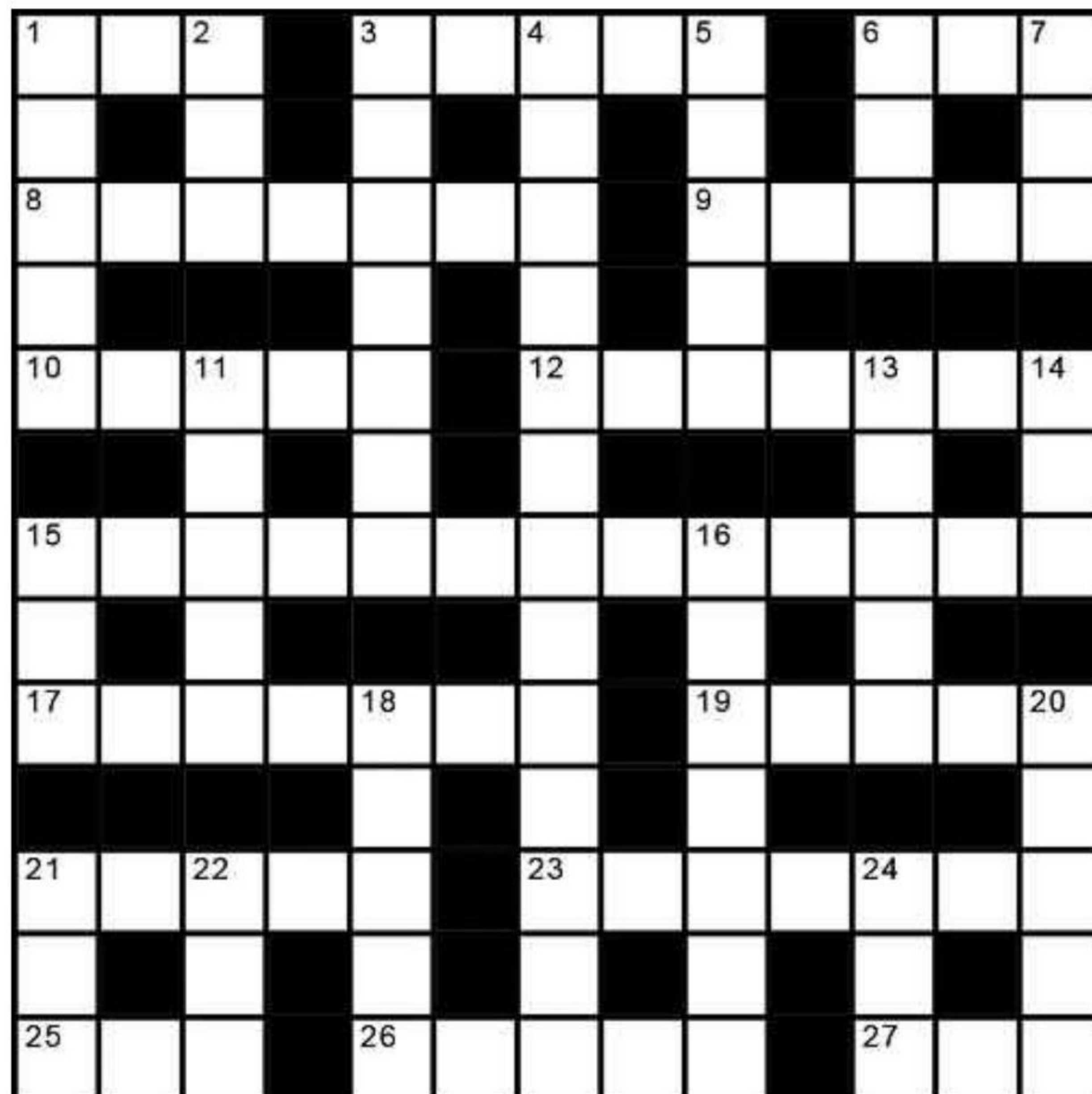
5	6	2	1	8	7	3	4	9
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6	9	4	3	1	8	7	5	2
2	1	5	7	4	9	8	3	6
9	2	8	5	6	1	4	7	3
4	5	6	2	7	3	9	8	1
7	3	1	8	9	4	6	2	5

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Tim Moorey's Quick Crossword No. 965

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 30 Sept 2019. Answers to MoneyWeek's Quick Crossword No. 965, 31-32 Alfred Place, London, WC1E 7DP.



