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MoneyWeek

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Hidden treasure

The return of value investing

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MoneyWeek

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Britain's best-selling financial magazine

From the editor-in-chief...

You can now buy a digital dress. You send a picture of yourself to a designer. He dresses you virtually, "digitally rendering" the clothes onto your body, says The Times (see page 10). You can then stick pictures of the digitally-done you all over Instagram and Facebook. You'll get lots of likes. You will also never wear or touch the dress. It will never actually leave social media. That makes it just like a modern political manifesto.

Jo Swinson: her policies are never leaving the virtual world

"Political policies that can only be financed by huge tax hikes rarely begin (or end) well"

The Lib Dems' one is nothing but pointless showing off. The more Jo Swinson gets out and about, the less popular she appears to get – her policies aren't ever leaving Twitter. The Labour one is obviously unachievable nonsense. Its free-broadband-for-everyone policy alone will cost around 4.5% of our entire national output. The public knows this of course: a YouGov/Times survey suggests only 18% of people think Labour's ideas are remotely "realistic". Even a quarter of the few committed Labour voters left think the manifesto is "unaffordable". They are right – policies that can only be financed by huge tax hikes and ludicrously large levels of public borrowing rarely begin (or end) well.

What then of the Tories? How much of their manifesto will make it off Twitter and into reality? It is definitely very much less of a digital dress than the rest (see page 8). But it still involves more, not less public spending, something that assumes that the UK tax take can rise from here (mostly via loophole closing and aggressive anti-tax evasion measures). That's not ideal. Dominic looks at why on page 30.

His key point? Medieval serfs were forced to work for their feudal lords for half the week in return for the right to survive. These days, one way or another, you hand over about 47% of all you earn to the state. You get very significantly more back from your protector than the serf could have dared dream of (which is nice) but, unless you up sticks and leave the country (which he could not), you don't get much more choice in the matter of where the money you earn goes than he did. This isn't how countries get or stay rich (see pages 18 and 19 for more on this). It also, in general, tends not to offer much in the way of real value to taxpayers: all too often state-run services cost too much and achieve too little (see our briefing on the NHS on page 12).

Sticking with the theme of value, you might not be going to get it from our digitally-dressed government contenders – but you can certainly get it in the stockmarket. The valuation gap between growth stocks and value stocks is at an extraordinarily high level. That's unlikely to last much longer – particularly in the UK where there is a very real possibility of a post-election "Boris bounce" (or relief bounce – see page 5). Turn to page 24 for Matthew's take on why now is the time for value investors to shine – and the stocks that might help them do so. If you want to add even more value to your portfolio, keep an eye on London's fintech scene. Right now you pay for every trade you make. You don't pay much relative to what you paid 20 years ago. But nonetheless, if you are a frequent trader, even £5 a go adds up. Good news then that free trading is on the way – see page 16. Finally, I'd like to say thank you to all our brilliant speakers and engaged audience members at the MoneyWeek Wealth Summit last week. It was, I think, a huge success – I had a wonderful day and hope you all did too.

Merryn Somerset Webb
editor@moneyweek.com

Bankruptcy of the week

Businesswoman and former glamour model Katie Price, previously known as Jordan, has been declared bankrupt at the High Court after "ploughing through her £45m fortune", says the Daily Mirror. Price entered into an individual voluntary arrangement (IVA) a year ago, but has failed to repay her creditors the agreed £12,000 a month, reports The Sun. She is believed to have debts of around £800,000 in total. Price had a wide range of business interests, including a range of clothing for rider and horse; a line of jewellery with Argos; a lingerie collection; and a "self-titled loungewear boutique", says The Daily Mirror. She has also put her name to several best-selling novels. Last year, in an episode of her TV series *My Crazy Life*, she said: "I will be out of bankruptcy in a year. It's not that bad."

Good week for:

England's cathedrals have seen a record rise in attendances, reports the Daily Mail. The Church of England says almost ten million people visited its 43 cathedrals in 2018, 10% up on 2017. Westminster Abbey alone saw 1.2 million visitors. Most were tourists rather than worshippers, paying £23 a head to get inside.

Champagne is once again Britain's favourite fizz, after five years of being bested by its Italian rival, Prosecco. UK champagne sales rose by 34% this year, says The Daily Telegraph, helped by price cuts of up to 25%; sales of Prosecco, by contrast, fell by 6%.

Bad week for:

Thieves have stolen up to €1bn worth of art and jewels from a German museum in what was "probably the biggest art theft since World War Two", reports the Daily Mirror. Dresden's **Green Vault** houses around 4,000 precious objects in a collection founded in the 18th century by August the Strong.

A glut of chateaux on the **French property market** is forcing sellers to slash prices by up to 50%, reports The Times. Around 1,500 of the stately homes are on the market, up from 800 eight years ago. Running a chateau costs an average of €30,000 a year in local taxes and insurance, with repair and maintenance costs on top.

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Cover illustration: Howard McWilliam. Photos: Getty Images; Prop Store
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Is the US dollar doomed?

Alex Rankine
Markets editor

A puzzle is "preoccupying the world's currency dealing rooms", says John Authers on Bloomberg. The global economy is beset by tariff wars and political instability, yet we are living through "unusually low foreign-exchange volatility". The US dollar has not had a weekly swing of more than 2% against other developed-market currencies for two years. The last time this happened was in the mid-1970s. A market truism is that "financial stability generates instability". This period of curious tranquillity might "portend a new long-term trend": the arrival of a weaker US dollar.

A cheaper greenback would boost US exporters

©iStockphotos

The end of the trend

High-yielding American bonds and "modish technology stocks" have made dollar assets the "go-to place for global savers" in recent years, says Buttonwood in The Economist. The world's reserve currency has been riding high relative to others since 2015. Yet the "scales are tilting". Talk of a "synchronised" pick-up in global growth next year should prompt investors to move money out of expensive US assets to places where stocks and bonds are cheaper, particularly in emerging markets. The dollar's "stint at the top of the currency pile is looking tired".

The stars are aligning for a weaker dollar, agrees Louis-Vincent Gave of Gavekal Research. The Federal Reserve is back in easing mode. A US-China trade truce could stoke risk appetite and encourage investors to venture out of dollar assets. In America, the bursting of the start-up "unicorn bubble" and talk of a left-wing Democratic presidential candidate are also bearish for the greenback. A weaker dollar would be good news for the world economy. It would mean cheaper financing costs for companies in emerging markets. It would also help US exporters and boost corporate earnings.

Time to take out insurance

There are more alarming reasons to believe that a weaker dollar is coming, says John Mauldin in his Thoughts From The Frontline newsletter. The US federal deficit recently rose above $1trn for the first time since 2013, and that doesn't include America's mountain of unfunded pension liabilities. At this rate, "we will spend the latter part of the 2020s going through a kind of worldwide bankruptcy" that Mauldin calls "the Great Reset". Politicians will never raise taxes or cut spending enough to close the gap, so the Federal Reserve is likely to find a convenient excuse to fire up the printing presses in a process known as "debt monetisation". That could rapidly undermine confidence in the global dollar-based currency regime. "Consider slowly increasing your allocation to physical gold." Don't think of it as an investment so much as "central bank insurance".

"De-dollarisation" is already afoot, says Rana Foroohar in the Financial Times. China is doing more business in euros and recently issued euro-denominated bonds. Deglobalisation is upon us and history shows that "asset-price collapses" in the country associated with the "old order" usually follow. "No wonder gold bugs abound." (See page 14.)

Brace yourself for pricier oil

"The sale of the century has ended in farce," says Ambrose Evans-Pritchard for The Daily Telegraph. The "privatisation" of Saudi Aramco, which pumps about 10% of the world's oil, was supposed to be the biggest flotation in history. But instead of raising the once mooted figure of $100bn, Crown Prince Mohammad bin Salman got just $25bn. That will "barely cover the kingdom's fiscal deficit for six months".

Mohammad bin Salman: his "sale of the century" was a flop

©Getty Images

The Opec cartel, of which Saudi Arabia is the linchpin, is also facing serious problems, says The Economist. Opec announced a 1.2 million barrel per day (mbpd) cut in oil production last year. That should have driven prices higher, as should Saudi's generally turbulent year – it suffered a drone strike on a key oil facility in September. Yet Brent crude, at around $64 a barrel this week, is down by 15% since a high in April. Global oil demand has risen at the slowest pace since 2008 this year. And whenever Opec pushes prices too high, America's shale gas industry just fills the supply gap.

Yet America's shale boom may be over, reckons Nick Cunningham for oilprice.com. Major forecasters predict an oil surplus next year, but that depends on shale-production growth estimates that look "increasingly fanciful". In 2018 the US added about two mbpd to global supply, but that figure rose by only a few hundred thousand barrels in the first eight months of 2019 as financial stress took its toll on an unprofitable industry.

The International Energy Agency expects non-Opec output to rise about one mbpd faster than global oil consumption next year, but global growth, and hence energy demand, could surprise on the upside. Tighter supply and stronger demand, says Spencer Jakab for The Wall Street Journal, imply that oil prices are "set for a bounce".

UK stocks prepare for Boris bounce

Jeremy Corbyn is still scaring investors, says Kate Palmer in The Sunday Times. "Billions of pounds have been pulled out of UK equity funds" in recent months as "investors panic" over a possible Labour government. Calm down, says Tom Stevenson in The Daily Telegraph. Currency, bond and equity markets barely moved on Labour's publication of its hard-left manifesto last week. So"either the City is pinker than it seems" or, more plausibly, it thinks there is little chance of him becoming the next prime minister. "The markets are telling us to relax."

UK stocks have been trading at an average 20% "political risk" discount compared to other markets ever since the 2016 referendum, says Tineke Frikkee in the Financial Times, but we could be in line for a bounce if the election reduces political uncertainty. Foreign buyers have already noticed that UK valuations are attractive. "Since mid-July, there has been roughly one bid for a UK-listed company every other week." Now "might be the moment to buy British".

There is "plenty of scope for upside" after 12 December, agrees Jeremy Warner in The Daily Telegraph. A majority for Boris Johnson would lift the Labour threat and "some of the pent-up consumer and investment demand held in check by the Brexit paralysis would come flowing back". Stocks would then "enjoy a rally based not just on sentiment but real economy prospects".

Taiwan bucks regional trend

Taiwan is bucking the Asian slowdown. The island's economy grew by 2.9% year-on-year in the third quarter, say Chinmei Sung and Samson Ellis on Bloomberg. That is the fastest pace since early 2018 and stands in "stark contrast" to weakness elsewhere in east Asia: South Korea is on course for its "weakest growth since the global financial crisis" and Japan has slowed sharply. Hong Kong fell into recession in the third quarter.

A small, self-governing island that Beijing regards as a renegade province, Taiwan plays an outsize role in emerging Asia. The country's stocks make up 16.4% of the MSCI Emerging Markets Asia index, third behind mainland China and South Korea.

The Taiex stock index is up 21% so far this year and looks on course for its "best year in a decade", says Cindy Wang on Bloomberg. "Foreign investors have poured $6.6bn into Taiwan-listed equities" so far this year. That makes it second only to India as an Asian investment destination.

Beijing regards Taiwan as a renegade province

©iStockphotos

Wait and see

The strong growth has been driven by two key factors, writes Huileng Tan for CNBC. First is a cyclical upturn in electronics demand. New smartphone launches ahead of Christmas have particularly benefited local giant Foxconn, which assembles iPhones for Apple. Second, the US-China trade war has promoted "reshoring" of production as companies shift supply chains away from mainland China in order to avoid American tariffs.

Taiwan's economy is the beneficiary of "favourable structural and cyclical trends", says Vincent Tsui for Gavekal Research. There are signs that Asia's export decline is finally bottoming out. That means an upturn for the island's all-important electronics industry could be around the corner.

Bears used to predict that the local manufacturing base would be "hollowed out" by relocation to lower cost destinations in Asia, but rising wages in China have enabled local semiconductor manufacturers to maintain their competitive edge. Taiwanese stocks look poised to outperform Asian peers.

A 4% dividend yield makes Taiwan one of the most attractive choices in Asia for income seekers. Yet value investors may baulk at the market's rich valuation. On a cyclically adjusted price/earnings yield of 21.1, Taiwan is notably more expensive than other markets in the region. Tsui says that investors could look to buy in on market dips.

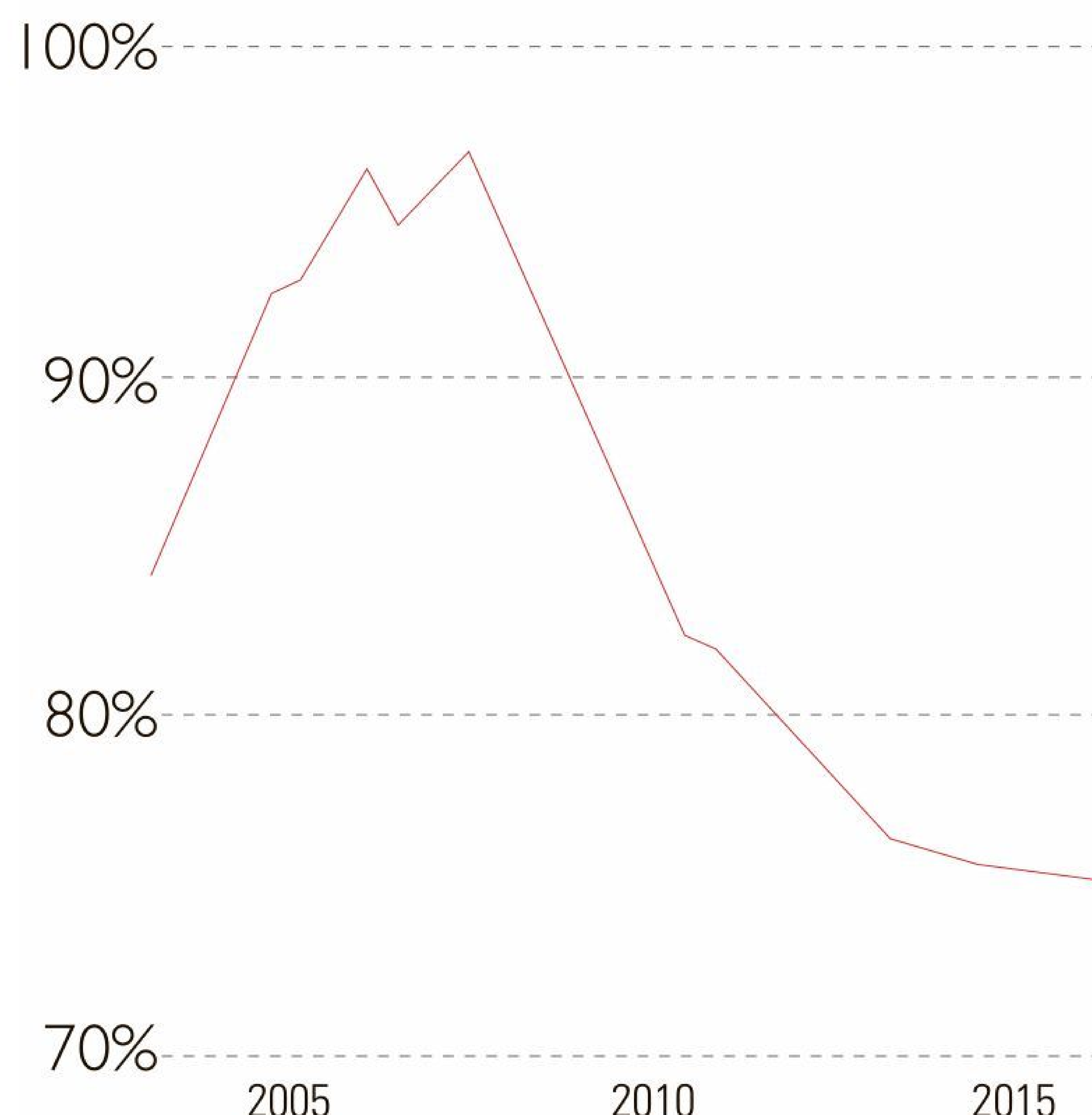
China's communists regard the Taiwanese president, Tsai Ing-wen, and her pro-independence supporters as "beyond the pale", so cross-strait relations could be in for a bumpy ride if she is re-elected next year. "Bellicose rhetoric" and economic countermeasures would cause market jitters, but investors could find "an attractive buying opportunity".

Viewpoint

"The so-called 'cashless society' is just a Trojan horse for a system in which all financial wealth is electronic and represented digitally in the records of a small number of megabanks and asset managers. Once that is achieved, it will be easy for state power to seize and freeze the wealth, or subject it to constant surveillance, taxation and other forms of digital confiscation... The war on cash has two main thrusts. The first is to make it difficult to obtain cash in the first place. US banks will report anyone taking more than $3,000 in cash as engaging in a 'suspicious activity' using Treasury form SAR (Suspicious Activity Report). The second thrust is to eliminate large banknotes. The US got rid of its $500 note in 1969, and the $100 note has lost 85% of its purchasing power since then. The European Central Bank has already discontinued the production of new €500 notes."

Jim Rickard, Hard Assets Alliance

US consumers splash less cash



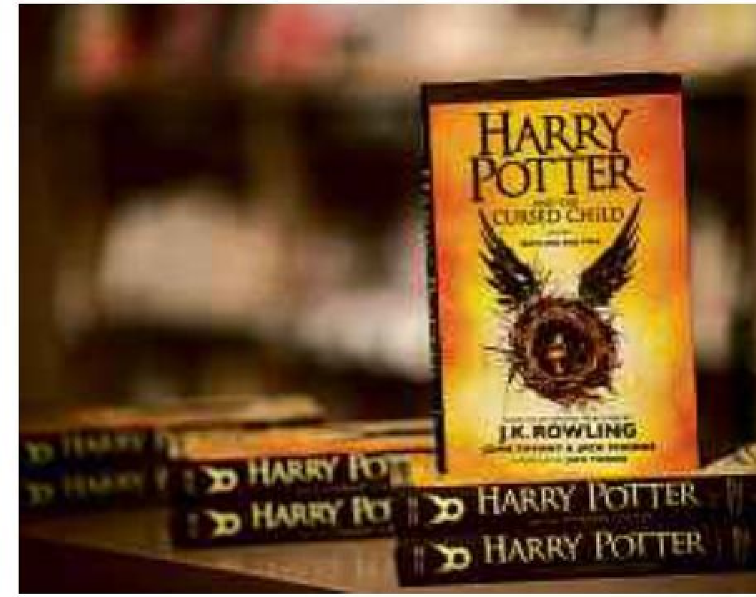
American households were traumatised by the Great Recession, which was the worst for 70 years, says Fortune's Geoff Colvin. They finally stopped shopping and paid some debt back after decades of borrowing and spending. The absolute level of consumer debt fell from the 2008 peak of $12.3trn and has ticked up gently since around 2013 to a new high of almost $14trn. But the days of "debt-crazed" shopping are over. In terms of GDP, debt has kept sliding from a pre-crisis 99% to around 76% as overall growth has eclipsed the pace of household borrowing increases. And households now save a "prudent" 8.1% of their income. The personal savings rate plummeted to zero in 2006 and 2007.

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

Three to buy

Bank of Georgia
Investors Chronicle
Most European banks trade on steep discounts to the market thanks to low interest rates and low confidence. But UK-listed Bank of Georgia "does not fit the mould". The former Soviet state boasts strong trade links with the EU and relatively low corruption levels, while annual GDP growth is running above 4.5%. The bank is well-capitalised and pays a 5% forward dividend yield. Investors looking for earnings growth and willing to stomach the geopolitical risks of investing in the Caucasus may find value here. *1,474p*

Bloomsbury Publishing
Money Observer
Best-known as the UK publisher of the Harry Potter series, the boy wizard remains "by far the firm's biggest money-spinner". Yet Bloomsbury has wisely invested that bounty in expanding abroad and acquiring imprints, many of them academic. Investments in digital resources should now begin to diversify



revenue streams away from tales of enchantment and towards university and college libraries. On about 15 times adjusted earnings the shares appear reasonably priced. Buy. *259p*

Pfizer
Barron's
Once synonymous with consumer brands such as Listerine mouthwash and Trident chewing gum, Pfizer has spent the last two decades shedding those businesses to become a pure pharmaceutical play. The shares have performed poorly this year but Pfizer now trades on a discount to peers and good drugs-trial news could turn a "dowdy old drugmaker into a red-hot stock". An attractive opportunity. *$37.74*

Three to sell

Amigo
The Sunday Times
This subprime lender has run out of friends. The shares have crashed from 275p this summer to just 60p now. The firm, whose loans carry a typical interest rate of almost 50%, is suffering from a deteriorating economic outlook and a looming regulatory crackdown. The collapse of Wonga last year and a profit warning from Non-Standard Finance suggest that this is an industry facing headwinds. Even on a price/earnings ratio of just three, the shares are not worth the risk. Avoid. *60.2p*

Judges Scientific
Shares
Exposed to areas such as nanotechnology, fibre-optic testing, advanced materials and LED design, this portfolio of niche science-based investments is a high-quality business. Record half-year results in September set "new high bars" for a host of financial records and sparked an extraordinary rally, with the shares up almost 80% since April. Yet with the stock now trading on 24.3 times next year's earnings this is not the value story it once was. Long-term investors may wish to hold on, but the huge rally makes this a prudent time to bank some profits. *5,050p*

Mulberry
Investors Chronicle
First-half results suggest that all is not well at this luxury handbag maker. Mulberry is trying to dodge trouble in the British retail market by expanding internationally – yet the UK still makes up 65% of sales, and protests in Hong Kong add another headache. Luxury brands typically maintain high margins in the face of cost competition, but Mulberry's margins have "gone from small to negative". Sell. *272p*

...and the rest

The Daily Telegraph
Construction material specialist **Breedon Aggregates** stands to gain from a government spending splurge whoever wins the election. On a price/earnings ratio of 12 the shares "could reward patient support" *(59.75p)*. The City is taking a more favourable view of pub stocks and **JD Wetherspoon** remains competitive. Yet the shares are the most expensive in the sector and the valuation has yet to take slower growth prospects into account. "Hold" *(1,515p)*.

Investors Chronicle
Anaemic house price growth in London and the South East is a problem for housebuilder **Crest Nicholson** and a cut to profit guidance may not be the end of the bad news. Sell *(368p)*.

Shares
Pub and hotels group **Fuller, Smith & Turner's** sale of its beer business to Japan's Asahi has run into complications but don't be put off. The deal makes strategic sense and the firm is "well positioned for further growth" *(1,020p)*.

Accelerating royalty income and better commercialisation of the Warhammer brand means that fantasy retailer **Games Workshop** should "earn a lot more money". Buy *(5,730p)*.

The Times
On 8.9 times forecast earnings, **Superdry** is worth a "speculative gamble" for those who think that founder Julian Dunkerton can turn around the troubled branded clothing business *(458.5p)*. A first earnings downgrade at posh tonics and mixers maker **Fevertree Drinks** has not taken the "fizz" out of the shares. A maturing British market meant that growth was bound to slow, but there are still opportunities overseas and the firm boasts a proven record. Buy *(2,004p)*. Wealth manager **Rathbone Brothers** is performing well, but the shares are fully priced. Avoid *(2,135p)*.

A German view

The global construction industry looks set for a boost over the next few years as more and more governments attempt to bolster growth with infrastructure projects, says Wirtschaftswoche. That bodes well for Wienerberger. The 200-year-old Austrian company is the world's largest brickmaker and a major supplier of piping and concrete paving. It is heading for its best year on record, with sales rising by 6% to €2.7bn in the first nine months of 2019 and net income jumping by 64% to €206m. A cost-cutting programme targeting energy savings and more efficient delivery management has given earnings an additional fillip. The stock looks reasonably valued on 13 times 2019 earnings.

