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MONEYWEEK

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Ecuador's El Dorado

Beat the crowd to the boom

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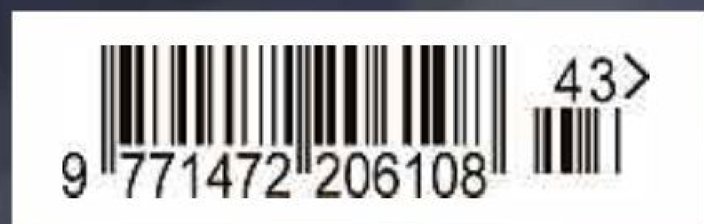

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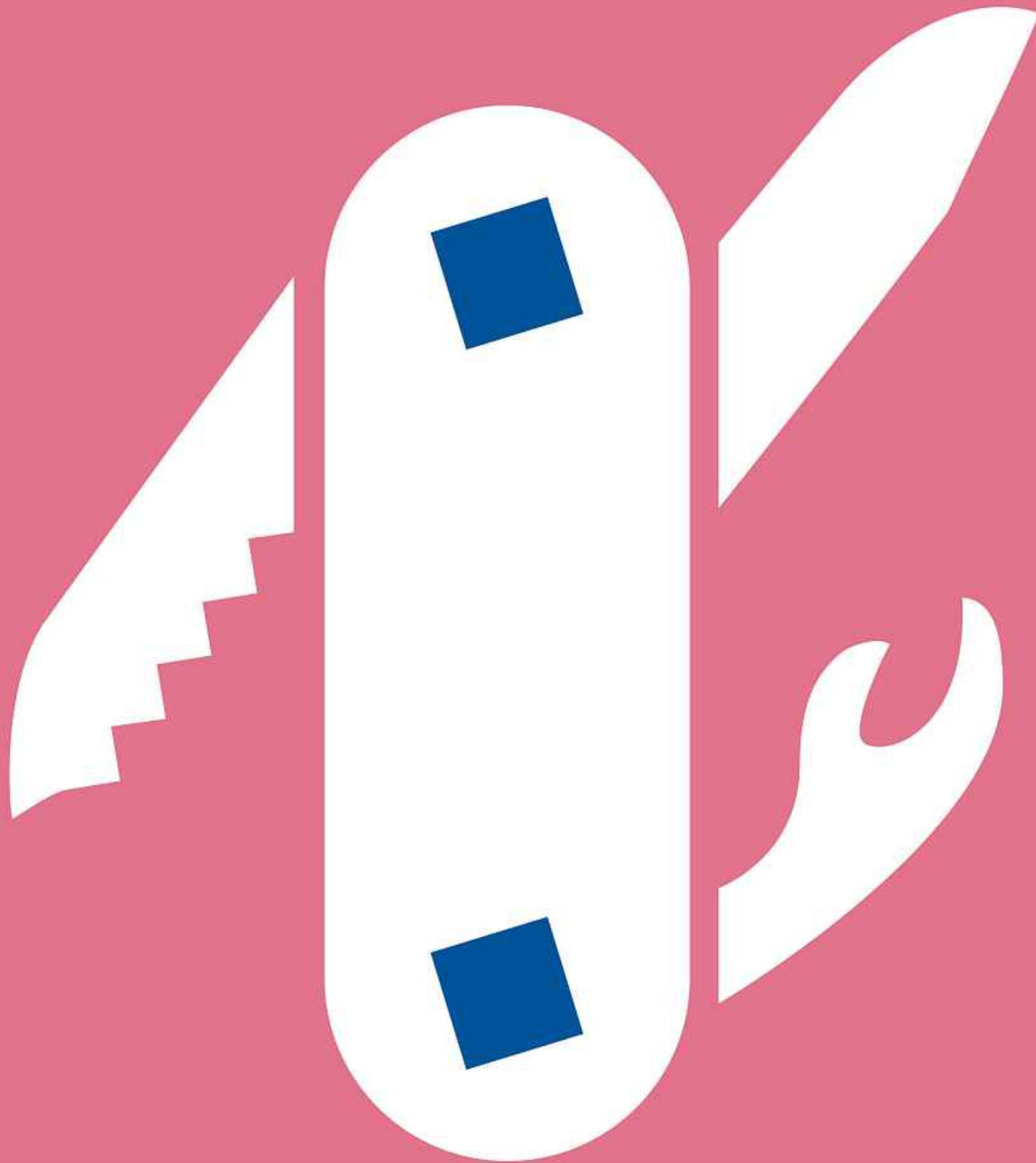

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MoneyWeek

25 October 2019 | Issue 970

Britain's best-selling financial magazine

From the editor-in-chief...

The most miserable story of the week has to be that of Neil Woodford. Again. It comes with a few amusing bits, of course. The excellent investigation into the saga in last weekend's Financial Times notes that Woodford spent so much time bouncing around on his expensive eventing horses that "the company brought in phones with special recording functions so he could make trading instructions while out riding".

©Ultimate Images

Neil Woodford: heading for the high jump

But mostly there is nothing funny about the demise of Woodford's firm. Tell the story from scratch to someone not following it and it will sound unbelievable. Tens of thousands of people gave billions of pounds to a man to invest using a style he could produce no track record for in an environment he had no experience of.

That man made every mistake it is possible to make as a money manager. He changed style – leaving value for overpriced healthcare and tech firms. He ignored criticism and compliance. He believed his own hype. He raised too much money. He held too many illiquid assets. He blamed the market every time something went wrong.

And, of course, however wrong it all went, he never stopped taking the fees. Result? An awful lot of people have lost an awful lot of money. Woodford isn't one of them: he has received around £60m in dividends since 2014.

"Whose silly idea was it to hire someone who lent money to Argentina to run the ECB?"

Will his clients get their money back? Some of it. It will take a good six months to wind the funds up. The costs will be high and the proceeds low (selling illiquid stocks into a market that knows you have absolutely no choice isn't a great look). Large losses are inevitable. Indeed, pretty much the only positive things I can say about the wind-up are, firstly, that the clarity it brings is good – as is the scrutiny of the other players in the disaster (see page 22 for more) – and secondly that the instructions for its managers are unlikely to be yelled in from the back of a galloping horse. However, there is one question I really want answered. Some of Woodford's £60m looks to have been spent on horses and houses. But how has he invested the rest? It would be nice to think it was locked up in the same maze of administrative hell as that of his investors. I suspect it isn't.

In these nervous times you will be looking for other things to be wary of. On page 26 Dominic suggests you don't buy silver. There are endless good reasons to be bullish, he says. But believing them always leads to disappointment.

We aren't mad about Turkey either. It's cheap, but "for a very good reason" (see page 5). There's more misery on page 18: the appointment of Christine Lagarde as the keeper of the euro may well hasten the end of it, says Matthew Lynn. Whose silly idea was it to hire a person who thought Argentina was good for a loan last year for such an important – and tricky – job?

For a little more optimism turn instead to page 4, where Alex looks at the possibility of a burst of year-end euphoria in markets, and to our cover story on page 28, where James explains how to get in on the mining boom in Ecuador (this is about copper and gold more than silver!). Finally, look to page 24, where, after a pretty savage bear market, Max thinks it is worth looking at retail property. Discounts are big and yields are high. But if retail is "changing not disappearing", there could be value there – the kind of value the old Neil Woodford might have looked for.

Merryn Somerset Webb
editor@moneyweek.com

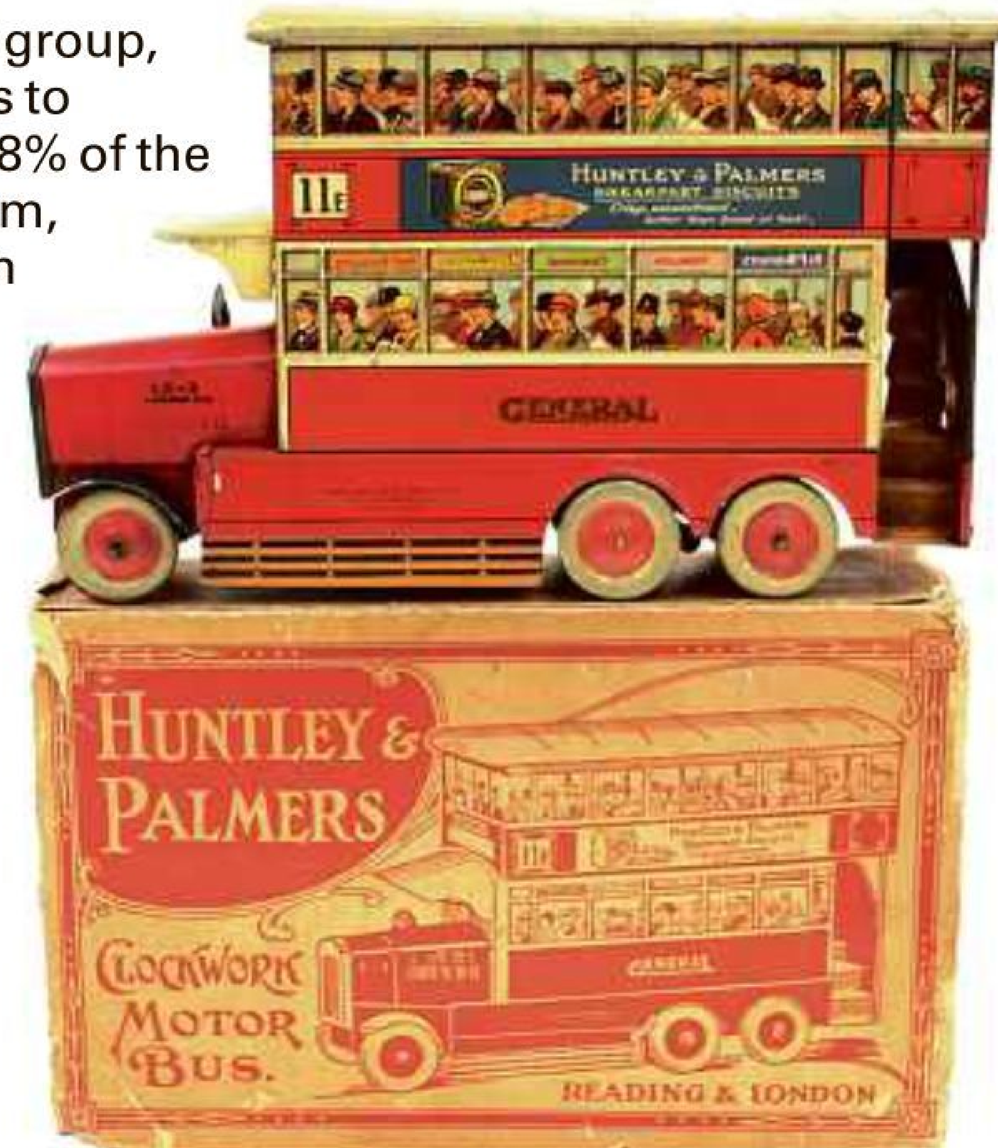
Divine mismanagement of the week

©Getty Images

A book published this week claims that the Vatican could default on its debts within the next four years, says Tom Kington in The Times. The city state lost €44m last year, according to Gianluigi Nuzzi in Universal Judgment, up from €32m the year before. High-profile sex abuse scandals have damaged the Church's reputation and caused the value of donations to fall from €101m in 2006 to less than €60m now. Meanwhile, cardinals have been squirrelling funds into "mysteriously large bank accounts". The Vatican's portfolio of almost 3,000 properties has been shoddily managed and made a loss of €22.6m in 2018. Pope Francis has vowed to increase transparency and has created a "task force" to avert a "financial meltdown".

Good week for:

Brian Souter, founder of the Stagecoach transport group, has made one of Scotland's largest-ever donations to charity, reports The Scotsman. Souter has given 28% of the shares in his Souter Investments private-equity firm, worth £109m, to the Souter Charitable Trust, which makes grants to charities engaged in the relief of human suffering, particularly those with a Christian ethos.



©Hansons Auctioneers

A retired Nottinghamshire couple were "gobsmacked" to discover that an old biscuit tin from the 1920s could be worth £1,500 at auction, says The Independent. The Huntley & Palmers tin is in the shape of a London General motor bus, and comes complete with a box and the clockwork motor that enabled it to move. The couple inherited the tin then left it in a cupboard for 25 years. "We came across it again when we moved house," one of the couple said. "You put things away and just forget about them."

Bad week for:

Fund manager **Mark Denning**, who co-managed funds with assets of more than $300bn at Capital Group, has been forced to resign after the BBC's *Panorama* programme uncovered evidence that it claims reveals he was "secretly acquiring shares for his own benefit" in some of the companies his fund invested in. The BBC says shares in three companies were bought via a trust registered in Liechtenstein. Denning says he has done nothing wrong.

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

China's downturn threatens global growth

Alex Rankine
Markets editor

The latest growth figures do not paint such a bright picture

©Getty Images

China's latest growth figures were "dire", says Freya Beamish of Pantheon Macroeconomics. Official data shows that growth in the world's second-largest economy slowed to 6% year-on-year in the third quarter of 2019. The Shanghai Composite index fell by more than 1% on the news, report Martin Strydom and Gurpreet Narwan in The Times. Western markets also retreated.

The limits of stimulus

The GDP figures "do not paint a bright picture" of the Middle Kingdom's economy, says Andrew Batson of Gavekal Research. What's more, recent economic indicators offer "few signs that the slowdown of recent months has ended". Take the automotive sector: vehicle sales are down by more than 10% so far this year. With total debt topping 300% of GDP, Chinese authorities are unwilling to turn on the credit taps. While targeted help and tax cuts should cause the current downturn to bottom out soon, a "strong rebound" is unlikely.

China's headline growth numbers are "heavily massaged", says Nathaniel Taplin for The Wall Street Journal. Many economists think that the real figures are much lower. Yet this disappointing data still reflects "genuine weakness". Authorities will also be aware that with local food and accommodation prices surging any overeager stimulus risks unleashing an inflationary shock. Although trade tensions with Washington have eased in recent weeks we are still a long way from a deal that rolls back US tariffs that have already been announced on $550bn-worth of Chinese goods. "All that makes a pretty shaky foundation for 2020."

Year-end euphoria?

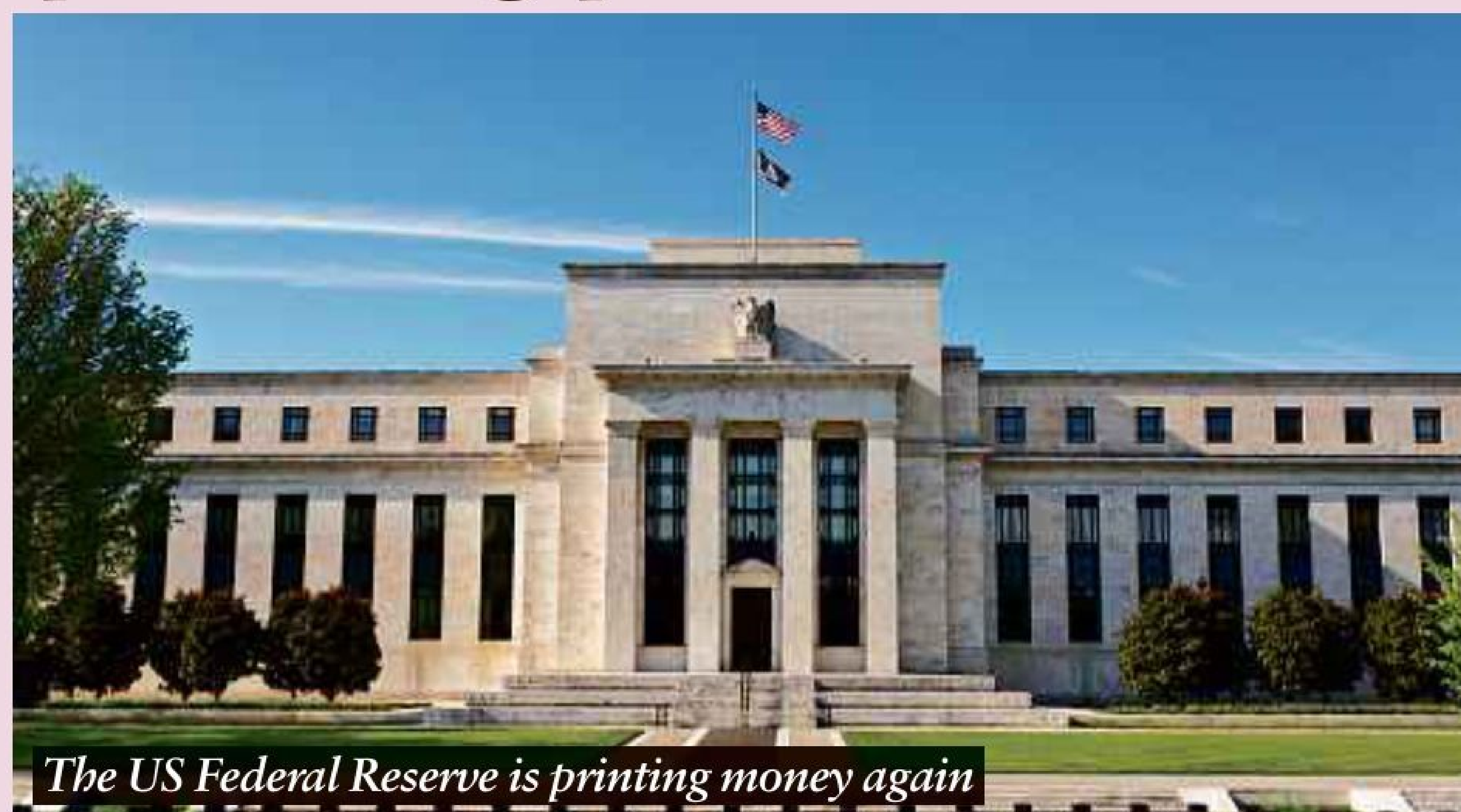
China's slowdown will do nothing to help a lethargic global economy. The International Monetary Fund recently cut its 2019 global growth forecast to 3%, the slowest pace since the financial crisis. The organisation's Global Financial Stability report pointed out that years of quantitative easing and zero interest rates have "created a monster", says Ambrose Evans-Pritchard in The Daily Telegraph. The world's financial system is badly stretched and China is in a "class of its own". Even a one-party state cannot decree an end to the "slow rot of bad debt". Weaker growth in China may actually be good news, says Gwynn Guilford in Quartz. Past expansions have been driven by unsustainable infrastructure splurges, which only added to the debt mountain. The latest figures suggest that policymakers are "holding the line" as they try to "de-risk" the economy and clamp down on shadow banking. In the long-term that can only be a good thing for the global economy.

This year has been "peppered with nasty surprises for investors", says Michael Mackenzie in the Financial Times. Defensive portfolios are all the rage among asset managers. Yet with sentiment so gloomy, even mildly positive news on US-China trade could spark a surprise year-end case of "deal euphoria" in markets. Investors should stay tuned.

The Fed has a plumbing problem

The US Federal Reserve has started purchasing Treasury bonds with printed money. But don't call it quantitative easing (QE), says Jeanna Smialek in The New York Times. It will buy $60bn of short-dated debt a month.

After the crisis the Fed bought $4trn in assets with printed money in three rounds of QE. It began to unwind the programme in 2017 as the economy improved. Yet this "quantitative tightening" has created an unexpected shortage of dollars in money markets. That caused rates to spike as high as 10% last month in the "repo" market, where banks go for short-term loans. Some have billed the latest round of purchases as "QE4", the fourth round of easing since 2008, notes Matthew Klein for Barron's magazine. That is misleading. There is a complex and ever-changing relationship between the size of the Fed's balance sheet, how many dollars are sloshing around the system and prevailing interest rates in the real economy. Getting the mix right is "more art than science".



The US Federal Reserve is printing money again

©iStockphotos

It doesn't help that the Fed tries to control the size of its balance sheet rather than letting it be determined by market demand for cash. The key point for investors is that while full-on QE is intended to ease lending conditions and stimulate the economy, the latest measures have a far more limited objective: to clear short-term blockages in the financial system.

The Fed had to act, says Matt Egan on CNN. Sustained pressure in repo markets could cause it to lose control of short-term borrowing rates altogether – "a problem because that's precisely how the Fed influences the economy". Officials say the new purchases are just a matter of fixing the plumbing. That is probably true. "But as many homeowners know, even plumbing problems can turn into bigger ones."

Can Jokowi boost Indonesia?

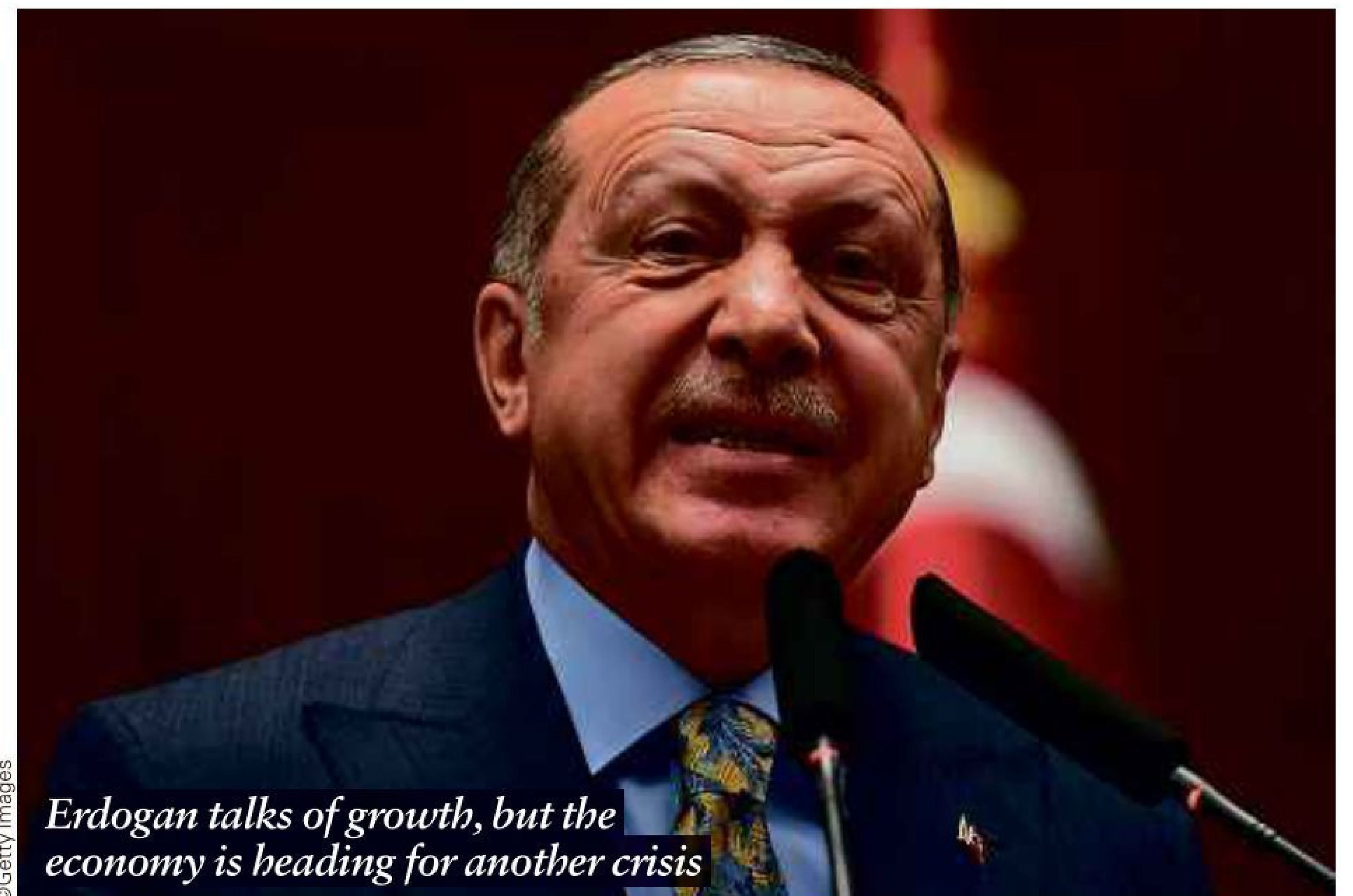
Indonesian president Joko Widodo, known as "Jokowi", has been sworn in for a second five-year term, says Amy Chew in the South China Morning Post. He pledged to turn his country into one of the world's top five economies by 2045 by overhauling an "inefficient, corruption-riddled bureaucracy".

Asia's third-largest country by population, Indonesia has vast potential. Half of the population is under 30. While Jokowi presents himself as a business-friendly reformer, he has also formed an alliance with his country's Islamist movement. Plans to outlaw insulting the president and expand blasphemy laws sparked a wave of protests recently. Planned reforms to labour laws have also seen workers rebel.

Indonesia rose from 128th to 73rd in the World Bank's "ease of doing business index" during Jokowi's first term in power, note Jun Suzuki and Shotaro Tani for the Nikkei Asian Review. Now his top challenge will be to reignite a "sputtering economy". Growth will slow to 5% this year, a rate regarded as "the minimum needed for businesses to keep investing". The US-China trade war is a chance for southeast Asia to grow its manufacturing base. Yet most of the firms that have left China have relocated to Vietnam, with few opting for Indonesia's "red tape". It remains to be seen if Jokowi can make good on his ambitious promises of reform.

Turkey: cheap for a reason

"I am fully prepared to swiftly destroy Turkey's economy," vowed US president Donald Trump last week. Angered by Turkey's attack on the West's Kurdish allies in Syria, Trump sent a letter to Turkish president Recep Tayyip Erdogan urging him not to "be a tough guy". The Turkish strongman responded that he had thrown Trump's missive "in the bin".


©Getty Images

Erdogan talks of growth, but the economy is heading for another crisis

For all the absurdly theatrical posturing, the reality is that the White House has taken only "milquetoast" measures to punish Ankara, note Keith Johnson and Elias Groll in Foreign Policy. Sanctions against three Turkish officials and the country's steel industry were little more than a slap on the wrist. Yet with the country's lira currency already "getting thumped", it is clear that America could inflict "plenty of economic pain on Turkey" if it wants to.

Repeating past mistakes

Easy credit fuelled a boom that saw Turkish growth hit an impressive 7.4% in 2017. Yet the economy overheated and the good times came to a screeching halt last year when Turkey's economy tumbled into a financial crisis and recession. The lira slumped by 30% against the US dollar in 2018. This year has only brought more pain, with the currency losing a further 11%. The benchmark BIST 100 stockmarket index is down more than 5% since Turkey's Syrian offensive raised the prospect of US sanctions. It has fallen by nearly a fifth since early 2018.

Erdogan talks of 5% growth next year, says Laura Pitel for the Financial Times, but the economy will barely grow at all in 2019. The president's plan is to stoke animal spirits "the way he knows best": he fired the central bank governor this summer and the new appointee has "slashed 7.5 percentage points" from interest rates over the past two months. More loose money will only lay the foundations for another crisis.

"Turkey's economy is tanking," writes Craig Mellow for Barron's. More easy money will not help the extremely fragile and heavily indebted banking system. The government's budget deficit could be as high as 8% when you factor in loans guaranteed by state banks, says Cem Karacadag of Barings. Erdogan's apparent willingness to run the "gauntlet of Western disapproval" is another bad omen. Russia tried a similar approach after it invaded Ukraine in 2014: international investors packed their bags and the Russian economy has struggled ever since.

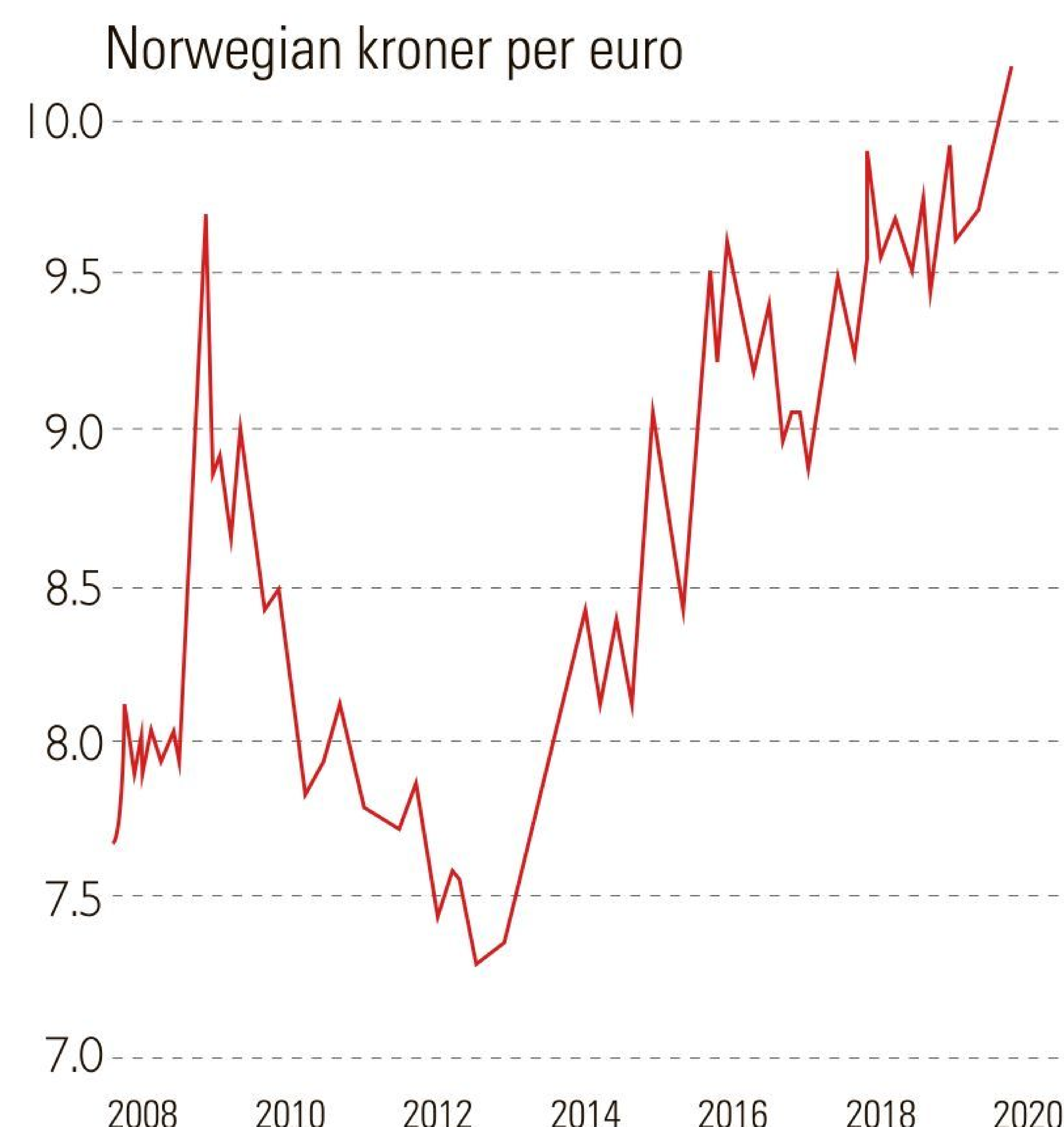
Very brave bargain-hunters may spy opportunity. On a cyclically-adjusted price/earnings ratio of 8.3, Turkey's stocks are undoubtedly cheap. Yet with politicians poised to repeat the mistakes that caused last year's financial crisis and US policymakers debating whether to ramp up sanctions, this market is cheap for a very good reason.

Viewpoint

"Deficit doomsaying has fallen out of fashion and yesterday's advocates of austerity are now spending like drunken sailors on... shore leave. This swapping of hair shirts for Hermès has been particularly pronounced in the US, where the federal deficit has swollen dramatically. This raises the question of who is prepared to pay for this profligacy and the answer is, of course, all of us (it is a task well beyond the resources of America alone). The nattering nabobs of negativity fret that foreigners may lose their taste for US government paper, prompting a surge in Treasury yields, a collapse in the US dollar and the end of civilisation as we know it.... but there is little sign of this... foreign holdings of US Treasuries hit an all-time high in August. The Chinese may be scaling back their exposure, but other countries, including Japan (the largest foreign holder of this paper) are happy to step up."

Jonathan Allum, The Blah

■ Norway's crown has slipped



The Norwegian krone has slipped to a record low of more than ten to the euro. It's not entirely clear why it has done so badly; its 6% loss against the single currency in the past six months is the worst performance of any major currency. Interest rates have actually risen four times and the economy seems robust. This is partly an oil story. Oil and gas comprise half the country's exports and oil has weakened recently amid signs of weakening global growth. But the central bank thinks a key change over the past few years is that in times of heightened uncertainty, especially during a trade war, investors are increasingly turning away from the currencies of small, open economies.

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

Three to buy

Anglo American
Investors Chronicle
Major miners are emerging from "years of cost-cutting and efficiency drives"; now rising metal prices could spell opportunity. Sluggish copper and diamond prices have hampered Anglo American's performance this year, but that is outweighed by buoyancy in iron ore and its pricing power in the market for gemstones. A strong balance sheet and all-time high palladium prices suggest that there is "buried value" to be unearthed. *1,919p*

BP
Motley Fool UK
One doesn't generally expect outsize returns from a £100bn blue-chip stock, but this energy major might just be the ticket. The shares have declined by almost a fifth since their April high owing to weak global oil demand, but a 6.5% dividend yield provides insulation against capital losses. Such a high yield means that you could potentially "double your money" in about 11 years on dividends alone. What's more, the current pessimism about the future of oil looks overdone, while the business is also investing in more sustainable energy sources. Buy. *483p*

PayPoint
The Mail on Sunday
This payments provider was once a "Woodford favourite", but is now one of the businesses tarnished by its connection to his recently closed Equity Income Fund. The company provides gadgets enabling cashless payments to convenience stores and also has contracts with big online retailers. The shares have slipped after a run of bad news. Yet the business has long-term potential. There is also a 9% dividend yield to enjoy. *905p*

Three to sell

Eland Oil & Gas
Shares
A 166p-per-share takeover bid from Seplat Petroleum means that it is time to take profits in this Nigerian oil play. The deal values Eland at £382m, a 28% premium to the pre-deal market valuation. Around 60% of the shareholder base backs the move. Those who bought at the start of the year are sitting on a near-60% gain. Management deserves credit for successfully meeting the many challenges of operating in Nigeria and building a business with enough scale to attract the attention of a suitor. *167p*

Sophos
The Sunday Telegraph
Some may decry the loss of yet another British tech star to US private equity, but a better question is "what took the buyers of Sophos so long?" The group boasts an impressive reputation for battling ever-growing cyber threats and the weak pound only sweetens the deal for foreign buyers. Now acquisitive buyout firm Thoma Bravo has had a 583p-per-share offer accepted by the board. A bidding war is unlikely to follow. Cash in and reinvest elsewhere. *565.75p*

Halfords
The Sunday Times
The last two years have not been kind to this retailer of car parts and bikes, with four profit warnings causing the shares to halve. A dividend yield now at 10.8% looks "ripe for a cut". That would leave shareholders owning "a low-growth, bricks-and-mortar retailer with dwindling

profits". Management has adopted sensible strategies in the face of online competition, but in the current retail storm it looks like the situation will "get a lot worse before it gets better". Avoid. *171p*

...and the rest

Investors Chronicle
Online sales recently surpassed bricks-and-mortar revenue at **Next**. Share buybacks and a solid dividend mean that the shares are worth tucking away *(5,966p)*. **Hilton Food** is diversifying away from its traditional focus on meat packaging. "Solid growth, high returns and dominant market

position" make this a business worth owning *(981p)*. Packaging distributor and manufacturer **Macfarlane** has shown that it is a lean and resilient operator despite tough markets. Buy *(94p)*.

