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Why the young are ditching the drink



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The man who saved investors millions



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Cash machines

The dividend stocks to buy now

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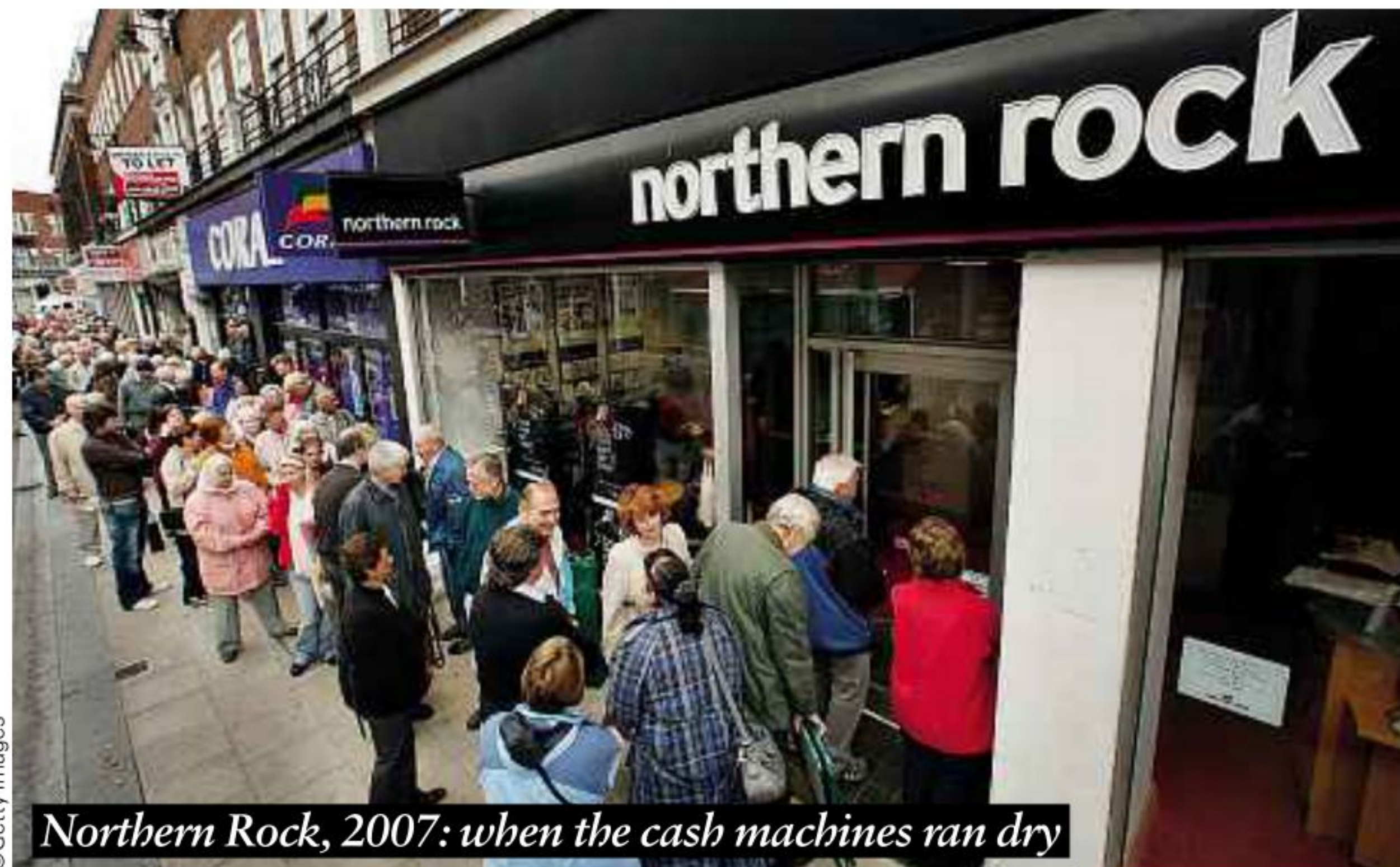
From the editor-in-chief..



One way of measuring market sentiment is to look at how far the average stock falls when it issues a profit warning. Do that in the UK at the moment and it sums up the general malaise in the investing community quite nicely. In the depths of the eurozone crisis of 2011, if your profits disappointed, the average hit to your share price on the day of the warning was around 17% (in normal times it is more like 10%). Back in 2008 (when the financial world really was on the brink of going to hell in a handbasket) it was slightly more than 20%. By the end of last year, according to Montanaro Asset Management it was 21%.

Yes, investors today are, on this measure at least, even more jittery than they were in the heat of the global financial crisis – when the cash machines were just a heartbeat away from grinding to a halt across the developed world. That would make sense perhaps if the UK market was super expensive (as the US still is). But it isn't. The market as a whole is trading on a forward price/earnings (p/e) ratio slightly below its long-term average and a cyclically adjusted p/e (Cape – which takes account of fluctuations in earnings that are mainly due to the business cycle) slightly above it.

It's a similar story in Europe, and on the same measures there are some parts of the world that look positively cheap:



©Getty Images

Northern Rock, 2007: when the cash machines ran dry

“Investors today are even more jittery than they were in the heat of the financial crisis”

Japanese equities are trading below their long-term Cape and emerging markets as a whole, having had a hideous year in 2018 (falling by 17% overall), very much below theirs (12 times against 16 times). This isn't necessarily to suggest there is a giant bull market in the making, just that a nasty bear market, while possible, isn't a given.

Turn to the Alex cartoon on page 32 and you will see the exact mindset driving today's market misery. Brexit, the US government shutdown, trade wars, the tech wreck of the end of last year – according to Clive and Alex (who are a little too scarily realistic for comfort), all these things mean the future is clearly hellish. Any bump in the market is therefore to be seen as an opportunity to sell and run.

But what if Brexit isn't awful? What if it is possible for Donald Trump to be

president of the US and for the US to simultaneously be resilient? What if underlying the things that look scary there are scores of good corporations doing well and start-up firms looking fantastic as technology democratises entrepreneurship? The point here is one that Pippa Malmgren, author of *Signals*, often makes to me.

Investors want simplicity and certainty as much as anyone else. So they create imaginary binary futures to wrap around their portfolios. But the future isn't binary all. It's complicated and blurry. Yes, global politics is a bit iffy. Yes, the beginning of

quantitative tightening (QT) is not good for asset prices. And yes, the German and Chinese economies are a bit of a worry. But no, the end of the world is not nigh (probably). With that in mind we would suggest that the market right now is as much at risk of “melt up” as meltdown. You need to invest for both possibilities. How? Max King might have some of the answers (page 20). Nick Train has a few more (page 32). And on page 24 we look at the classic middle-way route to investing success – looking for long-term sustainable dividends, something that is particular vital now that inflation is back (see page 10).

Merryn Somerset Webb
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Bankruptcy of the week



©Rex Features

Patisserie Valerie went into administration this week. The cafe chain's downfall puts 3,000 jobs at risk, and means an estimated personal loss of £189m for executive chairman Luke Johnson (pictured), who has extended a £3m unsecured interest-free loan to the business to cover wages in January, says *The Times*. He bought “PatVal” in 2006, listing it on London's junior market, Aim, in 2014 with a value of £170m. That figure rose to £511m last June, but the revelation of “significant, potentially fraudulent accounting irregularities” prompted an investigation by the Serious Fraud Office. Parent firm Patisserie Holdings found a £40m hole in its accounts. It has since said the scandal was even worse than first thought.

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

Good week for:

Churches that have introduced contactless collections have seen their takings rise by 97%, says *The Daily Telegraph*. The Church of England began rolling out contactless collection plates last year and reckons that in a congregation of 500, 175 extra donations are made per service, equating to £875 more revenue each time.

The world's richest people saw their wealth rise by 12% last year, according to charity Oxfam, whose primary source for its annual report is the Credit Suisse Global Wealth Report. In all, the wealth of the world's 2,208 dollar billionaires rose by €900bn, or €2.5bn a day.

Bad week for:

The Russian people's trust in president Vladimir Putin (pictured) has fallen to an all-time low, according to a poll by the state-controlled Russian Public Opinion Research Centre. Just 33.4% think Putin can solve the country's most serious problems, reports *The Financial Times*. That's 30 percentage points lower than the reading taken in 2015, just after Russia's annexation of Crimea. Unfortunately for dissatisfied Russian citizens, however, credible opposition politicians are somewhat thin on the ground.

France's data protection watchdog, the **Commission Nationale de l'Informatique et des Libertés**, has fined Google €50m (£44m) for its “lack of transparency, inadequate information and lack of valid consent” regarding personalised advertisements online, says *The Guardian*. It is the first big fine levied for breach of the EU's new GDPR data collection regulations.



Are we facing another subprime crisis?



Marina Gerner
Markets editor

Fears are growing that leveraged loans – a high-risk section of the corporate debt market, worth more than \$1.2trn – could cause a “subprime mortgage-style meltdown”, say Anna Isaac and Tom Rees in *The Daily Telegraph*. This time, the borrowers are not US homeowners taking out mortgages, but “US companies with weaker credit ratings”, notes Jim Puzanghera in the *Los Angeles Times*.

Companies taking out such loans are often already heavily indebted. Last year, for example, toy shop chain Toys R Us and US department-store giant Sears collapsed under the strain of such debt. Investors have flocked to leveraged loans because typically the interest rates charged are not fixed but floating, so they rise along with central bank rates. But in their haste to invest, lenders have been willing to accept far more forgiving terms (known as “covenant-lite”) than in the past.

In 2007, “cov-lite” loans accounted for about 25% of leveraged loans – now it’s a record 80%, reports credit ratings agency Moody’s. So when hard times hit and default rates rise from their current lows, says Moody’s, recovery rates for lenders could average 61 cents on the dollar, well below the historical average of 77 cents.

Central banks are starting to worry

But what really concerns global central banks is the risk that the impact of these losses could “cascade through the financial system”, says Puzanghera. That’s because many leveraged loans have been bundled up (subprime style) into collateralised loan obligations (CLOs) and sold on to investors, including investment funds.



Toys R Us collapsed under the weight of its debts

The Bank for International Settlements (often known as the central banks’ central bank) warns the *Financial Times* that a slide in the value of such loans “could spur fund redemptions, induce fire sales and further depress prices”.

In turn, this could hurt “the broader economy by blocking the flow of funds to the leveraged credit market”. Demand for CLOs may now be cooling. In December, investors rattled about the overall economic outlook pulled \$1bn from the asset class, notes the FT. But the debt pile remains significant.

A slow-motion meltdown

Could it really cause a repeat of the subprime crisis? Perhaps not. As Puzanghera notes, subprime mortgages

accounted for 20% of the US mortgage market at their height. Leveraged loans account for less than 5% of the US bond market. And ironically, adds Michael Lewitt on *The Credit Strategist*, given that “liquidity is much worse today” (see page 5) than it was in 2008, investors would no longer be able to sell a large amount of bonds once panic strikes.

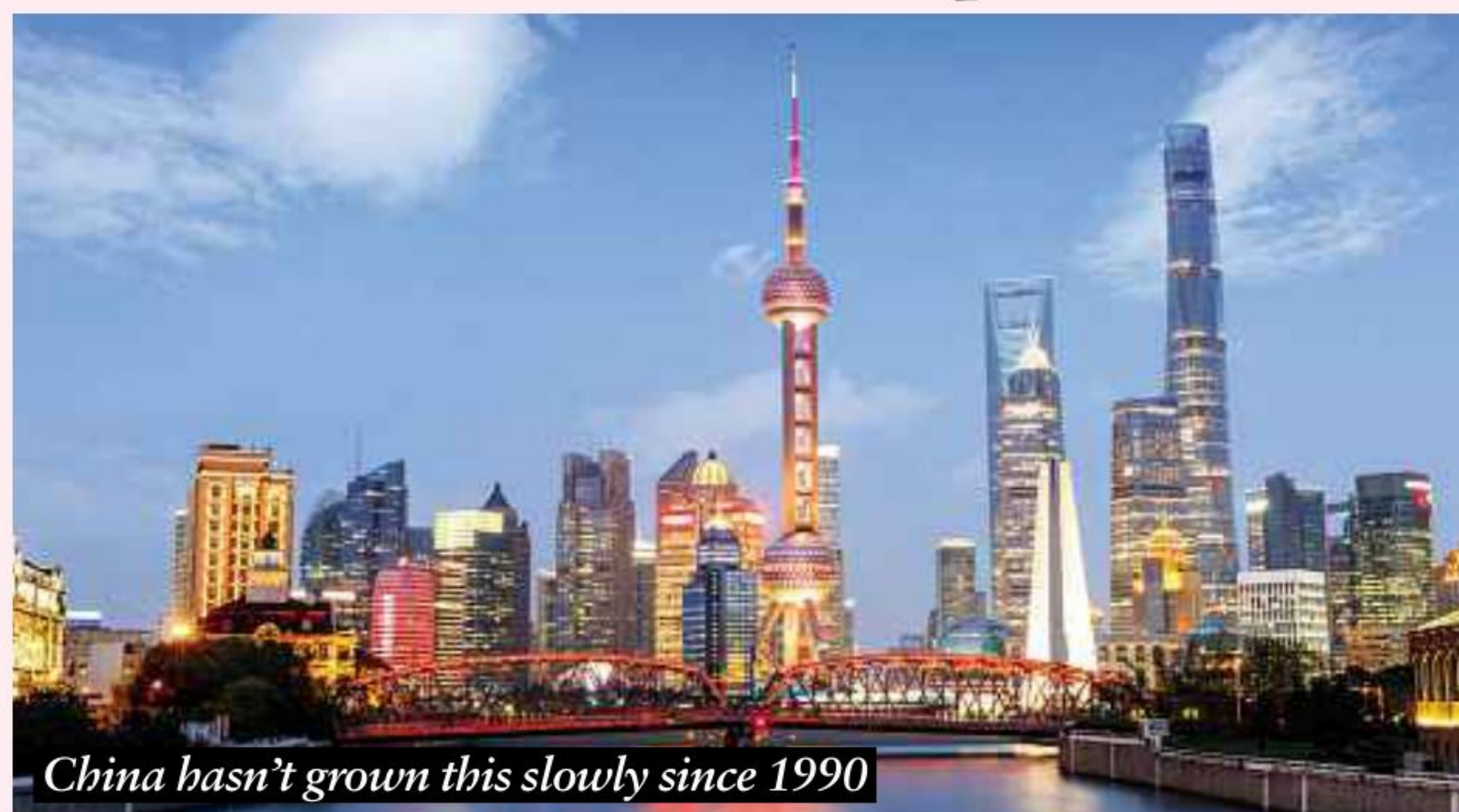
As a result, a shock credit-market collapse seems a lot less likely than a “slow-motion meltdown”. Yet while we may not be facing a repeat of 2008, a slump would still hurt. As former Federal Reserve chair Janet Yellen told the FT last autumn, when the next recession hits, “there are a lot of firms that will go bankrupt... because of this debt. It would probably worsen a downturn.”

Who suffers most if China slumps?

Last year, China grew by just 6.6% – the slowest pace since 1990. In 2017, growth reached 6.8%. The news has compounded worries that China, which accounted for a third of global GDP growth in 2017, could now become a drag on the global economy.

The deceleration was “at least partly self-inflicted”, say Gabriel Wildau and Emily Feng in the *Financial Times*. Beijing has been struggling to wean the economy “off its reliance on debt-fuelled stimulus”.

So there has been a sharp slowdown in infrastructure spending and reduced access to credit for privately owned companies. In short, “the roots of the current downturn can be found in the response to the last one”, says Nathaniel



China hasn't grown this slowly since 1990

Taplin in *The Wall Street Journal*. Not only is domestic investment falling, but the global outlook isn’t encouraging either. Last December, export growth fell to 0.2% year-on-year in renminbi terms, says

Chen Long of Gavekal Research, and import growth declined by 3.1%. “It will surprise few that exports to the US were down.” But exports to Europe and Japan also slowed. This indicates “softening global demand”.

The government will be wary of a major stimulus as the overall debt burden is now high. Chinese growth is likely to weaken further in 2019, says Neil Shearing of Capital Economics.

That’s bad news primarily for Asian economies with close trade links to China, such as Taiwan, Vietnam and Malaysia. It’s also worse news for Europe than America. Chinese direct investment in Europe is worth six times the amount allocated to the US (\$12bn versus \$2bn in the first half of 2018), says Leonid Bershidsky on Bloomberg. Last year, the firms in Germany’s DAX index derived 15% of their revenue from China. If China slows sharply, Europe will bear the brunt.

How palladium is outshining gold

Palladium is on a roll. It has risen by 65% to \$1,400 per ounce, a new record high, since mid-August, eclipsing gold for the first time in over a decade last month.

The metal is used in emission-reducing catalytic converters in petrol engines. High environmental standards and the backlash against diesel in Europe, along with new emissions standards in China, are fuelling demand.

Supply, meanwhile, is looking more and more constrained. Palladium “is more valuable than gold as it is rarer”, Michael Jones, chief executive of Platinum Group Metals told Barron’s.

While there are dozens of gold mines around the world, only two are primarily mining palladium. There are “no signs” that palladium’s deficit is going away, Dominic Schnider, head of commodities and APAC forex at UBS Wealth Management told Reuters.

“We expect palladium auto demand growth to continue for a couple of years,” says a UBS report. Myra Saefong of Barron’s cautions that car makers might begin to favour the metal’s cheaper alternative, platinum, which can be used in petrol-engine catalysts.

Still, any switch would take carmakers at least 18-24 months to implement. For now, then, palladium’s position seems secure. Investors can bet on palladium with an exchange-traded fund tracking the spot price, the **ETFS Physical Palladium (LSE: PHPD)**.

The money flood recedes

Investors always keep a close eye on earnings forecasts, economic growth, and valuations. But they should be paying more attention to the most important headwind facing equity markets: the flood of cheap and printed money that has boosted them for a decade is receding.

The US central bank is “unwinding its Frankenstein experiment and stricken markets are the unwilling guinea pig”, as Tom Rees puts it in *The Daily Telegraph*. After a decade of quantitative easing (QE), whereby the Federal Reserve injected money into the economy by buying bonds with printed cash, it is now doing the opposite. The Fed has embarked on quantitative tightening (QT), which means it is withdrawing money from the system by selling the bonds to the tune of \$50bn a month.

This has come on top of its regular interest-rate hikes. David Rosenberg of Gluskin Sheff told *Finanz und Wirtschaft* that the Fed’s QT last year was the approximate equivalent of a 1% interest-rate hike. The Fed’s assets have now fallen from a peak of 23% of GDP in 2017 to 17%.

This leaves the Fed’s balance sheet at “barely more than half the ECB and the Bank of England and only a small fraction of the size of the Bank of Japan’s balance sheet”, according to Capital



US Fed chair Jerome Powell: cold turkey is off the menu

Economics. Meanwhile, the European Central Bank (ECB) announced this month it will no longer increase its holdings of government bonds for the first time in almost four years, says Kate Allen in the *Financial Times*.

The Bank of Japan is still engaging with QE, but it can “no longer offset the Fed’s QT”, says Clemens Schmale on GodmodeTrader. Global central banks went from \$2.69trn in new annual credit growth in December 2017 to \$410bn in credit contraction by December 2018, according to Seeking Alpha.

December’s stockmarket tumble “was pinned on a cocktail of worries from trade tensions to a darkening global growth outlook”, says Rees. But some fear that it’s no coincidence that the turbulent

final quarter “coincided with the moment that QE tipped into QT globally”. Given that the previous expansion of liquidity helped “inflate asset prices”, it should not come as a surprise “that asset prices have come under pressure as global liquidity flows reverse”.

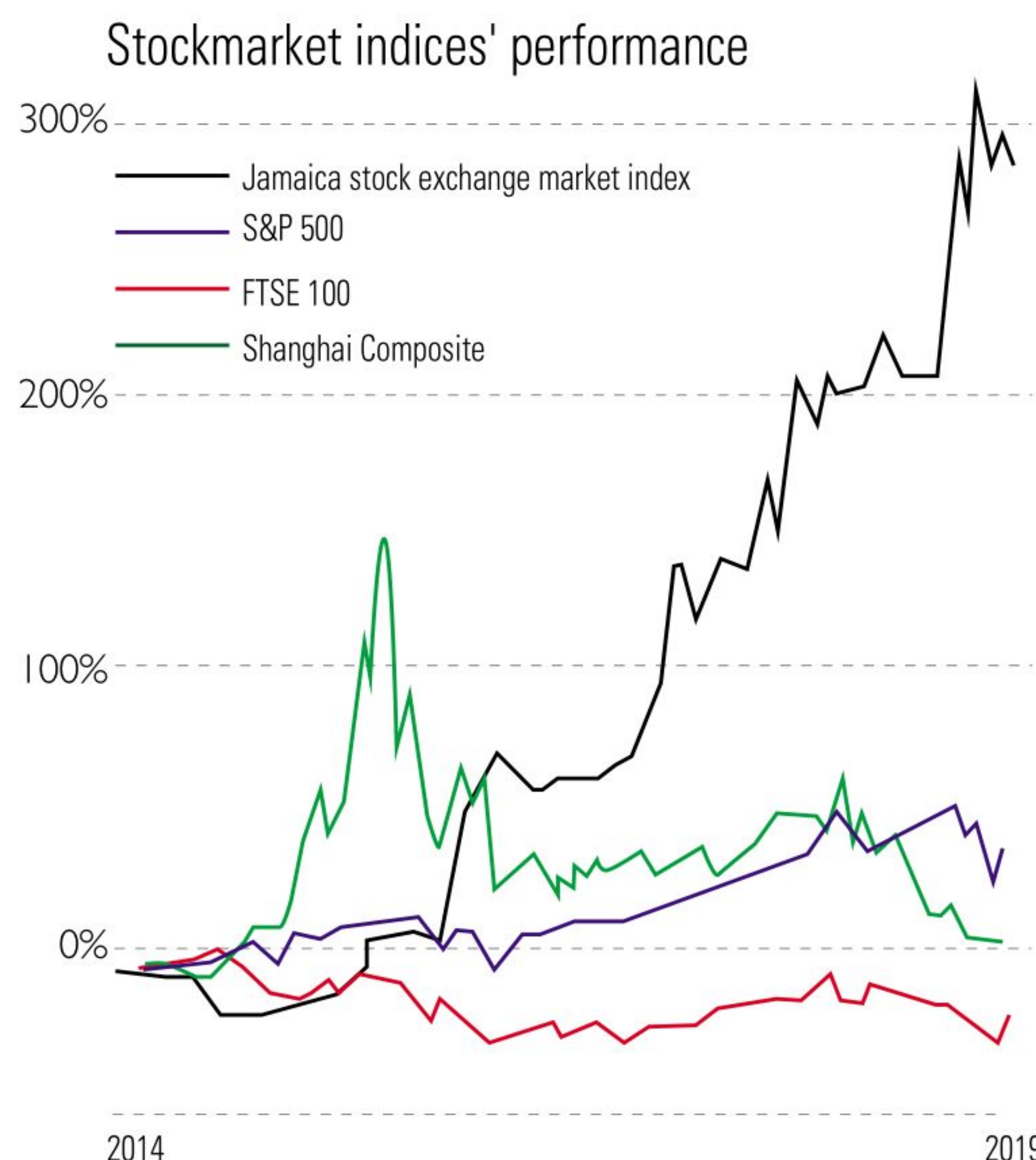
Nevertheless, liquidity-addicted stockmarkets needn’t lose hope just yet. US Fed chair Jerome Powell has indicated that he will be “patient” with interest-rate hikes. Given the recent market turmoil, and signs of a slowing global economy, it’s possible the Fed won’t raise rates at all this year, while some analysts think there could be a pause in QT too. A serious downturn could even prompt looser money. Central banks are attempting slow withdrawal; cold turkey is not on the cards.

Viewpoint

“Jim Yong Kim has resigned, three years ahead of schedule, as president of the World Bank... this Korean-American healthcare boffin has made a negligible impact. Critics note that China... now lends vastly more to poorer nations than the World Bank does, and wields more and more influence on their behaviour... Leading the field of alternative candidates for the umpteenth time is former Nigerian finance minister Ngozi Okonjo-Iweala, who I salute for her persistence. But let me go one better and propose Dambisa Moyo, a Zambian-born economist who began her career at the World Bank, rose via Goldman Sachs to the board of Barclays, and has written bracingly on the failures of aid, the decline of Western economic clout and the rise of China. The Trump family may be unfamiliar with her work, but I think they’ll find she ticks every box.”

Martin Vander Weyer, *The Spectator*

Why Jamaican stocks are racing ahead



In 2018, Jamaica’s benchmark stockmarket index rose by 29% in US dollar terms, the world’s best equity-market performance. In the past five years, it has quadrupled. This sort of jump usually reflects a radical improvement in the macroeconomic backdrop. But in this case it’s chiefly due to the market’s small size and illiquidity. It “doesn’t take much investment to make a tiny market boom”, says Bloomberg. The total value of the index’s 37 stocks is less than \$11bn, “smaller than the valuation of Chipotle Mexican Grill Inc”. Moreover, many companies are majority-owned by foreign conglomerates, which further reduces the number of shares available. Some stocks don’t trade “for days or even weeks”.

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

Three to buy



BAE Systems

Shares

In troubled times this defence giant offers steady growth at an “undemanding valuation”. The group’s impressive global diversification acts as a hedge against Brexit uncertainty, with BAE making 39% of sales to the US and 16% to

Saudi Arabia. 2018 brought fighter jet orders from Qatar and frigate purchases from Australia, ensuring a good pipeline of work in the coming years. The shares offer a 4.6% prospective dividend yield. Full-year results on 21 February could prove a “big share-price catalyst”. *503p*

Fresnillo

The Sunday Telegraph

The election of left-wing firebrand Andrés Manuel López Obrador (AMLO) to

the Mexican presidency last year worried shareholders in this Mexico-focused precious metals miner. But the new government has shelved talk of higher mining taxes. Precious metals are rallying, while Randgold Resources’ imminent de-listing could see gold and silver bugs put their money in Fresnillo instead. The shares should “gleam” again. *887.6p*

Weir Group

The Mail on Sunday

This Glasgow-based engineer makes and repairs specialised

equipment used for mining and in oil and gas production. The firm employs 18,000 people in more than 70 countries, generating annual sales of roughly £2.5bn, 95% of which come from outside the UK. A recent slowdown in the US fracking market has spooked some investors, but 2019 should bring a recovery, while the mining division is also making “strong progress”. Analysts expect encouraging figures when Weir announces 2018 results at the end of next month. *1,415p*

Three to sell

Boohoo

Motley Fool UK

Revenue at this fast-fashion retailer leapt 44% year-on-year during the last four months of 2018. A 1.7% rise in gross margins is particularly impressive given poor profitability has dogged rival Asos. Yet the headline numbers don’t tell the whole story. Sales at the main Boohoo division only rose 15% – impressive but below market expectations.



