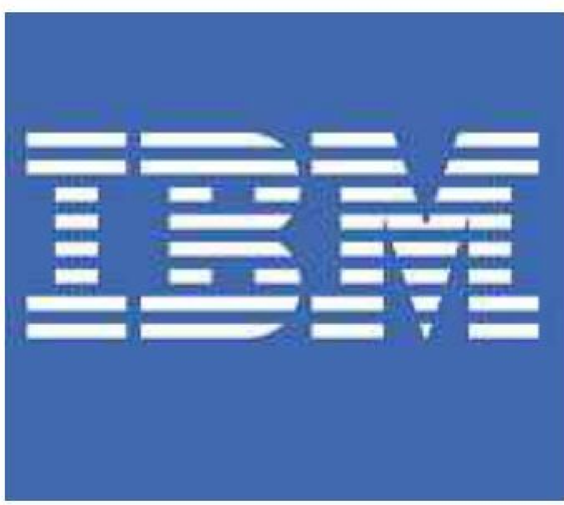
COMPANIES *P21*

Big Blue promises big gains



PROFILE *P26*

City legend hangs up his bowler hat

PLUS

Pagani's exclusive hypercar

CARS *P30*

MoneyWeek

MAKE IT, KEEP IT, SPEND IT

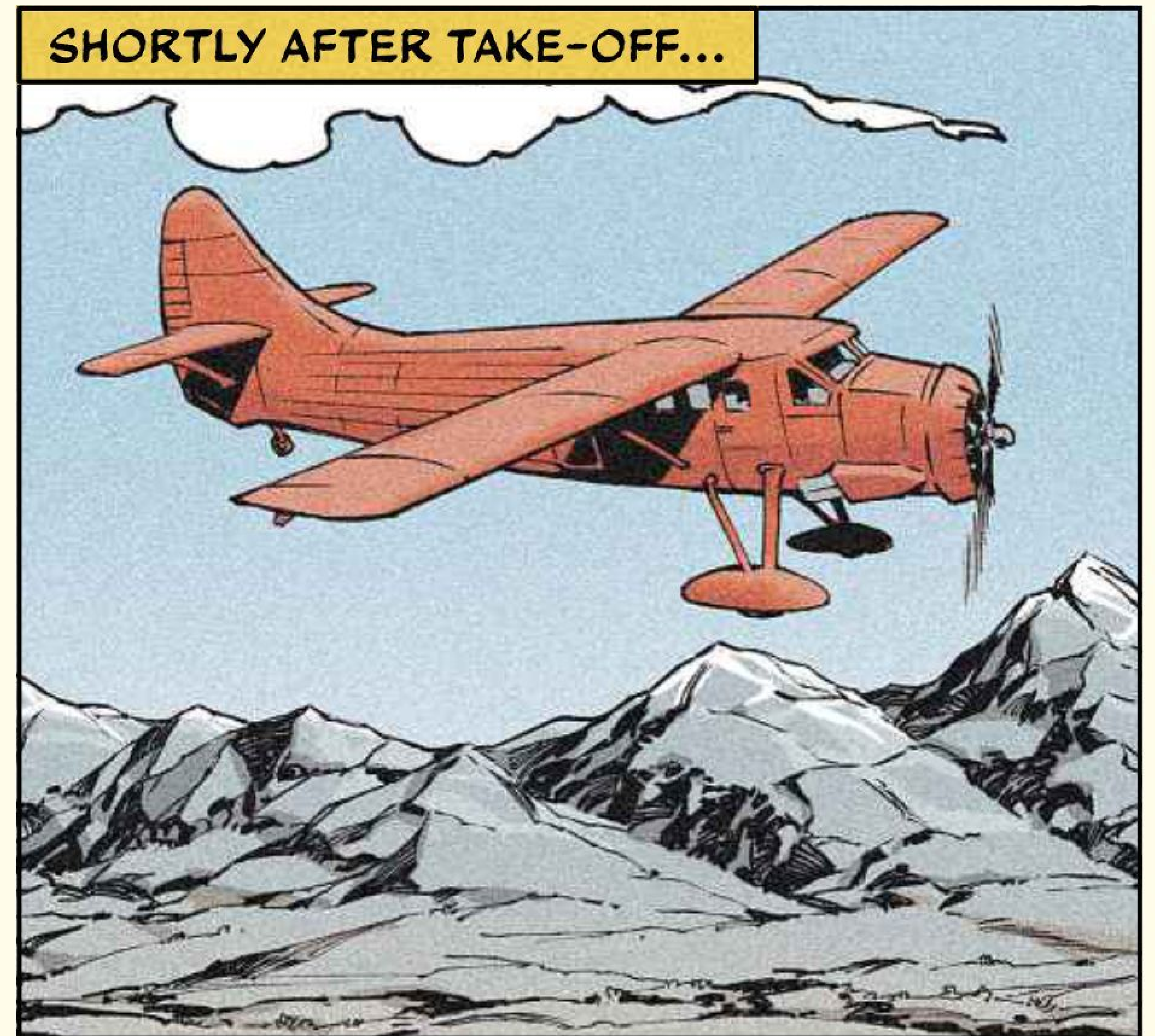
23 AUGUST 2019 | ISSUE 961 | £4.25

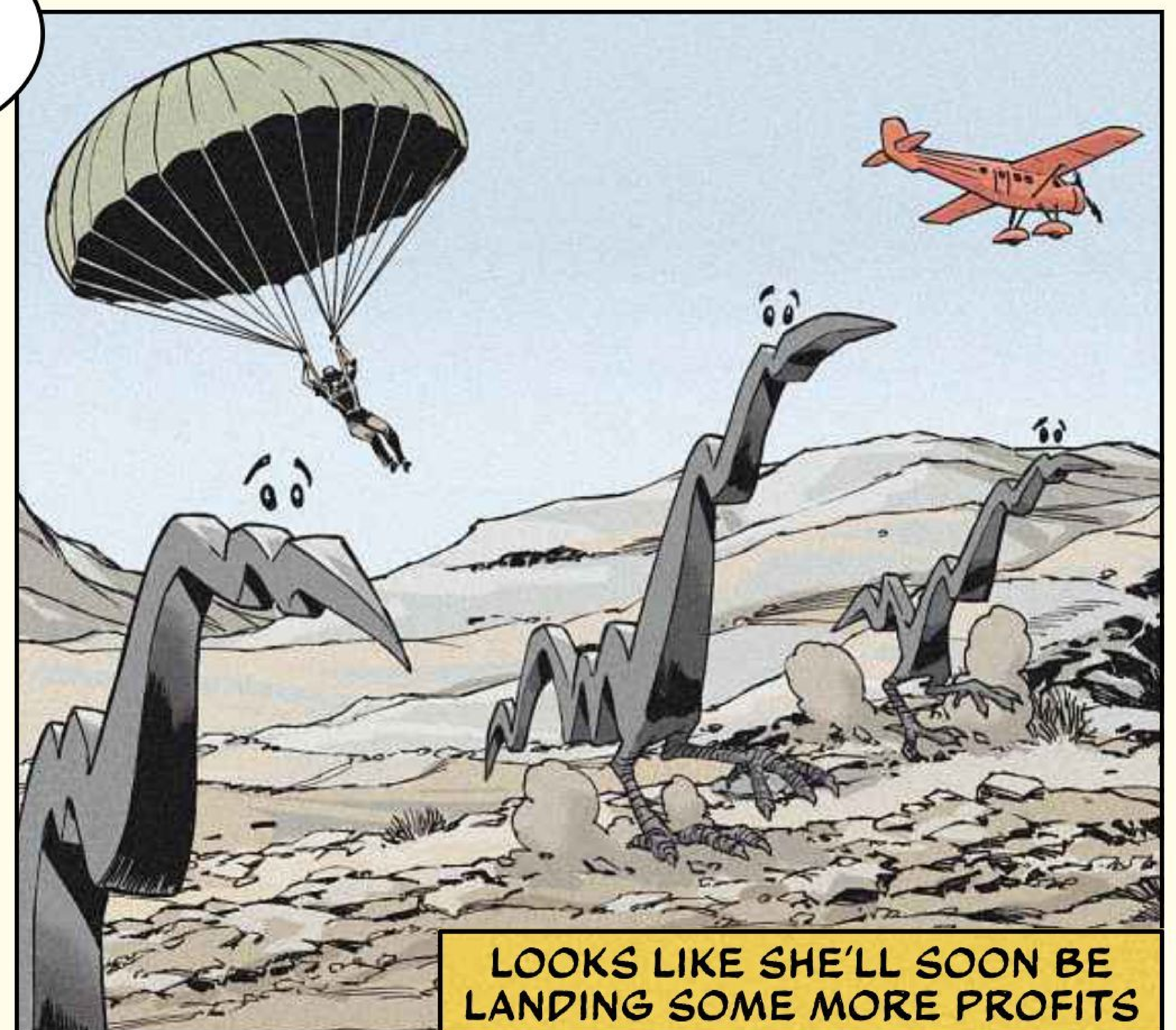
Real profits in virtual reality

The stocks to buy now

Page 18

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





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

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MONEYWEEK

23 August 2019 | Issue 961

Britain's best-selling financial magazine

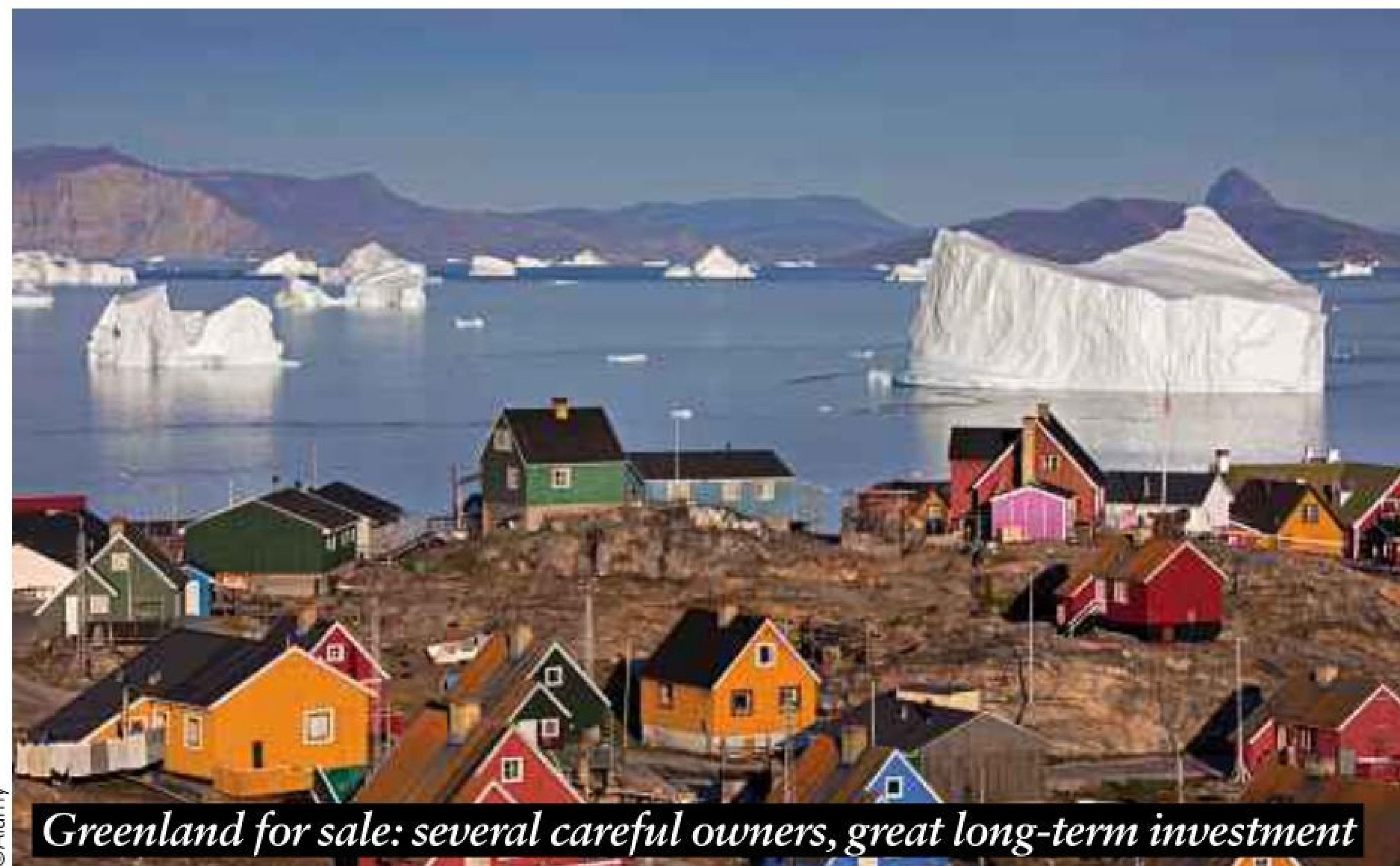
From the editor-in-chief...

I'm currently presenting a show at Panmure House (Adam Smith's last and only surviving home) as part of Edinburgh's Fringe. There's no dancing, no acrobatics, no special effects and only a few jokes. It's just me and a couple of panellists (different every day through this Sunday) having a chat, Smith-salon style, about modern capitalism.

We cover a lot of ground. But the one thing that comes up again and again is the huge size, vast influence and often crappy behaviour of the world's multinational corporations. Unless this lot get their act together – on executive pay, on treatment of suppliers, on tax and on consumer protections – capitalism is doomed, say my panellists.

Read this week's newspapers, then, and you might think there is room for optimism. The Times points out that CEO pay in the UK has fallen 16% to a mere £4.7m, proof perhaps that "they are listening" to our discontent. They are now paid only 114 times as much as the average of other employees at their companies.

Better still, surely, is the news that one of America's biggest business groups (the Business Roundtable) has produced a new "statement of purpose". From now on shareholders are to be considered not as the prime beneficiary of a company's operations but just as one of five sets of stakeholders (the others are workers, customers, suppliers and communities). Isn't that nice?



©Alamy

Greenland for sale: several careful owners, great long-term investment

"We don't need a cabal of mega-firms offering reform, but a flood of competition forcing it"

Most of you will say yes. Very nice. We say no. It isn't nice. Big company CEOs have picked up today's political mood music. They know everyone's feeling a bit like my panels do. But they'd really like the status quo (the bit where they make fortunes running powerful oligopolies) to continue. So in order to head off real change being forced upon them, they are offering a little fiddling around the edges – earning 114 times the average salary rather than 144 times, for example.

But this isn't enough. What we really need, if we want to return to a world of sustainable capitalism (the kind Adam Smith so believed in) is not a cabal of mega firms leading "reform", but a flood of competition forcing it. And that in turn means breaking down some of the barriers to entry (mostly regulatory) that have inhibited small-firm formation over the last decade.

Big firms love regulation because it creates barriers to entry (the Roundtable will be suggesting some new rules any day now). Governments love it too: all of them think more government is good government. But the truth is that if we want to dent the destructive power of very big business (and hence crony capitalism) we need to help smaller firms – who hate it. Quite fast.

Outside these big macro discussions, I have been asking panellists what investment they would hold for ten years. So far no one has said Uber (see pages 16 and 24). But Tim Price of Price Value Partners has tipped gold. Russell Napier of ERIC agrees over ten years, but suggests US Treasuries over two (see also markets, page 4). James Ferguson of Macro Strategy Partners suggests oil and James Anderson of Baillie Gifford says disruptive innovations (you can short-cut this with his Scottish Mortgage Investment Trust). Otherwise, if you have an awful lot of cash to spare, you could make an offer for Greenland. That wouldn't be a bad thing to own long term (see page 32).

Merryn Somerset Webb
editor@moneyweek.com

Loser of the week

ABC television talk show *Jimmy Kimmel Live!* has been fined $395,000 for breaking the law by mimicking a presidential alert during a sketch mocking the warning system. On the same day as the programme was broadcast last October, the alert was officially tested across the US. Over 200 million mobile phones received a test "Presidential Alert" notification from the Federal Emergency Management Agency, designed to alert Americans to major threats. They look like text messages, but are designed to alert people with a unique sound and vibration, says BBC News. Walt Disney Television-owned ABC said it had thought the "use of the tone was permissible".

Cover illustration: Adam Stower. Photos: getty images

Good week for:

Actor **Steve Coogan** (pictured) avoided a lengthy driving ban after pleading to the court that his comedy character, Alan Partridge, who is due to be featured in a travelogue series, would never take public transport. The "exceptional hardship" caused to workers if the new television series were cancelled had been taken into account, the court said.

The Catholic pilgrimage site of Lourdes, in southwest France, has staged a resurrection. Visitor numbers are set to rise by 15% this year to 1.2 million, driven by the success of a documentary in cinemas. The Catholic sanctuary had run up losses of €5m, but broke even last year after increasing pilgrims' "contributions" from €2 to €2.50.

Bad week for:

Monaco has suffered a setback to its €2bn plans to build out into the Mediterranean. A 15-acre quarter called Portier Cove, with flats, a marina and a park, had required around 1.2 million tonnes of the right kind of sand, which had been found on the seabed 5km off Sicily. However, Sicilian officials have halted the delivery, saying they need to replenish their own eroded beaches.

In a show of camaraderie, **Jess Learmonth** and **Georgia Taylor-Brown**, two British triathletes, crossed the finish line hand-in-hand and ahead of everyone else at the World Triathlon Olympic qualification event in Tokyo. But they were denied their prize money of $18,000 and $12,000 and disqualified for participating in a "contrived tie".

Doomsday clock approaches midnight

Alex Rankine
Markets editor

Walmart's latest results suggests US shoppers will go on spending

"The nearest thing the global economy has to a doomsday clock" has "ticked a little closer to midnight," says Robin Wigglesworth in the Financial Times. Last week the US yield curve – which plots the interest rates on Treasury bonds of different maturities – inverted for the first time since the summer of 2007. That means that the US government briefly had to pay less to borrow money for ten years than for two years.

An inverted yield curve has preceded every one of America's last seven recessions, which typically follow within 24 months of inversion. In effect, it shows that investors think that short-term interest rates are too high and that a downturn will force the Federal Reserve to cut them.

Americans are still spending

The Dow Jones index registered its biggest one-day fall of the year last week on news of the inversion. "The dominant mood in markets today… is not complacency but anxiety," says The Economist. Traditional safe-haven gold is at a six-year high, while industrial commodities such as copper and oil have cratered.

Somebody forgot to tell American consumers about the "imminent recession", says Justin Lahart in The Wall Street Journal. Retail sales rose 0.7% in July on the month before, easily beating predictions. Latest results from retailer Walmart also suggest that the almighty US shopper should continue to prop up global demand.

That is because "inverted yield curves have no predictive significance at all", says Anatole Kaletsky for Gavekal Research. Seven recessions is too small a sample to draw firm conclusions. There have also been two "false positives" – the last in 1998 – when no recession followed inversion. Internationally, moreover, the phenomenon means little: Britain and Australia have both repeatedly seen yields switch around over the past three decades, even in periods of strong growth. Easy money and global demographics are driving the bond market, not the economic outlook.

A rational panic?

Not so fast, says Kallum Pickering in The Daily Telegraph. Previous yield-curve inversions have been explained away as the effect of commercial banks buying up bonds (1990s), or a global savings glut (2008). Yet recessions followed regardless. With serious political risks everywhere from Hong Kong to Iran to Britain, it is little surprise that investors are battening down the hatches. The yield-curve inversion should be taken seriously, but with US data still robust it is difficult "to tell how bad it actually is out there", says Ben Levisohn for Barron's. "It is time for caution, not panic."

Surging bond and gold prices show that "we are in a panic" already, says Charles Gave of Gavekal Research. But barring a resolution of the US-China trade dispute there is no clear way out of the current impasse. Investors should keep a clear head and hedge equity risk with gold rather than bonds. A move into high-quality stocks would also be wise.

Easy money will keep inflating bond bubble

There is no precedent for how expensive bonds are today, says John Authers on Bloomberg. A usually sedate part of the investment world is clearly in a bubble.

When a bond rises in price its yield falls. A global government bond rally this year means that worldwide bonds worth a collective $16trn dollars are now trading on negative yields. But that hasn't stopped the buying. Since the start of June, German ten-year bund yields have fallen from -0.2% to -0.7%. Why would anyone buy a negative-yielding bond? Because, as Mark Atherton explains in The Times, with interest rates on bank deposits turning negative in parts of Europe and Japan, people seeking low-risk investments are being forced to accept extremely low or negative yields. It's either that or take on more risk by buying corporate bonds. Yet pure speculation is another part of the picture – with yields plummeting fund managers can realise a capital gain so long as they can later sell negative-yielding bonds on to an even "greater fool".

German yields have fallen even further below zero since June

"Amateurs talk about stocks, but professionals study the bond market," says Paul Krugman in The New York Times. Bonds have a reputation for being more sober and rational than excitable equities. And low yields are "telling a tale of profound pessimism".

The alternative explanation is that the market has become completely untethered from the fundamentals, says Authers. UK perpetual bonds now yield less than at any time since at least 1700. No wonder. There has been a tidal wave of cheap and printed money in recent years, and investors reckon "central banks will have no choice but to keep cutting rates and printing money". With all signs that the cheap money will keep flowing, the bond bubble could continue to inflate for some time to come.

©iStockphotos

Will Argentina default yet again?

One primary election was enough to give Argentina an "instant financial crisis", says Craig Mellow in Barron's. The country's Merval stock index plunged 48% in dollar terms in a single day last week after a primary vote gave a clear lead to opposition candidate Alberto Fernández. He is now expected to beat pro-business incumbent Mauricio Macri in presidential elections in October. The market wipeout was the second-largest one-day drop anywhere in the world since 1950.

