ANALYSIS *P20*
The simple way to end inflation

COMPANIES *P36*
This stock will keep fizzing for decades

PLUS
Volkswagen's gentle giant
CARS *P50*

MONEYWEEK

MAKE IT, KEEP IT, SPEND IT

23 DECEMBER 2022 | ISSUE 1135/1136

Christmas cheer

Our writers' top tips for 2023

Page 26

STOWER

21 YEARS OF INVESTING FOR A POSITIVE FUTURE

Since 2001, the Liontrust Sustainable Investment team have been seeking companies that will help to create a cleaner, safer and healthier society in the future and generate attractive returns for investors

Past performance is not a guide to future performance. This advertisement should not be construed as advice for investment. Do remember that the value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested.

For more information visit us at

liontrust.co.uk/sustainable

ZSL LET'S WORK FOR WILDLIFE

Proud to support ZSL's work to save wildlife

NEWCASTLE UNITED FOUNDATION

Proud to partner with Newcastle United Foundation for our numeracy programme, Financial Football

LIONTRUST
COURAGE · POWER · PRIDE

Issued by Liontrust Fund Partners LLP (2 Savoy Court, London WC2R 0EZ), authorised and regulated in the UK by the Financial Conduct Authority (FRN 518165) to undertake regulated investment business.

MoneyWeek

23 December 2022 | Issue 1135/1136

Britain's best-selling financial magazine

From the editor...

In the days of endless free and easy money, we heard a lot about interest rates being "lower for longer". Over the next few years we are likely to hear a lot about inflation being "higher for longer". This time last year, when we had been fretting for some time that inflation wasn't "transitory", it was still expected to peak in the spring. And now that it has kept climbing, markets still seem to expect it to return to normal fairly quickly next year (see page 4).

They may be in for a shock. Studies have shown that it beds in once it reaches a certain point. I was struck by a Deutsche Bank note in October that had looked at 318 separate occasions since 1920 – in both developed and emerging markets – where annual price rises had reached 8%. It typically took two years for them to retreat below 6%, "before settling around that level out to five years after the initial 8% shock".

The UK market has priced in more misery than most

©Alamy

"Inflation and interest rates are the cancer and chemotherapy of economics"

Compound interest... in reverse

This is very bad news for our money. Thanks to the magic of compounding, even annual inflation of 4% soon mounts up; it cuts the value of your assets and income in half in 18 years. And there is no painless way out, as US Federal Reserve chairman Jerome Powell reminded investors last week. Squeezing it out of the system will usually have the side-effect of causing a recession. Schroders, for instance, in a study going back to the 1960s, finds that a fall of US GDP of up to 4% has been required to restore price stability whenever inflation has reached today's level. Here everyone has pencilled in a shallow but long recession. Inflation and interest rates are the cancer and chemotherapy of economics.

It will be much harder to invest over the next decade than in the previous two, since we can no longer rely on the tailwinds of easy money and low inflation. Fortunately, the British market, as we have often pointed out, has priced in more misery than most, which makes it easier to find sound investments at bargain prices and profit from an eventual rerating as the macroeconomic backdrop and sentiment gradually improve. Top-quality small and mid-caps now look especially appealing, as Max explains on page 32. These equities will also pay some juicy dividends while you wait for the recovery. For those happy to research their own small caps rather than leave it to the manager of an investment trust, Michael Taylor runs through his annual portfolio of Aim stars on page 22.

Turn on, tune in, drop out

Concentrating on sectors with healthy long-term growth prospects, which should mean they are relatively resilient to today's discouraging market backdrop, is also a sound strategy. We have asked all our regular contributors to give us their favourite investment ideas for 2023.

These include a cybersecurity stock, Warren Buffett's investment vehicle, an insolvency specialist, and a drugmaker working on applying magic mushrooms to psychiatric disorders. That seems ideal if this stagflationary mess all gets too much. Turn on, tune in, drop out – but make money while you do it. A very Merry Christmas and Happy New Year to all our readers.

There will be no magazine next week. Your next issue will arrive on 6 January.

Andrew Van Sickle
editor@moneyweek.com

What World Cup winners earn

The 2022 FIFA World Cup paid a record $440m in prize money, says The Athletic. Argentina (pictured) gets $42m as the winning team, while France earns $38m for second place. How much goes to the players and staff of the teams is set by each country's football governing body: back in 2018, France said that its players would share 30% of the prize. The contest has only come with cash prizes since 1982 in Spain, when the winning team, Italy, received $2.2m. A rapid rise in payouts began after 2002, when the total fund went from $134m to $236m (2006) and $358m (2010). This reflects the vast amount that FIFA now earns: budgeted revenue for 2022 was $4.7bn, mostly from broadcasting rights ($2.6bn) and marketing rights ($1.4bn). Host countries cover most costs and generally make a loss, says The Economist, although this year will be off the scale in that respect. Qatar spent $200bn, mostly on infrastructure, and will earn just $17bn directly.

Cover illustration: Adam Stower. Photos: Alamy; Getty Images; VW

Good week:

The partners of boutique investment bank **Robey Warshaw**, who include former chancellor George Osborne, have shared £30m of profits for the year to March, says the Financial Times. The split between the bank's four partners is not public, although the best-paid partner, believed to be co-founder Simon Robey, received £17.2m, according to accounts filed at Companies House.

Auction house **Christie's** has announced record sales of art and luxury goods in 2022, helped by an influx of millennial collectors, says The Wall Street Journal. Christie's racked up $7.2bn in auctions and $1.2bn in private sales, including $1.6bn from the sale of a collection owned by the late Microsoft co-founder Paul Allen last month, in which five works sold for over $100m apiece.

Bad week:

The government is suing **PPE Medpro**, a firm recommended by Tory peer Michelle Mone, for £122m over a contract to supply medical gowns in the pandemic, says Sky News. PPE Medpro said it will "rigorously" defend the claim. Mone has denied allegations that she profited from the firm and has said that she will take a leave of absence from the House of Lords to "clear her name".

Kim Seok-jin (pictured) of K-pop phenomenon **BTS** has begun 18 months of military service in the South Korean army in a blow for the band's vast global fanbase, says Nikkei Asia. The band's label Hybe hopes BTS will resume in 2025 after all seven members have completed their service, but faces a huge financial hit: in 2021, BTS accounted for around 70% of its 1.26trn won (£768m) revenue.

©Getty Images

Bulls face a nasty hangover in 2023

Alex Rankine
Markets editor

Rocketing prices have given us the worst industrial relations since the 1970s

©Getty Images

Looking back on 2022, the return of inflation "sticks out like the proverbial sore thumb", says David Smith in The Sunday Times. It has "given us the worst industrial relations in decades and led to more interest rate hikes than in any year since 1988". Last December annual UK inflation was 5.1%, with forecasts of a peak in the spring. Yet it surged to 11.1% in October. November's 10.7% reading suggests we might be past the peak, but "retail price inflation… was 14% last month". Households have suffered the biggest drop in real incomes since records began in the 1950s".

Last week the Bank of England raised interest rates by a further half percentage point to 3.5%. It looks set to deliver one final 0.5% hike in February, followed by two smaller rises in the spring to take the benchmark rate to 4.5%, says Sanjay Raja of Deutsche Bank. However, two members of the rate-setting committee want to pause hikes already. "It's clear that the overall appetite for further monetary policy tightening is starting to wane".

Living in la-la land

Last week also brought further 0.5% interest rate hikes from both the European Central Bank and America's Federal Reserve. Both struck a more hawkish note than the Bank of England, with Fed chair Jerome Powell saying that despite recent signs of US price pressures easing "it will take substantially more evidence" to convince him that inflation is heading back down. Powell's words scared investors, with the S&P 500 stock index shedding 3.5% over the last two trading days of the week. Powell's hawkish tone was belied by the fact that the Fed served up a smaller rate hike than at previous meetings (November's rise was 0.75%), says The Economist.

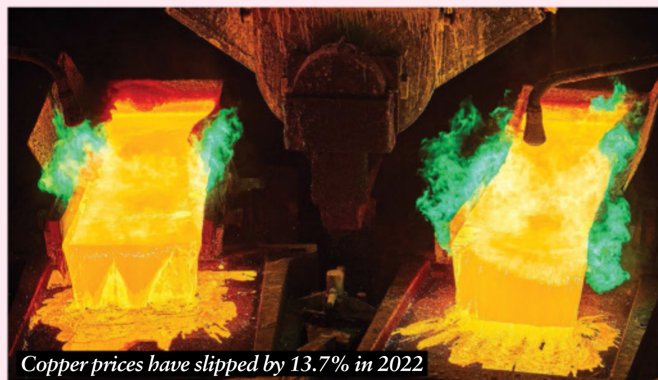
Having this year "administered the sharpest tightening of monetary policy in four decades", US policymakers need to ease off the pressure to take stock. Yet Powell can't let markets think that he's gone wobbly on inflation, which could cause financial conditions to ease and inflation to spike back up – hence the hawkish rhetoric. Powell wants markets to believe that he will "keep raising rates" to above 5% next year and then hold them there, says James Mackintosh in The Wall Street Journal. Investors simply don't buy it. Bond market prices predict the Fed will be in easing mode by the second half of next year. Investors are betting that inflation will fall back sharply next year, while "a deep recession will be avoided".

Expectations that US inflation will quickly come back down are at odds with history, says John Authers on Bloomberg. Research by Rob Arnott and Omid Shakernia of Research Associates shows that, since 1970, "once inflation exceeds 8.0%... it's reasonable to expect a decade to get back to 3.0%". Once embedded in the economy, high inflation "tends to have staying power". The only way that inflation could plausibly fall as fast as predicted is if there is a US recession, says Robert Armstrong in the Financial Times. Yet, "markets are not expecting a recession" as shown by the fact that "the price/earnings ratio on the S&P 500 is back to its pre-pandemic level". Expect bullish investors to wake up to a painful hangover in 2023.

Will commodities make a comeback?

Was 2022 the year that the commodities cycle turned? Powered by a reopening boom, the S&P GSCI Index of 24 major raw materials surged by 30% in 2021. It then rocketed even higher in spring this year after Russia's invasion of Ukraine disrupted global commodity markets.

Yet since then a strong dollar and weak global economy have derailed the rally, with the index plunging by 27% since early June. Brent crude oil is close to where it started the year at about $80 a barrel. US wheat futures are down 2% this year. Copper has fallen by 13.7% in 2022 and is trading 23% short of its early March high. It's a similar story for aluminium and iron ore, off 16% and 1.75% respectively since 1 January. Nickel, up more than a third this year, has outshone the other metals amid strong battery-related demand and concerns that sanctions could squeeze Russian supply. Industrial metals have rallied in recent weeks on hopes that Chinese reopening will bring a surge in demand, says Megha Mandavia in The Wall Street Journal. Aluminium and iron-ore prices have risen by a fifth.


Copper prices have slipped by 13.7% in 2022

©Alamy

Traders might be getting carried away, though: China's property market, a key source of demand, remains "deeply depressed", while "much of the developed world is perched on the edge of recession". Commodity prices look set to "ease back in early 2023" as global recession takes hold, agrees Caroline Bain of Capital Economics. Yet "we expect a relatively shallow recession", with central banks likely to go back into easing mode as 2023 advances. This scenario need not kill demand: historically oil demand, for example, "has proved relatively inelastic" in shallow recessions. In the second half of 2023 the "constrained supply of many commodities" and a recovering economy should see prices back on the upswing.

Emerging markets poised for recovery

In a gloomy year for global stocks, emerging markets (EMs) have offered investors little relief. With inflation roaring and the geopolitical order in flux, investors have preferred the safety of US dollar-denominated assets to risky bets in exotic places. As of 16 December, the MSCI Emerging Markets index has lost 22% since the start of the year, compared with a 19.5% decline in the equivalent index of developed markets.

©Alamy

Turkey topped the table this year with a 170% surge

East Asian gloom

China's sluggish economy, which spent much of the year in a zero-Covid and property-induced malaise, proved a decisive headwind for EMs. The country's stocks make up 30% of the overall MSCI index, and weak demand in the world's second-biggest economy weighs on everything from South African miners to South Korean technology stocks. China's CSI 300 index lost 19.5% this year.

The mood was similarly gloomy elsewhere in East Asia, where economies are heavily tied into China-based supply chains. Trade-dependent Korea's Kospi index tumbled by 21%. The turning of the global semiconductor cycle has also left Taiwan's market overextended, with the local Taiex index losing 20.5%. As East Asia slumped India's stocks have started to shine. With a 3.6% gain, the country's BSE Sensex index has delivered investors a small return in a year where most markets fell. The country now accounts for the second-biggest share of the EM basket behind China, with almost 15% of the index. It has been a year of two halves for commodities, with strong prices in the opening months of the year giving way to weaker sentiment as tighter US monetary policy squeezed the global economy. The two trends cancelled each other out, with platinum giant South Africa's JSE Top 40 finishing the year roughly flat. The reversal in oil prices weighed on Saudi Arabia's Tadawul All Share index, which has fallen by 9.5% in 2022 despite a strong start to the year.

Brazil's Ibovespa ends 2022 roughly where it started. Investors breathed a sigh of relief that October's elections did not lead to widespread violence. Shares in top copper producer Chile surged in September after the referendum defeat of a draft constitution perceived as hostile to business. The local IPSA index has risen by 11% this year. Mexico's IPC index has fallen 7%. It should be benefiting from "near-shoring" as US firms move supply chains closer to home. Yet several high-profile companies have delisted this year amid investors' wariness of the country's left-leaning president.

Russia goes to zero

Russia's MOEX index has tumbled by 44% this year as the country turned itself into an international pariah. For foreign investors, who have been frozen out of their Russian holdings, that loss is effectively 100%. At the start of the year Russia accounted for just under 4% of the MSCI EM index, but in March MSCI removed Russian securities from its indices at a price that was "effectively zero". The war in Ukraine and Putin's energy blackmail has also squeezed Poland's economy, with the WIG20 index down by 24% this year.

The surprise EM champion this year is Turkey, where the BIST100 index soared 170%. That figure is partly flattered by the fact that the index is priced in steeply devalued lira, but even in US dollar terms the MSCI Turkey index has climbed by 88%. Turkish stocks have beaten ultra-low expectations after ending 2021 heavily discounted on fears that a full-blown currency crisis was looming. A successful G20 summit put Indonesia into the global spotlight in November. The fast-growing economy has propelled the local IDX composite to a 2.2% gain. The 2.3% drop on Thailand's SET is a creditable performance given the shaky global markets backdrop, while the Philippines' PSEi and Malaysian KLCI indexes suffered 8.8% and 5.6% drawdowns respectively.

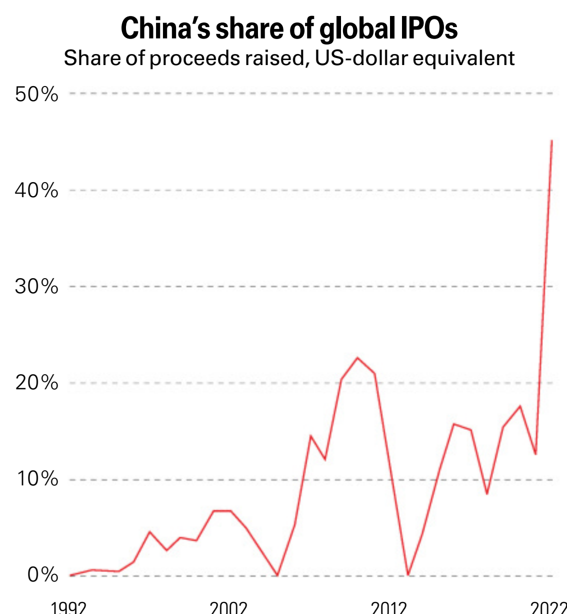
It has been a decade since "the asset class had its last sustained bull run", says Craig Mellow in Barron's. Yet with US interest-rate rises likely to peak next year and China's economy finally "revving up", 2023 may bring better returns.

Viewpoint

"The regulatory cycle follows a well-worn pattern. A market crash or... scandal leads to howls for something to be done and an abrupt tightening of rules. These safeguards then get slowly... chipped away – until the next crash... The City's lobbyists always [prevail] because they are better-resourced... [Jeremy Hunt's package of 30 City reforms amount to] a hotchpotch of measures, tweaks and vague ambitions across different activities... [it seems] the lessons of the banking crisis are fading. One proposed policy... is to allow building societies to source more of their funding from wholesale markets, as distinct from retail deposits. This was the calamitous path taken by Northern Rock before its collapse in 2007. What next? Mortgages at 125%?... the talk of... 'unleashing City potential' is unnerving."

Patrick Hosking, The Times

Flotations have fizzed in the Middle Kingdom



It has been a sluggish year for initial public offerings (IPOs) globally, but China is bucking the trend, say Bloomberg News. Mainland Chinese firms raised a record $92bn this year through listings in Shanghai, Shenzhen and Beijing's new exchange, taking the country's share of global IPO proceeds up to 46%. Chinese markets have hosted 391 debuts this year, with nine raising more than $1bn. Rising borrowing costs in Hong Kong and regulatory pressure from US lawmakers have prompted Chinese companies to list closer to home. The country's "crumbling real-estate market" also means local investors are keen to find an alternative place to invest their cash. With Covid-19 restrictions being eased, 2023 promises to be another strong year.

Games Workshop goes global

The wargaming group's tie-up with Amazon could give it a vast new audience, says Matthew Partridge

Shares in Games Workshop have jumped by 16% after it announced "an agreement in principle" for Amazon to develop its intellectual property, says Emma Taggart in the Times. The idea is to make films and television shows based on the fantasy tabletop games that it sells. Initially, these will focus on the *Warhammer 40,000* universe, set in a dystopian future.

Already the idea has attracted star backing with Henry Cavill, of *Superman* and *Witcher* fame, confirming that he will become involved in the creation of a "*Warhammer* Cinematic Universe", both as an actor and as an executive producer.

Films and television shows based on the group's games are on the way

©Games Workshop

A rapid ascent

Games Workshop has certainly come a long way since it was "founded by friends in London in 1975 as a company selling board games and writing a fanzine for roleplaying adventures", says Steffan Powell on the BBC. Since then it has "grown into the dominant player in the miniature wargaming world", with "shops in high streets and shopping malls across the globe".

It received a major sales boost during lockdown, as the lack of other things to do prompted people to spend more on its miniatures. At the same time, it has "been carefully leveraging its intellectual property for a long time" in preparation for a big deal like this.

Things could go wrong since this is merely an "agreement in principle... subject to contracts being agreed and entered into", says Mark Sweney in the Guardian. Despite the potentially "lucrative" agreement, it's important to note that Games Workshop "did not raise its financial guidance for the year to the end of May", implying that a lot of uncertainty still remains. However, there is a little doubt that "a tie-up with Amazon to produce TV and films associated with the *Warhammer* universe" is potentially a "hugely lucrative deal", especially since Amazon spends billions each year on making content for its Prime Video streaming service.

Deep pockets

There are "several upsides" for Games Workshop from a deal with Amazon, says AJ Bell's Russ Mould. Amazon's "deep pockets and huge reach" puts it in "a different stratosphere" to Game Workshop's previous partners when it comes to paying for the television rights, delivering an immediate boost to the bottom line. What's more, while Amazon "will be granted the relevant merchandising rights", the publicity generated from a series on one of the world's biggest platforms, "could deepen fans' connections with Games Workshop's table-top gaming products and bring them to a wider audience".

There is a risk that "licensing deals can create bubbles of demand", says Lex in the Financial Times. Still, the publicity generated by even a moderately successful show could, at the very least, help Games Workshop's plans for further overseas expansion. While markets such as Asia account for just 3% of core revenues, the group is planning to boost this by signing a deal with South Korean publisher Nexon, which "will open up a vast and under-penetrated market for its franchises". No wonder the stock is on 21 times forward earnings, while its £2.8bn market cap "puts it ahead of WHSmith and Marks & Spencer".

The best bets in the US stockmarket

Kiplinger's Personal Finance highlights its favourite ideas for 2023

Four to buy...

Amgen

This biotech company is "an 800-pound gorilla in its industry", boasting a roster of 26 drugs and "dozens" more in development. With impressive cash flow and a "solid" 2.9% dividend yield it is "somewhat" defensively positioned for a period of weaker stockmarkets. The shares are up by 21% over the past year, but on 14 times expected 2023 earnings they still trade on a "fraction" of the price/earnings (p/e) ratio of 70 more typical for businesses in this sector. *$269*

Deckers Outdoor

This California-based footwear business is best known for its UGG boots. The "cosy sheepskin footwear" has been enjoying a renaissance and delivers "high profit margins" and "strong cash flow" for its corporate parent. Even more encouraging are prospects for Decker's HOKA brand of running shoes, a division where BofA Securities analysts think revenue could double to hit $2.2bn by the 2025 fiscal year. The analysts spy 20% potential upside for a "high-quality stock with a compelling growth trajectory". *$354*

T-Mobile

America's second-biggest mobile network operator is outperforming the competition and grabbing market share thanks to "aggressive phone-plan pricing" and a speedy 5G-network roll-out that is ready "at least 12 months ahead of [rivals] Verizon and AT&T". The group is also on track with plans to double its slice of the "large business and government market" over five years. Bullish analysts think earnings per share could rise significantly next year and tip a potential 17% upside for the share price over the next 12 months. *$149*

Workday

Half of Fortune 500 firms use this company's cloud-based software for their human resources operations. The shares have slid this year amid the technology sell-off, and the group eked out only a "small profit" in its latest fiscal year. But analysts expect "revenue growth of roughly 20%" in the next two years. Software is sticky – customer retention rates are 95% – and there is "significant" scope for further market share gains. *$133*

... and one to sell

Meta Platforms

It has been a miserable year for the Facebook-owner's stock, but things could yet get worse. Mark Zuckerberg's costly pivot from social media to virtual reality is burning through cash and any pay-off is still in the distant future. Meta itself "talks about returns on those investments in terms of 2030" so there is no reason to hold the stock today. In the meantime the group faces potentially "existential risks" to its legacy social-media operations from regulation and shifting consumer tastes. *$91*

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

Five to buy

Dignity
Interactive Investor
Shares in this provider of funeral services have been badly affected by regulatory scrutiny in recent years. "Around £500m of debt" has also undermined confidence, but the bears may now have pushed the shares down into value territory. With a "newish CEO" and a plan to sell and lease back crematoria to address debt there could be upside potential here for more risk-tolerant investors. Given an ageing population (not to mention an overwhelmed NHS), the death rate is likely to rise in the coming years. The stock is a buy for those with "a gallows mindset". *370p*

Eagle Eye Solutions
Shares
This Aim-listed business uses software to help clients, including Sainsbury, Diageo and Coca-Cola, to manage their voucher and customer-loyalty programmes. In turn, these brands glean valuable data about customers' shopping habits. By one estimate the global digital loyalty market could grow from $40.3bn last year to $98bn come 2032.

The cost-of-living crunch is only likely to make shoppers even keener on coupons. On a price/earnings (p/e) ratio of approximately 35, the shares' valuation is rich, but that is a fair price for investors to pay given the "huge" growth opportunity". *605p*

Regal Rexnord
Barron's
Markets are unhappy about this US industrial group's $5bn acquisition of smaller rival Altra Industrial Motion. The move is perceived as unduly aggressive at a time of economic uncertainty, but investors shouldn't be so gloomy. The enlarged group will make everything from "powertrain equipment" to "actuators and servo motors". In short, "many of the products needed to make factories run". With the US Congress passing tens of billions of dollars-worth of support as part of the CHIPS act (designed to bolster the domestic semiconductor sector) and the Infrastructure Investment and Jobs act, the outlook for the American industrial sector is highly auspicious. *$120*

Glencore
The Telegraph
This commodity trading and mining giant has hugely outperformed the FTSE 100 in recent years, but it still trades on a forward p/e

ratio of "less than five". That reflects investors' concerns about "legal issues" and a weaker outlook for the global economy and commodities prices. Nonetheless, Glencore's shift to "future-facing commodities" such as nickel, cobalt and copper leaves it well-placed to profit from the energy transition, and in the meantime the shares yield 5.5% when factoring in special dividends. Given the current "exceptionally low valuation", the shares offer a "favourable risk-reward opportunity". *531p*

Zoo Digital
The Sunday Times
This Sheffield-based company works in localisation, the process of providing subtitles and dubbing for films and streaming services. To do this the group relies on a "cloud-based proprietary software platform" and an "army of 12,000 freelancers" so that audiences around the world can enjoy the latest offerings from Disney+, HBO and Netflix whatever language they speak. Turnover almost doubled in the half-year to October amid insatiable demand for streaming content. The firm only has a 4% share of the $1.5bn localisation industry, with management aiming for 14% by the end of the decade. The upshot? "This Zoo hosts a lot of attractions." *178p*

...and the rest

The Telegraph
Newcastle-based business software group **Sage** has done a good job maintaining margins during the inflationary turmoil. The firm's pricing power rests on the fact that businesses wanting to change their software systems face unpleasantly "high switching costs", so they prefer to pay up instead. On a forward price/earnings ratio of 27 the shares are richly priced, but the rating is justified by an "attractive risk/reward ratio, so buy" *(794p)*.

Investors' Chronicle
A consumer slowdown has seen box sales fall 3% on the year at packaging giant **DS Smith**, but the group has been able to harness a strong market position to hike prices. That has yielded "excellent" performance, with revenue up 28% year-on-year and a 25% dividend hike. It remains to be seen whether the group can keep pulling the same trick if inflation persists, but on a forward p/e ratio of just 8.5 the shares look attractively priced, so buy *(321p)*.

The Mail on Sunday
The war in Ukraine has made an eloquent case for defence groups such as **BAE Systems**. The prospect of higher defence spending in the US and UK has pushed the stock up by 50% this year. With the shares close to an "all-time high", they are now a "strong hold" *(841p)*.

Shares
Investors seeking Asia-Pacific growth without the China headaches should look at **Pacific Assets Trust**. This economic and social governance (ESG)-orientated vehicle has only a modest 7%-8% allocation to China, preferring India, Taiwan and Indonesia. The shares are on an "attractive 8.1% discount to the portfolio's net asset value" *(354p)*.

A German view

K92 owns the high-grade Kainantu gold mine in Papua New Guinea. In the third quarter the group produced 33,000 ounces at a cost of $909 an ounce, which makes it one of the industry's lower-cost operators. There is ample scope for output to grow at Kainantu. The mine is undergoing an expansion programme that should see production rise by 20% from next year. Further exploration (financed from cash flow) should bolster annual output to 292,000 ounces in 2024; by 2026 this figure should have reached 500,000. At that level, the cost of production should fall to $687 an ounce and the group is likely to attract the interest of a major miner. Analysts see scope for a 70% jump in the shares.

©Alamy; Getty Images; Glencore

IPO watch

Markets have had a bad year, and poor sentiment always hits initial public offerings (IPOs) too. Figures from accountancy giant KPMG show that 40 firms had floated in London (including the junior market, Aim) by 14 December, down from 123 in 2021, says CNBC. The amount of money raised by the listings fell by 90% compared with the year before. Another study shows that the number of IPOs in the EU slipped by two-thirds this year, although unlike London, Europe did see a blockbuster flotation (one that raised more than £1bn). Porsche mustered €19.5bn when it made its debut in Frankfurt. Political instability may have made investors in the UK especially nervous this year.

Will Trump face charges?

Congress says he should, but obstacles remain. Matthew Partridge reports

In an "unprecedented development", the Congressional committee investigating the 6 January 2021 Capitol riots has recommended that former president Donald Trump should face four criminal charges, the first time a congress has made a criminal referral against a current or former president, says Nick Allen in The Telegraph. The charges are for obstructing an official proceeding, conspiracy to defraud the US, conspiracy to make a false statement and for "insurrection". The committee has no power to force a prosecution – Trump has called the charges "fake" – but its decision means the US Department of Justice has to decide whether to bring a prosecution or not.

Trump: looking like an "aged huckster"

©Getty Images

A high hurdle

That decision will be as "legally complex as it is political", say James Politi and Joe Miller in the Financial Times. The attorney-general has put the ultimate decision in the hands of special counsel Jack Smith, who is also investigating Trump's alleged mishandling of classified material.