IPO watch

South Korean drug company SK Biopharmaceuticals is expected to raise over $850m through its initial public offering (IPO), says Song Jung-a in the Financial Times. This would constitute the largest flotation in Korea since mobile-gaming company Netmarble's $2.3bn listing in May 2017. The US Food and Drug Administration recently approved SK's new anti-epilepsy drug, which "bodes well", according to an investment banker close to the deal. Analysts expect the listing to breathe new life into the country's IPO market, which has had a lacklustre 2019 – the total value of IPOs has dropped to $3bn so far this year, compared with $6.8bn in 2017.

©Alamy

City talk

● Banknote printer De La Rue's stock plunged by a fifth this week after it scrapped its dividend and said there was a chance that banks could "pull the plug" on it, says Nir Kaissar on Bloomberg. But while its core business may seem an anachronism, global demand for banknotes "hasn't yet fallen off a cliff". Instead, the company has suffered from "a glut of currency printing capacity" that has depressed sales and prices. There have also been "home-made problems", including

the loss of a "lucrative" contract to produce Britain's blue post-Brexit passports. New CEO Clive Vacher faces an uphill struggle.

● It takes a special kind of cheek for 23 former AIG bankers working in the Financial Products division to sue the company over $100m of unpaid bonuses agreed just before the global financial crisis, says Lex in the Financial Times. After all, their division was the one responsible for effectively bankrupting the group, forcing the government to step in with an $182bn rescue in 2008. This episode is a stark reminder of "how differently those within the financial industry sometimes see the world from those outside it".

● Novartis' decision to pay nearly $10bn for Medicines Company, the developer of a "promising" new cholesterol drug called Inclisiran, may seem bonkers, says Charley Grant in The Wall Street Journal: it isn't expected to start generating sales until 2021. Nevertheless, the move constitutes a reasonable long-term bet. High cholesterol is a "leading cause" of heart disease and obesity is "on the rise across the developed world". What's more, new commercial opportunities in the cardiovascular field are "scarce". Inclisiran has "blockbuster potential", with $1bn in sales a year expected by 2023.

Uber's London roadblock

The ride-hailing app has been denied a new licence to operate in London. This is excellent news for rivals. Matthew Partridge reports

Transport for London (TfL), which regulates traffic in the capital, has put a "roadblock" in front of Uber, says Bloomberg's Nate Lanxon. It has denied the ride-hailing service a new licence to operate in the city, "citing concerns over rider safety and the security of the app".

It is especially concerned about a "vulnerability" that lets unauthorised users pick up passengers "under the guise of being a licensed driver". While Uber will be allowed to keep operating while it appeals the verdict (a process "that could take years"), this is a setback in one of the company's biggest markets outside the US.

It's true that Uber "only has itself to blame" for its failings, says Ben Marlow in The Daily Telegraph. Still, TfL could have found a way to police Uber adequately "without penalising millions of consumers". The fact that it hasn't and has insisted on a complete ban suggests that this is more about "protecting the interests of more than 21,000 black cab drivers" than safety. These cab drivers frequently charge "more than a budget flight to Europe" to transport people across London and are technologically "outdated", with many even refusing to take card payments. By contrast, Uber is not only "convenient", but also "affordable".

Competition is mounting

Talk about TfL being part of a "protectionist plot" to protect black cabs is nonsense, says Nils Pratley in The Guardian. After all, "other ride-hailing services" are now available, so if newer rivals can navigate TfL's standards for authorising drivers, "why should they be undercut by a company that is judged to be unfit?". With drivers already learning to use multiple apps, any dislocation from a ban would only be "temporary" and competition "should still emerge". Overall, Uber needs to "do better" if it is to regain the public's trust. While the ban has "dinged" Uber's share price, the rise

The ban has hit Uber's share price

of the competition is a much bigger threat to its future, say Richard Beales and Liam Proud on Breakingviews. This is because, while Uber "has the resources to fix the problems and prove it is 'fit and proper' to run a car service", the latest dispute underlines that it is no longer the "only game in town" other than "expensive" black cabs and "unreliable" minicabs. Major competitors include "Bolt – backed by Daimler and Chinese ride-hailing giant Didi Chuxing – and India's Ola, which is expected to launch shortly". As a result, "it has less leverage to fend off regulators than it used to".

The decision also raises concerns about Uber's transparency, says the Financial Times. While CEO Dara Khosrowshahi has "tried hard" to change the company's "rule-resistant culture", there is clearly still work to do. This would be a good time for the company to show that it "is willing to listen to local problems" by using its "undoubted technological prowess" to fix the flaws that TfL has found.

Can LVMH make Tiffany shine?

LVMH has clinched a deal to buy the jewellery group Tiffany & Co for $16.6bn, marking the largest takeover on record in the luxury sector. Not only is it $600m more than LVMH originally offered, but it also represents a premium of 37% to Tiffany's pre-bid share price. While many experts think that Tiffany has "fallen off the list of top-tier brands", says the Financial Times, it still has a "considerable" footprint in the US and remains "popular with Asian consumers". It will join a portfolio of brands that include Bulgari, Louis Vuitton, Dior and Sephora. The high premium means that to make the deal worthwhile, LVMH will have to apply "slightly more polish to the Tiffany diamonds", expanding the jeweller's annual sales as well as increasing its margins, says Bloomberg's Andrea Felsted.

Still, LVMH's "scale and track record", as well as its "clout" with Asian landlords, mean that these targets should be "achievable". LVMH's "muscular marketing machine" will also help Tiffany step up the pace of its product development. Not so fast, says Jim Armitage in the Evening Standard. While LVMH boss Bernard Arnault will hope to repeat his successful 2011 takeover of Bulgari by moving Tiffany "exclusively upmarket", this is "no easy task".

A fifth of Tiffany's sales are currently in lower-end silver jewellery. Meanwhile, developing new product lines to justify a new status as a "super high-end" brand will "take years and hundreds of millions of euros". The fact that Tiffany is also a "far better-run" business than Bulgari also means that there is less scope for improvement. The "deafening applause" at today's deal may soon "falter".

What's in the manifestos?

The parties have made their pitch. But will the promises matter come the big day? Emily Hohler reports

At 59 pages, the Conservative manifesto is about half the length of Labour's "not-so-little red book", says The Economist. "Its brevity is matched by the modesty of its proposals, which take a back seat to the overriding promise to 'get Brexit done'." It proposes a small increase in spending on public services, particularly on schools, the NHS (see page 12) and the police. Workers would benefit from a small rise in the national insurance threshold, paid for by ditching a planned cut to corporation tax. But if few people get excited, that will suit the party "nicely". The Tories are some 13 points ahead of Labour in the polls. Datapraxis has the Tories on track for a 48-seat majority. The party's task over the next fortnight is simply "not to mess it up". But if Boris Johnson is returned to office, "voters must hope that he has some more ideas up his sleeve".

A thin offering: does he have more up this sleeve?

©Shutterstock

The manifesto does seem "oddly bloodless, its spending and investment plans a tiny fraction of those in Labour's fantasy-socialist agenda", says the Financial Times. Yet the central premise – that by taking Britain out of the EU, the Tories will be "liberated" to tackle social issues – is false. They are promising to secure parliamentary approval of the withdrawal agreement by Christmas and leave the EU by 31 January. But "this is only the end of the beginning". Johnson has set a "scarcely plausible" December 2020 deadline to agree a trade deal with the EU, a "tortuous negotiation for which Brussels is vastly better prepared". Aside from the fact that the deal threatens the integrity of the UK (Northern Ireland will be more closely aligned to the EU, and pressure for Remain-voting Scotland to hold a second independence referendum is likely to grow), a new cliff-edge looms. The risks are real, but they "will come only after victory", points out Robert Shrimsley, also in the FT. For now, Tory strategists want to avoid scaring off Brexit Party voters and, so far, their plan is working.

The dangers of complacency

What of Labour's manifesto? Serious attempts to cost its economic proposals "pretty much all conclude" that its agenda is "ruinously expensive" and would "lead to a huge rise in taxation and/or a dangerous increase in government borrowing", says Roger Bootle in The Daily Telegraph. Its manifesto "stretches even the kindest observer's credulity", agrees Will Hutton in The Guardian. While Labour's "big objectives" – massive investment in health, infrastructure and the environment, a "passion to lower inequality" and a commitment to a second referendum – are entirely laudable, this is not a "feasible policy framework". Its far-reaching nationalisation programme and the "doubling of 2017's already ambitious borrowing and taxation targets" have "unnecessarily gifted its enemies the juiciest of ammunition". This manifesto is "less aimed at winning an election" than creating the "talismanic document for the leadership that will follow what is almost certain defeat".

Polling guru Sir John Curtice says the chances of Labour winning a majority are "close to zero", says Rachel Sylvester in The Times. Even if Corbyn ends up in Downing Street, he would "almost certainly be at the head of a minority government" and therefore unable to enact his socialist agenda. We should not forget, however, that opinion polls don't just "report the political weather, they help to shape it". The less likely a Labour majority, the safer Remainers will feel about voting tactically against the Tories. Analysis suggests that, if 30% do so, it would deprive Johnson of a majority. "The greatest threat to Johnson may be the perception that a Tory victory is inevitable."

"You won't see me again": Farage makes a strong case for Brexit

©Getty Images

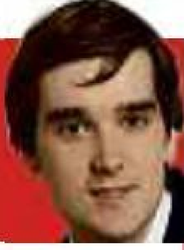
Third time lucky: Nigel Farage's new party

In an interview with the Sunday Express, Brexit Party leader Nigel Farage says that his party may be rebranded the "Reform Party" on the basis that his colleagues and British voters are "sick" of the political system. Unveiling what he called a "contract with the people" (as opposed to a manifesto) last Friday, Farage demanded an overhaul of the voting system, the abolition of the House of Lords and "political scrutiny" of judges on the Supreme Court. He accused the "political establishment" of conspiring to "frustrate democracy" over Brexit and said that his party was "committed to pursuing a programme of 'fundamental political reform'", says James Blitz in the Financial Times. He also wants civil servants to sign declarations of political neutrality and referendums whenever five million people back a petition for one.

Farage's contract makes clear that the Brexit Party is "not seeking election as a government". Farage is not standing for parliament and his party is contesting only 275 seats, having decided to stand down in the 317 seats won by the Tories in 2017 to avoid splitting the pro-Brexit vote. However, Farage added that the House of Commons still needed a Brexit Party to hold Johnson to his word, says Peter Walker in The Guardian.

In terms of policy, the 21-page document pledges "significant spending on public services and infrastructure", with a £200bn spending pot thanks largely to stopping EU contributions, halving foreign aid and scrapping HS2. If he does launch a "Reform Party" after the general election it will be his "third party in as many years", says Jonathon Read in The New European, having led Ukip until the EU referendum in 2016 and launched the Brexit Party in 2019. Nevertheless, he denies he is a careerist, saying this is "nothing to do with ego". Once the government has delivered "the will of the people", you "won't see me again. It's a promise."

Betting on politics



With just a fortnight to go in the UK election campaign, several things are starting to become clear. Firstly, the Liberal Democrats are going nowhere. Next, Labour is slowly but surely closing the gap with the Conservatives, a process that may be speeded up by recent revelations regarding trade discussions with the US. Thirdly, the Scottish National Party (SNP) surge is likely to be modest, perhaps because Scottish voters are strongly opposed to another independence referendum.

I therefore suggest that you bet on the SNP getting under 45.5 seats (45 seats or less) with Ladbrokes at 5/6 (54.5). I'd also take Ladbrokes' bet on them getting either 30-39 seats at 5/1 (16.7%) and 40-48 seats at 4/7 (63.6%), for combined odds of 80.3%. In this case I'd put £2.08 on them getting 30-39 and, £7.92 on them getting 40-48.

SNP leader Nicola Sturgeon

In terms of individual constituencies, I'm going to bet that Labour will hold Eltham (where I live). This seat used to be pretty marginal, but has been moving towards Labour in recent years and is now down to 88th on the Conservatives' list of targets. I'd therefore take Paddy Power's 8/11 (57.9%) on Labour holding on.

Finally, I'm also going to tip Labour in Bermondsey and Old Southwark at 8/13 with Bet 365 (56.5%). At the start of the campaign many pundits assumed this would be an easy Lib Dem pickup, since Simon Hughes held it until the 2015 election. The truth is that this is now a solid Labour area, as shown by Neil Coyle's majority of nearly 13,000 at the last election.

A message for Beijing

Protestors in Hong Kong cleaned up at local elections. Matthew Partridge reports

If nearly six months of demonstrations in Hong Kong "haven't sent the Chinese government a clear enough message", Sunday's "landslide victory" by pro-democracy forces in elections for district councils "should erase any doubts", says The New York Times. The councils "are not particularly important institutions" in themselves, but the results were "unequivocal", with pro-democracy candidates winning 389 of 452 elected seats, effectively taking control of 17 of 18 district councils, "all of which had been under pro-establishment control". The results make it clear that "a vast majority of Hong Kongers" treasure their relative freedoms and "have no intention of letting Beijing whittle them away".

Lam: no concessions

Will Beijing give way?

The results are not only a "resounding rejection" of the pro-Beijing administration running the former colony, but also a "repudiation" of the Communist Party's determination to resist the "mounting pressure" for reform, says The Daily Telegraph. This poses an "uncomfortable dilemma" for China, which is "simply not going to give in to demands for democracy", but yet is anxious to avoid "an all-out crackdown" in Hong Kong, which remains one of the world's leading financial centres. However, standing firm is not an option either since the vote is likely to give the protests "new momentum" unless the government is prepared to show some "willingness to compromise".

Don't hold your breath for any concessions from Beijing, says Verna Yu in The Guardian. The ball "is in the government's court", but Beijing is likely to "adopt a hardline stance and will not make concessions" since it knows that ultimately "Hong Kong people want democracy and they just won't give it". Indeed, there is a risk that Beijing could move in the opposite direction and "may even take the opposite lesson that they have to rein in the district councils more by changing the rules of the games next time". The most that the protestors can hope for is cosmetic "strategic adjustments".

One sign that Beijing won't back down comes from the fact that Hong Kong leader Carrie Lam "didn't make any new concessions to protesters" in her first public appearance after the votes, says Iain Marlow and Karen Leigh for Bloomberg. While admitting that the vote reflected "unhappiness", she continued to advocate a plan "calling for peaceful dialogue with "people from all walks of life", a plan previously rejected by protestors. For its part, the mainland government and state media "has barely acknowledged the results". The foreign ministry said that stopping violence and restoring order "is the paramount task in Hong Kong at the moment".

Still, even if there aren't any further concessions, this victory in the local elections won't have been in vain, says the Financial Times. As well as the symbolic value, it gives the pro-democracy forces momentum for the more powerful Legislative Council elections next year. Even though these are "stacked in favour" of pro-establishment groups, there's a chance that reformists could win more than half the seats. This would be a "singular achievement" and would also give pro-democracy parties "greater leverage to negotiate with Beijing on more representative elections".

Yet another billionaire runs for president

The "topsy-turvy" world of US politics just got a little more colourful – media tycoon and former New York mayor Michael Bloomberg (pictured) has entered the race for the Democratic nomination for the presidency, says The Times. Bloomberg, who is worth $54bn, is evidently calculating that "money and nimble electioneering" will "wrongfoot" his rival candidates, who lean too far left for his liking, and President Trump, who he thinks is a disaster. Bloomberg is running as a "champion" of the vacated centre ground and is mounting a sophisticated campaign featuring data-based campaigning as well as television advertisements.

Bloomberg is banking on his "biography as a business executive", his record as the mayor of New York City", and his perceived electability, says Alexander Burns in The New York Times. But while he is well known for his political advocacy on "core Democratic concerns such as gun control and climate change", he also carries his fair share of "political baggage", including "a complex array of business entanglements" and a record of championing controversial stop-and-search policies. His wealth is also likely to "intensify the already-raging Democratic debate about whether and how to rein in the power of the extremely rich".

His chances of winning don't look good, says Nathaniel Rakich for fivethirtyeight.com. His late entry into the contest means he has to compete with rivals who have been building campaigns for months and the electorate seems happy with the existing field – only 22% of Democrat voters are "looking for more choices", according to one poll. As a billionaire who is self-funding his campaign, he may yet get it off the ground. But he's got his work cut out.

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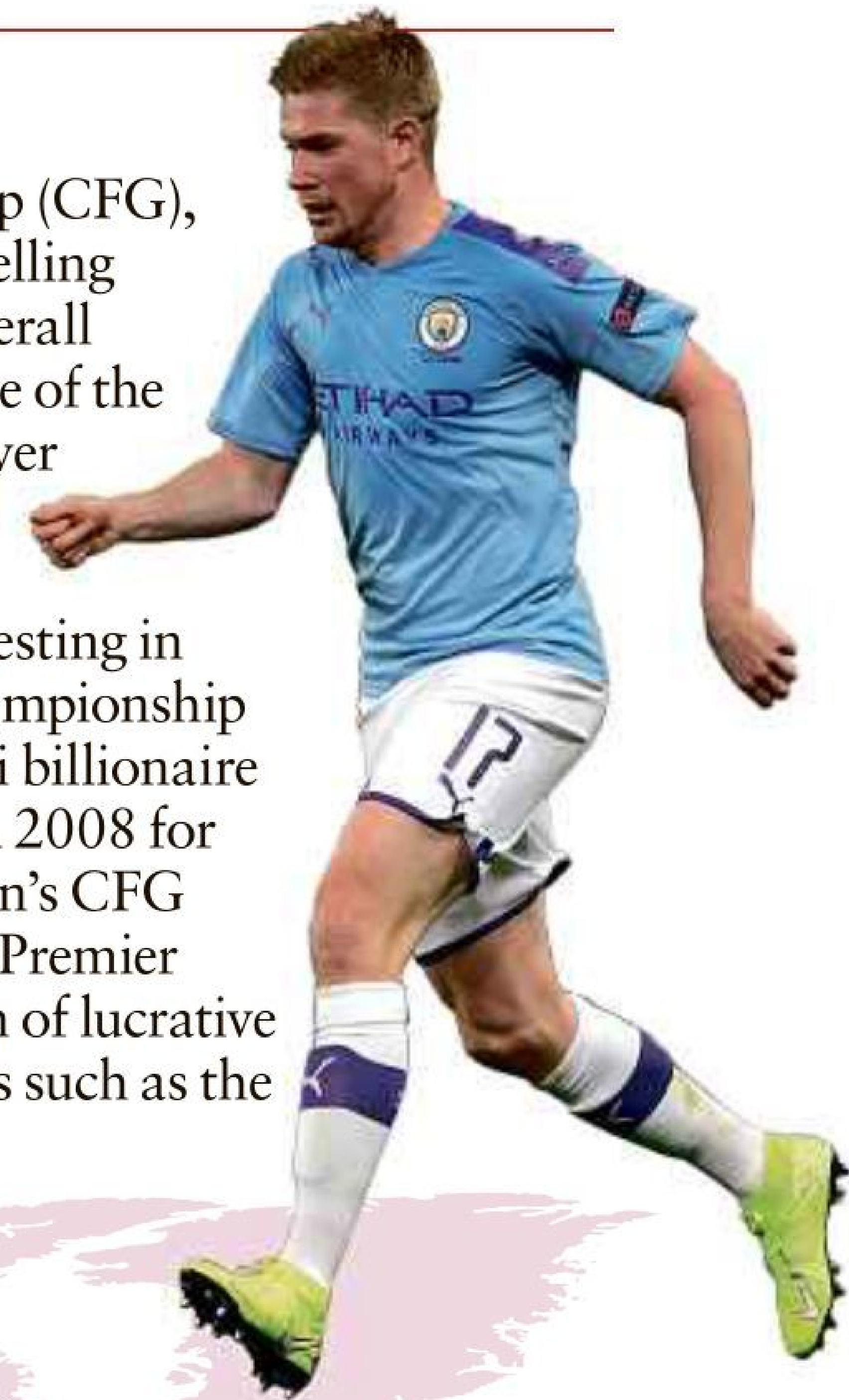
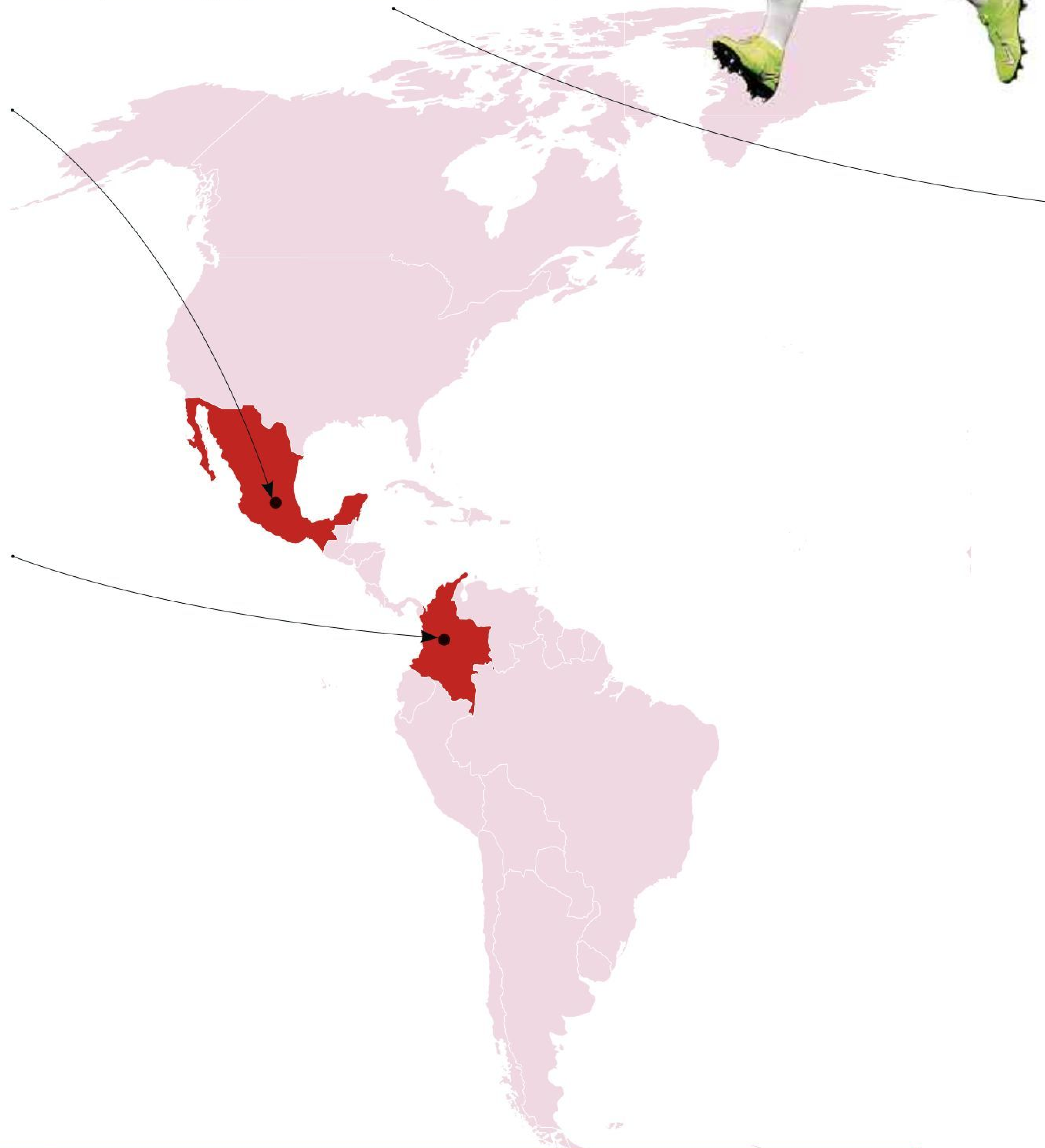
Mexico City

Economy in recession: Mexico's economy has shrunk for two consecutive quarters, fulfilling the official definition of a recession. Analysts are predicting zero growth for this year in spite of promises of an average annual increase of 4% by President Andrés Manuel López Obrador (pictured). Economists say a lack of investment is largely to blame and hope that the ratification of an update of the North American Free Trade Agreement, which has stalled in America over the past few months, will bolster confidence. Meanwhile, the government has unveiled an ambitious $43bn infrastructure programme; around $22bn will be spent in tourism, transport and telecoms. Mexican and American economic cycles have been "in sync" since the tequila crisis in 1994, when a sudden devaluation of the peso against the US dollar triggered a currency crisis, says John Authers on Bloomberg. But the Mexican recession does not necessarily mean one is about to hit the US. It appears to "say more about problems of Mexico's own making". A conspicuous problem is turmoil at state-owned oil giant Pemex.

