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# MONEYWEEK

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# Finding winners

## The secrets of successful stocks

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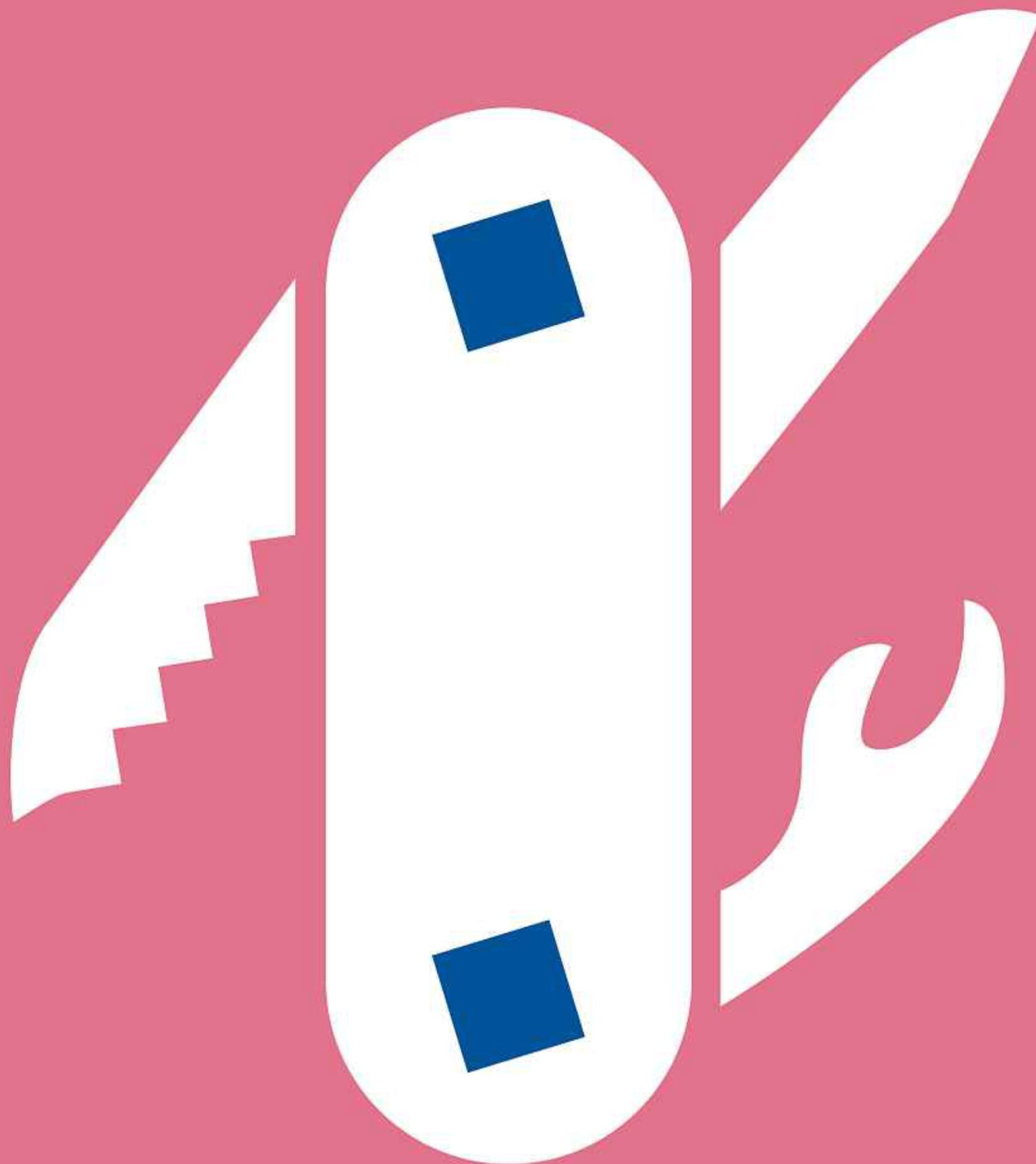

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MoneyWeek

22 November 2019 | Issue 974

Britain's best-selling financial magazine

# From the editor-in-chief...

Read the papers and you will see nothing but misery about how divided Britain is – we can, we are told, agree on nothing. It isn't really so. There is one thing that almost everyone agrees on: that the world's very big companies are a problem. I moderated a debate between the FT's Martin Wolf and Yanis Varoufakis last week. They come at their critiques of capitalism from completely different angles; but a large part of both of their anger was channelled in the same direction.

Yanis railed against the "rise of networked mega-corporations" and mega-banks into a "highly concentrated, obscenely powerful power grid". By the middle of the Noughties, he said, 65 of the 100 wealthiest entities on Earth were "financialised corporations, not states". How could anyone expect such organisations "to operate in synch with society's values and priorities"? Martin described the increasingly obvious sharp increase in concentration and declining competition, and a "rise in both monopoly and monopsony", as one of the "true failures" of today's corporate capitalism.

The Labour Party is on it too – while his solutions to this kind of thing are generally absurd, shadow chancellor John McDonnell is quite right to point out, as he did this week, that for example, our big four accountancy firms now represent an unattractive oligopoly.

©Getty Images

*Housebuilding: it's an oligopoly*

*"The greatest danger to capitalism is the rise of powerful established industry players"*

## The biggest threat to capitalism

However, for one of the best recent descriptions of how the mega-corporations have let us down, get a copy of Liam Halligan's new book, *Home Truths*. It focuses on the housing market and the lack of competition within it (the big housebuilders are now effectively an oligopoly). But in the conclusion he makes one key and, I think now, entirely uncontroversial point: the greatest danger to capitalism is the rise of powerful established industry players "who are able to lobby governments and defend and extend their market dominance by preventing meaningful regulation and reform that maintains broad political consent for 'the system'". (We'll have more on this in next week's issue, when our own Stuart Watkins will be looking at the way in which perverse incentives for company management have killed productivity in the UK.)

Given that everyone agrees on much of this, regardless of on which side of the political debate they sit, I would like to think that once this election is done and dusted, we might see some effective and free-market-friendly action to sort things out. Here's hoping (rather than expecting).

## Focus on what really matters

For now, investors should focus on investing in the ways least likely to be affected by the uncertainties of UK politics. See page 16 for John's take on the return of value investing. It might really be back this time. Then read Richard's piece on how to find stocks you can buy and hold through many elections to come (he has five favourites for you – see page 24). The more you can do this – and the less time you are spending frantically trading – the more time you will have to ponder the trends that really matter. This, according to Jim Simons, founder of one of the greatest money making machines in Wall Street history (see page 33), "turns out to be a pretty good approach". And probably not just for investors.

Merryn Somerset Webb
editor@moneyweek.com

## Loser of the week

©AP Images

Bruce Bagley, a Miami professor and author of a book on drug trafficking and organised crime, has been accused of putting his expertise to use in all the wrong ways. Bagley, who co-authored *Drug Trafficking, Organised Crime, and Violence in the Americas Today*, plus several academic articles on the subject, has been charged with laundering $2.5m into the US, taking $250,000 for himself. The money is alleged to have come via Swiss and UAE bank accounts held by a "purported food company" and a wealth management firm controlled by an unidentified Colombian, reports Bloomberg. It comes from embezzlement, corruption and bribery, say prosecutors. He has been released on $300,000 bail.

## Good week for:

**Kylie Jenner** (pictured), the 22-year-old star of TV and Instagram, has sold a 51% stake in her make-up business to US cosmetics group Coty, raking in $600m. Jenner set up the business in her teens, says The Guardian, selling her goods to "her hundreds of millions of social media followers". The sale cements her place as one of the world's youngest billionaires.

Seven-year-old **Blue Ivy Carter,** daughter of Beyonce and Jay-Z, has picked up a gong for songwriting at the annual Soul Train Awards for soul, hip-hop, and R&B in Las Vegas. The song, "Brown Skin Girl", beat five other nominated songs to win the Ashford & Simpson Songwriter's Award, which Blue Ivy will share with her parents and "ten others", reports the Daily Mail.

## Bad week for:

**Wang Sicong**, the son of Chinese billionaire Wang Jianlin, has been banned from travelling first class, going on holiday or buying property, and can only spend money on "life's necessities", says the South China Morning Post. Wang, who has personal debts of $21.6m, had the restrictions imposed by a court in Shanghai after losing a ¥3.6m contract dispute. He is also banned from playing golf, visiting nightclubs and staying in "star-rated" hotels.

**Prince Andrew** is being shunned by corporate sponsors acting to "protect their reputations" as the fallout from his friendship with convicted sex offender Jeffrey Epstein, who died in prison earlier this year, snowballs, says the FT. The Duke is patron of many charities and initiatives which rely on corporate support.

©Getty Images

Cover illustration: Adam Stower. Photos: Getty Images

# Stop worrying about the yield curve

**Alex Rankine**
Markets editor

*Investors are back in "risk-on" mode, propelling US stocks to new highs*

©Getty Images

"False alarm?" The inversion of the US yield curve sparked talk of impending recession earlier this year, says The Economist. Yet yields on US government debt have returned to a more normal pattern since mid-October. The curve completely uninverted for the first time in a year earlier this month. Financial markets are "celebrating a bullet dodged". US indices have been hitting new all-time highs in recent weeks as investors go back into "risk-on" mode. The Dow Jones index has gained 4.5% in the past month; the S&P 500 has risen 24% so far this year. But "the bullet may still be on its way".

### Doomsday delayed

The yield curve plots the interest rates on US Treasury bonds of different maturities. Under normal circumstances investors will demand higher interest rates for longer maturities. But if they think that a recession – and Federal Reserve interest rate cuts – lie in store, then long-term yields can fall and the curve become "inverted". Over the summer the US government was paying less to borrow money for ten years than for two years.

Markets consider this a "powerful economic omen", says The Economist. The last three US recessions were preceded, roughly one year before, by a yield curve inversion. Few economists think the "inversion itself causes a slowdown". Rather, it is a sign that markets think short-term interest rates are too high and will need to fall. Yet the US central bank has "responded faster and more fiercely to an inversion than it usually does", with three interest-rate cuts this year. That makes a recession next year seem less likely. Traders credit speedy Federal Reserve interest-rate cuts as well as better mood music from US-China trade talks for the improved sentiment, say Sam Goldfarb and Daniel Kruger for The Wall Street Journal. Nevertheless, an uninverted yield curve "doesn't mean the economy's in the clear". The yield curve has uninverted before previous recessions, including in the run-up to 2007. Uninversion doesn't cancel out the original recession signal.

### Is this time different?

Wall Street is "obsessed with the game of inversion-watching", says Gillian Tett in the Financial Times. Yet a recent paper from the Bank for International Settlements suggests that markets are looking in the wrong place. The study suggests that government bonds are a less reliable predictor of downturns than "financial cycle metrics (such as the debt-service ratio, property prices, credit spreads and so on)". While there are pockets of trouble in Chinese debt markets and US leveraged finance, the boffins do not think that the broader US financial cycle "signals a looming recession".

"Wall Street has forecast nine of the last five recessions," writes Jonathan Allum for The Blah! The yield curve may simply not be "the economic indicator it is cracked up to be", especially because quantitative easing policies have distorted interest rates over the past decade. We will have to wait until 2021 to find out if markets "were on the money" about a coming recession.

# Investors maintain confidence in Hong Kong

Is Hong Kong on the "brink of a total breakdown"? That was how one police spokesman described the situation after a week that saw anti-government protesters block roads in the central business district. Lawyers and bankers have been joining "radicals at the barricades" during their lunch breaks, says Amy Gunia in Time. The violence "on the doorstep of some of the world's largest banks" caused the territory to plunge into recession in the third quarter. Tourist arrivals are down by a third over the past year.

The violence has also begun to weigh on local markets. Mainland companies make up about 70% of the Hong Kong Stock Exchange. That should make equities' performance more tied to developments on the mainland than to turbulence in the former British colony. Yet the city's Hang Seng index is down 2.5% over the past six months as the mainland's CSI 300 index has gained 9%.

*Hong Kong remains Asia's financial hub*

©iStockphotos

Falling prices for local financial and property firms have dragged down the broader index, explains Zhang Shidong for The South China Morning Post. A recent Morgan Stanley report predicts that the Hang Seng will continue to underperform other Chinese stock indices. Faced with its "worst business outlook since the 2008 financial crisis", Hong Kong's corporate earnings are going nowhere fast, says Bloomberg News. Mainland-listed China A shares are "28% more expensive than their Hong Kong-listed peers".

Not everyone is so gloomy, says Sherisse Pham on CNN. Investors were this week "falling over themselves" to buy into Alibaba's secondary listing in Hong Kong (see page 7). That enthusiasm is "a vote of confidence in the Asian financial hub", despite the current unrest. It could also "cement the Hong Kong Stock Exchange's status as 2019's largest venue for public offerings."

## The cannabis high is wearing off

Legalisation in Canada and California meant that the cannabis sector was "white-hot" last year, says Kristine Owram on Bloomberg. Yet many North American pot firms have now "lost two-thirds... of their value". Canada's Canopy Growth Corporation, the world's largest, has reported poor sales.

The shares are down 47% so far this year. CEO Mark Zekulin told analysts that the "addressable market is only about half of what was originally expected", reports Ciara Linnane for MarketWatch. Cannabis retailer MedMen announced at the end of last week that it will cut "more than 20% of its staff" as it struggles with a cash crunch.

The industry faces several problems, says Owram. Efforts to legalise it in new markets have stalled, established black-market dealers are providing stiff competition and big institutional investors are sitting on the sidelines because the drug remains "federally illegal in the US". That leaves cannabis shares hostage to the whims of retail investors.

The market has become plagued by oversupply, adds Alexander Osipovich in The Wall Street Journal. Yet some analysts think that the recent falls are a buying opportunity. As more European and Latin American countries move towards legalising medicinal or recreational cannabis, the "long-term growth prospects" will still be tempting for some.

# Germany: global barometer

"Arguably, the economy that currently matters most is not China nor the United States, but Germany", says Jonathan Allum in The Blah! Europe's largest economy is heavily exposed to the global trade slowdown as exports comprise a whopping 47% of overall GDP. Many predicted a recession, but growth of 0.1% in the third quarter helped it dodge that "particular bullet".

Predictions of a technical recession had been based on "dismal industrial production data", but domestic demand came to the rescue, says Leonid Bershidsky on Bloomberg. Germans "bought 22% more cars in September" compared with the same month last year, while sales in the construction sector rose 6.5% year-on-year during the first eight months. Crucially, the unemployment rate of 3.1% remains at historic lows. That is keeping consumer spending ticking along.

The good news could prove a missed opportunity, says Ambrose Evans-Pritchard in The Daily Telegraph. "Gothic headlines" of recessionary doom would have increased the pressure on tight-fisted politicians in Berlin to ramp up fiscal stimulus.

Instead, policymakers have remained sanguine about the growth slowdown, Carsten Brzeski of ING tells the Financial Times. "After ten years of almost unstoppable economic growth, a shorter period of stagnation is not necessarily a big crisis."

Demand for cars in Germany has risen sharply

©Getty Images

### The world's frail trio

"Germany is not out of the economic woods yet," says Evans-Pritchard. More than almost any other major country, it is "highly geared to the ups and downs of the global trade cycle". Daimler's recent profit shock was a reminder that the world economy is not in good health.

Global growth is being dragged down by the "frail trio" of China, Japan and Germany, says Craig Stirling on Bloomberg. The only bright spot is strong US consumer data. Growth in China slowed again in October, while Japanese growth fell from 1.8% in the second quarter to just 0.2% in the third, sparking talk of a recession. Investors are hopeful that an upcoming US-China trade truce will prevent "a major rupture in the world trade system", says The Wall Street Journal. Yet a tariff rollback alone doesn't provide much reason for a sustained rebound.

Markets have other ideas. Germany's Dax index is up about 25% for the year to date. That is partly thanks to new monetary stimulus from the European Central Bank, which inflates asset prices, but also suggests optimism about 2020.

But the bulls are getting ahead of themselves, says Nick Andrews for Gavekal Research. Germany's manufacturing sector faces structural challenges and "it is too soon to be counting trade chickens… It's not 2017 again in Europe".

## Viewpoint

"[Last week] talk of the Dow Jones... at 30,000 didn't seem so fanciful as when Barron's suggested it in January 2017, as the blue chips hit 20,000... 'the global economic backdrop has, for the first time in 18 months, begun to improve', writes Michael Pearce [of] Capital Economics. It's not just because of prospects of a trade deal. Recession risks have, well, receded. Growth may slow to a 1% annual rate in the current quarter, but odds of falling into an outright recession have slid... the risks from financial excesses still appear moderate, according to Goldman Sachs economist David Mericle. Commercial real-estate risks have eased, helped by slower price appreciation and better rents. Corporate debt is high, compared with GDP, but a better comparison is debt versus earnings and assets. Those metrics are not at alarming levels, even for high-yield issuers."

**Randall Forsyth, Barron's**

## Kuwait is ready for take-off

The KMEFIC FTSE Kuwait Equity UCITS ETF (LSE: KUWP) has made little progress since HANetf launched it in London earlier this year. But that could soon change. Kuwait is due to be promoted from a "frontier" market to an emerging one by index provider MSCI next June. That should entice almost $10bn of global investors' cash into the market, reckons HANetf. The overall market capitalisation of the local index is only around $30bn. Meanwhile, Kuwait has the world's sixth-largest oil reserves, but is sensibly diversifying in an effort to become a regional commercial and financial hub. The ETF, which tracks the FTSE Kuwait All-Cap 15% Capped index comprising small, mid and large caps, has low exposure to oil.

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

## Three to buy

**Airtel Africa**
*The Times*
Africa's youthful population, rapid growth and "swelling ranks of affluent consumers" give it vast economic potential. Yet it remains difficult for investors to gain direct exposure to the continent. This telecoms group operates in 14 African countries. Nigeria is its most important market and Airtel also has scope to expand into liberalising states such as Ethiopia. On just 8.9 times forecast earnings the shares look a bargain for investors "prepared to think longer term". *67p*

**Future**
*Shares*
The £140m purchase of TI Media, the owner of Marie Claire UK and Country Life, could prove a catalyst for further share-price upside at this FTSE 250 publisher. Disruption in the publishing industry means that many established titles can be snapped up relatively cheaply and CEO Zillah Byng-Thorne has proved adept at using e-commerce, digital advertising and retail partnerships to generate new revenue streams. The shares are up 1,700% since she took over in 2014, but they should still have "further to run". *1,420p*

**RockRose Energy**
*The Mail on Sunday*
Founded in 2016 when oil prices were falling, RockRose Energy has a straightforward strategy: it buys cheap North Sea oil and gas assets and spends money on improving their "productivity, efficiency and life expectancy". That distinguishes it from riskier, exploration-focused peers. It is now pumping more than 20,000 barrels of oil equivalent per day and is turning a profit. On a near-5% dividend yield, this is a buy. *1,735p*

## Three to sell

**Hunting**
*Investors Chronicle*
Shares in this oil and gas services business have more than halved since last year's highs due to weakness in America's onshore oil and gas sector. The shale boom is slowing down and consolidation by oil majors will reduce Hunting's pricing power. Management has been doing the right things by seeking new revenue streams and investing in new capacity, but the business is still dangerously exposed to the pain in US onshore. High fixed costs in the industry mean that profits take a big hit during downturns. Sell. *438p*

**Camellia**
*Investors Chronicle*
This agriculture-to-engineering business operates in a wide array of sectors. Trouble in cyclical aerospace and energy markets means that almost all the group's earnings are currently coming from the agriculture division. Yet weakness in global tea prices is a reminder that farming is a

"notoriously temperamental" industry "beset by changeable weather, price volatility and labour issues". With earnings forecast to remain depressed, there is little to get excited about here. Sell. *9,250p*

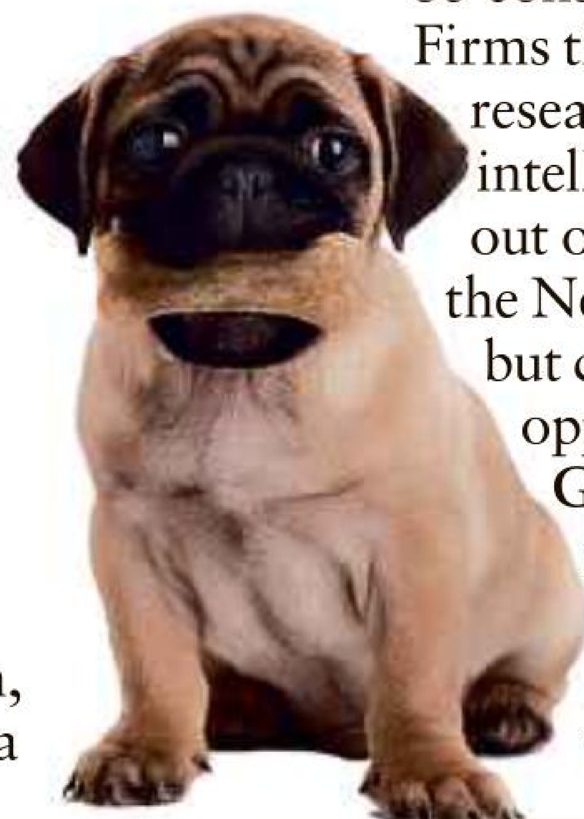
**Renishaw**
*The Sunday Times*
This "engineering empire" now has operations across 36 countries and makes "everything from products used in brain surgery to wind turbines". Yet the firm is painfully exposed to the global downturn and has issued three profit warnings since March. Profits in the latest quarter slumped from £32.6m to just £4.3m. Even if Trump does a trade deal it will "take a long time before Renishaw feels any benefit". Avoid. *3,938p*

## ...and the rest

**Investors Chronicle**
An aggressive turnaround plan is bearing fruit at **Wm Morrisons** supermarkets. An attractive dividend yield and a partnership with Amazon that has generated takeover speculation round out the investment case nicely *(199p)*.

**Shares**
**Pacific Horizon Investment Trust** offers one way to tap into Asia's "enormous long-run growth potential" *(321p)*. A difficult trading environment means that it is time to take profits in casual dining business **Restaurant Group** *(139.75p)*. Pet retail is a "resilient niche", so keep buying **Pets at Home** *(205.5p)*. Strong third-quarter results reinforce our confidence in serviced office specialist **IWG** *(400p)*.