Across clues are mildly cryptic whereas down clues are straightforward

ACROSS

- 1 Test site for political party? (3)
- 3 Food finished close to Parma? (5)
- 6 Fuss in Ecuador (3)
- 8 Ruffian spoiled travelling attraction (7)
- 9 Month starts with Elgar and Tchaikovsky for musical group (5)
- 10 OK chap? (5)
- 12 Rot found in Eastern couple of trees (7)
- 15 Change affects senior? Put your answer here (7, 6)
- 17 Play for each school class (7)
- 19 It's a chopper blade, whichever way round it goes (5)
- 21 Hotel in La Paz gets renovation (5)
- 23 Family famously kept up with (7)
- 25 Lady always getting bottom pinched? (3)
- 26 Slip made by rascal losing his head (5)
- 27 Rattle perhaps in a Haydn symphony (3)

DOWN

- 1 Inmate never getting out (5)
- 2 Exclude (3)
- 3 Treeless grassy plain in US (7)
- 4 Highest rank of NCO (8, 5)
- 5 Companionless (5)
- 6 Astern (3)
- 7 Fully anaesthetised (3)
- 11 Errand runner (5)
- 13 Bring to premature end (5)
- 14 Owns (3)
- 15 Dandy (3)
- 16 Person presiding over an inquest (7)
- 18 Make a formal speech (5)
- 20 Hazardous (5)
- 21 Kind of chart (3)
- 22 High card (3)
- 24 Drunkard (3)

Name

Address

Solutions to 963

Across 1 Starter (hidden) 5 Bison (homophone) 8 Cha (cha(cha)) 9 Rationale (ration ale) 10 Ideal (I deal) 11 Remains (ma in reins) 12 Grouse (two meanings) 14 Stalls (two meanings) 18 Sultana (deceptive definition) 20 Organ ((M)organ) 22 Editorial (anagram) 23 Ego (eg O) 24 Lisle (hidden) 25 Express (two meanings). **Down** 1 Sacking 2 Aware 3 Thrills 4 Retort 5 Broom 6 Spaniel 7 Needs 13 Oil rigs 15 Trollop 16 Seniors 17 Marine 18 Shell 19 Alone 21 Geese.

The winner of MoneyWeek Quick Crossword No. 963 is: Jan Miles of Exmouth.

Tim Moorey is author of *How To Crack Cryptic Crosswords*, 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.



Listen to the old-timers

You'll get more wisdom that way than from your Twitter feed



Bill Bonner
Columnist

The best insights most often come not from company reports, analyst ratios or “information” on the internet. Instead, you find them in the distilled wisdom of old-timers and in old wives’ tales. Here’s one. “That which gets out of whack is likely to get back into whack, sooner or later.” If stock prices look unreasonable, out-of-balance, then you have better than even odds that they’ll “revert to the mean” eventually.

In 1980, you could buy all 30 Dow stocks for less than two ounces of gold. By 1999, it took 40 ounces. Measured in time, the move was less dramatic – but it told the same story. The average worker had to work about 100 hours to buy the Dow stocks in 1980. By 1999, he had to put in 821 hours.

After 1999, stocks got back into whack. The Nasdaq started to fall in January 2000. A year and a half later, it was down nearly 80% from its peak. Measured in time, it took the average person 350 hours of labour to buy the Nasdaq in 1999. By mid-2001, it took only 85. The Dow industrials fell hard after the crisis in 2008. At the bottom, in March 2009, the average person could buy the Dow for about half as many hours of work as it cost him in 1999.

“Whether measured in gold or hours worked, stocks are out of whack”



Federal Reserve chief Jerome Powell: there's no need to know what he's planning

Stocks and bonds follow big, long-term patterns. It took about 20-40 years for stocks to complete a full cycle – top to top. Bonds took even longer. Scarcely anybody is still around who recalls the top of the last bull market in bonds.

It happened in 1949; now, 70 years later, they’re hitting a new high.

We know we can’t predict markets, but we can spot major tops and bottoms by looking at prices in terms of gold. Like everything else, gold is subject to fits and furies. But it is still the most reliable money that humans ever found. Over time, it does a fair job of telling us when things are out of whack.

These insights are at the root of our very simple trading system, which has proved to be very effective for long-term capital

preservation. It is this: any time you can buy the Dow for less than five ounces of gold, you should buy all the stocks you can. Then, when the Dow goes over 15 ounces of gold, you should sell stocks, buy gold, and sit tight until stocks fall again.

The real beauty of this is that it doesn’t require any research or pretence of knowledge. You don’t have to know when the trend will reverse, or what the Federal Reserve will do, or how the dollar will trade. All you’re doing is buying stocks when they are really cheap and selling them when they are expensive. Otherwise, you sit tight in gold. Over the last 100 years, anyone doing this would have made a move only once every 20 years – and multiplied their real wealth, measured in gold, some 27 times. True, that takes some patience. It might make your grandchildren rich, but maybe not you.