Manchester

Manchester City owner sells stake: City Football Group (CFG), the owner of Premier League side Manchester City, is selling a 10% stake in the business for $500m, implying an overall valuation of the club of $4.8bn and establishing it as one of the world's most valuable sports companies. The buyer, Silver Lake, is a California-based investor in technology companies including Chinese online giant Alibaba, Dell and Skype. In recent years it has also turned to investing in entertainment in the form of the Ultimate Fighting Championship (UFC) and Hollywood talent agency Endeavor. Emirati billionaire Sheikh Mansour bin Zayed Al-Nahyan, paid £210m in 2008 for a 90% share of Manchester City. Since then, Al-Nahyan's CFG has invested heavily in turning the side into the current Premier League champions. Financial rewards come in the form of lucrative broadcasting rights and in participating in tournaments such as the Champions League, with its €2bn in prize money.





Bogata

Protests against economic reforms: Demonstrators in Colombia took to the streets for the seventh day in a row this week following the death of a teenage demonstrator who was injured by a tear gas canister, says Reuters. The largely peaceful protests have been led by workers' unions and students in response to economic reforms, police violence and corruption. They began with a 250,000 person march after rumours spread about cuts to pensions, public education and the minimum wage, notes Al Jazeera's Steven Grattan. Arlene Tickner, a political scientist at Bogota's Rosario University, said the protests had quickly ballooned into something "much wider", attracting Colombians of "all stripes... concerned about the poor health system, inadequate pensions, violence, inequality, corruption and other issues". Protesters are also calling for the implementation of the peace deal agreed upon in 2016, which called for a ceasefire between Colombian government forces and the Marxist-Leninist guerrilla movement Farc. President Iván Duque has offered to hold a "national dialogue" with "all social sectors" to address concerns.

The way we live now: clothed by a computer

Fashions come and go. But one new trend, digital clothing, is odder than most, say Tom Knowles and Sascha O'Sullivan in The Times. Customers send pictures of themselves to digital outfitters, such as Dutch fashion house The Fabricant, who then "dress" them in a computer-generated image of clothes that only exist in digital form. Those buyers can then show off their latest high-end virtual togs to friends and followers on social media. "As we spend [more time online], it... makes sense that we're discussing purchases [that] enhance our online appearance," Matt Klein of consultancy Sparks & Honey told The Times. The first purchase of digital clothing came in May when Richard Ma, a 31-year-old boss of a digital-security company, spent $9,500 at a charity auction on a virtual dress made by The Fabricant for his wife's birthday. Ma considers it to be an investment that will appreciate as the trend goes mainstream. But hang on, says Karinna Nobbs, founder of Hot:Second, a pop-up shop in east London that last week invited visitors to donate real clothes in exchange for an image of them wearing a virtual outfit. "If you had a digital garment experience... can you get [the same] endorphin hit as when you go to... the high street and purchase something?"

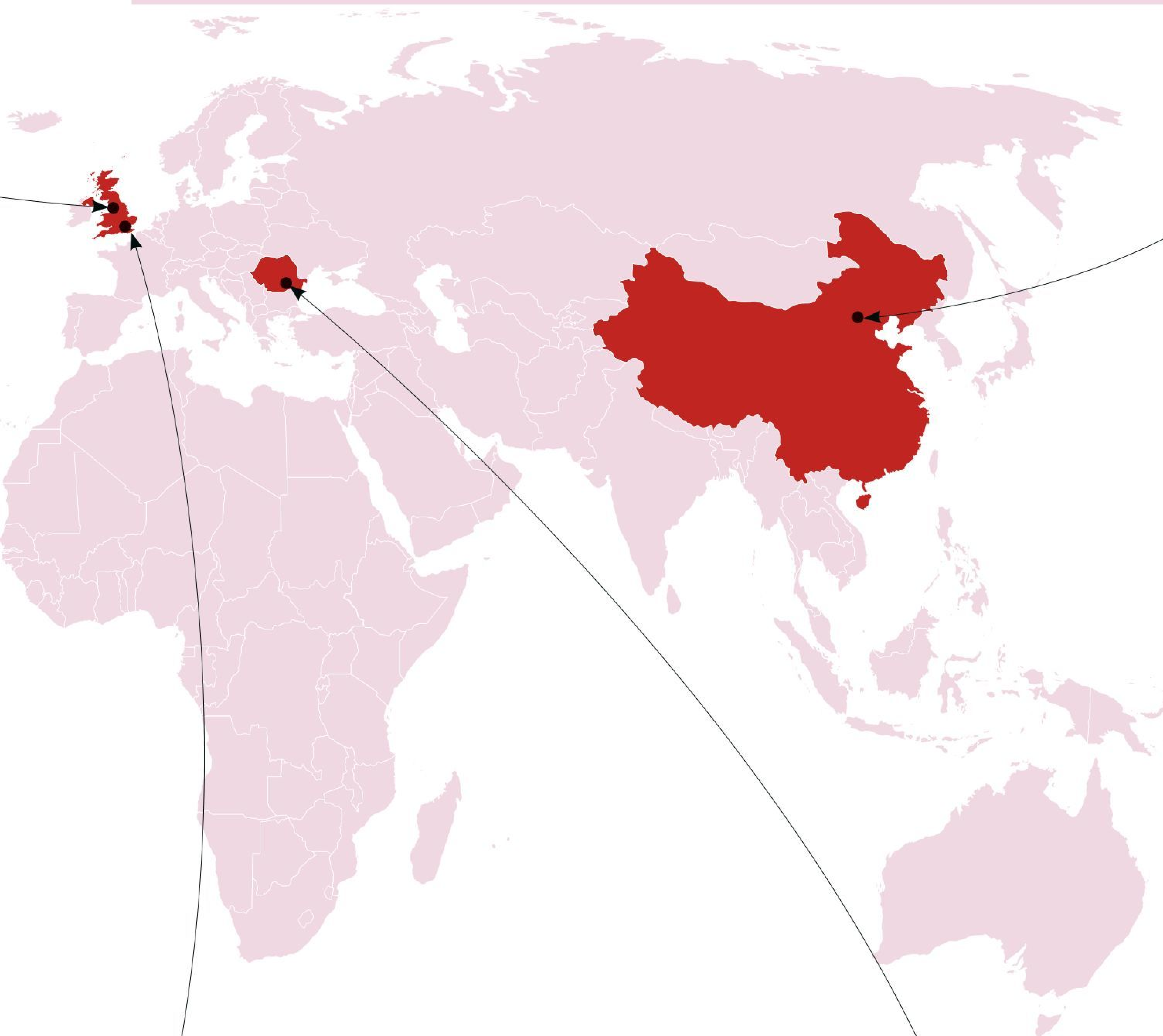
This is virtually a dress

©Getty Images; Fabricant

Global economy

World trade relapses: The volume of global trade fell by 1.3% in September from the previous month, according to the Netherlands Bureau for Economic Policy Analysis (CPB). The slide reversed the growth recorded in the previous two months, which had suggested that the worst of the disruption from the global trade war had passed, says Valentina Romei in the Financial Times. But "news about the negotiations between the US and China has been mixed at best and trade remains subdued", says Timme Spakman of ING bank. Meanwhile, "uncertainty still reigns in Europe" over its trade dealings with the US. Compared with the same month last year, global trade shrunk by 1.1% in September, marking the fourth consecutive year-on-year contraction and the longest period of falling trade in a decade. World export growth has deteriorated since October 2018, says Bethany Beckett of Capital Economics. September's figures have dealt "a blow to hopes that the global economy may have reached a turning point".

Mixed news on US/China negotiations has subdued trade



Beijing

Chinese consumers binge on debt: China's central bank has issued a warning about the rapid build-up in the country's household debt, which rose to 60.4% relative to gross domestic product (GDP) by the end of 2018, says Reuters. According to the People's Bank of China's annual financial stability report, this problem is of particular concern in certain regions and among low-income families. The report will increase concerns about the impact of rising debt on China's economic growth, which fell in the third quarter to its weakest rate in almost three decades, says Tom Hancock in the Financial Times. Although companies and local government are the "main drivers" of this debt, Beijing has encouraged property investment by relaxing mortgage lending, while rising debt has fuelled consumer spending. Most Chinese debt consists of mortgages, many taken out as "speculative bets on the property market": last year, nearly 66% of outstanding mortgage debt was owed by people who own more than one property. The central bank has called for the curbing of such loans, more stringent credit checks and greater education for low-income families about the risks of personal loans.

London

Citigroup receives record fine : The Bank of England has imposed a £44m fine on Citigroup owing to years of inaccurate reporting of capital and liquidity levels, says Bloomberg. It is the largest fine the Prudential Regulation Authority (PRA) has ever levied. The PRA said that between 2014 and 2018, three of Citigroup's UK units, including the hub of the firm's non-US trading and deal-making operations, had "significant flaws" in the systems they used to report financial information to regulators. Sam Woods, chief executive officer of the PRA, said the bank had "failed to meet the standards of governance and oversight of regulatory reporting which we expect of a systemically important bank". The PRA also revealed that reports were prepared manually, the data's quality was often questionable and the bank's systems used the wrong currency for the settlement of some positions. In spite of London-based regulatory teams being responsible for validating and signing off on the reports, the units relied heavily on employees in Budapest and Mumbai. Citigroup has insisted that it "fully remediated" the reporting issues "at the earliest possible opportunity".

Bucharest

Centre-right president re-elected : Romanian president Klaus Iohannis (pictured) has secured another five-year term by a landslide, The Guardian reports. The centre-right candidate won 63% of the vote, easily surpassing Social Democrat party (PSD) leader Viorica Dancila. Iohannis first staged a "surprise win" over the leftist party in 2014. Dancila was ousted as prime minister in a vote of no confidence in October, and has been replaced by Ludovic Orban, one of Iohannis' allies from the National Liberal party. Orban said his priority was the country's economy and he hopes to "regain the confidence of the business environment in governmental institutions" in light of the sharp increase in public spending and the government's deficit. "The country needs to restore a climate of predictability for investors and cope with the EU's highest rate of social expenditures," say Valerie Hopkins and Sam Fleming in the Financial Times.

The political battle over the NHS

Politicians seeking votes are promising ever more money for the NHS. But there may be better ways to rescue the service from its decline. Simon Wilson reports

What are the parties proposing?

The Conservatives say they will be providing a "record £34bn per year by the end of the parliament in additional funding for the NHS", and that between 2018 and 2023 they will have "raised funding for the NHS by 29%". By the end of the parliament, that amounts to "more than £650m extra a week", according to the party's manifesto. In terms of staffing, the party promises to deliver 50,000 more nurses, 6,000 more GPs and 6,000 more primary-care professionals such as physiotherapists and pharmacists. They also promise that when negotiating post-Brexit trade deals "the NHS will not be on the table. The price the NHS pays for drugs will not be on the table. The services the NHS provides will not be on the table." Labour says that the NHS would be on the table and released leaked minutes from initial UK-US trade talks that they say prove it.

The corporate state juggernaut needs reform

©PA Images

Is it really a "record" funding boost?

No. It may be the biggest uplift in cash terms over five years – but given the growing UK population and the effects of price inflation that isn't much of a claim. In real terms, the growth in NHS England's budget proposed by the Tories amounts to an additional £23.5bn a year, taking the total to £140.3bn by 2023-2024 (in today's money), according to the Institute for Fiscal Studies (IFS). That equates to real terms growth of 3.2% per year. To put this in context, it does mark a retreat from the years of austerity: the average real annual increase was just 1.3% between 2009-2010 and 2018-2019, despite the fast-growing population. However, it is still significantly lower than the long-run average annual increase in UK health spending of 3.6% per year (and far below the 2000s, when NHS spending grew by around 6% a year in real terms).

What about Labour?

They are proposing to spend rather more, though nowhere near the kinds of big real increases seen in the Blair-Brown years. By 2023-2024, Labour wants to increase spending on NHS England by an extra £3.2bn a year in real terms, to a total of £143.5bn (in today's money). That implies that Labour's annual spending on NHS England would be 2.3% higher than under the Tories. It also means the party is proposing real annual growth of 3.8% (on IFS figures), which is just above the long-term average. However, if you take the Department of Health and Social Care budget as a whole (including spending on capital investment and social care), Labour is proposing a more marked increase to £164.8bn (in today's prices) by 2023-2024, which is £25.5bn more than 2019-2020 – implying a 4.3% annual real terms rise.

Is the NHS in crisis?

It is definitely showing the strain after ten years of below-par spending increases at a time when the UK population is increasing and ageing, and the costs in the medical and pharmaceutical sectors have surged ahead. The latest monthly performance data from NHS England for October made grim reading, with the service recording one its worst ever performances and missing key targets for emergency care, routine operations and cancer. The number of people waiting to start non-urgent treatment reached 4.4 million at the end of September, a 7% rise year-on-year. And 80,000 people in A&E departments waited more than four hours from the decision to be admitted – a 63.4% surge. According to Richard Murray of the King's Fund, performance against the four-hour target "now stands at its worst level since records began, and this before winter has even started". Strikingly, only two out of 119 hospitals with a major A&E department met the target in October.

> *"The long-term issues affecting the NHS go much deeper than money"*

Will the funding increases help?

Returning real spending increases to around the long-run average should help to steady the ship. But the long-term issues affecting the NHS go much deeper than money. A major report by four UK think tanks last year compared healthcare provision in 18 similar rich countries. It found that Britain spends slightly less than the average (9.7% of GDP compared with 10.2%) and it rated the NHS reasonably highly for value for money and efficiency. But it found that "for the most important illnesses in directly causing death, it is a consistently below-average performer". We have only 2.8 doctors per 1,000 population, against an average of 3.6 in the countries surveyed. We have only 2.6 hospital beds per 1,000 population, compared to 4.5 on average. And we have higher than average rates of death among babies at birth or just after.

What could be done?

The challenge is to recruit and retain more doctors, says Paul Goldsmith on CapX. The shift to intensive monitoring and the target culture has lowered morale and frayed cohesion, and the excessive risk of litigation and the pensions relief fiasco (where older consultants were penalised for taking on more work) have sent doctors for the exit early. More broadly, there is the question of the NHS's funding model, which has been copied by no other European country. In the UK, it's assumed the only options are an NHS funded entirely from current taxes (in effect a transfer from the working-age population to retirees) or a US model of private medicine. There are other options.

Which ones might work?

Many healthcare experts argue that the model of subsidised social insurance found in many European countries – still universal, still free at the point of use – is far better equipped to adapt to a world in which longevity is rising and birth rates are declining. If it is politically impossible to introduce such a system in the UK, then at least the NHS should be forced to restructure, argues Simon Jenkins in The Guardian – with an emphasis on decentralisation and greater local control, and the merging of physical and mental health with social care. "Health is too important and sensitive a service to be delivered by means of a corporate state juggernaut," he reckons. "Just as paying for it has been political, so now should be changing it."

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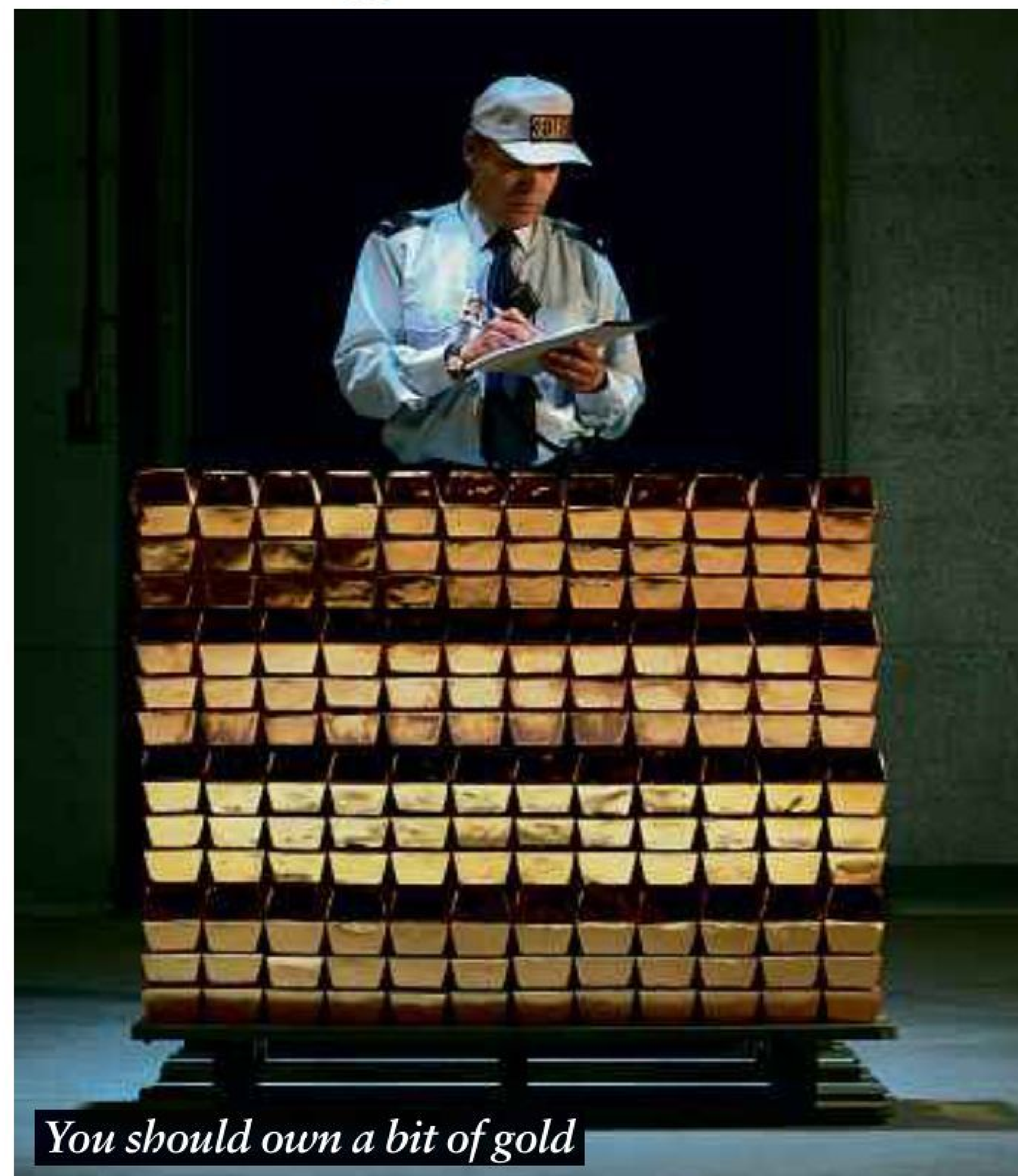
What is the point of gold?

Here's why investors should have a corner of their portfolio dedicated to the precious metal

John Stepek
Executive editor



You should own a bit of gold

©Getty Images

At the MoneyWeek Wealth Summit last week, gold was a hot topic amid concerns about government spending leading to inflation. It's also an investment we often discuss in the magazine – we've regularly suggested that readers should have at least 5%–10% of their wealth in physical gold (that is, the metal, not the miners). But why? What role does gold play in a diversified portfolio?

Gold is often described as a "safe haven", but you shouldn't let this give you the wrong impression – it's easy to lose money in gold. In the very long term, it's true that gold has held its value. There are lots of anecdotes in the gold market about how a given quantity of gold will buy you roughly the same quality of suit today as it would have cost a Roman senator to buy a toga, for example. However, in the shorter term, the gold price goes up and down like a yo-yo. It is very volatile, which is one reason the finance industry tends to be wary of it – whatever its other qualities, few advisers are keen to put their clients into an asset that might regularly display double-digit percentage losses even while everything else in the portfolio is rising smoothly. Also, like most commodities, gold is denominated in dollars – if you're a sterling investor, then it's not just moves in the gold price that will affect its value, but also moves in the pound relative to the dollar.

However, this is the point of gold – that it behaves differently to other asset classes across a range of economic conditions. That makes it a good diversifier for a portfolio. In plain English, adding some gold to your portfolio should mean you get better returns relative to the amount of risk you are taking. A research note out this month from the commodities team at investment bank Citi confirms this observation. Citi took a "traditional" portfolio split between bonds and equities, and looked at how adding gold to the portfolio affected both returns and the level of risk taken across a range of different mixes between equities and bonds. To sum up, since 1990, Citi found that most portfolios saw "improved performance with moderate gold holdings."

> *"Gold holds its value in the long run, but it's very volatile"*

None of this means gold will rise in the future (we suspect it will, given government profligacy – see page 4 – but there's no guarantee). But both historic data and logic (as Bridgewater's Ray Dalio recently reminded us, "gold is the only asset you can have that's not somebody else's liability") suggest that gold provides diversification benefits. You can buy physical gold from any bullion dealer, or you can invest via your broker using an exchange-traded fund such as **iShares Physical Gold (LSE: SGLN)** which has an annual charge of 0.25% and is denominated in pounds.

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

Standard deviation (SD) is still the most widely-used measure of "dispersion", or in financial markets, "risk". That may sound technical but it's actually quite straightforward to understand. It is based on the idea that any population is "normally distributed" (it follows a "bell curve" pattern) – in other words, whether it contains the height of every UK adult male, or the annual return from the FTSE 100 over 100 years, most members of a normally-distributed group will bunch around the arithmetic average (the "mean") for the whole.

For the heights example, this would be the sum of every man's height divided by the number of men in the UK. So a randomly chosen man in the UK will on average be close to, say, 5'10" – with only a few people significantly above or below that "mean" height (these are so-called "outliers").

SD quantifies the average "dispersion" of a given measurement (in this case, heights or equity returns), above or below the mean figure. In other words, it's a measure of how widely the data varies from the mean. Given a normal distribution, about two-thirds of all the data points in a set should lie with one SD of the mean, and almost 100% should lie within three SDs.

The higher the SD, the wider the spread of the data – or the greater the risk that a randomly chosen man from your data set is nowhere near the average of 5'10", or that the return from equities next year is way above or below the past 100-year average.

SD can also be applied to other aspects of financial markets. For example, Jeremy Grantham of US asset manager GMO has defined an asset price bubble as a market in which prices have moved more than two SDs above their long-term price trend (adjusted for inflation) – in other words, prices have moved a statistically long way away from their fundamental value, to the point where a correction or crash is extremely likely.

Guru watch

Bill Gross, retired fund manager

US equity and bond markets have had a pretty good run this year, but 2020 is going to be a lot harder, reckons Bill Gross. The 75-year-old billionaire co-founder of asset manager Pimco was once known as the "bond king", but saw his reputation tarnished in the latter years of his career. He was pushed out of his own company in 2014, and subsequently endured a period of poor investment performance at Janus Henderson group, before he retired earlier this year.

US equities will be "flat to down 10%" by the end of next year, while there will be little change in the yield on the ten-year Treasury (the key US interest rate). Gross tells the Financial Times that policymakers – both central bankers and politicians – are running out of room to "stimulate" the economy.

©Getty Images

For example, the impact of the corporate tax cuts pushed through by US president Donald Trump has almost run its course. "To retain the 1% boost that it provided to the economy... the deficit [the annual government overspend] needs to expand by another $1trn." That seems unlikely to happen.

