POLITICS *P8*
Will Boris turn defeat into victory?

BRIEFING *P12*
Britain leads the way in wind power

PLUS
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MoneyWeek

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Hold gold

Insurance in turbulent times

Page 24

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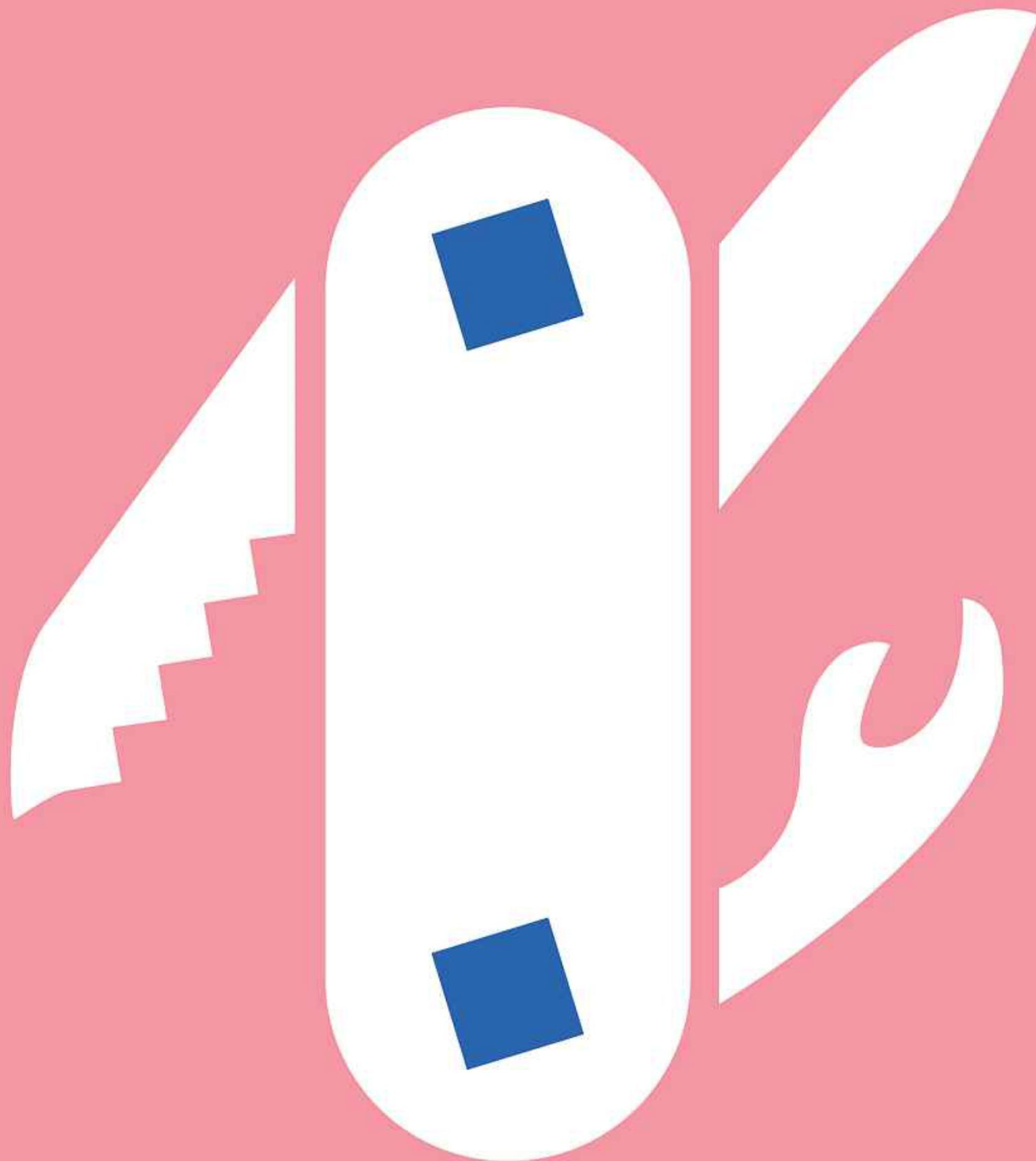

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MoneyWeek

27 September 2019 | Issue 966

Britain's best-selling financial magazine

From the editor-in-chief...

Still use cash? You're a dinosaur. Last year in the UK, a mere £1 in every £5 was spent in cash. Most people now use debit or credit cards (or some other kind of digital money) for everything. It might seem to you that this doesn't matter much – or perhaps that it is a good thing. Cash is grubby; it's a bore to get hold of (the number of ATMs in the UK is falling) and impossible to replace when lost. Its absence also makes life easier for honest traders. With no cash to deal with, VAT returns practically calculate themselves, tills don't need reconciling and those trying trips to the bank to deposit takings disappear forever (as do the robberies that come with having cash). The lack of it also makes life harder for dishonest traders: it's tough to avoid tax if you can't get paid in cash. Finally, the disappearance of cash is great for central bankers: no cash means no lower limit to interest rates (no cash, no bank runs!).

Cash is special

©iStockphotos

"Cash can be a hassle, but it also has features that we should be very wary of giving up"

However, cash also has features we should be very wary of giving up. It is one of the few things left that is not dependent on some sort of technology and that allows for entirely cost-free transfers. It is also good for our personal finances. The less we use cash, the more we seem to spend (card payments just don't seem to us to be real money in the same way cash is). One example: a few years ago, McDonald's said that the average bill in the US when people used cash was $4.50 – with credit cards it was $7. Might the death of cash be one of the causes of rising indebtedness and bankruptcy, particularly among the young? It's worth thinking about. Finally cash is anonymous. Use your debit card to buy something and your bank knows where you are and what you are up to. Use cash and your privacy is maintained. The upshot? Cash is special because while it is issued by the state, it also allows us, as a recent report from Cash Matters (cashmatters.org) put it, "to create a space outside the state". Let's hang on to it.

Now might be a good time to suggest you turn to our cover story. You could argue that holding gold also lets you create a space for yourself outside the state. It's been the go-to currency for all nervous investors every time the political and financial environments start to look more volatile than usual. Is now one of those times? See page 24. I think everyone should hold some as portfolio insurance. It might not make your fortune but it is very unlikely ever to be valueless – unlike the likes of Thomas Cook. See page 7 for a run down of what went wrong here (it looks like the usual – debt and dodgy accounting).

Finally, Japan. You'll be bored with us liking Japanese equities given that we have done so for (I think) 18 years (a discounted Wealth Summit ticket – see moneyweekwealthsummit.co.uk for our fantastic line-up – to the reader who can dig out my first suggestion that you buy Japan). But it hasn't been an awful call: the Topix is up around 50% since then; the best funds have made you many hundreds of per cent in the last ten years; and with dividends rising and merger activity picking up, there might be real momentum behind the market. My own portfolio certainly hopes there is. See page 4 for more.

PS A note on moneyweek.com, our website. The site remains free to use, but we now have a registration wall – you can read three articles before you will be asked to register using your email. Any queries, just email editor@moneyweek.com.

Merryn Somerset Webb
editor@moneyweek.com

Corporate spat of the week

©Shutterstock

A bitter legal row is underway between online supermarket Ocado and its upstart rival, Today Development Partners (TDP), reports The Times. Ocado boss Tim Steiner has accused co-founder, Jonathan Faiman (pictured) – who left in 2010 – of inducing another senior executive to leave Ocado and join TDP, taking confidential information with him, including details of a proposed tie up between Ocado and Marks & Spencer. Faiman has responded with a countersuit, says the Financial Times – he says Ocado's legal tactics have cost TDP millions of pounds in foregone profits after a deal with Waitrose fell through. Steiner and Faiman had been friends since nursery school – they set up Ocado with Jason Gissing in 2000.

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

Good week for:

Offshore wind farms in the UK are now competitive without subsidies. Electricity from the 5GW Dogger Bank wind farm being built in the North Sea will sell at prices of between £39.65 and £41.61 per megawatt hour. The wholesale price by contrast, is around £50 per MWh, while electricity from Hinkley Point nuclear plant will cost £92.50 per MWh (see page 12).

Computer gamers have won a legal victory which allows them to resell digital games, in the same way as physical products. A court in Paris ruled that digital platform Steam is not a subscription service, and so under EU law, cannot ban reselling. The ruling could have wider implications for gaming, says Wired.

Bad week for:

Financial advisers at **St. James's Place** will have to fund their own holidays after the wealth management firm scrapped perks that included overseas trips, lavish cruises and "celebrity-studded dinners" as rewards for winning new business, reveals The Daily Telegraph.

German peanut-butter lovers have seen their favourite spread "all but disappear" from the shelves, reports The Times, after the EU imposed tariffs in retaliation for US levies on EU steel and aluminium. In June 2018, Germany imported 1,078 tonnes of American peanut butter. This June, that fell to just eight.

©iStockphotos

Ignore the rugby – buy the stocks

Alex Rankine
Markets editor

Japan isn't very good at rugby, but its equity market could prove a winner

©Getty Images

"Few folk expect Japan to win the Rugby World Cup that kicked off in Tokyo last Friday," says Ian Cowie in The Times. But the country's unloved stockmarket could well prove a winner. The scrum between American and Chinese trade negotiators has done equities in the Land of the Rising Sun no favours. At just over 22,000, the country's Nikkei 225 benchmark is still far from regaining the 39,000 high it achieved at the height of the 1989 bubble. Shares in the broader Topix index are down by more than 10% over the past year.

Low expectations...

The dampening effect of the trade war saw Japan's exports fall 8.2% year-on-year in August, the ninth straight monthly decline. Those numbers generated plenty of doom-laden headlines, but the reality is more positive, says Jonathan Allum in The Blah! newsletter. The latest figures beat consensus forecasts of a 10% plunge and the declines finally appear to be bottoming out. The Japanese economy has actually been exceeding expectations this year.

Plans to increase the consumption tax by 2% in October are projected to "tip Japan into economic contraction" in the fourth quarter, Kwok Chern-Yeh of Aberdeen Asset Management tells Mark Atherton in The Times. But sluggish recent consumption growth has a silver lining, writes Robin Harding in the Financial Times. It suggests that shoppers are not "rushing to beat" the forthcoming tax hike as they did in 2014.

That could save the economy from any nasty shocks in the fourth quarter. With unemployment hitting a 26-year low last year, there are reasons for optimism about the outlook for wage growth and consumption in the medium-term.

... should be surpassed

Fans visiting for the World Cup will deliver the economy a $4bn-plus windfall, says William Pesek in the Asia Times, which should add further fuel to the country's fast-growing tourism industry.

Reforms to the once incestuous world of Japanese conglomerates is boosting shareholder value. Japan has become far more appealing to income investors. On a dividend yield of 2.6%, the country's stockmarket now returns more than America and is not far behind many European indexes. Dividend cover is also better than in the West, Richard Aston of CC Japan Income and Growth trust tells Vicky McKeever in CityWire. "More than half of the companies in both the Topix and Topix500 have net cash on their balance sheets." The equivalent figure for the FTSE All-Share is just 29%.

Three decades of disappointment have caused many foreign investors to abandon Japan, but they are missing out on one of the developed world's most reasonably priced markets. On a price/earnings ratio of 13.9 Japan's stocks look cheaper than even the historically bombed out UK's. A price-to-book ratio of 1.1 also suggests that this is one of Asia's more promising pockets of value. MoneyWeek's favourite Japan plays include the **Baillie Gifford Japan Trust** (**LSE: BGFD**) and the **CC Japan Income & Growth Trust** (**LSE: CCJI**).

An "alarming echo" of the financial crisis

Last week's spike in US repo rates was "an alarming echo of the financial crisis", says The Economist. The usually placid repo – short for "repurchase agreement" – market is the place where banks go for short-term loans when they need extra cash. Interest rates in this "overnight" market are supposed to stay within the range set by US Federal Reserve interest rates, which was 2%-2.25% before the latest cut (see page 5). Yet a sudden shortage of liquidity last week prompted buyers to bid up prices, sending the rate as high as 10% at one point. The jump prompted the Fed to intervene directly in the market for the first time in a decade. It pumped more than $200bn into the system last week to alleviate the squeeze.

The US Federal Reserve injected $200bn into the system

©iStockphotos

The intervention managed to calm the panic, notes The Economist. The incident suggests that US banks and businesses are "short of cash… A spiking repo rate was an early warning sign before the financial crisis."

"Don't worry," says Bill Dudley on Bloomberg. The jump was due to a confluence of benign events. A US corporate tax deadline on 15 September meant there was more demand for cash than usual as businesses emptied their bank accounts. A large auction of US Treasury bills at the same time generated a further surge in cash demand. A more systemic factor is that until last month the Fed had been selling down the $4.5trn bond portfolio it built up through quantitative easing after the 2008 financial crisis. The sales have been "soaking up bank cash reserves" so there are fewer greenbacks to go around.

"Banks don't seem stressed for funding," agrees Jon Sindreu in The Wall Street Journal. As the Fed has unwound part of its asset portfolio and there is less cash swimming around the central bank may now need to return to using "pre-crisis" techniques – injecting money whenever there is a squeeze – to manage repo rates. In the topsy-turvy world of modern central banking, that is perhaps one small sign of normalisation.

Cracks emerge in corporate debt

American corporate debt is close to all-time highs, says Daniel Bergstresser on PBS. The total value of non-financial company debt is now almost $10trn, equivalent to half of America's GDP. The debt problem has been aggravated by corporations borrowing in order to boost shareholder returns, typically through share buybacks, says The Economist. If management declines to "optimise" its balance sheet with extra debt then "a band of capital-rich buyout firms stand ready to do the job". Now the median credit rating for US company paper is BBB, one grade above "junk".

As long as corporate profits remained strong nobody thought that the debt was anything to worry about, writes Justin Lahart in The Wall Street Journal. Yet recent revisions to profit figures have made the "debt-to-income" tabulations look a whole lot worse. The upshot is that corporate America is vulnerable. "If demand shows signs of faltering, companies could be quicker to ratchet down spending and hiring than they would be if they weren't so indebted." That will hamstring the economy's ability to bounce back from shocks.

Recent figures show that the number of US loans trading below 90 cents on the dollar – which implies a heightened risk of default – rose to 10% in August, reports Joe Rennison in the Financial Times. "Cracks are emerging in the loan market that could soon become big holes."

Fed's fiddling loses impact

"Investors are not alone in struggling to plot a course for the future", says Michael Mackenzie in the Financial Times. America's Federal Reserve served up a quarter-point interest rate cut last week, but growing splits between policymakers mean that the next step is anyone's guess.

In marked contrast to previous interventions, the widely-anticipated decision to reduce interest rates to a range between 1.75% and 2% made little impression on the markets. America's S&P 500 was virtually flat on news of the cut. It remains close to record highs.

Jerome Powell: out of ammunition

©Getty Images

"Disparate perspectives"

Opinion on the Federal Open Market Committee is becoming increasingly split, notes Paul Ashworth of Capital Economics. While close to one-third of policymakers are projecting another rate cut before 2020, another third actually opposed last week's cut.

The most recent economic data has been "upbeat" and there are "few signs" of an imminent recession stateside. Many in the Fed still argue that this should be seen as a "mid-cycle adjustment" – designed to ease the economy through a rough patch – rather than the "full-blown loosening" needed to fight a severe downturn. Fed chairman Jerome Powell euphemistically described growing divisions over what to do next as a matter of "disparate perspectives", says Gavyn Davies in the Financial Times. Powell and many of the Fed leadership appear dovishly-inclined, favouring further "insurance cuts", but there is growing discontent within their own ranks "about the extent and duration" of the reductions.

Hawks point out that with unemployment at historically low levels, higher wages and more inflation are sure to follow. Indeed, US consumer price inflation has begun to surprise on the upside in recent months, suggesting that the process may already be underway. Yet for the time being the fear of deflation seems to be winning the day.

Previous cuts have left the Fed ill-prepared to ride to the rescue in the case of a serious shock. Heather Long notes in The Washington Post that when recessions struck America in the past, interest rates were usually above 5%, allowing the central bank to "cut swiftly – and deeply" in response.

Yet this time around the authorities have used up much of their ammunition already as far as interest-rate cuts are concerned, while printing yet more money would not have the same impact as last time round. The upshot, as Robert Samuelson puts it in the same paper, is that "the Fed may be approaching – or may have already reached – the limits of its economic powers". The flat reaction to last week's cut suggest more and more investors are realising this.

Viewpoint

"Alison Rose's elevation to the top job at RBS, where she will succeed Ross McEwan as chief executive, is cause for celebration. Never before has the UK had a woman running one of its big four banks... her elevation comes after a series of high-profile campaigns that have failed to improve women's lamentably slow climb up the corporate ladder... McKinsey research has shown that companies with the greatest gender diversity in the boardroom are 21% more likely to be more profitable than their peers and 27% more likely to create superior value. These figures are quoted in a recent report for the government by Rose, who was asked to review how banks could better serve women who want to start a new business. To illustrate how sexism is endemic in the finance industry, she pointed out how only 1% of all-female startup companies are backed by venture capital funds."

The Observer

■ The death of competition in America

Source: The Myth of Capitalism/The Economist

The US economy "has become a lot less competitive" in recent years, says Jonathan Tepper in his book *The Myth of Capitalism*. Following decades of mergers and acquisitions, four airlines dominate commercial aviation and two firms control 90% of the beer Americans drink. In 1995 the top 100 companies accounted for 53% of the income from publicly traded firms; in 2015 the figure was 84%. No wonder The Economist has detected a slump in the number of times the words "competition" and "competitor" have been mentioned in annual reports over the past few years. The dearth of competition raises prices for consumers. It also crimps wage growth as firms don't have to bid for labour against rivals so much.

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

Three to buy

Midwich
The Mail on Sunday
From concerts and sports arenas to festivals and high streets, LED screens are now "pervasive in the business and entertainment worlds". Midwich, the largest independent audio-visual company in the world, sits at the centre of this global growth industry. It installs display screens for Ferrari showrooms and is working on the audio equipment for Tottenham Hotspur's new stadium. The business is expanding at a "fair clip", having grown sales every year since 2006. Buy. *526p*

Triple Point Social Housing Reit
The Daily Telegraph
With ten-year gilts yielding 0.7%, rental yields above 5% look highly appealing. This real estate investment trust (Reit) owns social housing, renting out buildings to state-backed housing associations. Its specialism – supported housing for vulnerable adults – is "well down Jeremy Corbyn's list" of nationalisation targets should he come to power. Many of the leases are index-linked, and the trust has "made little use of borrowed money". On a discount of 15.2% this is a "secure income stream at a highly attractive price". *88.25p*

RealReal
Barron's
One of the most intriguing flotations this year is RealReal, a $1.5bn luxury resale specialist. Its staff authenticate the jewellery, watches and brands that are sold in its marketplace by consignors. That reassures internet buyers that they are purchasing the real deal. The business keeps an average of 37% of the sale price, a handsome "take rate". This is an intriguing long-term tech play operating in a fragmented market. *$16.93*

Three to sell

Netflix
Shares
This American TV streaming giant's fans point to the group's leading market position and the scope for overseas growth. Yet the bull case rests on subscriber growth and that has been slowing, with 2.7 million new customers in the second quarter falling well short of analyst predictions of five million. Growing competition from the likes of Amazon and Disney will force the business to continue spending heavily on original content, which could hamper long-term profitability. With debts forecast to "top $10bn by the end of 2019" the risk is too great at the current price. Avoid. *$295.27*

Domino's Pizza
Investors Chronicle
This "former stockmarket darling" is struggling with "rising debt and slowing growth". Plans to grow the UK store estate from 1,103 to 1,600 have come unstuck as franchisees worry that the openings will cannibalise their existing client bases. The dispute with franchisees is unlikely to be resolved quickly. A loss-making overseas division does not help. There may be further downside before a new boss turns things around. Sell. *250p*

Manolete Partners
The Sunday Times
The Burford Capital imbroglio has thrust other litigation funders into the spotlight. This insolvency litigation specialist, which helps creditors claw money back from businesses that have gone bust, raised £16m when it listed last year. Management says that the shorter duration of its cases helps it dodge the uncertainties that have dogged Burford. Still, with the sector under the microscope all but the bravest investors will steer clear. *510p*

...and the rest

Shares
A pork shortage in China caused by African swine fever presents a significant growth opportunity for animal genetics specialist **Genus** *(2,846p)*. **JPMorgan Global Emerging Markets Income Trust's** focus on stable, well-governed companies helps investors to mitigate some of the risks of investing in developing economies *(136.5p)*. Shares in corporate online trainer **Learning Technologies** are up almost 60% in five months but solid first-half results mean they are still worth buying *(119.75p)*.

Investors Chronicle
Northern England-focused housebuilder **MJ Gleeson** is bucking negative trends hitting its southern counterparts. A potential dividend yield of 4.4% is attractive for a business that is more defensive than industry peers *(846p)*. Business is booming at music and audio products specialist **Focusrite** amid rapid growth in the global market for recorded music: buy *(530p)*. A cooling global economy and the grounding of the Boeing 737 Max are weighing on performance at aviation services business **John Menzies**. Throw in high debt levels and "investors should disembark" *(394p)*.

The Times
Stockbroker and investments provider **AJ Bell** is well-positioned to tap into the long-term structural growth in savings and investment among the UK population *(409.5p)*. Housebuilder **Springfield Properties** has huge opportunities in its Scottish home market, where demand is more robust than south of the border *(110p)*. Shares in car retailer **Pendragon** have fallen by more than two-thirds since the spring owing to poor car sales, a botched expansion strategy and a dispute with a business partner. Springfield also has no boss at present. It has "managed to reverse itself into a wall" – avoid *(9.75p)*.

A German view

Krones lost €3m in the second quarter of 2019, notes Wirtschaftswoche: high labour and material costs were key culprits. But the long-term outlook for the group, which notched up sales of €3.85bn last year, is auspicious. It provides beverage bottlers and food groups with individual machines and entire production lines to make and fill food packages and drinks containers. Global population growth and rising demand for food and drink imply steady revenue growth for years to come. A new factory in Hungary, due to open next year, should provide a near-term fillip. The stock looks reasonably priced on a 2020 price/earnings ratio of 11 and a yield of just over 2%.