The congressional committee's conclusions are not binding, but legal experts say that Smith's team of prosecutors and investigators will find them hard to ignore. However, the explosive nature of the charges, and the fraught politics of taking on a former president, especially in relation to alleged "insurrection", mean prosecutors will "need to make their case ironclad".

If prosecutors do bring charges, they are likely to focus on the first three counts, as the "evidence for them is solid, and the barriers – legal and factual – to proving them are surmountable", says Dennis Aftergut on Slate. Proving insurrection might be tougher, as Trump could argue that his words were protected by the First Amendment, or point to his call at the start for "peaceful protest". This hasn't stopped judges from allowing civil cases for damages caused by the riots to go ahead. But the barrier to a criminal conviction "stands several storeys higher" as the case would have to be proved beyond reasonable doubt.

Banging the gong

Bringing charges is not a good idea, says The Wall Street Journal. Getting a conviction would require a unanimous verdict from a jury, which will be difficult given that House theories of the case have "serious problems". There is currently no public evidence that the riots were part of an organised coup, for example – even Trump's attempts to "browbeat" vice-president Mike Pence into refusing to certify the election weren't actually a crime. Trump's behaviour may have been a "disgrace", but any prosecutions "could cleave the country in two" and allow him to claim victim status just at a time when Republican voters "finally seem ready to bang the gong on the Trump show".

Trump is looking "politically vulnerable", agrees Lloyd Green in The Guardian. He trails Ron DeSantis in states such as Tennessee, New Hampshire, Georgia and Florida, and nationwide 62% of "Republicans and Republican-leaners" now believe someone other than Trump should be the party's next presidential candidate. Trump is now starting to look rather more like an "aged huckster" than a "compelling and incendiary" alternative.

Sunak confronts the nurses

Until the middle of last week it was assumed the government would do a deal with nurses to avert the "biggest walkout in the history of the NHS", say Caroline Wheeler and Shaun Lintern in The Sunday Times. No deal came. Nurses then went out on their first ever national strike over pay and conditions last week, with more walkouts this week. There will be two further strikes in January. Ambulance staff are out too. The government refuses to negotiate.

It is "clearly beyond the ability of the government" to give the 19% increase that the unions are demanding – a 5% pay rise over RPI inflation – and even the Labour party admits that such a sum would be "unaffordable", says The Telegraph. Such a rise risks entrenching inflation, says the government, and may reopen other deals reached by pay review bodies. The money for the rises would have to be borrowed or found through higher taxes. PM Rishi Sunak (pictured) may also believe that backing down now would make him look weak. Still, the public generally agrees that nurses are underpaid. The government may lose the battle.

Indeed, the nurses still have "plenty of support" with the public, with polls showing that 52% support the action, with only 27% opposed, says Andrew Marr in The New Statesman. What's more, raising wages, which are lower in real terms than they were in 2010, may be the only solution to the NHS's "inability to retain key staff". With 25,000 nurses leaving the profession last year and one in ten jobs currently vacant, there is a real risk that "eventually too many will give up and the service in general will begin to collapse".

©Getty Images

Betting on politics

What treats are lurking under the bookies' Christmas trees this year? Here is a rundown of the most popular betting markets on Betfair. The most popular is on who will be the next US president, with £2,023,793 matched (plus another £1,342,129 on Smarkets). Florida governor Ron DeSantis is favourite on 2.94 (34%), with Joe Biden at 4.2 (23.8%). The second most popular market, with £902,454 matched, is on the Democrat nominee for president, with Joe Biden favourite at 1.55 (64.5%).

The third largest market (£866,052) is on which party will win the most seats at the next UK general election, with Labour firm favourites at 1.37 (73%). In fourth place is the battle for the Republican nomination in 2024 (£792,180 matched), with punters putting Ron DeSantis in pole position to be the Republican candidate in 2024 at 1.93 (51.8%). In fifth place is the overall outcome of the next UK general election (£769,910), with a Labour majority at 2.02 (49.5%).

The year of the next general election (£414,291) is in sixth place. Punters think it won't be until 2024 or later, with odds of 1.17 (85,5%). In seventh place, with £229,982 matched, is the market on whether Boris Johnson will make a comeback as Tory leader, though punters are not convinced, putting the odds of him being Tory leader on election day as low as 11 (9.1%).

In eighth place is the party affiliation of the winning US presidential candidate in 2024 (£110,822), with the Republicans at 1.78. The ninth biggest active markets is on which candidate will win the popular vote at the next presidential election (£41,191), with Biden favourite at 1.85 (54.1%). And finally, at No. 10, is the market on who Keir Starmer's successor as Labour leader will be (£57,757). Andy Burnham is favourite on 6.2 (16.1%).

Why pay more for your investments?

- **0.2%** service fee on our Ready-made Portfolios.
- **Free** to buy and sell funds.
- **£4.95** share-dealing fee - lower than the other major platforms*.

Bestinvest.co.uk

You work hard for your money. Bestinvest it.

Investments go down as well as up and you may not get back the amount invested.

Bestinvest is a trading name of Evelyn Partners Investment Management Services Limited, which is authorised and regulated by the Financial Conduct Authority. *Pricing current as of October 2022.

Shanghai

China opens its books: US regulators have been allowed access to the Chinese audits of companies based in China and listed in the US for the first time, reducing the risk that around 200 Chinese companies would be forcibly delisted from US exchanges, says Stephen Foley in the Financial Times. Inspectors spent nine weeks in Hong Kong going over audits conducted by the Chinese affiliates of KPMG and PwC. Inspections within mainland China were not permitted.

For over a decade, the US government has accused China of shoddy auditing that had contributed to a series of accounting frauds in US-listed Chinese companies. It set up the Public Company Accounting Oversight Board (PCAOB) to inspect the accounting firms that audit US-listed firms regardless of where they are based. China had resisted inspections over fears the US would gain access to sensitive data, and Chinese tech giants Alibaba, JD.com and Baidu had been on course to delist by 2024. Erica Williams, chair of the PCAOB, stressed the work was still in the early stages and that "numerous" potential deficiencies had been found. Separately, the US has placed Chinese chipmaker Yangtze Memory Technologies (YMTC) on its export blacklist, citing a threat to national security. Meanwhile, Chinese and Hong Kong securities regulators have agreed to expand the number of stocks included in the Stock Connect scheme that lets offshore investors easily trade China-listed shares.

Culver City

Senate unites over TikTok: The US Senate has unanimously backed legislation that bans the hugely popular Chinese-owned social media platform TikTok from government-issued phones and devices, says Bloomberg. Senators from both parties have pressed president Joe Biden (pictured) to do more to limit the use of TikTok in the US, whose US operations are based in California and parent company, ByteDance, in Beijing. They fear the platform could gather data on US users to pass to the Chinese government and present users with Communist Party propaganda and material harmful to children – accusations TikTok denies. House speaker Nancy Pelosi said the lower chamber would consult with the White House over the language used in the bill before deciding whether to vote on it. A separate bill has also been introduced in the Senate that would prevent Chinese telecoms company Huawei and other foreign firms from gaining access to the US financial system. Time is running out for TikTok in the US, says Tim Culpan, also on Bloomberg. The platform's gathering of "more granular data" on specific individuals is a "valid concern", as is child protection, although the latter sounds "more like an excuse to rein in the service". Still, for once Congress is united. And in these "increasingly contentious times… with politicians from both parties eager to burnish their 'tough on China' credentials", there are "few reasons left to side with a Chinese product and help it [to] remain in America".

Melbourne

L3Harris takes aim at Aerojet: Florida-based L3Harris Technologies is hoping to succeed where larger rival Lockheed Martin failed, says Lex in the Financial Times. The satellites and communications specialist has offered $4.7bn, including debt, for missile engine-maker Aerojet Rocketdyne, ten months after US regulators blocked a similar bid from Lockheed. Regulators had feared that, in buying Aerojet, Lockheed would be able to deny components to rivals. For L3Harris, buying Aerojet would fit in with its ambitions of transforming into an alternative to the Big Five defence contractors, such as Lockheed. Indeed, "L3Harris's smaller size and lack of overlap with its target may just allow the deal to get the green light for lift-off". But it will be paying a hefty price. It is offering $2 more a share than the $56 Lockheed had offered in December 2020, valuing Aerojet's equity at 38 times forward earnings. Other defence contractors trade on 18 to 23 times. L3Harris will also be saddling itself with debt to make the purchase. With countries increasing defence spending, L3Harris is gambling it can make up for this premium in sales growth. Even so, the "economics are iffy", says Jonathan Guilford on Breakingviews. If regulators do object, L3Harris will owe Aerojet around $400m, equating to 9% of the deal value. It has also committed to doing anything to close the deal "to an extremely high bar in terms of cost". Regulators may be persuaded, investors less so.

The way we live now... Korea's virtual popstars

Eternity could be around for a while

©Pulse 9

Korean K-pop girl group Eternity have racked up millions of online views since releasing their debut single *I'm Real* last year, say Julie Yoonnyung Lee and Amelia Hemphill on BBC News. Only the band's 11 members are anything but. They sing, dance and chat with fans – but Eternity's members are, in fact, digitally created virtual avatars. The band's characters were created by deep-learning tech firm Pulse9, which designed 101 faces, divided into four categories – cute, sexy, innocent and intelligent. It then asked fans to choose their favourites, and created the characters based on the results.

For live chats, the digital characters are projected onto actresses using deep fake filters – technology that has proved controversial in the past. The K-pop industry has also come under scrutiny for the pressure it puts on stars. Unlike real K-pop singers, Eternity's members never tire or suffer from stress, says Pulse9's CEO Jieun Park. Other K-pop groups have been quick to embrace the technology. And no wonder: K-pop is already one of South Korea's most lucrative exports, while the digital avatar market is expected to be worth £429bn globally by 2030, according to consultants Emergen Research.

©Getty Images

©Getty Images
The Bank of Japan's governor Haruhiko Kuroda insists that his new policy does not amount to an interest-rate hike

Tokyo

Central bank surprises: The Bank of Japan "shocked" markets by doubling its cap on the yields of ten-year Japanese government bonds to within 0.5 percentage points in either direction of its 0% target, say Toru Fujioka and Sumio Ito on Bloomberg. It caused the yield on ten-year debt to jump from 0.25% to 0.46% (yields move inversely to prices) and the yen to strengthen to ¥132 against the dollar, compared with ¥137 before the announcement, and a 32-year low of ¥151 in October. The change to its yield-curve control policy (YCC), which the BoJ said would enhance the sustainability of its monetary easing, also lays the "preliminary groundwork for exiting a decade of extraordinary stimulus policy" and helps "pave the way for possible policy normalisation under a new governor" in 2023. The BoJ introduced its YCC policy in 2016, buying just enough bonds to keep ten-year yields at 0%, and by extension borrowing costs low enough for businesses to boost economic activity. For the first time, the BoJ now holds more than 50% of government bonds. BoJ governor Haruhiko Kuroda (pictured) denied the change amounted to an interest-rate hike.

Tokyo

Rearming: Japan is to increase its defence budget by one and a half times to ¥43trn (£259bn) between next year and 2027, says Rurika Imahashi on Nikkei Asia. By 2027, the defence budget will be worth around 2% of GDP. The defence review, referred to as the "National Security Strategy" (NSS), lays aside Japan's post-war pacifist constitution in also calling for a counterstrike capability that is not solely reliant on the US amid a deteriorating security situation in the Asia-Pacific with its neighbours, most notably China. Tokyo has nervously watched Russia's invasion of Ukraine, Chinese threats towards Taiwan and to Japan's Senkaku Islands (to which China lays claim), as well as North Korean missile tests. Japan's "current [military] capability is not sufficient", prime minister Fumio Kishida said. It is the first time the NSS has been revised since it was created in 2013. In response, Beijing accused Japan of "[provoking] regional tension and confrontation". Paying for the defence budget increase will not be easy. Japan is already heavily indebted, and rather than borrow the extra money, Kishida said his government would instead raise taxes. The state budget for next year is expected to set a record high for the 11th year in a row at ¥114trn (£709bn), up from ¥107.6trn this year.

Johannesburg

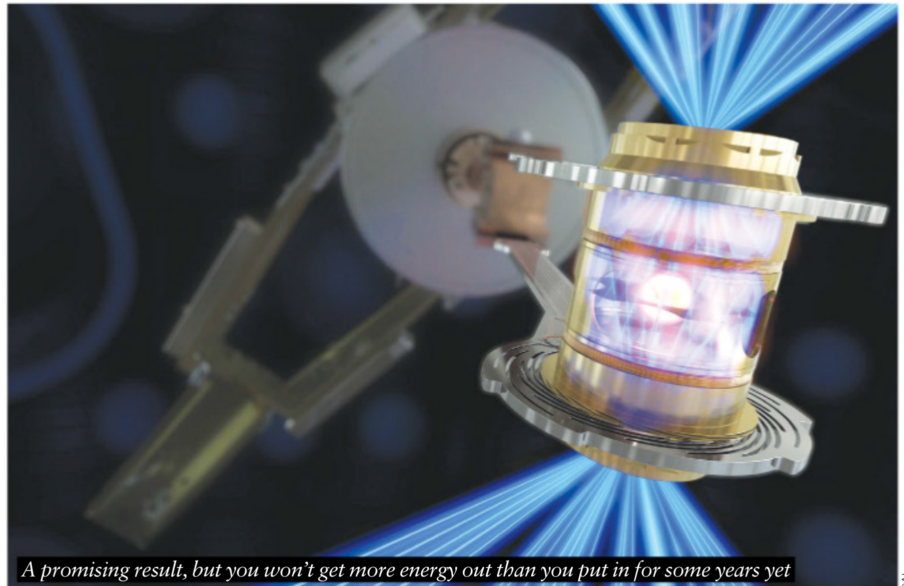
Ramaphosa hangs on: South Africa's president Cyril Ramaphosa (pictured) has been re-elected for a second term by the African National Congress to lead the party into the 2024 national elections, says Joseph Cotterill in the Financial Times. His campaign had been marred by the "Farmgate" scandal at his Phala Phala farm, where $580,000 in cash had been found stuffed in a sofa. Ramaphosa has denied any wrongdoing and the ANC's majority in parliament last week blocked an impeachment investigation. His only rival for the leadership, former health minister Zweli Mkhize, had himself been hobbled by allegations of pandemic-era contract looting. Backers of Ramaphosa won four of six other senior party positions, but not that of deputy leader of the party, the presumptive heir to the president. Ramaphosa had vowed to overhaul the economy and to clean up the corruption that his predecessor, Jacob Zuma, had left behind. He has done neither, says The Economist. The party of Nelson Mandela will probably lose its hegemony. "A new era of coalition politics is coming."

Hanoi

Apple leaves China: US tech giant Apple will move some production of its MacBook laptops from China to Vietnam next year amid escalating tensions between the US and China, says Cheng Ting-Fang on Nikkei Asia. Apple has tapped its main supplier, Taiwan's Foxconn, to begin production in Southeast Asia from as early as next May in a continuation of its policy of adding to manufacturing sites outside of China for all its major product lines. This has been harder to achieve for the 20 million-odd MacBooks it makes annually, due to the more complex supply chains. The loss to China is part of a "broader weakening of its position as the world's factory". US tech firms HP, Dell, Google and Meta all intend to shift production and sourcing away from China as the advantages of low-cost manufacturing recede. India is another beneficiary of Apple's plans – and not just because of geopolitics, says Pranav Kiran on Breakingviews. "Incentives and other subsidies [offered by the Indian government] partially compensate for inefficiencies in India, where demand for pricier devices is slowly picking up." India has used "hefty import taxes… to get companies to set up factories on its shores". For now at least Apple will have to continue to rely on China. But it is "the start of a bigger shift".

Hot prospects in green energy

Nuclear fusion is the future of energy – and it may always be, excitement about an experimental breakthrough notwithstanding. Other technologies look more promising. Simon Wilson reports


A promising result, but you won't get more energy out than you put in for some years yet

©Alamy

Why the excitement?

Scientists have achieved a net energy gain in a nuclear fusion reaction for the first time – a genuinely historic milestone in a field that physicists have been working on since the 1950s. A team at a US government facility, the Lawrence Livermore National Laboratory in California, reported that they produced about 2.5 megajoules of energy in a laser experiment that used 2.1 megajoules of energy. That's potentially wonderful news. Nuclear fusion is the process that powers the sun and all stars, and if it can be replicated on Earth at scale, it promises limitless zero-carbon energy for the rest of time. Fusion leaves no radioactive waste, and releases more than 20 million times more energy than the chemical reaction of burning fossil fuels. So the stakes are high, and the excitement understandable.

What exactly is fusion?

It's the process of squeezing together two forms of hydrogen – under great pressure and at unfathomably high temperatures – to release excess energy from their nuclei. It is not to be confused with nuclear fission, the basis of all existing nuclear power, which involves splitting the unstable nucleus of a single atom into two, releasing energy. Fusion is a totally different concept. It involves the fusing together of two nuclei from two separate lighter atoms (two isotopes of hydrogen) to create a single new nucleus of a heavier atom (helium) – a process that releases a vast amount of excess energy, which can then be captured.

How is it done?

Since the 1950s, the main way of trying to do this has been "magnetic confinement" – using powerful magnets to hold a plasma in place within a doughnut-shaped vessel (a "tokamak") and superheat it. But the US breakthrough came using a different method, "inertial confinement". This uses powerful lasers (in this case 192 of them) to implode pellets of hydrogen plasma, and then compressing it (at much higher pressures than is possible using tokamaks) to the point of fusion. Despite the breakthrough, there is no guarantee that fusion is scalable or will prove economically viable. Even at the experimental level, it's important to understand that the net gain in energy reported by the US team relates solely to the energy fired into the plasma by lasers, and the plasma's energy output.

Why is that important?

Because it doesn't include the much greater amount of energy required to fire up the lasers in the first place. Similarly, the claims made on behalf of magnetic confinement don't take into account equivalent energy inputs, sceptics argue. Net energy gain is normally expressed as a ratio, Q, which is energy out divided by energy in. Any Q above 1 means a gain, and that is the exciting breakthrough claimed in the US. But sceptics argue that the only relevant metric is "Q total" (the overall energy gain once factoring in all inputs) rather than "Q plasma" (the gain recorded from the plasma experiment). On the "Q total" metric, we are still a very long way off. And that's before you even get to the metallurgy and engineering challenges involved in doing it consistently at scale and capturing the released energy efficiently and economically. In other words, fusion as a commercial energy source remains decades away if it's possible at all, which is why other emerging technologies are also crucial to the goal of producing low- or zero-carbon energy.

> *"The stakes in nuclear fusion are high and the enthusiasm understandable"*

What other technologies?

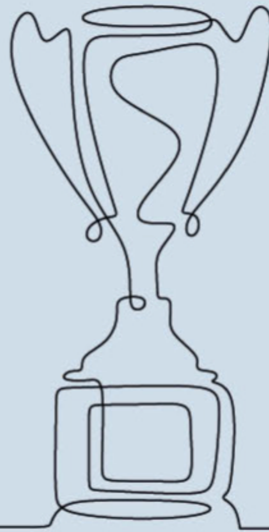
For decades, hydrogen has been trumpeted as a potentially game-changing alternative to fossil fuels, but a genuine breakthrough has always been stymied by high costs and complexities. But a range of geopolitical and energy trends – including subsidies from the US government – mean that hydrogen's moment could be arriving at last, says Vijay Vaitheeswaran in The Economist. One factor is growing interest in using hydrogen to replace fossil fuels in heavy industry such as steel-making – helping to cut carbon emissions, boost energy security and cut dependency on natural gas. "Green" hydrogen is produced using renewable energy in electrolysers – devices that split water into hydrogen and oxygen – sparking a global rush to manufacture them. "But Big Oil is keen on hydrogen too", due to the potential of "blue" hydrogen – meaning hydrogen produced from natural gas but with carbon emissions captured and stored or reused. As carbon-capture technology improves, the hope is that blue hydrogen will get ever greener.

What else?

The energy mix in 50 years' time is likely to be dominated by the familiar sectors of nuclear, hydro-electric, wind and solar. But in addition, some analysts expect the emerging sectors of geothermal energy and biomass energy to grow rapidly in coming decades. In the field of (fission) nuclear energy, small modular reactors are the most exciting prospect. As discussed recently in MoneyWeek by Dominic Frisby, SMRs have significant speed, flexibility and space advantages over conventional nuclear power. They use relatively simple, proven technology (SMRs have been powering submarines and ice-breakers for 60 years) and can be manufactured in factories and built rapidly on very small sites compared with wind or solar.

Who are the main players?

The UK leader in the field is Rolls-Royce, which has built seven generations of SMRs for use in nuclear submarines, and is working on a network of 16 (much larger, land-based) SMRs in the UK, with the potential to supply a fifth of the country's electricity. It hopes the first will go online by the early 2030s. Other big players in the sector are France's EDF, the US company Holtec, and GE Hitachi (a US-Japanese alliance). Other emerging names include London-based Newcleo and Last Energy, based in the US.



Who should you trust to manage your personal pension?

The biggest? Or the best.

Not all wealth managers are created equal. In 2022, we were named *Best Wealth Manager* at the Shares Awards, as well as the Financial Times and Investors' Chronicle's *Full SIPP Provider of the Year, Stockbroking Customer Service of the Year* and *Tax Planning Adviser of the Year*. We are proud to be different.

To find out what sets us apart, email *info@killik.com*.

Capital at risk. Past performance is not a guide to future returns. Tax treatment depends on the individual circumstances of each client and may be subject to change in the future.

Five predictions for 2023

The new year might have some real surprises in store for us...

Matthew Lynn
City columnist

1. Dyson IPO lights up the FTSE

Over the last two decades, there has been no more miserable index than the UK's FTSE 100. With its mixture of oil giants, miners, banks and pharmaceutical conglomerates, it's been a zero-growth zone, with the index little higher now than it was at the start of the century. The UK has managed to generate a few world-beating firms since then – it's just that most of them have either listed in New York, or chosen to remain private. The most remarkable of them is Dyson, an appliance giant founded by James Dyson. With global revenues of more than £5bn, Dyson is a formidable money-making machine, and could be worth at least £15bn if it were ever listed, and perhaps more. James Dyson will be 76 in the coming year and will have to start thinking about the firm's future when he's no longer around. An initial public offering (IPO) is the most obvious way forward. The patriotic, Brexit-supporting Dyson would almost certainly choose London – and that will light up a FTSE that has been starved of new companies.

2. Apple buys Netflix

Over the 11 years since Tim Cook took over from Steve Jobs as CEO of Apple, he has proved a huge success, steering the company towards the world's first $2trn valuation, and making it by far the largest of the US tech giants. But as he hits his mid-60s it will soon be time for him to depart. To cement his place in the history books, Cook will be considering a megadeal. Buying Netflix is the obvious one. The shares are down 60% over the last year and with fierce competition from Disney, the streaming giant is in plenty of trouble, but it still has more than

Netflix is a fantastic brand

©Netflix

200 million subscribers and a fantastic brand. Buying Netflix would make Apple a content as well as a hardware giant – that would be quite a legacy for Cook.

3. Andrew Bailey quits the Bank

When he was appointed in 2019, Andrew Bailey was installed as governor for an eight-year term, but he has had a terrible year. Inflation has run out of control. A pensions crisis erupted. And the Bank failed to support Liz Truss's short-lived government when it clearly should have done. Scandals from his time running the Financial Conduct Authority are likely to catch up with him as well. Before the end of the year, it would hardly be a surprise if the increasingly isolated Bailey discovered a desire to spend more time with his family.

4. Musk makes it to Mars

Elon Musk and Amazon's founder Jeff Bezos have something in common other than being among the five richest people in the world: a love of space. Musk is the owner of SpaceX, while Bezos controls Blue Origin. Instead of competing, the two men will realise that the only way to do something genuinely dramatic is to team up. By merging the two ventures, they could put together enough cash and technology to launch the first Mars colony, with people living permanently on the planet by the end of the decade.

5. Joe Biden calls it a day

With a massive round of public spending, a green investment plan to reboot US industry, and huge increases in government programmes, Joe Biden set out to be a great reforming president. But his wild spending has resulted in little more than inflation. He presided over a humiliating retreat from Afghanistan. He failed to prevent Russia invading Ukraine. He has surrendered control of his government to the far left of his party. And with the US likely to be in recession by next year, the country will be in the mood for a change. With his political powers fading fast, and with the Republicans likely to put up a far younger candidate, the 80-year-old will hardly be the man for the moment. Expect Biden to bow out gracefully, paving the way for the most open US presidential election in more than two decades. It is unlikely that investors will be sad to see him go – in present form Biden is set to have presided over the worst performance for the stockmarket since George W Bush's 40% negative return at the start of this century.

City talk

● Travel group Tui hasn't "put investors in a holiday mood", says Alistair Osborne in The Times. The firm says it will repay €730m in pandemic state aid to the German government, plus a similar amount of a credit line from a state-owned bank. It's easy to see why CEO Sebastian Ebel is keen to do so: the aid comes with restrictions on dividends and bonuses, and potentially converts into shares worth about a quarter of the firm. But the news has cast a cloud over decent full-year results that saw sales quadruple to €16.6bn and profits rebounded to €409m from a loss of €2.1bn. The catch is that it will require a rights issue of up to €1.9bn – the fourth in two years from a firm "whose refuelling habits have rivalled those of package-holiday customers on an all-inclusive trip". That's a chunky cash call for a group valued at €2.85bn. With Russian investor Alexei Mordashov, who owns around 30%, sanctioned, it will amount to more than 75% of the free float. There's "far more to think about for Tui punters than the trading figures".

● Currys is "the UK's most infuriating retailer", says Nils Pratley in The Guardian. The firm generates £10bn in annual sales, is number one in all its markets and has a solid balance sheet, yet is valued at only £700m. Now, just as CEO Alex Baldock seems to have fixed its issues in Britain – a legacy of the 2014 merger with Carphone Warehouse, "one of the worst deals in modern retailing history" – the Nordic arm has been hit by a price war that's knocked £25m off this year's forecast profits. "The stars will eventually align for Currys... but you can also see why the shares... are stuck at [their] lowly rating. Nothing is ever straightforward with this company."

● "In the world of star signs, Capricorn denotes an over-achiever," says Lex in the Financial Times. But not at Capricorn Energy, the oil and gas firm where Palliser Capital wants to evict seven members of the board, including CEO Simon Thomson. The activist says that a planned all-share merger with Israel's NewMed undervalues Capricorn by 40%. This proposal follows another attempted merger with Tullow Oil, which was shot down by shareholders. Palliser reckons at least 40% are opposed to this one and almost 30% have declared in favour of replacing the board. "For the stars to align and the transaction to complete, a more generous exchange ratio is needed."

©Alamy

The illusion of rising yields

Investors need to take account of inflation when deciding whether rate hikes have made bonds attractive

Cris Sholto Heaton
Investment columnist

High inflation makes the value of a fixed payment vanish

©Getty Images

There are – as usual – an embarrassing number of developments that I failed to foresee for 2022, even though most seem obvious in hindsight. But if one stands out, it's the impact of interest rates. Not how high they have gone – I have spent my entire life in markets saying that rates should go up and am continually disappointed at central bankers' unwillingness to deliver. Rather, it's how the relatively modest increases we've seen so far – which have taken the price of money from "insanely profligate" to merely "far too cheap" – have caused markets to buckle.

What can we credit for this? Part of it is due to a decline in speculation, as always happens when policy gets tighter. Beyond that, there's an element of money illusion (see below) at work. We've gone from an environment in which you could get 1%-2% risk-free return while inflation was 0%-2%, to one which in which you can get 3%-4% or more, but inflation is at double-digit rates. The prospective real return today looks worse, unless you believe that inflation is going to come down a very long way over the next couple of years (which could happen, but it would be contrary to history – inflation usually takes longer to settle down). However, getting 3.5% feels a lot fairer than getting 1.5%. Thus investors have quickly decided to shift back into cash and safer bonds, at the expense of riskier assets.