Last month, Gross issued his first investment letter since retiring. One tip for investors was to favour dividend stocks. For his own part, he tells the FT, he's currently looking at natural gas stocks, including high-yielding pipeline operators. He also thinks investors should look for opportunities in the healthcare sector, which are likely to created by the ups and downs of the "mercurial" political environment ahead of next year's presidential election.

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Tech shake-up is a boon for investors

The advent of free trading platforms will get more people buying shares. That's a welcome development

Matthew Lynn
City columnist

We are used to having free apps on our phone, free delivery over the internet and free current accounts from our bank. Now it looks like there's something else we won't have to pay for any more: trading shares.

Rewind 20 years and the buying and selling of shares was often very expensive. Banks and brokers typically charged a percentage of the value of the trade – indeed, before the "Big Bang" deregulation of 1986 there were fixed minimum commissions. If you were dealing in thousands or tens of thousands of pounds, that could add up to a hefty bill each time you bought or sold anything. Trading fees were one of the City's most lucrative sources of income. As trading moved online, however, fees came down. Online brokers now trade shares for a fixed fee of between £5 and £10.

The economics of free

Then a start-up called Robinhood began offering free trades. Charles Schwab, the biggest retail broker in the US, slashed trading costs to zero in the summer and so did many other brokers. That quickly proved very popular with customers. Schwab has already seen a 30% increase in the number of private accounts.

When a business idea works in the US it is usually not very long before it crosses the Atlantic. Sure enough, free trading is coming to Britain. Robinhood, which kick-started the whole thing, has this month said it plans to launch in the UK. A company called Freetrade has just raised $15m in venture-capital funding for its platform. London's ambitious and well-funded fintech companies will surely be planning to get on board this bandwagon.

Robinhood's founders Vladimir Tenev and Baiju Bhatt are shaking up share trading

©Shutterstock

Sure, the economics of free trading can be challenging. Brokers will have to make money in other ways – for example, by charging for premium services, such as research, or news, or selling other financial services. But if Google can provide complex technology such as mobile-operating systems, search engines and maps for free, and Facebook and Twitter can provide social media and telecoms services for nothing, it's hard to see why a relatively simple, highly computerised product like equity trading should be paid for. Nor is there anything strange about offering a free service as a way of creating a base of customers to sell to. The retail banks have done that for generations and so have broadcasters. It can be a successful business model so long as costs are under control and money can be made from the extra services. Yet it is going to have big consequences for the City. Here are three to watch out for.

What this means for the City

First, the traditional brokers are going to be in a lot of trouble very quickly. It is hard to charge for a service when a rival is offering a reasonably efficient and reliable alternative for nothing. True, there may be some inertia among investors and it might take a little time for people to feel safe entrusting their portfolios to a company they have not heard of. But there is plenty of evidence from other industries to suggest they will be persuaded very quickly once they see the price. We can expect the dominant brokers to be under pressure and, like Schwab in the US, they will probably have to go free themselves.

Next, there will be a round of mergers as the legacy companies struggle to compete. In the US, not only has Schwab switched to free trading, but it is now also planning a merger with its biggest traditional rival, TD Ameritrade. When trading fees disappear the brokers have to be a lot more efficient to survive – and often the simplest way to achieve that is to consolidate. We can expect to see something very similar in the City.

Finally, just as in the US there will be a big rise in customer numbers. As noted previously, Schwab has opened 30% more accounts since abolishing fees: clearly a lot of people who didn't own equities before have been tempted into the market by the simplicity of free accounts. Private investors have been sidelined for generations. Free trading will spark a long overdue revival. This shake up won't be a lot of fun for the existing incumbents. Disruption never is. But once the dust has settled, the financial markets will be better for it.

Who's getting what

● **Zillah Byng-Thorne**, CEO of publisher Future, will pocket 1.24 million shares worth up to £18m after hitting her long-term performance targets, says The Times. The company's share price has risen from 60p when she took over in April 2014 to around £14 now. Byng-Thorne (pictured) was paid £4.78m in the year to September 2018, including a £1.45m bonus. A third of Future's shareholders rebelled against the firm's remuneration report at the AGM last February.

● **Partners at KPMG** are bracing themselves for a 40% cut in their annual bonuses, says The Daily Telegraph. The accountancy giant is hoping to cut up to £100m in costs as it prepares for tougher regulation of its audit business sparked by scandals such as the collapse of government outsourcer Carillion, whose accounts had been signed off by KPMG five months earlier. Partners are also being told to cut back on spending on entertaining clients.

● **Stephen Clarke**, former chief executive of WH Smith, has left with a "golden goodbye" of £3.42m after six years at the helm, says Retail Gazette. In those six years he has been paid more than £20m. By 2019 he was earning a salary of £568,000, up from £550,000 the previous year, with a bonus of £908,000 and "long-term incentives" of £1.79m, up from £1.36m in 2018. He left at the end of October, to be replaced by Carl Cowling, who was previously head of the company's high-street division. WH Smith's share price has risen by 25% in the last year.

Nice work if you can get it

José Mourinho, the new manager of Tottenham Hotspur, will be paid £15m a year, says The Sun, almost double the amount paid to his predecessor, Mauricio Pochettino, who was sacked last week after five years in charge of the north London club. It is the same amount he was getting at his previous job in charge of Manchester United, before he was let go in December last year.
But £15m will make him only the second-best-paid manager in the Premier League. Topping the list is Manchester City's Pep Guardiola, on up to £20m. Joint third are Jürgen Klopp of Liverpool, and Ole Gunnar Solskjaer of Manchester United, on £7.5m each. Chelsea's Frank Lampard, in only his second managerial job after failing to get Derby County promoted from the second tier of English football last year, earns £5.5m. Bottom of the table is Newcastle United's Steve Bruce, who gets by on just £1m.

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Our silly snobbishness over accents

Edward Lucas
The Times

"In America, accents are neutral," says Edward Lucas. They may reveal where you are from, but they "say nothing about your brains, wealth or social status". In Britain, by contrast, accent is used as a "selector for success or social admissibility". This "crippling" and "extraordinarily silly" social peculiarity was on show in Washington last week, when Fiona Hill, star of the impeachment hearings, began by explaining in her "unapologetic Durham coalfield accent" that America had given her opportunities she would never have had in England, where her distinctive accent would have "impeded" her career. While I have no doubt that Hill would have risen to similar heights in British foreign policy, I "doubt that she would be speaking as she does now". Although we accept strong regional accents on local radio, and Radio 5, and in sports coverage, you don't hear broad Mancunian or Scouse on Radio 4 or the World Service. Hill wasn't the only example of America's "magnetism and internal mobility". She, along with fellow witnesses Colonel Alexander Vindman, and Marie Yovanovitch, "exemplify" a tradition. Americans should be proud. And "we should worry" that they chose not to shine here.

Big tech is too big to fail

James Titcomb
The Daily Telegraph

For years, big tech has employed a simple argument to calm monopoly fears, says James Titcomb: they are only successful because consumers like them. Other search engines, social networking sites and online marketplaces are just a click away. This argument, however, is "starting to lose its potency". Google's "grip on personal data, its subsidisation of the smartphone market through its free Android software, and the dominance of its Chrome browser make it the default search engine for billions". For there to be a realistic alternative to Facebook, everyone would have to use it. As the watchdogs cotton on (belatedly) and threaten restrictions, big tech is changing tack. Facebook, Google and Apple are now trying to make a virtue out of their size – and they have a point. Personal data stored with a small number of well-resourced monopolies is safer. Huge firms are more able to deal with privacy regulations such as Europe's GDPR. Whether we like it or not, say Zuckerberg et al, when it comes to the big issues (data, fake news, the rise of China), their systemic importance outweighs any competitive concerns. Big tech has become the new "too big to fail – or at least, too big to break up".

The decline and fall of the WTO

Adam Behsudi and Finbarr Bermingham
Politico

The World Trade Organisation (WTO) is in grave trouble, say Adam Behsudi and Finbarr Bermingham. On 10 December, its highest dispute-resolution body will cease to function, the Trump administration having blocked reappointments to the panel. The US has a "long list of complaints" with the Appellate Body and wants other countries to recognise the WTO's failings. It may even block its next budget approval, effectively shutting it down in 2020. The WTO, which includes 164 countries, has "largely failed to work out new rules for freer trade" since it was established in 1995. Canada and the EU are currently working on a "shadow Appellate Body"; however, a weakened WTO "could bring back an era that allowed economically strong countries to steamroll other nations". Trump and his cadre of trade officials, who have long viewed the WTO as a "suspect institution aimed at undermining US economic sovereignty", may not see this as a bad thing. Its failure to address issues such as intellectual property theft prompted Trump to take unilateral action against China. Until the world's two largest economies settle their trade disputes, the WTO's problems are unlikely to be resolved.

Labour's fatwa on success

Harry Phibbs
City AM

It's hard to know where to begin with Labour's declaration of a "fatwa against success", says Harry Phibbs. Jeremy Corbyn says there should be no billionaires in a fair society, but what about people with £100m, or £10m or £1m? Actually, Labour usually identifies the "vulgar, greedy" enemy as the "top 1%". There is a hitch, however, with banishing such individuals. According to the Institute for Fiscal Studies, they contribute more than a third of all income tax. If the top 1% scarpered, the rest of us would face "huge tax hikes" (particularly given Labour's additional spending programme, costed at £1.2trn). Meanwhile, those leaving the UK would not just avoid a tax hike, but enjoy a tax cut (the UK's effective top rate is 47%; Estonia's is 20%). Others might stay, but let their earnings "slide", not because they want more money – beyond a certain level, it is irrelevant – but because if their efforts to innovate, create jobs and take risks are resented, why bother? Fundamentally, people get rich in capitalist societies by providing products that people want. "Inequality is essential", and a "dynamic, growing economy that allows widening prosperity needs to welcome billionaires into the mix".

Money talks

"It's been a wee bit more of a blessing than it has a curse." Andrew Ridgeley (pictured) – former songwriter and member of pop band Wham! – on earning royalties of between £50,0000 and £100,000 a year since the 1980s, quoted in The Times

"I had a great plan once. I said to my wife, 'Let's liquidate everything we own! We have a house on Long Island. We have our apartment in Greenwich Village. Let's sell everything. Convert it into cash. And we'll stay in the most beautiful hotels around the world. One year in each city, during the kids' childhood. We're in Vienna, we're in Tokyo, we're in Cape Town. Rome, Paris, London. Moscow! Madrid!' And my wife, she found it amusing. But said she would like the kids to go to school." Actor Alec Baldwin, quoted in The Observer

"I have over 30 credit cards and store cards – so many, I daren't count the exact number. If I carried them all with me I'd need three wallets." *Only Fools and Horses* star Sue Holderness, quoted in The Sunday Telegraph

"If I'd taken all the jobs I'd been offered, I'd probably be quite wealthy now, but I'm picky. *X-Factor* judge Louis Walsh, who is lovely, frequently used to say to me, 'Go for the money, Kiki. Go for the money.' He meant it kindly and part of me wished that I could. I've turned down music-revival tours and several reality TV shows, including *I'm a Celebrity... Get Me Out of Here!* and *The Real Marigold Hotel*. Mind you. I might be tempted if I were offered *Strictly Come Dancing*." Singer Kiki Dee, quoted in The Sunday Telegraph

"An American will build a house in which to pass his old age and sell it before the roof is on." Alexis de Tocqueville, quoted in Lapham's Quarterly

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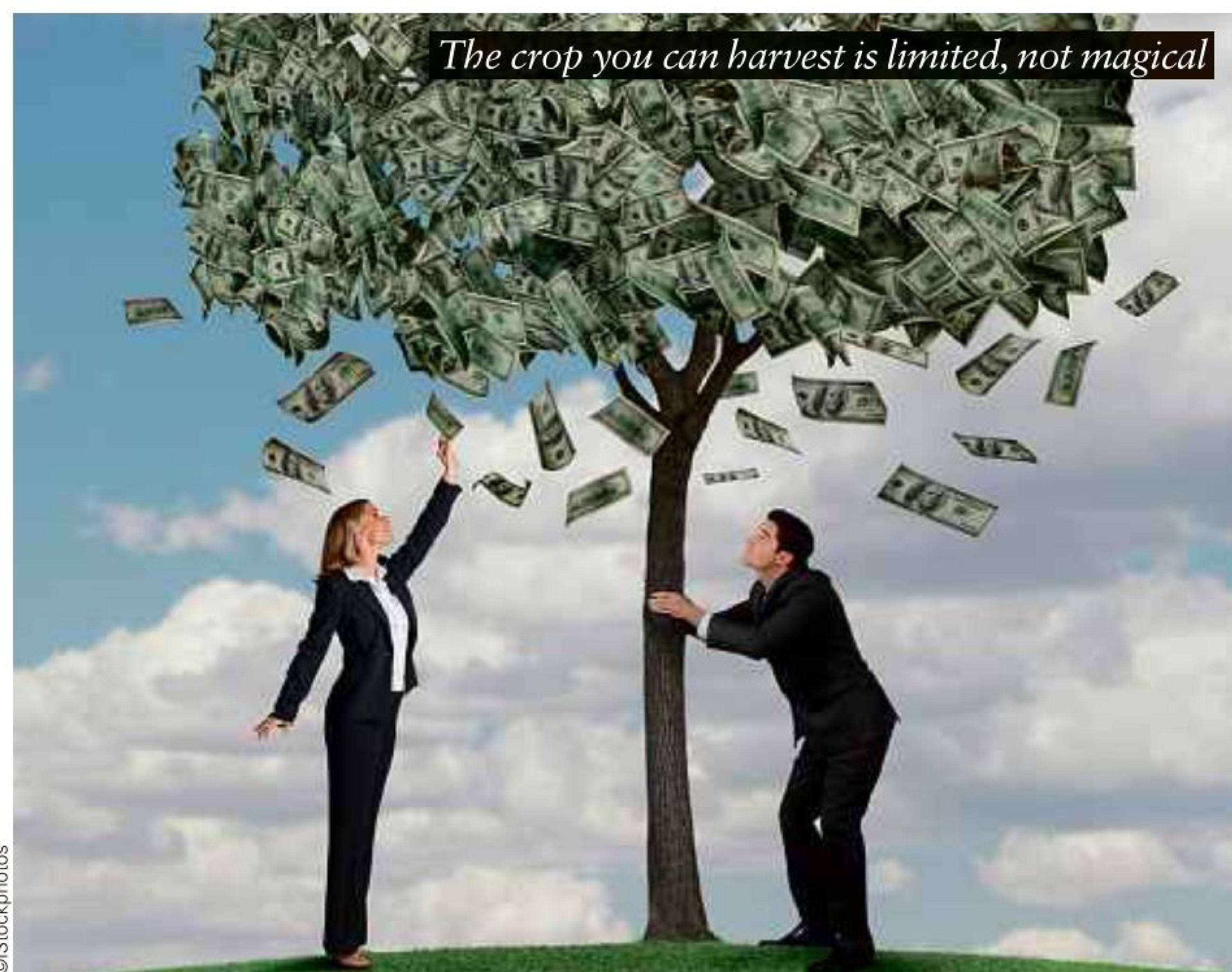
Magic money trees don't exist


The crop you can harvest is limited, not magical

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In an attack on economics published in The New York Review of Books, anthropologist David Graeber takes issue with Theresa May's claim, made in the 2017 general election, that "there is no magic money tree". In fact, there are plenty of them, says Graeber. "They are called 'banks'."

This view, that banks can and do create money literally out of nothing, simply by making loans, now circulates widely. But is it a useful or insightful way to think about banks? The answer, says Thomas Hale, is "straightforwardly no, irrespective of your politics".

How the system works

Those who argue otherwise often point to a Bank of England paper from 2014, which took issue with traditional explanations and showed how commercial banks create money by lending. "It invigorated those who saw academic economics as flawed." But what the paper argued was by no means new – nor wrong. In fact, it would be hard to find an economist who disagrees with the notion that banks can create money through lending. (If they do disagree, it will probably be a matter of semantics. As Tim Worstall puts it, you can cut through the whole debate by defining terms: central banks create money, or M0 in the jargon, banks create credit, or M4.)

But this is not at all the same as arguing that banks can create money without any constraints, as that Bank of England paper goes on to explain. For a single bank, its level of reserves constrain lending – not quite in the way imagined by common sense, but not wildly different from it either. "Banks spend a huge amount of time and energy attracting deposits by building branches or by marketing. If they were magic money trees, why bother?" Banks do need to attract customers, even if it is not simply to transfer their funds directly to someone else.

True, the banking system as a whole could create money in a manner effectively unconstrained by reserves if banks all increase their lending together. "So is there perhaps a magic money forest, if not one single tree? The answer is still no." Many other factors constrain bank money creation, including monetary policy, which can change the incentives of commercial banks to make loans; demand from households; credit risk; and capital requirements (rules enforced by the government that moor the total volume of risk-weighted assets to the size of the bank's capital). Whatever those who are hostile to banks or in favour of greater government spending believe, the money tree is not magic – the harvest you can expect is strictly limited.

The water wars have begun

economist.com/graphic-detail

The forecast that future wars will be fought over water has been made often enough for it to be subject to doubt, says The Economist. Demand is rising and supply is challenged by climate change, which tends to make dry places drier. Yet the great water-based conflicts that were feared – between India and Pakistan, for example, or China and its downstream neighbours – have not come to pass. Take a closer look, however, and that is nothing to cheer. A database of water-related conflicts by the Pacific Institute shows that water has "long played a role in conflicts", even if it is rarely the sole cause of it, and that water-based struggles are becoming far more common. Sometimes water itself can be used as a weapon. Just last year al-Shabaab, a terrorist group, diverted water to cause a flood in Somalia, which forced opposing forces to higher ground, where they were ambushed. Sometimes water is the trigger for conflict. Fighting over grazing land in central Mali this year has led to massacres, for example. And water infrastructure can itself be the target of military action. Water installations have been "in the cross-hairs" in Syria, Ukraine and Yemen. "Whatever happened to the water wars? The answer is that they continued – and that repeated forecasts did nothing to reduce the risk of bigger conflicts."

Observe the Sabbath

unherd.com

We're all burnt out, says Elizabeth Oldfield. This year the World Health Organisation recognised "burnout" as an occupational phenomenon – defining it as "chronic workplace stress that has not been successfully managed", characterised by feelings of energy depletion or exhaustion and mental distance from one's job. There have been some attempts by "millennial brand creators" to cash in on this, creating products to help people slow down.

Maybe they should put their energy instead into "rebranding the Sabbath". This ancient Jewish practice has come to be

A protection against burnout

©Alamy

associated with a puritanical mindset, or even laziness. But if respected properly, it can be about "the freedom to recognise and respect our limits" and build "boundaries around our time that allow our minds and souls to recover".

Take one day a week out "to hit pause on the hustle" and look up from your smartphone. One day in seven to "reflect on the big stuff that gets crowded out of our attention by the relentless roar of consumerism" – even, maybe, "to cook and eat a real meal without taking a picture of it".

Capitalism does not need fixing

nationalreview.com

The ranks of those who propose to "reinvent capitalism" are swelling, says Kevin Williamson. It's what we'd expect from the left, but now the right is at it. US senator Marco Rubio wants workers and businesses to see themselves not as competitors for a share of limited resources, but as "partners in an effort that strengthens the entire nation" – the familiar moral basis, whether he realises it or not, of fascist thinking.

Men like Senator Rubio "desire for themselves the power to overrule markets in the service of what they think of as the common good". The trouble is, Rubio does not know what the common good is and has no way of knowing. He has the "wrong kind of intelligence for the task" – he is clever, and believes that a clever tweak here or there will do away with inconvenient realities. It won't.

Government should limit itself to providing a predictable and stable policy environment that will let firms make long-term investments under reasonably stable conditions. "If you could manage that without bankrupting the nation, we would be grateful."

Money where their mouth is

It may be worth checking whether fund managers and directors invest in their own funds

David Stevenson
Investment columnist

Are the interests of the finance professionals managing your money properly aligned with your interests? The more skin you have in the game as a fund manager, the greater your interest in providing a positive outcome for the investor.

That, at least, is the theory behind the regular research into investment trusts produced by Alan Brierley at Investec. Brierley (rightly, in my view) reckons that a manager heavily invested in their own fund will take a more direct interest in the outcome of that investment strategy. The same should apply to the non-executive directors, who are paid a fixed fee for looking out for investors' interests.

Neil Woodford invested his own money in his Patient Capital Trust

©Shutterstock

Skin in the game...

The good news is that more and more managers and directors are putting their money into their own funds. Investec's latest study of 303 investment companies reports total aggregate investment by boards and managers of £3.39bn.

But the report also identified 20 chairpersons (6% of those featured) with no investment in their trusts. In the case of 30 investment companies, the aggregate shareholdings of the board were worth less than the total fees received over six months. And 41 chairpersons who have been on the board for at least five years currently have a shareholding worth less than their annual fee.

For me the key measure is how much of their own money fund managers are willing to stake on the success of the fund. Among investment trusts there is an elite core of funds where the managers are by far the biggest investors in the fund.

Notable examples include the Rothschild family in RIT Capital (£703m), and the management teams of Pershing Square (£668m), Tetragon (£257m) and Apax Global Alpha (£194m).

Another key gauge is what proportion of the managers' total wealth is tied up in a fund (or range of funds provided by the manager). On this score the Investec team cites the example of Simon Barnard, manager of Smithson Investment Trust, who told the fund researchers that 90% of his investable wealth is in this fund.

Nonetheless, just because the manager is aligned doesn't mean that one can avoid poor investment outcomes. Neil Woodford was heavily invested in his Patient Capital fund, which also guaranteed that payments would only be made if the fund outperformed a benchmark. Yet none of these alignments did anything to halt the fund's subsequent meltdown.

... isn't always a bullish sign

It's a similar, though less dramatic, story at other funds. The Investec team highlight two other funds in particular – Boussard & Gavaudan and JZ Capital Partners – "where the management teams have investments of £129m and £100m. In both cases, the performance records are nevertheless poor". If we look down the list of biggest absolute holdings, Pershing Square, Tetragon, Boussard and Gavaudan and JZ Capital Partners all appear near the top. But all have produced less than stellar returns over the past five years.

This all suggests that rather than focusing on the absolute size of the investment in the fund we should look at the relationship between the managers' skin in the game and their fees, as it gives us a rough idea of how much of their own pay they seem willing to match with their own invested cash. In this context, it's interesting to note that there are some trusts where all board members have a current shareholding worth more than two years' fees.

They are Aberdeen Standard Equity Income; Mid Wynd International; AVI Global Trust; Baillie Gifford US Growth; Smithson Investment Trust; Dunedin Enterprise; Supermarket Income Reit; Independent Investment Trust; Troy Income & Growth; LXI Reit; and OLIM's Value and Income Trust.

Activist watch

Activist shareholders are going to court in an "extraordinary" attempt to block the £4.7bn takeover of British satellite telecommunications company Inmarsat by a private equity consortium, says the Daily Mail. Oaktree Capital and Kite Lake Capital Management hold stakes in the company of 2.8% and 3.8% respectively, and are urging a judge to withhold approval of the deal. The rebels want more money. Oaktree has argued that the offer for Inmarsat ignores the potential value of "spectrum assets" used by Inmarsat's US partner Ligado.