IPO watch

Home and room rental platform Airbnb has confirmed that it will file for an initial public offering (IPO) in the US next year, making it the latest tech unicorn (a private company worth over $1bn) to go public. The flotation is set "to be a blockbuster", says Danielle Abril in Fortune. Airbnb's valuation when it last raised money privately was $31bn. Unlike Lyft, Uber or WeWork, which are heavily loss-making, Airbnb looks in solid shape. It says it was profitable on an Ebitda basis in 2018 while its sales totalled $1bn in the third quarter of last year. The company offers more than six million places to stay in 191 countries The first listing was an inflatable mattress in the founders' flat in San Francisco in 2008.

©Getty Images; iStockphotos

City talk

● Ex-Nissan boss Carlos Ghosn has decided to pay the US Securities and Exchange Commission (SEC) $1m to settle allegations that he concealed more than $140m of his pay package, say Leo Lewis and Kana Inagaki in the Financial Times. Ghosn is "surely correct" to decide that fighting both the SEC and Japanese prosecutors would have been "too time-consuming and expensive". But this is the first time since his arrest that authorities outside Japan "laid out why they think Mr Ghosn was involved in something unlawful". It's now harder for him to claim that the Japanese charges were a plot to bring down a famous foreigner.

● Thanks to a share price fall, a "painfully ill-advised" Nazi joke and "a potential criminal charge of market manipulation" hanging over him, Volkswagen's CEO Herbert Diess (pictured) "could easily be a goner",

says Liam Proud for Breaking Views. Yet the carmaker would be worse off without his "relatively compelling" strategy of "betting everything on electric vehicles [EVs]". If it pays off, VW could boast the "world's largest EV platform", says Neil Winton on Forbes. He has also struck a deal with Ford Motor's "well-regarded" autonomous-driving unit.

● Metro Bank shares have plunged after it was forced to scrap a "crucial" £200m bond issue when it failed "to drum up sufficient interest", says Ben Marlow in The Daily Telegraph. The shares have now fallen by 90%. The bank is also still dealing with the fallout from February's "giant misreporting scandal", in which Metro Bank revealed it had "accidentally" placed £900m of loans in the wrong risk bracket, leading it to underestimate the amount of capital it needed. While selling assets might now shore up the bank's capital, it's "not obvious what there is to sell".

©Getty Images

Thomas Cook crashes

The tour group has gone bust, leaving stakeholders, politicians and managers all blaming each other. Matthew Partridge reports

Tour operator Thomas Cook, the world's oldest travel group, has declared bankruptcy, triggering a "bitter blame game" over who was responsible, say Alice Hancock and Daniel Thomas in the Financial Times. The company's banks, bondholders, largest shareholder (China's Fosun) and managers "all came in for criticism".

Following the news that bosses had amassed £47m in pay and perks since 2007, Prime Minister Boris Johnson reflected on "whether the directors of these companies are properly incentivised to sort these matters out". For its part, the government has been attacked for refusing to "step in" and help secure its future over the next few months by guaranteeing loans. The 178-year-old tour operator was always going to struggle given the change in the way people take (and book) holidays, says Patrick Collinson in The Guardian. The number of city breaks "now significantly [outstrips] beach holidays".

While this shift been good news for Ryanair, easyJet and Airbnb, "with all of their customers booking online", package holiday companies "shackled to expensive high street chains", like Thomas Cook with its 560 outlets, have ended up big "losers". Only one in seven of us now "pop into a high street travel agency to buy a holiday" and those who tend to do tend not to have much spending power.

But that's hardly all there is to it, says The Economist. Far from being in decline, the package holiday "is enjoying a resurgence". The number of Britons going abroad on "inclusive tours" has risen from 14.3 million in 2010 to 18.2 million in 2018. Part of this is down to cost, because "it is still cheaper to buy a family holiday as a package than book the components individually", especially since Thomas Cook and its rival TUI "are able to use their scale to negotiate lower prices" on hotel rooms and flights. The popularity of *Love Island* has also boosted the number of younger package holidaymakers.

The planes won't make a dent in the group's debts

It was the debt wot did it

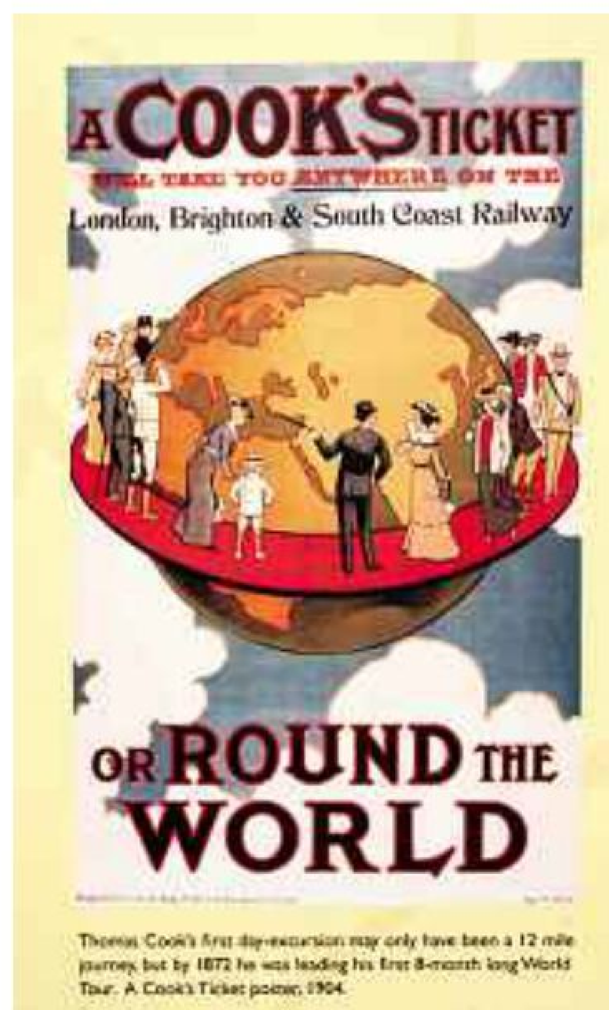
The internet and this summer's heatwave contributed to Thomas Cook's demise, says Jim Armitage in the Evening Standard. But the main cause was "too much debt", a result of its 2007 merger with MyTravel (see box below). Despite raising "hundreds of millions" from shareholders in 2013, its debts had reached £1.25bn by the start of this summer, requiring it to make £140m each year in interest payments. When your profit before interest is a mere £97m, as it was in 2018, "that's a one-way ticket to somewhere very nasty". Had it not been for record-low interest rates", the company would have gone bust "long ago".

Shareholders now "face total wipeout", says Ed Cropley in Breaking Views, and creditors "won't fare much better". Thomas Cook owned few assets, including only "16 of its 100-odd fleet of planes". So these are unlikely to cover much more than a quarter of claims totalling £1.5bn-£1.7bn.

Where did it all go wrong?

Thomas Cook began in 1841 when Derbyshire cabinet-maker Thomas Cook arranged for 500 people to be taken 12 miles by train from Leicester to a temperance meeting in Loughborough, says Zoe Wood in The Guardian. Four years later Cook officially entered the tourist business, arranging train trips from Leicester, Nottingham and Derby to Liverpool for profit. By 1873 it was marketing its first round-the-globe tour "for 200 guineas" (£17,400). After a sale to the owners of the Orient Express, it was nationalised in 1948. Returned to the private sector in 1972, Thomas Cook was bought and sold by a series of owners, including the group that owned the German airline Lufthansa. However, the "seeds of the company's downfall" were ultimately sown by the decision to merge with MyTravel in 2007, say Oliver Gill and Michael O'Dwyer in The Daily Telegraph. As well as "combining two businesses that, even then, had fallen out of favour and were exposed to the rise of DIY online holiday bookings", it also "ladled billions of pounds of loans" onto a "vulnerable" firm.

By 2011 the company was forced to undergo a "painful restructuring". Over the next seven years things failed to improve, and "investors took flight" in late 2018 after a series of profit warnings. While a further restructuring of the debt temporarily kept it running, the failure of its attempt to find a buyer for an airline with an ageing fleet, as well as a "staggering" £1.1bn writedown on the value of MyTravel, prevented it from getting further assistance from its bankers, forcing it under.



Thomas Cook's first day-excursion may only have been a 12 mile journey, but by 1872 he was leading his first 8-month long World Tour. A Cook's Ticket poster, 1904.

Another defeat for Boris Johnson

The PM's prorogation has been ruled unlawful. But will that do him any harm? Emily Hohler reports

Boris Johnson was forced to cut short his trip to the US after the Supreme Court ruled unanimously that his decision to suspend Parliament for five weeks was "unlawful, void and of no effect". Brenda Hale, president of the Supreme Court, said that the effect of his decision "on the fundamentals of our democracy was extreme" because it prevented MPs from exercising their constitutional role of holding the government to account. The ruling "provoked fury" from Eurosceptics, say George Parker, Jane Croft and Sebastian Payne in the Financial Times, some of whom believe the judges are "part of a pro-Remain establishment elite intent on stopping Brexit". Jacob Rees-Mogg, leader of the House of Commons, told cabinet colleagues that the decision amounted to a "constitutional coup". This "unprecedented defeat" is the last in a series of humiliating events for Johnson, who has "lost his parliamentary majority, expelled 21 Tory MPs… and had his Brexit strategy torn to shreds" during his three-months as prime minister.

Ultimate success is still within his grasp

©Shutterstock

A constitutional outrage?

Despite Labour frontbenchers saying it would be "unthinkable" to let Johnson "off the hook", Corbyn simply invited him to "consider his position" and confirmed that he would not table a vote of no-confidence in Johnson until no-deal is taken off the table, say Harry Yorke, Gareth Davies and Amy Jones in The Daily Telegraph. His official spokesman added that Johnson could not be trusted not to use a snap election to "try and force through no deal while Parliament was dissolved during an election campaign".

Ardent Brexiters may describe the judges as "enemies of the people", but this was not a "judgement on or against Brexit, but on the limits of executive power", says the FT. Indeed, the Supreme Court had "little choice". To rule otherwise would have "opened a dangerous path to a future prime minister suspending Parliament indefinitely, brandishing a prior ruling that such decisions were no matter for the courts". As it is, the Court has now "laid down a marker that courts have a wider ability to take a view of political decisions made by governments," note Parker, Croft and Payne.

This fact – that "11 justices have taken it upon themselves to assume the power of Parliament and, by common law, make a statute" – is a "far bigger constitutional outrage" than Johnson sending MPs on holiday over conference season, says Charles Blow in The Spectator. "They seem conversely oblivious that the actual conclusion to their actions is to carry on the farce of the longest-sitting parliament for 400 years and to give all power in the land to the speaker and rogue MPs – who are unconstrained by manifesto promises, a Queen's Speech or by fear of an election (because they refuse one)."

"I doubt that many people will bother to ingest the intricacies of the Supreme Court's ruling," says Ross Clark, also in The Spectator. "Many people will simply see a bunch of judges standing in the way of the government's plans for Brexit – and an awful lot of Remainers cheering them on." And despite the narrative that we have a "rogue government" that keeps getting caught out, the opinion polls "seem to take an upward jolt" for the Tories every time the government suffers (a Telegraph ComRes poll on Tuesday found that 60% of voters believe Parliament has had plenty of time to debate Brexit and Britain should "get on with" leaving the EU). When we do finally have an election, Johnson – assuming he is still Tory leader – will "milk" this ruling. Indeed, "I have a feeling" that it will "have increased rather than diminished" the Tories' chances of success.

He's staying on the fence

©Getty Images

Labour fails to resolve Brexit mess

The role of the opposition is to shadow what the government is doing, to "give voters some idea of what they would do in government", says Matt Chorley in The Times. Labour seems to have taken one look at the "chaos enveloping" Boris Johnson's government "and decided to upstage them. "On policy, personnel and politics", the party is "in a mess". Brexit dominated Labour's annual conference, and there is still no sign that Jeremy Corbyn will "budge on his position of not having a position". Instead, he wants to head into an election promising a referendum in which voters would be given a choice between a new Brexit deal and remaining, and later hold a "special conference" to decide how Labour would campaign in this referendum. At the same time, more shadow ministers are saying they would campaign for Remain in a referendum, begging the question, why would the EU bother offering concessions if "the bulk of the government" will campaign to reject a deal?

This ambiguity is unlikely to serve Labour well at the next election, say Sebastian Payne and Jim Pickard in the FT. The party "risks being outgunned" by the pro-Remain Lib Dems, who are campaigning to revoke Article 50, and Nigel Farage's Brexit party, who are targeting voters in Labour's traditional heartlands.

Corbyn's view of having "no view" on this historic issue isn't shared by the "overwhelming majority of Labour's elected politicians, members and supporters", says Labour MP Iain Murray in The Times. All analysis shows that "Labour lost four times as many votes to Remain parties than they did to Leave in the EU elections". It is also the case that "Labour Leave voters are more Labour than Leave, but Labour Remain voters are more Remain than Labour. Maybe that explains why the Labour Party is up to 15 points behind the worst Tory government in history." The Labour Party should back Remain in a referendum, and Corbyn should stay out of it.

Betting on politics

With impeachment of the US president firmly on the table (see right), now is a good time to take a look at the latest betting markets related to American politics. With £5.4m wagered, Betfair still has Donald Trump as the favourite to win the 2020 election at 2.34 (42.7%). Elizabeth Warren (pictured) is the leading Democrat at 4 (25%), more than double the implied chances of Joe Biden at 9.6 (10.4%). Interestingly, Betfair puts the Republicans' chances of winning the White House at nearly even at 2.06 (48.5%).

Betfair punters also remain sceptical about the idea of Trump being prematurely forced out of office. You can still get 4.7 (21.2%) on him leaving before his first term ends and 1.27 (78.7%) against. They also think it very unlikely that he will leave this year, putting the odds at 14.5 (6.9%), compared

with 1.04 (96%) on him departing in 2020 or later. While the odds of him being impeached by at least one House of Congress have shrunken in the past few days, you can still get 2.24 (44.6%) on him being impeached by the House of Representatives and 1.78 (56.1%) on him not.

I think that punters are greatly over-estimating Trump and the Republican Party's chances of retaining control of the White House next November, though don't bet any more if you followed my previous advice on these markets. The bet on Trump being impeached by the House of Representatives looks interesting, but I would hold off for now until we get a clear idea of what actually went on between him and the Ukrainian president.

©Getty Images

Trump makes history again

But perhaps not quite in the way he would have wanted. Matthew Partridge reports

Donald Trump has become only the fourth US president in history to face the prospect of impeachment, after Nancy Pelosi, speaker of the US House of Representatives, said that "it was time to move ahead" with an inquiry, report Ben Riley-Smith and Nick Allen in The Daily Telegraph. The move was prompted by a whistleblower complaint that Trump held back aid to Ukraine in the hope that the country's leader would be pressured into investigating Joe Biden, the former US vice-president who is seeking the White House in 2020. Biden worked as a foreign diplomat supporting Ukraine in 2014 when his son was hired by a Ukrainian gas company (there is no evidence of wrongdoing). Trump has admitted witholding the money, but claimed he did so because "European countries were not contributing enough".

Pelosi: it's time to move against Trump

Is Trump going the way of Nixon?

The released transcript of a phone call between the two presidents confirms that Trump did indeed ask the president of Ukraine "to work with his personal lawyer, Rudy Giuliani, and the US attorney general, William Barr, to look into his political rival, Joe Biden", says Chris Strohm and Justin Sink for Bloomberg. But as it doesn't explicitly say that future Ukrainian assistance from the US would be conditional on the investigation into Biden, or even mention the frozen aid, the White House will argue that the transcript is exculpatory.

But that's nonsense, says Andrew Gawthorpe in The Guardian. Using foreign aid for political purposes is a "clear example" of the kind of "high crime and misdemeanour" for which impeachment is the intended remedy. Indeed, even if Trump didn't explicitly offer the Ukrainians a "quid pro quo", his attempt to enlist Ukrainian help against his chief political rival is a "blatant perversion" of Trump's "constitutional duty to uphold the common good". In any case, there is a "broader truth" at stake, which is that Trump "is not a man who can be trusted to oversee the continued functioning of American democracy".

Whatever happens, Trump is unlikely to go the way of Nixon, says Dan DePetris in The Spectator. Democrats may just need a simple majority of votes to impeach Trump in the House, but "it's something else entirely to convict a president in the Senate, which requires the support of two-thirds of the chamber". Indeed, the Republican Senate majority means that "20 Republicans would need to vote with all of the Democrats and Democratic-leaning independents for a conviction to pass". The chances of that happening "are about as rare as getting struck by lightning twice on the same day".

True, Trump begins the process with "rock-solid partisan support" and a US public that is "lukewarm about impeachment", says Edward Luce in the FT. But remember that Nixon was initially backed by the "overwhelming majority" of Republicans. Indeed, Nixon's support "held right up to the moment when the Supreme Court ordered the infamous Oval Office tapes to be released", then the "tide turned". Not only will Trump's "visceral reactions" to developments "draw more eyeballs" to the proceedings, but there is always the possibility that a revelation, such as testimony from the whistleblower, "could change the political climate".

Will impeachment affect the election?

Trump is secretly applauding

Until this week, Nancy Pelosi and other senior Democrats "had largely held the reins against impeachment", despite repeated calls within their own party for them to take action, says Nate Silver on 538.com. This is because polls suggest that impeachment has remained "soundly unpopular". The Ukraine scandal may be different from all the previous ones and warrant action, but Democrats would be wise to take public opinion seriously as there may well be consequences for going against it.

Indeed, Trump may secretly have welcomed the news, says Ross Douthat in The New York Times. With the Democrats leading in the polls, anything that puts them on the wrong side of public opinion "may look better, through Trump's eyes, than the status quo". A fight over impeachment may also force the Republicans to defend Trump, giving him "a last chance to solidify his hold on the souls and reputations of his possible Republican successors". And even if the inquiry finds that Trump overstepped the mark, he will probably be "happy to pit his overt abuses of power against the soft corruption of his foes".

The example of Bill Clinton, who saw his popularity rise despite the Lewinsky scandal, has led to worries that wavering voters "might overlook their reservations" about Trump "because they are more outraged by a Democratic effort to remove an elected president", says Ramesh Ponnuru on Bloomberg. Still, having made Trump's corruption a central issue, backing down now would "undercut the rationale of their own 2020 campaign". With the politics ambiguous, Democrats "may as well do what they think is right".

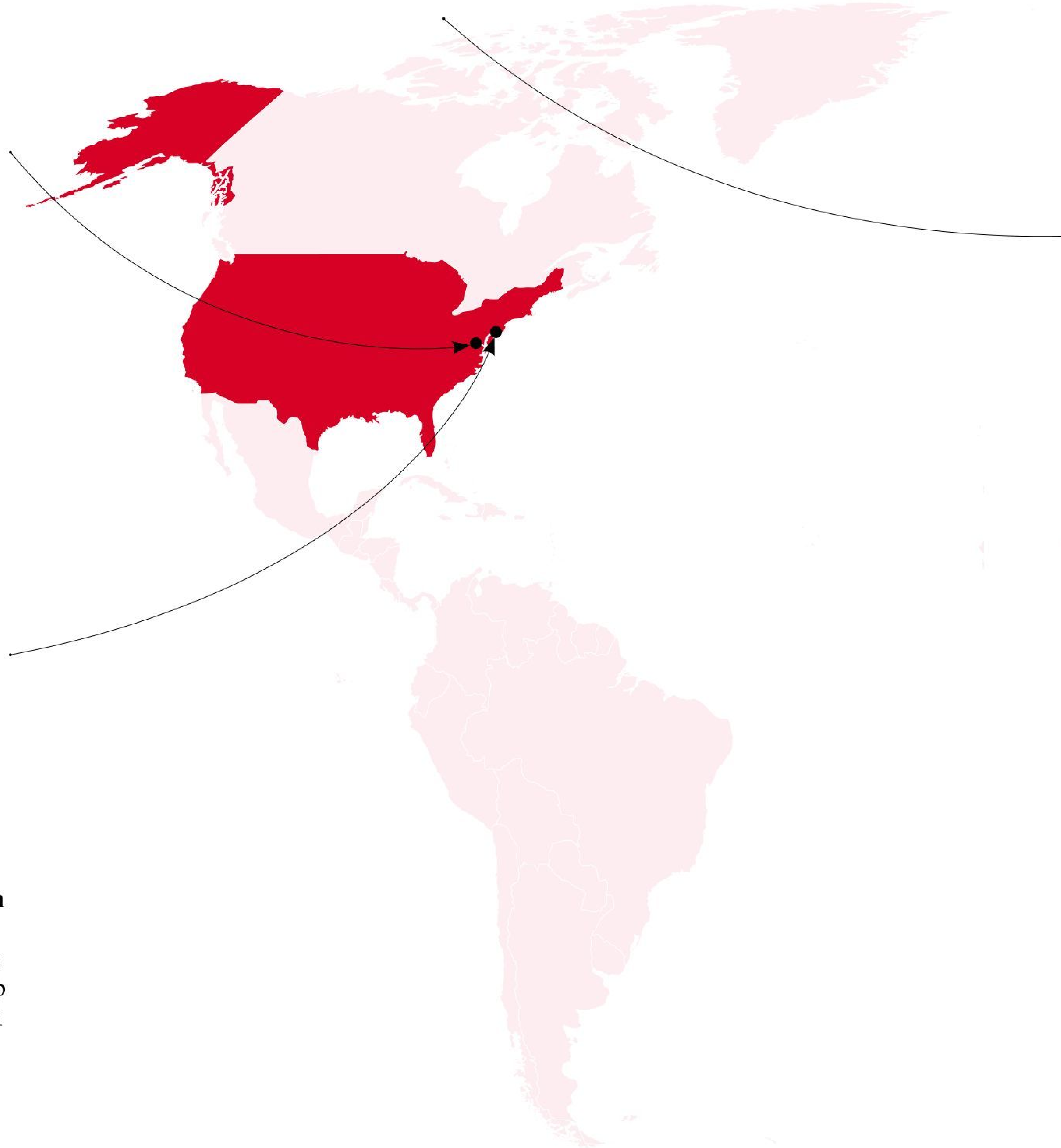
Washington DC

Sky-high inflation in helium prices: Helium keeps going up and up, says Katie Hope on the BBC. The gas isn't just used for party balloons; it's critical for the operation of MRI scanners and is used in electronics, deep-sea diving and scientific research. There is no wholesale price because it isn't traded on global markets, and the scarcity of suppliers means that prices can move dramatically. The catalyst for the latest rise was a US government auction of crude helium in August 2018. America has been auctioning off its Federal Helium Reserve annually since 2013, making it one of the largest global suppliers. However, this was the last such auction till 2021, and the average price rose a "whopping 135% year-on-year" as firms acted to boost stocks. Helium is typically found in very low concentrations alongside natural gas, but because it is so light it escapes easily: separating and storing it is "expensive, time-consuming and difficult". Although experts say the current shortage should ease from next year, with new supplies expected from Algeria and Qatar, some believe that, given helium's importance, its use in balloons should be banned.