Argentina secured a $56bn bailout from the International Monetary Fund (IMF) in the wake of a financial crisis last year. Yet the prospect of an anti-market Peronist coming to power means that "a sovereign-debt default is increasingly likely", says Edward Glossop of Capital Economics. Credit default swaps show that the implied probability of a debt default within five years has "soared" to 75%, adds Colby Smith in the Financial Times.

"A 60-year-old lawyer with a long technocratic resumé", Fernández is regarded as more moderate than former president and running mate Cristina Fernández de Kirchner, notes Mellow. Yet academic Robert Scott III says that investors should still be wary of the Peronists. "Big spending and truculence with creditors has been ingrained in their DNA... Argentina borrowing more from the IMF is like filling a bathtub with a huge drain in it."

Germany on the brink

Germany is "teetering on the edge of a recession", says Andrew Kenningham of Capital Economics. GDP in Europe's largest economy fell 0.1% in the second quarter and early signs for this quarter are "ominous". The downturn has weighed on market sentiment. The Dax index, which contains 30 blue-chips, has shed 7% of its value since the start of July.

The global trade war is a serious problem for a country where exports represent a massive 47% of total GDP. As economist Patrick Artus tells Les Echos, the German economy is heavily weighted towards the automobile industry, chemicals and massive exports of industrial machinery to China. What's more, this economic model could now be faced with "obsolescence".

An eighth of Germany's bridges are in poor shape

©PA Images

Too much of a good thing

Most Germans remain relaxed about the downturn, says Christian Odendahl in the Financial Times. The country is close to full employment and wage growth is solid. In stark contrast to so many other developed nations, Berlin last year ran a €58bn budget surplus, equivalent to 1.7% of GDP. Yet it is precisely this frugality that is the problem. The nation's infrastructure is in "dire need of repair... one in eight of its 40,000 bridges... is no longer in adequate condition". German technology is looking outmoded – it is Tesla, not German car giants, that seems to be preparing the wave of the future.

Teutonic tightfistedness has global consequences, notes John Authers on Bloomberg. With so many savings chasing so few bonds, Europe has become ground zero for the global slide into negative bond yields (see page 4). Those yields mean that the market is effectively begging Germany to borrow and spend more. With inflation low and a huge trade surplus with the rest of the world there is ample headroom to do so. Yet Germany is "maddeningly averse to fiscal stimulus".

Constitutional rules ban borrowing to finance large structural deficits, notes The Economist, and the "black zero" commitment sees the government pledge balanced budgets. Conditions may need to worsen before German politicians are willing to turn on the fiscal taps, but that day may yet come. With European interest rates already so low, the central banking "toolbox is nearly exhausted".

As we pointed out last week, the ailing health of eurozone banks is another key economic concern. That said, much of the worry may already be in the price: on a cyclically adjusted price/earnings ratio of 17.6, German equities are now almost as cheap as Britain's. Any loosening of the purse strings in Berlin could spark a near-term rally. As for bonds, Germany remains a key barometer of the global economy and the centre of the current market madness. Investors should watch closely.

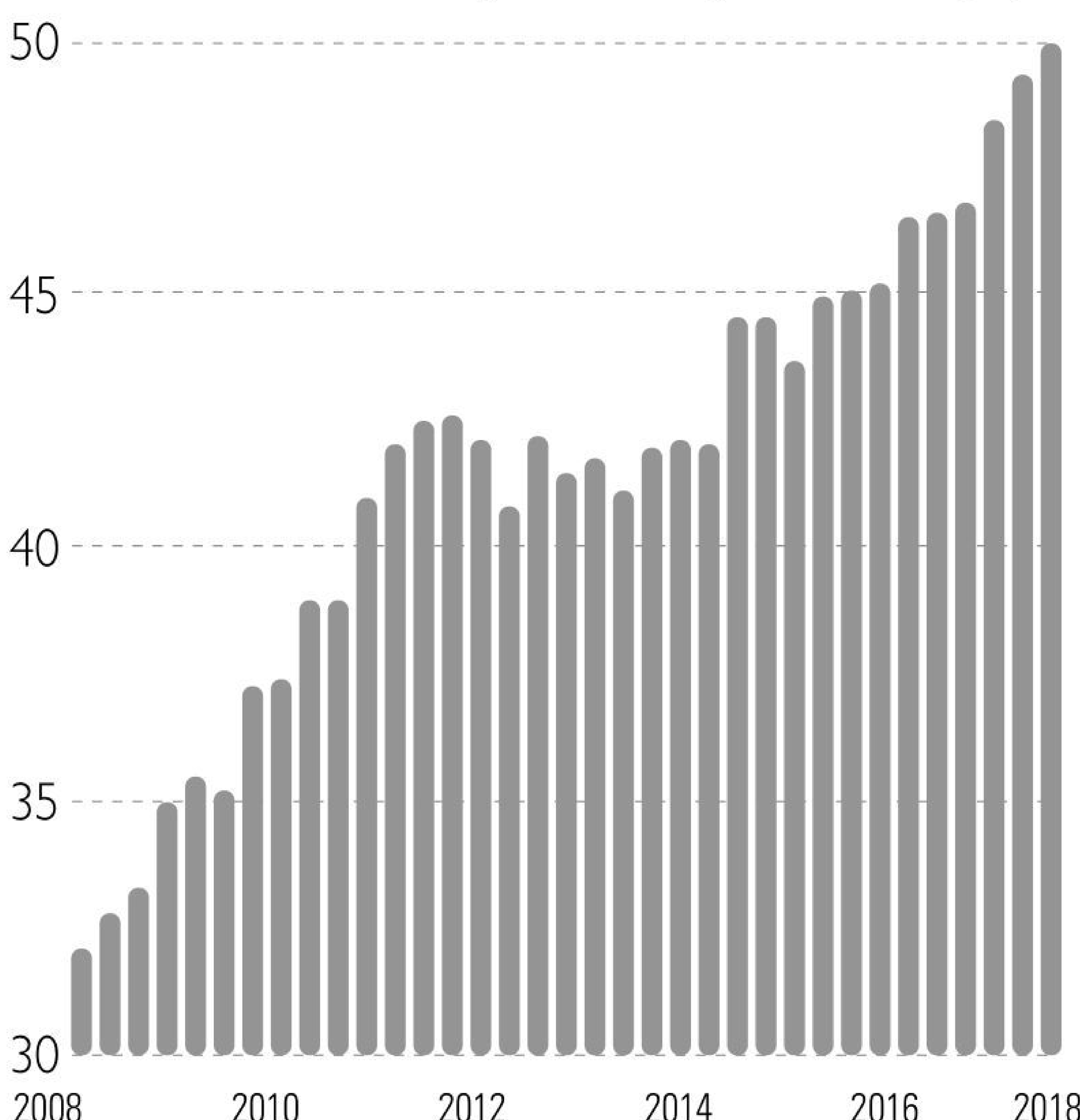
Viewpoint

"The UK [may] depend on a significant fiscal boost over the next couple of years, returning the budget deficit to... 5% of GDP by 2021-2022... Tax revenue growth has weakened, despite the bullying tactics of HMRC, while public spending is booming again. More spending will be committed to no-deal preparations and appeasement payments to Scotland, Wales and Northern Ireland... this autumn's Budget may also contain... income-tax cuts... The challenge for the Bank of England is to use the cover of dramatic fiscal relaxation to resume the normalisation of the bank rate. Whole economy average weekly pay growth has lurched to 3.7% and unit labour cost growth in the market economy is well above 3% and plainly inconsistent with the official inflation target. Once the Bank takes off its Brexit blinkers, we can hope that it will regain connection with its original purpose."

Peter Warburton, Halkin Services

■ America's corporate debt binge

BBB share of investment-grade US corporate bonds (%)



US households have spent much of the past decade deleveraging, notes John Mauldin in his Thoughts From The Frontline newsletter. Companies haven't. They have grown debt much faster than earnings, not least because many have borrowed to fund stock buybacks rather than invest in their operations. The upshot is that firms are 50% more leveraged now compared to their profits than in 2007. The quality of investment-grade paper has also deteriorated: the lowest tier, BBB-rated debt, now comprises 50% of all issuers. "All these are just one downgrade away from being 'junk bonds'." Many funds are not allowed to hold junk, so their forced selling will exacerbate the downturn when the next recession hits.

Source: Bloomberg, Gluskin Sheff

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

Three to buy

Tate & Lyle
Shares
Having moved on from its roots in sugar, today Tate & Lyle is a global supplier of corn-based sweeteners and starch ingredients, as well as the Sucralose zero-calorie sweetener. It is well placed to take advantage of consumers' growing appetite for plant-based proteins. The business has scope to expand margins and earnings upgrades could follow. A prospective price-to-earnings (p/e) ratio of 13.7 looks undemanding and a 4.2% dividend yield is a further attraction. *727.25p*

Pure Gold Mining
The Mail on Sunday
Talk of a US recession is prompting growing interest in gold, the ultimate safe-haven asset. This Canadian operator is developing a mine at Madsen Red Lake in Ontario and listed in London in May. Local infrastructure and expertise make the province an excellent location to mine. Production is expected to begin by the end of next year, and by 2022 annual output should hit more than 100,000 ounces. In a further vote of confidence, the company counts both AngloGold Ashanti and Newmont Goldcorp as shareholders. *41p*

Unilever
The Sunday Telegraph
Recent half-year results at this consumer goods company were a reminder that emerging markets remain a key driver of performance. Sales in the world's fastest-growing markets rose 6.2%, compared with a 0.7% slump in developed markets. With China and India still producing world-beating growth there should be more to come. The group's wide range of brands provides welcome diversification at a scary time for the global economy. *5,011p*

Three to sell

Gooch & Housego
Investors Chronicle
This photonics specialist makes optical components and systems used in aerospace and scientific research. The US-China tariff dispute has hit demand for lasers and prompted a profit warning in June. Capital returns and profit margins have "edged down" over the last five years. A life-sciences division gives long-term hope, but the elevated forward p/e ratio of 22 will come under pressure before then. *1,145p*

ITV
The Times
In the fast-changing world of entertainment the traditional television industry is racing to catch up. The UK's largest commercial broadcaster is pinning its hopes on BritBox, a joint venture with the BBC billed as the UK's answer to Netflix. With advertising sales down 5% in the first six months ITV needs its content operation to pick up the slack. Yet with Apple and Disney set to launch their own streaming services, this market is becoming crowded. As shares flirt with six-year lows, the precise path ahead is uncertain, but that it will be bumpy is "as certain as a Piers Morgan rant on *Good Morning Britain*". Avoid. *105.75p*

Renold
The Daily Telegraph
We had been betting on a turnaround at this specialist manufacturer of chains, gears and power transmission systems. But an investigation has found that operating profit has been overstated by £1.8m over three years. This represents only 10% of last year's operating profit, yet "health inspectors rarely find just the one cockroach". On six times earnings the stock looks cheap, but we will sell until there is more clarity. *22.5p*

...and the rest

The Daily Telegraph
Franchise Brands, whose franchisees run diverse plumbing, car-body repair and dog-sitting businesses, has a proven management team *(83.5p)*.

Investors Chronicle
An expectation-beating trading update suggests that luxury fashion house **Burberry** is "unlikely to go out of style" for investors anytime soon *(2,107p)*.

Secure Trust Bank is "nimbler" and more defensively positioned than bigger banking giants and offers a 6.3% forward dividend yield to boot *(1,350p)*.

The Mail on Sunday
Shares in Azerbaijan-based **Anglo Asian Mining** have more than tripled in less than a year. Some profit-taking might be in order, but a rising gold price should continue to underpin gains *(138p)*.

Shares
The mass of compliance and red tape grows ever thicker. Governance software business **Ideagen** is therefore in a compelling structural growth market *(142p)*. Solid first-half results and client wins mean that we are still betting on a turnaround at advertising giant **WPP** *(981.25p)*. Trouble in the global car industry is bad news for specialist automotive play **TI Fluid Systems**, but on a forward p/e ratio of 6.4 we think it is worth "holding tight" *(160.5p)*.

Engine problems have made it a difficult summer for shares in **Rolls-Royce**, but we remain confident that these are only short-term problems *(733p)*.

The Times
Tougher regulation has hit online bingo operator **JPJ Group**, but it boasts strong cash flow and could become a takeover target *(654p)*. Big-six energy firm **SSE** plans to dispose of its household supply business, but boasts "compelling" offshore prospects in wind power *(1,109.5p)*.

A German view

The town of Grasse, in Provence, is known as the global capital of the perfume industry, says Wirtschaftsoche. It is also the headquarters of Robertet. This family-run company (the Maubert family, which set the business up in 1850, owns 43% of the stock) is the world leader in natural fragrances and flavours for the perfume, cosmetics and food sectors. The shares have risen steadily in recent years, and there is ample scope for further gains given the long-term growth prospects of the industries Robertet serves. Last year sales climbed by 4% to €525m, while earnings reached €52m; growth should continue at this pace. The balance sheet is very solid, with no net debt.

IPO watch

Chinese online grocery and delivery group Dada-JD Daojia is planning to float in the US, says Emma Lee on technode.com. The group is seeking "more ammunition to maintain its foothold in an increasingly competitive online grocery market". Its key rivals include ele.me, Meituan and FreshMarket. The biggest shareholder in the venture is e-commerce giant JD.com, while Walmart owns 10%. Dada-JD Daojia has 74 million users and works with thousands of retailers, notably Walmart, Carrefour and Vanguard. During this year's mid-year shopping festival known as 618 (held from July 18 to August 14), the platform produced year-on-year sales growth of 100%.

City talk

● US online retailer Overstock's shares plunged by nearly 40% after its boss Patrick Byrne published "what may be the craziest corporate communication the world has seen", says Kieran McCarthy in The Register. Byrne claimed he had inadvertently become involved in "political espionage conducted against Hillary Clinton and Donald Trump". He has a record of making "crazy" statements, having previously settled a libel suit for $1m after falsely accusing someone of being "part of a global crime syndicate".

● BHP Billiton's Andrew Mackenzie has produced a turnaround that "would have been inconceivable" when he became chief executive six years ago, says Stephen Bartholomeusz in the Sydney Morning Herald. The miner has "[toppled] Rio Tinto and Brazil's Vale as the world's lowest-cost iron ore producer". And a record dividend means that BHP has returned a "staggering" $17.1bn to shareholders this year. While Mackenzie has expressed concern about Trump's "aggressive trade policies", free cash flow of $10bn a year means BHP "is in good shape to cope with further global turbulence".

● Harry Markopolos, the investigator known for "sounding the alarm" on Bernie Madoff's Ponzi scheme years before it folded, has launched a "blistering attack" on General Electric, says Danny Fortson in The Times. He insists it's a fraud "bigger than Enron". GE has underestimated the liabilities of its nursing home insurance policies by an "astonishing" $29bn because people "are living longer and the type of care they need is wildly expensive", reckons Markopolos. Add in a recession and another writedown from its purchase of Baker Hughes "and GE is living on borrowed time".

WeWork isn't working

The office-space unicorn, which plans to list soon, is deep in the red and its erratic founder will be extremely difficult to budge. Matthew Partridge reports

In "a major test of investors' appetite for fast-growing but unprofitable start-ups", We, the parent company of WeWork, has filed a financial prospectus for its forthcoming initial public offering (IPO), report David Gelles and Erin Griffith in The New York Times. WeWork is currently valued at more than $50bn, making it the second-largest unicorn (private company worth over $1bn) to go public this year after Uber". Its core business model involves taking out long-term leases on commercial real estate, jazzing up the spaces "with amenities like fashionable furniture and free beer", and then renting out individual offices and larger suites to other companies.

It's not hard to understand why people might want to invest in WeWork, says Shira Ovide on Bloomberg. After all, it is growing at a furious rate, with revenue doubling between 2017 and 2018, while the same is set to happen next year. This is the "kind of growth that gets investors justifiably excited". Nevertheless, this has been accompanied by "eye-watering losses". According to the prospectus, even when you exclude the costs of the long-term leases, the company is only "eking out a slim base profit from the revenue it takes in minus the bare minimum costs to run its buildings".

Complex relationships

Another major concern is the company's "complex" relationship with Adam Neumann, "founder, landlord and majority shareholder", says Liam Kelly for The Sunday Times. While his supporters, such as Softbank's Masayoshi Son, say he fights "crazy, not smart", others claim that he "does not just fight crazy – he is crazy"; witness his claim that WeWork's goal is to "elevate the world's consciousness". There's also controversy over the fact that while Neumann takes no salary, he has made $21m from leasing buildings to WeWork over the past three years and has also taken several loans from

Adam Neumann: "crazy"

©Getty Images

the company, most recently $362m in April, to help him buy shares.

Those who hold WeWork's shares had better hope that Neumann "can simultaneously wear the hats of visionary, operator and innovator", because there is very little they can do if he can't, says the Financial Times. This is because he will receive "supervoting shares", which are worth 20 times the votes of ordinary stock. Combined with the "far from independent board", this will "make him hard to evict". Even if he dies or is permanently disabled in the next ten years, his wife and "strategic thought partner" Rebekah "will help decide succession".

It's not just the shaky business model and leadership that may reduce the amount of money the firm raises from its IPO, says Maureen Farrell in The Wall Street Journal. A "hostile stock-market environment" also means it could struggle to attract investors. It has already admitted that the flotation could "slip" beyond its planned September date.

Hong Kong billionaire drops in for a pint

Shares in pub owner and brewer Greene King, which owns 2,700 pubs restaurants and hotels, have soared after it agreed to sell its entire business to the Hong Kong real-estate conglomerate CK Asset Holdings (CKA) for £2.7bn, says Henry Saker-Clark in The Independent. CKA, run by Victor Li, the son of Hong Kong's richest man Li Ka-shing, is offering a 51% premium. CKA said it was buying Greene King because of its "established position in the UK pub and brewing market… and resilient financial profile".

Greene King's attractions are "plain to see", says Chris Hughes for Bloomberg. Although the UK pub industry has "shed capacity

in recent years" the survivors "have adapted by offering food and making pubs more family friendly". The fact that Greene King owns most of its 2,700 sites will also "provide some comfort" to CKA, which is "accustomed to investing in solid UK rail, water and real estate assets". CKA may also be betting that even if the UK crashes out of the European Union without a deal "Brits will keep drinking beer and eating pies".

The "plummeting pound" may have persuaded CKA to give the "thumbs up" to Brexit Britain, says Karen Kwok on Breakingviews. But recent events closer to home will also have encouraged Li Ka-shing, who owns around a third of the fund, to reduce his exposure to Hong Kong.

Indeed, multinational conglomerate CK Hutchison, which is owned by the same family, "has already done so progressively over the last few years to the point where only 9% of sales originate from Hong Kong".

Boris starts his run to the finish line

The prime minister has made his demands; the EU has rejected them. What now? Emily Hohler reports

On Tuesday, the EU rejected Boris Johnson's latest call to rework the binding part of the withdrawal agreement, says Sebastian Payne in the Financial Times. Responding to a four-page letter from Johnson demanding that the Irish backstop be dropped from the deal, Donald Tusk, president of the European Council, said the UK had offered no alternative to avoid a hard border in Ireland. Johnson, who is due to meet German chancellor Angela Merkel and French president Emmanuel Macron this week ahead of the G7 summit, set out his objections to the "undemocratic" backstop, which he said tied the UK into a potentially indefinite customs union and regulatory regime. Tusk accused the government of "pursuing a strategy" that would reintroduce a hard border in Ireland, undermining the 1998 Good Friday Agreement. "Those against the backstop and not proposing realistic alternatives in fact support re-establishing a border. Even if they do not admit it," Tusk tweeted.

The onus is on the EU to make some big calls

©Shutterstock

Will the backstop be scrapped?

So what were Johnson's alternatives to the backstop? His letter contains two "shoddily unreliable suggestions", says The Guardian. One is to create "alternative arrangements" by the end of the transition period "as far as possible". The other is to look "constructively and flexibly" at other commitments. "In neither case is there any detail." No wonder Tusk has rejected it. The UK government needs to get "more specific about what it wants to replace the backstop with", says Pieter Cleppe in The Daily Telegraph, but Johnson's statement that he thinks "an agreement is possible" should "build confidence among EU countries" that he is not aiming for no deal, and that any concessions won't be made in vain. However, if the EU refuses to discuss reopening the binding part of the deal even when it becomes clear that the alternative is no deal, Brussels "will truly be responsible". Denmark won concessions in 1992 and there are precedents of the EU reconsidering deals agreed after referendums and parliamentary votes contesting them. Given that Theresa May warned EU leaders that she might fail to get her deal passed, the UK cannot be accused of "having acted in bad faith".

The onus is now on the EU, and in particular Germany, to "make some big calls", agrees Stewart Jackson in the same paper. Brussels is currently gambling on intransigence and the ability of the Commons to "thwart" a no-deal Brexit and potentially bring down a Johnson government. This is why, as Johnson has said, Brussels is unlikely to be "minded to make the concessions that we need" until the situation in Parliament becomes clear (this should happen soon after the Commons returns on 3 September).

But once it does, is the EU really going to insist on "pushing a withdrawal agreement thrice defeated in Parliament"? Will it continue to insist that the backstop is non-negotiable, even though both Irish and British tax authorities have said that no new customs facilities are needed and that frictionless trade can continue? Are they going to risk future trade with Europe's second biggest economy to "notionally safeguard a border" which sees just 1.6% of Irish exports and imports cross it?