The bottom line

464m The number of bottles of DOC (denomination of controlled origin) prosecco produced last year, compared with just 90 million bottles of DOCG (denomination of controlled and guaranteed origin) prosecco from the hilly vineyards of Conegliano and Valdobbiadene in Veneto, Italy. The DOCG growers are considering dropping the prosecco name, arguing the cheaper plonk has ruined prosecco’s reputation for quality.

£1.5m How much Englishman Billy Hampton

has left in his will to Irish republican party Sinn Féin – the largest-ever political donation in Northern Ireland – as a snub to the British establishment. Hampton blamed authorities in England for preventing him from inheriting the full £7m from his father, because the younger Hampton had spent time in a psychiatric hospital, says The Guardian. He died in Wales.

£15bn The estimated cost of building a bridge from Scotland to Northern Ireland, according to the prime minister. Boris Johnson has touted the

bridge as a possible solution to the problem of the “Irish backstop” in talks with the EU.

£49.95 The price per person for three courses, excluding wine, in Parliament, with the House of Commons dining rooms now taking bookings from the public. The bill is a 43% increase on 2015, when the House of Lords first opened its dining rooms.



€12m The economic boost Matera, a town in southern Italy, will enjoy from the filming of a car chase scene in the next James Bond film, *No Time To Die*, starring Daniel Craig (pictured). The proceeds from hosting the 400-strong filming crew and the extra tourism is expected to equal 1% of gross domestic product (GDP) for the region.