London

Uber: stalled

Uber put on probation: Ride-hailing app Uber will have to reapply for permission to operate in London after Transport for London extended its licence by only two months, effectively putting the company on probation, says the Evening Standard. In the meantime, Uber will have to satisfy the regulator that it is meeting standards on insurance, passenger safety and driver document checks. Uber had previously won a 15-month licence in June of last year after a court battle that ended with strict new conditions being imposed on the company. The decision "hands an advantage to its growing number of rivals and threatens to disrupt its business in one of the world's largest taxi markets ahead of the Christmas period", says Tim Bradshaw in the Financial Times.



New York

WeWork CEO steps down: Adam Neumann (pictured), the "charismatic, high-octane" chief executive of WeWork, has resigned under pressure, says The Wall Street Journal. His position became untenable when the start-up shelved its planned initial public offering (IPO) earlier this month despite slashing its valuation to $15bn. Its peak valuation had stood at $47bn following a $4.4bn investment from SoftBank's Masayoshi Son in 2017. Recently, investors have questioned the start-up's "ballooning" losses and Neumann has come under fire for taking out more than $700m in share sales and loans ahead of the company's listing; he also raked in $5.9m in stock for selling WeWork the trademark "We". "Our valuation and size today are much more based on our energy and spirituality than it is on a multiple of revenue," Neumann told Forbes in 2017. In the end, investors disagreed. In an email to staff last Tuesday, Neumann complained that "too much focus has been placed on me". His is "a rapid fall from grace that is unusual in the startup world and bucks a trend of highflying founders with unchecked control", says The Wall Street Journal. Neumann will remain as a non-executive chairman and cede his majority control of the company.

The way we live now: clean-living students shun university bars

Down that smoothie in one

Student bars are closing, says The Economist. In their place, "vibrant, student-centred", "social-gathering" spaces are springing up. It's a sign of the times. Three in ten 16- to 24-year-olds now shun alcohol – up from two in ten in 2005. Many students who do drink choose to indulge at a friend's flat before hitting the clubs, leaving pubs to mop up the rest. It's a far cry from when university bars had been places to catch up over cheap drinks in the era before mobile phones. The brewers sold the booze at below cost price to get students hooked on their brands. No longer. Abertay, in Dundee, has called time for the last time, while Chester and Coventry have converted their bars into "event spaces". The closure of the University of Portsmouth's Waterhole Bar has divided the student body. "I enjoyed pre-ing [pre-drinking: consuming cheap alcohol before moving on to a club] in there with friends," says 19-year-old Molly. "We'd get together, have a few snakebites." Third-year student Ben Archer, however, won't be missing it. "It was quite grim, it didn't smell great," he says. "Students are more serious about studying" now. "The library is full."

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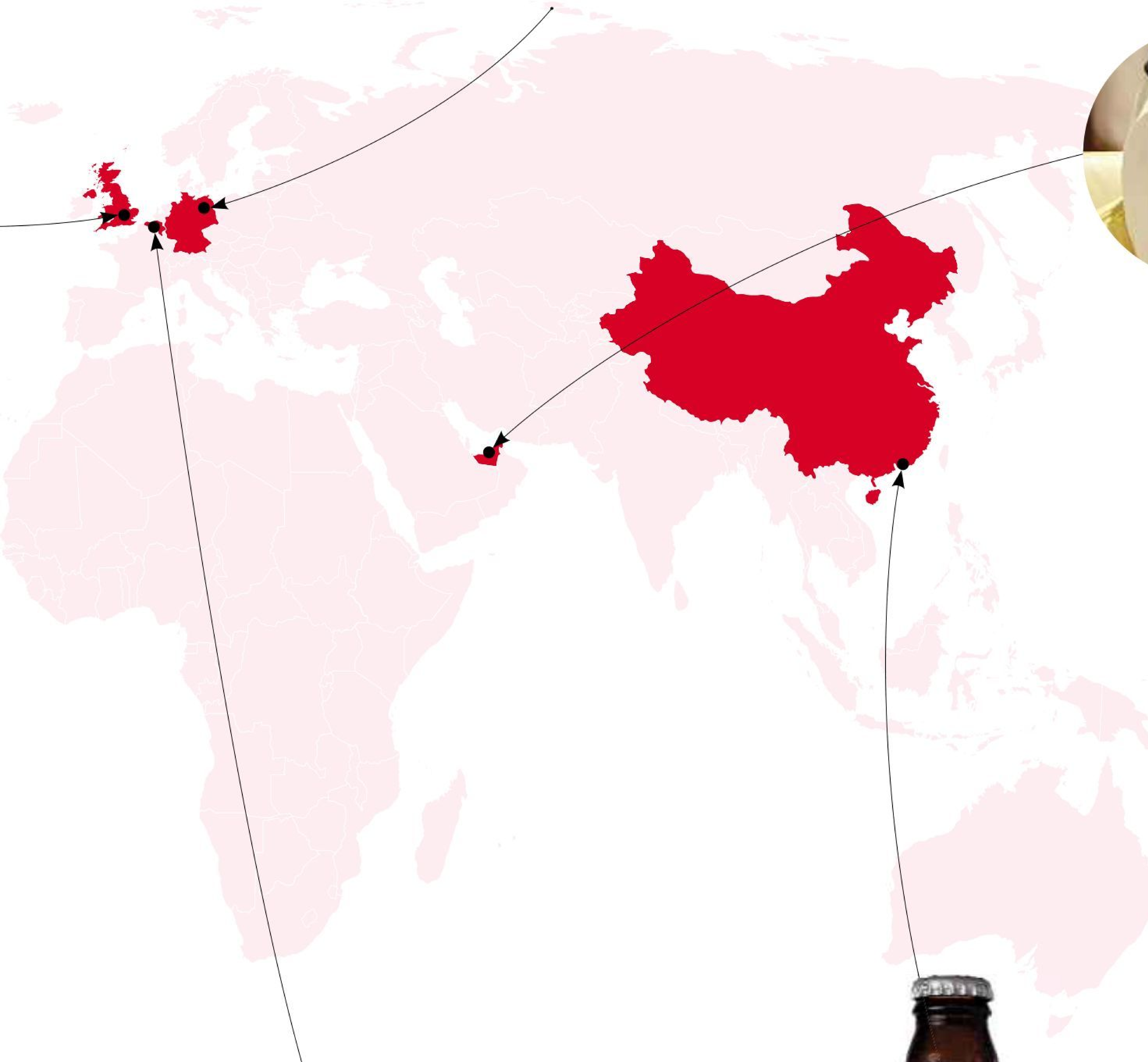
Berlin

Carbon tax announced: The German government's much anticipated climate protection plan, estimated to cost €54bn by 2023, has been greeted with "criticism by climate activists, scientists and opposition parties", says Benjamin Wehrmann on Clean Energy Wire. Its reception could lead to "prolonged disputes" and delay its implementation. The Green Party has said it will try to amend the package, which introduces carbon pricing in the transport and heating sector, calling the starting price of €10 per tonne of carbon dioxide by 2021 a "joke". It wants to raise it to at least €40. Germany, which accounts for 1% of the global population but 2% of its emissions, is on course to miss its 2020 target of reducing greenhouse gas emissions to 40% of 1990 levels. It is now aiming to cut them to 55% of 1990 levels by 2030. The lower emission starting price means less pressure on companies too, says Reuters. One estimate reckons that a carbon price of €30 per tonne of CO_2 would cost the 30 companies in the blue-chip DAX index €5.2bn a year, or 3.7% of their 2018 operating profits.

Germany's carbon tax: just hot air?



Dubai

Banks under pressure: Property prices in Dubai, the United Arab Emirates' (UAE) tourist and financial services hub, have fallen by 27% since peaking in October 2014, notes Arif Sharif on Bloomberg. That has put pressure on the Emirate's banks. A glut in supply and weaker consumer confidence owing to low oil prices have been blamed for the slump, while the strong Emirati dirham and tensions in the Middle East have put off foreign buyers from buying property in the region. That has left banks in Dubai renegotiating around $3bn in bad loans. "Loan restructuring in the real estate [and] contracting… sectors has increased – a sign of weakening asset quality," says Fitch, a credit-ratings agency. Banks, moreover, had still "not fully recovered" from the 2010 slump in property prices. The ratings agency also predicted that "a significant proportion of the $23bn loans to Dubai government-related entities due to mature by end-2021 may be restructured again". In March, Abdul Aziz Al Ghurair (pictured), chairman of the UAE Banks Federation, called on banks to give borrowers more time to repay their loans, says Bloomberg.

Brussels

Single currency area set to shrink: The eurozone's demand for both goods and services is falling at its fastest rate for six years, says City AM. The latest IHS Markit purchasing managers' index of composite output (tracking activity in both services and manufacturing) fell to a 75-month low of 50.4; a reading of under 50 denotes contraction. Manufacturing activity fell to an 81-month low of 41. Germany is "flirting with recession", says The Wall Street Journal, as exports – which account for half the country's GDP – have been hit by the global slowdown and the trade war. Sentiment among executives rose slightly in the latest Ifo institute survey, but that merely represents a "short breather", Carsten Brzeski of Dutch bank ING told the Financial Times. Dieter Kemp, head of German business lobby the BDI, has said it is time for the famously prudent government to consider fiscal stimulus. The rule of no new borrowing must be put on the "back burner". "The government could raise €10bn-€15bn a year" and use it to "lever" private capital up to around "€30bn, €40bn, €50bn a year" to be spent on infrastructure development.

Hong Kong

Budwesier's Asian flotation raises $5bn: Budweiser Brewing Co. APAC, the Asian arm of Anheuser-Busch Inbev, the world's biggest brewer, raised $5bn in an initial public offering (IPO) on the Hong Kong stock exchange this week. The IPO price of HK$27 a share – at the lower end of the expected price range – values the company at more than €45bn, says The Wall Street Journal – bigger than Asahi and Carlsberg. The fact that the shares were priced at the bottom end was "no surprise at all", says Dickie Wong on CNBC, but it does represent a "fair deal" for investors. Budweiser had tried to float the business in July at a valuation almost double the eventual price – $9.8bn, but what it called "prevailing market conditions" made it reconsider. Still, even at the lower valuation, it is Hong Kong's biggest IPO this year, and the second-biggest worldwide after Uber's $8.1bn New York listing.

Britain leads the way in wind power

Wind power is getting cheaper all the time, making Britain's aim to curb carbon emissions look ever more achievable. Simon Wilson reports

A major landmark on the road to a carbon-free future

©Getty Images

What has happened?

As noisy crowds of Extinction Rebellion protestors marched along Millbank in London last Friday, something quietly momentous was going on round the corner at the UK's Department for Business, Energy and Industrial Strategy. In an announcement that surprised even the most optimistic advocates of offshore wind power, the government said that it had concluded its latest auction of wind power contracts and subsidies for new windfarms in the North Sea – and had awarded contracts for around 5.8 gigawatts of capacity at prices well below the expected market rate. Indeed, according to analysis by the Carbon Brief website, the new prices are so low that the windfarms could be generating electricity more cheaply than existing gas-fired stations by as early as 2023. That's a dramatic leap forward for what was once a very expensive way of generating power. As recently as last year, renewables had not been expected to reach this tipping point until around 2030.

How does the auction work?

It's a system based on contracts for difference, in which the eventual subsidy (if any) payable by the state depends on the future movements in the average wholesale price of electricity. Firms bid to supply electricity based on a fixed "strike price" for each unit of electricity they produce over the first 15 years, thus incentivising investment by guaranteeing steady returns. There's a further guarantee, too: if wholesale electricity prices are below the strike price, contracted schemes receive the difference as a top-up subsidy. Or, if prices rise above the strike price, they must pay back the difference. The reason last week's auction was so groundbreaking is that the "strike prices" agreed – which were in a range from £39.65 to £41.61 per megawatt hour – were far lower than analysts had expected, and lower than the current wholesale price of electricity (which has averaged about £50 per MWh this year).

Why is this so exciting?

Because it means that these contracts might well turn out to prove subsidy-free. If so, it will be the first time that has happened, making it a major landmark on the road to zero-carbon and one that suggests the UK's considerable investment in offshore wind power is paying off handsomely. The 12 schemes awarded contracts last Friday include four vast offshore Dogger Bank windfarms, totalling 5.5GW, plus 0.3GW of onshore windfarms on remote Scottish islands. Together, says Simon Evans of Carbon Brief, they are expected to produce some 29 terawatt hours (TWh) of electricity each year, equal to 9% of the UK's total output in 2018, and sufficient to power a quarter of the country's 26 million homes. It's not definite that these contracts will be subsidy-free: they relate to the years 2023-24, and no one knows for certain now what the wholesale price will be then. But if the market follows the government's reference price projections, these schemes will not merely be subsidy-free, they will be paying back nearly £600m towards consumer bills by 2027.

How much power does wind produce?

Currently it's responsible for about 8% of the UK's electricity generation – a share that is projected to grow to 14% by 2023 and 23% by 2025. To put the latest strike price of under £40 in context, it is only five years since Dong Energy, now Orsted, signed up to build the 1.2 gigawatt Hornsea 1 project at a strike price of £140. By 2017, the guaranteed price for the 1.4 GW Hornsea was down to £57.50. And now it has fallen another 30%. In other words, the scale of UK wind power is ramping up and the price is tumbling. A combination of scaling up, engineering progress, and growing investor confidence in the nascent technology has driven down costs, and turned the UK into the biggest offshore wind market in the world. It currently produces 8GW of capacity, a third more than Germany (but will soon be overtaken by China).

"Scale, engineering progress and investor confidence have driven down costs"

And government support has helped?

Indeed. Britain has natural advantages when it comes to offshore wind power, principally the fact that the North Sea is windy and relatively shallow (the vast Dogger Bank is only 15 metres deep in places). But successive governments deserve credit for taking the initiative, says The Economist. In 2008, the Climate Change Act – which set a target of a 90% reduction in carbon emissions from 1990 levels by 2050 – boosted Britain's push into renewables. And in 2013 the government authorised the system of subsidised 15-year contracts that has proved so successful, and attracted massive inward investment from the likes of Germany's Siemens and Denmark's Orsted. Overall, offshore capacity has grown 20-fold in a decade, and by 2030 it should have capacity of 30 GW, far ahead of Germany, the US, Japan and Denmark.

What about the long term?

An expansion to 30 GW would already make wind the backbone of our power system. It seems likely, says Ambrose Evans-Pritchard in The Daily Telegraph, that this target will be increased, to 35GW or more, following the outcome of the latest auction, and that the case for expensive nuclear power will grow ever thinner. If the UK can consolidate its position as the world leader in wind power, the government's long-range target of 75GW by mid-century starts to look achievable. At that point, Britain would be self-sufficient in electricity, with some to spare for another key zero-carbon innovation – the production of "green" hydrogen, via electrolysis, for use as fuel. That raises the prospect of Britain as a "major supplier of power to Europe's industrial core and green hydrogen worldwide", says Evans-Pritchard. The UK is "very close to cracking the electricity challenge and therefore also close to cracking zero-carbon power for electric vehicles and rail transport at low cost. Rejoice."

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Pay attention to insider trades

Company executives and wealthy families are increasingly nervous. Maybe we should be too

John Stepek
Executive editor

One informal indicator market watchers like to keep an eye on is "director dealings". When a director buys or sells a significant chunk of shares in the company they work for, it always draws attention. After all, who is better placed to know a company's prospects than those who run it? This is why "insiders" are only allowed to buy and sell shares in their own firms at certain times – eg, a CEO can't buy or sell in the run-up to their annual results coming out (this is known as a "closed period"). Big buys by an insider are obviously bullish. Big sales don't look so good – yes, they might be needed to resolve a divorce or a tax bill, but it's rarely good news to see top managers baling out of their own stock.

So it's a bit worrying that sales by "insiders" across equity markets as a whole are now running at their highest rate in 20 years, according to data from Smart Insider, reported in the Financial Times this week. So far this year, insiders have sold around $19bn-worth of equity in their companies. If this continues until the end of the year, they'll have offloaded $26bn. That would be the highest annual total since 2000, when the technology bubble peaked – back then, insiders dumped $37bn of stock. Insider sales then peaked again in 2007, just ahead of the global financial crisis. This latter high wasn't surpassed again until 2017.

Taken individually, these sales aren't necessarily due to bearishness. For example, more than $2bn (ie, more than 10%) in sales came from the Walton family, founders of US retail giant Walmart. This appears to be for primarily technical reasons: they're not selling because they think Walmart is in trouble – they're selling to prevent their percentage stake in the group from rising further due to share buybacks.

Walmart is selling – and not just groceries

However, other research also hints that wealthy people are taking money off the table. The latest UBS Global Family Office Report (in association with Campden Research) found that a majority of family offices (each managing an average of more than $900m) reckon there will be a recession next year, while nearly half are boosting the amount of cash they hold, reports Bloomberg. And last month, a report from TrimTabs Investment Research found that in August, insiders sold more than "they have at any other point during the bull market, which began in March 2009", notes CNN.

"Insiders are selling at their fastest pace since the tech bubble"

In short, insiders aren't happy. It doesn't mean a crash is imminent, but if you haven't rebalanced your portfolio in a while, consider whether it's time to take profits on any holdings that have grown out of line with your original asset allocation and perhaps top up your own cash reserves.

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

Goodwill is an intangible asset, which means it can be found on a company's balance sheet in its annual accounts. It is generated as the result of an acquisition. When one company buys another, it will typically pay a premium to the "fair value" (which is essentially an adjusted version of book value – the value of a company's assets minus its liabilities). Goodwill is the difference between the acquired company's fair value and the actual price paid.

Say Company A buys Company B for £10m. The fair value of Company B's assets is £8m. The "excess" £2m paid is then listed in Company A's balance sheet as "goodwill".

What does this difference represent? The value of certain intangible assets such as patents or intellectual property can be estimated, and potentially sold separately to the rest of the business.

However, other "soft" assets, such as a strong brand, a highly trained workforce, a solid record of research and development, or a loyal customer base, for example, are much harder to value. They certainly have value, but they arise from the business as a whole being more than the sum of its parts. Goodwill effectively represents the value of these assets to Company A. You could almost argue that goodwill is the value that Company A places on Company B's competitive "moat", or on its potential future growth.

Unlike most other assets, the value of goodwill does not have to be written down (amortised) every year. Instead, accounting rules state that the value of goodwill must be reviewed each year, and "impaired" (ie, written down) if necessary. Writedowns are deducted from a company's profit-and-loss account, although they don't affect cash flow.

If a company pays less than the fair value for an acquisition – perhaps as the result of a distressed sale – then it has negative goodwill. This happens rarely, as it implies that the acquirer has bagged a bargain.

Guru watch

Jeff Gundlach, chief investment officer, DoubleLine Capital

A recent spike in the interest rates on overnight loans between financial institutions (known as the "repo" market) has forced the Federal Reserve to inject billions into US money markets this month. It doesn't spell "imminent disaster", says Jeff Gundlach (sometimes known as "the bond king"), the founder and chief investment officer of DoubleLine Capital. However, it does suggest that the Fed might eventually start expanding its balance sheet again – "QE lite" as Gundlach puts it (QE is short

for quantitative easing, whereby the Fed prints money to buy bonds or other assets).

Gundlach made the comments in a webcast for his $54bn DoubleLine Total Return Bond Fund earlier this month, reported on Bloomberg. Despite his relative calm about the situation in repo markets, Gundlach is anything but bullish. He reckons there is a 75% chance that the US will be in recession before the November 2020 presidential election, and that there is virtually no chance of a US-China trade deal being done before that point.

Yet even with this gloomy prognosis, "it's not a great idea to be betting on lower interest rates", he argues, pointing out that in the past, QE has "actually been correlated with the rising in long-term interest rates". He reckons the ten-year US Treasury yield has already hit its low for the year, having been driven to below 1.5% earlier in the month (it's now sitting at just under 1.8%) due to "panic buying". He also expects the US dollar to decline.

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Why serious investors can't ignore China

Over the past 20 years or so, China has seen an extraordinary transformation. At the turn of the century, China was an exciting but relatively obscure emerging market which very few Western investors paid much attention to. Today, it is the world's second-largest economy, and is challenging the US for pole position. As a result, it has a vast and increasingly important influence on global economic growth – GDP is still growing at a rate of around 6% a year – and on financial markets. In short, China is now simply too big to ignore for any investor trying to build a balanced portfolio.

Fidelity China Special Situations (LSE: FCSS) – the largest UK-listed China investment trust – aims to give investors exposure to China's ongoing development by taking full advantage of Fidelity's extensive team of analysts to hunt down the most attractive opportunities in the market. Risk management is key – having a locally-based team means there are regular site visits and meetings with company executives of portfolio companies.

The team is led by Hong Kong-based portfolio manager Dale Nicholls, who has built a well-diversified portfolio that covers a broad range of companies, with a particular focus on the small and medium-sized end of the market. The trust can also invest up to 10% of its assets in unlisted companies where the potential rewards are deemed sufficiently attractive – for example, Nicholls invested in Alibaba (often described as China's Amazon) before it went public, which has paid off handsomely for investors.

China is in the midst of refocusing its economy towards domestic consumption (rather than manufacturing, or infrastructure investment). That means that the growth of the Chinese middle class – which is expected to number 550 million people by 2022 – is key to Nicholls' investment thesis. While the politics of the US-China trade dispute has had an impact on wider markets, Nicholls notes that if anything, this has boosted the Chinese government's determination to refocus the economy, by cutting taxes for consumers, for example.

The rise of the Chinese consumer

As a result, companies that cater to the services and products that increasing numbers of middle class Chinese consumers will need or desire as they become wealthier should be well-placed to benefit. One example is online giant Tencent, which provides everything from video streaming to mobile gaming to social media.

Another is auto electronics group Intron Technologies. China is already the world's largest car market. New cars increasingly require ever-more complex electronic components to cope with stringent fuel efficiency regulations, for example, while the growing popularity of electric vehicles suggests that this trend will only accelerate. As China's leading auto electronics solutions provider, Intron's services should see growing demand for years to come. Other attractive companies include Secoo – an online retailer focused purely on luxury goods – and ByteDance, an as-yet-unlisted online technology company, with a wide range of content platforms. The company already boasts more than 500m monthly active users.