A forward price/earnings ratio of 47 leaves little margin for error if growth slows down, making the shares a risky prospect. *181.55p*

EnQuest

Investors Chronicle

This North Sea explorer

and producer is highly geared to any rally in the price of oil, but die-hard oil bulls would do better to look elsewhere. The group’s “huge debts, high costs and long project delays” mean cash flow has gone into the pockets of lenders rather than shareholders in recent years. The group’s operations are overly concentrated on a few fields, increasing risk. What’s more, EnQuest’s “sizeable dollar-denominated debts” are made all the more challenging by sterling’s prolonged weakness. *20p*

Vodafone

The Times

“Vodafone shareholders prize their dividend”, but with the shares yielding 9% the market seems “braced for a sharp cut”. The €18bn acquisition of Liberty Global’s cable assets in Germany and eastern Europe will significantly add to a €32bn debt pile, potentially triggering a credit downgrade. “Costly spectrum auctions” and 5G upgrades mean Vodafone is unlikely to maintain the current “gravity-defying dividend”. *148.75p*

...and the rest

The Daily Telegraph

Palm oil producers MP Evans and Copenhagen-listed United Plantations are both family-run businesses with strong balance sheets, making them resilient commodity plays (*656p*; *DKK1,345*).

Investors Chronicle

Public sector-focused software specialist Kainos is a great way to play Whitehall plans to digitise more government services: growth has been “phenomenal”, and the group has no debt (*394p*).

Logistics group Wincanton has announced a new transport and warehousing partnership with Weetabix. The shares are cheap, although the balance sheet may scare away the less risk-tolerant (*234p*).

Shares

The £348m sale of its commercial-property portfolio means that pub operator EI Group can reduce debt and return more cash to shareholders (*202.5p*). Shares in fire and water safety expert Marlowe have



drifted downwards over the past few months, but positive earnings momentum could prompt a re-rating (*389p*). Bulmers and Magners brewer C&C has turned in a healthy Christmas performance and has momentum (*€3.19*).

The Times

Consort Medical is one of the pharmaceutical businesses hit by the US shutdown, which has delayed new drug approvals. The group’s revenues should tick up when the Food and Drug Administration gets back to work, while if the shares remain at current oversold levels it could prove “an attractive takeover target” (*800p*). Giant warehouse investor Tritax Big Box has reliable blue-chip tenants and offers a 4.8% prospective dividend yield (*138.5p*).

An American view

Ball Corporation is one of 2019’s most promising stocks, Rivulet Capital’s Oscar Schafer told the Barron’s Roundtable. Having snapped up British rival Rexam in 2016, Ball has become the world’s biggest drinks can manufacturer; it also produces metal packaging for food and household products. Environmental worries surrounding single-use plastic packaging are good news for makers of aluminium cans, which are “infinitely recyclable”. Global consumption of drinks is ticking up as emerging markets become richer, while the decline in “big beer” sales volumes is being more than offset by rising demand for craft beers and mixed drinks. Schafer sees scope for the shares to rise by 30%.

IPO watch

Investors have been looking forward to several big tech flotations in 2019, says Olivia Feld in The Sunday Telegraph, starting with ride-sharing apps Uber and Lyft. But the US government shutdown is causing delays. Staff at the Securities and Exchange Commission (SEC), the financial regulator overseeing initial public offerings (IPOs), have not worked since 27 December. Firms preparing an IPO issue a draft prospectus that the SEC comments on, usually within 20 days, before a final prospectus emerges. Proceeding without SEC feedback is deemed risky. The SEC has yet to comment on Uber and Lyft’s initial drafts, so it will be some time before they come to market.

City talk

● Many people will be feeling a “certain schadenfreude” at Ryanair’s latest profit warning, says The Independent’s James Moore: the budget airline has “made scant effort to win friends among customers, staff, the media, even investors on occasion”. And CEO Michael O’Leary has warned forecasts may be reduced further owing to intense competition over the winter. However, Ryanair still has “both the resources and the wherewithal to outlast and outpunch its rivals when it comes to the current price war”. This means that when the fracas finally ends, Ryanair will be “in a good position to make back the money it has lost, and more”.

● Before his arrest, Nissan’s Carlos Ghosn (pictured) was the “quintessential Davos figure”, says Bloomberg. However, instead of “hobnobbing with the global elite” at Davos, he’s now “languishing in a Tokyo



prison”. And this is unlikely to change any time soon since a court has rejected his “last-ditch” bail effort. This was despite his offer last Monday to remain in Japan, “pay for an electronic tracker” and be monitored by private security guards while he awaits trial for understating his income at Nissan by “tens of millions” of dollars and misusing company funds.

● Last week Netflix announced it was increasing prices for its US consumers, a move cheered by analysts, says the Financial Times’s Anna Nicolaou. Although a “mixed performance on revenues, earnings and subscriptions” a few days later ended the rally, investors still have reason for cheer. The 29 million rise in the number of subscribers underscores Netflix’s ability to attract new customers as it pours billions into new films and television shows, “regularly outbidding traditional Hollywood studios and TV networks”.

©Getty Images

Tesla’s latest speed bump

The electric-vehicle maker is axing 7% of its staff to cut costs and make its cars more affordable – a belated dose of realism. Matthew Partridge reports

The man who promised he’d “help save Earth for humanity” and “colonise Mars” is now being forced to focus on some more “mundane goals”, says Russ Mitchell in the Los Angeles Times. In a note to employees last week Musk announced that although last year “was the most successful... in Tesla’s history”, he was going to fire 2,500 workers (around 7% of the company’s full-time workforce) in order to cut costs. The hope is that this will help get Tesla closer to its goal of a \$35,000 mass-market Model 3 electric car, which currently looks like a “mirage”. At present, “none of Tesla’s cars... is priced for a middle-income buyer”. Customers usually pay around \$60,000 for a Model 3 after adding a few extras; they start at \$44,000. The news went down badly on Wall Street, with the company’s share price falling 13%.

The move has prompted investors to question whether Tesla “can sustain demand for its priciest vehicles”, says Matthew Rocco in the Financial Times. Still, Tesla isn’t the only car company tightening its belt “as costs rise and competitive pressures increase”. For example, General Motors announced a few weeks ago it was cutting back in North America and Canada, while Ford has announced cuts in Europe. There’s also the hope the launch of Tesla’s Model 3 in Europe and China could offset any drop in demand in the US.

Lowering expectations

The problem is that while investors in car companies usually “judge their companies chiefly on how quickly management accepts the essential grimness of their reality”, Tesla isn’t meant to be an ordinary car company, says Bloomberg’s Liam Denning. So while it’s “laudable” it is trying to increase efficiency, the fact is that “spending and capital investment should be increasing” so that the company has a chance of producing the “staggering growth” required “to justify” its valuation. These redundancies, along with price cuts, are undermining “the story of limitless growth”.



Elon Musk: forced to focus on mundane matters

Moreover, although it’s “hardly unprecedented” for an upstart company to expand too quickly, “growing pains aren’t baked into the company’s lofty valuation”, says Charley Grant in The Wall Street Journal. The cuts, as well as \$10bn in debt, are going to make it even harder for Musk to fulfil grandiose promises of fully self-driving cars, new passenger and freight vehicles and roofs that can generate solar power for homes. It’s going to be interesting to see how long investors can “insulate themselves from reality”, given the stock trades at 50 times 2019 earnings. What’s more, “those earnings estimates are likely heading lower and that multiple higher”.

All this talk of cutbacks is “effectively a profit warning”, says Reuters’ Antony Currie. Still, it’s refreshing to hear a “rare dose of realism” from Musk, who has spent far too much time hyping up the car company’s performance. If his “unusual openness” is the start of “a more pragmatic approach” after “years of overpromising”, then that’s no bad thing.

Britain’s ten most-hated shares

These are the ten most unpopular firms in the UK, based on the percentage of stock being shorted (the “short interest”). Short-sellers aim to profit from falling prices, so it helps to see what they’re betting against. The list can also highlight stocks that may bounce on unexpected good news when short-sellers are forced out of their positions (a “short squeeze”). Engineering firm Babcock’s chairman Mike Turner is to leave amid rumours that the group is in poor health; BNP Paribas has downgraded troubled oil services firm John Wood Group.

Company	Sector	Short interest on 23 Jan (%)	Short interest on 28 Dec (%)
Plus500	Financial Services	13.12	10.42
Arrow Global Group	Financial Services	12.45	12.1
Ultra Electronics	Defence	12.18	10.82
Marks & Spencer	General Retailers	11.37	11.6
Debenhams	General Retailers	10.63	10.26
Wood Group	Oil Services	9.42	NEW ENTRY
AA	Support Services	9.27	7.97
Pets at Home	Pet Retailers	8.76	9.33
IQE	Semiconductors	8.35	8.42
Babcock International	Engineering	7.85	NEW ENTRY

“Plan A” dons a false moustache

Theresa May's deal is back on the table. Will it be more appetising the second time? Emily Hohler reports

A week after she suffered the “biggest parliamentary defeat of modern times” and for all her “fine words about cross-party engagement”, Prime Minister Theresa May is still “refusing to budge” over her Brexit withdrawal bill, says Michael Deacon in *The Daily Telegraph*. Her “tantalisingly billed” Plan B turned out to be “Plan A in a false moustache”. In her statement to the Commons on Monday she insisted the centrepiece of her strategy is negotiating changes to the Irish backstop. She also reiterated that a second referendum could undermine “faith in our democracy” and refused to rule out a no-deal Brexit, “claiming the only way to do so was to accept her deal – or revoke Article 50 altogether”, say Heather Stewart and Jennifer Elgot in *The Guardian*.



May: Brexit deal not dead

Drop the backstop

The Northern Ireland backstop is the critical issue, says Boris Johnson in *The Daily Telegraph*, but there is nothing our MPs can do to “change that text” in the withdrawal deal. That is why May must now return to Brussels “with a real take-it-or-leave-it determination” and get them to take the backstop out, or at the “very least give us a legally binding change... that allows for the UK to come out of its own accord”. Then we will be able to say that the agreement, while “imperfect”, is “at least tolerable”. It will also “unite her party; and the national feeling of relief will be astounding”. There are large numbers of MPs who want to stop Brexit, and are hatching “absurd plots” – endless “amendments, feints, ruses, motions” – to do so. But they won't stop Brexit, and by “seeming so blatantly to go against the wishes of the electorate” they will merely contribute to the sense of a growing divide between the public and the political elite.

So what are May's chances of securing concessions, ask Karla Adam and William Booth in *The Washington Post*. Germany's chancellor, Angela Merkel, shifted some of the onus back on the EU, saying “we have a responsibility to shape a divorce process” so people don't ask us why we didn't compromise 50 years from now. The Polish foreign minister, Jacek Czaputowicz, suggested limiting the Irish backstop to five years. Jean-Claude Juncker's chief spokesman responded by saying the withdrawal deal was “not open to negotiation” and told reporters it was “pretty obvious” that border infrastructure (ie, a hard border) would be needed if the UK were to leave the EU without a deal – remarks the Democratic Unionist Party's Brexit spokesman, MP Sammy Wilson, described as “belligerent bluffing”, says Daniel Boffey in *The Guardian*.

If a five-year limit to the backstop found favour with other member states, that “could well do the trick”, as would a

“unilateral withdrawal mechanism for the UK”, says Sebastian Payne in *The Financial Times*. For now, both Ireland and the EU are standing firm, but resolve will be tested “the closer we move towards the prospect of a crash Brexit”.

Even if May does secure changes to the backstop, the objections of many Tory MPs go “way beyond” this “narrow issue”, says Rachel Sylvester in *The Times*. True, but some of the “most boisterous Brexiters”, including Jacob Rees-Mogg and Nadine Dorries, have changed their tone in recent days, realising they “risk allowing perfect to become the enemy of the good”, says Payne. May's Brexit is “far from” the “buccaneering vision of ‘taking back control’”, but “opposing it could result in no Brexit at all”. Perhaps they will stand firm and Parliament will “take control and direct what happens next”, but “an orderly Brexit” is in the interests of all the key players. May's deal “may not be quite dead”.



Second referendum: divisive

Second-vote juggernaut is unstoppable

To avoid a “catastrophic crash-out” from the EU on 29 March, MPs have begun “wresting control of the process from the government”, says the *Financial Times*. This is a “justifiable effort to forge consensus” in the absence of a working government majority. MPs should “legislate against a no-deal outcome” and seek to extend Article 50. They should then hold “indicative votes to test support for other options”. However, if none can win a majority and Theresa May's deal “remains deadlocked”, then a second referendum seems the only option, it says.

Voters don't seem “very keen for MPs to pass them the buck”, says John Curtice in

The Daily Telegraph. Popular support for a second vote is not as great as the People's Vote campaigners suggest. According to polls, around two-thirds of Remainers would like one, but only one in eight Leavers would.

A second referendum would be the “most bitter and divisive event in modern history” and would probably be a tight contest, says William Hague in the same paper. But, by a process of elimination, it is coming. “The deal as it stands cannot be passed”, an improved deal is “a long shot”, a hard exit “can be killed off”, calling a general election is too risky and cross-party agreement on a new plan looks

improbable as Jeremy Corbyn (who has endorsed a plan for MPs to vote on whether a second referendum should be held, notes *The Independent*) won't even talk to Theresa May. It must also be remembered Brexit is not a single event. Any plan needs “a majority to sustain both it and the government” over many months – winning votes and passing laws. A second vote will be a tragedy, “because as the world economy slows down, the West fragments, and new great scientific and ecological challenges arise, we will have another year of arguing with ourselves. But it's not hard, after the events of the last week, to see it coming”.

Betting on politics



For the past four months, Swedish politicians have been scrambling to produce a workable coalition out of an inconclusive election result, which saw the Social Democrats come top with 28% of the vote. The big problem was the fragmented nature of the result, complicated by the fact no one was willing to form a coalition with the far-right Sweden Democrats, who got 17.5% of the vote. In the end the Social Democrats managed to get the parliamentary support of the Centre Party and Liberals (as well as the tacit support of the Left Party) by promising to implement many of their policies.

Indeed, the unstable nature of the coalition is highlighted by the fact that, even with many centrist parties abstaining, a plurality of Swedish MPs voted against reappointing the incumbent PM, Stefan



Löfven (pictured), just not enough to block his appointment. Betfair is running a market on whether there will be another general election in Sweden before the end of this year, with £29,742 already wagered by punters. You can get digital odds of six (16.7%) on there being an election, and 1.13 (88.4%) on the Swedish people going to the polls again in 2019.

If this were Britain, I'd say there is no way that such an agreement could survive. But Sweden has a longer tradition of coalition governments, even minority coalitions (such as the new one). Given it took so long to negotiate, I'm sure it can survive until the end of the year, so I'd suggest you bet against a 2019 election.

Trump holds the line

Fierce partisanship is making compromise difficult. Matthew Partridge reports

The “first sign of progress” in the standoff between President Donald Trump and Congressional Democrats has appeared, reports Lauren Gambino in *The Guardian*. The row, over whether to fund Trump’s promised wall on the Mexican border, is now in its fifth week and has shut down many branches of government, leaving 800,000 federal workers without pay. In a bid to end the 32-day stalemate, Democrats and Republicans have agreed to bring “duelling bills” to the Senate floor. The Democrats’ bill would fund the government until 8 February; the Republican bill would allocate \$5.7bn in funding for the border wall in exchange for allowing illegal immigrants who came to the US when they’re young to remain permanently.



Pelosi: refuses to budge on moral grounds

Is a real breakthrough likely?

Will this resolve the issue? Don’t hold your breath, says William Galston in *The Wall Street Journal*. The most that can be hoped for is that the bills “might catalyse serious negotiation after both fail, which seems likely”. The Republicans in the Senate are determined to pander “to the whims of the president”, while their Democratic counterparts insist “the government must reopen before immigration talks can begin”. Compromise is made difficult by the fact the wall has become the symbol of everything the Democrats loathe most about the president (House speaker Nancy Pelosi calls the wall “immoral”); for their part, many Republicans have spent their entire careers opposing any immigration reform.

The Republican proposal, drafted by Trump, is a “nonstarter” anyway because it is designed

to be unacceptable to Democrats, says Jim Newell on *Slate*. But it is just possible the Republicans might “cave” and allow a clean funding bill to pass.

Even if they don’t, “we are starting to see this week what we hadn’t seen in the past month of the shutdown: movement”. It is significant the Senate Republicans requested Trump come up with some proposals and that some House Democrats have requested Pelosi should at least allow a vote on the wall. This suggests “pressure from anxious Senate Republicans and anxious House Democrats is starting to operate”.

Let the horse-trading begin

While the latest “Kabuki dance” contains “the seeds of a breakthrough”, it still requires both sides to “muster the spine to rebuff their own noisiest partisans and do some old-fashioned horse-trading”, says *The Washington Post*. One possible solution is to allocate funding for the wall in return for a broader amnesty than the one Trump is currently offering. The problem is that taking a hardline stance enables both sides to provide “red meat” for their “base”.

Trump has already indicated that, just as he made the wall “a focal point in... 2016 and 2018”, he will do so again for the presidential election in 2020, even though a majority of the population opposes it, says Alex Shephard in *The New Republic*. With the major Democratic candidates moving to the left on immigration, even if the current shutdown ends, we can expect “another potential impasse over funding the government”.

A violent crackdown in Zimbabwe



Mnangagwa: meet the new boss

Zimbabwe remains on edge following a violent crackdown on fuel-price protests that has left 12 people dead, says Joseph Cotterill in *The Financial Times*. There are rumours that the “days of beatings and arrests carried out by soldiers against opposition and civic activists” are leading to a split

within the ruling Zanu-PF party and in the security forces.

After he replaced Robert Mugabe as Zimbabwe’s president, Emmerson Mnangagwa promised a “new Zimbabwe”, says Panashe Chigumadzi in *The New York Times*. Hopes he would deliver this have “died” – the country is mired in an economic crisis and Mnangagwa “has turned out to be no different from the strongman he served for decades”. Even the hope he would be the kind of “decisive benevolent dictator” the economist Dambisa Moyo has argued African countries need has been dashed as the new regime “has not only closed Zimbabwe for business but

also violently shut down any chance for meaningful civic engagement”.

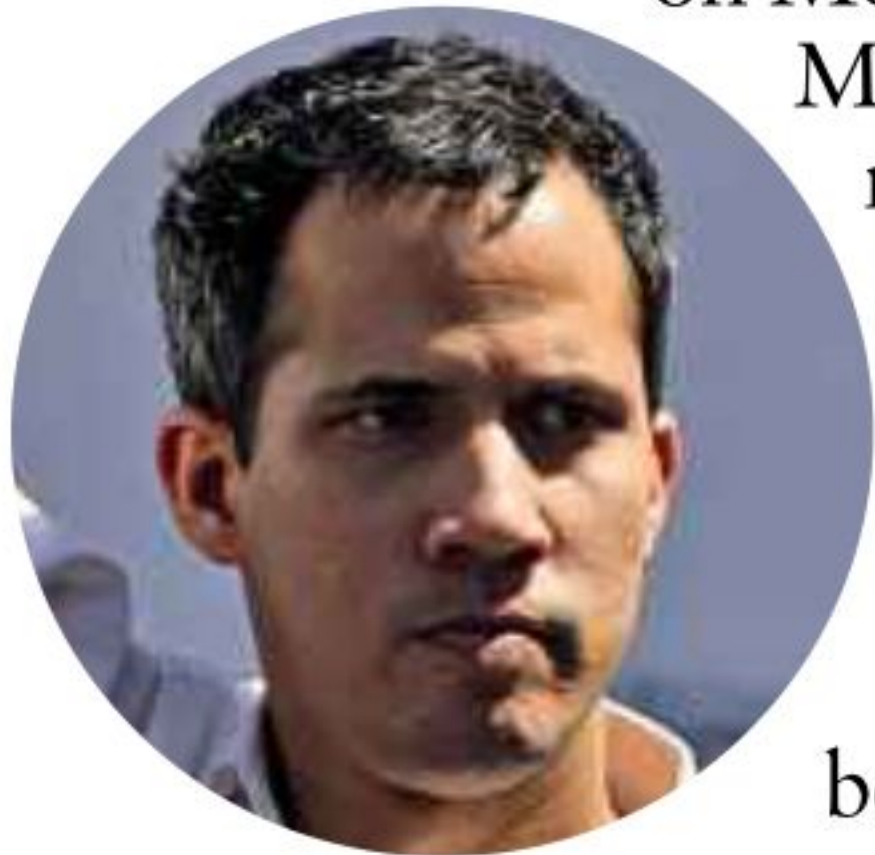
It was “always naïve” to think Mugabe’s departure would solve everything, says *The Daily Telegraph*, but there is a “great deal of international goodwill towards Zimbabwe” that President Mnangagwa could have tapped into had he chosen to “break with the corrupt and despotic past”. The country “desperately needs a return of Western investors and of the middle-class professionals forced to flee abroad”. Western countries must “make it clear” that Mnangagwa must deliver his promised reform agenda or “remain an international pariah, just like his old boss”.

London

Employment hits record high: Britain's labour market was firing on all cylinders towards the end of last year. The latest data shows employment reached a record high of 32.54 million in November. The proportion of working-age people with a job has reached 75.8%, its highest level since 1971. There were also a record number of job vacancies. Average weekly earnings rose 3.3% on the year, comfortably outstripping inflation of 2.1% in December. Some economists caution employment is a lagging indicator, with more recent surveys showing falling business confidence before Brexit. However, employment data shows no sign of a slowdown at all, according to Andrew Wishart of Capital Economics. Indeed, employment increased by "an emphatic 141,000 compared to the previous three months". The boost to real earnings should be a "boon for demand"; household spending accounts for around two-thirds of GDP. If it weren't for the current impasse at Westminster, the Bank of England's Monetary Policy Committee would not wait long to increase interest rates.

Caracas

Opposition leader gains support: Venezuela says it has detained 27 national guardsmen following reports of explosions and fighting in Caracas on Monday. President Nicolás Maduro depends on the military's support to remain in power, but Venezuela's opposition is offering an amnesty to soldiers who mutiny against the left-wing autocrat. Maduro began a second term as president earlier this month following sham elections last year. The country's opposition-controlled National Assembly, which has been left virtually powerless by Maduro's power grab, refuses to recognise the result and has elected Juan Guaidó (pictured) as its new leader. The little-known 35-year-old parliamentarian says he is the legitimate leader of Venezuela and has secured the backing of Brazil, Colombia and US vice-president Mike Pence. If Washington formally recognises Guaidó as president, "Venezuelan assets abroad will be out of the control of Maduro even though Maduro has power in Venezuela", political analyst Luis Vicente Leon tells *The Wall Street Journal*, further increasing pressure on his embattled regime.



Stockholm

Sweden forms a government: Sweden's parliament has finally chosen a new government, four months after a general election that brought gains for the populist right and left eight different parties vying to form a workable coalition. Neither the traditional centre-right nor centre-left groupings wanted to do a deal with the anti-immigration Sweden Democrats, who finished third with 17.5% of the vote. The impasse was finally resolved by incumbent Social Democrat prime minister Stefan Löfven, who has managed to stitch together a minority coalition with the Green party. The centre-left tie up has only 115 votes in the parliament of 349, meaning it must rely on support from two smaller centrist parties. An incoherent coalition document mixing tax cuts with left-wing measures is part of a worrying trend, says Leonid Bershidsky on Bloomberg. Europe's technocratic coalitions increasingly "don't stand for anything that voters can easily identify with".



Sweden's populist right is on the march



The way we live now: a new age of drone surveillance



The US embassy building in London is drone-proof

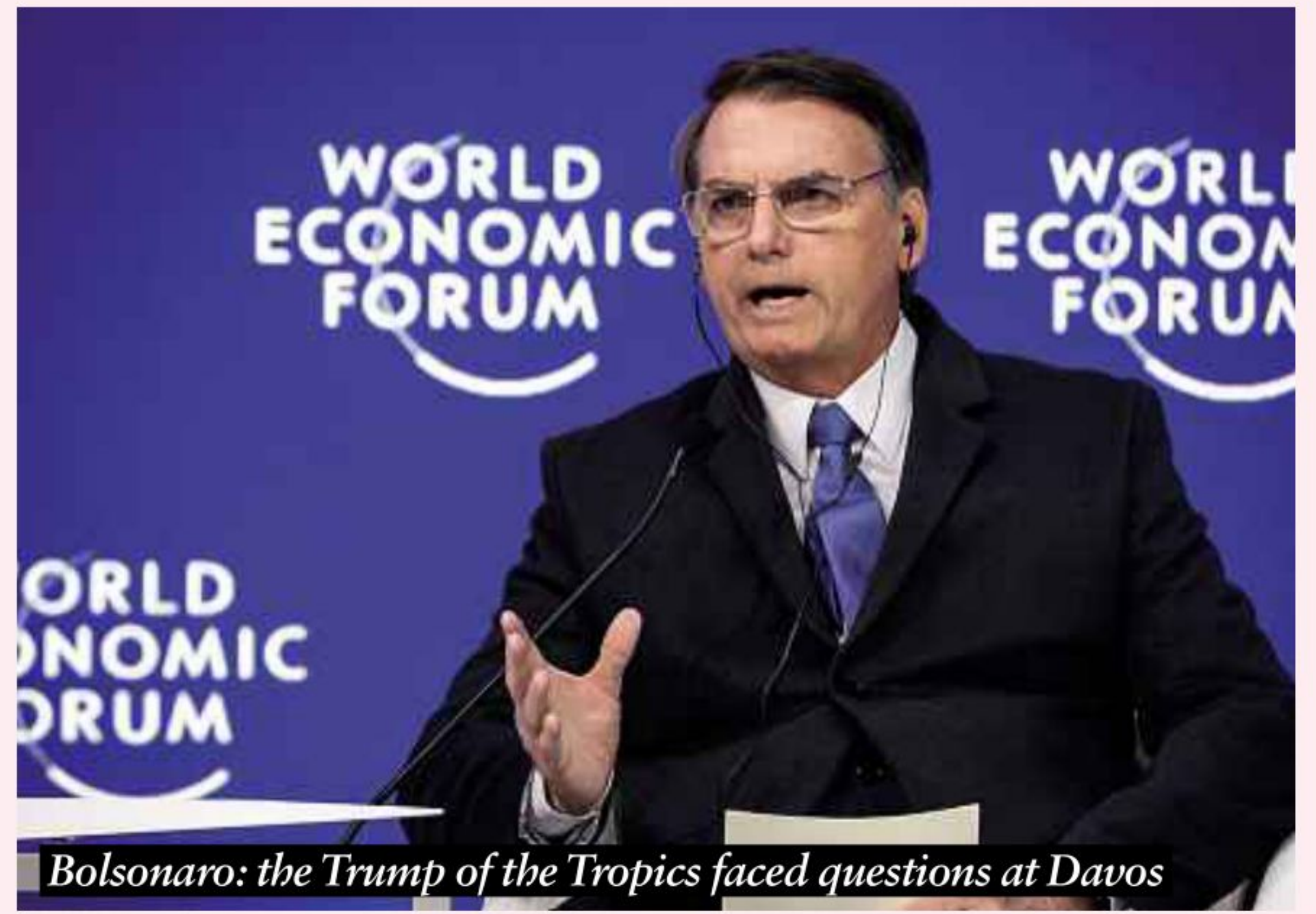
It isn't just air passengers who need to worry about drones. Jonathan Morrison in *The Times* reports that unmanned aerial vehicles have become "the weapon of choice for industrial espionage". The drones are difficult to spot at a distance and can direct laser microphones at windows, pose as part of the Wi-Fi network, or listen in to conference calls. The tiny aircraft have reportedly spied on everything from the construction of Apple's corporate headquarters to the filming of the *Game of Thrones* TV series. Drones hanging around near test tracks have been used to snoop

"on new car models that were being put through their paces", prompting one continental testing location to use "four-second fog bombs that detonate when a drone is detected, giving the driver time to get their prototype inside the garage". The technological threat has sparked a new wave of architectural innovations. Some new buildings now include lasers that can dazzle drones. The new US embassy building in London incorporates a Faraday cage, a "metal mesh to prevent electronic eavesdropping", into its superstructure as well as "rocket-proof glazing".