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The savvy saver

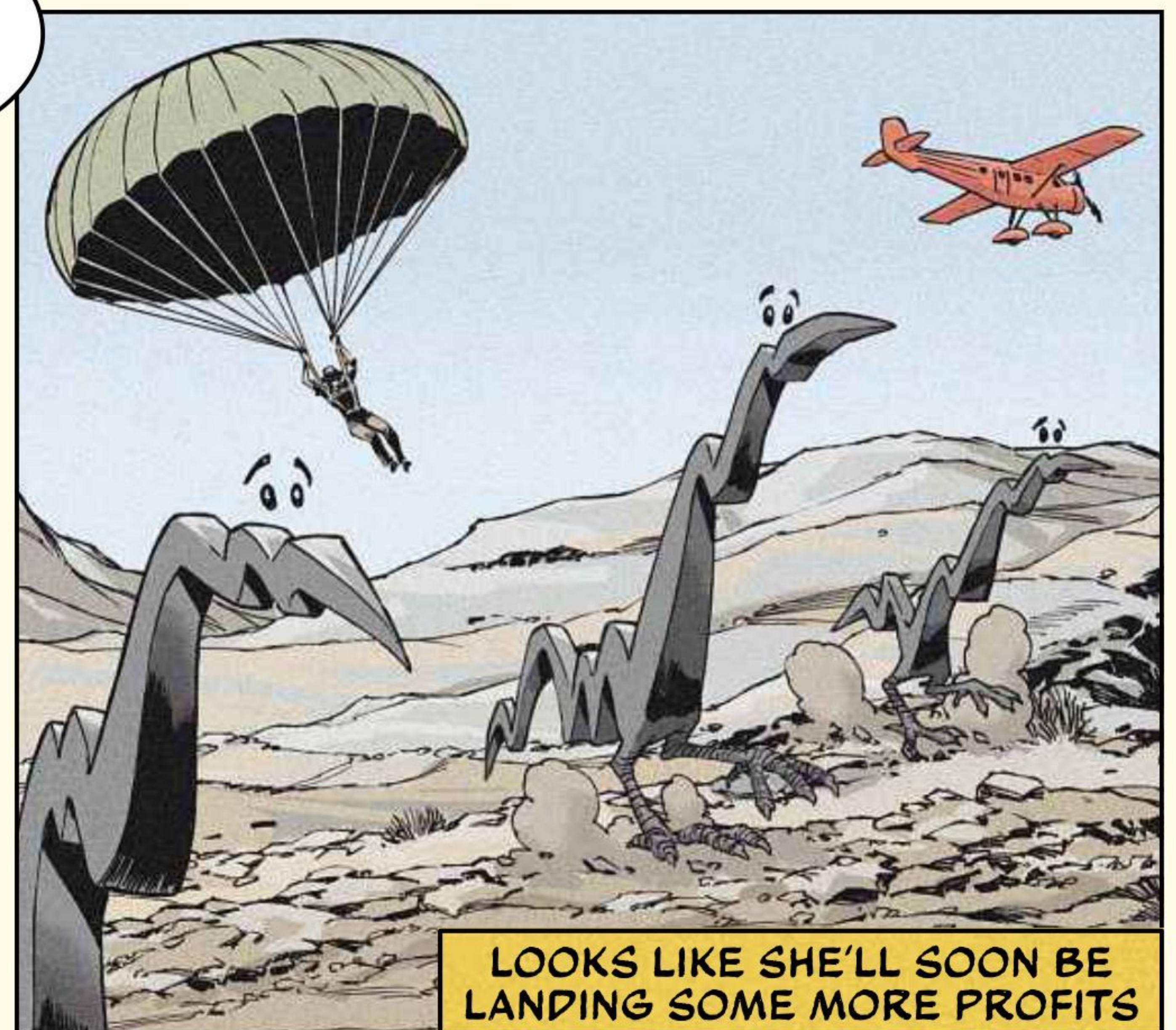
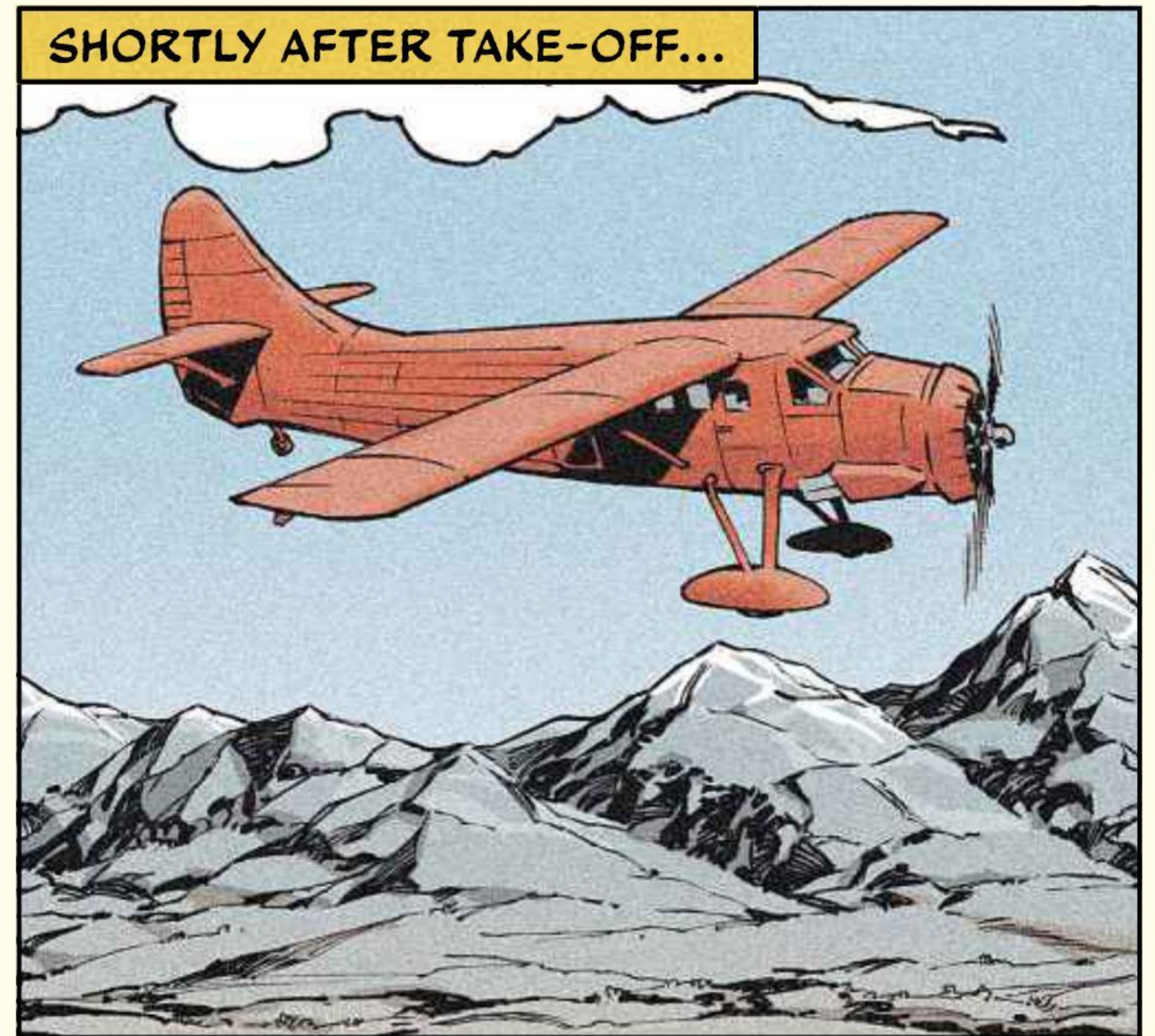
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