The investment trust structure is ideal for investing in China, and particularly in unlisted companies. Unlike an open-ended fund, shares in investment trusts are bought and sold on the stock market. This means that the share price of the trust may trade at a premium (above) or a discount (below) the value of the underlying portfolio (the net asset value, or NAV). However, it also means that the manager of the trust is never under pressure to sell out of an investment earlier than desired, due to investors withdrawing their money.

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Fight back against fantasy economics

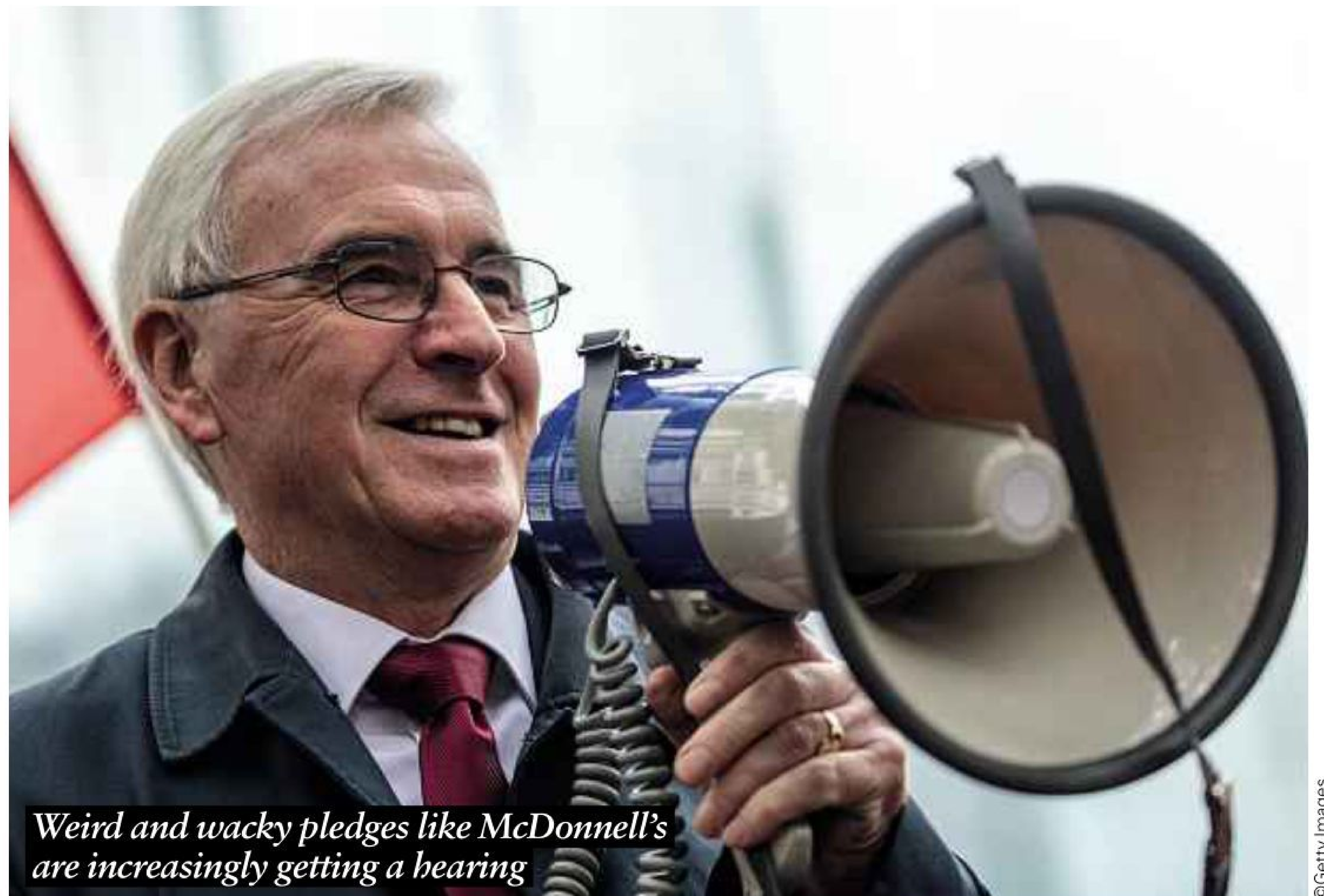
"Free" has turned into the Labour Party's favourite word. "Reality" should make a comeback

Matthew Lynn
City columnist

A four-day working week. Lots of extra bank holidays. Billions of extra public spending on a green new deal, and possibly even a universal basic income paid to everyone regardless of whether they ever get around to doing any work or not. As the Labour Party conference rolled out its manifesto pledges, it seemed to have left all sense of reality behind. A form of fantasy economics is moving into the mainstream.

It is getting hard for even the most diligent critics of Shadow Chancellor John McDonnell to keep track of all the weird and wacky promises he has made. Another one pops up every few minutes. This week he unveiled plans for a 32-hour week, with no loss of pay. Admittedly that is only a goal – a report the party commissioned concluded the plan was unworkable, and not even especially popular, but employers will anyway be forced to work towards it. Labour also plans a £10-an-hour minimum wage, extended to 16- and 17-year-olds who can currently be paid much less. And it wants four more public holidays a year. At this rate, there soon won't be anyone left doing much work at all.

That may be a problem as the party also plans to spend lots and lots of money, with plans that include free social care for the over-65s, 30 hours a week of free childcare for two- to four-year-olds, free buses for the under-25s, free school meals for everyone, free university education, interest-free loans for electric cars, and a free annual sub to Sky Sports on Father's Day (okay, okay, I made that last one up, but the others were all on the list – "free" has turned into Labour's favourite word). How is any of that going to be paid for? With higher taxes on companies and the rich, even if there is very little evidence that raises real money.



Weird and wacky pledges like McDonnell's are increasingly getting a hearing

©Getty Images

Three lessons for the loons

Similarly bonkers policies are getting a hearing throughout Europe and in the US. The moderate centre-right needs to find a way of fighting back. Here are three good places to start. First, politicians, central bankers and business leaders need to explain the basics of economics better. Schools could help out by incorporating a few lessons into the core curriculum. The most important is that, fundamentally, money has to be earned. Sure, governments can borrow, and central banks can launch the occasional blitz of quantitative easing. But in the medium-term, and outside of a financial crisis, the books have to be balanced. You can't spend money you don't have, and you can't magic it out of thin air either. If you do, you will end up with an economic disaster.

Next, there has to be more emphasis on production. We can't just tax our way to prosperity, and we can't just print money to pay for everything either. If we could, we might as well just pay everyone £100,000 a year. Or £200,000. Ultimately, a country can only consume as much as it produces. Neither McDonnell or any of his populist peers around the world ever talk about how we are going to raise output. But that is what really matters.

Finally, the importance of incentives needs to be re-learned. No one is going to work very hard if they are not rewarded for doing well. If you are given an income regardless of whether you are working or not then there is no point in being surprised if lots of us decide not to bother. If you don't get to keep much of what you earn from your job, or what you might make from starting a business, it is hard to see why anyone should put in the effort. We need something to make us get up in the morning. Money is the best incentive we have found so far, and it is hard to see anything else replacing it.

Who's getting what

● RBS has named **Alison Rose** as its new chief executive; the first female head of any of the big four high-street banks and one of only six women at the head of a FTSE 100 company, says The Times. Rose will get a basic salary of £1.1m – 10% more than outgoing CEO Ross McEwan, says the FT – plus £1.1m in shares and a performance-related share bonus of £1.93m. Her pension allowance will be capped at £110,000.

● Ryanair shareholders narrowly approved a €99m bonus package for group CEO **Michael O'Leary**, in what Fintan O'Toole in the Irish Times called "one of the most egregious indulgences of sheer greed ever seen in Ireland". To get his money, O'Leary must double the share price to €21 and keep it there for 28 consecutive days anytime between April 2021 and March 2024, or record a profit of €2bn in any one year in the next five. Speaking of a previous shareholder pay revolt, O'Leary said: "If you don't like it, don't vote against it – sell your shares."

● TV presenter **Philip Schofield** has doubled his salary from ITV in the last year, says the Daily Mirror, from £803,000 to £1.73m. Schofield co-hosts *This Morning* with Holly Willoughby, but the rise was largely due to presenting on *Dancing on Ice*. Willoughby (pictured) is likely to surpass Schofield when her full-year earnings are revealed in November, having doubled last year, taking a dividend with her husband of almost £1.7m form their TV firm, Roxy Media, up from £950,000 the previous year.

©ITV

Nice work if you can get it

Bosses of failed travel company Thomas Cook have paid themselves more than £35m in the last 12 years, says The Guardian. Manny Fontenla-Novoa took £17m over four years before leaving in 2011, having cut 2,800 jobs after merging the firm with Mytravel and saddling the firm with £1bn of debt. He was succeeded by Harriet Green, who was paid £4.7m for less than three years' work, plus a bonus of £5.6m. Green closed 370 shops and got rid of 2,500 jobs. She also claimed £80,000 travel and hotel expenses, including for stays at the five-star Browns hotel in Mayfair, where she stayed four nights a week. When she left, she got six month's pay. Next up was Peter Frankenhauser who has made £8.3m, of which £4.3m is bonuses, since taking over in 2014. He did not get a bonus last year, but his basic pay rose by £14,300 to £732,100, says The Times.

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Eco-anxiety: a first-world problem

Marian Tupy
The Conversation

Why is it that environmental concerns are "most keenly felt" by those living in rich regions, namely Western Europe and the US, asks Marian Tupy, even though these citizens typically enjoy the best-quality environment? Poor people are preoccupied with meeting their basic needs (and can therefore, ironically, "more easily find meaning" in their lives), while the rich have the leisure to think about self-fulfilment and the search for meaning. Scholars have linked "eco-anxiety" to a decline of traditional religion. Economists have "long suspected" that there is a link between prosperity and environmental concerns. According to the Environmental Kuznets Curve, environmental damage (such as deforestation and pollution) worsens with economic growth until a certain threshold, at which point, money starts flowing into environmental protection. According to a 2017 paper, which surveyed 150,000 adults in 26 countries, populations enjoying the best environments and standards of living tend to be more pessimistic and anxious. Therefore, while citizens' environmental concerns are surely genuine, we would do well to evaluate the "veracity" of the "more outlandish claims" in this context.

"Smart" tech is a dumb idea

Ross Clark
The Daily Telegraph

The government has just announced that the rollout of domestic electricity and gas "smart meters" will be delayed until 2024, says Ross Clark. Does anyone care? Whenever the government uses the word "smart" you can be "sure that's it a pretty dumb idea". Three years ago, the government produced a cost-benefit analysis that claimed that having real-time energy meters fitted, at a collective cost of £13.5bn, charged via our electricity bills, would save customers £250 per household. Three years on, it transpires that we have been "inspired to save only £11", much of which probably would have occurred anyway, largely thanks to LED lightbulbs. As for the benefit that smart meters can be read remotely, the government failed to insist that they should continue working when you switch suppliers. Many don't, so they can't. These failings undermine the claim that meters will save us a total of £16.7bn. Meanwhile, installing them is apparently now going to cost more than £20bn. "The figures no longer add up." Why not pull the plug? The short answer, as we've seen with the push for diesel cars and wind and solar power, is that "common sense goes out of the window whenever green issues are involved".

There is still some power in a union

Rana Foroohar
Financial Times

Organised labour is returning as a "political and economic force", as the strikes at General Motors and British Airways show, says Rana Foroohar. Inequality, retirement insecurity and rising healthcare costs are fuelling this resurgence, with unions attracting younger, multicultural, underemployed millennials of all political stripes. The Fight for $15, a move to organise low-wage workers in areas such as fast food and retail, has spread nationwide in the US to become an important political force, for example. And the SEIU, one of the labour groups behind the movement, is calling on all Democratic 2020 candidates to get behind a "unions for all" platform. Perhaps the only reason we haven't already seen more industrial unrest is that the market itself is doing some of the work of "resetting the power dynamic between capital and labour". The labour share of the national pie has been declining in most G20 countries since the 1980s, but rising asset prices has offset stagnant wages for some. That may not hold for much longer and the economy will have to shift away from finance towards income generation. That shift could make the economy less volatile and more robust – "something both workers and management should cheer".

Are MBAs still a ticket to riches?

Andy Kessler
The Wall Street Journal

Many people are starting to question the value of a masters in business administration (MBA) qualification, says Andy Kessler. Applications are down, even at Harvard Business School (HBS). Last year 70% of two-year MBA programmes saw declining enrolment. There are still a few good reasons to go. If you want to get a job on Wall Street or in private equity, you probably need an MBA, even if you will then spend your life "chained" to a giant monitor. Then there's the people you meet. But, "man oh man", is the golden ticket expensive: HBS tuition alone is $73,440 a year. The first year of an MBA generally consists of an introduction to finance, accounting, managerial skills and more ("my eyes are getting droopy, too"). The second is a "supposedly deep dive into finance or marketing or strategic management", complete with secret investing tips that are invariably wrong. Essentially, "any halfway-on-the-ball undergrad" could construct a virtual MBA by taking a few courses and getting "buzzword compliant". As for the networking, LinkedIn is a "reasonable facsimile for a lot less than $250,000 and two years". Finally, a tip from my editor: "if you ask a question in a headline, the answer is usually no".

Money talks

"I think the majority of the films that I've made wouldn't get made today. I just don't think the business model is there to support it any more... I don't mind that it's different. We're minstrels. We play for our supper."
Actress Renée Zellweger (pictured) on the rise of streaming and the shift to television, quoted in The Times

"In my final months, I came to the sad reality that my life really did have a fourth quarter."
Texan oil tycoon T. Boone Pickens, who died last week aged 91, in his farewell letter, on boonepickens.com

"Investing isn't about beating others at their game. It's about controlling yourself at your own game."
Value-investing pioneer Benjamin Graham, quoted on Twitter

"First thing I ever did when I moved to London was to start a pension with a pound. A dear friend of ours is a financial adviser. He asked me, 'How much can you afford a month?' I said, 'Probably a pound.' So I started a pension with £1 per month in 1997. And I've kept contributing. My dad's just retired and he's in his late 70s. I don't want to be working until I'm 70-odd – forget that."
Television presenter Vernon Kay, 45, an unusually well-advised celebrity, quoted in The Sunday Telegraph

"I never considered any kind of job in the media when I was young. I was going to be the drummer in a big rock band and that was it. I left university with no idea at all what I wanted to do, other than wait for my inevitable big break in music... I applied to be a sales rep for Avery grocers' scales, because the job came with an Opel Kadett estate car. And I thought, I could get my drums in that."
BBC radio presenter Mark Radcliffe, quoted in The Big Issue

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The goals of economic life

Rubio: we need a direction, not just profit-seeking

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medium.com

In the 1970s, Ronald Reagan put an end to liberalism's pursuit of ineffectual and conflicting goals by defining national priorities, says Marco Rubio. Reagan ended years of drift and resolved instead to "reawaken the industrial giant" and remind the country of its capacity to "perform great deeds". Today, ineffectual liberalism has given way to an "incoherent neoliberalism" that "cannot achieve priorities because it does not set any to begin with".

A new policy framework

Instead, economic policy should be guided by national priorities based on "the dignity of work, strong families and thriving communities". The goal should be to provide productive work – particularly in high-value-goods exporters, since these support good jobs – and to arrest the decline of capital investment by corporations by challenging the economic reasoning that justifies chasing profits in financial speculation and tech companies with few workers.

Two main arguments are advanced against these ideas. The first is that Americans are in reality substantially better off today than they were half a century ago. But underneath the details of that debate lies "a value judgement about how people should live". By the age of 30, an average worker of my father's generation would own a home, be married with several children, and work at a job and location he'd remain at for the rest of his career. The average worker today at the same age is unmarried and childless, rents a flat in a city and has no security of income. An economist consulting a price index might count the latter as better off in material terms. But if enjoying a stable family life is your priority, then clearly there has been a decline in living standards.

Similarly, we are told that reduced business investment in physical assets is a result of America's competitive advantage in financial services and digital technology. If these cannot provide enough jobs, the government must step in. But the decision about what to invest in isn't a neutral one determined by objective conditions – it depends on what your goals are. If you're pursuing profits with no regard for anything else, this makes sense in the short term. But the production of valuable and enduring capital assets is the foundation of a nation's prosperity.

The inability to set rational economic priorities has boosted demand for socialism as Americans increasingly look to government in the absence of good jobs. We should work instead towards "an economic system that creates fewer losers in the first place". Doing so will require being clear about what "winning" really means.

The king needs counsel

stumblingandmumbling.typepad.com

When presented with any statistic, it's always a good idea to ask, "is that a big number?" One that seems huge when presented as a boost for the NHS, say, may just be a tiny drop in the vast ocean of its total budget. Similarly, says Chris Dillow, when presented with any new policy, it's good to ask whether what is proposed is "the end or the start". The nationalisation of a utility, for example, as an end, is just a way for the state to seize dividends. But for the left, it should be seen as just the start of a process where businesses are transformed to be run in the public interest. Labour's plan to give workers a 10% stake in the business they work for is small beer as an end in itself. But it may be the start of something bigger – giving workers a stake might raise productivity, for example. Scrapping tuition fees is mildly regressive. But it could be the start of "decommodification" – an expansion of the realm in which market values do not dominate. A goal of public policy should be to facilitate the development of institutions that bring out the best in humans. Yet there is very little explicit political thinking about how to do that. As it is, politicians tend to just find out what people want and then offer it. There should be more to politics than "mindless 'customer is king' consumerism".

The magic of business

spectator.co.uk

In 1891, a 29-year-old man with only $32 set up as a soap salesman, says Rory Sutherland. Hoping to boost sales, he gave away small packets of baking powder with every purchase. Soon he found the powder was more popular than the soap, so he switched, and started selling that, giving away free chewing gum instead. Then he found the gum was most popular, so he switched again. His name? William Wrigley.

This is the magic of business. "It's the only area of human activity where you get paid to change your mind." In politics, in punditry, in academia, even in science, consistency is valued. No one gets invited onto *Newsnight* to say, "I'm not really sure", and, "It's kind of complicated". But business actively rewards free thinking. The more prevalent a belief is, the greater the gains to be had from disproving it. "When everyone else zigs, it pays to zag." There is no right answer. Not so long ago everyone wanted cheap bread so they could afford to buy a TV. Now everyone buys cheap TVs so they can spend their money on expensive bread.

If it doesn't work, try, try again

Be patient and wait out the populists

bloomberg.com/opinion

Populism, which embraces a narrative of victimhood and grievance, has become a defining feature of public life, says Michael Strain. But it won't last for ever. In a 2016 paper, economists Manuel Funke, Moritz Schularick and Christoph Trebesch showed that such populist upheavals are normal following a financial crisis. Ten years later, everything settles down to the pre-crisis norm.

Of course, it has now been more than ten years since the last crisis, and politics still seems far from normal. Perhaps this is because the 2008 crisis was more severe than usual. Or it may be that for many people the crisis didn't really end for quite a few years after its start. But as it becomes increasingly obvious that populist policies don't work, their popularity will fade – there are signs this is already happening in the US. So the left and right need not panic nor overreact. The left shouldn't "weaponise the tax code to punish the rich". The right shouldn't retreat from its long-held commitments to free trade. "Populism requires a more mundane response: patience."

