SHARES *P6*
Nine top tips for the next decade

CITY VIEW *P13*
The greatest company of the 2010s

PLUS
The world's most expensive banana
QUIZ *P50*

MoneyWeek

MAKE IT, KEEP IT, SPEND IT

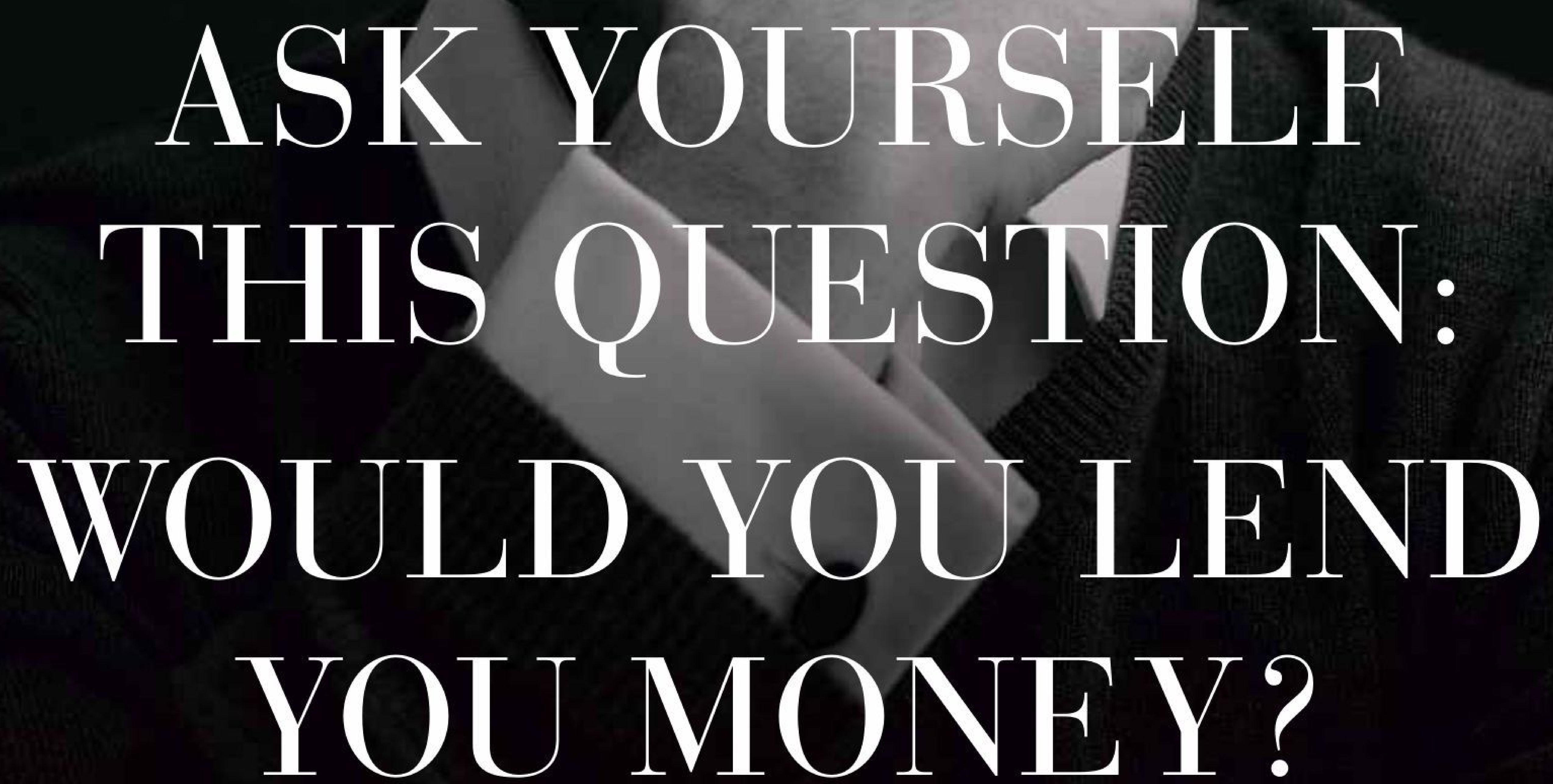
27 DECEMBER 2019 | ISSUE 979 /980 | £5.49

Here's to 2020

But will the party bring on a hangover?

Page 28

MAKE AMERICA GREAT AGAIN



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MoneyWeek

27 December 2019 | Issue 979/980

Britain's best-selling financial magazine

From the editor-in-chief...

Happy New Decade! Here come the 2020s. What will they hold for investors? We try to go some way to answering that, or at least speculating on the topic, in this special double issue. But it might be more informative to review what investments did well and which did badly in the decade that's about to come to an end.

We told you so: Japan has proved a good investment

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Any such snapshot is of course flawed. On a rational basis, there's no reason to look back from the end of the year rather than from the middle, or to choose ten years rather than 12 and a half. But as we all know, markets aren't purely rational, humans have a habit of attaching significance to things like dates and if the end of the year isn't a good time to reflect, then I don't know when is.

"What could trigger inflation in the 2020s? A seductive economic theory called MMT"

So what's done well? Handily, a list of top-performing funds and investment trusts for the past decade has just landed in my email inbox from investment platform AJ Bell. Gratifyingly, particularly in light of the endless teasing we get to the effect of "why do you keep going on about Japan?", it turns out that one of our favourite Japanese investment trusts, **Baillie Gifford Shin Nippon (LSE: BGS)** – of which (in the interests of full disclosure) our editor-in-chief, Merryn, is a non-executive director – is the third-best performing trust of this decade. If you'd stuck £5,000 in Shin Nippon back then and left it, you'd have more than £40,000 now. So we're glad we kept going on about Japan. For more on why it still looks good, see Steve Russell's and Tim Price's comments in our roundtable. Other top performers include the Lindsell Train trust (we've always liked its sister fund, Finsbury Growth & Income) and various biotech and technology funds.

Of course, being a contrarian (I've even written a book on the topic – read an excerpt on page 26), I'm more interested in what's done poorly over the past decade. Why? Well, when the market commentators of ten years ago were carrying out their post-mortems on the 2000s, one headline kept cropping up: "The Worst Decade for Stocks Ever". To be pedantic, it was the worst calendar decade (the worst ten-year stretch for US stocks ended in 1938, according to The Atlantic). But the point is, equities followed an extraordinary bad decade with a really very good one, even though, at the end of 2009, very few people were ragingly bullish about anything at all.

Today, the mood is practically the opposite – it's hard to find anything that people aren't incredibly bullish about. Hard, but not impossible. It's clear that the losers' list is dominated by one asset class – commodities. That's not too surprising. The bull market in resources peaked in 2011 and was followed by a vicious bear market. The bottom for both oil and commodities in general arrived in early 2016. But there's still a lot of catching up to do – according to figures from Fidelity, commodities have lost 3.1% a year over the past decade.

Could they be due a rebound? Perhaps. But a decade in which commodities did well would also imply one in which inflation returned and knocked a market that's positioned for perpetually low interest rates. What could trigger that? A seductive economic theory called MMT – turn to the discussion on page 28 to find out why it could be the biggest theme of the decade. Meanwhile, from all of us, have a very happy New Year – your next issue of MoneyWeek is out on 10 January 2020.

John Stepek

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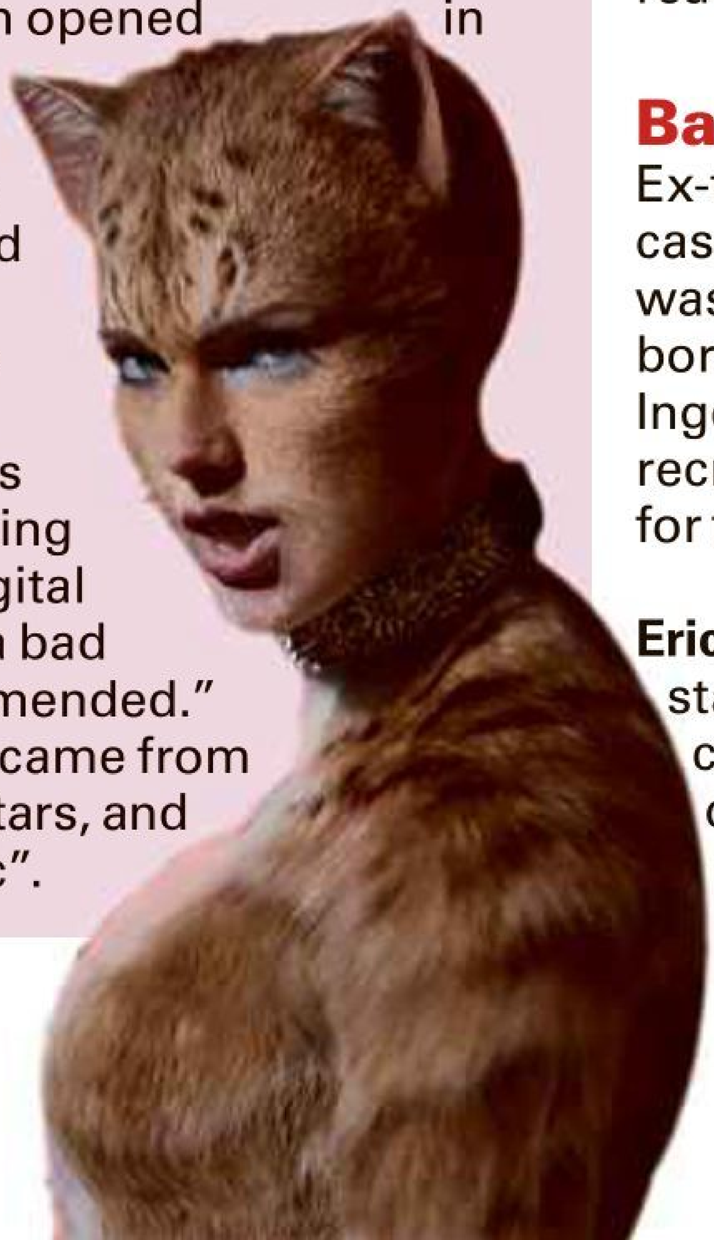
Loser of the week

Cats, the film based on the West-End musical based on the book of poems by T. S. Eliot, is rumoured to have cost £230m to make, says The Guardian. That's probably an exaggeration – The Sun reckons it cost £72m. But with a cast of big stars including Taylor Swift (pictured), Idris Elba and Judi Dench covered in CGI fur, it probably wasn't cheap – and whatever it cost, it wasn't money well spent. The first trailer hit the internet in July. People thought it was creepy. So the studio redid all the effects. Presumably happy with the re-styling, the film opened in cinemas last week – to a near-universal panning. The BBC gave it two stars; The Guardian, which called it a "dreadful hairball of woe", gave it one star. The Daily Telegraph gave it no stars at all. "It's every bit as baffling, weird and horrifying as you expected," says Digital Spy. Empire agrees: "It is a bad film and cannot be recommended." A notable contrarian view came from the FT, which gave it four stars, and called it "worryingly erotic".



Cover illustration: Howard McWilliam. Photos: Getty Images; Netflix; Universal Pictures; Shutterstock

Good week for:

Dame Vera Lynn has emerged victorious in her legal battle against a gin company that wanted to trademark her name for its product, reports the BBC. Halewood International argued that the name is more commonly known as rhyming slang for the drink than as the name of the 102-year-old "Forces' Sweetheart". The court ordered it to pay £1,800 in legal costs.

Darts player **Fallon Sherrock** (pictured) became the first woman to beat a man in a PDC World Championship darts match. Sherrock beat Ted Evetts 3-2 in her first round match at London's Alexandra Palace, guaranteeing her prize money of at least £15,000 for reaching the last 64. The eventual winner will receive £500,000.

Bad week for:

Ex-footballer turned TV pundit **Danny Murphy** has lost his court case against Coutts private bank over a tax-avoidance scheme that was ruled illegal by HMRC, reports The Sun. Murphy had borrowed £1m from Coutts to invest in a film scheme run by Ingenious, which promised tax breaks. He argued that Ingenious recruited investors on behalf of Coutts and that the bank was liable for their losses. The court disagreed.

Eric Gilmore, co-founder and chief executive of a Silicon Valley start-up, was fired after he racked up expenses of $76,120 at strip clubs over a three-year period, says Bloomberg. Gilmore did not deny the accusations, but sued the company anyway, saying the board hadn't followed the proper procedures. The two parties have since reached a settlement.

Is the bull out of breath?

Alex Rankine
Markets editor

The US presidential election: heated rhetoric could create more market chaos

Stocks soared beyond expectations this year, writes Akane Otani in The Wall Street Journal, and few analysts "believe the longest-ever bull market is on its last legs". American equities have been in an upswing since March 2009, rising more than 370% over the past decade. Wall Street sets the tone for global markets, with both the S&P 500 and MSCI All-World indices hitting all-time highs this month. Yet after a year of outsize returns, most expect a "far more modest" showing next year.

The US earnings cycle turns down

The year is ending on a "bullish note", but closer analysis threatens to "deflate the bubble of optimism", says John Authers on Bloomberg. US earnings-per-share growth has declined this year. All of the share-price gains have been driven by higher price/earnings ratios; stocks are more expensive compared with fundamentals than they were a year ago. That figure would be even worse if it weren't for extensive buybacks, which prop up share prices. On 3.5 times book value the S&P is trading at a "level it hasn't reached since before the 9/11 terrorist attacks of 2001".

High valuations in America mean that further upside is likely to be limited, agrees Andrew Sheets in Morgan Stanley's 2020 Global Strategy Outlook. Global growth probably bottomed out this quarter and should pick up next year. Yet "valuations are much more expensive today than in a typical mid-cycle slowdown" and an unpredictable trade outlook means that the recovery still "rests on a knife-edge". Investors will require an "outsized level of nimbleness" if they are to enjoy a prosperous 2020.

Not everyone is so gloomy, say Matthew Rocco and Jennifer Ablan in the Financial Times. On average analysts expect a 10% bump in S&P 500 earnings per share next year. Eight major banks are forecasting an average 4.6% S&P 500 gain for 2020. Yet that relatively modest forecast still reflects a view that this year's strong returns "may have stolen the market's thunder for 2020".

Two wild cards

The two big wild cards for the year ahead are the US-China trade dispute and US presidential election, Darrell Cronk of Wells Fargo Investment Institute tells the FT. Heated election rhetoric could create more market chaos. "Fortunately, a look at history shows that presidential election years have generally produced positive equity results."

The trade war is likely to move into a new phase next year, says Neil Shearing for Capital Economics. Trump has agreed to scale back tariffs on Beijing in return for higher purchases of US agricultural products, which "has raised hopes of a lasting breakthrough". The conflict is likely to move away from tariffs towards issues such as "technology, industrial policy and security" in 2020. US-China decoupling will thus continue, but in a way that is less disruptive than tariff wars for the global economy.

Forecasts for the year ahead should be taken with a pinch of salt, says Otani. Forecasters have been caught off guard by everything from the 2015 oil-price collapse and the 2016 US election to this year's mammoth slide in bond yields. Expect investment banks to revise their predictions multiple times before the end of 2020. (See also page 12.)

Sweden ditches negative interest rates

Sweden has ended its experiment with negative interest rates. The Sveriges Riksbank, the world's oldest central bank, has raised the main interest rate from -0.25% back to zero, reports Thelocal.se.

The rate had been in negative territory since 2015, but policymakers say that with inflation running at 1.8% in November it is now close enough to the 2% target for a return to zero interest rates.

Sweden's central bank was one of the pioneers in "wielding negative interest rates", says Paul Hannon in The Wall Street Journal. The eurozone and Japan have since followed suit. Negative rates mean that commercial banks are charged for holding money in accounts at the central bank. That is supposed to encourage them to lend it out to businesses and consumers, promoting greater spending and investment in the real economy. The policy also weakens the national currency and helps exporters. Yet with Swedish private-sector debt climbing to 285.7% of annual output last year, one of the highest rates in the OECD, concern has been mounting that the policy could have "harmful side effects".

The world's oldest central bank has raised interest rates back to zero

Unconventional monetary policy has a variety of unpleasant consequences, says Mohamed El-Erian on Bloomberg. It undermines the profitability of the banking sector and encourages excessive risk-taking. It keeps zombie companies that deserve to go under afloat, which erodes growth and productivity.

By distorting price signals and inflating asset bubbles it can also lead to "economy-wide resource misallocations". Sweden's interest-rate move is "the most explicit signal yet" of the backlash against the "collateral damage and unintended consequences" of unconventional monetary policy.

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Emerging economies find their feet

This year saw a return to normal for emerging markets. It's a far cry from 2018, which brought misery for those betting on the world's fastest-growing economies as the MSCI Emerging Markets index plunged into bear territory. In 2019, the index is up by 14%. That is satisfying but scarcely half of the gain seen in some developed markets (see page 4). The index also remains down about 6% in US dollar terms since the start of 2018.

It has proven a turbulent year for many emerging economies. Continuing US-China trade tension was a formidable headwind for the export-dependent economies of emerging Asia, with South Korean exports down 14.3% in November on a year before. Civil unrest saw Hong Kong slip into recession and rocked many nations in Latin America, with the MSCI Chile index down about 16%. Emerging-market central banks responded by joining the global trend towards monetary easing. The Bank of Russia has delivered five consecutive interest-rate cuts through December, says Simon Kennedy on Bloomberg. In Turkey and Ukraine, central banks slashed rates by 2% earlier this month.

The top performers

Emerging Europe turned in some "stand-out performances" in 2019, notes Ben Hobson on Stockopedia. Greece's market "collapsed" in the years after its financial crisis, yet a better economy and more political stability have given it a "big lift" this year, with the main index rising by 49%.

Romania was another unloved country that came back into fashion, note Veronika Glyas and Irina Vilcu on Bloomberg. With a "new, market-friendly government at the helm", the country's stockmarket turned from "pariah to darling", returning more than 30% this year. Its stocks still look cheap.

Russian stocks also enjoyed a banner year, with the country's stockmarket recording a 39% gain. The rebound in Russia is "more than a one-year phenomenon", says Sumit Roy on etf.com. The iShares MSCI Russia ETF has now risen steadily since 2016, when the country's stocks "hit rock bottom on the back of sanctions by the West and an oil price crash". Russia is still among the world's cheapest markets, but that is because it brings numerous geopolitical and oil-price risks.

China's CSI 300 delivered an impressive 35% return, a welcome comeback after investors endured a 27% crash in 2018. India's Nifty 50 Index advanced 12%, while Indonesia's IDX composite stagnated, recording a 1.1% gain for the year.

Romania: from pariah to darling in 2019

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Finally, Brazilian stocks enjoyed a healthy 25% gain in a year in which the government finally passed landmark pension reforms.

The year ahead

Emerging economies face plenty of potential pitfalls in 2020, says Paul Wallace on Bloomberg. Slowing growth in China and India threaten to hurt the asset class as a whole. There are also plenty of "country-specific issues" as Argentina flirts with default, South Africa grapples with moribund state power firm Eskom and Chinese bond defaults rise. On a more positive note, Jerome Powell's recent suggestion that America's Federal Reserve may not raise interest rates until 2021 is a boon. Lower for longer rates will keep the US dollar weaker, which means cheaper borrowing costs for businesses in the world's emerging markets.

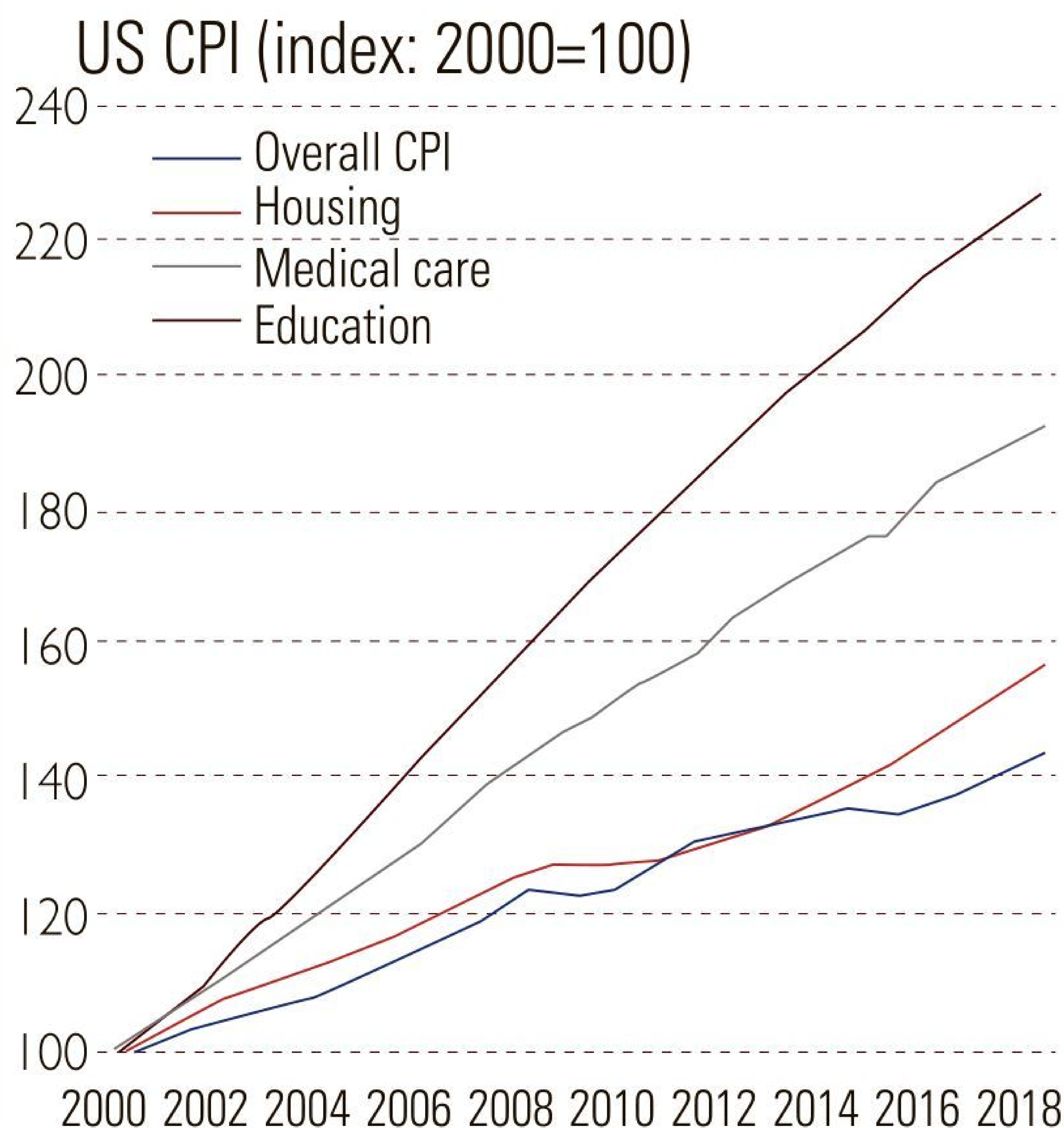
Expect central banks to come to the rescue in 2020, says Capital Economics. Monetary easing will continue across major emerging economies. With the Asian electronics cycle and key commodity prices on the up, export growth is due for a rebound. Yet those hoping for a return to the early 2000s' period of rapid "catch-up" growth may be disappointed over the next decade. "The process of reform and market liberalisation has stalled in many large emerging markets." Investors will have to be picky and choose "well-placed and well-managed economies" if they want to do well in the 2020s. MoneyWeek favourites include India and Vietnam.

Viewpoint

"The Financial Times [reports] that 'The Federal Reserve is considering [letting] inflation run above its 2% target, a potentially significant shift in its interest rate policy.' That's right. A body whose primary mandate is to maintain low inflation may be on the brink of throwing in the towel in addressing that objective. Be careful what you wish for. If the Fed is successful in letting the US economy 'run a little hot' – so far there is no evidence that the Fed is even capable of leaving the house without having to wear a helmet – we doubt whether the inflationary genie can so easily be coaxed back into the bottle. Add the... drift towards the wholesale adoption of MMT ('modern money tree theory') by the world's central bankers – a recent MoneyWeek conference suggested this is where we're heading – and we begin to wonder whether even we have quite enough exposure to... precious metals."

Tim Price, Price Value Partners

■ US inflation is worse than it looks



The current annual rate of consumer price inflation (CPI) in America is just below the US Federal Reserve's target of 2%, but to most people it feels much higher, says John Mauldin in Thoughts from the Frontline. Even at 2% a year prices jump by an overall 50% in 20 years, and in any case CPI "doesn't reflect real-life spending". For some of life's necessities, prices have risen "dramatically". Over the past two decades medical care, housing and education (the cost of going to university) have jumped by far more than CPI. The Fed also uses an accountancy technique called Hedonic Quality Adjustment, the upshot of which is that if an item has improved in quality, it is deemed not to have become more expensive. "Does that match your experience?"

Source: Thoughts from the Frontline

Stocks ready to deliver robust returns

Ryan Ermey of US publication Kiplinger's Personal Finance chooses his favourite firms for the next decade. Ranging from a meat supplier to a flooring specialist, they should be able to grow fast for years

II-VI Incorporated (Nasdaq: IIVI)
Pronounced "two-six", this business develops and manufactures lasers and fibre-optic equipment used in the industrial, semiconductor and defence sectors. The stock has been in the doldrums since news broke last year of plans to buy optical communications specialist Finisar. The $3.2bn takeover was completed in September, and the two firms' combined forces should now open up new opportunities in self-driving cars and biometric security. The potential market for II-IV's products could swell to $22bn per year by 2022, "a 20% annualised growth rate from today's levels". *$33*

Fox could be a winner from the US legalisation of sports betting

Bayer AG (Frankfurt: BAYN)
This German pharmaceutical and agricultural technology business bought US peer Monsanto in 2018 and thus became the heir to that firm's Roundup weedkiller scandal. Lawsuits are still swirling, and investors have dumped the stock, but on only ten times forward earnings it is now "dirt cheap". For those willing to take on the associated risks, this could prove a cheap way to buy into a business with market-leading agricultural technology that helps farmers grow more food. With the world population growing and arable land shrinking as cities expand, the coming decade will bring strong demand for green technology. *€71*

Burlington (NYSE:BURL)
This retailer of brand-name clothing, household and beauty products is following TJ Maxx's (TK Maxx in Britain) road to success: buying up spare branded items in the wholesale market and reselling them cheaply. The group owns 700 stores in the United States. It is posting market-leading like-for-like sales in existing shops. William Blair analysts tip the business to deliver impressive earnings-per-share growth of 13% next year. *$192*

Floor & Decor Holdings (NYSE: FND)
This flooring specialist sells tile, wood and laminate coverings from its 113 stores across the United States. It is a disruptive business for two reasons, says Laird Bieger of the Baron Discovery fund. Firstly, it bypasses distributors and buys directly from manufacturers. That enables it to offer cheaper prices than the competition. Secondly, its "big-box" store model gives it the space to stock a wider range of products than its peers. Flooring professionals, who account for 60% of sales, don't want to have to wait around for orders to ship from off-site locations. Store openings have been growing at a clip of 20% per year over the past three years and overall revenue is up by an average of 30% per year over the same period. Analysts see scope for more growth and fatter profit margins down the line. *$46*

Fox (Nasdaq: FOXA)
This $20bn TV and cable company ties together the main Fox channel offering – Fox News, Fox Sports and the like – with a share in the streaming platform Roku. Revenue comes from advertising and licensing fees for its content. Management is confident that its bias towards live sport and news will insulate it from the wider trend for consumers to "cut the cord" and switch over to streaming services. The new "Fox Bet" venture could be a winner from the legalisation of sports betting in America. *$32*

Huntsman (NYSE:HUN)
This chemicals producer is transforming itself from being a bulk seller of commodity chemicals, which are prone to boom-and-bust cycles, to becoming a player in the higher-margin speciality chemicals sector. The company recently disposed of two such commodity chemicals units for $2bn. Management is using the cash to pay down debt and strengthen the balance sheet, efforts rewarded this year by a credit-rating upgrade from junk status to triple-B investment grade. Yet at 13 times earnings the scale of the firm's transformation doesn't seem to have been priced in yet. *$22*

Medallia (NYSE: MDLA)
This customer feedback software platform only listed in July and is not expected to turn a profit for at least two more years. That makes it one for the brave, but those willing to take the plunge will find much to like. A leader in the "experience management" market, the firm uses artificial intelligence to "help insurance, hotel, auto and media firms assess customer and employee satisfaction". The software scans language used everywhere from social media and travel blogs to keep abreast of sentiment. This approach is replacing the old model of customer feedback forms and should drive strong sales growth in future. *$29*

Systemax (NYSE:SYX)
This direct-marketing firm supplies everything from computers to warehouse equipment. Keefer Babbitt of the Grandeur Peak Global Contrarian fund says that its "well-trained sales staff, easy-to-use website and efficient warehouses" enable it to deliver better service than the competition. The group has disposed of struggling overseas operations to focus on its US business and $96m of free cash on the balance sheet gives it the option to grow through acquisitions too. Management expects sales to increase at an annualised double-digit rate over the next five years. *$22*

Tyson Foods (NYSE:TSN)
African swine fever has led to the cull of more than 20% of China's pork herd, but the resulting disruption represents an opportunity for this supplier of pork, beef and chicken. A growing global middle-class will drive "exponential increases" in demand for protein over the next decade. The prepared food business yields 21% of sales, a higher-margin and more stable market than meat commodities. On 13 times earnings the shares trade at a discount to the average multiple of 17 for this sector. *$83*

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City talk

● John Fallon, the boss of education publisher Pearson, has survived so many profit warnings that we dubbed him "Teflon John", says Lex in the Financial Times. Yet now he has announced his departure. Since Fallon started in 2013, shareholders' returns have been "a negative 29%". Fallon focused on cutting costs, but lacked a bigger vision. "Education is a valuable commodity" and Pearson's exams and training businesses could yet contain the "seeds of greatness". Hopefully his replacement is equal to the challenge.

● A report that lifts the lid on a culture of shoddy practices at housebuilder Persimmon "makes for grim reading", says Ben Marlow in The Daily Telegraph. It finds the builder guilty of "systemic nationwide" fire-safety

failures, while the cost of correcting structural problems unearthed in thousands of houses could "run into the tens of millions". No wonder the firm buried the report on its website.

● Swiss Drugmaker Novartis has come up with a novel way to distribute the world's most expensive drug, says Denise Roland for The Wall Street Journal. Zolgensma is a one-shot treatment for spinal muscular atrophy, a deadly genetic disease. Yet supplies are limited and the drug costs $2.1m. Companies can distribute as-yet unapproved treatments to seriously ill patients for free, but such is the demand in Europe that Novartis has resorted to a lottery-style rationing that sees eligible patients entered into a draw every two weeks; the lucky winners get a potentially life-saving treatment. Novartis says that a group of bioethics experts advised it that it was too difficult to follow the usual approach of drawing up "complicated criteria" to determine who gets treated.

©Getty Images; iStockphotos

Will this mega-merger motor?

Fiat Chrysler and Peugeot's owner PSA are tying the knot to tackle the structural upheaval in the car industry. Matthew Partridge reports

This week saw a deal that will "reshape the car industry as it undergoes a period of transformation", says Michael Pooler in the Financial Times. Fiat Chrysler and France's PSA, the owner of Peugeot, have agreed to create "the world's fourth-largest carmaker by output". PSA's and FCA's shareholders will each take a half-stake in the new company, which will boast combined sales of €170bn and be valued at €41.4bn. It will have a 400,000-strong workforce and total vehicle sales of 8.7 million. The merged entity will sell a portfolio of brands "covering the luxury, premium and mainstream passenger car segments" and is expected to get around 90% of its revenue from Europe and North America.

While the deal is being called a "merger of equals", the way it is structured means that "PSA Group was essentially the buyer and Fiat Chrysler the seller", says Bloomberg's Anthony Palazzo. So it's no surprise that the final terms suggest that Fiat's shareholders are getting a premium of 26%. Still, although PSA's CEO Carlos Tavares will be overall CEO and PSA "will appoint six of the 11 initial directors", Fiat's Agnelli family "will be the biggest shareholder in the new company", so the question of who is in charge remains cloudy.