The outsized effect of these very small moves towards normality (after all, rates are still very low in absolute terms, as well as being hugely negative in real terms) shows how badly a decade of zero-interest rate policies had distorted markets. In that respect, these adjustments are healthy. However, if you think this through, it doesn't seem entirely rational on a long-term view. What's missing is the implication of why higher rates might be here to stay.

No central banker wants high rates: they fret about the ability of indebted economies to bear them. Their bias is to keep rates as low as possible. Some policymakers are already talking about slowing down and when they should cut. Rates will only go up if forced by persistent inflation. So if you believe the benchmark rate at which we should be valuing all assets is structurally much higher than it was a year ago, that implies that we expect inflation to be structurally higher as well.

Given that, locking in 3.6% for ten years (as is the case on UK and US government bonds) still doesn't look compelling. You want to buy income streams that can grow if inflation takes off. That argues for buying good-quality stocks, real estate investment trusts (Reits) and similar investments, and maybe index-linked bonds whenever they sell off – and maximising the short-term rates on cash while waiting for opportunities. If we face a 1970s-style side-to-side market, few assets will do well in capital terms – but conventional bonds will be clobbered worst on capital and income.

I wish I knew what money illusion was, but I'm too embarrassed to ask

Money illusion refers to the tendency to consider the value of money in terms of its face value (also known as its nominal value) rather than its purchasing power (often referred to as its real value). The term was coined by either John Maynard Keynes or Irving Fisher early in the 20th century and popularised by Fisher's book *The Money Illusion* (1928).

For example, money illusion means that people focus more on nominal changes in income than real changes. Compare two scenarios: one in which you are offered a 3% cut in your salary at a time when inflation is zero, and one in which you are offered a 2% rise when inflation is 5%. In both cases, the impact on real income is the same: after allowing for both the nominal increase and the impact of inflation, you are around 3% worse off. However, somebody looking at this through the bias of money illusion will – or so the theory goes – tend to regard the second scenario as fairer.

Money illusion has been proposed by some economists as the explanation for certain observations that don't seem consistent with rational behaviour. For example, prices are often "sticky": nominal prices tend not to rise (or to rise more slowly than expected) when costs rise. A subsequent fall in costs is not necessarily accompanied by a fall in prices. Conversely, prices built into contracts are indexed to inflation less frequently than expected.

Investors can easily fall victim to money illusion. If a portfolio rises in value by 5%, an investor may well feel content, regardless of the prevailing rate of inflation. Yet a return of 5% while inflation is 1% means your wealth has grown, while the same return when inflation is 5% leaves you no better off. Some analysts have also argued that investors tend to conflate expected nominal and real returns, which may lead to some assets becoming overpriced or underpriced relative to the likely path of future inflation.

Guru watch

Abby Joseph Cohen, professor of business, Columbia Business School

The high level of volatility that we've seen in 2022 is "in notable contrast to the 'incrementalism' that described much of the past decade, dominated investors' views and drove behaviour", says Abby Joseph Cohen, the former Goldman Sachs investment strategist. "Many investors seem caught out yet again by the speed and vigour of market moves."

Higher volatility goes beyond "abrupt swings in the pricing of financial assets": the year has also been marked by "wide gaps in economic and corporate performance" and "sharp changes in government policies". In short, we're moving away from a world in which incrementalism dominated both portfolios and policy-making – one that was fostered by "decades of generally mild-mannered inflation and well-controlled interest rates", with only rare exceptions, such as the global financial crisis or the pandemic. Now, investors must take account of "the current willingness of central bankers to make large and repeated adjustments in policy rates" and the greater readiness of governments to make "dramatic" changes in fiscal policy. "The longer-term policy implications, on prices, trade uncertainties, income distribution and so on, are still not fully understood."

Incremental policy changes rewarded incremental approaches to investment. "Asset classes that performed well generally continued to do so… momentum was a powerful factor driving relative performance." Investors came into 2022 still working on the same basis. Fixed-income managers made only small tweaks to their portfolios, assuming that rates would rise only modestly and gradually. Equity managers assumed only a modest impact on valuations and earnings growth. "But the underlying fundamental conditions have clearly changed, and incrementalism is no longer the winning strategy."

©Getty Images

It's beyond time to go for growth

Editorial
The Economist

The rich world is in a slump, says The Economist. The long-run rate of growth has "dwindled alarmingly", leading to stagnant living standards. Between 1980 and 2000, GDP per person grew at an annual rate of 2.25% on average. Since then the pace of growth has sunk to about 1.1%. The reasons are manifold. The skills of the labour force have stopped improving as fast. Ever more workers are retiring. Women's participation in the labour force has flattened off. The economy is more reliant on services, where productivity gains are harder to come by. The ageing population has not only hurt growth directly, but has made electorates less bothered about the issue – "growth most benefits workers with a career ahead of them, not pensioners on fixed incomes". But even as this perfect storm of trends hits, politicians are distracted by other issues. Today's leaders are the "most statist in many decades and seem to believe that industrial policy, protectionism and bailouts are the route to economic success". Liberal, growth-boosting reforms – embracing free trade, loosening building rules, reforming immigration, simpler and lower taxes – are more vital than ever. It's time for governments to act.

A Brussels clampdown on cash

Hans-Jürgen Schlamp
WirtschaftsWoche

The European Commission is keen to set an upper limit of €10,000 on cash payments, says Hans-Jürgen Schlamp. This has triggered a heated debate, notably in Italy, about the extent to which the desire to combat crime clashes with personal liberty. Italy's new leader wants to reverse the previous government's intended policy of lowering the upper limit on cash transactions to €1,000 and raise it to €5,000; the opposition says €10,000 is more appropriate. Studies have suggested there is a correlation between the amount of cash in the economy and criminality: drug and weapons dealers, along with petty crooks, tend to need cash to keep their activities away from the banking system. However, criminals now have cryptocurrencies as an alternative to cash, and it is worth noting that of the ten states in Europe without upper limits on cash transactions, some exhibit less tax evasion than those with thresholds. Germany and Austria are heavy users of cash, for instance, but have relatively small shadow economies. Non-cash payments are rising quickly in any case across Europe; they jumped by 12.5% in 2021. Given how slowly Brussels operates, it probably doesn't need to set continent-wide rules on this issue at all.

Inflation? There are worse ills

Maria Koumenta
The New Statesman

Inflation was effectively chosen by our policymakers when the government decided to help people with the cost of fuel and raised benefits in line with inflation, says Maria Koumenta. But that was "the right policy choice in my view". Yes, inflation means prices are high, but it also means jobs are supported and demand propped up, sustaining economic output. Recessions, on the other hand, which are the other option, cost jobs and reduce consumer spending. "The economic and societal consequences of joblessness are severe and scarring, and economic history tells us that it should be avoided." True, inflation negatively and disproportionately affects those at the bottom end of the income distribution. But there are ways for governments to address that through fiscal policy – raising taxes for those at the top end of the income distribution and "spreading purchasing power more equitably". These are all difficult decisions, but "it is worth reminding ourselves that policy choices are always tough". On balance, though, the economic damage that can be caused by a recession far exceeds that caused by high inflation. "If I had to choose my poison, I know which one it would be."

The curse of the long meeting

Harry Wallop
The Times

In the late 1260s, the first papal conclave to decide the next Pope was held in Viterbo, says Harry Wallop. The proceedings dragged on so long that the roof was taken off to allow the Holy Spirit to enter the cardinals' hearts more directly. After 1,034 days, they finally settled on Pope Gregory X. I thought of this upon learning of an EU meeting in Brussels that went on for 17 and a half hours. When it finished at 1.50am it was hailed as a success. But it's "insane". By 1am, the motivating factor behind most decision-making won't be "This is the right thing to do" but "I want to go home". In fact, this is often used as a negotiating tactic, getting people to agree just so they leave. The final session of the COP27 climate summit, for example, finished 39 hours later than planned. Many saw this as a triumph, rather than proof that the people running the show were incompetent. Bosses, too, seem to think that a meeting is a substitute for making a decision. According to the Microsoft Work Trend Index, the number of meetings each week has risen by 153% since the start of the pandemic, with no sign this trend is reversing. If you find yourself stuck in a meeting that drags on and on, start taking the roof off. "That should speed things up."

Money talks

"I've never been so rich. I wrote my book [her autobiography, *This Much is True*] for money, which I suppose proves that I will do almost anything for money, just like most members of the Tory government."
Actor Miriam Margolyes (above), in The Times

"Never mind doing podcasts or TV. I propose to fill this unexpected hiatus in my career with vast lucrative theatrical renditions of [the] great texts, in ascending chronological order. It's going to be called 'A Totally Epic Performance'. I expect you will laugh and say no one will come. I say, who cares."
Former PM Boris Johnson, writing in The Spectator

"[My first flat in London] seemed too good to be true. It was really spacious, above an empty shop and the rent was like £300 for the week. But it turned out this empty space underneath the flat was soon to become half fishmongers, half butchers. That... went from being the biggest bargain in London to the biggest burden in London. The odours, especially in high summer, were a force to be reckoned with."
Actor Paapa Essiedu, in the Evening Standard

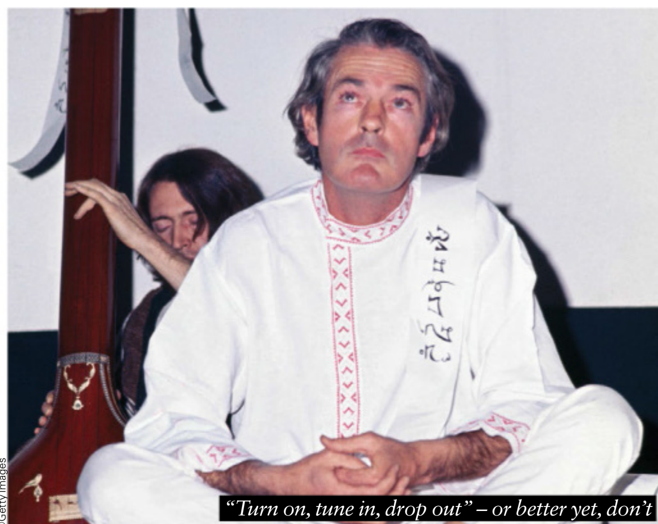
"[Let] the rich be rich because they tend to employ people. But, most important of all, society must be fluid because if 5% hold 90% of the wealth you've got a problem."
Masterchef co-presenter Gregg Wallace, quoted in The Times

"It was exhilarating… I was in a position to kit out my whole room with model cars and track. The bill was around £100, about £500 now."
Scalextric enthusiast Dave Davies, lead guitarist of The Kinks, on striking it rich with *You Really Got Me*, in The Telegraph

"He who wishes to be rich in a day will be hanged in a year."
Leonardo da Vinci, quoted on Forbes

©Getty Images

Let's get back to work in 2023


"Turn on, tune in, drop out" – or better yet, don't

©Getty Images

city-journal.org

"Where did everyone go?" asks Andy Kessler of The Wall Street Journal. The so-called Great Resignation following the Covid-19 pandemic has led to an economy with 11.2 million job openings in the US, mostly as a result of men aged 25 to 54 who haven't gone back to their jobs. "Help wanted" signs dot every other window, says Lance Morrow, and the entire country seems short staffed. Queues grow longer, whether in shops or waiting for someone to answer the phone. There are shortages of clerks, nurses and plumbers.

Heading for the ditch

Timothy Leary's mantra of refusal in the 1960s – "Tune in, turn on, drop out" – seems to be back in vogue. The idea then was that not working for "The Man" would be the "first step towards enlightenment". But many who persisted with it and turned it into a lifestyle ended up "in the ditch". Today's drop-outs have safety nets in the form of benefits and bail-outs. But where it all ends up may not be much more attractive.

Work is a habit, and the pandemic and lockdowns disrupted people's routines. The culture and psychology of work has changed. Work would once fill up our long days. Now we have "magical screens" with all manner of distractions. Years of "Covid-wariness" have made people "more domestic and interior". They have accustomed themselves to doing without the social life they once enjoyed.

Yet there is more to work than this – something more metaphysical. Teddy Kennedy, when running for office, was once sneered at for never having worked a day in his life. Kennedy would claim that a factory worker later came up to him and said: "You ain't missed a goddamn thing." This was "cunning blarney" on Teddy's part, but it came out of a culture that recognised that work was far from being just "meaningless toil". For immigrants seeking a better life, the meaning was survival, supporting a family. The Protestant work ethic "sanctified work and turned it into a vocation, linking human labour to God's will". There was "nobility in the struggle" and to climb the ladder was obviously worth doing, as the Kennedys themselves exemplified.

Teddy's older brother would later say: "Ask not what your country can do for you – ask what you can do for your country." That's an idea worth reviving – perhaps through a form of national service that "summoned people from all ideological sides of the country" to do good works. Many of those who now decline to work might sign up. It's a sentimental thought; but the US is a sentimental country. "Its hatreds and divisions are the dark side of the sentimentality."

Take nature into account

project-syndicate.org

Biodiversity and "the services provided by healthy ecosystems" are under pressure from climate change and "the challenge of supporting eight billion people in a sustainable way", says David Malpass. Forests, pollinating insects and ocean fish stocks are all under threat. The UN's biodiversity conference in Montreal this month is an opportunity to do better. What is needed is for economic decisions to "take nature into account". Economic growth models, development plans and climate agendas must consider "nature's real economic value" and build institutions that help nurture it. But given the severity of the challenges, conservation efforts are no longer enough – we need also to actively reverse the decline, which means changing how we produce and consume. Work to this end has begun. Vietnam, for example, by involving different stakeholders in marine planning, has reduced conflicts over resource use across sectors. In China, the World Bank is working with authorities to reduce the amount of plastic that reaches the ocean from river effluent. Ghana is using financial instruments such as "blue carbon credits" to restore 3,000 hectares of mangroves, which are rich in wildlife, absorb carbon, act as nursery areas for fish and protect against flooding. But much more needs to be done.

Even geniuses need a hobby

bigthink.com

It is commonly believed that geniuses focus obsessively only on their primary field of interest, but this is far from the truth, says Scotty Hendricks. A number of the greatest minds in history have enjoyed hobbies.

Albert Einstein, for example, was a largely self-taught enthusiast for the violin, and many who played with him said he was a fine musician. He never left home without it. His forebear Isaac Newton liked to dabble in alchemy. Economist John Maynard Keynes was a successful investor and earned a fortune on the stockmarket, putting his earnings to good use by building up a sizeable collection of art, including 135 works he would later donate to Cambridge University. Ada Lovelace, a 19th-century British writer and mathematician, liked to gamble – although her skills with numbers did not prevent her losing large sums of money.

©Getty Images

Alan Turing, the savant who helped crack the Nazi Enigma code in the second world war, only got into sport in his 30s. He particularly enjoyed running, and for reasons that give a hint of the value of hobbies for all of us. "I have such a stressful job that the only way I can get it out of my mind is by running hard," he said. "It's the only way I can get some release."

Don't look down on gamblers

capx.co

"Britain loves a bet," says David Belle. Flutter, owners of SkyBet and Betfair, expects £300m to pass through its UK and Ireland books over the course of the World Cup in Qatar. Gambling has, after all, been a part of the culture for centuries. Yet it is still seen by many as a vice. The truth is that gambling and the "adventurous urge" that prompts us to do it is "far from inherently bad".

Traders and investors are, despite protestations to the contrary, just sophisticated gamblers. Both endeavours are about taking a risk by placing money on an uncertain future outcome in the hope of profit. And this is "the seed of human progress". Most entrepreneurs fail with their first enterprise, yet many of society's most transformative innovations were born when gamblers who had bet it all and lost started over.

In fact, human life itself always involves risk and uncertainty, and making choices is a kind of gamble. The trick is to be a "smart gambler" – one who knows the conditions most likely to generate a positive outcome – rather than one who relies solely on dumb luck.

Top bargains in investment trusts

Investors have become far too sceptical about some promising funds, says Max King. That spells opportunity

The discount to net asset value (NAV) of the share price of the average investment trust has, according to Winterflood Securities, risen from barely 1% at the start of this year to 12.5%, having exceeded 15% in October. It might be assumed that the biggest victims would be smaller, less liquid trusts, those with poor investment performance, those with high borrowings or those with low dividend yields. But according to research by William Heathcoat Amory of Kepler Partners, the losers have included those with the best investment performances last year, those that have performed well this year and those with generous yields.

This is partly because investors distrust the valuations ascribed to unquoted investments, which include not just private equity but also infrastructure, renewable energy, property and other alternative assets. It also reflects the saturation of investors' appetites by funds that have been prolific issuers of equity in recent years. Where these two factors collide, share prices have gone from large premiums to NAV (enabling share issuance) to large discounts. Since most of the issuance has been for funds with attractive yields, income has not protected them from deratings.

The NAVs of most "alternative" funds are based on discounted cashflow: ascribing a current valuation to future expected cashflows using an appropriate interest or "discount" rate. As interest rates have risen, so have discount rates, which means that valuations should fall. However, the rates used by valuers never followed bond yields downwards because nobody outside the pension-fund industry thought yields would stay low forever.

In addition, the yield on ten-year gilts, having reached 4.5%, has fallen back to 3%. So even the small increases in discount rates being used by valuers now look too conservative. Investors have factored in falls in valuations that are not happening and look unlikely to happen. The dividend yields on these funds now look less appealing relative to gilts than they once did, but they should rise at least in line with inflation, making them comparable with inflation-indexed gilts (which have negative yields) rather than conventional ones.

With the shares now trading below asset value, further issuance is impossible. This is bad news for acquisitive management and for the government's hope of increasing investment in renewable energy, but not for investors. Management can now focus on running the existing business rather than acquisitions and there is less danger of them reducing investment returns by chasing deals that add little value. Several funds that were pricey a year ago now look attractive, offering increased yields, convergence of share prices with asset values and steady growth in income and capital returns. Existing investors are disillusioned and bailing out – but this creates an opportunity for patient new investors.

"The market has factored in falls in valuations that aren't happening and are unlikely to happen"

Hipgnosis Songs Fund (LSE: SONG)

Hipgnosis has been a prolific issuer of shares since its flotation in 2018, multiplying its issued capital sixfold. The proceeds, along with £600m of debt, have been used to buy catalogues of songs and their royalties. It now owns 65,000 songs and has assets of £2.5bn. With JPM Cazenove estimating a NAV of 152p, the shares at

©Getty Images

The Hipgnosis Songs Fund's 65,000 songs include All I Want For Christmas

86.5p trade at a 43% discount and yield more than 6%. The debt facility runs for five years and costs between 5.5% and 6%.

Early scepticism was justified by an unproven business model, the challenge of integrating the blizzard of acquisitions and doubts about the quality and durability of the portfolio. But the long-term growth potential of the asset class is now clear, with 7.5% growth in revenue and 17% growth in cashflow in the fund's latest half-year.

The portfolio valuation was flat, despite a rise in the discount rate to a chunky 8.5%, though the recovery in sterling is eating into the value of a dollar-based asset. Music streaming is projected to grow by 6.6% per annum and Hipgnosis has 22 songs, on average 6.2 years old, in Spotify's top 100. Other sources of royalties are films, TV and advertising.

Supermarket Income Reit (LSE: SUPR)

Supermarket Income Reit has grown through share issuance and acquisitions to assets of £1.8bn but a 21% fall in the share price has resulted in a 10% discount to NAV and a yield approaching 6%. It is invested in supermarket property let on long leases (an average of 15 years) to operators such as Tesco, Sainsbury's and Waitrose across the UK – with inflation-linked rents. It owns 76 stores and targets returns for investors of 7%-10%, boosted by net debt equivalent to 21% of net assets. Supermarkets are hardly likely to go out of business, so the odds of ending up with worthless land look extremely low. This surely makes the investment proposition bulletproof and the discount a bonus.

...Is You by Mariah Carey, which has been streamed more than one billion times on Spotify

Tritax Big Box Reit (LSE: BBOX)

Tritax, notes Heathcoat Amory, has swung from a 30% premium to NAV to a 40% discount, with the shares halving between April and October. The dividend yield is now 4.8% for 2022 as a whole. With assets of £6bn and 70 sites, it is the UK's largest listed investor in high-quality logistics warehouses, the buildings that can be seen at the side of motorways and other major roads. These are ideal distribution locations for major retailers, physical and online, and for other firms with complex logistics requirements. Leases are long term with upwards-only, inflation-linked rents and an average unexpired lease term of 13 years. The availability of new sites for Tritax or competitors is very limited.

"Fortune favours the brave, but not the foolhardy, so opt for funds offering good value, not absurdly cheap ones"

The Renewables Infrastructure Group (LSE: TRIG)

With TRIG and nearly all the other independent renewable-energy generators now trading at discounts to NAV, the opportunity for further investment is severely limited. With £3.3bn of assets, TRIG is second only in size to the **Greencoat UK Wind (LSE: UKW)** trust, which has £4.3bn. But it is more diversified in its energy sources and spread. Higher corporation taxes and levies on excess profits have unnerved investors, who fear worse is to come, but inflation and a better outlook for interest rates bode well. In addition, continued investment will require higher returns.

Around 60% of the portfolio is in the UK and 40% in Europe. Onshore-wind companies account for 52% of the portfolio, 33% is offshore wind and 14% solar; 92% of assets are operational and 8% are under construction. Debt is minimal, although TRIG has a £600m borrowing facility for acquisitions. TRIG's share price is down by just 13% in recent months and its discount to NAV is 4.5% (10% and 2% for UKW) but the shares yield 5.2%. The annualised investment return since flotation in 2013 has been 9.3%, but it reached 15% in the first half of 2022. Continued NAV and dividend progress looks inevitable, making the shares attractive – as are those of UKW, which also has a great record, on a 5% yield and 2% discount.

Primary Health Properties (LSE: PHP) and Assura (LSE: AGR)

These two property companies own purpose-built health centres, at least 90% of whose income comes directly or indirectly from the NHS on long-term leases, with the rest stemming from pharmacies. Now that GPs are, at last, returning to their surgeries, these buildings have reacquired a useful function. Share prices have retreated by 25% since the summer and now stand at discounts to NAV of 10% but, as the properties are let on very long term leases, the attraction lies in the dividend yields, now 5.6%-5.8%.

The linking of underlying rents to inflation over the long term, with extremely secure payments, means that these yields are effectively index-linked, while the companies should be regarded as infrastructure firms with permanent assets, not as property companies. Their property portfolios are each valued at £2.9bn, half financed with debt, but half the debt in each case is fixed-rate with low coupons while half is at low margins over market rates. PHP's average cost of debt is 3%, with a weighted average duration of nearly eight years; the respective figures for Assura are 2.3% and 7.5 years. Why own gilts instead?

Pantheon Infrastructure (LSE: PINT)

This trust's shares are on a 14% discount to expected year-end NAV and the yield on next year's promised dividend is 4.2%. The group invests in four areas: digital infrastructure, renewables, power & utilities and logistics across developed economies, with 46% of assets in North America, 42% in Europe and 12% in the UK. It seeks minority stakes by co-investing alongside a lead investor and has access to the resources of the global network behind the $20bn portfolio of the wider Pantheon investment group. The target is risk-adjusted returns of 8%-10% but a discount rate above 13% and an expected shareholder return of 12% (according to brokers Liberum) suggests a risk appetite and consequent return closer to 3i Infrastructure than to the HICL Infrastructure fund.

The residential property funds, notably **Civitas Social Housing (LSE: CSH)** and **Home Reit (LSE: HOME)** look even better value but hedge funds have their teeth into them, hoping to throw them off-balance and create a regulatory panic. If they succeed, the idea of using private capital to fund social housing will die, but cautious investors may not want to take sides. Discounts to NAV of 46% and 58% respectively and yields of 9% show that investors don't believe management, the directors, the auditors, the lawyers or the advisors.

Fortune favours the brave but not the foolhardy so it's probably best to stick with the funds offering good value rather than the ridiculously cheap ones. Significant discounts to NAV are as much a warning as significant premiums. Still, a small punt is undeniably tempting. Finally, bear in mind that much of the attraction of the mainstream ideas above, and of other comparable funds, lies in the income they offer. But taxpaying investors who do not hold them in a self-invested personal pension (Sipp) or an individual savings account (Isa) will face a nasty tax bill at the end of each year. The annual Isa allowance is £20,000 and the year runs until 5 April.

The simple way to end inflation

Governments are fighting with the left hand what they cause with the right, says Stuart Watkins

When Thomas Piketty's *Capital in the 21st-Century* became a bestseller following its publication in 2013, the commentariat expressed surprise that ponderous economic analysis had become the object of popular enthusiasm. But the phenomenon was not exactly unprecedented. In 2000 an obscure and barely readable academic treatise called *Empire*, by Marxist philosophers Antonio Negri and Michael Hardt, flew off the shelves. In 1872, Marx's *Das Capital* became a hit in Russia when the censor neglected to ban it on the grounds that surely no one would read such an abstruse book. Upon its debut in the US in 1879, Henry George's *Progress and Poverty* quickly became a bestseller too.

What all of these books have in common is their sense that there is something very wrong with the stories we tell ourselves – stories largely derived from economics – about why such things as progress and poverty should continue to exist side by side. Not the least of the difficulties, as George in particular makes clear in the early chapters of his book, is that we live in a post-Babel world, where we don't talk the same language even when we're using the same words.

The birth of a pseudo-science

When George was writing, what was then called political economy had captured the minds of the governing classes and the public at large, and its explanations for economic phenomena, such as the coexistence of lavish riches for the few and appallingly low wages and poverty for the many, were taken to be, to coin a phrase, "the science". Yet the leading thinkers in the subject, not to mention the more minor writers who stood on their shoulders, could not even agree about something as basic as the definition of "capital".

One writer would define it in a way that another would explicitly rule out. The next would muddle things further. And yet when these authorities argued about substantive issues such as what determines the level of wages, they would all use the word "capital" as if they were all in agreement about its meaning. "Nothing so shows the importance of language in thought," wrote George, "as the spectacle of even acute thinkers basing important conclusions upon the use of the same word in varying senses."

It is now a century and a half since George wrote those words, but the situation has not changed much. The big issue dominating the national and global conversation today is inflation, and the related crisis in the cost of living. Yet despite the ocean of commentary on the subject, you will thirst for real insight. Indeed, you could say that the economic crisis has sparked a crisis of understanding since there is so little agreement about what the facts pertinent to the current situation are, leading even the most prominent commentators on the subject to wonder whether we really understand inflation at all, or whether the tools we have confidently pressed into use in the past to control it are fit for purpose or not. March into the debate to try to make sense of all this and you're likely to retreat baffled, and perhaps conclude that the reality is too infinitely complicated to get a handle on and that we may as well resign ourselves to the fact that we are more or less at the mercy of mysterious and uncontrollable forces.

The economy is, of course, a very complex thing, but it is one thing to keep in mind real complications; "quite another to be confused or misled by needless or nonexistent complications", as Henry Hazlitt wrote in *What You Should Know About Inflation* (1960). As would not at all have surprised Henry George, the word inflation is used today to refer to at least four different things: an increase in the supply of money and credit generally; an increase in the supply of money that exceeds the increase in the supply of goods; an increase in the price level; or any type of economic boom. The level of confusion is such that anything that might lead to a rise in the price of any particular commodity is described as "inflationary". Getting to grips with inflation would then seem to involve understanding and putting right all those things in the global economy that might put up the price of bread, or of gas, or events that might lead to their temporary or permanent scarcity, for example. The task would seem hopeless. But before sorting out this muddle, it's worth understanding that underlying all the disagreements about inflation and the confusion about what it means, and indeed about much in economics and public policy, lies a deeper and underappreciated philosophical issue.

"Aggregates, averages and statistics… are a mistaken attempt to overcome our limited knowledge"

A philosophical digression

The mainstream practice of economics – whether of the Keynesian or monetarist varieties – is a fundamentally positivist one; that is, its methods ape those used in the natural sciences, in the hope of attaining similar results. Inflation is deemed to be some *thing* out there in the wild, that the economist tracks down and measures to determine the causes and conditions that give rise to it. As the economy, like the universe itself, is infinitely complex, we can expect this work to result only in imperfect knowledge, a best-guess, subject to revision when the data changes, but a best-guess is deemed to be better than nothing, better than total ignorance.