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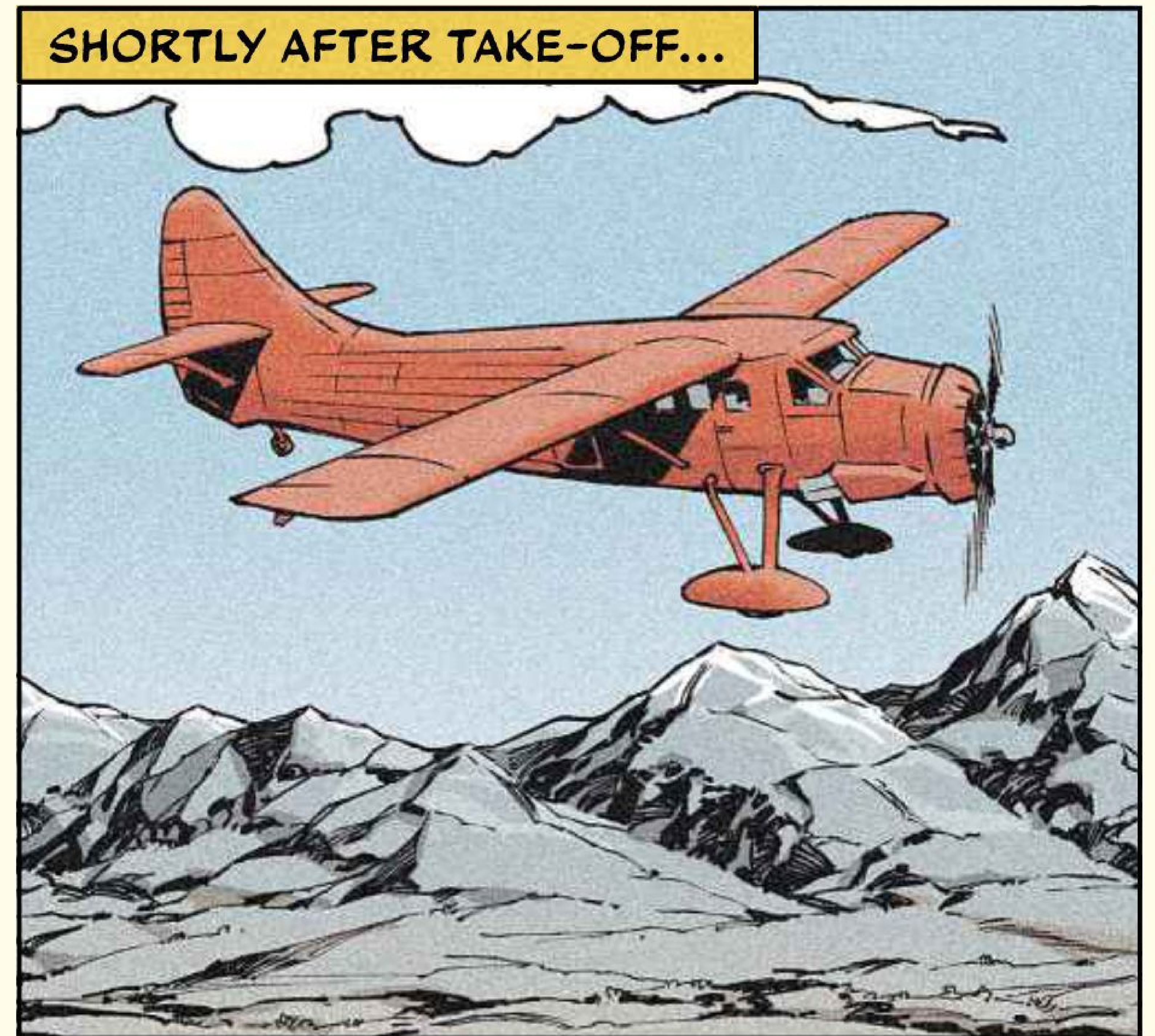

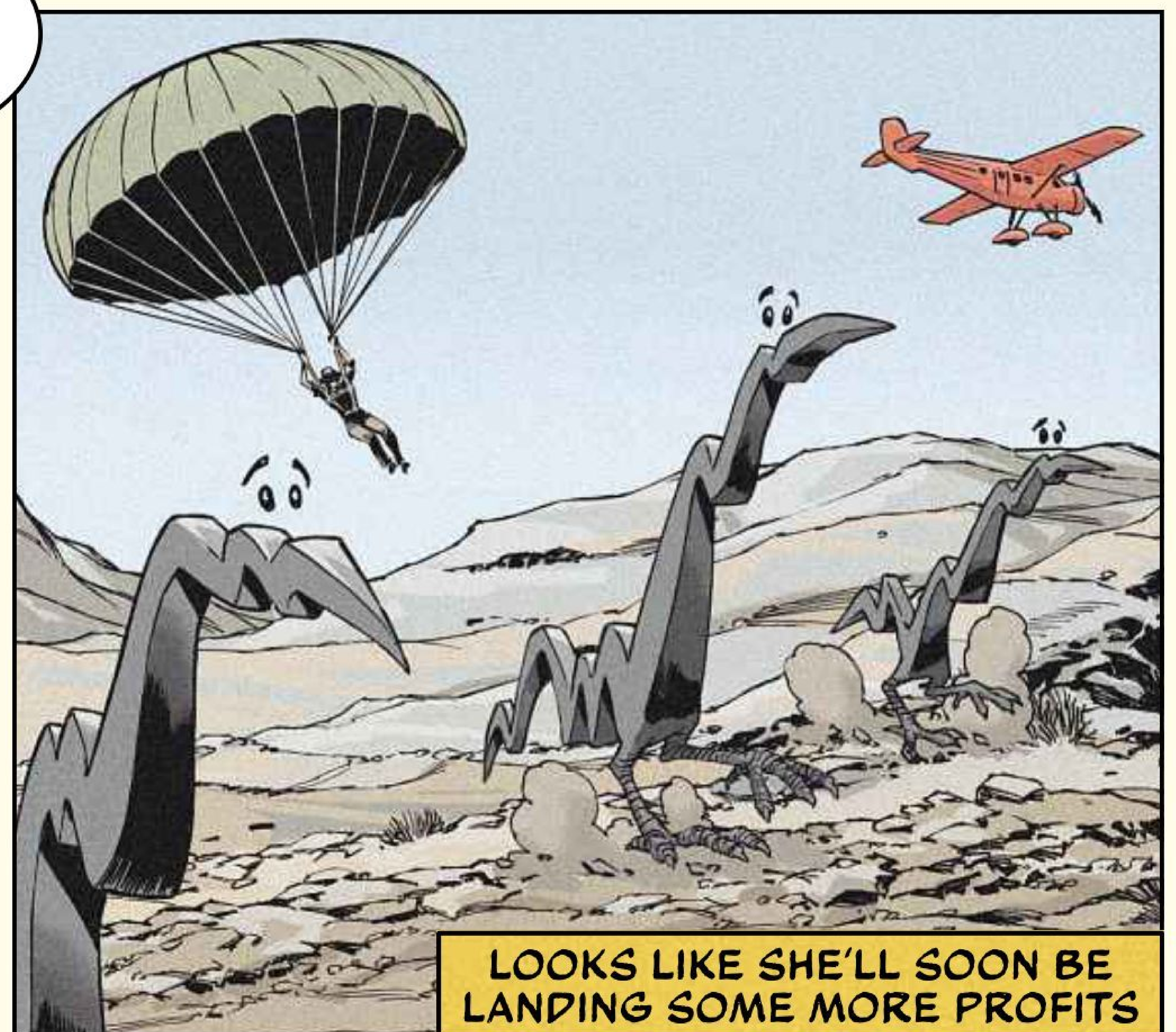

At times like these, the financial world can be both complex and daunting. And yet, there are still healthy Profits to be had. For those active enough (and astute enough) to track them down. The truth is, for the seasoned hunter, today's environment is just another action-packed instalment in their continuing story.

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The value in regional offices

This Reit focusing on opportunities in commercial property outside London looks appealing

Max King
Investment columnist

Press coverage of the office property market focuses on eye-catching new-builds. But the main market is "secondary": the purchase, refurbishment, re-letting and management of existing buildings. This is the focus of real estate investment trust **Regional Reit (LSE: RGL)**. It floated four years ago.

RGL's commitment to a progressive 8% yield plus a bit of capital return was treated with scepticism at first but the target for this year, 8.25p a share, is 8% ahead of the initial dividend. The total return of 10% per annum since launch makes its performance among the best in the sector. This impressive record has facilitated two fundraisings and resulted in a company with a £450m market value and £720m of assets.

Some of that success is the result of a strong in-house team, resulting in intensive management of properties, tenants and debt. There has also been a shrewd evolution of the portfolio, with the office component rising from 58% at launch to 78% .

The supply of office space in regional cities such as Manchester is at a 12-year low

©iStockphotos

Eyeing up regional offices

The best opportunities, chief executive Stephen Inglis believes, are in offices, where capital values of £129 per square foot compare with replacement cost of £185-£220. Rental growth of 5.2% in the first half of 2019 from 39 new lettings was most marked in the office portfolio, where RGL is seeing growth for the first time in 12 years. Moreover, returns since 2016 have been higher in regional cities, where RGL invests, than in London and Inglis expects that to continue. Supply of office space in the regions is at a12-year low.

Despite strong tenant demand and higher rents, RGL is finding a ready supply of high-quality opportunities from forced sellers. Inglis is convinced that in time "capital will be attracted back into regional offices, with rates of return for investors of 15% easily achievable". Meanwhile, RGL has a £500m pipeline of opportunities. £20m was invested in the first half and a further £26m recently. In current market conditions and with rents rising, sales are unusual, although a Sheffield property was sold for a 25% profit in the first half.

To enhance the investment return, the portfolio is financed by debt up to a limit of 40% of value. With secured debt of £292m at an average cost of 3.5% fixed for eight years, RGL is bumping against its ceiling and there is also a £50m unsecured bond issue. The loan covenants look secure, though the pipeline of opportunities suggests further equity issuance, which makes it hard to see the 9% discount of the share price to net asset value narrowing much.

Despite this, the record, strategy and prospects for RGL in its core market, with rents rising and values depressed, make it an attractive investment.

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The best bet in emerging markets?

The Utilico trust focuses on infrastructure, an area its competitors often ignore

Max King
Investment Columnist

The last year has been dismal for emerging market stocks, with the corresponding MSCI index returning 2%. Investors in investment trusts, however, have fared well: the JPMorgan trust (LSE: JMG) has returned 13%, Genesis (LSE: GSS) 14% and **Utilico Emerging Markets (LSE: UEM)** 19% over 12 months. UEM, moreover, has had no help from the Chinese internet stocks that have bolstered emerging markets' performance in recent years.

UEM, with a market value of £540m and assets of £600m, invests mostly in the infrastructure, utility and related sectors. Manager Charles Jillings points out that "delivering GDP growth requires investment in infrastructure assets. [Those] we invest in should continue to deliver... sustainable income streams, resulting in rising dividends... Moreover, one of the strengths of infrastructure investment is high operating leverage": additional volumes trigger a disproportionate increase in profits.

A benign backdrop

Emerging markets currently account for 40% of global GDP, a share that is expected by Oxford Economics to rise to 57% by 2040, and 87% of the world's population. The drivers of economic growth are urbanisation, the growth of the middle class and technology. UEM cannot invest directly in technology but "it is an asset in driving value in the sector". While much of the sector is mature in developed markets, growth is much more pronounced in emerging economies.

It takes two: the fund will no longer tango with Argentina

©Alamy

The portfolio covers energy (gas, electricity and renewables, both generation and transmission), transport (ports, airports, roads and rail), water and telecoms. The top 20 holdings account for 59% of the portfolio with the largest (International Container Terminal Services) worth 6.6% of the total.

Portfolio turnover is estimated at around 20%, much of it, in the last three years, due to exposure to Latin America rising from around 15% of the portfolio to over 40%, mostly in Brazil. "We are optimistic," says Jillings, "owing to the positive impact of President Bolsonaro, notably on pension reform, deregulation of airlines and increased stockmarket flotations."

Exposure to Argentina however, has been cut back. "We were hopeful when Macri came to power and invested 4% of the portfolio," says Jillings. "This grew to 10% but we sold down to 2.5% owing to our political concerns before the primary elections in the summer. Now we are nearly out."

The management team visits all the investee companies and many others besides. This is time-consuming and expensive but the annual management fee is only 0.65%. There is a performance fee too but the ongoing charges are still only around 1%.

Expect a higher dividend

The cash-flow of the companies in the portfolio and the dividends they pay enabled UEM to increase its dividend, fully covered by earnings, by 2.9% to 7.2p in the year to 31 March. With the shares at just under 240p on a 12% discount to net asset value, this means a dividend yield above 3% with a further increase all but certain this year. Jillings describes the persistent discount, which triggered the buy-back of 4.7 million shares last year, as "frustrating", but for new investors it is an opportunity.

UEM's annualised investment return since launch in 2005 has been over 11% and Jillings says "we are as excited about the prospects now as we were at launch", helped by the long-term growth of emerging economies. With buybacks preventing the discount from rising but the potential for it to fall when the current apathy of UK investors diminishes, the shares remain attractive for yield, for capital return and for the trust's focus on an attractive sector that other emerging market funds usually miss.

Woodford watch

Peter Hargreaves (pictured) has joined the attack on the cosy relationship between Neil Woodford and Hargreaves Lansdown (HL), the fund management platform he established with Stephen Lansdown in 1981.

Woodford's Equity Income fund was suspended in June after a series of collapses at unquoted companies; HL had kept it as one of its top picks despite a poor run of form. Woodford seems not to have told HL the truth about his fund's position, says Hargreaves, but "it's also annoyed me that they let it go on so long". Hargreaves still owns 32% of the company, which earned him a £64m dividend for the year to June.

Short positions... how SJP's charges add up

■ Following revelations about its advisers getting lavish cruises for reaching sales targets, St. James's Place (SJP) is back in the spotlight. A study suggests that its customers are paying a lot more to invest with its bespoke funds than they would for almost identical funds run by the same managers elsewhere. For instance, notes Ali Hussain in The Sunday Times, the SJP UK and International Income fund costs 1.88% a year (including the price of advice and using the SJP platform); but manager Adrian Frost runs a virtually identical fund with the same top ten holdings for Artemis. Throw in the cost of advice and an investment platform such as AJ Bell and the overall charge is 1.55% a year. This sort of discrepancy can make a huge difference to long-term returns. Candid Financial Advice calculates that if you invested £10,000 in each of 13 SJP-branded "best-in-breed" funds, you would be £118,000 worse off after 30 years than if you had stuck to versions of the funds from other managers and used a cheaper investment platform. This assumes an annual return of 6%. Had you taken no advice at all, you would have had another £155,000 compared to the investor who used SJP.

■ Hargreaves Lansdown (HL) has abolished exit fees for customers leaving its investment platform, says Claer Barrett in the Financial Times. Until this week shifting assets to another provider would have cost £25 per holding, while there was also a £25 account closure fee. HL is also ditching other charges such as a levy on reinvesting fund income. The news follows the scrapping of exit fees at Fidelity and Interactive Investor, and will fuel calls for all providers to ditch them.

Hold gold: it's an insurance policy against global volatility

The yellow metal has proved a wonderful hedge against recent turbulence for British investors, reaching a record peak in sterling terms. Now bulls should be looking at gold mining stocks, says Dominic Frisby

Gold was one of the go-to investments of the 2000s. From $250 an ounce back in 2001 it rose between 10% and 20% each year, seemingly without fail, until it eventually peaked in September 2011 at $1,920/oz. Mining companies went up ten, 20, in some cases even 100 times. There was a lot of noise and furore. Gold bugs got so excited that they were sure fiat money was going to collapse.

No such thing happened. For the next few years, gold was a disaster. It slid as consistently as it had risen before it eventually bottomed in December 2015 at $1,045/oz. All in all the decline lasted four years and three months, and the overall fall from top to bottom was 45%. That's better than some commodities, worse than others. Crude oil, for example, went from $147 a barrel in 2008 to an eventual low of $25 in 2016 – a decline of over 80% that lasted twice as long, though there were some strong rallies along the way.

Plumbing the depths

It was the abysmal performance of the miners that made gold's bear market feel so much worse. Respectable(ish) mining companies producing gold, even at a profit, saw share-price declines of over 90%. Exploration and development companies, even those with decent deposits in safe jurisdictions, saw declines of over 95%. Many went bust. At the spivvy end of the market, the declines were 100% and mere oblivion followed. Gold mining companies did everything that fiat money was supposed to.

While all this was going on, assets as diverse as London property, bitcoin and US stocks were enjoying the mother of all bull markets. Gold investors not only saw colossal losses, but they had the opportunity costs of missing bull markets elsewhere as well. Depressing times. Many veterans in the mining capital markets described the bear market as the worst they'd ever seen. It's going to take quite something to lure mainstream investors back into gold mining after that.

Today, gold sits at around $1,520/oz. It's clawed back about 50% of the decline. The mining companies, however, haven't even clawed back 25%. It doesn't "feel" like a bull market when the miners are so woefully lagging the metal. It doesn't "feel" like a bull market when gold is still $400 off its all-time high.

A stealth bull market

But these numbers all mask something extraordinary. Last month gold hit £1,286. That is an all-time high in sterling. Blame Brexit and the weak pound, you might think. But it's at all-time highs in euros as well. And in yen, and in Canadian and Aussie dollars. We think of gold in US dollars because the US dollar is the price it is quoted in. But in fact we buy it with our local currency. In the UK we should really quote it in sterling. The pound, as we know, has been woeful since the UK voted to leave the European Union. In fact, it's been falling since July 2014, when it was trading at – can you believe it? – $1.70. Today it sits around $1.25. The value of UK assets has fallen by around 25%.

"Gold has reached a record high in sterling, euros, yen and the Aussie and Canadian dollars"

You invest in gold, I've always said, as your hedge against your government. "Put 10% of your assets in gold," runs the old Wall Street saying, "and hope it doesn't go up." It's insurance. If gold is going up, it means there are problems elsewhere.

For UK investors gold has been the most wonderful hedge against the disaster that has been the pound. Gold has been doing what it's supposed to do. But because we think of gold in US dollars, and the US dollar has been strong, much of gold's relative strength has been concealed. Gold might have been a saviour for citizens of countries like Australia and the UK, whose currencies have been weak, but for US investors, what's the point?

Gold is gathering strength in dollars

It's been a stealth bull market. Even though the lows came in December 2015, for years it has felt like gold has been going nowhere. Every single rally since 2014 has run out of steam in the $1,360-$1,370/oz area. There have been at least five of them. When gold rallied, people would ask me if it had legs. "Call me when it gets through $1,360," I would say. It was such a technical barrier.

This time last year gold was sitting below $1,200 per ounce. Forgotten, scorned and reviled. In June it was at $1,280. "It's the summer," I thought. "Watch it slide back, like it always does." The low for the year usually comes somewhere between June and August. The Indian wedding season (Indians are among the biggest buyers of physical metal) hasn't got going yet; the North American brokers and chief executives are all off on their summer vacation. The market tends to stagnate.

In June, gold suddenly burst through that $1,360-$1,370/oz level as though it wasn't there. It went through every other resistance level in a similarly dismissive manner on its way to a September high of $1,566. It put on nearly $300 at a time when it is supposed to be weak. What's more it rose when the US dollar was rising too. Normally gold rises on dollar weakness. Now even Americans are sitting up and taking notice of this stealth bull market. This is apparent in the inventories at gold-backed exchange-traded funds (ETFs), which now stand at multi-year highs, close to 900 metric tonnes. American money has been flowing into the market.

A technical barrier

Technical analysts are now very excited about gold because, having built a huge base over many years, it is now rallying off it. It has also formed a so-called head and shoulders pattern over the period. That would now imply a target of $1,660. But the big problem gold has, from a technical level, is the $1,550 area. Gold and this price point have a lot of previous.

This zone resisted gold's advance in 2011. It took several months to get through. Then after gold peaked in September 2011, it collapsed back to this level, where it found support. That area would prove to be support all the way through 2012 and into 2013. It was only in the spring of 2013 that it finally gave

©Getty Images

Gold is insurance: if it is rising, there is trouble elsewhere

way, and so followed three of the most miserable years in gold investing history. So it's a huge technical level. And here we are, six years later, butted right up against it once again. It's a quite natural place for this gold rally to stall, as, indeed, it already has.

Sterling is due a rebound

What's more, we sterling buyers of gold need to think about something else: the value of sterling. We can all speculate, but nobody yet knows quite what will happen on 31 October. Will the UK leave the European Union on World Trade Organisation terms? Will it leave with some kind of withdrawal agreement? Will there be yet more delays to Brexit and the date get pushed back? Will it never leave? These four outcomes are all still possibilities.

But once we have clarity, surely sterling will rally. It's extraordinarily undervalued against the world's major currencies. The reason for its low valuation is simple: political instability. There is a chance we get that clarity in the lead-up to 31 October. There is a chance we get more delays, but then a general election provides the required clarity. Either way, some kind of resolution does not look to be far away. If sterling then starts to rally, gold – in the short- to-intermediate term – looks less enticing to sterling buyers.

So the best way for sterling investors to play a gold bull market might be, heaven forbid, the gold miners. These companies book their profits, if they have any, in local currencies or US dollars. Their deposits are valued in the same way. Sterling strength has nothing to do with their profitability.

Time to eye up the miners

However, gold mining companies have been falling in value relative to gold since 2004. Once upon a time, a gold miner was a leveraged way of playing gold. But today we have options, futures, spreadbets, ETFs and a plethora of other ways to gain exposure to the gold price. Why take on the individual company risk of buying a gold miner when there is so much that can go wrong? The quality of management at the top of gold mining companies is noticeably inferior to other businesses. Bad decision-making and excess pay have proved commonplace. Why expose yourself to it? If you want leverage to the gold price there are more effective ways to get it.

Gold miners had an extraordinary bull market in the 1930s after the stockmarket crash of 1929. Many expected something similar in the post-2008 era. It never happened. No wonder. In the 1930s it became virtually illegal for US citizens to own gold, so the only way to get exposure to the gold price was via gold miners, their outperformance makes sense. Today however there is no such concentration of capital.

In the chart overleaf you can see the ratio of gold miners (as measured by the HUI, an index that tracks them) to the gold price since the turn of the century. I've put it on a logarithmic scale so the percentage difference is more visible. When the line on the chart is rising, gold miners are outperforming. When it is falling, they are underperforming. The ratio between the two hit rock bottom at the beginning of 2016.

Continued on page 26

"In the 1930s it was illegal for Americans to own gold, so the only way to gain exposure was through mining stocks"

Continued from page 25

I note, though, the higher lows in 2018-19. There are signs that this ratio may be on the rise. Heaven knows it's overdue. A trend follower would certainly have this down as a change in trend.

No more dinners at the Savoy

Might we, finally, be entering a period of outperformance? The mining sector has certainly cleaned its act up. To call it slick is probably an overstatement. But shareholders' investments tend now to go into the ground, rather than into dinners at the Savoy and first-class air travel. Capital is better deployed. Costs have been cut. Investors are more careful. Many of the scammers and the incompetents have been outed. Gold can stay in the $1,500 area and a lot of mining companies will be quite happy. They can make plenty of money with gold at these prices. It's when it falls below $1,200 that things get dicey. I'm cynical about mining companies, but you can't deny there has been a change in trend.

Losing faith in governments and institutions

There are many different opinions as to what drives the gold price. Looking purely at supply and demand does not work with gold as pretty much all of the gold that has ever been mined still exists. It is not consumed in the way that other commodities are. It is a much more emotional, and speculative, metal.

Where are interest rates going next? If they rise by a lot that will be bad for gold (which has no yield, so it looks less appealing when rates are high). But if they continue to fall, and money continues to be debased, that should be gold-bullish. Real interest rates – net of inflation – are another factor. Monsoons in India are a driver too. Monsoons portend a good year for farmers. They'll spend much of their earnings buying gold. Then there's central banks, notably in emerging markets, buying the yellow metal to diversifying their currency reserves.

But, ultimately, gold is a deeply psychological investment. Gold does best when there is inflation, fear about the future purchasing-power of the currency, political instability and a loss of faith in institutions. That's why, measured in sterling, it has done so well. Indeed, if you were to do a survey of Remainers and Leavers, and whether they own gold or not, I guarantee a greater proportion of Leavers will own gold in their portfolios. They have less trust in the system.

Gold Bugs Index/Gold price ratio

Source: StockCharts.com

A turbulent backdrop

I remember back in 2001 I had a residency on the Radio 4 programme, *Loose Ends*, writing a load of comedy sketches about the election. Each week I did a party political broadcast by one of the parties. When the election came, it was the lowest turn-out since the First World War. Blair's win was dubbed "the quiet landslide". Nobody cared about politics. In the US something similar was going on. I had an email from a friend the other day telling me how the 9-11 terrorist attacks punctured what he called "peak complacency" in the West. The dubious war in Iraq, the housing bubble, the bailing out of the banks and all of those other events that have so undermined public faith in leaders had not begun yet. No wonder gold was so undervalued. The world is a very different place today and, as a result, the gold price is a long way from $250 : there are a lot of reasons to own it. Everyone should hold some gold.