**The Daily Telegraph**
Value is coming back into fashion, so now could be a good time to buy into **Temple Bar Investment Trust**, which boasts a low annual charge and has raised its dividend for 35 consecutive years *(1,326p)*. Firms that turn university research into moneymaking intellectual property are out of favour in the wake of the Neil Woodford debacle, but contrarians may spy opportunity with **IP Group** *(58.25p)*. Hold real estate investment trust **Workspace** – it is growing fast despite the wider London property gloom and could be in for a post-election pick-up (1,094p).



**The Times**
Banknote printer **De La Rue** looks set to lose out from the shift to cashless payments, while boardroom turmoil has shaken investors' confidence. Avoid *(169p)*. Don't be distracted by eye-watering losses from **Vodafone's** failed Indian venture. Revenue is growing again and a €20bn spin-off of its mobile-phone towers will shore up the balance sheet *(166p)*.

## A German view

**Japan's Panasonic has been struggling of late, says WirtschaftsWoche. Lacklustre sales in its core consumer electronics division (where cameras and televisions are key products) have depressed the stock. But on a price/sales ratio (see page 16) of just 0.3 and a yield of 3%, most of the bad news appears priced in, while Panasonic is dabbling in some promising areas. It is the key supplier of batteries for electric vehicles to Tesla and it has now agreed to produce car batteries with Toyota. The hydrogen fuel-cells business also looks auspicious. Panasonic makes fuel cells for houses and will supply much of the Olympic Village at next year's Tokyo Games with cells too.**

## IPO watch

Saudi Aramco has scaled back the valuation of its initial public offering (IPO) amid underwhelming international demand, say Bloomberg's Matthew Martin and Javier Blas. The latest price tag on Saudi Arabia's state-owned oil giant— between $1.6trn and $1.71trn — is well below Crown Prince Mohammed bin Salman's original goal of $2trn. Plans for international marketing have also been scrapped. International investors are concerned about the shift away from oil owing to the "strengthening global movement against climate change". Saudi Aramco is nonetheless still set to overtake Apple Inc. as the world's biggest public company.

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## City talk

● In 2015 a profit warning by Walmart sent "a shiver through US retailing", says Lex in the Financial Times. Four years on, the company has not only "survived Amazon", but is also "firing on all cylinders". It has reported a 6.1% rise in third quarter operating profit, "the best in eight years". Credit must go to CEO Greg Foran, who "sold underperforming foreign businesses, updated stores... and ploughed money into e-commerce". But with the stock trading at nearly 25 times forward earnings, Walmart's challenge "is to keep up the momentum", especially since Foran's departure has been announced.

● With Eddie Stobart Logistics (carved out of the wider Stobart Group in 2014) "close to collapse", it seemed until recently that the haulier may be forced to accept a £55m "Wonga-style loan" from a "mysterious hedge fund" so it can "keep on trucking", says Ben Marlow in the Daily Telegraph. However, a £75m package from former boss Andrew Tinkler "is now sneaking up on the inside lane". But don't "get too excited about the prospect of a bidding war". Any offer from Tinkler will rely on the company raising £25m from a rights issue. Shareholders will almost certainly have to accept a "severe haircut".

● Despite national security objections to Advent International's bid for British aerospace company Cobham, the deal is likely to be approved, says James Moore in The Independent. Yet the investment case is less clear-cut. While the bid is 34% above the pre-bid share price, it is "hardly a knockout", especially since Cobham's business has "been showing signs of revival". Still, any opposition from institutional shareholders is unlikely to be enough to derail the takeover, because "when push comes to shove they inevitably put a short-term bung ahead of long-term potential".

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# Xerox and HP: paper jam

HP has turned down a $33bn bid from rival Xerox, insisting it is worth more. But a merger seems likely before too long. Matthew Partridge reports

HP's board has "unanimously" decided to reject a $33bn – $22-a-share – bid from rival Xerox, on the grounds that it "significantly undervalues" the computer hardware giant, says Mark Vandevelde in the Financial Times. At the same time, HP's board has indicated that the door "remains open" to "a potential combination" of the two companies, demanding "more information about Xerox's business prospects and the scale of any potential synergies". In making the bid for HP, which involves a mixture of cash and shares, the office equipment provider has been trying to capitalise on a rally in its shares, which have climbed by 47% in a year.

One prominent supporter of the $33bn proposed merger between the two companies is activist investor Carl Icahn, who owns 10.6% of Xerox (worth $2.9bn) and 4.2% (worth $1.2bn) of HP, says James Dean in The Times. Icahn considers a deal a "no-brainer", believing "very strongly" that there is scope for synergies between HP, best known for home printers, and Xerox, which manufactures larger machines for firms. He argues that companies in shrinking industries tend to decline "much more slowly" than many market participants may predict and may also continue to generate "substantial" amounts of cash.

Not so fast, says Dan Gallagher in The Wall Street Journal. Most of the money offered by Xerox would have come in cash, "which in turn would primarily be financed by borrowing". This would have turned Xerox into "a heavily indebted enterprise that would need to slash costs aggressively".

What's more, Xerox's claim that the company could have saved $1.5bn from combining research and development (R&D) is debatable, given that both of them spent a combined total of only $1.8bn on R&D in their last full years. Still, HP "may not be able to say no forever" as investors in both firms "are clearly intrigued by the idea of a combination".

*HP should be buying Xerox, not vice versa*

### A different approach?

The deal is the wrong way round, says John Foley on Breakingviews. Rather than let Xerox take on large amounts of debt, HP, a substantially larger firm, should be buying its smaller peer. The new firm could then be lead by Xerox's hitherto successful boss John Visentin, who previously worked for HP. This plan "could be the best thing for shareholders", although both firms should really wait to ensure that "what emerges from the output tray is clearer".

Provoking HP into making a bid for Xerox "may have been Xerox's plan all along", says Alex Webb on Bloomberg. The companies have been in tentative talks "about bulking up several times". But while Xerox looks "to have at least succeeded in bringing HP back to the negotiating table", HP's low debt means that it still has other alternatives, including buying back its own shares. The best solution may be for a merger that involves stock rather than cash, with shareholders benefiting from any "uplift".

# Alibaba's cash call comes off

Despite the ongoing violence in Hong Kong (see page 4), demand for Alibaba's secondary listing has been so strong that the Chinese e-commerce giant founded by Jack Ma (pictured) will stop taking orders from retail investors earlier than planned. The listing is expected to raise up to $13bn to supplement the $25bn mustered in the 2014 initial public offering (IPO) on the New York Stock Exchange.

It "isn't a surprise" that Alibaba has decided to list in Hong Kong, says Jacky Wong in The Wall Street Journal. The company only opted for New York for its 2014 IPO because Hong Kong regulators "refused to compromise on their one share, one vote principle". But they changed the rules in 2018, so the way is clear for Alibaba, which has a dual-class "partnership" structure that effectively consolidates power in the hands of the founding shareholders, to come back to Hong Kong.

What's more, the "increasing hostilities" between China and the US, which have included the "outlandish" suggestion from the White House that Chinese companies be de-listed from US exchanges, means that it makes sense from a business perspective for Alibaba to "diversify its funding sources".

Alibaba needs the money, say Carol Zhong and Lulu Yilun Chen on Bloomberg. "The engines of China's economy are sputtering" and it needs to fend off local rivals "nipping at its heels".

Alibaba is facing competition from Tencent and Baidu in cloud computing and entertainment, from Meituan Dianping in food delivery and from "everyone" when it comes to finding promising start-ups .

# Will the TV debate change anything?

Probably not – voters are moved more by other factors. Emily Hohler explains

The "most revealing" part of Tuesday's leadership debate between Jeremy Corbyn and Boris Johnson was the audience laughter, exposing, as it did, both sides' weaknesses, says Katy Balls in The Guardian. There was laughter when Corbyn said his Brexit policy was clear (he refused nine times to say whether he thought Britain should leave the EU or remain) and laughter when Johnson said the truth mattered. No wonder, says Therese Raphael on Bloomberg. Johnson claimed that his Brexit deal didn't create any border friction between Northern Ireland and the UK (it does) and that a "great trade deal" would be achieved by the end of 2020, a "problematic promise, to put it mildly". As for Corbyn, he was "also jeered" over his proposals for a four-day week, his spending plans, his environmental policy and his party's anti-Semitism scandal, says The Daily Telegraph. A snap poll by YouGov found that 51% of viewers thought Johnson performed better than Corbyn.

Both leaders came out with a scoreless draw

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### Think of the grandparents

As far as Johnson is concerned, a "scoreless draw will feel like a handsome victory", says Michael Deacon in The Daily Telegraph. The prime minister had a poll lead to protect – the most recent YouGov poll for The Times puts the Tories on 42% and Labour on 30% – and "there's no reason to believe" that anything said on Tuesday night will reduce it. "The onus was on Corbyn to embarrass Johnson but he never really managed it." His main line of attack, that the Tories were going to "sell our NHS to the US", was angrily rebutted by Johnson, who insisted, "Our NHS will never be for sale!"

In reality, neither leader did enough to change many minds ahead of the 12 December election, says Therese Raphael. But the contest did at least show, "better than any parliamentary sparring, the differences in policy vision and personal style between two men who have remade their parties around a central animating idea"; Johnson's being to "get Brexit done"; Corbyn's being "state socialism". Johnson's game – to drive home his Brexit message while pointing out that Corbyn's plan would lead to two referendums, one on Brexit and another on Scottish independence – became "monotonous", but it was "reasonably effective".

If debates are unlikely to affect the way people vote, what will? According to US political scientists Christopher Achen and Larry Bartels, whose book *Democracy for Realists* is "backed up by plenty of data", most voters are neither ideological nor well-informed about politicians' differing policy positions, says Daniel Finkelstein in The Times. Most people are simply too busy to acquire detailed political knowledge. Forty-eight per cent of our population has never heard of John McDonnell. People's votes are affected by how they feel on and around polling day (how well-off, recent experience of the NHS), but the most important factor is identity. We "plump for a party" because "people like us" vote in a particular way.

This election is bringing about some realignments. "People who used to think that 'people like them' never vote Tory are beginning to think 'people like them' cannot vote Labour." London is full of people who say, "the Tories aren't for people like me any more". The "switch in this election could be vast", with more people now identifying as Leavers or Remainers than with a party. That said, traditional identities "can be quite sticky". There are also a lot of Labour voters who "still can't think of themselves as Tories. They worry what their long dead relatives might think. This election could be decided by the extent to which grandparents are left spinning in their graves."

Johnson: a change of heart

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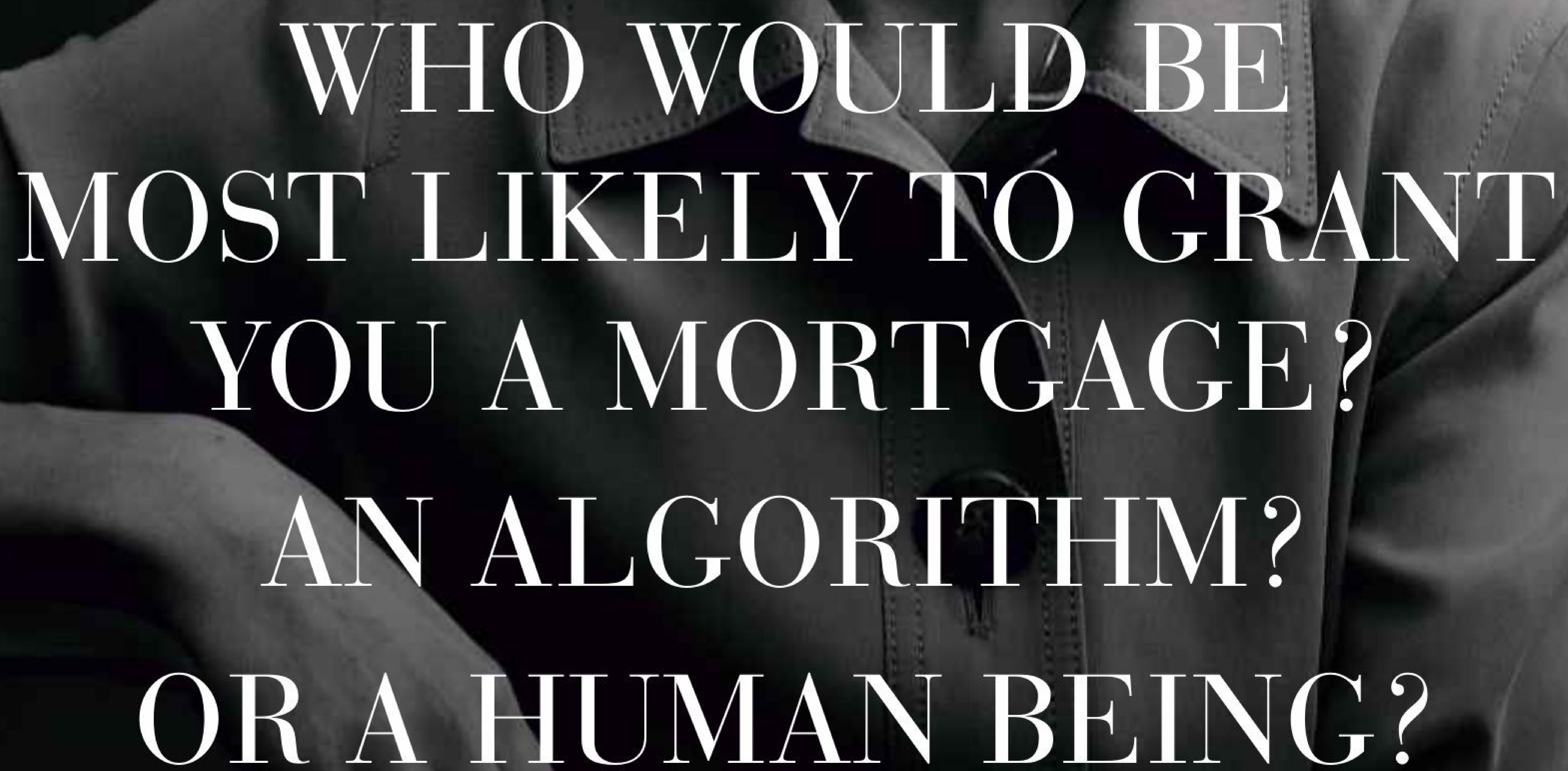
## Why business didn't wince at tax cut U-turn

**How did Boris Johnson manage to ditch his planned £6bn corporation tax cut at the Confederation of British Industry (CBI) annual meeting "without incurring a murmur of protest"? asks The Times. First, our 19% rate is "already the lowest of any big economy". Second, Johnson has also pledged to cut business rates, boost reliefs for R&D and capital spending and introduce a tax break for around 500,000 small businesses (a package worth £1bn). Third, there is "far more at stake". Carolyn Fairburn, CBI director-general, was not exaggerating when she warned that a Labour government would "crack the foundations of the economy" with its proposals for nationalisations, employee ownership funds and a 26% corporation tax rate.**

**Johnson needed to "neutralise" Labour's promise to give the NHS £5.5bn more a year by 2023-2024 than the Tories, says James Blitz in the FT. His announcement does "precisely that". He is also under pressure to fend off Labour's argument that the Tories are "too close to big business" and "too dismissive of public services".**

**The change in heart does, however, slightly undermine "longstanding Conservative arguments", says Richard Partington in The Guardian. The Tories have cut corporation tax from 28% to 19% since 2010. On the *Today* programme, Andrea Leadsom, the business secretary, said that these cuts had increased Treasury tax revenues by 45%. Johnson is now implying that the 2% cut would reduce them. HMRC estimates support this view, suggesting that the cut would have cost around £6bn, and the Institute for Fiscal Studies agrees, says Mikey Smith in the Daily Mirror. However, the IFS also pointed out that there had been an increase in revenues after corporation tax cuts, but not because of them. According to the think tank, "Much of the rise in revenue since 2010 is simply recovering from the effects of the financial crisis and recession."**

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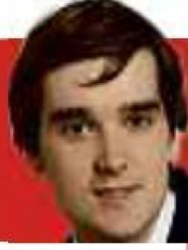

## Betting on politics

**This week, I'm going to look at the Liberal Democrats. As late as September they were regularly getting more than 20% of the vote in the polls, and were hoping to benefit from a surge in support from disillusioned Labour and Conservative voters. However, any Lib Dem moment seems to be passing, with their predicted vote share now down to around 15%. Not only is their leader Jo Swinson (pictured) struggling to get noticed, but surveys indicate that her net popularity has declined, suggesting she may be alienating more voters than she is winning.**

**You should therefore take Bet365's offer of 15/8 (34.7%) on the Lib Dems getting 14.99% or less of the vote, as well 2/1 on them getting 15%-20%, for combined odds of 68.1%, splitting a £10 betting unit by putting £5.10 on 14.99% or less, and £4.90 on 15%-20%. I'd also take Ladbrokes' offer on them getting 10-19 seats at 4/1 (20%), 20-29 at 7/4 (36.4%) and 30-39 at 3/1 (25%), for combined odds of 81.4%, splitting a £10 unit by putting £2.46 on 10-19, £4.47 on 20-29 and £3.07 on 30-39. In fact, I'd go so far as to suggest that you also take Bet 365's 8/11 (57.9%) on the Lib Dems getting less than 34.5 seats.**

**Finally, I'm also going to recommend betting on Labour retaining Vauxhall at 2/7 (77.8%) with Bet365, where they are defending a majority of 20,250 from the Lib Dems, with a new candidate who should have a much greater appeal to the pro-Remain constituency.**

©Getty Images

# Iran ablaze with public anger

Protests have quickly taken an anti-regime tone. Matthew Partridge reports

Iran is "ablaze with public anger" as thousands have "taken to the streets in cities across the Islamic republic in the biggest protests in two years", says the Financial Times. The unrest was triggered by the government's decision to slash subsidies on fuel as it grapples with "crippling US sanctions". As in Lebanon and neighbouring Iraq in recent weeks, protests over economic grievances "have swiftly taken on an anti-regime tone" as posters of Ayatollah Ali Khamenei, the supreme leader, and President Hassan Rouhani were burned.

*Iran is rocked by the biggest protests in two years*

©Shutterstock

### A different kind of demonstration

This isn't the first time that widespread protests have shaken Iran, says Ishaan Tharoor in The Washington Post. Two dozen people were killed when the regime cracked down on protestors in December 2017. But there's a big difference this time. In the past protests have been sponsored by regime hardliners hoping to destabilise the incumbent president, but no regime faction appears to have instigated these demonstrations. And rather than just criticising the relatively powerless secular leadership, traditionally viewed as figureheads, Khamenei and the regime as a whole "have been the primary target from the very beginning".

The regime's claim that the protests have been masterminded by "US-backed saboteurs" is clearly false, but there's "little doubt" that President Donald Trump's "maximum pressure strategy" has hurt the Iranian economy, says Marc Champion on Bloomberg. Sanctions imposed on the regime since 2018 have crimped the crude-oil exports on which Iran relies for much of its hard currency earnings – exports have fallen to about 250,000 barrels per day, from a peak of 2.5 million barrels in April last year. That has made energy subsidies of $69bn "unaffordable" and caused the economy to shrink by an estimated 9.5% this year alone.

### A missed opportunity

If Iran is hurting, it has only itself to blame, says The Wall Street Journal. Instead of investing the financial windfall from the 2015 nuclear deal with Western powers, the regime "used those resources to spread revolution throughout the Middle East", ploughing cash into developing ballistic missiles and arming Houthis in Yemen, Hezbollah in Syria and Shiite militias in nearby Iraq. Indeed, a recent leak of intelligence documents shows just how busy Iran has been outside its borders, says The New York Times. They "offer an extraordinary glimpse inside the secretive Iranian regime" and "detail the extent to which Iraq has fallen under Iranian influence since the American invasion in 2003". Since then Iraq has been transformed into "a gateway for Iranian power, connecting the Islamic Republic's geography of dominance from the shores of the Persian Gulf to the Mediterranean Sea".

Meanwhile, says The Wall Street Journal, Tehran is "openly violating the 2015 nuclear deal, enriching uranium again and reopening its underground Fordow facility". The US should maintain its sanctions pressure and Europe should join in to lend support to this "uprising against the mullahs". "Iranian aspirations to become a normal country, instead of a theocracy that spreads revolution and terror", deserve Western support.

# Trump ends pretence over Israel's settlements

*Trump sends shockwaves through the Middle East*

The Trump administration has declared that it "will no longer view Israeli settlements in the occupied West Bank as illegal", an announcement that "sent shockwaves across the Middle East" and swept away four decades of US foreign policy, says the FT. The EU and UK condemned the move. The settlements, now home to 500,000 people, have been an obstacle to peace and threaten the viability of a two-state solution to the conflict between Israel and the Palestinians. The new stance has stoked fears that "the US will not stand in Israel's way if it moves to annex parts of the West Bank".

That's exactly the point of the move, says Joshua Leifer in The Guardian. For all his vacillations, Trump has been "thoroughly systematic when it comes to ending the viability of a future Palestinian state". Israel's opposition endorsed the decision, ensuring that the "de facto annexation" of the West Bank "will proceed apace" whoever forms the next government. At least Trump's policy is honest – it only formally recognises what the US has done little to oppose for years.

Secretary of State Mike Pompeo justified the decision by saying "there will never be a judicial resolution to the conflict" and that arguments about international law stand in the way of a deal. Palestinians now face a "hard choice", says Zev Chafets for Bloomberg. They can wait and pray for the demise of Trump and a reversal of this stance. Or they can end their boycott of talks with Israel and seek to extract aid, influence over the settlement map and limited autonomy. It can no longer rely on international tribunals for support. Palestine is "now on its own".