Short positions... absolute-return funds fail to deliver

■ **Absolute-return funds have become the worst-selling fund group in the UK, reporting net outflows of £15bn over the past year, says Owen Walker in the Financial Times. Absolute return funds, which use a range of assets and derivatives, have higher fees than standard equity funds, but promise a set level of returns above cash. Once thought of as an ideal product for those unnerved by the financial crisis, the sector has failed to deliver for years now and saw "an extended period of underperformance from late December last year to June 2019", notes Charles Younes of FE Investments. Standard Life Aberdeen's Global Absolute Return Strategies, or Gars, was once Europe's largest investment vehicle, but the past year has seen its assets slashed from £13.7bn to £6.1bn. Invesco's Global Targeted Returns and BNY Mellon's Real Return fund both shrank by a fifth and suffered £2.5bn and £2.3bn worth of outflows respectively.**

■ Global asset management group Janus Henderson has been fined nearly £2bn for overcharging and misleading investors over the last five years, says Jonathan Jones in The Daily Telegraph. In November 2011 Janus Henderson's Japan and North American equity funds adopted a passive strategy, but they failed to inform clients and continued charging them the same fee. The firm told only "a handful of institutional clients". Investors were made aware of the change in 2016 when the funds were renamed Institutional Japan Index Opportunities and Institutional North American Index Opportunities. By this stage, investors had paid £1.8m more in fees than they would have if they had invested in an "average-charging" passive fund. The Financial Conduct Authority (FCA) has said it requires firms to treat all customers fairly, not just some of them.

Time to invest in a holiday let?

There is money to be made in this rapidly expanding market. But do your sums carefully

Chris Menon
Investment columnist

Furnished holiday lets can often avoid business rates

©iStockphotos

Forget buy-to-let; try buy-to-holiday-let. More and more landlords are moving into buying property specifically for holiday lets, driven by the tax advantages and a less stringent regulatory environment compared with conventional buy-to-lets. Holiday lets are a small market, but they are expanding quickly. Leeds Building Society, for instance, registered a 19% increase in holiday-let mortgage applications in the first half of 2019 from the same period in 2017.

The tapering of mortgage interest relief, second-home stamp duty surcharge and more stringent affordability checks have all dented the profitability of buy-to-let investments. Regulatory changes regarding everything from letting fees and tenant deposits to licensing and minimum space requirements have had the same effect. Airbnb, meanwhile, used to offer lucrative short-term lets but users are facing stricter rules to do with tax, compliance with local laws and mortgage terms and conditions.

Tax relief for holiday lets

By comparison with buy-to-let, furnished holiday lets (FHL) offer many advantages for potential investors. HM Revenue & Customs views holiday homes as small businesses, making them liable to pay business rates instead of council tax. But a tax loophole enables many to avoid paying. This is because owners are entitled to relief on 100% of the business rates payable if their properties have a rateable value of less than £12,000.

Those whose properties have a rateable value between £12,000 and £15,000 are also entitled to relief on a sliding scale, in line with the government's small businesses rates relief policy. (You can check the rateable value of your property at gov.uk/correct-your-business-rates.)

"You'll need a deposit of at least 25% and a minimum income of £25,000 a year"

FHL are also exempt from the mortgage tax-relief changes that apply to the conventional buy-to-let sector. Furthermore, owners can claim capital allowances for items such as furniture, equipment and fixtures, as well as capital-gains tax relief.

Still, a property must meet certain criteria to qualify as an FHL. It must be furnished; located within the UK or the European Economic Area (the EU plus Iceland, Liechtenstein and Norway); commercially let with a view to making a profit; available for letting for at least 210 days a year; and let for at least 105 days a year. As long as you can meet these criteria, there is good money to be made. According to Sykes Holiday Cottages, which manages holiday-let properties for landlords, Cumbria and the Lake District takes the top spot as the highest-earning region for holiday lettings, with an average annual income of £13,000 for a two-bedroom cottage and £28,000 for a four-bedroom cottage. Cornwall ranks second with an average annual income of £13,000 for a two-bedroom cottage and £23,000 for a four-bedroom one.

Roll up your sleeves

The major downside to investing in a holiday let is that it's a lot more hands-on than buy-to-let. The property will need to be maintained, cleaned and the linen changed for each let. If you don't live nearby you'll need local help.

The same goes for advertising the property, answering queries, checking in guests and handing over keys. Sykes Holiday Cottages, for instance, charges a chunky 20% commission for such services. Any void periods will reduce your income too. In some areas the letting periods are as short as 20 weeks a year.

Lining up the paperwork

You also won't be able to finance this on a residential mortgage or a normal buy-to-let mortgage. Most lenders don't support holiday lets: the wide seasonal variations in income are considered too risky. If you want to turn a property you already own into a holiday let, check if this breaches the terms and conditions of your mortgage. You may have to switch to a new one. Fortunately, a growing number of small banks or building societies offer specialised holiday-let mortgages. These include: Metro, Paragon, Leeds, Cumberland, Furness, Market Harborough, Principality, Tipton and Harpenden. You'll need a deposit of at least 25% for a holiday-let mortgage, while a 40% deposit will give you access to more competitive rates. Your annual rental income will need to be worth 150% of the interest payments. In addition, a borrower will probably need to prove a minimum income of £25,000 a year.

Seek advice

The number of holiday-let properties allowed also varies from lender to lender. For example, Paragon has no limit, but Harpenden only allows a borrower to have a maximum of four holiday-let mortgages. Owners in Greater London are prohibited from renting out a residential property for more than 90 days in any one year, unless they have planning permission.

Given the variety of deals available, it's crucial to do your sums before investing in a holiday let and, if you are going to take out a mortgage, seek independent advice from a reputable mortgage broker. Finally, keep in mind that you will need buildings and contents insurance; to obtain the best deal consult an independent insurance broker.

How to cut your car insurance

We pay for the convenience of comparison sites, but there are still ways to reduce your premiums

Ruth Jackson-Kirby
Money columnist

Price-comparison websites have undoubtedly made finding the best deal for car insurance easier. But they have also made our insurance "33% more expensive", says Sam Barker in The Daily Telegraph.

Up to a third of the price you pay covers "secret commissions charged by price-comparison websites, which can be as much as £160 per policy", says Barker. Websites charge insurers to display their policies in their search results. These days insurance companies have little choice but to pay up as most of us buy through comparison sites.

The flat fees range from £40 to £160 and insurers pass that cost straight on to the customer. With the average comprehensive car insurance costing £485 a year, that means commission makes up 8% to 33% of a typical bill.

To make matters worse, most comparison sites ban insurers from selling deals directly for less. Each price-comparison site charges a different fee, so this is another reason why it is important to check more than one before you buy your policy. Look at Confused.com, Compare The Market, MoneySuperMarket and GoCompare.

Don't let the fact that you are paying for the ease of using a comparison site put you off. Even with their fees, you'll pay less for your car insurance if you shop around every year rather than automatically renew with your current insurer. Your car insurance premium is likely to go up by £50 each year if you auto-renew, reckons MoneySuperMarket.

How to cut your premiums

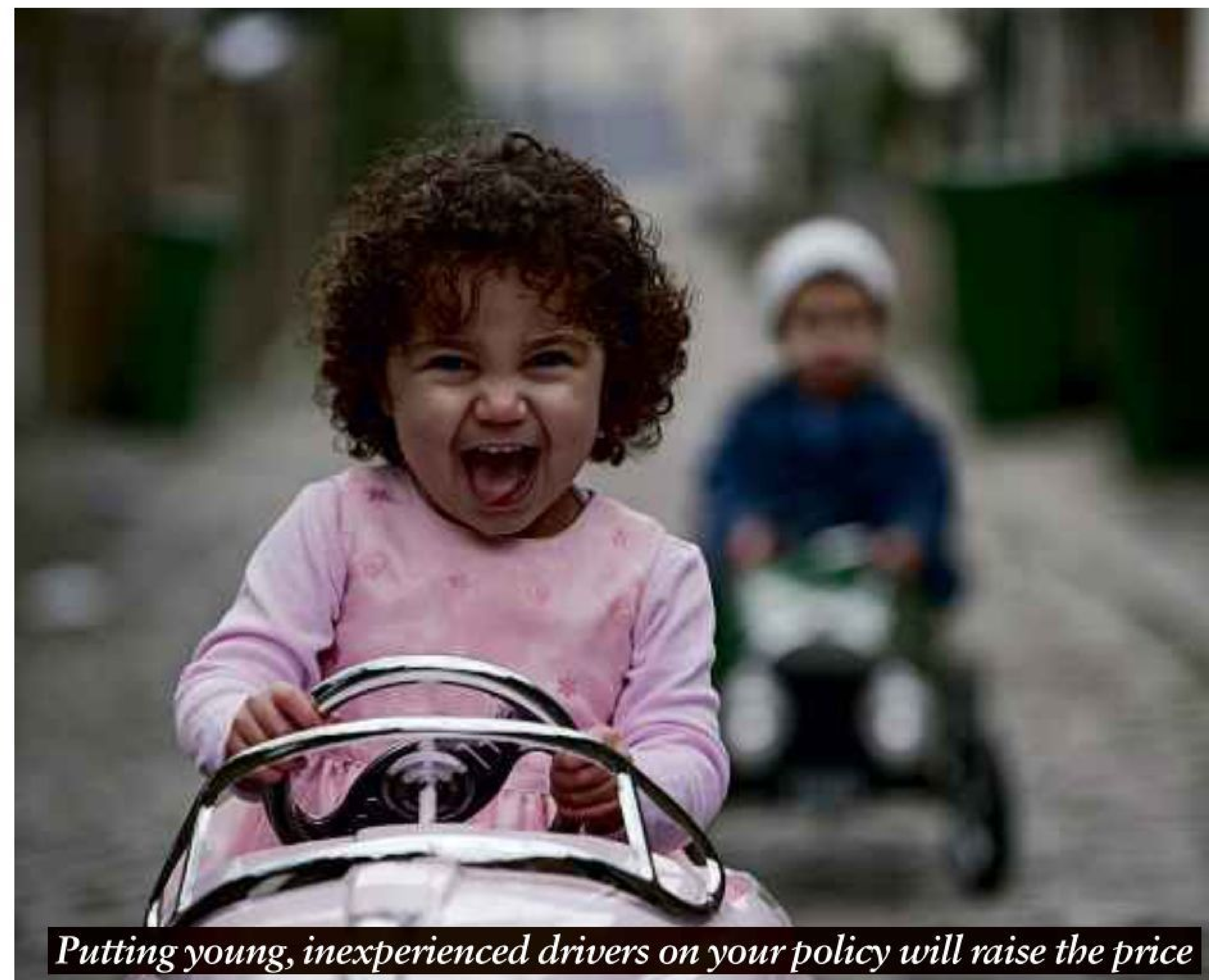
When you are renewing your insurance don't rush. Carefully consider your answers on the form as each one can affect how much you end up paying. "If you only do a few thousand miles a year you could save money by setting a lower mileage cap on your policy," says Matt Allan in The Independent. "If you don't use your car to get to work, then deselect the commuting option."

Think carefully before you add named drivers. Putting young, inexperienced drivers on your policy will drive your premiums up, as will anyone with a motoring conviction.

"If they don't drive your car regularly then consider adding them temporarily when needed rather than paying to keep them on your policy all the time," says Allan. However, adding a more experienced, lower-risk named driver can bring premiums down.

Younger drivers can reduce premiums by opting for a policy that uses telematics. These place a black box in your car that tracks how and when you drive.

If you are a sensible driver your premiums should fall. Finally, pay for your car insurance in one lump sum. You'll save 10% or more against paying it monthly.



Putting young, inexperienced drivers on your policy will raise the price

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3 **Gold is a hedge** - Gold has historically had a weak correlation to movements in the financial markets and is frequently used as a hedge against inflation or to offset falling stock markets.

4 **Scarcity** - Deposits of gold are relatively scarce and new supplies of physical gold is limited. This natural scarcity and high production cost is the ultimate reason why gold holds value.

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*Source: Experian Hitwise based on market share of UK internet visits March 2016 - March 2017

A business-rates rethink looms

All three parties say they'll revamp this tax on businesses. Meanwhile, here's how to cope with it

David Prosser
Business columnist

In this election all three of the main parties are promising a rethink of the business rates system that has caused many smaller firms so much pain – particularly in retail, but also in other sectors where small outfits with physical premises compete with online players exempt from this tax. Almost 10% of business-rate payers are in arrears.

Still, there are no easy answers. Business rates raise £30bn a year for local authorities and the Treasury is unlikely to support changes that will require it to find money for councils elsewhere. Meanwhile, the current system is out of date. Business rates are calculated on the basis of the annual rent payable on a premises, but rateable values have not been assessed since 2017, since when rents have fallen in many pace.

Are you paying too much?

There is some good news, however. Various concessions have been introduced over the years that reduce or negate the business rates bill for firms below a certain size.

So you need to understand how the system works and check your bill carefully to make sure you're paying the right amount. The small business concessions are supposed to be applied automatically, but that doesn't always happen.

Most importantly, if your business is based in a property with a rateable value of less than £12,000, you should be exempt from business rates altogether. In addition, businesses in properties with rateable values between £12,000 and £15,000 pay reduced bills according to a sliding scale.

If you're above the £15,000 cap, but below £51,000, check that you're being charged the "small business multiplier"; this is how your local authority calculates your bill and it's more generous than the formula used for larger firms.

Retailers have struggled with the system

©Getty Images

There is also help available for businesses in properties whose rateable values were revalued in 2017, with the government promising their bills will not increase by an unmanageable amount in one go.

This year, smaller businesses' bills should not have increased by more than 20% because of the revaluation (or 10% if your rateable value is below £20,001). Next year, increases are capped at 25% (15% for the smallest firms).

Finally, there are additional discounts for certain industries. In the retail sector, which accounts for a quarter of all business rates revenues, smaller firms with rateable values below £51,000 get a third off their bill. The Conservatives are promising to raise this discount to 50% while they review business rates.

One other possibility is worth considering for some small businesses. In around 50 designated enterprise zones around the country, substantial discounts on business reliefs are available for up to five years after you move in. In some cases relocation could save you thousands of pounds.

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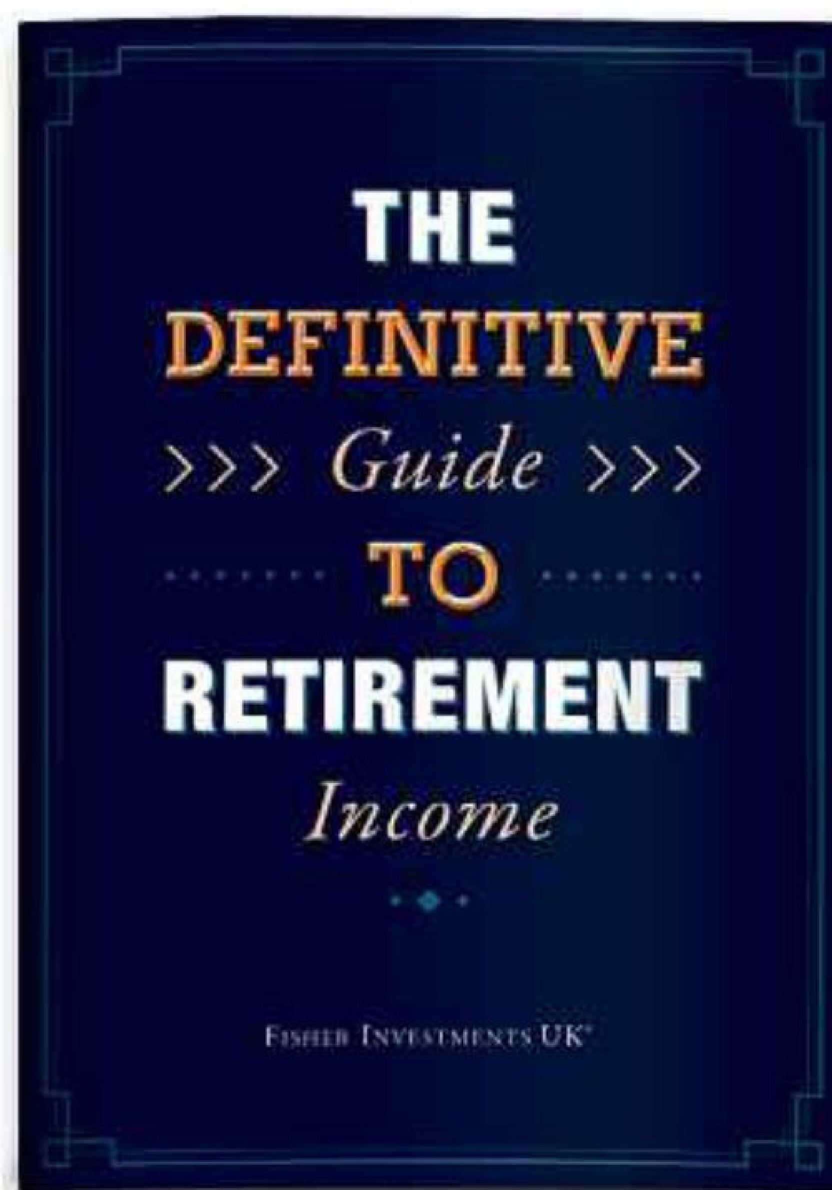

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Finding hidden treasure: value investing is back in fashion

Focusing on cheap stocks, historically a highly successful investment strategy, has been a disappointment over the past ten years. But the tide is starting to turn, says Matthew Partridge

MoneyWeek has long been a big fan of value investing, the strategy of buying "bargain" companies trading at relatively low multiples of earnings, cash flow or book value (net assets). This is because historical evidence suggests that in the long run these types of shares tend to beat the wider market. For example, Elroy Dimson, Mike Staunton and Paul Marsh of the London Business School have done research for Credit Suisse showing that equities with low price/book value (p/b) ratios have beaten the market by an average of around 3% a year in the US between 1928 and 2018 and nearly 4% a year in the UK between 1955 and 2018.

However, since the financial crisis in 2008 this relationship has broken down. Value has lagged growth, the other major investment strategy (which concentrates on stocks with rapidly expanding profits) by 3.8% per year in the USA, and by 3% per year in the UK, notes Marsh. "Cumulatively, since the financial crisis, value has underperformed growth by 35% in the USA and by 29% in the UK."

This isn't just a British or American phenomenon, since "the same pattern has occurred in most other markets around the world". Value has done a bit better than growth over the last few months, but only just. Nevertheless, the big picture is that investors who bemoaned "the death of value" in recent years were wrong. It may soon make a comeback, presenting opportunities for investors.

Why value has underperformed

The poor performance of value shares in recent years may be a reflection "of structural changes in the wider economy", says Inigo Fraser Jenkins of Sanford C. Bernstein. In addition to the rise of technology shares, which until recently have soared, "entire industries and sectors have been disrupted". So investors can no longer depend on the unglamorous companies that make up the majority of value shares to keep delivering. At the same time, traditional ways of valuing a company have struggled to keep up with the shift of investment from physical assets, such as machinery, to intangibles, such as software, patents and brands.

Value stocks have also encountered some short-term headwinds. Interest rates have been at historically low levels over the past decade, says Simon Gergel, chief investment officer, UK equities of Allianz Global Investors, who manages Merchants Trust. This has been much better for growth companies, for two reasons. "Firstly, a lower discount rate means that investors tend to value the promise of future profits more highly than they would normally do." Low interest rates also make it much easier for unprofitable companies to keep raising money. In some extreme cases, it can enable what Gergel terms "zombie companies" that have no chance of ever making money, but have an attractive story, to keep functioning. Nor has it helped matters that inflation has been low, so there is little prospect of significantly higher rates in future.

"There are signs that the outflow of money from value funds is starting to reverse"

Gergel also reckons that the popularity of both passive funds and those that rely on growth and momentum-based strategies (these involve buying shares that have done well recently and selling those that have done badly) has led to a lot of money moving out of funds that follow a value investment strategy over the last decade.

We think that the move to passive investing is generally good news for investors because it leads to downward pressure on fees and because it is possible to buy passive funds that focus on value shares. However, it certainly seems plausible that the ascendancy of passive funds has reinforced the overall drift away from value in the past decade.

Value is starting to make a comeback

Whatever the reason for value's underperformance, Gergel is confident that it is set for a dramatic comeback. The chief reason is that, relative to growth shares, value shares are now cheaper than they have been for a long time: the gap between the two types of shares is at "extraordinary" levels that "haven't been seen since the early 1980s".

Gergel isn't the only one who's saying this. Bank of America Merrill Lynch recently published a study by Savita Subramanian, Head of US Equity and Quantitative Strategy, that suggests that value stocks are at the cheapest levels that they have been since 2003.

There are also other reasons to be bullish on value. Many of the cheapest value stocks are currently in cyclical industries and Gergel thinks that investors have overestimated the probability of an immediate recession and the extent of any slowdown. After all, while we've had a sustained expansion over the past decade, "it hasn't been a particularly strong one, and there haven't been any of the signs of excess that would create a corresponding bust". Central banks are in easing mode. There are also signs that the outflow of money from value funds is finally starting to reverse.

Growth stocks hit a wall

At the same time as investors are starting to take a second look at value, their appetite for growth shares seems finally to be cooling: witness the poor performance of technology companies such as Uber since its initial public offering, and the dramatic implosion of WeWork, as well as the lack of momentum in technology shares in general over the last six months. Overall, investors are starting to realise that "exponential growth rates conceal a risk" as "nothing can grow at 20% a year forever", says Tony Yarrow, co-manager of the Wise Multi Asset Income fund.

History suggests that once the likes of Amazon have been growing at high rates for a number of years, they become so big that they "start to run out of new geographies and sectors to disrupt", says Yarrow. As a result, growth starts to slow down to more reasonable levels, forcing a "substantial derating" of its share price as it "adjusts to the new reality". This slowdown within the large technology companies from the "extremely high growth rates investors have become

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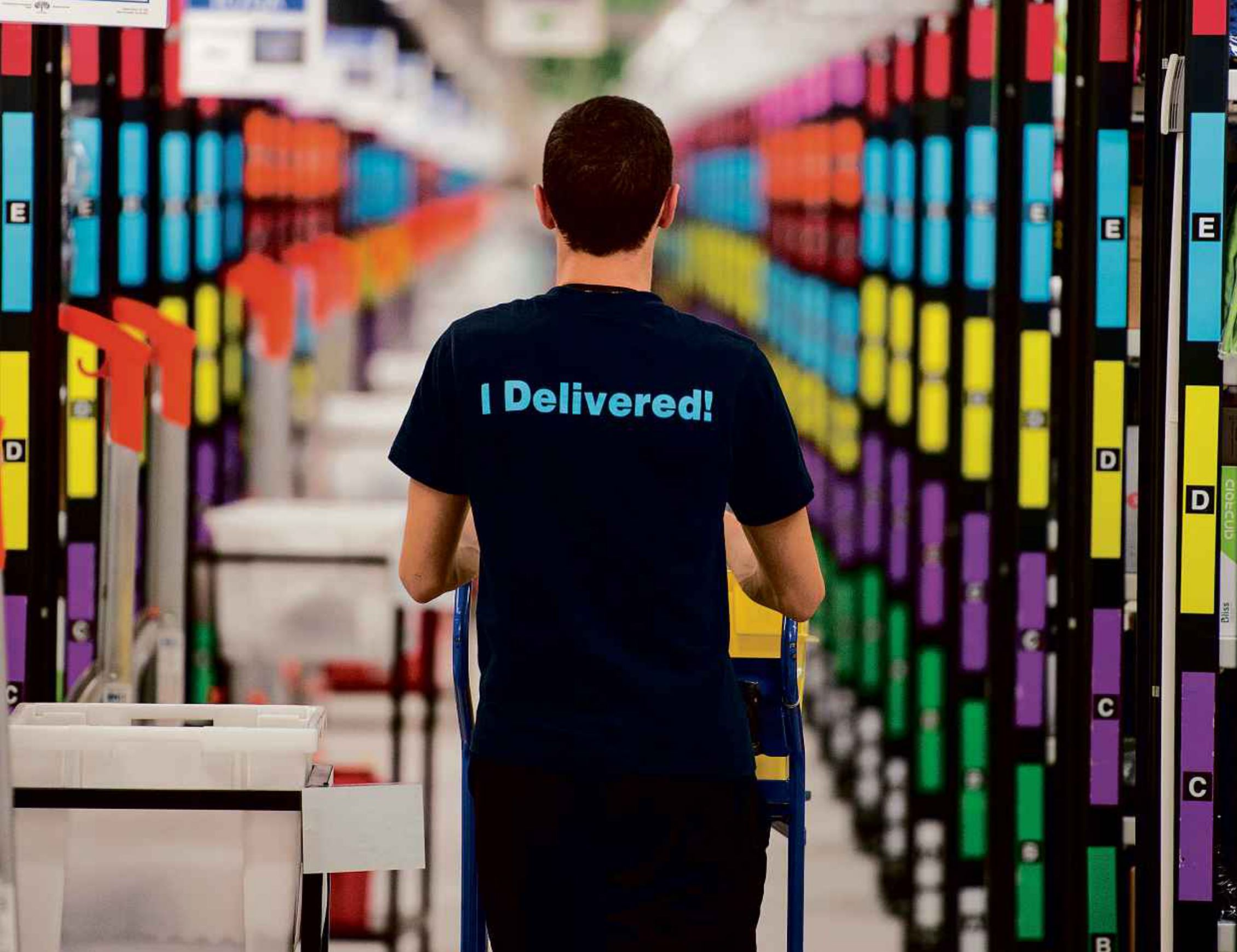

The likes of Amazon are running out of markets to disrupt

used to" is likely further to accelerate the "revival of interest in the more pedestrian value sectors".