"The facts are that without a new Act of Parliament supported by the government, specifically to hold a referendum on revoking Article 50, put in place within six weeks", no deal is the only alternative. "Downing Street knows it; most Remain MPs know it, the EU Commission and the French and German governments certainly know it." Merkel's best legacy – she has said she will not stand for re-election – is to use her "power and influence to avoid the rancour and dislocation" of a no deal.

It won't be long before Trump tightens his grip

©Getty Images

Britain seeks new friends post-Brexit

The recent "diplomatic tussle" over the detention of an Iranian tanker in Gibraltar has put Britain in a "difficult position" as it strains to "balance its Iran policy between American belligerence and European emollience", says The Economist. The vessel was eventually released, against the wishes of Washington, although it may yet struggle to sell its 2.1 million barrels of oil as America has "threatened to impose sanctions on anyone doing business with her".

The backdrop to the crisis is President Trump's decision last year to withdraw from the Iran nuclear deal. Since then, America has been tightening sanctions on Iran, while Iran has warned that unless the deal's other signatories (which include Britain) help it to withstand them, it will start violating the nuclear deal. This puts Britain's Iran policy in a "parlous position". So far Boris Johnson is continuing to seek a balance, but the release of the vessel shows that even he is unwilling to break with European partners.

If he wants the UK to retain influence as a bridge between the US and Europe, he is wise to do so. Keen as Johnson is for a post-Brexit trade deal with the US, he should be under no illusion as to Trump's warmth, says Philip Stephens in the FT. Trump may not be pressurising Johnson over the Iran nuclear deal or Huawei's involvement in our 5G roll-out, and he has shown a willingness to leave aside the "tough stuff" of any trade deal (eg, imports of chlorinated chicken). But he won't wait long after EU ties are severed before demanding that Johnson "falls into line".

The US isn't the only country looking to take advantage. Australia is eager to restore the market for farm products that it lost when Britain joined the EU. Writing in Bloomberg, Mahathir Mohamad, Malaysia's prime minister, says that Brexit presents the UK with a "historic opportunity" to strike a trade deal – "provided it relaxes restrictions on imports of palm oil imposed by the EU".

Betting on politics

Our impending departure from the EU continues to dominate the headlines and the eight Brexit-related markets on Betfair have attracted plenty of money. The market on the possibility of a no-deal Brexit this year has proved to be particularly popular, with £1.28m matched. You can get odds of 2.42 (41.2%) on it happening, as opposed to only 1.69 (59.7%) against.

The question of whether we will have another EU referendum this year has seen £1.18m wagered. You can get 26 (3.8%) on one taking place and 1.03 (97%) against. The exact date that Brexit will take place is also popular, with £346,000 matched. Punters are expecting the UK to leave by the end of the year, putting the chances of this happening at 1.69

(59.1%). Interestingly, the next most popular outcome is no Brexit before 2022 at 4.8 (20.8%). Other alternatives are between January and June 2020 at 8.2 (12.2%), July-December 2020 at 22 (4.5%), January-June 2021 at 42 and July-December 2021 at 48 (2.1%).

The other five markets are on the revocation of Article 50 (£208,000 matched), whether Brexit will happen on or before 31 October (£204,000), whether Brexit will happen before a general election (£108,000), whether there will be another no confidence vote (£45,000) and whether a meaningful vote will pass this year (£26,000). Some of these bets look attractive, but I'm going to wait until things look clearer before making a definite recommendation.

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Italy's government collapses

Expect renewed parliamentary wrangling. Matthew Partridge reports

The resignation of the Italian prime minister, Giuseppe Conte, this week led to the formal collapse of the government coalition between the hard-right, anti-migrant League party and the anti-establishment Five Star Movement (M5S), reports Jason Horowitz in The New York Times. The rift comes after a "mutinous power play" by Matteo Salvini, the League leader, who is fed up with what he sees as M5S's "incompetence and inaction". The move is likely to plunge a nation "already hobbled by financial fragility and political chaos" into "a renewed period of crisis".

©Shutterstock
Salvini might have shot himself in the foot

Is there a road to government for Salvini?

New elections are not inevitable. President Sergio Mattarella has asked Conte and his government to temporarily stay on in a caretaker role, says Phillip Willan in The Times. And the political arithmetic suggests that M5S and the Democratic Party (PD) could command a majority in both houses of parliament. The differences between those two parties "make this an unlikely outcome", however. The most likely result remains an early election, which could result in victory for the League, which is polling with 38% (it needs around 40%) and also has the support of other right-wing parties.

An M5S-PD coalition remains a "distinct possibility" though, says Nicholas Farrell in The Spectator. It may have exchanged the "wildest of insults" with each other, but the PD is already hinting that it is prepared to work with its "sworn enemy" M5S, if that is the only alternative to an election that could bring Salvini to power. Salvini – who has explicitly been seeking "full powers" for himself and his party – may have "shot himself and his country in the foot" by overlooking the "golden rule" of modern politics – namely that "the liberal left will sleep with any enemy however repulsive to stop right-wing populism".

Parliamentary "wrangling" means that Salvini faces a "tough road" ahead if he is to become Italy's prime minister, says The Wall Street Journal. Still, if he did win, it would be good for the economy. The League "has built a reputation as a pro-business party" and Salvini is "pitching a corporate tax-rate cut as a centrepiece of his plan to revive Italy's fortunes". His programme makes more sense than M5S's "grandiose promises to expand welfare spending" and anything is better than the collapsed coalition, which has "barely functioned for most of its 14 months in power" and whose demise is creating "damaging market uncertainty".

Nonsense, says Rob Cox for Breakingviews. Salvini has dragged Italy into a damaging spat with the EU, pushed up the cost of borrowing, and called for an extra €50bn in spending, suggesting that a government led by him could widen the budget deficit further – under EU rules, Italy is required to shrink this yet it has grown every year since 2015. Italy is also in breach of the EU's rules on public debt – which stands at 130% of GDP. In contrast, a M5S-PD coalition would have several "market-soothing" qualities – it would be "decidedly friendlier to the EU and its rules" and would "almost certainly adopt greater fiscal rectitude". This prospect explains why bond yields have fallen. "Bond investors aren't slave-drivers, but they know economic discipline when they see it."

Indian PM frustrates business

Modi: ambitious targets

After several years of "rapid expansion" there are signs of gloom in India, says Ken Koyanagi in the Nikkei Asian Review. Business leaders are increasingly frustrated by regulation and the high cost of capital, "consumer confidence is waning and foreign direct investment has plateaued". Trade wars and a global slowdown, not to mention the crisis in Jammu and Kashmir, threaten to compound the problem and threaten newly re-elected Prime Minister Modi's "ambitious" target of becoming a $5trn economy by 2025.

There is indeed "widespread malaise" in the Indian economy, says Una Galani for Breakingviews. Rising unemployment, the fact that the growth rate is "the slowest in four years" and a fall in the value of proposed new projects to below the levels of 2004, all suggest that India "is heading for a prolonged, painful slowdown". Yet this may be no bad thing if it prompts Modi to continue with his bold business reforms. As well as changes to labour and land laws, two easy steps would be to overhaul the governance of state-owned banks and "tackle the credibility of India's GDP figures".

Unfortunately, this seems to be the last thing on Modi's mind, says The Economist. Bosses were expecting last month's budget to provide "less red tape, fewer tariffs, more incentives for investment and lower taxes". They ended up getting the opposite. Taxes are up on everything from share buy-backs and dividends to capital gains – all told, the government could skim off 60% of corporate profits. It's little wonder Indian business leaders are becoming increasingly disenchanted with the man "they once regarded as their champion".

Mexico City

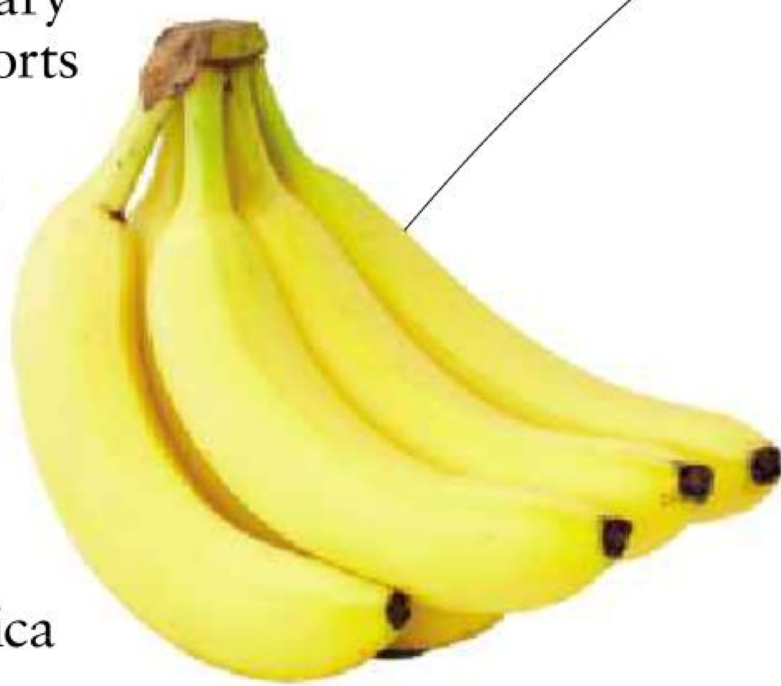
Pipeline plugged: The government of President Andrés Manuel López Obrador (pictured) has rattled international investors by refusing to import natural gas, despite the construction of a new gas pipeline from southern Texas. The 500-mile South Texas marine pipeline cost $2.5bn and runs under the Gulf of Mexico to the port of Tuxpan in the northeast of the country. It was completed in June. If the pipeline were switched on, it would increase Mexico's capacity to import natural gas by 40%, in turn fuelling the country's all-important manufacturing sector. Instead, the state-owned power utility, the Federal Electricity Commission (CFE), has pushed the pipeline's builders, and two private operators, into arbitration, says The Wall Street Journal. The CFE seeks almost $900m related to delays in construction to the pipeline, which had been due for completion last October. An additional $2.7bn is being sought for setbacks relating to another six pipelines. The dispute is the latest development in López Obrador's fight against his predecessor Enrique Peña Nieto's liberalisation of the energy market and comes at a time of weak growth. GDP expanded by just 0.1% in the second quarter.

Greenfield, Indiana

Elanco pounces on Bayer: Elanco Animal Health has snapped up German pharmaceutical giant Bayer's animal-health division for $5.32bn in cash and $2.3bn in Elanco shares. Once the deal is finalised next year, Elanco will be the world's second-biggest animal-health company behind Zoetis, a business spun out of Pfizer in 2013. Elanco is itself a spin-off from drug maker Eli Lilly & Co. last year. However, shares in Elanco have been under pressure since news of the potential transaction first surfaced earlier this summer, says Riley Griffin for Bloomberg. The New York-listed shares fell by 6.3% the day the deal was announced. That's because the "deal may make more sense for the seller than the buyer", says Ed Cropley on Breakingviews. While the stock portion of the offer actually fell in value to $2.1bn following Tuesday's share price slide, the cash should come in handy should Bayer decide to settle with the 18,400 Americans who say the company's weedkiller, Roundup, gave them cancer. "Elanco, by contrast, is taking on more debt to do the deal and will be reliant on ambitious cost-cutting plans to deliver a decent return."

Bogotá

A banana emergency: Panama TR4, a soil-dwelling fungus that has devasted banana plantations in southeast Asia over the last three decades, has reached Latin America, say Colombian authorities. This is especially bad news because the fungus threatens the Cavendish banana – a variety that accounts for half of global production and 95% of exports. Cavendish bananas are all identical clones, making them especially vulnerable to epidemics. At present, there is no suitable substitute variety in terms of taste and quality and there is no known treatment for infected plants. In the 1950s, Panama disease wiped out the then most widely eaten banana, the Gros Michel, which is why its arrival in Colombia this summer has been met with the declaration of a "national emergency" by the Colombian agriculture and fishing institute. Sanitary controls have been put in place at airports and border crossings. Two-thirds of bananas exported globally come from Latin America. The first suspected case was reported in June in the northeastern province of La Guajira. Bananas are Colombia's third-largest agricultural export, and the country is the fifth biggest exporter globally, behind Ecuador, Philippines, Costa Rica and Guatemala.

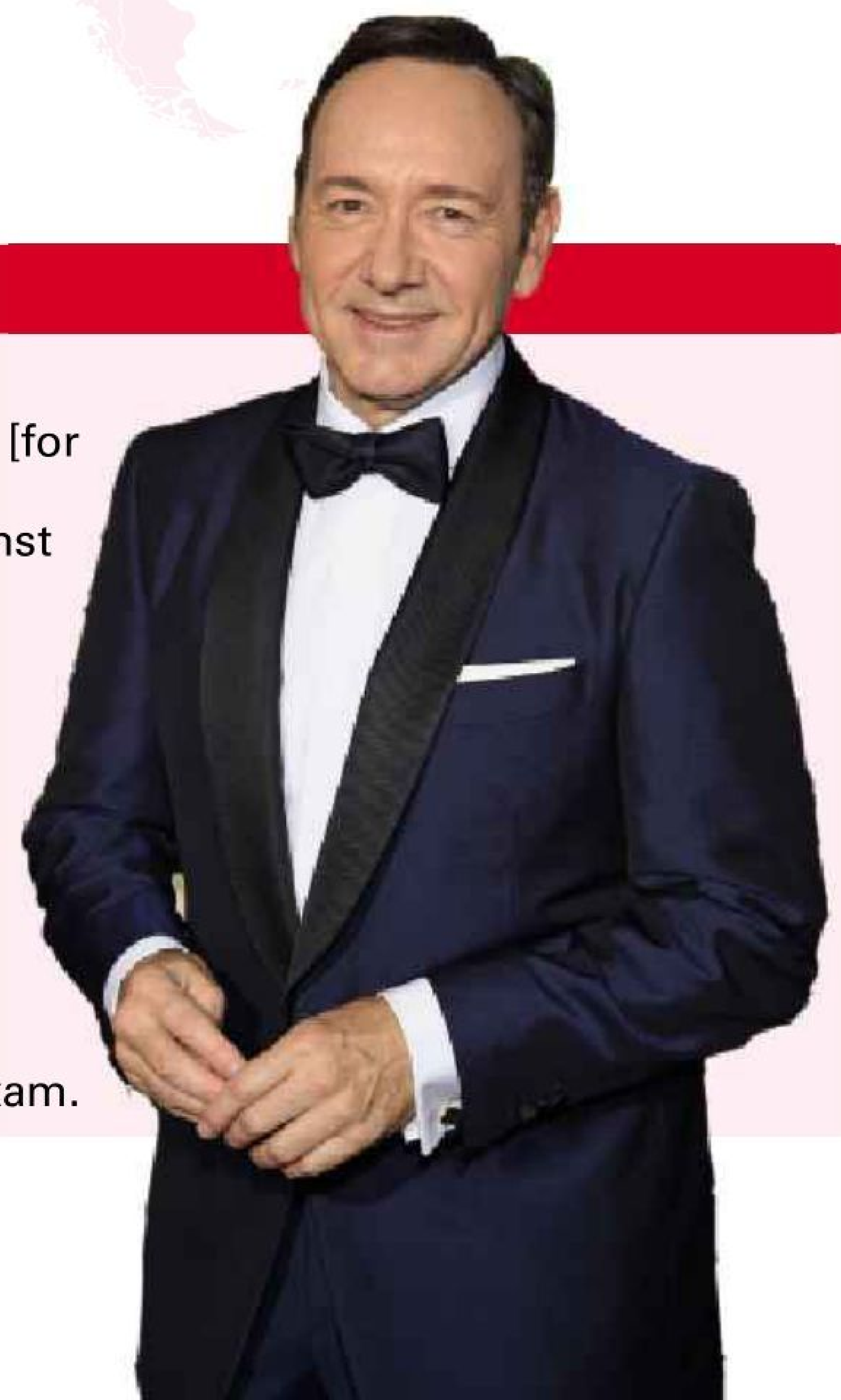


The way we live now: a boom in "disgrace insurance"

"A fresh-faced actress is exposed for her crippling cocaine habit. The actor hired to advertise washing powder turns out not to be whiter than white," says Matthew Moore in The Times. "Who you gonna call?" Your insurer, of course. Brands and studios keen to protect themselves from the financial fallout resulting from a star's missteps are fuelling a boom in "disgrace insurance".

SpottedRisk, a US startup backed by investors on the Lloyd's of London insurance market, pays researchers to comb gossip columns and online news for warning signs that a celebrity is heading for trouble, according to New York magazine. A risk score out of 100 is then generated for each celebrity. In the event of a scandal, market researchers Kantar are consulted to gauge the level of damage and the size of the payout.

Harvey Weinstein and Bill Cosby would prompt a maximum $10m payout, "because the allegations [for sexual assault] were so severe". The claims against Kevin Spacey (pictured) would merit $8m, "given his half-apology for 'deeply inappropriate drunken behaviour'". The lowest tier, at $2m, would apply to Felicity Huffman, the actress who paid an official to cheat on her daughter's university admissions exam.



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Deliveroo is a tasty morsel for foreign investors

London

Britain's record tech boom: So much for Brexit jitters. Foreign investors are pouring unprecedented amounts of money into Britain's technology start-ups. In the first seven months of 2019 a record $6.7bn (£5.5bn) flowed in, 50% more than during the same period last year; at this rate, more than $11bn will have been secured by the end of the year, easily outstripping 2018's total of $8.7bn. US and Asian money accounts for more than half of this year's total. Financing rounds at firms including food-delivery group Deliveroo and payment-platform Checkout have helped secure investment averaging $1bn a month from local and overseas sources. In the past 20 years the UK has produced 72 technology unicorns (private companies valued at more than $1bn) – 13 in the past year alone. Germany and India have only created 29 and 26 respectively in two decades. America and China boast 703 and 206. Per head of population, Britain is ahead of China. This week it was also announced that Japan's "internet-of-things" company Uhuru, which is backed by the multinational conglomerate Softbank, plans to list in London in October.

Hong Kong

Beijing boots Cathay boss: Cathay Pacific replaced its chief executive, Rupert Hogg (pictured), last Friday after Beijing "moved to pull Hong Kong businesses into line" over the anti-government protests, say Sue-Lin Wong and Hudson Lockett in the Financial Times. The management change was made public by the Chinese state media rather than the firm itself, an "unprecedented" move, and followed a safety warning by China's Civil Aviation Administration about Cathay airline staff reportedly took part in the protests. Other news sources reported that Hogg was fired after refusing to provide Beijing with a list of names. Most firms in Hong Kong that engage in business with mainland China know that there is a "degree of political risk" involved, says Grace Shao on CNBC. The incident shows that Beijing is willing to use its economic muscle to put pressure on the territory and will rattle the Hong Kong business community. Several firms have issued statements reiterating their support for "one country, two systems", Beijing's original promise to respect Hong Kong's autonomy; some, however, have warned staff that they have "zero tolerance" of those involved in the protests.

Khartoum

New leaders take power: Sudan's military and civilian leaders have "signed a landmark power-sharing deal" following eight months of protests, a coup and a military crackdown, says Declan Walsh in The New York Times. Meanwhile, on Monday, Omar Hassan al-Bashir (pictured), the "despised" former president recently deposed after 30 years in power, faced his first day in court on corruption charges. Sudanese authorities have refused to hand him to the international criminal court in the Hague, which has accused him of crimes against humanity following the deaths of up to 400,000 in Darfur. The new deal was signed by Lt. General Mohamed Hamdan, whose forces led the crackdown on protestors, and Ahmed al-Rabia, on behalf of the main opposition coalition. The new administration inherits a country in a state of "economic collapse" with soaring inflation, and food, fuel and power shortages, says Walsh. There are fears that the "rapacious generals", who retain "the upper hand", will "enrich themselves" and their cronies.

Bangkok

Thailand splashes the cash: Uttama Savanayana, Thailand's finance minister, has unveiled a stimulus package worth 316bn Thai baht (£8.5bn) in response to lacklustre growth. The US-China trade war and a strengthening currency have hit the country's vital exports and tourism industries. As such, southeast Asia's second-biggest economy grew by just 2.3%year-on-year in the second quarter – the slowest rate in almost five years. With the stimulus measures, Prime Minister Prayuth Chan-ocha's government hopes to bolster growth to 3% this year. The spending will include debt relief and loans for farmers affected by drought, as well as subsidies for low-income earners. Allowances for the elderly and babies will be increased, and Thais will be encouraged to explore the country outside their home provinces with 1,000 baht (£27) in their pockets from the state. Rebates of 15% on hotel accommodation, food and shopping costs of up to 30,000 baht (£800) will be offered to help domestic tourists on their way. "This stimulus is good for the short term, but I don't think it would address the root cause of the problems in the Thai economy," Pavida Pananond, an academic at the Thammasat Business School in Bangkok, tells the Financial Times.

Britain's blackouts

More than a million households and businesses were left in the dark and commuters stranded when the lights went out earlier this month. What happened? Simon Wilson reports

What is the national grid?

It's the high-voltage electrical power transmission network for Great Britain (but not Northern Ireland, which is part of a single electricity market with the rest of Ireland). The grid connects power stations and major substations via a system of pylons and thousands of miles of electrical cables, a system which in theory means that electricity generated anywhere on the grid can be used to satisfy demand anywhere else. The idea is that fluctuations in supply and demand are smoothed out and the lights stay on across the whole country.

When was it set up?

The origins of the grid lie in the Electricity (Supply) Act of 1926. Prior to that, Britain's nascent electrical supply industry was inefficient and fragmented. The Act created the Central Electricity Board, which constructed Britain's first synchronised, nationwide grid. The grid was nationalised by the postwar Labour government of 1947 and remained in public ownership until 1990. Today it's owned by National Grid, a stockmarket-listed private company that is accountable to the regulator, Ofgem. It's so much part of the fabric of everyday life that it seems almost inconceivable that an electricity supply system could be run any other way – and almost incomprehensible when the system suddenly fails, as it did earlier this month.