Positivist social science is, then, appealing to those working in the institutions of government who see their role as being to steer the economy and society in a direction of general benefit – it flatters them into believing that they know what they're doing. Investors, for their part, might be tempted to believe them, and spend their time second-guessing the direction of travel, and buying the assets likely to benefit.

That might all sound very reasonable, not least because so many people believe it. But what we need to consider is whether a foundational error has not been missed and led us into absurdity. We wouldn't, for example, want to spend our lives poring over charts of consumer price indices, without wondering what precisely the use of a measure of average prices is – whether adding the price of bread in one transaction to the price of milk in another and then dividing by two gives you meaningful information of any kind. As Friedrich Hayek put it, "[Macroeconomic] theory is based on the supposed regularities between statistical magnitudes… [but] aggregates, sums, averages, and statistics are no substitute for the detailed knowledge of every single price and their relations to each other that guide economic activity. It is a mistaken attempt to overcome our limited knowledge".

A sound methodology

The view of the Austrian school of economics, of which Hayek was a leading member, is that the mimicry of the methods of the natural sciences is completely misplaced when we come to consider human society, and leads not to the kind of knowledge provided by science, which truly does increase our understanding and control

over the natural world, but to what Hayek called "scientism", the application of the methods of natural science in areas where they do not apply, the result of which is not science but a "pretence of knowledge". The macroeconomist is in the position of the drunk looking for his keys under the streetlamp, not because that is where his keys might reasonably be found, but because that is where the light is.

The reason the methods of the natural sciences are out of place is that human beings are not merely material objects that move or change according to natural laws like billiard balls on a table, nor are they animals acting from instinct, but are thinking and rational creatures who choose among competing goals and act in the world. Societies and economies are what emerge spontaneously from the myriad interactions between millions of such individuals. Economic concepts such as that of "value" are not physical facts that result from material collisions, but an emergent phenomenon that results when human actors decide they prefer one thing to another. Predicting what an economy is going to do by looking at the data, then, is an exercise in futility, no matter how good the data may be. We can, however, come to an understanding of the relevant phenomena as we are ourselves thinking and acting beings, and can study it from the inside, as it were, using introspection and logic.

Starting with this insight, and proceeding step by step from there, Austrian economist Ludwig von Mises built his *magnum opus, Human Action*, which explores the internal meaning and logic of economic concepts, how these result from human reason, choice and action, and how individual choice and action is coordinated in market economies through the price system. Prices are the information individuals need in order to pursue their economic goals rationally. If the price of, say, energy rises, this is not a bug in the system to be ironed out by the state, but a feature of it that helps guide individuals to the best outcome for them. If shortages of goods cause prices to rise, this is not to be regretted and somehow stamped out like an outbreak of fire, but taken as a signal – by consumers to seek alternatives, by entrepreneurs to guide investment decisions. The reallocation of capital leads to more supply. If prices then fall, putting the more inefficient firms out of business, this too is not a flaw calling for state intervention, but a sign the system is working effectively. The cure for high prices is high prices. The market system – the means through which individuals work out their own plans – is perverted when governments intervene with the aim of imposing their own.

"Central banks printed a ton of money. The predictable and predicted result has been rising prices"

A problem solved

One such government intervention is inflation. Inflation is an increase in the supply of money and credit. One of the logical consequences of that is an increase in prices as folk who suddenly find themselves with more money than they wish to hold seek to spend it, raising demand. Assuming the supply of goods does not rise, or rises by as much as the rise in the supply of money, the effect will be generally rising prices. The general rise in prices is not inflation. It is the effect of which inflation – the expansion in money and credit – is the cause.

The tangle that seemed so complicated when inflation is taken to mean many things at once is at a stroke resolved. Complications, of course, remain – just how the government and central banks go about increasing the supply of money has changed over the years since Hazlitt and Mises and Hayek were writing, for example, and the value of money is affected by other things than its supply, "primarily by psychological factors which may often be complicated", as Hazlitt says. But that the basic big picture hasn't altered was confirmed by former Bank of England governor Mervyn King – someone who should be in a position to know – in an interview with the BBC earlier this year.

Central banks reacted to the contraction of the economy during the pandemic by printing a ton of money, he said. The "predictable and predicted" result of that inflation has been rising prices. The question of how to stop it – although again complicated by the need for "complex and disagreeable decisions", as Hazlitt put it, including funding government expenditures out of tax receipts or borrowing paid wholly out of real savings – is at root a simple one. Assuming that governments and central banks really wanted to (far from obvious, given that inflation is useful for enriching some people at the expense of others, and for eroding debt and the value of wages and savings), the solution to inflation would be to simply stop doing it.

Former Bank of England chief Mervyn King has the right idea

©Getty Images

Fly high with four Aim small caps in 2023

Michael Taylor of Shifting Shares reviews his 2022 portfolio of stocks from Aim, London's alternative investment market for smaller companies, and picks his favourites for this year

The past year has been miserable for many long-term investors. The worst-hit area has been the small-cap sector, where the majority of dealing is done by private investors. The cost-of-living crisis has dampened investors' appetite, and this been a particularly strong headwind for equities in the consumer-discretionary sector. Many initial public offerings (IPOs) in this area in 2020 and 2021 have joined the 90% Club (a group of stocks that have suffered a 90% decline in their share price since listing).

But let's see how the companies I picked from last year have fared over the previous 12 months. Three of my four choices rose, and all of them recorded substantial gains at one stage. This is why it is hard to pick stocks for a year. If a profit warning is issued for a company, the stock stays in the selection for the year, even if I want to sell it.

Moreover, in the case of Yellow Cake, which buys and stores uranium, the stock traded much higher than the 16.1% gain it finished with. This is why I see these ideas not as tips but as suggestions for you to do your own research. I do my best to highlight the risks and opportunities in stocks and it's your job to make your own decision.

A huge gain in a bad year

However, this year's basket of stocks has produced an average gain of 35.2%. That compares to a 0.03% loss on the FTSE 100. While I acknowledge that stock-picking for a year is down to luck, I'm not complaining about the result.

I've since sold low-cost iodine producer Iofina and Shoe Zone, the shoe retailer, but I'm still holding React Group, the specialist cleaning-services provider, and Yellow Cake. My belief in the investment theses hasn't changed, and React Group recently issued an encouraging trading update. It has picked up new business and now has the opportunity to cross-sell other React Group services. The stock trades at ten times forecast earnings at the current price. If the business keeps delivering, that would boost profits and potentially provide scope for a rerating.

As for Yellow Cake, the case for uranium has never been stronger. Yes, storage costs have increased, but one of my energy providers is now incentivising me to limit my energy use between 5pm and 7pm. If we are going to move from fossil fuels to renewables, we need nuclear to manage the transition. And for that, we need uranium. I'm expecting plenty of volatility from this sector but with increased demand and no new mines coming online, I still think uranium prices will rise.

This year's picks cover stocks from industries ranging from resources to technology, along with a leisure company that also featured in my selections in 2020.

"If we are to move from fossil fuels to renewables, we need nuclear energy to manage the shift"

Harvest Minerals (Aim: HMI), 7.95p

Harvest Minerals is an Australian company that produces the fertiliser KP Fertil in Brazil. Its Arapua project, where it mines the nutrients it needs to make fertiliser, has an estimated life span of 100 years. The extraction process consists of digging, crushing, bagging and selling. The company has been shunned by the market since it raised a large amount of capital in 2018, but nearly five years later there have been no new share placings and cash balances are on the up.

A lack of trust was (in my opinion) the reason for the slump in the share price but sales are now rising after Covid-19 set the company back a year. In 2021 sales reached 85,030 tonnes and the 2022 guidance of 150,000 tonnes was exceeded in September.

It would be unrealistic to expect such stratospheric growth every year, but it's worth noting the company can produce 400,000 tonnes before needing to expand its operations. And should that time eventually come, the company can self-finance its growth, with around A$1m (£550,000) needed for a 25 kilotonne (kt) storage shed. The company is selling KP Fertil at roughly A$78.13 a tonne. We also know that the company expects to exceed 150kt in sales this year, so revenue (assuming sale price and cost of sales remain equal) should be around A$11.7m.

Harvest will exit 2022 in a cash-generative (and potentially profitable) position. However, it is worth noting that sentiment has a great impact on this stock: this year it has traded between 5p and 18p – a 260% range. The stock is illiquid and any decrease in fertiliser prices could negatively affect it. However, it should profit from encouraging long-term growth prospects. Brazil wants to reduce its reliance on imported fertiliser, and the global population is not getting any smaller, so long-term demand looks assured.

Altitude (Aim: ALT), 31.5p

Altitude is a technology company that provides services to the promotional merchandising and print industries in North America. The business owns the so-called AIM Smarter platform, which connects buyers, sellers, and manufacturers of promotional merchandising.

For example, a company can order branded T-shirts and mugs from a distributor, which might then buy the T-shirt or mugs it has been asked to brand from a supplier, who in turn acquires the goods from a manufacturer. It is similar to Rightmove in that it connects buyers and sellers, only AIM Smarter takes a percentage of the revenue generated by facilitating business and connecting people, as well as offering other ancillary services.

Naturally, the promotional events and merchandising sectors took a hit during Covid-19, but management managed to replace some of the lost revenue by sourcing PPE and hand-sanitiser suppliers and connecting them with buyers. Group sales are growing and the company reported last month that it was trading ahead of expectations.

House broker Zeus has forecast adjusted profit before tax of £0.5m this year. Valuing this company on a p/e basis makes the shares seem expensive, but that doesn't factor in the rate of earnings growth and the mouth-watering long-term potential. This is a growing, $23bn industry, with roughly 75% of the transactions carried out offline. There is certainly a risk that this industry will slow down in a recession, but there is

©XP Factory

XP Factory now offers games such as axe-throwing as well as escape rooms

plenty of low-hanging fruit to gather at this stage and I think there is scope for a share-price rise if the management continues to show a steady hand.

XP Factory (Aim: XPF), 21.5p

XP Factory is the old Escape Hunt – the same stock that appeared in my 'Five Aim stocks with plenty of potential for 2021' (27 December 2020) at 16.5p. It ended the year at 29p, but currently sits at 21.5p. Escape Hunt offered games in which people are locked in a room and have to solve puzzles and find clues in order to escape.

So why have I included the stock again? The firm has continued to make progress. The company acquired Boom Battle Bars in November 2021, raising £30m at 30p, and it was clearly a good acquisition. Boom Battle Bars is an experiential leisure brand that offers games such as augmented reality darts and axe-throwing. It also sells drinks and a small selection of food, with the former more profitable than the latter.

XP Factory is a high-margin business overall because it is securing deals with landlords for large sites and then charging people for games and additional goods ("upsells"). The company has been achieving Ebitda margins on its sites of more than 20%, a target it set last year, and house broker Shore Capital is forecasting a profit before tax of £2.2m in the current financial year. XP Factory, worth £32.4m, is a fast-growing company on a p/e ratio of 14.7.

Boom Battle Bars diversifies the risk of relying on escape rooms should they go out of fashion (though the company told me in 2021 that the games have surprising longevity) by opening up units that offer a full spectrum of activities. A new flagship has opened on Oxford Street, which, given the amount of dodgy American sweet shops there, you would hope came at a good price. I like the company and think the shares can trade higher, but this is a business that is clearly sensitive to consumer discretionary spending.

Brave Bison (Aim: BBSN), 2.2p.

Brave Bison is a media, marketing and technology company skewed towards social media. It consists of three divisions under the single Brave Bison brand: Commerce, Performance, and Social & Influencer. It owns and operates more than 650 channels across all major social-media networks and boasts a client list including major brands such as Google, Panasonic and Currys. The board includes two brothers, Theo and Oliver Green, who bought into the company (and own 45% of it) and have implemented a turnaround strategy that has seen the company deliver £1.02m in net profit in its recent half-year.

House broker Cenkos has forecast a profit after tax of £2m for this year as a whole, which assumes zero growth, and therefore looks likely to be beaten. But even if that doesn't happen, the shares would be on a lowly 12 times earnings at 2.4p, so there is little hype priced in here.

The board has proved that it can acquire and bed in companies effectively. A new financing facility, meanwhile, will give Brave Bison more firepower on top of the £5.2m of gross cash reported in the half-year results. I think the market has yet to wake up to the potential here. At the current valuation this share is certainly not expensive.

Michael Taylor holds long positions in HMI, ALT, XPF, and BBSN. You can read Michael's monthly Buy The Breakout newsletter for free at shiftingshares.com. Follow Michael on Twitter @shiftingshares.

> ***"Social-media marketing group Brave Bison's client list includes major brands such as Google and Panasonic"***

How to choose the best wea

These services don't come cheap, and you will have to research your options thoroughly, says David Prosser

Could a wealth manager help you navigate a profitable path through market turmoil? The number of online services offering high-quality support and extensive resources at an affordable price to DIY investors has grown rapidly in recent years. But these platforms struggle with traditional financial advice. They won't tell you where to put your cash or manage it for you.

For that kind of service, investors need a wealth manager. These firms operate with a variety of different models, but the basic premise is that you'll get bespoke portfolio management. The firm will assess your personal circumstances – including the wealth you have, your financial goals and your attitude to risk – and help you build a portfolio of investments accordingly. They'll advise you on suitable investments, or simply take your money and invest it for you.

According to the Financial Conduct Authority, the City regulator, fewer than one in ten of us took formal financial advice during 2022. However, many wealth managers report increasing levels of demand following the upheaval of the past three years. Oliver Wyman, a consultancy, thinks assets under management in the wealth-management market could grow by as much as 5% a year over the next five years. In which case, by 2027, wealth managers will be looking after close to two-thirds of retail investors' money by value.

Companies across the sector are therefore jockeying for position. Deals this year have included Royal Bank of Canada's purchase of Brewin Dolphin for £1.6bn, while Charles Stanley was snapped up by US investment bank Raymond James for around £280m. Elsewhere, private-equity investors sit behind Evelyn Partners, a wealth manager created by the merger of Tilney and Smith & Williamson. Consolidation and market evolution has created a sector that could be divided, roughly at least, into three distinct groups.

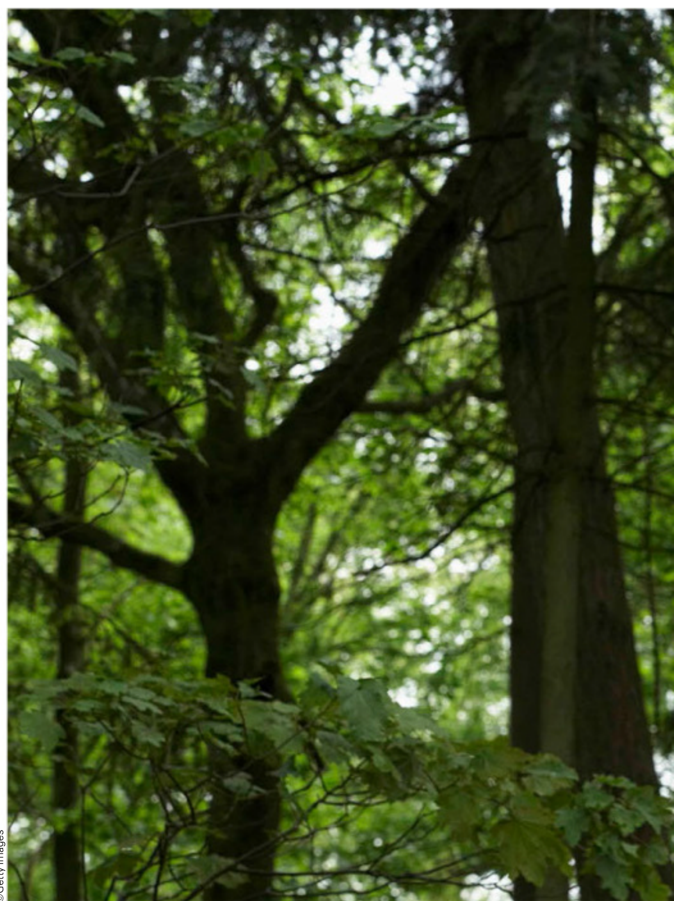
Three key subsectors in the market

First come the traditional wealth managers, offering a traditional range of discretionary portfolio management and advisory services, which still account for the lion's share of the market. The three biggest players in wealth management all fall into this group: between them, Brewin Dolphin, Evelyn Partners and Rathbones look after around £180bn of investors' money. Other well known names in this part of the market include Canaccord Genuity, Charles Stanley and Quilter Cheviot.

A second group of wealth managers consists of newer entrants to the industry using digital technologies to attempt to disrupt the incumbents. Brands such as Netwealth remain some way behind the bigger players, but are picking up clients quickly. In the third category, there are a growing number of "boutique" wealth management firms, often pitching themselves as offering a more bespoke service than their larger counterparts. Examples include Stanhope Capital and Lincoln Private Investment Office.

The third subset often pitch their services at a wealthier set of clients. Broadly, however, the wealth management sector is targeting investors with at least £150,000 to £250,000 of liquid assets to invest, up to a maximum portfolio size of around £5m. While some wealth managers will accept investors with smaller sums – firms such as Canaccord Genuity and Netwealth have minimum portfolio sizes of £50,000,

"The new breed of digital providers have used technology to keep fees down"



©Getty Images

We may need help navigating through the market turmoil

for example – they feel that the economics of offering a personal service do not work below a certain level. At the other end of the scale, meanwhile, wealth managers start running into competition from the private banks. They seem happy to leave the wealthiest clients to banks with prestigious brands and global networks.

All of these firms claim to offer sophisticated investment expertise and very high levels of customer service. But the reality of what you get from a wealth manager will vary from one firm to another, and so will the cost of the service. Some wealth managers provide genuinely bespoke portfolio management. A manager will take your money and build a portfolio designed around your individual needs – producing a combination of holdings unique to you.

Other wealth managers invest your money in a much more generic way. An adviser will still take the time to understand your situation and your goals, but based on that work, your money will be allocated according to one of the firm's standard portfolio approaches. These are typically based on model portfolios – designed with customers seeking low, medium or high levels of risk, say, or with income as a goal rather than capital growth. Neither model is necessarily better than the other one – and there are nuances in between – but investors need to be sure they understand what they're getting. A bespoke portfolio designed specifically for you is a different proposition to an investment approach based on a standard template that is the closest fit to your situation. It's also likely to be more costly.

Fees vary significantly. The new breed of digital providers, for example, have been able to use technology to keep costs down. At Netwealth, annual investment management fees start at 0.65% and

alth manager on the market

drop to as low as 0.35% on larger portfolios. At more traditional wealth managers, you are more likely to pay above 1% a year. Check for any additional charges – entry and exit fees such as custody charges and any costs to pay on trading within the portfolio. Still, price competition has become more intense recently as the incumbents have responded to the digital threat. New regulation forcing all investment management businesses to be more transparent on cost has also played a role in forcing charges down.

At Brewin Dolphin, the UK's biggest wealth manager, annual management fees now start at 0.75% on portfolios of £150,000 to £1m, and come down to 0.37% if you have assets worth £3m or more. Evelyn Partners' annual management fees start at 1.05% but drop to 0.45%. Rathbones charges 1.2% on smaller portfolios, but 0.44% on larger amounts.

In practice, however, wealth managers charge in different ways, so investors need to do their sums. Some managers have one set of fees if you want full discretionary portfolio management and another if you're looking for advisory services, where you get support from a professional adviser as you trade. And you may be charged differently again on execution-only deals if you sometimes invest with no advice.

Moreover, some firms charge flat fees across the board, rather than offering lower charges on larger portfolios. Tacit Investment Management, for example, charges 0.85% a year no matter how much you invest. It's a model that works well for investors with smaller portfolios, but becomes more expensive as the value of your assets grows. Some wealth managers also insist on minimum fees, which can leave you paying more than you expected on smaller portfolio sizes. And there is a move in the industry towards cash fees rather than percentage charges. Some managers say investors would prefer to pay a fixed price for their services rather than a variable amount. The question is what you're getting for your money. In return for fees that could run into thousands of pounds a year, you should expect high-quality service and robust investment performance. But investors' experience varies enormously – and it can be difficult to compare one wealth manager with another.

"You should expect high-quality service and robust investment performance"

Two key factors to assess

Service encompasses two factors. Firstly, does a wealth manager provide all the advice your financial situation requires? That could mean everything from help with tax planning to advice on retirement. And secondly, how responsive is the firm to your needs? Can you get face-to-face advice, will you be able to deal with the same adviser over time, and when will help be available? What level of digital interactivity and functionality does a firm offer, if that's important to you? Word of mouth can be useful, but it's worth talking to several different firms. You need to feel they will offer all the financial and investment services you're looking for and be comfortable with the wealth manager and its staff.

The other decisive factor when choosing a wealth manager is its investment prowess, particularly if you are looking for discretionary portfolio management. Investors naturally want to entrust their money to firms that deliver the best possible returns for a given level of risk exposure – and ideally with as little volatility as possible. The difficulty here is that comparing wealth managers' past performance – as investors might do with a fund, say – can be tricky, since portfolios created for clients' bespoke needs will naturally deliver different returns. Even model portfolios created for investors with certain risk profiles vary from one firm to the next. Comparing like with like is not straightforward.

But work done by Arc Research to collate the performance of hundreds of thousands of portfolios run by different wealth managers provides some clues. Top performers include Julius Baer and JM Finn. The figures were based on five-year returns to the end of 2021, after charges, and focus on portfolios with a higher equity content.

Individual investors at all wealth managers will have done significantly better or worse than average. Still, while judging firms' investment abilities is going to be a subjective exercise to some extent, it is possible to hold wealth managers to account. Firms should be able to articulate their investment processes and decisions, backing their explanations with evidence. And they should be able to provide benchmarks against which portfolio returns can be judged.

One final consideration is the extent to which a wealth manager is evolving its approach as the market landscape changes. Some investors may want to discuss the possibility of including cryptocurrency assets in their portfolios. Not all wealth managers will be able to accommodate that. Similarly, if environmental, social and governance (ESG) factors loom large in your approach to investment, talk to wealth managers about their approach. Do they have model portfolios that include ESG criteria? Do individual portfolio managers have the expertise to incorporate your ESG views when investing on your behalf? There are no shortcuts here. If you want a wealth manager to look after your money, take the time to find the firm that is the best fit for you. And ultimately, if you're not happy with the results you get, be prepared to take your money elsewhere.

Invest in gold and drugs

Our writers' top tips for 2023 include a cybersecurity stock, bitcoin and a psychedelic treatment for depression

Jonathan Compton

It is with a red face that I look back at last year's tips – BT and Vodafone. Both were duds. I continue to hold for better days. So it is with trepidation that this year I suggest a tech-related company. The sector has rightly been trounced, and yes, catching falling knives is not to be recommended. Yet my pick is UK-listed **Kape Technologies (LSE: KAPE)**, a £950m company that has been dragged down even as revenue and profits have blossomed and the outlook brightened.

Moreover, it has all the key criteria I want in any company: visibility over growth in earnings, a strong niche position, stonking free cash flow and falling debt – especially important as too many companies have become overreliant on cheap borrowing. These criteria also make the likes of Kape natural takeover targets, as in practice any bid would be largely self-funding.

It specialises in virtual private networks (VPNs) and cybersecurity. You probably don't use a VPN on your PC or tablet today, but many of us will because it provides an encrypted server and hides your IP address from spammers, hackers and prying eyes. In short, it keeps your data far safer than conventional security packages. Seven million customers already use Kape, while the market for computer privacy is huge and expanding fast; we're all fed up with torrents of spam and hackers.

Customer retention is high at 82% and in the half year to September the adjusted cash profit nearly trebled to $89m, while the free cash-flow yield was 12.6%. Kape has grown both organically and via acquisitions, but so strong is its growth that at the interim stage debt fell by over a fifth to $392m and should continue to tumble. The forward price/earnings (p/e) ratio for 2023 is below eight.

Stephen Connolly

It's next to impossible to time stockmarket investment over the short term. Anything can happen and you're either lucky or you're not. So rather than trying to be clever, I've simply put a bit of cash into a few diverse funds for the long term every fortnight this year regardless of market ups and downs.

One that's done well is the US-listed conglomerate **Berkshire Hathaway "B" shares (NYSE: BRK.B)** led by legendary investor Warren Buffett. It's ending 2022 in positive territory, up 3%, trouncing the S&P 500 index's -16.7% fall. This outperformance from its undervalued investments across diverse sectors such as energy, technology, transport and financial services in companies such as Coca-Cola, American Express and Apple shows once again that Buffett knows his business.

Such skill is rare – only one in four fund managers beat index trackers this year, according to broker AJ Bell. Nearly two-thirds of them failed over a decade as well, a period when markets were relatively benign.

"A virtual private network (VPN) keeps your data far safer than conventional security packages"

©Alamy

It's going to be a long, cold bear market

Given that most professionals can't consistently pick winning stocks and beat markets in good times or bad, stick with the proven winners, such as Buffett. From 1965 to 2021, he returned 20.1% a year, almost twice the US market overall, according to Barron's magazine.

The new year will not, unfortunately, herald a fresh start and 2023 will remain difficult. So I'm going to keep quietly dripping my money into Berkshire. It's sometimes dismissed as boring or too conservative, but these are qualities I can't get enough of at present.

Furthermore, it's got $100bn of cash to put to work when the time is right. Buffett's anointed successor and close colleague Greg Abel bought himself $68m of stock in September, and many could do a lot worse than follow his lead.

Dominic Frisby

It's hard to think of a time in the history of **bitcoin** when sentiment was lower. With the raging bull market morphing into a raging bear market, sentiment was already bad. Then the Sam Bankman-Fried FTX scam, or collapse – whatever word you want to use – unravelled and morale sank to new depths. There is not a bull out there. Apart from me.

Investors who don't hold bitcoin are all gloating to an extent I've never seen before. They are convinced bitcoin is dead. It is not. Bitcoin is still at $17,000. It has a $330bn market cap. The mining hashrate hit all-time highs this autumn, meaning the network is more robust than it has ever been. The technology is stronger than ever. Usage is exploding in East Asia. It's exploding in Africa, especially in Nigeria. It is exploding anywhere there is a currency crisis: Turkey, Venezuela, Argentina.

The member nations of the Shanghai Cooperation Organisation (China, India, Russia *et al*) are desperately seeking a non-dollar alternative money to trade in. The issue is who will be the trusted third party in a world where trust is thin. We need "a blockchain-based system of international settlements that … will not depend on banks or interference by third countries", said Vladimir Putin last week. If only there were an international, independent settlements system that eliminated the need for trusted third parties.

Elon Musk is talking about introducing a payments network into Twitter. Given what happened to Facebook's Libra, do you think he'll attempt to issue his own currency, or use one that already exists (and is pretty much already built in anyway)? There are so many reasons to be bullish about bitcoin. Sentiment could not be worse. It will not always be this way. My prediction for 2023: bitcoin will have a good year.

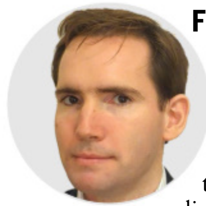
Cris Sholto Heaton

Energy is going to be a critical theme over the next few years. Russia's invasion of Ukraine has wrecked a lot of geopolitical assumptions. Efforts to reduce carbon emissions while also improving energy security will drive investment in alternative sources. But at the same time, the lack of investment in new oil and gas production in recent years – partly due to environmental, social and governance (ESG) qualms, partly due to low prices – means that conventional fossil-fuel supply will remain tight whenever growth picks up. Recent weakness in oil should be seen in the context of a cyclical slowdown or recession, not yet a structural change in demand.

There are many interesting opportunities in this sector, but I'll highlight one that may not be familiar. **Woodside Energy (LSE: WDS)** merged with BHP's oil and gas interests when the latter restructured last year, and added a secondary London listing to its main listing in Sydney. Existing BHP investors will have ended up with shares, but beyond that the company hasn't had as much UK coverage as I'd expect given that it's a £37bn group that offers something distinct from BP and Shell, or from smaller oil and gas stocks.