The Mail on Sunday
When a car is damaged in a collision, **Redde** steps in to provide replacement vehicles and repair services. A 10%-plus dividend yield would usually "ring alarm bells", but in this case it is part of a deliberate – and prudent – pay-out policy. The shares should rise *(114p)*.

Shares
FTSE-250 infrastructure investment trust **Foresight Solar** offers a 5.7% dividend yield and is increasingly favoured by institutional investors *(117p)*. Electronics engineer **discoverIE** has delivered 9% half-year revenue growth in the face of slowing global trade, thanks to its focus on niche and growing markets – buy *(445p)*.

The Times
A move into Argentinian sovereign debt by emerging markets investment group **Ashmore** is emblematic of its counterintuitive approach: it is a buy, but only for investors with long time horizons *(490p)*. Ignore the talk of the demise of vaping – **British American Tobacco** and **Imperial Brands** are a "smoking hot bargain" at the current price *(2,693.5p; 1,842.5p)*.

A German view

The world's population is growing, but its supply of arable land isn't, says WirtschaftsWoche: climate change is causing more droughts and floods. So boosting plant yields is crucial. Enter Germany's KWS Saat, a producer of high-yield seeds with operations in 70 countries. Its products cover the world's top ten crops, while it dominates the market for sugar beet and rye. A takeover of the Netherlands' Pop Vriend Seeds has allowed it to gain a foothold in the vegetable-seeds market. Plant breeding is a study-intensive and expensive business – KWS spends around a fifth of its turnover on research and development – which deters potential rivals.

IPO watch

Despite ongoing political turmoil, Hong Kong's initial public offerings (IPO) market is set for another billion-dollar launch. ESR Cayman, which develops and manages warehouses for e-commerce companies, has revived its plans for a flotation after postponing one in June. The company is offering 653.7 million shares priced between $2.07 and $2.22, valuing the company at $6.3bn-$6.7bn. Even if priced toward the bottom end of the range, ESR would raise $1.35bn, making it Hong Kong's second-largest IPO this year after Budweiser Brewing Company's $5.8bn launch. It would also would surpass Chinese sportswear retailer Topsports, whose IPO raised over $1bn earlier this month.

City talk

● Newly listed technology investor Prosus may have slapped down "a £4.9bn order" for online takeaway firm Just Eat, but "that doesn't necessarily mean it's a healthy meal" for the buyer, says Karen Kwok for Breakingviews. Not only do Just Eat's latest figures show that growth in UK food orders slowed to 8% year-on-year in the latest quarter, but people are also switching to fast-food deliveries from chains such as KFC, which has a partnership with rival Uber Eats. Another rival, Deliveroo, recently received an investment from Amazon. Such competition is "good news for diners keen to order food from their sofas", but makes for "less wholesome" returns.

● "It was once easy to spend a day handing money to no company other than Whitbread," moving from "its coffee shops, to its pubs, to its hotels," says Simon English in the Evening Standard. The sale of Costa Coffee last year to Coca-Cola also delighted investors by bringing in £4bn. But without Costa, Whitbread now depends on some "so-so" hotels and some "distinctly second-rate pubs" that do "bangers and mash from a

microwave". It's therefore no surprise that, lacking a "caffeine-fuelled shot to the arm", company sales are flat, profits are down, and its shares are "going nowhere".

● On Monday the streaming giant Netflix announced its second bond offering of the year, this time for $2bn, says Dan Gallagher in The Wall Street Journal. The company needs the money to "help fund its growing content needs". More than 20 films it has produced itself will be released in the last three months of the year. The group is concentrating on "producing quality films" as part of its strategy "for taking on the Hollywood giants": NBCUniversal, WarnerMedia and Disney are venturing into streaming. Apple is also set to launch its own streaming service "featuring [its] own big-budget programming".

Drug giants in opioid deal

Pharmaceutical companies are being pursued for peddling addictive opioids. The sums involved could be massive. Matthew Partridge reports

There has been another "flurry of deals" over the opioid crisis, says Jan Hoffman in The New York Times. Teva Pharmaceutical Industries, as well as distributors McKesson, Cardinal Health and AmerisourceBergen, have agreed to pay a total of $260m to two Ohio counties. The counties were aiming to hold the companies liable for the "epidemic of addiction" that has killed hundreds of thousands of Americans. Despite agreeing to settle, the companies continue to dispute that they delivered "highly suspicious quantities" of opioids without properly reporting them.

That settlement is limited to the two counties involved. But there are also signs of progress in the "complex negotiations" between the same companies and various states, cities and counties to try to settle "mass litigation" over the issue, says Hannah Kuchler in the Financial Times. The companies and four states have sketched a draft proposal that would see the firms pay $48bn to the 50 states (and the District of Columbia), with the firms "paying $22.25bn in cash and $26bn in kind"; Teva would contribute $23bn of medication to treat opioid victims. The markets have had a mixed response to the deal, with Teva's shares jumping, Johnson & Johnson's flat, and Cardinal Health and AmerisourceBergen's stocks falling.

©Shutterstock

Pharma firms are coughing up for the crisis

A good deal for Teva

It's not surprising that Teva's investors are happy, says Kyle Blankenship in FiercePharma. While their offer of billions of anti-addiction drugs over a long period may appear "pricey" and "unusual", it "might just work" for the Israeli firm. The donated drugs will be valued at wholesale prices, which will temper the impact on their bottom line. Teva should now avoid bankruptcy and can formulate a long-term strategy to absorb the cost of the settlement.

A "multibillion-dollar deal that brings closure to 2,500 lawsuits and sends needed money to communities hard-hit by opioid addiction" would indeed be welcome, says Sara Randazzo in The Wall Street Journal. However, nothing is guaranteed, especially as there are "deep differences" not only between the plaintiffs and defendants, but also among the "hundreds of states, counties, cities and Native American tribes bringing suits". The cities and counties say any broader settlement should "immediately go toward helping alleviate the impacts of opioid addiction", avoiding the outcome of the 1990s tobacco litigation, in which a $206bn settlement "went to the states and was often spent to fill budget holes".

Despite the delays, there "is not much doubt" that a global settlement is "going to happen", says Bloomberg's Joe Nocera. After all, the cities and counties "need money to help end the crisis" and the only way they're going to get it "is from the big companies they're suing". Similarly, while the companies "may not think it is fair", society is demanding "that they pay up for their roles in the opioid scourge".

A culture clash over cash

The board of the British medical devices company Smith & Nephew (S&N) has parted ways with CEO Namal Nawana (pictured) after only 18 months, say Sarah Neville and Sarah Provan in the Financial Times. The problem was pay.

Despite receiving a $1.5m base salary and a total package of up to $6m, Nawana had complained a few months ago that in a previous job he had been paid "multiples more than what I'm paid here in the UK". The firm has said it was unable to match his "expectations on pay and reward" while staying "within corporate boundaries".

There's "no doubt" about who instigated the quarrel that

led to Nawana's departure, says Nils Pratley in The Guardian. Having talked about his job as a "great honour" when he was first appointed, it now turns out that Nawana's "warm feelings" were "dependent on the willingness of his new employer to whack up his pay at the first opportunity". So when Smith & Nephew refused, making it clear to him that it is a UK company that pays according to UK notions of "acceptable avarice", it was inevitable that he would leave.

Nawana is not being completely unreasonable, says Ed Cropley on Breakingviews. "While generous," his pay package "lagged peers in the US." He has also added value, with shareholders £3.3bn better off since his appointment. Still, he knew what he was signing up for, so "he should have bargained harder before accepting the job". By refusing to cough up, S&N has shown that "principles and employment contracts matter".

A profound shift in the Brexit debate

Boris Johnson has achieved what his opponents said was impossible. What next? Emily Hohler reports

Do or die? "Do" is looking a bit more likely

©Shutterstock

Boris Johnson won the backing of MPs for his Brexit deal on Tuesday night, but a snap election was back on the agenda after MPs "derailed his attempt" to take Britain out of the EU by his "do or die" deadline of 31 October, says the Financial Times. The European Council's president, Donald Tusk, said he would recommend a three-month extension to EU leaders, after MPs voted against Johnson's plan to "railroad" his Brexit legislation through the Commons in 72 hours. However, Johnson warned that although he might accept a short "technical" extension, he would pull the bill altogether and press for a general election in the event of a delay until the new year. Jeremy Corbyn has indicated that he will back Johnson's call for a snap poll in such circumstances, "throwing down the gauntlet" to "rebellious" Remainers in his party who want a second referendum first, reports the Daily Mail.

The next steps in the Brexit battle

Why would Johnson call the whole thing to a halt, having won the vote on his withdrawal agreement bill "more emphatically than even the most ardent Brexiters had dared hope"? asks Jonathan Freedland in The Guardian. While Theresa May was "crushed by triple-figure majorities", Johnson won his vote by a majority of 30. The "obvious explanation" is that this gives him a pretext to "grab what he really wants: an early election framed as a battle to get Brexit done, with him as the people's tribune pitted against those wicked Remainer saboteurs". Another explanation is that the "threadbare coalition that might exist to back his deal" will "unravel" once scrutiny begins and its flaws emerge.

Asking for longer than three days to consider this "nation-shaping legislation" is hardly unreasonable, says Tom Peck in The Independent. Voting down Johnson's accelerated timetable gives lawmakers more time to consider the 110-page divorce deal, which covers sensitive issues including the UK's £33bn of divorce payments to the EU, the rights of the bloc's citizens and trade arrangements for Northern Ireland, says James Blitz in the Financial Times. A point of "fierce" debate will be how and when the transition period should end. Many opposition MPs believe that it is impossible to conclude a trade agreement with the EU by December 2020 and fear that the UK will default to World Trade Organisation rules if the government fails to apply for an extension to the transition by a required deadline of July next year. Clause 30 of Johnson's deal does not give Parliament the right to demand an extension. That effectively means a potential no deal 14 months from now.

There is "danger ahead", says Janet Daley in The Daily Telegraph. The Remainers live on and will now try to "undermine the agreement, using the delay they have engineered to amend and weaken it". But something fundamental has changed: the EU now wants to work with Johnson to get this deal done. It is not prepared to enter into further negotiations.

The politics have "shifted profoundly", agrees Clive Crook in Bloomberg. Whatever happens between now and 31 October, Johnson has won an "important victory". Brexit could be delayed or cancelled, or it might yet end in a cliff-edge exit, but Johnson "kept his word", and achieved what his opponents said was impossible by negotiating a better deal. It is now the good faith of his opponents that "must be called into question". Johnson "might yet lose the Brexit battle – and then reap the benefits in a subsequent election. The Labour Party's endless unprincipled vacillation… coupled with the crippling liability of being led by Jeremy Corbyn, makes its electoral prospects bleaker by the day."

Putin and Erdogan have stepped into the vacuum left by the US

©Getty Images

Putin grabs his prize in Syria

"If you ask President Trump, the US is simultaneously bringing its troops home from Syria and securing 'the Oil'," says Miriam Berger in The Wall Street Journal. In fact, the US has neither brought home the troops (they are being re-stationed in Iraq alongside an existing force of 5,000) nor entirely left Syria. The US defence secretary, Mark Esper, said around 800 US troops were being relocated to "help defend Iraq" against the re-emergence of Islamic State (most of Syria's lucrative oilfields are in the northeast near the Iraq border) while around 200 troops will remain around oil areas in southern Syria to deny access – and therefore cash – to IS.

Trump's remarks distracted from a five-day US-brokered ceasefire to permit the withdrawal of US-backed Kurdish forces from the Syrian border region, which ended on Tuesday. During the past few weeks, tens of thousands have fled the area to escape shelling by Turkish troops, adding to the millions displaced during Syria's "brutal eight-year civil war", say Chloe Cornish and Laura Pitel in the FT. Ankara's offensive against the Kurdish militants, whom President Erdogan of Turkey regards as terrorists, was also intended to create a "safe zone" in which to resettle some two million of his country's 3.6 million refugees, even though such zones have historically not proved safe.

Events have handed Russian president Vladimir Putin "much greater influence" in the region, says Frederik Pleitgen on CNN. At a meeting in Sochi on Tuesday, Russia agreed to help Turkey drive out Kurdish militias from the "safe zone", which it will then help patrol. None of this is helping the US, says Thomas Friedman in The New York Times. "Dumping the Syrian Kurds after they sacrificed 11,000" of their number in the fight against IS sent a message to every US ally: "America does not have your back... Watch out. Over time, that will not make for a more stable world or a cheaper US foreign policy."

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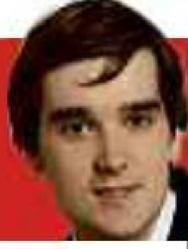

Betting on politics

With the outlook for our national politics changing by the day, I'm going to take a look at some of the other contests that are on the horizon, such as the election for London mayor, which will take place next May. Until recently it was assumed that Sadiq Khan would win a second term easily. But his recent approval ratings have been lacklustre. The entry of Conservative-turned-Independent Rory Stewart (pictured), who is standing down from Parliament at the next election, has also made things a little livelier.

Ladbrokes thinks Khan will be re-elected and has him as the favourite at 4/9 (69.2%). Stewart is in second place at 7/2 (22.2%). Lib Dem Siobhan Benita and Conservative Shaun Bailey are at 10/1 (9.1%) and 20/1 (4.8%) respectively.

Having already tipped Khan to be re-elected, I'm not going to advise you to put any more money on him. And I think Stewart's chances are pretty low, especially as he doesn't even currently represent a London constituency. Still, I'd take the 7/4 (36.4%) on Stewart getting between 20% and 30% of the first round vote as well as the 4/1 (20%) on him getting between 30% and 40% and 10/1 (9.1%) on getting between 40% and 50%, for combined odds of 65.5%. After all, he stands to do well with the 35% of people who voted for Zac Goldsmith the last time around. It's important to note that the bet is void if he doesn't appear on the ballot. To weight the bet properly put £5.56 of a £10 betting unit on 20%-30%, £3.05 on 30%-40% and £1.39 on 40%-50%.

Trudeau squeaks back in

Canadians give the scandal-battered liberal another go. Matthew Partridge reports

Canadian voters have delivered a "sharp rebuff" to Canada's prime minister, Justin Trudeau, says The Economist. In an election that "proved more divisive than decisive" and revealed a "sharply divided country", Trudeau's Liberal Party "squandered the handsome majority it won in 2015", losing 20 seats. At the same time the Conservatives, who also won the largest share of the popular vote, and the separatist Bloc Québécois increased their number of seats. Now Trudeau "must contemplate life as the leader of a minority government", possibly in coalition with the New Democratic Party, which also did badly.

Now he must choose humility

©Shutterstock

Charisma is not enough

Just a few years ago, Trudeau's "charisma and progressive bona fides" were "everything Canada wanted to say about itself to the world", says Jen Gerson in The New York Times. But symbolism and optimism alone "feel thin when the risks to your institutions and economies grow material". Trudeau was hurt by controversies over an oil pipeline, a student past in which he blacked up for fun, and his decision effectively to force out his attorney general because she "refused to subvert the independence of her office by granting a politically well-connected engineering firm a pass on corruption charges". The episode showed a government that "is just as centralised, controlling and cynical as the one it replaced".

The scandals of the Trudeau government were indeed a "major issue" in the election, but the real reason he and his party did badly was the "politics of energy", says The Wall Street Journal. Liberals in big cities are "infatuated with addressing climate change", but their green policies run into trouble "when citizens are asked to pay for them", or when they make it "difficult to get oil to market". This is shown by the fact that the Conservatives "dominated" across Canada's prairies and in the Rocky Mountain region, while the Liberals were "wiped out in Alberta, the heart of the oil sands".

Canadian politics is "going to be messy" as the country learns "how to function in a minority parliament for the first time in almost a decade", says the Toronto Sun. Central to this will be humility, as politicians in all parties "would be wise to learn to work together, moderate their tone and partisan language, and focus on achieving results for Canadians". Trudeau and humble are "not two words you often see written in the same sentence", but that "needs to change" if he wants to get things done.

Don't write off the PM

Still, it would be a mistake to write off Trudeau, says Josh Wingrove on Bloomberg. After all, he "remains prime minister" and has a "wide-enough margin" in terms of seats that "he doesn't have to bother with appointing opposition members to his cabinet". Indeed, the Liberals have so many seats that he would need all the opposition parties to vote against him in order to force a new election, something that is unlikely because they have their own problems. This should help him as he pursues certain key policies, such as ratification of the US-Mexico-Canada trade pact and the expansion of the Trans Mountain oil pipeline.

Can Gantz break the stalemate in Israel?

Netanyahu: locked in a standoff

There have been "two elections in the past six months", but Israel is still "no closer to knowing who its next leader will be", says David Halbfinger in The New York Times. Prime Minister Benjamin Netanyahu has just abandoned his latest attempt to form a government, giving Benny Gantz, his main rival, a chance to do a deal.

But despite winning the most votes in September's election, many think that Gantz "has even less of a chance" of success. The three largest parties – Gantz's centrist Blue and White party, Netanyahu's right-wing Likud party, and Avigdor Lieberman of the secular but right-wing Yisrael Beiteinu party, are locked in a "Mexican standoff", each refusing to work together.

One way through the impasse would be for Gantz to form a minority government with the support of the "Joint List of Arab parties", says Mehul Srivastava in the Financial Times. But working with the List, which contains Islamists and Communists, as well as more centrist politicians, may be difficult for Gantz given his "chest-beating about military victories over the Palestinians" in the campaign and could leave his party vulnerable to political attack in the future.

A third election is the likely outcome, says Ivan Levingston for Bloomberg. The trouble is, there's "no indication" this would change the balance of power. The situation is also complicated by the fact that Netanyahu could be indicted for bribery and fraud, increasing pressure for him to resign as Likud's leader. The currency markets have largely "shrugged off" the latest developments, but a prolonged stalemate could make it harder to tackle the widening budget deficit.

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Buenos Aires

From bad to worse: A populist government looks poised to win the Argentinian elections on 27 October, when voters will choose a president and members of the national congress. The Peronist candidate Alberto Fernández won the August primaries and remains ahead in the polls. His election would be deemed a step backwards for Argentina. Argentina notoriously defaulted on its public debt in 2001 and did it again in 2014 under Cristina Fernández de Kirchner, who handed over a crippled economy with a 40% annual inflation rate to the incumbent Mauricio Macri. Unlike his predecessor, he was broadly business and market-orientated and attempted to get to grips with long-standing structural problems, but he made little headway. Macri is handing over a 55% annual inflation rate and overall foreign debt of $100bn, which is largely attributed to a $57bn bailout from the International Monetary Fund that Macri requested after a currency crisis last year. Fernández has only provided vague hints of his economic policy, but he is likely to return to the interventionism favoured by most governments since the 1950s.

Brasília

Senate approves pension reform: Brazil's senate has cleared the way for substantial reforms to the country's pension system by a margin of 60 to 19. The reforms passed the lower house in July. The biggest changes are raising the minimum retirement age for both private- and public-sector workers to 65 for men and 62 for women. Pension contributions will also be increased. "This victory... paves the way for our country to finally take off," President Jair Bolsonaro (pictured) wrote on Twitter. "Pension reform has dogged successive governments over the past three decades," say Jamie McGeever and Maria Carolina Marcello for Reuters. At the same time, "the social security deficit has steadily risen". The measures should save 800bn reais (£153bn) over the next decade. Hefty social-security payments combined with falling tax revenues from weak growth have weighed heavily on Brazil's public finances. The benchmark Bovespa index rose by 1.1% on the news. "Local investors who have been buying the market in the face of foreign selling are beginning to win the argument," says Tony Volpon of UBS.

Santiago

Inflation sparks riots in Chile: A hike in public-transport prices triggered violent protests in the Chilean capital of Santiago this week. Despite President Sebastián Piñera's decision to call off proposed metro price rises after protests began, demonstrators continue to loot shops and burn buses. The sharp rise in metro tickets was due to the devaluation of the peso, which in turn can largely be attributed to a 20% drop in the price of copper, the country's main export, say Michael Stott and Benedict Mander in the Financial Times. Piñera has declared a state of emergency and imposed a curfew around the capital. Authorities have opened fire and are using tear gas to stop demonstrators. A total of 716 Chileans have been arrested. Chile is "one of Latin American's wealthiest and most stable countries"; nevertheless, anger over rising living costs has continued to spread. The rise in metro system fares "proved the last straw". The state of emergency "inflamed public sentiment" in a country "scarred" by the Augusto Pinochet dictatorship, but so far the government shows no signs of backing down.

The way we live now: Vatican's eRosary bracelet hacked

The Vatican has released a $109 eRosary bracelet to pull in "tech-savvy youngsters", says the BBC. It consists of ten black agate and hematite beads and a metal cross that is Bluetooth enabled, motion-sensitive and charges wirelessly. When the user makes the sign of the cross, the "click to pray" app on the user's phone is activated. The app can suggest prayers to recite, as well as remind users when it is time to pray. Taiwan's GadgTek Inc developed the gadget, which is water-resistant and compatible with both Android and Apple. There was just one problem, says Iain Thomson on The Register: it was hackable, allowing access to people's accounts and personal information. The eRosary also offered no protection against "brute forcing" the four-digit PIN password (ie, hackers could have unlimited goes at guessing the PIN). It took British firm Fidus Information Security just ten minutes to find the flaws. The Register set up a dummy account, using the name Satan, and that too was hacked by Fidus. "In countries like China, where Catholics aren't too popular, this sort of data could be damaging if exposed."

Prayer? There's an app for that

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Moscow

Putin woos Africa: Russia held its first Africa summit on Wednesday, with nearly 50 leaders descending on the Black Sea resort of Sochi. The event was co-hosted by the Egyptian president, Abdel Fattah el-Sisi. President Vladimir Putin insists that unlike Western countries, Russia is ready to offer help without "political or other conditions", note Tom Balmforth and Andrew Osborn on Reuters. Russia is keen to cash in on the continent's sprawling mineral wealth and potentially lucrative market for Russian-manufactured weapons, as well as increase its exports of grain and fertiliser. During the Cold War, Soviet Russia developed ties with African countries, but the links dissolved along with the Soviet Union in 1991. Though Russia's trade with African countries rose to $20bn last year, it still lags behind the figures for the European Union, China, India, the US and the United Arab Emirates. However, Russia supplies arms to over 30 African countries, a number that the arms fair taking place at the summit was designed to increase.

Putin and Sisi: seeking to deepen economic ties

Kuala Lumpur

Malaysian palm oil hit by Indian boycott: Palm oil producers in Malaysia are suffering as Indian importers turn to alternative suppliers in retaliation for "hostile comments" from Kuala Lumpur on India's handling of Kashmir. The Indian government is reportedly deeply irritated by criticism from Mahathir Mohamad, Malaysia's prime minister, who said India had "invaded and occupied" the Muslim-majority state. It is also unhappy that Malaysia is dragging its heels on extraditing the Islamic preacher Zakir Naik, who is wanted in India for money laundering and inciting extremism. Importers are shifting to different suppliers ahead of widely expected tariff increases, says commodity broker Ravindra Rao in the South China Morning Post. Last September India increased import taxes on Malaysian palm oil from 45% to 50%. India imports nine million tons of palm oil a year; it is the world's biggest buyer. Last year it was Malaysia's biggest customer, taking 28% of its exports.

Gaborone, Botswana

Botswana takes on De Beers: Opposition leader Duma Boko promised to negotiate fairer terms with diamond giant De Beers in an apparent last-ditch bid to secure votes before this week's election. In 1966 De Beers found what would become the world's most lucrative diamond mine in Botswana and still sources two-thirds of its diamonds in the country. Botswana and De Beers established a 50-50 joint venture to tap Botswana's diamond wealth, but the deal is up for renewal next year, and there is a widespread feeling among the population that "they should be getting more out of their good luck", says the BBC's Charles Taylor. Diamonds comprise around a fifth of GDP and 75% of export earnings. Botswana has managed to grow its economy rapidly ever since independence in 1966 and its GDP per capita is over $8,000, eight times that of Zimbabwe; it is also five times richer per head than Zambia, another neighbour. Meanwhile, there will be less diamond wealth to tap in future. As MoneyWeek pointed out last week, the industry is grappling with both a cyclical downturn and the advent of cheaper artificial diamonds, which could change the market beyond recognition.

Beirut

Lebanon's government reaps the whirlwind: Following five days of street protests over "years of economic and political mismanagement", the Lebanese prime minister, Saad al-Hariri (pictured), announced a "package of sweeping fiscal measures", including pay cuts for top officials, a charge on the banking sector and "handouts for the poor", says Jonathan Wheatley in the Financial Times. The country, which is among the most indebted in the world and fast running out of dollar reserves, "urgently needs to convince" donors that it is serious about "tackling entrenched problems", particularly its "unreliable and wasteful electricity sector", adds Reuters. Politicians have long failed to deliver promised reforms, instead milking state resources through patronage networks. After a "reckoning" in August and September, during which the cost of insuring Lebanon's sovereign debt surged to a record high, depositors, including a diaspora attracted by high rates, are "pulling funds". Local banks, which already finance more than 80% of the country's consolidated public-sector debt, are losing patience too. The risk for investors, concludes Wheatley, is that Lebanon's fiscal troubles could "yet escalate rapidly".

Will America get its own NHS?

Not even socialist Bernie Sanders goes quite that far, but a radical shake-up of America's healthcare system looks to be on the cards. Alex Rankine reports

What's happened?

Healthcare is emerging as a key issue in the US presidential election. Last week Democratic hopefuls at a presidential primary debate clashed repeatedly over how to reform the system. They are battling over electorally fertile terrain. A FiveThirtyEight/ Ipsos poll shows that Democratic primary voters rank healthcare as their most important election issue ahead of even "the economy and jobs". There are growing calls from the party's left for dramatic reform.

What's the current situation?

Data from the US Census Bureau shows that last year 67% of residents were covered by private-sector health insurance. Of these, four-fifths of policies were linked to employment, with the rest purchased separately. Just over one-third of Americans are covered by government schemes. "Medicare" covers those over the age of 65; "Medicaid" provides for the disabled, children and low-income families, although the generosity of the system varies by state. In all, 8.5% of the country, some 27.5 million people, had no health insurance at all. Healthcare is not free at the point of use. When an insured person seeks medical services they typically have to pay a percentage of the costs, known as a "co-payment", out of their own pocket.

Is the system in good health?

No. It is also very expensive. Statistics from the OECD think tank show that where Britain spends about 9.8% of its GDP on healthcare and Germany 11.2%, the US pays out an eye-watering 16.9%. That dramatically higher spending does not yield better results. US life expectancy at birth of 78.6 years lags conspicuously behind Britain (81.1), France (82.4) and Canada (81.9). Infant mortality rates are almost as high as those found in Russia.

The culprit is high costs and burdensome administration. The average heart-bypass operation costs $15,742 in the Netherlands; in the US it costs $75,345. The US spends $843 per citizen per year on administration, 12 times more than the $70 spent in the UK. A study recently published in The Journal of the American Medical Association concluded that 20%-25% of US healthcare spending, equivalent to about 4% of the country's entire GDP, is simply wasted.

"About 20% of US healthcare spending, about 4% of US GDP, is simply wasted"

What about "Obamacare"?

President Obama's reforms sought to expand access to private healthcare through a mixture of subsidies and regulation that banned insurers from turning down people who are already ill. Like the Swiss system, it also used tax incentives to induce healthy people to buy insurance, which drives down the average cost for everyone else. The reforms saw roughly 20 million more people insured, but faced criticism as health plans become progressively less generous in the face of rising costs. Republicans vowed to replace the system when they took power, but failed to agree on a better policy.

Bernie Sanders wants "Medicare for all"

©Getty Images

What is Bernie Sanders' plan?

Obamacare was decried by critics as heralding socialism, but the reality is that it adopted a private-sector-based approach to health insurance. Many in the Democratic party want to go further. Bernie Sanders' "Medicare for all" plan would see private insurance phased out in favour of one near-universal government system (essentially expanding the current Medicare system from retirees to everyone). Patients would not be expected to stump up money for their healthcare, though the proposal does not go as far as creating an American NHS – the government would only pay for healthcare rather than actually providing it. Nevertheless, a shift to such a "single-payer" model would mark a dramatic break, creating a system with more government control and less private-sector involvement than that found in European countries such as Germany. Other left-wing Democrats, such as Elizabeth Warren, have rallied to the idea, but are keeping schtum about the tax rises needed to pay for it.

So it will be expensive?

Yes. A study by the free-market Mercatus think tank found that the plan would require $32.6trn in new federal funding over its first decade. That is "278 Jeff Bezoses", notes Spencer Bokat-Lindell in The New York Times. Sanders acknowledges that tax rises will be needed. Yet proponents say the current system could prove even more expensive for the country if left unreformed. It is true that single-payer systems have one big economic advantage – as the only buyer of services, the government can drive a harder bargain. In the US the average cost of a hip replacement is $25,565 when paid by private insurance and $51,458 when charged to an individual. The Medicare programme, by contrast, has negotiated the price down to $13,419.

So what's the problem?

The single-payer proposal is based on generally sound health economics, but opponents say it amounts to a government power grab that limits the ability of patients to choose their own care. Politically, the largest obstacle is the fact that, while many are critical of the broader system, 80% of Americans rate the quality of their own healthcare as good or excellent. Few will want to be pushed off those insurance plans to join a government system. As Avik Roy puts it in National Review: "'If you like your plan, screw you' is a sub-optimal strategy for Democrats in 2020."

What do moderates want?

More centrist Democrats such as Joe Biden are promoting a "public option". That would see the government establish a health plan that competes with, but doesn't replace, current private plans. Polling by the Kaiser Family Foundation shows that while roughly half of the US public back "Medicare for all", almost three-quarters support a public option; 58% of Republicans also back this more gradualist approach, suggesting the issue could prove a vote-winner if a more centrist Democrat secures the nomination.

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Value isn't dead – just resting

Value has struggled as an investing strategy for years now. Is it time to bail out? Or will patience pay off?

John Stepek
Executive editor

In theory, if you buy value stocks (loosely speaking, cheap ones) you should beat the market, at least in the long run. Value is one of the few "factors" (a jargon term referring to a trait that helps a category of stocks to outperform consistently) that actually has a long history of working. However, faith has been rattled in recent years by the fact that value has had an atrocious run, particularly compared to "growth" – stocks that look expensive but promise rapid growth today and huge profits in the far future. So what's gone wrong for value and will the turnaround come soon – or ever?

As always happens when a trend persists for longer than the average investor's patience span, several theories, many of them convincing ones, have been put forward as to why "it's different this time" for value stocks. Some argue that an increase in monopoly power means that profit margins are sustainably higher, which in turn implies that "reversion to the mean" – the main driver of value's long-term outperformance – may no longer be a reliable phenomenon. Others make "new era" arguments, whereby most so-called "cheap" stocks are "value traps" – located in sectors that are in terminal decline.

There are plenty of arguments as to why it's not different this time at all, and we'll go into some of those in a future column. However, what is perhaps more relevant to investors is that, even if it is a little bit different this time, the relative underperformance of value has been so great, that it still makes sense to have at least some exposure to value. As Ben Inker – a value-focused manager at US asset manager GMO – points out, the 1990s tech bubble was also painful for value managers. Come the tech bust, GMO more than recouped its tech-era underperformance to pay off handsomely for patient investors in the run-up to the financial crisis. Yet the company's global equity and multi-asset funds have spent the last ten years – the post-2008 recovery period – lagging the market, leaving investor "patience wearing thin".

Will value ever be revived?

©Alamy

"Even if it's a little bit different this time, value should still pay"

However, Inker adds, GMO's own forecasts for the performance of global value stocks relative to the wider benchmark are now comparable to the gap seen during the tech bubble. Indeed, even a "partial mean reversion" would still see value-focused funds outperform significantly over time. If you're looking for value right now, GMO is particularly fond of emerging markets. But closer to home, the UK is still looking cheap too. The **Temple Bar Investment Trust (LSE: TMPL)** is one option that has rallied in recent weeks amid hopes that a Brexit deal will eventually materialise. But the fund still trades on a small discount of around 2%.

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

Earnings before interest, tax, depreciation and amortisation (Ebitda) is a way of measuring profit that can make it easier to compare the valuation of two companies. Ebitda may be helpful when it is difficult to compare firms using other profit measures – such as earnings per share (EPS) – because they have very different levels of debt or tax rates, or different accounting policies on, for example, the depreciation of fixed assets.

Ebitda measures a firm's profitability before these factors are taken into account. The two businesses can then be compared on a like-for-like basis by taking their enterprise values (EV – the market value of all their shares in issue, plus net borrowing or less net cash) and comparing this with Ebitda. The lower the EV/Ebitda ratio, the cheaper the company – essentially it's like a price/earnings (p/e) ratio, but using a different measure of earnings and taking account of debt.

Ebitda first came into common use in the US in the 1980s during the boom in leveraged buyouts (LBOs), as a measure of the ability of a company to service a higher level of debt. This had a major impact on what a prospective buyer would be willing to pay. Over time it became popular in industries with expensive assets that had to be written down over longer periods of time. Today it is commonly quoted by many companies.