Why did it fail?

On 9 August, Britain's worst power cut for more than a decade saw 1.1 million households and businesses in several parts of England and Wales without electricity for almost an hour. The outage, which began at around 5pm on a Friday evening, disrupted traffic lights in parts of London, plunged Newcastle airport and Tyneside's Metro system into darkness, closed parts of Ipswich hospital and left hundreds of people trapped on trains on the East Coast Main Line into King's Cross station in London.

What caused the power cut?

It's too soon to be definitive about what happened: National Grid, Ofgem and the department for business and energy have all launched investigations. However, all indications, including National Grid's own preliminary assessment, are that the outage followed lightning strikes on part of the network near Cambridge. Lightning strikes are common events: National Grid's infrastructure is hit by them on average three times a day and they rarely cause serious problems. But on this occasion they appear to have caused massive outages within seconds of each other at two separate electricity generators about 100 miles apart – namely RWE's gas-fired Little Barford power plant in Bedfordshire, and the world's biggest offshore wind farm, Hornsea, owned by Orsted, off the eastern coast of England in the North Sea.

Britain's worst power cut for more than a decade caused chaos on the trains

©Getty Images

Which in turn caused the power cuts?

The combined lost capacity, of more than 1,300MW, was enough to cause such a massive and instantaneous loss of frequency (a measure of energy intensity) in the grid, to well below the targeted constant of 50Hz, that automatic safety processes kicked in, cutting off 5% of the grid's supply to avert a wider shutdown. It's not yet clear why the lightning strike caused the twin generators to go offline: in each case the firms concerned have blamed technical errors that can be corrected (and National Grid has been happy to share out the blame). But according to Professor Dieter Helm, a government adviser on energy policy, "the key point is that the power cut should never have happened in the first place. If power cuts can happen when just two power generators drop off, then something fundamental has gone wrong."

> *"If power cuts can happen when just two generators drop off, something is wrong"*

Which was what?

There wasn't enough reserve supply available to step in, stabilise the frequency and meet demand. At the time of the outages, National Grid had only 1,000MW available, far less than the capacity lost. According to National Grid, which says the UK has, statistically, one of the most reliable energy networks in the world, this was a "rare and unusual event" of a kind that has happened only three times in 30 years. But the fear is that it could become a lot more common. Indeed, there are worrying (albeit unconfirmed) reports that the national grid suffered three blackout near-misses in as many months, with outages in May, June and July, all of which were greater than 1,000 MW.

Are renewables a factor?

National Grid says not, but some energy experts aren't so sure. According to Tom Edwards of Cornwall Insight, a greater reliance on renewable energy sources, such as wind and solar – which accounted for a third of electricity generated last year – do make it harder to balance supply and demand across the grid. That's because renewables are more prone to drop off suddenly, and thus they decrease the "inertia" that acts as a shock absorber in the system. This means more fluctuations in supply and greater volatility in frequency.

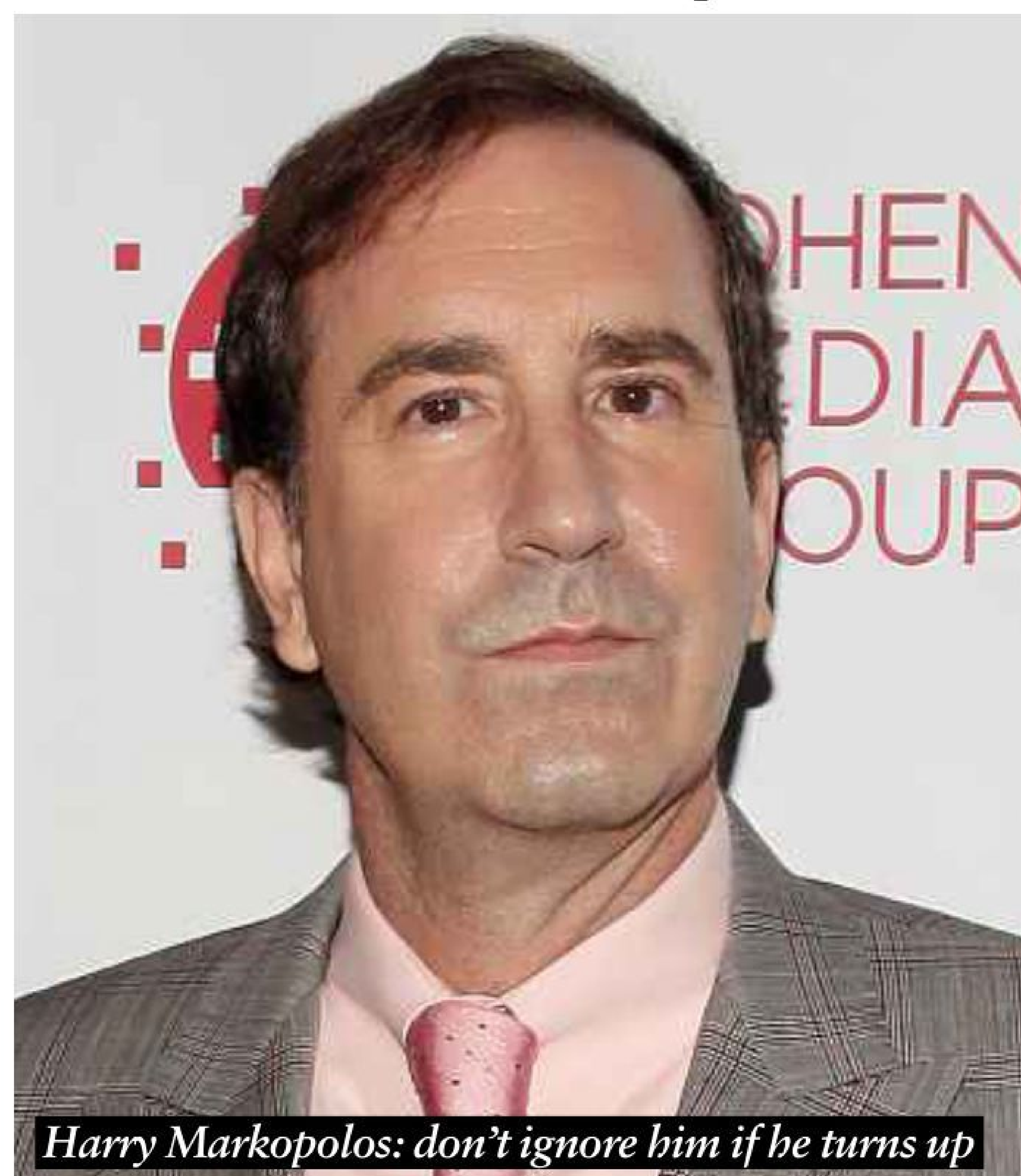
What should be done?

Some experts, such as Colin Gibson, a former director of National Grid, argue that the government needs to step in and limit the level of renewables in the energy mix – an unlikely prospect given the UK's commitment to a net zero carbon economy by 2050. Others point out that existing battery technology could mitigate the risks involved. National Grid is already working on a plan to ensure that the system is tooled up to deal with a scenario where 100% of power is from zero carbon sources by as early as 2025. The simplest solution, argues Ed Cropley on Breakingviews, would be to beef up supplies of back-up batteries. Storage units with a 1,500MW punch would cost £500m a year, he calculates – or around £6 on every household's annual energy bill. "Whether Britain's politicians would have the guts to sell that – and even whether Ofgem will identify the guilty party – is another matter."

Take short sellers seriously

Short sellers get a bad press. But if they target a company you invest in, you need to take action quickly

John Stepek
Executive editor



Harry Markopolos: don't ignore him if he turns up

It's been a dramatic month for "attacks" by short sellers – investors who profit when share prices fall, rather than rise (see below for how this works). Here in the UK, litigation financing company and Aim star stock Burford Capital saw its shares slide as well-known short-seller Muddy Waters published a long report criticising the company's accounting and corporate governance. Then US conglomerate GE came under attack from fraud investigator Harry Markopolos, in a 175-page report he wrote for an unnamed hedge fund. Both companies challenged the allegations, while Burford also made changes to its board, including replacing its chief financial officer.

Investors in both companies will be irritated, to say the least. Short sellers tend to get a bad press – those who own shares in a target company are never going to welcome the attention of an investor who is betting against the share price. And the fact that some "shorts" can wreak havoc purely through reputation alone (as is the case with both Muddy Waters and Markopolos, who spotted Bernie Madoff's fraudulent activity well before his downfall), means there is the potential for conflicts of interest.

> *"If you can't argue with the short-selling case, then sell"*

Yet it would be a mistake to just shrug them off. "Activist" short sellers argue that they provide a service by bringing questionable or even fraudulent practices to the attention of the wider market. And their methods often work – several studies have shown that shares with high levels of "short interest" tend to underperform their peers. A 2008 paper (*Why do short interest levels predict stock returns?*) by researchers Ferhat Akbas, Ekkehart Boehmer, Bilal Erturk, and Sorin Sorescu, argued that this is because short sellers are "highly informed traders" – in other words, the added risks taken by short sellers (see below) incentivise them to do more work to understand a company fully.

The other point worth noting is that short sellers are often able to cast doubt on their targets because of complex accounting. Often this is down to the nature of the business involved. But it's a valuable reminder that, before you invest in an individual company, you need to examine its accounts thoroughly and have a clear understanding of what they are actually saying.

None of this is to say that the attacks on either Burford Capital or GE are justified – short sellers are by no means infallible. However, if you are an investor in one of these companies or another that is targeted by shorts (or you are thinking of investing in one), then you have some homework to do. You must engage with the arguments being made by the short seller and satisfy yourself that they are wrong. And if you can't do that, then the only logical option is to sell.

I wish I knew what short selling was, but I'm too embarrassed to ask

When most investors put money in the stockmarket, they go "long" – they buy shares in the hope that they will go up. Short selling is the opposite of this – it's a method of profiting from a share price going down. Here's how it works. A short seller borrows the shares from someone who already owns them (usually a fund manager), and sells them in the open market. Then, if and when the price falls, the short seller buys the shares back at the lower price, returns them to the lender, and pockets the profit.

So, for example, say you want to sell shares in Acme Widgets short. You borrow 10,000 shares from your local index fund provider in return for a small fee, and sell them at £1 a share. So you now have £10,000 (less your borrowing cost), but you owe the index fund 10,000 Acme shares. Thankfully, Acme issues a profit warning later that month, and the share price falls to 80p per share as a result. You buy 10,000 shares back for £8,000. You return the shares, and enjoy a £2,000 profit.

That's the mechanics. So why would you do it? Professional short sellers try to hunt down companies with weak or even fraudulent business models, then bet against them. Shorts are often maligned, partly because company managements find them a convenient scapegoat, but short sellers in fact provide a valuable service – sometimes helping to reveal the true state of an otherwise overhyped stock.

Shorting is also extremely risky and not something to be done lightly. If you buy a share, then the worst that can happen is that it goes to zero, and you lose 100% of your money. But with short selling your losses are technically unlimited, as there is no ceiling on how high a share price can rise. Also, in practice, spread betting is the only practical way for most retail investors to go short. This incurs the extra risk of being highly leveraged (in other words, you are betting with borrowed money), which magnifies any losses.

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Guru watch

Lord Rothschild, chairman, RIT Capital

The stockmarket could be on thin ice, notes Lord Rothschild in the latest half-year results for RIT Capital, the investment trust he founded in 1961. Rothschild, 82, who steps down as chairman next month, notes that "valuations are, on many metrics, at the upper end of historical ranges at a time when geopolitical risks abound; credit quality is deteriorating; and global economic growth is weakening".

Can firms maintain their currently high levels of profits against this

backdrop? Rothschild is sceptical. "The last decade has seen a confluence of factors which have benefited companies' earnings to an unprecedented extent." These features, which include the "lower cost of capital, reduced taxes, stagnant wages and the influence of globalisation", are "unlikely to be sustained". As a result, Rothschild's trust is "cautiously positioned".

"We are seeking to invest in situations that either give us a degree of protection in potentially deteriorating conditions or in areas where structural growth rates are sufficiently high for valuations to hold their own or indeed prosper." Recent examples of such investments include privately owned US-based logistics firm KeepTruckin', while South Korean online retailer Coupang (pictured) "continues to grow strongly".

The trust, which is part of MoneyWeek's model investment trust portfolio (see moneyweek.com for more about this), returned 10% over the year to 30 June, and 73% over five years.

Britain is a nation of hustlers

One in four Britons do some extra gigging on top of the day job. The government should encourage them

Matthew Lynn
City columnist

People have always had small, part-time jobs alongside their main career. But the ability of the internet to connect people, to trade specialist items online, and to find new ways of turning what were once simply hobbies into business opportunities, has made such activities a far bigger part of the economy than they were in the past. According to a survey by Vistaprint, one in four people have some form of side gig with average earnings of £6,064 a year. The top 15% of hustlers were making an extra £12,000 a year. Beauty and wellbeing were the most popular gigs, which included hairdressers, beauticians and personal trainers; that was followed by decorating and diet advice. The average hustler is putting in an extra 13 hours a week; 17% are putting in an extra 20 hours.

A boost to the economy

So Britain remains a nation of grafters. Some people are no doubt taking on extra work because they're struggling to make ends meet, but lots are doing it to be better off, or, more often, because they want to pursue something they feel passionate about – 36% of side workers said they were doing it because they enjoyed it and hoped to turn it into a full-time business.

If those figures are anything close to accurate, there are 8.25 million people with side jobs and between them they are generating £54bn of additional wealth. So the hustle economy is contributing a huge amount to the official economy (and probably even more to the black one). There is more to it than just generating some extra wealth, however. It is filling in small niches in the labour market that might otherwise be hard to fill. It makes the economy more flexible. A hotel, for example, can hire an extra gardener for a few hours in the summer, or a DJ for a wedding, without all the hassle and expense of taking on a full-time staffer. And perhaps most importantly of all, it is often a stepping stone to full-scale entrepreneurship. Some of those part-time gigs will turn into full-time jobs and then blossom into decent-size firms.

The hustle economy could do with a helping hand

©Getty Images

And yet we do nothing to help it. Even worse, a blizzard of tax and regulations are often actively hostile to part-time hustlers and so are the bureaucrats who implement them. Hustlers have to comply with tax, employment and health-and-safety rules that are designed for far larger organisations. We should start to recognise the value of the hustle economy and try and turbocharge it. Like how?

Three policies to help the grafters

First, we could boost the micro-enterprise allowances. One of the better ideas to come out of the current government has been a special allowance for very small traders. You can earn up to £1,000 from renting out a room occasionally on the web, and the same amount from very small-scale trading, and you don't have to declare that income. That's a start, but the amounts are way too low, and as soon as anyone is making any real money they run into all the hassle of tax reporting. Why not raise the allowance to £5,000, which would keep a lot of the hustle economy tax-free? That would cost the government some money, but the amount it is collecting is fairly trivial anyway. It would give the whole sector a boost.

Next, we could make it compulsory for employers to allow their staff to earn money on the side so long as it didn't compete with their main job and didn't cut into their hours. Lots of companies frown on their people using their skills elsewhere, but people should be free to do whatever they want with their spare time. They might even learn some skills that make them more valuable to their main employer.

Thirdly, if we can have tax exemption for micro-enterprises, then we could have a regulatory one as well. Sure, there have to be basic health-and-safety standards that apply to everyone. But there is a raft of employment legislation that is overly complicated for anyone just working a few hours a week. There could be an opt-out for anyone working part-time, which would free up all those entrepreneurs to concentrate on the actual services they are providing instead.

Who's getting what

● Rebecca Long-Bailey, the shadow business and energy secretary, criticised National Grid for "prioritising commercial ventures in the US over the UK's energy security" after it emerged that its chairman, **Peter Gershon**, flew to the US two days after parts of Britain were hit by a blackout. Gershon officially works two days a week (the Grid says he works more in practice), for which he was paid £523,000 last year, with £83,000 in benefits. **John Pettigrew** (pictured), the CEO, has been handed a £1m pay rise for the past financial year to reward his "strong performance", the Grid revealed in its annual report.

©Getty Images

● The base salary of **Simon Cooke**, chief executive of charity Marie Stopes International, has risen from £173,067 to £217,250 a year. He also received a performance-related bonus of the same amount, compared with a bonus of £127,465 in 2017. Marie Stopes, which provides contraception and abortion services in 37 countries, and runs clinics in Britain, said it had helped more women than ever before, while its income also rose to a record £296.8m.

● Pay for **FTSE 100 chief executives** has fallen to its lowest level in five years, according to an analysis by Deloitte. Median pay was £3.4m in the past financial year, down from £4m a year earlier. Recent high-profile shareholder revolts, such as at Standard Chartered where more than a third of shareholders voted against the bank's pay policy, have put executive pay under pressure.

Nice work if you can get it

Junior lawyers caught in a turf war between top US and British law firms have benefited with pay rises of up to 20%, says Kate Beioley in the Financial Times. "US firms have taken… significant market share in London and are aggressively hiring associates, mainly from UK firms," Christopher Clark, director at legal search firm Definitum, tells the paper. "The top-tier US firms are offering between 50% and 100% uplifts in compensation." That has spurred the mid-cap US firms to go after newly qualified lawyers with pay rises of up to a fifth. Freshfields, a British "magic circle" law firm, raised its starting salary for a junior solicitor to £100,000 in May. The £15,000 increase was in response to US law firm Kirkland & Ellis offering starting salaries of £140,000 for newly qualified lawyers. Britain's Clifford Chance, Slaughter and May, Allen & Overy and Linklaters have all taken similar action.

How to learn from your mistakes

What can the latest series of high-profile fund flops teach managers and investors?

Max King
Investment Columnist

CatCo's shares have been hit by a series of natural disasters

©Getty Images

Nobody likes hearing "I told you so" about dud investments. But experiencing losses is the best way to learn painful lessons. The Woodford saga is not the first time investors have been lured into an expensive trap and it won't be the last. Those caught will be feeling very foolish, but it was easy to succumb to the initial wave of enthusiasm.

My overall record is mixed, but I can claim to have disparaged Neil Woodford's Patient Capital Trust from the start. Woodford left Invesco Perpetual in 2014, complaining of the bureaucracy and constraints that the firm placed on him, but such claims should always be treated with a pinch of salt. The checks, balances and team discipline imposed by larger firms are often in the interest of both investors and the manager; without them, Woodford's exaggerated self-belief soon turned into autocracy.

No convincing record

His thesis of backing British innovation and technology had enormous appeal. But venture investing had always been a small part of what he did at Invesco and he never produced the record to support it becoming the main purpose of a new investment vehicle. His approach looked very much like throwing mud (ie, money) at a wall and hoping that some of it would stick. Shareholders in an investment trust should have the protection of independent directors to hold the manager to account, but Patient Capital's board was selected from entrepreneurs whose businesses he had backed and who were cheerleaders for the strategy. It lacked experienced, hard-nosed professionals until it was too late to change course.

"'Caveat emptor' is good advice for large flotations"

Finally, Woodford initially targeted raising £200m for Patient Capital, but, as the money flooded in, that target was raised to £500m, then £800m. This was too much for such a vehicle, with the result that it owned too many large stakes in small, illiquid, often unquoted companies, each of which required detailed, specialist knowledge. More broadly, the size and popularity of new flotations has often not been a guarantee of success, but a warning sign. This was true of the privatisation trusts of the 1990s, of the Brevan Howard funds in 2007 and 2008, of Fidelity China in 2010 and of Pershing Square in 2014.

Brevan Howard started well before performance fizzled out, Fidelity China was turned around after a poor start and Pershing Square has recovered sharply this year, but *"caveat emptor"* has always been good advice for large initial public offerings. It was a key reason for my caution about BioPharma Credit a year ago, now looking misplaced after a very profitable disposal. Far worse was my recommendation in late 2017 of CatCo, the catastrophe reinsurance fund.

A disastrous catastophe fund

CatCo had made excellent returns, ranging from 7% to 22% and averaging 12%, in the preceding six years, which were largely free of natural disasters. A series of hurricanes in 2017, an earthquake and the Grenfell Tower disaster resulted in a share-price drop of 25% as significant claims were expected. The fund raised another $540m of capital. But the cost of 2017's disaster continued to climb, 2018 saw another batch of disasters and 2019 is turning out to be another stinker. The funds are now in wind-up mode. The lessons are the old maxims of not trying to catch falling knives and not confusing brains with a bull market.

Better Capital gets worse

The last ten years have been good for investors in private-equity funds, but not for shareholders in Better Capital. Jon Moulton raised £210m in 2009 for private-equity investment in distressed companies. Moulton had a considerable reputation in this area, buying companies either in, or close to, bankruptcy, cutting costs, injecting new management and turning them around. At first, all went well and Moulton was able to raise another £355m for a parallel fund in 2012.

Thanks largely to a very successful investment in Gardner Aerospace, an aerospace components supplier, the 2009 fund has returned 54% (just 6.5% per annum), but the 2012 fund has lost 52%, while other listed private-equity firms have multiplied in value.

There have been plenty of management mistakes in businesses such as Jaeger (fashion retailing), Spicers (stationery) and Everest (replacement windows), but businesses such as Reader's Digest and Citylink should never have been bought.

In some cases, Moulton focused too much on the short-term potential for cutting costs and restructuring without giving much attention to the long-term prospects for the business. More generally, he failed to recognise that turning around ailing businesses has become much more difficult in an era of rapid economic change. The lesson for investors is that what has worked in the past doesn't necessarily work in the future.