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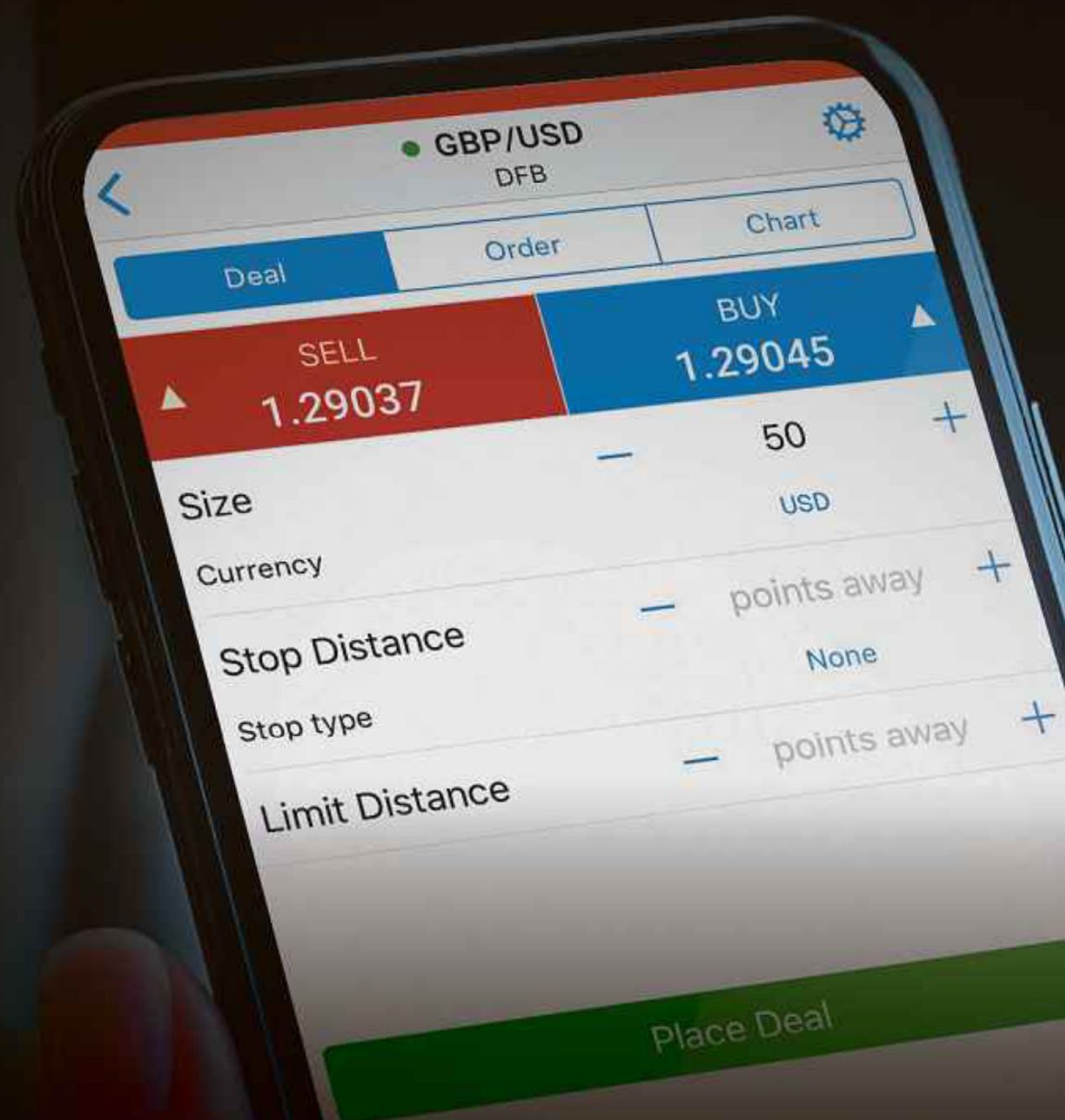


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*24/7 excludes the 6 hours from 10pm Friday to 4am Saturday, and 20 minutes just before the weekday market opens on Sunday night.

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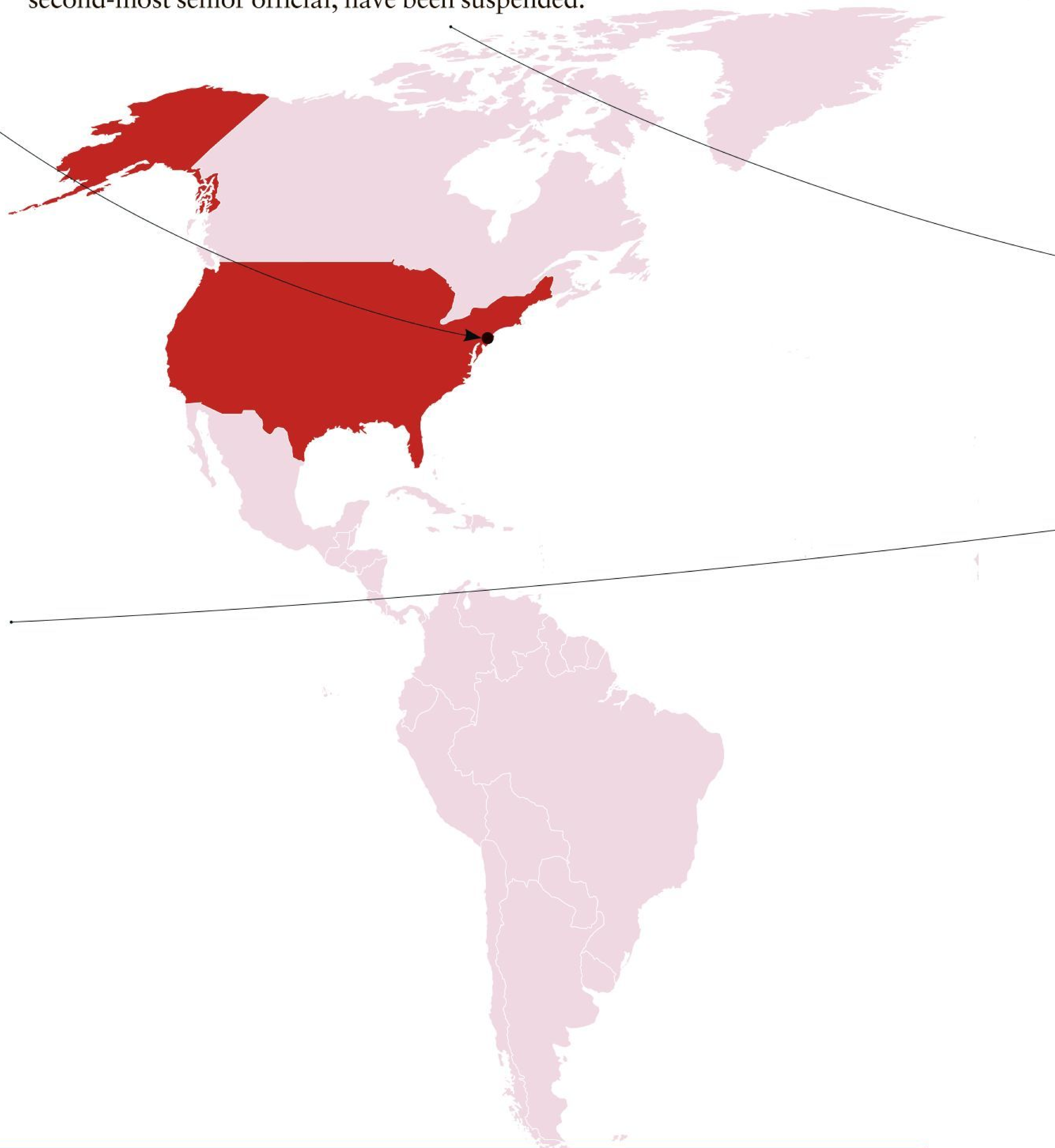
## New York

**Two states sue vaping group:** The attorney generals of New York and California have filed lawsuits claiming that e-cigarette company Juul has helped create a public health crisis, Karen Zraick says in The New York Times. The lawsuit says Juul deliberately targeted young people through "deceptive advertising" featuring flavoured pods. It accused it of "glamorising vaping while downplaying the nicotine found in vaping products". Vaping was once thought of as the future of the tobacco industry, with cigarette giant Philip Morris buying a 35% stake in Juul for $12.8bn in 2018. But concern over vaping's effect on people's health has been mounting. Juul has been under intense scrutiny after the Food and Drug Administration launched a federal investigation following reports of 2,172 lung injuries and 43 deaths linked to vaping. Juul, which holds around 70% of the electric cigarette market, has announced plans to cut 500 jobs in late October and has also suspended advertising nationwide.

## Vatican City

**Financial watchdog chief let go:** René Brülhart has been replaced as president of the Vatican's financial regulator, the Financial Information Authority (AIF). A growing scandal over the Holy See's investment in the London property market appeared to be the cause of his departure. His exit has extended "a period of turmoil at the Vatican that has harmed the confidence of financial regulators around the world in sharing information with AIF as part of a co-ordinated crackdown on money laundering, financing of terrorism, tax fraud and other financial crimes", says Francis Rocca in The Wall Street Journal. Investigators raided the AIF and the Secretariat of State (the Holy See's executive) in October after the Vatican Bank became suspicious of a request from the Secretariat for €100m to buy upmarket property in Chelsea, west London. AIF had already cleared the deal. Five Vatican employees, including Tommaso Di Ruzza, AIF's second-most senior official, have been suspended.



## Dubai

**Airbus's successful air show:** Airbus has had a very profitable time at the Dubai Air Show, securing $30bn worth of orders, says the BBC's Russell Hotten. Emirates purchased 50 Airbus A350-900 XWB planes for $16bn; the rapidly expanding no-frills carrier Air Arabia spent $14bn on 170 Airbus A320s. Air Arabia CEO Adel Ali said the order was a "game-changer", allowing it to expand to Southeast Asia and Africa. Emirates claims that its order will help remodel its fleet, which is composed largely of A380 super-jumbo jets – a model that is being discontinued by Airbus as its $25bn investment in the giant jet proved unprofitable. Emirates also plans to expand its long-haul network with the A350, which can fly for up to 15 hours and carries 350 passengers. Meanwhile, budget carrier easyJet has announced plans to offset carbon emissions from all its flights. The company will spend around £25m on tree planting and other measures to tackle deforestation, aiming to remove as much carbon dioxide from the atmosphere as its fleet emits.

## The way we live now: declutter, then buy the decluttering guru's tat

*I also have a bridge to sell you*

"The Japanese tidying guru Marie Kondo appears to have adopted a new approach to decluttering: rid your home of things that don't 'spark joy', then replace them with items" from her new shop, says Justin McCurry in The Guardian. Kondo rose to fame after coming up with her "KonMari method", whereby you throw away things in your home that you no longer need or enjoy. She wrote the best-selling book *The Life-Changing Magic of Tidying Up* and became the star of her own television series on Netflix. Now she has gone further, launching an online shop. A pair of leather shoes is available for $206, a flower bouquet bag for $42 and a ladle for $96. A shiatsu massage stick will set you back $12. Kondo denies she is now cashing in after telling her fans to get rid of their stuff. But her message isn't getting through. As one Twitter user put it: "Marie Kondo, who told you to throw away everything you own, apparently wants you to repopulate your now empty life with vaguely minimalist-looking junk that you, of course, buy from her".

©Getty Images; Shutterstock

## Warsaw

**Government extends welfare state:** Polish prime minister Mateusz Morawiecki has won a vote of confidence in the lower house of parliament, paving the way for the higher welfare spending that helped his Law and Justice party (PiS) win another four-year term last month. The measures are to include additional benefits to families with three or more children and extra pension payouts. PiS also plans to increase state control over the banking sector. The government insists it will be able to balance its budget next year thanks to one-off revenue increases and fast economic growth, but analysts are sceptical given the slowdown of the European economy. The ruling party's statist economic policies are one reason Poland has become one of the EU's "biggest headaches", as Adrian Krajewski and Marek Strzelecki put it on Bloomberg. Another is its ongoing overhaul of the justice system, which has prompted legal action from the European Commission. After re-election in 2015, PiS altered some of the rules governing the Constitutional Tribunal and the Supreme Court. The reforms could "threaten the rule of law and the independence of the judiciary", according to the EU.

*Mateusz Morawiecki: blowing the budget*

## Seoul

**Defence talks break down:** Talks between the United States and South Korea have ended after Seoul refused to increase its contribution to the cost of hosting American troops, say CNN's Devan Cole and Yoonjung Seo. The US side asked Seoul to contribute $4.7bn in 2020 towards maintaining the presence of 28,500 military personnel, a huge hike from the $890m Seoul paid this year. The US-South Korean alliance has for 70 years acted as a buffer against North Korean aggression, but America has been threatening to pull troops out. James DeHart (pictured), chief negotiator for the US, said talks were cut short in order to "give the Korean side some time to reconsider". Before his election Donald Trump said he would pull US troops from the Korean peninsula if he didn't get "100% compensation for their presence". The move has "frustrated Pentagon officials" and "deeply concerned" lawmakers.

## Colombo

**Ex-army strongman takes control:** A member of the "controversial Rajapaksa family" is back in power in Sri Lanka after "policy gridlock and terrorist attacks" persuaded citizens to vote for a "strongman", says The Wall Street Journal. Ex-army chief Gotabaya Rajapaksa (pictured), whose older brother Mahinda was president from 2005 to 2015, owes his victory to the Sinhalese Buddhists, who make up 70% of the population. The Tamil minority remains scared by his war record (he stands accused of war crimes during the country's 26-year civil war). Rajapaksa's main pitch is security and economic revival – lofty talk given Sri Lanka's ethnic and religious divisions and debt burden of $72bn, says the Financial Times. As for his promised infrastructure schemes, the question is who will fund them. Sri Lanka was sucked into China's orbit during Mahinda's presidency. If Western governments and institutions want to "rival Chinese spending" while making the flow of cash contingent on political change, including human rights, they will need to tread with care.

## Sydney

**Westpac in money-laundering probe:** Austrac, Australia's financial intelligence crime agency, has taken Westpac, one of the country's biggest banks, to court over 23 million alleged breaches of anti-money laundering and counter-terrorism finance laws. It is investigating A$11bn of transactions, including transfers potentially linked to child exploitation, says Ben Butler in The Guardian. Westpac is accused of failing to "carry out appropriate due diligence" on 12 customers who made low-value transactions to Southeast Asia. Furthermore, the bank had allegedly known about the potential link between those transactions made through its LitePay system and child exploitation since 2013, the crime agency said. It was only in June of last year that Westpac began to put in place measures to mitigate the risks. Austrac also accused Westpac of failing to assess the risks involved in dealing with other banks who had themselves disclosed and been fined for breaches relating to money laundering and financing terrorism. In theory, the fines against Westpac could amount to A$483trn, although they are unlikely to be anywhere near that sum. Rival bank CBA paid Austrac A$700m to settle similar legal action last year. "The public excoriation... of Australia's big bankers [has] arrived at yet another new low," says Jennifer Hewett in the Australian Financial Review.

# The state of British broadband

An essential part of Britain's infrastructure needs updating and that will cost billions. Labour has a plan for that. Simon Wilson reports

### What's happened?

The Labour Party has pledged, if elected, to ensure all UK households and businesses have "free" full-fibre ultrafast broadband connections by 2030. To achieve this, a Labour government would nationalise Openreach, the network arm of BT, to create a new state-owned enterprise called British Broadband, which would build and run the new network. According to Labour's proposals, the cost of building the network would be £20bn, and the annual cost of running it would be £230m, to be paid for via a new tax on multinational companies based on UK sales (rather than profits). "A new public service delivering the fastest broadband free to everyone is at the heart of Labour's plans to transform the future of our economy and society", explained leader Jeremy Corbyn.

### Do the costings look realistic?

They're on the low side. Last year, the National Infrastructure Commission put the cost of such a network at £33bn. BT's CEO Philip Jansen put the initial cost at between £30bn and £40bn, and points out that giving away the product for free would wipe out annual revenues of £5bn, boosting the true cost to the region of £80bn-£100bn over the first eight years. And Nick Delfas, an analyst with Redburn, says that Labour seems to be dramatically underpricing the ongoing cost. "The maintenance cost of a national fibre network will be at least £1bn-£2bn, not £230m as claimed," he reckons. "And the public sector will be exposed to build cost overruns, as with HS2 and Crossrail. Finally, TalkTalk and Virgin Media would go bankrupt."

### What exactly is full-fibre broadband?

Whereas the UK's old landline telephone infrastructure uses copper cables, fibre-optic cables (made from glass or plastic) use pulses of light to transmit data, allowing much faster transmission speeds. Currently, the UK authorities define "superfast" broadband as a connection with speeds greater than 30 megabits per second (Mbps, the standard measure of internet connection speed). This level (and up to 66Mbps) can be achieved using a FTTC ("fibre to the cabinet"), where copper wires are still used for the last stretch from the cabinet to the house. But to get an "ultrafast" connection of more than 100 Mbps, you need a full-fibre, or FTTP ("fibre to the premises") connection. That's one that uses a fibre-optic cable to connect from the telephone exchange to households without any copper at all. With this system, users get faster average speeds of 1,000 Mbps (one gigabit) and low latency (the delay experienced in executing a request).

*"Labour's audacious proposal has helped focus minds on the UK's broadband deficit"*

*Openreach today – state-owned British Broadband tomorrow?*

### How does the UK compare globally?

Very poorly. According to Ofcom, only 8% of UK homes and businesses have access to full-fibre, or around 2.5 million properties. That makes us 25th out of 28 EU countries (according to European Commission figures from 2018). Only Belgium, Cyprus and Greece have lower penetration, and the only other country that has less than 10% full-fibre coverage is Germany. That put us a long way behind countries such as Latvia (just under 90%) and Spain, Portugal and Sweden (70% or higher).

### What about further afield?

The picture is just as unimpressive. When it comes to the basics, Britain does OK. Ofcom's most recent global comparison put us fourth out of 19 countries surveyed for speeds of 10 Mbps, and fifth for speeds of at least 30 Mbps. But for speeds of over 300 Mbps, we were near the bottom (15th). And for full-fibre, we were next to bottom, with only Nigeria ranked lower. Similarly, the OECD's most recent survey put us 35th out of 37 countries ranked by the proportion of fibre in the overall fixed broadband infrastructure. Global leaders include Japan, which has successfully boosted full-fibre coverage from about 23% in 2009 to more than 95% today, and South Korea, which is more than 95% full-fibre. In the US, one-gigabit services are available in 80% of the country.

### So Labour's plan is just what's needed?

Hardly. MoneyWeek readers will need few reminders about the propensity of state-owned utilities to turn into bloated bureaucracies, and the disincentives to investment in the sector that the Labour proposal will bring. "Nor have the customer-service demands involved in running high-speed data networks ever been a strength of government monopolies," as the FT points out. But if we are to emulate high-achievers such as Japan and South Korea, the solution is likely to involve some input from the state. In Japan, the government provided strategic direction and incentives to stimulate competition. And in South Korea, too, the 95% full-fibre mark has been achieved via an "approach based on market principles alongside state-led investment", says Richard Partington in The Guardian. If the Conservatives win the coming election, they have promised to invest £5bn in ensuring all UK households enjoy "gigabit speeds" by 2025. The detail of how that money will be spent, and how they will achieve that target, is very vague.

### Might fixed broadband soon be obsolete?

It's possible. Some technology pundits speculate that 5G mobile communications, and whatever the sixth and subsequent generations might bring, could at least partly replace the need for fixed-line internet connections. But as things stand, it's best to see full-fibre broadband and 5G mobile as complementary technologies, not competing ones, says Andrew Ferguson of thinkbroadband.com. 5G networks can operate on several different frequencies, including higher frequencies that require many more transmitters, closer to the homes and offices that need internet access. And these "nano-masts" are typically connected to the internet backbone by fibre. "Investing in fibre improves both fixed-line services and helps to support connecting the many new nano-masts needed for 5G at its highest speeds," says Ferguson. Labour's audacious proposal may not be the answer, but it has helped focus minds on the question of the UK's broadband deficit.

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# The value fightback starts here

In the last few months, there have been signs of life returning to value stocks. Is this recovery for real?

**John Stepek**
Executive editor

The apparent death of value investing has been a perennial topic for this column in recent years. In fact, I last wrote about it this time last month when Ben Inker of US asset manager GMO had just released a paper arguing that the performance gap between value stocks and the wider market had grown so vast that it was a good idea to bet on value, regardless of how long it might take to "revert to the mean". Now another high-profile asset manager – Cliff Asness at AQR – has backed up Inker's views.

In a new paper – "It's time for a venial value-timing sin" – Asness notes that many investors reckon the value factor (the tendency, in the long run, of "cheap" stocks to beat "expensive" ones, as measured by various fundamental ratios – see box) is "permanently broken". In reality, he says, it's just out of favour. How can he tell? Rather than look at absolute measures of cheapness, Asness looks at the "spread" (the gap) between the valuations of "cheap" stocks and the valuations of "expensive" ones. In short, just how cheap are cheap stocks compared to expensive ones?

What he finds is that, compared with history, value stocks have really only ever been cheaper (in relative terms) than they are now during the 1990s tech bubble. So if there's ever been a time to commit what Asness describes as the "sin" of market timing in favour of value stocks, then now is that time, he reckons. One reason to pay attention is that Asness is no stopped clock – this time last year he argued that while value was getting cheaper, it wasn't yet "super cheap". Meanwhile, separately, in September asset manager QMA made the point that the fundamentals for value stocks had actually improved even as they'd grown cheaper – which argues against the fear that these stocks are "value traps" (ie, ones that will never recover).

*Time to pick up a bargain*

We're already seeing a turnaround. In the past three months, notes Michael Wursthorn in The Wall Street Journal, the S&P 500 Value index has risen by 11%, "more than double the increase of its growth counterpart". The value index is now heading for its best year since 2013. The turnaround coincides with a shift in wider market mood – from the fear of recession that gripped investors in the summer, towards greater optimism about trade and the general outlook.

> *"The gap between value and growth has rarely been wider"*

Will value's outperformance continue? For now it is being driven by hopes of recovery, but QMA points out that even a recession would favour value over growth – after all, value shares are cheap already, whereas growth stocks would suffer a "reality check". As we noted last week, if you're looking globally, you'll find plenty of value in Japan (one option is the **AVI Japan Opportunity Trust** (**LSE: AJOT**)).

## I wish I knew what the price/sales ratio was, but I'm too embarrassed to ask

The price/sales (p/s) ratio is a company's market capitalisation (the number of shares outstanding, multiplied by the share price), divided by its revenues. So a company with a market cap of £25bn and sales of £10bn has a p/s ratio of 2.5 (also known as a "sales multiple"). All else being equal, the lower the number, the cheaper the stock. P/s is calculated in a similar way to other metrics, such as the price/earnings (p/e) ratio (market cap divided by profits).