Avoiding value traps

Thanks to the rise of specialised exchange-traded funds (ETFs), it is possible to take a broad approach that involves buying all the shares with particularly low price/earnings (p/e) and p/b ratios in a market or sector. However, the best results come from being a little more selective, since many apparently cheaply priced shares are "value traps" – cheap for a very good reason. Value investing is rather like looking in a jumble sale for "the priceless Charles Dickens love letter tucked in a pile of Aunt Dolly's old shopping lists", says Yarrow.

To avoid the chances of picking up a company with serious enough problems to cancel out the benefits of a cheap price, Yarrow advises investors to look for three things. Firstly, find "a sustainable business model", with a product or service that addresses "a core need rather than an impulse buy". A "competent, motivated management running the company in its best interests and for the long-term" is also vital, as is "a sound balance sheet, ideally with net cash". With all these ingredients present investments can still go wrong, "but a consistent focus on the essentials does seem to cut down the failure rate". Another useful strategy is to focus on catalysts, or events that can dramatically change perceptions of a company, says James Cooke, head of global equity research at Ashburton Investments. The most direct of these is takeover interest from another company or institution. Indeed, there are signs that private-equity funds are starting to respond to the "gross undervaluation of traditional value stocks" by making bids for some of the cheapest companies. Activist investors can also play an important role in helping turn around the fortunes of a company that has been punching below its weight.

Overall, however, there is "no substitute" to fundamental analysis to understand the reasons for a company's shares being cheap, says Richard Staveley, managing director, strategic public equity at Gresham House. One red flag is consistently falling sales over several years, which "usually highlights a business genuinely in decline". Firms that have taken on too much debt are also vulnerable . "It's also a good idea to wait until a company's profit levels have stabilised before plunging in."

Construction, retail and commercial property

Of course, the best bargains will always be in sectors "where others have completely lost interest", says Yarrow. At present the construction sector seems to have been written off by many as "uninvestable", even though there are many "excellent companies" in the industry and most governments are inclined to stimulate their economies through investment in large infrastructure projects. While the collapse of Carillion nearly two years ago shows that this industry isn't without its risks, most firms have learned from similar debacles and "are no longer prepared to sign up to

Continued on page 26

"Falling sales over several years are a sign of a company genuinely in decline"

Continued from page 25

large fixed-price, low-margin government contracts on unfavourable terms". Yarrow also believes that there are also opportunities in the retail sector. Many firms have struggled to deal with the decline of the high street, but the success of some specialised brands shows that "there is a place alongside online retail for a revitalised physical retail as part of a multi-channel offering". Similarly, he thinks that investors have unfairly written off the commercial property sector.

Simon Gergel agrees with both assessments, pointing out that most construction firms tend to be internationally diversified, with projects around the world. Because of this, if demand in one country slows down, they can compensate by undertaking work in other parts of the world where activity is still growing. In terms of commercial property, he also notes that the London office market is "still strong" as there is still a very limited supply of office space in the capital, while many commercial property companies now trade at a huge discount to the value of their assets.

The value in emerging markets

Opportunities for finding undervalued stocks aren't limited to industrialised countries. Emerging markets look appealing on an average cyclically adjusted price/earnings ratio (Cape) of 15.1, compared with a Cape of 18.9 for developed-country equities.

As in Britain and America, "investors in emerging markets have been willing to pay a big premium for shares in growth companies", says Sam Bentley from Eastspring Investments, the Asian arm of Prudential. He notes that "a lot of value opportunities in emerging markets are in cyclical sectors, such as financials, industrials and materials, as well as technology companies that focus on hardware. By contrast, sectors like energy and healthcare are overvalued."

Then there's South Korea, on a Cape of 12.1. South Korean shares have traditionally traded at a discount owing to geopolitical concerns and the opaque governance structure of many of its largest companies due to extensive family ownership and cross-shareholdings. However, this "is starting to improve", says Bentley, while the thawing of relations between the South and the North mean that "the geopolitical risk also seems overdone". If you want to be really contrarian you could consider Chinese financial stocks: "the evidence suggests that the fears about non-performing loans have been overdone".

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Investors should not write off the construction sector

"Korean corporate governance is starting to improve and the market looks cheap"

One reason why many emerging markets, which tend to be more dependent on trade than industrialised countries, are relatively cheap for now is that the US could impose further protectionist measures. But investors "have been too aggressive in pricing these fears in", says Bentley. What's more, the fact that all emerging shares have been hit, irrespective of their dependence on exports to the US, creates opportunities. This is because "many listed firms in emerging markets either get most of their sales domestically, or now have a globally diversified revenue base with customers in countries other than the United States". Naturally, these companies will not be as directly affected by any increase in American tariffs. Some of the best value opportunities are highlighted in the box below.

What to buy now

The simplest way to follow a value investing strategy is to buy an exchange-traded fund (ETF) that focuses on value shares. One ETF that offers broad exposure at a competitive price is the **Vanguard Global Value Factor UCITS ETF (LSE: VVAL)**. This follows a quantitative strategy, selecting the cheapest 20% of stocks from around the developed world. At present they have an average price/earnings (p/e)ratio of 10.3, compared with 18.3 for the global market as a whole. The companies in the ETF's portfolio also trade at an average discount of 10% to book value (net assets). The ETF's largest holdings include Marathon Petroleum Corp, Ford and General Motors.

American stocks are at record valuations, so it's relatively hard to find bargains, but one company that looks promising for value investors is telecommunications firm **AT&T (NYSE: T)**. Despite solid revenue growth of around 5% a year, the company trades at only 10.5 times 2020 earnings, with a very impressive dividend yield of 5.5%.

James Cooke of Ashburton Investments notes that the company's management was recently forced by activist investment group Elliott Management to abandon policies that have "destroyed value" and sell underperforming assets in the media industry, using the money to pay down debt and buy back shares.

Another global blue-chip worth considering is the mining company **Rio Tinto (LSE: RIO)**. Its relatively low production costs give it a "big economic moat" – an enduring competitive advantage, says Wise Multi Asset Income fund's Tony Yarrow. Despite its vast reserves, it trades at only 8.3 times this year's earnings and pays a dividend of 6.9%. Investors seem to believe that "a severe recession is imminent", and that mining companies will "suffer disproportionately", says Yarrow.

But they are overlooking the fact that the mining sector already suffered a recession in the middle of the current global upswing, which lasted four years from 2011 to 2015, so it should be well prepared to deal with any downturn.

The recent problems in the retail sector mean that some of the largest commercial property investment trusts now trade at a "huge discount" to their book value, says Simon Gergel of Allianz Global Investors.

For example, **Land Securities (LSE: LAND)** trades at a discount of just under a third. It also offers a generous dividend yield of 5.2%. More adventurous investors might consider **Hammerson (LSE: HMSO)**, which is now trading at less than half its tangible book value and has an even larger dividend yield of 8.6%. Both Land Securities and Hammerson own shopping centres in prime locations. Land Securities also owns large amounts of London office space.

Water treatment and waste disposal firm **Augean (Aim: AUG)** is a company that looks attractive from both a growth and valuation perspective. Thanks to growing demand for environment-related services, revenues have doubled since 2013 and the company is forecast to keep growing over the next few years. However, a tax dispute means that it trades on a 2020 p/e of just 9.7. The underlying business is strong and Richard Staveley of Gresham House reckons that its depressed valuation makes it very attractive to a larger firm as a potential acquisition target.

YEMEN CRISIS

Photo © MSF

DR CHRIS HOOK IS PART OF THE MSF EMERGENCY TEAM

A wounded Yemeni boy is treated at MSF's field hospital in Mocha, November 2018. Photo © Guillaume Binet/MYOP

"I was a part of a team setting up a hospital in Hodeidah in Yemen. After we arrived, the city was caught up in heavy fighting and shelling, with battles taking place close to the hospital.

We were inundated with trauma cases and severely injured patients. One day six young sisters were in a house that was hit by an airstrike. Three were killed instantly and, of the three survivors, one was taken to another hospital and two came to us.

One of the girls was in a very serious condition, with multiple injuries, nasty fractures and shrapnel injuries to the abdomen and chest. The team gathered and we got to work.

I'll never forget that day. A lot of the hospital's staff were inexperienced, but we'd spent every spare moment of the previous two weeks training them and making sure that everybody knew exactly what their roles were. And in that moment, everything came together.

We had 15 or 16 people in the operating theatre, all working as a team—runners fetching stuff, the surgeons shouting: 'I need more gauze, I need suction, I need blood!' And one, two, three people would just go—one to get suction sorted, one to get the blood, one to get the gauze.

Bullets and bombs had been flying around for weeks and we'd all been scared. But in that moment, all of that fell away, and it was just us in that room, pulling together to save this little girl's life. She survived, along with many others, thanks to the hard work of everyone there.

Our work in Yemen is expensive. Providing emergency medical care in a warzone doesn't come cheap.

But working here, I've seen first-hand where that money goes. I know that we don't waste a penny when it comes to saving lives.

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Yemen is in the midst of a war. Since March 2015, a Saudi and Emirati-led coalition has been fighting Ansar Allah forces, resulting in bombing, gun battles and widespread destruction. Ordinary people are bearing the brunt of a brutal conflict. Many clinics and hospitals have been destroyed, while those that are still functioning are in urgent need of medical supplies.

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YEMEN FIGURES*

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The productivity puzzle: is Britain stuck in a rut?

Growth in output per worker is vital to the wealth of nations. Since the financial crisis, Britain has consistently fallen behind on this score. Why? Stuart Watkins reports

"Productivity isn't everything, but in the long run it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker." So said Nobel laureate Paul Krugman, stating succinctly a view universally held among economists. Little wonder, then, that Britain's productivity statistics cause so much hand-wringing. The latest official figures show that Britain has remained stuck in a rut that it first settled into just before the financial crisis of 2008. Output per hour, the most commonly used measure, fell 0.5% over the three months to June compared with the same quarter last year. In every quarter since the one ending in June 2018, the UK's productivity growth has been flat at best. This continues a long losing streak. Productivity has grown by only 2.4% since the pre-crisis peak in 2007 and is about 20% below its pre-crisis trend; before the crisis, productivity grew at about 2% every year.

This is worrying. Producing more with less is the essence of economic growth and the basis for prosperity and improving living standards. In Britain, we are spinning our wheels and doing less with more. With the demographic constraints associated with an ageing population acting as a further long-term drag on our economy, that means Britain will in the future face difficult choices when it comes to national priorities, whether that's spending on the environment and healthcare and other public services, or the ability to raise incomes or cut taxes.

Bringing the pieces together

This phenomenon is known as the "productivity puzzle", an appropriate name given that the problem has many pieces and no one is really very clear about how they might fit together to produce a clear and coherent picture. Perhaps the slump has been caused by companies investing too little in productivity-enhancing machinery (they are still spending less than is typical following an economic slowdown, maybe because they remain nervous about the economic outlook). Perhaps record low interest rates have kept alive failing companies that should have been closed down, meaning highly unproductive zombies lumber on and drag us all down. Or perhaps it is simply a supply and demand issue: the plentiful supply of cheap workers, boosted by high net immigration, has made it more attractive for companies to hire them than to invest in labour-saving machinery. Furthermore, the tax credit system, where the government tops up the pay of low-paid workers, acts as a subsidy for employers, making unproductive part-time work more attractive. The puzzle is further complicated by the fact that the productivity slowdown is partly a global issue (it is crimping almost all advanced economies, including the US), partly a peculiarly British one

"The real problem with our weak economies lies not in insufficient demand, but on the supply side"

More oil off the coast of Scotland cannot just be magicked up

(Britain lags the laggards) with regional and sectoral dimensions (some of our companies and towns and cities are not prospering and growing as they might).

There are other culprits: the fat cats. A new book by economist Andrew Smithers, *Productivity and the Bonus Culture*, says the cause lies in the perverse system of incentives that makes it more attractive for managers to line their pockets than invest in growth for the future. As a review of the book by Edward Chancellor on Breakingviews points out, you would expect the ultra-low interest rates and above-average corporate earnings of the past decade to have given investment a boost. That they clearly haven't has been blamed variously on "secular stagnation" (this despite the UK and US enjoying strong growth in employment and consumption) and on a deleveraging private sector paying down its debt (in fact, debt has never grown more rapidly than during the decade since the collapse of Lehman Brothers). The real problem with our weak economies, says Smithers, lies not in insufficient demand, but on the supply side. Productivity growth is determined by how much is invested. If investment is too low, growth stagnates. Falling productivity accounts for the entire decline in trend growth in GDP in the UK, says Smithers, and falling tangible investment preceded the drop in productivity growth. The story is a similar one in the US.

Why, then, has investment fallen off? Perverse incentives. Since the rise to dominance of the theory of "shareholder value" in the 1980s, the idea took hold that the only duty a company had was to boost returns to shareholders. Paying senior executives partly in stock was supposed to align their interests with that of shareholders, which would result in

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"When entirely accurate data and scientific cures are found wanting, common sense may be restorative"

better allocation of capital and higher returns for shareholders. Returns did indeed improve – but largely thanks to their gaming the system with share buybacks and other forms of financial engineering that boosted returns but did nothing for productive investment. As The Economist points out, "the proportion of cash paid out to shareholders by non-financial American companies was 40.7% from 2000 to 2017, when share options became popular. Between 1947 and 1999, when they were not, it was 19.6%. As a corollary, the proportion used for investment fell". As did productivity, and hence the pay of those firms' employees. Smithers argues for an overhaul of company reporting rules and the tax system to curb bonuses and give management an incentive to spend more on new investment. But if the problem is that management is gaming a system that was designed to align incentives and boost investment, what's to say that a new system won't be equally cleverly gamed?

More productive doesn't always mean better

Diagnosis of a problem is one thing, prescribing an effective remedy quite another. But even making an accurate diagnosis is a more fraught business than it might at first seem. As Anthony Hilton points out in the Evening Standard, economists urge action or inaction based on quarterly figures for GDP despite the fact that these are inevitably adjusted as more data comes in, often reversing the previously observed trend. Also, the contribution to GDP of new digital technologies has yet to be satisfactorily accounted for in the statistics, many argue – the economy may be doing far better than we realise. Imagine how much confidence you would have in evidence-based medicine if the existence of the disease you are being treated for is subject to quarterly updates that might well magic it away. That's probably too cynical a view: an appraisal by the Financial Times, based on a Bank of England study, estimated that measurement issues account for perhaps a quarter of the shortfall in productivity growth since the crisis: "obviously significant", but not enough to "account entirely for the phenomenon".

Where entirely accurate data and scientific cures are found wanting, a dose of common sense may be restorative. The productivity puzzle may not after all be all that much of a puzzle, as John Redwood MP has insisted. One obvious reason for Britain's sharp fall in productivity in recent years is the decline of North Sea oil and the disappearance following the crisis of much high-value output in finance – a lot of people in both industries lost high-end, highly productive jobs as a result. This is regrettable, but we can't suddenly magic up more oil in Scotland or high-end banking jobs in the City. The "better reason" for the productivity slowdown though, says Redwood, is that, "in contrast to higher-productivity economies on the continent, Britain has preferred a model that has focused on producing many more lower-paid jobs in the hope that this will in time lead onto higher paid jobs and more output and activity". This is better than simply throwing people out of work. If you sack 10% of the least productive people in the economy, which is in effect what membership of the euro achieved for some countries, "that can be flattering for its productivity figures, because the least productive jobs go, and the productivity of the total country rises, but the country is a lot worse off, because it then has 10% of its workforce out of work who would otherwise have been in less productive jobs".

The result of this model for Britain is not an entirely unhappy one. In manufacturing it is nearly always right to do things faster, better and cheaper, as Redwood says. But in a services business, "better" might mean more staff. In UK public service, the aim is often to lower productivity: many want smaller class sizes, for example, as "lower teaching productivity should bring higher performance". On the way to work we get our coffee from a local cafe rather than a machine because we rather like the less efficient version.

No quick fixes

In short, it's important not to mistake the map for the territory. Panicked by the map, policy makers promise to move heaven and earth to shift the numbers in a direction they prefer. But it's obviously sensible to pause and think about what the numbers are really telling us about the underlying reality. Perhaps they represent reasonable choices. "Financial markets are like the mirror of mankind," says historian Niall Ferguson, "revealing every hour of every working day the way we value ourselves and the resources of the world around us [so that] it is not the fault of the mirror if it reflects our blemishes as clearly as our beauty". Similarly, when we look into the mirror of the productivity statistics, it pays to reflect on what we are really seeing.

To the extent that what we are seeing is something real – productivity does, of course, matter after all – then we should be concerned about what is to be done. But there are no quick fixes, as Redwood points out in a note for Charles Stanley. It all "hinges on consistent work to raise educational standards, improve skills, speed the rate of new company formation and encourage innovation", "helping people work smarter for better pay" and improving infrastructure. On that last point, the main parties' promised spending splurges may, if the money is spent well, help nudge Britain out of its rut.

Taxation – but not much representation

The last century has seen government proliferate to unprecedented levels. The state now owns as much of a worker's labour as a feudal lord, says Dominic Frisby

In ancient Athens many taxes were voluntary. At the other extreme, in authoritarian or totalitarian societies, such as Soviet Russia or North Korea, people have virtually no ownership of their labour, their produce or their profit. Government takes it all. The developed world today sits somewhere in between. Excluding inflation, itself a form of tax, roughly 45% of everything the typical Briton earns is taken in taxes. In France, the figure is an eye-watering 57% – no wonder they're rioting. In the US it's 38%.

These high levels of taxation are a recent development. At the turn of the 20th century, taxes played a much less prominent role in our lives and government spending was much lower. In western Europe, tax was around 10% of GDP in 1900, a figure that goes all the way back to ancient Mesopotamia and the very first tithe.

The "ratchet effect"

How did government – and taxation – grow so big? The answer is two world wars. Governments find it difficult to raise taxes in times of peace, but crises enable them to do things they would never normally attempt. Once the crisis has passed, however, taxes never seem to return to pre-crisis levels. The Institute for Fiscal Studies calls this process "the ratchet effect".

Before 1914 income taxes were only paid by the very highest earners. Even as late as 1941 ordinary Americans paid no income taxes. The 1942 Revenue Act changed that. Time magazine called it "the biggest piece of machinery ever designed to separate dollars from citizens".

High tax rates endured after the wars partly because governments had incurred many new obligations, from debt and rebuilding to looking after the victims. But they also stayed in place because politicians the world over hoping to win popularity in the present, designed programmes that committed governments to large spending programmes in the future.

A politician who promises better roads, or schools, or welfare, is incurring obligations that cannot easily be abrogated. The more money is promised, the bigger the government grows – and thanks to the world wars, the tax structures were now in place to meet those promises. The obligations facing today's taxpayers are the result of decisions sometimes made as much as 100 years ago. Those trying to win today's election take note: promises made today will impose similar obligations years into the future.

Thus did government spread from traditional areas – the army, the police, infrastructure – into other areas of the economy, notably education, welfare and healthcare. Today taxation permeates everything we do. There is barely an activity that does not involve it in some way. As a result, almost wherever you are in the developed world, the most expensive purchase you ever make in your life is not your house, but your government.

"Tax is at the heart of every political argument: what should the state spend money on?"

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Your government is the most expensive purchase you make

For a typical British middle-class professional, the lifetime bill totals £3.6m – considerably more than the typical house. You will spend a full 20 years of your life or more in obligatory service to the state. On a time basis, the state owns as much of your labour as the feudal lord did that of the medieval serf, who gave half his working week to farm the land of his lord in exchange for his protection.

In exchange, you receive the protection of the state and its services: defence, healthcare, education and so on. You have no choice. If you want to earn a living, you must work for the state as well as yourself. We are not as free as we may think we are.

A civilised society?

What if you are opposed to the way in which the state spends your taxes – on a war in the Middle East, say, or some wasteful infrastructure project? No matter. Beyond a vote of questionable impact every four or five years, you have little say in how your money is spent. "Taxes are what we pay for a civilised society" are the words inscribed on the outside of America's Internal Revenue Service, but is that civilised? A form of forced labour for something you are morally opposed to?

The social democrat sees taxes as a way to equalise society: to redistribute wealth, to provide equal access to education and welfare and to balance out the distortions of the market economy. The libertarian says tax is theft. Both are right. Without taxation, there can be no government: one leads to the other. Thus, though usually obscurely, tax is at the heart of just about every political argument: what should the government spend money on? How much should it spend? Who pays? And how?

Daylight Robbery: How Tax Shaped Our Past And Will Change Our Future *by Dominic Frisby, Penguin Business, £20. Audiobook on Audible.co.uk. Signed copies are available at dominicfrisby.com*

DS Smith will deliver

The packaging group is profiting from the online retail boom

Matthew Partridge
Senior writer

Consumer packaging isn't one of the most glamorous industries, but you should still pay attention to it because it's currently undergoing considerable change. In the past few years consumers have realised that plastic packaging can be bad for the environment because it is very difficult to recycle and usually ends up buried in a landfill or even dumped in the ocean. As a result, supermarkets and retailers are coming under increasing pressure to reduce the amount of plastic packaging they use and find a way to eliminate it entirely from their stores.

This may be bad news for some retailers and manufacturers since it will cost significant sums of money to find alternative materials that are as effective as plastics. After promising to go plastics-free by 2023, Iceland recently had to go back to the drawing board, after removing plastics in one store reduced sales by 20%. However, the anti-plastic movement is also good news for **DS Smith (LSE: SMDS)**, which focuses on making corrugated packaging (cardboard containers) for clients in 37 countries, mostly in Europe and North America.

Consumers are revolting against stores' plastic packaging

A tailwind from online retail

Because cardboard-based products are much easier to recycle than plastics, as well as biodegradable, many retailers are embracing them as being more environmentally friendly. Environmental concerns aren't the only reason the volume of cardboard packaging has been increasing. The rise of online retailing, which requires packaging to be cheap, durable and light, has further boosted demand for cardboard.

"Most of the group's clients operate in defensive sectors such as consumer staples"

DS Smith doesn't just make its money from packaging. It also helps companies pack and ship the containers and operates a recycling and waste-management division. The company is set to take advantage of the increased awareness of environmental issues by significantly expanding its recycling operations in Europe. This will help maintain its record of strong growth, with DS Smith's sales growing by over 60% over the past four years. Net profits have expanded even faster, rising by 75% during the same period. The return on capital, a key gauge of profitability, is a solid 7%.

Despite its strong growth, DS Smith is still valued at a relatively modest 10.7 times 2020 earnings, with a solid dividend yield of 4.6%.

There is always a chance that an economic slowdown could hit profits by reducing the volume of packaging needed. However, as Chris Hiorns, manager of the Amity European fund at EdenTree Investment Management, points out, most of its clients operate in relatively defensive sectors such as consumer staples and food. This puts it in a good position to weather any downturn.