Car deals rarely work

"The history of automotive mergers isn't a happy one," says Bloomberg's Chris Bryant. Daimler's and Chrysler's "failed marriage" is a "textbook example" of the culture clashes that supposed "mergers of equals" can spawn. Still, shareholders should take heart from the fact that Peugeot and Fiat "seem much closer philosophically", with both sets of managers "firmly committed to creating value for shareholders" and determined to find a place in an industry dominated by the impending "demise of the combustion engine". Not so fast, say Nick Kostov and Ben Dummett in The Wall Street Journal. The companies will

Can Carlos Tavares work his magic again?

"need approval from both US and European regulators", including for their financing operations. Indeed, Peugeot's involvement with the Chinese firm Dongfeng, which has already been forced to reduce its stake in the merged firm to 4.5%, could prove to be a "red flag" for the Committee on Foreign Investment in the US, "which is likely to review the merger proposal at a time of trade tensions between the US and China".

Still, shareholders have grounds for optimism, say Lisa Jucca and Christopher Thompson for Breakingviews. The two firms have been forced to rule out factory closures to placate politicians, but plans for €3.7bn of synergies look "credible". The idea is to save money by "combining production platforms, consolidating electric-vehicle investment and using scale to squeeze suppliers". Carlos Tavares has already worked his "integrational magic" at Opel, which Peugeot took over in 2017, achieving most of the targeted synergies without closing plants.

Boeing runs out of runway

Boeing is to suspend production of its grounded 737 Max planes next month, report Leslie Josephs and Phil LeBeau for CNBC. The aerospace giant had raised expectations that the jet would be back in the air by the end of the year, but America's Federal Aviation Administration (FAA) is still not satisfied that the plane is safe.

Boeing's response to the 737 Max crisis has been an "ugly mixture of remorse, evasion and swagger", says The Economist. Now its strategy of asserting that everything will be back to normal soon has "run out of runway". The consequences will be significant. At least one million people work for Boeing and its

suppliers. Airlines have built their strategies for the coming decade around orders for the 737 Max. Passenger plane-making is a duopoly between Boeing and Europe's Airbus. That raises the suspicion that "lack of competition" is allowing it to get away with "poor behaviour". It's time for CEO Dennis Muilenburg to go.

It is difficult to find an apt historical precedent for the scale of Boeing's current crisis, says the Financial Times. Volkswagen's diesel emission-cheating scandal springs to mind, but the VW scandal was "not directly related to the safety of its customers" and did "not result directly in anyone's death". Two plane crashes have cast doubt over Boeing's "competence in designing safe aircraft", which should be its be-all and end-all. The difficult task ahead is to rebuild a company culture that values "engineering excellence" over short-term shareholder returns. "Boeing will survive this crisis – it needs to ensure trust in its products does too."

Wild ride assured as Boris takes the reins

The new PM has bold plans and no opposition to speak of. What has he got in store? Emily Hohler reports

Boris Johnson promised a "new golden age" for Britain on Thursday as the Queen's Speech – the second in two months – set out his new government's agenda, says the Financial Times. "Fresh from last week's election triumph", which secured the Tories an 80-seat majority in the House of Commons, a "packed legislative programme" focused on Brexit and public services was "unveiled". There were seven bills to implement Brexit, the most significant of which is the revised version of the EU (Withdrawal Agreement) Bill or WAB, which ratifies the recently signed Brexit deal. The WAB contains a new clause outlawing any further extension to the transition period which ends in December 2020, raising the risk of a no-deal scenario if no free-trade agreement has been agreed with the EU by then. The WAB is certain to pass through all its parliamentary stages in the next few weeks, allowing Britain to leave the EU on 31 January.

A "new golden age" is promised in the Queen's Speech

©Getty Images

Post-ideological populism is here

There was much in the Brexit legislation to dismay the opposition, but the ban on extending the transition period "destroys any illusions" that Johnson might "pivot towards a softer Brexit", says Rowena Mason in The Guardian. It also suggests the Tories have "forgotten that the ticking clock favours the bigger, better prepared side" (ie, the EU) in trade talks, says Rafael Behr in the same paper.

Despite the importance of Brexit and Johnson's endlessly repeated campaign slogan to "get Brexit done", the primary focus of the speech was actually his domestic agenda to transform Britain, says Fraser Nelson in The Daily Telegraph. And this is "all about spending: on schools, the health service, scientific research, housing, infrastructure, even the exploration of space". It's an ambitious plan for the next decade, but with the Labour party in "such disarray", the Tories can "probably afford some long-term thinking". The author of this new politics - "radical, high-spending but not identifiably left or right" – is not Johnson, but his chief adviser, Dominic Cummings. It is "more generous than any offered by any previous Tory prime minister" and rests on an optimistic belief in the "ability of the state to be entrepreneurial and sponsor the kind of technological and scientific research that private companies won't finance". It is predicated on borrowing money– lots of it and cheaply – to revitalise the north of the country. The big questions are whether interest rates rise and whether the government can be trusted to spend wisely. Pouring money into unreformed public services such as the NHS tends not to work.

The speech marked the "emphatic arrival" of a new politics, that of "post-ideological populism", and bears the hallmark of Cummings, by whom Johnson "is said to be mesmerised", agrees Simon Jenkins in The Guardian. Under Johnson-Cummings, the age of "economic man" is to be replaced by the age of "political empathy" in which the "pollster is king". Hence the anti-immigrant measures, bills to "get tough on crime" (even though longer sentences "play no role in combating drugs and gangland crime"), the commitment to the north, and the massive spending on infrastructure and the NHS. Taxation or budgetary targets were barely mentioned, even as – pre-spending "splurge" – the Office for Budget Responsibility is about to declare the government in "breach of its fiscal balance". Just as "Americans seem not to care if their president is a rogue, so Britons seem not to care if their leader is set on doing them economic harm". What appeals is the optimism and "roughness" of this new narrative. Cummings has "read the runes and seized the opportunity".

Pelosi: concerned about divisions

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Furious Trump demands immediate trial

The House of Representatives' impeachment of President Trump on Wednesday was "proper and necessary", says The Washington Post. Trump withheld a White House meeting and US military aid in a bid to force Ukraine's president to help his 2020 re-election campaign. Congress could not allow this to "go unpunished", nor could it "acquiesce" in his refusal to cooperate with the inquiry. Trump is the third president in US history to be impeached and to face trial in the Senate – a trial that will decide whether he is removed from office.

Eleven hours of "fierce argument" in the House between Democrats and Republicans, who voted "almost entirely" along party lines, "vividly illustrated the extent to which leaders of the two parties now believe entirely different accounts". Democrats characterised Trump as an "immediate threat" to the nation; his actions as an "unprecedented affront to American values". Republicans denounced the charges as "unsubstantiated and the process as illegitimate". A furious Trump is now seeking an "immediate trial" in the Senate, says the BBC, claiming the "impasse" over when it should begin shows that the Democrats have "zero proof". Democrats argue that the Republican-controlled Senate is "refusing witnesses and will not hold a fair trial".

In any case, the Senate's numbers make an acquittal almost inevitable. In terms of the public, a CNN "poll of polls" shows that support for impeachment,now at 46%, is trending downwards, says Chris Cillizza on CNN. While not "good" for Trump, this will make Democrats nervous. Speaker Nancy Pelosi has long been concerned that impeachment "without significant bipartisan support" would divide the country "too bitterly" to make it worthwhile. There is simply no way to tell how voters, particularly those who are independent and/or undecided, will react.

The cannabis comedown

Things seemed to be turning out well for pot-heads in 2019 – and for the companies that seek to provide for their needs. Then a new, more depressing reality dawned. Simon Wilson reports

What's happened?

This was the year in which Canadian and US cannabis stocks burned brightly – but then went up in smoke. At the start of the year, cannabis stocks (such as Canopy Growth, Aurora Cannabis and Innovative Industrial Properties) were all the rage on the back of legalisation in Canada and California and a tripling in size of the worldwide legal cannabis market over the past four years. In the US 33 states now allow medical use of cannabis, and 11 have legalised recreational use. Medical use is increasing across Latin America and in countries including Germany, South Korea and Thailand. Breathless predictions suggested that the legal global market could be worth $150bn within ten years – that's about the size of the global illicit market now. Since the spring, however, the market has turned, with most pot stocks losing at least half their value, and plenty of them far more than that.

Should you take a sniff? It depends on your appetite for risk

©iStockphotos

What has caused the downturn?

In part, it's the old story of greed followed by fear. This is a relatively thinly traded market (and one unusually skewed towards retail investors) which has seen irrational exuberance followed by a sell-off. But there's lots of fundamental factors, too. Canadian regulators have been swamped by licensing applications, and retail rollouts have been slower than predicted. The health scare over vaping has dampened enthusiasm. Sales and earnings figures have disappointed. And the whole market has been spooked by unnerving data from California. The traditionally liberal state is the world's biggest legal cannabis market, where medicinal use has been legal since 1996. Ominously, though, since the legalisation of recreational cannabis at the start of 2018, the legal cannabis market has actually shrunk. According to stats from market analysts Arcview Market Research and BDS Analytics, the size of the legal cannabis market there fell from $3bn in 2017 to $2.5bn last year. The main reason for this is that many firms in the medical space have found the new array of regulations too onerous, and the fees for permits and licences so pricey that they've struggled to make their businesses work.

What about the recreational market?

Even in California, the retail cannabis market has not taken off as expected. Many cities still don't allow shops, despite state-level legalisation. Some cities, including LA, allow shops, but have been super-slow to issue licences. And the high taxes payable on the cultivation and retail of cannabis (which remains illegal under US federal law) have made the end-product expensive. In August, an Economist journalist researching the marijuana market at Harborside Oakland ("a modern-day temple to the delights and possibilities of the botanical marvel that is the plant *Cannabis sativa*") was advised she could get an ounce of cannabis delivered (illegally) outside the store for $150. Inside, the same product was priced at $400.

Is cannabis safe?

The arguments in favour of decriminalisation are familiar and clear: less power to criminal gangs, fewer young people criminalised, lots of tax revenues for the state coffers. But sceptics say that all these arguments rely on the assumption that cannabis is basically benign, when in fact it's more dangerous than it was a couple of decades ago. "Study after study", says Clare Foges in The Times, "has found a clear association between the high levels of THC that most present-day cannabis contains and serious mental health problems, particularly schizophrenia and psychosis". In London, a study found that the use of super-strength cannabis had helped push up psychosis rates to the highest in Europe. "If we could abolish the consumption of skunk, we would have 30% fewer patients," says Professor Sir Robin Murray, a psychiatrist at King's College London.

> *"Super-strength cannabis has pushed up psychosis rates to the highest in Europe"*

Won't regulation address that?

The idea that regulation will ensure that only safer, low-THC forms of cannabis are licensed is nonsense, argues Foges. That's because people who want the bigger hit will still buy through the traditional illicit channels – as has proved to be the case in Canada. "Around the world we have seen that legalisation does not rid a country of its dealers; instead, by normalising drug use, it increases their potential market." How policy-makers around the world balance these issues will be "the single biggest catalyst" when it comes to the future prospects of the sector, says Christopher Carey, an analyst with Bank of America. His bank's research puts the value of global cannabis sales at $166bn this year – but the legal slice of that (mostly in North America) is just $15bn. Until that balance changes dramatically, investing in cannabis stocks is always going to be very high risk.

Is it still worth taking a punt?

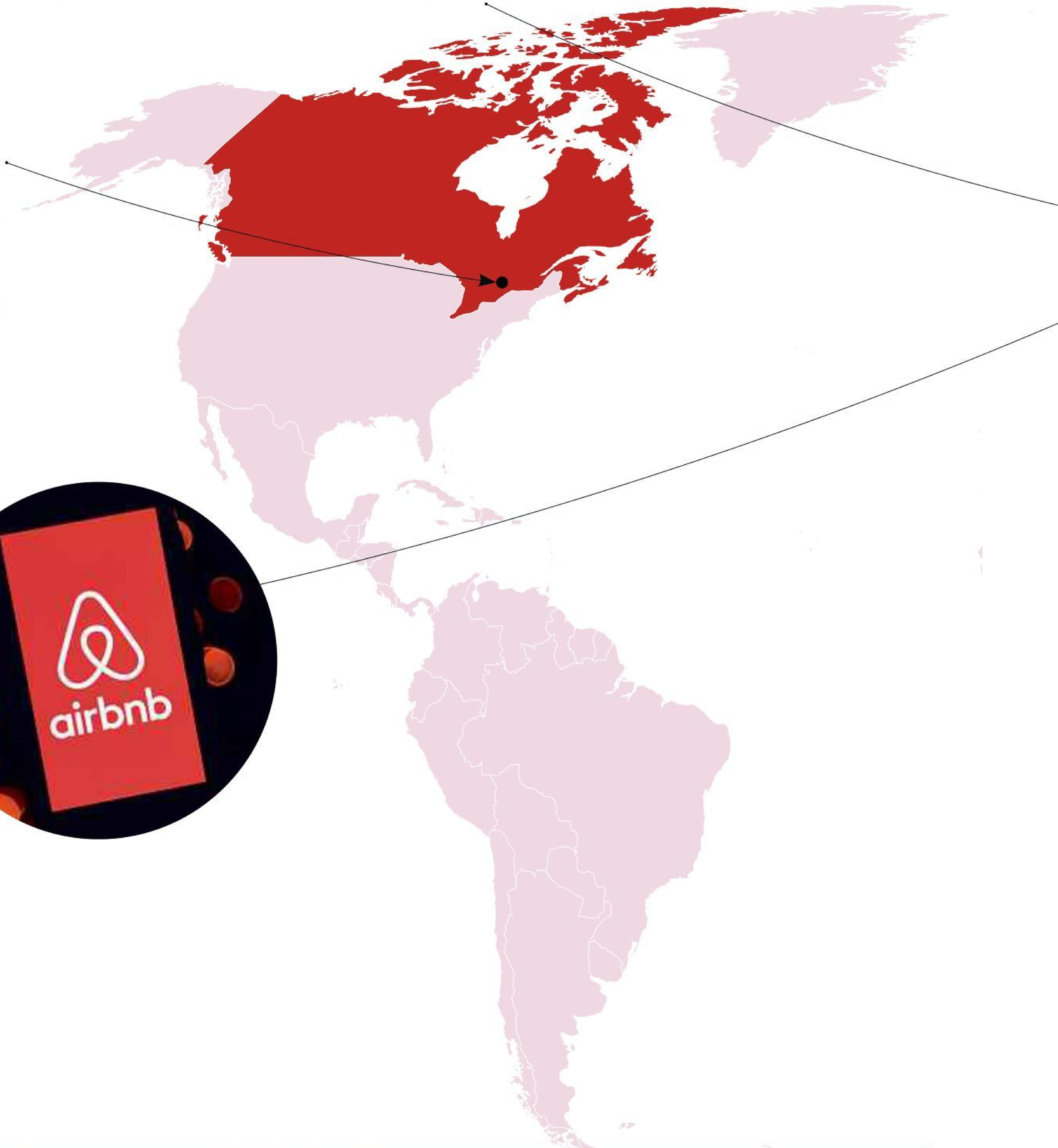
As ever, that depends on individual investment objectives and appetites for risk. In the short-term, some analysts think that the sector is likely to see further losses. But in the longer term the outlook remains positive. One key factor to bear in mind is the distinction between recreational and medicinal uses. Europe is much more focused than North America on the latter sector. Companies such as GW Pharmaceutical, for example, have a number of promising patents for medical applications (Cannabidiol, or CBD, is the basis for its epilepsy drug Epidiolox, for example). This is the sector that currently has the most promise. But potential investors should be aware that the market is immature – the results of clinical testing (in the medicinal space) or the emergence of trusted consumer brands (in the recreational arena) remain to be seen. This situation will change in time, however. That could be the tipping-point.

Ottowa

Canadian fraud case settled: The Canadian company involved in the fraud case that shook Prime Minister Justin Trudeau's government has pleaded guilty to fraud and will pay a C$280m fine, say Allison Lampert and Kelsey Johnson in Reuters. SNC-Lavalin Group, a construction and engineering company, was accused of bribing Libyan officials to get contracts between 2001 and 2011. The company admitted to "directing millions" to the son of late Libyan dictator Muammar Gaddafi to secure contracts. All charges against the company have been dropped – its shares rocketed nearly 20% on the news. The case "triggered a political crisis" for Trudeau (pictured) and raised fears of job losses in the country as a conviction would have barred SNC-Lavalin from bidding on government contracts for ten years. Trudeau's top officials were accused of pressuring former Justice Minister Jody Wilson-Raybould to direct prosecutors to strike a deal rather than go ahead with a trial. SNC-Lavalin's CEO, Ian Edwards, said the settlement was a "game-changer" and would allow the issue to be put to rest.

London

New chief at the Old Lady: Andrew Bailey, head of the Financial Conduct Authority, has been selected as the new governor of the Bank of England, say Chris Giles and George Parker in the Financial Times. As former deputy governor of the Bank, Bailey has long been seen as a highly qualified domestic candidate. He will inherit the central bank from Mark Carney, the Canadian incumbent, in "testing economic times" with monetary policy "close to the limits of its effectiveness" and the new government seeking to boost the economy with a "massive expansion" of infrastructure spending. Aside from dealing with a busy in-tray, Bailey is coming in at a chaotic time for the Bank, which faces growing criticism over a security breach that gave traders early access to market information, say Philip Aldrick and Ben Ellery in The Times. The Bank's internal audio systems had been hijacked, allowing hedge funds to listen in to press conferences before they were officially broadcast, giving funds an eight second headstart to trade before prices moved. Traders had boasted of making "plenty of pips". It will fall to Bailey, says The Times, to "professionalise" the Bank's management.



Luxemborg

Boost for Airbnb from court win : Airbnb has won a big legal victory after Europe's top court ruled that the accommodation-booking service does not need an estate agent's licence to operate in France, says Chris Fox on the BBC. The French tourism association had claimed that Airbnb should face the same onerous accounting, insurance and financial obligations as traditional estate agents. The European Court of Justice's decision was based on the determination that Airbnb was an "information society service" rather than a property broker because its platform was not an "ancillary" to wider property business, owners were able to rent their homes out through other channels and Airbnb did not "set or cap" the rent. The verdict came despite an ECJ ruling in December 2017 that Uber should be classed as a taxi service; the crucial difference, said the court, is that Uber "sets the fares for rides in its app and assigns each passenger a driver". The ruling is a boost for Airbnb ahead of its stockmarket listing next year.

The way we live now: compensation culture goes mad in Ireland

Extravagant insurance claims in Ireland are putting responsible people out of business, says The Economist. "Compo culture" has given rise to an "epidemic" of dubious compensation claims, which have caused the country's insurance premiums to rocket. A notable example is MP Maria Bailey (pictured), who in July 2015 ran a 10km race in under 54 minutes. This "came back to haunt her" soon after, when it was revealed that she was seeking up to €60,000 in compensation for minor injuries from a fall she suffered during a night out in Dublin, three weeks before the race, which she claimed had left her unable to run for three months. This was a "particularly galling" example of the phenomenon that is "blighting small businesses, forcing drivers off roads, and stifling public activities".

"We have a crisis of childhood obesity," says Peter Boland, director of the Alliance for Insurance Reform. "But many primary schools don't let children run in the playground because they're afraid of injury claims." The average soft-tissue payout is just under €20,000, four times the average in Britain. Yet the large amount does at least seem to have "curative value" — 90% of whiplash patients attending one Dublin pain clinic stopped showing up as soon as compensation was paid.

Careful, you'll put your back out

©Getty Images; PA Images

Beijing

The end of an era for deal-making: The retirement this week of Liu Chuanzhi, the 75-year-old entrepreneur and founder of Lenovo, "marks the end of an era for Chinese deal-making", says Bloomberg Breakingviews. In 2005, in a deal many consider to be a turning point in China's technology industry, Liu Chuanzhi acquired IBM's personal computer business and beat rivals HP and Dell to become the top PC seller in the world. However, this model of building a global brand through foreign deals "increasingly looks like an exception to today's hostile rule". Escalating US-China tensions have had a dramatic effect on cross-border M&A, with the value of US deals with Chinese buyers set to tumble by more than 90% this year from a 2016 peak. "Governments in Europe, Australia and beyond are cooling on Chinese bidders too." Meanwhile, Chinese-owned technology is under increasing "scrutiny" from Washington. Nevertheless, "rising technology nationalism at home" is set to benefit Lenovo. According to the Financial Times, Beijing is planning to remove all foreign computers in government offices and public institutions. "Against this backdrop, Liu's cross-border success story evokes more nostalgia than inspiration."

Liu Chuanzhi bought his way to the top of the PC market

Seoul

Divorce complicates restructuring at South Korean conglomerate: SK Group chairman Chey Tae-won's wife has filed for divorce and is demanding Chey's stake in the group's holding company, SK Holdings, says Chu Young-min of United Press. Roh So-yeong, daughter of former President Roh Tae-woo, is seeking around 5.5 million shares of SK Holdings, worth $1.18bn. As of September Chey held around 13 million shares, making him the largest shareholder with a stake of 18.44%. If he was to concede, he would remain a majority shareholder, but with a reduced stake of under 11%. That would leave Chey more reliant than before on outsiders to secure necessary shareholder approvals for the "hotly anticipated restructuring" that would bring the group closer to its chip unit, "the $58bn crown jewel", says Robyn Mak in Breaking Views. SK Group is South Korea's third-largest conglomerate, composed of 95 subsidiary companies, and was one of the first chaebols to start taking governance issues seriously following Chey's jailing in 2013 for misappropriating funds. The divorce will be a "hard test" case of the reforms.

Malabo

IMF sullies reputation with bailout: The International Monetary Fund has approved a $280m bailout for Equatorial Guinea, defying criticism from human rights groups, says Neil Munshi on Ozy. The IMF says the programme includes provisions intended to make the petrostate's industry more transparent. Critics say the IMF is damaging its reputation by lending to a nation with "no history of serious reform". President Teodoro Obiang Nguema Mbasogo (pictured), who has ruled the country with absolute power since a coup in 1979, is accused of institutional corruption and human-rights violations. Despite the country's oil wealth and a GDP per capita higher than that of China or Brazil, 400,000 of its one million citizens live in poverty. Gabriel Obiang Lima, minister of mines and one of the president's sons, says "Equatorial Guinea is not a country that needs $200m. We make that in two months." He says he had agreed to the IMF programme as an "act of solidarity" with other central African states that have taken loans.

Abu Dhabi

Sovereign wealth fund muscles in on food delivery: Abu Dhabi's sovereign wealth fund Mubadala has placed a bet on rising demand for food-delivery platforms with an investment in Spanish start-up Glovo, says Rodrigo Orihuela in Bloomberg. Mubadala was the lead investor in Glovo's €150m funding round, bringing its valuation to more than $1bn. This marks the third round in which Glovo has raised over €100m in the past 17 months. It operates in 26 countries and is looking to bolster its position in the "booming" food-delivery sector. The extra cash will be used to help Glovo grow its workforce, co-founder and CEO Oscar Pierre told Ryan Browne of CNBC, and expand into new territories – it has already entered Poland through the acquisition of Pizza Portal. Mubadala's investment is a "further drive into the tech sector" for the UAE, says Browne. "The oil-rich country has been increasingly moving to diversify its economy, ploughing hundreds of millions of dollars into local start-ups." Mubadala joins the ranks of investors flocking to delivery apps: Delivery Hero has acquired South Korea's Woowa Brothers for $4bn and rival Takeaway.com is in a bidding war with Prosus for British delivery app Just Eat.

A Christmas tradition to avoid

The annual ritual of market forecasts isn't just useless – it could make your investment decisions worse

Cris Sholto Heaton
Investment columnist

It's that most wonderful time of the year for analysts: the time when they put out their forecasts for what markets will do over the next 12 months and get treated as if these are a valuable insight into what we can expect. The reality is that even a minute spent studying these reports is a minute wasted. Annual forecasts are not just unreliable – they are even more useless than you might expect.

Over the past 22 years, the average forecast gain for the US stockmarket has been 9% (for the annual panel of analysts compiled by Barron's). The average actual return over the following year has been 7%. That sounds pretty close, but this is a fine example of the average being entirely misleading. The correlation between each annual average forecast and what happened in the subsequent year was very close to zero. In other words, there was no relationship at all.

Analysts rarely say that markets will decline. In that sample, participants forecast a drop in just 7% of cases; in reality, the market was down in more than a quarter of years. The biggest decline that any of the analysts' forecast was 20% (one brave soul in 2004 – markets went up 9%). The biggest actual drop was 38%. This shortcoming works the other way as well; the largest gain was 30%, yet the highest forecast was 38%. Overall, the standard deviation of all analysts' forecasts – a measure of how much they vary around the average – was 8%. The standard deviation of the actual returns was 17% – more than twice as much. So analysts' forecasts are both more optimistic (the market never goes down) and more muted (they show less volatility) than reality.

"There was no relationship between forecasts and returns"

Of course, stocks are hard to predict because they can be affected by so many economic factors. Government bonds might seem simpler: most of the time the key criteria will be interest rates and inflation. Yet analysts' results are no better: the chart above shows US ten-year bond yields over the past decade (the darker red line) with each average annual forecast for the next year marked on the chart (the pale red arrows). Analysts consistently forecasted that yields would go up – and were mostly wrong.

Making predictions like this is impossible: the world is too complex and the time frames are too arbitrary. It's human nature to try – but it can make us worse off, because meaningless forecasts can fuel our cognitive biases, such as anchoring (see below). If investors are told that stocks are unlikely to fall, they may be inclined to take more risk. If everybody says yields will rise, we may ignore the risk that they will fall. So when you see a seasonal flurry of forecasts in the next few weeks, put them where they belong: in the bin with the rest of the Christmas leftovers.

I wish I knew what cognitive biases were, but I'm too embarrassed to ask

We use mental shortcuts (known as heuristics) to make decisions rapidly. These work in many circumstances, but they can also be a disadvantage when they lead to cognitive biases – systematic errors in thinking that lead to irrational judgements. There are a number of biases that can affect our investment decisions. Some of these may be obvious, such as the tendency for members of a group to end up coming to similar conclusions (groupthink) or for us to give more weight to information that supports our existing views (confirmation bias). But others affect our thinking in ways that are harder to detect.

"Anchoring" is the tendency to rely heavily on a piece of data we are exposed to while making a decision, regardless of its relevance. In a 1974 study, psychologists Daniel Kahneman and Amos Tversky asked subjects to write down the last three digits of their phone numbers, multiplied by 1,000. They were then asked to make estimates of house prices. The higher the phone number, the higher the estimate. Anchoring might tempt you to buy a stock that has fallen after a profit warning, because you have anchored on its previous price and now see it as cheap, disregarding the deterioration in its fundamentals.

We also overlook how the way information is presented can lead us to draw different conclusions from the same data – known as "framing". To take a simple example, an investor might choose an investment described as having a 60% chance of success over one with a 40% chance of failure – even though they are the same.

That's partly due to our instinctive "loss aversion" – which means we feel the pain of losses roughly twice as acutely as we enjoy the pleasure from gains. This goes some way to explaining why framing information on decisions in terms of risks rather than rewards can alter our reported preferences, even if the underlying data is the same.

Guru watch

Ben Inker, head of asset allocation, GMO

The years from 1997 to 2000 were "unimaginably bad" for value investors such as GMO, says Ben Inker in a recent letter to investors. Not only did value stocks underperform drastically and emerging markets suffer a crisis, but not holding the hottest tech stocks could be hugely costly: leaving America Online (now AOL) out of GMO's US equity portfolio in 1999 by itself lowered returns for that year by more than one percentage point. But the "extreme pain" of that time – which sent many clients running for the exits –

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went on to create "the greatest opportunity set for valuation-driven investors since the Great Depression".

The parallels with today are striking. Recent market bubbles have not been as abrupt as the dotcom boom, but the cycle has gone on for much longer. The poor performance of GMO's value-focused equity and multi-asset investments "is once again approaching the 1990s-style cumulative pain level" and "unsurprisingly our clients are once again finding their patience wearing thin" (the firm's assets under management have roughly halved from a peak of $124bn in 2014).

Yet the "valuation extremes" in many assets are now as large as they were back in 2000. "Today's opportunities are not quite the same as the ones we had at our disposal 20 years ago;" developed-world value stocks are not as cheap as they were. But emerging-market value stocks are significantly cheaper. That should mean better times will eventually come for value strategies – at least relative to the wider market.

The winner of our corporate Baftas

Will it be Amazon, Microsoft, Apple, Facebook or Netflix? Our City columnist has the golden envelope

Matthew Lynn
City columnist

What was the greatest company of the past decade? You could make a case for Amazon, of course, as the internet retailing powerhouse moved into devices, media, cloud computing and dozens of other businesses and made itself briefly the largest company in the world. Or Microsoft, as the company of the 1990s made a stunning comeback, reinventing itself as a services giant. Or perhaps Apple, Facebook, Uber. Maybe Alibaba or Tencent. There are perfectly compelling cases to be made for all of them. But the winner? It has to be Netflix. Let's see a clip of it in action.

The shares soar...

Unless something dramatic happens in the last couple of trading days before New Year, then the best-performing company on the S&P 500 over the last ten years will be Netflix. Measured since the start of the decade, it was the top performer on the index with an overall gain of 3,767% (the little known MarketAxess Holdings was in second place; Amazon came in at ninth). Netflix floated back in 2002, at $15, but for the next eight years it drifted aimlessly, attracting little interest from investors, or viewers for that matter. It was only at the start of the 2010s that it really took off. At its peak last year the shares were priced at more than $400. Anyone who bought in early has made a lot of money.

But it is not just about the share price. It is about influence: Netflix has been the most disruptive firm this decade. It has turned not just one but two of the world's biggest industries upside down. Broadcasting has been transformed. Traditional terrestrial and pay-TV have both been left looking quaintly old-fashioned compared with the streaming giant and its conveyor-belt of high-quality, big budget TV shows. With a spend of more than $10bn a year on new productions, it has mastered the art of creating programming that people talk about. With the possible exception of HBO, no other company comes close. Even the film studios look lame by comparison. It has forced Disney, HBO and, in this country the BBC and ITV, into launching rival services.

Olivia Colman in Netflix's The Crown: will it be a hit for investors too?

©Netflix

... but will profits ever roll in?

It is not just TV, however. With 158 million subscribers around the world, the tech giants are understandably nervous about the lock Netflix has on its customers. Amazon is now spending billions on TV shows, and so is Apple, while Google is launching more and more original content on its YouTube platform. Increasingly, streaming TV is seen as a gateway to a host of other products and services, and the web companies have refocused around that.

But Netflix's influence goes beyond that. With subscriptions and streaming it has created a whole new business model. Sure, people have always subscribed to things, such as newspapers and magazines, gyms or maybe a wine package. Netflix took it to a whole new level. It showed that customers are more than happy to pay a small monthly fee for unlimited access to a product they want. That model is starting to spread. We now get music from Spotify, razors from Harry's, books from the Kindle store. Pretty soon, instead of buying a car, we might just pay a monthly fee to use a ride-sharing app.

Netflix made it clear that streaming services is often a more powerful offering than selling things. And its mastery of the algorithms, data management and customer service needed to make that work smoothly means it may well turn into the most powerful player in the sharing/streaming economy. To take just one example, if the world moves to shared, driverless cars, then Netflix may have a lot more relevant expertise than either Ford or Toyota: building the cars won't be especially difficult, but getting the right one to your door on time will be.

True, Netflix still doesn't make any money. It has become brilliantly successful at taking lots of cash from Wall Street and giving it to TV producers, actors and writers. Whether it can do that profitably remains to be seen. Even so, there is no question its impact has been huge. It was the most influential company of the decade as well as the most rewarding for investors.

Who's getting what

● **Denise Coates**, co-founder of online gambling firm Bet365, cemented her position as the country's highest-paid boss by paying herself £323m last year, £57m up on the previous year, says the BBC. Coates (pictured) took £277m in salary and the rest in dividends. Her pay works out at around £1.3m a day. Coates founded the company in 2000 and owns half the shares, the rest being held by her brother and father. The company's revenue rose by 7% to £3bn in the year to the end of March, and operating profits rose by 15% to £758.3m.