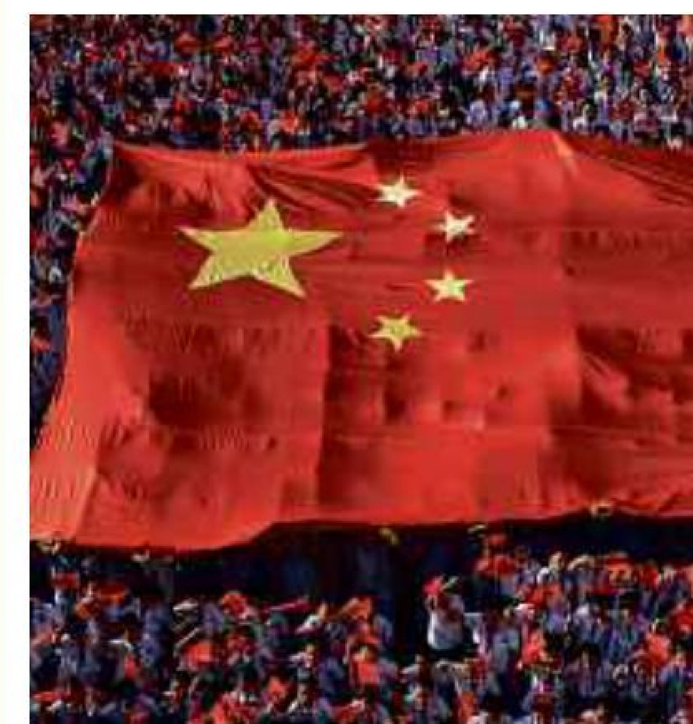
Ebitda can be useful when combined with other analysis tools, but it has become an overused and abused measure of value. Its strength – that it represents profit before various costs – is also its weakness, because it doesn't represent profits that can be paid to investors (as opposed to helping private-equity buyers gauge how much debt a firm could be loaded up with). EPS isn't perfect, but at least it allows for replacing assets, depreciation, paying interest on borrowings and paying tax – all of which reduce how much profit ends up in investors' hands.

Guru watch

Ray Dalio, founder of Bridgewater Associates

"This is the best we get. The cycle is not going to continue forever". That was Ray Dalio, founder and co-chief investment officer of Bridgewater Associates, the world's biggest hedge fund, speaking at a CNBC-moderated panel at the annual meeting of the International Monetary Fund in the US earlier this month.

For some time now, Dalio has been warning of the parallels between today and the 1930s. The wealth gap is similar – the top 0.1% of the population has roughly the same net worth as the bottom 90%. China is challenging the US for global economic dominance, just as, in the 1930s, the US was the rising superpower. That has led to conflict – Dalio notes that there are "four kinds of war" going on – "a trade war, a technology war, a currency war and a geopolitical war". On top of all that, global debt levels have rocketed.



It's a grim prognosis. That said, Dalio doesn't expect a 2008-style crash as a resolution. Debt levels are "wild" but not quite extreme enough to create a crisis. Instead, we're facing "a big sag" rather than "a big bust". The question then becomes: with central banks at the limits of what they can do, and politics so polarised, how will policymakers deal with a slump? The answer – whether we pursue capitalism or socialism – will have a big impact on investors. For example, US president Donald Trump's corporate tax cuts have boosted US share prices by at least 16% since the start of 2018, says Dalio. A repeal by a Democrat-led government is likely to have the opposite effect.

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Who will save the euro now?

A safe pair of hands at the ECB is succeeded by a lawyer who thought Argentina good for a loan

Matthew Lynn
City columnist

As Joni Mitchell so memorably put it, sometimes you don't know what you've got till it's gone. Next week Mario Draghi, head of the European Central Bank (ECB), will hand over the presidency to his successor, former International Monetary Fund (IMF) managing director and French finance minister Christine Lagarde (see also page 39). That might just look like one technocrat handing over to another. But it might have serious and worrying consequences for investors.

Stepping into a storm

When Draghi (pictured) took office, the euro crisis was just starting. Greece was running out of money. Ireland had already had to be bailed out to fix its banking crisis. Portugal was not far behind, and Italy and Spain were teetering on the edge of financial collapse. The bond markets were refusing to fund national governments and the euro at times looked close to collapse. The new president was stepping into a storm.

Draghi's record and legacy might look like nothing special. After close on a decade, he printed over two trillion euros of new money, chucked it at the banking system and only managed to generate a tepid recovery. Slashing interest rates to zero and taking some key rates into negative territory hasn't helped much either. The ECB has not been able to create the kind of sustained recovery from the financial crash seen in the US and to a lesser extent in the UK. Instead, it has slowly turned into the new Japan. There is not much in that record to brag about.

Except for this: it could have been a lot, lot worse. Draghi steered the eurozone through a crisis that took it to the edge of a break-up. His success was by no means inevitable. With his now famous promise to do "whatever it takes" to ensure the survival of the single currency, he tore up the rule book and started the process of turning the ECB into an activist central bank. Many people assumed it couldn't print money or intervene in the markets to rescue over-spending governments (after all, the treaties do seem to rule that out), but Draghi went ahead and did it anyway.

You don't know what you've got till it's gone

©Getty Images

He wasn't shy of intervening in national politics when he had to either. It was the ECB's decision to turn off the cash machines that bought the Greeks into line and when Italian prime minister Silvio Berlusconi made noises about leaving the euro, Draghi made sure the bond markets quickly changed his mind. Draghi turned the ECB into the only European institution with the power to shape events rather than just react to them.

A clueless successor

It is unlikely his successor will be anything like as good. Indeed, Lagarde's record shows she will stick to a rigid consensus, seeking compromises instead of solutions even if another crisis hits. Unlike Draghi, she is a lawyer by training, not an economist. As France's finance minister she presided over a huge budget deficit and squandered the opportunity for reform that then-president Nicolas Sarkozy briefly opened up. Another decade of stagnation was the result. At the IMF, she colluded in policies that created the worst depression in recorded history in Greece and then led the IMF's largest ever rescue package in Argentina, which promptly led to another default and a fresh crisis in that country.

At the ECB she is likely to broker compromises and keep her political masters on board, but will ignore what is happening to the economy and tune out warning signs from the markets. Much as it did in Argentina, that may well lead to disaster. She's unlikely to show any of the flexibility or creativity that allowed Draghi to get ahead of events and bring the markets under control. If there is a recession and a fresh euro crisis during her term it is hard to feel confident she will be able to manage her way through it. A break-up of the euro will be messy, pricey and traumatic. Banks will go down, unemployment will soar, firms will go out of business and equity markets will crash. Without Draghi in charge and with the clueless Lagarde taking over, that is a lot more likely. At some point the markets are going to miss having the man who saved the euro in charge of the ECB.

Who's getting what

● **Bill Winters**, the chief executive of Standard Chartered bank, is set to accept a voluntary pay-cut, reports the Financial Times, in an attempt to "draw a line under a dispute over his pension allowance". Winters (pictured) had criticised investors who protested against his £474,000 pension allowance, calling them "immature and unhelpful" after almost 40% of them refused to back the bank's remuneration policy. Winters was paid a total of £5.95m last year.

● **Tom** and **Joe Morris**, owners of discount retail chain Home Bargains, paid themselves dividends of £10m last year, says The Guardian, after their £3.6bn empire shrugged off the high-street gloom and made sales of £2.5bn and a profit of £233m – up 15% on the previous year. The company was founded in Liverpool in 1976 and now operates 500 stores, many of which it owns outright. It carries no debt and paid corporation tax of £49m last year.

● **Luke Johnson**, former boss of Pizza Express and Patisserie Valerie, should receive £13m from the sale of Aim-listed Elegant Hotels, which operates seven luxury resorts in the Caribbean, reports The Daily Telegraph. Johnson, who lost millions of his own money when Patisserie Valerie collapsed amid allegations of accounting fraud (in which Johnson played no part), bought 12.5% of Elegant's shares in 2016. It is to be bought by Marriott International for £101m.

Nice work if you can get it

Adam Neumann, founder of floundering office rental business WeWork, could be paid up to $1.7bn to leave the company in a deal that hands control to Japanese conglomerate SoftBank, says The Wall Street Journal. The package includes a $1bn stock buyout and $500m line of credit to help repay a loan from JP Morgan, plus a $185m "consulting fee". The deal values WeWork at around $8bn, a far cry from the $47bn valuation at which SoftBank bought a stake in January. SoftBank has put over $10bn into the firm so far. A stockmarket flotation scheduled for September was abandoned after investors had cast doubt on the firm's business model, in which it takes long leases on office buildings, gives them a makeover and rents them out to small businesses, and the way in which Neumann was running it. He cashed in $700m worth of shares prior to the planned initial public offering.

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The business logic of a 20-hour flight

David Fickling
Bloomberg

It's not immediately obvious why Qantas Airways wants to start 20-hour direct flights from Sydney to London and New York, says David Fickling. Qantas's international unit made just 10.7 Australian cents of revenue per seat, per kilometre flown in its last fiscal year, of which 10.3 cents went on operating costs. Costs on the new flights are likely to be higher, as the planes have to carry fuel over longer distances. Meanwhile, the airline's Jetstar budget carrier and mainline domestic unit are up to five times more profitable. So why bother? Qantas wants to reverse a disadvantage in its partnership with Emirates. "It will never have the network and operations to compete with the geographic advantages of hub carriers" such as Emirates. However, if it can tempt more profitable passengers (ie, not economy) with a direct route, it will "at least have some ammunition" at its next revenue-sharing discussions with Emirates. Hence, around 30% of seats on the Boeing 787-9 on its existing flight from Perth to London are premium seats. Letting business class "subsidise the rest of the cabin" is the only way Qantas can make money. If you were thinking 20 hours in coach class doesn't appeal, these flights "aren't really aimed at you".

Don't take orders from China

Editorial
The New York Times

China's "assertive campaign to police discourse" even beyond its borders and the acquiescence of American firms poses a "dangerous and growing threat" to freedom of expression, says The New York Times. Beijing has become increasingly aggressive in pressuring firms to "choose between self-censorship and the loss of access to what will soon be the world's largest market". Take its recent "histrionic" display over the National Basketball Association (NBA), after a tweet in support of the Hong Kong protestors. The NBA, to its credit, is now standing firm, but "far too many American firms have shown that their values are for sale". Four American airlines complied with an order to remove references to Taiwan on their websites; Coach destroyed T-shirts reading "Hong Kong" instead of "Hong Kong, China". In an act of "proactive appeasement", DreamWorks shows a map of China in its movie *Abominable*, which includes most of the South China Sea, a boundary line not recognised by nations including the US. Unless US firms – supported by the government – uphold freedom of expression, they "risk becoming the enforcers of a corporate regime of global censorship that takes its marching orders from Xi Jinping". The "world is watching".

The end of days for the licence fee

Daniel Hannan
The Daily Telegraph

The culture secretary, Nicky Morgan, is no ideologue, says Daniel Hannan. So when she says that the BBC's funding model is becoming unsustainable, "that notion has well and truly gone mainstream. The old system has been done in not by ideology, but by technology." In a world where young people stream most of their viewing content, the notion of paying a licence fee to one channel seems "not just anachronistic, but preposterous". True, some Tories dislike the idea of a state broadcaster. Many "resent the Beeb's leftist assumptions". But Morgan's concern is more practical, to ensure high-quality programming in a digital age. BBC One is still Britain's favourite channel, but YouTube and Netflix come third and fourth. A subscription-funded BBC will probably be less different than expected and most of us will still "gladly subscribe". Defenders of the status quo fret that only a national broadcaster can "accommodate niche audiences". The truth is a "multiplicity of media now cater to almost every minority taste". A BBC driven by its subscribers is likely to be more responsive. Without taxpayer-funding, it may also become a "little more balanced" politically – "a pleasant bonus".

Carbon capture is already here

Anthea Blackburn
City AM

"Some dangerous myths have crept into the public narrative" regarding climate change, including Greta Thunberg's statement that we are placing our faith in carbon-capture technologies that "barely exist", says Anthea Blackburn. In reality, this technology – which is essential to limit global warming – is "already moving from the lab to factory floors worldwide". The first dedicated research facility opened in the US 30 years ago and in the last decade the number of viable technologies has "grown dramatically". Carbon is emitted during the burning of fossil fuels to generate electricity and in industries such as construction, chemical manufacture and agriculture. Waste carbon can usually be captured at site, but recent technologies allow carbon dioxide to be captured directly from the atmosphere. Not long ago, this captured carbon had limited uses, but it can now be turned into a variety of products from trainers to mattresses, transforming it into an asset. In the plastics sector, carbon can be used as a raw material, reducing the use of petrochemicals. It could also be injected into oilfields to enhance fuel recovery and used in fuel, chemical and cement manufacture. The carbon capture future is "already here".

Money talks

"I haven't had a credit card since I ran up a £2,000 bill buying clothes when I first got the *Blue Peter* job... My mum had to bail me out. She forced me to cut up the card and to this day I've never had another."
Television presenter Yvette Fielding (pictured), quoted in The Sunday Times

"Has anything ever been improved by having way too much money thrown at it?... In the world of commerce... things are especially bad because, so far as I can see, absolutely everyone who starts a business these days is only thinking of one thing: when can I sell it? No one wants to provide a decent living for themselves and their family. They don't want to make 50 quid. They want to make £50bn and then move to Monaco."
Jeremy Clarkson, writing in The Sunday Times

"Never trust friends when it comes to money... I have been burnt a couple of times, it's the quickest way to fall out."
Cricketer Graeme Swann in The Sunday Telegraph

"It wasn't until I was in my 30s that I even [considered] the [gender pay] gap. It was something as simple as hearing a male actor say something — either about his per diem or something else — and I was like, 'Wait! Hold up — my part is way bigger than yours'."
Actress Regina King, quoted in The Guardian

"There's no such thing as a professional musician... Whether it's Madonna... or an unknown singer in a basement studio round the corner. You never become a professional musician. You're still just a musician, but you get this second job as a business person. The demand for the 'product' is what changes. That's what's scary for musicians who become successful — you acquire a business, which is a whole other deal."
Musician Halsey, quoted in The Sunday Times

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The denial of trade-offs

iea.org.uk

I empathise with anyone who takes environmental issues and particularly climate change seriously, says Philip Booth. "I like nature and I am risk averse." Most campaigners, however, put forward policy proposals that are "frequently dangerous, at best". Greta Thunberg, for example, seems to win more acclaim the "more detached from critical reason" her arguments become.

Getting the economics right

Economic problems are more complex than scientific ones. Climate science is uncertain, but a judgement can and has to be made on the balance of the evidence. But economic decisions involve trade-offs. Economics is, as Lionel Robbins put it, the science of not being able to have your cake and eat it. Reducing carbon emissions quickly to zero will mean we have much less of everything else. "We might prefer decarbonisation to other goods and services, but it is not a cost-free choice." This choice will be harder on poorer countries than for those of us in rich ones.

One of the advantages that comes with wealth is a greater resilience to natural disaster. Deaths from natural disasters over the past century have been reduced by perhaps 90%. The use of air conditioning illustrates the trade-offs involved. The more we use air conditioning, the more carbon we pump out and the greater the risks of climate change. Yet, as a recent academic paper on the effects of air conditioning in the US shows, air conditioning saves lives. Deaths associated with very hot days have plummeted since the 1960s, a decline that can be explained almost entirely by the adoption of residential air conditioning.

©Getty Images

Greta Thunberg: she can't have her cake and eat it too

In the rich West, it might be thought that if we can decouple the use of air conditioners from carbon, by powering them with wind farms, say, then we can save ourselves and the planet at the same time, if we're prepared to sacrifice modest amounts to install the air conditioning. But for developing countries, where the choice may be between air conditioning and having enough to eat, the sacrifices are much starker.

The left, of which the Extinction Rebellion protesters seem to be a part, ignores such trade-offs. The problem cannot easily be solved by markets because the costs of carbon emissions are not borne by the emitters. This is why economists propose carbon taxes or carbon trading as the most efficient way to reduce emissions while keeping those carbon-emitting technologies that are most valuable. The central planning proposed by the left, on the other hand, has "no rational mechanism for taking economic decisions at all".

Are the rich taxed enough?

aier.org

The bottom 50% of earners in the US now pay a higher overall tax rate than multimillionaires. At least, that's the claim of a new analysis by Thomas Piketty's collaborators, Gabriel Zucman and Emmanuel Saez. But the numbers look dodgy, says Phillip Magness. The data was released to friendly journalists, and promptly trumpeted, without having gone through proper peer review. Their calculations conflict with better-established estimates from official bodies, which show an "unambiguously progressive distribution of the tax burden" and are more extreme even than their own previously published estimates. Their changes are no small tweaks either, transforming a tiny three percentage point rate change into a massive 20-point drop, for example. "Curiously, the edits to the newly released data skew in a non-random direction" and "appear to work in favour of their political narrative". They jettison standard statistical conventions, make assumptions that are "unlikely to pass muster at a scholarly economics journal" and smooth fluctuations in a questionable way. The authors document these changes, but the way they are going about their work, explicitly tying it to political and electoral objectives, such as for a wealth tax, "blurs the line between scholarship and political electioneering".

Hong Kong's relative peace

economist.com/gulliver

The protests in Hong Kong have "nobbled" its tourist industry, says The Economist's business traveller blog. Visitor numbers in August were the "most dismal" for 16 years – a "paltry" 3.6 million people visited, down from 5.9 million in August last year. Tourism from mainland China, "Hong Kong's most important market", has been "particularly badly hit". The number of Chinese tourists fell to 2.8 million from 4.8 million. Revenues at many hotels may have halved, according to S&P, as the conference trade collapses. That is not surprising. The protests are in their fifth month and becoming more violent. Singapore is a safe alternative.

©Getty Images

They just clog the place up

Will the damage be long lasting? It needn't be. Tourist numbers tend to bounce back strongly three to six months after scares such as terrorist atrocities, political upheaval, or natural disasters. But that's at least partly because the authorities go out of their way to entice visitors back. Many Hong Kong citizens, on the other hand, are glad to see the back of sightseers "clogging the place up". For a country to recover from a tourism slump, "it must truly want to".

Give working mums a helping hand

theconversation.com

In the UK, women with children are less likely to be in paid work than men who have children or women who don't have a family, say Magda Borkowska and Alina Pelikh. Some of this difference may be down to personal choice, but could the availability or cost of childcare be a factor?

Our research suggests it is. Our survey of families and their work choices found that a large proportion (55%) of women stay in work after having a baby, but shift to working fewer hours. Women who lived in the top 25% most expensive areas of the UK for childcare costs were significantly less likely to take up part-time work when they became mothers. Having access to informal childcare, such as grandparents, or having to care for other family members, affected women's decision in similarly predictable ways. Relatively few men, on the other hand, changed their work patterns within three years of fatherhood – more than 80% stayed in full-time work or self-employment. Providing more affordable childcare "could give all parents… more choices about how they combine work and family life".

18+

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Invest in infrastructure

The Sequoia Fund's assets look appealing, but you may wish to wait for a cheaper entry point

Max King
Investment columnist

"Is it too good to be true?" is a reliable test for any investment. Applied to "alternative income" funds, the test is particularly apposite. When interest rates are below 1% and the yield on ten-year UK government bonds is just 0.6%, is a fund investing in fixed-interest securities but paying investors a dividend yield over 5% after all its costs really as low-risk as it claims?

The **Sequoia Economic Infrastructure Fund (LSE: SEQI)** passes the test. SEQI listed in 2015 and has nearly £1.5bn of assets. Its shares, despite trading at a 10% premium to net asset value (NAV), yield 5.2%. The yield to maturity of its portfolio is 8.2% and its total expense ratio is 1%, which means it can pay a quarterly dividend of 1.5625p (gross of tax) and still have a bit to spare to add to NAV.

High returns, low volatility

An 8.2% yield on a portfolio of debt and loans would usually indicate high risk, even if it is spread across 78 investments. But SEQI looks different. Randall Sandstrom, chief executive of Sequoia Investment Management, describes infrastructure assets as "typically defensive with low correlation to the business cycle". Debt finance was traditionally provided by banks but no longer, as a result of tough post-crisis regulations. This gives debt funds an opportunity. "Private debt backed by infrastructure can yield over 3% more than equivalent bonds or leveraged loans," says Sandstrom.

Scandlines operates ferries between Germany and Denmark

"Returns on infrastructure debt are double those of higher-yield bonds with lower volatility." This is supported by Moody's research, which shows that infrastructure credit is about one third as volatile as corporate bonds.

Only 16% of the fund's assets are in the UK with 49% in North America, 28% in Europe and 8% in Australasia, but 93% of currency exposure is hedged into sterling.

The spread across sectors and sub-sectors is strong. Transport accounts for 25% of the portfolio, within which ports make up 8.6%. About 62% of the portfolio is invested in senior debt, 72% is in floating-rate debt and 88% is in private unlisted debt.

In theory, low exposure to fixed-rate debt reduces the portfolio's vulnerability to higher interest rates. But in practice higher rates could undermine the creditworthiness of the investee company. However, the average equity cushion in the SEQI portfolio that needs to be wiped out before SEQI is exposed is 37%. Demand for capital "is higher than ever", while the specialist nature of infrastructure debt "leads to high barriers to market entry for new lenders".

A promising portfolio

The key to success though lies in the portfolio. Inevitably, the case studies that SEQI offers are the ones in which it is most confident. In June it invested €50m, earning inter-bank rate plus 7.75% in the second-tier debt of Euroports, which operates 26 terminals across Europe and China. In March 2018 it invested in the €1.7bn buyout from 3i of Scandlines, which operates ferries between Germany and Denmark. Then 3i reinvested €396m of its equity proceeds of €744m.

SEQI is also invested in APWireless, which owns ground leases for towers and roof-top cell sites relaying mobile-phone services in 18 countries, and in Forsa Energy, which operates gas peaking plants in the UK that can be turned on and off quickly in response to fluctuations in demand.

The shares would be compelling for risk-averse, yield-seeking investors were they not trading at a 10% premium to net asset value. Following two recent share issues raising £355m, another attractively priced open offer to retail investors looks unlikely, so new investors might prefer to wait for higher interest rates and bond yields to reduce the premium to more affordable levels.

The fallout from the Woodford debacle spreads

The fallout from the collapse of Neil Woodford's fund empire continued this week. Both his open-ended funds (Woodford Equity Income and Income Focus) are in the process of being liquidated, while the Patient Capital Trust investment trust has seen its share price slide to a 50% discount to its net asset value. Woodford (pictured) has handed in his notice, but will continue as manager for three months.

"Investors face getting back as little as 50p per pound" from the main equity income fund, report Sabah Meddings and Ali Hussain in The Sunday Times, "as managers Link Fund Solutions struggle to sell off the fund's remaining assets". Link's decision to shut the fund (Woodford objected) has angered some who feel investors would have been better served by giving Woodford longer to turn the fund around. The closure seems "less like a clean up and more like a cover-up", argues James Coney in The Sunday Times.

Meanwhile, broker Hargreaves Landsdown, who championed Woodford, is also in the spotlight. Leigh Day, a British law company that specialises in group compensation cases, is "assessing legal recourse for losses as a result of Hargreaves' support" for Woodford. Any case would hinge on whether his appearance on the broker's "best-buy" list "constituted a form of advice".

Yet not everyone is a loser. Vanguard – a huge provider of passive funds, which track the market rather than aim to beat it – has cut fees on 36 of its tracker funds, reports ThisIsMoney. The Vanguard FTSE UK Equity Income tracker now charges just 0.14%, from 0.22% (and 0.75% at Woodford). The fund aims to track an index of UK blue chips paying above-average dividends – ironically not dissimilar to the strategy that made Woodford's name.

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Retail property in the bargain bin

The savage bear market in the sector may be over, but investors must tread carefully

Max King
Investment columnist

A 24% jump in the share price of Intu Properties on 11 October, a 10% jump in Hammerson's share price and strength in other property companies with retail exposure has raised hopes that the savage bear market in the sector is over. Richard Williams, research analyst at Marten & Co, calculates that the average share price of the six companies with most exposure had fallen more than 60% in the four years to mid-2019 before the first signs of a turn-around in August.

The sector has seen a perfect storm. Overbuilding of shopping centres on the assumption of never-ending growth in demand created excess capacity just as consumers were switching many of their purchases online. Meanwhile, rising rents, high rates and ever-more stringent traffic and parking controls discouraged both shoppers and demand for sites, while rising wage costs are lowering margins.

The Office for National Statistics (ONS) estimates that online sales now account for 20% of the total, a proportion that some expect to grow to 50% within a decade. While the ONS shows steady 3% per annum growth in retail sales in the last three years, the British Retail Consortium notes that there have been four months of negative sales growth since the end of the first quarter. Like-for-like sales have fallen by 1.7% since September 2018; non-food sales have underperformed food ones.

Shop closures hit a five-year high

The result has been not just the disappearance of many independent shops from the high street, but also the insolvency or drastic shrinkage of major chains such as House of Fraser, Debenhams and the Arcadia empire. Where the chains have survived, they have done so through company voluntary arrangements, which enable the retailer to cut the debt burden and rental costs, to the detriment of their landlords.

"Retail property firms are adapting by adding housing and offices to their sites"

Net closures reached a five-year high in the first half with a net 1,234 shops closing on Britain's top 500 high streets. The biggest area of decline was in fashion, under immense pressure from online retailers, with a net loss of 118 stores despite 144 new openings. There were 143 net closures of estate agents, while banks and travel agents continue to close branches. There were over 100 pub and restaurant closures due to market saturation. The biggest growth area has been charity shops, which pay no rent, rates or wages.

Major chains such as Debenhams have shrunk drastically

©Getty Images

Adapting to the online shopping boom

For retailers, it's not all bad news. Many have evolved their business models to encourage buying online and collecting in store. Surplus space enables them to cut costs: Next says it is seeking 20%-30% cuts in rents as they come up for renewal. Technology streamlines reordering, facilitates online marketing, reduces cash handling costs and cuts theft. For successful formats, expansion is getting cheaper while rent commitments are far shorter and more flexible than the historic 25-year leases with upward-only rent revisions.

Retailing is changing, not disappearing. Retail property companies are seeking to adapt by adding residences and workspaces to their sites. Prime shopping centres, owned by Intu, Hammerson and other major listed companies, are performing far better than secondary locations, while the central London "villages", where a landlord with concentrated ownership can manage and improve the whole area, continue to prosper to the benefit of Shaftesbury and Capital & Counties.

With Hammerson trading at a 56% discount to net asset value (NAV) and Intu at 83%, a lot of bad news is in the price. The problem is their debts; with loan-to-value ratios of 45% and nearly 60% respectively, further falls in valuations and rental income will be magnified in NAV and earnings terms. They may be able to slow the pace of falls in rental income, but earnings will remain under pressure. Intu has already cut its dividend by 67%; Hammerson's yield of 8.6% looks unsustainable.

Where to look now

The contrarian investors aren't impressed. Alastair Mundy, manager of Temple Bar, and his team took a long hard look at Hammerson. "It's not all bad news; about half of NAV comes from European markets, which aren't facing the same challenges as the UK," he says.

But they concluded that "there are more straightforward ways to play value than this. You don't need to get too bearish to put lower rents on a higher yield resulting in a significantly lower capital value. Then compare that with the debt and... the bears' worries [may be] genuine".

Safer options might be **Land Securities (LSE: LAND)** and **British Land (LSE: BLND)**, with retail exposure of 42% and 45%. Both yield around 5.5% and trade at discounts to NAV of 35%-40%. **Capital & Counties (LSE: CAPC)**, trading at a 24% discount, is proposing to split its prime-quality Covent Garden portfolio from its Earl's Court residential development, with high operational gearing to a turnaround in the currently moribund central London market. A 20% rally in the **Shaftesbury (LSE: SHB)** share price has narrowed its discount to 10%, but having proved its resilience to difficult market conditions, it still looks attractive.

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Silver should be soaring

The smaller precious metal boasts promising fundamentals and vast scope for price rises. Nevertheless, it has failed to fulfil its potential. There is no metal more frustrating for investors, says Dominic Frisby

Was there ever a metal with as much potential as silver? On the one hand it's a monetary metal, so its price will rise for all the same reasons that gold's will. Currency debasement, suppressed interest rates, inflation, political instability – all should benefit silver. Silver is an asset outside of the financial system. Like gold, it is nobody else's liability.

On the other hand, it's an industrial metal that has myriad uses, particularly in new technology. Its uses will only increase as the world gets more "electronic". Computers, mobile phones, batteries, cars, engines, media storage, engines, explosives, plastics, cameras – they all require silver.

New uses are being discovered

New discoveries are being made all the time about its ability to combat infection, fungi, bacteria and even bad smells. As a result, demand is increasing from medicine, biotechnology and clothing. The metal is used in everything from treatment of warts and bad breath to purifying water. It is also an ingredient in hospital paint. Coating walls with paint containing silver particles should help fight infection.

There is also a particularly exciting source of demand, as far as potential growth is concerned: solar power. Demand for silver on photovoltaic cells has gone from one million ounces in 2000 to around 50 million ounces last year – about 5% of silver's annual supply. Assuming solar power usage grows, demand for silver will increase. Then there is jewellery and demand from investors. These two areas jointly accounted for roughly 400 million ounces last year.

At the same time there could be a shortage of supply. About 80% of silver's billion-ounce annual demand comes from mining, the rest from scrap. There has been a paucity of major new discoveries. Many of the pure-play silver miners have struggled to make money in recent years and investment in exploration is minimal.

Meanwhile, a great deal of silver is produced as a by-product of lead and zinc mining, another area where investment has disappeared. Silver runs an annual supply-demand deficit. There has been a surplus in only one of the past five years. Last year's deficit was 30 million ounces.

"There has only been a silver surplus in one of the past five years"

In the bargain basement

What's more, silver is cheap. At $17.50 an ounce, silver now sits some 65% off its all-time high of $50 (set in 2011). And it's not just cheap when looked at in absolute terms. Relative to gold, it is cheap. One ounce of gold is 85 times the price of an ounce of silver. A geologist will tell you that ratio should be closer to 15: there is only 15 times as much silver in the earth's crust as there is gold. Indeed, 15 is the historical monetary ratio between the two. Even in recent decades, with silver's monetary status long gone, the long-term average sits closer to 50 than 85. Sell gold and buy silver is the message.

Relative to other assets, such as the stockmarket, silver is cheap too. If silver returned to its long-term average ratio against the FTSE or the Dow – in other words, if there was some kind of historical reversion to the mean – then silver would have to rise to the $50, $100, or $200/oz regions.

In 1980 you could buy the average UK house (currently over £200,000) for about 1,000 ounces of silver (currently $17,500). Silver would have to rise 15-fold – to something over $200 – for that particular ratio to be achieved again. In short, what's not to like? Silver seems to have so much going for it.

Every silver lining has a cloud

I'll tell you what's not to like: silver. The silver story has been about for as long as I can remember. It just never seems to deliver on its potential; not for any extended period anyway. For years it doesn't move, or worse, it sinks.

Then, no doubt at the one time you're not invested, it suddenly goes on a bull-market run to $50 or something, before collapsing and doing nothing for another ten years. Don't own any silver and you are doomed to watch it rise. Own it, however, and you are doomed to watch it slide and stagnate.

It's supposed to give you leverage to the gold price. But sometimes gold goes up and silver doesn't move. Other times it takes your breath away. There is no metal more frustrating than silver. Bipolar silver.

I'm surprised the ancient Greeks don't have a myth for the frustrations born out of investing in silver. Silver is doomed to be compelling, alluring, irresistible and beautiful. It is doomed to entrap you with its vast potential. Yet, once trapped, you are doomed to disappointment by its never-ending failure to deliver. Every cloud has a silver lining, runs the old saying. There is an exception to this, however, and that is silver itself. Every ounce of silver has a cloudy lining.

Silver: why isn't it more expensive?

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Ecuador's El Dorado: be brave and beat the crowd to the boom

The Andean republic is finally set to cash in on its vast metals deposits. The domestic political backdrop has stabilised and international investors are beginning to take note, says James McKeigue

Ecuador is the biggest anomaly in international mining. It sits plum in the middle of the rich metallic belt that runs along the Andes mountain range, where other countries, such as Chile, Peru and Colombia, have built world-class mining industries. Yet until this year Ecuador didn't have a single large-scale mine.

Over the last decade more gold and copper have been found in Ecuador than anywhere else on earth. But as so often in this industry, the risks above ground outweighed the riches below it. Political and economic factors prevented the development of a modern mining sector. But as its neighbours grew rich from mining, it became harder for Ecuador to ignore its rich reserves of copper, gold, and silver. In the last few years the country has opened up to mining. That's led to a modern-day gold rush, with 12 of the world's largest mining companies setting up offices in Ecuador and the country's first two large-scale mines – one copper, one gold – entering production this year.

I first wrote about Ecuador's mining sector for MoneyWeek in 2013. But then there was no way for private investors to gain direct exposure to the story. Now there is (see box below).

"In the past decade more gold and copper have been found in Ecuador than anywhere else on earth"

A potential world-beater

You won't find Ecuador in any of the global top rankings for metals production and reserves. The United States Geological Service (USGS), which has excellent data on international mining, doesn't rank Ecuador in its top ten for gold, copper or silver. The reason, as the USGS readily admits, is that only about 10% of Ecuador has been explored for mining. But even that small amount of surveying has been enough to yield some major discoveries. In 2006 Canadian miner Kinross found Fruta del Norte, home to around five million ounces of gold and six million ounces of silver. Then in 2012 SolGold discovered Alpala, a deposit that grows with each new drilling campaign and currently has inferred resources of 2.5 million tonnes of copper and 3.8 million ounces of gold. To give you some idea of the scale of the discovery, if fully developed it could become the largest underground silver, third-largest gold and sixth-largest copper mine in the world.

The big names rush in

These discoveries have tempted some of the biggest names in mining into the Ecuadorian gold rush. BHP, Newcrest Mining, Anglo American, First Quantum Minerals and Fortescue Metals Group are among those that have acquired stakes in smaller Ecuador-focused exploration firms. Indeed, 12 of the world's biggest mining firms have bought in to Ecuadorian projects or set up offices there in recent years.

The strange thing about today's Ecuadorian gold rush is that people have always believed it has lots of gold, copper and silver. Ecuador sits on the Andean copper belt, which is responsible for almost half the world's copper production. And gold has been mined since the 15th century. Yellow metal mined from the south of modern-day Ecuador, in a province that is now called El Oro, was turned into intricate religious and ceremonial jewellery prized by the Incan ruling class. Yet despite half-hearted attempts by the Spanish and then other international investors after Ecuador's independence in the 19th century, the country never fostered the type of large-scale mining industry that arose in other South American countries.

A socialist firebrand sees the light

That may be because Ecuador had so many other export industries to develop. During the 19th century its economy was powered by coffee and cacao exports; in the 20th, oil, banana and shrimp were added to the mix. Mining remained small scale, with an array of locally owned projects. Various attempts by foreign miners to establish large operations during the 20th century were thwarted as political instability brought radical changes in mining policy.