Woodside is really a play on liquefied natural gas (LNG), which is an increasingly important source of supply, especially in Asia. Slightly under 50% of its portfolio is in LNG and about a quarter in piped gas. Annual production is forecast to rise by more than 20% by 2027 after its Scarborough LNG project off the coast of Western Australia starts up in 2026. At Monday's price of 1,960p, the stock trades on 6.5 times estimated 2022 earnings and a forecast dividend yield of around 10%. Investors are getting paid well to wait for growth.

My tip last year was Jardine Cycle & Carriage, which controls a motor dealership in Indonesia among other Southeast Asian businesses. It's up by 35% (having gained 75% at one point). Profits and dividends are recovering well and it's still cheap. I expect the region to come back into favour and I continue to hold.



Frédéric Guirinec

This year saw sectors that benefited from Covid-19 normalise, while speculation has abated as the cost of debt rises. Valuations in online retailing have come down to a reasonable level and cost discipline is the new motto. There are opportunities emerging here, such as e-commerce portal Allegro in Poland, or video-game firms such as Ubisoft or CD Projekt. The downward trend in their shares endures, but they own strong brands.

All those pets bought a couple of years ago continue to increase demand in the animal-care market. Retailer Pets at Home has seen its shares fall 40%. In France, animal-health group Virbac generates attractive earnings before interest, tax, depreciation and amortisation (Ebitda) margins of 20%.

However, the key theme in 2023 will be stagflation in Europe. Inflation will remain sticky while central banks, especially the European Central Bank, cannot increase interest rates much without creating havoc. Inflation is forecast to fall rapidly, but it may bounce back as it did in the 1970s. In parts of western Europe, high electricity costs are forcing factories to close. I expect this trend to worsen in 2023. But when you filter companies by valuation, profitability and leverage, the mining sector, food producers and some industrial niches truly show attractive metrics.

Continued on page 28

"Recent weakness in the oil market should be seen as cyclical, not structural"

Continued from page 27

I will focus on food here. While agricultural commodities prices have now fallen back, they allowed food-processing companies to increase prices and margins. Companies such as General Mills, Nestlé or Mondelez are fully valued, but I would consider **Premier Food (LSE: PFD)** or Norwegian conglomerate **Orkla (Oslo: ORK)**, which could be broken up. In addition, palm-oil producers are out of institutional investors' reach for sustainability reasons, but companies in the food sector are looking to reduce costs and will keep using cheap ingredients. This will favour the likes of **MP Evans (LSE: MPE)** or **Sipef (Brussels: SIP)**.

David C. Stevenson

Compass Pathways (Nasdaq: CMPS) is a US-listed, UK-based life-sciences stock with a difference. Along with Atai (another US-listed stock), it is the leader in clinical research into psilocybin (or magic mushrooms to the rest of us) for psychiatric disorders. Compass has been around for a few years and builds on pioneering research coming out of universities, notably Imperial College London's highly rated research laboratory dedicated to this area.

Throughout the 1940s and 1950s many psychedelic drugs, including psilocybin were a mainstay of medical research in treating long-term mental health issues such as clinical depression and PTSD. Then the sixties come along, and everyone let their hair down and took drugs, psilocybin among them (as well as another valuable treatment, LSD).

The subsequent war on drugs killed off this research for decades, but it's now roaring back, with a series of clinical and research studies showing its effectiveness. Put simply, the existing cocktail of drugs for treating mental-health illnesses shows limited effectiveness and high levels of dependency.

Psychedelics cause almost no dependency and are proving highly reliable in early stage trials. There are some difficulties, notably the setting in which the drugs need to be taken (preferably with a trained counsellor) and the current trials will hopefully rectify these. But if they work, there is huge demand from health-system buyers for new, effective treatments and Compass is at the cutting edge, with trials at various stages.

It also has enough cash on the balance sheet to get it through the crucial next two years, which in my view will prove decisive for this promising area of research. If the trials succeed, big pharma will come knocking. I own shares and have been adding to my holdings over the last few months.

"Compass Pathways is leading research into psilocybin, or magic mushrooms, to treat psychiatric disorders"

David J. Stevenson

Cheap stock, cheap sector, recovery play… those were the criteria for my 2023 stock pick. In **Mandalay Resources (Toronto: MND)**, I believe I've met them all.

Mandalay is a Canada-based miner with producing assets in Australia (the Costerfield gold-antimony mine) and Sweden (the Björkdal gold mine).

The stock has been a dire performer over the last decade, plunging by more than 85%. While the price surged by 200% between January 2020 and April 2022 on the back of gold's recovery, it has since tumbled in excess of 40% as bullion has weakened.

As a result, Mandalay is now very cheap. Average analysts' forecasts compiled by MarketWatch put the shares on a prospective 2023 price/earnings (p/e) ratio of just 3.5. The market value in US dollars is $143m, while net assets total $173m. What's more, these aren't intangibles resulting from an overpriced acquisition, but real physical assets such as property, plant and equipment.

The balance sheet has more cash than debt. Clearly, the key to Mandalay's fortunes is the US dollar value of gold. With inflation soaring higher than most economists expected, this has been a disappointment: bullion is supposed to benefit from rising consumer prices. Yet US Federal Reserve rate rises and the strong dollar have scuppered yellow metal fans' hopes.

So far, that is. But as a nasty recession looms, the Fed may soon be forced to pivot. Renewed rate cuts are on the agenda, even if inflation doesn't drop as far as hoped. And with the world's debt mire getting ever deeper, central bankers are – ultimately – likely to print even more money. That would be great for gold – and Mandalay. Granted, this is a relatively high-risk recovery play. It may keep performing poorly for now. Long-term, though, I believe it will make multifold profits for investors.

Mike Tubbs

Last year I recommended the high-tech company Solid State at 1,000p with a forward yield of 1.9%. Solid State's recent price is 1,435p, giving a 43.5% gain or a 44.2% outperformance compared with the FTSE All-Share, which is down 0.7% since December 2021. This year the economic outlook is much less rosy so I am playing it safe after noting that company insolvencies in England and Wales were up by 38% year on year to 1,948 for October 2022.

These figures were up slightly more in November with 2,029 company insolvencies and 10,465 personal insolvencies. With Christmas a critical period for many businesses and both energy and materials prices rising, there may be further increases in the new year.

I am therefore recommending **Begbies Traynor (LSE: BEG)**, which handles the UK's largest number of corporate insolvencies, together with personal insolvencies, corporate finance, company valuations, sales of company assets and property consultancy.

Begbies had a 2021-2022 turnover of £110m and is worth £217m. The group's first-half results for 2022-2023, released last week, showed a 12% rise in revenue from the previous year to £58.5m and a 13% rise in pre-tax profits. The recent price is 140p, with analysts' one-year price target 26% above this at 176p.

The forward dividend yield is a healthy 2.6%. The dividend has been increased every year from 2.2p in 2017 to 3.5p in 2021-2022 and the share price has quintupled since May 2012. Chairman Ric Traynor's first-half statement said that he expects continued growth and is confident about delivering on full-year market expectations. Ric Traynor holds 17.63% of the shares, so investors can be confident that his personal interests are closely aligned with those of his shareholders.

James McKeigue

Feel like you had a tough year? Spare a thought for shareholders in Brazil's national oil company, **Petrobras (NYSE: PBR)**. The firm is on target to post record profits and pay its highest-ever dividend in 2022, yet its share price is down 19% since the start of the year. The last few months have been particularly brutal, with the stock falling by 43%

©Petrobras ©Alamy

Shares in Petrobras, Brazil's state oil company, should recover once investors realise they've overreacted to president Lula's election

since 21 October. That has left the profitable, well-managed oil producer looking ridiculously cheap. It trades on a p/e of 1.7, compared with peers such as Shell that trade on a p/e of 4.8. Petrobras is also generous with its cash, currently offering a 2022 gross dividend yield of 27%, according to Bloomberg, although this is likely to change depending on profits.

The reason for the bargain discount is that left-wing president-elect, Luiz Inácio Lula da Silva, assumes power in January. In his last spell in office, Petrobras was embroiled in one of the world's largest-ever corporate corruption scandals. Investors are worried about what he will do this time around. Local and international scrutiny means another corrupt scheme on that scale is unlikely.

I'm sure he will change management and pressure the new bosses to make decisions that aren't always in the best interests of shareholders. But that also happened under the previous administration of president Jair Bolsonaro.

It is impossible to predict the future, but dividend payments are likely to fall, while Lula will encourage the company to invest in green energy schemes that are less profitable than its current focus on oil and gas. But even if that were to happen it would just bring Petrobras in line with other oil companies, such as BP, which already spend heavily on alternative energy and pay lower dividends.

Petrobras has huge amounts – around ten billion barrels of reserves – of oil. Moreover, measured by the crucial environmental metric (kilogram of C02 emitted per barrel produced) its crude is cleaner than that of similarly large oil regions in the Americas, such as Mexico or Canada. In time investors will realise that they overreacted to Lula's election victory and Petrobras's share price will recover.

Andrew Van Sickle

The price of silver, having drifted downwards for most of the year, has suddenly come alive, jumping by 25% since early November to $23 an ounce. There should be plenty more gains ahead. The surge was due to a report from The Silver Institute, the industry's lobbyist, that demand was likely to rise by 16% in 2022 to a new record of 1.21 billion, while supply will climb by just 2% to 1.07 billion ounces.

This highlights the long-term likely increase in consumption of the white metal by industry, which comprises around half of overall demand. Solar panels, electric vehicles and 5G mobile technology are three key growth areas requiring silver. Batteries for electric vehicles need up to twice as much silver as their counterparts designed for internal combustion engines, while one estimate foresees an 85% increase in annual silver consumption by the solar industry in a decade. Silver is known for its antibacterial properties too.

Moreover, silver is a monetary metal, sometimes referred to as gold on steroids: it tends to mimic and amplify gold's movements. So if the stagflation we have been warning you about for months now sets in, or the world's record debt piles and a downturn force central banks to pause or reverse their interest-rate hikes, a hedge against inflation and instability could prove very lucrative. The gold-silver ratio (gauging how many ounces of silver it takes to buy an ounce of gold) also presages further upside. It is currently at 78, while the long-term average is around 50 or 60. You can track the spot price with the **WisdomTree Physical Silver ETF (LSE: PHSP)**. Just remember that it can be gold on steroids to the downside too.

"Solar panels, electric vehicles and 5G mobile technology are three growth areas requiring silver"

Ten years with six top trusts

A decade ago MoneyWeek set up a portfolio of our own. It proved a success, says Merryn Somerset Webb

Ten years ago we thought we would put some of our money where our mouths were. We have long been fans of investment trusts (see past articles on the subject at moneyweek.com for why). So with help from a small group of specialists we set up a portfolio of six good ones. You can see the historical holdings on the website. But the six today are **Scottish Mortgage Investment Trust** (**LSE: SMT**), **Personal Assets Trust** (**LSE: PNL**), **Mid Wynd International Investment Trust** (**LSE: MWY**), **Caledonia Investments** (**LSE: CLDN**), **RIT Capital Partners** (**LSE: RCP**) and **Law Debenture** (**LSE: LWDB**).

So how has it gone? As with all things to do with investment, it rather depends what you measure. Over one year the six together are down roughly 11%, much the same as the FTSE World Index. Over five years they are up by 43%. They have slightly underperformed the world over five years – but have, as you might imagine, massively outperformed the FTSE 100 and 250.

However, this hardly tells the whole story. That's partly because Mid Wynd is a new entrant, but also because this is supposed to be an equal-weight portfolio so we have said over and over again that you must constantly rebalance it. The spreadsheets of managing all this are out of control (I have given up). But if you have done that your performance will be fabulous over most time frames. If, on the other hand, you did not recycle profits into the more defensive names and you went into the collapse of the great growth bubble over the last year hugely overweight Scottish Mortgage, you will have had a horrible year (although not necessarily a horrible five years).

There are also dividends to take into account. Over five years, the Law Debenture share price is up by 25%. Add in reinvested dividends and your return is well over 50%. Finally, a reminder that we are looking at share prices, not net asset values (NAV) – on the basis that this is the price at which you sell. But the managers might point out that with many investment trusts trading at unusually large discounts to NAV this year, ignoring that isn't entirely fair.

Hang on to Scottish Mortgage

So what next? Firstly, Scottish Mortgage. James Anderson has recently retired. It started to perform horribly at the end of his term and has continued to do so ever since (down 43% in the past year). The trust was (and is) jammed with overpriced growth stocks. It was late to recognise that the changing environment in China was a real problem for some of its major tech holdings and there is also some worry over the private assets.

A year ago they made up 20% of the portfolio. Today that's more like 30% (on paper at least). Tom Slater, the current co-manager, assures me that the valuations are valid: the holdings are constantly revalued in line with listed assets (ie, downwards).

The political backdrop in China has hampered Scottish Mortgage

©Getty Images

There is risk here, of course. But this is still one to keep. It is still huge (£11.4bn), it still offers you private-equity exposure (should you want it) at a much lower price than most other places, and it is still sticking to its (hopefully only temporarily unravelling) knitting. The key point, says Slater, is that everything in the portfolio is currently mispriced. Most are too expensive (they will fail). But a few – the crucial few – are far too cheap relative to the extraordinary futures they have ahead of them. You don't want to be without exposure to all this over the long term. For more on all this listen to my final interview with James on the MoneyWeek podcast and my recent one with Tom on my Bloomberg Merryn Talks Money podcast (both available via any podcast provider).

Next, Personal Assets. There is little to say about this, except that it is doing exactly what it promised us it would – protecting our capital. Hang on to it. The same goes for Law Debenture. It promises value and yield and that is exactly what you have got. It yields 4% and is jammed with value names. It's even up by 2% over the past year and is the best-performing income trust in the UK over three and five years.

Next, one that is not doing quite what it says on the tin, RIT. Long-term performance is excellent, and on an NAV basis things look okay. However, the shares are down 20% over the past year, something that Investec's Alan Brierley says reflects the idea that it is no longer the diversified low-risk portfolio it once was. Instead the huge exposure to private equity (45% of the assets) represents a "material increase in the risk profile", particularly given that 4% of the trust is now in "blockchain/crytpo". Not one to buy any more of at present! Caledonia also has significant non-listed holdings (around 30%) but is performing fine: up 42% over five years and 7% in the past year.

The trust is a well-established dividend hero (the payout has gone up for 55 years in a row) and is, I think, a long-term hold. Finally, Mid Wynd. I am ambivalent on this one. When we put it in the portfolio I fretted about its big tech. I still do. It is up a little since we bought it (no small feat) but I'd call it more of a hold than a buy. I won't be updating this portfolio again now that I have left. Overall, however, I have been pretty happy with the results of our decade-long experiment. It's been diversified, low-cost, interesting and pretty lucrative. Let's hope it stays that way.

"Law Debenture promises value and yield, and that is exactly what it delivers"

Don't rule out an early election

Political turbulence should diminish – slightly – in 2023, says Helen Thomas

©Getty Images

Labour's shadow chancellor Rachel Reeves and leader Keir Starmer need two more years

After a year that saw three prime ministers and four chancellors, it's safe to suggest the UK will face calmer political seas ahead. But escaping dangerous white water rapids doesn't necessarily lead to plain sailing. We are in an election campaign between two leaders who don't quite capture the soul of their parties, let alone the heart of the country. They might not face the electorate until 2024 but both Rishi Sunak and Keir Starmer will want to ensure they are in pole position when we go to the polls again.

Both face an uphill battle since both struggle to gain positive net approval ratings. Still, at least Sunak has stemmed the bleeding. The Conservative Party might be regicidal but it's not suicidal. Once Boris Johnson turned from electoral asset to liability, losing three key by-elections and taking their polling numbers from above 40% to 30%, he had to go. Ditto for Liz Truss once she took them down to 20%. Sunak has managed to get the Conservatives back to the 30% level. The latest survey from DeltaPoll puts them on 32%, against 45% for Labour.

This shores up Sunak's position with his own party, for now. He still faces internal opposition from those who preferred Truss, Penny Mordaunt and even Johnson, with many of those MPs feeling bruised by the manner in which their preferred candidate failed to win. Sunak might have gained public endorsement from half of his MPs, but what about the other half?

He has already had to climb down over two key government policies following potential rebellions, with Theresa Villiers gaining 60 signatories to her amendment against plans for housing and Simon Clarke finding over 30 MPs backing his amendment to remove a ban on new onshore wind farms. Meanwhile 15 Conservative MPs have already decided they won't fight the next election. Sunak won't be able to use the power of patronage on those retiring.

A gloomy economic environment

All of this will complicate Sunak's navigation of choppy economic waters. Inflation might have peaked but it will remain higher than it was before the pandemic. Vladimir Putin is unlikely to go gentle into that good night while China is only just coming to terms with Covid-19. The leaders of Germany, France and Italy all face difficult coalition-building to pass domestic policy, and will have little time to consider the global position of the EU, while the US is already considering which pensioner could end up as president in 2024.

What, then, can Starmer offer us? The Labour Party has amassed a solid poll lead through the Tories' unforced errors, but now it must string together a few passes to put the electoral ball in the back of the net. The shadow chancellor, Rachel Reeves, is focused on gaining the mantle of economic sanity after the Kwasi Kwarteng-inspired gilt market implosion.

In response to Jeremy Hunt's Autumn Statement she ruthlessly taunted: "Never again can the Conservatives claim to be the party of economic competence." The polling suggests she has a point, with the November update by Ipsos Mori showing that Labour were more trusted than the Conservatives on the economy. Much could change by January 2025, which is the latest date by which the next election must take place. The Conservatives will be hoping for an economic improvement by then. But Labour will argue the damage has been done: 90% of voters who don't trust the Tories to improve the economy say it is unlikely that the party will convince them otherwise before the next election.

"Tighter monetary and tighter fiscal policy are not happy electoral bedfellows"

The Labour Party will therefore stick to the line that they will be prudent with the nation's finances. As a result, Starmer didn't shy away from describing the 19% pay demand (5% above the RPIX gauge of inflation) from NHS nurses as "unaffordable". It's a topsy-turvy world when it was a Conservative chancellor who paid people's salaries while they couldn't work and handed out cash to help with energy bills.

This is where the Bank of England becomes the silent political player. Under quantitative easing, huge government debts are affordable. Now that the central bank has flipped to quantitative tightening, borrowing to finance growth becomes far more difficult, creating a volatile political environment, as Kwarteng and Truss found out to their cost.

Tighter monetary policy and tighter fiscal policy are not happy electoral bedfellows. What's more, the government faces an electorate reeling from a pandemic and a war, as well as now grappling with rising prices even as growth is slowing. If the Conservatives hadn't undergone an internal revolution, there is every chance the public would have undertaken one of their own.

In such a febrile political atmosphere, UK political risk remains elevated. Sunak faces a Sisyphean task to reunite his party while his opponents circle, both from within his own ranks and outside. The Tories might not want a general election given their polling, but any more wobbles and the public will demand one. Imposing two leaders without improving life will become untenable.

Labour, meanwhile, is delighted by its poll lead. But the party knows it's not enough that voters are against the Conservatives: they must actively want to elect Labour. Many Labour MPs remember 1992 and 2015, when their lead evaporated in the actual vote. They hope that two more years will give them the chance to make their case while giving the Tories even more time to make unforced errors. But politics rarely follows a predictable timeline, particularly when the public are in a mutinous mood. Starmer will struggle to ensure his party is ready to leap into action. Do not rule out an early election with an inconclusive result.

Helen Thomas is the founder and CEO of Blonde Money, a macroeconomic consultancy (blondemoney.co.uk).

Small stocks should shine in 2023

The FTSE 100 outstripped the rest of the market this year, but small-cap trusts offer better value

Max King
Investment columnist

Balfour Beatty is a major holding for Henderson Smaller Companies

©Getty Images

The FTSE 100 index, though a dismal performer this millennium, is actually up nearly 3% this year. When a 4.5% dividend yield is added in, the total return is a respectable 7%. For mid- and small-cap companies, though, it has been a different story.

The FTSE 250 mid-cap index is down 18% and the FTSE SmallCap index down 17%, with a dividend yield similar to the FTSE 100 only reducing the losses by a quarter. Yet the FTSE 250 index, launched in October 1992 at an index level very close to the FTSE 100, is numerically now 2.5 times as high. This represents an annualised capital return of 7%, nearly twice that of the FTSE 100. The Numis Smaller Companies index (NSCI), representing the bottom 10% of the market and with data going back to the mid 1950s, shows annualised out-performance of 3.4%.

Only twice before have small and mid-caps underperformed more. In 1975, the FTSE All-Share index returned 150% and the NSCI "only" 115%, while in 1989 the NSCI returned 11% against 36% for the FTSE 100. In absolute terms, the NSCI is heading for the sixth worst performance since 1955.

This year's poor performance can be partially explained by two factors. As the long-term outperformance indicates, small and mid caps are more growth orientated than large caps and they are also more exposed to the UK economy. Overseas sales account for roughly 75% of FTSE 100 revenues but only 50% of the FTSE 250, so weaker sterling is less of a help. On a prospective multiple of nine times 2023 earnings and yielding 4.5%, the FTSE 100 looks cheap but the FTSE 250 and FT SmallCap, on multiples of 10.5 and below 9 respectively and yielding 4.1% and 4.5%, look cheaper given their higher orientation to growth.

Too cheap to ignore

"UK small-cap valuations are too good to ignore," says Neil Hermon, who has managed the £700m **Henderson Smaller Companies Investment Trust (LSE: HSL)** for the past 20 years. "This year has not been about the stocks, it's been about the macro-economic and geo-political events, while rising interest rates have caused growth to underperform value. Small and mid caps have been in the eye of the storm as investors have fled to more liquid shares but their underperformance is very often a precursor to a very strong bounce-back.

"We have avoided high leverage; 55% of the portfolio has net cash and only 5% of it has significant debt… There is very little financial distress in the corporate sector; from a balance-sheet perspective, we are very comfortable with the stocks we own.

"The profit performance of the companies in our portfolio has been very resilient, with 20% earnings growth in 2022 and 14% forecast for 2023. We will see downgrades in 2023 so it will be lower than that but most companies have weathered the storm of rising costs and higher inflation pretty well.

"At the moment, markets are in a downward spiral of sentiment and confidence and valuations don't seem to matter but, at some point, there will be a lot of upside. With many companies trading well below intrinsic value, there is a significant opportunity for a bounce-back. Also, we are seeing signs of good dividend growth, of directors buying their shares, of buybacks and of corporate activity, all indicating that companies think that share prices are too cheap."

HSL's discount to net asset value (NAV) has fallen back below 10%, as has the discount of other good quality small- and mid-cap trusts. Large-cap investors may find the going sluggish in 2023 but it could be a vintage year lower down the size scale.

Activist watch

Retailer Topps Tiles is being targeted by MS Galleon, a Vienna-based investor that has built a stake just short of the 30% threshold that would force it to make a takeover bid, says Investors' Chronicle. MS Galleon wants Topps to sack its chair, put two of the activist's nominees on the board and buy more from Cersanit, a Polish supplier that MS Galleon owns. Topps buys 0.5% of its stock from Cersanit, but MS Galleon says that the proportion should be around the same as its stake. Topps argues that the proposals "present a clear conflict of interest", which seems true; that said, the activist also has a point. "All has not been well at Topps for some years" and the share have lost 60% of their value during the current chair's seven-year stint.

Short positions... battling the fundraising freeze

■ **"Trust fundraising has fallen off a cliff" but two new trusts are trying to come to market in "a fresh test of the frosty investor sentiment that has killed every mooted initial public offering (IPO) in the sector so far this year", says Investors' Chronicle. Conviction Life Sciences aims to raise £100m to invest in life-sciences companies in the UK, Europe and Australia, which manager Andrew Craig views as "structurally undervalued" in this biotech bear market (see also MoneyWeek issue 1132). It was scheduled to close fundraising on 13 December but has pushed back the deadline to 31 January 2023 "as investors hibernate for the Christmas period", says CityAM. Meanwhile, the AT85 Global Mid-Market Infrastructure Income wants to raise £300m to invest in transport and logistics, utilities and digital infrastructure, with a focus on both growth and income. The trust has an initial pipeline of £539.8m in assets. It has not yet announced a fundraising timetable.**

■ "The metaverse has become the hottest concept ever in the history of exchange traded funds [ETFs]", says the Financial Times. At least 35 metaverse ETFs have launched globally since June 2021 despite "an embarrassing lack of traction for many early offerings in the metaverse". Even Meta Platforms – the renamed holding company for Facebook, which has been the highest-profile cheerleader for virtual reality and augmented reality – has started to lay off workers. Net flows into metaverse ETFs totalled $2.6bn between October 2021 and February 2022, according to data from Morningstar, but have since turned negative, with $111m being withdrawn. The slump in tech stocks has contributed to a larger drop in assets in these ETFs, which have fallen from a peak of $2.3bn in March to $1.3bn.

14 Eaton Square, Belgravia – a project financed by CapitalRise

Prime Central London: a resilient investment

London is a magnetic and magnificent metropolis. The Prime Central London (PCL) market attracts investors from across the globe looking for coveted real estate in one of the most exciting cities in the world. The best in every category – including location, finish, and desirability – prime London property is the crown jewel of the UK's housing stock.

With a myriad of benefits attracting buyers to the PCL market, such as London's unrivalled cultural appeal or its continuing position as a global financial superpower, it's no surprise that prime properties have seen house price growth in recent years despite the political and economic turbulence. Indeed, according to Savills' July report, annual growth for prime prices totalled 3.3%, the strongest level seen since September 2014. Pockets within PCL have performed even better – prices for prime pads in Notting Hill, for example, shot up by 10% from March 2020 to the end of June 2022.

The ebbs and flows of the PCL market

While PCL is undeniably esteemed for its prestige, it is the sector's resilience that proves increasingly valuable to investors, especially in the current climate. According to the latest Savills research, following every economic downturn over the last 50 years, PCL prices have significantly and consistently bounced back faster than the wider London or UK property markets. The data from Savills also highlights this during more recent downturns, with transactions rocketing by 48% between H1 2019 and H1 2022. In contrast, property transactions in the UK as a whole grew by just 9% in the same period.

The financial resilience of those operating in the PCL market is of course a huge asset. Players in this space can more readily withstand financial shocks. Recently, this was seen in the aftermath of the UK's first lockdown during the Covid-19 pandemic. While the lockdown of March 2020 hit all subsections of the property market, PCL surpassed its March transaction volumes in just four months (+6%).

Uma Rajah, CEO and co-founder of CapitalRise, the prime property lender, explains: "When we launched our investment platform for Prime Central London, the market was in decline. But our deep expertise in this specialist area means we understand the market well and appreciate its resilience in uncertain times, allowing us to continue to offer investment opportunities. In addition, our responsible approach to projects means we see the current market as a time of great opportunity for us and our investors."

The CapitalRise story

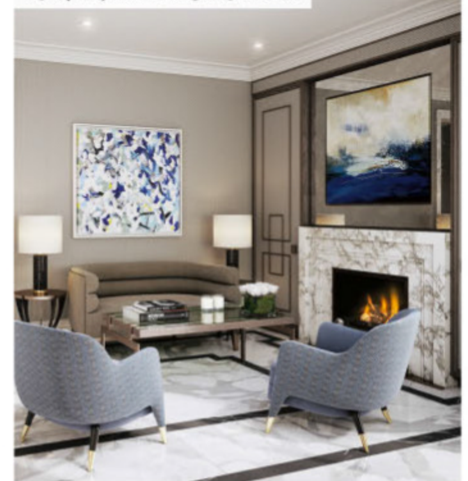
CapitalRise is a specialist prime property finance company and the only dedicated finance provider for such developments in London and the Home Counties. It offers investment opportunities in real estate across prime London locations including Mayfair, Notting Hill, Belgravia, Chelsea, and Knightsbridge, as well as Outer London and the Home Counties.

CapitalRise was set up with a clear mission: to disrupt the old way of investing and give investors direct access to these prime property-backed investing opportunities, with tax-free returns available through their Innovate Finance ISA. With a team of in-house experts with over 100 years' combined experience and a stringent due diligence process, CapitalRise offers its members the opportunity to view and invest in a range of property developments in the PCL market.