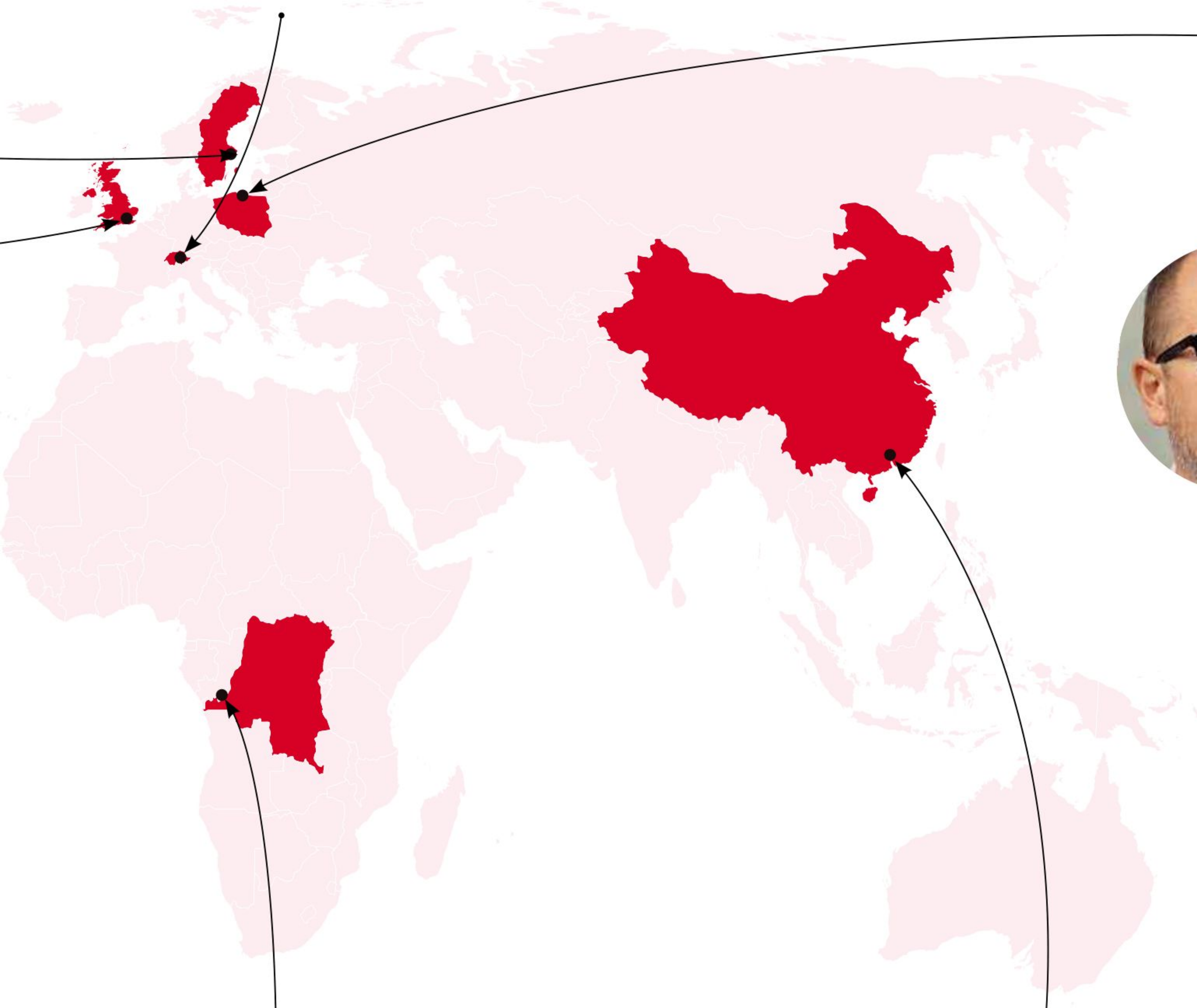
Davos

A quieter year: The Swiss town of Davos is hosting the World Economic Forum (WEF) this week, but domestic political turmoil has kept some prominent figures away. The annual gathering of movers and shakers from the worlds of politics and business has gone without Donald Trump, Emmanuel Macron and Theresa May. Neither India's Narendra Modi nor China's Xi Jinping are attending this year either. The drop-outs have left new Brazilian leader Jair Bolsonaro

as the gathering's star turn. The "Trump of the Tropics" used his first big overseas speech to vow to open Brazil's economy, but he faces questions about his scepticism about climate-change and whether he will be able to reform his country's moribund pensions system. The WEF's image as a place where the "increasingly vilified elite" frolics "in the snow like entitled dilettantes" hangs like a "PR noose" around the necks of political attendees, says Lauren McEvatt in City AM.



Bolsonaro: the Trump of the Tropics faced questions at Davos



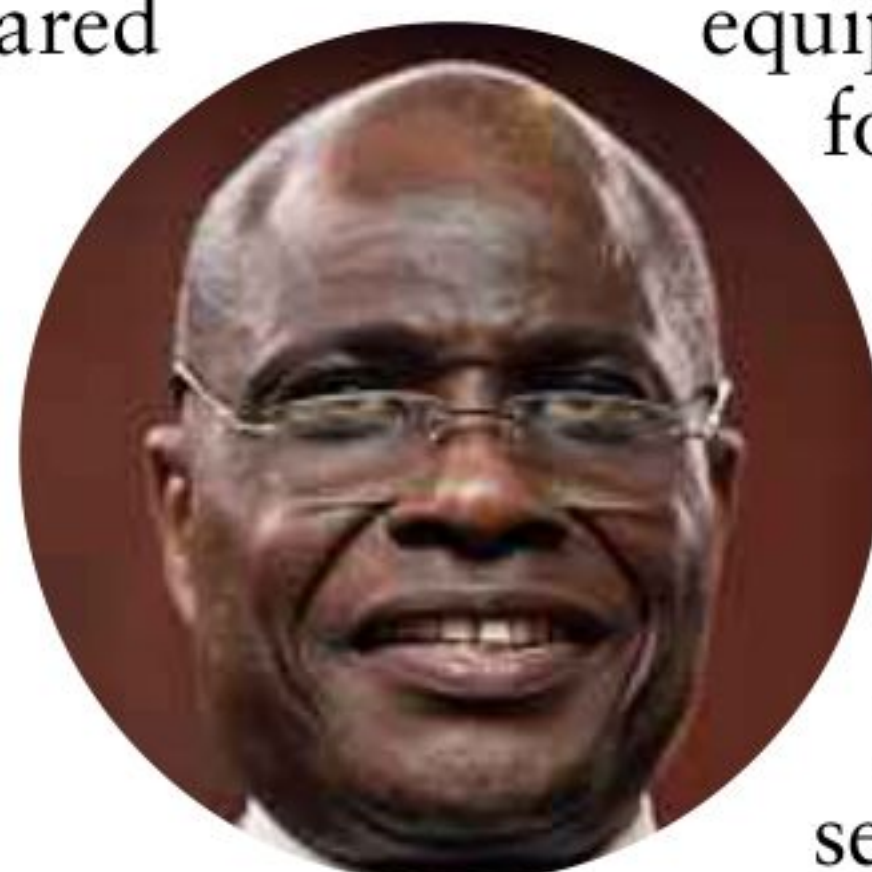
Gdansk

Thousands attend mayor's funeral: Large crowds turned out for the funeral of murdered Gdansk mayor Pawel Adamowicz (pictured). The 53-year-old, a liberal critic of Poland's ruling right-wing Law and Justice party and long-time mayor of the port city, was stabbed on stage at a charity event earlier this month. The motivation of his 27-year-old killer, who has a history of violent bank robberies, is still unclear, but many blame the government's creeping authoritarianism and the increasingly polarised political atmosphere. Law and Justice leader Jaroslaw Kaczynski has previously called opposition MPs "murdering scum". Adamowicz's funeral came in the same week the European Parliament backed plans to restrict EU funding to countries that do not respect the rule of law, a move likely to hit Hungary and Poland. Warsaw will have received about €77bn in cohesion funds from Brussels by the end of 2020.



Kinshasa

Court rejects election appeal: The DR Congo's Constitutional Court has upheld the results of last month's presidential election despite evidence of massive fraud. The court refused defeated opposition candidate Martin Fayulu's (pictured) request for a recount, saying he had received 35% of the vote, compared to 39% for rival Félix Tshisekedi. Data leaked to the international press suggests Fayulu really won about 60% of the vote, while Catholic church election monitors also say Tshisekedi was not the true victor. The widespread suspicion is that long-time president Joseph Kabila plans to "play puppet-master to Mr Tshisekedi", says The Economist. The incumbent may have concluded Tshisekedi is less of a threat than Fayulu, "who has threatened to investigate the wholesale theft of Congo's mineral wealth by members of the ruling class". The African Union and regional leaders initially expressed concern about vote rigging, but "backed down" following the court ruling. The priority is "preserving stability" in "a sprawling... country that could destabilise its neighbours if it descends again into civil war".



Shenzhen

Germany weighs Huawei ban: Germany has become the latest Western country to consider banning Huawei from its 5G mobile networks amid mounting security concerns. The Chinese telecommunications group is already barred from supplying 5G equipment in Australia and New Zealand and from bidding for government contracts in America. The restrictions follow warnings from US intelligence agencies that equipment from Huawei, which is closely tied to the Chinese state, could contain "back doors" that facilitate cyber spying. Berlin had previously been sceptical about the warnings, but Handelsblatt reports Angela Merkel's government is now planning to implement new security standards aimed at restricting Huawei's role in Germany's next-generation 5G mobile network. The latest developments come as Huawei chairman Liang Hua warned his firm could shift towards jurisdictions "where we are welcomed". The bad news "keeps piling up" for the world's "largest seller of telecommunications gear", says Klint Finley on Wired.com. Amid rising US-China tensions, "it's going to be extremely hard for Huawei to repair its image abroad".

Britain's flawed energy strategy

Investors in Britain's energy infrastructure are cutting their losses and pulling out of projects. The government's strategy needs a rethink, says Simon Wilson

What's happened?

Last week Hitachi became the second big Japanese company in months to pull out of building a new UK nuclear power plant because it couldn't make the sums stack up – a decision that raises fundamental questions about the direction of the UK's whole energy strategy. Hitachi pulled out of its £16bn Wylfa project in north Wales, as well as a smaller project at Oldbury in Gloucestershire, because it failed to reach agreement with the government over a guaranteed electricity price and terms for the UK stake in the project. It can't have been an easy decision: cancelling the projects meant Hitachi writing off £2.1bn, having failed to find investors to help fund its share. But the market clearly felt it had made the right call: its shares promptly jumped 13% in a week.

Why is this such a big deal?

It follows the withdrawal of Toshiba from a similar nuclear project at Moorside in Cumbria in November. Between them, the two power stations would have generated 15% of the UK's electricity (and without emitting any carbon dioxide). But their abandonment leaves UK nuclear policy – and overall energy strategy – in a mess. Currently, the UK's nuclear power stations supply about a fifth of electricity supplies, but the existing plants (with the exception of Sizewell B in Suffolk) will all need to be decommissioned over the coming 15 years or so. Since the start of the century, successive governments have spent 13 years devising a new nuclear policy, and they eventually selected six sites for new nuclear power stations. The promise was that 35 gigawatts of new capacity would be onstream by the mid-2030s, more than replacing the decommissioned capacity.

So where are we now?

Of the six sites, three have now been abandoned, and two (Sizewell C in Suffolk and Bradwell in Essex) have yet to get the final go-ahead. Only one, the French and Chinese-backed Hinkley Point C in Somerset, is proceeding – but on terms that will force UK consumers to buy some of the most expensive electricity on the planet (an inflation-linked £107 per megawatt-hour in today's money, guaranteed for 35 years). The core problem is “nuclear power itself”, reckons Alistair Osborne in *The Times*. “Where else do you get such a heady mix of last millennium technology, radioactive upfront costs and a chronic clean-up bill? They're risks no private company can take.” It seems increasingly possible that Hinkley, too, will ultimately be “abandoned and we won't build any more giant plants”, says Anthony

“The UK's nuclear stations supply about a fifth of Britain's electricity”



Wylfa: no new plant for north Wales

Hilton in the *Evening Standard*. “But government is still wedded to its policy so it may take a few years, or a general election.”

How did we get into this mess?

The basic issue is that the UK's 2013 review of its strategic energy policy has aged badly. Then, it was believed energy costs and demand would rise inexorably, creating a security issue for countries (such as Britain) that are net importers. As a result, the UK government gave the go-ahead for projects delivering super-expensive supplies (such as Hinkley). In fact, demand is falling thanks to efficiency gains and new technology, and the cost of all forms of energy supply – with the glaring exception of nuclear – has fallen sharply since 2013. From oil and gas to renewables (wind and solar), technological advances have increased the opportunities for cost-effective exploitation and supply. As business secretary Greg Clark put it last week, “the economics of the energy market have changed significantly in recent years”.

What should the UK do?

Review and set a new strategy, including a determination as to whether nuclear remains part of the mix. The government has high hopes for a new financing model known as the “regulated asset base” (RAB), which will involve a regulator setting fixed costs and returns with contractors, thus offering investors an incentive by giving them a return from the start (paid for by consumers and taxpayers). And it's hard to imagine an energy system without the baseload power (guaranteed continuous supply) provided by nuclear, says Peter Atherton of Cornwall Insight. “There is a school of thought that says baseload is a

20th-century thing. They may be right, but it would be a big call by government to bet baseload won't be a thing by 2025.” The future of nuclear may not currently look secure; scrapping it may be even more risky.

So what will happen?

A gradual decline seems likely. The government has already downgraded the amount of new nuclear it expects to be built. Officials now assume 13 gigawatts of new capacity by 2035, which implies three further stations similar in size to the 3.2 gigawatt Hinkley plant. The rise of renewables is encouraging. Renewables account for 33% of UK electricity supplies – an all-time high – and government advisers project this will rise to 45%-60% by 2030. But filling the 9.2 gigawatt gap left by the Moorside, Wylfa and Oldbury plants would require 14 gigawatts of (intermittent) wind power. That's equivalent to more than 20 of the biggest offshore windfarms yet built. It's hard to see how renewables alone can fill the gap.

What might fill the gap?

Electricity interconnectors, which physically link national power grids across borders, are becoming increasingly important to the delivery of climate and energy goals, as they can help boost energy security and flexibility in an age of rising renewable energy capacity on the grid. The technological advances in large-scale batteries are another factor that could make a transition to a renewable-dependent economy work. And any strategic review of nuclear will certainly revisit the viability of small modular reactors – a vastly promising nuclear technology developed by Rolls-Royce, which the government has so far refused to back sufficiently with additional funding and support.

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Index funds: killing capitalism?

Even Jack Bogle was worried about the prospect of passive funds owning majority stakes in listed businesses



John Stepek
Executive editor

Vanguard founder Jack Bogle, who died last week (see page 33), popularised passive investing (tracking the market rather than paying a fund manager to pick stocks on your behalf). He did investors a huge service by showing them how to cut costs and boost returns, making life much harder for closet trackers (see below) in particular, in the process. Yet even Bogle had concerns about the growth in indexing. In one of his last articles for *The Wall Street Journal*, he noted that the “Big Three” passive asset managers – Vanguard, Black Rock and State Street – could easily grow to “own 30% or more of the US market – effective control. I do not believe that... would serve the national interest”.

A new study, “Common Ownership in America: 1980 – 2017”, from Matthew Backus of Columbia University, Christopher Conlon of New York University and Michael Sinkinson of Yale School of Management, picks up on his concern. They note that we’ve gone from an era when most stocks were owned by individuals, to one where most stocks are held within diversified portfolios by intermediaries, on behalf of their ultimate owners. In 1980, the share of the S&P 500 owned by fund managers with more than \$100m in assets under management was below 40%. Now it’s more than 80%. As a result, a single asset manager might own big chunks of every listed stock in a given industry.

The risk is that “when so many businesses have the same owners... rivalries between them weaken”. If you own one airline, you want it to undercut its rivals. But if you own every airline, you want them to collude to keep prices

“If you own every airline, you want each one to push up prices”



High flyers: asset managers own large chunks of listed stock

and margins high. There’s no explicit evidence that firms are doing this – but concentration of ownership is now high enough to imply it would be worthwhile to do so, report the academics.

This is not due to passive funds as such: it “is driven by a broader rise in diversified investment strategies, of which these firms are only the most recent incarnation”.

Solutions are not easy – Bogle argued that index funds should make their “engagement with corporate managers” as transparent as possible, and we’ve talked about the need for radical reform of shareholder democracy in *MoneyWeek* many times (see Moneyweek.com). As to what it means for your money – we love passive funds and the cheap access they give us to global markets; but don’t discount genuine active management. In a world where many investors are on autopilot and the erosion of competitive stress is allowing flabby, wasteful companies to survive, there should be many more opportunities for competent active managers to spot mispriced opportunities and take advantage of them.

Guru watch

Albert Edwards,
global
strategist,
**Société
Générale**



Albert Edwards, the ultra-bearish global strategist at French bank Société Générale, has argued for many years now that the world is facing a financial “ice age”, with the developed world following Japan into an era of collapsing bond yields and flattening equity prices. He hasn’t changed his mind yet, telling a conference in London this month that yields on US government debt will slide below zero percent during the next recession.

That next recession is shaping up to be a painful



one, given high levels of corporate debt among US companies. But the US is not the only one in trouble. China is still struggling, and in Europe, Italy – led by populists including Matteo Salvini (pictured) – is the big danger, says Edwards. Unusually, the European Union (EU) is less popular among the young than among the old in Italy, and so Italian hostility towards the EU is only set to grow. Edwards blames the strictures of the euro, which keeps labour costs and thus unemployment high, hitting younger workers hardest.

As Buttonwood notes in *The Economist*, there are hints from Edwards that a “post-ice age era” will dawn, “in which bonds are to be avoided and inflation hedges are the thing to own”. That could come once a deep recession forces politicians to be even more radical than they’ve already been – perhaps by printing money to fund public spending directly, for example. But for now, his message remains the same – “the world is ending”. Keep some money in cash and gold.

I wish I knew what a closet tracker was, but I’m too embarrassed to ask

Tracker funds (trackers or index funds) invest in a basket of shares (or use derivatives) to mirror an underlying index (such as the FTSE All-Share). These funds don’t employ professional managers to decide what stocks to buy, and as a result, charge relatively low fees. The index fund will always underperform the market slightly after costs, but you can be confident it will otherwise track the market closely.

Active funds do the opposite – they charge higher fees and employ stock pickers in the hope that they will beat the market. However, as we note in the story above, and as Jack Bogle’s success made clear,

they often fail to do so. In practice it’s an arithmetical inevitability that both active and passive funds will collectively underperform the market. After all, for every winner in a trade there’s a loser. So in the end, the average investor gets the market return, less costs. The reason investors still invest in active funds is that they hope they’ll pick a winner, rather than one of the many losers.

The trouble is, to beat the market convincingly you need to take risks – perhaps by taking large positions in a smaller number of stocks. The danger then is that you underperform the market badly, even if only in the short run. In the past this

has led to some active managers picking portfolios that differ little to the overall market – although it is increasingly frowned upon. These funds are described as “closet trackers” and represent the worst of both worlds: they charge high active fees, but deliver a passive return.

There are ways to spot a closet tracker. You can simply look at its past performance and see how much it differs from the wider market. Or you can look at the active share. This compares how much a fund’s portfolio differs from its benchmark index. The higher the score, the more active the fund (although of course, this doesn’t necessarily mean it will outperform).

It pays to revisit the classics.

LET'S TALK HOW.



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PAST PERFORMANCE

	Oct 13 – Oct 14	Oct 14 – Oct 15	Oct 15 – Oct 16	Oct 16 – Oct 17	Oct 17 – Oct 18
Fidelity European Values PLC Net Asset Value	2.1%	6.9%	21.3%	18.9%	0.8%
Fidelity European Values PLC Share Price	1.8%	10.7%	11.5%	26.4%	-0.8%
FTSE World Europe ex-UK Index	-0.8%	5.2%	19.7%	20.0%	-5.6%

Past performance is not a reliable indicator of future returns.

Source: Morningstar as at 31.10.2018, bid-bid, net income reinvested. ©2018 Morningstar Inc. All rights reserved. The comparative index of the Investment Trust is FTSE World Europe ex-UK Index.



The Brexit exodus that never was

Doom-mongers predicted a massive flight from the City. But it simply didn't happen



Matthew Lynn
City columnist

The banks were meant to be heading to Frankfurt. The hedge funds were off to Paris. The fintech stars would decamp to Berlin, and the traders would create new bases in Brussels or Barcelona, or anywhere where they could stay within the EU's single market. When the UK voted to leave the EU in 2016 one of the more plausible warnings, amid some fairly wild and hysterical ones, was that our massive financial services industry would take a huge hit. After all, the City had prospered over the last three decades from turning itself into the key finance centre for the whole of Europe. If British firms were no longer allowed to market themselves across the continent, they would suddenly look a lot weaker.

The Europeans make their move

The German and French governments sensed weakness, and saw a once-in-a-lifetime opportunity to persuade a lot of highly paid jobs to move to their countries. The French sent ministers and officials to tour City boardrooms, selling the virtues of Paris; the Bank of France even swallowed a little Gallic pride and started printing its regulatory forms in English to make it easier for our firms to apply for a licence. Berlin set up a dedicated office in London to sell the German capital to financial businesses and answer questions. It was, without question, the biggest challenge to its core business the City had faced in half a century.

Yet with Brexit now just months away, it is Europe's banks that are looking weaker than ours. Societe Generale is planning to close its \$5bn proprietary trading unit. Its shares have dropped from €47 a year ago to just €27 now. Its main rival, BNP Paribas,



Frankfurt – not as appealing as it first appeared

is not looking much healthier. It is also planning to close its proprietary unit, Opera Trading Capital. Its shares are down from €68 a year ago to just €41 now.

In Germany, it is even worse. Deutsche Bank has been floundering for years now, and shows little sign that it can turn itself around. Last week, its shares went below €7 for the first time, and the price is down from €16 a year ago (and, remarkably, down from €116 before the financial crash). With a market value of a mere €16bn, it hardly counts as a major bank any more. In the last week, the German government has started dropping hints that it wants a foreign takeover of Deutsche Bank. Why? Because, shockingly, its

domestic rivals are considered too weak to take it on.

Both financial centres are being hollowed out. Germany no longer has any major bank to speak of – Deutsche's main rival Commerzbank doesn't look much healthier – and France's national champions are struggling to stay competitive. If any major British financial institution has decided to relocate in full to Paris or Frankfurt, then they are keeping the news to themselves.

No room for complacency

The City should not be too smug about that. Our banks are not doing fantastically well either. But they have not been hit nearly as hard as their main rivals across Europe. Overall, employment has held up remarkably well, there have been no widespread job losses, and new firms are still investing in building their operations in London. The City still faces plenty of challenges, and Brexit, especially with no deal to soothe the transition, may still cause a lot of disruption, especially if governments on the other side of the channel decide to use regulations to make it harder for British firms to operate in their market.

Yet the important point is this. As in so many industries, the EU is fairly marginal in terms of how the financial sector operates. Membership doesn't actually make a huge difference to most businesses one way or the other. What really counts are the skills of the workforce, the tax and regulatory regime, and the network effect of having lots of firms all clustered in the same place. And on all those counts, the City is still doing fine, and arguably growing stronger – while its main European rivals are getting weaker. Lots of things might happen as a result of Brexit. But it is now clear that a mass movement of the finance industry to Germany or France won't be one of them.

Who's getting what

● **JK Rowling** (pictured) may have finished writing the series of seven Harry Potter books around a dozen years ago, but the cash is still pouring in – and not just from the printed books. Her company, Pottermore, handles revenue from e-books, audiobooks and spin offs, and reported a pre-tax profit of £3.4m, after handing a royalty payment of £4.8m to Rowling, says the Daily Mirror. Add together profits from the printed books, films, theme parks and



other merchandising, and Rowling's worth has risen to some £777m.

● **Geisha Williams**, the former chief executive of California power company PG&E, left with a severance package worth \$2.5m. Williams was in the post for less than two years, and her tenure coincided with PG&E being saddled with liabilities of \$30bn-plus as a result of its role in sparking the deadly wildfires of 2017 and 2018. A court found earlier this month that PG&E's

uninsulated power conductors were a major contributing factor to the fires. PG&E now plans to seek bankruptcy.

● **Jamie Dimon**, chief executive of JPMorgan Chase, was paid \$31m last year, according to the Financial Times. That's 5% more than the previous year. His base salary remained unchanged at \$1.5m, as did his cash bonus of \$5m. The rest was made up of \$24.5m in around 250,000 "performance share units", which convert into shares in three years' time. He will be required to hold these for a further two years.

Nice work if you can get it

Manchester United striker Marcus Rashford is to have his pay doubled to £150,000 a week, reports the Daily Mirror, to prevent him being poached by Spanish team Real Madrid. Rashford's new £7.8m salary will put him well ahead of his Premier League compatriots – though with an average annual wage of £2.6m, they are hardly on the breadline. The average professional footballer in England earns around £770,000, according to figures compiled by Footy.com. It's a different story further down the football pyramid, of course. Championship players have to make do with around £570,000 a year; those in League 1 get £120,000; those in League 2, the fourth tier of English professional football, average around £58,000. The average wage earned by top-flight footballers in the FA's Women's Super League, by contrast, is just £35,000, says The Guardian.