Of course, sales aren't the same as profits, so the p/s may appear less useful as a gauge of whether a firm is cheap or not. However, it can be a helpful tool when looking at firms or sectors where earnings are temporarily depressed as a result of one-off factors, but which are later expected to return to a more normal level (as is often the case with shares of companies in cyclical industries). Comparing companies using p/s rather than p/e may be more effective in this case.

It may also be used when comparing early stage growth stocks that operate in the same industry. Again, these firms may be growing rapidly, but not yet making a profit, rendering the p/e useless. By comparing them based on p/s, an investor can work out how much the market is paying for each pound or dollar of sales.

However, making good use of the p/s ratio does depend on any assumptions made about a company's future profitability being realistic. A business with a low p/s ratio but no prospect of ever achieving a profit will be a poor investment.

Also, as with the p/e, the p/s does not take debt into account. Generally a heavily indebted company is riskier and less appealing than one with no debt at all (assuming you are comparing firms within the same industry).

To get a picture that includes debt, take the enterprise value – which adds debt to the market cap – and divide it by sales. Overall, as with all ratios, the p/s should not be used in isolation.

## Guru watch

**Kasper Lorenzen, Group Chief Investment Officer, PFA Pension**

It's rare to hear an upbeat take on negative interest rates. But Kasper Lorenzen, chief investment officer of Denmark's biggest commercial pension fund (whose equities portfolio returned 19% in the first nine months of 2019), sees a positive explanation behind the phenomenon.

Lorenzen, who helps to run more than $100bn in assets, tells Bloomberg that the world is going through "a massive, positive supply shock, similar, though with a reverse sign, to the negative supply shock we saw in the 1970s". Then, a shortage of oil drove inflation much higher and "investors didn't really make any returns for 12 years". But just as investors underestimated how poor returns were going to be back then, so today, investors underestimate "the effect of this positive supply shock".

If Lorenzen is right, then it means the world still has plenty of spare capacity and so it's quite possible that "we're not going to see inflation coming through". If that's the case, then even though "equities aren't cheap", their valuations, relative to interest rates, are perhaps "not too bad".

Lorenzen has more experience of negative rates than most – Denmark has had negative interest rates for seven years now. But he believes "we could easily see interest rates being low for much longer", particularly if a downturn triggers even more monetary stimulus. Of course, this is still bad news for savers – just as inflation erodes the "real" value of wealth, so do negative rates. "Negative interest rates or very high inflation are similar."

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# Britain's welcome new migrant system

Soon we're likely to accept immigrants only if they have the right skills. That would be a good move

**Matthew Lynn**
City columnist

Australia, Canada and New Zealand. Apart from all speaking English and having the Queen as their head of state, what do all those countries have in common? A points-based immigration system. And very soon, it looks as if Britain might well join them. It remains to be seen how the election plays out over the three weeks that remain until polling day. A lot could still change before anyone votes. But right now it looks as if Boris Johnson's Conservatives are heading for a comfortable victory. If that happens and we finally get around to leaving the EU early in the new year, then the biggest economic impact is likely to be moving from unrestricted freedom of movement for EU workers to a points-based system.

### How it works

In Australia, Canada and New Zealand, potential immigrants are assessed based on how many points they have accumulated, with the tally depending on factors such as skills, education and age. The idea is to allow entry on the basis of whether the applicant matches the requirements of the host country, rather than on whether they happen to have been born in another EU country, as in the present system.

This is not the same as restricting immigration. In fact, it often means a lot of people coming into the county. Australia, for example has net migration of 8.6 people per 1,000 inhabitants, one of the highest in the developed world and almost double the British net rate of four migrants per 1,000 people. Canada's rate is 7.1 per 1,000; New Zealand's is roughly the same as the UK's.

The interesting point is what effect that has on productivity. According to data from the OECD think tank, those three countries have done significantly better than the UK at increasing output per worker. Taking 2010 as 100, GDP per worker has risen to 110 in Australia, 107 in Canada and 103 in New Zealand, but only to 102 in Britain (the OECD average is 106). Dismally, our output per person has hardly grown over ten years. The growth figures – and in the end growth is all about productivity – are not bad either. Those three countries have grown faster than the UK in every year of the last decade: in 2018, for example, Australia expanded by 2.2%, New Zealand by 2.5%, Canada by 1.8%, but the UK only managed 1.2%.

*Washing cars pays better in Britain than in Bulgaria*

©Alamy

### A boost for the economy

It is not hard to figure out why. Freedom of movement encourages lots of unskilled workers to move to the UK because that is where wage differentials are most extreme. You may not earn a lot as a waitress or by washing cars in Britain, but you earn a lot more than you do in, say, Bulgaria: our national living wage is £8.21 per hour compared with Bulgaria's £1.47. In more skilled professions, wages tend toward a global average, but the differences in unskilled wages can be vast, giving a huge incentive for the unskilled to move here.

Not surprisingly, with an unlimited supply of cheap labour, lots of businesses are created to employ those people. One of the reasons we have seen so many more coffee shops and car washes open up over the last decade, along with dozens of other labour-intensive industries, is because the cheap labour is available to keep them all running. The problem is that the productivity of those workers is very low.

A points-based system boosts productivity. In Australia, for example, unless you are already working there, it is usually necessary to have a degree and one that is the recognised equivalent of a domestic one, speak fluent English and have experience in one of the professions that the country requires more people to pursue. There is a big difference between the output of the person who ticks all those boxes and someone serving coffees.

Lots of very low productivity, mainly service-sector companies, won't be able to keep going if they don't have access to lots of cheap, unskilled workers any more. There will be some pain along the way as some businesses go bust. But they were not doing very much for the economy and were often a drag on overall output. The countries that operate a points-based system all have higher productivity growth than we do and, not surprisingly, their economies have expanded more rapidly too. Once the adjustment is made, UK productivity will improve and we'll be richer – just like the three countries that already use that system.

## Who's getting what

● Former chancellor **Philip Hammond** has found a job paying around £125,000 a year within a week of stepping down as an MP, says The Guardian. Hammond (pictured) is a non-executive director of packaging firm Ardagh and will serve on its audit committee. In addition to his salary, he will be paid travel and accommodation expenses for meetings at the firm's Luxembourg headquarters. He will be expected to attend around ten meetings a year. Ministers who are offered a private-sector job within two years of leaving office must get approval from the advisory committee on business appointments before accepting it.

©Getty Images

● Investors in troubled government outsourcer Kier have rebelled against the company's pay report that would have handed CEO **Andrew Davies** more than £1m in bonuses despite "disastrous profit warnings and a plunging share price", says Gill Plimmer in the Financial Times. Kier paid its board a total of £2.1m in the year to June despite posting a loss of £245m. Keir's stock is one of the country's most shorted and the shares are down more than 90% in the last year.

● Accountancy firm **EY**, appointed as a "special manager" to British Steel after it went bust in May, is being paid £1m a week to run the steelmaker until it can be sold to China's Jingye, says The Daily Telegraph. The £70m price tag means that half the company's sale price will go to EY. The official receiver said that such "specialist support has been essential".

## Nice work if you can get it

**The number of employees at Highways England who earn more than £100,000 a year has increased tenfold since 2013, reports the Daily Mail. The quango, which looks after the country's motorways and A-roads, has 63 executives on six figures, compared with 26 in 2017 and just six in 2013. It has a budget of £3bn and employs 5,000 staff, many of whom have had their pay rises capped at 1% until 2025. But the combined pay of the top executives is in excess of £8m, which is "a bit rich" says Mark Serwotka, general secretary of the Public and Commercial Services Union. Jim O'Sullivan, the chief executive, was handed a pay rise of £54,000 last year, says the Daily Mail, including a bonus of £51,727, bringing his total earnings to £456,727. Transport Secretary Grant Shapps said: "I think some of these salaries have gone off the scale", but that he was "already addressing it".**

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## Populist tax grabs won't work

**Noah Smith**
**Bloomberg**

Prominent economists and politicians, including US presidential hopeful Elizabeth Warren, advocate wealth taxes as a way of reducing inequality, but France's experiment suggests they may not work, says Noah Smith. France had a wealth tax from 1982-1986 and again from 1988-2017, with a top rate of between 1.5% and 1.8% – much less than Warren's proposed 6% top rate, but close to the rate she would impose on $50m-plus fortunes. What happened? At least 10,000 people left the country to avoid it, depriving France of all their other taxes too. The revenue raised amounted to around 1% of France's total take from all taxes. Economist Éric Pichet estimates it cost the government almost twice as much revenue as it raised. In 2012, a supertax of 75% levied on €1bn-plus incomes raised just €160m and was soon repealed. US experiments might fare better, since wealthy Frenchmen moving to Belgium aren't cut off from their markets in the way Americans moving to Canada might be. But it's also worth noting that France has increased revenue and reduced inequality without wealth taxes. "Tax increases across the board might not excite populist firebrands, but they're probably a more effective strategy."

## Venice seeks to take back control

**Edward Lucas**
**The Times**

On 1 December, Venetians will hold a referendum on self-government, giving the historic centre independence from the much larger conurbation on the mainland, says Edward Lucas. The vote, say campaigners, is the "last chance to curb the tourism industry's greed". Venetians are used to *acqua alta*, but the "speed and ferocity" of the freak 187cm flood has stretched fortitude to "breaking point" – 85% of the city was flooded, the worst since the disaster of 1966. The ageing, shrinking population could face a grim future. "The central problem is greed." With 25 million tourists a year, Venice is a "huge money-spinner", but the profits flow to hoteliers, landlords and restaurateurs, not to preserving the architecture or supporting its people. Cruise ships sail too close, stirring up mud and weakening foundations and belching polluting fumes. The costly Mose flood-prevention scheme, now due for completion in 2022, is eight years behind schedule. Elected officials are "meant to constrain profiteering", but Venetian politicians, influenced by the mainland's clout, have "systematically put short-term interests ahead of the island city's long-term welfare". Locals are trying to take back control. "Wish them luck."

## It's time to assert digital sovereignty

**Rana Foroohar**
**Financial Times**

Data is fuelling our economy, says Rana Foroohar. That's why the business of "collecting, analysing and ring-fencing it" is finding its way into so many areas of the economy, from healthcare to finance. An FT investigation showed that numerous healthcare websites have been sharing sensitive user data with big technology platforms such as Google and Amazon, while in the US it has been revealed that Google has amassed medical details on tens of millions of patients with the help of America's second-largest hospital group and without patients' knowledge. Should we be allowing firms to collect and monetise data in sensitive areas? If we do continue to allow it, we at least need a level playing field. Traditional businesses have to abide by rules that newer ones don't; how can innovation occur when a big tech firm has already "grabbed the bulk of user data"? A public databank, regulated by democratically elected governments, would be an "elegant solution". Individuals would have rights over their data and could vote on how it is used. Right now, we have a system that is at "risk of bias and fraud" and is "completely unfair as a marketplace". We need to assert our digital sovereignty.

## Universal basic income is a bad idea

**Roger Bootle**
**The Daily Telegraph**

The boldest idea for combatting poverty and inequality is a universal basic income (UBI), or guaranteed income for all, and it may yet appear in the Labour Party's programme, says Roger Bootle. UBI has a distinguished pedigree, winning the support of a large number of influential thinkers from Sir Thomas More to Milton Friedman. For thinkers on the right, UBI's appeal is partly that it could replace all existing benefits, doing away with unnecessary complexity and bureaucracy. On the left, supporters see it as a way of ensuring that people can live modestly, whatever their circumstances. However, there are "two significant problems". Firstly, workers may not tolerate idlers who simply choose not to work. Secondly, there is the cost. Set at a low level, it would need to be topped up, recreating complexity; set at a level high enough to live on, taxes would have to rise considerably. This would "almost certainly reduce the supply of labour and therefore the overall level of national income". If robots are going to take our jobs (which I don't believe they will), or greater generosity is called for, it would be better to improve the current system that is based on needs and imposes qualifications.

## Money talks

**"At drama school, it was always the middle-class actresses with ambitious dads complaining about my surname. But you can't lose the Fox. It's not my fault."**
Actor Laurence Fox (pictured), son of actor Edward Fox, on nepotism, quoted in The Sunday Times

**"I've found the magic money tree, it's in the Cayman Islands – we're going to dig it up and bring it here."**
Shadow Chancellor John McDonnell, on Twitter

**"My father used to say... 'No one in the family is an actor. You can't sing. You can't dance'. That's the way it was in Brooklyn, where everyone was from a family of immigrants. My parents were smarter than me. They knew what it was to be poor. They knew I was heading for danger."**
Film star Harvey Keitel, 80, quoted in The Observer

**"First, everybody has a price. Second, if you really believe in what you're saying, money won't change your view."**
Columnist Katie Hopkins, quoted in The Sunday Times

**"Whether it's socks or stocks, I like buying quality merchandise when it's marked down."**
Warren Buffett, quoted in The Economist

**"One [way to value us] is by giving us awards, one is by letting us play really cool roles, another one is to pay us. It's interesting that we're expected as women not to value money as a factor in our worth when it's a factor in everyone's worth."**
Actress Elizabeth Banks on pay parity in Hollywood, quoted in The Observer

**"I don't count it as an extravagance. I count it as a place where I can get my mind, soul and body right...That, to me, is worth any amount of money."**
Director Tyler Perry on his 40th birthday present to himself, an island in the Bahamas, in The Times

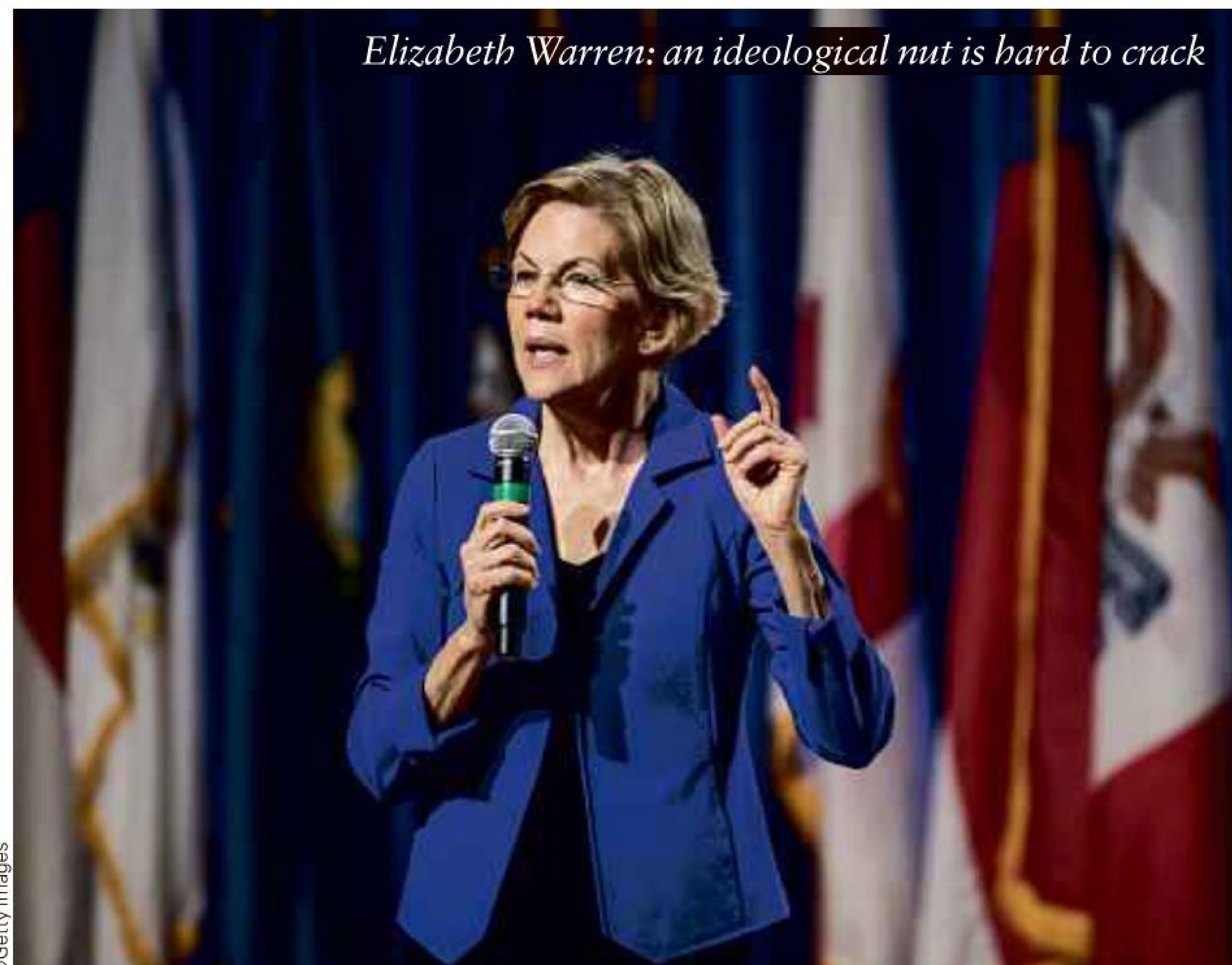
©Getty Images

# The great wake-up call

aier.org

There is a sense these days that people should shape their own realities and that their personal truth is as valid as any other, says Jeffrey Tucker. "Let's all just make things up, dream our dreams and then impose them by force of intimidation or of law." And if we don't get our way, let's protest, scream, invent ideologies and identities. "If nothing else, let's fight." This is understandable behaviour in a seven-year-old. It's "despicable" when it persists into adulthood and takes over politics.

This is why economics is so "lovely" in comparison. It's "the great reality check". We all experience this in real life when the cosy comforts of what you might call socialism – when you live at home with your parents and have all your needs taken care of for you – give way to the realities of life. We might find ourselves shocked at how hard it is to hold down a job and live within our means. But we do it because it's the only thing that works, the only path through present difficulties to long-term security and prosperity. Economics is the force that demands we grow up, get real, face the facts, "adopt solid values and lead a good life".


*Elizabeth Warren: an ideological nut is hard to crack*

©Getty Images

## Mugged by reality

That's why politicians try so hard to ignore economics. But they all have to face reality sooner or later. Elizabeth Warren's campaign for the presidency, for example, "hit a brick wall" recently when her proposals were subjected to close scrutiny. Her "armada of changes", it was revealed, would be highly disruptive and require a "vast pillaging of the middle class", costing at least $23trn over the next decade. The "mountain of new taxes" required to pay for it all would expand federal revenues by more than 50%.

Donald Trump has also been mugged by reality. In the 1980s he "somehow got it into his head" that outsourcing production to foreign countries always represents a cost to the domestic economy. His presidency has put the theory to the test. Trump of all people is reluctant to admit error, but surely even he can see that his policies have been a disaster. Markets and business investment have fallen and the costs of his grand experiment have fallen on Americans. There is strong evidence that Trump's trade policy is the main culprit.

Will these "fanatics" now face the truth that economics is teaching them? It's hard to say as "ideological nuts are hard to crack", especially when their careers depend on keeping them intact. Still, the rest of us can watch and learn a great lesson: "economics is the oracle of truth that exposes political duplicity, intellectual irresponsibility, and fiscal recklessness".

# The bogeyman that did good

marginalrevolution.com

The United Fruit Company (UFC), an American corporation, founded in 1899, that traded primarily in bananas grown in plantations in Latin America, has become known as "the very apotheosis of neo-colonialism", acquiring a reputation for corruption, exploitation and ruthless business practices, says Alex Tabarrok. To be sure, it was not innocent of wrongdoing. But it also did much good, as a new paper by economists Esteban Méndez-Chacón and Diana Van Patten shows. In Costa Rica, the UFC invested heavily in the welfare of its workers, launching health programmes and investing in sanitation. It provided most workers with free housing; primary education and subsidised secondary education for their children; and free transport to and from the US. A 1925 company report shows the UFC concerned with the attractiveness and comfort of its camps and with nurturing family life, providing gardens, schools and entertainment. The benefits were long lasting. The UFC's business in Costa Rica ended in 1984, but to this day households within the boundary of its influence have better housing, sanitation, education and consumption than others in the country. The UFC may be a "bogeyman" for the left, but it had a "positive and persistent" impact on living standards.

# The maestro investor

bankunderground.co.uk

George Frideric Handel was a master musician and renowned composer, says Ellen Harris. He was also a dab hand when it came to finance, as the records at the Bank of England show. His various accounts naturally saw many comings and goings as his career progressed, reflecting somewhat the weakening financial state of opera in London later in his career. But he was savvy enough to dodge the South Sea bubble, selling out most of his holdings before the crash and probably coming out ahead. By the time Handel returned to London in 1742 after work in Dublin, he was done with opera.

*Handel: a virtuoso on the purse strings*

© Alamy

He turned to English oratorio and this put him on the path to riches. Following the premiere of *Samson* in 1743, Handel put the proceeds from music into his cash account, "moving large sums into his varied stock portfolio when he was sure of his profit". With just two exceptions between 1743 and his death in 1759, Handel's stock accounts only grew, his new purchases averaging £1,100 per year. Handel died a rich man, holding £17,500 in 3% annuities at the Bank – just under £2.2m at today's prices.

## Britain's mass underemployment

stumblingandmumbling.typepad.com

Unemployment is at its lowest since 1974, but this fact alone misrepresents the bigger picture, says Chris Dillow. In addition to the 1.3 million who are officially unemployed there are almost 1.9 million who are out of the labour force, but who would like a job. There are 3.3 million who are working fewer hours than they'd like. In total, this makes 6.45 million of underemployed workers.

This helps explain why real wages are still lower than they were in 2007 (on some measures of price inflation). If the labour market is really tight, bosses have to raise pay to get people to work more. But if there's some slack, if you have workers who would like to work longer hours, for example, then you can get more work without raising pay.

As well as the underworked are the overemployed – the 3.4 million people who'd like to work fewer hours, even if that meant low pay. That makes almost ten million people who are unhappy with the world of work – not counting those labouring away in jobs they consider to be "bullsh*t". This is surely "a colossal systemic failure".

# A healthier outlook for biotech

The sector has struggled over the past year, but it remains a solid long-term investment

**Max King**
Investment columnist

It's easy to be bullish about the healthcare sector in general and the biotechnology sector in particular. Everyone wants to live a longer and healthier life and people are willing to devote more of their income to healthcare. As Geoffrey Hsu, the manager of the Biotechnology Growth Trust puts it, "we are in a golden era of innovation with a record number of new drug approvals in the US".

But then why does the healthcare sector in the US trade at a 15% discount to the market, having returned just 6.4% in 2019 compared with an S&P 500 return of 20%?