"Since 2001 the world has changed for the worse. No wonder gold is a long way from $250 an ounce"

The gold investments set to shine

The evidence of this century is that gold itself is a much better investment than a mining company. But buy the right miner and you can do very well. There are many ways to buy gold. Pop into a dealer such as Bairds or Sharps Pixley, and purchase sovereigns as every discerning citizen should. Or you can give the good folk at Goldcore a bell and have it delivered to your door.

You can also buy your gold online or via an app and have it stored for you in the safest vaults that vault-makers have yet to create, via Goldcore, Bullion Vault, and Goldmoney. The latter also offers payment services in gold. You can use your gold to pay for things via a credit card. Sounds convoluted but it works.

You can, via your broker, buy one of the numerous exchange-traded funds (ETFs) that are listed on stock exchanges around the world. The **SPDR Gold Shares (NYSE: GLD)** is the most famous. London-listed **ETFS Physical Gold (LSE: PHGP)** is probably more convenient.

If you want leverage, you can dabble in the dark arts of futures trading and spreadbetting (but, seriously, this is risky. Don't do it unless, at a bare minimum, you understand how catastrophically wrong a leveraged bet can go).

If you want to fall victim to the lures of the dreaded gold mining company, let me offer a couple of suggestions. These are my two biggest holdings.

Wesdome (Toronto: WDO) has been producing gold for more than 30 years in Canada. It has a market capitalisation of around C$870m with about 135 million shares outstanding. A couple of years ago it made a new discovery next to one of its mines – one that it had been expected to shut down soon – and this has given the company a new lease of life. It has become one of the go-to speculative shares for funds, so it is quite volatile. In September, for example, it went from C$7.50 to below C$6 on what amounted to a 4%-5% correction in gold. But it's a quality company with quality assets. Buy below C$6.

Rio 2 (Toronto Venture exchange: RIO): in 2008 Rio Alto boss Alex Black bought the La Arena mine in Peru from IamGold for $48m. He built a mine that was pouring its first gold three years later. It became a 200,000-ounce producer that he eventually sold in 2015 for $1.12bn. He did much of this in the face of one of the worst bear markets known to man. Rio 2 is his next project, and he is planning something similar with the Fenix mine in Chile. Despite the project having numerous doubters – the main issue being water, though I gather he has a plan to solve this – this is an enormous gold oxide deposit. It wasn't sexy enough for the newsletter writers when it was announced last month, and the stock fell, but mining pros are impressed. The company is well-funded and has a current market cap just below C$100m. As with Rio Alto, the plan is to get into production quickly, then scale up. It must be a buy around C$0.50. My only doubt is that there are a lot of warrants outstanding – some 46 million in a fully diluted share count of 241 million. That will put something of a brake on the stock. But if Black gets this mine built and producing as he did with La Arena, none of that will matter.

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	2015	2016	2017	2018	2019
Managed Fund	5.9%	6.8%	23.4%	11.5%	7.2%
IA Mixed Investment 40%–85% Shares Sector Median	6.8%	1.8%	16.5%	4.9%	3.7%

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Stocks that offer two sectors for the price of one

There are several excellent companies that dabble in two very different markets. Dr Mike Tubbs highlights the ones worth considering now

Some companies – think Domino's Pizza – stick to what they do best. Some seek growth by exploring new sectors. On occasion, it goes spectacularly wrong: witness GEC's disastrous foray into telecoms as Marconi. But sometimes diversifying into another industry boosts overall growth; if the new business is in a defensive sector, it tempers exposure to the economic cycle. One early notable bi-divisonal company was Richard Branson's Virgin Group, which started as a record shop in the early 1970s but then started Virgin Atlantic Airways in 1984. Before it sold the Costa coffee chain, Whitbread, which also owned the Premier Inn budget hotel chain, was a good example. Google's shift into self-driving cars is another one, while in the private market, Dyson is adding electric cars to its existing range of airflow products (vacuum cleaners to fans).

Twelve listed stocks with activities in two sectors are highlighted in the table below. They span a wide range of sizes and sectors from food and health to retail and robots, with market values from £200m to $1trn. The new divisions mostly have higher profitability than the original ones and so raise overall group profitability. Five of the 12 companies have health as a new growth sector. One of the advantages of health is that products can usually be patented and must meet strict regulatory standards. Once they are approved, then, potential competitors face twin barriers to entry. Here are the stocks I like most.

Company	Original sector(s)	New sector	Size of new sector*	Market cap 19/9/19
Amazon	Online retail	Cloud computing	13%	$899bn
Associated British Foods	Food manufacturing	Clothing retail (Primark)	41%	£18.3bn
Goodwin	Engineering	Jewellery supplies	34%	£249m
Halma	Electronics	Medical	25%	£7.7bn
Johnson Matthey	Emissions reduction	Healthcare & novel batteries	14.7%	£6.1bn
3M	Safety, industrial & office products	Healthcare	18.5%	$96.3bn
Microsoft	Office productivity	Cloud computing	32%	$1.06trn
NCC	Software escrow	Cybersecurity	85%	£523m
Renishaw	Metrology	Health	7.1%	£2.8bn
Smiths Group	Engineering & medical	Hazard detection	25%	£6.6bn
Teradyne	Electronic test gear	Co-robots	12.6%	$9.9bn
Victrex	Engineering polymers	Health	19%	£1.9bn

*New sector sales as % total sales

Primark has quadrupled sales in ten years

Moving to the cloud

Amazon (Nasdaq: AMZN) is well known as the world's largest online retailer. What is less well known is that it also has a flourishing and highly profitable cloud-computing division called AWS, which contributes 13% of revenue but 50% of operating profits. Cloud computing refers to the lucrative long-term trend whereby companies manage software and data services online rather than in-house. AWS is the world's most comprehensive and broadly adopted cloud platform which millions of companies use to power their infrastructure. Netflix is just one major AWS customer. AWS is now the clear world market leader with a 32.3% share and 46% annual growth. With a commanding position in online retail and continual investments in new areas of growth, Amazon is likely to make a lot more progress. Its 2020 price/earnings ratio (p/e) of 55 is down from 77 for 2019.

Microsoft (Nasdaq: MSFT) has a virtual monopoly with its office software suite. But its fastest growth, as with Amazon, stems from cloud computing where it is No. 2 behind Amazon with a 16.5% world market share of 22%. Its Intelligent Cloud division accounts for 34% of revenue but 36% of operating profit. Microsoft has recently streamlined its overall business and has excellent management. The p/e for 2020 is 24.

Victrex is worth a PEEK

Victrex (LSE: VCT) is a FTSE 250 company specialising in advanced polymers, particularly PEEK, which is light, strong and resistant to chemicals. PEEK has many applications replacing metals in the automotive and aerospace industries where

©Primark

> *"Amazon is not just a retailer; it has a highly profitable cloud-computing division"*

weight reduction is important. But Victrex also has a healthcare division – Invibio – which uses the material to supply medical-device manufacturers making products ranging from those involved in joint reconstruction to dental items. Over the last 20 years about nine million Invibio devices have been implanted in patients. Invibio accounts for 19% of revenue but 27% of gross profit.

Victrex has a record of profitable growth although its first-half results reflected weakness in the automotive sector. However, its profitable healthcare division and constant search for new and improved applications of PEEK mean it should return to growth. The p/e for 2020 is 18.4 and it yields 2.8%.

Renishaw (**LSE: RSW**) is a FTSE 250 company and a world leader in precision metrology with a small healthcare division that moved into significant profit for the first time in 2018. The healthcare business is small, accounting for only 7% of revenue, but grew 15% in 2019 compared with 2018 whereas metrology revenue was down 7.5% because of a downturn in the electronics industry and the US/China trade dispute. The healthcare division makes products including craniomaxillofacial implants, stereotactic neurosurgery and precision dental implants. Although the share price has risen recently it is still down 32% from the 5,650p of mid-2018. The 2020 p/e is 24.

NCC (**LSE: NCC**) is a FTSE SmallCap firm that originally concentrated on software escrow (whereby a third-party escrow agent holds source code to protect parties involved in a software licence), but which has built up a cybersecurity division accounting for 85% of revenue. But escrow is still the most profitable division with operating profitability of 50% compared with 11% for cybersecurity, although escrow is no longer growing (revenue down 3% last year). NCC has been through a difficult two years, but now appears to be rebounding under a new CEO. The p/e for 2020 is 18 and it yields 2.5%.

Teradyne (**Nasdaq: TER**) is a long-established US company with a large business in electronic test equipment. Its newer industrial automation (IA) business includes co-robots from its 2015 acquisition of Universal Robots – these are robots designed to work alongside humans as opposed to most conventional robots, which can be dangerous if approached too closely. IA accounts for nearly 13% of revenue and is growing at around 35% a year. Profits are set to grow by 25% in 2020. The stock trades on a 2020 p/e of 19.2.

The ones to watch

The stocks above are the most appealing investment options. There are a couple more that look a tad expensive for now but are worth keeping an eye on. **Halma** (**LSE: HLMA**) is a FTSE 100 electronics company with original businesses in safety and environmental protection. It has been building up a new medical division, which is now the second largest, accounting for 25.3% of revenue but 27.7% of profit. The medical division has grown sales at an annual rate of 19% over the last ten years, with profits growing by 20%. Medical products range from diagnostics to ophthalmology. Halma is an excellent company that has raised its dividend by 5% or more every year for 40 consecutive years and continually evolves its portfolio of businesses to maintain a very high return on capital. However, this excellence is in the price and the forward p/e for 2020 is 35 and the current yield 0.8%; it is worth waiting for a lower entry price.

Goodwin (**LSE: GDWN**) is a British engineering company with interests in mechanical engineering, valves and pumps, and radar antennae. It also has a refractory engineering division supplying the jewellery industry, with major customers in Asia. Refractory engineering accounts for 34% of revenue but 40% of operating profit. Goodwin has been through a difficult period, with revenue down 5% in 2018, but the year to the end of April saw revenue up 2% and operating profits up 37%. But this recovery has been reflected in the share price – up from £19 to £34 in a year.

Smiths Group (**LSE: SMIN**) has a long-established engineering businesses to which a speciality medical equipment and consumables business has been added. However, the medical business is to be sold or spun-off as a separate company in 2020. Its most recent new business is in hazard detection, supplying the scanners that detect hazardous items such as explosives, weapons, biohazards and narcotics at airports, ports, government buildings and other sensitive sites. Smiths Detection accounts for 25% of both revenue and headline operating profit. Smiths has only shown modest revenue growth in the last few years, however. It may be worth revisiting when it has sold or spun off its medical division since its successful John Crane division (the world's largest mechanical seals supplier) and hazard-detection division will then form a larger percentage of the group.

Finally, there is **Associated British Foods** (**LSE: ABF**), with brands ranging from Kingsmill bread to Ryvita. Its low-cost, fast-fashion chain Primark is the jewel in its crown; it has more than quadrupled sales in the past decade and maintained margins of over 10%. There are now 374 stores worldwide. In recent years the large sugar business has lagged Primark. Some analysts suggest ABF should sell the struggling sugar division or spin-off Primark. If Primark is indeed spun out of ABF it could well be worth investing in.

Backing business debt

A personal guarantee makes you liable for your firm's borrowings. Tread very carefully

David Prosser
Business columnist

Would you face serious personal financial hardship if your business went bust? Many entrepreneurs assume not. After all, one argument for setting up a business as a limited company, rather than operating as a sole trader, is that you separate your affairs from the company's.

However, while this is true in theory, it may not pan out in practice. If your business needs to borrow, lenders often expect owners to stand behind the loan. They ask for a personal guarantee that the debt will be repaid. These guarantees aren't secured – they're not tied to a particular asset, such as your home – but they do give lenders a legal right to come after your personal wealth in the event your business defaults.

Personal guarantees are a common feature of loans to small and medium-sized enterprises (SMEs). Just over 30% of such businesses were required to sign a personal guarantee as a condition of their most recent financing deal, according to Purbeck Insurance Services. And 39% of business owners didn't realise their personal assets were at risk if they signed such a guarantee. Lenders say that personal guarantees enable them to offer loans to businesses that lack security of their own or appear risky, perhaps because they don't have lengthy trading histories. And some business owners will feel confident about signing a guarantee.

But it is crucial you understand the implications, preferably having taken legal advice. If things go wrong, the lender may seize your assets – your savings or even your home; and it could ultimately force you into personal insolvency.

If things go wrong, the lender could seize your home

©Shutterstock

Explore the alternatives

There may be other options. For example, the lender may be prepared to accept an indemnity rather than a personal guarantee. This may still leave you liable for your firm's debt in the event it isn't repaid, but only in specified circumstances – if there has been some sort of fraud, say. Alternatively, your bank may be able to help you apply for the Enterprise Finance Guarantee (EFG), a UK government-backed scheme.

Aimed at SMEs seeking to borrow up to £1m but lacking the security that lenders require, the EFG promises the lender that the government will act as a guarantor for 75% of the value of the debt. There are additional fees to pay, but 30,000 businesses have used the scheme in the past decade.

Another option is to seek out alternative finance – the industry has grown rapidly in recent years, with invoice finance and peer-to-peer lending helping to fill the gap created as banks have become more risk averse. These forms of finance don't typically require personal guarantees.

In the news

The flotation of WeWork, the flexible working space company, may or may not eventually go ahead, but the $10bn-plus valuation of the business underlines the size of the flexible working marketplace worldwide.

One vital factor in its growth has been the growing realisation, by companies small and large, that maintaining big office spaces makes little economic sense.

This is partly because companies – particularly younger enterprises – need flexibility to increase their workforces as they grow; this is challenging with a fixed amount of accommodation, unless you're prepared to pay for space you're not yet using. But there are other factors too. The rise of home-working and work-on-the-move, powered by new technologies, means many businesses operate with far fewer people in the office. A drive to reduce the business's environmental footprint can be a factor too.

Importantly, this debate isn't only for large companies. New data suggests small and medium-sized companies could save thousands of pounds each year by embracing flexible working and reducing their office space.

The conference call company PowWowNow claims a business with between ten and 249 employees in London could save an average of £18,600 a year in rent alone. The savings in other parts of the country, where rents are lower, are more modest but significant nonetheless.

Five questions for... Matt Dyson, director of Rockit

● What does your company do?
We design and make products for babies to help them sleep. Our pioneering baby rocker Rockit attaches to any pram or pushchair and gently rocks it when the stroller comes to a halt. We aim to make useful, functional and innovative products with a bit of personality.

● What's been your greatest achievement?
Within just 18 months of being launched, Rockit was being exported to 40 countries around the world. We launched at Kind + Jugend 2017 in Germany thanks to tradeshow access programme (TAP) funding from the Department for International Trade (DIT). From there we received large orders from Australia, New Zealand, Canada and Taiwan. We have also won over 20 design and consumer awards and we were recently selected to be an Export Champion by the DIT in recognition of our international success.

● What has been your biggest challenge?
Having moved so quickly into exporting and being a small business with limited budget, it has been difficult to get the marketing right in 40 different countries. We use social media influencers and micro-influencers to promote the product.

● What are your plans for hitting your targets this year?
We've just launched a brand-new product, Zed, a spaceman-shaped design which is placed on a cot mattress and produces relaxing vibrations that mimic the movement of being in a car. We have over 25 overseas distributors that we are hoping will accelerate sales. In the UK, Rockit is currently sold in John Lewis, JoJo Maman Bébé and Mothercare online, while Argos has just added us to its listings. We also want to expand our exports into Italy and France with DIT support.

● What's the one piece of advice you'd give fellow entrepreneurs?
Product-based businesses should get their intellectual property rights in place and then start exporting as quickly as possible. I would also encourage other UK companies considering exporting to contact the DIT and see how they can help. If we can succeed globally, so can you.

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Has Thomas Cook left you stranded?

The largest repatriation of British citizens since World War II has begun. Here's what you need to know

Ruth Jackson-Kirby
Money columnist

It could take two weeks to get everyone home

©Getty Images

Thomas Cook, Britain's oldest travel firm, collapsed on Monday stranding 150,000 travellers abroad and leaving millions more with future holidays hanging in the balance. Here's what you need to know if you've been affected.

Firstly, any Thomas Cook customers who were on holiday with the firm when it collapsed will be brought home. Package holidays booked with Thomas Cook are covered by Atol (Air Travel Organiser's Licence) protection. Atol is a state-run financial protection scheme operated by the Civil Aviation Authority (CAA) and funded by a levy paid by all Atol holders.

The fund is then used to refund, repatriate or reimburse travellers when a tour agency goes bust. So the CAA will pay for your hotel if you are abroad and arrange flights to bring you home. The CAA has set up a dedicated website to deal with Thomas Cook customers. It gives you information about flights home and claiming your money back (thomascook.caa.co.uk). You can also call them on +44 (0) 333 103 6350.

Some holidaymakers are being asked by their hotels to pay for their room. The problem is that travel firms typically pay hotels for your room 60 to 90 days after your holiday. But it is not your responsibility to pay the bill if your holiday firm ceases trading – it's the CAA's. So, if you are asked to pay, contact the CAA. If you have already paid your hotel some or all of the bill, you should be able to get a refund from the CAA. Most Thomas Cook customers currently abroad will be flown home on flights specially chartered by the CAA. It is expected to be the largest repatriation of British citizens since the Second World War. However, if you are holidaying near an airport served by other UK airlines you may be asked to make your own arrangements to travel home, in which case you will be reimbursed.

"Be prepared for possible delays and the risk that you may be flown back to a different UK airport to the one you took off from, then bussed to your initial departure point," says Patrick Collinson in The Guardian. It is likely to take up to two weeks to get everyone home, with people being brought back as close to their original return date as possible.

What Atol does and doesn't cover

Atol only covers those who booked a package holiday with Thomas Cook. That means you booked your flights and accommodation at the same time through the travel agent. "Most people who book their flight and accommodation separately are not covered," says Graeme Paton in The Times. "However, the government says that its repatriation programme will extend to these customers provided they travel in the next two weeks."

If you've booked a holiday with Thomas Cook and were meant to be setting off in the next week or so, you can claim a refund for your trip on the CAA's Thomas Cook website. In time a "fulfilment partner" will be appointed to provide holidays that were booked with Thomas Cook, but this will take some time to set up so it will only cover trips booked further in advance.

Although Thomas Cook customers who only booked a flight or accommodation through the firm won't be covered by Atol and will be unable to claim a refund, if you paid with a credit card and spent more than £100, you can claim a refund from your credit-card provider under Section 75 of the Consumer Credit Act. You may be able to claim debit card payments back through the chargeback scheme "but this is not enshrined in law", says Paton. Finally, you should check your travel insurance policy to see if you are covered for "scheduled airline failure".

Pocket money... another clampdown on buy-to-let landlords

■ The collapse of Thomas Cook means that around 13,500 people are going to have their pensions moved into the Pension Protection Fund (PPF). "This industry-funded lifeboat offers protection for the members of final salary pension schemes of failed companies," as Alex Ralph notes in The Times.

Retired Thomas Cook workers should see no change to their payments as PPF rules mean they will still receive their "benefits in full". But pension holders who have yet to retire could "face a cut of 10% to their entitlements".

On the plus side, however, the four Thomas Cook pension schemes have a surplus of around £100m. That may be enough for the PPF and the pension trustees to secure a buyout by an insurer, which would then take over the schemes' payments.

■ Landlords are being warned to "consider selling their buy-to-let properties now before a slew of new rules due in April take a bigger bite out of their already squeezed incomes", says Harry Brennan in The Sunday Telegraph.

Bridget Culverwell, of accountancy firm Moore, told the paper that "she had already advised a number of landlords that they would be at least £20,000 worse off if they delayed selling their properties until after April". The problem is that their protection against capital gains tax (CGT) will be greatly reduced. A scheme called "private residence relief" exempts any growth in value of a second home from CGT for the final 18 months of ownership. From April this will be cut to nine months.

Lettings relief is also changing. This tax break allows homeowners to claim up to £40,000 CGT protection on a main residence that was rented out for a certain period of time. From April this will only apply if the homeowners share their property with a tenant.

■ Credit card providers have been "shamelessly upping the interest they charge customers who don't pay off their bill in full each month", says Miles Brignall in The Guardian.

The average rate on credit card purchases has reached 24.7% APR, according to data from Moneyfacts. That's the highest it has been since records began in 2006.

"Credit card customers should take every opportunity to pay more than the minimum repayment. A borrower who makes a purchase of £3,000 on a typical credit card, and repays £100 a month, will have the debt linger for over three years, and it will cost them £970 in interest," notes Rachel Springall, a finance expert from Moneyfacts.

Bag a bargain in the investment-trust sector

A professional investor tells us where she'd put her money. This week: Charlotte Cuthbertson, assistant fund manager, Miton Global Opportunities

Miton Global Opportunities seeks to exploit mispricings in the investment trust world. We look for good assets trading at a discount where we have identified a catalyst for the value to be realised. Over recent months we have seen value building as progress is being made at the net asset value (NAV) level but share prices have failed to keep up.

Digging for treasure

Baker Steel Resources Trust (LSE: BSRT) is a small mining trust. The team seeks to identify promising deposits and fulfil planning requirements to establish rights to operate. Typically, they sell these to a multinational company, which will turn the prospect into a mine while Baker Steel retains equity or a royalty. The trust is at an interesting stage where several of its investments are on the cusp of big developments. With 43% exposure to precious metals it is benefiting from investors' flight to safe haven assets. Given ongoing concern over the macroeconomic backdrop this trend looks set to continue. The trust has been one of our best performers over the past year but at a 24% discount there is still plenty of value to unlock.

Big opportunities in micro-caps

Micro-caps in the UK are facing a perfect storm. Structural headwinds over the past few years have prompted a de-rating. The City is consolidating into larger asset management companies so there are fewer funds small enough to buy companies at the bottom of the market-cap spectrum. When funds are large they are not inclined to acquire very small companies as these barely move the needle in terms of their overall portfolio. Micro-caps have also suffered from Brexit concerns as they are perceived to be more domestically focused than blue chips. To add insult to injury they have also been battered by the post-Woodford liquidity witch-hunt. Investors now fear illiquid stocks and have been selling smaller companies into an unwilling market.

But many investors will now be tempted to buy. After a period of poor performance many micro-cap trusts have drifted out to wide discounts and the stocks in their portfolio are trading at low multiples, creating a double discount. We have been buying **River and Mercantile UK Micro Cap Trust (LSE: RMMC)**.