The indifference towards mining turned to outright hostility in the early years of the government of Rafael Correa, the socialist firebrand who ruled Ecuador from 2007 to 2017. Buoyed by high oil prices and fresh from defaulting on the country's sovereign debt in 2008, Correa imposed strict new terms and extra taxes on the few international miners in the country. Unsurprisingly, most left.

But Correa changed his tune when low oil prices started to drag down the Ecuadorian economy. Oil is a big deal in Ecuador, generating 50%of export earnings and 25% of government revenues. Moreover, because Ecuador's economy is dollarised – a banking crisis and hyperinflation did for its ill-fated sucre in 2000 – it is particularly dependent on oil. Ecuador needs a constant inflow of dollars to provide money

The stocks worth a punt

Investors need to have a time horizon of at least five years and be prepared to take on plenty of risk. The least-risky bet – there are no safe bets in Ecuadorian mining – is Canada-listed $1.3bn market-cap goldminer **Lundin Gold (TSE: LUG)**. Backed by swashbuckling Swedish natural resources investor Lukas Lundin, who has set up mining and oil companies in frontier markets around the world, it bought the Fruta del Norte project from Kinross in 2014.

Since then it has managed to build a mine that should go into production before the year is out. It's the listed Ecuadorian pure-play closest to operating. Once that mine is up and running, it has further exploration potential around the site.

Riskier, but with more upside, is London-listed **SolGold (LSE: SOLG)**, the only UK-listed Ecuadorian pure play. The firm's main target is 85%-owned Alpala, which it expects to turn into an operating mine by 2024. But it also has the most extensive exploration portfolio in the country with 11 more targets identified, of which the company expects five more to become mines.

If you do decide to invest you'll be in good company, as majors BHP Billiton and Newcrest have already bought big stakes in SolGold. Moreover, the recent sell-off means you can pick up SolGold for 20p a share – a big saving on the 45p that BHP paid.

If you want to take a broader approach you could take stakes in a range of Canada-listed, Ecuador-focused explorers and hope that one or two pan out. In this context, consider **Cornerstone Capital Resources (TSX-Venture Exchange: CGP)**, which owns 15% of the Alpala project, **Core Gold (TSX-Venture-Exchange: CGLD)**, and **Lumina Gold (TSX-Venture Exchange: LUM)**.

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After years of turbulence, the party is finally getting going

for government spending. When the oil price fell, Ecuador was suddenly running fiscal and current-account deficits. The state, which doubled in size under Correa, wasn't getting enough tax dollars to cover its outgoings, while the economy was importing more than it was exporting. Twin deficits are manageable when you have your own currency – the UK has been doing it for more than a decade – but a nightmare when you use someone else's.

Correa found himself in desperate need of dollars. In the short term he used opaque oil-backed loans from China to fund government spending. Drastic import tariffs helped curb the trade imbalance. However, he understood that neither was sustainable in the long term. He needed something that could generate both export dollars and government taxes and there was only one solution: mining.

Opening up the mining sector

In a remarkable volte-face, the man who once boasted that Ecuador had the world's strictest mining regulation invited US-owned consultancy Wood Mackenzie to redraw its mining code and royalty system. The new investor-friendly mining code was enough to convince junior explorers and between March 2017 and December 2018, 275 mining concessions were granted. Direct investment in Ecuadorian mining grew from an annual average of $45m before the change, to $743m last year.

Correa's handpicked successor, Lenín Moreno, has been decidedly more pro-market than expected since 2017 and has extended his predecessor's mining push with gusto. But it hasn't been smooth sailing. With Correa mortgaging future oil production to the hilt, Moreno was forced to seek an IMF bailout. Getting the $10bn loan from the IMF and the multilaterals was the easy part, implementing the austerity they demanded in exchange has proved difficult. President Moreno's recent attempts to remove long-standing fuel subsidies sparked violent protests from a small, but well-organised, minority. Led by indigenous movements from Ecuador's highlands, the protestors forced Moreno to quit the capital and he only returned after agreeing to reinstate the subsidy.

A buying opportunity

The shares of the Ecuador-focused miners dived amid the protests as investors rightly worried about the impact on the sector. The protests underline the weakness of the main force backing mining in Ecuador – the central government – and highlighted the political strength of its opponents; many projects are in highland areas with indigenous local communities. Mining has also had to deal with local communities holding referendums to ban the industry in their town or province. These have been rejected by the Constitutional Court – the highest in the land – as mining, like Ecuador's oil industry, falls under the aegis of the central government. These legal challenges and violent protests are scary for investors, but they provide attractive buying opportunities. I've just come back from six weeks in Ecuador, interviewing government ministers, local CEOs and international investors. The genie is out of the bottle and modern, large-scale mining is in Ecuador to stay, as its people want the jobs and economic growth that mining can bring.

Moreover, the polls indicate that Moreno's administration will be replaced by centre-right opposition in the 2021 general elections. Even if Correa returns – he could only do so as vice president – the pragmatic populist would look to reap the benefits of a mining boom that he started.

Most of the bravest investment calls – remember the hedge funds that bet against subprime mortgages before the 2008 financial crisis – involve spotting a situation that is unsustainable. A mix of political and economic factors made Ecuador leave the world's last great deposits of gold, silver and copper untouched. But its dollar-hungry economy won't ignore international investors for much longer.

"Ecuador's dollar-hungry economy won't ignore international investors for much longer"

Why Wall Street has got it wrong again

The US hiring slowdown does not signal recession. Growth is just moving down a gear, says Brian Pellegrini, CFA, founder and senior analyst at Intertemporal Economics

When a person fails to meet expectations there is reason for disappointment. But the same cannot be said of the US labour market. There is no "right" level of employment growth, so the term "weak" has no meaning when assessing data releases relative to Wall Street estimates.

The consensus on Wall Street begins from the assumption that faster employment growth is always better than slower. Wall Street commentary does not acknowledge that hiring can slow because the labour market is so strong there is a shortage of workers.

The consensus also ignores the possibility that the current slowdown in economic growth does not foretell a recession. Rapidly decelerating from 40mph to 20 feels the same as slowing from 20 to zero (until the very end). In fact, the economy is simply moving down a gear.

Symptoms of strength

Perhaps the best indicator of a strong labour market is that wage growth in the employment placement agency industry is sixth-highest out of the hundreds of sectors tracked by the US Bureau of Labor Statistics. Wages are growing by an average of 16.5% a year and the rate is rising. Headhunters do not fare well in deteriorating labour markets.

The current bull market in the headhunting industry runs completely counter to Wall Street's argument. When labour is scarce and firms want to increase production, they must pay for someone to beat the bushes for available workers. Based on the supply of short-term unemployed workers, currently at 60-year lows, it is no surprise that headhunter services are in high demand.

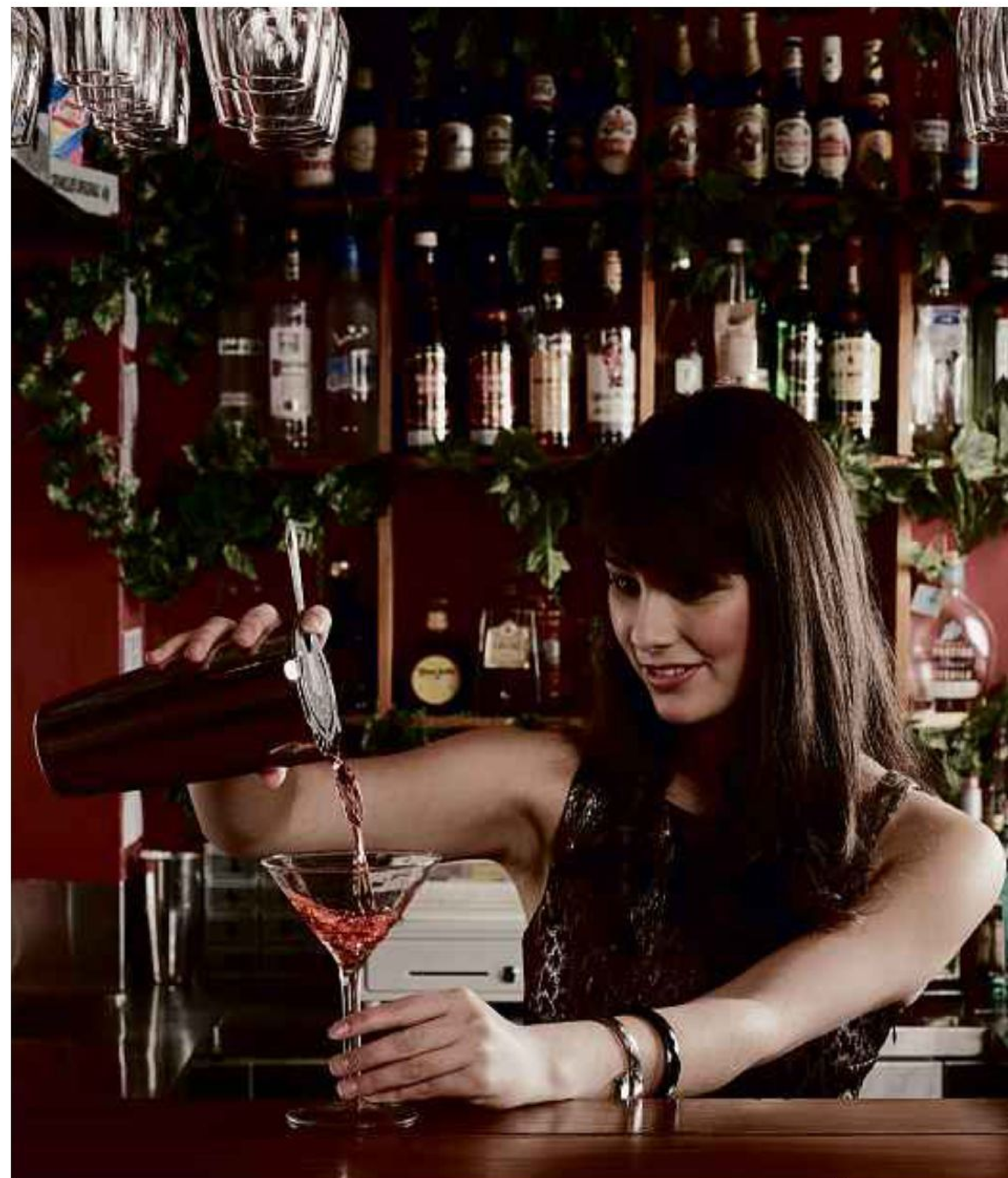
The breadth of wage acceleration also points to a robust labour market. In late 2018 wage growth in the service-providing side of the economy began accelerating and has now caught up with the goods-producing side. Wage growth acceleration is broadening, which begets wage growth in yet more sectors as employers fight to retain employees.

When a firm hires a new worker, it is purchasing the skillsets that worker offers. Wage acceleration spreads across the economy through shortages of skillsets, not workers. Once a skillset is no longer available, an intense bidding contest takes place between employers to maintain production as firms compete over a fixed pool of labour.

Another indication that the slowdown in employment growth is supply-driven is that it has been accompanied by a near-halt to the growth of highly educated workers in the labour force. A glut of college graduates seems to have been used up and the results are showing up in the wage data.

Employers did not suddenly cut back on hiring because of economic uncertainty, but because there

"Head-hunters' salaries are growing at an annual rate of 16.5%"



The leisure sector has seen rapid wage growth in recent years

simply were not enough workers available to meet demand for labour. The same phenomenon has already occurred lower down the skillset ladder.

Employers grew their staff using college dropouts and associate-degree holders from 2012 through 2016. In 2016 employment growth suddenly switched to high school diploma-holders.

Employment of high school graduates grew rapidly until the supply ran out in late 2018. Now, in late 2019, the limits of the supply of available workers with a bachelor's degree or better has been found.

A good example is the leisure and hospitality industry. Since late 2014 the industry has experienced faster wage growth than the professional and business industry to a duration and extent not previously observed in the data.

However, in 2019 wage growth for the professional and business industry has accelerated more rapidly than wage growth for leisure and hospitality industry workers, and the gap has nearly closed. Wage growth at the high-skill end of the labour market is poised to accelerate sharply going into 2020.

The "Trump bump" has subsided

The US economy is clearly slowing, but not falling into recession. The slowdown has occurred at a rate that in the past might have signalled a descent into contraction, but this was no crash. What we have experienced is a correction to cruising speed, not a stop on the way to zero.

The consumer boom after the 2014 oil crash, the "Trump bump", fiscal stimulus and tax cuts gave everyone a taste of the old days, but growth at that pace was not meant to last.

The economy has a lower trend-growth rate, or speed limit, than in previous decades. But it adapts quickly to ebbs and flows of activity. One of the best aspects of a highly integrated supply chain is the ability to make rapid adjustments as economic conditions change. The bad news is that these days everyone experiences the economy like a New York City taxi ride: a burst of speed is followed by a slowdown to a disappointingly slow pace.

Growth, Innovation & Profit: Made in China

I've been investing in emerging market portfolios since 2006 and having managed Chinese equities through both the financial crisis in 2008, and the China market bubble and crash of 2015, the volatility prompted by current China/US trade wrangling is nothing new. Most western investors are concentrating on the trade headlines, but while this depressed valuations and impacted sentiment last year, when you step back and take a longer-term perspective on China, and see where they are really going, the impacts become much more limited and the outlook much brighter than the headlines suggest.

When you stand in Beijing and look at the world from a Chinese entrepreneur's perspective, you see a domestic market full of opportunity and a positive future with Indian, Indonesian, Malaysian and other Asian markets open for business. Six of China's top 10 export partners are already in Asia and while the US remains important for now, it may not be the future.

China has moved on from just being the world's factory, with over 70% of growth already driven by domestic consumption. With the majority of growth already coming outside the typical industrial and agricultural sectors China is making their own way towards a service led economy. The growth story of the consumer and of services is certainly interesting but is not the only one. We see trade tensions spurring more rapid advances in innovative sectors and industries, areas to drive China's growth for the next decade.

Driven by big data, China is leading the world in areas of artificial intelligence and automation. They are already well ahead of competing nations in 5G, and pushing boundaries in fintech and cyber security to new levels. These are areas outside of the typical consumption space and ones that will generate substantial growth, and corporate profits, regardless of the current trade outcomes.

We launched the TAMAC Qilin-China Champions Fund in 2015 to capture China's growth by buying the companies who become the future dominant forces in their respective industries. This portfolio of high growth companies is allocated across some of the most interesting investment themes of the next decade. The Shanghai-Hong Kong Stock Connect allows easy access to a mainland market that, with limited analyst coverage (15% of the CSI 800 is not covered by a single sell side analyst), offers hidden investment gems. Finding and understanding these companies has given us the opportunity to maintain the fund's strong performance since launch.

We use a fundamental bottom up approach focused on growth, but we want this growth to be sustainable. Travelling and meeting with companies in China is a big part of our process; but to help with our analysis we set up and co-own a research firm in China. Once we have identified an interesting investment area, we are utilising our China based research and our access to the mainland to help identify the companies best positioned to become the champion in that specific area.

As well as growth, we want quality. The portfolio is typically made up of low debt businesses who are proving their ability to innovate or take market share in industries which have higher than average rates of return. Five years ago, China's champions in semiconductors and chip technology lagged far behind global leaders, but today we own the leading electrical component makers who are now pushing to compete on the global platform. With the position of many of our portfolio companies it is a case of when and not if Made in China becomes the standard-bearer of quality.

Rowan Francis manages the TAMAC Qilin-China Champions fund at TAMAC. For more information contact info@tamac.com

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ITV takes on the streaming giants

The broadcaster's new subscription video-on-demand service will compete with Netflix and Amazon

Tim Dams
Investment columnist

ITV's (**LSE: ITV**) share price has ticked up over the past few weeks, in common with many UK-orientated stocks that have risen on hopes of a resolution to the Brexit impasse. But the commercial broadcaster's longer-term performance has been woeful, mirroring the falling ratings of its one-time star show *The X Factor*, with the stock more than halving in price since July 2015.

There are two reasons for this. Firstly, ITV has been hit by economic headwinds. The uncertain political outlook has affected business confidence, causing a slowdown in advertisement sales.

Secondly, it is facing acute structural pressure. Advertisers have shifted part of their television budgets into online video on platforms such as YouTube and Facebook, while at the same time viewers have been tempted away from traditional TV channels by streaming platforms such as Netflix and Amazon Prime Video.

The pressure on ITV from streaming platforms is only going to get worse, with new subscription video-on-demand (SVOD) services being launched in the coming months by the likes of Disney, Apple, WarnerMedia and Comcast.

Joining forces with the BBC

Not to be outdone, ITV is also launching its own SVOD service, BritBox, before the end of 2019. ITV owns 90% of BritBox; the BBC owns the remainder, with an option to raise its stake to 25% in the future.

BritBox will cost £5.99 per month in high definition (HD) television and show ITV and BBC series such as *Love Island*, *Gavin & Stacey*, *Gentleman Jack*, *Victoria*, *The Office* and *Broadchurch*. New programmes will also be made specially for BritBox, with the first arriving next year.

The X Factor has lost its wow-factor

©ITV

ITV argues that there is a gap in the market for a service offering quality British content. The broadcaster also points out that UK households are increasingly open to subscribing to more than one SVOD service.

> *"Households will subscribe to multiple streaming services"*

With this in mind, can the BritBox offering change the widely held assumption among investors that ITV is a mature, but declining, broadcaster. Can it take on the deep-pocketed US streamers?

Few think so. Sarah Simon, an analyst at investment bank Berenberg, notes that ITV is investing around £25m in BritBox in 2019 and £40m in 2020. BritBox, she says, is too little, too late. "With what looks like a very limited content budget, we struggle to see how BritBox can meaningfully compete against the premium streaming offerings that are emerging from leading Hollywood players."

ITV, she adds, will also have to sustain a strong line-up of content on its main channels, so BritBox "is competing with itself to some extent". The BBC has also begun to prioritise its iPlayer platform to compete with the streamers, and has recently won permission from regulator Ofcom to keep its programmes on the service for 12 months (at present, viewers can typically "catch up" with a BBC programme for a month). It means the BBC shows on BritBox are "going to be pretty vintage", says Simon.

ITV Digital all over again?

Simon compares BritBox to ITV's attempt to take on Sky in the late 1990s with its ill-fated ITV Digital service. "While there are clearly many differences between that platform and BritBox, we see similarities in the David versus Goliath set up, and remain sceptical as to the future prospects of this latest move by ITV into mainstream paid-for services."

If BritBox manages to achieve 10% household penetration by the end of 2025, implying 2.9 million subscriptions, it could have revenues of £159m in 2025, according to Berenberg's calculations.

This, however, looks optimistic given that Netflix reached that level of penetration in the US market after four years but had no SVOD competition to speak of at that stage. The £159m figure is also small within the context of the total revenues of £3.2bn that ITV recorded in 2018.

Jonathan Broughton, lead analyst at research group Broadcast Intelligence, is also cautious about the prospects for BritBox. He describes it as "an interesting experiment" that will "likely remain niche" given the restrictions placed on it and the competition it faces.

He expects that revenues from ITV's existing catch-up service, ITV Hub – which viewers can watch for free with advertisements or can pay for to avoid the commercials – will have a much greater impact on the business than BritBox. He calculates that ITV Hub's revenues could reach £300m by the end of 2023. Broughton also thinks that BritBox's impact on ITV's revenues will be dwarfed by growth in the broadcaster's production business, ITV Studios.

Don't expect a big bounce

ITV has prioritised the growth of its production division in recent years as it has sought to diversify away from its reliance on advertising. The revenues for ITV Studios, which produces international hits such as *Love Island* and *Bodyguard*, stood at £1.7bn for the 2018 financial year, up 6%. Set against this, BritBox's potential to change ITV's business looks limited – something that ITV has implicitly acknowledged.

Speaking at the Edinburgh International Television Festival this summer, ITV's director of television, Kevin Lygo, stressed that BritBox shouldn't be seen as a direct rival to Netflix and Amazon, but as a way to put the back catalogue of ITV and the BBC to best use. The subscription service, he said, was all about ITV "looking for a new revenue stream that doesn't cannibalise advertising revenue". So BritBox is more about diversification than transformation for ITV. And that's why many analysts, such as Berenberg's Simon, deem the stock a "hold" rather than a "buy".

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Foreign cash on the cheap

There are several hassle-free options that will keep your holiday costs down

Ruth Jackson-Kirby
Money columnist

The days of exchanging your travellers' cheques for local currency are long gone. Now you have a wealth of options for how you get your hands on your euros, dollars or ringgits when you go on holiday.

"Holidaymakers should first check whether their credit card and debit cards can be used abroad for spending and withdrawing money from ATMs without extra charges," says Laura Shannon in The Mail on Sunday. Nationwide, Cumberland Building Society, Monese, Monzo, Revolut, Starling and Transferwise all allow customers to use their debit cards for spending and withdrawing cash fee-free while abroad. All of them have "better than average" currency-conversion rates too.

That's the easiest way to spend abroad. However, a bit of forward-planning could get you a better exchange rate as well as fee-free spending. "If rate certainty or tight control of your budget is what you want, then prepaid cards work well as once loaded, you know how much you have to spend and can't go over that unless you reload," says Helen Saxon on Moneysavingexpert.com. You can "lock in a rate days, months or even years" before you go abroad.

Several companies now offer currency cards, including FairFX, Travelex and Revolut. But MoneySavingExpert recommends WeSwap. WeSwap allows you to exchange your pounds for 17 currencies, so you can buy money whenever you like the look of the exchange rate in the run-up to your holiday. Plus, you can get the interbank exchange rate – the best possible exchange rate – for the first six months as long as you are willing to wait seven days from loading your card to being able to spend the foreign currency. After that, WeSwap adds a 1% fee on top of the interbank rate. But avoid small cash withdrawals with your WeSwap card while you are abroad. You'll be charged a €1.75/$2.25 fee every time you withdraw less than €200/$200.

You can lock in a holiday rate with prepaid cards

©iStockphotos

Avoid airports

If you've left it too late to use a prepaid card, don't buy your currency at the airport. They know you have left it to the last minute and have no choice, so their rates are extortionate. Instead, if you have more than 24 hours before you leave, order your cash online. MoneySavingExpert's TravelMoneyMax.com tool will show you where you can get the best rate.

"Plenty of providers offer a next-day currency delivery service, which is free depending on how much you order," Andrew Hagger from MoneyComms told The Mail on Sunday.

And planning ahead and buying your currency before you get to the airport could mean you get as much as 100 extra euros, says Shannon. This is assuming you buy £1,000 of euros with the best rate offered by No1 Currency.

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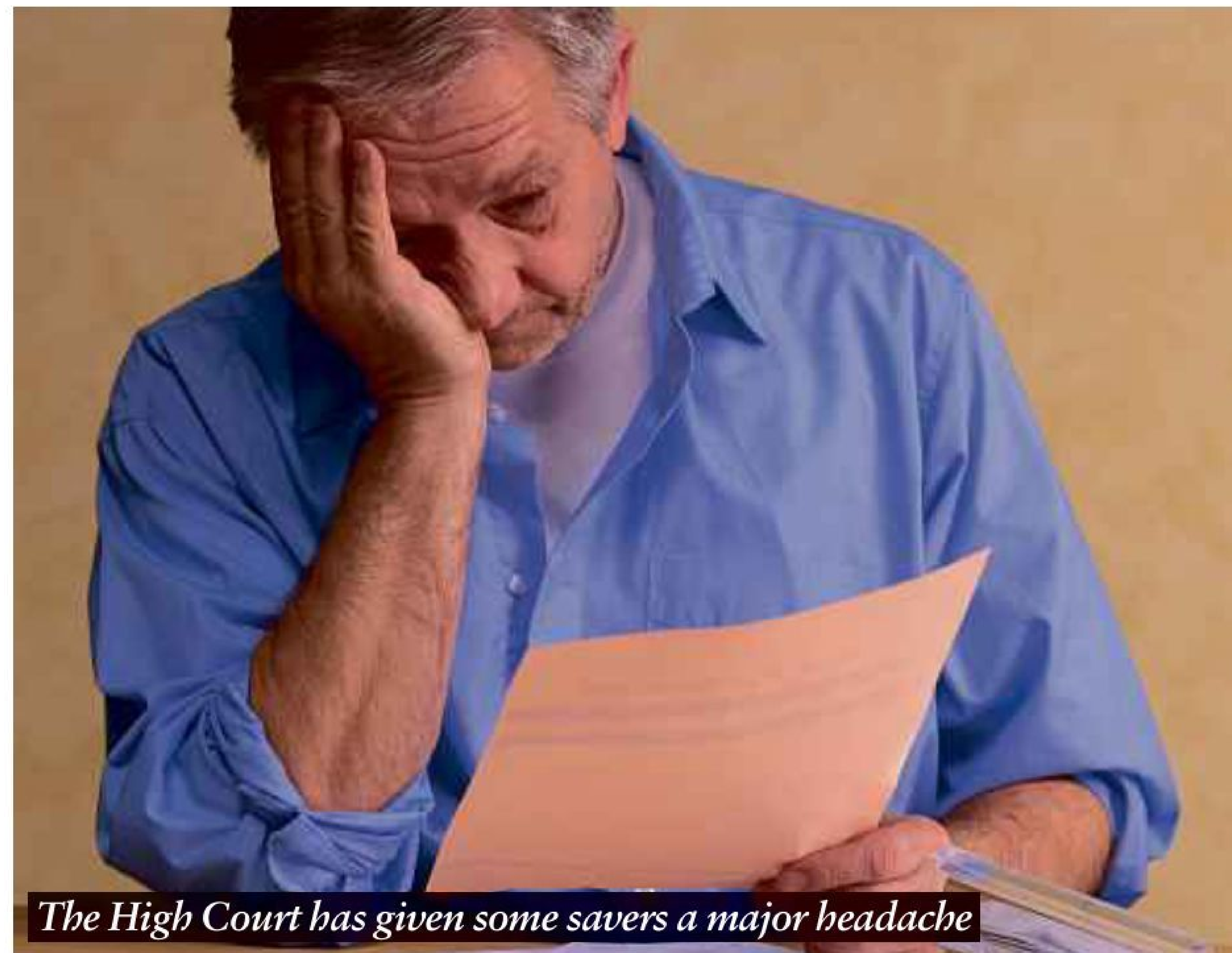
A final-salary pensions muddle

Savers receiving compensation for past discrimination may end up with big tax bills

David Prosser
Investment columnist


The High Court has given some savers a major headache

©Getty Images

The law of unintended consequences strikes again. Pension schemes are warning that thousands of final-salary pension scheme members who thought they had protected themselves from punitive tax charges on their savings could be caught out by a High Court case that was supposed to compensate them for unfair treatment in the past. Savers risk 55% tax bills as a result.

The row follows last year's High Court ruling over guaranteed minimum pensions (GMPs). Judges ruled that final-salary pension schemes had breached sex discrimination rules by allowing men and women to earn pension increases at different rates during the 1980s and 1990s. Schemes are being forced to compensate their members.

The compensation is a major headache for savers who have taken advantage of the fixed protection scheme. Fixed protection helps wealthy savers who already had large pension funds when the government introduced the lifetime allowance capping tax-free pension fund savings – and when it cut the allowance on subsequent occasions – but the compensation could undermine this protection.

Ordinarily, anyone with pension scheme savings worth more than the lifetime allowance (£1.05m in the current tax year) has to pay 55% income tax on the excess when they begin drawing down their benefits. But the fixed protection scheme effectively exempts savers from these charges if their pensions were already above the thresholds at the time they were introduced.

Crucially, savers taking advantage of fixed protection had to agree not to make any further payments into their pension schemes. Those who do invalidate their exemption from tax. Now, experts are warning that the compensation payments being made in relation to the GMPs case may count as an additional payment, triggering a substantial tax bill.

In the worst cases the payment of just a few pounds of GMP compensation could land a pension saver with a tax bill of several hundred thousand pounds. At least 100 pension schemes have suspended GMP compensation payments until HM Revenue & Customs issues advice on how to resolve the problem.

The scale of the problem is hard to gauge because HMRC does not publish data on how many people have used fixed protection. The scheme was first made available in 2012, but new versions were offered in 2014 and 2016.

However, pension experts believe significant numbers are likely to be at risk. High earners across the public and the private sectors are potentially vulnerable, assuming they began saving several decades ago when GMP rights were unfairly apportioned – and that they have applied for fixed protection more recently.

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The top-quality stocks set for long-term success

A professional investor tells us where he'd put his money. This week: Jamie Ross of the Henderson EuroTrust highlights three favourites

The approach of EuroTrust is a simple one. We invest in European companies of a very high quality and likely to stay that way, or in businesses we believe are undergoing a material improvement in quality. We call the former "compounders" and the latter "improvers". I will highlight two of our most compelling compounders and one of our most interesting improvers.

Denmark's diabetes expert

Novo Nordisk (Copenhagen: NOVO-B) is a Danish pharmaceutical company and a business we regard as a compounder. Since its foundation in 1923, the company has maintained a strict focus on one therapeutic area: diabetes care. For many years, Novo Nordisk was the world's leading insulin producer. Recently the group has moved into a newer category of diabetes drug called GLP-1.

Novo Nordisk continues to lead its market. Long-term success has come through a strict therapeutic focus, the pricing power that comes from being a leading innovator and from sensible capital allocation.

We think the firm is well placed to benefit from the medium-term uptake of its new GLP-1 drug, which is administered in pill form. In the longer term it should profit from applying its knowledge and competence to the field of obesity.

Cashing in on cartons

SIG Combibloc (Zurich: SIGN) is a Swiss company, another compounder. SIG produces and sells the machines used to place liquid food (such as soups) and drinks into aseptic cartons. The beauty of the business model is not so much in the sale of these machines, but more in the sale of the cartons. Customers tend to sign up to multi-year volume-purchase agreements, which provides SIG with a stable and predictable profit stream.

SIG's products are crucial in developing-world countries that lack refrigerated supply chains. They are also recyclable, which suits changing consumer preferences in the developed world. We see a strong outlook for long-term growth at SIG driven by urbanisation and the growth of the middle class in developing markets, and by steady growth in other regions.

Tackling cows' carbon emissions

DSM (Amsterdam: DSM) is a Dutch ingredients company that we regard as an improver. It was established in 1902 as a coal miner. In recent decades the focus of the business has shifted towards polymer plastics and then again towards ingredients for both animal and human food.

The changing mix of the business is tilting it far more towards defensive markets with structural growth, and has seen the company spearhead innovation in some niche and lucrative product areas.

"DSM's shift towards food ingredients bodes well for long-term growth"

DSM is currently investing in several exciting longer-term projects, one of which they refer to as "Clean Cow". Clean Cow is all about finding the right mix of food ingredients to reduce significantly methane emissions from cows.

With the world currently focused on carbon emissions resulting from air-travel, the carbon footprint of the humble cow is often underestimated. Year by year, DSM is becoming a stronger, more innovation-led company with growing pricing power. We see significant scope for the further improvement in the quality of this business.

If only you'd invested in...

Johnson Service (LSE: JSG) is an Aim-listed supplier of rented workwear, and linen and laundry services for the hospitality industry. It operates around the UK, employing 5,700 staff. It is investing heavily in its own plant and on acquisitions. A successful 2018, which saw revenue rise by 10% to £321.1m and pre-tax profit rise 7.1% to £42.5m, was followed by "very strong sales growth" in the first half of 2019, with forecast profits ahead of expectations, leading to a 15% dividend hike. Investors have seen the share price rise by 45% in the last year.

Be glad you didn't buy...

Koovs (LSE: KOOV) is an online clothing retailer targeting the Indian market. It once aspired to be the "ASOS of India". The stock's recent performance certainly mirrors the British retailer's. 2017 and 2018 were "challenging", with India's demonetisation and tax increases acting as a "significant brake" on activity, says the company's chairman. The first quarter of 2019 has seen a recovery, but shareholders have suffered a 56% decline in the share price in the last year. Anyone buying into the flotation in 2014 has seen their investment wiped out.

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Killer shark takes the helm at the ECB

Former IMF chief Christine Lagarde has a reputation for easy manners and good humour, but she has a ruthless streak. She'll probably need it as she takes up her new role. Jane Lewis reports

When Christine Lagarde takes charge of the European Central Bank (ECB) at the end of the month she'll need all her political savvy and emollience to deal with "an unprecedented revolt" in the ranks, says Bloomberg. Appointed in July – supposedly as the continuity candidate to succeed Mario Draghi – Lagarde is coming under pressure to reverse her predecessor's plan to reactivate quantitative easing. Following a September meeting described by one participant as "the most tense" he can remember, a cabal of hawkish big-hitters, led by the Bundesbank's Jens Weidmann (who, awkwardly, she beat to the top job), is shouting loudly for a change of strategy.

A fierce thirst for success

It doesn't help Lagarde's cause that, even after eight years of leading the International Monetary Fund (IMF), she still faces charges of amateurism, says City AM. A lawyer rather than an economist by training, opponents have warned that her past as a politician – and her controversial role in the eurozone crisis, which earned her the nickname "Madame Bailout" – "undermine credibility" in the ECB.

Yet Lagarde is "unlikely to be perturbed by such criticism", says Adam Sage in The Times. She's faced accusations of incompetence throughout her career and has usually trounced critics. Friends say "she possesses an understated self-confidence and a thirst for success", underpinned by a fierce work ethic. "When we work on a particular matter," she said in 2017, "we will work the file inside, outside... historically, genetically and geographically. We want to be completely on top of everything."

Lagarde was born in 1956, the daughter of teachers, and grew up in Le Havre in northern France with three younger brothers. Her "first notable triumph" was winning a place in the French synchronised swimming team, which she later said taught her the invaluable skill of holding her breath. When Lagarde was 17 she won an exchange scholarship to America, later returning to France to study law. After twice failing to get into the French civil service and being told "she would never make partner in a French law firm as a woman", she joined the Chicago-based firm Baker & McKenzie, eventually rising to become the first woman to lead it in 1999.

The lesson she took from that early failure, she told CNN, was: "Oh get over it. Get over it and move on." Lagarde's years working in America gave her "an empathy with Anglo-Saxon ways" and "a pragmatic, team-oriented style of solving problems", says The Sunday Times. Still, she leapt at the chance to return to France to join the government as trade minister in 2005. "Lagarde's charm and international contacts book became very valuable to the French government," notes The Observer – she had a "good" financial crisis, raising her status on the world stage. But during her time as economy minister, she took a decision "that has proved to be the one significant blot on her career", says the Financial Times: approving a €403m payout to the French tycoon Bernard Tapie in 2008, which was later ruled as "illicit". She escaped punishment after judges said they wanted to preserve her "international reputation".