The bulls tend to gloss over three problems. Innovation has to be paid for, whether directly or indirectly in an insurance-based or a government-funded system. New drug costs, in particular, are politically sensitive even if the overall cost of drugs has been stable at around 10% of US health spending for decades.

In the UK, there are more votes in spending money on hospitals, doctors, nurses and services than on drugs. Drug approvals are policed by regulators for whom it is easier to say no than yes. Finally, rules for drug trials can produce false outcomes with effective drugs failing but others with little benefit appearing to succeed.

> *"Drugs cost 10% of overall US health expenditure"*

## Drug trials are skewed

All drugs have to be tested against a "placebo", an inert pill with no therapeutic value. Yet the "placebo effect", whereby a placebo can be surprisingly effective, for example in the treatment of allergies, can handicap the assessment of an active compound. Giving a sufferer of a serious condition, such as cancer, only a placebo when other treatments are available is unethical so trials will recruit patients for whom everything else has failed.

Yet most drugs work much better if administered early in the progression of a disease and often not at all if late. So the structure of trials is biased towards failure.

In March, Biogen suspended late-stage trials for aducanumab, a highly promising drug for the treatment of Alzheimer's. Medical progress in the treatment of Alzheimer's has been so dismal that success, in the opinion of Hsu and his colleagues, would have made it the biggest-selling drug in the world and opened the door to even better treatments. The Biogen share price fell by a third. Then, in October, Biogen announced that further examination of the trial results showed that high doses for extended periods had, after all, a significant therapeutic effect. The share price bounced by over 30%.

## New technologies cut costs

Drugs trials are hugely expensive, but the industry is cutting costs through new technologies, such as gene therapy for rare diseases and genome sequencing for identifying targets in the treatment of cancer.

Also important is the cross-fertilisation of ideas and cutting failure early. Noel Fitzpatrick, a professor of veterinary orthopaedics, is a powerful and convincing advocate of the convergence of animal and human surgery and treatment. Treating tumours induced in rats has been proved to be much easier than treating naturally occurring ones in humans. Many trials that were successful in rats have failed in humans, at huge cost. While Democratic hopeful presidential candidates focus on the "excess profits" of drug companies, the regulator has sought, according to Hsu, to contain pricing through competition in recent years.

This has meant promoting and rewarding innovative development, streamlining the evaluation and approval basis and being less stringent on efficacy and safety for initial approval. This has "reduced the time, cost, and approval risk for new drugs in development".

This doesn't guarantee an easy ride. But the future for investors in **Biotech Growth Trust** (LSE: BIOG), its sister trust **Worldwide Healthcare** (LSE: WWH) and competitors **BB Healthcare** (LSE: BBH), **Polar Capital Healthcare** (LSE: PCGH) and the **International Biotechnology Trust** (LSE: IBT) should be more in line with the long-term sector averages of 15% per annum for biotechnology and 12% for healthcare than the dismal average fund return of minus 8% in the last year.

## Activist watch

Activist investor Engaged Capital is back for "another bite" of nutrition and weight-loss company Medifast, says Corrie Driebusch in The Wall Street Journal. Engaged Capital has taken a stake of around 15% in the company, whose offerings range from meal replacement shakes to diet plans. It wants to shake up the board and is advocating "operational fixes" in an attempt to boost the stock, which has slid by 40% this year due to disappointing results. Problems have included supply-chain disruptions and a cyberattack. In 2015 Engage Capital forced Medifast to nominate five new directors.

## Short positions... tackling misleading ethical investments

■ **When it comes to ethical investing, funds' marketing can be misleading and there is no agreement on what various terms, such as "sustainable" and "green", actually denote. So Britain's Investment Association, which oversees around £7.7trn of assets, has come up with labels to standardise and categorise environmental, social and governance (ESG) criteria, notes Lucca De Paoli on Bloomberg. As of next year, companies will be asked to classify their funds' strategies. Terms such as "impact investing" (investments that generate a return as well as have a positive social or environmental effect) and "ESG integration" (whereby ESG factors are explicitly factored into investment decisions) will be used to "give customers a clear picture of the opportunities available to them and the confidence that their chosen product matches their expectations", said the Investment Association's CEO Chris Cummings.**

■ UK funds are using £185bn of investors' money to pay commissions to financial advisers, says Siobhan Riding in the Financial Times. In 2013 funds were banned by the Financial Conduct Authority (FCA) from charging commission, but research from Fitz Partners shows that many investors are "sitting in legacy fund share classes" that continue to pay it. Around 23% of retail fund assets in the UK are held in these funds, which are 0.59% more expensive than their commission-free equivalents. "The difference in price is higher than what an investor would pay in platform fees should they move onto a platform and invest into a 'clean' share class," said Hugues Gillibert, Fitz's chief executive. This has cast doubt on the FCA's efforts to ensure that investors are not overpaying for funds.

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# Finding long-term winners: the secrets of successful stocks

Buy-and-hold investors should want to see evidence of several key characteristics before they commit to a company. Richard Beddard explains what they are and highlights his current favourite buys

Buying stocks and holding them for the long term makes sense, as a consideration of the long-term performance of the stockmarket reveals: time has a way of erasing the peaks and troughs in share prices associated with exuberance and market panics. Over a long enough time period, major US and UK stockmarket indices go up, mirroring growth in the economy and corporate profits.

No seasoned buy-and-hold investor expects their investments to rise all the time. Perhaps the strategy's most famous exponent, Warren Buffett, routinely tells people that if they would panic if the value of their investments fell 50%, then they should not invest in shares. He should know: shares in his investment company, Berkshire Hathaway, have fallen this much in the past, most recently between December 2007 and March 2009.

Berkshire Hathaway's fate was not unusual. Investors who had bought shares in the S&P 500, an index of major US companies, saw it fall by more than 55% during the financial crisis, from the peak in October 2007 to the trough in March 2009. Not coincidentally, Kenneth Solow, the chief investment officer of a US wealth-management firm, published a book entitled *Buy and Hold is Dead (Again)* in 2009. Since the market's nadir that year, the S&P 500 has risen by more than 350%.

Even if you had had the misfortune to invest in an index fund at the pre-crisis peak in October 2007, your investment would have doubled by today (not including dividends). Bearing in mind that outcome is the unlikely result of buying on the worst possible day right on the eve of a stockmarket crash, it seems the claim that buy-and-hold is dead was wrong, again.

## Hitch a ride with the stars

Shares generally appreciate over the long term, which has encouraged the growth in index-tracking funds as a cheap and simple method of buying and holding them, a strategy that makes even more sense if investors avoid the risk of buying at the worst time in the worst market by drip-feeding money into globally diversified funds. Occasionally, though, markets test the patience of investors with the farthest horizons. UK indices have risen less since the pre-crisis highs of 2007, and Japan's Nikkei 225 index remains stubbornly below its December 1989 peak.

The fear of being trapped in a moribund market is one reason some investors try to improve on market returns by picking individual shares to buy and hold. For most of his career Buffett has trounced the market. In the UK, fund managers such as Terry Smith at Fundsmith, Nick Train at Lindsell Train, and Keith Ashworth Lord, who runs the CFP SDL UK Buffettology fund, are off to flying starts. In one sense, picking individual stocks in the expectation that they will do better than the market average is a fool's errand because most shares do worse than average. The overall progress of the stockmarket is the aggregate of a minority of high-performing stocks and a majority of lacklustre, sub-par performers. Although the chances of picking some of the high performers may seem slim, you only need a couple to make a portfolio really sing.

*"You only need a couple of winning stocks to make a portfolio really sing"*

## Think decades, not days

But in another sense, buying and holding individual shares is an errand ideally suited to private investors. Unlike most fund managers, private investors need not be swayed by short-term movements in share prices because they have no business to lose when people lose faith in them due to falling prices. Neither are the expensive accoutrements of professional fund management, teams of analysts and rows of Bloomberg terminals necessary. Buy-and-hold investors can discover good companies by reading annual reports, appraising products and services, and visiting the companies, for example.

Over time, the goal of the buy-and-hold investor is to become so familiar with a business that they understand its long-term prospects better than most market traders, a task made easier by the fact that most participants in the market are not trying to gauge the long-term prospects of businesses. The key to buying and holding is to focus on attributes other than the capricious share price – fundamental attributes that allow firms to prosper through thick and thin. It can take many years and sometimes decades for a company to realise its potential fully, timescales over which investors can really get to know a business.

## Start with profitability

For-profit companies exist to make a surplus, which belongs to their shareholders. The hallmark of a good business, therefore, is that it has been profitable, preferably for a long time, and at least through one economic cycle. Profitability implies a company does some things well, because customers are prepared to pay more for a product or service than it costs to supply. Strong finances too are a sign of past success, as they suggest that a company has generated enough cash to fund its operations and ambitions itself.

But past profitability alone cannot define a good company because success attracts competition, which, unchecked, will whittle away at profitability in future. To sustain profitability and growth, companies must invest in the attributes that make them stand out from the competition – so-called competitive advantages. A buy-and-hold investor's confidence in the future comes from what we can learn about the company now: how it makes so much money, its strategy to make more, and what could stop it. We want to see companies building on their advantages and addressing risks that could dent profitability.

## A select club of companies

Over the last two years, I have selected 15 shares for MoneyWeek that should prosper over the long term. They are a diverse bunch. Only two of the companies, Dewhurst and XP Power, are in the same subsector of the UK stockmarket, electronic components, and even they are very different businesses. Dewhurst manufactures and distributes lift components and XP Power makes power converters for

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*Games Workshop has grown a hobby into a £1.9bn firm*

industrial, semiconductor, and medical equipment manufacturers. The list also includes a package tour operator (Dart, owner of Jet2holidays), Avon Rubber, a manufacturer of milking equipment and gas masks, and Howden Joinery, a supplier of kitchens.

The biggest company is the FTSE 100 clothing and homeware retailer Next, which has an enterprise value of £13bn, and the smallest is premium building-materials supplier Alumasc, worth about £60m. Firms such as Quartix, which operates a vehicle-tracking service, have grown entirely under their own steam, while scientific-instrument manufacturer Judges Scientific is the product of many small acquisitions. Yet, despite the diversity of this group, there is a great deal these shares have in common. Apart from their generally high levels of return on capital (a key measure of profitability), these attributes are not obviously apparent from the outside, but become clearer once we get to know the businesses better.

**Look for the experts in their field**

Victrex is the only specialist manufacturer of PEEK, a very tough yet light polymer used in an astonishing array of products, from aircraft fuel tanks to Dyson vacuum cleaners and hip implants. Victrex invented PEEK decades ago, when it was a subsidiary of once mighty ICI. ICI lost its way in the second half of the 20th century and disappeared when it was acquired by AkzoNobel in 2007. Long before that, though, Victrex was spun out of the parent company and flourished by developing higher grades of PEEK and new applications for it. Although the original patent for PEEK expired decades ago, only a handful of competitors have emerged, the biggest of which are diversified chemical companies. Competing with Victrex is tough because it has the best products, the most expertise and capacity, and has all its resources focused on PEEK.

It's a similar story at Quartix, which sells a vehicle-tracking service. It combines a cheap, no-frills device with a web-based interface that helps fleet owners keep tabs on their drivers. The source of Quartix's advantage is not the technology, which is competent, but the company's disciplined focus on one product for a large market, small fleet owners. Quartix's strategic effort goes into only developing features that the vast majority of its customers want and marketing, principally through direct sales. This sets it apart from competitors targeting large fleets with customised devices and services, an expensive and riskier proposition.

**Self-reliance is a winning corporate trait**

Games Workshop makes money selling model soldiers, but in growing a hobby into a £1.9bn (by enterprise value) business, the company has developed an astonishing array of interlocking capabilities. The models are characters in "Warhammer Age of Sigmar", and "Warhammer 40,000", popular tabletop wargames sold with soldiers and modelling equipment in Warhammer stores, on Games Workshop's website, and by independent stores. The Warhammer stores are run

**Continued on page 26**

*"Victrex is the only maker of PEEK, a polymer used in products ranging from vacuum cleaners to hip implants"*

Continued from page 25

by hobbyists. Customers play and model there, and spend lots of money. The games and the lore are promoted in Warhammer books, magazines and websites. It is a highly-specialised business dedicated to selling more models. But it is also a designer, manufacturer, retailer and publisher. It licenses Warhammer stories and characters to video-games companies and is scripting a TV series. Building a business to rival the capabilities of Games Workshop would be difficult enough even if the original did not already exist.

### Churchill's sturdy leadership

Last September Churchill China bought out the co-owners of its clay supplier, an event that barely troubled the stockmarket, but was a significant move to shore-up the potter's competitive advantage. The processes Churchill has developed over centuries to manufacture plates, bowls, cups and saucers are determined by the type of clay it uses, which is different to European competitors' clay. The difference makes for tougher plates that are relatively cheap to make. These qualities are prized by customers in the hospitality industry because of the quantity of tableware they buy and the bashing it gets in commercial kitchens.

### Putting people first

The best businesses to buy and hold are customer-focused because satisfied customers return time and time again. Howden Joinery has found a way of generating repeat sales of fitted kitchens by focusing on small builders, who fit kitchens frequently, rather than homeowners, who purchase kitchens infrequently. Its primary goal is to make life easier for the builder. Of course it designs kitchens the builders' customers like, but it also makes sure they are easy to fit, keeps everything in stock so builders are not delayed if they need components, gives the builders a confidential discount and provides them enough credit to finance the job until they receive payment. Howdens must pay for these customer-friendly policies, but they are more cost effective than employing its own sales force and installation teams as many of its competitors do.

Then there's power-converter supplier XP Power. Its products include industrial versions of the AC/DC power adapters used in electrical goods and converters that control the ebb and flow of DC power in industrial equipment. The group moved into manufacturing a decade ago, but as a distributor with sales offices already serving the major manufacturers of industrial and healthcare equipment, it started with a big advantage. Its technical sales force knew the increasingly demanding requirements of its customers, particularly in terms of reliability and energy efficiency. It can take up to two years to design a power convertor into a machine, so XP Power does everything it can to make this easier by designing families of devices it can slot in with minimal customisation and working with customers as they design machines. Many machines require multiple converters, and most manufacturers make many machines, so cosying up to customers has proved a canny way to gain a larger share of their business.

### Skin in the game

The average tenure of CEOs at large British firms is about five years, scant time to introduce and entrench a winning culture. Instead, many bosses behave tactically, encouraged by hefty bonuses and misnamed long-term incentive plans. This can lead to decisions that lift profit in the short term, but destroy value in the long term, such as overzealous cost-cutting or expensive acquisitions. A winning culture requires

©Alamy

*Howden Joinery's fitted kitchens have proved popular*

consistent leadership to take hold. This can occur because a company promotes from within, or because a founder or descendents of the founder retain large shareholdings and stay involved in the business. Because of their personal investment they often have one eye on leaving a legacy. As major shareholders, they tend to be more interested in growing the business sustainably than lining their pockets immediately.

After decades in charge, the founders of Howden Joinery and Victrex retired recently. This is often a worrying moment for buy-and-hold investors, but there are no signs of cultural upheaval at the two companies. Dart's charismatic founder, former stunt pilot Philip Meeson, still runs the business 36 years after buying an outfit that flew flowers from the Channel Islands and distributed them in the UK. But the prize for long service goes to the Goodwin family. Goodwin manufactures massive steel castings on a scale few other companies can match worldwide and also supplies the jewellery casting industry. Earlier this year the sixth generation of the family took over.

> *"The best businesses to buy and hold are customer-focused: satisfied customers keep coming back"*

### The five favourites

All of the stocks bar Alumasc retain my confidence because they have so many of these qualities (Trifast, a maker of nuts, bolts, rivets and screws, and defence technology group Cohort are the final two on my list). Alumasc supplies premium building materials. It is specialised to a degree, focusing on products such as roofs, gutters, downpipes, drains and solar shading for the outside of buildings. It has also been under the same management for a long time, but the company has been unable to convert high levels of profitability into growth despite reconfiguring to focus on the building envelope. It is diverting about half of its cash surplus each year into a defined-benefit pension fund that is many times the size of the business and severely in deficit. While Alumasc may flourish one day when it has shorn itself of the pension burden and resolved problems at its loss-making solar-shading subsidiary, for now it is a turnaround play rather than a buy-and-hold investment.

Weighing up the qualities and valuations of businesses is a subjective exercise. The longer the duration of the investment, the less important the purchase price because compounding returns from a growing business should outweigh all but the most egregiously expensive initial valuation. Still, high prices dent returns so buy-and-hold investors should try not to overpay. I think the five most attractive buy-and-hold stocks at current valuations are **XP Power** (**LSE: XPP**), **Victrex** (**LSE: VCT**), **Howden Joinery** (**LSE: HWDN**), **Dart** (**Aim: DTG**) and **Goodwin** (**LSE: GDWN**).

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# What explains Britain's history? In a word: tax

Taxation may not seem a compelling subject for a book, but levies such as the Corn Laws have proved pivotal in shaping our story, says Dominic Frisby

I've just written a book all about the past, present and future of taxation. Not the most enticing subject for a book, you might think, but I promise you it is. There is fascinating story after fascinating story. Today and over the next two weeks, I'll be telling you some of them. The book's called *Daylight Robbery* and we actually get that expression from the window tax that was levied in Britain between 1696 and 1851.

Window tax began as a replacement of hearth money, which involved collectors entering people's homes twice a year to count their fireplaces. It was hated and the monarchs William and Mary had it abolished after the Glorious Revolution of 1688 to ingratiate themselves with the people. A replacement for the lost revenue was soon found in the form of window tax. No invasion of the Englishman's sacred privacy was required: an assessor could just walk past and count his windows.

But the tax had many unintended consequences, the worst being that it made people ill. It was "a direct encouragement to disease", said The Lancet. The numerous epidemics during the Industrial Revolution – typhus, smallpox and cholera – were made worse by the cramped, damp, windowless dwellings. By the 19th century, opposition to it was everywhere. "Neither air nor light have been free since the imposition of the window-tax," fumed Charles Dickens. Pamphlets were handed out, speeches were made. Campaigning went on for decades. When a motion was finally put before Parliament, legend has it that MPs cried "Daylight robbery!".

*"Window tax encouraged the spread of diseases such as cholera and typhus"*

### Protectionism financed central London

Who would have thought that simple tax would make people ill? But taxes have many strange, unintended consequences. The Corn Laws are another example. In the aftermath of the Napoleonic Wars the Tories imposed tariffs on imported grain to protect British crop producers against the falling cost of bread. But, protected from foreign competition, crop producers felt little pressure to improve productivity and the cost of grain stayed high. The high cost of food hurt the poor most, while creating some of the richest British aristocratic dynasties in history. The huge estates of Cadogan, Westminster and Bedford, which still occupy much of central London, were built on the back of these protectionist tariffs.

But the most pernicious unintended consequences were in Ireland. In the 1840s, the country was hit by the Great Famine. Blight struck the potato plant on which Ireland depended as its staple crop. It needed food from abroad and there was plenty of cheap grain waiting to be exported, especially from the US, but the Corn Laws made the cost too high. Over a million people died of starvation. A million more fled to the US to escape it.

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*Sir Robert Peel simplified taxes by removing over 600 duties*

When you consider the influence of the Irish on the destiny of the United States – over 20 presidents claim to have been of Irish descent – you can see what an effect even apparently minor taxes can have on human history. Attempts to reform the laws met with opposition. Parliament was full of landowners. Even Britain's tax commissioners were landed gentry. In 1838, free-trade campaigner Richard Cobden set up the Anti-Corn Law League and in 1841 he was elected as an MP. He eventually won the ear of the prime minister, Sir Robert Peel.

### Repealing the Corn Laws

"We must make this country a cheap country for living," Peel had declared, and his reintroduction of income tax in 1842 – seven pence in the pound on incomes over £150 – meant he was able to remove over 600 duties and reduce rates on more than 500 further items. Thanks to his tax, trade and financial reforms, Britain actually ran a surplus. He repealed duties on sugar, livestock, cotton, meat and potatoes, as well as glass excise taxes. "We hail with joy the abolition of the duty on glass," said The Lancet, "a tax only to be equalled in cruelty by the duties on corn." Peel would eventually repeal the Corn Laws as well.

He had voted against repeal each year from 1837 to 1845, but with food supplies scarce on the mainland and famine in Ireland, he changed tack. British farmers did not produce enough grain to feed its growing population anyway, let alone in a famine. Peel was strongly opposed from within his own Conservative Party. But he found Whig support and the laws were finally repealed in 1846. He resigned the same day, never to hold office again. But as Cobden foresaw, Peel's reforms ushered in an era of free trade in Britain in the second half of the 19th century that in terms of innovation, invention and rising prosperity was perhaps the greatest in British history.