People have a psychological aversion to recognising a mistake. Investors tend to hang on in the hope that a fund's fortunes will be turned around – as they often are, whether due to a change in manager, a change in market conditions, or a change in strategy.

But when the whole investment thesis is flawed and discredited, as with Patient Capital, CatCo and Better Capital, it is never too late to sell, however wide the discount to a net asset value that is probably an illusion.

Activist watch

Engine Capital, a $250m US hedge fund known for urging retailers to revamp their operations, has taken aim at the board of Care.com. Engine owns 3% of the shares in the online marketplace for carers. They have fallen by 60% since an investigation by The Wall Street Journal unearthed serious deficiencies in its vetting procedures: some people hired through the platform to care for clients had police records and were accused of crimes including child abuse and murder. The company says it will overhaul its business model, but Engine thinks the only way to recover from the scandal is to sell the business, note Gregory Zuckerman and Kirsten Grind in The Wall Street Journal. "Under new ownership it would be easier to establish a clean break from the past."

Uber is subsidised by its drivers

Ken Wiles and Kep Sweeney
The Wall Street Journal

Uber reported a $5.24bn loss in the second quarter of 2019, but "even that loss is understated" because a substantial part of the expense – the depreciation of drivers' cars – isn't included on Uber's income statement, say Ken Wiles and Kep Sweeney. Most Uber drivers seem unaware of how the wear and tear on their cars eats into their profits. Our survey of 50 drivers found that all recorded their revenue (payments Uber made to them) in detail, but only a few recorded repairs and only one part-timer detailed his car's depreciation, which revealed that he was "worse off financially then when he started". For full-time Uber drivers, this is "serious". If a driver carries passengers for 40,000 miles, assuming average depreciation of 29 cents a mile, the annual expense is $11,600. Based on Uber's journey data, drivers are absorbing "more than $11bn in annual costs". Once drivers realise what is happening, the likes of Lyft and Uber might find it hard to retain drivers without paying them more. Firms such as restaurants that rely on delivery will find their revenues under pressure too. "If these services were profitable, these companies would want to own the vehicles. They don't, and we know why."

Tell Greta that it's okay to fly

Tyler Cowen
Bloomberg

Greta Thunberg, the 16-year-old climate activist, is crossing the Atlantic by boat to attend a UN summit in New York, says Tyler Cowen. She should fly. Firstly, flying isn't the "worst offender" when it comes to carbon emissions. Some say it accounts for 5% of global emissions; most put it at 2%. Secondly, it isn't a promising area in terms of emissions reduction. While it is plausible to expect "a lot of progress" on solar, wind, nuclear and even fracking to cut emissions from other sources (cars, food production, power plants, etc), air travel may be the "hardest part of the problem to solve". Obviously, there is a symbolic aspect to Thunberg's decision, but anyone attempting to avoid generating any carbon emissions will die. Arguably, she ought to be talking about the importance of prioritising. For instance, she could choose to educate the public about carbon sequestration and call for more funding. This new technology has made real progress and is more likely to reduce emissions than people deciding to take fewer flights. Flying also has a "green upside". Green technologies need to spread around the world. This process will happen much more quickly if the experts take aeroplanes, not boats.

Big Brother's unwitting facilitators

Peter Franklin
UnHerd

Amazon's Ring brand, with its range of hi-tech video doorbells, is popular and controversial, says Peter Franklin. Video door-entry systems aren't new, but the Ring system is easy to use, affordable ($99) and digital. You can see what your doorbell sees on your smartphone. As the police become increasingly enthusiastic about the gadgets, critics complain that the systems will turn neighbourhoods into "places of constant surveillance". Until now, access to existing CCTV networks has generally been controlled by private firms or public bodies. But the ultra-cheap, widely owned, internet-connected sensors of the future may well feed information into a shared network in much the same way that we feed our photographs into Instagram. One of Ring's services allows members of a community to share doorbell footage. These bubbles could expand and merge, and eventually AI-powered image recognition could allow users to locate and track individuals or objects. Burglars, muggers, truants, adulterers and secret smokers, beware. Amazon also owns AWS, one of the biggest cloud-computing firms. So if anyone ends up hosting a live video feed of the entire planet, it will be Amazon. Happy days.

Boris gives British brains a boost

Jon Moynihan
CapX

Boris Johnson's announcement of visa prioritisation for scientists could "initiate an innovation revolution in the UK", says Jon Moynihan. We need to strengthen our intellectual infrastructure by investing across the board in science education. Britain "dominates the European academic" sector for basic science, but our scientific capabilities have been shrinking over recent decades. Scientific departments have closed; our best scientists go to the US; university places for science, technology, engineering and maths (Stem) subjects are falling relative to others and many are taken by overseas students who then return home. We need more funding for specialist sixth-form colleges (the two existing maths free schools are the best-performing A-level sixth forms in the country) and more university physical science departments. A tailored approach could pay dividends, particularly when it comes to global warming. The UK has a "unique opportunity to repurpose old North Sea platforms for carbon capture". We're already investigating iron ocean fertilisation to reduce atmospheric carbon. At a time when a new coal-fired plant fires up in China each week, interventionist solutions such as these "are likely to be the only ones that actually make a difference".

Money talks

"Through my taxes on cigarettes I've built three hospitals single-handedly. I never stop giving."
Actress Joanna Lumley (pictured), quoted in The Sunday Times

"At the end of the day, however much information wants to be free, writers still want to get paid."
Washington Post columnist Megan McArdle on newspaper paywalls, quoted on the Guido Fawkes blog

"The money. Why else would I do it?"
Jeremy Clarkson on what he likes most about TV, quoted in The Times

"I've never cared about being indie or cool. I wanted to be on *Top of the Pops*. Go back to the mid-80s. The [Happy] Mondays were talking to Piers Morgan. None of the other bands in the scene were doing that because it wasn't cool, but we were just so desperate not to have to go get a job in McDonald's."
Shaun Ryder, lead singer of the Happy Mondays, quoted in The Observer

"We've probably won 85% of our games over ten years. And the men have clearly not. And we've only been paid $8m more? We've been to three World Cup finals and won two of them."
Megan Rapinoe, star of the US women's football team, responding to the US football association's claim that the women's national team had been fairly paid

"I don't think from the night we were divorced that we spent a week without being on the phone three or four times, or meeting up. At some point we realised this is ridiculous, you'd better bring your dressing gown round. [The divorce] really didn't work. It was a waste of money."
Actress Felicity Kendal on her second husband Michael Rudman, whom she divorced but ended up living with, quoted in The Sunday Times

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Borisonomics – can it work?

Perk up and carry on

©Getty Images

resolutionfoundation.org

Boris Johnson's economic strategy is taking shape, says Torsten Bell. As he said upon entering No 10, the general idea is to stop listening to the "gloomsters" and "doomsters" – to do away with "unfounded self-doubt". In the face of a shrinking economy, Boris's national economic plan it seems is to cheer up – "open the spending floodgates, push ahead with Brexit and… focus on the sunny uplands ahead". Is there any economic reasoning behind this "perk up and carry on" strategy?

The economics of mood

There is in fact some. Keynes taught that decisions over whether to spend or invest are affected by "animal spirits" – economic outcomes depend on whether we are feeling optimistic or pessimistic. Consumer confidence is tied fairly closely to the ups and downs of GDP. Firms' investment decisions are related to bosses' attitudes about future prospects. Studies have even shown that sunshine is good for stock performance and that getting eliminated from the World Cup has the opposite effect. "Moods matter."

So the prime minister has a point. But there are limits to this as an economic plan. First, while consumer confidence and GDP are related, turning points in consumer mood tend to follow actual economic turning points. "Getting growth back is the best way to boost the mood of the country, not vice versa."

Second, polarisation over Brexit means that Boris is unlikely to reach the parts of the country that need perking up. Almost 90% of those who have a negative view of Brexit think the economy will get worse, compared with less than 15% for those with a very positive view. The former aren't listening to Boris's pep talk; the latter are quite optimistic enough already.

Third, most of us are already pretty cheery anyway. Views of the economy's prospects turned steeply negative after the referendum, but confidence about households' personal situation have been much more robust. Record employment and the return of decent pay growth has got cheery consumers spending beyond their means. That can't continue forever.

Finally, the usual tactic for perking up the economy is to spend more and cut taxes. Boris has started to splash the cash. Such "boosterism" has limits, however, and can't resolve the "substantial shock to the productive capacity of the economy that a messy Brexit" will entail. A fiscal injection can give the economy a boost, but "a generalised increase in perkiness is unlikely to follow". A dose of cheerfulness will not, I am afraid, resolve our economic difficulties.

The bias in economics

ineteconomics.org/perspectives/blog

Economists characterise their subject and views as "objective, unbiased and non-ideological", say Mohsen Javdani and Ha-Joon Chang. But is this true? To find out, we carried out an online survey of more than 2,400 economists from 19 countries. All respondents were given identical statements to agree or disagree with, but the source to whom the quote was attributed was randomly changed without their knowledge. When a statement criticising "pseudo-mathematical methods" in economics was attributed to its real source, Keynes, instead of to a fictitious one, for example, the agreement level among economists dropped by 11.6%. When a statement criticising patents was attributed to a Marxist, instead of to its real source, agreement dropped by 6.6%. At the same time around 82% of participants agreed that in evaluating a statement one should "only pay attention to its content, not its author". The level of ideological bias was also found to be strongly influenced by self-reported political orientation, being stronger among those on the right and those in the mainstream of the subject. Economics has a lot to say about critical issues around inequality, austerity, the future of work and climate change. Being aware of the bias inherent in the subject is a first step to a more balanced debate.

Misery sells newspapers

quillette.com

If you're middle class, then the media will be keen to hear about how happy you are in your work as a teacher, lawyer, academic, musician, or journalist, says Kevin Mims. Yet when online magazine Quillette published my essay on how happy I am in my work at an Amazon warehouse, I was "denounced as a sycophant and a corporate stooge".

The truth is that the nationals want misery. I have been writing "generally upbeat pieces about my life as a working-class stiff" for 30 years for my hometown publications. But finding a national market for such stories proved impossible.

Must be a stooge

I had success nationally only when I went downbeat. They lapped it up when I told them that a big regret was that I had never been the breadwinner in the family, or that I live without air-conditioning in California, or that I feared losing my house during the crisis of 2008. It's fine for the middle classes to be happy. But the "professionals who edit the nation's most prominent publications permit only one narrative when it comes to the toiling masses: their lives are nasty, brutish and short, and must always be portrayed as such".

Politicians who get mugged by reality

fee.org

Shortly after leaving office in 1981, Senator George McGovern set up in business, says Bill Haley. As the owner of a hotel, he was then faced with all the regulations and taxes he had previously fought to get implemented. In a letter to The Wall Street Journal in 1992, McGovern said that although he "never doubted the worthiness" of the goals of such regulation, what eludes legislators is whether or not consumers can afford to pay the higher prices that result. If not, firms go bust.

Presidential candidate Bernie Sanders has had a similar baptism of fire. He has been campaigning for a $15 minimum wage. When it was revealed that his own field staff were not getting that sum, he upped their wages – then eliminated most overtime to recoup the extra cost. Let's hope all candidates learn the lesson. As McGovern wrote, "I… wish that during the years I was in public office, I had had this first-hand experience about the difficulties business people face every day. That knowledge would have made me a better US senator and a more understanding presidential contender".

How investors can profit from the dawning of a new reality

Widespread use of virtual-reality technology has been "just around the corner" since the 1980s, says Ben Judge. But with the growing popularity of augmented reality, we might finally be about to turn that corner

"Suppose I make it so that you are in the story... and instead of being on a screen, the story is all about you, and you are in it."

Pygmalion's Spectacles, Stanley G. Weinbaum

Virtual reality (VR) – a holy grail of computer gamers who want a totally immersive experience – has been "just around the corner" for years now. It's not a new concept – it first appeared in 1935 in Stanley G. Weinbaum's science fiction short story, *Pygmalion's Spectacles*, according to Mike Colagrossi on Big Think. But it wasn't until 1981 that the phrase "virtual reality" appeared. It was reportedly coined by Jaron Lanier, a computer scientist, author, artist and philosopher, on whom the lead character in 1992 film *The Lawnmower Man* – in which a scientist conducts VR experiments on his gardener with the aim of making him a genius – is said to be based.

Since the advent of computers, many manufacturers have tried to bring the concept to life. But it has eluded them. The hardware and software has just not been good enough. True, gamers now have a decent crop of headsets with Facebook's Oculus (Facebook believes the future of VR lies in social gaming – Mark Zuckerberg has said he wants a billion people to be using the technology), HTC's Vive, Samsung's Gear and Sony's PlayStation VR among the most popular devices. But VR games have been the "next big thing" for some time now and, while the hardware is getting better and game developers are producing more appealing titles, it does seem that mass adoption is still "just around the corner".

But VR is just part of the picture – and only a small part at that. Most players are betting that the future lies not so much in VR, but in "augmented" reality (AR). Estimates of the size of these markets vary wildly. But most believe the AR market will be at least four times the size of the VR market. Tim Merel, writing on venturebeat.com, reckons the global AR market could top $75bn in revenue by 2023, while the VR market could be worth up to $15bn. Zion Market Research, meanwhile, estimates that the global AR and VR market will hit $814.7bn by 2025, up from just $26.7bn in 2018. Whichever figure you opt for, it's clear that a significant new market is opening up.

AR, VR – what's the difference?

With a VR set-up you are separated from the outside world and immersed as fully as possible in the computer-generated world. With AR and close sibling mixed reality (MR), computer-generated graphics are overlaid on a view of what is actually in front of you. These overlays add information and, in the case of MR, allow you to manipulate the computer-generated elements. In practice, the two terms are virtually interchangeable. Not having to immerse yourself fully in the virtual world has advantages in hardware terms – you're not restricted to a cumbersome headset and for many applications you can use your phone's screen, camera and processing power.

"Google Glass users were quickly described as 'Glassholes' by hostile media wags"

Indeed, much of the consumer market is focused on mobile AR, using smartphones. One of the most high-profile examples of AR is the mobile-phone game *Pokémon Go*, which swept the world in 2016. In it, players roam the streets collecting cartoon figures that hide in the real world. It was downloaded more than 750 million times in its first year. A more recent example is the *Harry Potter: Wizards Unite* game, from the same company, Niantic, which was released in June. The game is played out in the real world – players interact with computer-generated items displayed on their phone screens.

It's not just gaming

Other examples of consumer AR applications include Gatwick's award-winning AR smartphone app that helps travellers to navigate through the airport's two passenger terminals. The app will guide you through check-in, security and the consumer hellscape of the departure lounge, and provides flight updates, queue times, chatbots and more than 2,000 indoor beacons to help you find your way. Not only does it help passengers avoid getting lost, but the data it gathers on how they travel through the terminals is also invaluable to the airport and its business partners.

Google has done a similar thing with its Maps app. Its Live View AR mode – still in beta testing – lets you use the phone's camera to see the scene around you, overlaying arrows and directions to help you get to where you are going without getting lost. Retailers are keen on AR, too. Ikea's app allows you to visualise its furniture in your house to check that it fits in both size and style. Lacoste has an app that lets you try on shoes, while Topshop does the same with clothes.

You may even remember that Google had a stab at popularising consumer AR goggles with its "Google Glass". These were "smart glasses" with a processor, camera and heads-up display that were announced in 2012. In 2013 early adopters, called "Glass Explorers" by Google, could buy a pair for $1,500, and the product went on public sale in 2014. Glass could take photos and record video, while users could tell the device to launch a search for what they were looking at, with the results appearing to float in their line of vision. But despite substantial hype when it was launched, it wasn't well received. It made users look like a bit of an idiot. And it came with a host of privacy concerns – many people were uncomfortable with the idea that all their actions in the company of the wearers (quickly named "Glassholes" by some of the more hostile media wags) could be recorded without their knowledge. Some establishments banned them. As a result, Google pulled the plug in 2015.

Enterprise AR is attracting the tech giants

But rather than consumer AR, it is in business (or enterprise) applications that AR is really starting to take off. Index AR Solutions, which builds AR apps for businesses, believes that in the US alone the market for enterprise AR applications and systems could be worth $105bn by 2031, split between software, worth $11bn; services, $45.4bn; and hardware, worth $49.4bn.

©PokemonGo/Niantic

Pokémon Go was one of the first augmented reality hits

When it stopped selling its Glass headset to consumers, Google didn't give up altogether. It continued development with an "enterprise edition", which is currently being used by a surprising number of companies worldwide. It released its Enterprise Edition 2 in May, and reports suggest that Google has finished development of the third generation, which it may be about to put into production. Volkswagen has been piloting an AR project at its plant in Wolfsburg, Germany. Around 30 workers fulfilling orders are using Google's glasses with software developed by Ubimax, a privately held company specialising in AR applications. The information on parts, including identification and location, appears in the worker's field of vision, with the camera acting as a barcode reader that can identify which parts have been picked. Ubimax's software is also used by Samsung, DHL and Intel. German company Picavi also sells similar picking software for warehouse and logistics workers.

AGCO, an American agricultural products manufacturer, is using 100 pairs of Google Glasses at its tractor factory in Minnesota, along with software from Proceedix. It uses what it calls "assisted reality", a form of AR, to help in quality-control inspections, which it says has reduced inspection time by 30% and eliminated paperwork. The company is so happy with the technology that it plans to extend its use to six more factories. And aeroplane-maker Boeing uses "Skylight" software from Washington DC-based Upskill to guide technicians wiring planes. It claims to have cut production time by 25% and lowered the rate of errors to nearly zero. Boeing's venture-capital arm, HorizonX, has invested in Upskill, Reuters reported in 2017.

The big-name companies working in AR

Microsoft's HoloLens is a similar enterprise proposition – it launched with hopes that it would take off on a consumer level, but has become "a tool that can be genuinely useful for a wide range of businesses", says TechRadar. And its soon-to-be-launched HoloLens 2 is aimed squarely at businesses. It is working with Philips, which is using the HoloLens to allow doctors to see "inside" patients when performing surgical procedures. Microsoft is also planning tie-ups with the likes of Pearson, Bosch and Upskill.

Microsoft has produced a suite of apps for use with the HoloLens hardware, but, as with Google, it will allow third-party developers to create applications. Nasdaq-listed **Trimble** (**Nasdaq: TRMB**) produces a hard-hat that incorporates the HoloLens. Used with its Trimble Connect program, it allows workers on construction sites to visualise proposed elements of the planned construction over the current state of the site, potentially eliminating the need for many time-consuming physical drawings.

As far back as 2017, Bloomberg reported that Apple was working on an "AR headset to succeed [the] iPhone", which was supposed to be ready in 2019 for shipping in 2020. It quotes Apple CEO Tim Cook as saying "AR is going to change the way we use technology forever". The company is working

Continued on page 20

"The main focus for AR these days is not the consumer, but uses for businesses"

Continued from page 21

on several projects under the code-name "T288", says Bloomberg. And it bought German AR developer Metaio in 2016. But a launch depends on the technology being able to meet the demands of Apple's design team. They're not going to build and release some clunky-looking abomination. Recently departed design chief Jony Ive told The Independent back in 2017 that there was nothing on the market they would be happy with in terms of design, and that they were "waiting for the technology to catch up with the idea".

Will Apple launch AR any day now?

Given Apple's record of taking badly designed good ideas and repackaging them into world beaters, its entry into the market could be a significant step. MP3 players were around before the iPod; smartphones were around before the iPhone; and smart watches were around before Apple's Watch. But it took Apple's designs to make them cool, easy to use and ready for genuine mass adoption.

It might take some time. There are rumours circulating in the technology press that Apple has already disbanded its AR glasses team, such is the difficulty in coming up with an acceptably sleek device that can do all the things that the designers want it to do. Or it might not – other commentators believe development has stopped simply because the glasses, which would be paired with an iPhone, are ready for production and could be on sale as early as 2020. Certainly, said Macworld in May, "with Google and Microsoft actively developing AR devices, it seems like a party Apple can't afford to miss". And Bloomberg's original report of a 2020 release date "is looking increasingly likely". If Apple does join the VR party, you can expect consumer uptake to explode.

Apple has developed its ARKit for iOS devices, which enables external developers to build AR applications for iPhones and iPads. And it is likely that if and when Apple's AR glasses do arrive, they will, much like the Apple Watch, be an extension of your phone rather than a standalone device.

Military uses

Of course, VR and AR technology both have huge military applications. Indeed, the origins of the "heads-up" display lie in combat aircraft. Defence giant BAE is working on "vehicles of glass", says TechRadar, where operators of armoured combat vehicles use sensors to give them a 360-degree view of what's outside. And developers are coming up with "tactical augmented reality" – a heads-up display for foot soldiers, which will be able to help them orientate themselves and identify where everyone is on the battlefield – both friend and foe. Each soldier will be networked with the rest of his platoon; they will be able to see the terrain they are operating in, with map overlays and information from weapons' sights, which will allow unprecedented accuracy when firing. The US Army has been trying to perfect such a system since its Land Warrior System of the late 1980s and 1990s. The technology is not yet mature enough to provide all this information in a suitably miniaturised, rugged, power-efficient manner. But it's only a matter of time. We look at the most promising investments below.

"Defence giant BAE is working on 'glass' combat vehicles"

A "Google Explorer" – or "Glasshole", to the uncharitable

How can you invest in VR and AR?

Investing in pure-play AR and VR companies is tricky – as with so many of today's tech-heavy themes. Listed companies that focus solely on VR and AR are rare. There are many small, privately held companies to watch, in the hope that they come to the public markets in the future. Some are mentioned above; others include Chinese start-up Rokid, US start-up Magic Leap, and Israel's Lumus. But the biggest investors are the big-tech companies – Alphabet (Google), Facebook, Sony and Apple, for example.