● Retail magnate **Mike Ashley**, owner of Sports Direct and House of Fraser, says he wants to introduce a new bonus scheme, worth £100m, that would "create 50 millionaires" and hand "hundreds more" employees up to £100,000, says The Sun. The scheme – which has yet to be approved by shareholders – would be available to full-time employees, but not the board and not those on zero-hours contracts, which includes most of the company's warehouse workers.

● Two outgoing bosses of fashion retailer Ted Baker could pocket £600,000 between them, reports The Daily Telegraph. Finance chief **Lindsay Page** could get £500,000, and chairman **David Bernstein** could get £100,000 – half his annual salary. The firm is in dire straits after revealing a £25m hole in its accounts, has issued four profit warnings this year, and the shares have lost three-quarters of their value.

©PA Images

Nice work if you can get it

In just over two years, the country's MPs have earned £8.4m between them – an average of £12,900 per MP, or £5,330 a year, in addition to their parliamentary salaries of £79,468, says The New European. The figures come from data-crunching website Data Lobo, which examined the period between June 2017 and October 2109. The money is not evenly spread, however – over half that amount was earned by just 15 MPs, all of them men. Topping the list is Boris Johnson, with almost £800,000, mostly earned from giving speeches. The average earned by male MPs was £17,360, more than five times the amount earned by women at just £3,350. Men spent longer earning outside income – 89 hours each compared with 25 hours for the women. Tory MPs were the biggest earners on around £25,000 with Lib Dems second at just under £20,000 and Labour bringing up the rear on less than £2,000.

Why the gloomsters are wrong

Matt Ridley
The Spectator

Let nobody tell you we are living in hard times, says Matt Ridley. Extreme poverty has fallen below 10% of the global population; it was 60% when I was born. Global inequality is "plunging" due to economic growth in Africa and Asia. Child mortality is at record lows and famine is almost unheard of. Despite what Extinction Rebellion is telling us, humans are also living more sustainably. Economic growth can mean using less. In Britain, almost unnoticed, our consumption of "stuff" probably peaked around 2000. The quantity of all resources consumed per person in Britain fell by a third between 2000 and 2017. How? Take your mobile phone. It does the job of a camera, radio, torch, compass, map, calendar, watch, CD player, newspaper and more. LED lightbulbs use around 25% of the energy. Then there are efficiencies in agriculture. We use 65% less land to produce a given quantity of food than 50 years ago. By 2050, it is estimated that an area the size of India will be released from the plough. Forests and large animals are returning in rich countries. "Technology has put us on a path to a cleaner, greener planet." Adopting many of the green policies now advocated "risks retarding progress".

LatAm's great stagnation

Editorial
The Economist

Back in 2010, Latin America was "awash with optimism", says The Economist. Economic growth stood at 5.9%. The region "rode out" the financial crisis with "only a brief economic dip and no damage to its banks". The commodity boom lifted tens of millions out of poverty. However, the bang swiftly faded to a "whimper". Since 2013, growth has averaged 0.8% and average income has fallen slightly. The UN estimates that 31% of the population are poor, the same as in 2010. Many citizens view their politicians as "corrupt and cynical" and more than 25% would like to emigrate. There have been street protests in half a dozen countries. But if the 2010s are now being dubbed a "second lost decade", the comparison with the 1980s is overblown. During that "traumatic" decade, when a debt crisis brought the region to a standstill, guerilla wars raged, dictators ruled and poverty rose. The 2010s have seen stagnation, not a repeat. The important thing is what happens next. "Out of the woes of the 1980s, a better Latin America was born." Today, there are no political "heroes" and there is a "yawning deficit of good ideas". A "new social contract" is urgently needed.

Scrap this unfair poll tax

Editorial
The Times

Beyond the "raucous argument" about whether the BBC's election coverage was or wasn't biased, another "big argument lurks", says The Times. Does it still make sense to fund the BBC through a "poll tax on every household"? It used to be thought that an increase in the number of broadcasters would mean worse quality. In fact, the possibilities unleashed by digital technology have resulted in a much richer offering. In response, instead of scaling back, the BBC has "ramped up" its ambitions. For example, it now offers a free news digest online. This "distorts the market" and is particularly unfair to the regional and local press. Given its waning audience and failure to attract a younger generation, such dominance is no longer defensible. The BBC should continue to provide programmes that are not offered elsewhere, but a smaller, narrower BBC cannot justify the "forced payment of a licence fee". Moving towards a subscription model would end the "nonsense" whereby tens of thousands are caught up in a legal process which can result in a £1,000 fine or even a jail term. The Royal Charter doesn't end until December 2027, but the thinking on how to overhaul the corporation should begin now.

Leave a legacy, not an albatross

Jason Butler
Financial Times

Money is a major cause of family conflict and Christmas can unfortunately provide the perfect conditions for a "blistering" row, says Jason Butler. But the pain caused by these arguments is "nothing compared to the problems they can cause after your demise". Inheritance disputes heard in the High Court rose sharply this year and new research by Direct Line finds that one in four would be prepared to challenge a relative's will. Soaring property prices and second marriages are partly to blame. "This doesn't augur well for the £5.5trn wealth transfer that is expected to take place over coming decades." A shift in focus is needed. A US study found that wealthy families tend to worry about investment performance and taxes; just 7% considered relationships to be the biggest risk. Yet a separate study found that the biggest cause of failure to transfer wealth to the next generation was a breakdown in relations. Cultivating "a culture of communication and trust" around a family's common purpose in the broadest sense is key. A mix of "guided interviews, structured family meetings, focused financial education and careful documentation" can be critical to ensuring your wealth "helps – and doesn't hurt – the next generation".

Money talks

"There are some actors out there who are all, 'Hey, I live in a cardboard box and I'll perform on that cardboard box if I have to.' That's pretty much bullst. Acting pays well. And anyone who says they don't like money is being ridiculous. Money is lovely. Nice things are lovely. Pay me the money. I'm not doing it for charity. I'm not a non-profit organisation."**
Actor Henry Cavill (pictured), quoted in Debonair

"The ATM has been the only useful innovation in banking for the past 20 years."
Former US Federal Reserve chairman Paul Volcker's 2009 assessment of Wall Street, quoted in the Financial Times

"Dad, can I have my own room?"
The eldest son of lottery winner Steve Thomson after his £105m win, quoted in the Daily Mail. His other two children asked for a Tesla and a pink iPhone

"Because it was such a hardship growing up, I had sort of a dislike for money. We always had bills. But when everybody became so concerned about money, I was concerned about survival and relationships. I was working class. There was no work in theatre or movies for the class I came from. I had no chance to get an agent or a job. But I kept going."
Actor Harvey Keitel, quoted in The Times

"I made a fortune getting out too soon."
J.P. Morgan, quoted on RealMoney

"It is better to give than to lend, and it costs about the same."
Author Sir Philip Gibbs, quoted in Forbes

"Cocaine is God's way of saying you're making too much money."
Actor and comedian Robin Williams, quoted on Wisebread

©Getty Images

Boris must seize the day

The forgotten people now have a prime minister working for them

©Getty Images

policyexchange.org.uk

In many ways, it was "the election of the forgotten people", says former Australian prime minister John Howard. Britain's general election was ultimately "won by the hard-working and ambitious working-class people who aspire to a better future for themselves and their children, but who too often feel left behind in a fast-changing world". They rejected the risky economic revolution on offer from Jeremy Corbyn and voted instead for stability and security. But how to deliver what the forgotten people want?

It's not rocket science

After my own big win in 1996, "I was in a similar position to that of Johnson", says Howard. What I learned, first, is that "you never have more political capital than directly following an election victory". So "seize the moment" – the first 100 days will be crucial in setting a direction for the new government.

Second, "be true to your manifesto". Many people in traditional Labour strongholds were won over by the pithy Tory vision of "getting Brexit done" – delivering what these people want "is not rocket science". They want public services that work well for them and they want to see tangible improvements in their everyday lives. But above all, the government should "move quickly to end the Brexit gridlock". Staying true to this manifesto promise will "restore a lot of trust in politics at a time when there is increasing doubt that what is promised and voted for can actually be delivered".

There will of course be a lot of noisy opposition to overcome. There will be "howls of anguish" from some on the left at the very idea that the Tories could become the party of the working class. But there is nothing new about working-class support for Conservatism. Working-class supporters have long known they can rely on the Conservatives for efficient government and to be the "guardians of all things British. Patriotism matters."

Finally, Johnson is right that the UK needs "a healthy dose of optimism right now". So he must move quickly to make post-Brexit Britain "as competitive as possible" by agreeing trade deals not just with the EU, but with the world's "most dynamic economic region as well, the Asia-Pacific". In the next 100 days, Britain should apply to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, where it will find "close friends and allies such as Australia, New Zealand and Japan, willing to make fast progress on trade". In his efforts, the PM has "the goodwill of Britain's many friends around the world".

Socialism is down, but not out

taxpayersalliance.com

Jeremy Corbyn's "retro-socialism" was soundly defeated in the general election, says Sam Packer. Indeed, the Labour party's "hare-brained prospectus" was so unpopular that the party is the first opposition party in British history to have fewer seats after nine years in the wilderness than they had to start with. But Labour's failure should not bring complacency. In many ways, "socialism is stronger in Britain than it has been for many decades and it will take far more than one election to reverse that trend". Many of society's opinion-formers – celebrities, the media and academics – are "unabashed supporters" of the left. That has influenced the young, who are of course the future of the nation. Polling for the Taxpayers' Alliance has found widespread support for tax cuts among most of the population, but many still back and vote for policies such as nationalisation. The most popular argument in favour of renationalisation, more popular than any argument against, is that industries "should be accountable to taxpayers rather than shareholders". A "more pithy argument" of the incorrect but persuasive arguments for socialism would be hard to find. The "battle for Britain's soul will continue to rage long after the dust has settled on the election".

Natural history of inequality

nytimes.com/upshot

Hermit crabs have to deal with a uniquely competitive property market, says Elizabeth Preston. They need bigger shells as they grow, but can't make them, so they stay on the look-out for new snail cast-offs entering the market. A new study shows that the distribution of shells is surprisingly similar to the distribution of wealth in human societies. A crab that comes across an empty shell on a beach inspects it before deciding whether to trade up. When it does, a smaller crab may move in to the cast-off. This leads to a kind of inequality, with a few crustaceans hoarding the biggest homes.

The Gini coefficient, a measure of inequality, was similar to that found in small human populations. The study's lead author believes the resemblance might come from structural similarities – smaller crabs don't exactly inherit their wealth, but the largest shells are a scarce resource that only a few crabs are "privileged enough to get their claws on". It's not yet clear what lessons can be drawn for humans, however. The top 1% of hermit crabs owned only about 3% of the total shell weight. "There are no Warren Buffetts or Jeff Bezoses."

There is no crisis of trust

aei.org

Conventional wisdom says that trust, especially in institutions, is on the decline, says Mark Jamison. The Pew Research Center has found that the percentage of Americans believing the federal government can be trusted always or most of the time fell from 73% during the Eisenhower administration to just 17% now.

Paradoxically, this decline coincided with the rise of "trust machines" – e-commerce and social media. Humans, it seems, will readily engage with and trust complete strangers online, and even hand over money. E-commerce in America nearly tripled its share of US retail from 2007 to 2018, to 14.3%.

What accounts for the paradox? In surveys, people are asked to articulate their sentiments. These are low during unpopular wars, say, or when the times are politically divisive. But people's actual behaviour aligns more with their economic and social opportunities. As Adam Smith observed more than two centuries ago, trust and understanding grow as people engage. Digital technologies help people to do just that.

The Reits to research now

There are still opportunities in commercial property, but choose your subsector carefully

David Stevenson
Investment columnist

The retail sector is suffering from the rise of e-commerce

©Alamy

Property funds are back in the spotlight following the ructions at M&G, which will prompt many investors to switch out of open-ended funds into real estate investment trusts (Reits). The fuss over the liquidity problems and structural flaws of open-ended funds has, however, slightly obscured the bigger picture: what is the outlook for commercial property?

The market is widely considered to be in the later stages of a long upswing, with valuations looking a bit overextended for key niches such as high-quality London offices. There's also a structural debate about areas such as retail parks, which are under strain from the e-commerce assault; the M&G fund was reportedly close to 50% invested in retail assets, many of which are increasingly difficult to sell.

A boost from Boris

That said, yields for many quality property assets are attractive in a low interest-rate environment. I think Simon Elliott, who runs fund research at Winterflood Securities, a broker, is probably on the ball when he argues that in "commercial property, returns in the short to medium term are expected to be driven by income rather than positive capital revaluations. The asset class faces a number of headwinds at present, particularly in the retail sector, which is seeing a structural decline. In addition, demand for office and industrial premises will be affected by the economic impact of Brexit on the UK economy. However... commercial property remains an attractive long-term asset class, given the levels of yield available, which are backed by revenue streams that should increase with inflation".

My own sense is that investors might want to follow Simon Elliott's advice and stick with the many niches within the property spectrum. The Conservative victory in the general election will certainly have helped boost sentiment and I think we'll see many more domestic businesses look to make office and industrial moves now that we have more certainty. Foreign investors might continue to invest in prestige properties, but my sense is that sterling's recent rise might take the edge off this market.

We might see the sharpest rally in regional markets, which have been relatively subdued (in valuation and yield terms) compared with the big London office market. That should help specialist operators such as the **Regional REIT (LSE: RGL)**, which currently trades at a 3.3% discount to net asset value (NAV) and yields 7.4%. This fund's focus could come in handy as the domestic economy bounces back after the general election and Brexit.

Eye up social housing

The social-housing sector might also stage a rebound as the Johnson government steps up spending on social housing. **Civitas Social Housing (LSE: CSH)** currently trades at a chunky 18% discount to NAV, which could tighten a bit and is yielding 5.7%. I'd also look again at **Residential Secure Income (LSE: RESI)**, which is on a 12% discount to NAV.

Sticking with potential policy changes, my sense is that a Conservative government might give investors in leaseholds an easier time. That could help the **Ground Rents Income fund (LSE: GRIO),** which has had a terrible few years. It currently trades at a 21% discount to NAV and offers a 4.3% yield.

Last but by no means least, while UK property may be at a late stage in the cycle, my sense is that many continental European markets are at a slightly earlier point in the cycle and might benefit if the eurozone economy does somehow manage to pick up speed in 2020. In this context the **Schroders European Reit (LSE: SERE)** might be worthy of further research. The trust's discount has tightened considerably, but it is still at 0.5% and there is a 5% yield.

Activist watch

Dutch activist fund Follow This has filed shareholder resolutions at Exxon, Chevron, and Shell's annual meetings for the first time, says Laura Hurst on Bloomberg. The motions ask the companies to align their plans with the Paris climate accord. The fund has previously done the same in Europe, pressuring major oil companies to take action on climate change. Follow This's resolutions have so far been defeated, but the group believes change comes from "a small number of progressive investors, not the majority", says head of the company Mark van Baal. They have already been joined by Dutch insurer Aegon and M&G Investments. Chevron says it has already set up emission reduction goals for various forms of fuel.

Short positions... trusts that have stood the test of time

■ Survivors of two World Wars, "the Great Depression, the Great Recession, the dotcom bubble, and the tech boom", these trusts seem a reliable investment, says Mike Atherton in The Times. The Foreign & Colonial investment trust has been running since 1868 when it began putting money into government bonds. Now, over half its money is invested in the US, with holdings in Apple, Alphabet and Facebook. Scottish American was formed in 1873 to invest in US railroad bonds after the Civil War gave the economy a boost. It has stakes in Procter & Gamble and Deutsche Börse. The BlackRock Smaller Companies trust was set up in 1906. It focuses on small and mid-cap companies and "has an impressive record of strong dividend growth". City of London started as a brewery company in 1891 and turned into an investment trust in 1932 when proceeds from the brewery's sales were invested in the stock exchange. Top holdings include Diageo and Unilever.

■ Neil Woodford's protégé Mark Barnett's (pictured) Invesco funds suffered their biggest withdrawal in over five years this past November, says Daniel Grote on Citywire. Investors pulled out £450m after fund platform and analysis group Morningstar downgraded the funds owing to liquidity concerns. Investors withdrew around £318m from Invesco High Income fund, Barnett's largest, and £125m from the Invesco Income fund. The funds now stand at £5.7bn and £2.6bn respectively.

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Keep your money safe

There are millions of scams attempted every year. Shield your cash with these simple but crucial tips

Ruth Jackson-Kirby
Money columnist

The number of scams aimed at separating you from your money continues to rise relentlessly. "With 3.9 million cases reported last year, you are much more likely to experience fraud than a violent crime," says Kenza Bryan in The Times. So, it's time to brush up your security skills in order to stop yourself falling victim to a con.

Stop scammers from accessing your accounts by strengthening your passwords. We all have to remember several different complicated codes and passwords. "To make them easier to remember, opt for a theme rather than just a memorable bit of information about you," says Bryan. You could take the first line of your favourite novel and use the first letter of each word. Then swap some letters for numbers and symbols. So, fans of *1984* could opt for Iw@bcd1A.

Another way to make your accounts more secure is to lie. Answer security questions truthfully and you could be using information that is easy to find online, such as your mother's maiden name or what you call your pet. "Pick a random but memorable word, keep it secret and use it for every answer," says Bryan.

Beware of public Wi-Fi

Try to avoid visiting secure websites – such as online shopping web pages– while you are on public Wi-Fi. "Fraudsters are able to compromise public Wi-Fi easily, so it's worth eating into your own data and staying safe," Ashley Hart, the head of fraud at TSB, told the Daily Express. Before making an online payment double-check everything. "Fraudsters thrive on stressful or rushed situations, because we're less likely to think things through before making a payment or surrendering our information," says Hart. "Always give yourself enough time to make a good decision."

Your pet's name is easy to find out online

> *"Ask your bank if you can receive authentication codes by email or on your banking app"*

Add an extra layer of security to your online accounts with two-step authentication, but don't opt to receive codes by text message. "They can be intercepted by fraudsters who convince your phone company to give them control of your number," says Bryan.

Instead, ask your bank if you can receive codes via your mobile banking app, or by email or telephone. Finally, check your bank statements. Look for payments you don't recognise and Google the description to find out what company it is. If you spot anything unusual, report it to your bank straight away.

Don't settle for lousy cash Isas

Interest rates may be at historic lows, but that doesn't mean you have to settle for some of the absolutely pitiful rates some banks are paying. Research by the Daily Mail has found that Halifax's Instant Isa Saver and Santander's Easy Isa accounts both pay just 0.2% interest.

The 20 worst cash Isas pay between 0.15% and 0.4% interest. That's less than £5 in interest on £1,000. The good news is that there is no reason to accept such pitiful interest rates. "No one should accept earning less than the price of a cup of tea over a year on £1,000 on their hard-earned savings," says Anna Bowes from Savings Champion.

"While things still look bleak for the savings market, there are providers offering better rates of interest for those who shop around."

The best rate for an easy-access Isa is offered by Yorkshire Building Society at 1.35%. Someone who moved £20,000 from the worst-paying Isa to the best would increase their return by £240 a year. Just be aware that the Yorkshire account only allows withdrawals on one day per year.

If you want unlimited withdrawals then Cynergy Bank's cash Isa pays 1.31%: £262 a year on £20,000.

Pocket money... have you checked the Marriage Allowance?

■ New figures from the Office for National Statistics have revealed that we've been getting wealthier in recent years, but at the same time we have also taken on more debt, says Marianna Hunt in The Daily Telegraph. Between 2012 and 2014 the households with the median amount of wealth owed £4,150, but that has "risen by almost 40% to £5,800 today."

Middle-income earners are getting into debt more than any other wealth level. This could be because they are juggling lots of balls. "There's every chance each month they have a mortgage plus a credit card, loan or overdraft to address," Sarah Coles from Hargreaves Lansdown told the paper.

■ Married couples are being urged to check if they are eligible for a tax rebate. The Marriage Allowance lets a low-earning spouse transfer £1,250 of their Personal Allowance to their partner.

The transfer can save up to £250 a year in income tax. But "eligible couples may need to act sooner rather than later if they want to backdate their claim for the past four years", says Jess Sheldon in the Daily Express.

The allowance was introduced in 2015, so if you have never claimed you could still get the whole lot. But be aware that from April you won't be able to claim for the 2015/2016 tax year any more.

■ Savers are getting locked into low-interest fixed bonds against their will, says Sam Barker in The Sunday Telegraph. When a savings bond matures some providers are setting "narrow time periods" for customers to contact them to say how they want their money and interest to be paid to them. Aldermore, for example, gives customers just three weeks to inform them what to do with a maturing bond otherwise it automatically renews. "In the worst case this can mean a five-year deal becoming a ten-year one."

■ "Cash isn't always king when negotiating a deal to buy a new car," car buyers' magazine What Car told This is Money.co.uk. A review of manufacturers' deals found that a motorist could save an average of 11.65%, or £4,201, if the driver took out a financing deal. Discounts for cash buyers were just 8% on average, or £2,881. This reflects an attempt "to corral [people] into becoming repeat customers", says This is Money's Rob Hull. With a personal contract purchase (PCP), essentially a long-term rental with the option to buy the car eventually, a driver is far more likely to return and spend more money, while dealerships also earn more from servicing and maintenance. The best PCP deal What Car found was on a Nissan: a 14% saving.

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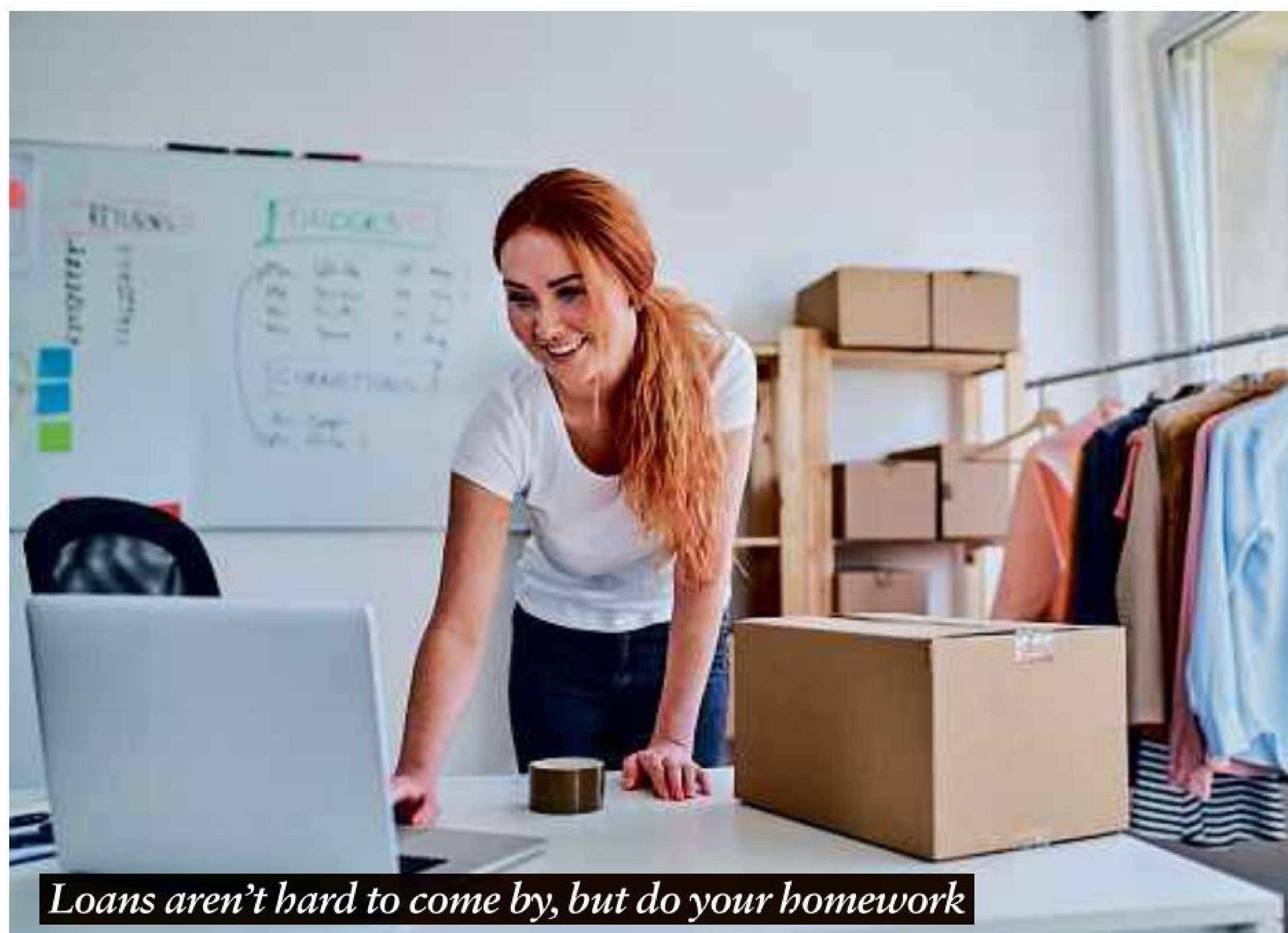
Where to find funds for your firm

There are plenty of potential sources of money to help your startup flourish

David Prosser
Business columnist



Loans aren't hard to come by, but do your homework

More than 600,000 Britons started their own business in each of the past three years. And January is a key month for entrepreneurs returning from a Christmas break determined to turn their ambitions into reality. But you'll need funding to do so: enough to cover the costs of launching and to ensure you can get by while you're working to turn your first profit.

Bank lending to small businesses has dwindled over the past decade as banks have sought to reduce risk following the financial crisis. Even before the crisis, banks were reluctant to offer significant amounts of credit to brand new ventures; they want to see at least some history of a business trading successfully before they consider lending to it. Still, the good news is that the number of alternative sources of funding has increased.

Where to start

The StartUp Loans Company is a good place to start in your search for investment. Set up in 2012 as part of a government initiative to promote business startups, it now operates as part of the state-backed British Business Bank. It offers loans of up to £25,000 to founders of new businesses, though the average amount lent to more than 60,000 businesses so far is around £7,200.

The StartUp Loans Company's loans are affordable, repayable over up to five years at an interest rate of 6% a year, and don't require you to put up any collateral or security. The finance also comes with 12 months' free mentoring and business advice from the organisation.

> *"Crowdfunders pitch your idea to a big group of investors"*

Even if you decide this isn't the route for you, it's worth looking at the organisation's website, which has lots of useful information on the basics of starting a new venture, from doing the right market research to writing a business plan. These could be crucial in helping you to secure finance elsewhere.

You may even be able to obtain a grant rather than a loan that has to be repaid. The central government and local authorities all offer a range of different grant schemes, with eligibility and conditions varying enormously. The startups.co.uk website is a good starting point for researching what's available and how to increase your chances of a successful application.

In the private sector, a community development finance institution (CDFI) could be another possibility. These organisations target borrowers who normally find it hard to get credit. They offer a range of finance, from bridging loans to working capital. Responsiblefinance.org.uk has the details of many of these organisations.

Explore alternative finance

Alternative-finance providers may also be able to help. These include new digital banks seeking to disrupt the market as well as lenders offering asset and invoice finance, where you borrow against the value of physical assets or bills that customers have yet to pay. Other specialist players offer products such as growth loans. These are often more expensive than traditional business finance, but available to less mature businesses.

Crowdfunding is also popular with some entrepreneurs. Online platforms such as Zopa, Funding Circle, Seedrs and Crowdcube enable you to pitch your business to a large group of investors offering either debt or equity funding. They only have to make small commitments each, which can help overcome the risk of lending to you.

There are, then, many more sources of funding than you may realise. Plan your venture carefully on the basis of research into the existing market and the potential size of the opportunity, and build contingencies into your projections. Any funder will want to see this groundwork before agreeing to support you.

Five questions for... Markus Stripf, co-CEO and co-founder of Spoon Guru

● What does your business do?
Spoon Guru helps people find the perfect foods for their dietary needs and health objectives. Using a combination of artificial intelligence and machine learning with nutritional expertise, we've built a food search and discovery platform that determines every product or recipe's suitability for each individual. We started the company because we observed the frustration that people with specific dietary requirements encounter on a daily basis.

● What is your greatest achievement?
Our three greatest successes have been getting investment from people who believed in our mission; building a hardworking team of young people keen to make their mark in the industry through innovation; and licensing our technology to major retailers.

● What has been your biggest challenge?
The highs and lows are much more pronounced when you operate a startup. Cashflow management is always a challenge as you have to function on a tight budget. Unexpectedly slow sales cycles can be difficult to navigate, as is selling change in conservative markets.

● What are your plans for hitting your targets?
Firstly, expanding the team to bring even more innovation into the company. Secondly going into other territories. In 2019 we expanded into the United States, the Netherlands, Australia and New Zealand, and in 2020 we're aiming for Asia, South America and beyond. Thirdly, building more game-changing products on top of our pioneering platform.

● What's the one piece of advice you'd give fellow entrepreneurs?
Always start with the why, not the what. Remember why you have decided to leave the safe environment of a permanent job to embark on this adventure. Don't lose sight of what drove you in the first place. You have committed to solving a real problem. Not many people have the courage to do that.

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The Cinderella of investment arrives at the ball

Investors should look beyond the market noise of a single year and examine the bigger picture. Max King explains what we can learn from 25 years of investment-company history

Investors need to keep an eye on long-term trends lest changes barely noticeable from month to month or even year to year catch them unawares. Lessons that seem clear with the benefit of hindsight are easily missed at the time as investors are lulled into a false sense of security by the implicit assumption that nothing much has changed or ever will. At this time of year, then, it pays not only to review the last 12 months but also to examine the longer-term picture to see what we can learn.

This year has been a good one for equities, with markets recovering from the late 2018 setback and, in the case of Wall Street, regularly hitting new highs. Earnings growth is likely to have been disappointing, but this was discounted last year and the outlook for 2020 is much better. Bond yields, already negative in real terms, continued to fall to well below 1% in the case of ten-year gilts and not much more for high-quality corporate bonds. Unsurprisingly, investors have been on the hunt for income, finding it in the "alternative-income" section of the investment-trust sector.

Around £8bn has been raised by investment trusts this year, but only 20% of that has been for equity funds. Just under 50% of the Numis Securities universe of 400 London-listed investment companies, with a combined market value of £190bn, is now accounted for by alternative-income funds invested in infrastructure, debt, property, private equity and a proliferating number of sub-categories.

With the exception of private equity, these funds provide a generous dividend yield of over 4%, the prospect of moderate capital growth and a low correlation to equity markets. Despite markets' strong performance, investors have remained cautious, which explains the low level of issuance by equity funds. Much of that has come from trusts that trade at a premium to net asset value (NAV) issuing new equity to meet demand rather than from formal offerings.

The sector in 1994

Now for the bigger picture. Charles Cade, the recently retired head of investment companies at stockbroker Numis Securities, has compiled a retrospective analysis of his 25 years in the sector. In 1994, gilt yields rose to 8.6% and inflation dropped below 3%, but there was little confidence that it would stay there. Yet it did, and it then fell further after the financial crisis of 2008. Investors wishing to diversify their portfolios away from volatile equities had no need for alternative-income funds; they simply bought gilts, which subsequently proved to be an excellent investment.

The investment-companies sector, however, valued at £53bn in total, was predominantly invested in listed equities; 38% of it was accounted for by "global" funds,

"There were 43 investment-trust flotations in 1994, compared with just six in 2019"

If you don't trust the board, steer clear

though in practice most of these had UK weightings of around 50%. UK specialists accounted for another 23% of the total and private equity, following the flotation that year of 3i, for 12%. Enthusiasm for emerging markets and the Far East following the collapse of communism meant that they made up 16%, but North American, Japanese and European specialists made up less than 10% combined. Investors were eager for new launches, with no fewer than 43 of them occurring in 1994 compared with a mere six in 2019. Nearly £3bn was raised in 1994, including more than £1bn from the flotation of two giant European privatisation trusts in addition to nearly £2bn from the listing of 3i. Only £500m stemmed from secondary offerings by already listed companies. These accounted for 90% of the money raised in 2019.