> *"The lesson learned from failure? 'Oh get over it. Get over it and move on.'"*

Lagarde's easy manners and humour have made her a popular figure among world leaders: she appears as at ease with Putin as with Trump, "who occasionally seeks her out for economic advice". But while her tenure at the IMF has been generally judged a success, one of the "biggest decisions she took" – the $57bn bailout of Argentina – has returned to haunt her: the country now looks set to default on its sovereign debt again.

"I'm a very firm believer that the best way to arrive at agreed solutions… is to reach out, to find the common denominator, rather than to focus on the differences," says Lagarde. Still, "cross her" at your peril, says The Sunday Times. As one sacked official once remarked, "She's always smiling, always polite, but she's an American lawyer at heart – a killer shark".

Great frauds in history… *Victor Jacobowitz's phoney account*

Victor Jacobowitz (pictured) was born in New York in 1932. He took over Allou Healthcare with two of his sons, Herman and Jacob, in 1985, before floating it on the stock exchange four years later. In the three decades following the purchase, the Jacobowitzes built it up into one of the largest distributors of health and beauty products in the United States, with a particular focus on perfume. By 2002, Allou reported net income of $6.6m on sales of $564m and employed more than 300 people, with warehouses in New York, Florida and California.

©Getty Images

What was the scam?

From the 1990s onward, Allou had an agreement with lenders that allowed it to borrow up to 60% of its inventory and 80% of its invoices. This enabled it to start systematically inflating both its sales and its inventory by engaging in phoney transactions with independent companies owned by the Jacobowitz family, in order to borrow increasing amounts of money. Most of this money was used to aid the fraud, but some of it was skimmed. By 2002 a third of reported sales were fraudulent. To keep investors satisfied, accounts were also falsified to give the impression that the company was profitable.

What happened next?

By 2002 the gap between reported and actual inventory had become too great to hide. The cost of the accumulated borrowing also meant that the company was hopelessly insolvent. The family decided to burn down the main warehouse in New York and then claim on the insurance. However, the subsequent fire was ruled to have been started deliberately and when they attempted to bribe the fire marshalls, the police were notified. By 2003 the firm was declared bankrupt and several people involved in the fraud (including Herman and Jacob) were jailed.

Lessons for investors

The courts attempted to seize the defendants' property to repay Allou's debts, but lenders still lost an estimated $177m. Its shareholders ended up wiped out. In order to prevent its scam from being discovered, Allou regularly changed its auditors, with three (Mayer Rispler, Arthur Andersen and KPMG) taking the job over three years. Companies do occasionally switch auditors from time to time for various legitimate reasons, but several changes in such a short period are definitely a red flag that things are not what they seem.

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Three adventurous glamping holidays

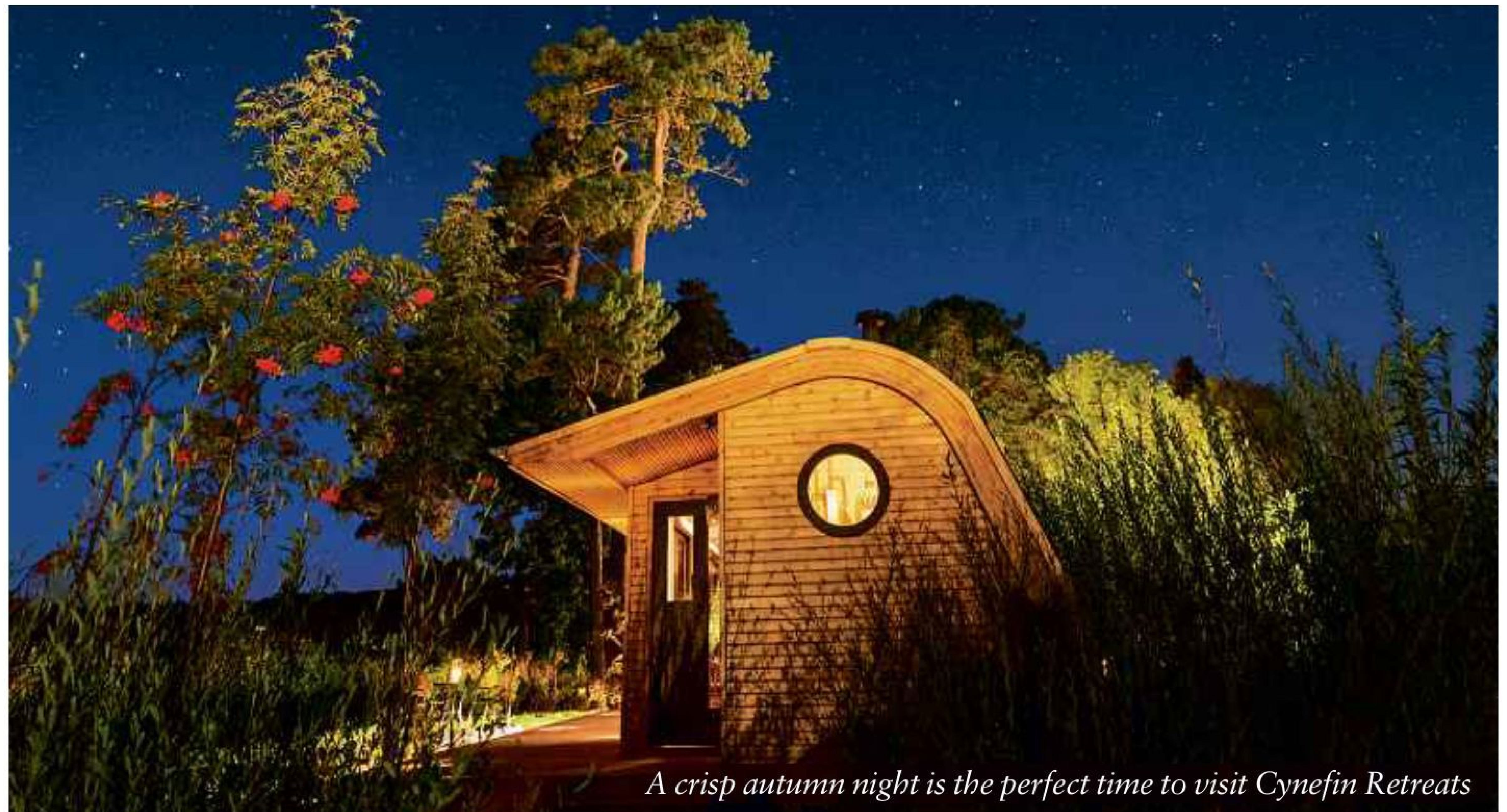
Banish leaky tents and cold baked beans by bagging a luxury camping spot. Nicole Garcia Merida reports

A desert oasis

Al Badayer Oasis in the United Arab Emirates lives up to its name. This desert haven offers a "true taste" of the Emirati lifestyle, says Ashfaq Ahmed in Gulf News. Al Badayer is already a popular area for tourists keen on camping, but now those who don't want the hassle of setting up camp on a sand dune can enjoy it too. There are ten deluxe tents to choose from, each "quintessentially Arabian" and fitted with modern comforts.

They overlook burnt orange sand dunes and clear skies that will make you feel entirely off the grid. You won't be, though, as the complex boasts high-speed internet and cable television as well as an indoor pool and gym.

Al Badayer Oasis offers "customised desert experiences featuring dune bashing, buggies, quad biking, horse riding, desert safaris and camel tours," says Ahmed. Falcon shows and archery games, meanwhile, afford a "true taste of Emirati culture".



A crisp autumn night is the perfect time to visit Cynefin Retreats

Cosy minimalism in the Brecon Beacons

These luxury glamping pods are nestled on the edge of Brecon Beacons National Park in Wales. Cynefin Retreats is "surrounded by towering and dramatic mountains", says the Evening Standard's Laura Hampson. You can expect "twinkling skies" and enjoy charming nearby towns, such as Hay-on-Wye. The pods are minimalist, yet do not skimp on luxury. Floor-to-ceiling windows stare out into the Welsh woodland and a glass door leads you to a spacious, cosy deck with a hot tub and barbecue grill. It's "the perfect place to relax with a glass of wine and soothe your muscles after spending the day hiking, swimming or cycling".

The area "is a nature-enthusiast's paradise, with endless hill and valley ranges and forests rich in diverse trees and foliage", adds Hampson. But if you're more of an indoor type, the pods also feature underfloor heating and a wood-burning stove. You'll enjoy it in any season, but a cold, crisp autumn night feels like the perfect time to go, whether you're looking to go hiking or finally finish reading that book.

Blend in with nature

The pods at the Lindis in the pristine Ahuriri Valley in New Zealand offer such an immersive glamping experience that it's almost as though they're not even there. The pods are made with reflective one-way glass, meaning they merge into and reflect the landscape while allowing panoramic views of the vast surrounding fields and snowy mountain tops. "The pods are the epitome of rustic chic, with an emphasis on the chic," says Julie Delahaye in the Daily Mirror. They are decked out with luxury bedding, elegant wooden interiors and an en-suite bathroom.

Each pod comes with a private deck and a hot tub and the Lindis, the main hotel, is just a short walk away. It hosts an on-site restaurant with a delectable menu and a fully stocked bar. It's ideal if you're concerned about your carbon footprint, too. "The pods boast some impressive eco-friendly credentials, such as geothermal heat pumps, rainwater harvesting systems and state-of the art insulation," says Delahaye.

Wine of the week: a plum-soaked wine offering absurd value

2016 Soraie, Cecilia Beretta, Veneto, Italy
£11.95, corneyandbarrow.com

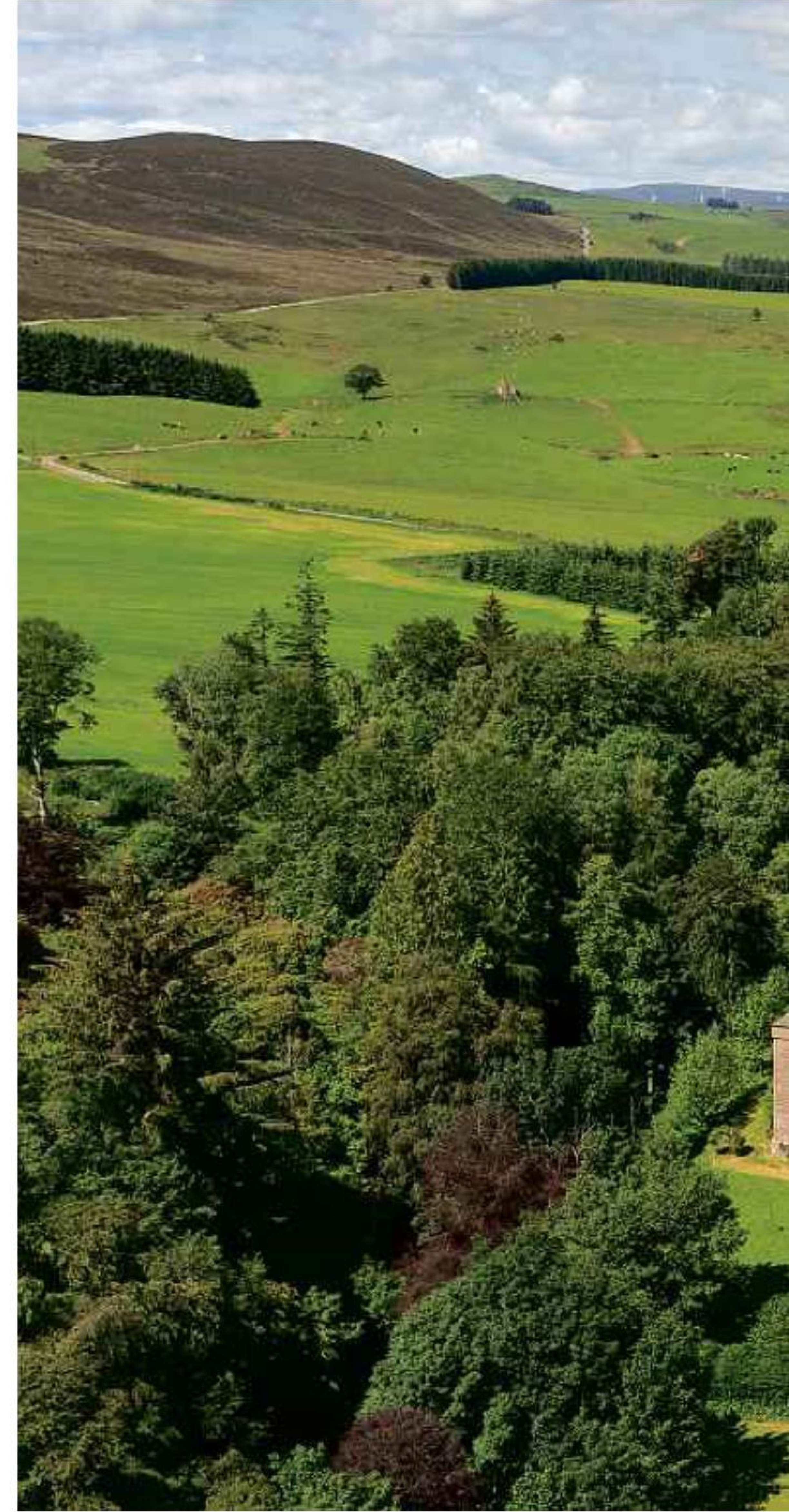
Matthew Jukes
Wine columnist

At a recent The Bunch tasting – a collective of like-minded, elite UK wine merchants including Adnams, Private Cellar, and Corney & Barrow – this wine shone out among many superb bottles. It offers absurd value for money and if anyone is going to have the pleasure of buying and drinking it, it must be my beloved MoneyWeek readers. Made from partially dried grapes, in a method known as *appassimento* most famously employed in the production of amarone della Valpolicella, Soraie is a merlot, corvina, cabernet sauvignon and croatina blend from the heart of the Veneto region in Italy. This style of wine has a lot of fans and they are used to paying through the nose for amarone wines. I like well-made amarones, but there are more dodgy versions, with yeasty, sweet'n'sour fruit, than there are genuinely balanced wines.

Many have overtly high alcohol, too, which seems to scorch the palate and singe your nose hairs. By all means save up for an Allegrini or Quintarelli and drop £60-£400 on a bottle, or spend £12 on this creamy, intense, plum-soaked wine topped with enviable freshness and admirable balance while you giggle into your glass. Don't think that this budget wine is by any means a simpleton either – it has stunning build quality and will impress even the most fastidious of wine lovers.

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

This week: properties for around £400,000 – from a 16th-century, fortified tower house in Rhynie, Aberdeenshire, t



Northend, Bath. A three-bedroom, end of terrace cottage dating from around 1850 in a popular village close to Bath. It has sash windows, an open fireplace, wood floorboards on the second floor and a hatch in the kitchen with steps leading down to a large cellar. 3 beds, bath, recep, garden. £425,000 Knight Frank 01225-325999.

Craig Castle Estate, Rhynie, Aberdeenshire. A 16th-century, Grade A-listed, fortified tower house with later additions in the foothills of the Grampian Mountains. It requires some renovation and has barrel-vaulted ceilings, a minstrels' gallery, 9 beds, 7 baths, 3 receps and 63 acres. Lot 1: £400,000+ Strutt & Parker 0131-226 2500.

Thistleworth Marina, Isleworth, TW7. A converted, navigable 1923 Dutch barge with a marina mooring on the River Thames, opposite Richmond Old Deer Park. It has a large, open-plan living area with wood floors, a fitted kitchen, a teak wheelhouse, oil-fired central heating and wiring for broadband. 1 bed, 2 baths, further small cabin. Mooring and maintenance fees cost £250 per month. £350,000 River Homes 020-8996 0600.

o a studio apartment in the Russell Court development in Bloomsbury, London

Russell Court, Bloomsbury, WCIH. An immaculate studio flat in the popular Russell Court development, which is located in the area of Bloomsbury developed by the Russell family in the 17th and 18th centuries, close to Russell Square tube station and the British Museum. The flat is on the seventh floor of the building, which has a lift service and a 24-hour concierge. recep/bed, bath, kitchen. 25 square metre internal area. £375,000 Knight Frank 020-3764 8914.

Cotswold Villa, Painswick, Gloucestershire. A renovated, Grade II-listed, three-storey detached house in the centre of Painswick. It has a newly fitted bathroom and kitchen and a stone fireplace with a wood-burning stove. 3 beds, 2 baths, recep, garden. £450,000. Murrays 01452-814655.

Church House and Barn, Leintwardine, Shropshire. This Grade II-listed village house would benefit from some modernisation. It comes with a two-bedroom converted barn annexe that provides a useful rental stream as a holiday let. The house retains a number of period features, including its original beams and open fireplaces. 5 beds, 2 baths, 3 receps, dining kitchen, garden room, gardens, summerhouse. £400,000 Strutt & Parker 01584-873711.

1 Dundridge Court, Dundridge Estate, Harberton, Totnes, Devon. A converted, 19th-century chapel in the Dunbridge Court development with a private garden as well as access to four acres of communal gardens. It has Gothic doors and stone arches, vaulted ceilings, stained-glass windows and a carved wooden fireplace in the living room. 3 beds, 2 baths, open-plan living area/kitchen. £400,000 Marchand Petit 01803-847979.

Church Lane, Abington, Cambridge. A renovated, period village house close to the market town of Saffron Walden. There is a pond and a water feature in the garden, which includes an outhouse with quarry-tiled floors and a butler sink. The house has exposed timbers and brick-work, windows with Gothic arched-shape glazing bars, open fireplaces and a newly fitted kitchen with bespoke cupboards and oak floors. 2 beds, 2 baths, 2 receps, £395,000 Savills 01223-347147.

Five of the best new and affordable

From Sony's A6400 for photography enthusiasts to a good beginner's option from Nikon, Matthew Partridge reviews the options if you're in the market for a new camera

Price: £949 body only, £999 with16mm-50mm lens, £1,249 with 18mm-135mm lens

This year Sony released several new digital cameras, including the A6400, a camera intended to appeal to "prosumers" – people who are more enthusiastic about photography than the average user, but don't want to break the bank. Designed in a "rangefinder" style, with the viewfinder to the right of the lens (though you'll still, of course, see the image that comes through the lens), it is relatively lightweight and compact yet remains easy to grip.

With the A6400 Sony aims to deliver several improvements over previous models in terms of the speed and precision of the autofocus system. You can set it so that it automatically focuses on the eyes of the subject. It also has improved video features, including the ability to record for an unlimited time without interruption, very useful if you are recording plays or extended talks. The display can even flip 180 degrees so that your subject can view themselves being recorded.

I have tested it extensively under a variety of conditions and the autofocus system works well, producing clear, high-quality images, even at the fastest setting and using the electronic shutter, which allows you to take photos silently. Battery life is solid, producing just over an hour's worth of video or around 800 still shots before the battery needs to be recharged. If you plan on taking even longer videos, you can plug it into the mains.

A few drawbacks

The camera does have a few drawbacks, although these are relatively minor. Sony's colours tend to be a little on the vivid side, for example, which produces great outdoor shots, but means that pictures taken under fluorescent lighting tend to be oversaturated. It is possible, however, to customise the colour scheme. Similarly, the controls and the menu system can be confusing to begin with, so it's a good idea to go through the manual, even if you're familiar with digital cameras.

All in all, this is a strong camera, which provides excellent value for money. With Sony about to release two similar models, it might be worth looking for secondhand bargains. The 16mm-50mm kit lens is fine for general use; the more expensive 18mm-135mm F3.5-56 lenses gives you a much greater zoom range. The 50 F1.8 is also worth picking up if you want to shoot in low light.

"The camera will appeal to people who are more enthusiastic about photography than the average user, but don't want to break the bank"

digital cameras

Fujifilm X-T30

The X-T30 is one of the best cameras you can buy today for under £1,000, says Mark Wilson on Trusted Reviews. Packing all of the punch of its predecessor, the X-T3, into a more compact body, it makes for a great all-rounder for both stills and video. It shoots video in 4K, has a speedy autofocus that easily locks subjects in frame and has a mechanical shutter as well as an electric one, meaning it allows for shots at between eight and 30 frames per second, making it as good at capturing landscapes as fast-moving action. The X-T30 is a solid investment. *£849, shop.fujifilm.co.uk*

Nikon D3500

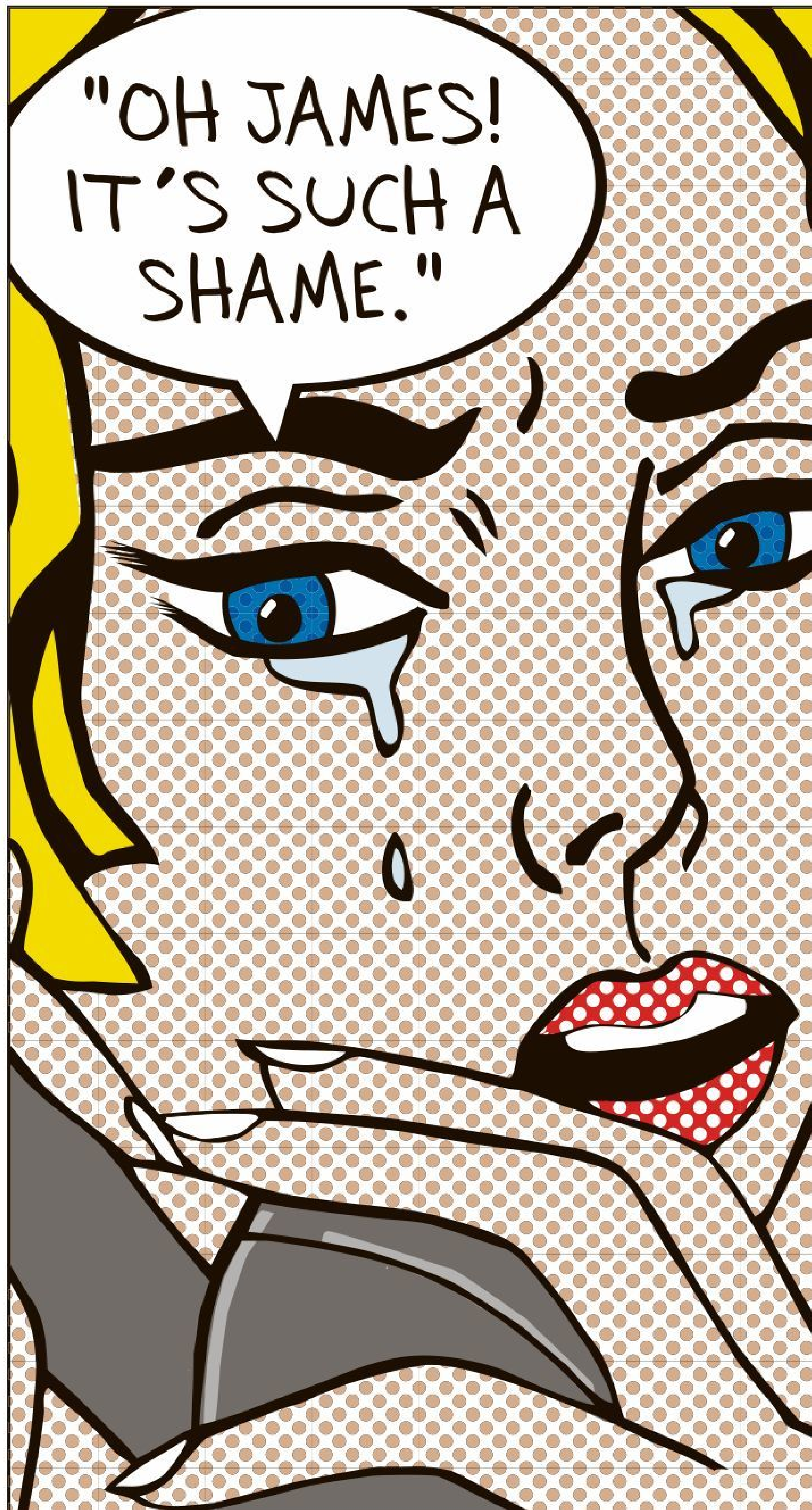
The Nikon D3500 makes for a good entry-level camera that will give you room to grow, says Jim Fisher in PC Magazine. The camera also features guide-mode for users who want to explore and "take some creative control". Considering that a lens is included, it's also a bargain. It is better quality than other brands' low-cost starter models too. It shoots video at a resolution of 1,080 pixels, so it might not be for those who want to shoot longer video footage, but it's a fine choice for those looking to experiment with shooting shorter videos. *£239, nikon.co.uk*

Canon EOS Rebel SL2/EOS 200D

If you're after a "small and unintimidating camera, but want image quality that surpasses that from a compact model", the Rebel is the one to go for, says Phil Hall on TechRadar. The image quality is excellent as the resolution has been improved with an upgraded sensor. The camera has built-in Wi-Fi and Bluetooth connectivity, a "selfie" mode and skin-smoothing and background-blurring controls. It also allows you to share images quickly on social media – it's "the perfect replacement for the avid smartphone photographer looking to step up to their first camera", says Canon. With all of these features, it's hard not to agree. *£489.99, store.canon.co.uk*

Olympus OM-D E-M10 Mark III

Previous models of the OM-D E-M10 have ranked first on Digital Camera World's list of best travel cameras and the latest Mark III is no different. It's an update of previous models, with new features including 4K video and a more powerful image processor. This iteration of the OM-D EM10 is "small, powerful, and really rather good", said Digital Camera World when it came out in 2017. It's ideal for enthusiasts who want to take creative control and for smartphone upgraders who will find it easy to manoeuvre, thanks to its high-quality touchscreen. *£629, olympus.co.uk*



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An Ealing comedy revived

A stage version of a 1951 film satirises resistance to change

The Man in the White Suit
Adapted and directed by Sean Foley
Wyndham's Theatre, London WC2, until 11 January

The 1951 sci-fi comedy film on which this play is based starred Alec Guinness, and it satirised the resistance of both post-war British industry and the trade unions to change and innovation. A commercial and critical success, its screenplay was nominated for an Oscar, and even today it remains one of the most well loved of the series of "Ealing comedies" that are seen as the high-water mark of the British film industry in the 1950s. It has now been brought back to life for the West End.

Like the film, the play tells the story of industrial chemist Sidney Stratton (Stephen Mangan, pictured, with Kara Tointon). Fired from his job after one of his experiments goes wrong, he develops a dirt-repellent fibre that can be used to make supposedly everlasting clothes. However, after an initial moment of celebration, both textiles mill-owner Birnley (Richard Cordery) and the mill workers, led by Brenda Highthorpe (Rina Fatania), quickly realise that such a fibre spells doom for the textiles industry, because people will only need to buy one suit. The only person who keeps supporting Sidney in his quest is Daphne (Tointon), Birnley's daughter.

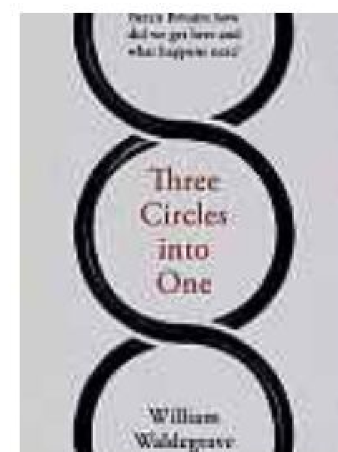
The production has clearly borrowed a lot of elements from the hit play *One Man, Two Guvnors*. This includes a skiffle band led by Matthew Durkan, who also plays Sidney's lab assistant, and lots of physical comedy, including several elaborate set pieces. Indeed, during the course of the two hours' stage time Mangan's character nearly blows himself up, is hoisted into the air by his co-workers, clings on to a car driven through winding countryside lanes by Tointon and gets into a sword fight with Daphne's fiancé Michael (Ben Deery). Rapid scene changes mean that the action is able to move seamlessly between various locations, including the town pub, the mill and the stately home where Birnley and Daphne live.

However, while the slapstick, special effects and verbal gags are amusing enough, they end up getting in the way of the satire. Even the long monologue that Mangan's character delivers about Tesla and electric cars comes across as forced and preachy. As a result, the play lacks the added bite that made the film so special. Perhaps the problem is that in the seven decades since the film was released we've become so cynical about technology and aware of the negative impact that it can have, that Foley was worried we would no longer sympathise with Stratton.

Still, this is a reasonably entertaining play, though one that will divert rather than provoke. I'd recommend watching the film too.

Reviewed by Matthew Partridge

"An entertaining and amusing play that will divert rather than provoke"



Three Circles into One
Brexit Britain: how did we get here and what happens next?
By William Waldegrave
Mensch Publishing, £10

The late American statesman Dean Acheson once said that Britain had "lost an empire" but "not yet found a role". It seems it's still searching. In this book, former cabinet minister William Waldegrave argues that Brexit was a result of the fact that, whatever the British establishment claimed, the ultimate destination of Europe was always going to be towards "ever closer union", something the British people would never accept. To ensure that Brexit doesn't meet a similarly doomed fate as our EU membership, we need to think about our role in the world and the kind of society we are aiming for.

Waldegrave takes inspiration from a speech Winston Churchill gave in October 1948, arguing that the UK should base its foreign policy on the "three circles" of America, Europe and the rest of the world. Waldegrave therefore rejects the idea of turning Britain into"Singapore-on-Thames", or an effective colony of the US. He also counsels against remaining within Europe's institutions unless we are willing to accept a United States of Europe. Instead, he thinks we should try to emulate Canada, combining a global outlook and good relations with our trading partners with a distinct national identity.

It's an interesting argument and, however debatable one may find its conclusions, this extended essay should be on everyone's reading list.

Book in the news... a compelling and emotionally raw drama

Margaret Thatcher
The Authorised Biography, Volume Three: Herself Alone
By Charles Moore
Allen Lane, £35

In June 1987 Margaret Thatcher "ascended to the peak of her political career" after winning a landslide victory in the 1987 election, says Daniel Finkelstein in The Times. Over the next four years, however, everything went "downhill, gently at first and then gathering pace", resulting in her being turfed out of office by her own party at the end of 1990. *Margaret Thatcher: Herself Alone,* the third (and final) volume of Charles Moore's biography of the late prime minister, which covers the period from her last election victory to her death in 2013, is therefore "a story of triumph and of tragedy". Moore is both "comprehensive and subtle, breaking new ground while being surefooted on familiar terrain" and his portrait is "surprising and fresh". This volume completes a "historical masterpiece" and is "one of the truly great biographies".

It is "magnificent" and "takes its place next to Robert Blake's *Disraeli and* Robert Caro's *Lyndon Johnson* on the highest level", says Philip Hensher in The Spectator. Moore is especially good on the "rioting in the streets, the resignations, the collapse of the Soviet bloc and the return of double-digit inflation", all of which were a key part of the "single chronological story of betrayal and sacking" that resulted in Thatcher's departure. Moore also underlines the extent to which Thatcher was a victim of a "conspiracy" between the foreign secretary Geoffrey Howe and the chancellor Nigel Lawson, creating a situation where she "was at odds with government policy".

Moore has had access "to more verbal and written sources than probably any other historian of Thatcherism" and has used them to create a "Westminster drama" that is "compelling and emotionally raw", says Andy Beckett in The Guardian. Indeed, some parts of the book "have a novelistic quality rarely found in the careful pages of political biographies". Still, the book's failure to examine "the shifting social texture of Britain under Thatcher" means that it falls short of being definitive and its coverage of Thatcher's life after Downing Street contains "few revelations". Moore fails to recognise that his subject "created an uneasy country for the rest of us to live in".

Dallas for a new generation

Tastes and values may change, but our fascination with the grotesquely rich will never go out of fashion

In this age of "corporate social responsibility" and "sustainability", you might almost think wealth and money were things to be ashamed of. Still, deep down, it seems we must still be attracted to those who are too rich to give much of a damn about anything. How else to explain the success of hit television show *Succession*, a "no-holds-barred look" inside the fictional super-wealthy Roy family, as Dave Itzkoff puts it in The New York Times. "Teeming with dysfunction and spoiling for conflict," the various members of the Roy family fight for control of the media empire of the "ageing patriarch" who has bred his children for "maximum ruthlessness".

Succession: obscene wealth is still a big draw

©HBO/Sky

> *"The deliciously repellent characters are so self-interested, emotionally stunted and grossly entitled that only a psychopath could relate to them"*

An obsession with power

Part of the appeal is the "grotesque" wealth on display – all the "private helicopters, gleaming townhouses and gargantuan country piles", says Fiona Sturges in The Independent. But even more compelling is the "mindset that comes with extreme privilege". The members of the Roy family are rich enough to take their wealth for granted, yet their obsession with power means "there is no trust or camaraderie" – not "when their father's favour, and a prime position within the company, is at stake". The "deliciously repellent" characters are so "self-interested, emotionally stunted and grossly entitled" that "only a psychopath could relate to them".

The Roys may be at least partly based on the "prolific Murdoch brood", says Carrie Wittmer in Harper's Bazaar. Logan, the head of the company who suffers from health problems but refuses to retire, seems obviously inspired by 88-year-old Rupert. Similarly, Roman Roy, one of Logan's sons, shares many similarities with James Murdoch, "said to be the rebel of the family". Like the protagonists of the TV show at the end of the first series, the Murdochs also allegedly met with a family therapist to discuss "the issue of succession" following the News of the World phone-hacking scandal that "shook the company".

The producers of the show seem to have drawn inspiration from the excesses of various other wealthy families too, says Joanna Robinson in Vanity Fair. The most obvious is the Trump clan. Like the fictional Logan, Donald Trump was notorious for not paying contractors properly. After Trump refused complete payment for $1.2m worth of curtains, pillow covers, and bedspreads for his Las Vegas hotel, the small business owner who had provided them decided to get even by halting work and holding the remaining goods hostage. Instead of settling his bill, Trump promptly sued, with the result that the "sheriff's deputies came and collected the fabric on behalf of Trump".

The story that most closely mirrors the show is that of self-made tycoon Sumner Redstone, who stopped first his son Brent and then his daughter Shari from taking over his firm. Shari fought his decision and won, despite having – in one of the "seedier chapters of American corporate history" – to outmanoeuvre the then 91-year-old Sumner's two live-in girlfriends. *Succession* is still running so we must wait to see what happens, but it's good to know that some dramas have happy endings.