Since its launch in 2016, CapitalRise has originated loans secured against nearly £700m of prime property assets, funded by its network of individual and institutional investors. Despite the current market upheaval, its investment platform saw a record month in November this year, with the value of new funds invested increasing by 30% on the previous 2022 monthly average. Innovative Finance ISA 'transfer in' volumes also tripled during the same period.

Uma Rajah, CEO and co-founder of CapitalRise continues: "To demonstrate its confidence in every project that it commissions, CapitalRise's founders personally invest their own capital into all projects on its platform. By choosing investment opportunities prudently and working with high-quality borrowers on great schemes in desirable areas, we have grown the business considerably and repaid over £110 million to our investors with zero investment defaults or losses."

Find out more at **capitalrise.com**

Yeoman's Row, Knightsbridge – a project financed by CapitalRise


Brought to you by

Gifts that keep on giving

Help your child acquire the saving habit this Christmas

Kalpana Fitzpatrick
Senior digital editor

They'll cheer up when they grow up

Are you running out of ideas on what to give your children this Christmas? Swap Lego for stocks, fluffy unicorns for junior Isas and the squishmallow for a pension – they will thank you for it one day.

Lego's Harry Potter Hogwarts Castle set will cost around £410 this year. While it may give your child or grandchild hours or even days of fun, investing that amount each year could give a child a portfolio worth £11,000 by their 18th birthday, assuming you started from birth and achieved 4% annual growth, according to calculations from investment platform AJ Bell. An £80 gift could see your child accumulate a sum of £2,133 by the age of 18 if the money is invested instead. A £95 present would result in savings of more than £2,500 by the age of 18.

"If you feel like too much of a Scrooge ditching presents altogether, you could just cut back how much you gift and invest the difference," says Laura Suter, head of personal finance at AJ Bell. "Even if you make a £100 contribution to your kid's Junior Isa for their first five years, and then switch to getting them a present, they would have a pot worth £940 when they're 18."

Put away up to £9,000 a year

Junior Isas allow you to put away £9,000 for your child every tax year. Anyone can contribute to them, although they are controlled by a parent or guardian. The money will belong to the child when they turn 18. One fund worth considering for your child's Junior Isa, according to AJ Bell, is Fidelity Index World, a low-cost fund that tracks the global stockmarket and costs just 0.12% a year. A safer option is the Personal Assets Trust, one of the six investment trusts in the MoneyWeek portfolio (see page 30). This investment trust attempts to protect and grow investors' capital (in that order). Today its managers own a lot of gold and inflation-linked bonds, as well as equities. It comes with a fee of 0.67%.

Abrdn Global Smaller Companies may also be worth researching for those comfortable with more risk. The fund invests in smaller companies around the world, so it is very volatile. However, smaller companies tend to outperform over the long term (see also page 32). It has a fee of 0.85%

Start a pension now

Pensions are also a tax-efficient way to save for children. You can start to save for a child's retirement fund early with a Junior Sipp (self-invested personal pension) from birth. Each year you can pay in up to £2,880 and the government adds up to £720 (20% tax relief) on top.

Parents and grandparents can pay into a Junior Sipp. According to Hargreaves Lansdown, if you pay in £150 (including basic-rate tax relief) a month from birth and you achieve an annual return of 5%, the fund will be worth almost £47,000 by the time your child is 18. If your child decides not to add to it when they are 18, the pension could still be worth more than £290,000 when they are 65.

NS&I Premium Bonds are also a popular choice when giving financial gifts, and will give your kids a chance to win a £1m jackpot every draw month. You can buy Premium Bonds from £25 for anyone, but the parent or legal guardian will have control of the bonds until the children are 16. Premium Bonds do not earn interest, but checking for a prize each month could encourage them to save. If you would prefer to give your children some cash, then rather than just slipping it into an envelope, you could buy them a pre-paid card and top up their pocket money through the app that comes with it in future.

GoHenry, for example is aimed at children aged six to 18. The prepaid card works like a debit card, but you can see how they spend their money and it's easy to top up. A prepaid card will help them learn about how money works.

The cards can be personalised with their name and favourite images, ranging from unicorns to football players. The card will cost you £2.99 a month, but it's free for the first month. Other prepaid cards to consider are NatWest's RoosterMoney (£24.99 a year) and Nimbl (£2.49 a month), which work in a similar way.

Pocket money... counting the cost of Christmas dinner

- The Institute of Fiscal Studies has recommended that pensions should be included in your estate for inheritance tax (IHT) purposes, "stripping families of one of the few vehicles allowing them to pass on more to their children and grandchildren after death, says Charlotte Gifford in The Telegraph. The think tank also wants the government to charge income tax on inherited pensions, regardless of the age when you die.

  At present income tax is only levied if the original pension-holder was aged 75 or older. The proposals would mean that a basic-rate taxpayer inheriting a £100,000 pension pot from someone who had already used up their IHT allowances would pay £60,000.

- Annuities are "back in fashion" after rates have soared by 44% in just 12 months, says Lily Russell-Jones in The Times.

  The insurance product, which provides a regular, fixed income to pensioners in return for a lump sum, now offers higher rates thanks to rising gilt yields. That's because insurance companies invest in gilts to provide the returns to pay annuities. In mid-January a 65-year-old could buy an annuity worth £4,871 a year for £100,000. Now that same person would get an annual income of over £7,013. Between July and October, the Association of British Insurers reported a 16% rise in annuity sales compared with the three months before.

- The price of preparing and cooking the average Christmas dinner has risen by 13% this year, taking the amount to more than £30 for the first time, says Genevieve Holl-Allen in The Telegraph. Throw in pricier crackers and candles and "the Yuletide spread will cost a family of four just under £59".The cost of buying and cooking a frozen turkey has risen 15% to £16.70.

- National Savings & investments will raise the prize rate on Premium Bonds from 2.2% to 3% on 1 January, says Jeff Prestridge in The Mail on Sunday, meaning an extra £80m of prizes will be handed out each month. If you hold Premium Bonds and are averagely lucky you should win enough each year to amount to a 3% return.

©Getty Images

Review your pension plans in 2023

Making some simple administrative tweaks now could pay dividends for years to come

David Prosser
Business columnist

Add a review of your pension plans to the New Year to-do list. Making some tweaks now could pay dividends for years to come. Here are ten relatively quick wins to consider.

Firstly, make better use of your annual contribution allowance. Most people are entitled to contribute up to £40,000 – or the value of your annual income – to a tax-efficient private pension each year. If you're only paying in through a work scheme, you may not be getting anywhere near that sum. Consider opening an individual arrangement to make additional savings. And if you already have one of those, look at topping up your contributions. You can also use the carry-forward rules to use up unused allowances from the past three years.

Get the best pensions deal from your employer. If you're paying into a workplace scheme, check that you are getting as big a contribution as possible from your employer. Most will match the contributions you make, up to a point, so increasing your own savings could net free cash from your employer. You could also ask whether your employer is prepared to pay into your private pension plan – a self-invested personal pension (Sipp), for example – if you want more control over your money.

Reconsider your appetite for risk. Research consistently suggests pension savers are too cautious, missing out on the potential for higher long-term returns because they worry about short-term volatility. Many savers choose default funds in work schemes that offer low-to-medium risk profiles, or take a similar approach in individual arrangements.

If you're some way off retirement – a decade or more, say – you can afford to be more aggressive, with the aim of securing more capital growth. And even if you're getting closer to retirement, don't be too risk-averse: if you'll be using a drawdown arrangement, you won't be cashing in your investments. It is also important not to miss out on extra tax relief. Your pension contributions will automatically qualify for basic-rate income-tax relief. But higher-rate and additional-rate taxpayers don't get the extra tax relief they're due as a matter of course: claim what you're owed on your annual tax return.

Reconsider your appetite for risk: many savers are too cautious

©Alamy

State pensions matter

Get a state pension forecast. Savers overlook the importance of state pension income to their overall wealth in retirement, but the benefit is worth close to £10,000 a year. If you qualify for the full amount, it provides a good foundation to build on, but you'll need 35 years of national insurance (NI) to get it. You can check your progress at gov.uk/check-state-pension, as well as learn how to top up NI contributions if you've fallen behind. You should also approach pension saving as a couple. Plan for retirement on the basis of the provision you're both making. If one of you isn't working, your partner can still pay into a private pension on your behalf, up to a maximum annual contribution of £3,600 including tax relief. This can be a valuable way to boost joint income.

Reduce your business profits through pension contributions. If you're the director of a limited company – because you're self-employed, for example – you can make pension contributions from the business's pre-tax income. These are usually classified as allowable business expenses, and your company won't have to pay corporation tax on the amount by which its taxable profits decrease. That's a saving of up to 25% from 1 April onwards.

Get free, or cheap, financial support. Getting expert advice and support on your pension planning can be invaluable, but comes at a cost. However, if you're over 50, you're entitled to a free consultation with the state-backed Pension Wise service. Alternatively, consider using the "pension advice allowance", which entitles you to take up to £500 out of your pension, tax free, to pay for financial advice. You can make three such withdrawals over your lifetime, but only one in any single financial year.

Avoid punitive tax on your first pension withdrawal. If you're about to start taking money from your pension through an income drawdown arrangement, make your first withdrawal very small – £100, say. HM Revenue & Customs' systems assume your first pension withdrawal will be what you keep taking out, so if you draw down a big chunk, you'll pay tax at very high rates. You can claim a refund of overpayments, but it takes time and effort, so the problem is best avoided in the first place.

Finally, start planning for inheritance. If you want to maximise your estate for your heirs, think hard about how you spend savings in retirement. Most savings are subject to inheritance tax – assuming your estate is worth more than £325,000 – but that's not true of cash in pensions. So run down other savings before you start making pension withdrawals.

News in brief... "default funds" disappoint

● More than 20 million savers in occupational pension schemes are nursing big losses after a poor year for "default funds". These are the investment funds offered by schemes to staff who haven't specifically chosen a different option. Data obtained by the Daily Mail reveals that all eight of the largest default funds have lost money this year, with a big difference between the best and worst performers. The default fund offered by Now: Pensions, which has two million investors, lost 19% in the year to September; by contrast, Aon's default fund dropped by only 4%.

● Delaying starting to take your state pension could lead to a nasty tax surprise, a leading pension specialist has warned. Savers who don't need their state pension income when reaching retirement are routinely told to defer taking the benefit. They then receive a higher pension when they do start receiving the money. However, Canada Life points out that with income-tax thresholds now frozen until at least January 2028, some savers will find that the higher pension they receive in return for deferring is taxed more highly.

● Government failings in communication to women concerning an increase in the state pension age amounted to "maladministration", the Parliamentary and Health Service Ombudsman has ruled. The judgment offers a ray of hope to thousands of women who have been campaigning for compensation over the way in which the state pension age for women was raised in order to equalise it with men over several years to 2018. They say the changes weren't properly communicated, leaving them with too little time to prepare.

AG Barr will keep fizzing for decades

The drinks group boasts strong growth prospects, plenty of cash, and an enticing valuation

Rupert Hargreaves
Deputy digital editor

Over the past 45 years, an investment in Scottish drinks group AG Barr has generated an annual return of 18% including dividends, turning £1,000 into £3.1m. And there should be plenty more to come. After a turbulent few years, it looks as if the business is now set up for the next stage of growth – and the good news is that the stock looks cheap.

A champion in the beverage market

AG Barr (LSE: BAG), founded in 1875, is best known for manufacturing the soft drink Irn-Bru; its brands also include Snapple, Tizer and Strathmore spring water.

Over the past 140 years, it has grown steadily through a combination of organic growth and bolt-on acquisitions, the latest of which is the Boost drink brand.

The group paid £20m for this business in a deal announced at the beginning of December (with a potential additional consideration of £12m).

Funding the deal with cash reserves, AG Barr paid just under ten times pre-tax profits for the maker of energy and protein drinks. To put it another way, the deal will earn AG Barr a return of around 10% on its shareholders' capital before tax (excluding the additional potential consideration).

Integrating acquisitions

The group has an excellent record of bringing smaller businesses into the fold. In 2008 it bought exotic fruit-juice company Rubicon for £60m, and then in 2015 it acquired cocktail group Funkin for £21m. These deals have helped the company diversify away from the Irn-Bru market, which has seen lacklustre growth over the past decade: sales of the orange carbonated beverage have grown at a compound annual rate in the low single-digits since the 2010s.

After years of steady growth, in 2020 AG Barr was hit by a double whammy. The pandemic decimated out-of-home sales for all beverages, and to add to its troubles, it lost the licence to sell and distribute Rockstar Energy drinks in the UK. The company had the licence to distribute the product until 2024, but following PepsiCo's acquisition of the Rockstar brand in March 2020, the contract was terminated. Rockstar accounted for 8% of group sales in 2019.

Ultimately, AG Barr was compensated to the tune of £7.6m for the early termination. Still, the combination of the pandemic and the loss of this contract caused sales to fall by nearly a fifth between 2019 and 2021.

©Alamy

The Scottish company is best known for making Irn-Bru

Onwards and upwards

However, AG Barr has put these issues behind it. For the 26 weeks to the end of July, revenue jumped by 19% on a like-for-like basis as the company managed to pass on higher costs to consumers.

Last year the group also acquired a 62% equity stake in plant-based milk business MOMA Foods, one of the leading oat-milk brands in the UK (it also makes porridge and granola). AG Barr intends to acquire the rest of the business over the next three years.

The company is on track to report sales in the region of £304m for the year to the end of January 2023, rising to £337m in 2024 (revenue totalled £279m in 2019).

Where AG Barr really stands out is in its cash management. Over the past five years, the company has produced average annual free cash flow from operations (operating cash flow minus capital spending) of £35m.

At the last count, it had £57m of cash on the balance sheet and no debt. While a large chunk of this will have been used in the Boost deal, the group is not short of funds.

This cash balance gives the company plenty of firepower for further acquisitions and means it doesn't have to worry about higher interest rates.

That financial firepower also gives AG Barr's management plenty of scope for returning cash to investors – one of the reasons why the stock has performed so well over the past four decades.

In fact, over the past decade, the company has returned a total of £170m to investors through dividends and share repurchases in addition to investing in the business and maintaining a cash-rich balance sheet. To put that number into perspective, today AG Barr has a market capitalisation of £565m.

An undervalued growth stock

The group is backed by its shareholders. Although the founding family now owns less than 15% of the business, that is still a notable stake, and it is backed up by Nick Train's Lindsell Train Investment Trust, which also owns 11% of the business. That means the company has nearly 25% of its shareholders interested in long-term outcomes rather than short-term profits.

AG Barr is a well-run, long term-focused business with a strong balance sheet, high level of cash generation and huge scope for growth over the next five to ten years. And the stock looks cheap. It is trading on a forward price/earnings (p/e) ratio of 16.3 (the recent Boost deal is not yet reflected in these numbers) compared with a ten-year average of 21.9.

The stock is also on a trailing 12-month free cash-flow yield (which does not take into account this year's growth) of 7% and offers a dividend yield of 2.8%. AG Barr has been a fantastic investment over the past four-and-a-half decades, and the sky's the limit for the group from here. The leader in this sector, Coca-Cola, was once in AG Barr's position, and now the business is worth over £200bn.

AG Barr (LSE: BAG)

Share price in pence

SIPPs | **ISAs** | Funds | Shares

Give your savings a work out

GET INVESTING

If you want your **savings to work harder, our Stocks and Shares ISA** could be the answer. Open an account today.

youinvest.co.uk

Capital at risk. ISA rules apply.

A security specialist for turbulent times

QinetiQ's offerings range from cybersecurity and drones to robotics and artificial intelligence

Dr Michael Tubbs
Investment columnist

Western countries are bolstering their armed forces and technological defences

©Getty Images

Recent events such as Russia's invasion of Ukraine, China's threatened invasion of Taiwan and cyberattacks by both autocracies emphasise the need for Western countries to enhance their armed services and security services. A key trend in this context is countries outsourcing many high-technology services to trustworthy specialist companies.

Examples include the robotics and autonomous systems; cybersecurity; weapons-system tests and evaluations; training and mission rehearsals; engineering services; and the provision of unmanned air, land or sea targets for live-fire training.

These and other services can all be found in **QinetiQ Group's (LSE: QQ)** portfolio, along with products ranging from drones to satellites. It is a member of the FTSE 250 mid-cap index with a market value of £2bn and a 2021-2022 turnover of £1.32bn. (The group's financial year ends on 31 March.) The UK accounts for 73% of revenue, the US for 12%, Australia 7% and continental Europe 6%.

QinetiQ has two major business divisions – EMEA (Europe, Middle East and Australia) Services and Global Products. Services comprise 80% of sales and Global Products the remaining fifth. EMEA Services has four units: Maritime and Land (making up 9% of services revenue), providing independent research, evaluation and training services; Cyber and Information (29%), offering cybersecurity, secure communication networks and intelligence gathering; the Air and Space division (22%), which attempts to reduce the risk in complex aerospace programmes; and International (10%), which includes the Australian and German operations.

Global Products' largest market is the US with 58% of product revenue. It specialises in robotics, autonomy and sensing solutions. EMEA Products (27%) includes QinetiQ's target systems and bespoke technological solutions such as the electrification of military vehicles. Space Products (15%) provides satellites and ground station services.

Supporting the shared security mission of AUKUS, the trilateral security pact between the UK, Australia and the US, is a top priority. Technologies including undersea research, advanced cyber capabilities, hypersonics, and artificial intelligence are central in this respect.

Ample scope for growth

QinetiQ's five-year plan is to raise revenue to more than £2.3bn by 2026-2027, with a long-term operating profit margin of 12%-13%. The company estimates that its total potential market is worth £20bn so there is plenty of room for growth beyond 2027. The 2026-2027 target will be achieved through both organic growth and acquisitions.

Recent acquisitions include Avantus of the US, which specialises in cyber solutions, data analytics and software development, and Air Affairs of Australia, the market leader in air target services.

Together they would have increased 2021-2022 revenue from the reported £1.3bn to £1.6bn and will therefore contribute substantially towards achieving the 2026-2027 revenue target. QinetiQ has experienced good order intake of £800m in the first half of 2022-2023: 95% of 2022-2023 revenue is already covered by orders.

The US and Australia are growth markets. The US has agreed a $782bn defence budget, $50bn more than expected. Australia is faced with the Chinese Communist Party systematically increasing pressure with trade embargoes, cyberattacks and challenges to Australia's regional relationships.

Australia is therefore strongly supporting AUKUS and increasing its defence budget to 2.2% of GDP. QinetiQ's contract wins in November 2022 include $48m of research, development and engineering support for image processing and advanced optics for the US Army.

A skilled operator going for growth

QinetiQ's interim results to the end of September showed revenue of £673.4m, up 12.2% year-on-year, and a healthy order backlog of £2.97bn. EMEA Services contributed 78% of revenue and global products 22%. Earnings before interest, taxes, depreciation and amortisation (Ebitda) was £132.6m, with underlying operating profit up by 39% to £74.1m.

Net cash flow from operations was £99.5m, with a net cash balance at the end of the first half of £264m. Underlying earnings per share (EPS) jumped by 41%. Strong first-half revenue growth of 36% was seen in the US, with 22% growth in Australia.

The short-term outlook is on track to meet market profit expectations for 2022-2023, which are for EBIT (operating earnings) to rise from £121m to £154m. The company has increased its 2022-2023 revenue guidance.

The longer-term outlook is for 2026-2027 revenue to exceed £2.3bn, an operating profit margin of 12%-13%, and a return on capital in the upper end of the 15%-20% range. QinetiQ has increased its dividend every year since at least 2014, with the exception of 2020 when it was maintained at the 2019 level because of the Covid-19 pandemic.

The payout for 2021-2022 was 7.4p, giving a yield of 2.13% at the recent price of 344p. The price/earnings (p/e) ratio for 2024 is 15 and analysts' one-year share price target is 420p, or 22% above the recent price.

QinetiQ has highly skilled capabilities and operates in a strategic sector whose importance has been re-emphasised by recent events. Much of its work is for services that are not very capital intensive, and many orders are in the form of multi-year government contracts.

The company plans to grow its revenue by 77% to £2.3bn by 2026-2027. The upshot? QinetiQ offers investors growth with a reliable and reasonable dividend yield of 2.1%.

SPECIAL OFFER FOR MONEYWEEK READERS

A finely balanced source

A delicate blend of news, culture and knowledge.

THE WEEK

Give a feast for the mind this Christmas. With news and views curated from over 200 sources, The Week magazine is the perfect present for curious readers.

Get 6 issues for free (worth over £26), then save an extra 10% on gift subscriptions.

Visit: **subscription.theweek.co.uk/christmas10**

or call: **0330 333 9494** quoting offer code: **P22XMM**

Subscriptions start with the first issue in the new year. Calls charged at your standard network rate. Direct debit offer. Print only subscription: 6 free issues, then 13 issues for £37.80. Additional terms and payment options available with a 10% discount. Prices quoted are UK only, overseas offers also available.

18+

WHAT IS AVAXHOME?

AVAXHOME -

the biggest Internet portal, providing you various content: brand new books, trending movies, fresh magazines, hot games, recent software, latest music releases.

Unlimited satisfaction one low price
Cheap constant access to piping hot media
Protect your downloadings from Big brother
Safer, than torrent-trackers

18 years of seamless operation and our users' satisfaction

All languages
Brand new content
One site

AvaxHome - Your End Place

We have everything for all of your needs. Just open https://avxlive.icu

How to profit from long-term growth in Asia

A professional investor tells us where he'd put his money. This week: Edmund Harriss, head of Asian & emerging market investments, Guinness Global Investors

Asia has been one of the weaker-performing areas in the world this year, with North Asia (China, Hong Kong, Korea and Taiwan) faring especially poorly. We have seen a sharp rally recently as China has shifted position on zero-Covid and recent meetings with US and EU leaders have helped temper geopolitical risk. However, we still see good value in the region and we can also see a path towards that value being realised.

Our approach focuses on companies' operational performance and sources of funding for growth. We identify firms that generate returns on capital (a key gauge of profitability) above their cost of capital that are likely either to be sustained or to grow, funded primarily by internally generated cash flows.

We want to buy stocks whose share prices underestimate these returns. We consider a company's operational robustness in terms of both financial metrics and non-financial criteria, including governance as well as the social or environmental impact of operations.

"Financial services in Asia are expanding to cater to growing wealth"

Cash in on consumers

We tend to hold on to the companies we invest in for many years. They are generally market leaders, can ride the structural growth story of the region and convert it into superior cash-based returns on capital. The rise of the Asian consumer is a powerful theme and **Haier Smart Home (HK: 6690)** gives exposure to lifestyle upgrades in China on the back of rising household wealth. The company manufactures premium consumer durables, including white goods and air conditioners. This has enabled it to build a presence outside China in the US, Europe and Australia. Haier has paid a regular dividend since 2012.

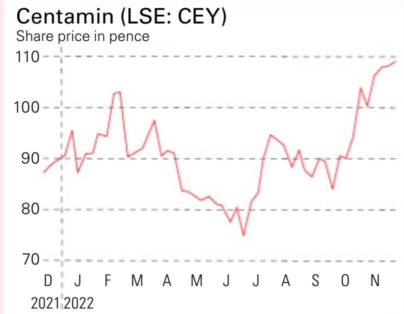
Manufacturing remains as important as ever, with Chinese imports and exports of goods running at more than $6trn a year. **Shenzhou International (HK: 2313)** is a textile and apparel maker with operations in China, Vietnam and Cambodia, supplying customers including Nike and Ralph Lauren. It has invested heavily in capital equipment, making its operations both clean and efficient, as well as leaving the company well placed to deal with higher costs and potentially weaker demand. Covid disruptions in Vietnam affected operations in the second half of last year, but beyond that, Shenzhou has produced a growing dividend since 2006.

Financial services in Asia are expanding to cater to growing wealth. **DBS Group Holdings (Singapore: D05)** and **Tisco Financial (Bangkok: TISCO)** are both diversified providers of consumer banking and wealth management. DBS offers regional coverage in Southeast Asia, India and China (through its Hong Kong operations). Tisco is focused on Thailand, offering banking, consumer finance and asset management. Both know their market segments well and have successfully maintained credit quality, while they also boast strong management.

Doing well down under

In Australia we like **Metcash (Sydney: MTS)**, a retailer and distributor of groceries. It has developed its own branded retail network alongside its wholesale business and moved into the hardware segment recently, boosting margins. The group did well during Covid as households moved away from supermarkets and shopped locally. Metcash has held on to these customers and has gained market share in a highly competitive sector.

If only you'd invested in...



Gold miner **Centamin (LSE: CEY)** has seen its share price rise after announcing a sharp jump in output, says The Motley Fool. Centamin's Sukari, the largest gold mine in Egypt, had been beset by delays and technical problems, but these have been resolved and the firm has turned a corner, reporting a 23% annual rise in gold production for the quarter. Meanwhile, higher-grade material was retrieved from both its underground and open-pit operations. Centamin has various exploration projects under way and also boasts net cash and liquid assets of over $150m. The stock has gained 28% in a year.

Be glad you didn't buy...

Argo Blockchain (LSE: ARB) has become another victim of the cryptocurrency crash, says The Times. The cryptocurrency miner, which runs powerful computers across the US and Canada to process the vast amounts of data required to create bitcoin tokens, ran out of steam this year as the cost of production outstripped bitcoin's selling price. Argo has sold off most of its bitcoin reserves, leaving it with just 126 bitcoin (worth £1.8m) last month, and says its cash flow could turn negative. The share price, having soared after the group floated in 2018, has slumped by 96% in the past 12 months.

INVESTMENT TRUSTS

PRIVATE EQUITY | REAL ESTATE | UK | ASIA

THE BEST OPPORTUNITIES LIE BENEATH THE SURFACE.

We see opportunity differently. With specialist expertise across UK and Asian Markets, as well as established teams in global private equity and real estate, we can examine markets and company fundamentals in greater depth – helping you find opportunity where others don't.

Search schroders.com/investmenttrusts

Schroders

Your capital is at risk with investing. Marketing material. Issued by Schroder Investment Management Limited, 1 London Wall Place, London EC2Y 5AU. Registration No. 1893220 England. Authorised and regulated by the Financial Conduct Authority.

The faces of 2022

Four of the key figures who moved markets over the past year. By Jane Lewis

A crypto bro's spectacular fall from grace

As falls from grace go, it's hard to think of one more spectacular than that of **Sam Bankman-Fried.** As recently as June, the 30-year-old FTX founder was being hailed as the "JP Morgan of millennials". SBF, as he was universally known, was even rumoured to be mulling the buyout of the stock-trading platform Robinhood. Yet by November, his $32bn exchange had collapsed into bankruptcy, with an $8bn hole in customer deposits.

SBF, who is now awaiting extradition on multiple counts of fraud, "built a house of cards on a foundation of deception", claims Gary Gensler, head of the US Securities and Exchange Commission. In all, more than 100 FTX-affiliated companies are filing for bankruptcy, involving a million or more creditors. The unwinding of this "epic mess", as one commentator noted, "is likely to last longer than the empire itself".

A technology whiz "out of central casting", SBF styled himself as a self-disciplined, vegan workaholic, dedicated to altruism – and "mesmerised" investors and the political establishment with "his evident genius and pellucid insights", says The Times. In reality, he was presiding over a community where the financial rules were as loose as the lifestyle. Shortly before his arrest, SBF embarked on a media tour, telling his story "with all the gusto" of Harry and Meghan. "Like I, like, kind of vaguely knew, kind of, sort of maybe, um, on a qualitative level what was going on," he revealed. Let's see how that stands up in court.

The strategic genius leaving Shell

The year 2023 will see a major changing of the guard at oil and gas company Shell as Dutchman **Ben van Beurden** calls time on a 40-year career, with nine of them in the hot seat. It hasn't always been an easy ride. Van Beurden, 64, became the first Shell chief executive since World War II to cut the dividend when the oil price cratered during the pandemic, and became a personal target of those protesting against "grotesque" profits when the Ukraine war sent it soaring again.