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The dirty but profitable bird business

Editorial
The Economist

In a chicken shed near Colchester, thousands of chickens sit on piles of their own excrement while maggots crawl over the bodies of dead birds, says The Economist. But if the chicken business is dirty, it is also profitable. While pork and beef consumption in OECD countries hasn't changed since 1990, chicken consumption is up by 70%, boosted by talk of a possible link between red meat and the risk of colon cancer and a growing appetite for the meat in poorer countries. Chickens now account for 23 billion of the 30 billion animals on farms and have become the most widely traded meat in the world. Chicken has been a flashpoint in various trade negotiations – arguments over chlorinated US chicken proved a “big stumbling block” in negotiations for the now-defunct Transatlantic Trade and Investment Partnership. But the boom hasn't been so good for chickens. Selective breeding means they have quadrupled in weight since 1957, causing lameness. Caged birds move less and require less feed. And although the EU has some of the strictest animal-welfare laws in the world, and more people are willing to pay more for organic or free-range products, ultimately most “still prefer whatever is cheapest”.

Billionaires flee Brexit Britain

Robin Pagnamenta and Christopher Williams
The Sunday Telegraph

According to the UK's richest man, Gopichand Hinduja, Britain's wealthiest people are fleeing abroad amid “mounting complications over tax”, say Robin Pagnamenta and Christopher Williams. Hinduja, 78, who moved the family's £20.6bn conglomerate, Hinduja Group, to London in 1980, says many of his billionaire friends have left London as the political crisis over Britain's future relationship with the EU has grown, and become residents in Dubai, Singapore or Lebanon. Sir Jim Ratcliffe, 65, founder of petrochemicals giant Ineos, whose fortune was valued at £21bn in 2017, has relocated to Monaco, while Jake Dyson, eldest son of Sir James Dyson, has bought a home in Portugal, a country described by PricewaterhouseCoopers as “Europe's best-kept secret”. Wealthy foreigners can acquire tax residency for ten years there by investing at least €500,000 in property and living there for just 183 days in the first year. “They are then liable to pay zero tax on income from outside Portugal including interest, royalties and pensions.” Although Hinduja says he has no plans to quit Britain, he worries about its reputation for stability. There won't be a recession, but 2019 will be a “bumpy year”.

Japan's youths open their wallets

Sarah Hilton and Akane Okutsu
Nikkei Asian Review

There are signs that Japan's young people are regaining their optimism – and spending more, say Sarah Hilton and Akane Okutsu. As the country experiences its longest run of economic growth in decades, Japan's young, who for years have been among Asia's “most cautious consumers”, are starting to spend more on foreign travel, cars and dining out. Frugality has long been the norm for those who entered their earning years in the shadow of the 2008 global recession, which came on top of the “long economic stagnation that followed the collapse of the country's bubble economy in the 1990s”. This “lost generation”, now in their mid-30s and 40s, still “cloud Japan's economic outlook” and many continue to live at home with their parents. By contrast, as the labour market has tightened and companies have shown a preference for younger workers, Japan's current university graduates “enjoy almost full employment”. This year, a record 98.1% of graduates went straight into full-time work. In the words of Junichi Abe of think tank Mitsubishi Research Institute: “It's as if someone on a strict diet has undergone their physical exam and thought: now I'll treat myself to something sweet”.

Put purpose before profits

Ben Chu
The Independent

“If capitalism is defined by the question of who controls capital... there's one organisation that has perhaps more influence over modern capitalism than any other,” says Ben Chu. BlackRock. The investment company manages \$6trn worth of assets and owns – on behalf of its investors – a portion of nearly every publicly listed company in the world. To an extent this “leviathan” runs on auto-pilot, with assets passively tracking stockmarkets, but it also has hundreds of active fund managers. What's their ethos? According to founder and CEO Larry Fink, who published his annual letter to the CEOs of all the firms in which it invests last week, it is “purpose before profits”, ie, “investing for the long term, serving a community, developing the talents of a workforce”. Bosses' pay should not outpace that of workers. It's enough to make Milton Friedman's epigones “choke on their cornflakes”. But a “dash” of this ethos might not be “as antithetical” to business success as we're often told. Such practices are the norm among Germany's family run small and medium-sized businesses. “Shared capitalism” has also been linked with faster productivity growth in the UK and US. It might, as Fink says, “actually be a benefit”.

Money talks



©Getty Images

“Every time I did a movie we would buy a house in the place that we were in – we would buy a ranch in Montana, or ‘Let's have Thanksgiving in Sun Valley and be a skiing family’. We had these big houses, but we never had the infrastructure to live the life we were buying. By the time I sold my brownstone in New York, it had depreciated enormously.”

Actress and former child star Brooke Shields (pictured), 53, on her family's overinvestment in property, quoted on Telegraph.co.uk

“People thought I was insane. They were up in arms when my books first came out, and now look: it's a billions of dollars market.”

Actress and entrepreneur Gwyneth Paltrow on the food trends she adopted early – such as gluten-free – going mainstream, quoted in the Evening Standard

“Putin only uses cash once or twice a year. When, for example, he is skiing and he goes into a cafe where he needs cash to pay... He doesn't have a mobile phone either because that means a person agrees to complete transparency.”

Vladimir Putin's spokesman says the Russian president hardly uses cash, quoted in The Times. Putin is thought to be worth around £30bn

“I've endorsed them, advised them, and now I'm looking to invest in them. I plan to keep growing the portfolio, ya dig?”

Rapper Snoop Dogg on his investment in Swedish fintech company Klarna, quoted on Sky News

“I don't chase money. If you're any good, it will come to you.”

Former England test cricketer David Lloyd, 71, in The Sunday Telegraph

Tax breaks for hipsters

Bloomberg.com

In downtown Portland, Oregon, an open-air parking lot is being transformed into a \$206m development, with six floors of offices, more than 200 luxury apartments, a ground floor retail development, a yoga studio, roof deck and swimming pool. It is one of dozens of such developments in trendy areas of the city, say Noah Buhayar and Lauren Leatherby – all of them eligible for tax breaks that were meant to help the poor.

A flawed process

A tax overhaul in 2017 led to the creation of more than 8,700 “opportunity zones” across the country. The idea was that these areas had been ignored by investors and needed generous tax breaks to catch up. To qualify for inclusion, almost all opportunity zones had to have poverty rates above 20% or family incomes of no more

than 80% of the area median. Investors could then defer and reduce taxes on capital gains they’d already earned if they reinvested the money in the zones. New investments are exempt from capital-gains taxes if held for more than a decade.

The trouble is that the whole thing was rushed. After the tax law passed, governors were given 90 days to select the areas to benefit. Officials pulled employment data for each eligible zone to figure out where growth was strongest, on the theory that the best predictor of future investment was past economic activity. The result is a small number of thriving communities drawing an outsize share of investors’ cash.

Those trendy areas in Portland are a study in contrasts. The city long ago became a magnet for new-economy workers, drawn to its indie music and food scenes,



as well as a cheaper cost of living than San Francisco and New York. As the former lumber town grew, real estate developers rushed in, and rents soared by 43% since 2010. The poverty rate remains high nevertheless as the areas include low-income housing.

The bright side

Whether the rush of new investment will really be of any help to the poor remains uncertain. Efforts are underway to ensure some of the gains

go to the needy. Community-orientated projects such as job-training centres and low-income housing may get a boost. New developments in Portland, as in some other cities, now have to include affordable units. And the incentives to hold on for the long term should be good for community development.

Either way, don’t blame the projects that don’t fit in with the spirit of the law – that rests with Congress for enacting such a flexible set of incentives. Don’t hate the player, hate the game.

Lordly end to inflation scandal

FT.com

A damning report from the House of Lords means there is at long last an end in sight for a scandal over official statistics that has cost the taxpayer billions, says Chris Giles. Britain has long had two main measures of inflation, the retail price index (RPI), which is used to calculate the interest on inflation-linked government bonds, among other things, and the consumer price index (CPI), which is used as the Bank of England’s inflation target. The two generally diverged in their readings by about 0.5 percentage points, but otherwise co-existed with only minor discomfort until 2010, when the Office for National Statistics (ONS) revamped the way it collected clothing prices. This absurdly distorted the RPI formula. The result is that the gap between RPI and CPI has almost doubled. With £233bn of RPI-linked government bonds outstanding in 2010, the 0.4 percentage point rise in the RPI has cost taxpayers £1bn a year. That has since morphed into £6bn since the ONS and its advisory panel bottled out of resolving the mess in 2012 for fear of annoying bondholders. The Lords’ committee recommends reversing the 2010 clothing price decision and then establishing an agreed measure of inflation and bringing RPI into line with that. The Lords are right. It is time to put this scandal to bed.

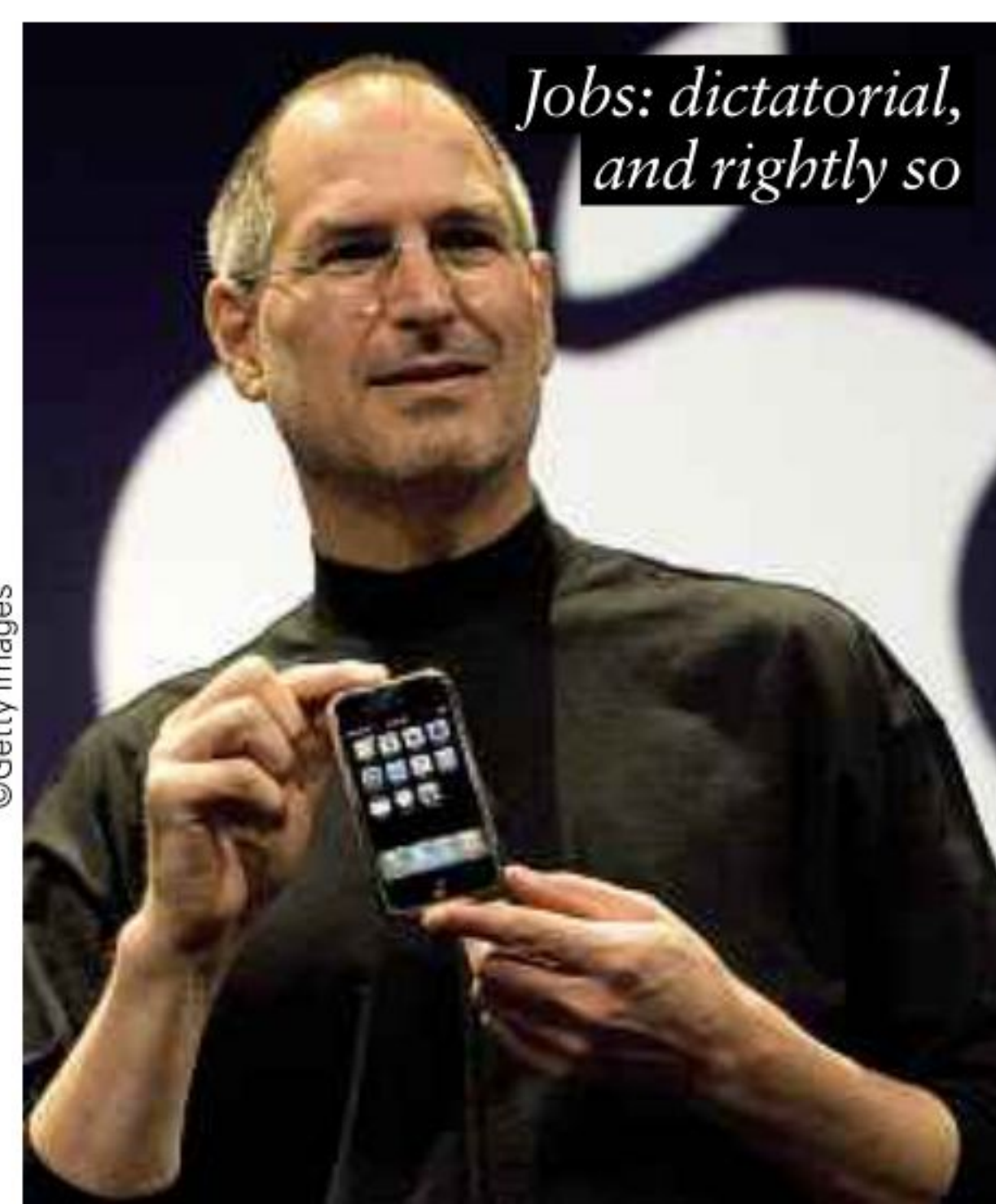
All hail the boss

Aeon.co

One of today’s biggest management fads is the idea that management itself is *passé*, say Nicolai Foss and Peter Klein. After all, all they do is supervise the work of others. New technologies allow workers to co-ordinate their efforts better without the need for hierarchical structures.

The old-fashioned view was that firms are designed to

combine resources, including labour, into valuable goods and services. Decisions have to be made about what to produce and how to produce it. And some individuals or groups need to bear the final responsibility for what and how that is done.



This thinking still underpins most subjects taught in business schools for the good reason it is still largely correct. Lots has changed, but the basic need for a division between workers and managers is the same.

Despite a few cherry-picked examples, the evidence is that the old system works. Apple’s late CEO Steve Jobs, for example, can only be described as dictatorial. Centralising the authority to make decisions is usually a more effective way to adapt to unanticipated change than more collaborative, consensus-driven approaches.

When markets fail, states do too

Econlib.org

Advocates of free markets are often reproached with the theory of market failure, says Bryan Caplan. Unless you have perfect competition, information, rationality, and no externalities, then you can’t show that individual self-interest leads to social efficiency. True.

Market-failure theory also recommends specific government policies that should be enacted in the case of market failure, however – and actually existing governments rarely adopt anything like them.

When markets produce too much of something, for example, the theory tells us governments should impose corrective taxes that correspond to the severity of the excess – then let people do as they please. Instead, governments tend to pass a phone book’s worth of regulations. Rather than provide limited subsidies when markets provide too little, they take over whole industries with little regard for the negative consequences. We all hear about market failure. What we don’t tend to hear so much about is government failure – and by this light, every known government fails severely.

Capital's superior returns

Capital Gearing Trust has a stellar reputation for preserving capital, and shows no sign of letting up



Max King
Investment columnist

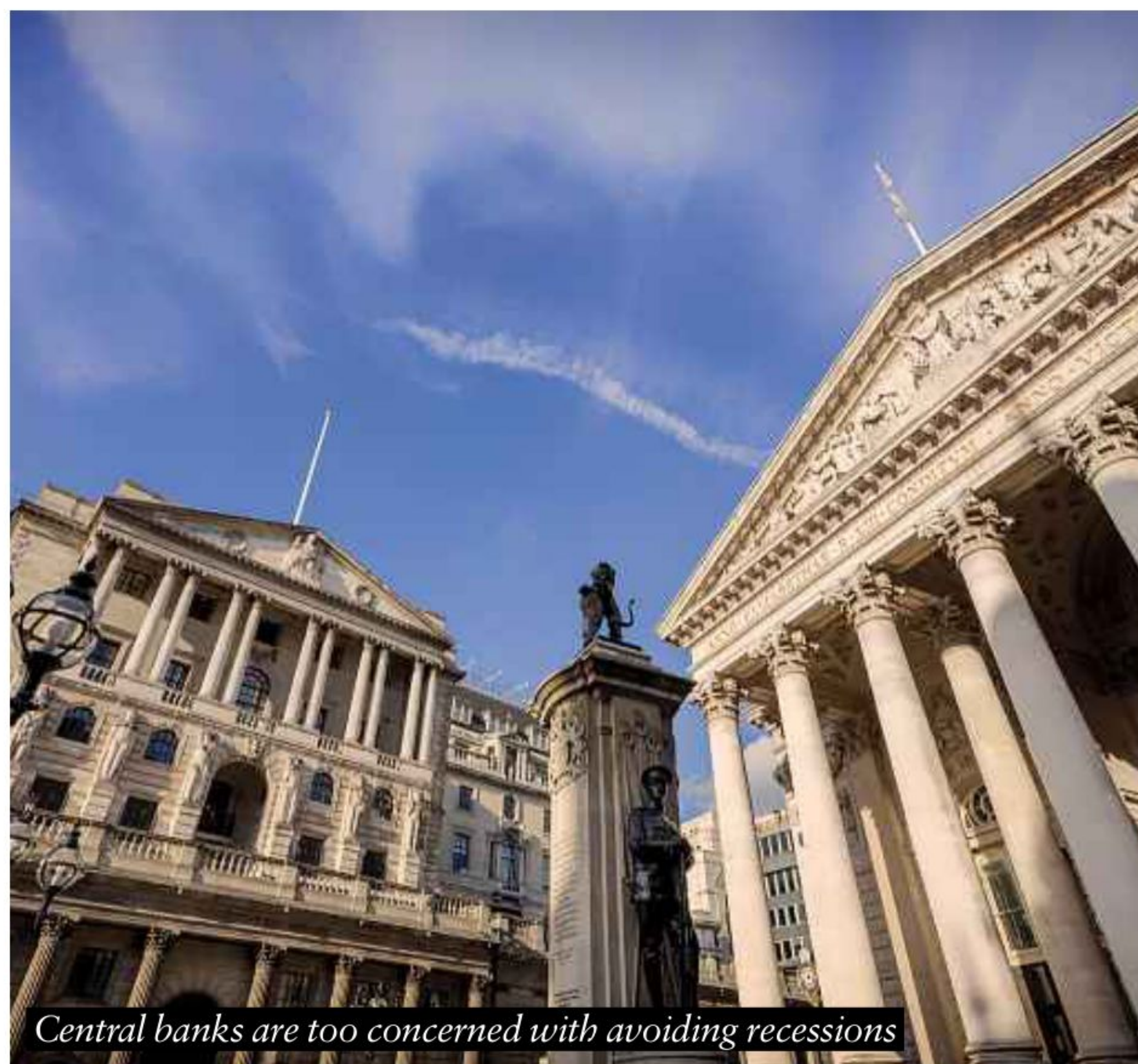
A 15%-per-year compound rate of return over 36 years will multiply an investor's money 153-fold. Although this sounds impossible, this is the return that Peter Spiller has generated since he took over at **Capital Gearing Trust (LSE: CGT)** in 1982.

Ardent bulls, however, should steer clear. "Wealth preservation remains at the heart of everything we do," says Spiller. This has meant a consistently bearish stance towards equities in recent years, resulting in investment returns well below the long-term average: 3.4% over one year, 24% over three years and 31% over five.

Those who share Spiller's views, though, will regard these returns as far superior to the safe alternatives of cash or government bonds. Moreover, in months in which global equities have fallen, CGT's net asset value (NAV – the value of its underlying portfolio) has, on average, barely slipped over the last 12 years, and is far better than other defensive funds.

Feet firmly on the ground

Though current asset allocation claims 36% in equities, just 12% is in conventional equities, while 16% is in property and 8% in infrastructure, loan funds and private equity. A total of 35% of the portfolio is



Central banks are too concerned with avoiding recessions

invested in index-linked bonds, 9% in conventional bonds, 17% in preference shares and corporate debt and 3% in cash or gold.

While other bearish investors tend to focus on geopolitical issues, Spiller keeps his feet firmly on the ground. His concerns are economic: the US is in the late stages of the business cycle; US investors are over-exposed to equities; and the authorities are complacent about the long-term risk of inflation.

He worries that global debt relative to the size of the global economy has continued to rise even after the 2008 financial crisis; corporate borrowing

is rising while the quality of the debt is falling; and central banks are too focused on the requirement to avoid a recession. The conclusion is not that the end of the world is nigh, but risks are rising and the prospective long-term return from equities is falling.

The £260m trust trades at a premium to NAV, helped by a "zero-discount" policy of buying in shares when they fall to a discount.

An interesting alternative

An interesting alternative for investors who are cautious rather than bearish is **RIT Capital Partners (LSE: RCP)**, though its shares trade at a persistent premium to NAV.

(The Rothschild family is not keen to see its 21% stake diluted through issuance, which would bring the premium down.)

With returns over five, three and one year of 56%, 32% and 8% respectively, RIT has lagged global equities in the good times, but performed extremely well in this year's more difficult markets.

However, Iain Scouller, an analyst at brokers Stifel, suggests the trust is not as safe as investors think.

RIT's share price has multiplied 33-fold since 1988 with dividends reinvested (12.6% annualised), nearly four times the return of global equities but well behind CGT. Gross equity exposure at mid-year was 57% of assets and net exposure, after hedging to reduce this figure, was still 47%. In addition, RIT has 22% invested in private equity, which is not subject to the valuation swings of listed equities, but is vulnerable to economic factors. This, Scouller says, justifies a premium nearer the 2% RIT reached in March than the 10% in July, despite the "hidden asset" of potentially undervalued private-equity holdings.

This defensive but not bearish stance accounts for the enduring popularity of the £3bn RIT, as does the association with the Rothschilds. More resolute bears should focus on CGT.

Activist watch



Peter Plumb, the CEO of food-delivery group Just Eat, is to step down from his role with immediate effect, the firm said on Monday. Plumb is to be replaced after 16 months on the job by the current chief customer officer, who has been appointed on an interim basis, says Sebastian McCarthy in City AM. In December activist hedge fund Cat Rock Capital had complained investors were still waiting for Just Eat to announce appropriate financial goals and for the board to hold management accountable with a properly aligned remuneration package. "Although there is no reference to the activist investor in Plumb's departure announcement, one can... speculate the events are linked," says Russ Mould of AJ Bell. Shares in Just Eat fell 2.3% on the news.

Short positions... investors still in the dark on fees

Investors could still be losing as much as half of their profits to charges, says Ali Hussain in Sunday Times Money, because fund platforms are flouting EU rules that require them to publish the total annual cost of fund investing both as a single percentage and in pounds and pence. Different firms have interpreted these rules in different ways, with certain providers only displaying the costs after a customer has signed up to their platform.

Firms that do display the full price of investing up front – factoring in fund ongoing charge figures (OCFs), transaction fees and platform charges – include Hargreaves Lansdown (HL), Fidelity International and Tilney Bestinvest. By contrast, rivals Charles Stanley Direct, Interactive Investor, AJ Bell Youinvest and the Share Centre

do not show these fees until after customers sign up. Even when fees are displayed, it is not always easy to add them up, as different charges are shown on different pages. As it stands, no firm has been penalised for failing to adopt the rules.

Seeing the total costs being taken from your returns is a vital reminder of how expensive investing can be. For example, Artemis Strategic Asset comes with an OCF of 0.77%. But via HL the total investing cost is 2.01%. With Fidelity, once you've clicked on the small "pre-sale illustration" link, the full cost is revealed as 2.21%. A £50,000 pension fund growing at 5% a year would achieve a profit of £82,665 over 20 years without charges. With a 2% annual charge, that profit would fall by more than half to £40,306.

WeWork is in a world of its own

The flexible office provider knows what people want, but is expanding too quickly



Sarah Moore
Investment editor

WeWork, which rents premises and then sub-lets them as trendy co-working office spaces, was recently valued at \$47bn after Japanese investor SoftBank said it would invest a further \$2bn in the group. While \$2bn might sound like quite a vote of confidence, this was way down from an original \$16bn. Moreover, the money is no longer coming from SoftBank's \$100bn Vision tech fund, whose investors had apparently "balked" at the commitment, reports the Financial Times. Little wonder – WeWork's offices might be pretty, but it needs to show that it can make the profit needed to justify its stratospheric valuation.

The company's recent rebranding (as the "We Company") and its addition of co-living and education branches is an attempt to show that it has growth potential beyond co-working. As co-founder Adam Neumann told business magazine Fast Company, even "if the world goes into a real downturn, the one thing you are not going to see us do is be afraid or slow down or take less risks".

WeWork launched in New York in 2010, and now runs 554 office locations across 97 cities. In 2017 it took on another 1.2m sq ft of office space in London, making it the capital's largest private occupier of office space. WeWork now has £3bn of UK leasing commitments over the next 20 years, says data provider CoStar.

In effect, WeWork's business model is similar to that of a bank. It borrows long (signs long-term rental leases) and lends short (sublets to short-term renters at a higher rate). And the most pressing issue

"WeWork's expansion is an attempt to show potential beyond co-working"



for the company is whether it will be able to meet its future commitments. In 2018, its European arm doubled its UK revenues. Yet after a year of expansion, it saw its losses triple to £32.3m. The idea that it might be risky to take out long-term leases on the assumption you'll be able to sublet them is apparently not lost on Neumann, who seems to be hedging his bets. The Wall Street Journal notes Neumann owns stakes in many of the properties WeWork has leased. "In a public company, that would be considered highly controversial," Charles Elson of the Center for Corporate Governance at the University of Delaware told the newspaper.

Is co-working the future?

Although We Work is not listed, looking at its valuation gives a good context if you are considering a potential investment in the sector. As the Financial Times's

Lex column pointed out last summer, WeWork's steep valuation "depends on a blinkered faith in its originality despite a crowded market of competitors".

In contrast to WeWork, for example, IWG, which owns office hire group Regus, is profitable. But after two takeover approaches from private-equity firms last year, the company has hired an adviser to sell its own flexible-working unit, Spaces. Property developer **British Land (LSE: BLND)** also operates its own co-working brand, Storey, but plans to focus on flexible working in the future, while selling out of underperforming retail premises (a restructure that prompted the exit of two bosses). It recently bought its first building that will be specifically geared towards co-working. Of its £16.8bn portfolio, it owns £12.9bn. As Investors Chronicle notes, the group has a "modest" loan-to-value ratio of 26.7% and speculative development exposure of just 3.7%. Its shares currently trade at a steep discount to the value of its portfolio – a bargain next to WeWork.

Guess the price... Jellies Beach Hut, Southwold, Suffolk

This characterful beach hut overlooks North Beach in the popular seaside town of Southwold and is just a short walk from the local pier. It's ideal for lazy days on the beach and perfect for the less reliable British summers. The hut was replaced in 2015. It has a kitchenette with a window overlooking open fields, while the front doors open onto a walkway with access to the beach. It is sold subject to a 30-year lease from 2009 with a right to renew for a further 30 years. The annual rent is £288 plus VAT. But can you guess the asking price? Answer on the side of this box.



£65,000 Durrants 01502-723292.

Fury over house raffle switch

A couple who launched a competition to raffle off their £3m Hampshire home "caused fury" after changing the first prize to £110,000 in cash and keeping up to £640,000 in "running costs", says the Daily Mail. Mark and Sharon Beresford promised to give away their riverside property if they sold 250,000 raffle tickets at £25 each. However, they only sold 30,000 tickets, triggering a clause that allowed them to give a cash prize to the value of 75% of the final ticket



The Beresfords: quids in

sales, less the cost of promotion.

However, entrants aren't happy with the couple's claim to have racked up £450,000 in advertising, PR, legal and marketing bills, and devoted £187,000 worth of time to the venture.