Declining discounts

The enthusiasm for new issues in 1994 accompanied a dramatic fall in the average discount to NAV of share prices in the sector from the high teens in 1990 to a low in 1994 below 3%. But this proved unsustainable and discounts widened back to the mid-teens in the rest of the decade. Share buybacks then became possible and, for this and a variety of other reasons, discounts embarked on a downward trend until 2018, reaching 3% again, before moderately widening this year. Poorly managed trusts or those in out-of-favour sectors still languish but, as Cade says, "ignoring the discount is not a long-term

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"The alternative-income sector contains several walking-wounded funds"

strategy". A wide discount often prompts corporate raiders or disgruntled shareholders to take action.

The 1994 peak for equity issuance was not passed until 2016, when £15bn was raised, followed by another £12bn in 2007, much of it for listed hedge funds. The large majority of the issuance was still for new flotations and Cade's analysis shows why this has subsequently changed. "Many initial public offerings don't survive a decade," he says, including those privatisation trusts and most of the listed hedge funds. No wonder that, in recent years, most of the issuance has been for existing funds with a proven track record.

Management has improved

A handful of investment trusts, including Lowland, Herald and JPM Emerging Markets, have continued with the same mandate and the same manager for 25 years, but most of the long-term survivors have seen managers leave, retire or move on when performance flags. Mandates have evolved. For example, the global funds have become truly global. Trust boards, now truly independent and diverse, have become far more willing to move trusts to new management companies. Edinburgh Investment Trust is making its third move since 1994.

The investor base then was dominated by insurance companies and pension funds, though the launch of personal equity plans was bringing in private investors. The "wealth-management" function was carried out by private-client stockbrokers, usually on an advisory basis. The privatisation programme had encouraged many banks to open up low-cost share- dealing services, but internet dealing was for the future. Now investors are typically wealth managers – people using online platforms or multi-asset enthusiasts who use trusts, especially alternative-income ones, to fill the gaps they can't address directly. Institutional investors are steadily exiting.

Investment companies outperform unit trusts

The key question is whether investment performance has improved. Studies show that closed-end listed funds, such as investment trusts, consistently outperform open-ended ones, even those with the same manager and mandate. Corporate governance has improved, discounts to NAV have fallen (helped by discount control mechanisms), fees have come down, communication with investors has improved and the internet has made fund information more accessible.

Nevertheless, the Patient Capital fiasco shows that the scrutiny of malfeasance by those who are supposed to be the private investor's gatekeepers hasn't improved enough. Fashions, driven by over-enthusiastic marketing at the wrong time in the investment cycle, come and go. The alternative-income sector already contains a number of walking-wounded funds and more will surely follow. It seems likely that average performance has improved, but there are many pitfalls for the unwary investor. Cade has come up with a list of nine lessons he has learned.

Ten key lessons to take away

1. Be wary of blockbuster new launches (such as Patient Capital).

2. Follow secular trends, but don't lose all grasp of valuations.

3. Don't ignore the discount. High discounts often present an opportunity, high premiums are rarely sustained.

4. Be prepared to take a contrarian view, investing in out-of-favour areas.

5. Avoid the latest fad, although fads are easier to identify with the benefit of hindsight.

6. Don't buy if you don't understand the risks, such as in complex mandates, structured products and funds with high borrowings.

7. Be aware of fees, but don't let them drive the investment decision. You often get what you pay for.

8. Volatility is not the same as risk; volatility represents a temporary loss of capital while real risk threatens a permanent one.

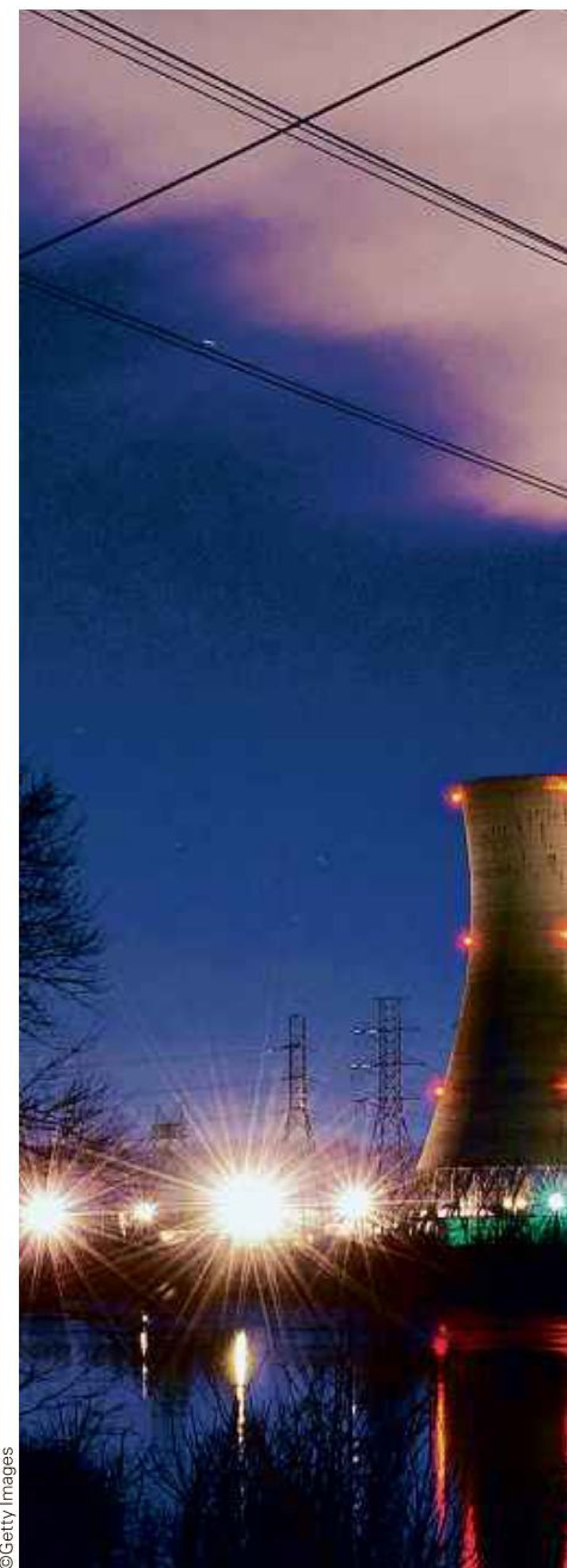
9. Corporate governance matters, so avoid funds where you don't trust the managers or the board.

He could have added a tenth: recognise mistakes. Nobody can call themselves an experienced investor until they have made a disastrous investment and regarded their loss, once taken, with equanimity.

The growth of investment trusts has exceeded that of unit trusts since 2013, but the latter, with £1,215bn of assets, dwarfs the former. Investment trusts remain the Cinderella of collective investment schemes despite their outperformance. A few mishaps are inevitable, but they remain the best vehicle for investment for private individuals.

Dangerous, dear and dying: the con

Nuclear power is viewed as too dangerous and too costly to form part of our energy future. That's plain wrong – and it could spell huge opportunity, says Dylan Grice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In 1987 Paul Slovic, the famous decision theorist, published work into a theory of how the public's perception of risk differs from what an expert would consider rational. The example that best illustrated this was that of nuclear power, which all groups ranked at, or close to, the most frightening in a list that included smoking, motorcycles and handguns.

Things haven't changed much since. A recent survey of attitudes on different sources of energy from the Pew Research Center tied nuclear energy with fracking, both of which marginally pipped coal to the post for the prize of least-popular energy solution in the US (renewables win the branding competition).

One might expect the stockmarket to be better informed and closer to the experts in Slovic's study. After all, participants have a financial incentive to be right. But sentiment here doesn't seem much better. The industry market capitalisation of uranium miners has fallen by 92% from its peak, from around \$130bn in 2007 to \$8bn today. The uranium price has gone from \$130/lb to \$25. The number of uranium miners has gone from around 400 to around 40.

The current narrative around nuclear is that it's just too dangerous. Who knows when the next Fukushima, Three Mile Island or worse, Chernobyl will be? And why take the risk? Natural gas prices have collapsed thanks to fracking and innovation is lowering the cost of installing renewables every year. This, continues the narrative, is why everyone is shutting down their nuclear-power plants. In the US, for example, the Energy Information Administration projects nuclear generating capacity to decline by 99.3GW to 79.1GW by 2050.

Even if what we'll call the "dangerous, dear and dying" narrative was correct (which it isn't), I'm going to show you that the current uranium price is uneconomically low – even if the nuclear industry has no future. We'll then better understand how phenomenally attractive current valuations are when we realise that in reality it has a very bright future.

The opportunity in nuclear

Uranium is the basis of the fuel that powers nuclear-power plants. The market is a duopoly consisting of Kazatomprom and Cameco, who control around 60% of the market. The most expensive item in the production of nuclear-powered electricity is the capital cost of the plant, which will typically be around \$8bn-\$10bn for a 1GW reactor. The uranium cost is negligible, so large declines don't make nuclear a more economically attractive energy option any more than large increases make it less so.

Deals between utilities and miners are usually done bilaterally using long-term contracts. There is a spot market, but it is not large or liquid and consists primarily of inventory tweaking by other players in the value chain (eg, conversion services). The "term price" of around \$30/lb has fallen by nearly 70% since peaking in 2007. Partly, this mirrored similar industry dynamics throughout the commodity complex in the early 2000s, after most of the industry was caught out, starved of capital during the tech bubble and downsized for a low-growth future, just as China's rapid industrialisation was taking off. Uranium buyers suddenly found themselves contracting into a highly supply-constrained market.

By the turn of the decade, nuclear-power plants were being planned by governments left, right and centre: the US, China, Russia, Japan, Korea, Taiwan, Sweden and the UK all looked to boost their nuclear capacity. Other EU countries such as Italy, Spain and Belgium were reassessing their own nuclear policies. Fifty countries (mostly emerging markets) declared an interest to the International Atomic Energy Agency (IAEA). It was music to the uranium miners' ears.

The global shutdown

Then, in March 2011, an earthquake off the coast of Japan triggered a tsunami that hit the island just north of the Fukushima district. The nuclear plant at Onagawa was protected by its 46-foot seawall. The reactor shut down as planned, no radiation was released and no one was hurt. Further down the coast though, things didn't go so smoothly. The seawalls weren't as high as those in Onagawa, which meant the back-up generators were flooded. There was no way to cool one of the damaged reactors. An explosion saw the release of radioactivity into the environment. After this happened, Japan took its entire fleet off line.

Japan shut down all but one of its nuclear plants, while Germany accelerated existing plans to decommission its entire nuclear fleet. Even France, one of the oldest proponents of nuclear in the world, wobbled, saying it would shut down 20 of its 58 power stations. The uranium market collapsed, not only because of the excess capacity, but because demand collapsed too. The nuclear winter had begun.

Yet the current term price of \$30 is nowhere near enough to satisfy annual consumption of around 180 million pounds. Estimates of the industry's marginal cost of supply are currently at least \$50, although it's not clear why even that price would necessarily make sense for the industry. Current prices, roughly equal to the cost of production at the McArthur River mine – the largest uranium mine in the world – haven't been enough to prevent a suspension of activity there by its owner, Cameco.

In a report from the third quarter of 2019, the company states: "We will not produce from our tier-one assets to sell into an oversupplied spot market. We will not produce from these assets unless we can commit our tier-one pounds under long-term contracts that provide an acceptable rate of return for our owners". Production at three of its other mines remains suspended at the time of writing. Cameco isn't the only one talking the talk. Kazatomprom has also suspended production at key mines in the last few years. Paladin Energy with its two mines in Africa has curtailed production and the US Department of Energy's transfer programme has been suspended.

The squeeze on uranium

How much downside can there be here? Miners are saying very clearly that they will not supply the market at these levels. You might think that for prices nevertheless to remain at such depressed levels there would be no demand. But it's not quite that simple.

As already stated, most uranium transactions take place bilaterally, covering a period of several years. Once a utility company buys the ore, it takes a couple of years for it to be processed and enriched into something that can be used as fuel. All purchases will

> *"A panic-buying rush for uranium is a real possibility"*

sensus on nuclear is wrong

Three Mile Island: the real damage was reputational

"Lower solar and wind-farm costs have not translated into cheaper electricity"

be made to manage and secure the expected inventory required over the next seven to ten years, so there is rarely an immediate need to buy. So utilities have waited as the price has fallen. Then again, without fuel, you can't produce electricity. Buyers don't want to be forced into a costly shut down. So a panic-buying squeeze is plausible under the right conditions.

How close might we be to those conditions? According to UX Consulting, the last big long-term contracting round was in 2012. Deliveries for that round are likely to have peaked in 2018. So maybe – now? It's even possible that we've already seen the canary in the coal mine in other parts of the value chain. The processing and enrichment players followed a similar cycle to the miners: building out too much processing capacity in a fit of collective overexcitement, just as Fukushima forced a rethink of nuclear power and a collapse in demand. The market for conversion services was suddenly badly oversupplied and the prices cratered, bottoming at $5/lb in 2017.

Since then though, a large conversion facility in the US shut down, bemoaning the uneconomic environment. Prices have risen by a factor of four. And this has done so without any nuclear renaissance. Why will the uranium prices be any different? If prices make new highs, we'll be looking at gains of around five times from current levels.

The coming nuclear renaissance

So far, so tantalisingly asymmetric. Let's now zoom out a bit and go back to where we started, which was the "nuclear has no future" narrative. Remember? Nuclear is dangerous and uncompetitive given the collapse in the cost of renewable generation, which is why the world is gradually turning off its nuclear plants? Right? Wrong.

Let's start with the supposedly growing cheapness of renewables. It's true that the unit cost of solar and wind has fallen sharply over the past ten years. The problem is that those lower solar and wind unit costs haven't translated into lower electricity prices for the countries that have used them.

The problem isn't related to the cost of the units but to their fundamental unreliability. For example, in 2015 and 2016, Germany added 10% more wind capacity but only generated 1% more electricity from wind, because it wasn't very windy in those years. Solar, obviously, can only generate electricity when the sun shines. So for most of the year during the morning and evenings – the time of peak electricity demand, the supply of solar disappears. During the daytime, the opposite happens. Demand is low but sun is abundant, so prices crash. Indeed, on very sunny days, solar can overproduce to such an extent that prices go negative.

These intermittency problems put the German grid under significant pressure in 2017 as the country integrated more wind and solar (7% and 12% respectively). More than one hundred times that year electricity prices went negative during the day, as operators had to pay large buyers (usually in neighbouring countries) as much as six cents/kWh to avoid overloading the grid (standard electricity prices internationally are around ten cents/kWh).

Continued on page 24

Continued from page 23

This is obviously a huge cost for the operators, which ultimately shows up in the price end-consumers have to pay. Similar types of problems have been encountered in California, which with 10% solar generation has had to offload electricity to Arizona and in China, which has had to vent ("curtail") coal-produced electricity to give priority on the grid to that created by suddenly strong wind.

You might think that batteries would be the solution here and you'd be right. Except it's a very, very distant solution. Bill Gates has invested more than $1bn in renewables. He said in 2015: "There's no battery technology that's even close to allowing us to take all of our energy from renewables and be able to use battery storage in order to deal not only with the 24-hour cycle, but also with long periods of time where it's cloudy and you don't have sun, or you don't have wind". Renewables are a welcome and necessary addition. But they are fundamentally ill equipped to comprise more than 10%-15% of most grids. For baseload, necessary for the surges, there are only three possibilities: coal, natural gas and nuclear.

Coal is, of course, highly polluting. Natural gas is cleaner and dumps only half as much carbon into the atmosphere. But it's not actually that cheap outside of the US. In China, for example, nuclear is cheaper than gas and nearly competitive with thermal coal. Nuclear is 100% carbon free and completely clean.

Nuclear: safer than you think

"Except for the accidents!", you're probably thinking. Yet it might surprise you to know that in both Three Mile Island and Fukushima, the problem wasn't so much the accident, but our panicked response to it. According to Tetsuya Ohira, an oncologist at the Fukushima Medical University, the speed of the evacuation and the lack of medical personnel accompanying vulnerable residents from nursing-care facilities resulted in a situation where "scores of patients died in an evacuation that was supposedly intended to minimise radiation exposure. The life-threatening risk to these people was not radiation, but discontinuation of daily medical care". The problems caused by the Three Mile Island accident were very similar. When the reactor partially melted down the container worked. No radiation leaked into the surrounding area. The problem, again, was the panic.

The pioneering behavioural psychologist Paul Slovic, mentioned above, had this to say about the incident: "the accident at the Three Mile Island nuclear reactor in 1979 provides a dramatic demonstration that factors besides injury, death and property damage impose serious costs. Despite the fact that not a single person died and few if any latent cancer fatalities are expected, no other accident in our history has produced such costly societal impacts. The accident... devastated the utility that owned and operated the plant. It also imposed enormous costs on the nuclear industry and on society, through stricter regulation (resulting in increased construction and operation costs), reduced operation of reactors worldwide, greater public opposition... and reliance on more expensive energy sources".

Chernobyl was different. Radioactive materials leaked and people died. But how many? The majority of the initial casualties were those working on the site, or sent to the immediate scene to extinguish the fire. We don't know how many of the 1,000 or so initial workers died of radiation exposure, but let's assume the worst and say that all of them died. Ultimately, it's been estimated that about 600,000 people were registered as emergency recovery workers and 5,000,000 were inhabitants of designated "contaminated areas". Of these last, virtually none were exposed to anything more than background radiation and most suffered less exposure than a person living high up in a mountain range, where background radiation is higher.

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Renewables are necessary but not sufficient

A more useful narrative

Overall, there may have been as many as 5,000 killed by the Chernobyl disaster, which, unlike Three Mile Island, was a disaster. But 5,000 is roughly how many coal miners died in one year (2006), in China alone. And Chernobyl was and is the very worst nuclear power accident that has ever been experienced. In Henan in 1975 the Shimantan Dam burst during a typhoon, killing 171,000 people. Yet few think that good enough reason to cease hydro production.

You may well wonder why, if nuclear is so clean and safe and cheap, the world is scaling back its nuclear ambitions. Well, the answer is – it isn't. It may be the case that we pay too much attention to what the US and Germany are doing, extrapolating that into some kind of proxy for what "the world" is doing. Or it may be that we're just not paying attention. France never did shut down any nuclear plants, while Japan is bringing its plants back on line. More importantly, China is as serious as it ever was, as are Russia and India.

So the "dangerous, dear and dying" narrative is all wrong. Usually, when everything everyone says about something is wrong, there's an enormous opportunity at hand. We talked earlier about the extraordinary commodities bull run of the early 2000s, when Chinese demand exploded just as supply had been crunched. Fortunes were made. I think that's what's basically about to happen in uranium.

Dylan Grice is the co-founder of Calderwood Capital. This story is reprinted with permission from the firm's newsletter, Popular Delusions. Sign up to receive it at calderwoodcapital.com/subscribe. With special acknowledgement to Segra Capital Management for their uranium investment contributions (contact mike@segracapital.com for information)

Six trusts for long-term investors

It's no change once again as Merryn Somerset Webb delivers the latest update on our investment trust portfolio

Tesla: it could be a disaster, or a rip-roaring success

The MoneyWeek Investment Trust Portfolio (as of 9/12/19)

	Price	Yield	Prem/Disc	Total Exp. Ratio
Caledonia (LSE: CLDN)	3,085p	1.97%	-16.7%	0.94%
Personal Assets Trust (LSE: PNL)	42,050p	1.33%	1.59%	0.91%
Scottish Mortgage (LSE: SMT)	520p	0.6%	-2.36%	0.37%
RIT (LSE: RCP)	2,140.5p	1.6%	9.91%	0.68%
Law Debenture (LSE: LWDB)	608p	3.13%	-8.63%	0.45%
Temple Bar (LSE: TMPL)	1,348p	4.1%	-2.04%	0.47%
Average		2.12%		0.64%

Since 2012, we have been suggesting a small portfolio of investment trusts for those of you who want to hold funds run by active managers, but not be particularly active yourselves. I promised when we first wrote about it that we would update you on it occasionally and change it even more occasionally. Since launch we have made three changes: selling BH Macro; 3i Infrastructure; and Finsbury Growth & Income trust; and replacing them with **Caledonia Investments; Law Debenture Corporation**; and **Temple Bar.** So far so good. On a capital return basis the portfolio is up about 106% since inception – around 14% annualised. Add in a portfolio yield of around 2% and it doesn't look bad at all. We would have done far better to have been less cautious, less value-orientated and more open to US exposure over the last seven years (the S&P 500 is up 177% in sterling terms) and we have underperformed the wider market over the last year. But thanks to the inclusion of **Scottish Mortgage** – with its huge exposure to the US tech sector in particular – we have comfortably beaten the UK market since 2012 (the FTSE 100 has seen a capital return of more like 6% over the same period, albeit with a much higher yield).

So what next? Our panel of experts (Simon Elliott of Winterflood, Sandy Cross of Rossie House and Alan Brierley of Investec) are happy with the six trusts (see the table on the right). The average ongoing charge is reasonably low at 0.64%, and while this isn't an income portfolio, the yield of 2.12% is still useful. No one, says Alan, has much idea what is coming over the hill, but "I like the balanced nature of the current portfolio". Sandy agrees that we still have "a good, long-term portfolio". Simon notes that we are a "bit light on US equities", and suggests adding JPMorgan American. He also quite likes the look of Templeton Emerging Markets. We decide against making changes this time – but they're both ones to watch.

Scottish Mortgage isn't performing as well as it was – thanks to concerns about the valuations on growth companies – but anyone who heard its manager James Anderson speak at our Wealth Summit in London last month will understand why we need it in our portfolio: most of the long-term returns in the market come from a few amazing companies and James sees his role as to find, hold and support those companies for us. Tesla (5% of the portfolio) may turn out to be a disaster. It may also turn out to be world-changing.

"Make sure you rebalance your holdings when you have a moment at Christmas"

However, the possible change in sentiment makes hanging on to the likes of **Personal Assets Trust** vital too. It is managed by Sebastian Lyon of Troy Asset Management with a primary aim of avoiding the loss of capital (hence the holdings in gold, cash and short-dated government bonds, plus high-quality equities). Add it all up, say AJ Bell, and you get an "instantly diversified portfolio in just one holding". **Temple Bar**, meanwhile, takes a contrarian approach, investing in domestically focused UK companies that have fallen out of favour. That hasn't been particularly successful over the last three years (Brexit uncertainty!), but a solid yield of more than 4%, plus holdings in some very cheap companies, make it a keeper. I particularly like seeing BP and Shell in the trust's top holdings. The energy sector has been one of the worst performers of 2019: it is time for bargain-hunters to pay attention (as the FT says that Warren Buffett already is).

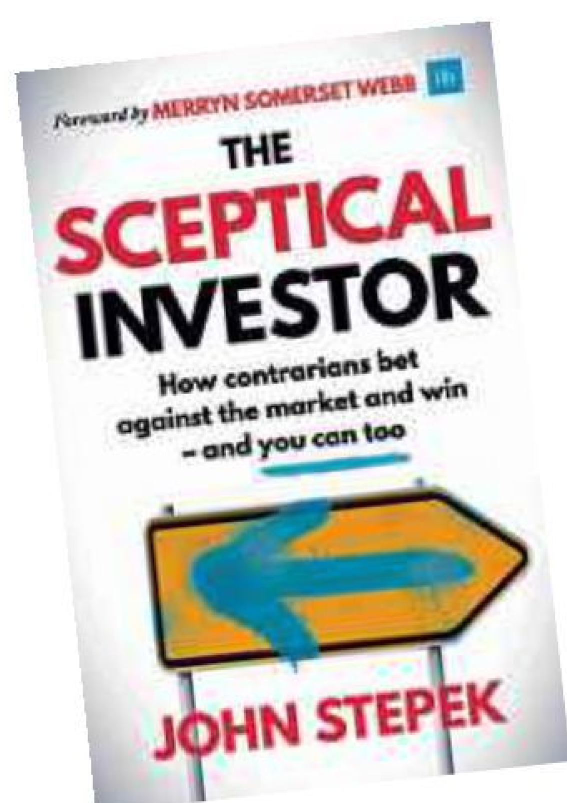
We are all also still happy with the other of our relatively recent acquisitions – **Caledonia.** Like **Scottish Mortgage**, it gives us exposure to unquoted assets (37% of the portfolio) and on its current discount to net asset value (NAV), pretty clearly offers what Numis call "significant value for long-term investors". The one making us a little nervous at the moment is **RIT**. It is possible that some of its investments are undervalued (and hence its stated NAV too low), but none the less, we aren't mad for holding things on 9% premiums. We want to keep the holding, but would suggest that when you have time to do some administration at Christmas, make sure you rebalance your holdings. **RIT** has, for example, significantly outperformed **Law Debenture** (which is on a discount of 8.6%), so sell some of the former and buy some of the latter. If you haven't been rebalancing regularly (the idea is to hold equal weightings of all six trusts), you are also likely to find that you are overexposed to **Scottish Mortgage**. That's been fine so far – but don't let it run so long that it isn't fine any more!

Why independent boards matter

One of the attractions of investment trusts is their board structure and the way it should mean that the funds are run in the interests of shareholders rather than fund managers. (I'm on the board of three investment trusts by the way – see moneyweek.com for details). Not all boards are up to much. That of the Woodford Patient Capital Trust did a lousy job of reining in Neil Woodford and Alan points to questionable governance at Jupiter US Smaller Companies (where the chair has spent 26 years on the board and isn't planning to resign any time soon) as an example of how things can go wrong. But the recent change of manager at the Edinburgh Investment Trust is a good example of a board acting as it (probably) should. The trust's £1.3bn has been run by Invesco's Mark Barnett (who previously worked very closely with Woodford). Performance has been poor and in mid-December the board announced that he is to be replaced by James de Uphaugh of Majedie Asset Management.

How to find a contrarian fund manager

Contrarian investing – profiting from out-of-favour assets – isn't easy. In an extract from his book, *The Sceptical Investor*, John Stepek looks at how to find fund managers who can do it



Finding a fund manager who can outperform the market on a consistent basis over the long run is not easy. Indeed, one of the main arguments for passively tracking the market over active investing is that it's so hard to find good active managers. That said, there are ways to boost your odds. Here are some key traits to look for if you're trying to find a contrarian manager.

A transparent, clearly communicated strategy

Look for managers with defined strategies that they can easily articulate. Successful investment is tricky, but the principles are not hard, so it should be more than possible for a knowledgeable fund manager with any degree of enthusiasm and conviction to explain their process to a reasonably intelligent adult.

Understanding how a fund is "meant" to work is critical. David Swensen – who, as manager of the Yale University endowment, has access to the most elaborate investment strategies on earth – has said in the past that he is not a fan of "quantitative" strategies, which rely on algorithms to find patterns in markets. "The fundamental reason is that I can't understand what's in the black box. And if I don't know what's in the black box and there's underperformance, I don't know if the black box is broken or if it's out of favour. And if it's broken, you want to stop. And if it's out of favour, you want to increase your exposure." Swensen's point is that you need to be in a position to judge whether a manager's strategy makes sense; whether it fits with your own portfolio; and whether the manager is actually sticking to it. "Style drift" is probably one of the biggest risks to watch out for with active funds, because if you think you own one thing, and in fact you own another, it can derail your whole strategy (look at Neil Woodford, for example).

You probably won't be able to talk directly to a fund manager before you invest with them. But the best ones make communication a priority. Nick Train of Finsbury Growth & Income, for example, has an extremely clear strategy: buy companies with durable consumer brands, run a concentrated portfolio, don't trade too often and ignore macroeconomics entirely. And, of course, there's Warren Buffett. Buffett runs an exceptionally complicated group of companies, sets up deals that only he could get done and uses a lot of financial engineering. Yet he makes a virtue and a selling point of clear and regular communication with investors. In each case, you know what you're getting, which is the minimum starting point for deciding whether or not you should invest.

> *"A good fund manager should be able to explain their process clearly"*

Look for high conviction

While active fund managers have a poor record of beating the market as a group, several studies have shown that this isn't down to a lack of stock-picking ability. A study from about ten years ago by Randy Cohen, Christopher Polk and Bernhard Silli looked at fund managers' "best ideas". They found that the stocks that managers invested most heavily in did better than both the market and the rest of their portfolios. The researchers concluded that managers were over-diversifying – the low-conviction ballast in their funds was holding them back. So you want to see conviction. By that I mean you want to invest with a manager who will spend time finding great ideas, then backing them to the hilt. The portfolio should be relatively small (as few as 20 stocks is enough to diversify away the majority of individual equity risk, although there's an argument for holding more as the companies in question get smaller).

Warren Buffett: never afraid to be a bit different

Find asset nurturers, not gatherers

When you have a small amount of capital, you can invest in the tiny, neglected corners of the market that few others are paying attention to. If you have billions, then you need to invest in stocks that have the capacity to absorb big purchases without moving the share price. Those sorts of companies tend to be well researched, offering less opportunity for finding hidden gems. So it's easier to beat the market with a small amount of money than with a lot of it.

But this highlights the conflict between the art of investing and the business of being an investment manager. Behavioural investing expert Michael Mauboussin sums it up in his 2006 paper, "Long-Term Investing in a Short-Term World". "The investment profession is dedicated to delivering superior results for fund shareholders; practitioners tend to be long-term oriented, contrarian and patient. The investment business is about gathering assets and generating fees

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for the investment company as opposed to the fund holders." In other words, for fund managers it's ultimately more profitable to focus on getting bigger, than it is to focus on achieving excellent returns.

So you not only want to find a relatively small fund, but you also want to find one with explicit, well-explained limits on how large the fund will grow. That in turn suggests you should favour small, investor-focused, independent investment firms, rather than the big, profit-focused, fund-management brands.

Does the manager have "skin in the game"?

If you are going to put faith in a fund manager's ability to grow your hard-earned savings, then at the very least you should expect them to be putting a significant chunk of their own wealth at risk too. You don't want to be with a manager who merely sees themselves as a custodian of someone else's money, because at the end of the day, there's only so much that anyone can care about what happens to other people's money. In effect, you want someone who is managing their own money, with you tagging along for the ride.

This makes intuitive sense, but it's also backed up by evidence. In a recent paper – "Skin or Skim? Inside Investment and Hedge Fund Performance" – Arpit Gupta and Kunal Sachdeva looked at a database of US hedge funds, many of which were set up to manage "insider money" rather than money from external investors. They found that "funds with greater investment by insiders outperform funds with less 'skin in the game'" and they also outperform more consistently. This is in large part because the investors, as well as pursuing high-conviction strategies, make sure the fund doesn't grow too large.

Low costs and fair fees

Costs matter. Funds researcher Morningstar has demonstrated over and over again that one of the best predictors of future performance for active funds is cost – cheaper funds do better and survive for longer than their more expensive counterparts. And you don't just want low fees – you want a fee structure that will encourage the manager to do their best for you. Again, this is the sort of area where small managers usually have the edge. The managers are typically owner-founders of the business, so they care about keeping costs low in general; they are frequently motivated by a sense that the investment industry charges too much; and perhaps more importantly, a fairer cost structure gives them a competitive edge.

In an ideal world, a fund manager would take a reasonable salary and have a large proportion of their net worth invested in the fund alongside their clients. When clients do well, they do well – and that's as far as their incentive goes. That may be too much to ask for from most managers. But scrutinise costs and pay particular attention to performance fees – what benchmark does the fund have to beat? And is there a high-water mark (ie, the fee isn't charged until the fund hits a new high)? Remember – the bigger the chunk of your savings you have to pay to a manager, the harder it is to outperform.

"It's easier to beat the market with a small pot of money than with a large one"

Be patient – and diversify

As Howard Marks of Oaktree Capital points out, if a manager wants to "have a chance at the big money" then he or she must "assemble a portfolio that's different from those held by most other investors". If you behave conventionally, you'll get conventional results. The risk, however, is that "unconventional" behaviour cuts both ways. An unconventional approach to investing can see you trounce the market – or badly underperform it. And even good contrarian managers will endure periods of the latter.