Quintus Slide

Tabloid money... "peak socialism" minus the Bee Gees equals real misery

● **I was going to argue with the assertion by researchers at Warwick University that 1978 was the worst year in British history, says Jeremy Clarkson in The Sun. Then I remembered this was the year I started work at the local newspaper offices. I was very excited – then I was told to go home because I was on strike. "I then sat about for two months with no pay and watched the rubbish pile up outside because the dustbin men were also on strike, along with nurses, train drivers, car workers and everyone at the sewage plant." This was "peak socialism" and almost everyone was "standing round a brazier". So, yes, "1978 was pretty terrible". But if Jeremy Corbyn becomes prime minister, "I'm fairly confident that next year will be worse... We won't even have the Bee Gees [Barry Gibb, pictured] to cheer us up."**

©Getty Images

● Britain was apparently happiest in the 1880s, says Richard Madeley in the Daily Express. Through analysis of books and newspapers, researchers from two universities and the Alan Turing Institute in London decided that late Victorian Britain was "awash with the feel-good factor". Spirits rose again with the end of rationing in the 1950s, but "by the 1960s, we were all miserable" once more. What tosh. "I can remember the last 50 years pretty clearly." Ours was a "cheerful, upbeat, humorous, healthily self-deprecating and optimistic nation". We Brits are "a fundamentally cheerful, open-minded, jolly lot, all the way back to Shakespeare, never mind Victoria... It's daft surveys like this one that make us fed up."

● When I visited the William Blake exhibition at Tate Britain, I was struck by a label that informed me solemnly that in Blake's day (1757-1827) the pound was divided into 20 shillings, each of 12 pence, says Peter Hitchens in The Mail on Sunday. "I too, not dead yet, was lucky enough to live in the era of proper money, when, as Orwell put it, the coins were heavier and the beer was bitterer." Orwell said there was "something distinctive and recognisable in English civilisation – solid breakfasts and gloomy Sundays, smoky towns and winding roads, green fields and red pillar-boxes. It has a flavour of its own. Moreover it is continuous, it stretches into the future and the past, there is something in it that persists." If only.

Bridge by Andrew Robson

Consistently Gray

Maurice Harrison-Gray ("Gray" to all, including his wife) may not have been the most brilliant early exponent of the game, but he was surely the most consistent. Playing Par Bridge – error-free – was Gray's objective. He won the European Team Championships four times, the Gold Cup seven times, and played a huge role in creating and popularising Acol, also the Losing Trick Count.

Dealer South — Neither side vulnerable

North: ♠ A832 ♥ J97 ♦ QJ ♣ Q742

West: ♠ QJ104 ♥ 5 ♦ K973 ♣ AJ98

East: ♠ K765 ♥ 3 ♦ 86542 ♣ 1065

South: ♠ 9 ♥ AKQ108642 ♦ A10 ♣ K3

The bidding

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

* Ace-showing cue-bids.
** After revealing pauses.

West led the Queen of Spades and a look at dummy suggests that the slam depends on the Diamond finesse. But declarer, Gray, had picked up on West's interest in the Four Diamond bid and placed the King of Diamonds with him, rendering the finesse a losing proposition. Also placing the Ace of Clubs with West (he was evidently close to doubling the slam), declarer saw how he could succeed another way.

Declarer won dummy's Ace of Spades, crossed to a trump, and led the three of Clubs. West had to play low – to prevent declarer scoring the King and Queen of Clubs separately – and the Queen held. Declarer now rattled off all his trumps, reducing to a three-card ending where he held Ace-ten of Diamonds and King of Clubs. West, still to discard on declarer's final trump, held King-nine of Diamonds and Ace-Knave of Clubs. If he threw the nine of Diamonds, declarer's Ace would fell his King. So away went the Knave of Clubs. But this was no good either – declarer exited with the King of Clubs to West's now bare ace and waited for the Diamond lead from the King-nine. Twelve tricks and slam made.

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

Sudoku 970

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

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.

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

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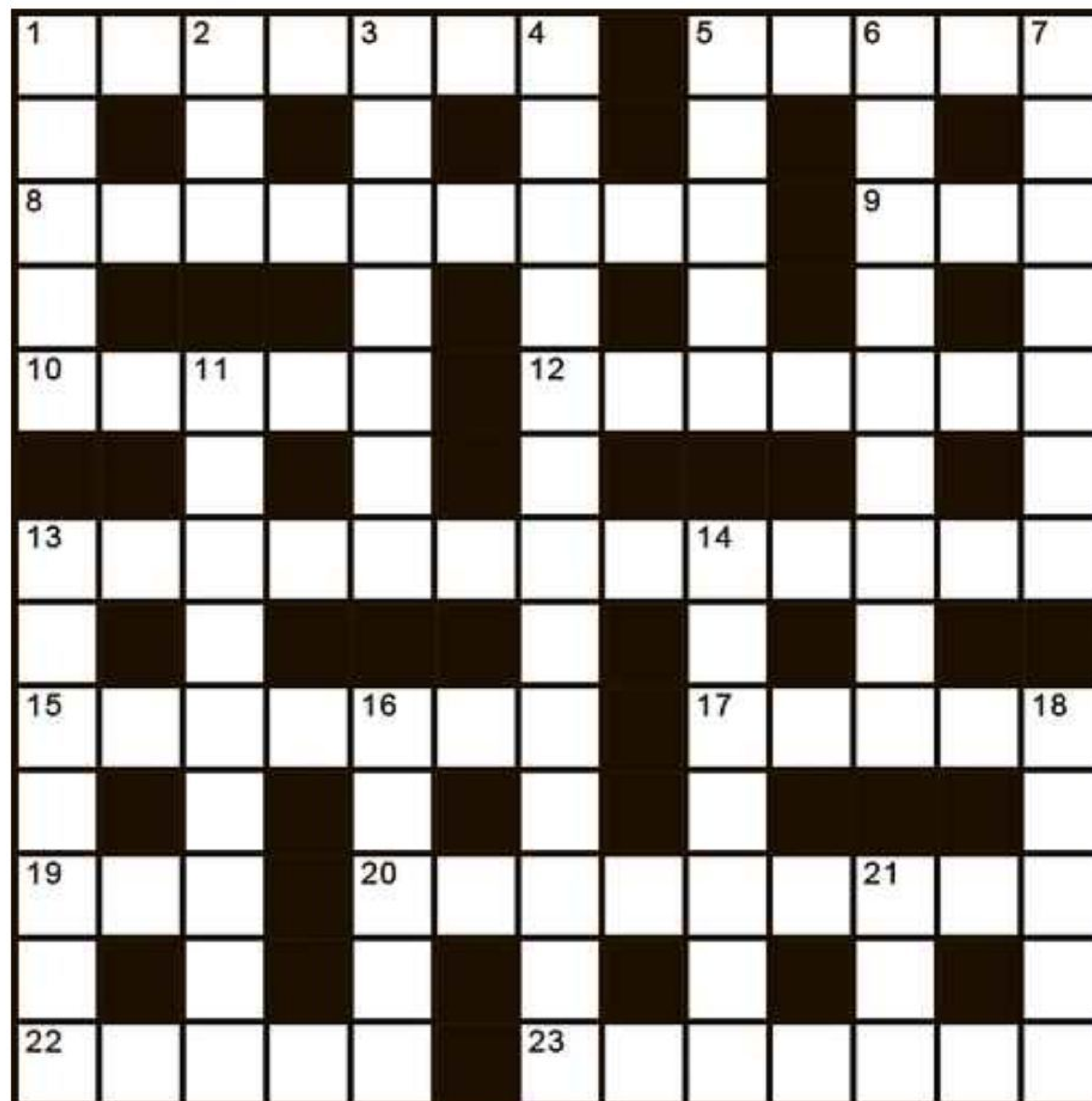
Tim Moorey's Quick Crossword No. 970

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 4 Nov 2019. Answers to MoneyWeek's Quick Crossword No. 970, 31-32 Alfred Place, London, WC1E 7DP.



Across clues are mildly cryptic whereas down clues are straightforward

ACROSS
1 Headwear for a picnic? (4, 3)
5 Herb, a comic character (5)
8 One in a suit and a vest? (9)
9 Wonderful in sofa bed (3)
10 Cooking eggs? Not half, go away! (5)
12 With rough sea, duck is going in one direction (7)
13 Check on flower making a comeback (13)
15 Notice Cinders being punished (7)
17 Strict cook? I start with Delia (5)
19 Trouble in a party (3)
20 Learning version includes a short game (9)
22 Lure office worker in front of Tiger's Head (5)
23 Drunkard present gets expression of defiance (2, 5)

DOWN
1 Mails (5)
2 Succession of demands on a bank (3)
3 Hostile controversial writing (7)
4 Risk takers in business (13)
5 Extra payment to a banker perhaps (5)
6 Pain (9)
7 Mediterranean republic (7)
11 Heavy downpour (9)
13 Plan again (7)
14 Emergency aviation transport (7)
16 Force out (5)
18 Jig is one (5)
21 Anger (3)

Name

Address

Solutions to 968

Across **1** Char *two defs* **3** War chest *deceptive def* **9** Adipose *a DI pose* **10** Nerve *anagram* **11** Kindergarten *deceptive def* **14** Ode *homophone owed* **16** Stall *two defs* **17** Tea *hidden* **18** Breakthrough *deceptive def* **21** Haiti *anagram* 22 Chamber *Chamber(s)* **23** Stranger *two defs* **24** Knee *anagram.* **Down** **1** Crackpot **2** Alien **4** Ale **5** Control freak **6** Earnest **7** Trek **8** Power station **12** Giant **13** Warhorse **15** Earlier **19** Urban **20** Thus **22** Cue.

The winner of MoneyWeek Quick Crossword No. 968 is: Mr R.T.R. Pilling of Cheshire.

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.

Drowning in debt

Can the US grow its way out of it? Not this time. It will inflate it away

Bill Bonner
Columnist

Total US debt – public and private – now approaches $74trn. The economy that supports this debt has grown steadily, but nowhere near fast enough to keep up with it.

Historically, Americans have owed 1.5 days of work in the future for every day of work in the present: the ratio of debt to GDP averaged about 1.5 to one for the first eight decades of the 20th century.

Then, debt went up and now stands at 3.5 days of future GDP for every day of present output. Have we arrived in some great and glorious Valhalla, where the old rules no longer apply, where debt no longer matters?

A key reason why debt is often said to be no problem is that we will "grow our way out" of it.

In the emergency of World War II, the US government borrowed a huge amount of money. But over the following decades, the economy grew faster than the debt. So like an ageing movie idol, the World War II-era debt faded. In 1948, it measured 126% of GDP; by 1980, it had shrivelled to 42%.

But growing your way out works only if GDP grows faster than debt. Currently, with no Japanese bombers overhead and no Wehrmacht tanks rolling down the Champs-Élysées, US GDP is growing by about 2% per year.

There are no German tanks in Paris these days, but the US is still borrowing like crazy

©Alamy

US debt, however, is growing at about $1trn per year, or about 5%.

And as we have pointed out before, this explosion of debt is happening less than two years after a big tax cut was supposed to boost GDP growth and while we are at the tail end of a ten-year boom. What will happen when the boom ends?

> *"US borrowings are growing by 5%, or $1trn, per annum"*

There is an argument that GDP measures fail to account for technological improvements and that because of so much progress, the debt will be no problem. The new iPhone is 120 times more powerful than the first one. Surely that will help us pay our bills?

But you can't pay debts with computing power. You pay them with money. And where does money come from? Time on the job. Wage growth rates have been coming down for the last 40 years. And despite more innovations than ever in history, real wages today are no higher than they were in the 1970s. Now, at the end of the cycle, wages are said to be growing at nearly 5% per year. But come the crisis, that wage growth will quickly disappear just as debt shoots up even more.

Nobody wants the boom to die. So, they'll inflate more. Bring on the quantitative easing, the shovel-ready programmes, the tax credits and all the other boondoggles!

In the coming crisis, US deficits will increase to $2trn or more per year. Government debt will rise to $40trn and beyond. Total debt – including corporate and household debt – will go over $100trn. And then suddenly consumer prices will rise. And then, it will be a whole new ball game.

The bottom line

675,000 The number of new dollar millionaires created in the US last year, according to the Credit Suisse Global Wealth Report. America accounted for 60% of the world's new millionaires. Japan came second in 2018 with 187,000; China third with 158,000. Britain lost 27,000 millionaires, the second-biggest decline behind Australia's 124,000.

£14.3bn How much taxpayers' money has been wasted between 2016 and 2019 owing to public-sector outsourcing contracts being mismanaged. Think tank Reform analysed 52 investigations of outsourcing, collating costs such as unplanned expenses and delays.

£7,600 The online cost of some tickets to the Rugby World Cup semi-final tomorrow between England and New Zealand.

£5.73 The average price of a bottle of wine in 2019, according to Kantar. The consumer research group found that one in three shoppers in Britain were struggling with the "psychological £5 price barrier" and had turned to cheaper alcoholic drinks.

1,147 The number of tonnes of apples, equivalent to 16 million single ones, that have been left to rot in fields this year thanks to a labour shortage. The National Farmers' Union says that in September it had 20% fewer workers than it needed. Workers from other EU countries account for 99% of seasonal fruit-pickers in Britain, but many seem to have been put off by Brexit.

©Getty Images

£6,700 The average total cost per Instagram post of the luxury products portrayed by "influencers", according to personal finance firm Credit Karma. Influencers such as Molly-Mae Hague (pictured) are often paid to promote the items on social media.

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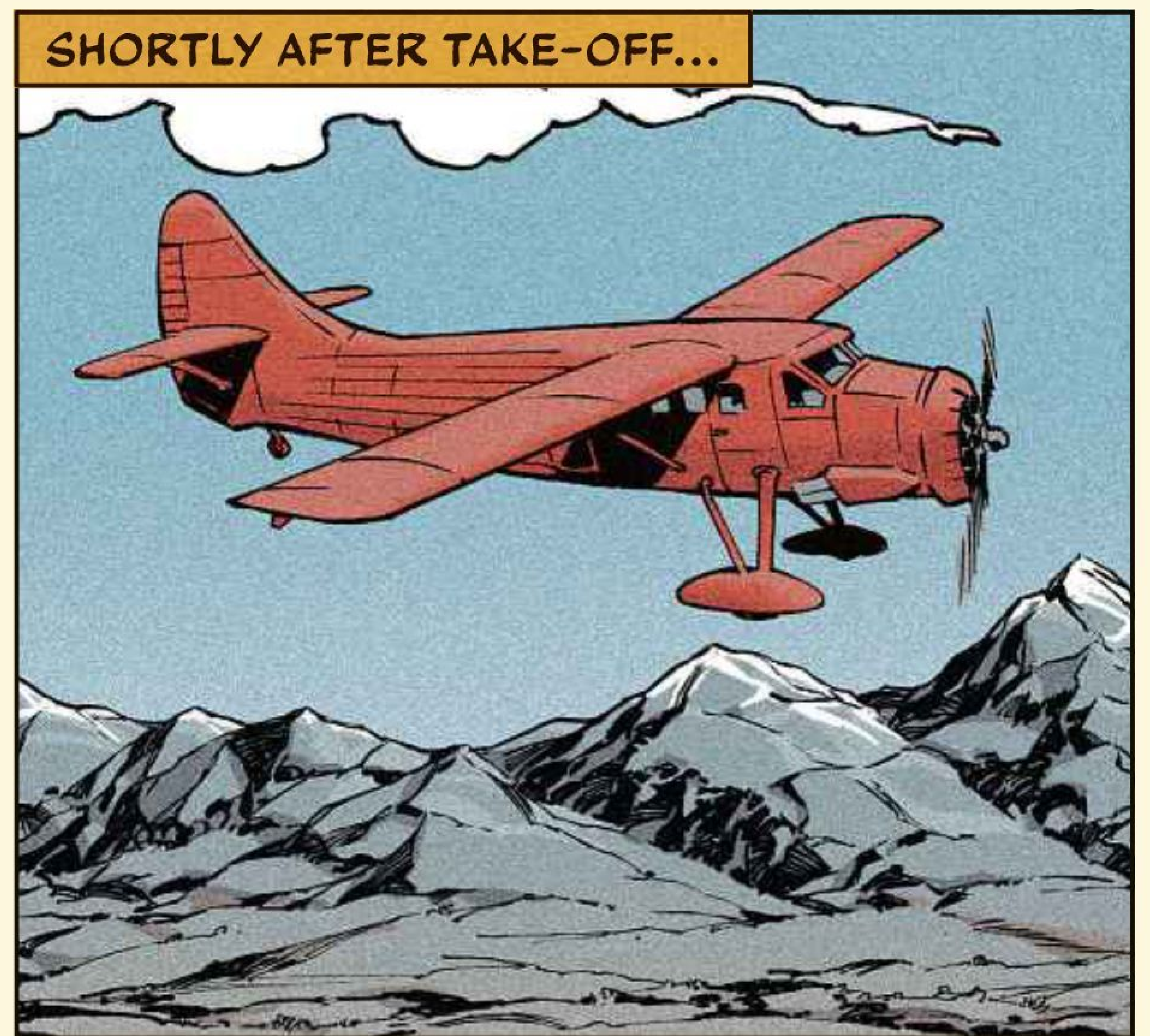
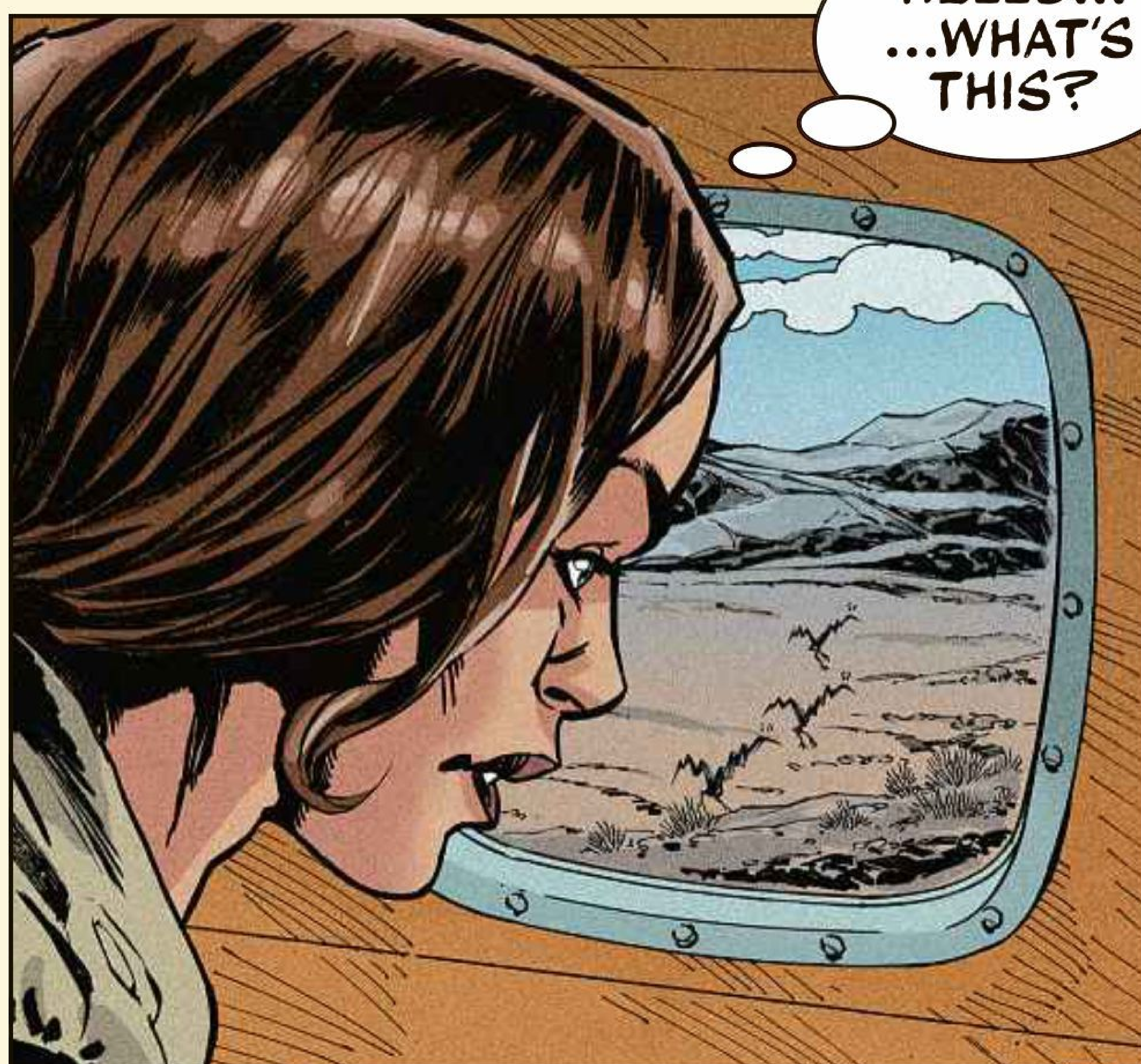
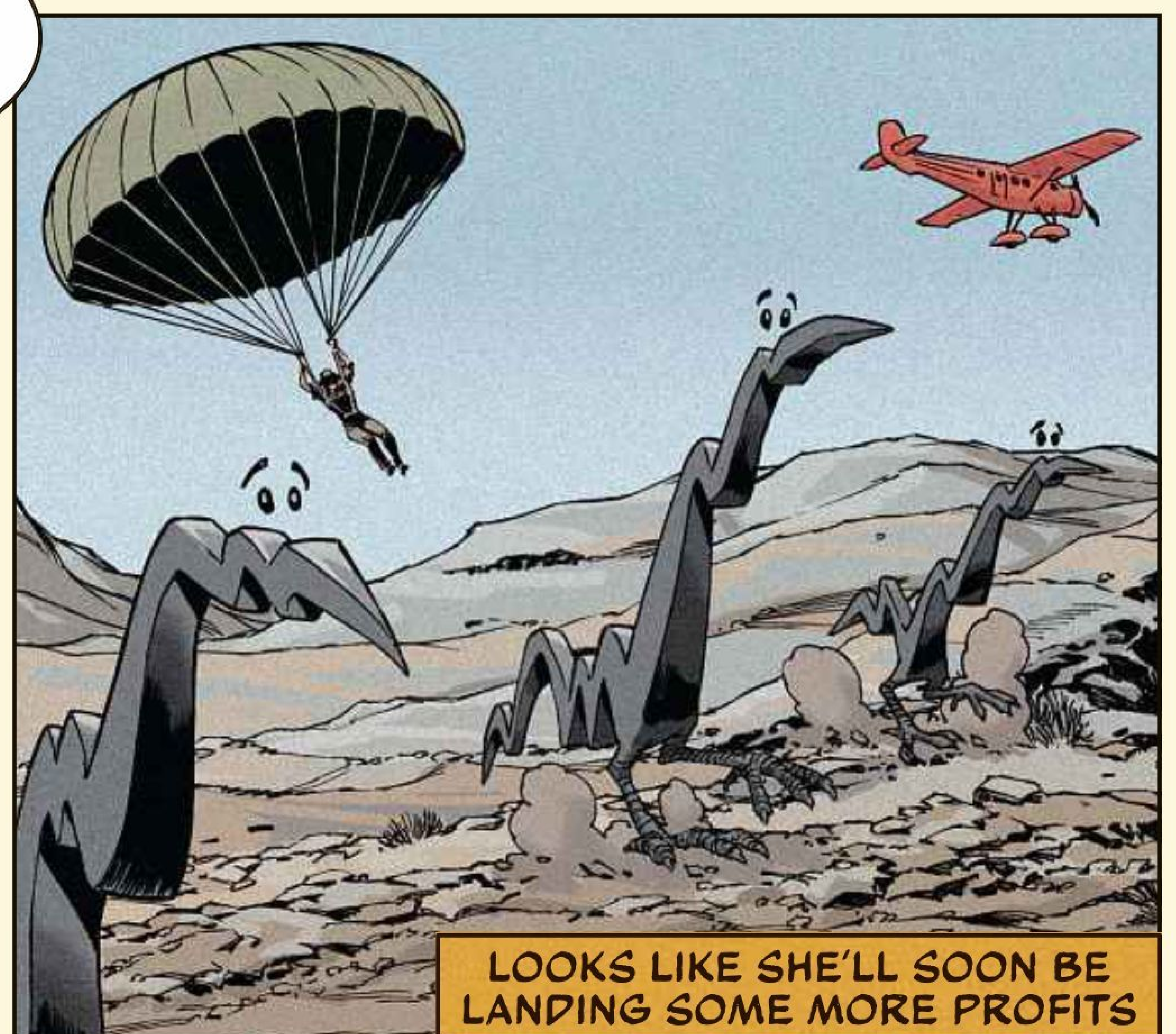
In today's environment, the hunter's *all-active* approach is more important than ever.







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THE NEW GOLD STANDARD

Exotic markets are on a tear

Alternative investments have been frothy recently, but you can still find value – or just enjoy collecting things you like

Alternative investments have been on a tear over the past decade. Art, wine, classic cars, you name it – they have all set new records recently. In some cases repeatedly. So, what has been driving all this excitement? A key factor has been the need to find a decent return. In this topsy-turvy world of low and negative interest rates, money has been pushed into all sorts of exotic places.

Wine and whisky have seen rising demand from Asia, particularly from China and its newly minted millionaires. After all, what better way is there to show off your wealth than with a bottle of Romanée-Conti or a 1926 Macallan singe malt? Or how about a Ferrari 250 GTO? No – better yet, *Salvator Mundi*, the world's most expensive painting.

Critics were lining up after the sale to pour cold water on the "lost" Leonardo. But what did it matter? It had cost the best part of half a billion dollars and was now being kept on a floating gin palace, if the rumours were to be believed. At this end of the market, pre-sale auction estimates are meaningless.

That needn't spell disaster for the rest of us. Yes, many of the markets in alternative assets are looking particularly frothy. But we can leave the froth to the billionaires. Look past the headline-grabbing trophy assets, and you will find segments that have traditionally been overlooked. Italian wine, for example, is emerging from the shadows of Burgundy and Bordeaux, and women artists are beginning to get the attention they have long deserved.

That is where the fun lies in being a collector. You can investigate the segments of the market that have long lain outside of the spotlight. On the following pages, we look at some possible contenders. Who knows, you might even scoop up a bargain? Just don't bet the house on it.

What is most important – even more important than stumbling upon the deal of the next decade – is to have fun. Because, while it may not pay the bills, true value is to be found in the enjoyment of the things you are passionate about, whether they be vintage watches or Harry Potter first editions. Collecting is its own reward.

Chris Carter

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Where to find the best value in the art world today

It's been a record-breaking ten years for the art market – even Old Masters of questionable provenance are selling for hundreds of millions. But where should new collectors start?

It's been an incredible decade for art investors – the top ten highest prices paid for paintings have all come in the last ten years. In 2011, Paul Cezanne's *The Card Players* (c.1895) became the most expensive painting in the world when the oil state of Qatar paid around $250m in a private sale. That record was broken again in 2015 with the sale of *Interchange* (1955) by Willem de Kooning, which sold for about $300m in another private sale. And then, as everybody by now knows, Leonardo da Vinci's lost work, *Salvator Mundi* (c.1500), smashed the record into smithereens when another oil-rich state, Saudi Arabia, bought it for $450.3m before the eyes of the world at Christie's in New York in November 2017 – five times the previous record set for an Old Master.

What was truly extraordinary about this sale wasn't so much the money – it's that no one could even be sure it was painted by the Florentine master at all. When *Salvator Mundi* had sold previously in 2005, it went for just $10,000 because it was thought to have been painted by somebody in da Vinci's studio rather than da Vinci himself – and after the 2017 sale, art critics lined up to give their take on why it wasn't a genuine da Vinci. The spending of almost half a billion dollars on a suspect painting was exactly the kind of irrationally exuberant, top-of-the-market, contrarian signal you would expect to see before a downturn.

Yet that isn't quite what we got. The following May, Amedeo Modigliani's 1917 *Nu couché (sur le côté gauche)* fetched $157.2m at Sotheby's in New York. The impressionists weren't done yet either. Exactly one year after Sotheby's sold *Nu Couché*, the New York auction house sold Claude Monet's *Meules* (1890) for $110.7m, a record for the artist. Then, last June, another "lost Master" that had been found in an attic – *Judith and Holofernes* by Caravaggio – was bound for the auction block. Again, like *Salvator Mundi*, not everyone was convinced it was the genuine article. The Louvre had already turned its nose up at the painting, but that didn't stop a private buyer from snapping it up just two days before it was due to be auctioned in Toulouse. We don't know how much was paid – but presumably more than the $170m upper estimate.

So, as of last June, there was still plenty of froth in the market. But for how long can a market keep rising when questionable paintings are being sold for hundreds of millions of dollars? Prior to the start of this record-breaking decade, $140m was the most that had ever been spent on a painting: a Jackson Pollock entitled *No. 5, 1948* (it sold in 2006). So, if the art market has peaked, you can't say you weren't warned.

The next big thing

That said, there's always the potential to make money from collecting art. And if you are starting out, you probably won't be in the market for a da Vinci or a Caravaggio (not just yet, anyway). The emerging end of the art market can be an exciting place to get started. Degree shows for graduating art students are fertile hunting grounds. If you get very lucky, you might stumble upon the next David Hockney – and if not, at least you won't have paid through the nose.

"Works by female artists make up just 10% of the market by volume"

©Getty Images

Japanese contemporary artist Yayoi Kusama

Art fairs are also valuable for spotting undiscovered or emerging talent. Artnet News picked out Alteronce Gumby, Julien Creuzet and Suki Seokyeong Kang as three up-and-coming artists whose work was on display at Frieze London earlier this month. And don't be afraid to visit the art galleries themselves. Maddox Gallery in London has, for example, Bradley Theodore on its books. Theodore is an emerging talent, born in the Turks and Caicos Islands, whose murals and paintings are attracting an ever-growing following, with the prices to match.

Investing in female artists

It can pay to look at works by artists who fall outside of the traditional, white-male-dominated art market. Works by female artists – particularly post-war – have been rising in value more rapidly than any other sector in recent years, according to Sotheby's Mei Moses indices, which track the repeat-sale prices of 60,000 works. From 2012 to 2018, the value of 2,472 repeat sales by 499 women artists rose by 72.9%, and by 87.7% for contemporary female artists alone. The median compound annual returns for works by Joan Mitchell and Helen Frankenthaler resold at auction between 2014 and 2018 were 14.7% and 10.9%, according to Michael Klein, head of Sotheby's Mei Moses. For Willem de Kooning and Jackson Pollock, the figures were 7.8% and 6.5% respectively.

Meanwhile, supply is limited relative to male artists – works by female artists make up just 10% of the market by volume, while a handful of artists (including Japan's Yayoi Kusama) account for almost half of the value of sales by female artists. Given that works by women have been overlooked for so long, and interest in this segment is hotting up, there's likely to be as-yet untapped potential for profits.