Shopping around can still pay off

The new energy price cap doesn't mean you will automatically get a good deal



Ruth Jackson
Money columnist

Earlier this month the government's new Energy price cap came into effect. But unfortunately this doesn't mean you can sit back and relax, confident in the knowledge you are not being ripped off.

The cap puts a limit on the price a supplier can charge per kWh of electricity and gas you use. It has been set at £1,137 per year for a dual-fuel customer who uses a typical amount of gas and electricity and pays by direct debit.

The trouble is that the cap is more expensive than a lot of deals on the market. The average consumer who switches supplier pays £921 per year, according to comparison site Compare the Market. So if you rest on your laurels as a result of the price cap it could cost you £200 a year. Even Ofgem, the energy regulator, has admitted the price cap is only designed to protect loyal customers who don't switch regularly. This means there is still money to be saved by shopping around.

Just keep in mind that these days it's not merely a case of tapping your details into a price-comparison site and choosing the cheapest deal. Nine small energy firms have collapsed in the past year, affecting more than 800,000 households and



The energy price cap doesn't guarantee the best deal

leaving many of us wary of choosing a firm beyond the traditional "big six".

Since the gas and energy markets were opened up to competition, a huge number of new companies have appeared. The regulator has now tightened up licensing rules, but there are already 73 firms operating in a highly competitive market.

Given the market now has a price cap, a wholesale price rise could cause big

problems for some of the smaller energy providers.

If your energy firm does collapse, however, there is no need to panic. Your energy supply is maintained while Ofgem chooses a new supplier to take over the accounts. You will then be informed of the new tariffs and given the opportunity to switch. This is your chance to make sure you are still getting a good deal, so check the details carefully and shop around.

So far, anyone who was in credit with their supplier when it folded has had that balance protected. But it is generally a good idea not to build up significant credit balances. Former customers of Economy Energy, which collapsed earlier this month, have complained to The Guardian that they have had to wait months to get a refund, with one reader suggesting the company increased his direct debits in an attempt to boost its cash reserves.

Finally, although you may not end up out of pocket straight away, all these collapsing firms are costing you money. When Ofgem selects another supplier to take over the accounts of failed firms, that company can claim funds to cover the cost of transferring customers. This cost could be as much as £80m for British households (an average of £1.75 added to bills), estimated The Guardian in December (prior to Economy Energy's collapse).

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- 3 Gold is a hedge** - Gold has historically had a weak correlation to movements in the financial markets and is frequently used as a hedge against inflation or to offset falling stock markets.
- 4 Scarcity** - Deposits of gold are relatively scarce and new supplies of physical gold are limited. This natural scarcity and high production cost is the ultimate reason why gold holds value.
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Will superfunds take off?

Pension superfunds can save on costs, but may be prone to failure



David Prosser
Business columnist

Could your pension be transferred into a “superfund”? Several new players in the pensions market say they are already in talks with companies about taking on their occupational pension schemes, even though the government has only just published a consultation document on how such arrangements would be governed.

The idea is that a pension superfund would consolidate a number of defined benefit (DB) company pension schemes (where payouts are guaranteed) into one set-up, benefiting from economies of scale, operational efficiencies and – hopefully – a mix of investment styles.

Members’ benefits would be unaffected, though savers in pension schemes underwritten by an employer currently facing financial difficulties might be relieved to transfer. Many employers, meanwhile, would be pleased to rid themselves of their pension liabilities, though they would be charged for the privilege.

Not-so-super funds

However, while the superfund initiative has advantages, there are also some concerns about how it will work in practice. The new funds might



Superfunds: ministers are positive about their potential

be allowed to operate with less capital backing than the insurance companies that also compete in this industry. In theory, that could leave them more prone to failure. If a superfund were to collapse, savers would be transferred into the Pension Protection Fund (PPF), the lifeboat scheme that protects DB pension scheme members when an employer goes bust. However, the PPF has limits on how much compensation it will pay, with members likely to lose at least some of their benefits.

Nevertheless, ministers are positive about the potential for superfunds to take on liabilities currently causing employers financial difficulties. Many businesses with DB plans are struggling with the cost of their

obligations and facing pressure from regulators to increase their payments into their plans.

Under proposals published last month, the pensions regulator would be given new powers to police superfunds to ensure proper standards of consumer protection. Ministers also propose to introduce a “fit and proper person” test that trustees of superfunds would be legally bound to meet.

If superfunds get the go-ahead, consolidation could be very rapid. Some 11 million Britons are currently members of DB schemes – though many plans have been closed to new savers – that are often run by small employers who lack the resources to manage the funds in the most efficient ways possible.

Overpaid scheme member harassed

You would imagine that pension-scheme members who have been overpaid should be given a reasonable period during which to rectify the problem, and not be subjected to unfair legal restrictions.

But this certainly wasn’t the case when retired pension-scheme member David Carrington learnt that he had been paid £28,000 too much over 11 years. He had been contributing towards a fund run by TPT Retirement Solutions.

When the scheme spotted the error, it told him it would immediately cut his pension by 40% in an attempt to claw back the overpayment. Carrington then sought to negotiate a settlement to pay back the money over an extended time period, but was told he would be expected to sign a non-disclosure agreement preventing him from discussing the case.

Pension specialists accept that schemes have a legal duty to seek to recoup such losses, but warn that unreasonably aggressive requests are unlikely to stand up to scrutiny. The Pension Ombudsman has the power to intervene in such disputes on the member’s behalf – potentially even to order the scheme to write off some of its overpayment. There will soon be more such cases, with schemes currently following instructions from HM Revenue & Customs to check their record-keeping for payment errors.

Pension tip of the week

Now is a good time to fill in gaps in your national insurance contribution (NIC) history. Doing so will ensure you are entitled to receive the full state pension. At present people who reach state-pension age after 5 April 2016 have until April 2023 to fill gaps between 2006-2007 and 2015-2016. However, people doing this before 5 April 2019 (when rates get set at £15 a week) will be able to benefit from especially favourable rates. For example, buying one week of NICs for 2010-2011 currently costs £12.05, or £626.60 for a year. After 5 April 2019, this would cost £780, an extra £153.40. Buying a single year can increase a state pension by more than £200 a year for the rest of your life – more than £4,000 over 20 years. But before you do this, check that topping up will definitely boost your state pension by going to the DWP’s Future Pension Centre.

Benefits change leaves pensioners worse off

Thousands of people on low incomes and currently eligible to claim pensions credit will in future miss out on this benefit under new rules published last week by the Department for Work and Pensions (DWP).

Currently, pensioners whose partners are still below state retirement age can claim pension credit, a top-up to their state pension of around £255 a month, if their income is below set thresholds. From May, however, new pensioners with a partner still of working age will have to claim universal credit instead, with a maximum weekly payment for couples of around £115 a week.

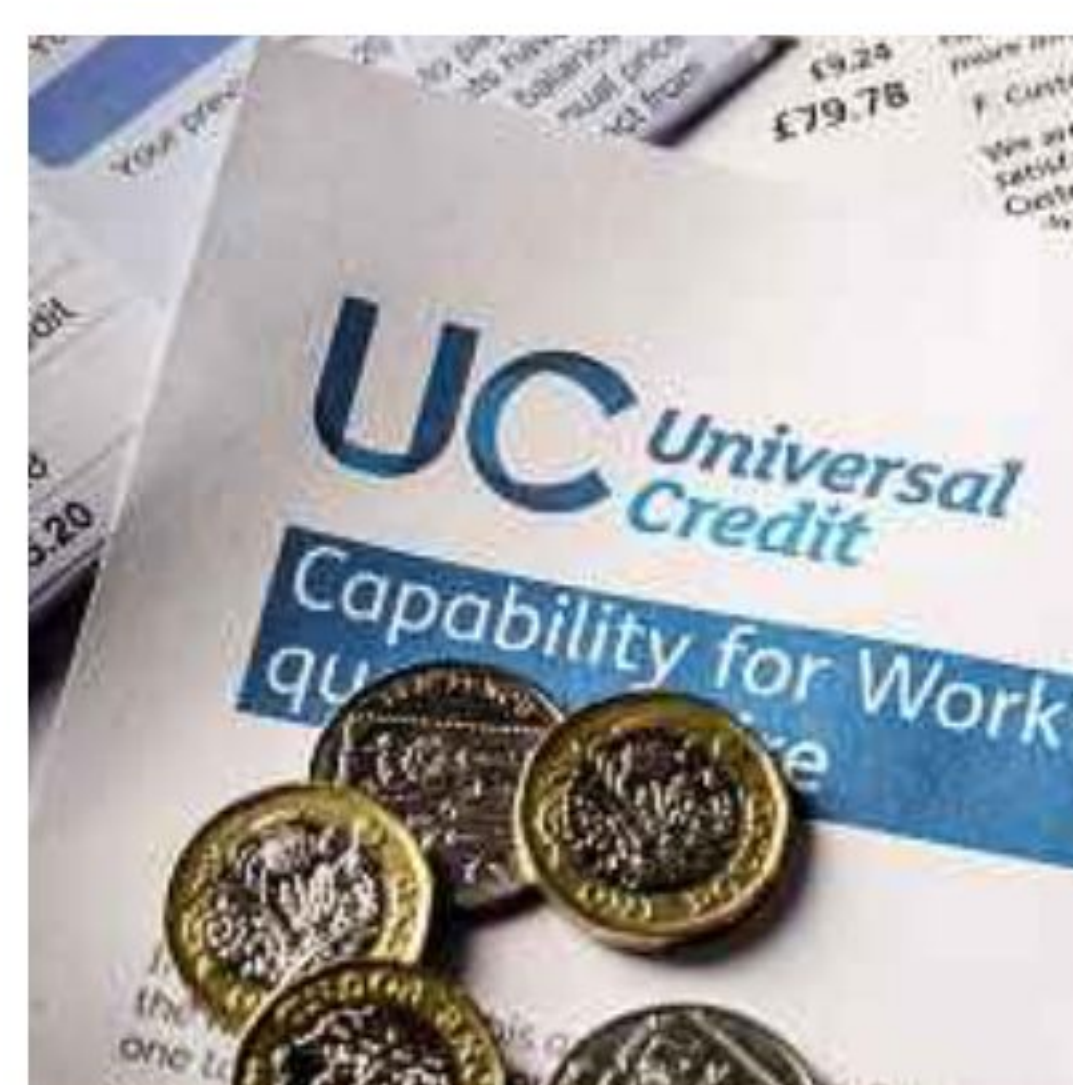
In the worst cases, new pensioners will miss out on around £7,300 of income a year they would be entitled to if reaching state retirement age today.

The average age gap between couples is 2.6 years, suggesting that new pensioners will, in future,

miss out on 135 weeks of the higher pension credit benefit before they are eligible to move on to the more generous payment, according to charities working with older people. That would equate to a loss of around £19,000.

With single people effectively better off under the new rules, since they would be entitled to pensions credit as soon as they reach state retirement age, the DWP may be forced to investigate whether older couples claiming their relationship had broken down were genuine.

Couples already claiming pensions credit are unaffected by the changes.



The strong and stable stocks offering a reliable income

Companies with a consistent record of rising payouts look especially attractive at present. Dr Mike Tubbs introduces his favourite “dividend aristocrats”



Nothing beats cold hard cash. In bull markets, investors are busy chasing rising stock prices; when the cycle turns, they rediscover the appeal of a steady dividend. No wonder. Reinvested income accounts for the vast majority of long-term returns. As the latest annual Barclays Equity Gilt Study notes, a £100 stake on UK equities in 1945 would have been worth £6,294 in real terms at the end of last year, assuming the gross income had been reinvested every year. Without dividend reinvestment, the £100 would barely have tripled after inflation. Now that global markets are wobbling, defensive stocks offering safe dividend yields – and the prospect of at least some share-price growth – are especially sought after. That combination appeals more than cash accounts offering paltry interest rates, especially as British income stocks look historically cheap (see box below).

A 25-year track record

A good dividend stock is safe and reliable. A special few have increased their dividends every year for at least 25 years. I think of them as the “dividend aristocrats”. This kind of consistency is crucial as you do not want to buy a stock for income only to find the payout is suddenly reduced or cancelled, a change that is inevitably accompanied by a major share-price fall: witness Tesco’s 50% slide in 2014 after it admitted to overstating its profits and scrapped the payout for two years. Dividend aristocrats with at least 25 years of consecutive increases form a very select group. There are only 53 in the S&P 500, for instance. A handful of firms are dividend “super-aristocrats”, having increased their dividends each year for more than 50 years; in three cases, for more than 60. Before we take a closer look at the aristocrats, however, consider some simple tests that investors can use to check that a company is likely to carry on paying and increasing its dividend.

Avoiding a dividend disaster

Even if a company has raised dividends for more than 25 years, investors should still apply three simple checks. The first is to look at dividend

cover, the ratio of earnings-per-share (EPS) to the dividend-per-share (DPS). A ratio of two or more – the payout is at least twice covered by earnings, in other words – is healthy in this context.

You should also gauge whether free cash flow per share is comparable to EPS, which indicates that profits are backed up by cash generation rather than stemming from creative accounting. Free cash flow should certainly be much larger than the cost of the dividend. The third step is to check that the company either has net cash on the balance sheet or only modest debt. One way to do this is to find the debt/ebitda (earnings before interest, depreciation and amortisation) ratio, which captures the relationship between debt and operating earnings. If debt is too high in relation to operating cash generation, there is a danger the money the company generates may have to go towards reducing borrowings rather than paying investors an income. A ratio above two looks precarious; I prefer a ratio of one or less.

The clues at Cobham

A case where these criteria would have provided a useful warning was UK aerospace group Cobham, which pioneered air-to-air refuelling. The Daily Telegraph reported in 2013 that Cobham had increased its dividend every year for 43 years. It went on to increase it up to the 2015 financial year, but a series of acquisitions paid for with increasing debt and problems at one US purchase stretched its finances and it paid no dividends at all in 2017 and 2018. However, the preliminary results for the year to 31 December 2015 showed negative dividend cover (a loss of 3.3p but DPS of 11.18p), even though analysts focused on “underlying” EPS of 19.5p. In addition, free cash flow was less than the cost of the dividend and net debt stood at £1.2bn, yielding a debt/ebitda ratio of 2.9. So all three warning signs were there.

My top-15 dividend aristocrats

We now look at 15 dividend aristocrats. All but one have current dividend yields of more than 2.1% and boast at least 25 years of increasing dividends with

“£100 in 1945 would be worth £6,294 pounds now with income reinvested”

UK dividend yields are at post-crisis highs

Dividend payouts by UK companies hit an all-time high of nearly £100bn last year, writes John Stepek. That was up 5.1% on the year before, according to Link Asset Services. And when you exclude special dividends (one-off returns of cash), the rise in underlying dividend payouts was even higher, at 8.7%, with banks and miners accounting for most of the growth. Combined with a grim year for share prices in 2018, that’s left UK stocks sitting on

dividend yields that are higher than anything we’ve seen since the financial crisis era.

One safety point we always emphasise is that unusually high dividend yields tend to imply there’s trouble down the road. A high-yielding stock often means that the market believes a dividend cut is coming soon. Yet even if there is trouble on the horizon (in the form of recession or major Brexit disruption, or both), dividends are unlikely to fall by as much as today’s high yields

would indicate, Justin Cooper of Link Market Services tells Javier Espinoza of the Financial Times. Any drop “is likely to be in the 10%-15% range, not the 25% or so currently implied”.

As we’ve pointed out in recent issues, there are some solid investment trusts offering exposure to high-yielding UK stocks. However, if you fancy investing in individual stocks, Jonathan Jones in The Daily Telegraph highlighted nine “dividend

heroes” – stocks that have been in the FTSE 100 since its inception and are now yielding more than 5%. If you are comfortable investing in tobacco stocks, then **British American Tobacco (LSE: BATS)** yields more than 7%, having halved in value in the last 18 months. Insurer **Legal & General (LSE: LGEN)** looks less vulnerable on a yield of well over 6%, and miner **Rio Tinto (LSE: RIO)** and pharma giant **GlaxoSmithKline (LSE: GSK)** both yield more than 5%.



The real thing: Coca-Cola has raised its dividend for 56 years in a row

six super-aristocrats managing more than 50 years. The modest yield criterion of at least 2.1% enables the inclusion of companies from a wide range of sectors. Companies with very high dividend yields often offer poor share-price growth, whereas modest dividend yields from a fast-growing company can, after several years, yield both large capital gains and a high yield on the original investment.

The UK dividend champion

Britain's Halma (LSE: HLMA) is a good example of this mixture and illustrates why a dash of growth, not merely a high income, is important. The blue-chip occupational-safety, health and environmental protection group boasts an incomparable record: it has increased its dividend by 5% or more every year for the last 39 years. And those rising dividends have been accompanied by substantial share-price growth: the stock rose from 41p in October 1988 to 1,504p in October 2018, a 36-fold increase in 30 years. It announced a dividend of 7.18p in June 2007, when the share price was 240p, giving a yield of 3%.

But by June 2018 the dividend had risen to 14.68p and the share price to 1,424p, giving a yield of 1.03%. However, that meant an investor who bought in June 2007 had a yield in 2018 of 6.1% on his original investment – and that investment was worth six times its 2007 cost. That overall return is far better than an income investment with a high dividend yield of 5% in 2007 and a modest increase in value of, say, 60%.

The table at the top of page 26 highlights another 14 companies that have increased their dividends

every year for between 28 and 63 years. They have intentionally been chosen from 15 different sectors and 14 of them span respectable yields from 2.1% to 4.2%, with Halma at 1.1% added owing to its incomparable record of dividend increases and total returns. The financial crisis of 2008/2009 saw many companies cut or hold their dividends but these 15 continued to increase them. All the companies also show positive annualised total returns over both the last ten years and the last three years.

America's top income stocks

The first is the oil firm Chevron (NYSE: CVX). Consolidated Edison (NYSE: ED) represents utilities. SSE was an option here with 26 years of increasing dividends and a yield of 8.8%, but it has two drawbacks. The first is that the dividend is barely covered, while the second is political risk: if the Labour Party won an election, SSE would probably be nationalised with poor compensation.

These two are followed by beverage leader Coca-Cola (NYSE: KO) and Procter & Gamble (NYSE: PG), an obvious choice in the household and personal-care category since Unilever only has a record of 19 years of dividend increases. Then there is James Halstead (Aim: JHD), the UK flooring company, and 3M (NYSE: MMM), the innovative diversified industrials company, which invented Post-it notes, with a 60-year record. These are followed by Johnson & Johnson (NYSE: JNJ) from pharmaceuticals with a 54-year

“Halma is a good example of why a dash of growth, not just a high income, is important in the long term”

Continued on page 26

Continued from page 25

record and Britain's car-engine catalyst and battery materials group **Johnson Matthey** (LSE: JMAT). Tightening emissions regulations continue to provide growth, and battery materials and components should expand with electric vehicles.

Due to the financial crisis very few banks and financial firms are dividend aristocrats. An exception is **Cincinnati Financial** (Nasdaq: CINF), which has a 57-year record of increasing dividends.

A rare software aristocrat is the UK's **Sage** (LSE: SGE), with a 26-year record.

The final four companies include **Dover** (NYSE: DOV), an engineering-systems specialist famous for refrigeration and food equipment. It boasts one of the longest records of dividend increases in the world: 63 years. **McDonald's** (NYSE: MCD) represents the food industry with a 42-year run. Then there is **Medtronic** (NYSE: MDT), the largest investor in research and development in the global health sector; and **ADP** (Nasdaq: ADP), the outsourcer specialising in human-capital management, payroll, attendance and compliance. Twelve of these 15 companies show double-digit returns per year over the last ten years. Halma is again the standout in this respect, with a 23.2% annualised return over the last ten years. It has done almost as well over the past three.

Investment-trust aristocrats

Any portfolio of dividend aristocrats should be diversified across different sectors and countries to provide additional protection and dilute the impact of the very occasional problem company, such as Cobham. An alternative way of gaining diversification is to use investment trusts (ITs). One of the many advantages of an investment trust over a unit trust is that it is allowed to set aside 15% of annual income as a reserve. This reserve enables an IT to plan its dividend payouts to achieve steady increases. Some ITs have raised dividends for 40 years or more. Six of the 15 IT aristocrats with over 30 years of dividend increases are listed in the table below. These have been selected to illustrate a wide range of yields, (discounts/premiums) and share-price performances.

As with shares, higher yields tend to be accompanied by lower growth. It is important to take a look at the top-ten investments of any trust you are considering investing in to understand the type of company the manager favours for its portfolio. Check too whether the trust is selling at a discount or a premium to its net asset value: whether the trust's market cap is lower or higher than the value of the

Company	Sector	Yield on 18/1/19	Successive years of increased dividends	Annualised total returns for last ten yrs & three yrs
Chevron	Oil & Gas	3.92%	29	+7.8%/16.1%
Consolidated Edison	Utility	3.79%	42	+9.8%/7.8%
Coca-Cola	Beverages	3.28%	56	+10.5%/7.8%
Procter & Gamble	Household & personal care	3.15%	62	+7.2%/10.2%
James Halstead	Materials	2.97%	41	+19.1%/6.8%
3M	Diversified	2.78%	60	+15.1%/14.9%
Johnson & Johnson	Pharma	2.75%	54	+10.6%/13.2%
Johnson Matthey	Chemicals	2.67%	31	+14.5%/11.1%
Cincinnati Financial	Financials	2.64%	57	+14.5%/16.4%
Sage	Software	2.61%	28	+15.6%/6.8%
Dover	Engineering	2.35%	63	+15.1%/24.9%
McDonald's	Food	2.30%	42	+13.6%/19.0%
Medtronic	Health	2.25%	40	+11.8%/7.9%
Automatic Data Processing	Outsourcing	2.19%	44	+15.4%/22.3%
Halma	Electronics	1.07%	39	+23.2%/22.2%

shares and cash it holds. To illustrate the differences in approach taken by different ITs, we will briefly examine the portfolios of the highest and lowest dividend-yield ITs. **Scottish Mortgage** (LSE: SMT) IT has the lowest yield so it is not surprising that its top-ten investments contain Amazon (9.3% of assets), Illumina (8.2%), Tesla (6.6%) and Tencent (5.3%). Three of these companies do not pay dividends and the fourth (Tencent) has a yield of only 0.33%.

By contrast, **City of London's** (Aim: CIN) top-ten investments include dividend paying companies such as Shell (6.9%), HSBC (4.5%), BP (4%), Diageo (3.3%) and Unilever (2.9%). These examples illustrate the difference between an IT such as Scottish Mortgage, which emphasises growth, and City of London, which emphasises stable and substantial income. That is why Scottish Mortgage has averaged share-price growth of 24% over ten years and 27% over the last three – well above that of City of London, which has averaged 11.6% over ten years and 7.7% per year over three years. But City of London has a yield that is more than seven times larger than Scottish Mortgage's. Meanwhile, the other trust aristocrats worth researching are **Caledonia Investments** (LSE: CLDN); **Scottish American** (LSE: SCAM); **Scottish** (LSE: SCIN); and **Bankers** (LSE: BNKR).

Mix and match

Investors have three basic options. More income-orientated investors can select two or three investment trusts offering fairly high dividends. Alternatively, mix one or two growth trusts with a couple of income trusts to provide a lower income but a greater growth element. The third way is to select your own portfolio from companies such as those in the table above. A set of 15-20 companies from different sectors and countries will provide adequate diversification, but still be small enough for you to keep track of the performance of the constituent companies. Just ensure your expectations are realistic: remember that higher-yielding dividend stocks or ITs imply lower capital appreciation and vice versa.

“Thanks to the financial crisis very few banks are dividend aristocrats”

Investment Trust	Years of dividend rises	Yield on 18/1/19	Discount/premium to net asset value	Annualised ten-year & three-year price growth
City of London IT UK equity income	50	4.57%	+1.7	+11.6%/7.7%
Scottish American IT Global equity income	37	3.21%	+2.1%	+15.6%/18.7%
Scottish IT Global	33	2.66%	-7.7%	+11.2%/16.2%
Bankers IT Global	50	2.39%	-2.2%	+13.9%/15.3%
Caledonia Investments IT Global	49	1.92%	-16.7%	+11.3%/13.9%
Scottish Mortgage IT Global	33	0.63%	+3.8%	+24.0%/27.4%

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Sin is going out of fashion

Younger generations are less likely to turn to drink for solace or pleasure. What will this mean for our booze-soaked culture and economy? Stuart Watkins reports

Keith Richards has cut back on his drinking. That has got to be a sign of something. The comedian Bill Hicks once paid tribute to the Rolling Stones guitarist for sailing out care-free on a drink-and-drugs tour over the edge and finding, who knew, that there was a ledge beyond the edge. And what's more, he seemed pretty happy out there on that ledge. Now, Richards is sending back new reports from his experiments in wild excess. "I pulled the plug on it. I got fed up with it," he told Rolling Stone magazine. "But I don't notice any difference really – except for I don't drink... I've done it. I didn't want that anymore." Fellow band member Ronnie Wood, who got sober in 2010, is happy with the changes he's seen in his friend. He's now "a pleasure to work with", Wood says. "Much more mellow."

The band members are all in their 70s, so perhaps this is not so surprising – the partying surely had to come to an end some time. But the ageing rockers are far from alone in their new-found sobriety. In 2018, more than four million people took part in "Dry January", an initiative that tries to convince people to quit drinking alcohol for a month at the start of the new year. That's up from 4,000 when Alcohol Change UK, the charity behind the campaign, first started it in 2012.

Young people, especially, are spurning the bottle throughout the year. According to a study published in the BCM Public Health journal last year, the number of young people in Great Britain aged 16-24 who class themselves as non-drinkers rose from around 18% in 2005 to 29% in 2015, largely as a result of an increase in the number of people who completely abstain. The number who had not had a drink in the past week rose from 35% to 50%.

The rise in the number of teetotallers has coincided with delayed initiation into the rituals of drink, says the report – that is, people are not starting drinking till later in life, and so are not acquiring the habit of committed boozing. And although the increase has been greatest among young adults, it is part of a wider trend. Around 10% of all age groups classified themselves as non-drinkers in 1998, according to the Office for National



Statistics, rising to 15% in 2009 and more than 20% in 2017. Overall consumption has fallen by around 16% since 2004.

The economic impact

This should prove to be good news for the economy in general. The savings in health costs alone should be substantial – assuming abstinence from alcohol isn't replaced with equally damaging activities, which seems a safe assumption to make about a generation increasingly going vegan and taking up yoga.

It is widely and mistakenly thought that alcohol is only really a problem for a small minority of people, and it is true that less than 5% of us drink a third of all alcohol consumed, on figures from Public Health England. But those figures also show one in four of us are drinking enough to put our health at risk, whether that's in the short-term from alcohol-related accidents and injuries or over the longer term from liver disease and cancer, as Alison Douglas and Ian Gilmore point out on the blog of the British Medical Journal.