With DS Smith's shares just below their 52-week high, I recommend that you go long at the current price of 384p at 10p per £1. I also suggest that you set a stop-loss at 289p, which would give you a total downside of £950.

How my tips have fared

This has been a good fortnight for my seven long tips, with all but one of them rising. JD Sports went up from 751p to 794p, Safestore surged from 697p to 736p and Bellway increased from 3,253p to 3,414p.

Bausch Health Companies rose from $26.21 to $27.70 and International Consolidated Airlines Group advanced from 541p to 569p. Taylor Wimpey also went up from 172p to 175p.

The only long tip that declined was Volkswagen, which fell from €181 to €176. Not only is every long tip making a profit, but collectively they are also making £6,433, up from £5,078 two weeks ago.

Most of my short tips moved against me, however, with four out of five of them appreciating. Netflix went up from $293 to $315, Uber from $26.71 to $29.11 and Wayfair from $81 to $85.

Twitter also went up from $29.21 to $30.54. The only tip that went in my favour was bitcoin, which fell from $8,723 to $7,094. Still, three out of my five short tips are still making money, with the shorts making a collective profit of £1,926. Nonetheless, this is down from £2,767 a fortnight ago.

Counting DS Smith, I will be bringing eight long tips and five shorts into the next fortnight. Not only does this mean that I have far more long tips than shorts, but having 13 different positions also makes my portfolio a bit unwieldy.

As a result, while I am not inclined to recommend that you close any of the positions immediately, I have decided to have a big clear out at the end of the year, with a view to taking profits on some long-standing long tips, some of which are nearly a year old.

Until then, I'm going to raise the stop-losses on JD Sports to 750p (from 700p), Safe store to 675p (from 650p) and Bellway to 3,200p (from 3,000p).

Trading techniques... elections and sterling

Stocks usually rally the day after an election finishes. However, this doesn't seem to apply to sterling. On the last 12 occasions it fell against the dollar the day after the vote seven times, barely budged three times and rose only twice. While the two increases took place after unexpected Conservative victories in 1992 and 2015, the falls occurred after hung parliaments (1974, 2010 and 2017), Tory landslides (1983 and 1987) as well as Labour victories (2001 and 2005).

The good news for those considering backing sterling is that in the medium term the position is reversed. In nine out of the last 12 elections sterling has ended up higher against the dollar three months after election day, rising by as much as 9.1% between May and October 1979. Sadly for traders there doesn't seem to be any consistent pattern to the times that it falls, with the declines occurring in 1983 and 1987 (when the Tories won large majorities), as well as 2005 (when Labour won a comfortable majority).

Increasing the time frame to a year after election day changes the picture further, with sterling up against the dollar in seven out of the last 12 elections and down in the other five. Again, though, the winning party or the size of any majority doesn't seem to have any impact on sterling's performance, with sterling up on the one-year anniversary of the Conservative victories in 1979 and 1987, but down a year after their wins in 1983, 1992 and 2015. These results suggest that there is unlikely to be any special benefit from buying or selling sterling during, or immediately after an election.

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Blend value and growth for healthy capital gains

A professional investor tells us where he'd put his money. This week: Chris Garsten of the Waverton European Capital Growth Fund picks four favourites

The most common equity investment-style categories are value and growth. Value is based on multiples such as the price/earnings or price/book ratios rising from unjustifiably depressed levels. Growth stocks' earnings grow faster and for longer than the market, so they often trade on high multiples.

We believe these labels are simplistic and restrictive. Good stockpickers should buy both growth or value stocks based on the manager's assessment of a stock's fundamental appeal. We are capital cycle investors who can invest in both value and growth. We focus on understanding and quantifying the supply and demand balance in an industry. Supply-short industries are generally attractive ones to invest in. Most active fund managers and commentators apply their energies to demand only and are then caught out when supply increases, wrecking prices.

Assessing supply and demand

All industries and companies go through capital cycles, albeit to varying degrees. The duration and severity is dependent on the barriers to entry for new entrants and the behaviour of existing competitors. There are industries (basic steel, for instance) with lower barriers to entry that swing very quickly from excess demand to excess supply.

"Deutsche Post DHL's efficient network is edging out smaller competitors"

Others, such as pharmaceuticals, have a capital cycle that can take decades. As companies or industries shift from excess pessimism to consolidation and structural change, big returns are achievable. Generally, these businesses trade at attractive valuations as the market is slow to understand the changing industry dynamics. As profitability improves the increased earnings typically prompt a re-rating of the stock.

Nearly 10% of the Capital Growth portfolio is in industrial gas stocks, split between **Air Liquide** (**Paris: AI**) and **Linde** (**NYSE: LIN**). Gas has been a very stable industry and is about to become even more so. Earlier this year the industry consolidated from four to three big players as Praxair merged with Linde. Pricing improved and management became more responsive to shareholders. We believe this will be a low-risk, multi-year stockmarket winner.

Cashing in on cash machines

Loomis (**Stockholm: Loom-B**) operates in three business segments. Firstly, cash in transit: transporting cash to and from retailers, banks and cash machines. Secondly, cash management services – centres where notes and coins are sorted before distribution. Finally, it is also active in higher-value areas such as foreign-exchange cash machines at Norwegian airports and Safepoint. The latter is like a "reverse ATM": retailers insert money for collection by Loomis. The average monthly price paid per Safepoint is around $450. The key is that while cash usage is flat the stock is attractive on a capital-cycle view as players are leaving the industry faster than cash usage is declining.

Deutsche Post DHL (**Frankfurt: DPW**) is one of the largest global express freight, logistics, parcel and post companies. It serves a very diverse base of industrial and commercial customers across all regional and intercontinental trade routes. Its strong market position, high IT spend and increasingly efficient network means it is benefiting at the expense of the smaller players.

If only you'd invested in...

ITM Power (LSE: ITM) produces hydrogen energy systems. These include the conversion of excess renewable energy into hydrogen for storage and injection into the natural gas network and the provision of fuelling stations for fuel-cell-based transport. ITM has yet to make a profit, but sales have risen by 25% in a year and it boasts a strong balance sheet. A recent deal with a US subsidiary of Japan's Iwatani Corporation to provide energy systems in North America has excited investors: the stock has gained 160% in 12 months.

Be glad you didn't buy...

Metro Bank (LSE: MTRO) was once the high street's biggest challenger to the UK's established banks. Then accounting irregularities uncovered earlier this year dented the market's confidence and the bank has continued to struggle, losing £2.2m in the third quarter. The turbulence has culminated in founder Vernon Hill quitting his role as chairman last month. The bank's losses are widening, and there is now talk of a takeover by one of the established players it aimed to displace. The share price has shed almost 90% in the past year.

Legendary hedgie hangs up his hat

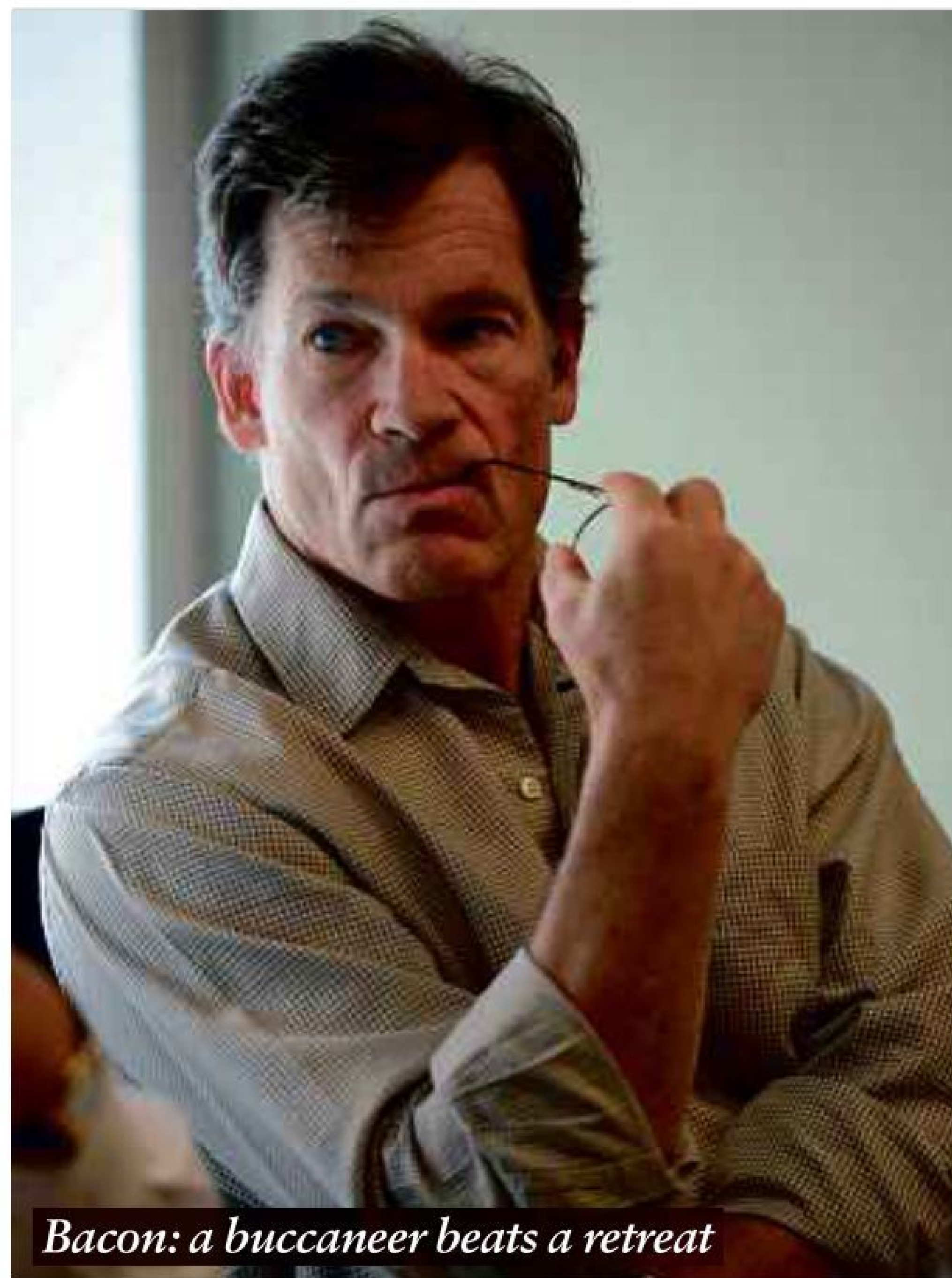
Louis Bacon made his name as a hedge-fund colossus who could make or break the fate of nations and profit handsomely along the way. So why has he called it a day? Janie Lewis reports

"When Saddam Hussein's tanks rolled into Kuwait in 1990, even the CIA was blindsided," says the Financial Times. But one young trader made a fortune. Then 34, Louis Bacon had earlier founded a small hedge fund on the back of a $25,000 inheritance from his mother. "One of his first moves was a prescient bet on an Iraqi invasion" that would see oil prices soar and stocks tumble. "Nailing both sides of the bet" netted Bacon's fledgling Moore Capital Management a "whopping 86% return in its first full year and helped catapult him into hedge-fund history". Yet 29 years on, Bacon is in retreat – last week announcing the closure of his flagship funds after years of "underwhelming performance".

Bacon's withdrawal from the frontline is "emblematic of a dismal spell for once-imperious macro funds" that specialise in surfing "the undulations of the global economy". Along with other prominent global investors, such as George Soros and Stanley Druckenmiller, he "helped shape the popular concept of hedge-fund managers" as seemingly "omniscient buccaneers… who can make and break the fate of nations – profiting handsomely along the way". So what changed? The post-crisis market environment simply became less hospitable, Bacon observes. "One part of the macro toolbox is missing – volatility."

A well-heeled eco-warrior

Farewell to "a legendary trader", says CNBC. Despite recent travails, Bacon has delivered "a cumulative return" of more than 21,000%. Successful punts included betting against Japanese markets in the 1990s. One former colleague describes him as the "best foreign-exchange trader in the world, period". Indeed, according to Sebastian Mallaby's book *More Money than God*, Soros called on Bacon for ideas when he was struggling to find new ways to bet against sterling in 1992 – culminating in perhaps the most famous global macro trade of all time when he "broke" the Bank of England. Still, at least Bacon now has the time (and money) to devote to his childhood love – nature conservation. Over the years, he has snapped up huge tracts of wilderness across the US and funded the restoration of their natural eco-systems.



Bacon: a buccaneer beats a retreat

"Despite recent travails, Bacon delivered cumulative returns of 21,000%"

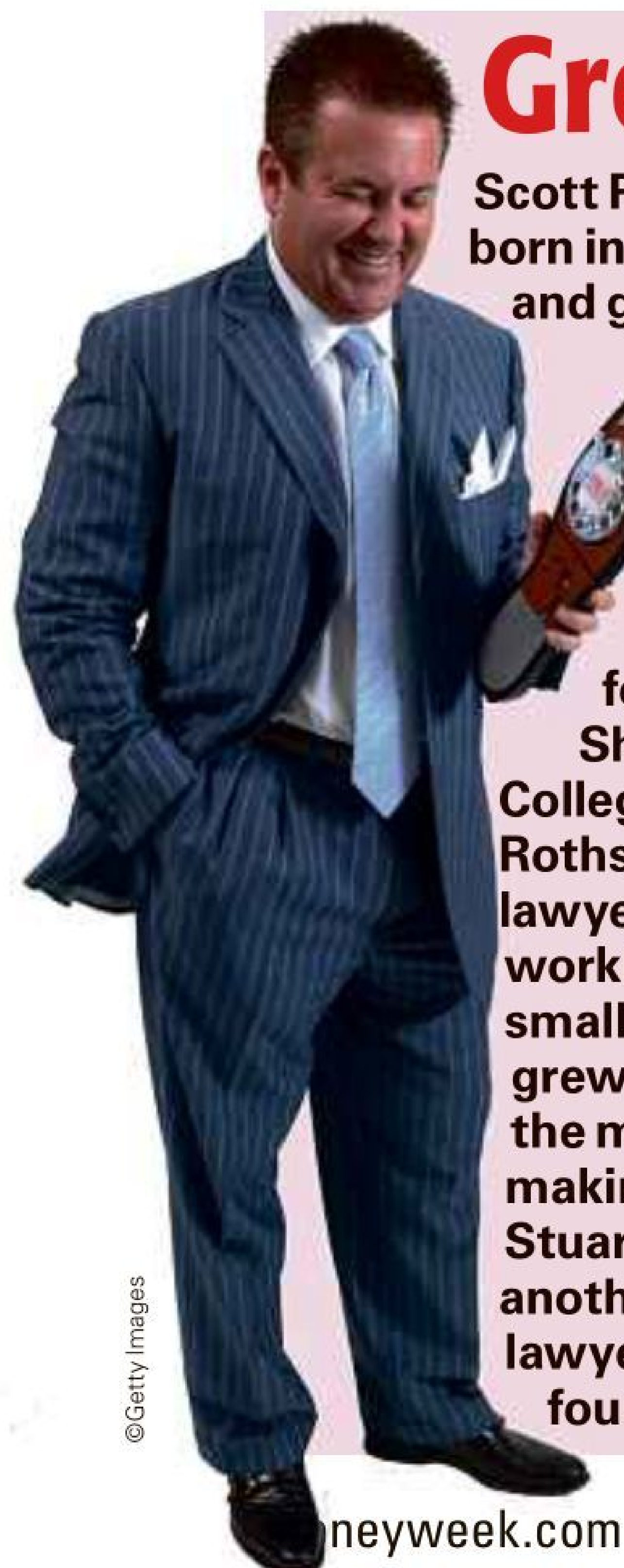
"What I remember most as a child is being outdoors with my father and brothers," Bacon – a famously taciturn and private individual – told Forbes in a rare 2012 interview. Born and raised in Raleigh, North Carolina, he comes from a well-known local family: his father founded a real-estate company later bought by Merrill Lynch. Bacon studied American literature at Vermont's Middlebury College, but his life changed one summer in Long Island when he met trader Walter Frank, who swiftly became his mentor, says Business Insider. In 1981, Bacon joined the sales and trading training programme at Bankers Trust. He lasted just one year before returning to work for Walter Frank's company, where he learned the basics of currency trading. Almost immediately, however, tragedy struck. In 1982, his mentor at the firm committed suicide "after losing his net worth by shorting the S&P 500 index". It was a terrible shock for Bacon, but he learned a lot from it: "I saw the utter agony and fruition of sticking with a losing position." Soon after, he took a job as a futures broker at Shearson Lehman Brothers.

Turning wariness into might

That long-ago trauma may have continued to exert an influence on Bacon's life, says Forbes. Judging risk "became his calling card" and colleagues have always considered him quicker than most "to fold a losing hand". Bacon approaches life "with a suspicion that can border on paranoia", frequently having his office swept for bugs. But he "turned wariness into might".

"It's a sad day," said Raoul Pal, a former hedge-fund manager who witnessed Bacon's prowess, on hearing of his "retirement" last week. "People use the term legend a lot, but he really is."

Great frauds in history… *Scott Rothstein's Ponzi scheme*



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Scott Rothstein was born in New York in 1962 and grew up in a town near Fort Lauderdale in Florida. After studying at the University of Florida, followed by the Shepard Broad College of Law, Rothstein became a lawyer in 1988, working at various small law firms. He grew dissatisfied with the money he was making and convinced Stuart Rosenfeldt, another ambitious lawyer, to join him in founding Rothstein & Rosenfeldt, P.A. (later known as Rothstein Rosenfeldt Adler) in 2002. By 2009 it had more than 170 staff, including former judges and prosecutors.

What was the scam?

Rothstein created a Ponzi scheme that involved investors buying stakes in fictitious lawsuits that he claimed his firm was involved in, directly or indirectly. The lawsuits, mostly purportedly to do with sexual harassment, were supposedly about to be settled, so investors were promised a 20% return on their money in a relatively short timeframe, with only a small amount of risk. Rothstein provided forged documentation to give the illusion that the suits were taking place. The money Rothstein made from the scams funded a lavish lifestyle: he owned fast cars, multiple houses and a collection of more than 200 antique watches.

What happened next?

The rapid expansion of his law firm and Rothstein's outrageous lifestyle, as well as his habit of being accompanied by armed guards, prompted a lot of comment in the local press. Despite this, he was able to keep the scam running until late 2009, when he absconded with the remaining cash to Morocco, after asking lawyers at his firm to check whether the country had an extradition treaty with the US. He later returned to Florida, surrendered to the federal authorities and was sentenced to 50 years in prison in 2010.

Lessons for investors

Investors in Rothstein's scheme are estimated to have lost $1bn. Many of his victims were far from scrupulous themselves – even the supposed "cases" that acted as cover for the scheme looked like forms of extortion. Rothstein said many of the lawsuits involved his firm secretly videoing men *in flagrante* with their mistresses, then threatening to call their wives into court for questioning unless they quickly settled the subsequent sexual harassment lawsuit. Criminals like to draw others into illegal behaviour to discourage their victims from going to the authorities.

MoneyWeek WINE CLUB

BLACK FRIDAY STEAL

£10 OFF when you buy two mixed cases

Matthew Jukes picks six wines for the festive period

As I assembled this sextet of beauties, my winter collection looked perfectly "Tanners-style". Until, that is, I reached the fifth and sixth bottles to insert into my imaginary six-pack and I broke with convention, threw caution to the wind and went all out Aussie, picking two of the most expressive and unlikely wines ever to grace this page. These two wines complete a peacock's tail of flavours for this month's case of wine, and show that nothing can be predicted when it comes to the MoneyWeek Wine Club. To kick off this fantastic offer, you can get £10 off when you buy two of the mixed cases - that gives you 12 bottles for just £146! This offer must end 5 December, so don't wait around...

Matthew Jukes

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

A mixed case of six bottles costs £78, giving you one bottle of each wine. Buy two cases and you can SAVE £10 - use your voucher below.

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

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

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

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

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

2015 Kaesler, Stonehorse Grenache / Shiraz / Mourvèdre, Barossa, South Australia
I bumped into Kaesler winemaker Stephen Dew in Melbourne a few weeks ago and it was great to catch up with this wonderfully talented man. I have known him for an eternity but we rarely see each other and so when I said that Stonehorse GSM was going to feature in my December mixed case he was genuinely moved. This is an Aussie version of a Côtes-du-Rhône and some of the vines in here date back a century. Amazingly dense and bold but with bounce and freshness, too, this is a grand finale wine to a truly great feast.

MoneyWeek WINE CLUB

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Your code:	BFWINE19

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ONLINE EXCLUSIVE OFFER

www.moneyweekwineclub.com/BlackFriday

Terms & Conditions: Offer ends 5 December 2019. Enter the code shown on the gift card to the left at the checkout page to apply saving to your order. This code is only available online when you buy two mixed cases of the Tanners Christmas Case. There is no cash value and it cannot be backdated. Free delivery to UK mainland only (does not include N.I., Scottish Isles or Isle of Wight) on all orders of 6 bottles of wine or more, otherwise £7.95. Orders will be dispatched within 3 working days of orders being received.

TANNERS WINE MERCHANTS

Where to see the Northern Lights

From a dog sledding adventure in Svalbard to a cruise aboard a luxury liner. Nicole Garcia Merida reports

Svalbard: a winter adventure that won't cost the earth

Perhaps the most environmentally friendly option for travellers who want to see the Northern Lights is to use adventurous travel specialists Off the Map, says Andrea Smith in Lonely Planet. Its "Truly Green Aurora" adventure starts in Longyearbyen – which is promoted as a "sustainable destination" – and your base will be the Funken Lodge, which is set on a hill overlooking the Norwegian town and the nearby glaciers. From there, "revolutionary e-snowmobiles powered by renewable energy from the Arctic winds and midnight sun" take you on a guided tour of the wilderness, with a stop off at a camp for dinner and storytelling. Guests also get the chance to explore the area on a snowshoe trek and hunt for the aurora by dogsled.

The journey is especially recommended from November to January, when the skies over Svalbard are almost "permanently black", so guests will have all day to search for the Lights. All the activities exploring the Norwegian archipelago of Svalbard are arranged so as to "allow guests to travel with as little environmental impact as possible, while bringing them closer to the local nature, wildlife and culture". And the e-sleds are quiet, which makes it possible to spot native reindeer, ptarmigans and polar foxes. "Exploring some of the most pristine areas of our planet has never been more eco-friendly." The itinerary also includes a visit to the Global Seed Vault, an underground bunker that stores seeds to ensure against the loss of the world's plant species.

£1,095pp for three nights, offthemap.travel/green-aurora

"The e-sleds are quiet, which makes it possible to spot native reindeer, ptarmigans and polar foxes as well as the Northern Lights"

From the remote north of Canada

Thanks to its very northern latitude and favourable weather, the remote Canadian town of Yellowknife is renowned as "possibly the best" place to see the Northern Lights, says Craig Platt in Stuff. And with its "panoramic views" of lakes and pine forests, Blachford Lake Lodge makes for an excellent setting for witnessing the "shimmering ebb and flow" of the aurora. During the day you can enjoy hiking, ice fishing, an outdoor hot tub and the hotel's cosy lounge, but the real show starts once the night comes – and you're almost sure not to miss it. There is always a staff member on "aurora watch" who will ring a buzzer to wake guests up when the lights come on. "It's like seeing music," says Platt. The lodge also has an outdoor teepee with a roaring fire, hot chocolate and marshmallows ready for roasting while you wait for the "shift and swirl" of the Northern Lights.