In a 2018 paper, Ben Inker of US fund manager GMO noted that in theory your success rate at picking fund managers could potentially be as low as 20% and you could still manage at least to match the market return over time. The difficulty is making choices and sticking with them. A 2011 study by Aaron Reynolds, cited by Inker, looked at 370 managers who had beaten their benchmarks over a ten-year period – a rare and impressive feat. Yet during the ten-year period, nearly every manager lagged their benchmark by at least 5% in at least one year and one in four had underperformed by 15% or more. More pertinently – because it would test the patience of any holder – half had missed the benchmark by at least 3% a year for three years running and a quarter had made a relative loss of more than 5% a year. Remember, every one of these funds still outperformed over the ten-year period – but during that time there were moments when most investors would be driven to sell.

So you have to be patient. This is why having a good grasp of a manager's strategy really matters – as long as you feel comfortable that the problem boils down to a manager's style being out of fashion, rather than a genuine lack of ability, then you can afford to wait. And because you can't be sure that you'll pick the right managers at the right time, you want to diversify – have a spread of funds and a range of strategies. That diversification will help you to ride out moments of volatility when one or other fund is having a bad time.

The Sceptical Investor (2019) is now available – for a limited period of time – at a 40% discount for MoneyWeek readers. Go to harriman-house.com/thescepticalinvestor and enter the code SCEPTICAL40 at the checkout.

What to invest in – and what to avoid – as a new decade dawns

Is the UK a screaming buy now that the Brexit fog has cleared? Will inflation make a comeback as politicians wrestle the printing presses back from central bankers? John Stepek grills the experts at our roundtable

The panel

Dylan Grice Co-founder Calderwood Capital

Max King Non-executive director

Lucy Macdonald CIO Allianz Global

Jim Mellon Chairman Burnbrae

Alastair Mundy Fund manager Temple Bar

Tim Price Director Price Value Partners

Steve Russell Investment director Ruffer Capital

John Stepek: How do we feel about UK stocks now that the election is over?

Lucy Macdonald: There were two reasons why nobody wanted to go near the UK in recent years. One was Jeremy Corbyn, the other was Brexit. Corbyn is now off the table – and on Brexit, we still don't know what the trade deal's going to look like, but it's clearer. So the UK is now more investable than it was.

John: Might we get a big influx of capital now?

Lucy: I think we've actually had that. A lot of "underweight" positions have closed up over the last few months. So I don't think there's going to be an enormous wave – but for global investors, the UK is certainly back on the table.

Max King: I'm not so sure. The Labour party had the worst leader imaginable and the most reckless economic policies – and it still got a third of the vote. No political party has ever won five elections in a row. So you have to assume that in five years' time the Conservatives are out on their ear – it's not a given, but that's the precedent. Also, a notable thing about this election is that the idea of fiscal responsibility went out of the window. So I think there's every chance that in five years' time you will get a Labour government who will trash the pound and the economy.

Lucy: Markets don't mind a Labour government as such. They just don't really like Marxists.

Max: Yes, but they're not going to change. The grassroots are hardcore. I'd just be cautious.

Alastair Mundy: Yes, but in the meantime, we get a mini boom!

Jim Mellon: Exactly. There's not going to be another election for five years.

Max: Yes – you may have five years to get your money out of the country.

Jim: That is a cheery Christmas message!

Steve Russell: You're almost certainly right, Max, about fiscal looseness leading to massive spending. But I don't think the UK's going to be remotely alone in that – it'll be the same everywhere you look.

Lucy: Except possibly Germany.

Steve: We recently had Stephanie Kelton – the US economist who's an expert on MMT – into our office.

John: MMT – Modern Monetary Theory – this is the idea that governments can spend what they want, provided that inflation doesn't take off?

Steve: Basically, yes. Anyway, she's brilliant. The academic rigour behind MMT is absolutely there. And I think that whichever side wins the US election in 2020, they will use it as an excuse to spend money, be it on healthcare or infrastructure. I think it will gain traction everywhere. The magic of MMT is that it's totally rational – as rational as monetarist approaches. The problem is that, while the academics are right, the politicians, when they use it, will be wrong.

The example Kelton gave was the Green New Deal. Effectively, it's a long-term investment in productivity – spending on creating green infrastructure and jobs to combat climate change and reinvigorate the economy. You then stave off any inflationary effects of there being too much demand, in a full employment environment, by raising taxes. That's all great. You can equal it out. The theory works.

The trouble is, politicians won't raise tax. So you do the Green New Deal, funded by cheap bonds, say, but then the mechanism to offset the inflationary impact just won't happen. So it's massively attractive, and will, I think, get fantastic traction because of its academic rigour – and it will be disastrous. It might start in the US – but it might start with Boris Johnson. If he goes out and spends money and the UK economy is seen to pick up, then everybody else is going to think: well, why don't we do that?

An irresistible temptation for politicians

Dylan Grice: I think you're right. You say you find MMT academically rigorous – I find it laughable. But that doesn't matter – I agree, it's going to happen.

Max: This is the risk. That governments will seize control of the printing presses from central banks, because they realise that's where the money is made now, rather than via commercial banks making loans. What this election and visiting Argentina and writing about it recently has convinced me is that allowing any government – particularly democratic ones – control over their currency is madness. Nearly all countries trash their currency.

Tim Price: The Financial Times recently reported that the Federal Reserve was considering relaxing its inflation 2% target. And Paul Volcker's just died. The universe is definitely trying to tell us something.

Jim: So which currency would you regard as a reference currency of high repute?

Max: The Swiss franc.

Tim: The Singapore dollar.

Max: Then the US dollar. And maybe the euro? It might well blow up, but by the time it does, we'll have knocked a couple more zeros off the pound. That was always the argument for joining the euro – that Britain was not capable of running its own economy.

John: So, in that case Max, how long is it before inflation takes off in the UK?

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Boris Johnson: a relief for UK markets

Max: Well, once the currency starts spiralling downwards, inflation goes up.

Jim: But why is the currency going to slide? Conservative fiscal policy, as far as I can see, is to borrow another £28bn a year, which is nothing.

Max: It's not going to be under the current government. It's going to be the fear of what will happen next. I'm just saying that you've got to have a long-term perspective on this.

Jim: We'll remind you of this prognostication in six years' time! I'm actually very bullish on the UK. I'm loaded up on UK assets, as I mentioned at the MoneyWeek Wealth Summit last month, and I think the pound will go to $1.50-ish quite quickly. UK domestic stocks in particular are very cheap. Look at the dividend yields – why wouldn't you buy **Lloyds Bank** (**LSE: LLOY**), on a 7% prospective yield? It's among the best of all the banks in the UK.

Lucy: Yes, and when you look around the world, dividend yields are higher than bond yields in nearly every country, which is quite unusual. It is nearly always the other way around.

Alastair: That could correct in two ways, of course!

John: Alastair, you tipped a lot of banks this time last year, and they've done pretty well. **RBS** (**LSE: RBS**) is up about 20%, Lloyds about 15%. And that's before dividends. Are you still hanging onto them?

Alastair: Yes, I still think too many investors are looking in the rear-view mirror. They still think of these things as "nasty banks with toxic assets run by lunatics and with no regulation". All of those things have changed substantially. As I said last year, all I want is for the banks to be dull and boring and I think they've done a good job of that. They've sold all their rubbish to the investment or life insurance industries. And they look pretty solid. What does that mean? It means it gets you a solid yield, it gets you a bit of a re-rating and makes you a bit of money.

Lucy: Can they make any money though? With rates where they are?

Alastair: I think the odds are we're going to get an upwards sloping yield curve [where long-term interest rates are significantly higher than short-term ones, making it easier for banks to make profits] in the end.

Steve: In any case, Lloyds does make money. Yes, most of it's on the back book [older loans made at higher interest rates], but Lloyds has shown it can make money on a flat yield curve for the last couple of years. Of course, that money's been spent on PPI compensation. But now it's not. It's not going to suddenly grow its profits unless the yield curve steepens, but it can pay that dividend.

A contrarian opportunity in oil

John: What about oil? Saudi Aramco's public listing flopped and Apple is now worth more than the entire S&P 500 energy sector – surely those are signals to any contrarians in the room?

Continued on page 30

"The euro might well blow up, but by then we'll have knocked a few more zeros off the pound"

Continued from page 29

Dylan: Yes, the Saudis are selling oil and buying venture capital. I like a lot of what's going on in oil.

Max: The correct strategy now for energy firms is to stop exploring. Just pump the oil and generate cash.

Jim: And pay dividends.

Alastair: That's becoming quite common across commodities in general, not just oil.

Dylan: Yes, you're seeing a recalibration to lower prices. It's not so much the supply of these commodity markets – whether it's oil or coal, or even the equipment suppliers. It's the balance sheets. The capital structures are not sustainable at these price levels. So, balance sheets are in the process of being reset. There are now some clean, pretty much full-equity balance sheets in the sector. And so now you're seeing depressed multiples [ie, low valuations] on depressed earnings [ie, lower-than-average earnings] with clean balance sheets [ie, little or no debt]. And some of the old-timers are returning to the sector to invest – so you've got smart money moving into a completely bombed-out area that clearly has a future. You could do worse.

Lucy: There will be more forced divestment though.

Jim: The "Greta Thunberg" effect.

Lucy: Yes. It's just starting and that will keep valuations lower than you maybe think.

Dylan: Yes, but that all argues for a higher expected return ultimately. I wouldn't compare oil companies too closely to the tobacco industry – tobacco businesses are fundamentally far better than oil businesses – but there is a parallel.

Steve: Also what we know for certain, thanks to environmental, social and governance investing (ESG), is that they will be capital constrained. That's great if it's forced on you, because then you have to start making your returns better. So I'm still positive on the oil majors. I'm a bit nervous on the services sector because that capital constraint means they won't spend money. But there's been such a fall in the price of the services companies that they could double, and they'd still be down 70%.

Dylan: The offshore pipeline is actually pretty healthy. There's enough for the survivors to make very, very good returns. And it's as symmetrical on the way up as it was on the way down. You had the melt-down – my guess is, the next move's a melt-up.

Lucy: But this is not a normal cycle, is it? There's something structural going on. The transition to electric cars and more renewables is real.

Dylan: But what is a normal cycle? They always feel quite early at the bottom. Although I do agree that the batteries and electric vehicles are a different factor.

Max: But far too much money is going into alternative energy. It's becoming riskier because the subsidies are no longer there and also, as we're saying, when money floods in, returns tend to go down. The renewable energy investment companies all trade at unprecedented premiums to asset value. So I'm not saying it's bad long term, but you've got to be careful.

Dylan: It probably is bad long term. It's also riskier as you raise the portion of the grid that these guys are responsible for, because of intermittency (see page 22).

Jim: That's why energy storage will be big business. The problem is, it's not public. Well, Tesla is one example. I don't like Tesla, but battery storage is a very big, growing business; it's going to be huge. Everyone's house will effectively be their own grid provider.

"Imagine if you could grow meat in a lab without antibiotics and hormones"

Living long and eating clean

John: Jim, what else are you investing in at the moment – how's the longevity sector?

Jim: Longevity is interesting, but it's not really investable yet – we know that something's going to work, but we don't know exactly what. But if we're right, and people live to 110 or 120 as a matter of course, then everything changes: consumption patterns, the financial industry – everything.

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"Clean" meat: it's the future

However, a much nearer prospect I like is "clean meat". If you have young children, you know that a lot of them want to be vegan or vegetarian, or pescatarian because they understand the impact of this stuff on the world. In supermarkets in the US, when the plant-based burgers, Beyond Meat or Impossible Burgers, are on sale, they outsell minced beef, even though they're much more expensive. The thing is, plant-based burger substitutes are no better for you than McDonald's. But they're much better for the environment. Around 80% of antibiotics go into farmed animals. That could lead to a pandemic that could kill us all very quickly. Or land usage – just 1% of the land required to raise farm animals would be required for lab-grown meat. Or water usage: a kilo of beef uses 15,000 litres of water. So imagine the benefits if you could grow meat in a lab without all the hormones, antibiotics and other bad stuff. I think this will replace normal agriculture over the next 20 years. So I'm making quite sizeable investments in these areas. Last week, for example, there was an unveiling of a tuna steak grown from cells by a cellular aquaculture company called BlueNalu.

John: Is there anything to invest in?

Jim: Well we set up a company – it's not very big, about £15m – called **Agronomics (LSE: ANIC)**. I'm the biggest shareholder, so I'm talking my own book there. But I'd also look at biotech – there is amazing stuff going on there. Maybe five years ago we talked about immunotherapy here. That is now a $180bn industry. For many people who get cancer, especially blood cancers, or, increasingly, solid tumours, it's now the gold standard of care and it's only getting better. Gene therapy is another area that's really taking off.

Years ago I recommended a company here called Arrowhead Resources. It was one or two dollars then. It's $78 today. That's in RNAi interference. All of this stuff will be huge and all of these companies are made to be acquired by the big pharma companies, who are marketing machines, but don't do any research – the Glaxos, the Astras, the Pfizers and so forth.

John: Which stocks do you like in that sector?

Jim: I always like **Gilead Sciences (Nasdaq: GILD)**, one of the world's great biotechs. It's trading on just 11 times earnings. It's got $25bn cash – net cash, a market cap of $83bn and a yield of 4%. It's the leader in CAR-T technology, which is a form of immunotherapy that's going to take over the world. It is the absolute leader in HIV therapy, including this new prep drug that people at risk take to prevent themselves getting HIV. It is also the company that cured Hepatitis C.

What's better – gold or bitcoin?

Jim: The other thing that's interesting to me right now is gold. We are on the cusp of rising inflation and you can see it in gold. Gold is an established bellwether. If you've got rising inflation, you get rising gold – 19% in the last year, which is pretty impressive, but I reckon it will be at least $2,000 by the end of next year because there will be a buying frenzy.

Steve: Much as I like what you're saying, Jim, I don't think it's true yet. I don't think gold is indicating the return of inflation at all. All it's doing so far is reflecting negative interest rates.

Jim: So, the carrying cost of gold has vanished?

Steve: Exactly. If you're in Switzerland and you're having to pay – what is it? 1%, 2% on cash savings? – then why wouldn't you have gold? The beauty of it for us is that it does very well when you have negative yields, but it's also a safe haven against inflation.

Jim: So it doesn't really matter what the reasons are, it's going to go up!

Steve: What you want for gold is for bond yields to get more and more negative. And then for that eventually to work and cause inflation.

Dylan: Or for governments to start listening to Stephanie Kelton and implementing MMT.

Alastair: In which case, you want gold because you're outside the fiat currency system.

Jim: And bitcoin is now discredited, right?

Max: Well, it may have been a false start, but the idea of blockchain currency might work. It is a phenomenally attractive idea for people in troubled countries, such as Argentina.

Dylan: Yes this is where you see the most activity – Argentina, Venezuela, Iran. So bitcoin is actually doing what the original libertarian dream was, which is providing a refuge for people against oppressive government, financial repression and hyperinflation. But the problem with cryptocurrencies is that bitcoin has been around since 2009 and so far that's the one demonstrable use case. Other than that, there's not one application that everyone needs to use. The thing is, ironically, I think blockchain can have a future, but if it does get off the ground, I think it will be a very dark future, because blockchain is the ultimate surveillance mechanism. You can search every single transaction. This is how you enter into Stasi land – Stasi on steroids, which is completely against the whole ideal, but that's where it would end up.

Tim: If only there was some kind of item like physical gold…

Dylan: Yes, but even in Switzerland – where if you have less than 25% gold in your portfolio, you're seen as a complete idiot – gold is becoming less liquid. The last time I tried to sell gold they wanted my passport. And just try to buy and sell gold bars in London – it's like facing the inquisition.

Max: If you buy gold and carry it in a briefcase to Switzerland, can you cash it in? That would be useful to know in five years' time.

Dylan: If you can get it through customs!

The corporate debt timebomb

Alastair: John, just going back to alternative assets, because I think this is important for your readers – alternatives have really benefited from the fact that a lot of investors are scared to invest in bonds because there's no income and they're scared to invest in equities because of the volatility. So they've piled in to this new thing, where we've seen huge amount of issuance in the last ten years. And they just let their guard down, because they're so desperate for a 5% yield. I'm really concerned about that.

Tim: What's that saying? More money's been lost chasing yield than at the point of a gun.

Max: Yes and there have been an increasing number of funds blowing up in that sector.

Steve: And they're often mislabelled. They come under the title "alternatives", but what are they? They're just corporate debt. But now it's called private debt. What's private debt? It's just illiquid debt. We think this is going to make Neil Woodford's problems look like a picnic. US corporate credit, in mutual funds and exchange traded funds (ETFs) – all stuff sold to the man and woman in the street – has gone from $500bn in 2009 to $2.5trn today. This is unit trusts, ETFs, mutual funds, all offering daily dealing, or minute-by-minute dealing and all of it is effectively illiquid – and it's all chasing that yield.

John: Also, the quality of investment-grade bonds has collapsed – there is more BBB-rated debt out there than ever before. Is that a concern?

Steve: Absolutely. If you look at US companies, since 2014 they've been paying out more in buybacks and

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"We think this is going to make Neil Woodford's problems look like a picnic"

Continued from page 31

dividends than they've been making in cash. So, they have net negative cash flow. And then you've got the deterioration of investment-grade credit quality. Yet 30% of all investment-grade bonds in the world are on a negative yield, including corporations, because of this hunt for yield. That is an absolute disaster waiting to happen. We're positioned by being long credit default swaps [CDS – a form of financial insurance that pays out if a company defaults on its debt].

John: Do you have a time scale?

Steve: Two or three years, I think. It's exactly the same pattern as you got in 1999, and in 2007/2008. The only bit we don't know yet – and the same with inflation – is how much zero- and negative-interest rates lengthen the cycle – something we didn't know back in 2008/2009. But we think this corporate debt problem is more likely to break markets and then hit the equity market, than any other single area. And then you get back to Alastair's point – this has all been driven by people who want to buy yield, but think equities are too risky.

Buy Vietnam and UK housebuilders

John: Let's go to specific tips now. Tim?

Tim: We were already starting to nibble at UK stocks and we're buying more now that the political clouds have dissipated. But our favourite market is still Vietnam. Of all the listed markets worldwide, this is the one that doesn't appear to be much affected by what Donald Trump's doing on trade. It's probably the single largest foreign direct investment (FDI) magnet in South-East Asia. Vietnamese wage rates are a third those of China. Vietnam is one of the most well-educated populaces in the world. They work hard. They enjoy life. They all want the same benefits we've got: more cars, more property, more cholesterol.

It's a really cheap market and they're probably the equivalent of the early 1980s in the UK. So the Vietnamese government is powering ahead with privatisations and relinquishing state control of businesses. The investment trusts to look at are **Vietnam Opportunity Fund (LSE: VOF)** and **Vietnam Enterprise Investments (LSE: VEIL)**. The other "secret sauce" aspect is that Vietnam is not even an emerging market. It's a frontier market. So if you're a fund manager who tracks the MSCI World index, or the MSCI emerging markets index, you can't invest. But retail investors can do what they like. So as a country, that's our single favourite market.

"In terms of investment, Vietnam is like the UK in the early 1980s"

John: How are you feeling about Japan?

Tim: It's our second favourite. Japan now yields more than the US. That's unheard of.

Steve: I've been banging on about Japan forever, but I think it's fascinating. It's effectively the anti-US asset. Japanese corporate debt peaked at 70% of GDP in the early 1990s. It's now down to less than 5%, compared with 40% in the US. Could the US be nearing its 1990 Japan moment? And even if not, which do you want to own? The one with the high yield and no debt, or the one with a lower yield and loads of debt?

And the activism thing is really kicking off. The number of activist funds running in Japan has trebled in the last five years. If you want to find the outrageously cheap, negative enterprise value stuff in Japan, you have to go down to about $300m-$500m market cap and for that you really need to be running a £100m or £200m investment trust. One option is the **AVI Japan Opportunity Trust (LSE: AJOT)**.

John: Alastair?

Alastair: We were talking about a mini-boom in the UK. Every politician sees the housing market as key to the economy, so the government will focus on that. Housing transactions are incredibly low in the UK, particularly in London, so we just need to get the market going and we can all think of 100 ways to do that. You could make it a much more liquid market by getting rid of stamp duty, for a start. So we're investing in builders' merchants, DIY, the brick companies – any firm that benefits from increased housing transactions. We've got **Travis Perkins (LSE: TPK)**, **Grafton (LSE: GFTU)**, **SIG (LSE: SHI)** and **Kingfisher (LSE: KGF)** among others.

Steve: I'd add **Countryside Properties (LSE: CSP)**. It's a housebuilder, but roughly half of its business involves partnering with local authorities to build social housing. It is the leader in this area. It's trading on ten times earnings – so just like an ordinary house builder – but it may well split it out next year. I absolutely agree that a mini boom in the UK, which ends badly – a Barber-boom-type thing – is quite likely. That's why we're also quite nervous about the interest-rate sensitive assets we own, because bond yields could rise a bit. But yes, housebuilders look good and Countryside is outstandingly cheap.

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Vietnam: massive potential

A globally competitive Brexit

John: Where do you think UK house prices are heading right now? They've been flat for a while.

Jim: Well, I have to say I'm buying a new flat in London because I think the UK will become a magnet for foreign capital again.

Max: I'd agree, which is why I think **Capital & Counties (LSE: CAPC)**, with its huge development in Earl's Court, is a buy.

Tim: Do you think Boris is going to go for a kind of Singapore-on-Thames deregulated Brexit?

Jim: Why wouldn't he?

Lucy: Well, not while he's trying to negotiate with the EU.

Jim: No, it will all be carefully done. But ultimately, that's the way the country's going to develop.

Tim: Otherwise there's no point in having Brexit.

Max: Singapore is a highly regulated country.

Dylan: Well, maybe not Singapore, but if Ireland can collapse its corporate tax rate, why can't the UK?

John: Any other tips, Max?

Max: We've had a year where there's been no earnings growth and the US has already discounted next year's earnings growth. So this might be the year where the rest of the world plays catch up. The best way to access that is just to go for a straightforward international investment trust. I'll go for **Mid-Wynd International (LSE: MWY)** and **Monks (LSE: MNKS)**. Japan, small cap, healthcare, they're all good ideas. But I think you'll do fine by just buying a vanilla fund.

John: Steve – we were talking about oil earlier.

Steve: Yes, I'm happy with **BP (LSE: BP)** and **Shell (LSE: RDSB)**. I'd also stick with Lloyds, given the clouds clearing over the UK temporarily. The other one I'd suggest, which I've recommended twice before, is **FDM Group (LSE: FDM)**, an IT outsourcing group. It's currently on 28 times earnings, so it's not cheap. But if you can wait for the UK or mid-caps to be out of favour, you can often get this brilliant company at cheap prices. Even now you get paid a 3%-4% yield, because all the cash they generate comes back to shareholders. I think it can just grow and grow.

Lucy: How fast does it grow?

Steve: About 20% a year. It's going into the US and growing quickly there. FDM trains up IT people from universities, places them in companies for two years, and then the firm takes them on. It's an arbitrage between the fact that university degrees do not provide the IT training companies want, and businesses are not willing to do that training themselves. So companies can't train people to do coding, but need loads of coders. So FDM steps in. I'm still really keen on that.

Cheap global stocks and local pubs

John: Jim, anything to add?

Jim: I mentioned Gilead. There's also pub chain **Marston's (LSE: MARS)**. Li Ka-shing, one of the smartest men in the world, bought Greene King for a huge amount of money. Marston's is quite similar, but smaller. It's got a yield of 5.8%. It's the same sort of thing, why have you not buy it, basically?

I also like **Prudential (LSE: PRU)**, now it's been demerged from M&G. It's a very good company for Asian exposure. It has a 3.6% yield and it's on about 20 times earnings, but growing very quickly. I think Prudential's an excellent buy. Then there's **VEON (Nasdaq: VEON)**, a Russian telecoms group with an 8.6% yield, it trades on six times earnings and it's the biggest mobile operator in its area. I also think Russia will be rehabilitated, at some point. So, why not?

Lucy: I do quality growth investing. One stock I like at the moment is **Schneider Electric (Paris: SU)**. Energy management is its biggest business – all of its customers need to reduce their carbon emissions and improve their energy efficiency, so that's a good growth area for them. It's bought Larsen & Toubro in India, which is now its third-biggest business. It's pretty cheap – it yields 3% and it's on 15 times earnings for next year – because everyone's been worried about recessions, but those don't look like they're going to happen. So to me that's a company that's invested in all the right places.

Health and health tech is really interesting too. Biopharma group **Agilent Technologies (Nasdaq: A)** seems to be well positioned in that area. It has a big Chinese business, which is in food, pharma and environmental testing – all good structural growth

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Marston's is worth putting in your portfolio

areas that the Chinese government is pushing. Also an activist investor, Pershing Square's Bill Ackman, has popped up, which might get things going. The other area I like is emerging consumers – there's still plenty of long-term upside. So **Yum China (NYSE: YUMC)**.

Jim: The KFC brand?

Lucy: Yes, but its menus are much healthier – my Chinese team checked that out as part of their research. The last one is stockbroker **Charles Schwab (NYSE: SCHW)** – what it's done is really interesting. It came out with zero broker commissions in October, which crashed all of its competitors. And then the next month it merged with its big rival TD Ameritrade. I think that's really smart.

Jim: How does it make money?

Lucy: Well, discount broking is a very small part of Charles Schwab's business, but a big part of everyone else's, which is why it could do it. And then it did the deal. So I thought that was very, very smart.

John: Thank you all for coming.

(For Dylan's views on why uranium could be the next boom sector, see page 22)

"If Ireland can collapse its corporate tax rate, why not the UK?"

Our roundtable tips (20/12/19)

Company	Ticker	Price
Lloyds Bank	(LSE: LLOY)	62.6p
RBS	(LSE: RBS)	243p
Agronomics	(LSE: ANIC)	5.8p
Gilead	(Nasdaq: GILD)	$66.20
Vietnam Opportunity Fund	(LSE: VOF)	331p
Vietnam Enterprise Investments	(LSE: VEIL)	467.9p
AVI Japan Opportunity Trust	(LSE: AJOT)	112.5p
Travis Perkins	(LSE: TPK)	1,604.5p
Grafton	(LSE: GFTU)	880p
SIG	(LSE: SHI)	121.4p
Kingfisher	(LSE: KGF)	217.2p
Countryside Properties	(LSE: CSP)	459.4p
Capital & Counties	(LSE: CAPC)	251.5p
Mid-Wynd International	(LSE: MWY)	602p
Monks	(LSE: MNKS)	958p
BP	(LSE: BP)	482.6p
Royal Dutch Shell	(LSE: RDSB)	2,234.8p
FDM	(LSE: FDM)	1,034p
Marston's	(LSE: MARS)	126.6p
Prudential	(LSE: PRU)	1,440p
VEON	(Nasdaq: VEON)	$2.53
Schneider Electric	(Paris: SU)	e92.86
Agilent Technologies	(Nasdaq: A)	$84.72
Yum China	(NYSE: YUMC)	$48.79
Charles Schwab	(NYSE: SCHW)	$48.20

Whatever happened to blockchain?

Not long ago investors were getting hyped up about a promising new technology based on digital ledgers. Then they dropped it. But they should take another look, says Ben Judge

Just a few years ago, blockchain – also called digital ledger technology (DLT) – was the next big thing. It was going to transform every facet of our lives, including the entire global payment system; back-end office systems; and supply chains from beginning to end. The hype was immense. Every spivvy entrepreneur and their dog set up a company that somehow had its value inflated by some version or other of blockchain. Some didn't even bother coming up with a blockchain business. They just slotted "blockchain" into their name and watched the share price shoot up. The Long Island Iced Tea Corp., which notoriously became the Long Blockchain Corp., immediately enjoyed a share price surge of 458%.

What exactly is this technology?

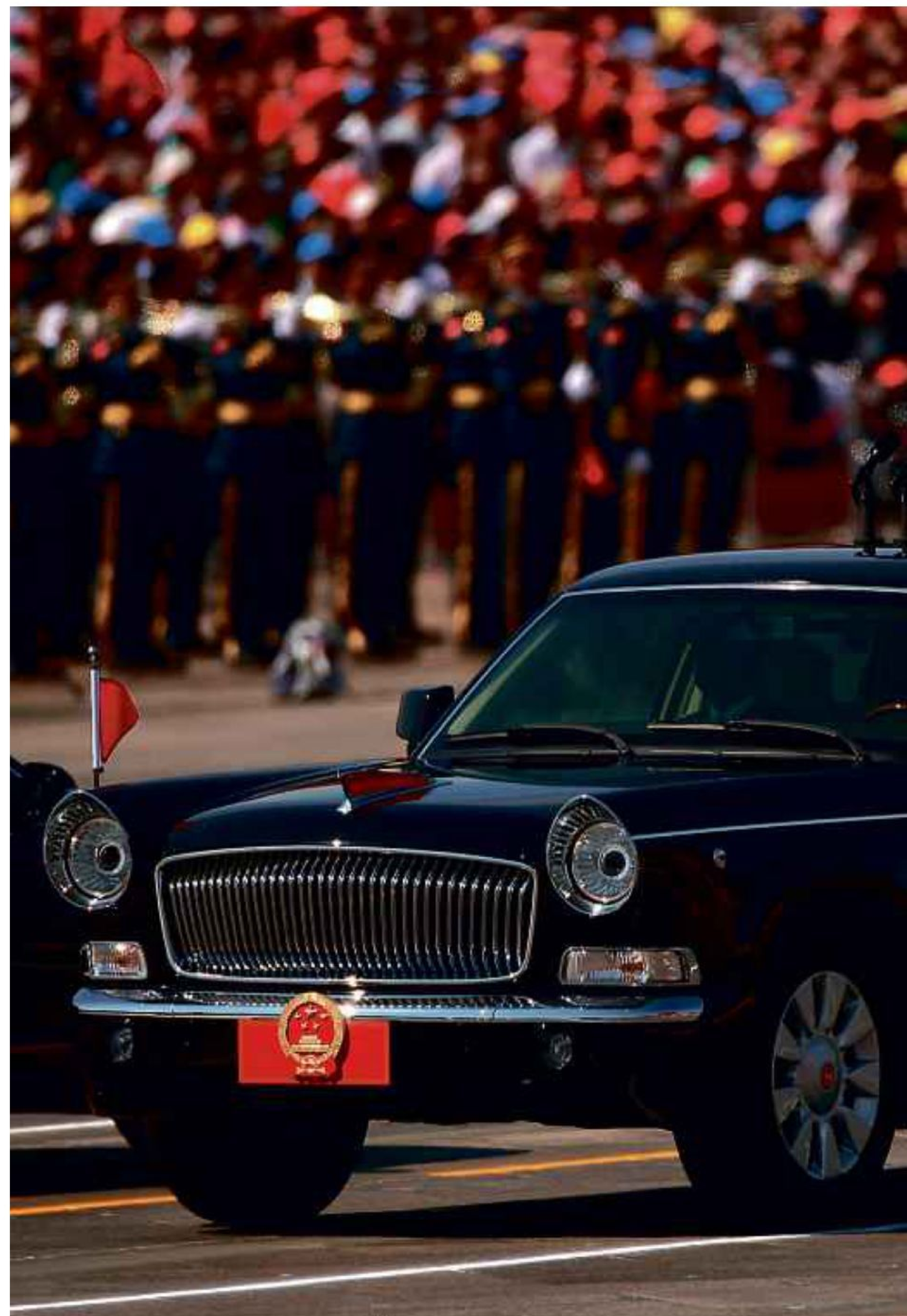
At its simplest, blockchain is a ledger: a way of storing and manipulating information, like a spreadsheet or database. Crucially, though, where a normal database is a single, centrally controlled entity, a blockchain is a public "distributed ledger". Each computer that has access to the chain has its own copy. It is literally a chain of blocks of information. As a new piece of information is added to the ledger, it creates a new block in the chain.