Then he riled politicians in his homeland by abandoning the company's Hague headquarters and dropping the "Royal Dutch" part of its name, and clashed with a Netherlands court over a ruling on climate targets. Still, on the big commercial calls, he came up trumps, says The Times. The defining gamble of van Beurden's career – the $52bn acquisition of natural-gas giant BG Group in 2015 – "no longer looks a toppy deal but a stroke of strategic genius".

Van Beurden, who is also on the board of luxury car maker Mercedes-Benz, studied chemical engineering at Delft University in the Netherlands, but he is now first and foremost a businessman, says the Financial Times, taking a "no-nonsense, dispassionate view of the company: all assets are disposable". He exits $90m richer at the top of the cycle, leaving a blueprint for Shell's green transition that will be up to his successor, Wael Sawan, to deliver. Nice timing.

Stanford dropout who made a billion from a scam

It's been another year of legal ins and outs for **Elizabeth Holmes** – the former business *wunderkind* whose blood-testing start-up Theranos was exposed as a sham in 2016. Convicted in January on four counts of fraud, and sentenced to 11 years in jail in November, she had the satisfaction of seeing her business partner and former lover Sunny Balwani – whom she claimed abused her and manipulated her into the fraud– sentenced to a higher term (Holmes was convicted of defrauding investors, Balwani was found to have defrauded patients, too).

A precocious Stanford dropout, who founded Theranos in 2003 when she was 19, Holmes was certainly a persuasive figure, says Forbes. Theranos raised more than $700m from investors (including Rupert Murdoch and Larry Ellison) who valued the company at $9bn. In 2014, Forbes named her as "the world's youngest self-made woman billionaire", worth $4.5bn. But great acclaim brought greater scrutiny and an unravelling of Theranos's scientific claims. In June 2016, Forbes "revised" its estimate of Holmes's wealth to $0.

The verdict against Holmes put other "truth-stretching founders" in Silicon Valley on notice, said The New York Times. Now pregnant with her second child, Holmes, 38, still hopes to avoid jail. She is appealing her conviction and has asked a court to allow her to remain free until a decision is made. There will be many more legal twists and turns in 2023.

The man who launched a "kami-Kwasi" budget

There have been few more chaotic tenures at No. 11 Downing Street than that of **Kwasi Kwarteng**, whose short-lived "kami-Kwasi" mini-budget in September sent gilt markets into turmoil and the pound to its lowest level in decades – causing a pensions liquidity crisis along the way. Sacked after just 38 days, he became Britain's second shortest-serving chancellor, his exit preceding that of his boss by days. The debacle stunned the world. "The UK is behaving a bit like an emerging market turning itself into a submerging market," said economist Larry Summers.

An Eton scholarship boy, renowned for his drive but also his arrogance, Kwarteng, 47, charged into the Treasury determined to deliver the radical growth agenda outlined in his 2012 co-authored book *Britannia Unchained*. Against the advice of officials, and without previously briefing the Bank of England, he announced an unfunded £45bn in tax-cuts, prompting such a meltdown in bond markets that the Bank was forced into several emergency interventions to head off a "material risk to UK financial stability". Tax cuts favouring the rich seemed particularly tin-eared during the worst cost-of-living crisis in decades.

"At his Majesty's Treasury, it's all looking a bit like Year Zero in revolutionary Cambodia," said Martin Vander Weyer in The Spectator. Kwarteng later admitted he got "carried away". In one of his books, *Ghosts of Empire*, he wrote that "much of the instability in the world is a product of… haphazard policymaking". *Touché.*

©Getty Images

hanetf

The digital economy is here.

Invest in it with
Grayscale Future of Finance UCITS ETF.

Grayscale Future of Finance (GFOF) is an ETF that seeks to invest in the companies and technologies shaping the future of finance. GFOF offers investors the opportunity to benefit from innovative businesses that are integral in evolving the financial system to build the digital economy.

To learn more, visit www.hanetf.com/grayscale

Professional investors only. Capital at risk.

Travel Department
Let's see more...

SILVER TRAVEL AWARDS 2022
FINALIST

T: 0117 911 7109
W: traveldepartment.com/mw
Flights from London, Scotland & Northern Ireland

The easy way to experience MORE...

SAVE £75PP* off any holiday of 8 nights or more
Use promo code: **MW75**

SAVE £50PP* off any holiday of 7 nights
Use promo code: **MW50**

SAVE £25PP* off any holiday of 6 nights or less
Use promo code: **MW25**

Solo traveller available

FROM £2,099

Egypt - Nile River Cruise including Cairo & Hurghada

Fully Guided | 12 Nights | 4★ All-Inclusive & 5★ B&B, 4★ Full board cruise

- Flights from London Heathrow, Edinburgh or Dublin to Cairo, returning from Hurghada (all via Istanbul)
- 2 nights in Cairo with a full day guided excursion including the Egyptian Museum
- A full day guided excursion to the Pyramids of Giza, The Great Sphinx, Luxor and Valley of the Kings
- 7 nights cruising aboard 4 star MS Radamis II on a full board basis
- A half day to the Valley of the Kings and the Temple of the Queen Hatshepsut
- A full day to the Temple of Horus and Temple at Kom Ombo
- A full day to visit the High Dam and Temple of Philae
- A half day to visit the Temples of Karnak and Luxor
- 3 nights in the Red Sea Resort of Hurghada with free time at leisure

Holiday Departure Months

J	F	M	A	**M**	**J**	J	A	**S**	**O**	**N**	D

FROM £2,879

Jordan & The Holy Land

Fully Guided | 11 Nights | 4★ & 5★ Half board

- Return flights from London Heathrow, Edinburgh or Dublin to Amman, all via Istanbul
- 3 nights in Amman with a city tour and a full day excursion to the Roman city of Jerash
- 3 nights in Bethlehem, including a morning excursion of Bethlehem, visiting some of the town's biblical sites, a morning excursion to the Via Dolorosa and the Holy Sepulcher, also including visits to the Caves at Qumran, Masada, Jericho and Mount Temptation
- 2 nights in Petra with a full day tour and a jeep tour of the Wadi Rum Desert
- 3 nights at the edge of the Dead Sea with a full day excursion to the town of Bethany

Holiday Departure Months

J	F	M	A	M	**J**	J	A	**S**	O	**N**	D

FROM £2,969

Western Canada & the Rockies

Fully Guided | 10 Nights | 3★ & 4★ B&B

- Flights from London Heathrow, Edinburgh or Dublin to Vancouver via Amsterdam
- 3 nights in Vancouver including a city tour of the main highlights
- 1 night in Clearwater with an excursion to Wells Gray Park
- 1 night in Jasper with a visit to Mount Robson Park
- Enjoy a Snowcoach ride on Athabasca Glacier, located in the Rockies
- 2 nights in Banff with a excursion of the main highlights including Lake Louise
- 1 night in Vernon, visit Glacier National Park and Okanagan Valley
- 1 night in Whistler, travel through Nicola Valley en route
- Visit Grouse Mountain and Capilano Suspension Bridge Park in Vancouver

Holiday Departure Months

J	F	M	A	**M**	**J**	J	**A**	**S**	O	N	D

FROM £3,199

Highlights of Vietnam

Fully Guided | 14 Nights | 4★ & 5★ Half board

- Flights from London Heathrow, Glasgow or Dublin to Hanoi, returning from Ho Chi Min City all via Dubai
- 2 nights in Hanoi with a full day excursion including Ho Chi Minh complex
- 1 night in Halong with a sailing experience of Halong Bay
- 3 nights in Hoi An including a half day guided walking tour and a Vietnamese cooking class
- 1 night in Hue with a Perfume River cruise to Thien Mu Pagoda
- 4 nights in Ho Chi Min City, a half day excursion to the Cu Chi Tunnels and a full day to Cai Be with a Mekong Delta river cruise
- 1 night in Can Tho visiting Cai Rang floating market and Khmer Pagoda

Holiday Departure Months

J	F	**M**	**A**	**M**	J	J	A	**S**	**O**	**N**	D

Looking for some more inspiration? Request a copy of our brochure at www.traveldepartment.com/brochure

Booking Terms & Conditions: Operated by Travel Department. ATOL Protected 9373. Prices are per person and based on 2 sharing. Single room supplements apply. Check in baggage may be booked at an additional cost. Prices, flight times and availability are subject to change. Booking conditions apply, please visit traveldepartment.com. *Offer valid for all new bookings made between 23rd December 2022 and 5th of February 2023. Offer is £75pp off any holiday of 8 nights or more using code MW75, £50pp off any holiday of 7 nights using code MW50 and £25pp off any holiday of 6 nights or less using code MW25. Offers are non transferable, subject to availability, cannot be used in conjunction with any other offer and have no cash value. All deposits are non-refundable. E&OE.

Swiss Christmas delights

Matthew Partridge explores the festive market and the Hotel N'vy in Geneva

Geneva is a wonderful city throughout the year, but it really comes alive during the winter months. Its annual Christmas market is located in the Jardin Anglais, next to Lake Geneva, famous for its Flower Clock. The market consists of stalls and chalets selling everything from bespoke goods to delicious street food and traditional favourites, such as cheese fondue and mulled wine.

Strolling around, munching a freshly baked cookie, I took in the smells of roasting chestnuts and warmed my hands by the glowing fire pits dotted around. I looked at the lights and decorations illuminating the trees and the people milling about. Families with children enjoyed the large ferris wheel in the centre of the market, which lit up the night sky.

Beware of cooks weilding cauldrons

Christmas isn't the only thing Genevans celebrate during the winter months. While I was there people were already beginning preparations for the December Fête de l'Escalade. Celebrating the defeat of an attempted invasion by the Duke of Savoy in 1602, it begins with an annual footrace and culminates in a carnival where people dress up in a combination of historical costumes and fancy dress parading through the streets, singing songs and distributing soup.

Chocolate wars

Chocolate cauldrons are a key feature of the festival, which are handed out as gifts. These cauldrons commemorate a cook who altered the course of the battle by throwing her pot, and its contents, on the Savoyard troops. Whether or not the story is strictly true, Geneva is renowned for the quality of its chocolate and its large number of artisanal chocolate makers.

One of these, La Bonbonnière, has been running for just over a century. Recently, they have begun offering workshops giving a glimpse into the chocolate-making process. After giving me a rundown of the secrets behind turning raw cocoa into award-winning chocolate, parts of which were discovered by accident, they got me to have a go at making a bar, though from the results I might need a little more practice to get up to their standards.

For the dedicated chocoholic, or for just those who are curious, it's well worth investing in Geneva's recently launched Choco Pass, which entitles holders to free samples and discounts. Not only is it a way to exercise your tastebuds, but going around the seven participating shops is a great way to explore the town centre.

Those who are immune to the cold (or just plain masochistic) may want to try a sauna, followed by a dip in Lake Geneva and a bite to eat at the Bains des Pâquis public bath house. Then visit Restaurant Les Armures for top quality traditional dishes. I particularly enjoyed their selection of cheese and ham, followed by a spicy Swiss sausage. It has hosted many world leaders and celebrities, most notably Bill Clinton (it proudly displays a photo from his visit there).

As well as fine food, the Old Town is filled with history. While Geneva may have ambiguous feelings about the philosopher Jean-Jacques Rousseau (he renounced his citizenship of the republic), there's no denying he played a major role in the Enlightenment. So, it's not surprising that his house has been turned into the small museum Maison Rousseau et Littérature. The nearby Musée d'Art et d'Histoire, also contains more than 23,000 pieces, including Konrad Witz's *The Miraculous Draught of Fishes* (1444), regarded by some as the first landscape painting.

> *"Having never eaten cheese fondue before, I was given a special masterclass"*

But by far the most influential figure in Geneva's history is John Calvin, who came from France. His role in turning Geneva into the "Protestant Rome", commemorated in a sculpture in the park, resulted in virtually all non-Calvinist churches being banned for three centuries.

Ironically, Calvin's puritanism would provide a major boost to the watch-making industry, since watches were the only form of decoration allowed under the strict dress codes. Today, Genevan watchmakers Patek Philippe has its museum nearby. It's free to visit with he Geneva City Pass, along with other attractions.

The envy of stays

Hotel N'vy, where I stayed, is a few minutes from the lake. It is designed to appeal to younger business travellers, as reflected in the lobby filled with modern art, bronze sculptures by Bruno Catalano, and even a vintage motorcycle. The staff are friendly, and guests receive free public transport in Geneva for the duration of their stay.

The hotel offers several dining options. But for something a little more Swiss, visit the nearby Restaurant Edelweiss. Having never eaten cheese fondue before, I was given a special masterclass on how to make it. I then ate my dish to the accompaniment of traditional Swiss music.

Matthew was a guest of Switzerland Tourism (myswitzerland.com) and Hotel N'vy (hotelnvygeneva.com). A Eurail pass (eurail.com) allows you to travel on most trains and long-distance ferries.

©Alamy; Swiss Tourist Board

This week: properties with unusual fireplaces – from a 16th-century house in Oxford with a fireplace carv

▲ **Cairness House, Fraserburgh, Aberdeenshire, Scotland.** A Grade A-listed mansion designed in the 1780s by James Playfair. The Egyptian room includes a fireplace decorated with carved hieroglyphs. 8 beds, 7 baths, 4 receps, kitchen, 2-bed flat, 2 gate lodges, formal gardens, arboretum, 16 acres. £1.25m+ Knight Frank 0131-222 9608.

▶ **East Sutton Hill, Maidstone, Kent.** This Grade II-listed house dates from 1612 and has panoramic views over the Weald of Kent. It has oak panelling, flagstone floors, period fireplaces and an indoor/outdoor swimming pool. 8 beds, 8 baths, 2 receps, cinema, gym, 22.6 acres. 3-bed cottage available by separate negotiation. £6.5m Savills 01580-720161.

▶ **The Cloth Hall, Smarden, Kent.** A Grade II-listed Wealden Hall House dating from 1410 with Arts & Crafts additions in a conservation area. It has beamed ceilings, flagstone and polished oak floors, panelled walls, and a large brick inglenook fireplace with a wood-burning stove. 5 beds, 5 baths, 3 receps, kitchen, 3-bed barn, 1-bed cottage, flat, gym, swimming pool, 3.24 acres. £4m Hamptons 01892-516611.

ved with griffins' heads, to a mansion in Aberdeenshire with one decorated with hieroglyphs

Fawley Manor, South Fawley, West Berkshire. A Grade II-listed Jacobean manor overlooking the North Wessex Downs Area of Outstanding Natural Beauty. The house has leaded-light windows, flagstone and oak floors and a hall that retains its original screens passage, oak panelling and 17th-century fireplace. 10 beds, 7 baths, 6 receps, stable block, brick-and-flint barns and workshop, granary, gardens, grounds, 9 acres. £4.75m Strutt & Parker 01635-521707.

Périgueux, France. A renovated, listed medieval castle with 12th- and 18th-century additions surrounded by landscaped gardens and overlooking a village. It retains its stained-glass windows and has two exceptional carved Renaissance fireplaces. 7 beds, 5 baths, 4 receps, 2 flats, outbuildings, 8.8 acres. £2.57m Groupe Mercure +33 (0)6 61 26 68 25.

Yealmpton Villa , Yealmpton, Devon. A renovated, Grade II-listed Georgian house in an elevated position with south-facing views over the surrounding countryside. It has floor-to-ceiling sash windows with shutters, a recently installed kitchen with an Aga, two marble fireplaces with ornately integrated mirrored overmantels and a courtyard garden. 6 beds, 4 baths, 2 receps, garden room, terrace, 0.75 acres. £1.5m Marchand Petit 01752-873311.

North Hinksey Lane, Oxford. This 16th-century, Grade II-listed house is situated on the outskirts of Oxford and is in need of some updating. It retains its stone-mullioned windows, beamed ceilings and wood floor and has carved stone fireplaces that include one with griffins' heads flanking the arms of St John's College. 4 beds, 2 baths, 2 receps, kitchen, breakfast room, gardens, 0.5 acres. £1.2m Knight Frank 01865-264862.

Crayke Manor, Crayke, York, North Yorkshire. A renovated, Grade II-listed 17th-century manor set in landscaped gardens overlooking open countryside. The house retains its mullioned leaded-light windows, beamed ceilings, ornately carved oak panelling and has a magnificent stone arched fireplace in the drawing room. 9 beds, 4 baths, 2 receps, library, music room, outbuildings, stables, cottage, tennis court, parkland, pastures, paddocks. £2.25m Savills 01904-617820.

What we read and watched in 2022

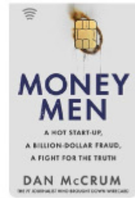
From a compelling Danish drama to a must-read book on the ransom industry. Matthew Partridge reports

The best films and TV

This year saw the rise of geopolitical tensions between Russia, China and the US, as well as a global energy crisis, so it's timely that these issues are front and centre in the revival of the cult Danish political drama Borgen. ***Borgen: Power & Glory*** (Netflix) sees the fictional Birgitte Nyborg (Sidse Babett Knudsen) take over as foreign minister in a coalition government. She has to grapple with the implications of a major oil discovery in Greenland by an energy firm with shady owners. Despite her green politics, she finds herself drawn into supporting the project, much to the dismay and anger of her friends, allies and family.

The new series is much darker than the original three, and old favourite characters, including Pilou Asbæk's Kasper Juul, have disappeared. The new characters, however, such as Arctic ambassador Asger Holm Kirkegaard (Mikkel Boe Følsgaard), and Birgitte's eco-warrior son Marcus (now played by Lucas Lynggaard Tønnesen), are compelling and the actors put in strong performances. The ending resolves things in an upbeat manner, without being too implausible or sentimental. Recommended for fans of shows like *The West Wing* – or indeed anyone looking for eight hours of well-crafted, high-stakes drama.

Fraudster Anna Sorokin captured the headlines a few years ago when she was convicted of conning individuals and hotels out of large sums of money by pretending to be Anna Delvey, a German heiress. ***Inventing Anna*** (Netflix) is a dramatisation of her story, seen through the eyes of a fictional journalist writing about her case. The drama makes a dubious choice in trying to win sympathy for Sorokin, and her victims are portrayed as entitled, greedy and superficial. It also goes on a bit. Still, it remains a compelling take on the rise of the "fake it until you make it" culture.



The best business books

The insurance industry has a reputation for being staid, but a big exception to that rule is the section of the market that provides cover against the risk of being held hostage for money. ***Kidnap: Inside the Ransom Business***, by Anja Shortland of King's College London, examines this secretive area. Some argue that the arrangements come to by those operating in the industry only fuel the problem, by effectively rewarding the gangs and terrorists who carry out such crimes, but Shortland argues that the players have a good track record of helping keep payments down while almost always ensuring that the victim is returned safely.

This is a controversial and cold-blooded argument to say the least, and Shortland admits that recent legal developments threaten the market by making it harder to pay ransom and protection money. However, you don't have to agree with what she is saying to enjoy this fascinating insight into a world most people thankfully never get to experience. It is as thrilling as any fictional drama, and has moments of black comedy – it is definitely the must-read business book of the year.

In the summer of 2020, German payments-processing company Wirecard, which at one point came close to buying Deutsche Bank, imploded when it was revealed to be falsifying revenue on a large scale. In ***Money Men***, journalist Dan McCrum tells the story of how he worked for several years to expose the fraud, despite harassment from Wirecard and even pressure from German regulators, who appeared more concerned with investigating the claims of short sellers and the reporting of the Financial Times than with the crimes exposed.

The best investment books

Buying a few funds is usually a better strategy than picking individual shares for investors with limited time and amounts of capital. Yet there are far more books on stockpicking than on selecting the best funds. Good news, then, that investment consultant and blogger Joe Wiggins has filled this gap with ***The Intelligent Fund Investor***. In ten chapters he examines various errors, ranging from blindly picking funds run by star managers to the benefits and drawbacks of basing your investment decisions on ESG (environmental, social and governance) criteria.

Some of Wiggins' advice may seem familiar but his experience gives them added weight, and the detail he provides adds nuance. He also looks at some red flags that may be less obvious to the ordinary investor, such as the fact that an apparently smooth performance may be a sign that the fund is investing in less liquid assets. Given the relatively few books on the subject, this should be required reading and is much more useful than anything else on the subject currently available.

Whether you buy shares directly, or through funds, this year has been particularly frustrating for investors, with most of the world's major indices, including the FTSE and S&P 500, ending up in negative territory. Despite this, it's important not to pull out of the market at the first sign of turbulence, and stay invested. ***Just Keep Buying: Proven Ways to Save Money and Build Your Wealth*** by Nick Maggiulli explains why. In addition, he comes up with some interesting perspectives on several financial dilemmas, such as deciding on the percentage of your income that you need to save at various points in your life.

The best politics books

The fact that Britain was the first country both to approve a Covid-19 vaccine and to deploy one outside of a clinical trial was one of the few bright spots in the UK's response to the Covid-19 pandemic. Kate Bingham, the head of the UK's Vaccines Taskforce in the eight crucial months, deserves much of the credit. ***The Long Shot: The Inside Story of the Race to Vaccinate Britain*** (written with Tim

From our staff and regular contributors...

There has been a lot of debate this year about the extent to which companies should take into account their wider impact on society. In *Share Power: How Ordinary People Can Change the Way that Capitalism Works – And Make Money Too*, former MoneyWeek editor Merryn Somerset Webb argues the real problem is that ordinary shareholders are not engaged enough with the companies they invest in. And thanks to auto-enrolment in pension schemes, the class of ordinary shareholders now includes most citizens of the country. She outlines how they can become more involved and become a force for good.

The cost-of-living crisis has made it ever more important to make the correct investment decisions. However, an impenetrable web of financial jargon leaves many people confused and frustrated when they set out to take control of their finances. MoneyWeek senior digital editor Kalpana Fitzpatrick's *Invest Now: The Simple Guide to Boosting Your Finances*, is a useful beginner's guide to the subject.

Finally, my own *Investing Explained: The Accessible Guide to Building an Investment Portfolio* tackles 75 of the most common questions asked by investors, and uses a combination of academic research and real-life examples to show what investment strategies and techniques you should follow to get the best returns on your money.

Peaky Blinders: an unforgettable experience

©Mark Senior/Immersive Everywhere

The best dramas

Donald Trump saw most of his hand-picked candidates go down to defeat in the US mid-term elections, his company lost a fraud case and he has been overtaken by young upstart Ron DeSantis in some polls of Republican voters. None of this stopped him announcing that he was taking another run at the presidency in 2024 or demanding (on his own social network) that the US Constitution be suspended to allow him to immediately return to the White House. Given all that, ***The 47th***, Mike Bartlett's drama about Trump's bid to become the 47th president of the US, in which Joe Biden resigns, leading to chaos and civil unrest, doesn't seem all that implausible.

Bartlett's learned play references Shakespeare's *King Lear*, *Julius Caesar* and *Richard III*, as well as Christopher Marlowe's *Tamburlaine*, and Bertie Carvel delivers a bravura performance in the lead role. Carvel's Trump is an ugly, grotesque figure, but one possessed of a charisma and animal cunning able to outwit most of his opponents. Lydia Wilson and Tamara Tunie also gave notable performances as Ivanka Trump and Kamala Harris respectively. The play isn't currently running, but expect it to be revived as the real-life presidential contest heats up.

The television series ***Peaky Blinders***, which charts the fortunes of a fictional family of Birmingham gangsters, captured the popular imagination with its slick visuals, violence-filled plot and compelling acting. An immersive play version, ***Peaky Blinders: The Rise***, still running at The Garrison in Camden, captures the frenetic spirit of the show. The production invites the audience to take part in a secret meeting called to discuss the expansion plans of Shelby Company, the firm that facilitates various criminal "enterprises". The show creates the right atmosphere and listening in on negotiations between Tommy Shelby and Al Capone, and placing bets on sporting events under the eye of a Shelby family enforcer, is an unforgettable experience.

Haines) is her account of how she and her team selected a portfolio of vaccines, supported clinical trials, and made sure that processes were in place to ensure the vaccines were manufactured and delivered in a timely fashion.

The book takes a little time to get going due to Bingham's concern to share the credit with members of her team, and she leaves some key questions, such as the decision not to speed up the process by running human challenge trials, unanswered.

She does a good job, however, at showing how the process unfolded, and giving a sense of what it was like to operate under extreme pressure. She also has some interesting recommendations for how the machinery of government could be improved. Those seeking to learn the lessons of the Covid-19 pandemic should definitely read it.

Twenty years ago, there was much talk of the "end of history" – where liberal democracy was taken to be the end point. Today, there is more worrying about the lack of further progress down this road, and the backsliding in countries such as Turkey and Hungary. ***Spin Dictators: The Changing Face of Tyranny in the 21st Century*** by Sergei Guriev and Daniel Treisman argues that, while traditional dictatorship has had its day, many tyrants have simply adapted by turning to more subtle methods of coercion – the threat of dismissal from your job, or loss of your business, for example, rather than brute force and intimidation.

Other notable works

Trust, a novel by Hernan Diaz, was longlisted for this year's Booker Prize and deals with a fictional financier and his troubled marriage in 1920s New York. The story is told in four parts: a novella about the marriage, a draft of the financier's autobiography, the recollections of the ghostwriter who wrote the memoir, and then finally the wife's own diary. The ending is a little downbeat, but the book is engaging and its account of the financial shenanigans of the era plausible. It will keep the reader hooked as they try to penetrate further into the mystery.

If you were intrigued about the demise of Wirecard but don't have the time to read the book (see above), then the Netflix documentary ***Skandal! Bringing Down Wirecard*** is a worthy alternative that does an excellent job of telling the complex story within 90 minutes. It also gives the other characters in the drama, including the short sellers who originally brought the fraud to McCrum's attention, a chance to tell their side of the story. There are also some telling interviews with German commentators who admit that their country's desire for a national technology champion blinded regulators and allowed the doomed firm to escape proper scrutiny.

Ukraine's heroic resistance against the Russian invasion has put Vladimir Putin's future in doubt. If you're interested in how the despot came to power then you might want to read ***Putin: His Life and Times*** by Philip Short. This biography of the Russian leader is too inclined to give him the benefit of the doubt at certain points, but it is certainly comprehensive, taking us from Putin's childhood in the postwar Soviet Union through his rise during the 1990s, and ending just before he launched the attack on Ukraine.

Volkswagen's gentle giant

The plush new VW Amarok isn't afraid of hard work. Jasper Spires reports

"The Volkswagen Amarok has become something of a legend in the world of pickup trucks, even though it's been around for only a decade or so", says Will Nightingale in Whatcar. The latest iteration is no different. It is a "very fine" vehicle, ready to take on the rival Ford Ranger and Toyota Hilux trucks with its "startling", range-topping 3.0 V6 diesel engine, no fewer than five trim levels (Amarok, Life, Style, PanAmericana and Aventura) and a "sophisticated" ride to comfortably get you where you're going.

First off, there's the truck's handling – it's supreme. "Like the old model, this new Amarok provides an impressive driving experience", says Sam Purcell for Drive. "Volkswagen has clearly spent time and effort tuning and calibrating the powertrain, suspension, steering and sound deadening." The new all-wheel drive system can be adjusted on the go, helping with the vehicle's balance and your confidence as you thread the behemoth through corners. Amarok, Life and Style all have the same tuning, while PanAmericana gets a softer overall suspension tune that feels "more supple and absorbent", and Aventura "firms things up through the springs and dampers". On and off-road, "Volkswagen's pick-up has, after all, always strived to be the most hospitable and refined pick-up money can buy", says Richard Lane for AutoCar. There's no doubt it is quieter and more cosseting than its forebear. "In fact, on smooth motorways it does a passable impression of something from VW's passenger car stable, rather than its commercial vehicle wing." With the V6 to back it up, it is "strong enough for overtakes, refined enough for cruising, and effortlessly muscular when you're crawling about off-piste".

Inside, the multifunction steering wheel will be familiar to VW fans, while the bank of knurled plastic toggle switches below the "vast" 12.3-inch touchscreen is pure Amarock, says Dean Gibson for AutoExpress. This is an "upmarket offering for pick-up truck buyers wanting a plush machine that isn't afraid of hard work".