The NHS's long-term plan recognises alcohol as one of the top five risk factors that cause premature deaths in England. Another study, for The Lancet, from 2010, suggested that, in terms of harm to both users themselves and to wider society, alcohol is the most harmful drug of all – almost three times as harmful as cocaine or tobacco.

Douglas and Gilmore back a minimum unit pricing policy to tackle the problem, an idea backed by the World Health Organisation (but rejected this month by the health secretary, perhaps because he is waiting to see the effect of Scotland's legislation). Cancer Research UK, a charity, believes the policy could save the NHS £1.3bn over 20 years.

What of the total cost of alcohol to society? It's hard to say for sure, as the Institute of Alcohol Studies points out. Many of the costs are difficult to estimate accurately and there is debate around which types of cost to include. The government says alcohol costs society in England and Wales £21bn – a figure that represents the costs imposed by drinkers upon others,

"The number of young non-drinkers in Britain rose from around 18% in 2005 to 29% in 2015"

The tastiest low-alcohol and alcohol-free drinks

The industry did not do a great job with alcohol-free beers in the past, Heineken MD David Forde admits to the Daily Mail. They just didn't taste great. But now brewers are starting to crack it. Heineken's offering, 0.0, has been a "runaway success", Forde says, selling 15 million bottles last year. Forde predicts sales will double in 2019, and he is launching it on draught as well as a booze-free version of its premium Italian brand, Birra Moretti. Suffolk brewery St Peter's has also launched a draught version of its 0% golden ale. For bitter drinkers, Greene King has a low-alcohol brew based on its Old Speckled Hen.

Nirvana's beers are an interesting addition to an increasingly diverse market, says trade magazine The Drinks Business. The big brewers tend to prioritise lager and pilsner-style brews. Nirvana, the only brewery in the UK dedicated solely to low and alcohol-free beers, produces a range of ales, lagers, stout and IPAs. For those partial to the latter, craft brewers BrewDog also have a 0.5% "hopped up brew with an authentic bitterness". And Erdinger's low-alcohol offering "commands a great deal of respect among beer-loving teetotallers", says The Drinks Business. It's "not

perfection, but it shoots pretty close to the net... with a distinctive, malty taste and a good depth of flavour".

The original distilled non-alcoholic spirit Seedlip is now available in lots of bars and restaurants as well as from specialist retailers, says Good Housekeeping, and now comes in three different flavours. If you're after a wine, Nosecco Spumante is an alcohol-free fizz that mimics the flavours of the Italian original. G&T lovers could try Gordon's Ultra-Low Alcohol pre-mixed drink, which retains all the flavours of a gin and tonic, it is claimed.

For those still hoping for something of a buzz, just not

from the alcohol, Three Spirit has made a plant-based zero-alcohol drink that represents a "third way". The company says it has found plants with active compounds that work together to make you feel "blissed out" and more connected when socialising. Those living in countries or states that have legalised cannabis will have further options: Heineken's Northern California craft brand Lagunitas and Blue Moon's Ceria Brewing Company both have non-alcoholic brews that offer a cannabis high instead.

DryDrinker.com has a range of booze-free drinks, including some of those mentioned here.

excluding any personal effects. The total cost to society may be something like double that. A study by the National Social Marketing Centre estimated a total social cost of alcohol of £55.1bn in 2006-2007, a sum that included the costs from crime and violence, lost income and productivity, damaged family lives and the burden on health and other social services. In 2015, 167,000 years of working life were lost as a result of alcohol, according to Alcohol Change UK.

In 2016, alcohol was linked to 39% of all violent crime in England and 49% in Wales. International comparisons carried out in a study for The Lancet suggest the weighted average total cost of alcohol to society in high-income countries may be something like 2.5% of GDP. The figure for England and Wales, according to the IAS, may be perhaps 1.7%; for Scotland, 3.4%.

What is more certain is that giving up alcohol will be good for your own wallet. According to the Drinkaware charity, the average weekly household spends about £60 a month on booze. If you go for above-average binges in nightclubs, you could save much more. The average cost of a night out in the UK is £61.58, according to the UK's largest operator of bars and clubs, The Deltic Group, reported in the Huffington Post.

How teetotal Instagrammers get their kicks

Awareness of these facts may have put youth off the booze. Some suggest price is the bigger factor – the price of alcohol has increased by 33% over the last ten years, although it remains 64% more affordable than it was in 1980, according to the NHS. But as the BCM Public Health paper says, the change is not attributable to any one factor and the causes are likely to be multi-factorial or cultural. The authors of the paper speculate that media use might be changing the way young people spend their leisure time as one factor.

According to a survey, only one in ten young people now see getting drunk as “cool”, reports Liz Connor for Irish News – the rest describe it as “pathetic”, “embarrassing” and “belonging to an older generation”. Yet teetotal Instagrammers still want to party. The level-headed youngsters and the “sober curious” are instead rocking up at gigs such as the Mindful Drinking Festival, which has recently held events in Glasgow and London. These “bring together

moneyweek.com

alcohol-free beers and spirits as well as kombuchas, shrubs and elixirs in one place for people to try”, says Connor.

As festival co-founder Laura Willoughby says, “in the last two to three years there’s been this massive boom in alcohol-free drinks designed for adults, and, for me, that’s important, because once you give up drinking it doesn’t mean you suddenly want to switch to fizzy pop. I’m not 12 anymore – I want to go to a restaurant and have a drink that goes with food.”

Drinks industry giants are responding to this trend with alternatives that go beyond orange juice and sugary soft drinks. Diageo, for example, has invested in fashionable non-alcoholic spirit Seedlip; Pernod Ricard is distributing non-alcoholic alt-gin Ceder’s; and Heineken has launched 0.0 – a non-alcoholic pale ale (see box below). Major retailers and bars are listening, and consumers will this year see more of these alternatives in their locals, says Connor.

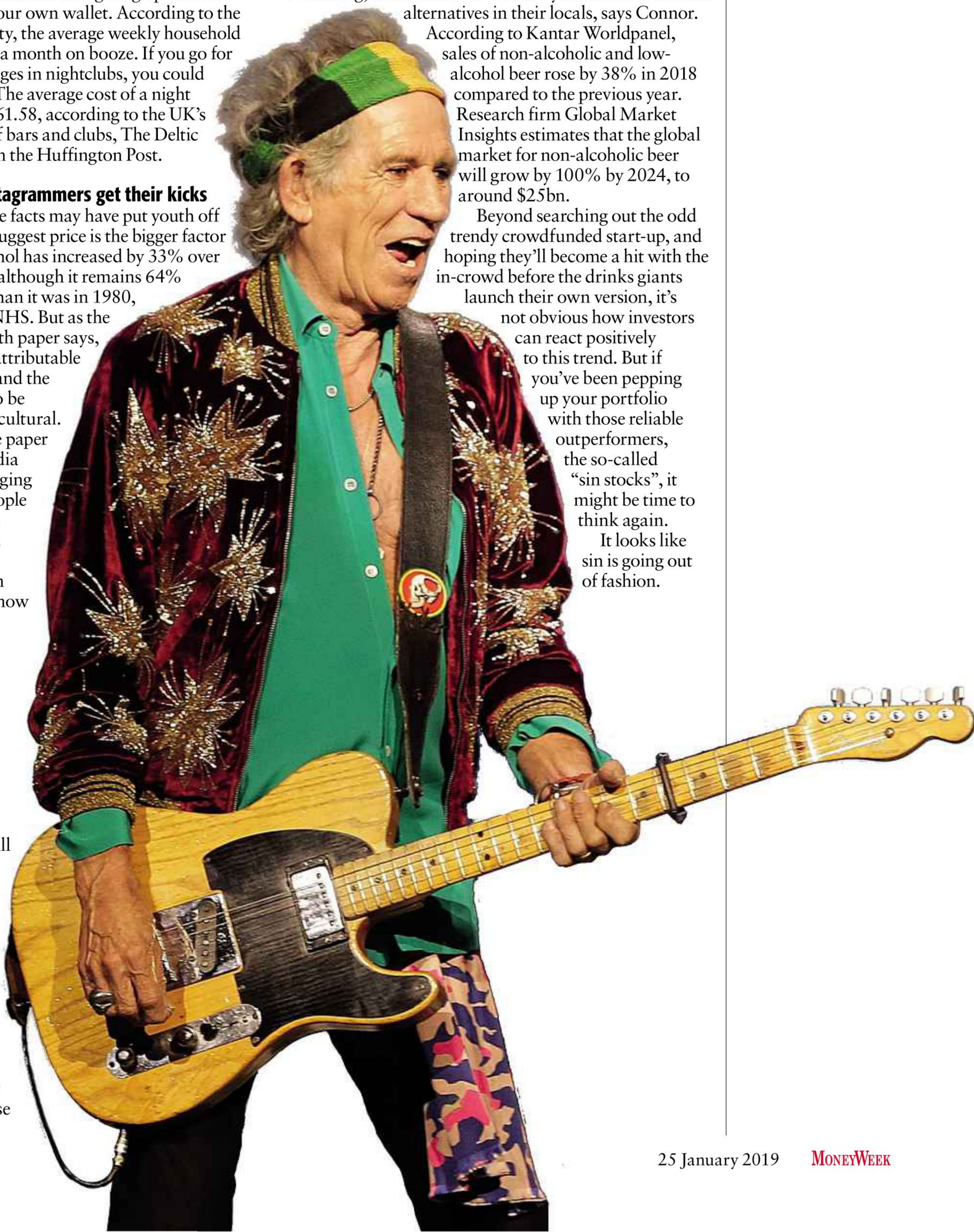
According to Kantar Worldpanel, sales of non-alcoholic and low-alcohol beer rose by 38% in 2018 compared to the previous year. Research firm Global Market Insights estimates that the global market for non-alcoholic beer will grow by 100% by 2024, to around \$25bn.

Beyond searching out the odd trendy crowdfunded start-up, and hoping they’ll become a hit with the in-crowd before the drinks giants launch their own version, it’s

not obvious how investors can react positively to this trend. But if you’ve been pepping up your portfolio with those reliable outperformers, the so-called “sin stocks”, it might be time to think again.

It looks like sin is going out of fashion.

“In terms of harm to both users themselves and to wider society, alcohol is the most harmful drug of all”



Blockchain's next step: security tokens

2019 could be the year the technology behind bitcoin finally realises its potential and goes mainstream in financial markets



Ben Judge
Digital editor

Blockchain was designed as a distributed digital ledger: a decentralised database shared across a network of computers. Once records are added to the chain and verified, they cannot be altered. Blockchain rose to prominence as the technology underpinning the cryptocurrency bitcoin. But recently it has been used to create thousands of new digital coins.

These have been sold to the public through initial coin offerings (ICOs), the digital currency versions of initial public offerings in equity markets. Developers offered their coins for sale in the hope they would emulate bitcoin's meteoric price rise.

Thanks to the bitcoin-induced digital currency craze, they often did, and ICOs soon became a way to raise a lot of money quickly, no questions asked. A typical ICO would see a developer knocking up a slick-looking white paper promising returns in the many thousands of percent if you would buy a bucketful of his crypto-tokens. In one notorious case, a developer raked in \$343,000 even though he had made clear he would blow the

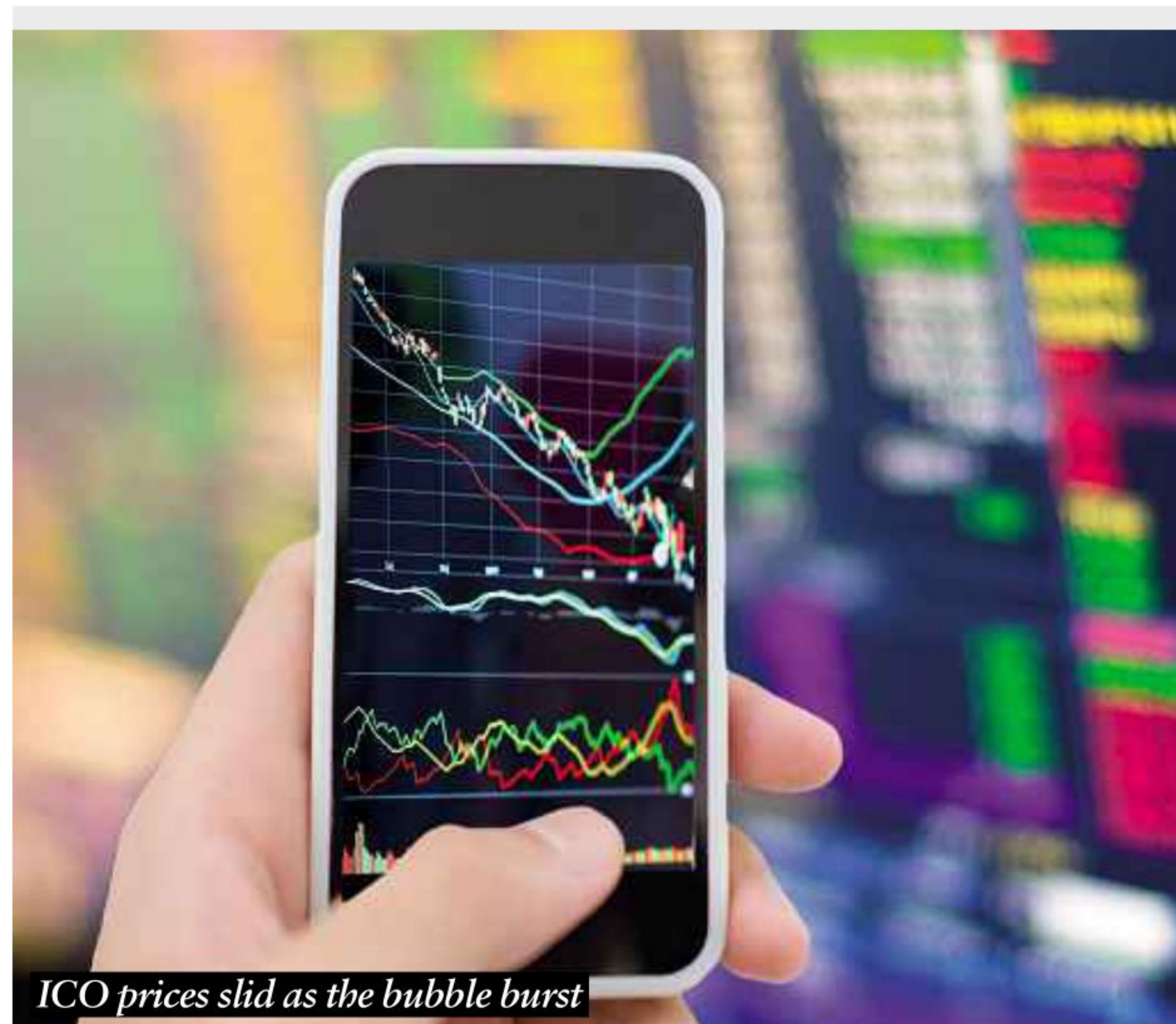
"One ICO raised \$343,000 even though the developer had promised to waste the money"

money on flatscreen TVs. The bubble has now burst, and most crypto-coins have withered and died. Deadcoins.com lists almost a thousand defunct crypto-coins. Not surprisingly, ICOs quickly fell foul of regulators.

Blockchain is back – wearing a suit

Now, however, ICOs are maturing and are about to take their place in the legitimate and regulated world of financial instruments. A key way in which many people have been trying to develop blockchain is using it to "tokenise" assets: the coins should relate to something specific. Now securitised token offerings

(STOs) are the latest thing in blockchain circles. STOs have some of the characteristics of coin offerings, but are fully regulated and backed by real value: a share in the profits or assets of a company, for instance. In this way, companies can be opened up to investors without the need to go through the long and expensive IPO process. Tokens can be traded as securities, and will confer all the rights of traditional equities – voting rights, dividends, and so on.



ICO prices slid as the bubble burst

In the UK, the Financial Conduct Authority's "regulatory sandbox" allows fintech companies to develop new technologies and products, testing them in the market on real consumers. The latest cohort contained several companies working on blockchain technology. Among them was Globacap, which towards the end of last year issued the UK's first security tokens representing equity ownership in a company.

The blockchain-based tokens contained so-called "smart contracts" that record ownership and fulfil legal requirements, such as know-your-customer and anti-money laundering regulations. Tokens won't be limited to equities, but could encompass debt, private-equity funds, or property – indeed, any asset.

This year, then, could see security tokens take off in the same way as 2017 saw ICOs explode onto the scene. Tokens are the logical next step for blockchain and bring the technology closer to realising the potential its advocates have always highlighted: bringing cheap, transparent and secure transactions to financial markets and beyond.

News bytes... blockchain to track batteries and Dogg invests in unicorn

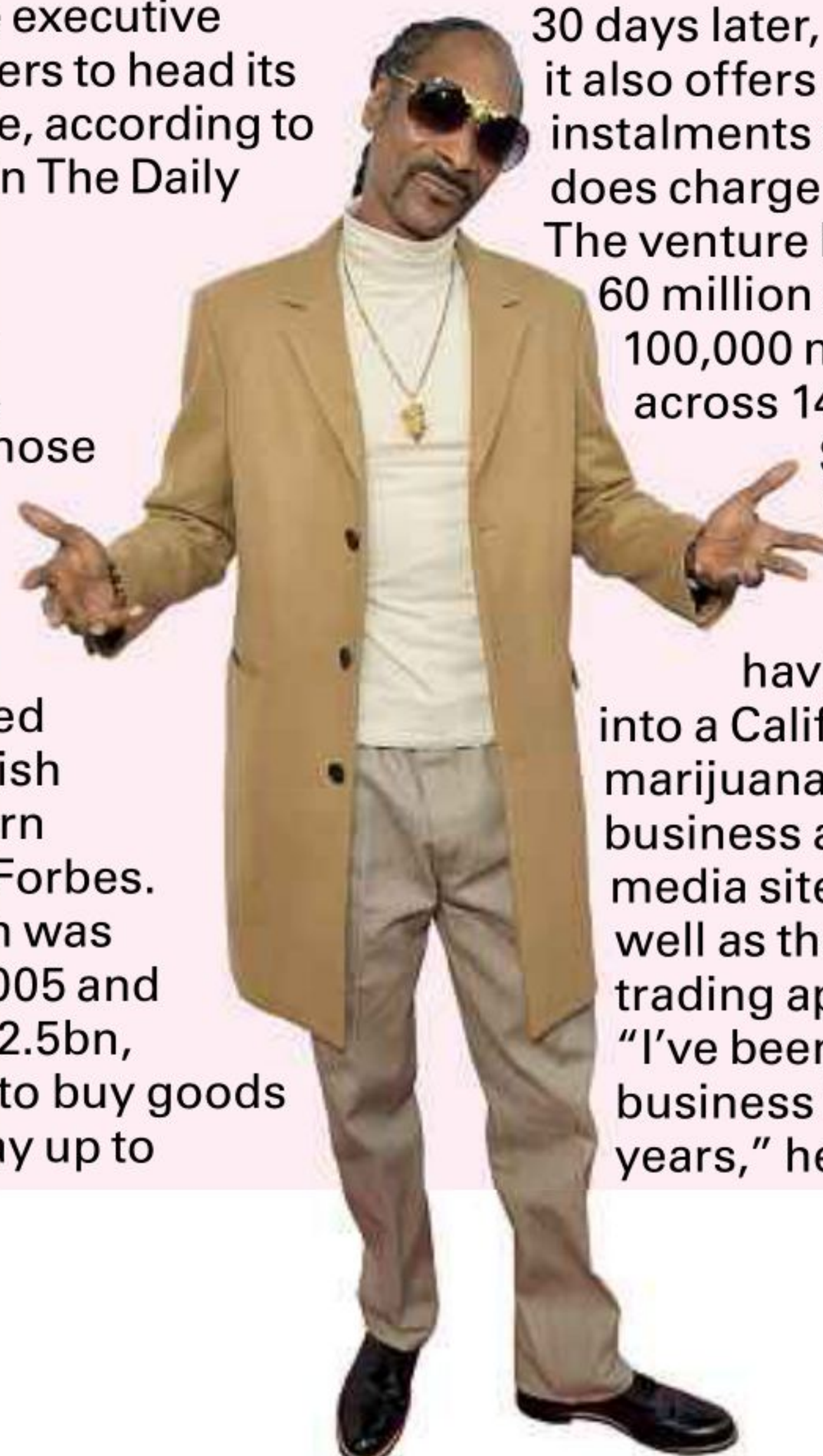
● One area blockchain and smart contracts have always seemed particularly suitable for is supply chain management and logistics. The latest example of real-world blockchain use comes from the Ford Motor Company, says the Financial Times. Ford will use the technology to track the provenance of the cobalt used in the batteries for its electric cars. Working with battery-maker LG Chem and Chinese cobalt producer Huayou Cobalt, it will monitor the shipment of the metal from Huayou's mine in DR Congo to ensure none is produced by workers subjected to human rights abuses. Up to 20% of the cobalt from DR Congo is mined by hand.

● A transatlantic battle for supremacy is breaking out in the world of free share-trading apps. British startup Freetrade, whose fee-free share-buying service went public last autumn, launched US share trading last week, says City AM. Freetrade currently has around 10,000 users, with 90,000 more on its waiting list. At the same time, US trading app Robinhood is reported to be looking to expand into the UK. The US company, which has been in business since 2015 and has more than three million customer accounts, has been quietly taking on staff in the UK for some time now, reports Steve O'Hear on TechCrunch.com. And last week, it appointed former

TransferWise executive Wander Rutgers to head its London Office, according to James Cook in The Daily Telegraph.

● US rapper Snoop Dogg, (pictured), whose real name is Calvin Broadus, has invested an undisclosed sum in Swedish fintech unicorn Klarna, says Forbes. Klarna, which was founded in 2005 and is valued at \$2.5bn, allows users to buy goods online and pay up to

30 days later, interest-free; it also offers a pay-in instalments service that does charge interest. The venture has signed up 60 million shoppers and 100,000 merchants across 14 countries. Snoop Dogg is no stranger to venture capital, having put money into a Californian marijuana delivery business and social-media site Reddit, as well as the share-trading app Robinhood. "I've been doing business in Europe for years," he says.



Recruitment is just the job

Specialist Hays is geographically diversified and cheap



Matthew Partridge
Senior writer

Recruitment might not be the most glamorous sector, but it can be lucrative. Between 2014 and 2018 Hays (LSE: HAS) saw its revenue grow by 56% and its profits nearly double. At the same time it managed to achieve returns on capital of 25%. Given the backdrop of stagnant or falling real wages during this period, one would expect it to do even better now we're starting to see the first real wage growth in more than a decade and companies are fighting harder to find good staff.

However, this hasn't been reflected in Hays's share price, which has fallen by around a quarter from its peak of 209p last October. One big reason for this decline is the risk of a slowdown in the global economy. This would not only reduce the number of people being hired, but also hit wages. As Hays's revenue comes from commission linked to salaries, it's not hard to see why this could be bad for the bottom line.

Brexit fears are overblown

Another, more localised, risk is the uncertainty surrounding Brexit. Some fear a no-deal Brexit could not only push the UK into an immediate recession, but lead to banks and other financial services firms fleeing the UK en masse for Frankfurt, Dublin and Paris. Indeed, some argue that even if Parliament were to change its mind and approve Theresa May's withdrawal agreement, the City would still suffer from the loss of passporting rights (which currently give British banks automatic rights to trade throughout the 31 countries that comprise the European Economic Area).

In our view, however, these fears are overblown. While some sort of global slowdown seems inevitable at some point after more than a decade of economic expansion, a modest recession still

"Hays operates all over the world and earns most of its fees in emerging markets"



Recruitment is unglamorous, but lucrative

seems much more likely than a repeat of the meltdown we saw during the financial crisis. Similarly, if the current political deadlock results in a softer Brexit than originally intended (ideally along the lines of the Norway-style solution that we've been advocating), then the FTSE could be in for a sustained rally, with shares in companies such as Hays doing particularly well.

Even if the worst happens, Hays has diversified its business by opening offices around the world. It now operates in 33 countries, getting the majority of its fee income from emerging markets. Not only does this reduce the impact of a country-specific event like Brexit, but it also allows the firm to exploit the fact that these countries are growing far more quickly than more established markets. Summing up, the 2019 price/earnings ratio of 12.4 looks extremely attractive.

We'd therefore suggest you place a stop-order, going long once the price hits 160p (which is close to the 100-day moving average). In this case you should bet on it at £25 per 1p (compared with IG's minimum of £1) with a stop-loss of 120p. This would give you a total downside of £1,000.

How my tips have fared

The past fortnight has been kind to our long positions. After pushing through the 400p level, where we suggested you put a stop-order, JD Sports reached 437p. Similarly, Greene King rose from 553p to 596p, helped in part by optimism over the appointment of Nick Mackenzie as the new CEO. John Laing increased to 351p (from 333p). Only Cineworld declined, from 273p to 257p. But that wasn't enough to prevent our four longs from making a total profit of £554, up from £180.

However, if the rise in shares around the world was good for our long positions, it did nothing for our shorts. Indeed, every one of our six share shorts went against us. Netflix rose from \$297 to \$339, Twitter increased from \$29.95 to \$33.27, Just Eat is now 649p (compared with 601p), while Weis Markets sells for \$49.07 and Rightmove for 477p.

Even Snap ticked up, from \$5.95 to \$6.18, despite yet another senior executive leaving the company. Indeed, the only boost for our portfolio came from bitcoin, which slipped to \$3,586 (compared with \$4,018). Our short positions are making an overall profit of £1,596 (down from £2,561).

We now have two positions (Greene King and bitcoin) that we've held for more than six months. While both trades are currently profitable I'm going to take money off the table by raising the stop-loss to 525p in the case of Greene King, while I'd suggest you take your profits on bitcoin if it goes above \$4,500. I'm not going to make any other changes yet, though if the Netflix position doesn't become profitable within the next few weeks, I'm going to implement my six-month rule and suggest closing it, even though I still think the firm is overvalued and heading for a fall.