One option for investors is **Qualcomm (Nasdaq: QCOM)**, which makes the Snapdragon chip that forms part of many of the current crop of headsets.

But a better bet might be Taiwanese phone-maker **HTC Corporation (Taiwan: 2498)**. As well as smartphones – which will be the platform for much of consumer AR – it also makes VR headsets. But unlike, say, Facebook's Oculus, which is aimed firmly at the consumer, HTC sees the enterprise market as its focus, says Travis Hoium on the Motley Fool. It may not sell as many headsets as Oculus, but it hopes that those it does sell will fetch a premium price. HTC's latest annual report claims 2018 was a "bumper year" for its VIVE VR business. It has been struggling lately, and is not currently profitable, but losses are narrowing. It recently pulled all its phones from the UK market, as a long-running intellectual property dispute with German company IPCom comes to a head. That knocked 7% off its share price. But if you're a big believer in AR, it may be an opportunity.

MicroVision (Nasdaq: MVIS) makes ultra-small laser sensors and scanners that can project to HD displays (eg, onto a car's windscreen or onto a head-mounted display), but it's probably one to avoid. It is not yet profitable, and lost $9m in the second quarter on revenues of $1.2m – down from $2m in the same period last year. The share price has fallen from $0.97 a year ago to $0.59 now. It has just placed a few million shares and raised $2m to give it enough cash to continue to the fourth quarter of 2019, but management warns there is "substantial doubt" as to whether it can continue as a going concern.

Meanwhile, **Vuzix (Nasdaq: VUZI)**, which produces a range of smart glasses and AR products for the consumer and enterprise markets, hasn't been a stellar investment either. It lost $6.4m in its last quarter on revenue of $1.4m and its share price has fallen from $6.40 a year ago to just $2 now. However, chipmaker Intel saw some value in the company back in 2015, and stumped up $25m; it now owns almost 50,000 convertible preferred shares, which, if converted, would represent an 18% stake. And just last month, Vuzix raised $20m from "two large institutional investors". It aims to be "cash flow break-even" by the end of the year.

Kopin (Nasdaq: KOPN) builds microdisplays and headsets. The company recently announced that its display technology is being used by Google in its Glass Enterprise Edition 2; it also makes systems for the US military. It's been around since 1984. However, it has been making a loss for a while and has significant debt. It has just released its results for the second quarter – revenue rose to $9.1m, up from $5.9m in the same period last year, and losses fell from $9.2m to $4.3m. So it is travelling in the right direction, at least.

©Getty Images

Big Blue promises big gains

Cloud computing is the next big thing in tech, and IBM is an excellent way to bet on it

Stephen Connolly
Investment columnist

The shift by businesses away from expensive and inefficient in-house information technology to "cloud-based" computing and software is still in its infancy. Firms find it more practical and cost-effective to rent or buy IT services or software – or store data – on the internet rather than deal with computing infrastructure and software (and the staff that may come with it) themselves.

The trend has a long way to go, however. With most companies only a fifth of the way there, according to consultants McKinsey & Co, this is still an early-stage opportunity to back a technology shift with significant growth ahead.

Research groups are projecting that the cloud industry is expanding anywhere between 15% and 30% a year, potential gains that have been attracting enough investor money to help turn cloud providers like Amazon and Microsoft into the world's biggest companies. Some may balk at the premium share prices despite the cloud's high growth profile, but there are other ways to invest.

A cheaper way in

A modestly-priced cloud player seeking to build momentum in the sector is **International Business Machines (NYSE: IBM)**, better known as IBM. This 108-year-old multinational described by the Wall Street Journal as an "icon of American ingenuity" (it helped invent the cash machine and floppy discs) has struggled of late amid the drift away from traditional IT products such as desktop PCs. Sales have shrunk to $79bn from nearly $110bn six years ago.

IBM's takeover of Red Hat bodes very well for growth

"IBM is far cheaper than the market and yields 4.8%"

In a bold move to get back on a growth track, IBM paid $34bn this year for Red Hat, a profitable software business founded in the early 1990s. It generated sales of $3.4bn last year and will boost IBM's group revenue and margins from 2020. But what makes Red Hat special are its top-rated and in-demand capabilities and applications built around Linux – a computer operating system that happens to underpin most of the cloud. This significantly strengthens IBM's capabilities at the centre of the cloud migration trend and, in particular, in its focus on serving the "hybrid" cloud, where businesses seek a flexible mixture of cloud usage, using multiple platforms as well as keeping some functions in-house.

Simply migrating onto a single platform is always an option but, for numerous reasons, the hybrid approach is generally preferable. Businesses don't want to be chained to one platform owned by a powerful technology giant. And increasing regulation can require data to be held locally within a country rather than more broadly. So multiple solutions and providers are required locally and internationally. Red Hat brings the expertise to deliver this so that clients can traverse many different and unconnected platforms seamlessly.

This ultimately makes IBM something of a unique multi-channel cloud player, seeking less to compete with larger rivals and more to complement them, using their platforms as clients require. Red Hat has partnered with the likes of Amazon and Microsoft in this way for years. Protecting such existing relationships means maintaining Red Hat's independence. At the same time, however, IBM can leverage its presence in nearly 200 countries to help extend Red Hat's reach while exploiting synergies.

The 20% progress most companies have made to cloud migration so far is likely to include a lot of the easier work. It will get harder as older systems and applications, as well as legal and security issues, all need complex solutions, which is when Red Hat really comes into its own. With IBM shares far cheaper than the overall market and yielding 4.8%, they look worth a punt.

A supertanker gradually changing course

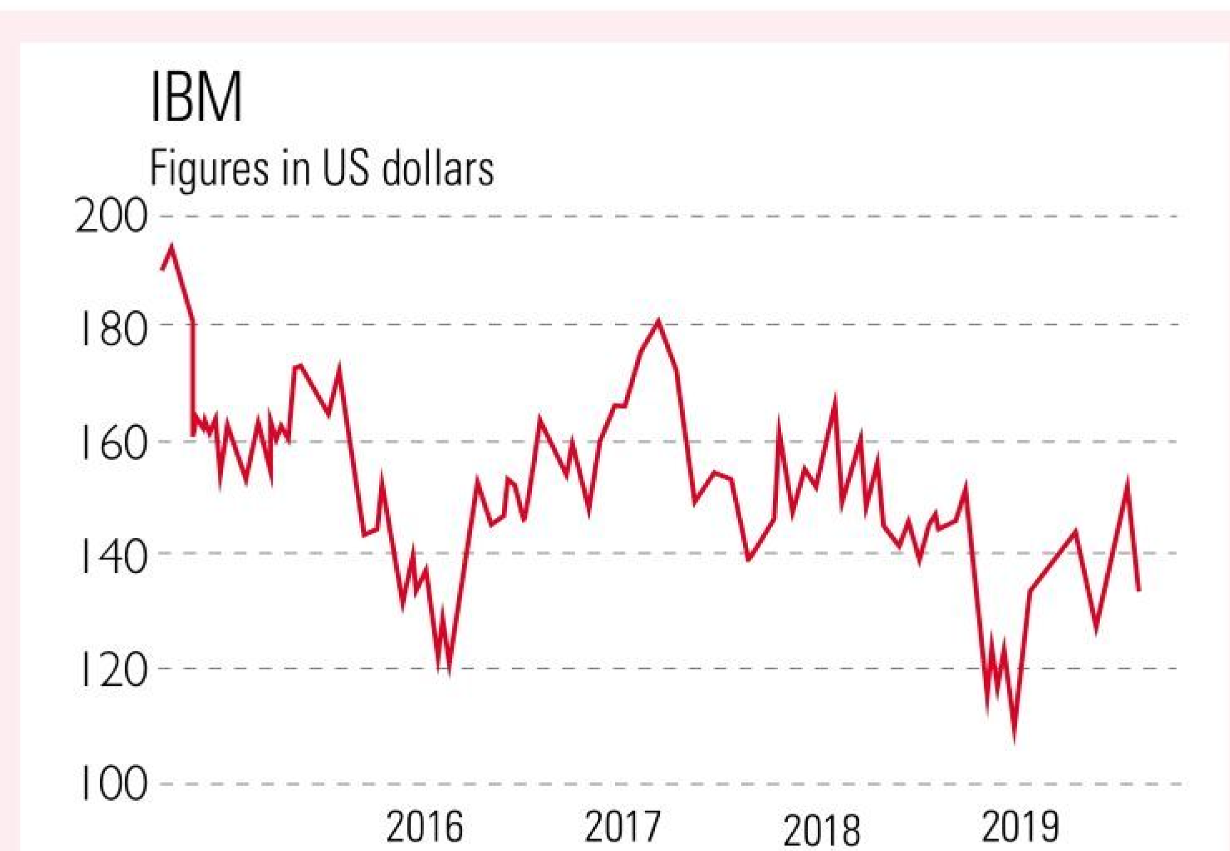
The Red Hat deal is a long overdue move by IBM to break declining sales and deliver growth. Admittedly, chief executive Ginni Rometty, a lifelong "IBMer" who took over in 2012, has had a lot more than cloud strategies to deal with over what have been painful years of industry transformation, certainly for shareholders.

The financial record isn't pretty. Except for a few upticks in quarterly sales last year which were falsely heralded as a return to sustained growth, it's been a case of continuous sales and profit declines for years.

The group is trying to capture fast-growing business opportunities but at the same time rationalise existing operations. It has dated, legacy businesses in its labyrinthine structure that aren't delivering. Acquisitions like Red Hat seek to reverse this.

The shares are currently trading at about $133 and have beaten the S&P 500 this year. However, they suffered during the big market falls last autumn caused by US-China trade worries and so although they have bounced, they're still below the price range of $140-$150 a year ago.

Given that IBM still has it all to prove with Red Hat and its general rationalisation programme, most analysts are on the sidelines, rating the shares a "hold" (although they are becoming a bit more positive). Nevertheless, the consensus share price target is $155 (17% upside), and sales, profits and cashflows are all forecast to rise after 2019.



As far as investors are concerned, although it's early days, IBM does offer an intriguing play on the high-growth cloud migration trend – and a very reasonably-priced one to boot. The stock is on a forward price/earnings ratio of just ten, a significant discount to the market. Meanwhile, the covered dividend yield of 4.8%, which is expected to grow faster than inflation, should offer considerable support.

Trim the cost of train travel

Fares will jump yet again next year, but there are several ways to save money

Ruth Jackson-Kirby
Investment columnist

Train fares are a national rip-off. A recent study found that ticket prices have risen by twice as much as average wages over the past ten years. The average fare has gone up by 46% since 2009; the average wage has risen by 23% over the same period. To make matters worse, rail fares will rise by up to 2.8% in January. The annual rise is capped at July's Retail Price Index, a measure of year-on-year inflation that reached 2.8% last month.

"If the full increase is passed onto passengers it could see season tickets from Brighton to London hiked by £125 a year to £4,357," notes Helen Knapman in The Sun. Tickets from Gloucester to Birmingham could rise by £119 to £4,357 and fares from Edinburgh to Glasgow by £114 to £4,198. So, what can you do to cut your rail costs?

If you are a commuter your options are limited, but "some can still make savings on their regular train travel by thinking outside of the box", says Megan French from moneysavingexpert.com. "For example, check if you can save by combining a railcard with daily tickets rather than using a season ticket, or see if 'split tickets' are available for your route." A more drastic option is to change your work routine to avoid the most expensive travel times. "If your employer allows you to work flexibly you could see whether it's cheaper to swap your season ticket for other types, such as pre-paid carnet tickets," says French.

A season ticket from Brighton to London could cost £4,357 next year

©Getty Images

Spread the pain

You can buy a book of pre-paid carnet tickets with some rail companies. They cost 10% less than tickets bought on the day of travel and are valid for three months. Split ticketing, meanwhile, is where you buy multiple tickets for one journey when some sections of your journey are cheaper than others. This can be particularly useful if you're travelling in and out of London at peak times but don't want to pay peak for your whole journey. For example, a trip from Bristol to London may be cheaper if you buy a ticket from Bristol to Didcot Parkway then another ticket from Didcot Parkway to London.

Another trick for one-off trips is to choose your booking website carefully. "Don't use fee-charging sites such as trainline.com and book with Grand Central, TransPennine Express or Virgin Trains, where no booking fees apply," says Adam Williams in The Daily Telegraph. You can book tickets for any journey nationwide through these websites, not just their own services.

Take advantage of railcards too. There are so many – 16-25, 26-30, Two Together, Family & Friends and Senior – that most people fit into at least one category. They all offer a third off tickets. There is now also a 16-17 railcard, which is estimated to save the average teenager £186 a year.

5 Reasons to Buy Physical Gold...

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2 **Gold has a history of holding its value** - Unlike paper currency, gold has maintained its value through the ages. It is an ideal way of preserving wealth from one generation to another. Plus, UK bullion coins are not subject to Capital Gains Tax.

3 **Gold is a hedge** - Gold has historically had a weak correlation to movements in the financial markets and is frequently used as a hedge against inflation or to offset falling stock markets.

4 **Scarcity** - Deposits of gold are relatively scarce and new supplies of physical gold is limited. This natural scarcity and high production cost is the ultimate reason why gold holds value.

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Companies cut back

Britvic is the latest firm hoping a cheaper inflation index will cut pension costs

David Prosser
Business columnist

Britvic is hoping to reduce the cost of its staff pension scheme by cutting the size of the increases it makes to pensions each year. The move could pave the way for other employers to do the same.

The drinks company currently increases pensions each year in line with inflation as measured by the Retail Price Index (RPI), but wants to move to the Consumer Price Index (CPI) measure for future increases.

Since CPI is typically lower than RPI, such a move would result in lower annual pension increases for Britvic pension scheme members, reducing the cost of the scheme over time to the company. RPI currently stands at 2.8% while CPI is only 2.1%.

The change in the scheme rules requires court approval and is opposed by employee representatives. The trade union Unison has argued that the switch from RPI to CPI would cost each of Britvic's 6,000 scheme members up to £12,000 over the course of their retirement.

There is no guarantee Britvic will be able to make the change, with other companies seeking to do the same having previously failed to secure the necessary legal permissions.

Robinsons maker Britvic: squashing pensions

©Alamy

In particular, the telecoms giant BT has lost in the courts three times over the past two years after seeking to change from RPI to CPI at its pension scheme. The charity Barnardo's has lost a similar case.

Firms will keep trying

However, some companies have successfully moved from RPI to CPI. The transport company Go-Ahead, for example, made the switch last year, with advisers estimating it had wiped £40m off its future pension liabilities as a result.

With such substantial savings available from what looks like a minor change to scheme rules, it is likely that more employers will pursue this option in the future. And in practice there may be little scheme members can do to stop their pension rights being downgraded. Each of the court cases heard so far on RPI to CPI switches has turned on the interpretation of how particular pension schemes word their rules. The cases are therefore scheme-specific rather than a consequence of general legal principles. Where schemes give employers more discretion to make changes to benefits, members may be powerless to stop them.

So if Britvic gets permission to go ahead with the switch from RPI to CPI, other companies will be encouraged to follow suit. And with many employers still concerned about the cost of pension promises, there are likely to be more cases in the years to come.

Man from the Pru may bring a windfall

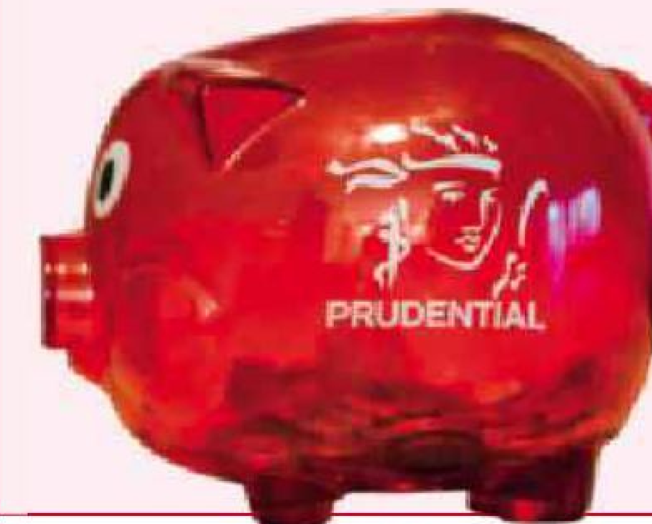
Thousands of members of company pension schemes administered by Prudential may be in line for a windfall after inaccuracies in the way their pensions have been calculated were identified.

The Pensions Regulator has written to the trustees of around 120 pension schemes following discussions with Prudential over how a change to the law in the early 1990s was implemented.

The change followed a legal ruling that employers could not have different retirement ages for men and women; employers therefore had to equalise pension benefits, often by offering men more generous terms.

Now, however, it appears that not all schemes followed the new rules in the right way. As a result, some members may have received less money than they were entitled to – as much as 25% less in the most extreme case.

Prudential and the Pensions Regulator are now in discussions over how to resolve the problem, with some financial advisers urging the insurer to proactively identify and contact every saver potentially affected in order to offer compensation.



Tax reprieve of the week

Over 120,000 businesses that have missed a tax deadline will have their £100 fines waived, HMRC announced this week. A total of 1.2 million small companies and self-employed workers are subject to new rules known as Making Tax Digital (MTD), a state-mandated shift towards submitting online tax returns with specialist software. The idea is to reduce errors in tax returns that cost taxpayers nearly £10bn last year. MTD applies to firms or people with a turnover above the £85,000 VAT threshold. Around 490,000 businesses should have completed their first return by 7 August. The expense and hassle of adapting to MTD has been widely criticised, and HMRC has chosen not to enforce penalties in the first year; it has also acknowledged that small companies may now be fully focused on disruption from a no-deal Brexit.

©Alamy; iStockphotos

Cold-call crooks shift their focus

A ban on cold calling in the pensions industry introduced in January has seen fraud decline sharply. The number of reports of pension scams received by the National Fraud Intelligence Bureau is down 75% so far this year, according to stockbroker AJ Bell. Financial losses from pension fraud have fallen by 85%.

The drop follows changes in the law that came into effect in January, making it illegal to approach savers and investors with unsolicited telephone calls or emails offering advice on pensions. Scammers had previously used such calls to push schemes such as pension liberation plans, or even outright frauds. However, AJ Bell's figures reveal that the number of scams related to investment, which is not covered by the cold calling ban, has almost doubled this year, with 8,000 cases already reported. This suggests fraudsters who previously targeted pensions as easy pickings have moved on to investment scams instead, with cold calls and unsolicited emails still rife in this area of the financial services market.

Pension savers could still be big losers. Many are now managing substantial pots of investment cash, having used the income drawdown rules to cash in their pensions early in retirement. Such funds represent a tempting target for fraudsters. So far, however, ministers have not responded to calls to extend the cold calling ban to cover investment products.

18+

WHAT IS

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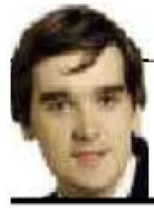
Uber is underpowered

The ride-hailing app is still bleeding red ink and looks absurdly overvalued



Matthew Partridge
Senior writer

For the first five months of this year the only thing people were talking about was how much money **Uber Technologies (NYSE: UBER)** would raise from its initial public offering (IPO). At one stage many people were expecting the ride-hailing app to receive so much money that it would be valued at more than $100bn.

But while the IPO wasn't a total flop and remains the largest flotation this year, it wasn't a massive success either. The share price immediately fell to $41 a share from the $45 it listed at. Since then it has done badly, with the price now falling to at $35. But it could go even lower.

The reason why Uber's shares have been struggling is that it has failed to turn its sales into earnings, losing an estimated $5.2bn in the last three months alone, as well as being expected to lose another $6bn next year.

On the face of it, this shouldn't necessarily be fatal since many technology companies are currently seeing their share price soar despite not making a profit. However, while they at least can claim that they are still building up their business, Uber has been around for over a decade – far beyond the point at which it should really have started to make money.

A hypercompetitive market

The real problem with Uber is that its core business, hailing taxis via smartphone apps, is highly competitive, with low barriers to entry and consumers who will switch service in the blink of an eye if they can find a slightly cheaper deal somewhere else. And it's not just a case of consumers switching: drivers are also beginning to demand higher pay and better conditions. As a result, Uber has steadily been losing market share to rivals such as Lyft, despite reducing fares and increasing the amount of money it pays to drivers in order to keep them loyal.

Food-delivery rivals could eat Uber's lunch

It's therefore not surprising that Uber has tried to get around this by moving into food delivery through its Uber Eats service. However, this is a jump from the frying pan into the fire, as the move puts it in direct competition with a wide range of companies, such as Deliveroo, which are also determined to dominate this area.

"With Uber Eats the firm has jumped from the frying pan into the fire"

While Uber appears to be hoping that it can outlast its rivals in the food sector by running its service at a loss, it's hard to see this strategy working against a firm such as Amazon, which can draw on the resources generated by its extremely profitable business. Given this, how can Uber's valuation of over five times current sales possibly be justified?

With Uber overvalued and its shares falling, this seems a good time to short them at the current price of $35.70, at £100 per $1 (compared with IG Index's £24 per $1), covering your position if it rises above $45.70. This gives a total downside of £1,000.

Trading techniques... the skyscraper index

A boom can easily become a bubble. One way to distinguish robust growth from the late stages of a bubble is through the skyscraper index. There are several versions of this, but they boil down to a simple principle: if a country is building the largest skyscraper in the world, then stay away from its stocks.

The rationale is that large skyscrapers are usually poor investments, prompted by a combination of vanity and excessive optimism rather than the reasonable expectation of healthy returns. Their appearance is therefore both a sign of irrational exuberance and an indication that there aren't any alternative investment projects with a higher capital return. Since large property projects usually require construction companies to borrow huge amounts of money, their presence also suggests that credit is too freely available (implying that the economic cycle is about to turn).