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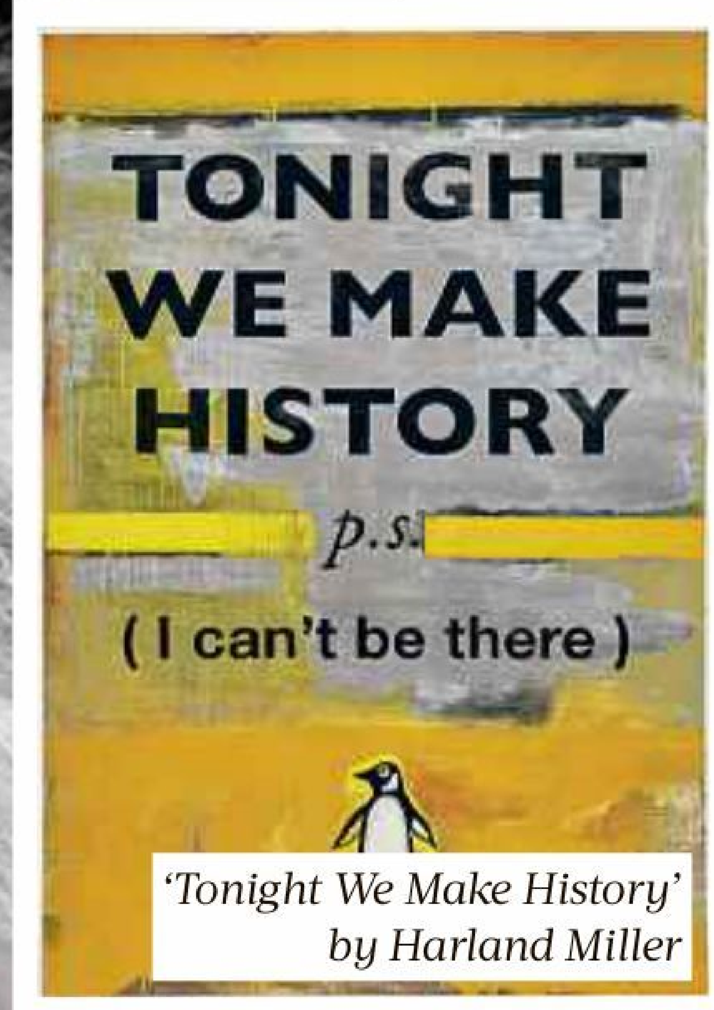
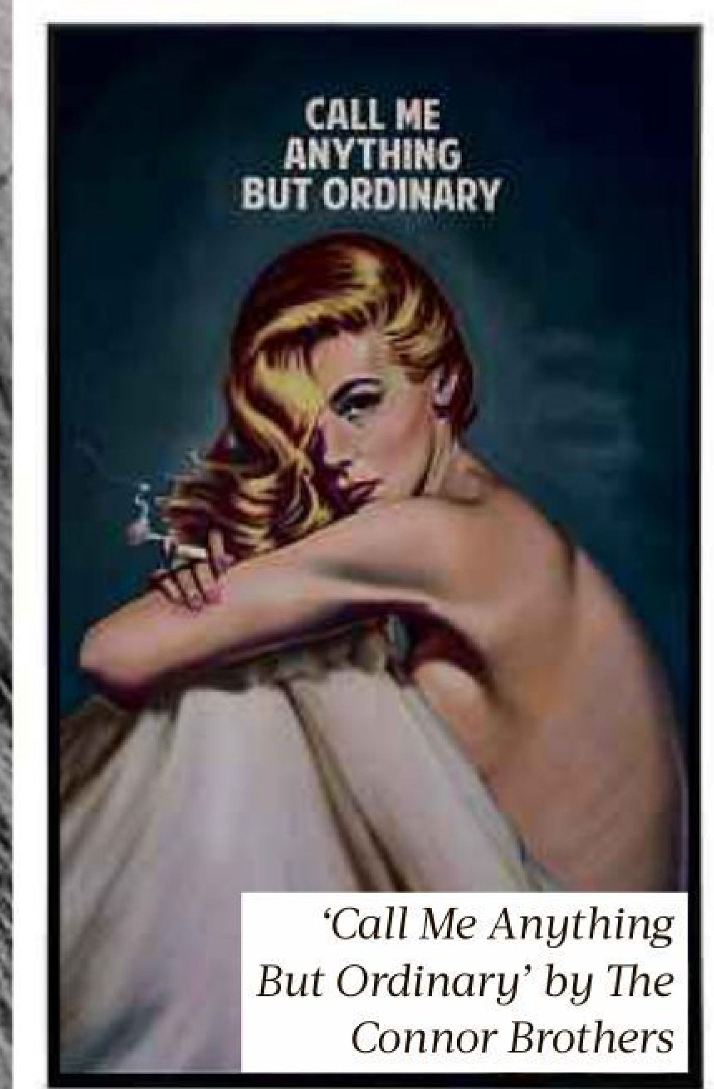
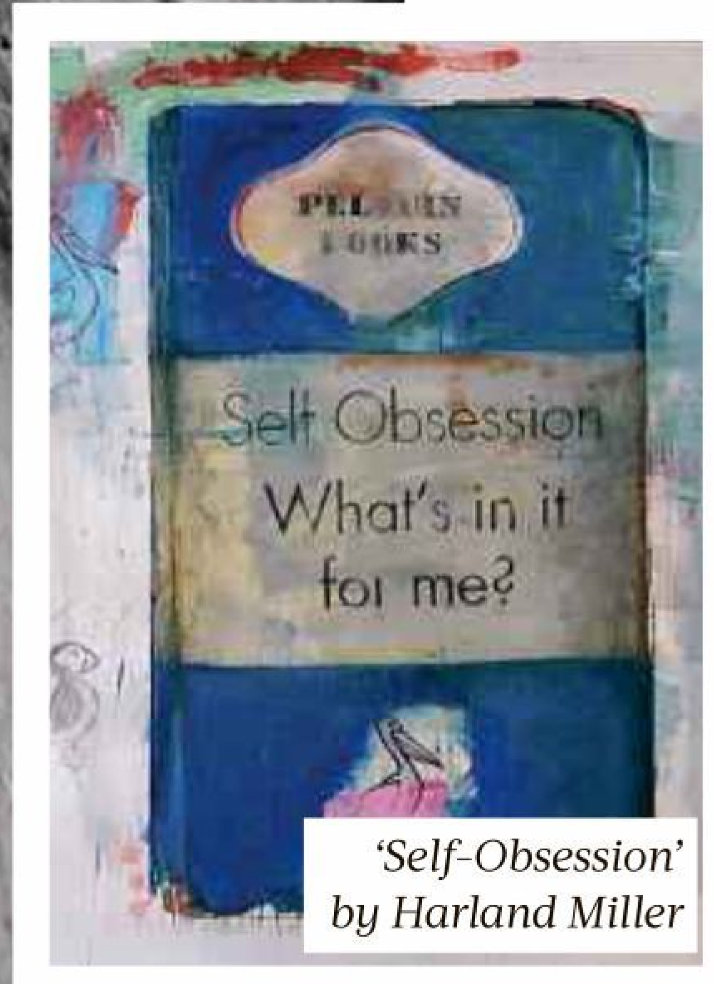


'Tonight We Make History' by Harland Miller

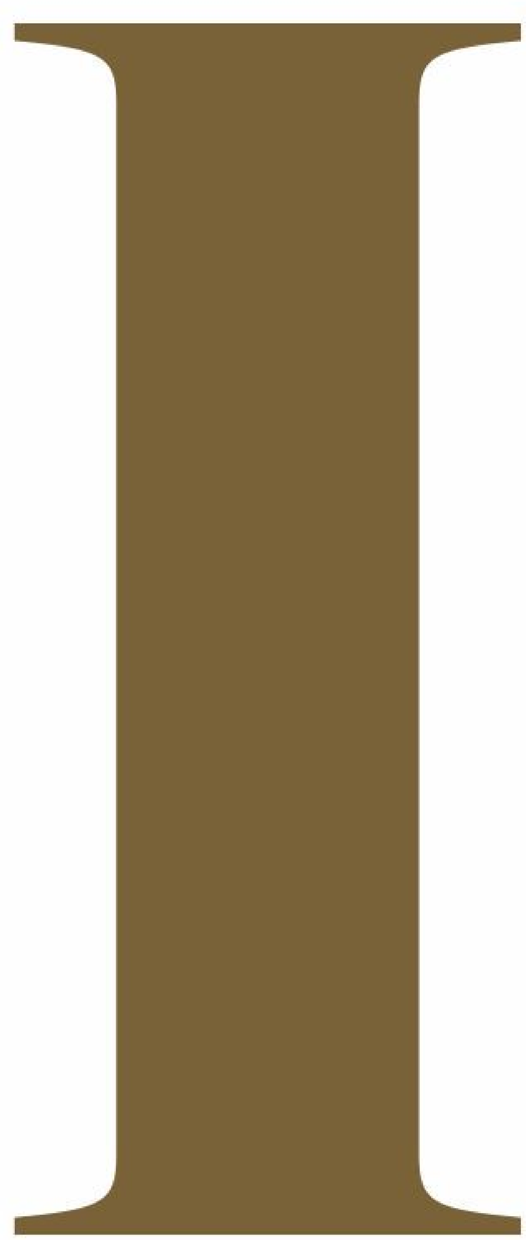


'Call Me Anything But Ordinary' by The Connor Brothers



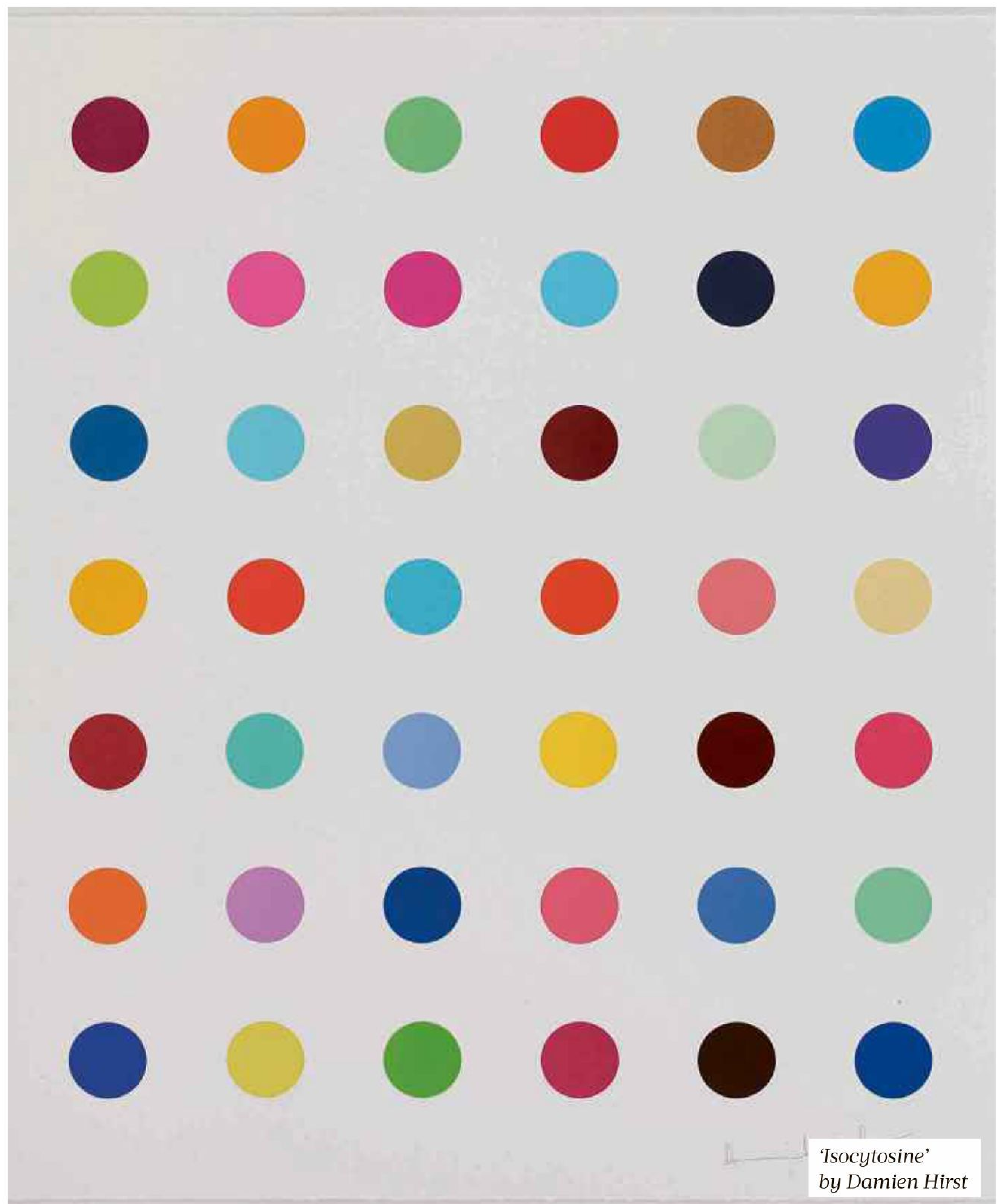
'Self-Obsession' by Harland Miller

Maddox Galleries

t's New York City, 1980. An artist collective known as Collaborative Projects Inc is busy putting the finishing touches to a free exhibition of their art in a dingy former massage parlour. One member of the group is a 19-year-old graffiti artist with a troubled background. A few miles away, another young man named Jeff Koons is working as a commodities broker on Wall Street. In his spare time, Koons does what he loves best – making art. Little does he realise that 39 years from now, in May 2019, his sculpture of an orange balloon rabbit will sell for over $91m in this same city – a record for a living artist. But for now, Koons is busy brokering. Our young graffiti artist will sadly meet a tragic end eight years later from a heroin overdose. He will be just 27 years old. And yet, even in death, his reputation as an artist will only grow. In May 2017, Jean-Michel Basquiat will shake the New York art scene when his painting of a skull, *Untitled*, sells for an astonishing $110.5m, making it the most expensive American painting in history. But for now, Basquiat is busy hanging paintings. That's just as well, as the buyer of *Untitled*, Japanese billionaire Yusaku Maezawa, is still only four in 1980, and years away from building the fashion empire that will make him his fortune.

You, however, don't have to have amassed billions before you can add an artwork by an artist of the calibre of Koons or Basquiat to your collection. You just need to get in early in their career. Basquiat's *Untitled*, from 1982, cost just $19,000 when it was bought two years later in 1984. By then, this artist of Haitian and Puerto Rican heritage was well on his way to acquiring big-ticket status, even teaming up with Andy Warhol. The trick to making a potential fortune from investing in art is to buy the artworks during this critical stage in an artist's career. Of course, identifying the "next big thing" is easier said than done. But Bradley Theodore, an "emerging artist" from the Caribbean, fits the bill.

Born in the Turks and Caicos Islands, Theodore now lives and works in New York City. Like Basquiat, he first came to prominence with the popularity of street art and his mural of cultural icons Anna Wintour and Karl Lagerfeld, drawing on the skull motif. Theodore has also worked with luxury brands Moët, Jordan Brand, RMK, Kent & Curwen, and Moleskine. His developing talent was chronicled in the short documentary *Becoming Bradley Theodore*, which premiered at the Tribeca Film Festival in 2016. In that year, you could have bought a smaller work by Theodore for £3,750. Today, you can expect to pay around £7,500. All three of his most recent solo exhibitions at Maddox Gallery in Mayfair, London, sold out in days.



'Isocytosine' by Damien Hirst

To see how a street artist can go on to acquire respectability and multi-million-pound valuations of an "established artist", just look at Banksy. The anonymous artist first got noticed for his stencil paintings in Bristol in the 1990s. Often satirical in nature, the appearance, usually overnight, of a new Banksy is headline-grabbing news. No wonder. Banksy's self-shredding canvas painting *Girl with Balloon* (2004) sold for £1m at Sotheby's in London last October. Bolstered by the popularity of street art and the media hype, his work has gone up in value by 20 times over the past decade – 200% in the last three years, according to Maddox Gallery. After that, you have the "blue-chip artists". Everybody has heard of Warhol and his trade-mark Pop Art screenprints of Marilyn Monroe and Chairman Mao are instantly recognisable. So, it's no surprise that the top price paid for a Warhol was $105m in 2013. But his New York studio wasn't called "The Factory" for nothing. Many of his works are more affordable. A Monroe screenprint, for example, bought for £21,800 in 2002 in New York fetched £158,500 in London 12 years later.

Navigating the ever-changing art scene can be bewildering. Naturally, it helps to have a trained eye. But if the idea of hanging out in art galleries alongside the cognoscenti leaves you feeling uncomfortable, you can always let the experts scout out the talent for you.

Maddox Art Advisory provides a specialist consultancy service to guide you as you grow your investment art collection. Their Sotheby's-trained advisors offer clear, unpretentious advice on investing in art, specialising in post-War and contemporary works. This is the portion of the art market that has really taken off. Between 2016 and 2018, this market rose by 12.8%, according to the Sotheby's Mei Moses Index. And you don't have to have millions to invest either. You can currently buy an investment-grade artwork from as little as £10,000.

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Wines to buy now

Wine can be an appealing investment – just don't drink it all

Unlike fine art, you can't enjoy fine wine as an investor. If you do, you will be literally drinking away your profits. You can't even enjoy looking at the labels – really serious investors store their wine in government-licensed bonded warehouses.

Octavian Vaults (octavianvaults.co.uk) and London City Bond (lcb.co.uk) are two such providers in Britain. Storing your wines here will ensure they are kept in a controlled environment, and out of the reach of the tax man – wines not destined for the UK market avoid having VAT and duty slapped on them. When you sell them, you do so "in bond". Naturally when storing wine in bonded warehouses, there are also fees and insurance to consider. (That said, if you do cave in to temptation, you can have the wine delivered to you. You will have to pay duty and VAT, of course, but note that VAT is paid on the original sale price of the wine – not its present value).

So be warned that when you invest in wine, any warm feeling you will be enjoying will come not from the alcohol, but from knowing your assets are quietly rising in value (hopefully). Liv-ex, the global marketplace for the wine trade, keeps tabs on what's hot. The top 1,000 bottles appreciated by 48.35% over the last five years, as measured by the benchmark Liv-ex Fine Wine 1000 index. That said, the index has risen by only 0.11% over the past year.

So what's going on? Bordeaux and Burgundy in France are the classic regions for wine investors. Burgundy, in particular, has hit heady heights – with an overall 94.9% gain over five years, according to the Liv-ex Burgundy 150 index. Last year, a bottle of 1945 Romanée-Conti fetched a record-breaking $558,000 at Sotheby's in New York, while another sold for $496,000 at the same auction.

But like a reveller that has stayed too long at a party, the French market is showing signs of slipping into a funk. The index was down by 6.2% in the year to the end of June.

The wines that might be worth laying down today

Italian wine is hardly new. In 2017, archaeologists in Sicily found wine residue in pots, suggesting that wine has been made in this part of the world for at least 6,000 years. But when it comes to the investment scene, it may surprise you to learn that Italian wine is a relative newcomer. Like the French market, Italian wine is dominated by two main regions – in this case, Tuscany and Piedmont. Sassicaia is perhaps the most famous of the "Super Tuscans", while Barolo and Barbaresco are examples of top Piedmontese wines. Italian wines also tend to be steady growers in contrast to the wild swings of the wider wine market, as the chart above from Liv-ex demonstrates. What's more, the Italy 100 was also the best-performing Liv-ex index this year, gaining 3%. It's not up there with this year's gain on the S&P 500, but it does show promise.

Meanwhile, if you simply want to learn more about wine and have fun while you're doing it, consider the MoneyWeek Wine Club. This month, MoneyWeek wine writer Matthew Jukes has picked his favourite avant-garde wines from Lea & Sandeman. No sign-up required – just go to moneyweekwineclub.com.

"Really serious wine investors don't even get to look at the labels"

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A fantastic decade for whisky

Scotland still holds the record for the most expensive whisky ever sold – but Japan is catching up fast

1926 Macallan: pricey

Whisky has been on a roll recently. As an asset class, rare whisky appreciated by 40% last year, making it the best-performing collectable asset of 2018, as rated by Knight Frank in its annual "Wealth Report". By comparison, coins (see page 14) came in second, with a relatively measly 12% growth. That caps an impressive decade for the spirit – over the last ten years, whisky has risen by 582%.

So, it's fair to say that with hindsight, whisky has proved to be one of the most appealing alternative investments of the past decade. That record, in turn, has encouraged ever more buyers into the market, particularly from Asia. That has led to some eye-catching results at auction houses.

The fine art of drinking

In May last year, Bonhams auction house in Hong Kong sold the world's most expensive bottle of whisky. The 1926 Macallan, bearing a label by British pop artist Peter Blake, went for HK$7.96m (£795,000). What was so extraordinary was that the auctioneer then did it again – another bottle of 1926 Macallan, this time bearing a label by Italian artist Valerio Adami (pictured), went for HK$8.64m (£863,000). Even that record didn't stand for long. Last October, yet another 1926 Macallan with the Adami label fetched £848,750 (including fees) in Edinburgh, again with Bonhams.

Like wine (see opposite), you can simply buy your bottles from a stockist, and allow them to mature in a warehouse. However, cashing in on whisky's popularity, this year also saw the launch of the world's first regulated whisky fund in Sweden.

The Single Malt Fund (thesinglemaltfund.com) allows investors to buy a stake in a larger collection of rare whiskies. As the assets are "liquidated" (ie the whiskies are put up for sale), investors get the chance to buy the bottles. The fund is supervised by the Swedish Financial Supervisory Authority, which approved it for launch on the Nordic Growth Market (NGM) exchange in Stockholm.

Meanwhile, earlier this month, we went to the London launch of another innovative whisky venture, Cask Trade (casktrade.com). The business, founded by entrepreneur Simon Aron, is unique in that it only deals in whole casks of whiskies that it owns (ie it is not a broker). It will soon offer its own online auction service at auctionyourcask.com. Another auction site worth checking out is just-whisky.co.uk. Register to sell your own whisky, or simply browse for anything from unusual whisky memorabilia to rare individual bottles.

The next big thing

Serious investors in whisky should investigate the Japanese market – Japanese distillers have been producing strong challengers to Scotch whiskies for several years now. Staff at Japanese distillery Nikka Whisky are working day and night to meet the global demand, for example, says Bloomberg's Shiho Takezawa. The market is expected to grow by 19% to $147.6bn by 2023, according to market researchers Euromonitor International. Last year, a bottle of Yamazaki 50-year-old single malt set a record for Japanese whisky, selling for HK$2.337m (£233,400) in Hong Kong – pricey, but still a way to go to beat the 1926 Macallan.

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Collectable classics, reimagined

Classic cars have been a spectacular investment for the last few decades, but with prices now sky-high, there are signs of a slowdown in the market. Yet help could come from a decidedly modern quarter...

For almost four decades, the classic car market has been motoring higher. From 1980 to 2017, classic cars were by far the best-performing collectable asset, according to the Credit Suisse "Global Investment Returns Yearbook 2018" (that's when the highly respected annual report last looked at alternative investments). In that time the value of the classic car market, as measured by the benchmark Historic Automobile Group International (HAGI) Top index, grew by 242 times.

For much of 2018, the trend continued. In August of that year, the hammer came down on the most expensive car ever sold at auction. A beautiful 1962 Ferrari 250 GTO (pictured below) sold for a staggering $48.4m with RM Sotheby's at the Pebble Beach Concours d'Elegance in California, the finale of Monterey Car Week. Ferrari only made 36 of them, and in their heyday they dominated the racing world, winning 300 races between them. Another 250 GTO reportedly sold for even more earlier that year in a private sale: $70m. At Pebble Beach, "a kind of Coachella for classic cars", as CNBC put it, $368m was raked in at auction in that week; a 12% increase even on 2017.

Has the car market hit the skids?

"Electric motors could keep the classic car market turning over"

And then the wheels came off the market. At this year's Monterey Car Week, "demand for cars costing more than $1m collapsed", says Kristie Pladson on Bloomberg. According to classic-car insurers and analysts Hagerty, the sell-through rate (a measure of how much stock is successfully sold) fell to 48% from 67% a year earlier. The sales of cheaper models held up rather better, showing the market hadn't altogether puttered to a standstill.

Yet "the trend highlights the unsustainable pace of growth for prices of vintage cars in recent years", says Pladson. "A glut of inventory has taken a toll and some investor-collectors new to the game are proving more skittish than traditional enthusiasts in the face of economic uncertainty." In fact, the reality is that the broader classic-car market has been enduring a gradual downturn ever since hitting a peak in September 2015, as the chart below left (the Hagerty Market Index, based on volumes and values of collector cars traded, adjusted for inflation) indicates. There is, however, another trend developing in classic cars that may help to keep the overall market afloat a while longer.

The next big thing: collectable electric cars

In May 2018, the newly wed Duke and Duchess of Sussex sped away in a classic 1968 E-Type Jaguar – the picture of old English style. But a glance under the bonnet revealed not a 4.2-litre engine but an electric motor. The royals were right on trend.

Jaguar has installed a 220kW powertrain in the E-Type as part of its "Concept Zero" project. The lithium-ion battery pack is about the same size and weight as the original XK six-cylinder engine, with the advantage of being both quieter and more environmentally friendly. Enzo Ferrari had praised the E-Type as being "the most beautiful car in the world", so he would have been pleased to know the car's looks have been preserved. It even handles in the same way, say the Warwickshire-based engineers who carried out the work. Most importantly, as Jaguar notes, it "gives a second life to existing vehicles that may be beyond repair"; Jaguar put the price of a fully restored E-Type Zero at around £300,000 and £60,000 for the conversion.

Besides, the changeover doesn't have to be permanent. Last December, Aston Martin unveiled its "cassette" system on a 1970 DB6 Mk2 Volante. It allowed for the electric powertrain to be taken out and replaced with the original, should the owner ever want to enter it in a classic car show, for example.

Smaller outfits are getting in on the action. British engineering start-up Lunaz Design has just launched an all-electric conversion kit for the 1953 Jaguar XK120 and the 1961 Rolls-Royce Phantom V, priced from £350,000, reports Auto Express. The cars are stripped down and the underpinnings re-engineered to accommodate the new electric drivetrain. The interiors can also enjoy upgrades, such as Wi-Fi and air-conditioning.

Converting an old classic to electric doesn't come cheap. But it's hoped electric motors will draw a new generation of eco-conscious collectors. That will help to keep the car market turning over for a few more years yet.

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Auctions: what you should know before you go

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The auctioneer is rattling off sounds like a machine gun. "Five hundred, five-fifty, six, six-fifty…" There's no stopping the numbers. They just keep going higher. The atmosphere in the room hits fever-pitch. "Oohs and aahs" ring out around you. Three bidders in the room are locked in a tense battle with another two on the phones. Who will win? Will it ever end? "Seven hundred! Seven-fifty, eight!"

That itch on the end of your nose is tormenting you. Every time you try to ignore it, it gets worse. The itch! Just concentrate on the action, you tell yourself. "Nine, nine-fifty!" Blast it, you just can't stand it anymore. You scratch your nose. The relief! But oh, the auctioneer has seen you! "One thousand from the person at the back!" You were only scratching your nose! You pray for another bid. But none comes. "Sold for £1,000 to the person at the back!" How will you explain it to your spouse?

For people who have never attended an auction, this scenario is probably their worst nightmare. You wiggle an ear, you scratch your nose, you blink and you are lumbered with something you didn't want, with no idea of how you are going to pay for it. You are vaguely aware that bids at auction are legal contracts. So, there's no getting out of it.

The good news, however, is that an ear-wiggle is not going to land you in debt. That's just a myth. As Luke Macdonald, a director at Cheffins auction house in Cambridge, told Victoria Brzezinski in The Times earlier this year: "As auctioneers we are looking for your bidding number and someone who is really bidding." So, scratch away.

Who are the main players?

You will have heard of Sotheby's and Christie's. Together, these auction behemoths sell over 80% of all artworks

"Sold for £1,000 to the person at the back!"

©Getty Images

Sotheby's and Christie's dominate auctions of artworks

priced over $1m. There are, however, other auction houses to consider.

Many are specialists in particular fields. For instance, while Bonhams dabbles in everything, it dominates the classic car market, presiding over the car auctions at Goodwood, West Sussex, every year. Phillips is known for selling jewellery and watches, while if it's comic books you're after, try Texas-based Heritage Auctions. For sports and celebrity memorabilia, there are Profiles in History, Julien's Auctions and Swann Auction Galleries, all based in America. Vectis Auctions is the specialist for toys in Britain. On the continent, Paris-based Artcurial focuses on the French art scene. A local auction house can be just the place to learn the ropes. Chiswick Auctions, for example, has branches in Chiswick and South Kensington, west London, as well as premises in Edinburgh.

If you know what you want, but don't know where to look, then Barnebys.co.uk is a useful online aggregator. You can then peruse the online catalogues to find what you want. Just don't forget to factor in VAT and the buyer's premium, which comes on top of the winning bid (the hammer price). It can be as high as 25%. Artists may also be entitled to a fee as part of their Artist's Resale Right (ARR) each time their work is resold.

Why you should go to auctions

"Auctions are excellent spaces to learn about a particular market," says Lazarus Halstead, head of

Asian Art at Chiswick Auctions. "Their selection... is often much wider than what a dealer may have in stock, and while it is possible to pay below or above true market value, auction prices are decided by the market and give an excellent snapshot of demand at a particular moment."

Attending an auction isn't just about bagging a bargain, however – and if you're starting out as a collector, bagging a bargain shouldn't be your main priority anyway. "Perhaps the most important thing is not to expect to buy something significantly below current market value," says Halstead. "If it looks too good to be true, it probably is. Check carefully what the auction house guarantees in terms of age and authenticity." And "ask for a condition report, because the condition of a piece will have a significant bearing on its value, and condition issues may not be obvious on first glance".

Don't be afraid to ask around for advice and information. "Talk to credible specialists before going ahead with a prospective purchase. This will include the auction specialist but could also include the important dealers in your collecting field," says Halstead. Employing the assistance of a credible adviser or dealer could save you from making costly mistakes. And always go for quality over quantity. "Rare and exceptional pieces in any category will tend to hold their value best."

Decide why you are collecting

It's also important to decide why you are collecting. If it is just for fun, and you can spare the money to indulge in your hobby, then all well and good. A collection of fine Iznik pottery won't pay you an income – but it is beautiful to look at. If you are collecting to accumulate wealth for your retirement, you will want to consider a more reliable way to invest, such as an Individual Savings Account (Isa) or a self-invested personal pension (Sipp). The value of collectables depends on the whim of the market; its view of what's fashionable and what isn't can change rapidly. Collectables also tend to be illiquid: they can be hard to sell for the price you want if you need to raise cash quickly. They are usually rare or unique items. That's what makes them collectable. When starting out, also "consider your exit strategy – what is your time frame for disposing of the collection and how will it be done?", says Halstead. "Are you going to build up a themed collection which could be sold together to add value?"

Auctions are fun

Most importantly, however, remember that auctions are supposed to be fun, as Halstead points out. They are a "meeting point for all kinds of different people, from private collectors to dealers to those who get a buzz from the excitement of auction". Whether it's collectable Japanese woodblock prints or Hermès Birkin handbags, auctions are a great place to learn about a market. Enjoy them.

A guide to auction jargon

Absentee bid: A bid from someone not present at the auction.

Appraisal: An evaluation of an item's "fair market value" (FMV) or insurance value.

Artist's Resale Right (ARR): A European Union directive that entitles an artist to a royalty payment each time their work is sold on the secondary market for up to 70 years after their death. At auction, it is calculated on the "hammer price" and ranges from 0.25% to 4% of it.

Bought-in: Confusingly, this refers to when an item fails to sell. The item is then said to be "burned", potentially making it harder to sell next time.

Chandelier bids: An auctioneer can point to nobody in particular (ie, the chandelier) and invent a bid to keep the process going. It is frowned upon, but it is legal so long as the bids are below the "reserve" price. The polite term is "consecutive bidding". When people invent bids to drive up prices, they are termed "shills" and the practice is known as "collusion", which is illegal.

Consign: To send an item to auction. The owner is the "consignor" until it that item sold.

Estimate: An upper and lower range of how much an item is thought to be worth.

Fair warning: What the auctioneer gives when bidding is about to end.

Guarantee: Money the owner will receive from the auction house or a third party if their item fails to sell.

Hammer price: The price at which the hammer comes down (ie, the winning bid). It does not include premiums and taxes.

Knocked down: The moment the hammer comes down on a sold item.

Lot: The item for sale.

Paddle: The object you wave with your bidder number on it.

Proxy bid: A bid made on behalf of someone else.

Reserve: The minimum price a seller will accept from bidders for their item, usually set at the low end of the estimate.

Seller's commission: The fee paid to the auction house by the seller of an item.

Buy gold, get the history for free

Gold has been a popular store of value for millennia. As a result, coin collectors can bag a tiny piece of history for little more than the price of its bullion content, says Dominic Frisby

If you like an investment you can touch, hold or even wear, then look no further than gold. "Gold gets dug out of the ground in Africa, or someplace," US investor Warren Buffet, one of the world's richest men, has famously complained. "Then we melt it down, dig another hole, bury it again and pay people to stand around guarding it. It has no utility. Anyone watching from Mars would be scratching their head."

He has a point. But he also misses the fact that gold's very utility is its lack of utility. It's not there to be used. It's there to be admired, hoarded and treasured. It's there for its beauty.

Of course, it is safer to store your gold in a vault somewhere, but that way you don't get any actual pleasure from the gold (unless its price is going up). You're not admiring it. There's a weirdly compelling, hypnotic quality to physical gold – perhaps that's the reason it has so captivated so many millions of people throughout history and been so sought after. If you are going to invest in something, why not derive pleasure from it as well?

A gold solidus issued by Emperor Justinian I

Supping from silver

Back in the silver bull market of the 2000s, I remember stumbling across one eccentric investor who would only buy silver in the form of antique tea and dinner sets, usually of the Georgian variety. There was no VAT to pay and, often, the bullion value of the silver was higher than the price he was paying for the tea set. He could in theory melt down the tea sets and make an immediate profit, but instead he chose to enjoy them. No doubt he would sip his morning cup of tea while contemplating the fact that silver was in a rampant bull market.

It's possible to do something similar with coins. Gold lasts forever – it doesn't tarnish, it's immutable – so you can pick up old coins that are hundreds of years old, which look almost as good as new, for little more than their bullion content.

A few years ago I remember strolling through Shepherd Market, just off Piccadilly, after a boozy lunch and ending up in the coin shop there. There was a rather attractive little coin sitting in the window – a Justinian solidus (pictured). The Byzantine emperor Justinian I ruled in Constantinople in the mid-500s, so here I was, looking at a four-and-a-half-gramme coin that was roughly 1,500 years old. Yet the coin was trading at its bullion value (solidi have a purity of 96%-98%) – so I got all of that antiquity for free.

This solidus was the standard for eastern Medittaranean international commerce, so, rather like the British sovereign, there are plenty of them floating about. Unless some celebrity starts urging people to buy solidi, it's unlikely they will ever attain much numismatic value. Even so, it easily beats owning four and a half grams of a boring old gold bar.

"You can buy a 1,500-year-old coin for little more than its bullion value"

I bought the coin for £330 and I see the same coins now trading for £650 on eBay so I'm about 100% up on my investment. Gold has almost doubled over the same period, so I've beaten the market, if only by a fraction. But this has been a much more enjoyable investment. Showing it to people makes for a great talking point. So if you can pick up antique coins at the bullion value, even if they are common coins, that has to be a better investment than simply buying the metal itself in bullion form.

The best-value British gold coins

The most common antique coins in the UK are the Victorian, Edwardian and Georgian sovereigns. In most cases, they trade at a small premium to modern sovereigns. I've picked up loads of them over the years, but I have to admit that the sovereign is not the most attractive gold coin out there. They are only 22-carat – they are mixed with a tiny amount of copper to harden them and make them more durable for everyday use. There are better-looking bullion coins to be found, the solidus being one of them.

But again, when you buy a sovereign you get the antiquity almost for free. And importantly from an investment point of view, you don't pay any capital gains tax (CGT) either if you sell at a profit. It's one of those historical anomalies, but the sovereign is, technically, legal tender, so it is CGT exempt. In fact, holding a sovereign makes you all too aware how much the pound has declined. It now takes £300 to buy a sovereign even though the sovereign is the old pound coin.

Also CGT-exempt are 1oz Britannias. Britannias are beautiful coins, much more so than sovereigns. The reason is that they're 24-carat, so don't have that reddish tone sovereigns have. So they're easily my pick of the 1oz coins.

Krugerrands are probably the most famous 1oz bullion coins, but you can also get Canadian Maple Leaves, Chinese Pandas, Austrian Philharmonics, US Eagles and Australian Nuggets, also known as Kangaroos. You're not going to go wrong with any of them – each is an ounce of gold (they also variously come in other weights) – but I must confess a fondness for Philharmonics, Pandas and Nuggets.

When going for older coins, you should do a bit of research as well as taking the advice of a coin dealer (don't just rely on the latter). And always use a reputable dealer, whether online or at a shop. My strategy is always to try and get as close a price as possible to the "spot" gold price for the bullion, and get the antiquity for free.

On the other hand, Anglo-Saxon coins, which I love, trade at a huge premium to their metal content (they tend mostly to be silver as well), because a lot of people feel the same way as me about that period in British Dark Age history. So, as a bullion investment, they might not be worth it. Of course, there are old and extremely rare gold coins as well – but be prepared to pay handsomely for them.

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5 reasons why you should own physical gold...

1 Gold is a safe haven asset

Gold is frequently used as a safe haven asset in times of economic turmoil or geopolitical uncertainty. For this reason, many advisors recommend diversifying a portfolio with around 5% - 15% in gold.

2 Gold has a history of holding its value

Gold historically has a weak correlation to movements in financial markets and is frequently used as a hedge against inflation or to offset falling stock markets. Unlike paper currency, gold has maintained its value through the ages. It is an ideal way of preserving wealth from one generation to another.

3 Gold has tax benefits

Investment gold has been VAT-free in the UK and EU since the turn of the millennium, helping your money go further when you buy. UK bullion coins are also classed as legal tender, meaning they are exempt from Capital Gains Tax.

4 Gold is scarce

Deposits of gold are relatively scarce, and new supplies of physical gold are limited. This natural scarcity, and high demand, mean gold holds its value.