Trading techniques... the Fibonacci sequence

The Italian mathematician Leonardo Fibonacci pinpointed the numerical pattern now named after him in the 13th century after studying how the number of rabbits increases over time. It is a sequence of numbers produced by adding the last two numbers together. It goes 0, 1, 1, 2, 3 and then 5 (3+2), 8 (5+3) and so on. As the sequence progresses, the ratio between the last two numbers gets closer and closer to 1.618, which Fibonacci regarded as the "golden ratio", because it occurs frequently in nature, for example in the patterns of sea shells. As a result, many traders think

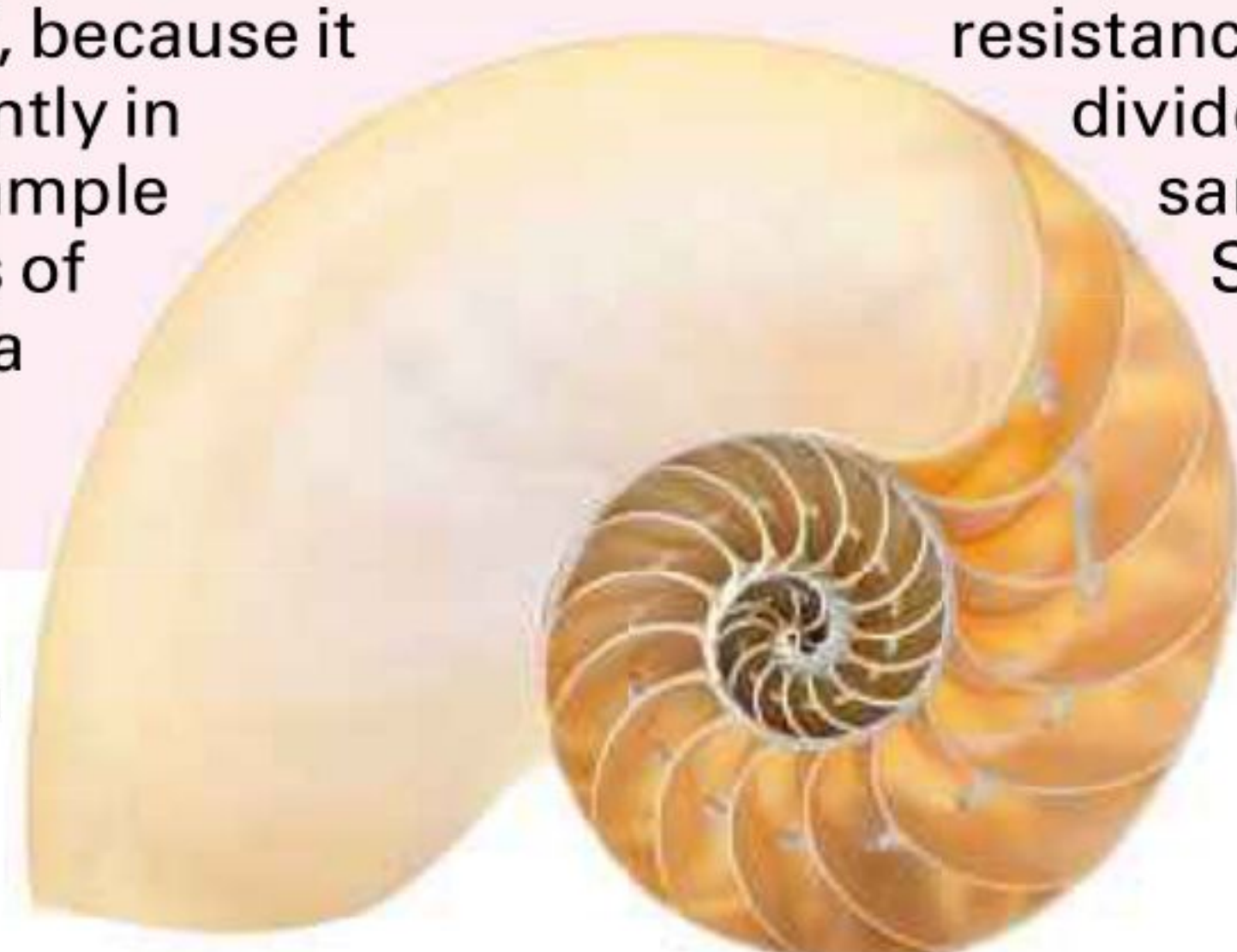
that the pattern should also have a subconscious impact on short-term price movements.

In its simplest form, many traders use Fibonacci's ratio to help them produce support and resistance points. Support points are the price below which traders think shares should not fall in the short term, while resistance points are the levels above which a share should not rise. To find the support point you multiply a recent trough by 1.618 and to produce a resistance point you divide a peak by the same amount.

So, in the case of a share with a recent peak of 150p, the

support point would be 93p (150/1.618). Similarly, in the case of a share with a trough of 80p, the resistance would be 129p (80 x 1.618).

As with all charting techniques, it is subjective: you have to judge for yourself when the recent peak and trough occurred. Some traders complicate matters by mixing in other non-Fibonacci ratios (such as 50%). Nor is there a consensus on how to use these support and resistance points. Some think a share changes direction once it approaches support or resistance. Others assume that a breach of a support or resistance level implies continued movement in that direction.



The British brands set for decades of growth



A professional investor tells us where he'd put his money. This week: Nick Train, portfolio manager of the Finsbury Growth & Income Trust, outlines his strategy

I recently read a thrilling book about investment called *100 to 1 in the Stock Market* by US stockbroker Thomas Phelps. It's a classic, first published in 1972. Here are three quotes from it that neatly sum up Phelps's message and go a long way towards introducing our approach too.

"It would be hard to find a worse slogan than 'You'll never go broke taking a profit.'"

"Every sale is a confession of error."

"In *Alice in Wonderland* one had to run fast in order to stand still. In the stockmarket, the evidence suggests, one who buys right must stand still in order to run fast."

Profit from doing nothing

You can deduce from this that Phelps was a proponent of a "buy and hold" investment approach – as are we. Now, you may have noted I described the book as "thrilling" and wonder why such an apparently soporific approach – doing next to nothing – deserves this adjective.

"In the stockmarket investors must stand still in order to run fast"

It's thrilling because Phelps lists the surprising number of US-quoted companies that have gone up in value 100-fold, admittedly over long periods. Think about that: up 100-fold turns £10,000 into £1,000,000.

He gives hundreds of examples, many substantive or household-name companies. Of course the gains didn't come overnight. But consider, even if it takes a quarter of a century – one to 100 over 25 years still equals an annualised return of more than 20%. Is that enough to set your pulse racing?

As far as we can tell, there are only

about a dozen among the UK's biggest 350 companies that have gone up 100-fold at any stage over the last 30 years. Maybe these stocks are just rarer in the UK. But if we moderate our ambitions, we find nearly half the current 350 have made a tenfold gain at some stage since the mid-1980s. And even "ten-baggers" are not to be sniffed at: that's a near-10% annual compound return over 25 years. Our job is to find and hold wonderful companies in the hope and expectation that they will go up many, many times over the period of our ownership.

Finding long-term success stories

Of course, I'm on a hiding to nothing if you expect me to nominate some stocks that might go up 100-fold from here. But let me put it this way: we see ample scope for strong growth all round the world and for many decades to come for a number of great British brands.

Consider, for instance, Burberry (LSE: BRBY); Guinness, Johnnie Walker, Tanqueray, the drinks owned by Diageo (LSE: DGE); and Manchester United (NYSE: MANU). All these brands are more than a century old, but it still seems to us that they're really only just getting started in fulfilling their global potential. If the past is any guide, their growth will drive tremendous returns for patient investors.



If only you'd invested in...

Spirent Communications (LSE: SPT)

Share price in pence



Spirent Communications (LSE: SPT) provides testing, analytics and security for network systems and equipment. It has had a tough few years, but things are looking up. It has cut back on costs and secured several new contracts in the past year as customers have upgraded their telecoms systems. In a trading update last week, Spirent said it expects to exceed the market's expectations for 2018, with profits up by 30% to between \$75m and \$77m. The group has a robust balance sheet with \$120m in cash. The shares have risen by more than 40% in the last 12 months.

Be glad you didn't buy...

Interserve (LSE: IRV)

Share price in pence



Interserve (LSE: IRV) is an outsourcing company that employs 75,000 people, including 45,000 in the UK. Most of its £3.2bn turnover comes from government contracts. Borrowings have more than doubled to £650m since 2016 and Interserve recently held a second round of talks with lenders over refinancing its heavy debt; an earlier round took place last April 2018. A year on from Carillion's collapse, Interserve is determined not to follow in its footsteps. But the share price has fallen by 90% in the last 12 months. With short sellers piling in, further falls are likely.



The retail investor's greatest champion

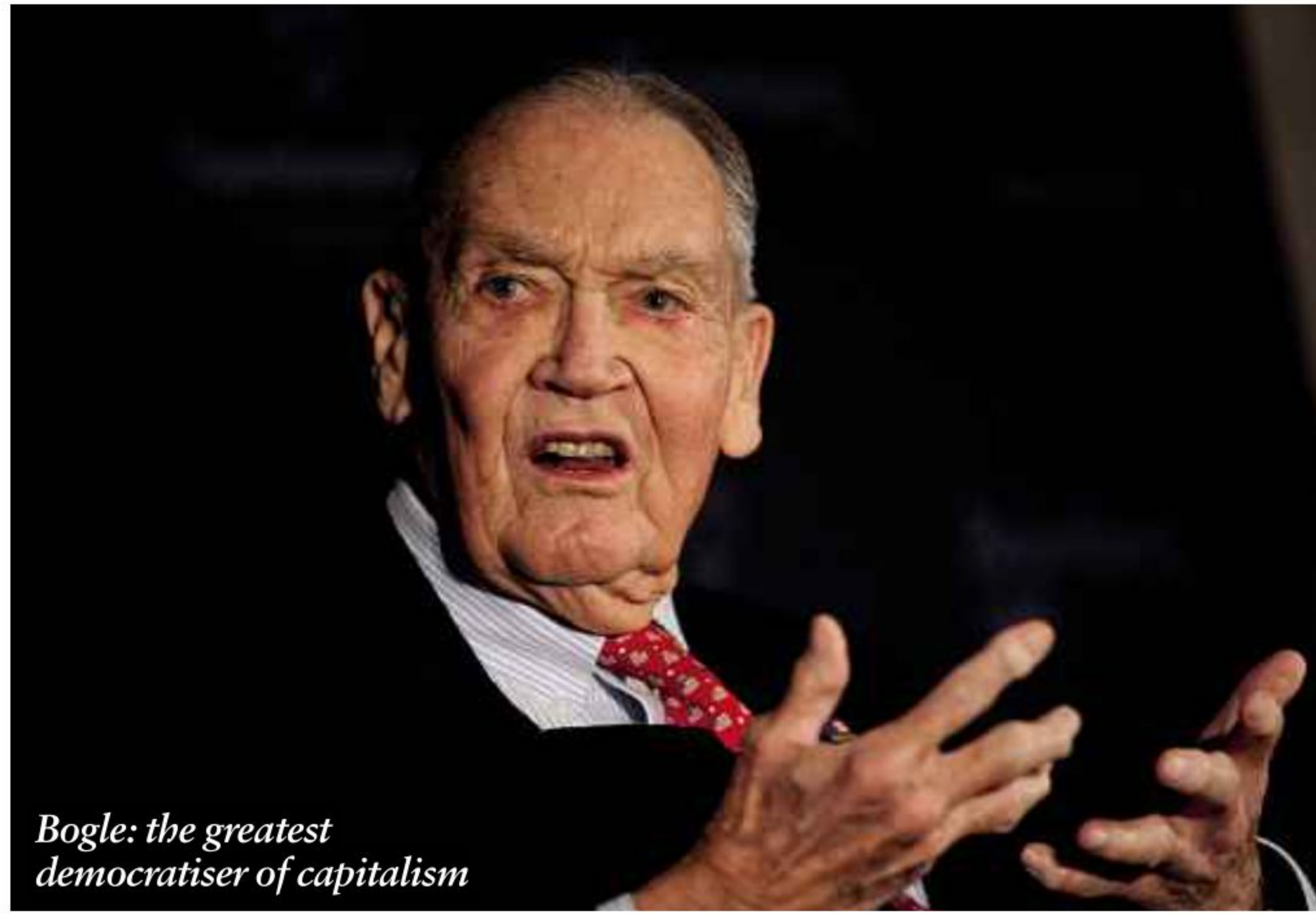
The wit who invented index-tracking funds and helped destroy the self-serving myths of rapacious experts did all investors a great service. Jack Bogle, founder of Vanguard, has died aged 89. Jane Lewis reports

“If you have a pension, and have a flag, fly it at half-mast today,” tweeted The Economist’s Stanley Pignal to mark the death of Jack Bogle, who created the world’s first index fund. Bogle’s key insight – “don’t bother with stock-picking banker types, they’re mediocre, just buy all the stocks in the index” – was revolutionary back in the 1970s. So was the way he laid into rapacious “experts”, says The Wall Street Journal. “In the fund industry,” the Vanguard founder once observed, “you get what you don’t pay for.” His message that investment could be “simple as pie and cheap as dirt” struck home. Index-fund investments now comprise some 30% of the US stockmarket; \$10trn globally is held in “passive” investments.

The greatest invention in finance

“The biggest beneficiaries of Bogle’s invention are regular investors who might have no idea who he was,” says Bloomberg. Yet Bogle was never shy about proclaiming the merits of his method, says the Financial Times. He called it “the greatest invention in the history of finance” and saw it as his mission to evangelise. It helped that he had a way with pithy one-liners (“Don’t look for the needle in the haystack. Just buy the haystack!”).

Bogle “didn’t seem like such a threat to Wall Street” when he started Vanguard back in 1974 and launched its first fund a year later, says Bloomberg. Not only was his concept alien – and apparently the antithesis



Bogle: the greatest democratiser of capitalism

“Don’t look for the needle in the haystack. Just buy the haystack!”

of profit making – but he was hardly the most robust of individuals: a congenital heart defect had seen him suffer the first of six coronaries at the age of 31. In 1996, he underwent a full heart transplant.

Then again Bogle, “whose early life was shaped by the Depression”, was raised for toughness, says the FT. Born in Montclair, New Jersey, his father – a well-to-do businessman – watched his fortune evaporate, “leaving him broken and prone to drinking”. Bogle and his brothers moved to live with their grandparents in the country and, from there, he won a scholarship to Blair Academy before going on to Princeton to read economics. In 1951, Bogle’s thesis on investing caught the eye of Walter Morgan, then presiding over the huge \$150m Wellington fund, who hired him and later made him “heir apparent”.

Bogle takes the vanguard

It was a strategic cock-up that led to the founding of Vanguard. During the 1960s “go-go” boom, Bogle overreached himself as Wellington’s “asset-management wonder boy” and propelled the firm into an aggressive merger, which nearly sunk it when the bull run collapsed in 1973-1974. Bogle himself was fired, but he staged a counter-coup by persuading the boards of Wellington’s mutual funds that they needed a new “independent company” to “take on the administrative tasks of running them”. Thus, Vanguard was born.

After a rocky start, Bogle never looked back. His prospects were helped by the 1970s introduction of individual retirement accounts and, later, the 401(k) – a retirement savings plan sponsored by an employer. The drying up of corporate pension funds ensured ordinary people “were all but forced to invest in the stockmarket”, says Bloomberg. The change hasn’t been “wholly positive”. Even Bogle sometimes wondered whether the force he’d unleashed might turn into a monster: in later life, he railed against the risk posed by the ubiquity of exchange-traded funds. But history will remember Bogle as the great democratiser of capitalism, says the FT. “He became one of the greatest men in the history of investing by ripping asunder the ‘great man’ image of supreme, cerebral stockpickers.” As he himself concluded: “nearly all those experts whom we identify as stars prove to be comets”.

Great frauds in history... the original Ponzi scheme

Charles Ponzi was born in Italy in 1882 and emigrated to the US in 1903. For the next 16 years he held various menial jobs, and served time for various crimes, including fraud. In 1919 he set up a business to exploit the difference in price between international postal coupons by buying them in Europe where they were cheap and redeeming them in the US. He raised money from the public by promising them he would double their money within 90 days (quickly changed to a 50% return in 45 days).



How did the fraud work?

Ponzi quickly realised that, although the arbitrage opportunity was real, delivering the expected returns was a practical impossibility since it would involve buying more coupons than could be transported.

Even satisfying the original 18 investors would have required him to buy and exchange 53,000 coupons. Indeed, there is no evidence of him exchanging any coupons. But rather than wind up the scheme, he decided to raise more money from new investors, using their subscriptions to pay off the old

investors. Initially, this worked well as the original investors spread news of the scheme.

What happened next?

Within months Ponzi was receiving huge amounts of money from across the US. As well as hiring more agents to solicit investors, Ponzi tried to keep the scheme afloat by taking control of a local bank. By the summer of 1920 he was living a luxury lifestyle in a large mansion. Then an article in a local newspaper prompted an investigation and investors demanded their money back. In August Ponzi was declared bankrupt. By November 1920 he was jailed for fraud. He died in poverty in 1949.

Lessons for investors

In the end Ponzi’s victims ended up getting back only 30% of the value of their initial investments, with millions still unaccounted for to this day. Ponzi’s fraud became so notorious that similar ploys are now known as “Ponzi schemes”. However, investors should have realised the promised returns were unsustainable, especially at a time when local banks offered only 5% a year. The financial journalist Chris Barron pointed out that, even if legitimate, the original scheme was itself unethical as it essentially involved taking advantage of the American taxpayer, who owned the US Postal Service.



Start 2019 as you mean to go on

Last year's collection of MoneyWeek Wine Club wines certainly pricked the interest of a large number of wine-keen readers and this year I am kicking off the set with a phenomenal collection of wintry reds from the peerless Lea & Sandeman palate. Every bottle I opened while compiling this list was a winner. The prices jump around all over the place, but you can be assured that I was as

knocked out by the eight and nine quid wines as much as I was by the grander creations. It doesn't matter what price wine is these days – it only matters how competent and experienced the palates are who find them. After all, they have

the supreme confidence and fine-tuned communication skills to put them on appreciative dining room tables and so with this in mind, the six wine merchants who I have selected this year to fulfil their Wine Club duties will not put a foot wrong on your behalf. I will simply be the messenger and tell you why I love them.

Matthews

Cheers,
Matthew Jukes

**SAVE
OVER £39
on a mixed
case**

How it works:

Savings shown are based on purchasing a case of 12 compared to individual bottles and are exclusive to *MoneyWeek*. You'll also benefit from FREE delivery to mainland UK addresses.



2016 Gigondas, Domaine La Bouïssiere, Southern Rhône, France

I am kicking this list off with a wine which profoundly moved my palate. There is an elemental depth to this blood-drenched red which is staggering. It shows rocky, grainy tannins, epic density of plum and damson fruit and a velvety, brocaded texture which sends a shiver down my spine. This is a truly great Gigondas and it will remind you that while you are a mere mortal, this vineyard will make masterful wines like this for centuries to come. I cannot recommend this wine enough if you adore awesome Grenache.



2017 Old Hands, Monastrell Joven Ecológico, Bodegas La Purisima, Spain

The bottle is hefty, the label is modern and arty and the flavour is arresting, with a degree of flair and a touch of drama, too. I dutifully made my tasting notes and then looked up the price on the spreadsheet accompanying the bottles. "There must be a mistake," I thought. This cannot possibly be an eight-pound wine, but it is. Bright and earthy with violet and lavender notes, which sit at the back of the palate, there is a profound flavour of red and black fruit which washes over you and you gasp for another sip. Joy!



2017 Côtes du Rhône, Domaine Roche, France

This is the finest CdR of the year! Don't laugh, but I cannot believe there will be a finer version which will cross my path in 2019, such is the gloss and depth of fruit in this lip-smacking wine. With a sheen and lustre which is rarely found in traditional wines, this is a black cherry-soaked beauty and it is already drinking well. I have a feeling it will evolve further, but I wouldn't waste a moment climbing into a glass because it looks so ravishing right now.



2015 Minervois, Calamiac Terroir, Domaine Combe Blanche, Languedoc, France

I have not tasted the wines from this estate before but, interestingly, I read the L&S notes after I had made my own and both focus on earth and mineral descriptors as opposed to fruit expressions. I adore wines that taste of the dirt and rock in which they are grown and the dark, slate-y coolness in this fabulous red underpin all of the blueberry and blackberry fruit tones. It is refreshing, slightly gamey and also deep, with proud tannins which make the palate salivate. A definitive winter red for rakish chefs and culinary bandits.



2017 Le Petit Roy, Jean Royer, Vaucluse, France

This rather lovely label hides a wine which combines unclassified fruit from Jean Royer's own Côtes du Rhône vineyards as well as a small percentage of grapes hailing from the young vines in his Châteauneuf du Pape properties, too. I am sure that you can imagine the muscle and gait of this vinous thoroughbred and it rewards the palate with sleek blueberry freshness and juicy plum fruit. Insanely well-priced, this is not a wine to rush into; while it looks superb already, it will hold well for a few years, too.



2016 Bolgheri Rosso, Le Macchiole, Tuscany, Italy

Breaking away from the Southern Rhône palette of grapes for a final flourish, this thrilling red wine is made from Merlot and Cabernet Sauvignon. There's some Syrah in the mix, too, so there is a small Rhône link, albeit tenuous. This wine is the first rung on the Le Macchiole ladder, which ends with the £150 titan Messorio, and lacks nothing in its nobility. Its flavour, though, definitely nods to the depth and majesty of its lofty stablemates. If you fancy the idea of an everyday Super-Tuscan red (if this is not an oxymoron), then this wine for you.

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Lea & Sandeman: 020 7244 0522 and quote "MoneyWeek"

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	MW Case price	Saving
<input type="checkbox"/> Mixed case – two bottles of each wine <small>Best saving per bottle with the mixed case</small> £13.33 per bottle	£160.00	£39.70
<input type="checkbox"/> 2016 Gigondas Domaine la Bouïssière	£270.00	£63.00
<input type="checkbox"/> 2017 Old Hands Monastrell Ecológico Bodegas La Purisima	£99.00	£20.40
<input type="checkbox"/> 2017 Côtes du Rhône, Domaine Roche	£150.00	£29.40
<input type="checkbox"/> 2015 Minervois Calamiac Terroir Domaine Combe Blanche	£111.00	£20.40
<input type="checkbox"/> 2017 Le Petit Roy, Domaine Jean Royer	£143.40	£33.60
<input type="checkbox"/> 2016 Bolgheri Rosso, Le Macchiole	£213.00	£45.00

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Date _____



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Adventures in Central America

Chris Carter on nesting turtles, coral reefs and the tranquillity of Costa Rica, Placencia and El Salvador



Coral Caye, Belize: a delightful escape from reality

P*ura vida* means “pure life” in Spanish, says Jenni Doggett in *The Sunday Times*. But depending on whom you ask in Costa Rica, it is a salutation, a toast, a philosophy and the answer to everything. It means hello, goodbye, *c’est la vie* and live in peace with nature. And there are plenty of places to enjoy nature in this part of Central America. The “Little Amazon of Costa Rica”, as Tortuguero, a conservation area on the Caribbean coast, is known, is home to the Tortuguero National Park and the turtles that come to nest there. “The guide leads us to a grand old dame stoically dropping her eggs into a deep oval pit,” says Doggett. “I am in equal measure uneasy and awestruck. But the new mother seems ‘unflappable’ at the presence of people and the income from this programme helps to protect the turtles from more intrusive tourism and poaching.”

Doggett moved on to Pacuare Lodge, an elegant wooden edifice in the emerald-hued Talamanca Mountains

further inland, reached via a “tortuous” journey on twisted mud tracks. It was, however, well worth the toil for the outdoor shower in the forest gloam as the river bellows below. “I spend the next morning daydreaming in my mini-infinity pool, lost in a cathedral of green,” says Doggett. “I think I may actually be catching *pura vida*.”

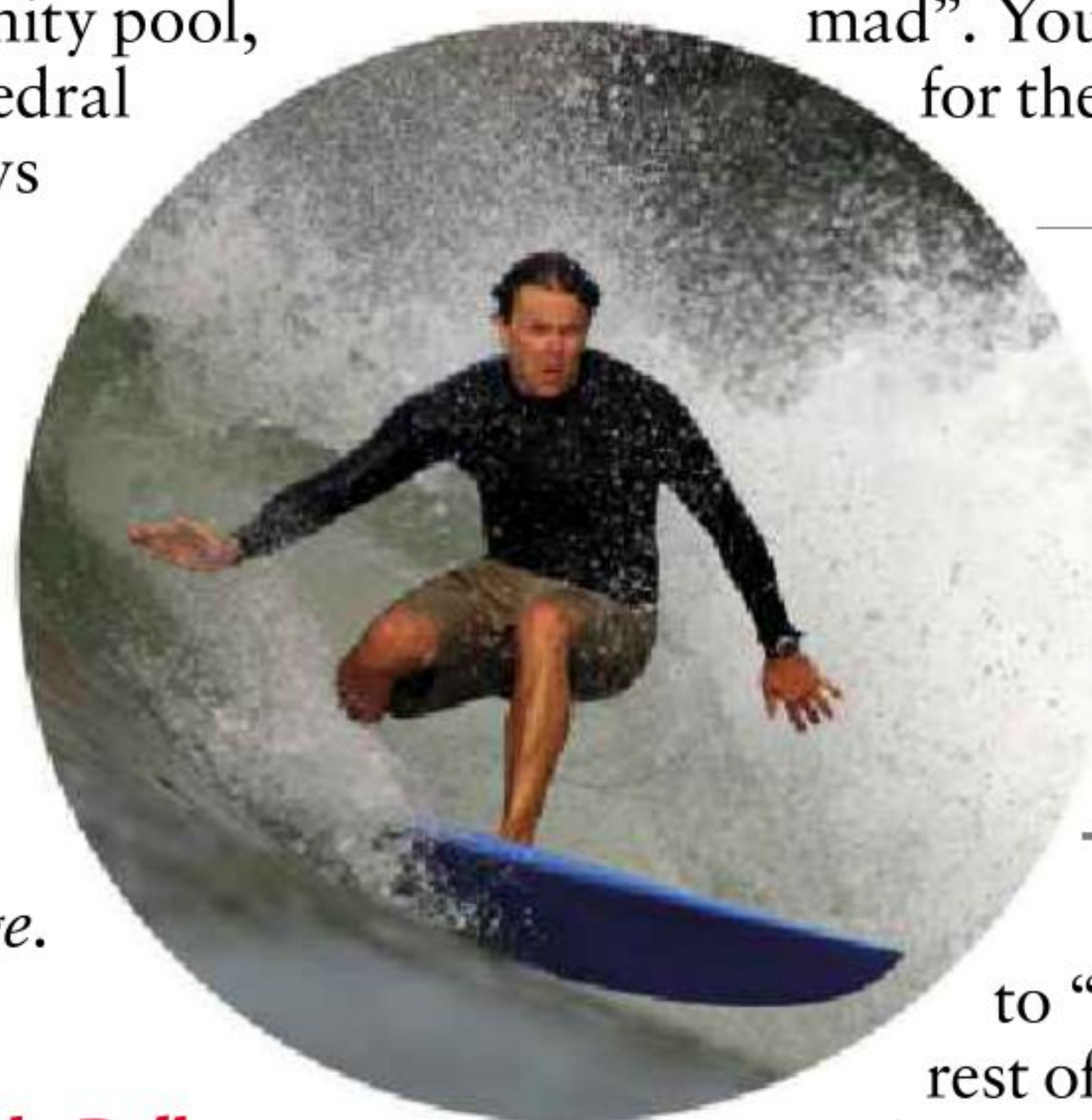
From \$985 for two nights, PacuareLodge.com

A life of ease in Belize

The peninsula of Placencia, meaning “pleasant place” in Spanish, is a straggle of beaches, mangroves and lagoons caught between the coastal plain of Belize and the blue Caribbean Sea, says Horatio Clare in *Condé Nast Traveller*. “Just over the horizon, the second-largest

living coral reef holds the swells at bay. The shallows seem too warm and dozy to bother raising a wave.” Meanwhile, on the shore the trees rock their heads in the breeze, “as though everything seems a good idea to them, however mad”. You come here for the tranquillity,

Symington in *Wanderlust* magazine. As a tourist stop, it remains something of a “Cinderella nation”, never quite making it to the ball being enjoyed by its neighbours. “But might El Salvador be the perfect way to scratch a Central American itch?” After all, this tiny country on the isthmus’



“The beaches of El Salvador’s far east are a favourite of surfers, who come from all over in search of its world-class rip curls”

to “escape the rest of the planet’s reality and ease yourself into a culture still based on the old rhythm of life”. Take Hollywood film director Francis Ford Coppola’s Coral Caye, a private island just off shore, for instance. Just 50 paces wide by 150 long, it has two cabins and a sand-floored lobby with a “magnificent” carved wooden daybed. “There’s nothing to do but snorkel, snooze in a hammock... and wonder what the chef will come up with next.”