The Midlands are on the move

We also like **Real Estate Investors (Aim: RLE)**, a trust specialising in property in the Midlands. Many property funds have been shunned thanks to Brexit jitters, while fears over the death of retail have also dominated the headlines. The story in the Midlands, however, is very different and the trust owns a diversified property portfolio. The fall in sterling has been a shot in the arm for the local economy, which specialises in high-end manufacturing for export. The Midlands is set to host the 2022 Commonwealth Games and there have been several high-profile institutions moving their headquarters to Birmingham, notably HMRC, HSBC and PwC, which should help boost the economy further. The trust suffers from its small size and trades at a discount but investors buying now will receive a yield of around 7% generated entirely from cashflow.

"The fall in sterling has boosted high-end manufacturing exports"

If only you'd invested in...

X5 Retail Group (LSE: FIVE) is Russia's largest food retailer. It opened its first shop in 1995 (as Perekrestok) and now operates three brands with over 14,000 corner shops, 785 supermarkets and 90 hypermarkets. It is expanding rapidly: 2018 saw a 19% increase in the number of shops, which has given it a 10.7% share of the market. Revenue rose by 18% to a record $24.4bn, with net profit of $457m. The company listed in London in 2005 and has had a rocky ride since then. Still, the share price has risen by 46% in the last year. In 2018 the group listed on the Moscow exchange.

Be glad you didn't buy...

Restaurant Group (LSE: RTN) operates over 650 pubs and restaurants in the UK. Brands include Frankie & Benny's, Chiquito, and Garfunkel's. The carnage in the casual dining sector has forced it to announce the closure of 150 outlets after reporting a £87.7m pre-tax loss for the first half of the year; it had been forced to write down the value of its property holdings by £115m. The group spent £559m on the Wagamama brand in 2018, which has outperformed the market. The company is pinning its hopes on that continuing. The stock has slid by 36% in the last year.

The perfectionist who rescued Gucci

Tom Ford made his name by pushing the "sex sells" mantra to extremes in the 1990s. But his latest collections and products have been tailored for a different age. Jane Lewis reports

Tom Ford's biography reads like that of a *Boy's Own* comic hero – 21st century-style. In The Times' somewhat breathless account: "He reinvented Gucci and built his own billion-dollar brand. He made critically acclaimed films. Then he took on the beauty industry. First, he created make-up for men, now he's launching 'dual gender' skincare. Is there anything Tom Ford can't do?"

"The King of Glamour" has certainly mastered the art of seducing his interviewers. When Ford met up with The Sunday Times' late inquisitor, AA Gill, he suggested they conduct the conversation naked. Indeed, "his tenure at Gucci reached its apex with an advert in which the brand's logo was shaved into the model's pubic hair", says The Guardian. Ford made his name in the 1990s pushing the mantra "sex sells" to the limit. But business always comes first. His latest, rather more modest collections model the #MeToo era. "Now is not the time for super-sexy clothes."

Creating the first global fashion brand

Immaculately groomed Ford, now 58, remains wedded to his trademark unbuttoned white shirt: "a sartorial nod to his beloved disco-era Seventies", says The Times. A self-confessed perfectionist, he only ever wears his own clothes. "If I want something that I don't make" – a motorcycle boot, say – "I design it", he says.

Born in Texas, the son of real-estate agents, Thomas Carlyle Ford took an interest in fashion and beauty from an early age, says The Observer. His first muse was his grandmother: "She was incredibly stylish, she had big hair, big cars," he recalls. As a student in New York, Ford dabbled in architecture, acting and fashion, spending time in the celebrated Studio 54. He got his big break at 29, when he was hired as Gucci's chief women's designer. The Italian leather-goods specialist was "in a deep rut and close to bankruptcy". Ford's cool style and teasing way with celebrities put it on a different path. By the time he left in 2004, Gucci was a £2bn powerhouse encompassing Yves Saint Laurent, Stella McCartney and Alexander McQueen. The New York Times credits him with creating "the first real high-end global fashion brand".

> *"If I want something that I don't make, I design it"*

Not everyone fell at his feet, as The Economist noted back in 2002. The late Saint Laurent "made no secret of his disdain" for Ford's "market-oriented" ways – once acidly lamenting, "the poor guy does what he can". And when the French luxury group, Pinault-Printemps-Redoute, took a controlling stake in Gucci, a power struggle ensued which saw Ford and his CEO ousted. "My life at Gucci was like being married," Ford later observed. "Then you come home one day, the door's locked, and your wife is in there f***ing someone else."

Happily married in real life to style journalist Richard Buckley, Ford bounced back. He risked "humiliation" (and a lot of money) self-financing, co-writing and directing a $7m feature film, *A Single Man*, says The Times. Fortunately, the movie was a critical and box-office hit; taking almost $25m. His follow-up, *Nocturnal Animals* – a study of death – was also garlanded. In 2013, Ford made "another leap", launching a make-up line for men that "looks prescient" now "we live in an era when a French president spends €26,000 on make-up in three months". Tom Ford Beauty is also spending big on a project exploring "the secrets of enduring dermatological youth".

"This job is a total ego thing in a way," Ford observed in 1996. "But then, that's the goal: world domination through style." These days he takes a softer line and professes to be "happier". But Ford (whose personal wealth is put at anything from $70m to $500m) still celebrates the power of cash. "Money", he concludes, "gives you freedom… I'm incredibly lucky."

Great frauds in history... *Prescott Jernegan's gold hoax*

Prescott Jernegan was born in December 1866 and as a toddler spent a few years on his father's whaling ship before his family settled in Edgartown, Massachusetts. Jernegan later graduated from Brown University and briefly worked as a schoolteacher before attending Newton Theological Seminary and becoming a Baptist preacher. His preaching proved controversial and he struggled to earn enough money. One day, while recovering from typhoid fever, he had a dream about seawater turning into gold. Hooking up with childhood friend Charles Fisher, he later claimed to have found a way to extract gold from seawater at a reasonable cost. (Seawater does in fact contain gold, but in such low concentrations that extraction is uneconomic.)

The pair set up the Electrolytic Marine Salts Company in 1897 and raised $900,000 ($28m in today's money) to set up a "gold extraction factory' in Lubec, Maine.

What was the scam?

As Jernegan would later admit, the company's scientific apparatus was an elaborate sham intended to give the impression that something was going on, rather than producing any actual gold.

In order to give the impression that gold was being extracted from the seawater, gold flakes were covertly added to the early samples produced by the machine. Later, to keep the deception going, the duo would spend $2,000 a week on gold, which was sent to the Boston offices of their company, to be mixed in with the material produced from the Lubec factory.

What happened next?

The scheme came to a messy end when William Phelan, a private detective who had been involved in setting up the original scam, attempted to blackmail the duo. When they refused to pay him, he revealed in The New York Herald how they had gone about deceiving investors, causing Fisher and Jernegan to flee to France. Initially Jernegan pretended that he was searching for Fisher, who was needed to operate the machinery. He then vanished, though not before returning $150,000 that he had taken from the company before his disappearance.

Lessons for investors

Thanks to Jernegan's fit of conscience and the sale of land and equipment, thousands of investors managed to recover around a third of their original investment. Those who bought shares in the company at the peak of the market would lose much more. The scam was fuelled by the publicity generated by the Alaskan Gold Rush of 1896-1899) – a lesson that bubbles and booms provide fertile ground for scams and deception.

©Getty Images

Four alternatives to the typical holiday

Fed up with the usual tourist traps? Then it's time for something completely different, says Stuart Watkins

Are you suffering from the autumn blues? That sinking feeling that the days of enjoying calamari at that secluded inlet by the azure stillness of the Mediterranean are over, and that you have nothing to look forward to but a British winter, hassle and a mountain of uncompleted tasks? Well, not me, says James Delingpole in The Spectator. There is a very simple cure for the autumn blues and that is not to go on holiday at all, stay home all summer and just carry on working.

That way you can enjoy the feeling that you are virtuously holding the fort while all your comrades have deserted their posts. And because everyone assumes everyone else is away and adjusts their expectations, you can put in the hours with half the effort and still get all the kudos. Come autumn you will be inured to the pain of the daily grind, "like the old lag in the POW camp, watching the newcomers arrive… their eyes bright with the prospect of camaraderie and imminent escape".

Best of all, though, is that once everyone's back at their desks, you can pop down to the beach at Devon. "It's great: summer weather at autumn prices – and emptiness. You should try it sometime."

Hole up in a posh hotel and indulge your inner child

Stay in the hotel

We stumbled upon the idea of the hotel-room holiday by accident, says Yonatan Raz Portugali on Popula. Arriving in Chania, Crete, for their honeymoon, Raz and his partner found that the "magical Venetian town" they'd read about in a travel magazine turned out to be "a maze of souvenir shops, Irish pubs and 'authentic' Greek tavernas". The hotel room, though, was "amazing", with "old-world wood furniture and nice balconies with views of the port". So they stayed in, read, watched TV, chatted, ordered pizza, wrote a little, doodled –and as the honeymoon came to an end, they realised they hadn't set foot outside the premises but had "had the best holiday ever".

If you stay in your room, you can't be "disappointed, frustrated or cheated" by your choice of destination, yet if you just look at it through the window, "everything will seem interesting". Indeed, one of the deepest pleasures of the hotel-room holiday is how "it allows you, as a grown-up, this rare, forgotten feeling of knowing that someone else, someone responsible, is taking care of life for you… making sure things are functioning smoothly and safely". A hotel "is perhaps the closest you can get to being a child again, locking yourself up in your room" while someone else takes care of the food and the cleaning.

Vladimir Nabokov completed *Pale Fire* while living in a suite at the Montreux hotel, and that's the kind of place you want for a hotel-room holiday. "The ideal places to encamp are the luxury hotels of yesteryear, built around the 19th century for train travellers, shabby and dated, thinly staffed and clinging on mainly through inertia."

Take a stroll in the city

If you do venture outside the hotel, leave your tourist itinerary behind and go for an aimless stroll. French radical Guy Debord coined the term "psychogeography" to describe the practice and it can "reveal or illuminate forgotten, discarded or marginalised aspects" of the city, says Siobhan Lyons on The Conversation. The idea is just to drift, even get lost, with no purpose other than to wander.

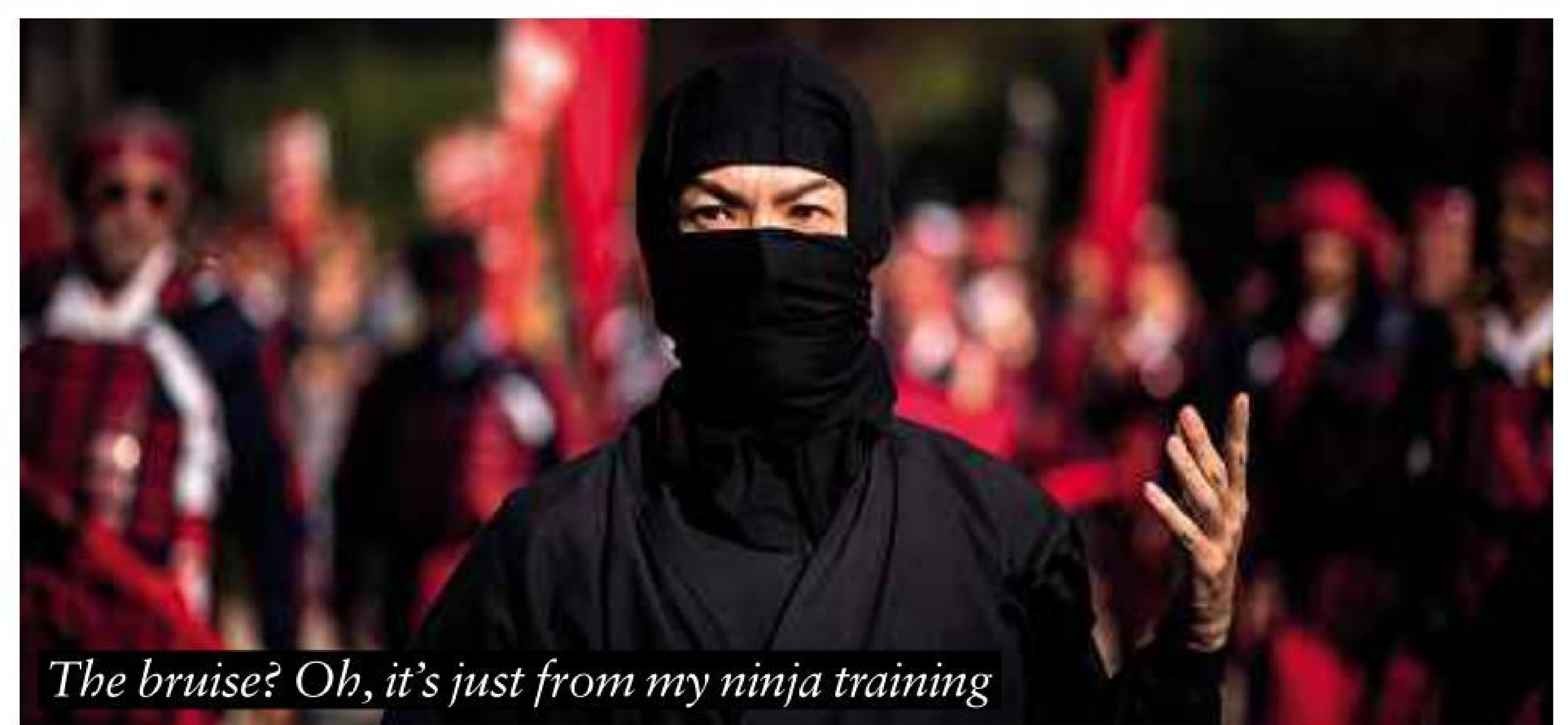
> *"The M25 may not sound like a promising place to enjoy your holiday…"*

Psychogeographer Iain Sinclair wrote a book about his walk around the M25 and the "unloved outskirts of the city" of London. Such wanderings make you "an insurgent against the contemporary world, an ambulatory time traveller", according to Will Self, another contemporary psychogeographer and author. The M25 may not sound like a promising place to enjoy your holiday, but your experience is unlikely to be spoilt by hordes of tourists, and the act of wandering, says Australian stroller Vanessa Berry, "re-enchants places that are overlooked or not usually subjects for attention".

Train to be a ninja

The ninja were warriors in feudal Japan who specialised in unconventional warfare, using methods such as infiltration, sabotage and assassination. As history passed into legend, their skills came to be believed to include invisibility and walking on water. Black Tomato, a luxury travel agency based in London, has a ten-night itinerary that will give you some insight into the dark arts of the ninja. The trip includes martial arts lessons with a ninja master, and you'll get to practise with a variety of ninja weapons, including throwing stars and blowguns, as well as the basics of ninja techniques such as "stealthy steps, hardened hands and the inner eye". As Black Tomato says, "Just imagine the conversation at your next dinner party; 'The bruise? It's from training with a real-life Japanese ninja". *From £9,000 per person, excluding flights*

©Getty Images



The bruise? Oh, it's just from my ninja training

This week: properties with impressive kitchens – from a 16th-century manor in landscaped gardens in Cambridge

▲ **Castelnau, Barnes, London SW13.** A Grade II-listed Regency house with integrated coach house close to Barnes village. A bespoke kitchen features Carrara marble surfaces, an integrated fridge/freezer/wine cooler and folding doors leading onto the garden. 6 beds, 4 baths, 3 receps, wine cellar, parking. £5.5m Knight Frank 020-3371 3130.

▶ **Saint Justin, Vaucluse, Provence, France.** A renovated 17th-century house with countryside views and a range of outbuildings. The main kitchen has a large range cooker set in a large fireplace and a central cooking island with integrated appliances. 8 beds, 5 baths, 4 receps, stabling, pool, 35.6 acres. €3.95m Knight Frank 020-7861 5034.

▶ **Coachmans Lodge, Churt, Surrey.** A contemporary property in the countryside but only 50 miles from London. The curved exteriors feature wood cladding and glass walls, and the open-plan interiors include a bespoke kitchen with mezzanine area above. 3 beds, 2 baths, 2 receps, cinema room, breakfast kitchen, 1-bed studio, stable block, 8-car garage, stores, gardens, lakes, paddock, woodland, 11.5 acres. £3.5m Savills 01252-729002.

shire to a renovated country house in 36 acres in Provence

Chapters House, Treloyan, St Ives, Cornwall. A modernist house built by the current owners in 2016 and designed to take advantage of the light and the views. There is a large open plan kitchen with luxury modern fittings along with a dining and living area with floor-to-ceiling sliding doors leading onto the garden. 5 beds, 4 baths, 2 receps, roof terrace, swimming pool complex, double garage, parking, garden. £1.45m Jackson-Stops 01872-261160.

Summerside House, Hindley Farm, Stocksfield, Northumberland. A property created from an old farm steading with views across landscaped gardens and a large bespoke kitchen with bi-fold doors opening onto a dining terrace. 5 beds, 3 baths, 3.6 acres. £1.15m Sanderson Young 0191-223 3500.

Ardlebank House, Ballintuim, Blairgowrie, Perthshire. This property was built in 2011 by local architects specialising in sustainable buildings, and is clad in reclaimed slate, Siberian larch and local stone. The large open-plan kitchen has an induction hob, teppanyaki plate, grill pit and wok hob as well as three ovens. 4 beds, 4 baths, gym, double garage, roof terrace, garden, 1 acre. £1.3m Savills 01738-477519.

Sunrise, Torquay, Devon. A modern property arranged over four floors with balconies and terraces to take advantage of the sea views. It has programmable underfloor heating, intelligent lighting and passive ventilation systems, and the kitchen has granite worktops, Siemens appliances and a wine fridge. 4 beds, 5 baths, open plan kitchen/dining/living area, pantry, media room, garage and parking, lift. £1.9m John Couch 01803-296500.

The Manor House, Orton Waterville, Peterborough, Cambridgeshire. A manor dating from 1571 set in an elevated position and surrounded by landscaped gardens. The bespoke hand-crafted kitchen has Wolf cooking appliances and floor-to ceiling doors that lead onto a courtyard garden area. 7 beds, 3 baths, 2 receps, pantry, games room, boot room, cloakroom, stables, garages, stores, outbuildings, 1.1 acres. £2.275m Fine & Country 01780-750200.

A McLaren you can take shopping

The new grand tourer has softer edges, but won't disappoint supercar enthusiasts. Chris Carter reports

McLaren has unveiled a new kind of tourer, says Andrew Frankel in Autocar. It is a "lighter, more dynamic, more, er, McLaren-y kind of grand tourer" than McLaren's previous attempt – the 570GT. "Gorgeous" and "rapid" though it was, the 570GT fell short of expectations. Punters said they wanted a car like that, "but even more so".

The new car "represents a concerted attempt to actively pull in a new and different crowd", says Will Hersey in Esquire – "to undo a couple of shirt buttons and to add a bit of neckerchief-wearing joie de vivre from the GT's mid-20th-century golden era" that brands such as Ferrari "continue to dine out on". Yet this "smart Surrey-boy from Woking can still give those snake-hipped Italian rivals a run for their money in the charm department," says Ray Massey on Mail Online. "And if you fancy a round of golf around Saint Tropez, Cannes or Monaco, there's even room in the back for your bag and clubs."

The GT uses "an updated version of McLaren's carbon tub and a tweaked version of the familiar 4.0-litre twin-turbo V8" engine, says Richard Ingram in Auto Express. "There's a new steering set-up, new brakes, and new tyres, too", and there's a whole new look to the brand. "While it's still instantly recognisable", the GT "offers a more restrained style, with a longer body and more elevation". That makes life easier when you're "pootling around town". The GT is most at home on the motorway, yet "when the road gets windy, the McLaren comes alive. The new electro-hydraulic steering has a beautiful weight to it, feeling darty yet easy to control via the chiselled, perfectly formed wheel."

"In the end, how you judge the GT is a question of philosophy," says Jethro Bovingdon in Evo. "If you think a grand tourer is front-engined and all about big, muscular character then this thing is not for you. However, I came to enjoy its mix of restrained supercar aesthetic, fluid dynamics and ultra progressive handling balance."

"This is very much a McLaren, but one that has undone a couple of shirt buttons"

Price: £163,000
Engine: 4.0-litre twin-turbo V8
Torque: 465lb ft at 5,500rpm
Power: 612bhp at 7,500rpm
Top speed: 203mph
0-62mph: 3.2 seconds

Wine of the week: a startling revelation from Aldi

NV Veuve Monsigny, Grand Reserve, Champagne, France
£16.99, Aldi

Matthew Jukes
Wine columnist

Bargain basement Champagne is a dire category of wine that I force myself to taste because it is my job (and someone has to do it). Imagine my surprise when I sipped "ordinary" Veuve Monsigny (£12.49) – a fish-tank-scented sparkler which, incredibly, wins occasional awards – and then traded up to its black-label sibling, expecting an even more dismal experience and yet finding a wine which made me gasp with joy.

This rather well-packaged Champagne, with its insultingly low price point, is a genuine revelation. I went one further and tasted the 2010 Vintage Veuve Monsigny (£19.99) and regretted it. The vintage wine is a monster with clumsy, yeasty, burpy fruit, but the Grand Reserve, which by now looked like it was wearing a tuxedo next to its stablemates, shone even brighter and so I went back for a second sip.

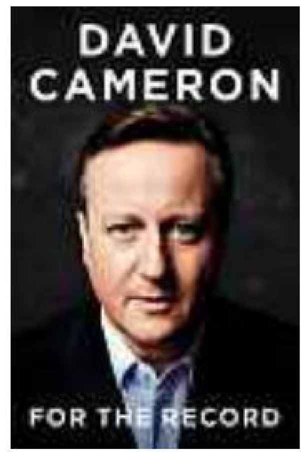
This wine is a vinous aberration in the sparkling Aldi cosmos – it is only the second wine from Aldi to have made my column in 682 issues – and I urge you to take the plunge and taste it. It is fabulously well-priced, beautifully appointed and genuinely delicious. It cannot last. Just as the first vintage of Toro Loco, which I wrote up in the Mail, and which sold by the container-load, didn't last. But don't worry, just load up. It might be another six and a half years before another one comes along.

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

Book of the week

For The Record

By David Cameron
William Collins, £25



Political memoirs are usually quite dull affairs. Politicians (or their ghostwriters) justify their actions and seize the moral high ground by being polite about everyone, including their rivals. *For the Record*, by former prime minister David Cameron, is just like all the others in that it is full of self-justification, but is unusual in that it doesn't hold back when it comes to recriminations. Cameron feels he was let down by Angela Merkel and Barack Obama, and has particular venom for both his predecessor and the current occupant of Downing Street, missing no opportunity to point out what he sees as Gordon Brown's pettiness and Boris Johnson's opportunism.