Daylight Robbery: How Tax Shaped Our Past And Will Change Our Future, *Penguin Business, £20. Audiobook on Audible.co.uk. Signed copies are available at dominicfrisby.com*

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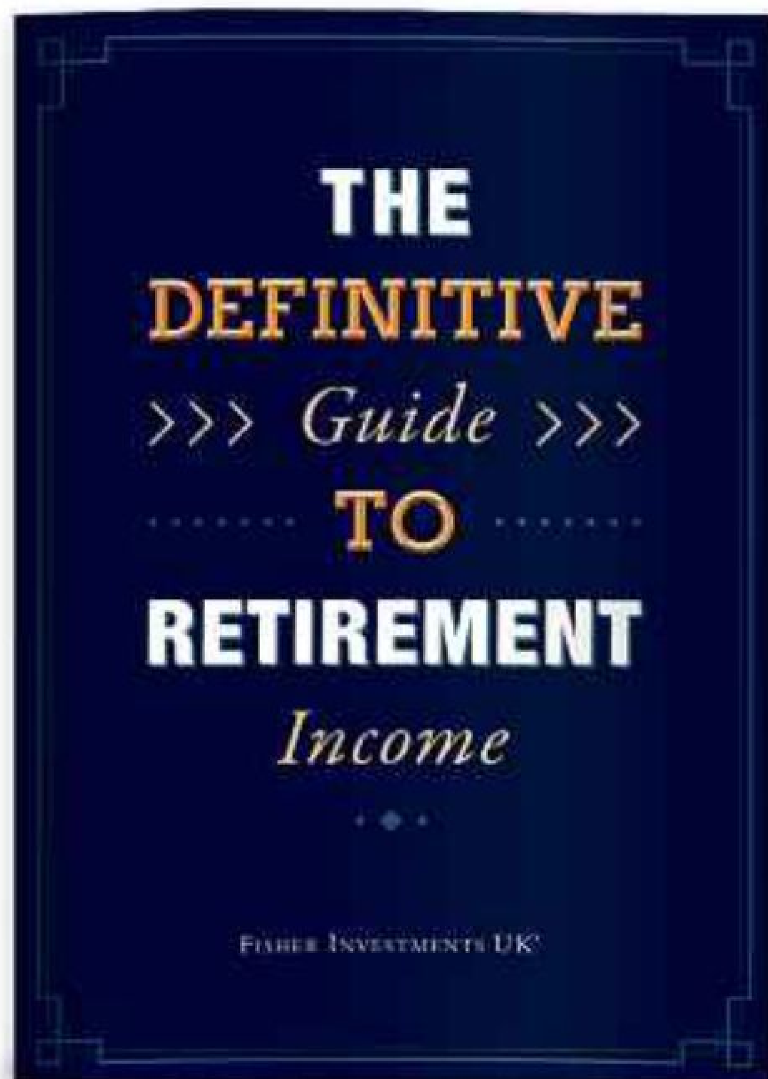


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# Gifts that keep on giving

Don't give your children or grandchildren fashionable toys they'll soon forget about – put some money to work for them instead

Ruth Jackson-Kirby
Money columnist

The top toys for this Christmas include a Barbie Dream Plane and a Lego Knight Bus. These gifts may go down well on the day, but eventually they are likely to end up in landfill or at the local car-boot sale when your children or grandchildren get fed up with them. So how about breaking with tradition this year and giving the gift of cash?

"Giving cash is sometimes seen as impersonal or not very thoughtful, but when children have more toys than they know what to do with, it can be the ideal present," says Kalpana Fitzpatrick in Good Housekeeping.

Giving cash doesn't have to mean just stuffing notes into a festive card. There are several ways you can improve your children or grandchildren's financial position.

Your first choice could be to add to, or open, a Junior Isa for them. Parents can open an account and then anyone can add to it up to an annual limit of £4,368. The money can then grow tax-free until the child turns 18. At that point it automatically converts into an adult Isa and they can withdraw the cash or leave it to carry on growing.

Alternatively, a grandparent can open a standard savings account for a grandchild, "provided you have access to the necessary documents, such as their birth certificate", says Harriet Meyer in Saga.

Bear in mind too that "children rarely pay tax, as they can earn up to the personal allowance tax-free". That means they would have to earn more than £11,850 a year before income tax became an issue. However, the advantage of a Junior Isa is that it is protected from tax for life. So when the child is older and does start earning money and paying tax, the Isa will still be shielded from the taxman.

*"The advantage of a Junior Isa is that it is tax-free for life"*

A very popular way to give children money is to buy them Premium Bonds. National Savings and Investments (NS&I) has changed Premium Bonds this year so now anyone can buy them for children and you can invest as little as £25. No interest is paid on Premium Bonds, but the holder can win anything from £25 to £1m tax-free each month. Parents can buy the bonds for children under 16 online. If you are buying for a grandchild or someone else's child, you'll have to apply by post.

*The MoneyBox Tree: a magic money tree for children*

### Cultivate the saving habit

Want to give something that can be unwrapped on Christmas day? How about buying a piggy bank so you can help encourage a saving habit. Children can slot pound coins into Coin It In's MoneyBox Tree and see their pot gradually building up over time. This could be a helpful visual aid to help teach children about saving.

If you want to play the long game, then you could also consider contributing to your grandchild or child's pension for Christmas. "You can start to save for a child's retirement fund from birth with a Junior Sipp [self-invested personal pension]," says Fitzpatrick. Any money paid in benefits from tax relief and there is an annual cap of £3,600 (£2,880 plus £720 basic-rate tax relief).

The money will be locked away until the child is 55, but £300 a month deposited with a 5% annual return would create a £104,760 pot after 18 years. That would then rise to £1.037m by the time the child turned 65, assuming a 5% annual growth rate.

Finally, you could take your gift inspiration from the three wise men. Gold coins cost from around £130 via the Royal Mint. Just make sure the gold is stored safely and if it is kept at home it must be covered on your home insurance policy.

## Pocket money... are you entitled to an IHT refund?

■ "Sellers who inherited properties are successfully claiming tens of millions of pounds from the taxman by arguing that the homes have fallen in value by the time they were sold," says David Byers in The Times. If the value of a property falls between the time it is valued for inheritance tax (IHT) purposes and the time it is sold, you can reclaim any overpaid tax.

Property-related refunds are up 86%, according to NFU Mutual. Each refund is likely to be worth "thousands of pounds". Most of those entitled to refunds are likely to be in the south east of England: property prices are typically above the £325,000 IHT-free allowance, while the housing market has been struggling in the past few years.

■ More and more of us are using "tap and pay" at the tills. There were more than 726 million contactless transactions in August, up 14% on the same month in 2018. Consumers spent £6.9bn, compared with £6bn in August 2018.

"While the majority of card payments in the UK are made using debit cards, consumers are increasingly relying on credit cards when making purchases," notes Leke Oso Alabi in the Financial Times.

Contactless cards made up just under a third of credit-card transactions and almost half of debit-card payments in August, data from UK Finance shows.

■ You may strive to avoid single-use plastic and only invest in green companies, but if you're concerned about environmental sustainability, have you thought about your occupational pension funds?

Pension firms often say they keep the environment in mind when they choose investments. But they don't tend to put their money where their mouth is, says Sam Meadows in The Daily Telegraph. Telegraph Money's analysis of the ten biggest pension providers' "default" funds reveals investments in major oil companies or miners such as BP and Royal Dutch Shell and Rio Tinto. Only Nest had no fossil-fuel firms among its largest investments. Eight others contained the two oil majors.

Most pension providers have an ethical option, but 97% of investors with a workplace pension stay with the default fund.

# Don't get caught by equity release

## Tapping your property for cash should be a last resort for most people

**David Prosser**
Business columnist

The equity-release market is booming. Living longer but struggling to save for retirement or running short of money after taking too much out of pensions too early mean more people than ever want to cash in on the value of their house in later life. Equity-release plan providers lent £3.94bn last year, says the Equity Release Council, up 29% on 2017. The size of the market has doubled within a four-year period.

Equity-release plans are deceptively simple. Over-55s can borrow against the value of their property – typically up to 50% – to generate a pot of cash. You can use this money as you like and there are no repayments due. The loan, plus interest, is repaid after your death from the proceeds of the sale of your house, or earlier if you need to sell to move into long-term care.

Equity release can be an attractive proposition for homeowners in need of cash and sitting on a valuable asset, particularly those who are unable or unwilling to free up capital by downsizing to a smaller property. However, there are some big downsides. In particular, equity release plans can prove very expensive.

*You can borrow up to 50% of the value of your house*

©iStockphotos

In part this is because lenders' rates are not as competitive as on standard mortgages, typically priced at 5%-6% a year, according to personal finance data provider Moneyfacts. But the key problem is that since you're not making any repayments, the charges mount up, exposing you to the perils of compound interest. Borrow £50,000 at the age of 60 at rate of 5.1% and what you owe doubles roughly every 14 years.

So any inheritance you were hoping to leave to children can be wiped out. Equity Release Council members all guarantee no negative equity – your debt will never be greater than the value of your property – but your heirs may get nothing.

### Loans become more flexible

However, increased competition in the sector has resulted in better deals, with a fivefold rise in the number of products on offer over the past five years. Rates have come down – you can now find fixed-rate deals below 4% – and products have become much more flexible. You'll often have the choice of taking a monthly income rather than an upfront lump sum, which reduces the cost of the deal and suits people looking to supplement their income. You may be able to make voluntary capital or interest repayments during your lifetime.

Still, the cost of equity release means it should be a last resort for most people. If you do need to raise additional capital or income later in life, moving into a smaller property will typically be a more economic solution. You should take independent financial advice before signing up for a plan; reputable equity-release providers will often require you to do so. Seek an adviser with a specialist qualification in equity-release advice.


# 5 Reasons to Buy Physical Gold...

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

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

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

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

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# These firms' profits are set to power ahead

A professional investor tells us where he'd put his money. This week: Jamie Ward of the CRUX UK fund highlights three favourites

Our cautious approach means worrying about the downside much more than being excited by the upside; concerning ourselves with what might go wrong, not what could go right. It is about avoiding mistakes and letting the upside take care of itself. To that end, when assessing potential investments we take a long-term view of businesses to understand better the risk we are taking. Aspects of this approach are straightforward. For example, we do not buy hugely indebted businesses.

A key determinant of an equity investor's success is the price paid for an investment, but using valuation alone is only half the job. There are many valuation metrics, ranging from the very simple price/earnings ratio (p/e) to the complex discounted cash flow (DCF) analysis. However, we contend that if a stock has a low p/e, it probably looks cheap on a DCF basis.

## Are earnings sustainable?

Mistakes rarely result from a flawed technique for determining cheapness; more often, they occur from not anticipating changes in a business. Typically, this type of mistake occurs when buying a stock at its peak earnings, rather than buying when the price relative to those earnings looks too high. We focus on mature businesses that behave fairly predictably. This does not preclude cyclical firms, but it forces us to think deeply about earnings sustainability.

> *"Renishaw's new businesses, such as robotic surgery, offer scope for growth"*

The following three businesses show how this thinking partly informs our decision. **PZ Cussons** (**LSE: PZC**) is a consumer-goods business that owns brands such as Imperial Leather and St Tropez – brands that allow the business to generate a profit. It also generates a great deal of revenue in Nigeria. Consequently, its fortunes follow that of the Nigerian economy to some extent. Here, the economic environment has been tricky and so PZ Cussons's earnings seem depressed. Its shares offer a moderate rating attached to earnings that have scope to recover.

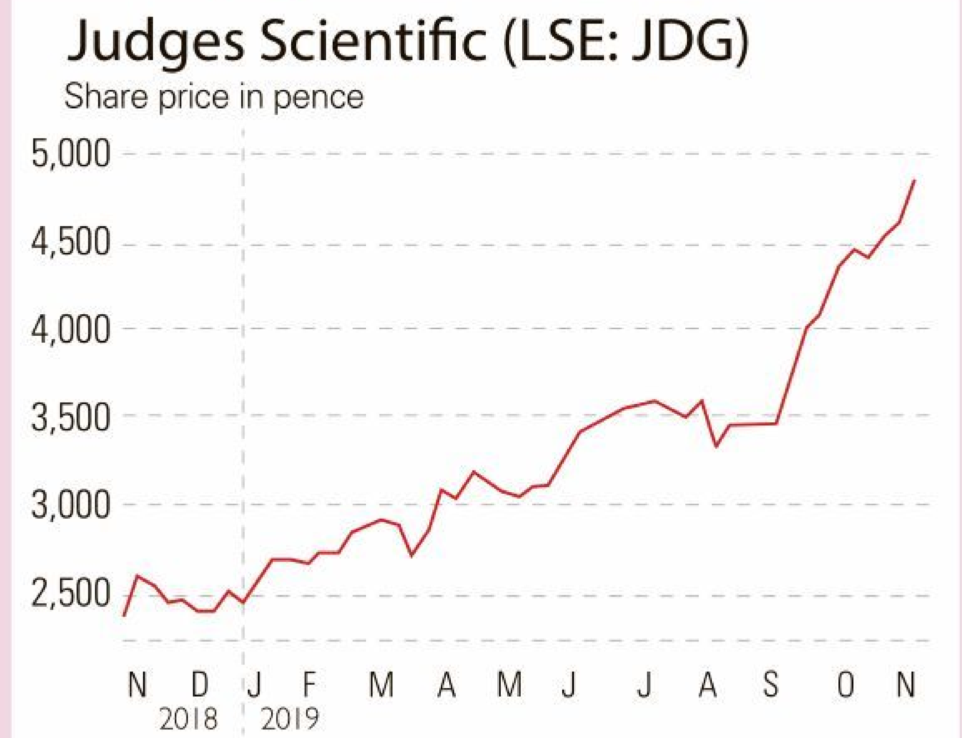
## Precise and profitable

**Renishaw** (**LSE: RSW**) makes world-leading products in precision engineering. Its innovative technology allows it to extract a high and well-deserved return on invested capital. The principal metrology business (products range from machine-tool probes to mapping sensors), however, is plugged into the global capital-goods cycle and during periods of retrenchment, such as now, profitability declines. Nevertheless, these lower earnings are temporary. In addition, emergent business units within the group related to additive manufacturing and robotic surgery offer potential for new, highly profitable earnings streams. The valuation looks high, but the earnings are depressed compared with their potential.

## Bank on Barclays

Finally, in **Barclays** (**LSE: BARC**) we have a business where the global financial crisis and the response to it created an environment that has depressed earnings for ten years. Today, however, we see signs that the decade-long balance-sheet repair is over, so the bank is once again perfectly capable of generating sustainable profits. Barclays is on a very low multiple of depressed earnings. The dividend yield alone ought to breach 5% this year and could increase by another third in the next couple of years.

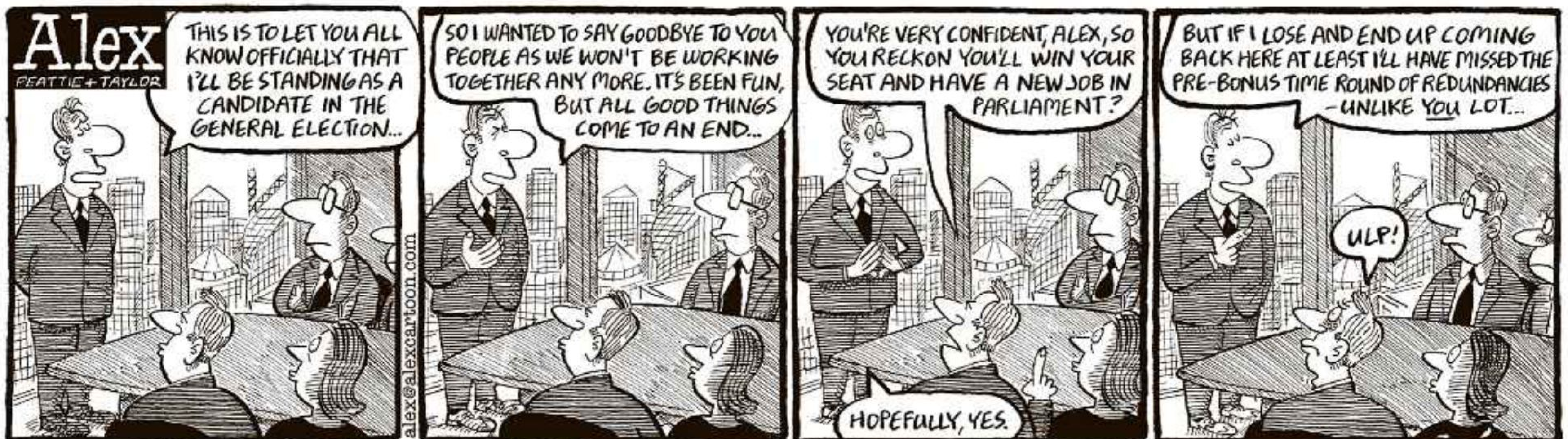
## If only you'd invested in...




**Judges Scientific (LSE: JDG)** is a holding company that acquires and develops designers and manufacturers of scientific instruments. It has made a series of acquisitions since 2005 and currently owns 14 separate businesses. Its strategy is paying off. The latest interim results showed record sales and pre-tax profits for the first half of 2019 and management is confident that full-year profits will be ahead of expectations. Apart from a period of retrenchment in 2014, the share price has been on a solid upward trend since the firm floated in 2005. It has risen by more than 90% in the last year.

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

**Amigo Holding (LSE: AMGO)** is a sub-prime lender that makes loans to customers who have poor credit histories but a creditworthy guarantor. Amigo had a good start to 2019, with increased revenue and numbers of customers, but the year isn't ending well. The Financial Conduct Authority, the industry regulator, is taking a close interest and as a result Amigo will change some of its business practices, which will reduce repeat business. It also warned recently that impairments will be higher than anticipated, while growth will flatline. The share price has slid by 75% in a year.



©The Telegraph 2019

# The maths whizz who solved the market

Jim Simons loved maths and logic from an early age and enjoyed a rapid rise to the top in academia. Then he figured out how to create the greatest money-making machine in Wall Street history. Jane Lewis reports

Every now and again a book comes along that demands attention, says Bloomberg. *The Man Who Solved the Market* by Wall Street Journal reporter Greg Zuckerman is one such. It's the closest thing we may ever get to a definitive account of how mathematics prodigy Jim Simons built hedge fund Renaissance Technologies "into the greatest money-making machine in Wall Street history".

Renaissance's flagship Medallion fund has generated more than $100bn in trading profits since 1988, "more than any other hedge fund in history – making millionaires of many of its employees, and several billionaires". Forbes puts Simons' own fortune at above $21bn. When Renaissance notched up its first $1m profit in 1990, Simons handed out Champagne – but $1m one-day gains quickly "became so frequent that the drinking got a bit out of hand".

©Getty Images
*Jim Simons: "I like to ponder"*

*"Simons' flagship fund has generated more than $100bn in trading profits since 1988, more than any other hedge fund in history"*

## Spotting patterns is the key to success

The best investors' strategies often sound simple, says The Economist. Warren Buffett goes for "quality merchandise when it's marked down"; George Soros bets big on the fallout from epoch-making events. "Jim Simons spots patterns." When he began investing in 1978, Simons started by looking for patterns in currencies. He had early successes with simple "reversion to mean" strategies – buying when a currency fell far enough below its recent average. But things really took off ten years later when a fellow mathematician, René Carmona, "convinced him that, rather than searching for such patterns themselves, they should hand over to an algorithm and trade even when the logic was unclear to human minders". In the 1990s, colleagues Robert Mercer and Peter Brown, formerly of IBM, developed a "self-correcting" version of this trading approach that could "double down on successful strategies and cut losing ones". These techniques, now called "machine learning", quickly became widespread.

Born in 1938 in Boston, the son of a shoe-factory owner, Simons knew as a boy that he loved maths and logic, says The New York Times. But his genius wasn't obvious to those around him. As a teenager working for a garden supply store he was demoted to floor-sweeping duties for being so inept in the stockroom. "His bosses were incredulous when he told them he wanted to study maths at MIT."

## A mind-boggling advance

Fellow mathematicians describe Simons' subsequent academic career as "mind-boggling". He received his doctorate at 23 and, at 26, his skills in cryptography saw him hired as a code-breaker for the National Security Agency. By 1967, though, Simons was in open conflict with his boss, the retired four-star army general, Maxwell Taylor, over Vietnam. After his dismissal, he returned to academia, winning geometry's top prize in 1975, before "restlessness" pulled him into business. In 1978 Simons founded the predecessor to Renaissance Technologies.

There were several missteps along the way to Simons' eventual riches, says The Economist. When Renaissance's first foray into bond markets turned into big losses, for example, he admitted to a colleague that he sometimes felt "I'm just some guy who doesn't really know what he was doing". Yet Renaissance has enjoyed a golden run. "I like to ponder," says Simons. "And pondering things… turns out to be a pretty good approach."

## Great frauds in history… *the White Knight's pensions raid*

**Richard Whitney was born in Massachusetts in 1888 and graduated from Harvard before founding his own brokerage in 1910 in New York, purchasing a seat on the New York Stock Exchange two years later. His role as J. P. Morgan's main broker helped him get elected to the NYSE's board of governors in 1919 and he eventually served four terms as the exchange's president, retiring in 1935. He played a role as the head of a pool of financiers that tried to halt the Wall Street Crash by buying large numbers of blue-chip stocks. The attempt proved unsuccessful, but it brought him widespread fame as the "White Knight" of Wall Street.**

©Alamy

### What was the scam?

**Although a successful broker, Whitney was an awful speculator. His worst investment was in the Distilled Liquor Corporation, which manufactured applejack in the hope that the drink would benefit from the repeal of prohibition. It proved unpopular and shares in the company plummeted. Convinced that they would rebound, Whitney borrowed money in order to prop up the share price. As the price tumbled further and Whitney's credit line was exhausted, he turned to embezzlement, stealing money from various pension funds that he managed. Overall, he stole $1m ($17.8.m in today's money) from his clients, to add to the $27.4m ($488m) he had borrowed.**

### What happened next?

**By 1938 rumours spread that Whitney's brokerage, Richard Whitney & Co, was insolvent. Eventually, the complaints grew so vociferous that the New York Stock Exchange demanded to inspect his books, a power it had that Whitney had unsurprisingly opposed while he was president. As a result, his company was suspended from the stock exchange and Whitney was quickly exposed as an embezzler. He attempted to use his status to get the charges discreetly dropped, but he was arrested, convicted and eventually sentenced to between five and ten years in jail. He was out in less than four.**

### Lessons for investors

**Whitney's brother, George, stepped in and repaid all the lost money. But this took some time, so Richard's victims would have seen the value of their cash eroded by inflation. The lessons are obvious: first, steer clear of brokers or managers who aren't always prepared to be 100% transparent on their holdings; and second, think very carefully before putting more money into investments that have already turned out to be losers.**

MoneyWeek
WINE CLUB

# Wines fit for a celebration

There is an element of rule-breaking and convention snubbing in this month's line-up of wines and this is exactly how I like it. While I have chosen a pair of classics, which is not surprising given the noble source of this month's sextet, the other four wines are clever side-steppers which do an awesome job on the nose and palate while keeping their prices keen as mustard. Yapp is a legendary wine merchant and this year marks their 50th in business. As we come to the end of their anniversary year, this collection of stunners celebrates both the heavy-weight, world-renowned Domaines on their wine list as well as handful few scintillating newcomers. Each and every wine deserves a place on your dining room table so study the list below and then load up early for your winter season of elite entertaining.

**Matthew Jukes**

FROM **£9.50** PER BOTTLE

- All wines come personally recommended
- Exclusive discounts and FREE UK delivery
- No membership needed

Prices shown below are per case of 12 bottles. Wines are also available in a mixed case, giving you two bottles of each for **just £180** — it's a chance for you to try them all, and is the most popular choice with *MoneyWeek* readers!