The block stores the information, but also who added the information and who has access to it. Once a block has been added and verified, it is given a "hash" – a unique, immutable code that identifies that transaction. You cannot go back and change any of the information stored. Any changes are recorded as new blocks in the chain with a record of who has done what.

Another unique feature of blockchain is its ability to use "smart contracts". A smart contract is computer code stored on the chain that can execute transactions between parties once certain conditions have been met: for example, to automatically transfer the ownership of property once funds have cleared; to release funds to a supplier once goods are confirmed as having arrived; or to impose financial penalties if certain conditions are not met. All of this is "permissionless" – it can be done with no need for someone to provide access. It is all coded into the blockchain when the agreement is initially drawn up. And it is this security, and the fact that all parties have access to the information so that there is no need for a middleman, that makes blockchains so useful.

In situations where multiple parties need to access and update data in the knowledge that it is secure and cannot be tampered with, and where intermediaries can be eliminated, a blockchain system is an ideal solution, according to IBM, which employs more than 1,000 people on blockchain products. It is making its blockchain platform available to other organisations that want to create their own versions.

"Companies used to change their name to include 'blockchain' and watch their share prices shoot up"



China's Xi Jinping deems blockchain a "core technology"

The blockchain hype of recent years went hand in hand with the meteoric rise of bitcoin, whose price peaked at almost $20,000 this time two years ago only to come crashing down in the subsequent months. Blockchain was, after all, created to track ownership and transactions of the digital currency.

Now, however, it all seems to have gone quiet. Many of the promised fabulous enhancements to our lives have yet to happen. Other digital currencies launched to cash in on blockchain have withered away. People are now asking whether blockchain was all just a load of hype. Is that true?

Slowly but surely gaining ground

Blockchain is still here and is slowly but surely gaining ground rather than disrupting everything in one fell swoop. Big business is quietly adopting this technology to do the things it's good at: settling transactions, recording ownership and verifying identities, for example. It may not be a purist's idea of what blockchain should be – a public, permissionless ledger open to all. Instead, what we are seeing are private, permissioned blockchains. That means that, unlike public blockchains such as bitcoin, only certain users with the appropriate privileges can add blocks to the chain.

The technology is following the classic example of "hype cycle" first observed by research firm Gartner. It consists of five key phases. A new technology is developed and enters the "trigger" phase. Publicity explodes and everyone wants a piece of the action; the cycle enters the "peak of inflated expectations". That was the bitcoin peak that prompted chancers to launch new cryptocurrencies. Then, when the technology doesn't seem to change everyone's lives as promised by the early adopters, we enter the "trough of

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> *"In China's case, rather than shift power away from a central authority, blockchain could help the state tighten its grip"*

disillusionment". Investors lose interest. But then, after a while, people find uses for the new technology and we begin to climb the "slope of enlightenment". Then comes the "plateau of productivity". With blockchain we're just past the "trough of disillusionment", having risen over the peak of inflated expectations and we're now in the foothills of the slope of enlightenment.

Big business is adapting to blockchain

There have been flops. Insurance giant Axa trialled a blockchain-based flight insurance product called Fizzy. It used smart contracts to pay out automatically if your flight was delayed. But just the other week it decided to shelve it. And some projects have had a rather longer gestation than was originally envisaged. The Australian Securities Exchange ASX has been planning to replace its clearing system with a blockchain-based system. It has been in development since 2015; the latest estimate for its deployment is spring 2021. Australia is not the only exchange looking at using DLT. Shanghai, Hong Kong and New York are interested too. As Joshua Oliver noted in the Financial Times a year ago: "Worldwide, three quarters of the financial market infrastructure operators surveyed by Nasdaq and Celent are working on DLT pilots or already using DLT".

"Enterprise" blockchain is now most definitely a thing, having moved from proof of concept to real-world applications. Big business has bought in. Along with IBM's platform, other big enthusiasts include Amazon and Oracle. Amazon's clients include management consultants Accenture, AT&T and Guardian Life Insurance. Oracle's clients include a Jordanian investment bank using blockchain to facilitate cross-border payments; a healthcare technology company providing a network for healthcare organisations to share data and processes securely; and a brewer tracking its supply chain.

Much of the activity is in financial services. One high-profile trading platform is we.trade, set up by a consortium of big banks including HSBC, Societe Generale and UBS. It allows small and medium-sized businesses to guarantee and process transactions digitally, cutting down on paperwork and speeding up trades.

Another area where DLT is useful is in identity verification. In Canada, Verified.Me is a system that has been developed between government agencies and private companies. Customers of five banks including Royal Bank of Canada and Scotiabank can now verify their identities using blockchain technology.

But it is in supply-chain management that it is really proving itself. Last year, IBM launched its Food Trust platform, a blockchain-based system for tracking the supply chain of food. It was originally trialled by Walmart, but is now being used commercially by, among others, Nestlé, Carrefour, and Unilever, says Forbes. Walmart Canada has now developed its own system with DLT Labs, a Canadian blockchain developer, for tracking deliveries, verifying transactions and automating payments among suppliers to its 400 retail stores. Shipping giant Maersk developed the TradeLens supply chain platform with IBM, to track cargo around the world. Maersk now wants to monetise the platform and it has recently been joined by Hapag-Lloyd and Ocean Network Express of Singapore.

What is China planning?

But perhaps the most fervent adopter of blockchain technology recently is China. President Xi Jinping recently praised blockchain as a "core technology" and called for more support and investment. China's tech-focused shares surged. Over 500 new projects have been registered with the Cyberspace Administration of China. China's big tech companies are involved, says Jane Cai in the South China Morning Post, and there are "dozens of government-led initiatives and schemes, in areas ranging from communications to land development".

It is somewhat ironic given the technology's libertarian origins. "China is now pushing toward global blockchain dominance," says Kevin Werbach in Wired. That's something that should get the rest of the world – and especially the US – worried, says Biser Dimitrov on Forbes.com. "Having a superior blockchain technology will give China an enormous trading opportunity with the emerging technology markets." And then there's the spectre of a digital renminbi. A digital currency controlled by the People's Bank of China has the potential to usurp the dollar as a global currency.

While blockchain in the West is mainly business-driven, China is adopting it to strengthen its grip on its population. Mu Rongping, director of the innovation and development research centre at the Chinese Academy of Sciences, told Cai that "The potential is huge for the use of new technologies, such as in areas of public security, public transport, crime investigation and anti-corruption campaigns... Blockchain could open a new chapter on the integration of governance and technology". Rather than fulfilling its original imperative of shifting power away from centralised authority, it could actually help China's government cement it.

Still, what is clear is that, for good or ill, blockchain is no longer the brash shouty new kid on the block; it's maturing. Slowly but surely distributed ledger technology is integrating itself with public and private systems. It's here to stay.

Property in the doldrums

House prices barely rose in 2019. Good news, says Nicole Garcia Merida

It's been a sleepy year for the property market. The average house cost £211,966 in January and £215,734 in November, according to figures from Halifax. That's a gain of just 1.8%.

London, which during upswings often outperforms the rest of the country, is now underperforming it. By October the average cost of a house in the capital had slipped by 1.6% year-on-year to £472,232, says the Land Registry.

The market's lacklustre performance in 2019 continues a trend observed in the past few years; prices have made small percentage gains or trod water. This is hardly scintillating material for dinner-party dissections of the property market, but as we like to point out regularly, it is good news in the long term.

The price rises of recent years, fuelled by loose credit and government tinkering such as Help to Buy, which artificially fuelled demand, have propelled the market to unaffordable levels. The house price-to-earnings ratio is steadily declining from record peaks of over seven – but the credit bubble pushed it far beyond the usual levels of below four seen in the 1980s and 1990s.

Flat prices in conjunction with regular increases in wages are a painless and steady way for the market to fall to affordable levels. It bodes well, then, that annual wage growth has strengthened in the past year and reached an 11-year high of 3.9% in June.

Government tinkering such as Help to Buy has inflated prices

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The bigger picture is also encouraging for those keen for the market to cool. House prices in Great Britain rose by 34% on average in the past ten years.

But once the figures are adjusted for inflation, they have fallen 0.3%, according to a Savills report using Nationwide data. The subdued 2010s followed a 67.1% real-terms increase in the 2000s and a 13.9% slide in the 1990s.

The outlook for 2020

There has been widespread talk of a "Boris bounce" for the property market as well as for shares. There is now certainty over our departure from the EU and a clear majority in Parliament reduces political uncertainty. However, while Brexit-related uncertainty hampered the market in the past three years, its removal doesn't necessarily mean that the market will rocket. As Emma Powell and Alex Newman point out in the Investors Chronicle, the housing market began to slow in 2015 before the referendum.

The main problem remains affordability, notes Callum Jones in The Times. The house price-to-earnings ratio was still 6.8 in the third quarter of 2019; along with mortgage loan-to-income restrictions, this makes it difficult for buyers to muster deposits and bolster overall prices.

Throw in dwindling support from Help to Buy and the upshot, reckons Capital Economics, is that house-price growth will "only pick up a little" next year.

Where to look on the Crossrail route

In recent years there have been plenty of breathless articles in the financial press highlighting the scope for house-price rises in certain areas owing to the arrival of Crossrail, or the Elizabeth Line. But it is always hard to gauge how much a local price rise owes to a specific project and how much to a wider market upswing.

In any case, a Savills study suggests that house-price growth has faltered close to two-thirds of the Crossrail stations, as Anna White points out in the Evening Standard. How much this has to do with the delay to Crossrail and how much with the wider London slowdown is a moot point, but those in the market for a new home with good transport links should consider some of these areas. In each case, general regeneration may give prices more pep, reckons White.

One to look at is Southall, where the Crossrail station and new houses are reviving a "tired high street". The typical house costs £310,000. Slough, once Crossrail opens, will be almost half an hour closer to Canary Wharf, while multimillion pound investment will transform the town centre, says Renata Holland in the Evening Standard. The average house will set you back £243,000. Acton, meanwhile, was once regarded as "Ealing and Chiswick's poor relation", says Andrea Dean in Metro, but it is now on an "equal footing". A house costs £443,000.

Investing in empty property

Buying an empty property may seem like a straightforward way of buying a house on the cheap. There are certainly plenty to choose from: in England alone, there are over 200,000 that have been empty for at least six months, the legal definition of a long-term vacancy. Owners struggle to sell or derive an income from them so they may be keen to offload them for a reasonable price. But be sure the sums add up.

Finding a vacant property can be as easy as going for a drive around the area you're interested in and spotting one. Otherwise, it might be worth contacting estate agents keen to make a commission, or local councils as they will be keen to get the property back into use, says Chris Menon in Moneywise. Monitor auctions around the area, too. If empty properties don't sell you can contact the real-estate agent to discuss a price. Once you find the property, a search on the HM Land Registry website gives you the name of the owner, property limits and the risk of flooding.

Once you've found an empty dwelling, the key issue to consider is how much work it needs and how much it will cost. Could the sum be so high that it negates the saving on the empty house compared with a previously inhabited house needing no work? Once you begin enquiring about the price, get a structural surveyor in to produce a full report.

A bargain, or a burden?

©Getty Images

Factor in potential financial assistance too. There are initiatives offered by several councils that are designed to enable landlords and homeowners to apply for and receive up to £25,000 to refurbish an empty house to then rent out or sell, says Angelique Ruzicka in This is Money. The loans schemes began as a solution to housing shortages and unoccupied properties that have posed a problem for those living close by. Council loans are repayable after three years of renting out the property or when the property is sold.

Do your research and ensure you qualify for an empty home scheme, but otherwise mortgages are an option, says Menon. However, "many lenders may only lend up to 80% to 95% of the current value of the property and may withhold some funds as a 'retention' until works are complete". If the property is entirely uninhabitable, you will need a broker to find you a specialist provider.

European small caps with a big future

A professional investor tells us where he'd put his money. This week: Francesco Conte of the JPMorgan European Smaller Companies Trust picks three winners

The global market backdrop appears challenging, but we are keen on European smaller companies owing to a positive outlook for earnings growth combined with market valuations close to long-term averages. The JPMorgan European Smaller Companies Trust seeks out dynamic companies with strong growth prospects that are independent of the economic cycle. Many of these tap into exciting structural growth themes such as environmentalism, ageing populations, wellness and digitalisation.

High importance is placed on environmental, social and governance (ESG) issues. Well governed companies that respect the environment and nurture their employees as well as wider society are more likely to generate sustainable earnings in an ever more competitive global environment. Here are three stocks that tick these boxes:

The future of energy

Falck Renewables (Milan: FKR) is a pure-play renewable energy specialist with well diversified geographic and technological exposure. Falck builds, owns and operates wind, solar, waste-to-energy and biomass energy sites throughout Europe and the US.

Incredible technological progress has resulted in huge efficiency improvements in solar and wind power generation over the last decade and this is expected to continue. In many regions renewable energy generation is now cheaper than its conventional counterpart, while the demand for renewable energy continues to climb. Falck has a large development pipeline, resulting in extremely attractive long term growth prospects.

A play on healthier eating

AAK (Stockholm: AAK) is a top-quality European smaller company at the centre of the wellness trend. It is a leading global specialist in producing high value-added plant-based oils and fats. These are replacing animal-based alternatives as customers demand healthier and more environmentally friendly food and personal-care products.

The strong management team has a fantastic record of delivering consistent organic sales growth, margin expansion and selective acquisitions. AAK has developed strong relationships with clients through co-development of niche, technically advanced products. This supports the company's pricing power, helping it deliver a high return on capital.

Environmentally sustainable buildings

Bravida (Sockholm: BRAV) is a market leader in technical installation services throughout the Nordic countries. It is at the heart of reducing the environmental impact of our buildings by utilising the latest technologies. For example, Bravida can install intelligent plumbing systems to reduce water wastage, design smart lighting systems to optimise energy consumption and introduce systems that recycle the excess heat produced by cooling systems.

"Bravida makes intelligent plumbing systems that reduce water wastage"

The company's asset-light business model allows it to generate strong free cashflow, which it uses to reinvest in new growth opportunities. Bolt-on acquisitions have complemented the company's high organic growth potential. We believe that the company's excellent long-term outlook is not reflected in its attractive valuation.

If only you'd invested in...

Dart Group (LSE: DTG) began life ferrying flowers by air between Guernsey and the British mainland. It has grown into a holding company that owns the Jet2 airline and holiday business along with Fowler-Welch, a chilled food distributor based in Lincolnshire. The first half of the year was "satisfactory", says the board, with revenue up by 16% to £2.6bn and profits up 3% to £365m. And with customer numbers up in the wake of Thomas Cook's demise, Dart has raised its profit forecast for the full year. Investors have piled in and the share price has risen by 123% in 12 months.

Be glad you didn't buy...

Fresnillo (LSE: FRES) is Mexico's second-biggest gold miner and the world's biggest producer of silver. It has not been a happy year, with "continued challenges" at its mines involving increased costs and missed production targets reducing profits by more than 50% in the first half of the year. Shareholders have had a wild ride in the last 12 months, but the general direction is down: the stock has fallen by almost 30% in 2019 and in the latest stockmarket reshuffle was booted out of the blue-chip FTSE 100 index into the FTSE 250 mid-cap segment.

18+

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The disruptor shaking up nurseries

Wigdortz aims to make childcare affordable for working parents

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Brett Wigdortz ticks all the "start-up founder" boxes, says Helen Rumbelow in The Times. "Trainers, a deep American accent, a name like a tech entrepreneur in a sitcom", and a cool office with nothing to sit on but a swinging chair. Wigdortz is the founder and leader of Teach First, an organisation that recruits graduates and trains them to teach inner-city children for two years. It is now the largest graduate recruiter in the UK. Wigdortz went on to co-found Teach For All, an international organisation that replicates the model in 53 countries. Now, Wigdortz has another business idea, this time for infants.

As working parents with young children will know, pre-school education in Britain is expensive. In London, 25 hours per week at a nursery or with a childminder costs an average of £758 a month. The cost "quickly feels bankrupting", especially if the parents work part time or if there's another sibling. The UK market for formal childcare was valued at £5.5bn in 2018. The population is growing and mothers are working more, so demand is booming. Despite that, supply is falling. Between 2016 and 2018, the number of individual nurseries declined by 20%, while in the five years to 2018 the number of childminders fell by 27%. According to one report, the UK has a shortage of one million childcare places.

And so Wigdortz's idea for Tiney was born, which was to form a hybrid of nursery and childminder, or a string of "tiny" nurseries that "combine the high-quality educational curiculum of an institution with the attention and setting of a domestic home". Tiney provides training and branding, and takes a 10% cut of the childminders' income. As with Teach First, Wigdortz, now in his mid-40s, is hoping the idea will "really grow" and lead to "system change" in this country.

The booming market for second-hand clobber

"While some of us might cringe and despair looking at old photos of ourselves in a blue and yellow shellsuit jacket, there are shoppers out there who yearn for such retro clothing," says Joanna Bourke in the Evening Standard. Entrepreneur Rory Westbrook, 25, is one of the latter, and he was quick to note the potential for a successful business venture. He started selling 1980s and 1990s clothes through his online retail startup True Vintage in 2014.

The company looks for rare and discontinued items at charity shops, eBay, and international suppliers to sell on at a premium. One of Westbrook's "memorable deals" was getting £150 for an Adidas Lake Placid Olympic sweatshirt that he bought for £5. Revenues have been growing steadily and the company is on track to turn over £1.9m this year. And if the US is anything to go by, there is huge growth potential. The second-hand shopping market is predicted to grow larger than fast fashion within ten years, according to Thredup, the world's largest online thrift store, and the US market is expected to be worth $51bn in five years. Eco-conscious consumers are driving the trend – 74% of 18 to 29-year-olds prefer to buy from sustainable companies. And desire to be green is making more people buy second-hand.

Westbrook founded True Vintage while he was studying at the University of Portsmouth. As the business grew he moved it to his parents' house, then to a warehouse in Mitcham. He has expansion plans for 2020, starting with a move to a new south Wimbledon base, around three times the size of the current one. Westbrook remains the majority shareholder. His plans include hiring more staff, increasing its stock, and starting to sell some new eco-friendly clothes alongside the vintage items. "We are getting so much traffic we want to offer more to customers."

A £215m fortune from sarnies

Julian Metcalfe transformed the way the country eats lunch, says Sabah Meddings in The Sunday Times. He founded Pret A Manger in 1986 with friend Sinclair Beecham. They bought their first shop in London while Metcalfe was working in real estate, and used a £5,000 inheritance from his grandmother to buy an oven. He handed his notice in when the shop began to break even. Since then, Pret has become a "ubiquitous presence" on Britain's high streets. Metcalfe now has a £215m fortune – he sold Pret in 2008 to private-equity firm Bridgepoint for £364m and gave up his seat in the board. Last year, Pret sold to Germany's JAB Holding for £1.5bn.

Metcalfe (pictured) is now trying to replicate that success with Itsu, the Asian-inspired chain where he is majority shareholder. Launched in 1997, Itsu has 75 outlets in the UK and one in New York. Sales rose 10.4% to £116.6m last year and he plans to open ten new restaurants a year, including overseas. For Metcalfe, 60, the future "is rice bowls and noodles".

Three decades in the food industry has "done nothing to dim Metcalfe's enthusiasm". He never misses Itsu's twice-weekly development meetings, where he obsesses over recipes. Even the chairs took months to design. Is such fussing profitable? "Probably not," he says gloomily. But getting the details right is crucial longer term. The white orchids on the wall, for example, are real. "You can't save a few hundred pounds a year and have fake orchids. You might as well have fake chicken. I'd die if they did that." Itsu's losses narrowed from £8.9m to £6m last year.

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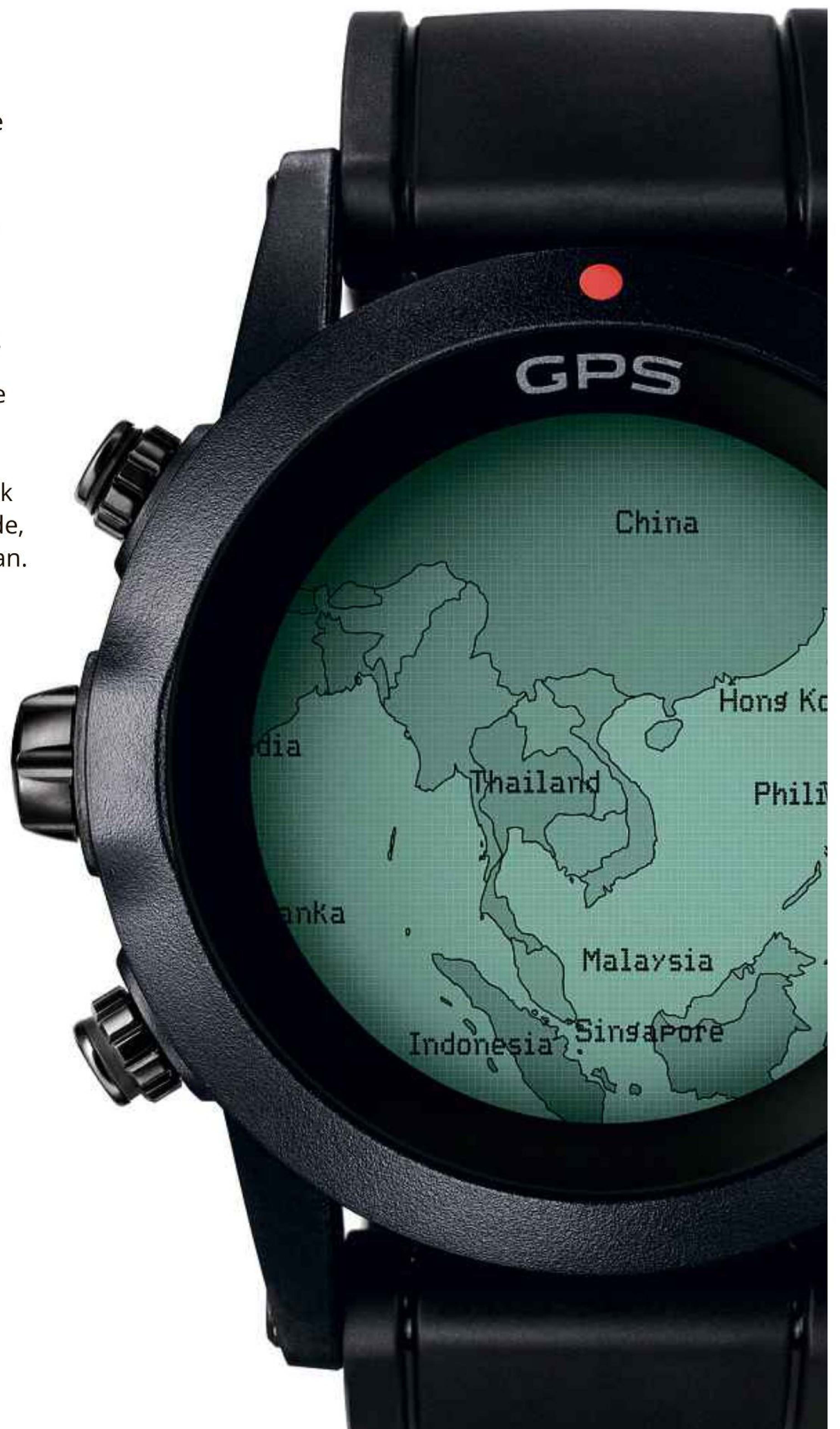

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Neil Woodford rides again

The feted fund manager's speedy descent made Icarus look like a slouch. Many thought he would now be spending more time with his horses. He's actually plotting a comeback. Jane Lewis reports

Fallen stock-picker Neil Woodford is "seeking a new start" following the spectacular collapse of his investment empire this year, says The Daily Telegraph. The former star manager was reportedly in China just before Christmas meeting investors "to scope out interest" in a possible comeback there. The opening of a Chinese-backed fund "could give a new lease of life" to Woodford, 59, who was sacked from his £3.1bn flagship fund, Woodford Equity Income, in October and forced "to shut down his company" after a string of risky bets left hundreds of thousands of small investors facing massive losses. He is also understood to be sounding out investors in the Middle East.

Woodford, who'd continued charging his gated investors fees, didn't want to quit – arguing that he couldn't believe it was in "the long-term interests of the business". That's a measure of the "arrogance" of the man, says Ruth Sunderland in the Daily Mail. His self-belief remained "unshakeable" despite his "vertiginous fall". When he started his flagship fund in 2014, he threw a launch party at Langan's Brasserie in Mayfair, telling backers and fans that he wanted to "create a legacy" comparable with that of "the iconic 19th-century financier John Pierpont Morgan", says the FT. "Erstwhile admirers now wonder whether the self-styled industry disrupter may have come to believe in his own propaganda a little too much."

Woodford's speedy descent from "bright star to black hole" reads like a classical fable. He makes Icarus look like a slouch, says The Observer. But then speed has always been part of the Woodford story. A frustrated fighter pilot, he stumbled into fund management almost by accident.

Raised in Berkshire, the son of a postcard printer, Woodford, says the FT, "lamented" his father's lack of ambition. After attending Maidenhead Grammar, his own career choice was the Royal Air Force, but he failed the pilot aptitude test. "My reaction speeds were just not fast enough," he later recalled. Heading for Exeter University instead, he took a degree in economics and agricultural economics and arrived in the City in 1981 in the midst of a recession. "With little money in his pocket, he slept on his brother's floor while he flitted through various jobs at the Reed Pension Fund, TSB and Eagle Star" before bagging a role at Henley-based Invesco Perpetual in 1988.

A man on a mission

When Woodford started out, he was given £14m to manage; by the time he left Invesco, he was running £24.1bn. His investment style was long-termist: he prided himself on ignoring the siren "noise" of the market. That led to some good calls. Woodford shunned the dotcom bubble – a move that nearly cost him his job – and dumped shares in banks long before the 2008 crisis hit. "With his rugby-player's build and penchant for black sweaters and jeans", Woodford "never looked much like the archetypal City fund manager", says the FT. "Based in a dreary Oxfordshire industrial park, he might have passed as a dressed-down entrepreneur, or a fitness coach." Yet for more than two decades, he delivered on his mission "to make Middle England rich" – attracting "a rock-star like following" from savers, financial advisers and, later, popular investment platforms. Within two weeks of launching his own fund in 2014, he'd pulled in £1.6bn – a British record.

"Domestic bliss came late in life for Woodford," says the Daily Mail. In 2015, he married an amateur show-jumper who awoke in him "an unlikely passion for equestrianism" – he began competing himself at weekends. Many thought his downfall this year would see him spending more time with his horses. Apparently not.

"Within two week of launching his fund in 2014, he'd pulled in £1.6bn – a British record"

What now for Woodford's funds?

Discounting various "multi-asset" funds with holdings in Woodford vehicles, there were three main funds that suffered in the wake of the fund manager's downfall. Here's the latest news on each of the three funds in question.

Woodford Equity Income

Woodford's main vehicle, the somewhat poorly named Woodford Equity Income, was the most troubled of his funds – its significant holdings in unlisted, hard-to-value firms were what triggered the suspension in the first place.

The fund is in the process of being prepared for winding up. BlackRock is managing the more liquid side of the portfolio and has already sold shares worth more than half of the value of the fund. Meanwhile, specialist broker Park Hill is working on the illiquid assets. As of mid-December it had yet to sell any of these.

Fund administrator Link Fund Solutions has told investors to expect their first payment around 20 January, and that they will be updated on its value on 13 January.

Woodford Income Focus

Woodford's other open-ended offering was far more traditionally constructed than its larger sister fund. As a result, there was more demand from rival managers to take over the running. That battle has been won by Aberdeen Standard Investments, reports Citywire.

The fund will be run by Thomas Moore and Charles Luke, and it will be renamed ASI Income Focus. The aim is for the £264m fund to re-open in February, although an exact date will be confirmed with investors in mid-January. All parties involved will be waiving their fees until the end of May. The managers aim "to run a focused portfolio of around 30 stocks".

The former Patient Capital

Finally, Woodford Patient Capital – the investment trust launched under Woodford – has been taken over by asset manager Schroders and now has a new name: it is the Schroder UK Public Private trust (LSE: SUPP). It will be managed by Schroders' private-equity team. Crucially, the trust's overdraft has also been renewed for another year.

In terms of fees, investors in the trust will be paying 1% on the first £600m of assets, and 0.8% thereafter, but no fee is payable for the first three months, notes FT Adviser. (Woodford had never taken a fee for the trust as a result of its poor performance.)

The trust currently trades on a discount to net asset value (the stated value of its underlying portfolio) of around 36%. Should you invest? The future looks brighter than it did – but given the level of uncertainty over the ultimate value of its holdings, we'd still steer clear at this stage.

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The movers and shakers of 2019

Men make history, but not in circumstances of their own choosing, said Marx. Some men make more of it in less time than others. Here are four figures who changed the world this year. By Jane Lewis

Mario Draghi

The European Central Bank boss, who bowed out this year, is widely viewed as the man who ended the eurozone panic in 2012 with the magic words "whatever it takes". The question now, says Hamish McRae in The Independent, is whether Draghi can hang onto his "Super Mario" status. When central bankers retire reputations often slip, "sometimes disastrously" – that, sadly is Draghi's likely fate. Many now blame the "ultra-easy" policies he championed for the eurozone's faltering growth. Indeed, Deutsche Bank recently claimed that negative rates, a favoured Draghi strategy, have "ruined" Europe's financial system.

When Italian-born Draghi got the ECB job, some said he was "more German than the Germans", says the Financial Times. How wrong they were. Still, even Bundesbank officials "speak warmly of him personally". As well as a sense of humour, Draghi had "a breadth of experience few central bankers can match", noted The Guardian in 2012. The son of a biochemist and banker, he was orphaned as a teenager "and later taken under the wing of Federico Caffè, a prominent Italian economist". Draghi studied at MIT and taught at Harvard – later putting in stints at both the World Bank and Goldman Sachs. Against the odds, he pulled off a "thankless task" as governor of the Bank of Italy.

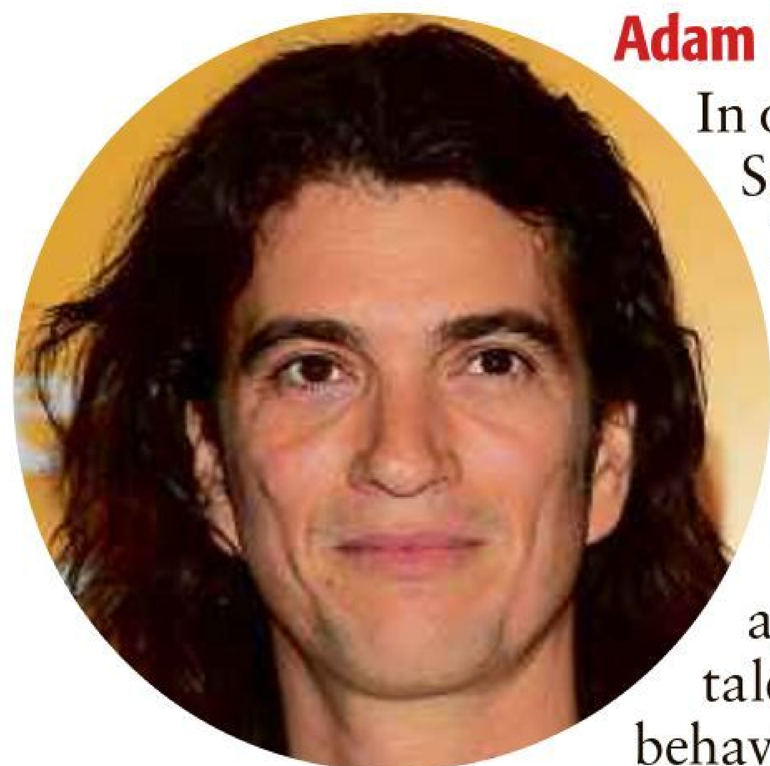
Draghi's best asset is being "extremely cool in situations in which normal people are freaking out", a colleague once observed. In a way, he has been unlucky, says McRae. "He did what it took to save the euro. But what it took has done massive damage." When he left in October, it was with a warning.