There is some anecdotal evidence to support the Skyscraper index. Avoiding the stockmarket during the construction of the Empire State Building between March 1930 and April 1931 would have saved you a lot of money. Similarly, the original World Trade Centre in New York and Sears Tower in Chicago were both started in the early 1970s, just before the stockmarket crashed. Malaysia's Petronas Tower would also be completed just before the Asian Crisis, while Dubai's Burj Khalifa was still being constructed during the global financial crisis. Still, it's important not to take this index too seriously as the shift to a services-based global economy means that skyscrapers are more of a necessity than a luxury these days.

©Getty Images

How my tips have fared

This last fortnight has been a mixed bag for my tips, with exactly half the six longs rising and the other three falling. JD Sports climbed from 582p to 601 and Superdry from 389p to 392p. Safestore was the star performer, going up from 607p to 641p.

In the case of Hays and Bellway, the falls were relatively minor, with Hays declining from 147p to 146p and Bellway from 2,868p to 2,842p. However, Bausch Health Companies, which I tipped two weeks ago, did especially badly, falling from $24 to $21.72. This means that my six long tips are making a total loss of £42.

My four short tips were also split down the middle, with two increasing and two falling. Weis Markets rose from $38.38 to $39.40, while Netflix also increased from $305 to $309. However, Tesla declined from $228 to $224. The best-performing tip over the last two weeks was Bitcoin, which went from $11,500 to $10,695, although it is still above the level I originally tipped it at. Overall, three out of the four tips are making money, with my shorts currently making net profits of £908.

Both Beyond Meat and Zoom Communications are still trading above the level at which I recommended you should start shorting them. Counting the latest Uber tip on this page, there are now 11 open tips (six longs and five shorts).

Taking into account the three tips that were closed a fortnight ago, I'm not going to recommend that you close any other tips. Still, unless something improves with Hays very soon I'm going to suggest that you close it.

I'm also going to keep my eye on the JD Sports long (tipped back in Issue 929), and the Weis Markets short (issue 919), even though both tips are currently in the black.

Cash in on change in emerging markets

A professional investor tells us where he'd put his money. This week: Chetan Sehgal, Lead Portfolio Manager, Templeton Emerging Markets Investment Trust

After a strong start to 2019, global and emerging-market equities have hit turbulence thanks to changing US Federal Reserve policy and ongoing US-China trade-related negotiations or tweets. Against this volatile backdrop we continue to search for companies with sustainable drivers of earnings growth that can withstand ongoing market uncertainty. Domestically orientated businesses may be well positioned to benefit from structural demand drivers, such as the confluence of technology and consumption in e-commerce, or consumers' need for financial services.

Seek out Korea's top search engine

A structural shift likely to endure is the role of technology in driving global GDP growth, particularly within emerging markets. **Naver (Seoul: 035420)** is the leading online search engine in Korea and has been early to adapt to changing online advertisement-market dynamics. The company has integrated its search functionality with e-commerce and content to maintain its market leadership. It now handles around a fifth of e-commerce traffic in Korea.

Naver is also among the leading payment companies in both Korea (Naver Pay) and Japan (through its social-media subsidiary, Line). It is thus facilitating e-commerce growth as well as benefiting from it. Reflecting the success of this online ecosystem, Naver was ranked ninth on Forbes' Most Innovative Companies list in 2018.

A boost for Brazil

The election of Jair Bolsonaro (pictured) as president of Brazil boosted hopes of economic reform and an improvement in the growth outlook. Private-sector banks stand to gain from a pick-up in the lending cycle, especially if they have adequately addressed non-performing loans. **Banco Bradesco (NYSE: BBD)** is one of Brazil's largest financial conglomerates, providing a full range of banking and financial services. The company is leveraged to the economic recovery, benefits from a concentrated banking sector and gains from an extensive retail-distribution network that provides exposure to household spending. Ongoing government-led reforms are also expected to unlock demand for corporate lending.

"Banco Bradesco stands to gain from rising demand for corporate loans"

Roaring ahead in Russia

Russia has been a strongly-performing market in the last year despite macroeconomic and geopolitical risks. **Sberbank (Moscow: SBER)** is the largest bank in Russia and has been expanding its market share as the industry has consolidated. Smaller competitors without access to the state deposit insurance system have fallen by the wayside as they have struggled to attract retail depositors. Sberbank has a strong focus on technology, dominating peer-to-peer transfers and card issuance, while its online mortgage app and e-commerce business are growing. An emphasis on reducing costs (by closing retail branches, for instance) is improving overall efficiency and margins.

If only you'd invested in...

Acacia Mining (LSE: ACA) is a Tanzania-focused gold miner formerly called African Barrick Gold. Ever since March 2017 the company has been plagued by an export ban imposed by the Tanzanian government following a dispute over tax. However, earlier this month Acacia was given the go-ahead to resume exports from North Mara, its biggest mine in the country. The board has recommended a recent buy-out offer from the world's second-biggest gold miner, Barrick Gold. Last year, Acacia earned $59m from sales of $664m. The previous year it made a loss of $707m.

Be glad you didn't buy...

Plus500 (LSE: PLUS) is an Israel-based online trading platform that allows individuals to trade contracts for difference (CFDs – a form of bet on the movement of asset prices). Lower market volatility and a regulatory clampdown in Europe on leveraged betting has buffeted the stock in recent months. However, investors are hoping the worst is over. Profits increased to $379m last year from a little under $200m the year before; sales recovered to $720m from $437m. A share buyback plan of up to $50m boosted the share price by a fifth in August 2019.

City legend hangs up his bowler hat

Sir Win Bischoff, who has been at the heart of the City of London for decades, is retiring. It's just a shame that he's not departing on a higher note, says Jane Lewis

"Audit watchdog leaders quit in overhaul after scandals". So ran a headline in The Guardian in March, announcing the disbandment of the Financial Reporting Council. It won't be much missed. Criticised for the "weakness of its response" to a spate of accounting failures, ranging from Carillion to BHS, the FRC was recently slammed by MPs as "too timid".

It's hardly a rousing finale to the sometime sparkling career of its chairman, Sir Win Bischoff, who will step down in October after a half-century career in finance, says the Financial Times. Appointed CEO of Schroders aged just 42, Bischoff, now 78, "has been a quietly subversive financier at the heart of the City of London for decades" – "a wine-sipping fixture at Square Mile social events most nights of the week".

It's hard to credit he'll soon be departing for good. "Still sprightly and a touch rosy-cheeked from years of wining and dining", Bischoff seems "the embodiment" of the old-school British banker – "even without the bowler hat and rolled umbrella" that were the uniform of his generation when he joined Schroders in the 1960s. But appearances can be deceptive. Having spent his earliest years in war-torn Germany he "lacks the Eton and Oxbridge pedigree of his peers" and has led a peripatetic life.

Financial wizardry

Born in Aachen in 1941, the son of a farmer, young Win arrived in South Africa – where his father had set up an import/export business – in 1955, notes The Spectator. After studying economics at university, Bischoff's father advised a career in banking on the grounds that "he'd come across many bankers when building his business and none of them seemed to be very good", Bischoff told Board Intelligence. "It was rather a backhanded compliment."

Paternal connections saw Bischoff start his career at Chase Manhattan, before moving to London to join Schroders in 1966. But it was in Hong Kong, where he was dispatched in 1970 to open an outpost, that he really made his mark. Bischoff was in his element working the colony's "clubby" business networks, says the FT, scoring a major coup in 1971 when he floated the nascent empire of billionaire tycoon Li Ka-shing. He reckons he was made CEO in 1984 because rivals who'd stayed in London in the 1970s were suffering "a sense of negativism". So "they skipped a generation and chose me".

It proved an outstanding call, says Financial News. Thanks to Sir Win's "wizardry", Schroders' shares "were among the best-three performing investments on the London Stock Exchange in the 1980s" (the others were Hanson and Polly Peck) – making billionaires of the bank's founding family. Valued at £112m in 1984, Schroders was worth £4.5bn by 2000, when Bischoff took the call to sell its banking business to Citigroup.

"Bischoff exudes a quiet wisdom that bullish financiers might do well to heed"

Bischoff had a "good" financial crisis – stepping in to steady Citi after Chuck "we're still dancing" Prince was ejected. But he was less sure-footed at Lloyds after being drafted in to chair the bank in 2009 following "its disastrous HBOS acquisition". Indeed, Lloyds "legacy issues" have continued to haunt Bischoff – particularly the mistreatment of small-business customers following the HBOS fraud scandal.

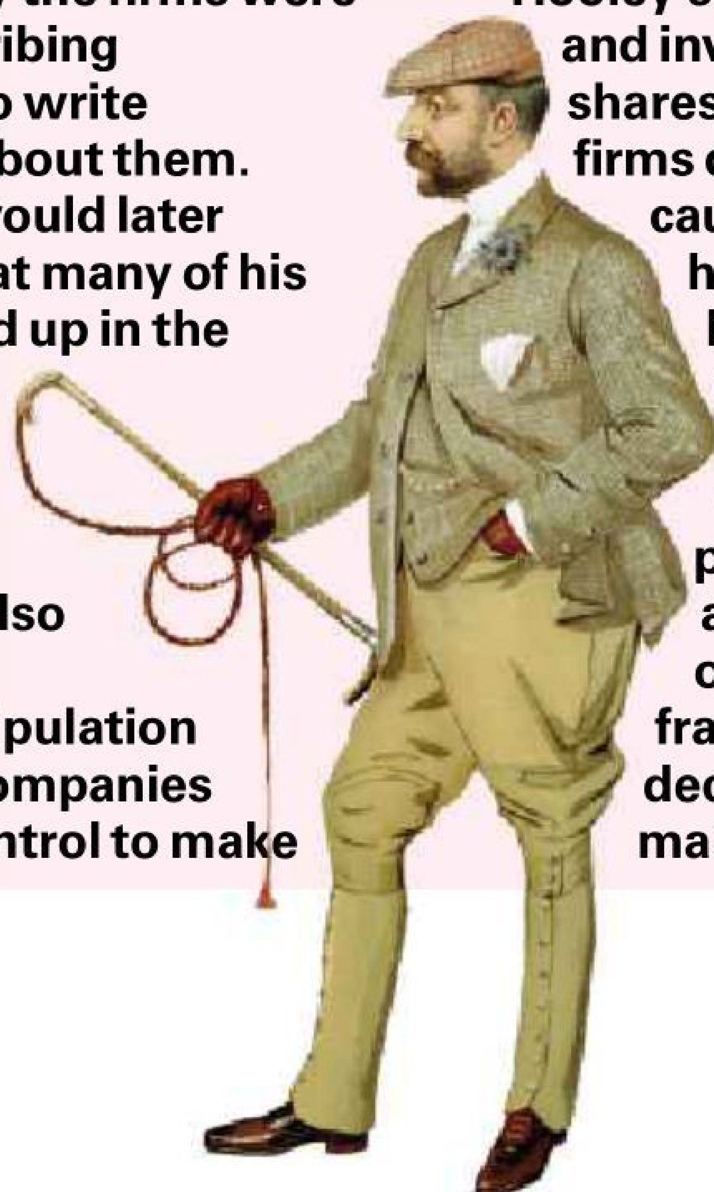
Still, there are plenty of "resonant positives to offset the end-of-career negatives", says the FT. Bischoff exudes a "quiet wisdom that bullish financiers might do well to heed". Money "needs to find a home", he says – and it has found it again in debt securities. "Astonishing." Having been through more than his share of market crises, Bischoff "sees another looming".

Great frauds in history... *Ernest Terah Hooley*

Ernest Terah Hooley was born in Nottinghamshire in 1859, the only child of a lacemaker. Ernest started work in his father's business and by 1888 had earned enough to buy Risley Hall in Derbyshire for £5,000 (about £640,000 in today's money). He then moved into stockbroking, making headlines when he bought the Pneumatic Tyre Company for £3m and then floated it (now named Dunlop) for £5m. Over the next decade he would repeat this trick with several other firms, including bicycle maker Raleigh and beefy drink brand Bovril. By 1895 he was wealthy enough to be able to afford to buy Papworth Hall in Cambridge for £70,000 (£9m).

What was the scam?

In order to get the public to buy shares in the firms he was floating at inflated prices, Hooley employed every trick in the book, from making fraudulent claims about how much money the firms were making to bribing journalists to write favourably about them. Indeed, he would later complain that many of his profits ended up in the pockets of newspaper and magazine editors. He also engaged in market manipulation by getting companies under his control to make large bids for other firms (whose shares he had covertly acquired), which they would later abandon (but not before he had sold his shares at a profit).



What happened next?

Hooley's extravagant lifestyle, and investor anger after the shares in the newly floated firms collapsed, eventually caught up with him, and he was declared bankrupt in 1898. He was able to ensure that his wife retained control of his properties, however, and he was acquitted on multiple charges of fraud. Over the next three decades he attempted to make several comebacks, with mixed results. He went bankrupt three more times and was imprisoned twice.

Lessons for investors

In 1898 the Pall Mall Gazette estimated that the 17 firms Hooley had been involved with had fallen in value by over half since flotation, with investors losing a total of £4.3m (£549m in today's money). Part of this was down to Hooley's fraudulent behaviour, but the bubble in the bicycle sector (which many of Hooley's companies were involved in) made his task easier, as people were willing to invest without paying much attention. As Warren Buffett later said: "It's only when the tide goes out that you realise who's been swimming naked."

©Getty Images

A perfect spot in the Algarve for golfers

The Four Seasons Fairways resort offers stunning courses in beautiful surroundings. Chris Carter reports

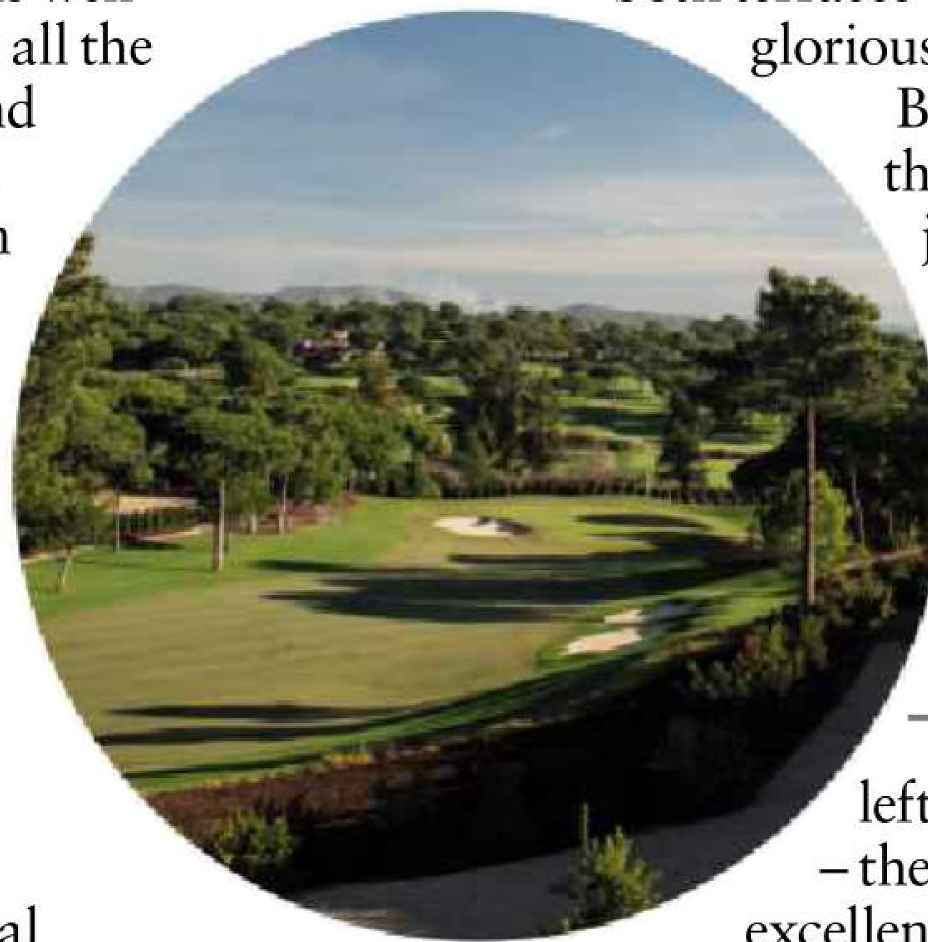
With its connotations of natural abundance and fecundity, the invading Muslim armies that conquered Al-Gharb (meaning "the west" in Arabic) 1,300 years ago had a great reverence for the colour green. But nothing – absolutely nothing – would have prepared them for the sight of Quinta do Lago in today's Algarve region in southern Portugal. The resort town, a 20-minute drive from Faro, is a sea of velvety green fairways, little triangular flags, and toy-sized golf carts buzzing around between holes. Needless to say, the courses are immaculate – clipped to within a blade of perfection, with tidy little sand traps so pristine it would seem a crime, rather than a setback on your way to the putting green, to hit wayward balls into them. The golf courses abutting Four Seasons Fairways resort are no exception.

The Four Seasons Fairways: a golf resort reminiscent of a Roman town

A terrace in a calm green sea

From the steps leading up to our apartment, the fairway looked like a calm green sea, edged out in shade from the umbrella pines, so reminiscent of the Mediterranean. The resort itself could almost pass for a Roman town, with its white walls and terracotta roof tiles set in beautifully manicured grounds. The road that runs through it takes the shape of a horseshoe and all along it colonial-style hillside villas with private pools line the way. Guests are afforded a surprising amount of privacy thanks to those hills when you consider that this is a resort with more than 130 villas. Certainly we couldn't see our neighbours from our apartment terrace.

Our terrace came with a gas barbecue, table and chairs, and a Jacuzzi big enough for a baby elephant. Some apartments even have swimming pools. Through the screen door, the walls are painted a minimalist white and the decor is modern. The kitchen is well-stocked with all the essentials, and an induction hob for when you're planning on whipping something up in a traditional *cataplana*. From the living room, we could see the communal swimming pools (indoor and outdoor) below and the bar, with its extensive menu of cocktails both classic and contemporary. The master bedroom has an en-suite bathroom, while a second bathroom with shower keeps the other bedroom company across from the kitchen. A larger private terrace was to be found beyond the front door – perfect for a mid-morning read before every square-inch of both terraces was bathed in glorious sunshine.



Back down the steps, and just off to the left, is Amara – the Fairway's excellent and recently reopened restaurant. Seared scallops in a sparkling wine beurre blanc was followed by stone bass served with a clam velouté. My dinner companion had the grouper in Madeira sauce, which was so good she was in danger of losing it across the table top. All of the dishes were paired with wines chosen by the knowledgeable resident sommelier, Miguel Reis. Keeping with the smart, modern theme, the restaurant has wide windows, so you can gaze out over more fairways while tucking into a dessert of chocolate ganache. This really is a golfer's paradise.

> *"With its velvety green fairways and excellent restaurant and bars, this really is a golfer's paradise"*

But if you are more of the "golf is a good walk spoiled" persuasion, the nearby lagoon and coastline make for a pleasant stroll. There are also the Roman ruins in nearby Milreu and the picturesque Moorish castle in the town of Loulé. But one of the best sights in the Algarve is the fish markets. This region, after all, has to be one of the best in Europe for seafood. On a visit to the Mercado do Peixe (fish market) in the town of Quarteira, about 20 minutes away in the car, the fish had only recently been plucked from the water. There were hulking great sides of red-raw tuna, netted bags of clams, and jumbo-sized prawns and plenty of jolly traders happy to point you in the right direction. It's not as if you could go too far wrong, however. Everything looked ready to be flung on the hot barbecue back at the apartment, to be enjoyed moments later with a crisp, cold vinho verde. And after all that, if you still have the energy, you could always try a round or two of golf.

The resort's Amara restaurant is excellent

Seven nights at Four Seasons Fairways from £1,380 for a three-bed villa (sleeps up to six) with pool or Jacuzzi. Flights not included. Book at fourseasonsfairways.com or call 00 351 289 357 667

This week: properties in beachside locations – from an award-winning contemporary house on the shingle beach

North Vat, Dungeness, Kent. This award-winning house was built in 2013 on the shingle beach in the Dungeness Estate. It comprises three cabins linked by a glazed hallway and has triple-glazed windows and a wood-burning stove. 2 beds, 2 baths, open-plan kitchen/living room, gardens. £995,000 Phillips & Stubbs 01797-227338.

Villa Guttuso, Porto Rotondo, Sardinia. A waterfront villa on the Punta Volpe peninsula with direct access to a sandy beach. It has frescoes by Sicilian artist Renato Guttuso and a professional-grade kitchen. 6 beds, 6 baths, 3 receps, staff quarters, pool, 0.10 acres. Price on application. Christie's International Real Estate +39 348 748 4890.

Suidheachan, Eoligarry, Isle of Barra. A Grade B-listed villa with far-reaching views over the Sound of Barra towards Knoydart. It was built in 1935 by the author Sir Compton Mackenzie, who wrote *Whisky Galore* in the property. It has vaulted ceilings and exposed beams, wood floors, open fireplaces, and a large kitchen with an Aga. 5 beds, 3 baths, 3 receps, study, garage, gardens. £325,000+ Savills 0141-222 5896.

in the Dungeness Estate, Kent, to a villa on the Isle of Barra in Scotland's Outer Hebrides

Whitsand Bay Hotel, Portwrinkle, Torpoint, Cornwall. This Grade II-listed period property is situated in a commanding position above the cliffs on Whitsand Bay, with views of the sea beyond. It has been trading as a successful 32-bedroom, family-run hotel and has planning permission to be split into 18 apartments, with planning also granted for four 4-bed detached houses in the grounds and lapsed planning for three further 3-bed houses. £3.5m Knight Frank 01392-423111.