~~£14.90~~ £13.90

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

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

**CASE PRICE: £166.80**

~~£13.95~~ £12.95

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

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

**CASE PRICE: £155.40**

~~£18.95~~ £17.95

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

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

**CASE PRICE: £215.40**

~~£10.50~~ £9.50

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

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

**CASE PRICE: £114**

~~£22.75~~ £21.75

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

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

**CASE PRICE: £261**

~~£15.25~~ £14.25

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

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

**CASE PRICE: £171**

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# What to do when you're not skiing

The great ski resorts have much more to offer than downhill thrills. Chris Carter reports

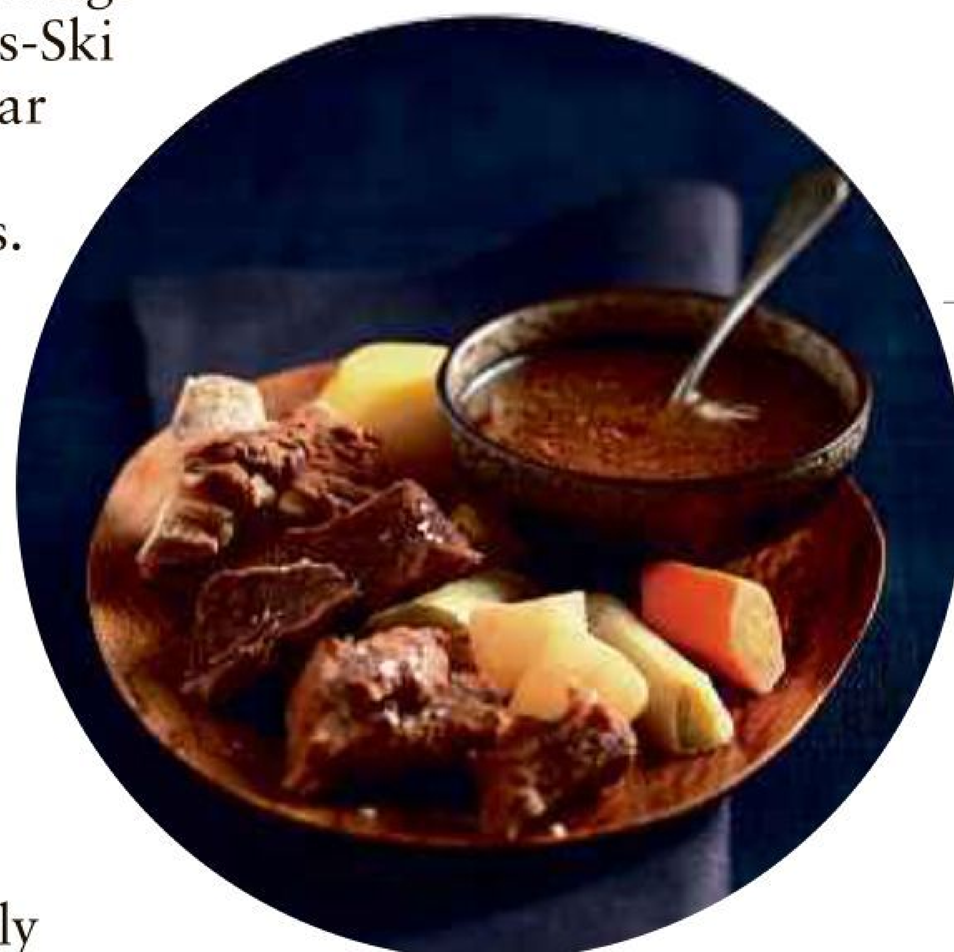
"Those looking for après-ski that doesn't involve DJ Ötzi, shot skis or Jägerbombs should look to Andermatt" in Switzerland, says Tom Robbins in the Financial Times. "In June, it opened a stunning new concert hall with a performance by the Berlin Philharmonic." The glass facade "leaves it awash with natural light" – perfect for a year-round programme that is geared towards promoting rising stars, ranging from opera and chamber music to jazz.

In little more than a decade Andermatt has transformed from being a garrison town with a few ageing ski lifts to becoming an upmarket resort. The five-star The Chedi hotel opened in 2013 and a new lift will extend the ski area to the neighbouring historic village of Disentis. If you make it there, but find you don't have the legs to make it back, the Après-Ski train is on hand, with a bar serving cheese and dried meats, beer and schnapps. *From CHF510, thechediandermatt.com*

Steamboat Springs in Colorado strikes a perfect balance between young and old

## Food, glorious food

As part of Les Trois Vallées, the world's largest ski area, Val Thorens, in France, has access to hundreds of kilometres of ski runs, says Ben Ross in The Daily Telegraph. But it also has 19 Michelin stars shared by 11 restaurants. If that sounds like too much of a stretch, you can still eat well, if not exactly cheaply. "Our finest stop came at La Ferme de la Choumette, low on the mountain above St Martin de Belleville, where *entrecôte* and tangy cheese burgers were served in a peculiar shed that was half restaurant, half cow barn." "But a glorious meal at Chalet de la Marine, off the Peclet lift above Val Thorens, showed that even extortionate *pot au feu* (€30) can be worth it when delivered well: rich, hearty and full of marrow." Stay at Langley Hotel Tango, located in "a busy, but not uproarious hub" for après-ski. *From £80, langleyhotels.eu*



©Alamy

*"Val Thorens in France is home to 19 Michelin stars"*

## Hot springs in Colorado

Steamboat Springs in Colorado "strikes the balance between a younger ski-town population and older, laid-back ranchers, with a cultural scene built around both", says Kevin Max in Barron's Penta. Its natural hot springs and supposed therapeutic powers continue to attract visitors. Legend has it that early settlers mistook the noise coming from the springs for that of a steamboat. While the "massive" Steamboat ski resort is the village's main attraction, it is still less crowded than Vail and Breckenridge. Even so, there are also surprisingly few luxury places to stay. The luxury penthouses and condos at the Steamboat Grand at the ski resort are an exception, offering heated pools, hot tubs, a spa and views of the iconic ski area. *From $295 for three nights, steamboatgrand.com*

## Wine of the week: three epic Aussie reds

**2015 Majella, The Musician Cabernet/ Shiraz, Coonawarra, South Australia**

*£14.49, flagshipwines.co.uk; £14.35, connollyswine.co.uk; £14.50, talkingwines.co.uk; £14.99, henningswine.co.uk*

**Matthew Jukes**
Wine columnist

I have recently returned from a trip to Australia, bookended with two lengthy stopovers in China. I hosted a large number of masterclasses and tastings on this journey, but the main thrust of my visit was to oversee and, of course, taste, in my annual The Great Australian Red competition. Every year Brisbane-based wine scribe Tyson Stelzer (look out for his awesome new book on Champagne) gathers together 11 elite judges to determine which are the finest cabernet/shiraz blends in the country. This is the blend that defines Australia and I think it is one of the finest of all styles of red wine.

You can see the full results on my website, but Majella did well this year. The Musician 2017 picked up the trophy for best red wine under A$25, and the top red blend from this estate, Malleea, also grabbed three medals for the 2015, 2016 and 2017 vintages. In the UK, we are usually a few years behind the Aussie releases and this allows the wines time to soften and mature. Try the epic 2015 The Musician for less than £15; the beautiful 2012 Majella Malleea Cabernet Sauvignon/ Shiraz (£34.50, thefinewine company.co.uk) is drinking superbly well now and it is a snip, too. Coonawarra is justly famous for its straight cabernets: 2013 Majella (£24.29, flagship wines.co.uk; £23.50, noblegreen wines.co.uk) is another steal and it is also sublime right now. Spoilt for choice!

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

This week: houses for around £1m – from a 1630s property with a medieval towerhouse in Viseu, Portugal, to

**The Old Dentist, Ludlow, Shropshire.** This Grade II-listed, converted dentist's surgery comes with a 140ft walled garden with raised beds and large terraces. It retains its original wood floors, open fireplaces and oak staircase and has a renovated kitchen with an Aga. 5 beds, 5 baths, 3 receps, study. £1.1m Strutt & Parker 01584-873711.

**Old School House, Spurstow, Tarporley, Cheshire.** A renovated, Grade II-listed former school house built in a Gothic-revival style in 1872. It has open fireplaces, a wood-burning stove and comes with a range of brick outbuildings. 4 beds, 3 baths, recep, study, gardens, woodland, paddock, 1.8 acres. £1.25m Jackson-Stops 01244-328361.

**Chapel House, Thorne Hill, Minster, Ramsgate.** This 13th-century, Grade II-listed chapel was converted into a family house in the 19th century. It retains its original George III fireplace and lancet window. The garden has been landscaped in an Arts & Crafts style and currently opens for the National Garden Scheme. 4 beds, 2 baths, 3 receps, breakfast kitchen, cellar, two-storey stable block, paddocks, 5.59 acres. £950,000 Finn's 01227-454111.

a restored, Grade II-listed terrace house in the centre of Teddington, London

◀ **The Old Rectory, Welton Le Wold, Louth, Lincolnshire.** An 1850s property designed in a Gothic style by the architect Samuel Sanders Teulon, featuring his trademark window above a fireplace in the drawing room. The house is set in 12 acres of parkland and has a ha-ha and a kitchen garden. The conservatory leads onto an indoor pool with its own bathroom. 7 beds, 4 baths, 4 receps, coach house with planning permission, log cabin, kennels. £950,000 Savills 01522-508908.

▶ **Ladário, Sátão, Viseu, Portugal.** This 1630s property comprises a renovated main house joined to a three-storey medieval towerhouse built around an internal courtyard. It comes with a range of unrestored outbuildings. 10 beds, 4 baths, 5 receps, vineyard, olive groves, woodland, 11.12 acres. €1.2m Cluttons 020-7408 1010.

▲ **Shennanton House, Shennanton, Kirkcowan, Newton Stewart, Wigtownshire.** This refurbished, Grade A-listed mansion was built in 1908 and has been converted into four self-contained apartments surrounded by landscaped grounds that include a four-hole pitch-and-putt golf course, a croquet lawn and a tennis court. 5-bed flat, two 4-bed flats, 3-bed flat, 2-bed coach house, 25 acres. £995,000+ Savills 0141-222 5875.

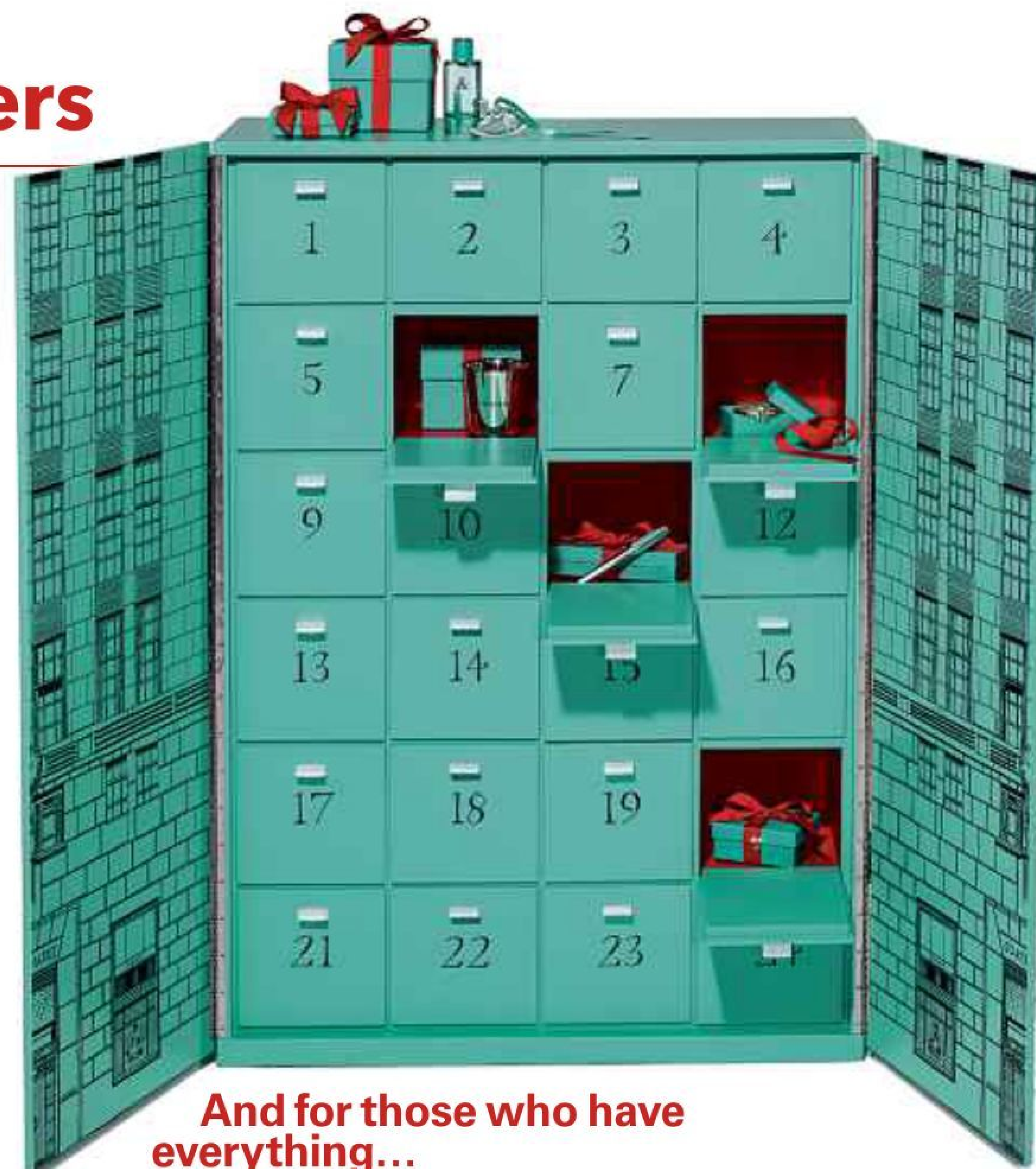
▶ **High Street, Teddington, London TW11.** A restored, modernised, Grade II-listed terrace house in the centre of Teddington with a secluded walled garden with a built-in seating area and a barbecue. The house retains its original exposed beams, brickwork and wood floors and has a spiral staircase, a large fireplace in the living room with a wood-burning stove, and a contemporary kitchen with a vaulted ceiling. 4 beds, bath, 2 receps. £1.05m Dexters 020-8288 8288.

◀ **Flexham Farm, Rode, Somerset.** A modernised, Grade II-listed farmhouse with a recent extension that includes a large family room with a contemporary wood-burning stove and a mezzanine gallery, and an open-plan kitchen with a vaulted, beamed ceiling and quarry-tiled floors. The house is set in large gardens that lead onto paddocks, with the whole plot totalling approximately 4.81 acres. 5 beds, 4 baths, 4 receps, study. £1m Knight Frank 01225-325994.

# Five of the best Advent calendars

## Expand your range of beauty products

The **John Lewis Beauty Advent Calendar** is filled with iconic beauty brands including Laura Mercier, Charlotte Tilbury, Sisley, Dermalogica and Clinique. It's a perfect way to try new products and, when the season is over, the calendar would make a pretty box for jewellery or keepsakes.
**Price:** £150 **Contact:** *johnlewis.com*



## And for those who have everything…

Inspired by the luxury jeweller's flagship store facade and designed by artist Pat Vale, **Tiffany & Co's Advent Calendar** is an exclusive luxury gift. Behind every door is a gift box containing Tiffany's jewellery, including diamond pendants and the new Tiffany 1837 Makers watch. The gifts range in value from £100 to £13,000. Did we mention its exclusivity? There was only one example available for sale in the UK, from Harrods, and it will have set the lucky buyer back £104,000.

## A children's favourite served with chocolate

Charbonnel et Walker is one of Britain's oldest chocolatiers and has been producing quality chocolates since 1875. It now holds a royal warrant and is based in Old Bond Street in London. Its Peter Rabbit-themed Advent calendar is available from John Lewis.
**Price:** £20
**Contact:** *johnlewis.com*

## A festive feast from Fortnum's

**Fortnum's Feasting Advent Calendar** is an ideal way to get into the festive spirit as it's filled with the store's famous teas, chocolates, biscuits, jams – and even a quarter bottle of Champagne to help see you through the stresses of the season.
**Price:** £200
**Contact:** *fortnumandmason.com*

## One for whisky lovers

The **Very Old & Rare Whisky Advent Calendar** is an ideal present for the whisky enthusiast. It is presented in a bespoke walnut case and the 24 30ml bottles represent some of the world's finest whiskies, matured for decades from revered producers, many from distilleries no longer trading.
**Price:** £9,999.95
**Contact:** *masterofmalt.com*

## Book of the week

### May at 10

By Anthony Seldon
*Biteback Publishing, £25*

Few modern politicians have experienced such a dramatic rise and fall as Theresa May. After becoming prime minister following David Cameron's post-referendum resignation, followed by the mutually assured destruction of Boris Johnson and Michael Gove in the leadership contest and the implosion of Andrea Leadsom, she looked set for a long time in office and had commanding poll leads. A disastrous election campaign later and the Conservatives had lost their majority. Over the next two years, May would cling on to power, only to see major figures in her cabinet resign and Parliament reject her Brexit withdrawal agreement three times in a row. She was finally forced to resign after postponing Brexit.

*May at 10* delivers an in-depth, behind-the-scenes look at May's three-year period in office. Based on extensive interviews with the key players, Anthony Seldon uncovers a story of a weak and vacillating prime minister who never really decided what type of Brexit she wanted to pursue and who failed properly to take charge of the process. This alienated both her party and the country at large. Worse, her lack of tact and empathy meant that she could not rely on the loyalty and deference that other Conservative leaders have enjoyed.

More listening and tact would have served her well

©Getty Images

> "The writer has a great deal of sympathy for May and the obstacles she had to overcome to get to No. 10"

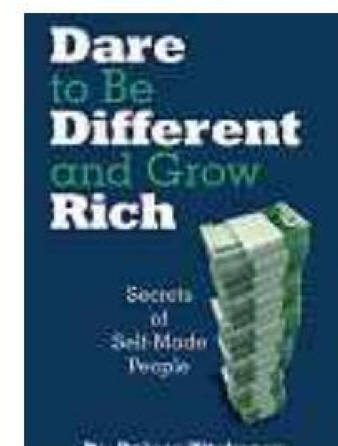
The irony of the book is that Seldon didn't set out to write a hatchet job or exposé. Indeed, he seems to have a great deal of sympathy for the former PM and covers well the obstacles she had to overcome to get to Downing Street and the enormity of the task she faced in delivering the result of the 2016 referendum. This sympathy with the PM makes the details the book uncovers, such as the fact that she was so dependent on her advisers that she let unelected civil servants select cabinet ministers, for example, all the more damning.

### A bit bloated

Seldon provides a huge amount of detail and he has arguably gone overboard. At around 200,000 words, *May at 10* is double the length of most political books. This seems excessive for a book about a leader who only lasted three years. There is a lot of irrelevant material, such as on the layout of the offices in Downing Street, as well as much repetition. As a result, the reader is submerged in a lot of detail and loses sight of the overall picture. Trimming such fat would have made the book more digestible and focused.

Overall, the book is a fascinating take on May's time in office, but it requires the investment of a lot of time and effort, both to read and to digest. As such, it may be of more interest to academics and researchers dealing with the events that followed the referendum than to the general reader.

**Reviewed by Matthew Partridge**



### Dare to be Different and Grow Rich

**The Secrets of Self-Made People**

By Rainer Zitelmann
*LID Publishing, £19.99*

Stories about "self-made" men and women who have seemingly come from nowhere to achieve fame and fortune in the world of business are popular, but can success be taught? Rainer Zitelmann, a successful businessman, writer and investor, thinks so. In this book he draws business and life lessons from the biographies of around 50 stars, including entrepreneurs and business leaders such as Richard Branson, Ray Kroc and Steve Jobs, and some sportsmen and celebrities too.

There is no shortage of self-help guides out there, but *Dare to be Different* is, well, different. It is well written and engaging and full of useful advice. Some of the tips may seem obvious, such as the value of persistence and of "not taking no for an answer", for example, but his other suggestions are more nuanced, such as finding the right balance between confidence (to enable you to follow through) and dissatisfaction (to keep you wanting more).

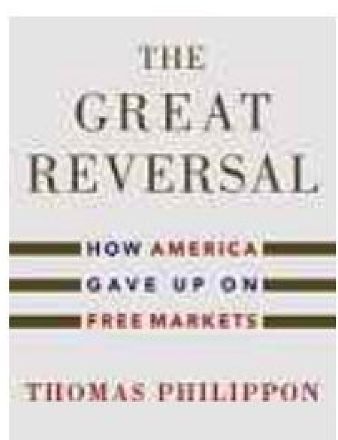
The book is aimed at entrepreneurs and those thinking of starting their own business, but those working in more junior roles will find much to ponder. Investors will find chapter five, which looks at contrarian investment strategies, particularly useful. Even those who have no interest in business success will enjoy this engaging collection of stories. It's worth reading.

## Book in the news... how the land of the free became less so

### The Great Reversal

**How America Gave Up on Free Markets**

By Thomas Philippon
*Belknap Press, £23.95*



**As a graduate student in Boston two decades ago, Thomas Philippon "was happy to discover" how cheap it was to use American telephones compared with the cost in his native France, says David Leonhardt in The New York Times. More recently, he noticed that this situation has now reversed. In *The Great Reversal: How America Gave Up on Free Markets* he sets out to find out why. The main culprit, he argues, is lax antitrust policy, which has meant that in one American industry after another a few companies have grown so large that they now wield the power to keep prices high and wages low. "American families are paying the price."**

**Philippon's "detailed empirical analysis" of "how business actually operates in today's America" ends up overturning "much of what almost everybody takes as read about the world's biggest economy", says Martin Wolf in the Financial Times. Indeed, his "meticulous" analysis of the data proves that US markets have become "less competitive" – concentration has placed markets into too few hands, industry leaders are "entrenched" and their profit rates "excessive". Philippon makes a good case that the EU is now better at promoting competition than the US. Overall, this is a "superbly argued and important book" that comes from someone who "believes passionately" in the value of competition.**

**Philippon makes a good case for deregulation to remove barriers to entry in many markets, says economist Tyler Cowen on his Marginal Revolution blog. And he's right that American industry could "be much more dynamic, more prone to disruption and, yes, more competitive". But the reader should "remain sceptical" about his wider claims that "monopoly power is increasing in the American economy in an economically significant manner, across a wide variety of sectors". Too much of the evidence he provides is "circumstantial" and he doesn't do enough to establish a link between increased market concentration and lower output and higher prices.**

# The rise of the luxury rehab retreat

## If you must overcome your addictions, why not do it in style?

Robin Williams said that a cocaine habit is God's way of telling you you're making too much money. In my view there is today a surer sign: an addiction to therapy. It may also signal a deficiency in common sense. There is, however, no shortage, in these plutocratic times, of fools easily parted from their money. "More and more centres are being opened to cater for the upper echelons in search of a private place to detox or reset," says Kate Wills in the Evening Standard. The people who frequent these establishments are not only looking for the "very, very best treatment available", but also for luxury and "100% confidentiality".