Cameron's account of his political journey also has plenty of titbits for those interested in the day-to-day life of a prime minister. There are anecdotes about Her Majesty's breakfast habits, for example, and about travelling on Air Force One with the American president. Those with a deeper interest in why Cameron took the decisions that he did will also find plenty of interesting material. He covers everything from the negotiations with Nick Clegg that led to the Conservative-Lib Dem coalition government to the debates with the Americans and within his own Cabinet over the best way to help the rebels in Syria.

Cameron takes another opportunity to point the finger

©Shutterstock

> *"The reader would be well advised to take the helpings of salt needed to make such self-justifying accounts palatable"*

But the reader would be well advised to take the helpings of salt needed to make such self-justifying accounts palatable. His claim that the decision to promise a referendum on Britain's membership of the European Union was a deliberate choice, prompted mainly by frustration at moves towards greater European integration, rather than by a desire to prevent Conservative voters from defecting to Ukip, is unconvincing. Similarly, his surprise at the negative reaction to his support for "English votes for English laws" in the immediate aftermath of the Scottish referendum is more than a little disingenuous.

The book contains few genuine revelations. We learn that, following the Brexit referendum, Cameron discreetly encouraged MPs and ministers to support Theresa May. But given what had just happened, he was hardly going to line up behind any of the other candidates. That aside, there is little in the book that we didn't already know, which is perhaps unsurprising given the large amount of material that has already been written elsewhere on the Cameron years.

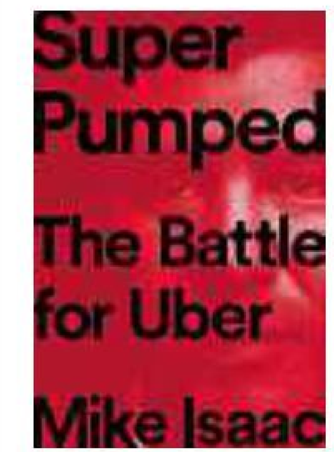
This is not the most compelling political memoir and the depth of your enjoyment of it will probably come down to whether you think Cameron's time in office was good for Britain or not. But whatever your view, the former PM's voice comes through clearly, and his book is worth a read.

Reviewed by Matthew Partridge

Super Pumped

The Battle For Uber

By Mike Isaac
WW Norton & Company, £19.99



Uber was once hailed as a welcome disruptor and innovator, shaking up a heavily protected industry. At one point boosters were arguing that the ride-sharing app company would replace public transport and even private car ownership. How the mighty have fallen. Today, Uber is mired in controversy and conflict. Recent court judgements have put its business model in question and it is still reeling from allegations that prompted CEO Travis Kalanick to resign. The share price has sagged. This book tells the full story of Uber's dramatic rise and (possible) fall.

Kalanick took the Silicon Valley principle of "move fast and break things" to extremes, deploying technology, lobbying and appeals to public opinion to bulldoze through or simply ignore the various legal barriers to Uber's business model. This enabled it to gain a huge number of customers in a very short period of time, but the strategy began to look less sensible as time went on and problems emerged. Mike Issac tells this Silicon Valley morality tale in an engaging, readable manner, conveying the energy of Uber's early days and the intensity of the boardroom battles as things turned sour. We could have done with some more detail about the firm's current woes, not least its failure to consistently make profits. But I wouldn't be surprised if the book is turned into a film or TV series – the twists and turns in the company's fortunes make for a surprisingly compelling drama.

Book in the news... the billionaire brothers who fought for a free-market utopia

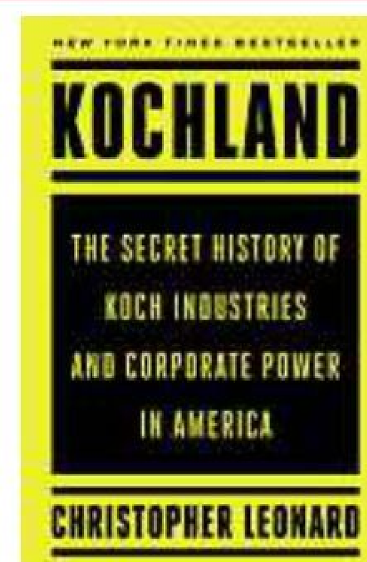
Kochland

The Secret History of Koch Industries and Corporate Power in America

By Christopher Leonard
Simon and Schuster, £25

Donald Trump aside, there is "arguably no bigger villain" for the liberal left in America than Charles Koch, says Suzanne Goldenberg in The Washington Post. Over half a century, the "notoriously secretive multibillionaire from Wichita" – alongside his brother David, who died recently – transformed Koch Industries "from a midsize Midwestern company" into a conglomerate exercising "enormous influence" over public life, bankrolling lawmakers and lobbying efforts to block action on climate change and roll back government regulations. This book is the "definitive account" of how the brothers amassed their fortune and then used it to become a "largely unseen and entirely unaccountable force" in American politics.

Leonard's book is far from the first to detail Charles's and David's "unmatched political influence machine", says Andrew Edgecliffe-Johnson in the FT. But the real strength of this one is "its dissection of the cultish ethos" of what the author calls "Charles Koch's privately controlled free-market utopia". It shows "how seamlessly Koch's worldview tied together his business and political activities" and outlines the "three defining traits" that did the most to build the Koch fortune: "an ability to think in decades rather than quarters; a knack for turning the complexity that others run away from to his advantage; and a calm talent for seeing opportunity in periods of extreme volatility".



Indeed, the core of the book is its explanation of Koch's philosophy of "Market-Based Management", says Jennifer Szalai in The New York Times – the idea that a firm's workers should be treated as entrepreneurs and be subject to market discipline. What this meant in practice was an "antiseptic, ruthless system" that pitted workers against one another. Charles Koch, in *The Science of Success*, thought that this system provided "a way for business to create a harmony of interest with society". The question *Kochland* raises, says Szalai, is whether this system could result in a society "where anyone without a few billion to spare would actually want to live".

How to fleece a fat cat

As a new film shows, it's not that hard to do. But the hissing gets noticed eventually

A fool and his money are soon parted, according to the wisdom of the ages, and it seems the world as yet has no lack of fools who have yet to learn the lesson. *Hustlers*, a new film based on a true story and starring Jennifer Lopez, shows how a "resourceful gang of exotic dancers" set out to exploit this fact by "fleecing New York's sleaziest fat cats, drugging their drinks and running up their credit-card bills", as Simran Hans in The Guardian puts it.

Jennifer Lopez (second from left) portrays the true story of a Wall Street hustle

©Alamy

The film is based on journalist Jessica Pressler's account, published in 2015 in New York Magazine, of a group of dancers working at a club near Wall Street. Initially the group followed the age-old tactic of spotting wealthy men in bars, getting them "drunk on alcohol and feminine attention", as Pressler put it, and then steering them towards one of the clubs from which they had negotiated a lucrative percentage of the spending. These girls took that deception a stage further – rather than depending on their target's generosity, they would take his credit card and run it up themselves "as far as they could push it". To minimise resistance, they would give their marks a "special drink" spiked with illicit drugs that would mess with their memory, making it harder for them to dispute the bill.

The scam worked a treat. The dancers swiped generous cuts from their clients' spending of "30, 40, 50 thousand dollars a night" and they started to indulge themselves on shopping sprees, their closets becoming lined with Gucci and Chanel. The fleeced clients kept quiet for fear they would end up a laughing stock. The girls came unstuck when one confessed what she had done to a distraught victim, who recorded the conversation. The police were then forced to take the hustle seriously. The girls were arrested and charged with forgery, conspiracy, grand larceny and assault.

Hustlers hustled

The dancers may have bested Wall Street – at least for a while – but ironically they turned out to be no match for the sharks of Hollywood, says Julie Miller in Vanity Fair. Samantha Barbash, who received probation for her role in the scheme, is now complaining that she won't get anything from the portrayal of her story after she turned down the "minuscule amount" that STX, the production company making the film, was willing to offer for the rights to her story. Barbash claims she has handbags "that are worth more than what they wanted to pay me". But in the end she's philosophical about it. She has her own memoirs out, and the film publicity will, she says, be good for her book.

"I have handbags that are worth more than what they wanted to pay me for this film"

Barbash is not exactly full of regret, says Jeanette Settembre for Fox Business. "I'm not ashamed of it. It bettered my life for the good," says Barbash. Yet she seems to have her head screwed on when it comes to money. She may have been pretty liberal with other people's – "at the end of the day, I'm not going to turn down a shopping spree" – but when it comes to one's own, she advises young women to think of the big picture. "Save your money and invest. You're not going to be young forever, don't think about the $5,000 Chanel bag – think about the bigger business."

Quintus Slide

Tabloid money… attention control: the most important skill for the 21st century

● **After years of partying with the rich and famous, socialite interior designer Nicky Haslam, "the darling old bean", has "barely got a bean to his name", says Jan Moir in the Daily Mail. But he doesn't seem to care. "I worry that I should worry about money more than I do," Haslam (pictured) tells Moir. One suspects that, for Nicky, "worrying about one's financial situation is on one of his famous lists of Things He Finds Common; a hilarious snobalogue that currently includes coloured Wellingtons, wine collecting, self-pity, cufflinks, box sets, jazz, Uber taxis, bottled water, glass fruit in a bowl, vodka tonic, swans and exclamation marks." Scant surprise he "quails" at the thought of his upcoming 80th birthday party and "the ghastly intrusion of other people's taste via birthday gifts". "Oh, the horror!"**

● "How ironic that at a time when the Bank of England is putting more women on banknotes in order to promote 'inclusivity', it is becoming harder for us to get hold of those notes," says Ross Clark in The Sun. Over the past 18 months, one in ten cashpoints has disappeared. A big reason for the disappearance of cash is the "huge lobbying operation to try to persuade us all to go cashless and use only electronic forms of payments". Some bars and restaurants have already gone cashless, and Sainsbury's recently opened a store accepting only payments via a smartphone app. It changed its policy after confused shoppers jammed its helpdesk. The "right to use cash is a vital freedom if we are to avoid being exploited".

● Stanford University psychology expert Nir Eyal has spent most of his career in the video-gaming and advertising industries, where he learned all about motivating and manipulating users, says Saira Khan in the Sunday Mirror. There are two kinds of people, he says. Those who let their attention and lives be ruled by others, such as by the tech giants through our mobile gadgets. And those who proudly call themselves "indistractable". Learning to be the latter "is the most important skill for the 21st century and it's the one that many parents fail to teach kids", he says. "Our attention is valuable and has a price," says Khan. "We need to be aware of how much time we are dedicating to a particular activity… and who is benefiting from it."

©Getty Images

Bridge by Andrew Robson

Yorkshire's devilish bridge hero

This week, our series on past bridge heroes features Yorkshireman Harold Franklin. Famed in his early days for his volatile temperament, Franklin's technique – he represented Great Britain and won the Gold Cup twice – was never in question. Here, we witness Franklin pull off a rare Devil's Coup in his ambitious grand slam, avoiding an apparently certain trump loser.

Dealer South — East-West vulnerable

North: ♠ AKQ84 ♥ A73 ♦ K1073 ♣ K

West: ♠ J732 ♥ Q104 ♦ Q6 ♣ J653

East: ♠ 1065 ♥ 986 ♦ J84 ♣ 10984

South: ♠ 9 ♥ KJ52 ♦ A952 ♣ AQ72

The bidding

South	West	North	East
1♦*	pass	2♠	pass
2NT	pass	4♦	pass
5♣**	pass	7♦***	pass
pass	pass		

* In modern Acol, the standard British system, you'd open One Heart.
** Ace-showing cue-bid, agreeing Diamonds.
*** Five No Trumps – the grand slam force asking for two of the three top trump honours for Seven – would have been wiser.

Declarer won the Spade lead in dummy and cashed a second Spade, discarding a Heart. He cashed the King of Clubs, ruffed a low Spade, cashed the Ace-Queen of Clubs (throwing a Heart and a Spade from dummy) and ruffed the fourth Club. He cashed the Ace of Hearts, crossed to the King then ruffed the Knave of Hearts.

With three cards remaining and the lead in dummy, East held Knave-eight-four of trumps, declarer Ace-nine-five of trumps, West a spade and Queen-six of trumps, and dummy the Ace of Spades and King-ten of trumps. Dummy's Spade was led. If East ruffed low, declarer could overruff cheaply and score the last two tricks with the Ace-King of trumps; while if East ruffed with the Knave, declarer could overruff with the Ace and finesse dummy's ten. Thirteeen tricks and grand slam made.

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

Sudoku 966

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

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

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

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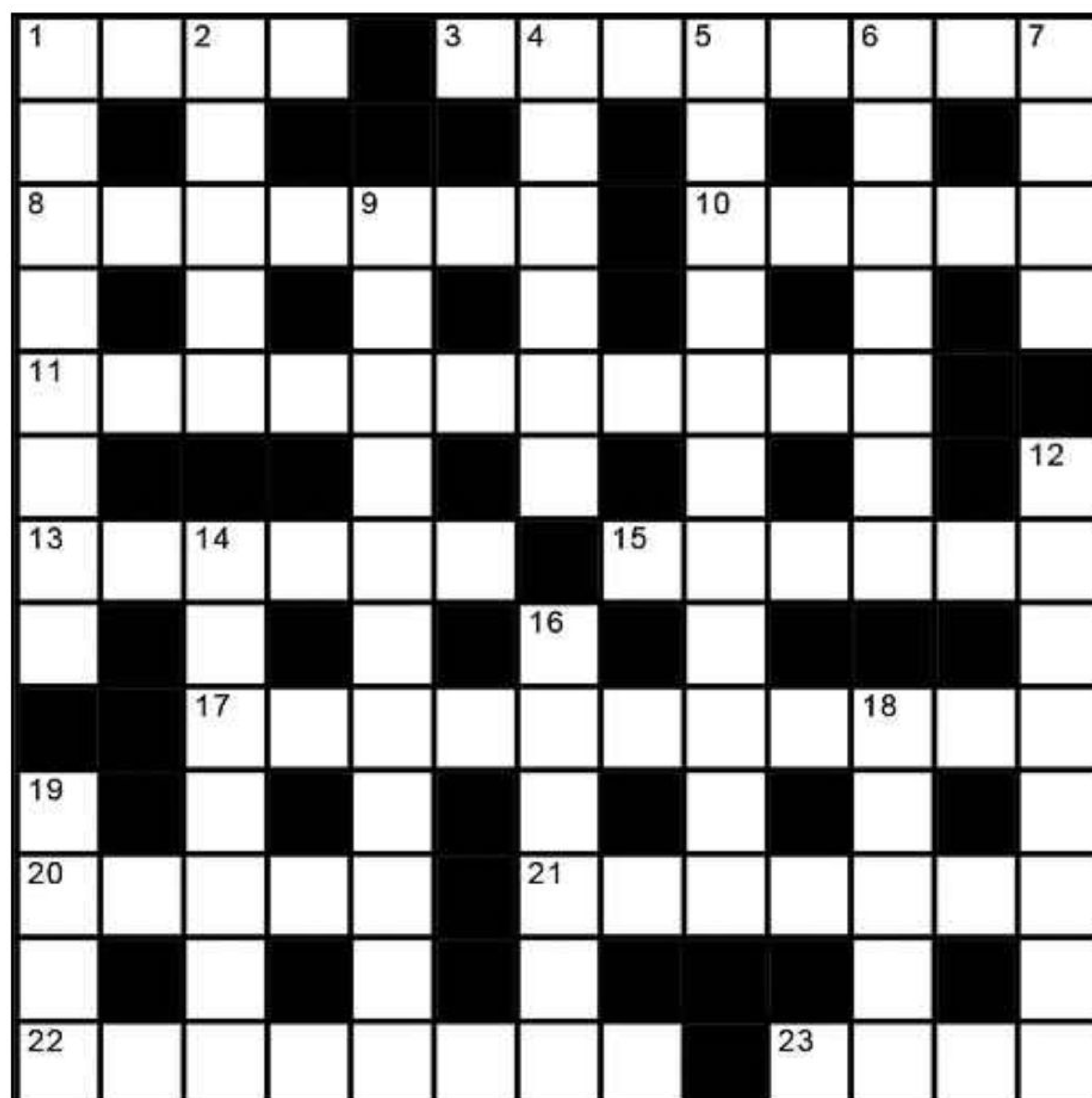
Tim Moorey's Quick Crossword No. 966

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 7 Oct 2019. Answers to MoneyWeek's Quick Crossword No. 966, 31-32 Alfred Place, London, WC1E 7DP.



Across clues are mildly cryptic whereas down clues are straightforward

ACROSS

1 Temporary release of expensive Welsh footballer spoken of (4)
3 Disallow support for string instrumentalist (8)
8 Superpower rivalry in the Antarctic? (4, 3)
10 *Friends* broadcast in M East (5)
11 Change involved with leader of Conservatives leads to row (11)
13 One surrounded by professional cooks – top bananas (6)
15 Deplores headless white herons (6)
17 A firm tummy (11)
20 Gadget partly working? Is mostly (5)
21 Heard search for distinctive doctrine in Indian religion (7)
22 Second missle is loud and harsh (8)
23 The present time (4)

DOWN

1 Accidentally (2, 6)
2 Narrow entrance to the sea (5)
4 Overseas (6)
5 Firework that moves along the ground (7, 4)
6 Extremely earnest (7)
7 Big cricket match (4)
9 Literally (4, 3, 4)
12 Large destructive sea waves (8)
14 One of four teeth in each jaw (7)
16 Toxin, for example (6)
18 Manner of speaking (5)
19 Images of self (4)

Name

Address

Solutions to 964

Across 1 Salt (deceptive definition) **3** Baroness (ones in bars) **9** Outrage (r = run in outage) **10** Lager (regal reversed) **11** Pieds-a-terre (anagram of dates in Pierre) **13** Amazon (two meanings) **15** Crayon (rayon) **17** Eurosceptic (anagram) **20** Rebel (deceptive definition) **21** Ranking (ran King) **22** Patience (homophone patients) **23** Yaws (homophone yours). **Down 1** Scot **2** Lit up **4** Averse **5** Obliterating **6** Eagerly **7** Surgeons **8** Mademoiselle **12** Sales rep **14** Acrobat **16** Metric **18** China **19** Ages.

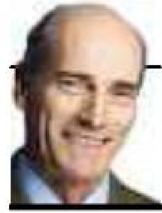
The winner of MoneyWeek Quick Crossword No. 964 is: K. A. Salmon of Hartfordbridge

Tim Moorey is author of How To Crack Cryptic Crosswords, 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 humbling of WeWork

Does the failed IPO of the office rental company signal the top?



Bill Bonner
Columnist

Just a bog-standard property company

©WeWork

What's that sound? They say they don't ring a bell at the top of a bull market, but we hear something ringing. The demise of WeWork, an office rental company, certainly seems to signal something – maybe that the whole herd of "unicorns" that has been destroying American capital by the hundreds of billions of dollars per year is being driven off a cliff.

WeWork wasn't worth a fraction of its intended $47bn IPO price tag. In the last few days alone it has been marked down by $37bn, which is a lot of money, even for tech companies. One of our associates rents space from the company in Dublin. And when we went for a visit, it took only five minutes to see that the company was doomed.

There was nothing unusual about the office or the people working in it. What was unusual was the business model. WeWork rents offices… loses $5,000 per customer… and hopes to make it up on volume. You can do that with some tech applications, such as the telephone, where additional users make the system more valuable to each existing user. But WeWork is not a tech company at all – just a reckless, mismanaged property company. The question now is whether it has any residual value at all. WeWork may be a special case, but the losses are so huge that investors must be asking themselves questions.

"The whole herd of unicorns may be driven off a cliff"

Meanwhile, other people are asking other questions and getting stupid answers. White House scallywag Peter Navarro, Donald Trump's trade adviser, appeared on our TVs this week to assure us that he is not waiting for the stockmarket to need a rescue – even though the Dow is trading at near all-time highs, he aims to drive it higher. Manipulating stock prices is a federal crime, but there must be an exception for mental defectives and White House advisers.

The Dow would go to 30,000 if various inflationary measures were taken, Navarro says, including a 100-basis-point (1%) cut by the Federal Reserve, a Brexit deal, and vigorous stimulus measures in Germany and China. Bells went off. And raspberries were blown too. Here was Navarro whooping for trillions more in fake money stimulus… letting investors know the fix is in… and encouraging them to get in on it by buying stocks.

The feds are being forced to add more fake money just to keep the jig up. That's the trouble with fake money. It creates fake wealth (notably in stock prices) while real wealth creation (in sales and profits) goes down. But what happens when a crisis comes? The stockmarket goes down, and the fake money, like a bad friend in a bar fight, disappears around the corner.

We have no better idea than Peter Navarro which direction stock prices will take. But we do know that Mr Market's job is to separate fools from their money. He'll have his work cut out in the months ahead.

The bottom line

10,000 The number of tonnes of pork China auctioned off last Thursday from its state reserves. African swine flu has wiped out a third of the pigs in the country and the government is concerned that the rising price of pork, which accounts for 60% of China's meat consumption, will mar the country's 70th birthday celebrations on 1 October.

£9,900 How much on average women could lose in lost pensions earnings if they fail to update their planned retirement age in their workplace pension from the old state pension age of 60 to the current one of 65, according to pension provider Aviva. The lost earnings would be a result of the fact that, as the retirement age nears, schemes tend to shift into less risky assets.

£216.4bn The total value of transactions made using debit cards in British shops last year, according to the British Retail Consortium (BRC). Credit and charge cards were the next most popular method of payment, accounting for £81.9bn. Cash transactions equalled £77.7bn.

$100m How much the Getty Trust charity is to spend in a decade-long drive to save cultural sites linked to ancient civilisations from destruction caused by civil war and climate change.

48,000 The number of commercial planes that will be flying in 2038, predicts Boeing, compared with 22,680 last year. The increase will be in large part down to rising demand from the expanding middle classes, particularly in Asia.

©BBC

£1.75m How much Gary Lineker (pictured) earns at the BBC, making him the highest-paid football television presenter. Lineker told the Daily Mirror he was in talks with the BBC to reduce his salary following years of controversy over how much the BBC pays its stars.

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Tel: 020-3890 4060. Email: editor@moneyweek.com.

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