Coral Caye, from around £1,450 for two, CoppolaResorts.com/turtleinn

Central America in the raw

Earthquakes and volcanic eruptions, as well as the horror of the civil war that ended 25 years ago, have taken their toll on El Salvador, says Martin

Pacific coast has smoking volcanic craters, Mayan ruins, empty beaches and coffee plantations. And as it is no bigger than Wales, the country “offers a rawer version than that found on the well-trod trails of, say, Costa Rica”. It is a distillation of all that is wild in this region.

The beaches of El Salvador’s far east are a favourite of surfers, who come from all over in search of its world-class rip curls. The waves are a result “of the mix of southern swell – we face due south – and the way the beach shelves”, Ricardo Rivas, owner of the cliff top Hotel Miraflores, explains. “It’s unmatched.” But alas, it wasn’t the season for the big waves, says Symington, “so I contented myself with pondering the Pacific rather than attempting to stand on it.”

From \$70, ElHotelMiraflores.com



Enjoy the “pura vida” in Costa Rica

©Alamy

This week: houses with separate home offices – from a Grade II-listed estate with an office suite in Barnard Castle,



▲ **Thatch End, Little Leighs, Essex.** A 17th-century, Grade II-listed, thatched house with a 1-bed annexe and a separate office surrounded by landscaped gardens. It has exposed beams and studwork, and open fireplaces. 3 beds, bath, 2 receps, gardens, 2 acres. £850,000 Zoe Napier 01621-840333.

▶ **Thorpe Hall, Barnard Castle, County Durham.** This Grade II-listed estate was once a 13th-century peel tower, with a Georgian frontage added in the 1740s. It comes with an office suite with a meeting room and kitchen. 12 beds, 12 baths, 6 receps, 5 cottages, 84 acres. £6m Savills 01904-617821.



▶ **Manor House, Thorpe by Water, Oakham, Rutland.** A refurbished, Grade II-listed, 16th-century manor house with a range of outbuildings, including an oak-framed garage with a separate office with glazed elevations overlooking the gardens. It has a biomass heating system and open fireplaces. 5 beds, 3 baths, 3 receps, kitchen, double garage, woodstore, walled gardens and grounds. £1.3m Strutt & Parker 01858-438723.



County Durham, to a converted former warehouse in Ashburton, Kent



◀ **Broadmeadow House, Bures St Mary, Suffolk.** A Regency-style house with panoramic views across the Stour Valley and a two-storey garage currently used as offices, which are fully equipped and come with a kitchenette and cloakroom. The house has sash windows, open fireplaces, a staircase with carved mahogany rails and a library with full-height fitted bookshelves. 7 beds, 3 receps, library, conservatory, breakfast kitchen, gardens, 0.6 acres. £1.25m Jackson-Stops 01473-218218.

▶ **Sunwillow Farm, Childrey, Wantage, Oxfordshire.** This updated 1950s house comes with an oak-framed barn used as an office and a detached indoor pool with a gym. 6 beds, 3 baths, 3 receps, open-plan kitchen, stable block, manège paddocks, gardens, 11 acres. £2.35m Fine & Country 01865-953244.



▶ **Fir Cottage, Headley Down, Hampshire.** This renovated, stone-built house is situated just outside a village. The house dates from the 1800s and was once a bakery. It has a handmade kitchen with underfloor heating, a large wood-burning stove, oak floors and a separate barn that is used as a studio and home office. 4 beds, 2 baths, 2 receps, gardens, 0.16 acres. £775,000 Knight Frank 01428-770560.



▶ **Station Yard, Ashburton, Newton Abbot, Devon.** This converted former warehouse in the centre of Ashburton is currently arranged with the ground floor let out to two separate businesses, one an office and the other a yoga studio. There is also a meeting room and a four-bedroom flat on the first floor. 4 beds, 2 baths, open-plan living area/kitchen, garden, nine private parking spaces. £660,000 Strutt & Parker 01392-229406.

▶ **Old Rectory Cottages, Farmington, Gloucestershire.** This updated, 17th-century cottage is one of several Cotswold cottages set around a village green with a 300-year-old sycamore tree. It has vaulted ceilings, an inglenook fireplace, oak floors and a large kitchen and dining room with an Aga. It comes with an outbuilding with a garage and workshop on the ground floor and a studio and office above. 4 beds, 3 baths, 2 receps, greenhouse, gardens. £1.1m Knight Frank 01451-600610.



Subtle moves from snarling new Jaguar

The car maker's XE range needed spicing up – the 300 Sport has given it some pep. Sarah Moore reports

Jaguar has long needed a high-performance halo model to give the XE a push from the top, and to sprinkle some sex appeal across the rest of the range, says Steve Sutcliffe on *Evo*. That's where the 300 Sport comes in.

The XE may be outgunned by less powerful rivals, but the 2.0-litre motor is still impressive, says Christofer Lloyd on *Car*. "It feels strong, offers a broad spread of power and proves particularly refined when cruising while producing a satisfying snarl when worked harder in dynamic mode." The steering has a "lovely smooth accuracy to it and suffers from seemingly zero kickback, even over the roughest surfaces; and the way the adaptive suspension breathes so cleanly with the road is also a delightful thing to experience, as is the almost magical absence of tyre and road noise generally," says Sutcliffe.

But is it quick? asks Ollie Kew in *Top Gear*. "Not compared to the Germans – they all go from 0-62mph comfortably under five seconds, while the XE 300 Sport needs 5.7. It's brisk, but doesn't pin you back in the seat with its fury." The gearbox, after a slightly vague getaway, where the biting point feels a bit indistinct, goes

about its business subtly. "The reactions to tugging the paddles are obedient. It's very grown up, very sincere."

The new model boasts unique badging and trim, violent yellow stitching across practically every surface inside, plus more sober grey wheels, says Lloyd. The entire range also now gets the ten-inch Touch Pro media system, along with a higher-quality feel courtesy of new trim. Jaguar has really nailed the refinement of the 300 Sport, says Sutcliffe, "and it feels quietly majestic on the move as a result".



"Jaguar has really nailed the refinement of the 300 Sport and it feels quietly majestic on the move"

Price: £45,640
Top speed: 155mph
0-62mph: 5.7 seconds
Engine: 1,997cc turbo, four cylinder
Torque: 295 lb/ft



Wine of the week: the finest village Chablis I have ever tasted

2017 Chablis, Domaine Adhémar et Francis Boudin, Burgundy, France
 £18.95, reduced to £16.95 by the case,
 Lea & Sandeman,
 020-7244 0522,
 LeaAndSandeman.co.uk



Matthew Jukes
 Wine columnist

I tasted 1,272 Burgundies in the second week of January while compiling my 2017 Burgundy En Primeur Report. Only 167 of these gained my hard-earned accreditation, "QP". *Qualité prix* or, to give it its full expression "*rapport qualité prix*", is the French term for "value", but it means much more than this.

Great value wines are often thought of as cheapies that over-deliver, but I use these two capital letters to denote wines that demonstrate extraordinary

value for money, no matter how steep the price tag may be.

The 2017 vintage was a generous one and only the Chablis region suffered from lower yields on account of frost (again). It is good news that Burgundians finally have some wine to sell after two very short harvests. The wines are slender, calm, bright and evocative, and the best examples have good mid-palates and nice fruit ripeness, whereas



the others seem just a little too mean and edgy, with tart acidity and sour tannins.

This week, I have found a QP wine which is already bottled and on our shelves so you can buy it, drink it, and in one sip understand the shape and size of the best wines from the 2017 vintage. Boudin's Chablis is stunning value and it is the finest village Chablis I have tasted. Over to you...

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

Classics get second lives

Going electric is breathing new life into old motors, says Chris Carter

Prince Harry and Meghan Markle were the picture of happy newlyweds when they sped off in their 1968 E-Type Jaguar following their wedding last May. But a quick look beneath the bonnet would have revealed an ugly secret – closer inspection of their vintage ride would have revealed not a 4.2-litre petrol engine, but – oh the horror! – an electric motor. That is, however, becoming a growing trend in the market.

Jaguar installed a 220kW powertrain in the E-Type as part of its “Concept Zero” project. The lithium-ion battery pack has the same dimensions and a similar weight to the original XK six-cylinder engine, and has the advantage of being more environmentally friendly (and quiet if you’re worried about waking up the neighbours). The “most beautiful car in the world”, as Enzo Ferrari called the E-Type, still looks the same from the outside. It even handles and brakes the same, say the Warwickshire-based engineers, who carried out the work. It just has zero emissions. And more to the point, it “gives a second life to existing vehicles that may be beyond repair”, says Jaguar.

Richard Morgan agrees. He is the owner of Electric Classic Cars in Newtown, Wales, and he has been customising cars his whole life, he tells Bloomberg Businessweek. But the older they got, the more problems they had. Replacing their hard-to-source, complex engines with electric motors (which have fewer



The E-Type Jag hides a secret

moving parts) made them easier to maintain – and often faster. “These aren’t slow milk floats,” says Morgan. “These things kick ass.” Customers are lining up outside his garage doors to have their hulks converted. “Every time we have one car leaving the shop we’ve got another three coming in,” he says.

The changeover can even be reversible. Last month, Aston Martin unveiled its “cassette” system, using a 1970 DB6 Mk2 Volante. If the owner wants to enter classic car shows, the components must be original. However, the electric powertrain can be popped out and replaced with the original version within about a week’s workshop time, Paul Spires, president of Aston Martin Works in Buckinghamshire, tells The New York Times. “We want to give our heritage cars greater longevity,” he says. “We’d hate for them all to just wind up

gathering dust in museums, where no one can actually enjoy a classic Aston on the road.” That means adhering to stricter environmental rules, so going electric makes it easier to comply.

Still, “might not the Jaguar-Aston offerings rankle some purists as, well, heretical?”, asks the paper. “On the contrary,” says McKeel Hagerty, whose company sells classic-car insurance in America. “It bodes well for the collector hobby”, in that the changes will help to attract a younger generation of eco-conscious collectors. There does, however, remain the not inconsiderable matter of cost. Jaguar puts the price of a fully restored E-Type Zero at around £300,000, and £60,000 for a conversion – so a considerable chunk of the purchase price of the car. But then again, if that means being able to liberate your pride and joy from the confines of the garage, it may just be a price worth paying.

A tough Jag for the Iron Lady

A classic Jag has come up for sale – one that’s geared to protecting its passengers rather than the environment (see left). But that’s reasonable given that it was formerly used to ferry around Margaret Thatcher. The former prime minister’s Jaguar XJ8L saloon, her last state car, has a titanium-lined roof, ballistic steel armour in the body, underfloor Kevlar protection and bullet-resistant borosilicate glass. Experts QinetiQ put it through its paces, even blasting it with high explosives from just three metres away. And it still has the blue police siren and flashing lights behind the radiator grille.



But while the car was built to withstand a fair amount of pain, inside the feel is pure luxury, with its ivory leather interior and charcoal trim, multimedia system and a DVD player with display screens in the back of each front headrest. The car cost a little over £500,000 to build, its present owner, collector Adrian Hamilton, tells MoneyWeek. There was no budget – the onus was on getting it to the late baroness fast. In 2016, the Department for Transport sold it for just £37,500 through Christie’s – proof that bargains can be picked up at auction. The car went under the hammer again last year at Bonhams, with the present owner, attracted by the car’s history, paying £27,083. Such an unusual vehicle “would make a good museum piece”, he says. The car is for sale for £45,000 and comes with a certificate of authenticity. Email ah@duncanhamilton.com for further details.

Auctions

Going...

The first Mercedes-Benz 540 K Cabriolet A rolled off the production line in 1936. Two years later, a 540 K broke the speed record for a road car, when the speedo hit 105 mph at Brooklands racing circuit in Surrey. “One’s foot goes hard down, and an almost demonic howl comes in,” test driver HS Linfield reported. But with the outbreak of war, production all but stopped (three more were produced until 1942). One late version, owned by the late King Hussein of Jordan, is expected to fetch up to €2.3m at the Grand Palais in Paris with Bonhams on 7 February.



Gone...

A dark-blue 1951 Maserati A6G/2000 Spider sold for \$2,755,000 at The Scottsdale Auction in Arizona last Thursday, also with Bonhams. Among the car’s previous owners was a waitress named Dee Dee Yorba. One day, in 1997, a group of collectors were chatting in the California diner where she worked. Overhearing their conversation, Yorba told them she had a rare Italian car. The collectors were amused and sceptical but asked to see it anyway. They “found themselves standing in the door of a one-car garage staring at the rear end of a Maserati A6G/2000 Frua Spider”, according to the auction catalogue. Yorba had inherited the car from her father.

Musical differences hit a sour note

Two duelling music icons have fallen out in a dispute over a house extension

The problem with bad neighbours is like that of fearsome relatives. You don't choose them, but you're stuck with them. In some respects neighbours are worse – you can't encourage them to make the trip to Switzerland. So I feel for Robbie Williams and Jimmy Page, neighbours who are, I learn, still sadly locked in a "bitter feud".

The dispute began when Williams, a now greying pop star, "submitted plans for a basement gym and pool at his £17m west London home five years ago", reports Victoria Ward in *The Daily Telegraph*.

His neighbour, Page – widely described as a "rock god", now 75 – opposed the development because he feared it might damage his 1875 Grade I-listed mansion. As a result, Williams's plans were blocked twice. He was fined £4,670 in 2017 for breaching noise regulations.

Last month, Kensington and Chelsea councillors approved the third draft of Williams's plans, dependent on assurances "about monitoring vibration levels and ground movement". Page is likely to appeal.

A local resident complained Williams was, allegedly, up to his old tricks. It was claimed he was "so intent on further tormenting his neighbour" that he blasted out the music of Black Sabbath, Pink Floyd and Deep Purple – rivals of Page's Led Zeppelin – whenever he spotted Page venturing out into his garden. Williams "had also been seen imitating Led Zep frontman Robert Plant, strutting around in a long wig". Sadly, the "story" turned out to be a hoax.



Page: a whole lotta love lost

"Robbie Williams is on a quest for the wellspring of human ridiculousness, a kind of toddler conquistador"

It may all seem very bizarre, but when neighbours go to war, rationality flies out of the window, "defying intervention of either law or sanity", as Leo McKinstry says in the *Daily Express*.

Take the two ladies in Somerset who went to court after their neighbour spitefully decided to plant leylandii to block their view of Solsbury Hill, an ancient landmark. Or the couple who had to pay £200,000 in legal fees for installing a locked gate with a spike-topped cast-iron bar to cut their neighbours off from the gas and electricity meters.

A sad end for a rock rebellion

Williams, for his part, claimed the allegations of bad behaviour were "fanciful" and that he has behaved in a way befitting a "responsible citizen". But that doesn't sound like the Williams we know, as Zoe Williams points out in *The Guardian*. He had, let us not forget, "such an advanced sense of play

over pragmatism that he walked away from the most money-spinning boy band of his era because he couldn't choke out one more ballad". Last summer he gave his audience the finger during a World Cup concert. Indeed, his entire career reads "like a quest for the wellspring of human ridiculousness, the tale of a kind of toddler conquistador, armour-plated by his own sense of self-parody".

Still, with our national psyche in a bad place, it feels appropriate to read about two once-carefree celebrities fighting over a basement swimming pool. We must hope it teaches us something about ourselves so we can emerge from the "bullsh*t" we're mired in. "The journey from unreflective mischief to dug-in interior decoration must be one of the saddest blind alleys of wealth. The only way to resolve this is for these two gentlemen to go on tour together."

Quintus Slide

Tabloid money... the saviour of the high street

● *When We Have Sufficiently Tortured Each Other*, starring Cate Blanchett (pictured), has been hailed as the most shocking play to open in London since *Hair* – one elderly woman fainted and had to be helped out of the theatre by young actor Samuel Tucker, says Liz Jones in *The Mail on Sunday*. Surprise, surprise, tickets for the show, "despite costing £50", are already sold out. "Sadly, I quickly realised the play, being staged at the National's tiny Dorfman Theatre, should really be called *When We Have Sufficiently Tortured The Poor Audience*." At best, the play is perplexing. Tucker explains it thus: "For all women out there, Blanchett is saying even when you are 49 you can... be all-powerful and sexy". We don't have to spend £50 to find that out. "Women already know this!"



● "More 40-plus women are giving birth than teenagers and a new survey shows us merrily postponing marriage and children in favour of zooming around the world footloose and fancy-free," says Vanessa Feltz in the *Daily Express*. "Part of me wants to give the 'when I was your age' speech. You know the one: 'When I was a mere stripling of 23, I had a husband, a baby, a mortgage, stretch marks, a fitted kitchen, a full-time job and a raft of responsibilities.'" Snowflakes hadn't been invented and helicopter mums and dads didn't exist. They just stumped up for the vol-au-vents at the wedding. But given the autonomy and financial independence it gave me, "I don't regret a single sensible minute of it".

● "Good to see Meghan Markle embracing the high street and opting for a £25 maternity dress from H&M to go walkabout in during a charity visit last week," says Lorraine Kelly in *The Sun*. Later on, it was back to business as usual, and the cheap frock was traded in for an "eye-wateringly expensive" £3,400 Roland Mouret ball gown for a night out at the Royal Albert Hall. "I don't think the Duchess of Sussex needs to spend such huge sums of money on clothes. With her class and elegance, she makes even the cheapest fashion items look like haute couture. I hope she continues to wear clothes we can all identify with, because where she shops, tens of thousands will follow in her wake." Meghan could well turn out to be the saviour the beleaguered British high street so desperately needs.

Bridge by Andrew Robson

Third hand doesn't always play high

Third hand plays high is perhaps the most powerful defensive ditty of them all. Is it a rule? No. The only three rules in bridge are to make a higher bid than the previous, to follow suit, and to be courteous to partner and the opponents alike.

Dealer South

East West vulnerable

<p>♠ 8754 ♥ 54 ♦ A86 ♣ Q1073</p>	<p>♠ J109 ♥ 1092 ♦ K95432 ♣ 6</p> <table border="1" style="margin: auto;"> <tr><td></td><td>N</td><td></td></tr> <tr><td>W</td><td></td><td>E</td></tr> <tr><td></td><td>S</td><td></td></tr> </table> <p>♠ AQ63 ♥ KQ7 ♦ QJ107 ♣ A9</p>		N		W		E		S		<p>♠ K2 ♥ AJ863 ♦ - ♣ KJ8542</p>
	N										
W		E									
	S										

The bidding

South	West	North	East
1♦*	pass	5♦**	pass***
pass	pass		

- * Playing Five-card Majors.
- ** Pre-empting to the limit.
- *** Reluctantly.

Holding the ace of trumps, West sensibly chose to try for a third-round heart ruff, leading the top of his doubleton. East won the five of hearts lead with the ace and led a second heart. Winning the king, declarer advanced the knave of trumps, West ducking and East discarding (an encouraging club). A second trump saw West win the ace and try to put his partner on lead with a club (a spade would have been equally unsuccessful).

Declarer beat East's king of clubs with the ace, drew West's last trump, ruffed a club, and then successfully ran the knave of spades. A second spade saw East's king pop up, so declarer won the ace and was soon claiming his game.

The winning defence is for East to duck trick one (or cover the ten with the knave). This retains the communications so that West has a second heart to lead when he wins his ace of trumps. East can now win his ace and give his partner a third-round ruff. Down one.

Can East find the trick one duck? It's tricky, but withholding the ace of hearts will cost only when partner has led from king-seven-five or a singleton, neither particularly likely.

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

Sudoku 931

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

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

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

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.

moneyweek.com

Tim Moorey's Quick Crossword No. 931

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 4 Feb 2019. Answers to MoneyWeek's Quick Crossword No. 931, 31-32 Alfred Place, London, WC1E 7DP.



1		2			3	4		5		6		7
				8								
9								10				
11												
												12
13		14					15					
						16						
	17									18		
19												
20							21					
22										23		

The across clues are mildly cryptic whereas down clues are straight+.

ACROSS

- 1 Source from singular English cathedral city (4)
- 3 Terrible roasting for one playing in church (8)
- 9 Meat supplier who's more aggressively masculine (7)
- 10 Extreme happiness given by English composer? (5)
- 11 Perfect vision for next year? (6-6)
- 13 Step down and start again (6)
- 15 Nipper upset prince (6)
- 17 Sophisticated fellow not in Hamlet! (3-5-4)
- 20 Restraint for your setter (5)
- 21 Abandon study and start again at Twickenham (7)
- 22 Intimate nothing after change, for example (5, 3)
- 23 French cheese is short but not finished (4)

DOWN

- 1 US dictionary (7'1)
- 2 Frothy, espresso coffee (5)
- 4 A blue moon, for example (6)
- 5 Shortened form of word (12)
- 6 Insanely irresponsible (7)
- 7 Something to do (4)
- 8 Member of the paparazzi (12)
- 12 Woman with dark brown hair (8)
- 14 Impervious gap filler (7)
- 16 Roll containing a sausage (3, 3)
- 18 Distinctive smell (5)
- 19 Blood-sucking insect (4)

Name _____

Address _____

Solutions to 929

Across 1 Quondam 5 First 8 Id est 9 Durable 10 Krishna 11 Arena 12 Clench 14 Double 17 Decor 19 In house 22 Learner 23 Limit 24 Agent 25 Anxiety.
Down 1 Quick 2 One mile 3 Dutch 4 Madras 5 Farrago 6 Ruble 7 Teenage 12 Cedilla 13 Coronet 15 Brummie 16 Sierra 18 Cease 20 Helix 21 Entry.

The winner of MoneyWeek Quick Crossword No. 929 is: David Wickes, Woodhall Spa, Lincolnshire

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

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



Why build Donald's wall?

US president Trump sees an emergency. But where is he looking?



Bill Bonner
Columnist

The Donald went to “The Wall” and the debate goes on. The president visited America’s southern border towns earlier this month, trying to drum up support for his long-promised border wall with Mexico. Meanwhile, the US is losing ground. The country is at least \$1.2trn poorer today than it was in 2016. But money isn’t everything. Maybe there are other things – like border security – that are more important. This week, with malice towards none and charity for all, let’s spare a thought for border security.

Walls are built to keep “them” out... or in. The walls of Jericho, Athens’ “Long Walls”, the Berlin Wall – all served a purpose. Hadrian built a wall across Britain to secure the border along the River Tyne. Twenty years later, the Romans pushed the frontier up to the Firth of Forth and built the Antonine Wall. The Great Wall of China was built to keep out the Steppes’ barbarians. All are now tourist attractions. Why not another one?

Well, is it worth the cost? On the evidence available to us, the case for a border wall is mixed, inconclusive... with a large dose of malarkey. The first immigrants to America faced a harrowing journey, threats from hostile natives, hunger, and thirst. Most of them came



Trump tries to drum up support for the Mexican border wall

without papers. For good or bad, they came and made the best of it.

The closest parallel today is illegal immigration. At least these immigrants have gumption.

They brave such hardship, detention, and danger that Trump says it is a “humanitarian crisis”. And why do they do it? Mostly for a chance to do the miserable work available to an undocumented labourer – in factories, fields, and furnaces – where they earn such a pittance that the native-born don’t want to do it.

But are they a danger to the rest of us, as many of the wall’s advocates fear? Would Americans be safer, richer, better off with a wall to keep them out? What does the evidence tell us? As usual, both sides of the argument find the

evidence they’re looking for. But if murderers and terrorists were really spilling over the border, you’d expect the murder rate to go up in the counties nearest the Rio Grande. Instead, they have much lower rates. McAllen, which Trump visited to drum up support for his wall, claims the lowest crime figures in Texas. Go figure. And the only incident of an alleged terrorist crossing a border illegally into the US involved a guy who came from Canada. The others all had passports and visas... one stowed away on a ship.

So what exactly is the emergency that calls for a wall? We don’t know. But if it were so important, you’d think the people’s representatives could easily cut out enough boondoggles to pay for it. Otherwise, they are leaving the next generation with not just a 2,000-mile scar, visible from space... but with the bill for it, too.

“The case for a wall is mixed, inconclusive, with contributions of malarkey”

The bottom line

\$10m The donation singer Kanye West has promised the Turrell Art Foundation. The organisation funds the Roden Crater Project – artist James Turrell’s multi-decade transformation of an extinct volcano crater in Arizona into an open-air observatory, *The Wall Street Journal* reports. West said his visit to the site was “life-changing”.

£12,029 The price per person for a pair of tickets to the sold-out England versus Australia World Cup cricket match this summer. They were listed

for sale on Viagogo, a platform for reselling tickets to sporting and music events. The face value is £115 each.

€9bn The cost estimated this week by CERN, the physics laboratory near Geneva, for building the 62-mile Future Circular Collider, a particle accelerator that would dwarf the Large Hadron Collider running beneath France and Switzerland. It is hoped evidence would be found for a “theory of everything”.

98 The percentage of Jeremy Grantham’s

wealth (about \$1bn, according to Bloomberg Businessweek) that the famously gloomy investor has pledged to fight climate change.

£442m How much was spent on vitamin supplements in Britain last year, up from £417m in 2013, according to market research firm Mintel.

£20m The value of a private jet owned by Gunhild Stordalen (pictured) and her husband, the *Daily Mirror* revealed. The Norwegian former-model-turned-doctor had urged people to cut down on their meat consumption to save the planet. “The hypocrisy of this is breathtaking,” Christopher Snowden of the Institute of Economic Affairs think tank told the paper.



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