It's not hard to see why such places are so popular with the gilded elite. Paracelsus Recovery, for example, the "ultra-exclusive and discreet" Swiss therapy centre, is "designed to cure the world's wealthiest of everything from eating disorders to addictions and OCD". In return for a mere £62,000 per week, afflicted guests are attended to by "a team of psychologists, nurses and addiction specialists" for ten hours a day. One of these specialists is assigned to you personally and is available 24 hours a day, sleeping in the next room. There are also "acupuncturists, yoga teachers, a personal trainer and a nutritionist", and naturally everything is delivered with "seven-star service".

*Hard work was good enough for Elizabeth Taylor*

©Getty Images

> *"It's futile forcing the super-rich to scrub potatoes and make their beds when they're used to luxury"*

### What's wrong with AA?

Elliott in The Daily Telegraph. One client "would have lost her job had she checked into a traditional residential rehab", so the clinic "flew her out, with her therapist, to appear on her once-weekly show, then

To help him "save face", his therapist therefore "accompanied him undercover (steering him away from the Champagne bar) and returned him to Paracelsus discreetly and in one piece, once the party was over".

Such luxury retreats may sound appealing, but don't they "fly in the face" of the idea, articulated by Alcoholics Anonymous and similar organisations, that "it's crucial for the addict to recognise he or she is not 'special and different'"? wonders David Jenkins in Tatler. In the old days even Elizabeth Taylor would have to share a bedroom and do the housework when she was in the Betty Ford Centre. Today's posh rehab centres argue that "it's futile forcing the super-rich to scrub potatoes, make their beds and share rooms when they're used to luxury". But why? It's what has worked in the past.

The luxury versions, on the other hand, are not "terribly effective", as an industry insider admits, and that's assuming you're able to get people to go in the first place. One expert who specialises in helping wealthy addicts remembers fighting in the cockpit of a private plane with a "recalcitrant, coke-fuelled" multimillionaire's daughter who was "determined to avoid entering a North Carolina rehab". When "he managed finally to deliver her, she left after four days". When it comes to staying sober, even the most bespoke service is no match for attending an AA meeting in a

## Bridge by Andrew Robson

# Not breaking up the squeeze

On this week's deal, East's Landy bid has told you to expect West to have a Diamond holding of Queen-ten-small-small or similar.
How are you going to try to make your slam, apparently with a Spade and a Diamond to lose? West leads the ten of Spades.

Dealer North — Neither-side vulnerable

North: ♠ K62 ♥ AQ972 ♦ A53 ♣ 108

West: ♠ 108 ♥ 543 ♦ Q1086 ♣ 7542

East: ♠ QJ974 ♥ KJ108 ♦ 74 ♣ 96

South: ♠ A53 ♥ 6 ♦ KJ92 ♣ AKQJ3

**The bidding**

| South | West | North | East |
|---|---|---|---|
| | | 1NT* | 2♣** |
| 6♣*** | pass | pass | pass |

* 12-14 points – and a better choice (avoiding the rebid problem) than opening One Heart.
** Showing five-four in the majors – the Landy convention.
*** Bidding what he thinks he can make – a refreshing approach.

After mulling things over, declarer rose with dummy's King and correctly sought to ruff his fourth Diamond in dummy. Declarer cashed the Ace of Diamonds, then, refusing the finesse (likely to fail on the bidding), crossed to the King and led a third Diamond. West beat declarer's nine with the ten, East discarding, and led a second spade. Winning his Ace, declarer ruffed his fourth Diamond with the ten of trumps and led the small trump to his hand. He proceeded to reel off all his trumps.

As declarer led his final trump and discarded down to Ace-Queen of Hearts in dummy, what could East throw from the Queen of Spades and King-Knave of Hearts? The Spade would promote declarer's remaining Spade in hand, but East's decision to discard the Knave of Hearts worked no better. Declarer led a Heart to dummy's Ace, felling East's now bare King, and the promoted Queen of Hearts took the last trick. Twelve tricks and slam made.

Could the defence have done better? Yes – West needed to lead a Heart, either at trick one or (more culpably) when in with the third Diamond. This would ruin the communications for the squeeze and declarer would have to fail.

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

# Sudoku 974

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

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

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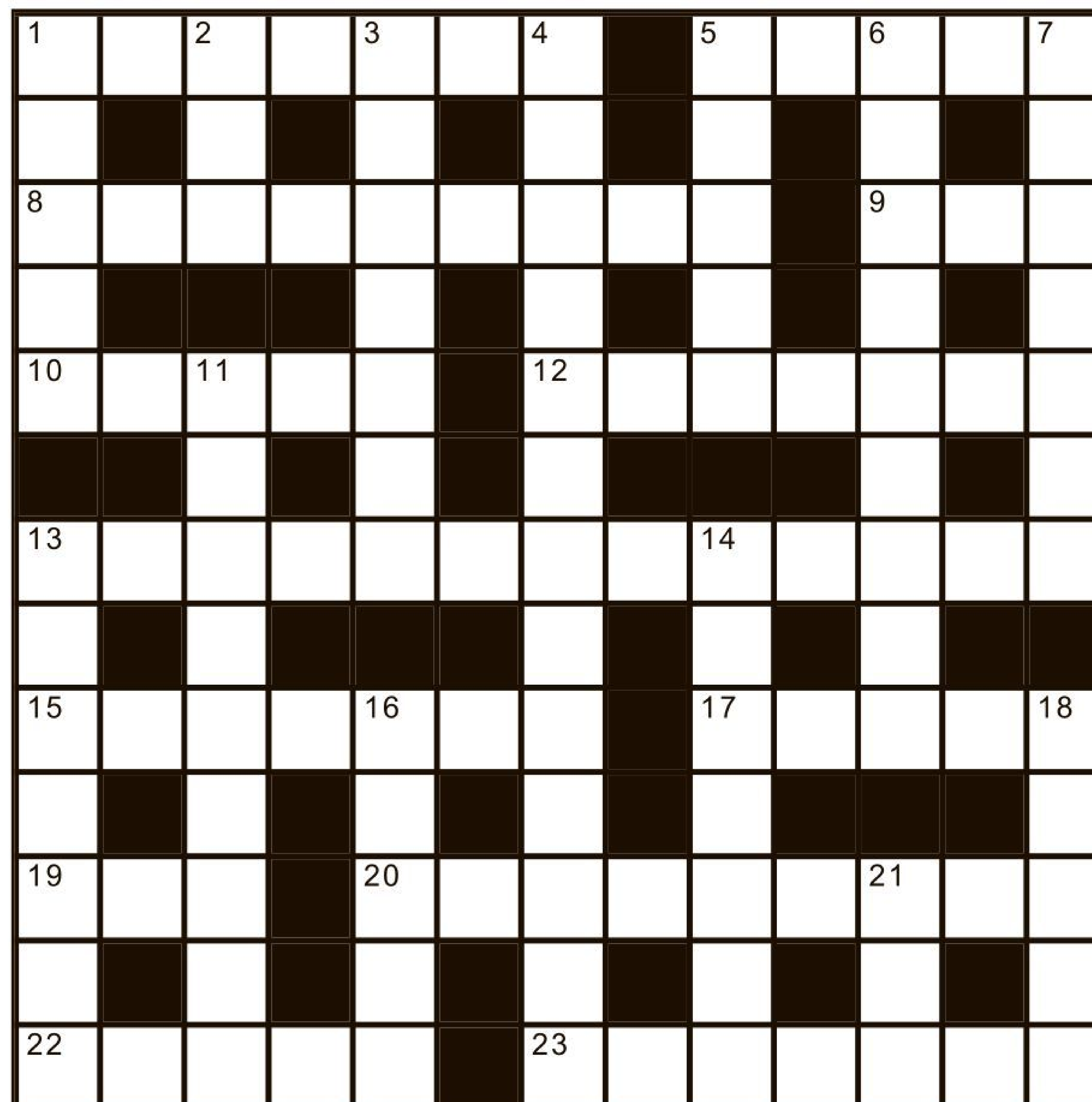
## Tim Moorey's Quick Crossword No. 974

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 2 Dec 2019. Answers to MoneyWeek's Quick Crossword No. 974, 31-32 Alfred Place, London, WC1E 7DP.



**Across clues are mildly cryptic whereas down clues are straight**

**ACROSS**

**1** Muslim claim is out of order (7)
**5** County in short cut employees (5)
**8** Sum needed to get garage rebuilt (9)
**9** Driver's aid is what this begins with (3)
**10** Cathy wrecked boat (5)
**12** Save Man United! (7)
**13** Reformed madam in career showing anything is possible (8, 5)
**15** Food supplier from new terrace (7)
**17** Love unchanged watering-hole (5)
**19** It'll never get off the ground! (3)
**20** Yeoman who's certainly not vegan? (9)
**22** Head of TUC makes a request for jobs (5)
**23** Express tears over one potential spy (7)

**DOWN**

**1** European country (5)
**2** Delay (3)
**3** Distinguished conductors (7)
**4** Safety features on the motorway (5, 8)
**5** Looks for (5)
**6** Mammals feeding off termites (9)
**7** Liberty (7)
**11** Stale jokes (9)
**13** Very old (7)
**14** See (7)
**16** Long, loose outer garments (5)
**18** More certain (5)
**21** A restaurant gratuity (3)

**Name** ..............................

**Address** ..............................

**Solutions to 972**

**Across 1** Hack *two meanings* **3** Alphabet *KLM NO* **9** Redwood *two meanings* **10** Airer *sounds like Eire* **11** Perpetration *per pet ration* **14** Pep *two meanings* **16** Count *un in cot* **17** Sea *hidden* **18** Second fiddle *cryptic definition* **21** Twerp *(An)twerp* **22** Magenta *agent in Ma* **23** Alter ego *alter eg O* **24** Toil *initial letters* **Down 1** Hornpipe **2** Cedar **4** Lid **5** Heartstrings **6** Borrows **7** Term **8** Come a cropper **12** Round **13** Baseball **15** Present **19** Dingo **20** Etna **22** Mug.

The winner of MoneyWeek Quick Crossword No. 972 is: Billie Anne Leach of Gravenhurst

*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.

# Doom index flashes red

The last time the omens looked this bad, the world's financial system crashed

**Bill Bonner**
Columnist

*Trump has performed a very ordinary-looking miracle*

©Getty Images

Our Doom index ticked up to nine this month. The last time this happened, all hell broke loose a few months later. Major banks went broke; Wall Street needed to be bailed out by the Federal Reserve; General Motors and Chrysler, too, would have gone under without federal help. And in September of 2008, Ben Bernanke, Fed reserve chief, told Congress that "we may not even have an economy on Monday" if it failed to pass a bailout programme. When the dust finally settled in March of 2009, stockmarket investors had lost half their money… and seven million people had lost their homes.

Measured in terms of gold, the losses were even more severe – and part of a more revealing picture. Stock investors were on top of the world in the spring of 1999 – which was probably the all-time peak for the US too. Thereafter, it was downhill in almost every way. From the high, when it took more than 40 ounces of gold to buy the Dow, stocks fell all the way to less than seven ounces in October of 2011 – a loss of 82%.

Things seem to have gone back to normal, and on an upward trajectory, since then. The trouble with normal, though, is that it doesn't stand still. Normal is restless, footloose, and homeless. The normal growth rate during the last 11 quarters of the Obama team's reign was 2.5%. Trump may claim to have performed miracles, but the growth rate during his 11 quarters so far has averaged 2.5% too. The Trump campaign slogan – "Make America Great Again" – has become "Keep America Great". But between the first slogan and the second, nothing much changed.

> *"The expansion born in 2009 is now geriatric, the oldest in US history"*

But the expansion that was born in 2009 is now geriatric, older than any in US history. It still totters along, using a cane. But the longer it lives, the closer it comes to the grave. Manufacturing is at its lowest level since the financial crisis, according to the ISM index. The trains are slowing: train utilisation is down 20% since the third quarter of 2018. If the transports don't go up, it's probably because the goods aren't really moving. And if the goods aren't really moving, there's no real boom happening.

And the slowdown in the real economy has made its way into the credit markets. Credit growth has slowed 81% since the start of this year. For the quarter, credit expanded by only 1.8%. In the bond market, we are seeing twice as many downgrades compared with upgrades: 771 bonds have been downgraded so far this year. That's the most downgrades year-to-date since 2009. Of the 771 bonds downgraded this year, 522 of those were junk bonds. The junk is getting junkier.

The bottom line is, the numbers are falling apart. Stocks may be hitting new nominal highs right now, buoyed as they are expecting good news in the trade war with China, but beneath the surface, the cracks are widening.

## The bottom line

**30** The percentage of income tax paid by the top 1% of income-tax payers in Britain, according to a new study from the Institute for Fiscal Studies – up from 24% in 2008. Helped by the rise in the personal allowance to £12,500, 42% of adults pay no income tax at all.

**$1,714** The rental price per square foot of property on London's New Bond Street, making it the most expensive shopping street in Europe, according to property consultants Cushman & Wakefield. Causeway Bay in Hong Kong is the world's dearest at US$2,745 per square foot.

**55** The percentage of family offices around the world surveyed for the 2019 UBS Global Family Office Report that expect the global economy to enter a recession next year. Cash reserves are being raised by 42% of respondents.

**€500** The maximum fine for towel-users on Sardinia's La Pelosa public beach, which is being eroded due to its popularity. Visitors must use mats instead, which do not trap the grains of sand. From next summer, a fee will be levied on the 1,500 daily visitors allowed access.

**8** The percentage drop in toy sales in Britain so far this year, compared with the same period in 2018, say analysts at NPD. Around 30% of annual toy sales occur in the run-up to Christmas.

**£55 The price of Excitable Edgar (pictured) plush toys on eBay, ahead of the accident-prone dragon's television debut last Saturday in this year's John Lewis Christmas advertisement. The official soft toys retail for £15 at John Lewis and Waitrose.**

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MoneyWeek, 31-32 Alfred Place, London WC1E 7DP
Tel: 020-3890 4060. Email: editor@moneyweek.com.

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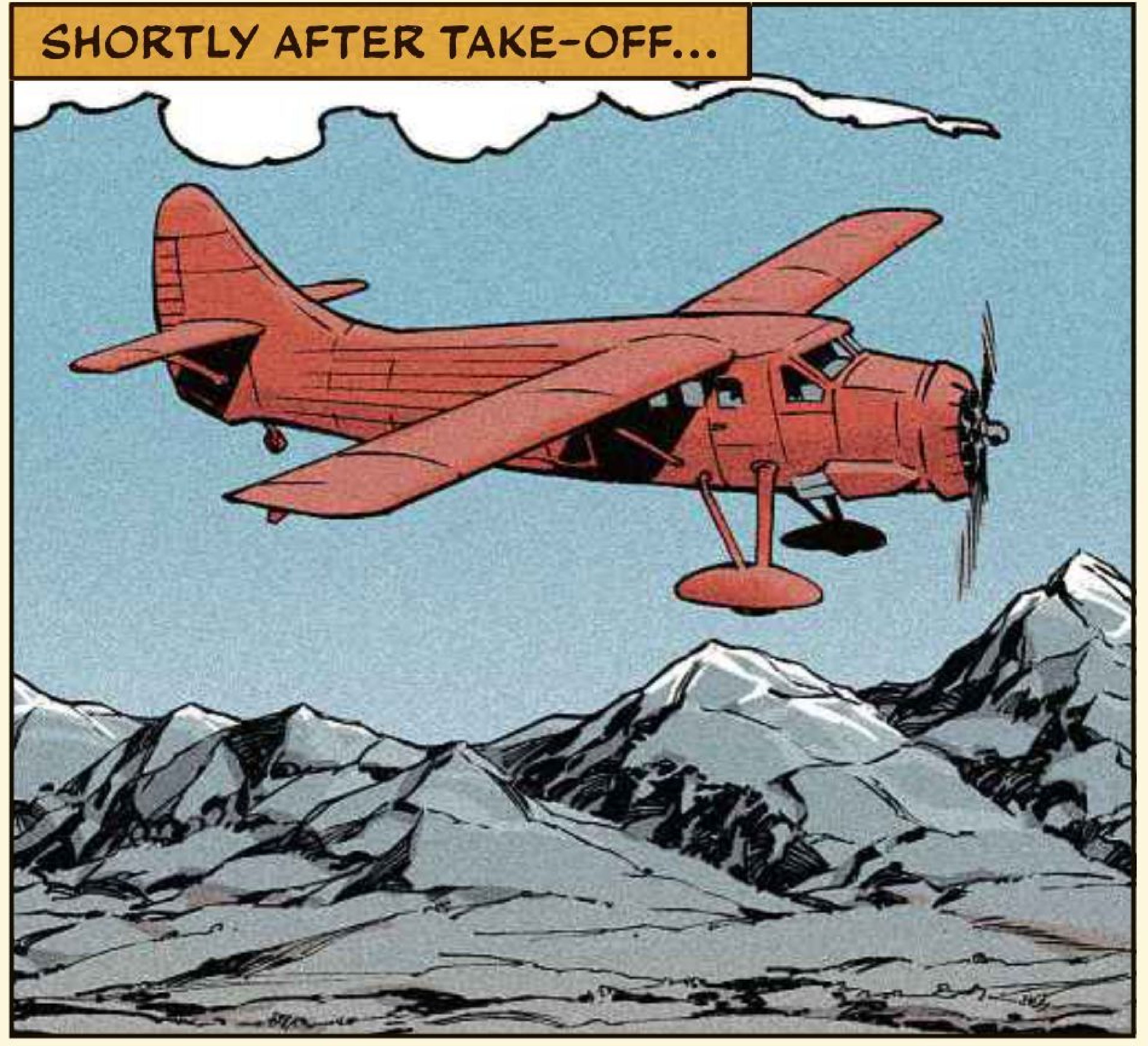
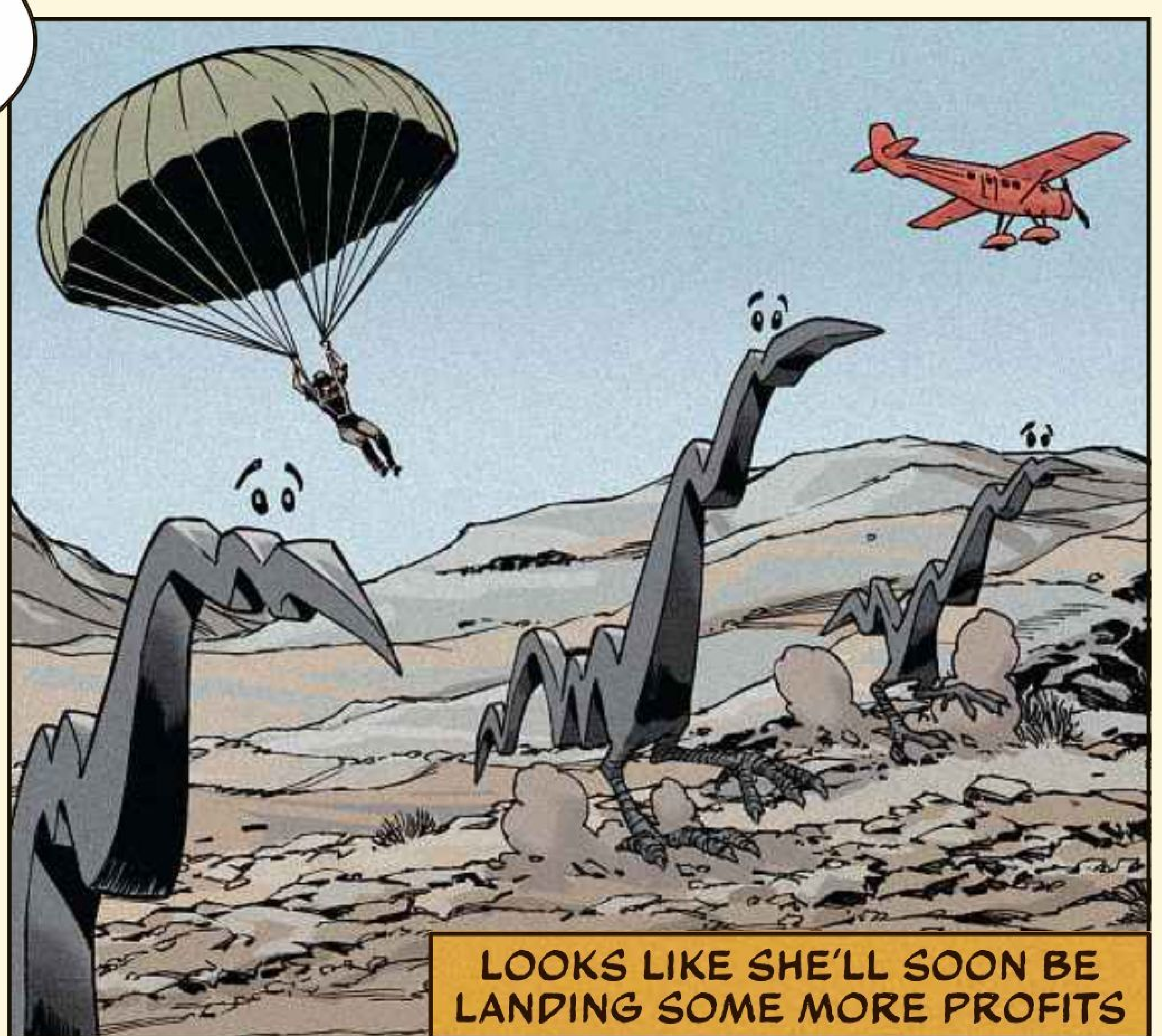
# In today's environment, the hunter's *all-active* approach is more important than ever.



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