5 Gold has no counterparty risk

When you invest in physical gold you own it outright. You are not reliant on banks or financial institutions. In contrast, gold futures, gold certificates or ETFs all involve counterparty risk.

One of the oldest questions in the world is *'Where is my money really safe?'*. Growing numbers are choosing the oldest answer - physical gold. Gold bars and coins can provide insurance in turbulent times, and offers the opportunity to take physical control and ownership of your wealth.

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How derivatives can widen your m

Certain alternative asset classes and strategies are tricky for private investors to access. Using derivatives – with caution – is one way to level the playing field

Throughout the rest of this supplement we've been looking at the sorts of alternative investments that could best be described as collectables, or even "trophy assets". However, there's another class of alternative investments, which might best be described as "financial markets that most private investors can't easily access".

For example, most of us own stocks and bonds in our portfolios. Some of us might own or have exposure to commercial property. And some of us (certainly the regular MoneyWeek readers among you) will own some gold (we reckon in the region of 5% to 10%). However, what happens if investors want to get direct exposure to commodity prices? Or to currency movements? To be very clear, we wouldn't regard either of these assets as forming a vital part of a core portfolio. For most long-term investors, when it comes to foreign exchange movements, what you lose on the roundabouts, you'll gain on the swings, while individual commodity prices tend to trend lower over time, as human ingenuity and improving productivity means that we can do more with less.

That said, there are occasions when an experienced or adventurous investor might want to hedge their foreign exchange exposure, or to express a short-term view on a specific commodity, or simply to learn more about how a particular market works. So if you want to get exposure to these areas, what can you do?

The world of derivatives

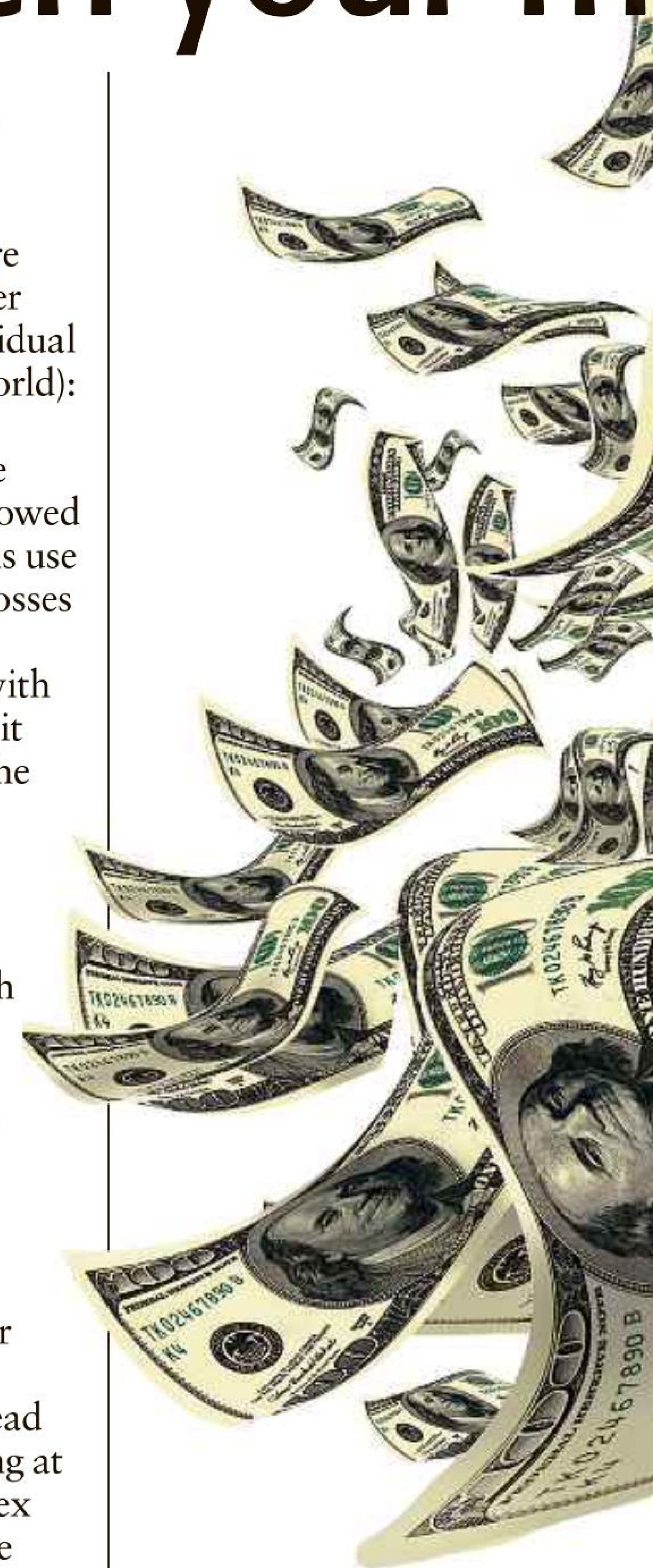
The easiest way for private investors to spread the range of assets (and investment techniques) that they can access is by using derivatives. Specifically, there are two main types of financial derivative that offer ways to bet on prices (including the prices of individual equities and various different indices across the world): spread bets and contracts for difference (CFDs).

The first thing to be aware of is that use of these derivatives is highly risky. Both involve using borrowed money to bet on movements on asset markets. This use of "leverage" or "gearing" means that gains and losses are both amplified. On the one hand, this enables you to generate significant exposure to a market with a relatively small amount of capital. On the other, it greatly increases your odds of being wiped out if the price goes against you. Indeed, technically your losses can be unlimited.

How does spread betting work?

While there are differences in tax treatment, which we'll go into in a moment, CFDs and spread bets work similarly to one another. In effect, you bet on whether the price of an asset will rise (in which case you "go long") or fall (in which case you "go short"). In the case of a spread bet, the provider (big providers include IG Index, City Index, and CMC Markets) will offer a quote, which consists of a bid (selling) price and a – slightly higher – offer (buying) price.

Say the FTSE 100 stands at 7,300, then the spread betting provider might give you the choice of selling at 7,299 or buying at 7,301. If you think that the index will fall – or perhaps you want to hedge against the risk of losing money in your broader portfolio – then



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Why long-term investors shouldn't ignore derivatives

Spread betting or trading CFDs (contracts for difference) are often seen as being purely for short-term traders. But long-term investors should not neglect these valuable financial tools. Here are three examples of how CFDs and spread bets can be used to enhance a long-term portfolio.

Firstly, they make it easy for private investors to "go short". So if an investor is concerned that the wider market is heading for a fall, for example, they could use a spread bet or CFD as a way to potentially profit from a short-term decline, rather than sell out of their long-term portfolio and then hope to get back in at a lower price.

Secondly, they can be used to "hedge" exposure to other risks. For example, CFDs are a useful way for those selling or buying property abroad to lock in an exchange rate in order to protect against currency fluctuations during the period between agreeing a price and finally exchanging. This technique can also be used to hedge against currency moves that affect the value of a portfolio of stocks listed overseas.

Finally, spread betting and CFDs can provide diversification benefits for a longer-term investor, via markets that are traditionally difficult for private investors to access – such as commodities, currencies, or even movements in interest rate expectations.

Find out more at ig.com

RISK WARNING: Spread bets and CFDs are complex instruments and come with a high risk of losing money rapidly due to leverage. **75% of retail investor accounts lose money when trading spread bets and CFDs with this provider.** You should consider whether you understand how spread bets and CFDs work, and whether you can afford to take the high risk of losing your money.

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you would go short, by selling the index at 7,299. You also have to choose a stake – which is usually "per point". You can also choose to close the bet at any time (at least, during market opening hours) – you don't have to hold it for a specific period. So say you sell the FTSE 100 at £10 a point. If the FTSE fell by 51 points from 7,300 to 7,249, you'd make £500 (that's 50 times £10 – remember you sold at 7,299 not 7,300, which is where the provider makes their money). On the other hand, if the index had risen to 7,351, you'd have lost £500. CFDs work on a similar principle, although the terminology is a little different.

Betting on commodities and currencies

As noted above, you can bet on many different types of asset using derivatives. From crude oil to copper, you can take directional bets on markets that you might otherwise struggle to gain access to. It's even possible these days to bet on cryptocurrencies such as bitcoin, although given how volatile these are, you'd have to be extremely careful in doing so.

Currency movements are another classic area where derivatives are used. When betting on movements in currencies, remember that currencies are traded in pairs – unlike most other assets, the prices of currencies are always relative. The pound cannot rise or fall in a vacuum – it has to be strengthening or weakening against another currency, such as the dollar or the euro. Placing bets on currencies can be a way to hedge against political outcomes (watch how dependent the pound has been on Brexit decisions, for example) or to bet on changes in the economic environment (all else being equal, for example, rising interest rates are likely to strengthen a country's currency whereas falling rates or money printing will do the opposite).

The ability to go short is another way in which derivatives widen the range of strategies open to small investors. Just bear in mind that short-selling carries its own risks, above and beyond the risks of using leverage. If you are long an asset, your downside is technically limited to the point where the asset price goes to zero. But if you are short an asset, then your downside is technically unlimited – there is no ceiling as to how high the price of an individual equity can go, for example. So be especially careful to monitor and manage your risk if you decide to dabble in the world of the short seller.

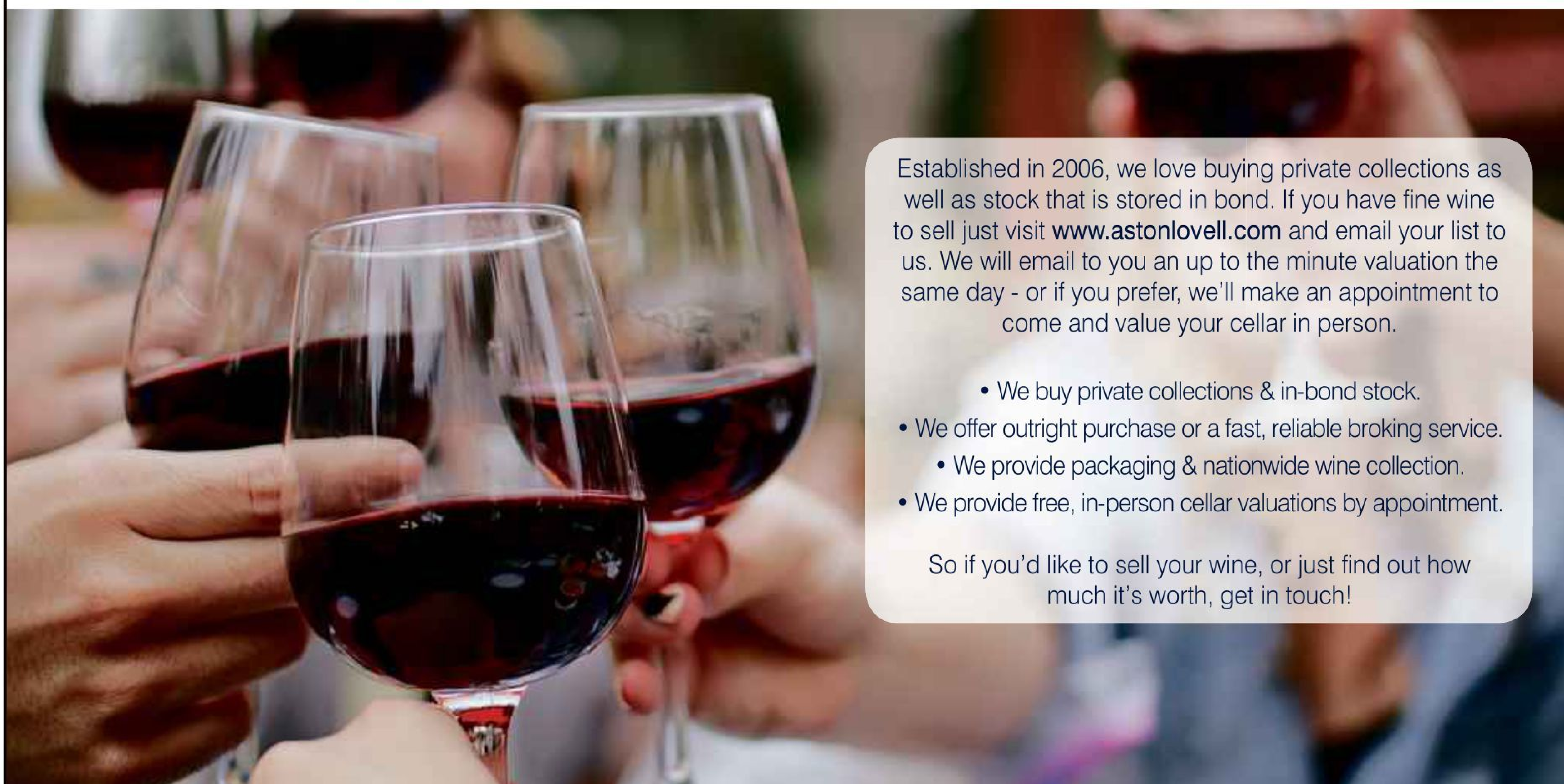
Watch your risks

You can see how losses can mount up quickly from what might seem like relatively small stakes and relatively small market moves. This is why your provider will insist that you have a certain amount of money in your account to cover potential losses. This is a deposit known as "margin". The size of margin required varies depending on how volatile the market is. If you have an open trade and it turns into a losing position, then your spread betting provider may demand more money to keep the position open – this is what's known as a "margin call".

Of course, you really don't want to be relying on margin calls to get you out of trades before you lose too much money. That's what "stop losses" are for. You specify a specific level at which you want the bet to be closed. This still needs to be watched carefully though – in particularly volatile markets, the price of an asset could burst through your "stop", leaving you with heavier losses than expected. You can pay more with some providers for a "guaranteed stop loss".

In terms of tax treatment, neither spread betting nor CFDs incur stamp duty. Spread bets do not incur capital gains tax (CGT) but CFDs do. On the one hand, that means you don't pay any tax on spread betting profits, but it also means that you can't offset any losses against your CGT bill for the year – if you want to be able to do that, you should use CFDs.

Do You Own Fine Wine?



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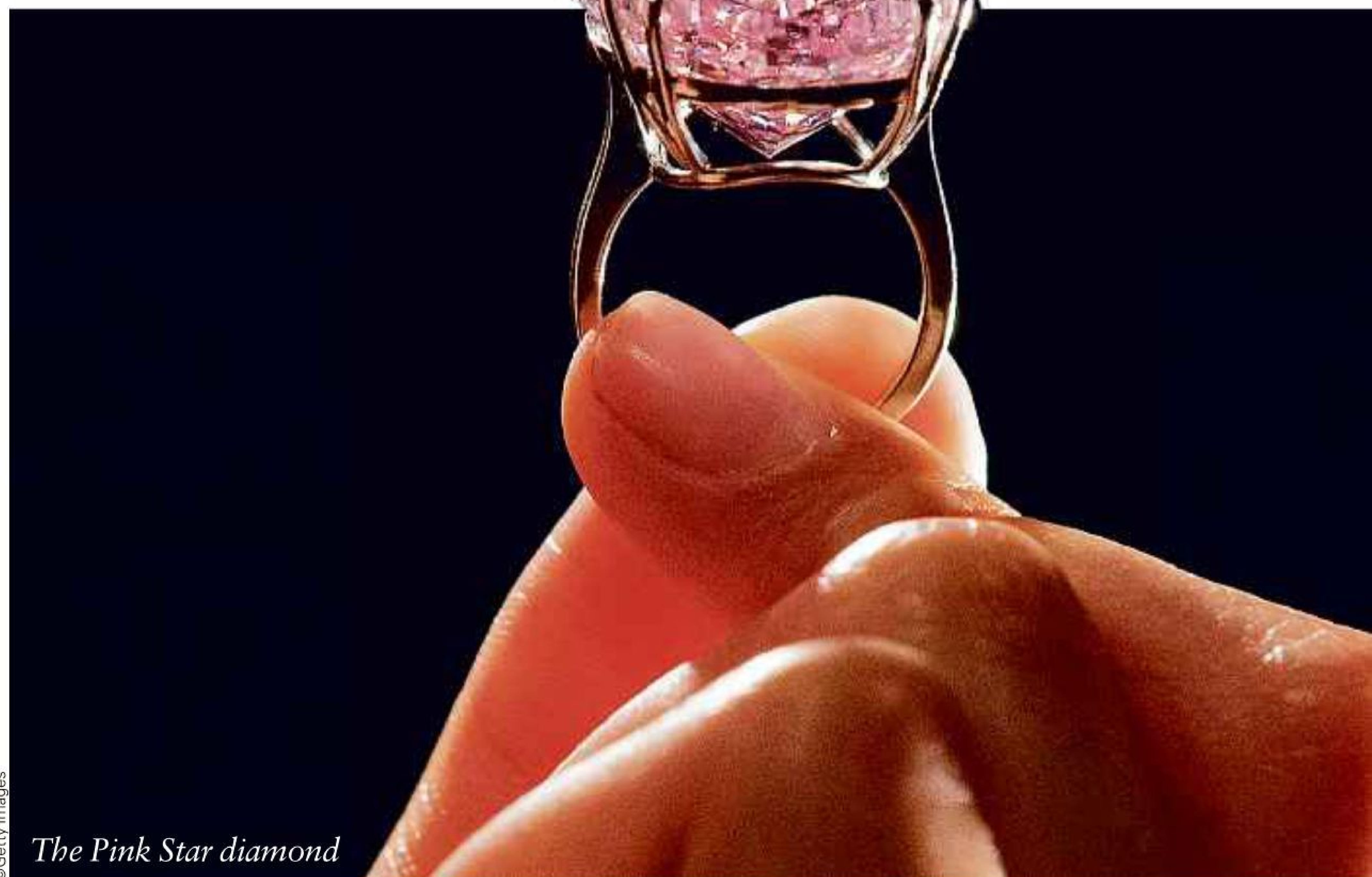
The value in vintage

The key to making money from jewellery is to be a dedicated follower of fashion – and to have an eye for a well-cut gemstone



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The Pink Star diamond

Do you have valuables lying undiscovered in the attic? It's not impossible. A "lost" masterpiece by Caravaggio was recently found in an attic in Toulouse (see page 4). It's thought to have gone on to change hands for more than $170m. Now it's true that most of us probably don't have lost works by Renaissance artists gathering dust upstairs. But jewellery might be a different story – could that long-forgotten inheritance be worth more than you think?

Prices for vintage jewellery spanning the Belle Époque and Art Deco eras (roughly 1870 to 1940) rose by 9% in the first quarter of this year, compared with the same period in 2018, notes Kate Youde in the Financial Times. According to the same auction sales data from Art Market Research, the total value of sales of items from those eras rose by 104%. Jewellery from the 1960s and 1970s is also popular right now.

Just as the styles of these items were shaped by the fashions of their times, the demand for vintage jewellery is also dictated by current trends. That's why, for example, Victorian pieces are currently out of favour, as independent jewellery valuer John Benjamin tells Kate Beioley in the same paper. "Victorian jewellery is a little like brown furniture," he says. "It just isn't fashionable at the moment… But there will be a tipping point in the future when it starts to be recognised for the quality that it is." So, if you have some, hold on to it.

Designer prestige and a good story can add value

The fickleness of fashion makes buying and selling harder, of course. But if a piece has a discreet maker's mark from a prestigious designer, that makes life easier. Jewellery by Cartier, Coco Chanel and Van Cleef & Arpels will always be desirable. It also helps if jewellery comes with a story. Marie Antoinette, for instance, was famous for her love of pearls. (That's partly what got her into trouble in the first place.) So, when her natural pearl and diamond pendant came up for auction last November with Sotheby's in Geneva, it garnered quite a bit of interest. So much, in fact, that it shot past the high end of its pre-sale estimate of CHF1,990,000 (£1.57m), to sell for CHF36,427,000 (£28.7m). The ill-fated 18th-century Queen of France is an extreme example, perhaps. But a 37.29-carat sapphire and diamond brooch that belonged to a much more recent icon, Elizabeth Taylor, had been expected to fetch up to HK$18m (£1.8m) with Sotheby's in Hong Kong this month, before being withdrawn.

Talking of diamonds, global demand, particularly from China, has been hit by the slowing global economy, according to Knight Frank's "Wealth Report 2019". Blue diamonds were the top performers last year, with coloured diamonds in general holding up better than their white counterparts. The negative overall outlook was confirmed earlier this month, with industry analyst Rapaport reporting "a slowdown in Chinese demand" in September. Its industry benchmark one-carat index fell 0.3% that month. Since the start of the year, the index has fallen by 4.6%, and by 6% over the last 12 months. That said, each diamond is unique – unlike gold, say (see page 14). So, when valuing diamonds, each should be looked at on its own merits. Luckily, there is a universally accepted method to help you on your way – see below.

"Demand for vintage jewellery is driven by fashion"

Fancy and flawless: putting a value on diamonds

Grading diamonds is complicated. It's all about the "four Cs" – colour, clarity, carat and cut. There are two main industry bodies with their own grading scales: the Swiss-based International Confederation of Jewellery Silverware and Diamonds (CIBJO); and the Gemological Institute of America (GIA). Both scales are widely used.

For diamond clarity, look for natural flaws, or "inclusions". In the CIBJO scale, "loupe clean flawless and internally flawless" denotes a perfect and near-perfect diamond. "VVS1 and VVS2" refer to "very, very small" inclusions, and "VS1 and VS2" stand for "very small" inclusions. "SI1 and SI2" denote "small inclusions" that are easy to find. Then you have "P1" to "P3", which stands for "piqué" (spotted). The American GIA clarity scale is similar: FL (flawless), IF (internally flawless), VVS1 (very, very slightly included), VVS2, VS1, VS2, S1 (slightly included), S2, I1 (included), I2 and I3.

As for colour grading, "exceptionally white +" diamonds, in CIBJO speak ("D" in GIA), are the most prized diamonds for their lack of colour. At the other end of the scale, we have "tinted colour", or "M" to "Z". That's unless colour is what you want and then you have hue, tone and saturation to consider. Simply put, in the widely used GIA scheme, "fancy light", "fancy", "fancy intense" and "fancy vivid" describe the intensity of the colour. So, for example, the world's most pricey diamond, the Pink Star (pictured above), which sold for $71.2m in 2017, is a 59.60-carat internally flawless fancy vivid pink diamond.

Looking after your jewellery

Most ordinary home-insurance policies won't cover the value of especially expensive pieces of jewellery. So you need to list them separately. The Direct Line Plus and Churchill Home Plus policies both cover individual items worth up to £4,000, while Hiscox Home Insurance covers individual items, pairs or sets of jewellery worth more than £15,000 as part of its policy, provided you have told them about your more valuable pieces beforehand.

Having a documented third-party valuation on your jewellery can make reporting a loss to your insurer easier, especially if your items are very rare or exotic. That will help to ensure you receive adequate compensation. You can get a list of certified specialists from the Institute of Registered Valuers (naj.co.uk), while auction house Bonhams offers a free valuation service (see bonhams.com/how_to_sell for details). Lastly, investing in a secure safe can help avoid heartache. Make sure it has been AIS or Sold Secure approved. The Master Locksmiths Association's website (locksmiths.co.uk) has more information.

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The value of your investments could go down as well as up

The appeal of vintage timepieces

Collectable watches can sell for millions of pounds. The crucial factor determining the price is the story behind them. They often belonged to someone famous or were produced by a renowned watchmaker

Very few owners of collectable watches are serving European astronauts. But all serving European astronauts are owners of collectable watches – or of at least one, to be precise. Sign up to fly with the European Space Agency and you will be presented with a standard-issue Omega Speedmaster Skywalker X-33. That's a nice perk.

These Swiss-made titanium beauties normally cost £4,260. The longer Britain's Tim Peake holds on to his, the more it will be worth. The value of vintage watches has risen by 73% over the last decade, according to the Knight Frank "Wealth Report 2019".

In fact, the relationship between space and Speedmasters goes back much further than that – the astronauts of the Apollo 11 lunar mission 50 years ago, who became the first men to walk on the moon, were also wearing Speedmasters.

"The value of vintage watches has risen by 73% in a decade"

Omega celebrated the historic event this summer with a run of limited-edition 18-carat gold Speedmaster Moonwatches. The late, great British watchmaker George Daniels had also been inspired by the moon landing, creating the Space Traveller pocketwatch in 1982. So upset was he after selling it, he decided to make a second. No wonder. The original, Space Traveller I, fetched £3.6m at Sotheby's in July.

The Space Traveller I fetched £3.6m at Sotheby's in July

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Wear and tear adds value

But what if you should ding your watch on the International Space Station, or a passing asteroid? That's no great bother – just so long as you don't give in to the temptation to polish out the scratches.

Collectors actually like the tell-tale signs of wear and tear that hint at the stories behind them. Like jewellery, watches are very personal items. It's the same with the parts. Watches that have been overzealously restored can shed their value. "I have had to tell [collectors] the Rolex 'Paul Newman' Daytonas they purchased for hundreds of thousands of dollars were previously relumed and worth less than half of their purchase price", says expert Eric Wind in the Robb Report. "So it's imperative to enquire about the dial, hands, bezel, movement and even the case before taking the plunge." A case and movement with mismatching serial numbers, for example, is a big red flag. It also helps to have the original box, bill of sale, and even photographs of the watch's previous owners wearing it. There is a great photo of actor Marlon Brando wearing his Rolex GMT-Master during the filming of *Apocalypse Now* (1979).

The watch is going up for auction as part of the Game Changers sale with Phillips in New York on 10 December. Brando even scratched his name into the back of it, which, again, is now an important part of the watch's story. It is expected to sell "in the six figures".

Where to find them

Vintage watches can be picked up at any number of auctions held throughout the year. Phillips is one such specialist. While many of their sales are held in Geneva, you can, of course, bid online.

It was in Geneva in May that Phillips sold the "lost" Vacheron Constantin minute repeater with retrograde calendar, otherwise known as the "Don Pancho". Revered by collectors for being, as Phillips put it, "a technical feat and masterpiece of human genius", it sold for staggering CHF 740,000 (£583,000).

But at the same two-day sale, you could have picked up a stainless steel Rolex Cosmograph Daytona for a little over £15,000.

There are also some reputable online watch sellers. Maidstone-based Watchfinder (watchfinder.co.uk) is perhaps the best known in Britain. It was bought by Swiss luxury goods group Richemont last year for around €200m. Chris Hall in Wired magazine also highlights Chronext (chronext.co.uk) and Chrono24 (chrono24.co.uk).

The burgeoning market in vintage watches has even given rise to watch funds. These are, of course, completely unregulated. But while certainly risky, they can be an interesting way to gain access to wide range of beautiful vintage watches.

The Watch Fund (watchfund.com), for example, was founded in 2013 by Dominic Khoo, a former valuation expert at specialist auction houses Antiquorum and Spink. For a minimum $250,000 investment, you get access to the fund's collection of watches.

There is no membership cost, but there are 5% purchase fees, in addition to a performance fee of either 10% of profits or 5% of the total sale price, depending on which is higher. Since the fund's inception, investors have seen "double-digit returns", Khoo told The New York Times in March.

If you choose to buy a new collectable watch from a retailer, you will want to hold on to it for some time in order for the watch to appreciate enough to compensate for the mark-up applied when you bought it. Or you could simply become an astronaut, and receive one for free.

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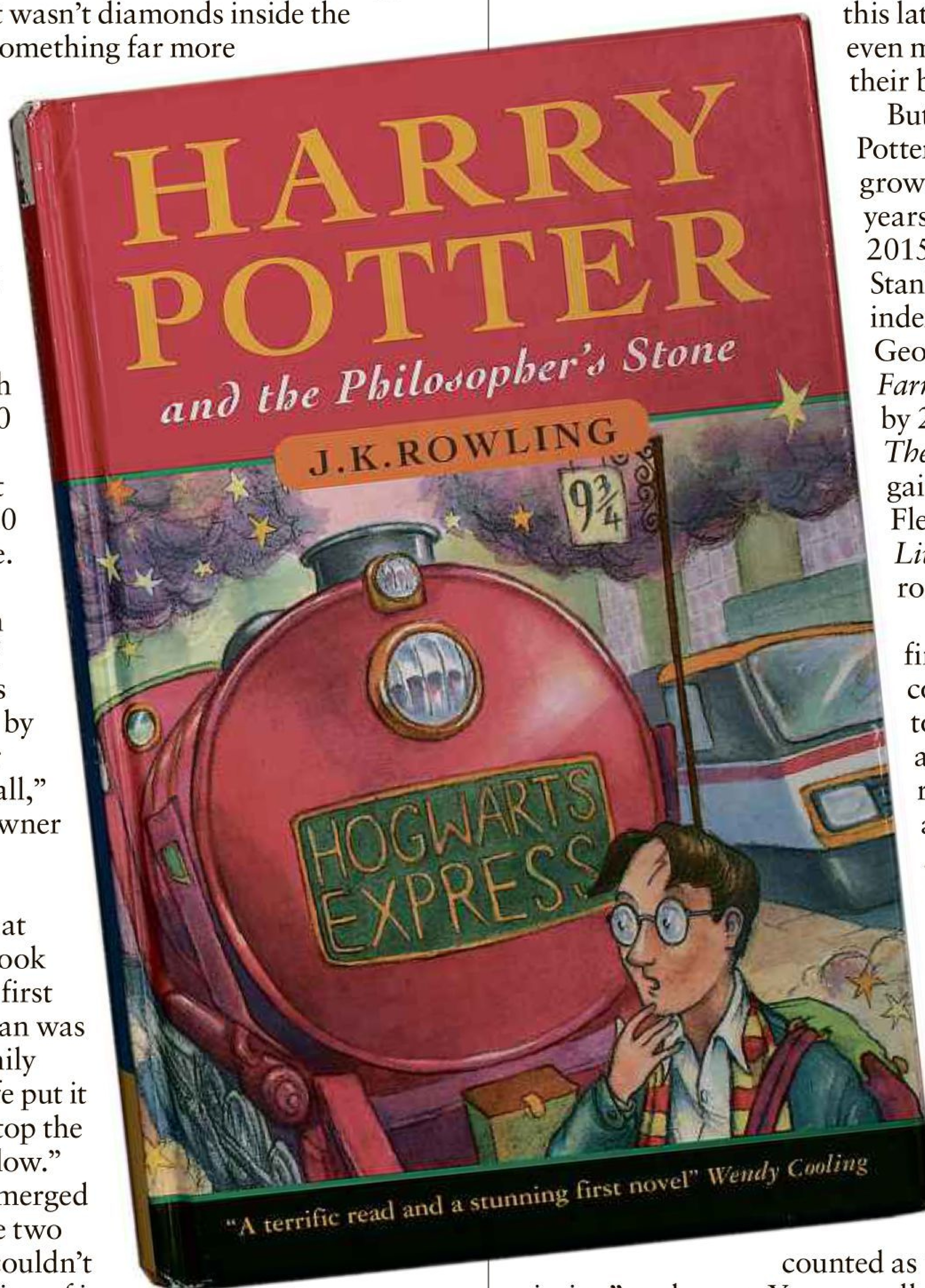
The money to be made from classic books

If the idea of surrounding yourself with valuable first editions has a certain romantic appeal, here's where to start

Jim Spencer, a books specialist at Hansons, was shocked when a Lancashire family brought a metallic silver briefcase to the Staffordshire auctioneers. "It felt like we were dealing in smuggled diamonds." But it wasn't diamonds inside the briefcase. It was something far more precious (well, to Harry Potter fans at least) – a first-edition hardback copy from the first 1997 print run of *Harry Potter and the Philosopher's Stone*. This month it sold for £57,040 (including taxes and fees) – almost double its £30,000 high-end estimate. No wonder its owners had taken such good care of it. "The book was given to us as gift by an aunt when our children were small," the anonymous owner who brought it in explained.

"She bought it at an independent book shop when it was first published. The plan was to keep it as a family heirloom. My wife put it in a briefcase to stop the pages turning yellow." When the book emerged from the briefcase two decades later, "I couldn't believe the condition of it – almost like the day it was made", says Spencer. "I can't imagine a better copy can be found."



Profiting from Potter mania

Just 500 copies were printed in the first run of the first Harry Potter book, which makes the Hansons copy a "first edition, first printing". It goes without saying that these are the most coveted among collectors. The author, JK Rowling, was still unknown at this point, so Bloomsbury, the publisher, wanted to be sure the book would sell before printing more copies. (And boy, did it sell – more than 120 million copies in total at the last count.)

A feature of the first print run was that it also contained two errors. Had this copy of the novel been signed by Rowling, naturally that would have added value too. Finally, the book was able to achieve its hammer price (the price before taxes and fees) of £46,000 because the adventures of the boy wizard are just so phenomenally popular. The recent sale at Hansons was prompted by news of a sale in July of another copy of the book that had been bought from a Staffordshire library for £1. "It sparked Potter mania," says Spencer. In all, 12 Harry Potter first editions subsequently emerged from the woodwork to be sold this month – a "Potter bonanza". No doubt this latest sale will inspire even more people to search their bookshelves.

But it isn't just Harry Potter books that have grown in value in recent years. Between 1996 and 2015, according to the Stanley Gibbons rare book index, the first edition of George Orwell's *Animal Farm* (1945) rose in value by 2,597%, Ayn Rand's *The Fountainhead* (1943) gained 1,729%, and Ian Fleming's Bond classic *Live and Let Die* (1954) rose by 1,579%.

When buying first editions as a collector, be sure to go to a reputable auction house or retailer, such as abebooks.co.uk. And in case you're wondering, a second edition of a book only follows when there is a major change, perhaps with the cover, notes publisher First Second Books. Otherwise, the next print run is counted as "first edition, second printing" and so on. You can tell which printing a book is from by looking on the copyright page.

"Just 500 copies of the first printing of the first Harry Potter book exist"

Cashing in on comics

The market for American comic books and comic-book art has been steadily growing in value, although it is still mainly US-centred. In August 2014 a new record was set for the most expensive comic book when *Action Comics* number one (1938) – featuring Superman's debut – sold for $3.2m on Ebay. Related artwork has also been selling well. In February 2018 the original artwork for *The Amazing Spider-Man* number 100 (1971), by John Romita Sr. and Frank Giacoia, sold for $478,000 with Heritage Auctions, a fifth above its pre-sale estimate, setting a record for Marvel comics from that era. In May the same year, *Death Dealer 6* (pictured), by comic artist Frank Frazetta, sold for $1,792,500 – almost three times the previous record paid at auction for a work of American-published comic-book art. If you're keen to find out what your teenage stash is worth, then *The Overstreet Comic Book Price Guide* is the go-to pricing resource.

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