Mohammed bin Salman

In the end, the Saudis got their share sale away. Shares in Aramco, the world's largest oil company, surged 10% within seconds of their market debut in Riyadh earlier this month, says The New York Times, in a "successful debut" valuing Aramco at $1.88trn. Everyone in the Saudi court must have issued a considerable sign of relief. The country's de facto ruler, crown prince Mohammed bin Salman, 34 – a notoriously volatile character – had considerable face to lose in the event of a flop. "The size of the deal is an in-your-face to the boss's critics, including many family members who said he couldn't do it," said one of the IPO's bankers.

When King Salman came to the throne in 2015 and "handed most of the keys to the kingdom" to his "untried but dynamic son", many feared the worst, says the FT. "MbS" was regarded as "scary". He used to be nick-named Abu Rasasa ("father of the bullet") because "he once sent a bullet in an envelope to a judge" who'd ruled against him. Subsequent events – notably "an unprecedented purge of the kingdom's established elite" and the murder of journalist Jamal Khashoggi by Saudi agents – have eaten into MbS's "reformist" credentials. Many Saudis these days refer to him as *Abu Munshar* ("father of the saw") in reference to the tools used in that grizzly murder – he denies involvement.

"MbS is the kind of prince that Machiavelli might conjure," The Washington Post once observed. He's turned Saudi politics upside down and now wants to do the same to the economy. The great Italian political theorist might advise a little more work on the PR.



Adam Neumann

In one "tumultuous" week in September, Adam Neumann saw his dream wrecked, says The Wall Street Journal. His trendy office sharing start-up, WeWork, delayed its IPO (and later saw its value slashed by $38bn); "a bloc" of rebel directors began agitating to oust him; and lurid tales emerged of his "eccentric behaviour and drug use".

A former member of the Israeli navy, who grew up near the Gaza Strip, Neumann took less than a decade to build WeWork into a 12,500-strong company operating in 29 countries – with the help of backers like SoftBank who bought into his vision of hip office life. "He was the young billionaire with a rock star life and an apparent messiah complex, who wanted to open his business on Mars and be 'president of the world'," says Ben Hoyle in The Times. "His charisma was integral to its appeal." Yet even as WeWork began racking up extraordinary losses, Neumann's "delusions were pronounced". He allegedly told colleagues that "three people were going to save the world": MbS, President Trump's son-in-law Jared Kushner, and him.

Neumann might have been loopy, but he was persuasive. WeWork's huge valuation was based on a plan for a complete We "eco-system" – epitomised by "WeGrow" school, opened by his wife Rebekah in Manhattan. Ultimately, Neumann was remarkably adept at looking after number one, raising at least $700m for himself ahead of the botched float. Thousands of other WeWorkers have lost their jobs in the most spectacular corporate implosion of recent years.

Nigel Farage

It wasn't exactly the greatest of general elections for the Brexit Party leader but, says the Daily Express, he's got another trick up his sleeve. "Nigel Farage has revealed plans to rebrand the party as the Reform Party", with an agenda of "draining the swamp" of Westminster politics. "In the short term, the veteran anti-Brussels campaigner has not ruled out taking on a role as an EU commissioner if asked by Boris Johnson." Not much sign of that.

A former trader on the London Metal Exchange, Farage has an adjective for the good things in life, observed Henry Mance in the FT in 2016: "proper". Proper blokes, proper jobs, proper markets and proper lunches – that's what he likes. The son of an alcoholic Kent stockbroker, he joined the City aged 18 from Dulwich College and rapidly became convinced that the UK needed a more eurosceptic party than the Tories. "Supporters call him the boss man; opponents call him a racist." His more recent close association with President Donald Trump has led some to pronounce him crypto-fascist too. In a recent interview with a UK evangelical TV channel, as The Guardian notes, Farage said that migration would "imperil the future of our civilisation" and "alleged that banks and multinational corporations were trying to create a dictatorial world government".

What's certainly true is that – even though his Brexit party won no seats in the election – Farage will go down in history as "Britain's most effective Brussels-basher", says the FT – the man without whom there would have been no Brexit.

©Getty Images

MoneyWeek Wine Club

END OF YEAR WINE SALE

EXTRA 5% OFF

Your last chance to order Matthew Jukes' winter wines

As I assembled this sextet of beauties, my winter collection looked perfectly "Tanners-style". Until, that is, I reached the fifth and sixth bottles to insert into my imaginary six-pack and I broke with convention, threw caution to the wind and went all out Aussie, picking two of the most expressive and unlikely wines ever to grace this page. These two wines complete a peacock's tail of flavours for this month's case of wine, and show that nothing can be predicted when it comes to the MoneyWeek Wine Club. If you're looking for an end of year bargain, you can save an EXTRA 5% on these already discounted wines. Hurry, offer must end 10 January!

Matthew Jukes

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

Save an extra 5% in our end of year sale!
A mixed case of six bottles now costs just £74.10, giving you one bottle of each wine.

2018 Sauvignon de Touraine, Les Silex, Trotignon, Loire, France
I am happy to say this out loud, 'I love Sauvignon Blanc'. Not all examples, of course, but there are too many wine snobs out there shunning the unbridled joy of great Loire Sauvignon and this is one of the most vital and energising of all styles of white wine. An Olympic aperitif glugger, Les Silex possesses a much higher IQ than many and this is derived from its noble terroir. Along with the core citrus and green herb notes there is a minerality which is lip-smacking and noble. Let's all say it together now... **CASE PRICE: £57**

2018 Mâcon-Vergisson, Les Rochers, Domaine Guerrin & Fils, Burgundy, France
While the Sauvignon de Touraine is the classic crowd-pleasing, fridge-door white wine, Les Rochers is an altogether more serious proposition. A beautifully calm Chardonnay with little oak interference to worry the scorers, this elegant white Burgundy is disarmingly cheap for the level of class and restraint it shows on the palate. With enough oomph to step up to a fish dish and even the main event on the big day, I cannot recommend this wine enough. **CASE PRICE: £65.55**

2017 Jim Barry, Assyritko, Clare Valley, South Australia
This is one of Australia's most exciting wines of late and it is also one of the world's finest Assyrtikos. Given that this is a Greek grape, which Peter Barry lovingly imported and painstakingly planted in Clare with no idea if it would perform, this wine is something of a miracle. I love it so much that it won a coveted place in my 100 Best Australian Wines Report. Sadly, this vineyard was caught up in a bush fire not so long ago, so this is a rare item, too. If you love fabulously intellectual, bone dry white wines with perfume to die for, then this is it. **CASE PRICE: £104.88**

2018 Tanners Merlot, Pays d'Oc, France
Do not laugh – this is a perfectly serious entry in my pantheon of greats and the second I tasted this wine, I knew it had to feature in the MoneyWeek Wine Club. I have learned that I am not the only person to love this innocently fruit-driven and genuinely delicious wine, because it is apparently Number 3 in the Tanners wine hit parade! Tanners Buying Director Stephen Crosland nails this blending exercise with characteristic aplomb and I take my chapeau off to him. **CASE PRICE: £43.32**

2018 Dolcetto d'Alba, Fratelli Serio e Battista Borgogno, Piemonte, Italy
I am a Dolcetto fan and yet this is a grape which so often disappoints with weedy fruit and pongy aromatics. Borgogno's early-drinking 2018 is as far removed from this dodgy style as you can get. Bursting with character like a virile young Beaujolais, it also has a thrilling fruits of the forest perfume which I admire greatly. Slim and nimble on the palate, it is a red to set the scene before you move onto something more structured. As a warm-up act it is sublime! **CASE PRICE: £78.66**

2013 Kaesler, Cabernet Sauvignon, Barossa, South Australia
I bumped into Kaesler winemaker Stephen Dew in Melbourne a few weeks ago and it was great to catch up with this wonderfully talented man. I have known him for an eternity but we rarely see each other and so when I said that his Cabernet was going to feature in my December mixed case he was genuinely moved. This is an Aussie version of a lusty claret - if only Bordeaux could ripen its grapes like this stunner! Amazingly dense and bold but with bounce and freshness, too, this is a grand finale wine to a truly great feast.
CASE PRICE: £86.64

MoneyWeek Wine Club

SAVE 5%

Your code:	5OFF19

Offer ends 10 January 2020

ONLINE EXCLUSIVE OFFER
www.moneyweekwineclub.com/sale2019

Terms & Conditions: Offer ends 10 January 2020. Enter the code shown on the gift card to the left at the checkout page to apply 5% saving to your order. Prices on this page reflect the additional 5% saving and for cases of six bottles. This code is only available online for Tanners wines. There is no cash value and it cannot be backdated. Free delivery to UK mainland only (does not include N.I., Scottish Isles or Isle of Wight) on all orders of 6 bottles of wine or more, otherwise £7.95. Orders will be dispatched within 3 working days of orders being received.

TANNERS
WINE MERCHANTS

Take the waters at a spa in Tuscany

The pleasures of a trip taken out of season make up for the lack of summer sun, says Natasha Langan

Take a hound truffle-hunting, or just enjoy the rejuvenating waters

Many Britons think of Tuscany as the perfect location for a summer holiday, relaxing in an olive grove under the hot sun sipping chilled Chianti, but they're missing out on the seasonal beauty of autumn and winter when its verdant valleys are shrouded in mist. The ideal base is Fonteverde Spa in the picturesque Val d'Orcia valley, next to the medieval village of San Casciano Dei Bagni, renowned for its natural thermal spa and large pools of mineral-rich waters bubbling up at a balmy 42°C, making outdoor bathing comfortable even in the depths of winter.

The main building of Fonteverde is the historic former property of Ferdinando I de' Medici, the Grand Duke of Tuscany, originally commissioned in 1607. Extended over the years and fully refurbished in 2002, the grand exterior is orientated to overlook the valley, with comfortable interiors that reflect the history of the building without guests feeling like they're staying in a museum. There are two restaurants, the Ristorante La Corte, serving delicious breakfasts and lunches, and the Ristorante Ferdinando I, serving refined versions of traditional Tuscan dishes.

Autumn is of course the start of the prized white-truffle season and the hotel can organise a truffle-hunting session with a local licensed hunter, Gianni Barzi, accompanied by his dog, a Lagotto Romagnolo, specially bred and trained for truffle hunting. We visited a local truffle reserve in uncultivated and protected woodland, as truffles can only be collected by those with a licence. The woodland was in the Radicofani area, a Unesco World Heritage site famed for its beauty and the legend of Ghino di Tacco, a legendary 13th-century outlaw and popular hero, Tuscany's very own Robin Hood. After a refreshing few hours scrambling after the dog, who does all the work, you get to taste your finds with your guide and take them back to the hotel where the truffles are shaved over your dinner.

"Historic Fonteverde is the ideal base for a winter trip"

The main reason for a stay at Fonteverde is to take the waters, which are packed with minerals and trace elements bubbling up from the aquifer of Mount Amiata and have been famed for their therapeutic properties since Roman times. The spa has a selection of indoor and outdoor pools, including one with a waterfall drawing water unfiltered directly from the aquifer. After a few hours of floating in the steamy pools, my skin felt amazing. They also recommend you drink a glass of the mineral water daily to aid digestion – it certainly helped with all the truffles, pasta and wine.

Natasha was a guest of Fonteverde. Nightly rates start from €198 (£152) per person. Email travel@fonteverdespa.com or call 00 39 0578 572333.

Wine of the week: a perfect Champers for New Year's Eve

2013 Ayala, Le Blanc de Blancs, Champagne, France
£52.95 from thewhiskyexchange.com; £57.99, Latitude Wine & Liquor Merchant, 0113-245 3393; £55, Cambridge Wine Merchants, 01223-568989; £55, Dulwich Vintners, 020-8299 1051

Matthew Jukes
Wine columnist

This article is exquisitely timely and also rather annoyingly ahead of the game. This amazing wine works perfectly as a stunning New Year's Eve Champagne recommendation, but I am rather itchy about the fact that only a handful of stockists have listed it and only one of them, The Whisky Exchange, is showing it on their website. That is because this wine is fresh off the boat. So please bear with me and forgive me that this truly mesmerising wine is not yet more widely distributed.

I have known the Ayala brand for a long time – they even made a special cuvée for me for around a decade, so that certainly elevates them somewhat in my estimation! But I haven't visited for a long while and so when I tasted this impressive new vintage all of my memories flooded back. Only made in top years, Le Blanc de Blancs is a great wine. Made from 100% chardonnay and coming entirely from the Côte des Blancs, it features a host of Grands Crus (25% Cramant, 23% Chouilly and 14% Le Mesnil-sur-Oger) and Premiers Crus (25% Cuis and 13% Vertus) in its make up, so while it is a mono-varietal, there is tremendous layering of flavour and complexity. With six years spent ageing on the lees and a dosage of only six grams per litre, this is a mellow, but brightly acidic wine. It is ideally suited for New Year's Eve, but I'd buy enough to last you for five years, too!

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

This week: properties in the sun – from an adobe home carved into the foothills of the Sangre de Cristo Mountains

Exeter Avenue, Bishopscourt, Cape Town, Western Cape, South Africa. This house is set in just under an acre of landscaped gardens in an elevated position with panoramic mountain views. It has large windows and French doors leading onto the terraces. 6 beds, 5 baths 4 receps, gardens, swimming pool, 0.99 acres. R39.5m Savills 020-7016 3744.

Firefly, Sugar Hill, St James, Barbados. A house built in a traditional Barbadian colonial style in an elevated position overlooking Sugar Hill resort and the sea beyond. It has French doors leading onto terraces and a balcony spanning the length of the house. 5 beds, 5 baths, 2 receps, 1-bed cottage, swimming pool. $3.3m Knight Frank 020-7629 8171.

Old Sunset Trail, Sante Fe, New Mexico, USA. An adobe home carved into the foothills of the Sangre de Cristo Mountains with views over the Jemez Mountains. It has glass and stone walls, flagstone floors, open fireplaces and atriums providing additional light. 4 beds, 4 baths, receps, exercise room, breakfast kitchen, indoor pool, 1-bed guest wing, gardens, ground, 3.41 acres. $9.75m Christie's International Realty +1 505 204 2491.

in Santa Fe, New Mexico, to a Balinese-style house on Nassau and Paradise Island in the Bahamas

Quinta da Capucha, Colares, Lisbon, Portugal. A restored, three-storey, 18th-century house set in a national park with views of the sea and surrounding countryside. It comes with a separate two-bedroom guest house. The balconies and covered verandahs overlook the garden and the interiors include large open fireplaces and are decorated throughout with antique decorative tiles. 9 beds, 3 receps, winery, stables, garage, swimming pool, 1.38 acres. €3.2m Cluttons 020-7408 1010.

Bay Creek House, Old Fort Bay, Nassau and Paradise Island, Bahamas. A Balinese-style house with a 100ft deep water dock with ocean and canal frontage. It has teak cathedral ceilings, Spanish tiled floors and a mezzanine. 6 beds, 7 baths, 2 receps, 1-bed flat, swimming pool. $8.2m Sotheby's International Realty +1 242 424 9699.

Daniel Drive, Sanibel, Florida. A house with a screened lanai porch overlooking a lake, just a short walk from the local beach. The house comes fully furnished and is within easy access of communal facilities, including a clubhouse, swimming pool and tennis court. It has a large central reception with vaulted ceilings and wood floors. 3 beds, 2 baths, recep, dining kitchen, gardens. $745,000 VIP Realtors +1 239 472 5187.

Villa Askel, Marrakesh, Morocco. A Modernist villa just ten minutes from the centre of Marrakesh with a swimming pool that extends into the living room, casting striking reflections. It has floor-to-ceiling windows overlooking the landscaped gardens, which include a teak deck, a traditional Berber tent, a tennis court and established olive trees. 5 beds, 5 baths, 3 receps, library, bar. €2.6m. Christie's International Realty +212 524 422 229.

Apsara, Old Fort Bay, Bahamas. This house is set on the northern shore of Old Fort Bay and comes with 150ft of waterfront with a private beach and 150ft of canal frontage. The oversized sliding doors leading onto the terraces give a seamless indoor/outdoor feeling to the living areas. 8 beds, 10 baths, open-plan living area, family room, 2-bed suite, outdoor steam room, swimming pool, boat dock, gardens, 1 acre. Price on application. Christie's International Realty +1 242 322 1041.

Hi-tech help with New Year's resolutions

From a sports watch that monitors your heart rate to a subscription service to help you cook healthier meals

A motivational soundtrack for the morning run

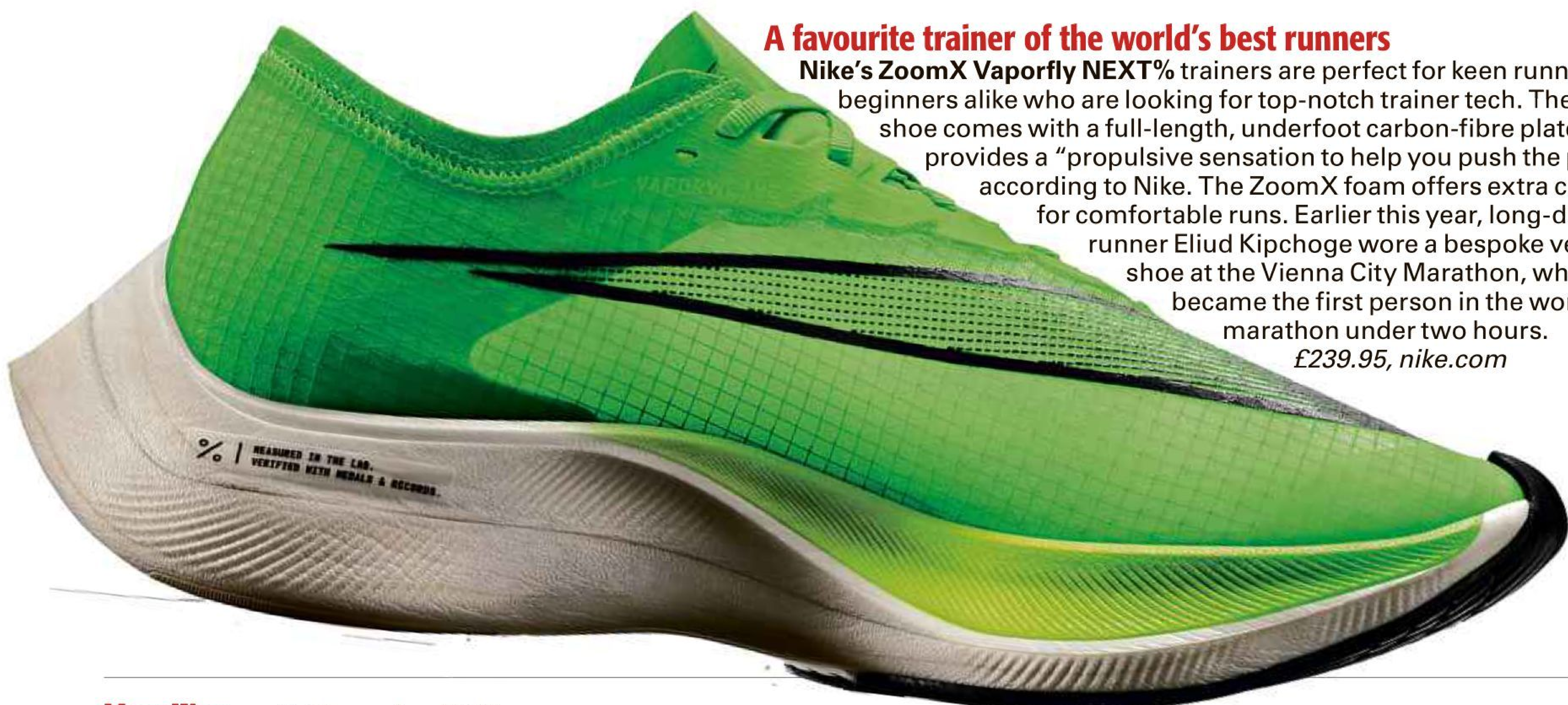
The **Apple AirPods Pro**, the latest version of Apple's wireless headphones, have received accolade upon accolade from the tech reviewers, so they shouldn't disappoint. The new model has "Active Noise Cancellation" technology for immersive sound so the user can concentrate entirely on how many laps they have left to run. They connect to a phone via bluetooth, so there are no wires getting in the way, and they promise more than 24 hours of listening time with multiple charges in the rechargeable case and up to 4.5 hours of listening time on one charge. You can even have them engraved with your name.
£249, apple.com/uk

A sophisticated athletic performance tracker

The **Garmin Fenix 6** is the best sports watch money can buy, says Lee Bell on TechRadar. It features a rugged yet sophisticated design with a large 1.4-inch display. Aside from tracking your heart rate and activity levels and displaying notifications, users can sync it with their favourite streaming services to listen to music without using a smartphone. The watch tracks performance metrics for running, swimming, cycling, hiking, rowing, skiing and golfing, among other sports. The battery life stretches up to 21 days on a single charge. It is so impressive it justifies the price tag and is sure to inspire you to get off the sofa and get active.
£799.99, buy.garmin.com

A favourite trainer of the world's best runners

Nike's ZoomX Vaporfly NEXT% trainers are perfect for keen runners and beginners alike who are looking for top-notch trainer tech. The running shoe comes with a full-length, underfoot carbon-fibre plate that provides a "propulsive sensation to help you push the pace", according to Nike. The ZoomX foam offers extra cushioning for comfortable runs. Earlier this year, long-distance runner Eliud Kipchoge wore a bespoke version of the shoe at the Vienna City Marathon, where he became the first person in the world to run a marathon under two hours.
£239.95, nike.com



Subscribe to a healthier diet

Gone are the days of last-minute runs to the shop. **Hello Fresh** is a subscription service that allows customers to pick their meals from a weekly menu and then delivers step-by-step recipes with pre-measured, fresh ingredients to make cooking dinner easy. An excellent gift for students and professionals, and everyone in between, Hello Fresh makes eating healthily convenient. It offers gluten-free, vegetarian and vegan options, and everything is recyclable. It's never been easier to stick to that new year's resolution. *From about £5 per meal, hellofresh.co.uk*

The exercise bike comes of age

This is an excellent choice for those wanting to get fit without leaving their home. A **Peloton** membership is an "all-access pass to thousands of live and on-demand classes". The stationary bike promises to turn your home into a compact, private indoor cycling studio by streaming classes through a sweatproof, 22-inch touchscreen. It also offers a mix of running, strength, cycling, yoga, and outdoor workouts that can be completed "anywhere, anytime". The Works package includes cycling shoes, weights and headphones. It comes with a hefty price tag, but the avid cyclist in your life is guaranteed to love it. *£2,099 plus a monthly £39 subscription to access classes, onepeloton.co.uk*

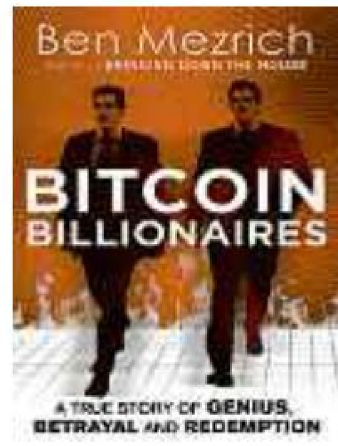
A gym compressed into one bit of kit

Say goodbye to cumbersome weight sets — the **JAXJOX KettlebellConnect** is a six-in-one adjustable weight that takes up very little floor space. It magnetically gains or drops weight through the JAXJOX app, which allows the user instantly to select weights from 12lbs to 42lbs. It also tracks sets, reps and time. The kettlebell holds a single charge for 14 hours and has a wide handle that's easy to grip. Users can also access free kettlebell workout routines via the JAXJOX app. It's an excellent choice for the fitness freak who loves to work out from home. *£299, argos.co.uk*

The year in books, film and TV

What we read and watched this year, and liked the most. By Matthew Partridge

The best business books

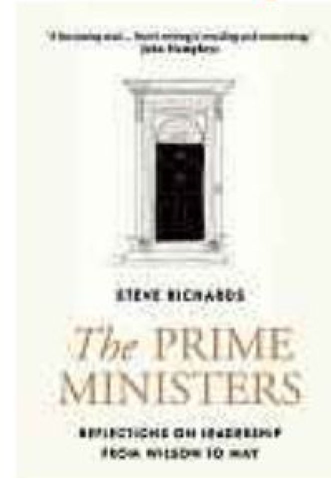


The most interesting business book this year was ***Bitcoin Billionaires: A True Story of Genius, Betrayal and Redemption*** (Little, Brown, £20) by Ben Mezrich. It details how the Winklevoss twins, famous for being outwitted by Mark Zuckerberg over the creation of Facebook, "regained" their lost fortune by becoming bitcoin moguls. Like Mezrich's other books (such as *The Accidental Billionaires*), this one attempts to tell a factual story by imagining what the main characters were thinking, an approach known as "faction". This approach has its critics, but it results in an entertaining, pulpy read that can be consumed in a single sitting.

The book recounts how the twins, blackballed by a tech community that didn't want to jeopardise any chances of a buyout by Facebook, plunged into the world of bitcoin thanks to a chance meeting in an Ibiza nightclub. They invested their money in a start-up led by Charlie Shrem, a Zuckerberg-like figure, who in turn falls under the sway of shady bitcoin pioneer Roger Ver. The book takes the twins' side of the resulting conflict a little too firmly, but this is a finance-related thriller that happens to be true and will teach you much about the world of cryptocurrencies.

Another business book we'd highly recommend is ***Dare to be Different and Grow Rich: The Secrets of Self-Made People*** (LID Publishing, £19.99) by Rainer Zitelmann. Zitelmann, a successful businessman, writer and investor, thinks that success can be taught. In this book he draws business and life lessons from the biographies of around 50 stars, including entrepreneurs and business leaders such as Richard Branson, Ray Kroc and Steve Jobs, as well as some sportsmen and celebrities. *Dare to be Different* rises above the limits of its genre to offer well written, engaging and useful advice. Even those who have no interest in business success will enjoy this engaging collection of stories. It is definitely worth a read.

The best political books



In a year that saw one prime minister resign in humiliation and another bask in victory, ***The Prime Ministers: Reflections on Leadership from Wilson to May*** (Atlantic Books, £20) by Steve Richards is timely. The book consists of a series of essays that examine the personality, leadership style and effectiveness of the last nine prime ministers, beginning with Harold Wilson (prime minister from 1964-1970 and 1974-1976) and ending with Theresa May. While Richards avoids any formal rankings, he clearly thinks that Wilson, Margaret Thatcher and Tony Blair had the most effective leadership styles (though not necessarily the best policies).

Richards argues that the successful prime ministers were able to recognise changes in the political mood and to explain the reasons for their policies to the wider public. By contrast, weaker prime ministers assumed they could push through their policies with force of personality. He is particularly scathing about May's regal and distant attitude, while David Cameron gets rapped on the knuckles for trying to portray himself as a Conservative "moderniser" while overseeing large spending cuts. The book provides an original twist on a familiar topic.

It now looks like Rod Liddle was wrong to predict – in ***The Great Betrayal: The True Story of Brexit*** (Constable, £14.99) – that Britain will never leave the EU, but it's hard to disagree with him that the entire process was handled badly. In his punchy polemic, Liddle argues that the task of leaving was made even harder by a determined conspiracy of Parliament, the media and the civil service to thwart the "will of the people". The conspiracy, it seems, has been overthrown.

Remainer Fintan O'Toole's ***Heroic Failure: Brexit and the Politics of Pain*** (Apollo, £9.99), on the other hand, argues that the entire idea of Brexit is a symptom of the desires and neuroses within the British national character, especially the secret preference for heroic failure over success. Will this idea age better than Liddle's? Over to you Boris.

The best television shows

It's been 40 years since Margaret Thatcher first entered Downing Street and whether you loved or loathed her it's hard to deny she had a transformative effect on British politics and society. The BBC mini-series ***Thatcher: A Very British Revolution*** (available on BBC iPlayer) charts her rise from Conservative MP to leader, and then to Britain's most controversial prime minister.

Each of the five episodes in the series contains a large number of interviews with some of the key players in the Thatcher government, including ministers, MPs, officials and advisers, featuring a mixture of allies, such as Norman Tebbit, and those who became her strongest critics, such as Michael Heseltine.

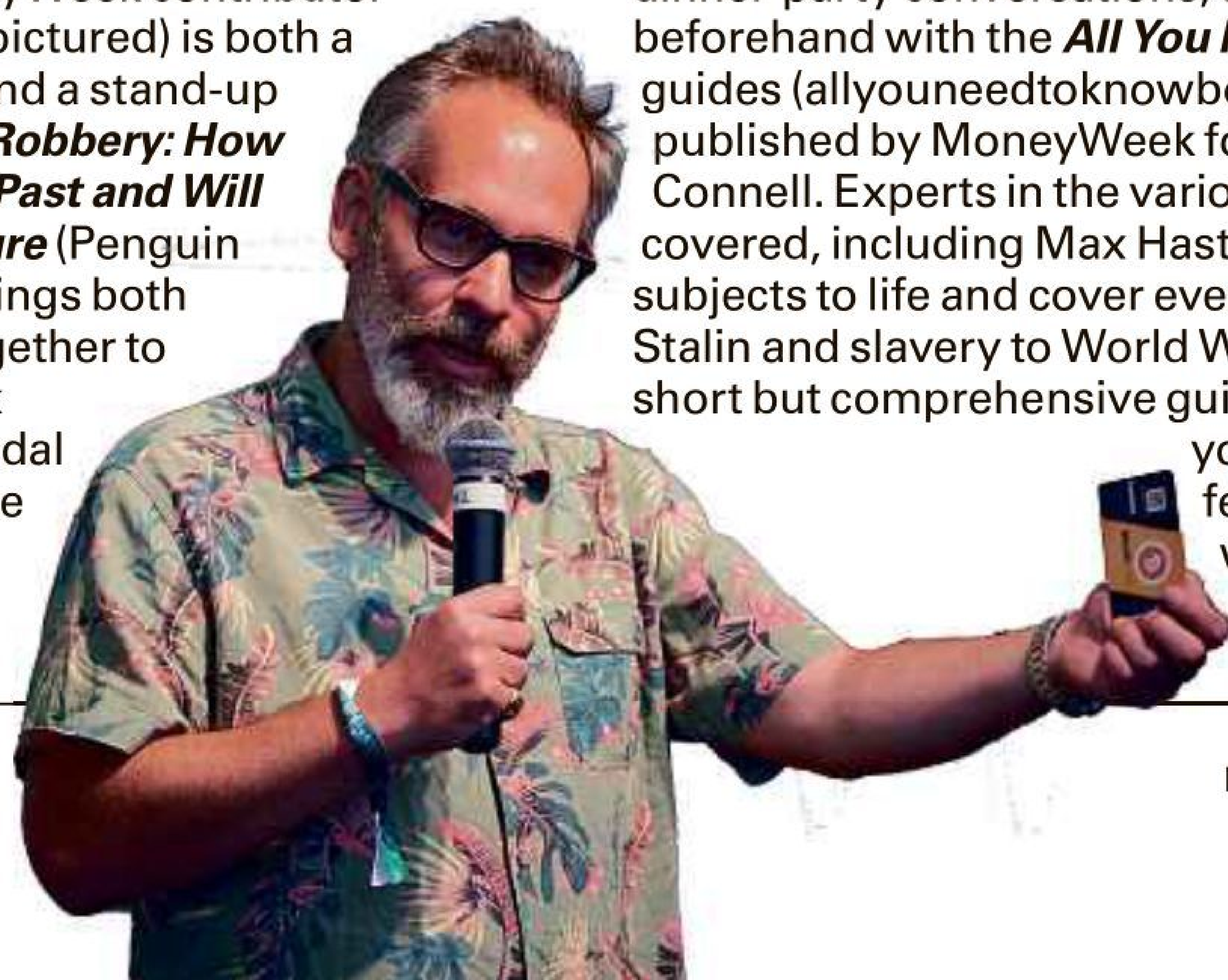
The documentary may not provide much in the way of genuinely surprising revelations, but it does give

Books by MoneyWeek contributors... how to be a smarter investor – and a dinner-party smarty-pants

As the title suggests, ***The Sceptical Investor: How Contrarians Bet Against the Market and Win – and You Can Too*** (Harriman House, £14.99), by our executive editor, John Stepek, is about the importance of standing aside from the herd. Adopting a contrarian mindset will help you avoid being sucked into market bubbles and enable you to find overlooked opportunities for profit. Readers of the Money Morning daily email will be familiar with John's engaging, conversational style, and that makes for an investment guide that is both entertaining and educational. (Read an extract and take advantage of a special offer on page 26.)