Camgymeriad, Benar Headland, Abersoch, Pwllheli, Gwynedd. A contemporary cliff-side house with balconies and terraces with views across Cardigan Bay to Snowdonia and private steps leading down to a beach. It has floor-to-ceiling windows, 4 beds, 3 baths, recep, kitchen/family room. £1.75m Savills 01625-417450.

The Round House, Frinton-on-Sea, Essex. This restored, Grade II-listed house was designed in the 1930s by architect Oliver Hill to be part of a Modernist estate, of which only 40 properties were built. The reception-room floor features a map of the estate's intended layout. The house has floor-to-ceiling windows and porthole-style round doorways. 3 beds, 2 baths, recep, study, open-plan kitchen/dining area, garden. £950,000 Fine & Country 01206-878155.

Bonchurch Cliff Path, Bonchurch, Isle of Wight. This period property is set on the beach at the end of a cliff path and is thought to have been frequented by the Pre-Raphaelite poet Algernon Charles Swinburne. It commands views over the English Channel and has a courtyard and garden with a gate leading onto the beach. 3 beds, 2 baths, 2 receps, breakfast kitchen, balcony. £625,000+ Fine & Country 01983-520000.

Wittering House, West Strand, West Wittering, West Sussex. This substantial house was built in 1998 in a beachside location that commands panoramic views over the Solent to the Isle of Wight. It has a reception hall with a 19ft-high ceiling and a full-height window, and a large kitchen and family room leading onto the garden. 7 beds, 5 baths, 2 receps, playroom, study, detached double garage, direct access to the beach and foreshore, 1 acre. £4.5m Jackson-Stops 01243-786316.

Pagani's King of the Road

The Italian sports car maker has created true hypercar royalty. Chris Carter reports

Days when Italian sports car maker Pagani reveals a new model are few and far between – so "each of these events deserves more than a little attention", says Andrew Krok for CNET's Road Show. Its products are "utterly ridiculous hypercars built on the weird fringes of automotive engineering" and their "exclusivity makes them even more interesting". The new Huayra BC Roadster is no exception. This is "one ridiculous car".

The all-new 6.0-litre twin-turbo V12 engine has been specially designed for Pagani by AMG – the firm that tweaks Mercedes' models to boost performance. "It's a thumper too," says Rowan Horncastle in Top Gear, churning out 791bhp and 774lb ft of torque. It sits just behind the driver's head and feeds an Xtrac seven-speed automated manual transmission. An all-new monocoque, made from a blend of carbon-fibre and titanium, underpins it all. The new composite material stiffens the car up, allowing you to put it under more stress on the track, as well as protecting you should you get "overconfident and spear it into a wall". On the downside, the fancy new material has increased material costs by 450%. "Yowch."

That, at least, goes some of the way to explaining the price. "Just 40 examples of the BC Roadster will be made and each will carry a price-tag of around £2.8m before taxes," says Mike Duff for Autocar. "That's more than three times what the first Huayra coupé was sold for, but Pagani says it has no shortage of customers." Still, if £2.8m is a stretch too far, then fret not. The Italian supercar manufacturer unveiled its newest creation last month by producing a virtual version for CSR Racing 2, a mobile-phone game produced by Zynga, says Kirsten Korosec on TechCrunch. So you can at least imagine you're driving one if you buy the game.

It's a shame people more won't get to experience the real thing as it provides a sense of occasion like no other car on the road, says Top Gear. If you "rock up behind a Huyara Roadster in a motorway lane in your McLaren, you'd do very well just to leave it be" – because the Huayra is "spectacularly, brutally fast". It gets from 60mph-150mph "with such disdainful ease" you'll need to "raise your game and have the reflexes of a martial-arts master". This is "true hypercar royalty" and "a glinting example of what can be done with an absolutely zero-compromise attitude".

Wine of the week: a world-class sparkler from Dorset

2014 Bride Valley, Blanc de Blancs, Dorset
£38, ten branches of Waitrose and on waitrosecellar.com

Matthew Jukes
Wine columnist

There are a good few retailers out there for this wine, so please do have a browse of the Bride Valley website if you would like to support your local indie. For convenience, I have listed Waitrose, which sells more English wine than all of the other high-street titans, and it was there that I first tasted this wine while standing next to its maker, the legendary wine writer Steven Spurrier.

This wine is an instant classic – a smooth, enticing, beautifully balanced number. It is drinking perfectly already and is underpinned with pristine acidity. It was this facet of the wine that Steven and I chatted about while we were tasting it. He lowered his voice conspiratorially and told me a little secret that I am happy to share with you (I am sure he won't mind). He was travelling in Champagne and was in the Côte des Blancs, home to the great chardonnay vineyards of the region, tasting with some locals. He generously uncorked his own wine and one of the old timers sidled over to him and said, "You've got what we've lost". He was referring to the vital acidity in the Dorset-grown wine. It seems that Champagne is warming up, along with all of the other wine regions of the world, and it looks like England will be even more of a safe bet for world-class sparklers than we might first have thought. If you would like to know more about Steven and his fascinating journey through wine, then I recommend his book, *Wine – A Way of Life*.

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

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Donald Trump sizes up Greenland

The real-estate mogul turned US president still has an eye for outlandish property deals

Shortly before the collapse of the USSR, the then Soviet leader Mikhail Gorbachev visited New York. For a publicity stunt, a local news channel hired an impersonator to turn up with four Russian models in a limousine and do an impromptu meet and greet among passers-by. Suddenly, a certain real-estate developer, not spotting the deception, elbowed his way through the crowd and started lavishing praise on "Gorbachev", presumably with an eye to discussing Moscow property deals. So perhaps it's not surprising that, 30 years on, the imagination of the same real-estate developer, now the US president, has been "captured" by the idea of the US buying Greenland. Trump has even asked government lawyers "to look into the idea", says The Wall Street Journal.

Yours for around $1trn (assuming local resistance melts as quickly as the ice caps)

©iStockphotos

> *"Trump has asked government lawyers to look into the idea of America buying Greenland"*

What's it worth?

Buying Greenland may sound crazy, even for Trump, but "it is not entirely in the realm of fantasy", says Ed Pilkington in The Guardian. Indeed, as late as 1946, then US president Harry Truman tried to buy Greenland from Denmark for $100m (about $1.3bn in today's money), but was rebuffed. Back in 1917, the US was actually able to buy the Danish West Indies from Denmark, "rebranding them the US Virgin Islands", for $25m ($490m). So buying up Greenland would not be an unprecedented move, and it would make some sense: the US military already has a major airbase in the country, which is an important part of the country's global radar system.

If Trump were to try and put in a bid, he'd have to offer a lot more than Truman did, says Jamie Powell in a satirical piece on the FT's Alphaville blog. Greenland's crude-oil deposits alone are worth around $300bn-$400bn. It is also home to "some of the world's largest rare-earth deposits" – that could add another $700bn to the price tag, assuming that "local regulations, like the ice-caps, are quickly dissolved". Throw in the cost of the physical land and you could safely assume that, even on a "very conservative" estimate, the US would be looking at paying around $1trn.

Yet even if the US were willing to offer enough money, and that Danish and US public opinion were behind a deal, it's not clear who Trump would negotiate with, says Matthew Yglesias for Vox. Greenland has been a Danish colony since the 19th century and became a full part of Denmark in 1953. However, in 1979 Greenland's population obtained home rule, meaning that most domestic affairs were transferred into the hands of Greenland's government. Ten years ago, Greenland's voters approved "a transition plan to have all power except for foreign affairs and defence transferred" too. So "it does not appear that Denmark could sell Greenland even if it wanted to".

Greenlanders "have pointed out their home is not for sale" and Danish politicians have reacted to the proposals with "bemused horror", says Jon Henley in The Guardian. One Danish politician called the idea "the most absurd in living memory"; another called it "definitive proof" that Trump "has gone crazy". Former prime minister Lars Løkke Rasmussen was more diplomatic. "It must be an April Fools' Day joke," he said, "but totally out of season!"

Quintus Slide

Tabloid money... why you should holiday at home

● "When I was a cute 20-something I totally failed to get myself knocked up by a septuagenarian rock god, thus setting myself up for life," laments Virginia Blackburn in the Daily Express. So well done to Mick Jagger's latest "baby mama", Melanie Hamrick (pictured), who now has a $5m Manhattan townhouse. "It would be worth putting up with the ageing rocker on a part-time basis for that." Nor is she alone in her good fortune, for a new report has just said that tying the knot multiple times is better for women than for men as they get a financial boost. Rich widows get out without a divorce and are like bankers in that they too "accumulate humongous amounts of dosh". If only they had been in charge at the banks in the run-up to the financial crisis. "The chances of them risking a penny of their moolah would have been unthinkable."

● "Motherhood is an offensive gender stereotype," says Katie Glass in The Sun. That, at least, is the verdict of the "gender police" at the Advertising Standards Authority (ASA) after it banned two television advertisements that it ruled had breached new rules to reduce gender stereotyping. So, what was so bad? Were women in lingerie shown chained to the kitchen sink? Or was there a businessman smacking his secretary on the bottom, while she reorders his filing cabinet? "Er, no." One of the "appalling ads in question" for Volkswagen featured two male astronauts and a woman sitting by a pram. This was so offensive all of three people complained – which goes to show just how busy the ASA is these days.

● "I've had enough of travelling abroad," says Jason Manford in the Daily Mirror. No more cheap flights with massive hidden costs ("Oh, you'll want to breathe Ryanair's oxygen... that'll be an extra £9.99"), the ironically named Speedy Boarding, expensive food ("£4 for a Twix and a brew is a joke!"), rude foreigners, worse Brits, and security where "you virtually have to get undressed and let a complete stranger caress your privates while you wave all your prized possessions away in a grey plastic tray... In a world where the pound is as weak as, well, the euro, and Brits are about as welcome in Europe as Donald Trump at the MOBO awards, it's time to start holidaying on this gorgeous and unique island we call home."

©Getty Images

Bridge by Andrew Robson

Knave in the way

There were few more accurate bidders in the mid-20th century than the unobtrusive Kent twins, Bob and Jim Sharples. Here, we see Bob make a seemingly impossible Six No Trumps. Admittedly, it did require a defensive error, but it was a most subtle one. Can you spot it?

Dealer South — Neither-side vulnerable

North:
♠ AK9642
♥ 54
♦ K73
♣ AJ

West:
♠ J7
♥ J83
♦ 542
♣ Q10974

East:
♠ Q108
♥ A962
♦ 86
♣ 8653

South:
♠ 53
♥ KQ107
♦ AQJ109
♣ K2

The bidding

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

* Matchpoint scoring, so South prefers Six No Trumps to Six Diamonds. As it happens, Six Diamonds is far easier to make – declarer able to set Spades up without loss (ruffing the third round).

Declarer won West's ten of Clubs lead with dummy's Ace and immediately led a Heart to his King. He returned to dummy's King of Diamonds and led a second Heart. East correctly ducked a second time (or declarer would have three tricks in the suit) and the Queen won, West following small.

Up to 11 tricks, declarer now made the key move of leading a third Heart, losing the trick in order to "rectify the count" for a squeeze. West won the Knave and switched to a Spade, but declarer won dummy's King and cashed his King of Clubs and four remaining Diamonds.

On the last of these Diamonds, East was squeezed in Spades and Hearts. If he discarded the Ace of Hearts, declarer's ten would be promoted; but his choice of a Spade worked no better, as a spade to dummy's Ace felled the last two opposing Spades and the last trick was won by dummy's nine of Spades. Twelve tricks and slam made.

West needed to unblock the Knave of Hearts, so that declarer would be unable to concede the third round without East cashing the fourth – tough.

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

Sudoku 961

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

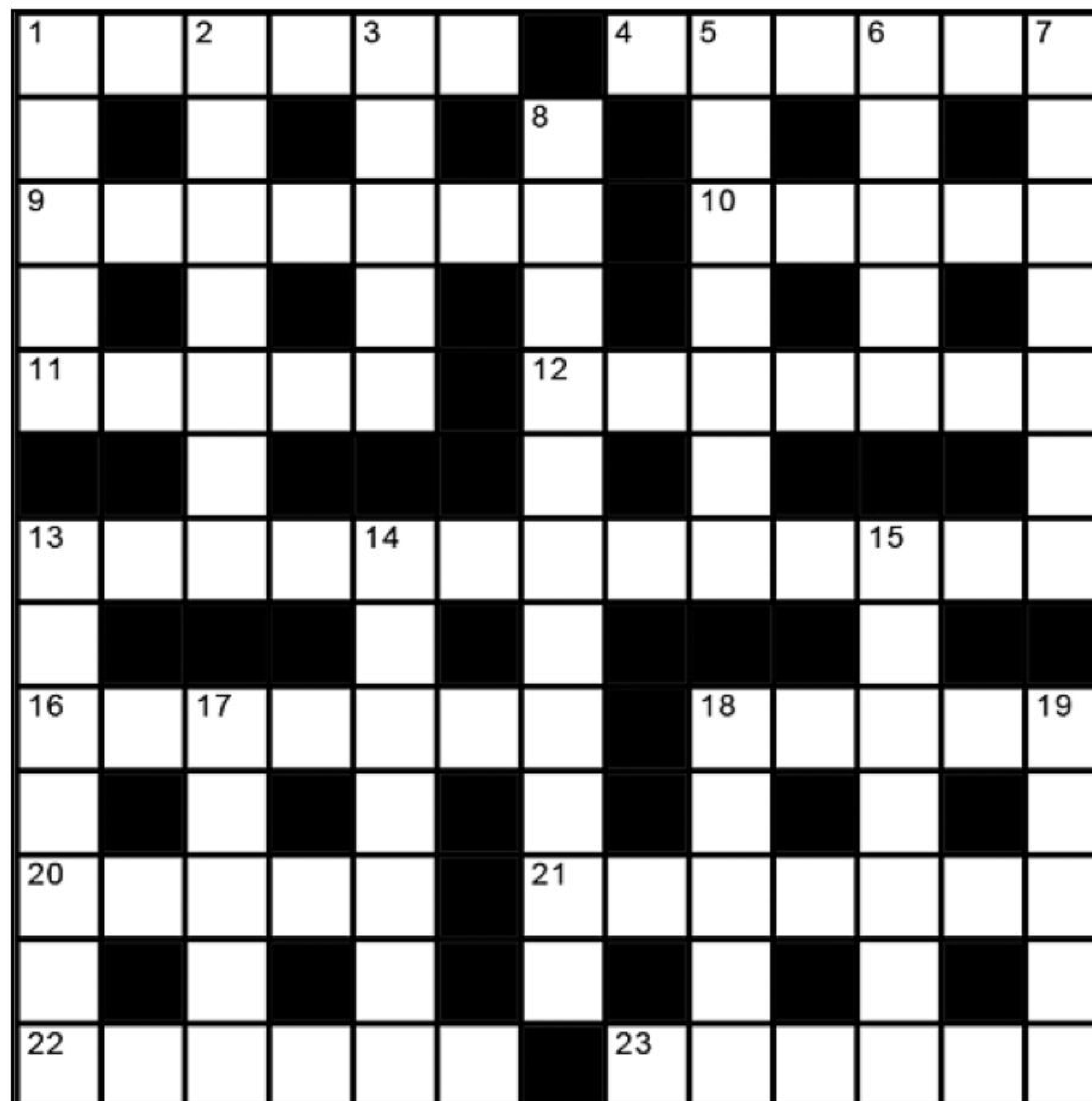
To complete MoneyWeek's Sudoku, fill in the squares in the grid so that every row and column and each of the nine 3x3 squares contain all the digits from one to nine. The answer to last week's puzzle is below.

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

MoneyWeek is available to visually impaired readers from RNIB National Talking Newspapers and Magazines in audio or etext. For details, call 0303-123 9999, or visit RNIB.org.uk.

Tim Moorey's Quick Crossword No. 961

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened 2 Sept 2019. Answers to MoneyWeek's Quick Crossword No. 961, 31-32 Alfred Place, London, WC1E 7DP.



Across clues are mildly cryptic whereas down clues are straightforward

ACROSS
1 A scene developing in spiritualist meeting (6)
4 TV presenter at sea? (6)
9 Mean to declare how old a person is (7)
10 Joker riding simple cart (5)
11 Free toilets close to home (5)
12 Supervise poetry in Old English (7)
13 Religious types converting Britney Spears (13)
16 Dead former love stank reportedly (7)
18 Hearts score surprisingly (5)
20 Angry buccaneer losing his head (5)
21 Freak, uneven delivery (7)
22 Weather in Azores is terrible (6)
23 Vegetable for the party (6)

DOWN
1 Female clothing worn around the shoulders (5)
2 Stunning (7)
3 Stop (5)
5 Beginning of January (3, 4)
6 Opposite to lows (5)
7 Sprinters, for example (7)
8 Removing a foreigner from the country (11)
13 First in importance (7)
14 Crazy (7)
15 Land area as measured (7)
17 Sides (5)
18 Drink made from apples (5)
19 One person performances (5)

Name ....

Address ....

Solutions to 959

Across 5 Billie Holiday *bill ie holiday* 8 Bestride *best ride* 9 T-bar *homophone* 10 Asinine *anagram* 12 Ad-lib *hidden* 14 Amass *a mass* 16 Parapet *para pet* 19 Argo *Argo(s)* 20 Onlooker *on looker* 22 Les Miserables *anagram* **Down** 1 Nile 2 Resigns 3 Gifted 4 Paradise 6 Latin 7 Odes 11 Somerset 13 Failure 15 Stormy 17 A-bomb 18 Hops 21 Even.

The winner of MoneyWeek Quick Crossword No. 959 is: Craig Dean of Deeside.

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

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

We keep the red flag flying here

Our warning signal is raised up high. Investors beware: the party can't go on forever

Bill Bonner
Columnist

The real problem is a lack of integrity

©Getty Images

Is our Crash Alert flag still flying? We hope so. It's been up the pole for so long, waiting patiently for the stockmarket to fall, we'd hate to miss it when it finally happens. Stocks sold off last week after the 30-year Treasury bond hit a record high and the yield curve inverted. What does that mean?

Ten times since 1950, an inverted yield curve (when yields on long-term bonds are lower than those on shorter-term ones) has signalled a recession. But don't worry, say the stock pushers. A recession has a long fuse. Between the time the fuse is lit by an inverted yield curve and the time the stockmarket blows up investors usually have 18 months to take their profits. And it's not unusual for stocks to hit a new high in that time. So it's still Party On!

"The fuse is lit. Stock investors have 18 months to take their profits"

But this is now the longest economic expansion in US history. Having delayed and denied a correction for so long, and having caused so many absurdities and abnormalities, a real bust may not be willing to wait. And in any case, when a theatre burns down, it's better to leave the show earlier rather than later.

An inverted yield curve is an odd thing. When the interest rate on long-term loans is lower than that on short-term money, it implies fewer things can go wrong over 30 years than over the next 30 days. The 30-year US bond now trades at barely more than 2% – less than consumer-price inflation. In other words, a buyer, if he holds to maturity, is guaranteed to lose money. Worldwide, another $16trn worth of bonds now trade at negative yields in nominal terms. That is not just an oddity; it is an outrage.

Who is to blame? President Donald Trump called Jerome Powell, the chief of the central bank, "clueless" and blamed his policies. He is surely right that the Federal Reserve is "clueless", but they all are, Democrats and Republicans. They, including the "low-interest-rate guy" in the White House, have created a world that depends on ever more inflation – lower rates, more credit, bigger deficits, more fake money and debt. The arguments between them are only on matters of technique. Did the Fed cut rates soon enough? Did the Chinese let the yuan fall too much? Should Congress provide more money for the military, forgive student debt, or give everyone a guaranteed income?

But the real problem is not a lack of inflation. It's a lack of integrity. The feds can add as much fake money as they want. Zimbabwe tried it. Venezuela is trying it. At one point or another, almost all countries give it a go. But the more they inflate the money supply, the more it distorts prices and disfigures the economy. GDP growth rates go down. Inequality goes up. Debt increases. Savings go down. Capital disappears. This is not a sustainable model for growth and prosperity. It leads only to a bubble… and a bust… and worse – including a breakdown of civilised behaviour.

The bottom line

2.38m The number of workers employed in Britain who were born in the EU hit this record high between April and June, according to the Office for National Statistics. In the past year the number rose by almost 88,000, driven by a rise in people arriving from eastern Europe. Numbers fell off after the 2016 referendum, but have recovered. The number of workers born elsewhere in the world (and outside Britain) rose to 3.34 million.

£3,067 What the average cost of an annual rail season ticket will be from January – up from £2,980 last year, according to an analysis by the Labour party. Rail fares rise by the retail price index (RPI) for July, which stood at 2.8%.

31 The percentage of millennials who have fallen into debt as a result of attending friends' weddings, according to a survey of 1,000 people by Spareroom.co.uk. Almost half – 44% – said they had turned down invitations because they couldn't afford to go.

£4,500 The value of three-year scholarships offered by Westminster University to students in clearing. Universities have been accused of luring students onto unsuitable courses with cash incentives.

$34trn The assets under management belonging to Climate Action 100+, which aims to fight climate change by engaging with the greenhouse-gas emitters in which they hold shares.

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$40,000 The value of the cannabis former heavyweight boxer Mike Tyson (pictured) smokes every month, he confessed on podcast Hotboxin'. He founded Tyson Holistic Holdings in 2016, a company that grows marijuana for medical purposes.

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