From around £45,000, volkswagen-vans.co.uk

> ***"This new Amarok provides an impressive driving experience"***

Wine of the week: an English sparkler to toast 2023

2018 Black Chalk Classic, England

(£35, blackchalkwine.co.uk)

Matthew Jukes
Wine columnist

A couple of weeks ago, I featured my Champagne pick of the season, and it is only fitting that English sparkling wine takes centre stage this week, so I set myself a challenge. I reviewed every sparkler I have tasted this year and shortlisted over 20 seriously delicious candidates for my ultimate pick for your end-of-year parties. I then carved off those wines that cost more than £40, because there is no need to step up too high for a thrilling English sparkling wine, particularly at New Year, and also, it levelled the field with my Champs pick, which was £32.95. Lastly, we all need a wine that is drinking now, not too young and acid-drenched or too old and losing its dynamism. With these criteria, you might think I was unicorn-hunting, but no. 2018 Black Chalk Classic is a work of art at any price, and it tastes spectacular at only four years of age.

But what clinched this wine its top spot, and put all challengers in the shade, is the holy grail of indulgent elements here, and they are in perfect harmony. The perfume is mouth-watering, uplifting and enticing, while the palate is gossamer smooth and taste-bud-titillating. The finish is bafflingly long, cleansing, crisp and refreshing, sending you straight back for more. In short, BCC is the finest, sub-£40 English fizz I have tasted in 2022, making it the perfect wine for New Year.

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

Bridge by Andrew Robson

Pleased to see the Nine

Counting, counting and counting – the three ways to improve your bridge.

Dealer East — Both sides vulnerable

North
♠ K753
♥ QJ9
♦ 543
♣ 1086

West
♠ AQJ96
♥ K62
♦ Q96
♣ 92

East
♠ 108
♥ 8
♦ AKJ1082
♣ J543

South
♠ 42
♥ A107543
♦ 7
♣ AKQ7

The bidding

South	West	North	East
			2♦*
2♥	3♦	3♥**	pass
4♥	pass	pass	pass

* Weak Two – five-ten points and a good six-card suit.
** Pushy but partner rates to have a singleton diamond – and the Heart pictures will work only in offense.

West led a Diamond to East's King, and declarer ruffed East's continuation of the Ace. Declarer reflected that East had opened a Weak Two, then shown up with at least eight points in Diamonds (marked with the Knave as well as the Ace-King, because West would have led the Queen from Queen-Knave). West had to have the Ace of Spades and King of Hearts.

At Trick Three, declarer led up a Spade. West took his Ace and returned the Queen, won by dummy's King. Declarer then ran the Queen of Hearts, expecting the finesse to lose, and West duly won the King and returned a second Heart (best). Winning dummy's nine (East discarding a Diamond), declarer now ruffed a third Spade to gain more information and noted East discard (another Diamond).

East was known to have six Diamonds, two Spades and one Heart. He therefore held four Clubs. Declarer cashed the Ace-King of Clubs, and was pleased to see the fall of West's nine. Unblocking dummy's eight, then ten, he then crossed to the Knave of Hearts, and led a third Club to his seven (key play). Ten tricks and game made.

For Andrew's four daily BridgeCasts, go to andrewrobsonbridgecast.com

Sudoku 1135/1136

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

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

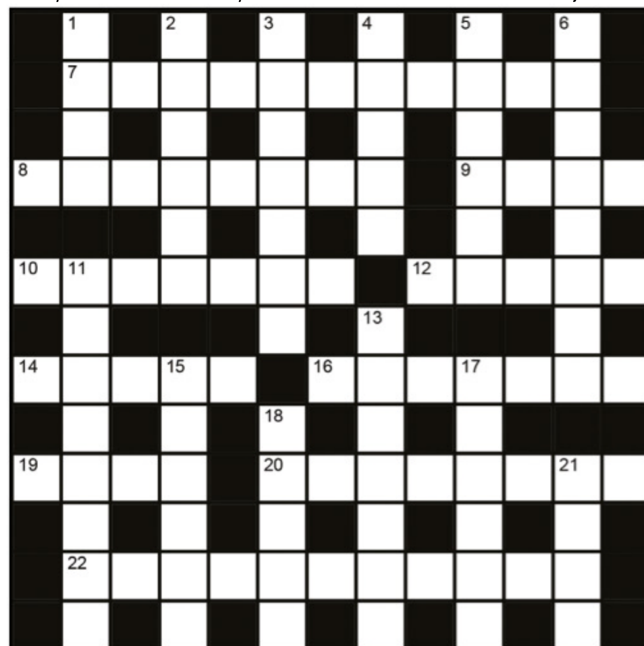
9	8	4	1	3	6	5	2	7
1	3	2	5	7	9	4	6	8
5	6	7	8	2	4	3	9	1
4	1	6	3	8	2	7	5	9
3	2	9	6	5	7	8	1	4
8	7	5	4	9	1	6	3	2
6	9	8	7	1	3	2	4	5
7	4	1	2	6	5	9	8	3
2	5	3	9	4	8	1	7	6

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

Tim Moorey's Quick Crossword No. 1135/1136

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 2 Jan 2023. By post: send to MoneyWeek's Quick Crossword No.1135/1136, 121-141 Westbourne Terrace, Paddington, London W2 6JR. By email: scan or photograph completed solution and coupon and email to: crossword@moneyweek.com with MoneyWeek Crossword No.1135/1136 in the subject field.

TAYLOR'S PORT



Six symmetrically placed answers to mildly cryptic clues must be seasonally adjusted to form reduced entries, all real words. Unclued 2 down may help

ACROSS
- **7** Article guru corrected for a growing business (11)
- **8** Rodeo in US impressed leader of expedition (8)
- **9** Endless aid following public transport measure (4)
- **10** Brussels talks a lot about introduction of regulations (7)
- **12** What's incisive in the theatre? (5)
- **14** Pass I left for officer (5)
- **16** Dancer's companion sounding like another dancer (7)
- **19** Organised cheap labour initially for place of worship (4)
- **20** 2 down offerings of impressive appearance heard (8)
- **22** Take position to win Roman garment retained by reserve (5, 2, 4)

DOWN
- **1** Trust claret for celebration (4)
- **2** Unclued, see preamble (6)
- **3** Stresses Conservative stance to be changed (7)
- **4** Having day off, searches for little people associated with 2 down (5)
- **5** City in order coming after Lima (6)
- **6** Releases accidentally and spells it wrong (4, 4)
- **11** Forecast for spy involving ambassador (8)
- **13** 2 Down cake getting burnt? (4, 3)
- **15** Deprived child frequently sounding like late Queen (6)
- **17** Single Oscar meets Wayne out to lunch (3-3)
- **18** Dopes smashed porcelain (5)
- **21** Listen out for 2 down decoration (4)

Name ....

Address ....

....

email ....

Solutions to 1133

Across 7 Sometime later *anagram* **8** Pentagon *pen tag on* **9** Adam *a DA m* **10** Scalpel *deceptive definition* **12** Mali *M Ali* **14** Alas *galas less g* **16** Donated *anagram* **19** Pitt *homophone* **20** Gathered *anagram* **22** Learning curve *deceptive definition.*

Down 1 Dole **2** Dental **3** Singlet **4** Jeans **5** Sahara **6** Relative **11** Clarinet **13** Cottage **15** Afters **17** Avenue **18** Again **21** Envy.

The winner of MoneyWeek Quick Crossword No.1133 is: Michael Ouldcott of Roxburghshire

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

Taylor's is one of the oldest of the founding port houses, family run and entirely 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.

MoneyWeek Christmas quiz

This year has seen war, swooning stockmarkets and mega-deals in the technology sector. See which financial stories you can recall with our Christmas quiz. Compiled by Jasper Spires

Money

1 The UK's annual rate of consumer price inflation (CPI) hit a 41-year peak in October 2022. How high did it climb?
1) 7.5% 2) 11.1% 3) 13.3%

2 Hong Kong finally began to relax its Covid-19 restrictions this year, encouraging tourism by lifting its mandatory three-day hotel quarantine and offering to give away 500,000 airline tickets to promote travel to the territory. How much were these tickets worth in total?
1) $190.4m 2) $254.8m 3) $380.2m

3 On 24 February Russia began its invasion of Ukraine. The war has become a bloody and protracted affair for the aggressor. What is Russia's estimated expenditure on the war so far this year?
1) $50bn 2) $68bn 3) $82bn

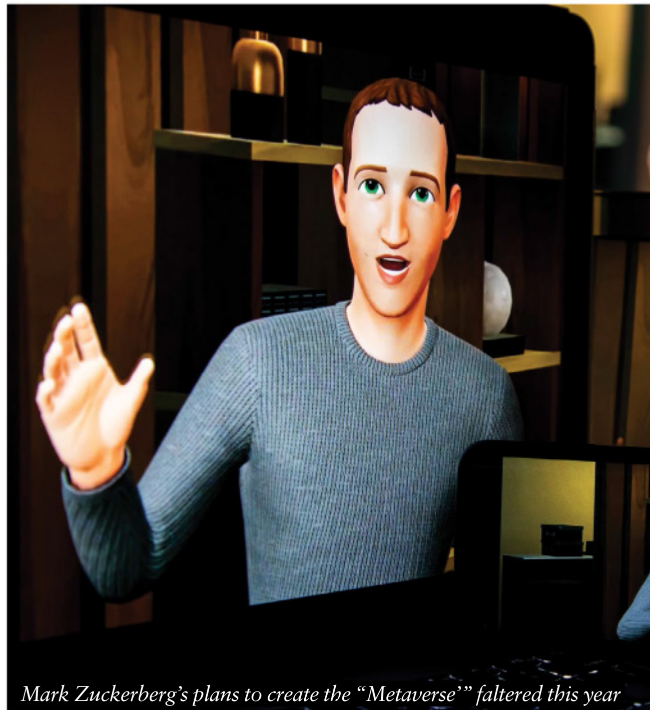
4 The 2022 FIFA World Cup is the most expensive football event on record. How much did Qatar spend on hosting it?
1) $50bn 2) $100bn 3) $200bn

5 Russia's invasion of Ukraine prompted Germany to stock up on natural gas urgently, as 55% of the gas it consumes comes from the rogue state. How much of Germany's overall gas capacity is now filled?
1) 69.5% 2) 87.4% 3) 90.2%

6 Emergency loans worth £129bn were doled out to British people and businesses in the pandemic. How much is estimated to have been lost to fraud and administrative error?
1) £5.5bn 2) £10.1bn 3) £15.7bn

7 One of the lasting legacies of the Covid-19 pandemic has been the proliferation of hybrid working, as employees split their work between the office and their home. What proportion of the US workforce is doing so?
1) 35% 2) 50% 3) 65%

8 Central banks around the world, including in Turkey, Uzbekistan, India, Qatar and China, have been stocking up on gold this year. How much gold did they buy in total between July and September this year?
1) 189.1 tonnes. 2) 256.2 tonnes 3) 399.1 tonnes



Mark Zuckerberg's plans to create the "Metaverse'" faltered this year

©Getty Images

9 This year saw London lose its position as the most valuable European stockmarket, after its total value slumped 17% in 12 months to £2.3trn. Which market eclipsed it?
1) Euronext Paris
2) The Italian Stock Exchange
3) The Frankfurt Stock Exchange

People

1 The CEO of the collapsed cryptocurrency exchange FTX, Sam Bankman-Fried, saw his net worth plummet by 94% this year after users withdrew billions. How much did Bankman-Fried lose?
1) $4bn 2) $10bn 3) $14.3bn

2 Former Disney CEO Bob Iger returned to his position in November following the departure of Bob Chapek after a lacklustre earnings report. What will Iger's base annual salary (excluding performance-based awards) be?
1) $750,000 2) $1m 3) $1.5m

3 How much of his net worth has Tesla's CEO Elon Musk lost as a result of the decline in Tesla's stock in 2022?
1) $50bn 2) $80bn 3) $109bn

4 Action film star Tom Cruise topped the box office this year with *Top Gun: Maverick*, the long-awaited sequel to his '80s hit *Top Gun*. As a result, Cruise became the world's highest-paid actor in 2022. How much did he earn from the film?
1) $50m 2) $84m 3) $100m

5 The son of Mozambique's ex-president Armando Guebuza, Ndambi Guebuza, was sentenced to 12 years in prison this year for his role in a $2bn government debt scandal. What was the affair dubbed by the press?
1) The Crab Meat Misconduct
2) The Tuna Bonds Scandal
3) The Salmon Solvency Offences

6 Billionaire investor Carl Icahn was defeated by fast-food chain McDonald's in his campaign to urge the firm to accelerate its plans to stop buying pork from suppliers where pregnant animals are kept in cages. How large was Icahn's stake in this campaign?
1) $25,000
2) $50,000
3) $75,000

7 US conspiracy theorist Alex Jones is broke after being sued for his unsubstantiated claims that the 2012 Sandy Hook school shooting was faked. How much money does he owe?
1) $900m 2) $1bn 3) $1.5bn

8 Country star Dolly Parton received a huge donation to charities of her choice from Amazon's CEO Jeff Bezos, who plans to give away his $124bn fortune. How much did she get?
1) $50m 2) $80m 3) $100m

9 Pop singer Harry Styles soared up the charts after the release of his album *Harry's House* this year, and also starred in several films. He is now said to be the UK's richest man under 30. How large is his fortune?
1) £80m 2) £97m 3) £116m

Companies

1 US semiconductor company AMD bought its competitor Xilinx this year, marking the largest semiconductor deal ever. What was its value?
1) $30bn 2) $39bn 3) $49bn

2 Microsoft bought video-game maker Activision in January. It proved the biggest deal of 2022. What did Microsoft pay?
1) $40bn 2) $58bn 3) $68.7bn

3 Sportswear brand Adidas cut ties with rapper Ye (formerly known as Kanye West) in 2022 after his antisemitic outburst. That means it will no longer sell his popular Yeezy trainers brand. By how much has this dented the group's profits?
1) €100m 2) €250m 3) €450m

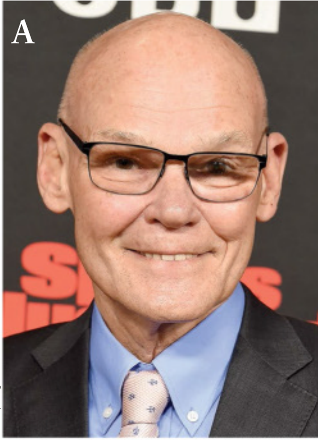
4 How much has mining giant Glencore been fined this year following investigations into dubious business practices worldwide?
1) $978m 2) $1.66bn 3) $1.82bn

5 The meme stock trend continued this year, as investors piled into firms based on online hype alone. Which company, championed for a time by Gamestop's chairman Ryan Cohen, hit the headlines this summer?
1) Naked Brand 2) Bed, Bath and Beyond 3) Roblox

6 Mark Zuckerberg's tech giant Meta, formerly known as Facebook, shed a significant proportion of its share price this year as plans to create a virtual world called the "Metaverse" faltered. The share price is now at its lowest since 2016. How much did it lose in 2022?
1) 55% 2) 64% 3) 72%

7 Netflix lost subscribers for the first time this year, shedding more than a million between April and July. How much did

Quotes: match the words to the person who said them



1. **"The Republicans are the party that says government doesn't work and then they get elected and prove it."**

2. **"If you care about the reality of doing good and not the perception of doing good, then it is very hard to give away money effectively."**

3. **"I think crypto is a complete sideshow… Crypto tokens are like pet rocks."**

4. **"I used to think that if there was reincarnation, I wanted to come back as the president… But now I want to come back as the bond market. You can intimidate everybody."**

©Getty Images

the company's share price fall in 2022 as a result?
1) 33% 2) 51% 3) 59%

8 Purdue Pharma, owned by the Sackler family, reached a new settlement with US states affected by the opioid crisis. Purdue produced the highly addictive painkiller OxyContin. How much have they agreed to pay?
1) $3bn 2) $5bn 3) $6bn

9 UK healthcare giant GSK spun off its consumer-health business, Haleon, in London this year. It was the biggest listing in Europe for more than a decade. What was its market value when it floated?
1) £22.6bn 2) £24.7bn
3) £30.5bn

10 This year Google faced lawsuits in the UK and Europe for anti-competitive practices in the digital-advertising market relating to the monopoly it holds over online news publication. How much did the claimants seek?
1) €15bn 2) €25bn 3) €30bn

Markets

1 Oil prices hit their highest level since 2014 this year. But they then relinquished their gains amid concern that a recession and lockdowns in China would dent demand. When did Brent crude hit its $140 a barrel peak?
1) 14 February 2) 7 March
3) 22 April

2 With recession fears looming, cryptocurrencies fell alongside other speculative assets in 2022. How much wealth was lost?
1) $500bn 2) $999bn 3) $2.1trn

3 Technology stocks took a battering this year as demand for growth stocks dried up. How much value did Alphabet, Amazon, Apple, Meta, Microsoft and semiconductor giant Nvidia collectively lose in 2022?
1) $2trn 2) $2.5trn 3) $3.8trn

4 This November saw UK house prices record their biggest monthly fall since the financial crisis of 2008. How far did they decline?
1) 5.5% 2) 3.7% 3) 2.3%

5 The Japanese yen fell to a 32-year low against the dollar in October. How many yen could a dollar buy at the low?
1) ¥130 2) ¥135 3) ¥150

6 Gold had a disappointing year in 2022. Despite new conflict springing up in Europe, economic uncertainty from inflation and the slump in US equities, the precious metal's value against the dollar rose by only a small amount. How much did it rise by?
1) 3% 2) 2% 3) 1.9%

Brent crude oil prices hit their highest level since 2014

©Getty Images

7 Despite gold underperforming against the dollar, its value against sterling was much more impressive. How much did it appreciate against the pound this year?
1) 6.9% 2) 7.1% 3) 8.8%

8 While US stock indices slipped into the red, the UK FTSE 100 index proved more resilient than most this year, thanks to its skew towards value stocks and commodities, which do well in inflationary times. How much has its value changed this year, to 14 December?
1) +1% 2) -0.08% 3) -2.1%

9 This year saw a meltdown in UK defined-benefit pensions after the mini-budget sent government bond yields soaring. The pension funds' hedging strategy backfired badly. What was this strategy called?
1) Collateralised-debt conglomeration 2) Liability-driven investment 3) Gilt-backed arrears

10 The mini-budget saw UK gilt prices crash. Yields soared to their highest level since 2010 as investors' confidence in the UK government was shaken. How high did the ten-year yield jump?
1) 3% 2) 3.5% 3) 4.5%

Answers

Money
1 2) 11.1%
2 2) $254.8m
3 3) $82bn
4 3) $200bn
5 3) 90.2%
6 3) £15.7bn
7 2) 50%
8 3) 399.1 tonnes
9 1) Euronext Paris

People
1 3) $14.3bn
2 2) $1m
3 3) $109bn
4 3) $100m
5 2) The Tuna Bonds Scandal
6 2) $50,000
7 3) $1.5bn
8 3) $100m
9 3) £118m

Companies
1 3) $49bn
2 3) $68.7bn
3 2) €250m
4 2) $1.66bn
5 2) Bed, Bath and Beyond
6 2) 64%
7 2) 51%
8 3) $6bn
9 3) £30.5bn
10 2) €25bn

Markets
1 2) 7 March
2 3) $2.1trn
3 3) $3.8trn
4 3) 2.3%
5 3) ¥150
6 3) 1.9%
7 3) 8.8%
8 2) -0.08%
9 2) Liability-driven investment
10 3) 4.5%

MT Quotes
1 D Satirist P.J. O'Rourke, who died this year,
2 C Tesla's CEO Elon Musk
3 B Jamie Dimon, CEO of JPMorgan
4 A James Carville, Bill Clinton's campaign manager, on the power of the bond vigilantes

Karmic repercussions in crypto

Sam Bankman-Fried may have set off the avalanche that buried him

Bill Bonner
Columnist

Bankman-Fried: "I got really distracted"

Sam Bankman-Fried, the founder of collapsed crypto exchange FTX, cannot explain how he lost investors billions of dollars, reports The Wall Street Journal. He was arrested in the Bahamas last week and charged with fraud. Now, losing a $10 bill – it happens from time to time. But losing billions takes a special kind of nonchalance.

We were suspicious of SBF from the time we first heard of him. At the height of his glory, he told the world that he didn't read books. That was surely the mark of a moron. Wouldn't the experience of others in similar situations have been of use to him? Had we been asked, we could have recommended some titles: *Reminiscences of a Stock Operator*, *Against the Gods*, *When Genius Failed*, *The Price of Time*... For the price of a cup of coffee, SBF could have learned something about the fads and fancies of a bubble market.

SBF admits the failure of FTX is his fault, but a fault of omission, not commission. That is, it wasn't wrongdoing on his party, but merely inattention. "I got really distracted," he says. That works for us. After all, crypto was just one giant distraction. But let's look at it more closely. To do so we will return to those wonderful twins, locked forever in a gravitational embrace, the cryptocurrencies Terra and Luna. One solid and immovable, the other moody and inconstant. But because the one could be traded for the other at a fixed rate, and one was "backed" by dollars, the twins were thought to be "stable".

> *"Losing billions of dollars takes a special kind of nonchalance"*

Nonsense. In practice, neither coin was worth anything, other than what people were willing to pay for it. So, when speculators began to have doubts about Terra and Luna, in the spring of this year, the price began to fall. That is when, according to The New York Times, SBF may have begun manipulating the two tokens. US prosecutors are examining the possibility.

It was widely believed at the time that SBF was acting as a JPMorgan of the crypto space – as an angel of mercy, intervening to support the two. Actually, he may have been doing something much more devilish. The bulk of the sell orders for TerraUSD appeared to be have been coming from SBF's trading firm, says the NYT, which also placed a big bet on the price of Luna falling. "Had the trade gone as expected, the price declines in Luna could have yielded a fat profit. Instead, the bottom fell out of the entire TerraUSD-Luna ecosystem."

In other words, SBF might have set off the avalanche of selling that buried him. So far this year, the $1 Terra coin has fallen to a price of $0.000171. FTX is bankrupt. SBF is in jail. "I ask myself a lot," he told the WSJ, "how I made a series of mistakes that seem – they don't just seem dumb; they seem like the type of mistakes I could see myself having ridiculed someone else for having made." Don't worry about it, Sam. Everybody does.

The bottom line

€6.6bn The sum Portugal's "golden visa" scheme has brought in over the past decade. The widely criticised scheme rewards foreigners with residence permits for property purchases of at least €500,000, but the government says it may scrap it.

£2.8m How much in total the National Grid's Electricity System Operator has rewarded around a million households who signed up to its energy-saving scheme from the five tests carried out so far. The scheme involves rewarding households for reducing their usage at peak times.

$114,000 The price, including fees, that one of the world's oldest pairs of jeans fetched at an online auction in the US. The white five-button-fly jeans had been preserved in the wreck of the *SS Central America*, a steamship which sank in 1857 with a cargo of gold bullion.

£3bn What the NHS spent on short-notice agency doctors this year, a 20% increase on 2021, says The Times. The Freedom of Information request also revealed that the Northern Care Alliance NHS Foundation Trust in Greater Manchester paid £5,234 to cover one shift.

$1,331 The average tourist spend per trip this year in the world's "top 100 city destinations", a 13% increase on 2021, according to market research firm Euromonitor International.

$400m The estimated production budget for the new *Avatar* sequel *The Way of Water*, says The Hollywood Reporter. However, director James Cameron (pictured) told GQ magazine that the sci-fi film had been "very fking" expensive to make and that it would need to be "the third or fourth highest-grossing film in history" to break even, implying takings of around $2bn.**

©Getty Images

Editor: Andrew Van Sickle
Markets editor: Alexander Rankine
Comment editor: Stuart Watkins
Politics editor: Emily Hohler
Wealth editor: Chris Carter
Shares editor: Matthew Partridge
Staff writer: Jasper Spires
Deputy digital editor: Rupert Hargreaves
Senior digital editor: Kalpana Fitzpatrick,
Online writer: Nicole García Mérida
Contributors: Bill Bonner, Ruth Jackson-Kirby, Max King, Jane Lewis, Matthew Lynn, David Prosser, Cris Sholto Heaton, David C. Stevenson, David J. Stevenson, Simon Wilson

Art director: Kevin Cook-Fielding
Picture editor: Natasha Langan
Chief sub-editor: Joanna Gibbs

Group advertising director: Peter Cammidge peter.cammidge@futurenet.com
Account director: Abdul Ahad abdul.ahad@futurenet.com
Account director: Freddie Smith freddie.smith@futurenet.com
Chief financial and strategy officer: Penny Ladkin-Brand
Non-executive chairman: Richard Huntingford
Chief executive: Zillah Byng-Thorne

Subscriptions
Email: subscriptions@moneyweek.co.uk
Web: MoneyWeek.com/contact-us
Tel: 0330-333-9688
Post: MoneyWeek subscriptions, Rockwood House, Perrymount Road, Haywards Heath, West Sussex, RH16 3DH
Subscription costs: £139.99 a year (credit card/cheque/direct debit), £159.99 in Europe and ROW £179.99.

MoneyWeek magazine is an unregulated product. Information in the magazine is for general information only and is not intended to be relied upon by individual readers in making (or not making) specific investment decisions. Appropriate independent advice should be obtained before making any such decision. Future Publishing Limited and its staff do not accept liability for any loss suffered by readers as a result of any investment decision.

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

MoneyWeek, 121-141 Westbourne Terrace, London, W2 6JR
editor@moneyweek.com

MoneyWeek is published by Future Publishing Limited. 121-141 Westbourne Terrace, London, W2 6JR

© Future Publishing Limited 2022. All rights reserved. MoneyWeek and Money Morning are registered trademarks. Neither the whole of this publication nor any part of it may be reproduced, stored in a retrieval system or transmitted in any form or by any means without the written permission of the publishers.
© MoneyWeek 2022
IISSN: 1472-2062

When it comes to investing you might have a few assumptions (you have to be rich to invest, it's too risky, you need to be a "professional"), are bombarded with financial jargon (index, funds, stocks, shares) or are not sure where to start. Kalpana Fitzpatrick, financial journalist and money expert, will help you take control of your finances with this easy-to-understand guide to investing.

Invest Now is an essential book that will teach you:

- **What investing is and why you need to care about it**
- **How investing works and why cash is making you "poor"**
- **If investing is for you and how to get started**
- **How to ethically invest to save the planet**
- **How to break down financial jargon, bust myths and so much more**

Whether you want to make a big purchase or retire early, investing will help you achieve your financial dreams.

Kalpana Fitzpatrick is an award-winning financial journalist and the senior digital editor of MoneyWeek. She has worked for a range of national newspapers, magazines and websites. As a money expert, she is often a guest on TV and radio. She has appeared on Sky News, BBC, ITV and Talk TV.

MoneyWeek

Reader Survey 2022

Win £100

Do you want to help us to shape the future of MoneyWeek? Please complete our reader survey online by 30 January, 2023, and we'll use your feedback to plan upcoming issues.

As a thank you, all completed surveys will be entered into a prize draw. The first survey drawn at random will win £100 and the following five entries randomly selected will each receive £25.

You can take part online at:
bit.ly/MWSurvey22

65%

Emerging market economies generate 65% of global growth*

If you are looking for a long-term investment that harnesses this dynamic growth potential but are not sure how to access it, consider Templeton Emerging Markets Investment Trust.

Our team of specialist investors hand-pick 60-80 quality companies to create a balanced portfolio, making it easy for you to invest.

And because we analyse hundreds of factors including environmental and social impacts, we identify companies that are leading the way to a more sustainable future.

- 30+ year track record
- Over 1 billion shares in issue
- 'Low carbon' designation† from Morningstar®

Visit temit.co.uk to find out more.

Value of investments can go down as well as up, investors may not get back the full amount invested. Emerging markets can be riskier than developed markets.

This advert is not investment advice. We recommend seeking financial advice before investing. Issued by Franklin Templeton Investment Management Limited (FTIML), Cannon Place, 78 Cannon Street, London EC4N 6HL. FTIML is authorised and regulated by the Financial Conduct Authority.

*Source: IMF WEO, October 2021.

†Source: Morningstar as at 16 November 2021. ©Morningstar Inc, 2022. All rights reserved.