Exchange-traded funds (ETFs) remain the fastest-growing asset class – they are a simple and cheap way to gain exposure to markets and sectors and assets of all kinds. ***The Ultimate ETF Guidebook: A Comprehensive Guide to the World of Exchange Traded Funds*** (Harriman House, £35), by our funds columnist David Stevenson (and David Tuckwell), is an invaluable, in-depth guide and includes tips for those unsure about what to buy.

Regular MoneyWeek contributor Dominic Frisby (pictured) is both a financial writer and a stand-up comic. ***Daylight Robbery: How Tax Shaped Our Past and Will Change Our Future*** (Penguin Portfolio, £20) brings both these strands together to examine how tax evolved from feudal tithing to the huge bureaucracy we have today, and how it could change in the future. Frisby's politically charged commentary may be too libertarian for some tastes, but you don't need to agree with him to appreciate his take on the battle between the tax collector and the taxpayer.



Finally, if you've ever felt intimidated by dinner-party conversations, then swot up beforehand with the ***All You Need To Know*** guides (allyouneedtoknowbooks.co.uk), published by MoneyWeek founder Jolyon Connell. Experts in the various fields covered, including Max Hastings, bring their subjects to life and cover everything from Stalin and slavery to World War II. These short but comprehensive guides mean you need never feel lost for words at those parties ever again.

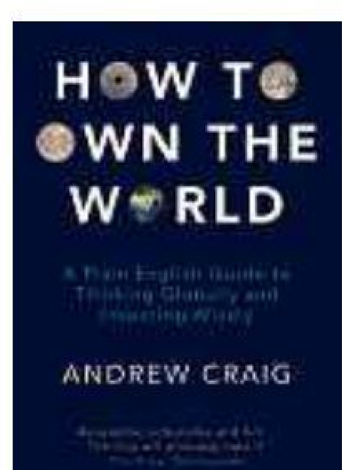
©Shutterstock

a fascinating sense of what it must have been like to have been a minister during the turbulent early 1980s.

There is plenty of news footage to remind the viewer of key events and to provide a broader context, but the emphasis is very much on Thatcher as an individual. Whether you agreed with her policies or not, she comes across as a disciplined, hands-on and principled leader who was prepared to take on anyone in the way of what she saw as her duty and mission.

If you've ever wondered how economics and finance relates to everyday life, then you might enjoy ***This Giant Beast That Is The Global Economy*** on Amazon Prime. Over eight episodes comedian Kal Penn tackles topics such as the economics of automation and corruption in a humorous offbeat way, with a combination of expert interviews, hands-on demonstrations and even sketches. To illustrate how money laundering works, for example, he travels to Cyprus to open an offshore account. Some of the humour is a little crude at times, but the show's original approach effectively brings what can be a dull and dry topic to life.

The best investment books



Most investment guides sit on the fence, avoiding making specific predictions. By contrast, the latest edition of Andrew Craig's ***How to Own the World: A Plain English Guide to Thinking Globally and Investing Wisely*** (John Murray Learning, £12.99) doesn't pull its punches. If investors want to avoid having their money eroded by inflation, which is higher than suggested by official statistics, then they need to avoid financial advisers, who are ignorant and conflicted, and take direct control of their own money, Craig argues.

As the title suggests, Craig thinks that the key to strong returns will come from "owning the world" – that is, investing in a diversified range of assets, including emerging markets, commodities and gold. He is very bullish on particular assets, including gold, but he presents both sides of the argument well, not just those that favour his point of view. So even if you do not agree with everything he says, you can't help but benefit from hearing what he has to say.

The fast-growing FIRE (Financial Independence, Retire Early) movement claims that if you live extremely frugally, save a large portion of your pay and invest the money in the stockmarket, you can accumulate enough to retire in your 40s, or even earlier. ***Quit Like a Millionaire*** (Quercus, £12.99) by Kristy Shen and her husband Bryce Leung explains how anybody can achieve these goals, drawing on Shen's own experience. We don't agree with all of the investment tips and some may find the whole approach a little extreme, but anything that teaches people how to respect money is worth reading. This is a book that should be taken seriously, if not literally.

Wendell Pierce as Willy Loman in Miller's Death of a Salesman

The best plays and films

There were no less than four productions of plays by the American playwright Arthur Miller on in the West End this year. By far the best was ***Death of a Salesman***, now running at the Piccadilly Theatre until 4 January. Starring Wendell Pierce (better known for his role in *The Wire*) as Willy Loman, the play is about the emptiness of the American dream. Despite devoting his whole life to his company, travelling salesman Willy Loman is struggling, physically and emotionally, to cling on to his job, while his sons Biff (Arinzé Kene) and Happy (Martins Imhangbe) deal with the consequences of missed opportunities.

It is a long play, but there are very few wasted moments and even the minor subplots (such as the transformation of one character from nervous water boy to successful lawyer) are interesting. A commanding performance by Pierce, but also the other main actors, as well as the decision by directors Marianne Elliott and Miranda Cromwell to have the Loman family as African-Americans in a period of endemic discrimination, adds emotional weight to the plot. This is an excellent production that well deserved the standing ovation that it received when we saw it.

Released at the start of the year and now out on DVD is ***Mary Poppins Returns***, a sequel to the family favourite first released in 1964. Michael Banks (Ben Whishaw), one of the children in the original, is about to be thrown out onto the streets with this two children over an unpaid loan. Help is at hand when the eponymous nanny (Emily Blunt) arrives to save the day. Children and adults alike will enjoy this charming, elegant story and its tuneful, catchy numbers (though they are not quite as memorable as in the original). It will also introduce children to some sound personal financial advice, such as the importance of keeping your finances in order and quickly repaying high interest loans (or avoiding them altogether). There's plenty of sugar to help that medicine go down.

The year's best podcasts... why we still give tips and where to get a roundup of the week's finance news

What do yacht sales tell us about the global economy? How would a wealth tax affect growth? These and other fascinating topics are taken on in half-hour programmes by **Stephanomics**, a podcast helmed by economist Stephanie Flanders, now at Bloomberg. Her mix of short segments and interviews are ideal fodder for the commute.

The **Slate Money Podcast**, hosted by Felix Salmon, along with Emily Peck and Anna Szymanski, provides a similar mix of economic commentary and interviews, as well as a weekly roundup of the biggest financial stories and a more general discussion of investment strategies, such as whether wine is a good asset to have in your portfolio. The podcast also updates you on the latest goings-on in the HBO television drama *Succession*. Episodes vary in length from 30 minutes to an hour.

The **Freakonomics** podcast follows the basic formula of the best-selling book and is hosted by co-author Stephen Dubner. Why do we still give tips? What can conflict resolution among animals tells us about how business meetings might be made more productive? Economic analysis helps explains these and other freaky facts of life in episodes of between 40 and 50 minutes.

True crime has always been a popular genre – why should investors miss out on the drama? **American Greed**, a podcast based on the CNBC television series of the same name, demonstrates that there is a thirst for it among financial types too. The focus is on fraud and fraudsters and white-collar crime, and includes the hunt for Bernie Madoff's missing billions and Martin Shkreli's misdeeds. Narrated in a suitably dramatic fashion by actor Stacy Keach, most episodes last less than 30 minutes.

Finally, don't forget **The MoneyWeek Podcast**, hosted by our editor-in-chief Merryn Somerset Webb and executive editor John Stepek. Recent episodes taken an in-depth look at whether Schroders (formerly Woodford) Patient Capital Trust is now worth buying. John Stepek also makes regular appearances on **The Week Unwrapped**, the podcast of our sister publication, The Week. Hosted by Olly Mann, this podcast discusses three topics that have appeared in the news over the past week.

Quiz of the year

Between Brexit, a general election and now the impeachment of the US president, it's been an eventful year. But how many big financial stories can you recall? Take our quiz to find out. Compiled by Faye Rowlands

Money

1. Performance artist David Datuna this year made headlines for eating a piece by fellow artist Maurizio Cattelan. The work of art, titled *Comedian*, consisted of an overripe banana duct-taped to a wall. How much did it initially sell for? a) $80,000 b) $120,000 c) $30,000

2. This year, despite divorcing MacKenzie Bezos, his wife of 25 years, Amazon founder and CEO Jeff Bezos retained the title of "world's wealthiest man". She is reported to have received 25% of his Amazon shares. What overall share of the company did that represent? a) 16% b) 4% c) 2%

Expensive and tasty: but is it art?

3. Which South American country's inflation rate was projected by the International Monetary Fund to hit 10,000,000% by year-end?

4. In March, the European Commission fined five investment banks for participating in a cartel that saw them collude in sharing sensitive trading information in order to profit from foreign exchange moves in 11 currencies, including the dollar, euro and pound. What was the total fine levied? a) €1.07bn b) €953m c) €2.22bn

5. September 2019 saw thousands of tourists stranded when tour operator Thomas Cook collapsed. CEO Peter Fankhauser said the liquidation was a "matter of profound regret", but defended his pay packet. Including pay, benefits, bonuses and pension entitlements, how much did Fankhauser earn since being appointed in November 2014? a) £8.3m b) £5m c) £3.5m

6. In July, the Federal Trade Commission issued its largest ever fine against Facebook for violating consumers' privacy. How much did Facebook have to pay under the settlement? a) $4bn b) $5bn c) $6bn

7. Lionel Messi was the world's highest-paid sports star this year, according to Forbes. Including endorsement deals, how much did he make? a) $99m b) $155m c) $127m

8. Office space rental company WeWork is now thought to be worth around $8bn. Before the company was forced to shelve its initial public offering (IPO) in September, due to widespread scepticism among investors, how much did its key backer, SoftBank, hope to list it for? a) $112bn b) $47bn c) $21bn

9. According to Nationwide figures, at the start of this year the average UK house price was £212,281. What was the average price across the UK by November 2019? a) £210,402 b) £213,102 c) £215,734

10. To the nearest 5%, how far did the price of Argentina's 100-year bond fall this year, the day after the business-friendly Mauricio Macri lost the presidency to the leftist Peronist candidate, Alberto Fernández? And how many times has Argentina defaulted on its debt since 1816?

People

1. Christine Lagarde took over from Mario Draghi as the head of the European Central Bank this year. As a teenager, Lagarde represented France as a member of the national team in which sport?

2. Which airline industry giant, described by Fortune magazine as "the best CEO in America", died in January this year? Which company did he found?

3. Which American singer-songwriter raked in $185m this year, making her the world's highest-earning musician this year, according to Forbes?

4. Pop star Madonna was paid $1.3m for performing just two songs this year at which annual music event?

5. Which reality TV star topped Forbes' list of youngest self-made billionaires this year, then went on to sell a controlling stake in her cosmetics company for $600m?

6. Jack Bogle died earlier this year. Why should all private investors be grateful for his life's work?

7. Which American businesswoman hit headlines earlier this year when she became embroiled in a controversy involving Prime Minister Boris Johnson during his term as Mayor of London?

8. Which US businessman and former New York City Mayor, recently announced his campaign to secure the Democratic nomination for the 2020 US presidential election?

Lionel Messi: nice little earner

9. Name the disgraced American financier and convicted sex-offender who this year was found dead in a New York City prison cell.

10. Paul Volcker, known as the Federal Reserve governor who crushed inflation in the early 1980s, died this year. At what level did interest rates (as set by the US central bank) peak under his tenure?

11. What do Facebook founder Mark Zuckerberg, actor Matt Damon, and Microsoft founder Bill Gates all have in common?

12. Which British TV presenter managed to overturn demands for £1.2m in back taxes from HMRC this year, after the judge agreed that she was a "self-employed star" rather than an employee?

Companies

1. Which Chinese telecommunications giant continued to be a major focus of trade war talks between China and the US this year?

2. Which state-owned group became the world's largest listed company (by market value) when it floated 1.5% of its shares in a record-breaking IPO? From which company did it take the top spot?

3. Which cake shop collapsed into administration in January,

Quotes: put the words with the person who said them

1. "Today's big tech companies have too much power – too much power over our economy, our society, and our democracy."

2. "I don't think that a private company should be censoring politicians or news."

3. "We are in the beginning of a mass extinction. And all you can talk about is money and fairy tales of eternal economic growth. How dare you!"

4. "On the pitch I am doing my hardest so my team win. That's my job and you want to do as well as you can in the job you're paid to do. So all I wanted to do was get back to work."

following the discovery of a massive hole in its accounts, then was rescued in a private equity-backed management buyout in February?

4. Following a series of safety failings, Transport for London revoked the licence of which US transport company?

5. Which US company fired its CEO after he admitted to breaching company policy by engaging in a consensual relationship with an employee?

6. Iconic jewellery chain Tiffany & Co was recently purchased by which luxury retailer in a deal worth more than $16bn?

7. Which New York headquartered investment bank is set to offer digital wealth management services from next year as part of its plans to increase its retail banking arm?

8. Which telecoms company gave investors a nasty shock in May this year when it cut its dividend for the first time ever, despite assuring shareholders that it would maintain the payout just seven months earlier?

Markets

1. A battered old investment trust got a shiny new name this month – Schroder UK Public Private Trust. What was the trust previously known as?

2. In summer this year, the total value of a group of financial assets with one very unusual characteristic rose to a record level of more than $17trn. What assets are we talking about?

3. In June, tech giant Facebook announced its plan to enter the digital currencies market. Concerns from regulators and central banks in particular mean the project looks as if it will struggle to get off the ground – but what is the name of the proposed currency?

4. In August this year, which well-known recession signal flashed a warning sign in the US government bond market?

5. Which open-ended commercial property fund was this month forced to suspend withdrawals for the second time in less than four years, due to a lack of ready liquidity to fund redemption requests?

6. The price of which automotive-related metal hit record new highs this year, making it more valuable, per ounce, than platinum or gold?

7. The pound reached a ten-year low (ignoring the "flash crash" of October 2016) against the euro in August 2019. At its low point, how many euros would £1 buy?
a) €1 (parity) b) €0.98
c) €1.06.

8. Which well-known British retail stock, a founding member of the FTSE 100, fell out of the index for the first time ever this year?

9. MarketWatch recently published a list of the 20 top-performing stocks of the past decade. With a 3,767% return, which Nasdaq-listed company took the top spot?

10. In the last decade since the financial crisis, how many bear markets (defined as a drop of 20% or more from close to close, ignoring the intraday highs or lows) has the main US stock index (the S&P 500), endured?

Tiffany & Co: snapped up this year

©Getty Images

Answers

Money
1. b) $120,000 2. b) 4%
3. Venezuela 4. a) €1.07bn
5. a) £8.3m 6. b) $5bn
7. c) $127m 8. b) $47bn
9. c) £215,734
10. 27%; eight times

People
1. Synchronised swimming
2. Herb Kelleher; Southwest Airlines
3. Taylor Swift
4. The Eurovision Song Contest
5. Kylie Jenner
6. He popularised cheap index funds, saving private investors a great deal of money
7. Jennifer Arcuri
8. Michael Bloomberg
9. Jeffrey Epstein
10. 20%, in June 1981
11. They all dropped out of Harvard University
12. Lorraine Kelly

Companies
1. Huawei
2. Saudi Aramco; Apple
3. Patisserie Valerie 4. Uber
5. McDonald's 6. LVMH
7. Goldman Sachs 8. Vodafone

Markets
1. Woodford Patient Capital
2. Bonds with negative yields
3. Libra
4. The yield curve inverted
5. M&G Property Portfolio
6. Palladium – its price rose above $2,000 per ounce
7. €1.06
8. Marks & Spencer
9. Streaming group Netflix
10. None, although it came close in both 2011 and 2018, with the index dropping by nearly 20% in both cases

Quotes
1 – B Elizabeth Warren
2 – C Mark Zuckerberg
3 – D Greta Thunberg
4 – A Ben Stokes

Bloomberg's bid to buy the White House

The billionaire's campaign for the presidency is costing him a fortune. Will it be worth it?

As I recently told several people knocking on our front door, neither my principles nor my vote are for sale. But there seems to be no shortage of rich people willing to pay handsomely for such things – at least that seems to be the case for our cousins across the Atlantic. There, no price appears to be too high to pay for control of a certain piece of real estate in Washington DC. Less than a month after he announced that he was running for the Democratic nomination for the presidency, billionaire Michael Bloomberg, who has an estimated fortune of $55.7bn, has already "dropped $117m on advertising", say Michael Finnegan and Seema Mehta in the Los Angeles Times.

Bloomberg: spending heavily to ensure victory

©Getty Images

> *"Running for president isn't typically a good investment – candidates bankrolling their own bids are rarely successful"*

Riding high on a wave of money

As well as $13.6m on ads running in California alone, Bloomberg's campaign has blown huge sums of money in cities where TV advertising is costly, including Dallas, Houston, Chicago, Miami, Cleveland, Atlanta, Seattle, Boston, St. Louis and Detroit, among many others. Most of Bloomberg's ads occur during breaks between prime-time shows – costing him $2,000 for each 30-second slot. A commercial that ran during the news show *60 Minutes* cost $30,000 a time; two ads shown during an American football game were even dearer at $45,000 a piece.

Bloomberg has been "pouring many more millions" into frantically assembling a field operation too, says Chris Smith for Vanity Fair, offering organisers $6,000 a month, "roughly double the going rate that other Democratic candidates are paying". In an attempt to bolster his credentials as a party man, Bloomberg has committed to employing many of these organisers until the presidential election in November 2020, even if he doesn't win. This means that his paid supporters are each entitled to $72,000 – a lot of money given how hard most other candidates have to work to "scrape together campaign money".

Bloomberg may be looking to emulate the success of his three successful campaigns for New York mayor, where he spent heavily to ensure victory, says Jessica Taylor for NPR. In 2009 the bill for keeping Bloomberg in City Hall ran to $102m. But past history suggests that running for president (or any other office) "isn't typically a good investment" – candidates bankrolling their own bids are "rarely successful". Bloomberg might want to take note of rival Democrat Tom Steyer who has spent $48m on his own campaign, but only barely qualified for two primary debates, effectively paying "$37,000 for each word he spoke" in them.

A plutocratic candidate can make waves. Texan billionaire Ross Perot spent $65m of his own money in 1992 ($116m in today's money) on an independent bid for president and many Republicans blame him for George H.W. Bush's loss to Bill Clinton. And the man Bloomberg hopes to unseat is himself a billionaire, although he needed only a fraction of his own fortune to pull off the upset in 2016 and "doesn't appear likely to dip into his own pockets at all for 2020". At the end of the day money can't buy elections any more than it can buy happiness. But it surely helps.

Quintus Slide

Tabloid money… Boris's Brexit renaissance has already started

● "Squillionaire" Tamara Ecclestone lives in a £70m mansion in Kensington with £50m worth of jewellery in a safe, says Sarah Vine in the Daily Mail. Yet not even her "round-the-clock security" could stop a break-in which saw her jewellery stolen while she was "off in Lapland, via private jet". Not even the Queen keeps that much bling at home, and why would anyone need that amount of jewellery? Before the robbery, Ecclestone (pictured) posted a snap of her five-year-old boarding a plane to Lapland. "Why not just erect a big sign on the front of the house saying 'all-you-can-nick priceless jewel buffet this way'?" Tamara could take a page out of Steve Thomson's book. The builder who recently won £105m on the lottery. He has promised to finish his customers' jobs before next week, for free. Both of them owe their fortunes to luck, says Vine. But only one of them "truly deserves it".

● Wages rising and joblessness at its lowest since 1975 are clear signs that the "Boris Brexit boom is already happening", says Tim Newark in the Daily Express. But prosperity must be evenly spread across the UK, otherwise the PM will be "betraying" the working people who got him into power. "Less words and more actions" are needed. Manchester and Newcastle have "proud industrial histories" and should benefit from a "Brexit renaissance". Turning Teesside into a free-port would attract a boom in foreign trade, "making this an international gateway to the north and creating some 20,000 jobs". Boris's victory means the UK is poised to enjoy "a new roaring twenties". A "tsunami" of jobs across the country is in store.

● Once reportedly worth £40m, former model Katie Price was declared bankrupt in November for failing to repay £800,000 worth of debt. More recently, her 11-bedroom property in Sussex, bought for £1.3m in 2014, was taken away after she failed to pay her mortgage. But she could save her "mucky mansion" (the nickname given to her house after the public saw the state of it in a video) by "having a roll in the hay", says Andy Halls in The Sun. The reality TV regular is in talks to appear in Channel 5's *Celebs on the Farm* next year, where celebrities get to grips with country life, cleaning out pigsties and milking cows. This year she pulled out of another reality show as it was too tough. "Hopefully she won't be left with mud on her face again."

©Getty Images

Bridge by Andrew Robson

Wheels within wheels

On so many deals, the crunch point occurs at trick one. Plan the play in your Three No Trumps on West's Knave of Hearts lead. The bidding has told you East has everything, ie, the King of Spades, King of Hearts and Ace of Clubs.

Dealer East — East-West vulnerable

North
♠ J65
♥ A5
♦ QJ8
♣ K7542

West
♠ 98
♥ J10842
♦ 972
♣ 983

East
♠ K1074
♥ K73
♦ 654
♣ AQJ

South
♠ AQ32
♥ Q96
♦ AK103
♣ 106

The bidding

South	West	North	East
			1NT
Double*	2♥	3♥**	pass
3NT	pass	pass	pass

* Penalty – a point light of the normal 16.
** Fishing for a further Heart bolster for Three No Trumps.

It looks normal to play low from dummy and this will work out fine if East plays third-hand high, the King. You'll have your two Heart tricks and West's long Hearts will be dead for the lack of the semblance of an entry. You don't have nine tricks yet but, winning East's (say) Heart return with dummy's Ace, you can finesse the Queen of Spades, cash the Ace, then cash all your red-suit winners, stripping East of his safe exits. When you then lead a third Spade, East can cash the King-ten, but have to lead Clubs from his Ace, promoting dummy's King – game made.

However, an alert East will realise the strongest defence is to duck the Knave of Hearts. You have to win, for you can't afford to lose your Queen as a trick. However, with East later able to deposit his King of Hearts under dummy's Ace, West's Hearts are alive and you will fail.

All of which means you must rise with the Ace of Hearts at trick one. Assuming East plays low, you can lead a Spade to the Queen, cross to the Queen of Diamonds, lead a Heart to the Queen, and endplay East as above.

East's best chance is to chuck the King of Hearts under dummy's Ace. However, you can still succeed by ducking the second Heart and reaching a similar endplay. Fascinating.

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

Sudoku 979/980

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

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.

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

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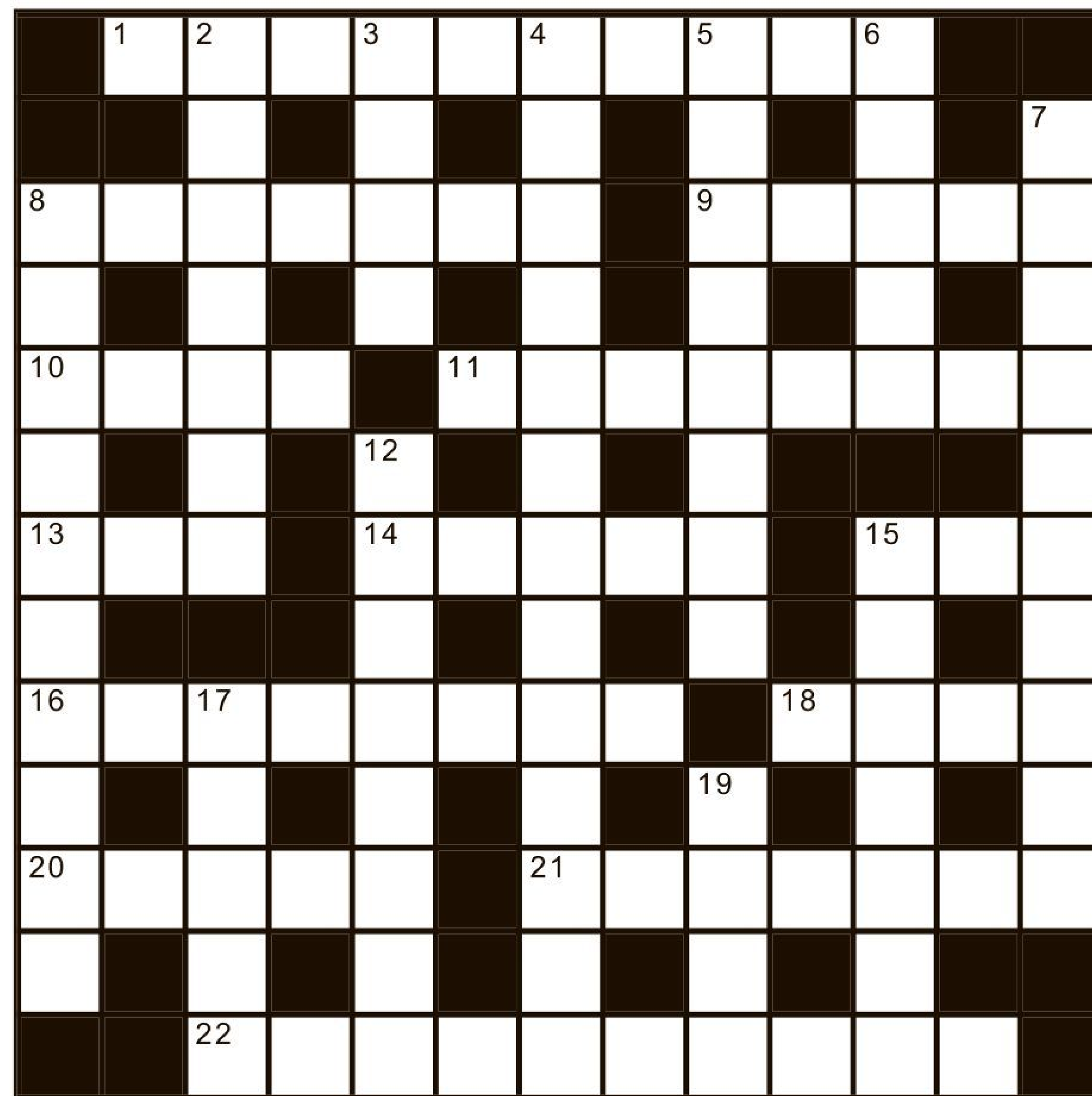
Tim Moorey's Quick Crossword No. 979/980

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 13 Jan 2020. Answers to MoneyWeek's Quick Crossword No. 979/980, 31-32 Alfred Place, London, WC1E 7DP.



Across clues are mildly cryptic whereas down clues are straight

ACROSS

1 Divine light sponge delicacies? (5, 5)
8 Minor, odd threat of hostilities (3-4)
9 Europeans travelling in Andes? (5)
10 Bite back? This insect might! (4)
11 Have a short break from jazz classic (4, 4)
13 Letter from Greece shown by secret agent (3)
14 Australia in short has a certain bracing air (5)
15 Leaving King's Head, ignore drink (3)
16 Deduce numbers in hellish places (8)
18 Fool left in bed (4)
20 I complain about temperamental supermodel (5)
21 Easter and Christmas, for example (7)
22 Planner gets artist upset (10)

DOWN

2 Ultimate experience of pleasurable emotion (7)
3 River in Spain (4)
4 Bell-ringer (13)
5 Dish of fish, rice and hard-boiled eggs (8)
6 Mountainous peninsula of north east Egypt (5)
7 They manipulate and massage bones (10)
8 They'd enjoy the Ring (10)
12 Royal attendant (8)
15 Rigid strips supporting broken bones (7)
17 Fails (5)
19 Sell (4)

Name ....

Address ....

The solutions to crosswords 977 and 978, and the names of the winners, will be printed in issue 981, our first issue of the new year, which is out on Friday 10 January.

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.

The economics of weddings

It's the greatest win-win trade deal of them all – but only if you choose carefully

Bill Bonner
Columnist

We attended our son's wedding in New York on the Upper East Side this week, which left us with no time to puzzle out what is going on in the world of money. But it turns out weddings impart their own important lessons.

Weddings are emotionally intense. And they should be. The father of the bride "gives her away". In ancient Rome, she left her father's house and moved to her father-in-law's house. She left her family behind and her family's gods. Traditionally, the bride marries not just a man, but a way of life – for better or for worse. If the groom is a farmer, she becomes a farmer's wife. If he is a shopkeeper, she learns to tend the stock and the customers. If he is a hedge-fund manager, she quickly adapts to his oh-so-clever friends and summers in the Hamptons. The bride takes her husband's name and shares his fate. If she marries badly, it is typically the worst mistake she ever makes, for nothing damages her life more than a bad marriage.

But times change. Roles evolve. A "new normal" intrudes on old customs. Many people think of marriage today like buying a car: they stick with it only so long as it is working. "It's more equal that way," said a young acquaintance, explaining the new lay of the land.

An emotionally intense – and expensive – affair

©Getty Images

"We both work. We both take care of the children. We try to keep it even." We tried to warn him that there may be flat tyres from time to time, that one or the other might have to do most of the driving and that the division of labour, between husband and wife, might be somewhat "hardwired" by a million years of natural selection. But the young always know better… at least until the car runs off the road.

> *"Marriage today is like buying a car: we stick with it only if it's working"*

Weddings these days are expensive, too. A relative recalled: "I remember when I got married. It was so simple. We went to the church for the ceremony. Then, we walked over to the church hall for the reception. We had all pitched in the night before to make the refreshments and do the decorations. But now, young people either don't get married at all, or they want to have a big, expensive wedding. I saw in the paper that banks are making wedding loans of $50,000. Why would anyone spend so much?"

"I spent more than that," answered another guest. "Hire a band. A florist. A wedding planner. A place for a reception, drinks, a meal. A photographer. It adds up fast. But you don't have to worry about that," he continued, turning in our direction. "The father of the bride's job is to pay up. The father of the groom's job is to shut up."

So we held our tongue and enjoyed the festivities. Later, as the band packed up and the liquor was stashed away, we noticed a tear. It was falling from the groom's mother's eye. We turned to console her: "Honey, you may have lost a son, but you still have me". Then, she was inconsolable.

The bottom line

£92m How much drivers paid in fines for driving in bus lanes last year, up from £39m the year before. It earned councils £59.2m after costs.

£4bn The gross takings for *Cats*, the hit musical, since it launched in 1981. It was composed by Andrew Lloyd Webber and is based on the 1939 poetry collection *Old Possum's Book of Practical Cats* by T.S. Eliot.

£1.5m The amount prices for houses on Britain's most expensive street have increased. The average cost of a property in Ilchester Place near Holland Park in west London swelled from £15.6m to £17.1m.

$15m The price of the most expensive Christmas tree in the world. It is at the Kempinski Hotel Bahia, a beachfront luxury hotel near Marbella in the south of Spain. Decorations include pink, red, white and black diamonds.

$60m Magician David Copperfield's pre-tax earnings in the 12 months ending in June. He put on 654 shows in Las Vegas and is the world's highest paid illusionist for the fourth year running.

£19.8m How much eight-year-old Ryan Kaji made in the year to June reviewing toys on his YouTube channel. He has 22 million subscribers.

£137,500 The amount raised by John Lennon's iconic round sunglasses at auction. Former chauffeur Alan Herring sold them at Sotheby's, explaining that Lennon had left the sunglasses in the back of Ringo Starr's Mercedes in the summer of 1968. The sale included other Beatles' memorabilia, including a necklace with cowbells worn by George Harrison, which sold for £10,000.

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Small share

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MIND YOUR BUSINESS

AND SO WILL WE, WITH OUR £14 BILLION LENDING FUND TO HELP PROPEL BUSINESS FORWARD. BECAUSE DEAL OR NO DEAL, FROM DOWNING STREET TO THE HIGH STREET, EVERY BUSINESS IS PART OF SOMETHING FAR, FAR BIGGER.

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