Cabins start at C$1,695 for three nights, blachfordlakelodge.com

Experience the Scandinavian fire and ice ritual

There are few better places for aurora spotting than aboard the Viking Star, says Sarah Knapton in The Daily Telegraph. The ship is a "Nordic-chic" luxury hideaway, complete with a traditional spa that boasts a steam room, sauna and snow grotto, where guests can experience the "full Scandinavian bathing ritual of fire and ice". The ship crosses the Arctic Circle before docking at Alta, the world's northernmost city. Afterwards the ship departs for Tromso, where you may spot the Lights, "flickering ribbons of white, purple, and red dart, billow, and dissolve into wisps". There's also plenty to do on board, from yoga classes and massages to concerts and wine-tasting. It's safe to relax and enjoy the activities: the crew is always "on aurora-watch", announcing sightings via the PA system.

The Viking Star: Nordic chic in the Arctic

A 13-day "In Search of the Northern Lights" cruise with Viking costs from £3,690 per person, vikingcruises.co.uk

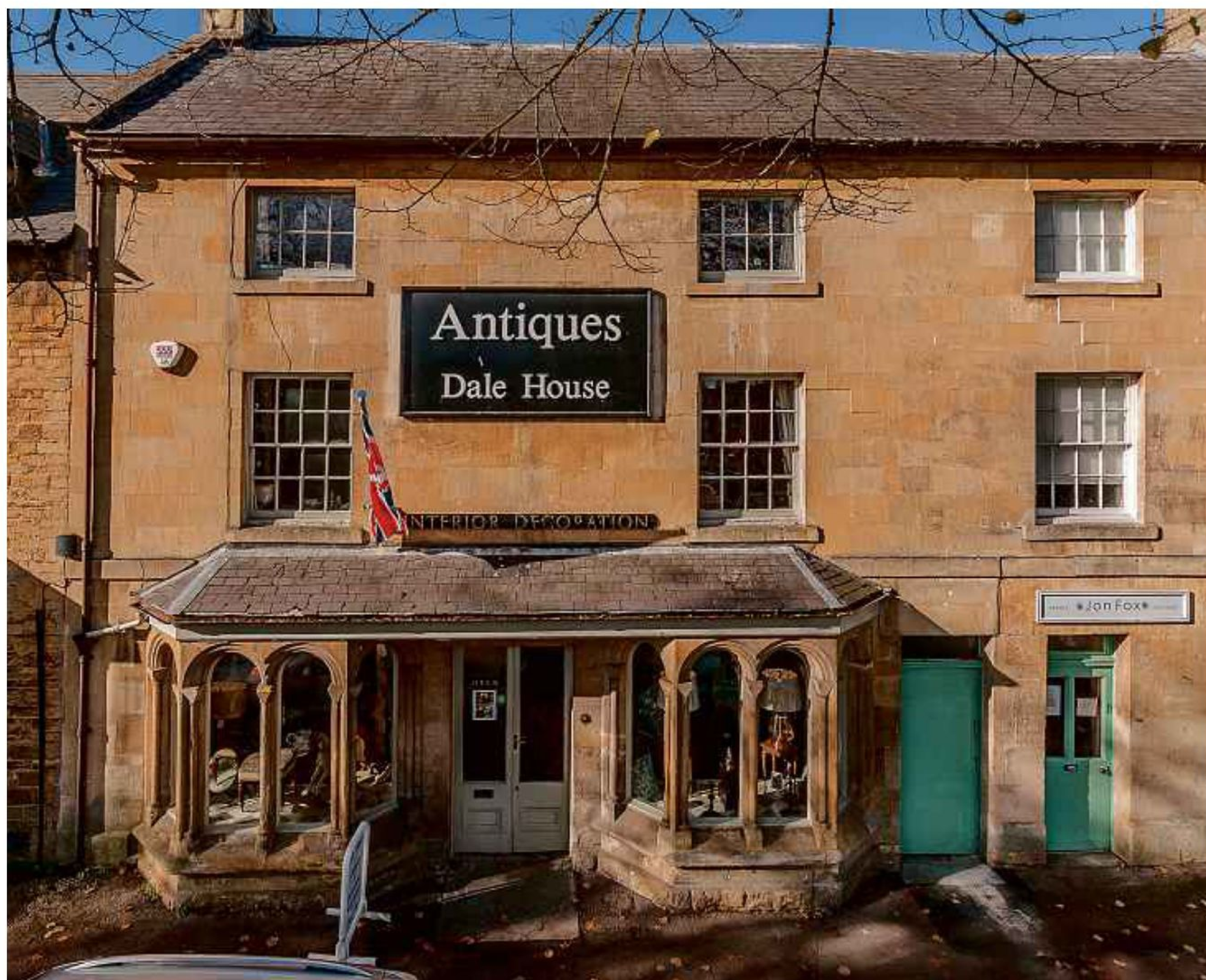
Amid the ice fields of Finland

The Wilderness Hotel Nangu set amid the ice fields of Ivalo in Finland is a wonderful "beacon of golden light in the wild", says Sophie Ibbotson in City AM. A sleigh ride takes guests out onto the frozen edge of the town, where the "black horizon" is decorated with the white streak of the Milky Way. Here, away from the light pollution of the hotel, "the so-called gate of the Arctic" begins to arch and swirl – Finnish legend has it that the Northern Lights are the "glow of Valkyries' shields" or the "sparks from the fire fox's tail".

The Finnish winter wonderland is also densely populated with reindeer. Other activities include dog sledding, snowshoeing, and ice fishing. In Lapland, the northernmost region of Finland, it is possible to witness auroral activity up to 200 nights of the year, say Northern Light experts Aurora Zone, but November to January is almost always a safe bet.

Three night breaks start from £1,495, theaurorazone.com

This week: income-generating properties – from a tearoom on a cobbled street in Beverley, East Yorkshire, to a



▲ **Dale House, Moreton-in-Marsh, Gloucestershire.** A Grade II-listed property with a flat with a vaulted sitting room and a double-fronted, A1 commercial unit on the ground floor currently run as an antique shop. 2 beds, bath, recep, study, barn with residential planning, courtyard garden. £900,000 Strutt & Parker 01608-650502.

► **Ellicombe Manor, Ellicombe, Dunster, Somerset.** A Grade II-listed, 16th-century manor with four letting cottages providing an annual gross turnover of £53,000. The house has timber-mullion windows and inglenook fireplaces. 6 beds, 4 baths, 3 receps, outbuildings, swimming pool, paddock, 4.539 acres. £1.295m Jackson-Stops 01823-325144.

► **Manor House Hotel, Oban, Argyll.** A Grade B-listed, 1780s mansion on the southern shore of Oban harbour with views of the Isle of Mull, Kerrera and Lismore. It is close to the ferry and has recently been converted into a hotel with a two-AA rosette restaurant, which won Hotel Restaurant of the Year for the Central Region at the Food Awards Scotland 2017. 12 en-suite beds, 3 receps, commercial kitchen, gardens, mooring. £1m+ Savills 0141-222 5875.

former Benedictine monastic grange currently run as a wedding venue in Margate, Kent

◀ **Salmestone Grange, Margate, Kent.** A Grade II-listed, 12th- and 13th-century former Benedictine monastic grange currently run as a wedding venue. It offers a setting for a range of ceremonial and hospitality opportunities based around the chapel, which dates from 1326, a ceremony room registered for civil ceremonies, a banqueting hall, monks' dormitory and cloistered gardens. 4 self-contained one- and two-bedroom flats. 2 catering kitchens, parking. £1.5m Strutt & Parker 01227-451123.

▶ **Ulley Farmhouse, Kennington, Kent.** A Grade II-listed, 16th-century farmhouse with later additions in gardens with a vineyard with 3,000 vines, with a potential for 4,500 bottles of wine and facilities for harvesting and bottling. 5 beds, 3 baths, 4 receps, thatched summer house, 5.75 acres. £1.35m Savills 01580-720161.

◀ **Lion Street, Rye, East Sussex.** A Grade II-listed house in the town conservation area. It is run as a Michelin-rated, 55-cover, licensed restaurant with a commercial kitchen, living accommodation and a rear garden with additional seating. It has exposed wall and ceiling timbers, wood floors and a wood-burning stove. 3 beds, bath, recep, breakfast kitchen, cellar, courtyard garden with additional covers, on and off sales licence. £550,000 Phillips & Stubbs 01797-227338.

▲ **The Long House, Potash Nursery, Drayton Parslow, Buckinghamshire.** This house comes with a detached garden shop and nursery. The Potash Garden Shop was constructed in 2015 and has underfloor heating and a commercial kitchen. The nursery comes with three polytunnels, a commercial greenhouse and a storage barn. 4 beds, 2 baths, 2 receps, kitchen, study, gardens, 6.5 acres. £1.1m Fine & Country 01908-713253.

▶ **The Tea Cosy, Highgate, Beverley, East Yorkshire.** An established tearoom ideally located on a cobbled street leading to the medieval minster, with views of the minster from the garden and the flat above the tearoom. It has a restaurant that seats 24, a conservatory seating 12 and an enclosed rear garden seating a further 12 people. The flat has a small balcony that overlooks the minster. 3 beds, bath, 2 receps, kitchen, commercial kitchen. £500,000+ Hunters 01482-861411.

Is this the world's best electric car?

The most impressive Tesla yet has arrived on our shores. It was worth the wait. Nicole Garcia Merida reports

If you want a Tesla Model 3, form an orderly queue. The electric-car maker's entry-level model, competing at about the mark of a BMW 3-Series, has just won Car of the Year at the AutoExpress awards, hailed as "the best Tesla yet". The hype and production problems combined have meant that demand has far outstripped supply. But now, at last, a right-hand-drive version has arrived on our shores.

The car's "dynamics and ability will genuinely surprise you", says Auto Express, offering impressive performance and great range alongside sophisticated technology, unique design and high levels of practicality. The Model 3 comes in three versions: Standard Range Plus, Long Range and Performance. The basic model alone is "incredible", says Stephen Jones in the Daily Mirror: it sprints from rest to 60mph in 5.3 seconds and has a top speed of 140mph. The Performance model's figures are 3.4 seconds and 162mph – supercar territory. The Long Range, as the name suggests, will do 348 miles on a single charge compared with the Standard's 258, according to Tesla. And the battery recharges quicker than "we could finish our Burger King at the services". You download an app to connect your phone to the car and it will notify you when it is done charging. And like all Teslas, the Model 3 is also spacious and light – not to mention "pretty much the safest car you can buy on the market".

The car's interior is "like nothing else", says Tim Pitt in Motoring Research: sleek, minimal and elegant. The dials you usually find behind the wheel are replaced by a 15-inch touchscreen in the centre of the dashboard, which looks "fabulously futuristic". The touchscreen controls everything and allows you to input drivers' profiles, which store everything from seat position to climate control preferences to mirror adjustments. Once you key your destination into the satnav, the computer shows you charging points along the route as well as what the battery level will be by then.

It is the most anticipated new car for decades, but it was worth the wait, says Evo. And the performance is incredible: "There is literally nothing out there to match it." For similar muscle you'd have to buy an Audi RS5 Sportback or Mercedes-AMG C63 S, but they'll set you back a more substantial £70k-£80k. They'll also be "slower, less practical and far more

"As for the performance, there is literally nothing out there to match it"

Price: from £42,000. Range: up to 348 miles. Recharging time: 30 minutes at Supercharger locations. Top speed: 162mph. 0-60mph: 3.2 seconds. Engine: fully electric, all-wheel-drive, dual motor.

Wine of the week: a textbook Tuscan beauty

2016 Chianti Classico, Casaloste, Tuscany, Italy
£18.95, reduced to £14.95, Jeroboams, 020-7288 8888, jeroboams.co.uk

Matthew Jukes
Wine columnist

About a month ago the Christmas wine samples started to flood in. Waves and waves of cases of wines, with around the usual percentage hope of finding bottles worth mentioning. I figure that of the tens of thousands of wines I taste every year, only 2% are of a sufficiently high standard to warrant a mention in any one of my regular columns.

Jeroboams sent me just four bottles – they know me and they do not muck around. All four were delicious and these are the two that absolutely shone. Firstly, my featured Chianti, a wine so succulent and profound I had to do a double-take when I saw the price!

This is a textbook Tuscan beauty with an abundance of unexpected flavour dimensions, all drenched in flair and succulence. It is, in layman's terms, a no-brainer. In vinous folklore, this might be the most shockingly good Chianti I have never heard of. Buy it now.

In addition to that heady red, here is a white Burgundy that completely floored me with its dramatic stance and its devastating flair: 2017 Meursault, Domaine Michelot (£38.95, reduced to £31.95). It is a global chardonnay bargain and I say that because there is a very high hurdle to leap when you are searching for this grape at this level of delivery, and this wine is at least 20 quid cheaper than you'd expect! This is another Jeros wine that you cannot live without.

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

A bargain-hunter's paradise

It's an ideal time to go shopping at the art auctions. Chris Carter reports

All eyes were on New York earlier this month for its week-long series of contemporary and modern art sales. The sales are a highlight in the auction calendar, when a reading for the health of the art market is taken. The verdict this year seems to have been "not great, but not terrible either".

Part of the problem was that last November David Hockney stole the show. The British artist's 1972 painting *Portrait of an Artist (Pool with Two Figures)* became the world's most expensive artwork by a living artist when it sold for $90.3m at Christie's. This year there were fewer big-ticket items. Willem de Kooning's *Untitled XXII*, from 1977, sold for $30.1m (including fees) and *Hurting the Word Radio #2 (1964)*, by Ed Ruscha, sold for $52.5m – the only work to reach $50m.

The big three auction houses of Christie's, Sotheby's and Phillips took in 31.5% less than last year, according to London-based art-market research firm ArtTactic. Sales totalled $1.1bn across the five headline evening sales. That's around $330m less than the $1.4bn from the same five auctions the year before, says Art News, "reminding us all of what an outsize role expectations play in our interpretations of this ever-shifting market".

It could have been worse. A few months back, when the auction houses were still in their consigning phase, fears of recession looked likely to keep guarantors away, as Abby Schultz notes in Barron's Penta. That's a

Tamara de Lempicka's Pink Tunic sold for $13.4m

bearish sign because the presence of guarantors – third parties who agree to buy lots if they fail to sell at auction – injects confidence into the market. In the end, and late in the day, that didn't happen. The guarantors rode to the rescue once it became clear demand was stronger than anticipated. Still, as ArtTactic says, the market for auction guarantees "is now pretty much deciding the outcome at the top of the art market, and it looks like the guarantors are increasingly getting jittery". Whether they will be around next autumn remains to be seen.

Savvy bidders move in

There was also some good news. The sell-through rate (a measure of the strength of buying) came in at 91.9%, says ArtTactic. Anything over 90% is a sign of "a very healthy market", as Todd Levin, of Levin Art Group in New York, tells Barron's Penta. One explanation was the readiness of sellers to cut their prices. "Savvy bidders figured out that much of the art could be had at a discount, so they went shopping," says Kelly Crow in The Wall Street Journal. Phillips had been looking for $7m for Joan Miró's *Catalan Farmer Worried About Passing a Flight of Birds (1952)*, but settled for $3.8m (minus fees); Pablo Picasso's 1934 *Nudes* was picked up by the guarantor for $9.9m. Sotheby's had wanted $12m. The market "looks like a bargain-hunter's paradise", says Crow.

The trend in buying up works by overlooked artists was also present. New records were set for 28 artists, including Ruth Asawa, Carrie Mae Weems and Julie Curtiss. Tamara de Lempicka's Jazz Age-era *Pink Tunic* (1927) was in high demand, eventually selling for $13.4m, with fees, at Sotheby's – well above its $8m high estimate. "In general though," says Melanie Gerlis in the FT, "a recalibrated market of lower values was the norm."

Computer says "Yippee!"

A computer-painted artwork sold for a "staggering" $432,500 – 43 times its $10,000 high estimate – a little more than a year ago, says Caroline Goldstein on Artnet News. But judging by the latest sale of works created by artificial intelligence (AI), it would seem human artists can rest easy for now.

Two works by Obvious, the Paris-based collective behind last year's AI portrait, had a "decidedly lacklustre performance" at a contemporary art day sale with Sotheby's in New York this month. *La Baronne de Belamy* (2018) only just met its low estimate after 25 seconds of bidding to sell for $25,000 (with fees). "Within the minute", *Katsuwaka of the Dawn Lagoon* (2019, pictured) nudged past its high estimate, selling for a total of $25,000. It would seem that the dystopian future heralded last year by the machines "is still a long way off".

But there is scope for collaboration. A piece of "mixed reality" performance art by Marina Abramovíc is expected to sell for around £600,000 with Christie's next year. The 19-minute work, called *The Life* (2019), was unveiled in February at the Serpentine Galleries in London. It involves the viewer donning a headset to watch the artist pacing around in a red dress, with the outside world still visible. The Guardian's Jonathan Jones called it "a pointless perversion that hurts your eyes". But will the art market agree?

Auctions

Going...

"*Friends* fans, could this *be* any more exciting?" Around 100 items and props from the hugely successful 1990s sitcom are heading to auction online with the Prop Store from Tuesday, says Rebecca Lewis in The Sun. The proceeds will go to The Trevor Project, a crisis intervention organisation for LGBTQ+ young people. Among the items included in the sale is the turkey adorned with a Fez and sunglasses that Monica, played by Courtney Cox, puts on her head. The iconic orange sofa from the Central Perk coffee house is valued at up to $8,000.

Gone...

Sooty, Sweep and Soo, the puppets from the children's television show *Sooty*, have sold for £5,000 at Hansons Auctioneers in Derbyshire to a private collection in Yorkshire. The set had been a gift from the show's creator, Harry Corbett, in the 1970s. It was "very rare that Harry would give away a set", Richard Cadell, the show's current presenter, tells BBC News. Many of the original sets were destroyed by Corbett, making the puppets even rarer. "He threw the first five or six Sooties in the bin," says Cadell. Last year, a Sooty puppet from the 1950s fetched £14,500.

The astonishing success of the lottery

For 25 years, the game has funded good causes and lined the pockets of a lucky few

To the ruin of my bank balance and the despair of my accountant, I'm partial to a flutter on the horses. Perhaps it would be better if I switched to playing the National Lottery, which celebrates its 25th anniversary this month. The idea of a national lottery was "ridiculed" when it was first mooted by John Major's government in the 1990s, but it has been "an astonishing success", says Alice Thomson in The Sunday Times. In its 25 years it has "given away £40bn to good causes", in the process transforming Britain's performance in the Olympic Games, funding a number of Oscar-winning films and paying for large-scale projects such as Tate Modern and the Angel of the North. It also helped ensure smaller-scale community projects continued through the austerity years.

"Lotto lout" Michael Carroll: "Ten years of fun for a pound"

©Shutterstock

> *"I rang my boss to resign. He said, 'That reminds me, I need to check my ticket.' I said, 'Don't bother, I won the lot!'"*

It's fun for the players too. A flutter on the lottery is far healthier for punters than the "highly addictive" fixed-odds betting terminals that have ruined lives. Even the winners of large sums now seem to have become "more responsible", thanks in part to the team of psychologists and investors that is sent by the company running the lottery to teach winners and their families how to cope with their good fortune. That's a sign of just how "boringly efficient and effective" the lottery has become.

It's a far cry from the days when "lotto lout" Michael Carroll was making the headlines, say Emily Webber and William Cole on Mail Online. He won £9.7m in 2002 and then blew it in the space of little more than a decade. He gave some of his winnings away to his relatives, but large chunks went on a mansion, two other houses, racing cars and a decadent lifestyle of drink, drugs and "vice girls". This cost Carroll his marriage and saw him hauled into court on more than 30 occasions. He would arrive at court in a sports car, drinking booze.

Back to the day job

The courts tired of these antics and Carroll was jailed for five months after failing to comply with a drug treatment order. A year later, he was down to his last million and the hangers-on who had flocked to him after his victory started to drift away. Eventually he was declared bankrupt and Carroll found himself back on Jobseeker's Allowance. He is currently working as a coalman for £10 an hour. Carroll doesn't regret his "ten years of fun for a pound", but he admits he is relieved to have his "life back". If he were to win again, he says, he'd be "down the yard at six every morning just to keep out of trouble".

Jackpots can bring out the best in some people, says the Daily Mirror. Take Ray Wragg from Sheffield, who won £7.6m in 2000. "The morning after I won the lottery, I rang my boss to resign. When I told him I'd had a win, he said, 'That reminds me, I need to check my ticket.' I said, 'Don't bother Dave – I won the lot!'." To celebrate, Wragg took his wife, Barbara, who had never left the country before, on a cruise and treated local schoolchildren to Easter eggs and a holiday on a farm. When a local boy had his cycle stolen, Wragg bought him a new mountain bike. The look on the boy's face, he says, "was perhaps my happiest lottery moment".

Quintus Slide

Tabloid money… Jeremy Corbyn's puerile drivel

● We barely blink when we see the leading lady appear naked in films, says Karren Brady in The Sun. We don't even consider the pressure those actresses might have been put under. So hearing Emilia Clarke, who plays Daenerys Targaryen (pictured) in TV drama *Game of Thrones*, explain how she was "persuaded" to appear nude, aged only 23, makes for uncomfortable listening. As she explained in a podcast, she was an unknown when she took the job. When she raised objections to the nudity, she was told she would "disappoint fans". She ended up agreeing, but was in tears before shooting the "terrifying" scenes. Does that not sound like manipulation? Sure, nobody forced her to take the job and she was paid handsomely. But it's a grim business. The good news is that, in the post-MeToo era, these kind of things are less likely to happen.

● We hear that the "Grand Old Joke Of York", Prince Andrew, has finished with his royal work, says Brian Reade in the Daily Mirror. "When did it start?" How is it that a man on a £20,000 naval pension and a £259,000-a-year grant from his mum can afford a £13m ski chalet, a Windsor mansion, the non-stop foreign golf trips and private yacht holidays? It's like watching Royal Benefits Street. "I'm permanently bewildered that our nation keeps funding this embarrassing feudal anachronism… allowing them to keep vast estates we could put to better use when so many of our citizens don't have homes." Almost half of the land in Britain is owned by hereditary aristocratic families. As The Times put it, if monarchies didn't exist, few would invent them.

● The "economic clown" Jeremy Corbyn has launched his Marxist manifesto, which will raise taxes by a "mind-boggling" £83bn and make Britain "one of the most punitive tax regimes in the world", says Carole Malone in The Mail on Sunday. His destructive polices sound like they were "cobbled together by a bunch of sixth-formers on crack". His hatred of wealth creators is infantile – the same wealth creators and businesses that pay this country's bills. If they up and leave, it will hurt the very people – the low-paid workers – that Corbyn claims to be protecting. Just keep saying "Venezuela" to yourself every time you hear Corbyn spout his "puerile drivel", because "if he gets into No. 10 – it'll feel like you're living there".

©HBO/SKY

Bridge by Andrew Robson

Virtue is its own reward

On this week's deal, declarer used squeeze technique to avoid having to rely on West holding the ten of Clubs.

Dealer East North-South vulnerable

North
♠ Q6
♥ 6542
♦ A1043
♣ AJ9

West
♠ 10954
♥ J
♦ J865
♣ K1084

East
♠ KJ872
♥ AQ
♦ KQ2
♣ 652

South
♠ A3
♥ K109873
♦ 97
♣ Q73

The bidding

South	West	North	East
			1♠
2♥	2♠	4♥*	pass
pass	pass		

* A stretch, given the unpromising-looking Spade holding.

West led the ten of Spades, covered by Queen, King and Ace. At trick two, declarer returned a second Spade (for want of anything better). West winning the nine and switching to a Diamond. Declarer ducked this to East's Queen and the King of Diamonds continuation was won by dummy's Ace. A trump followed from dummy and East won the Ace then exited with the Queen. Declarer won the King, finessed the Knave of Clubs, ruffed a third Diamond and ran all his trumps.

As declarer led his final trump, West had to discard from the Knave of Diamonds and King-ten of Clubs, dummy, crucially discarding after him, holding the ten of Diamonds and Ace-nine of Clubs. If West threw his Diamond, dummy's ten would be promoted. So West threw the ten of Clubs.

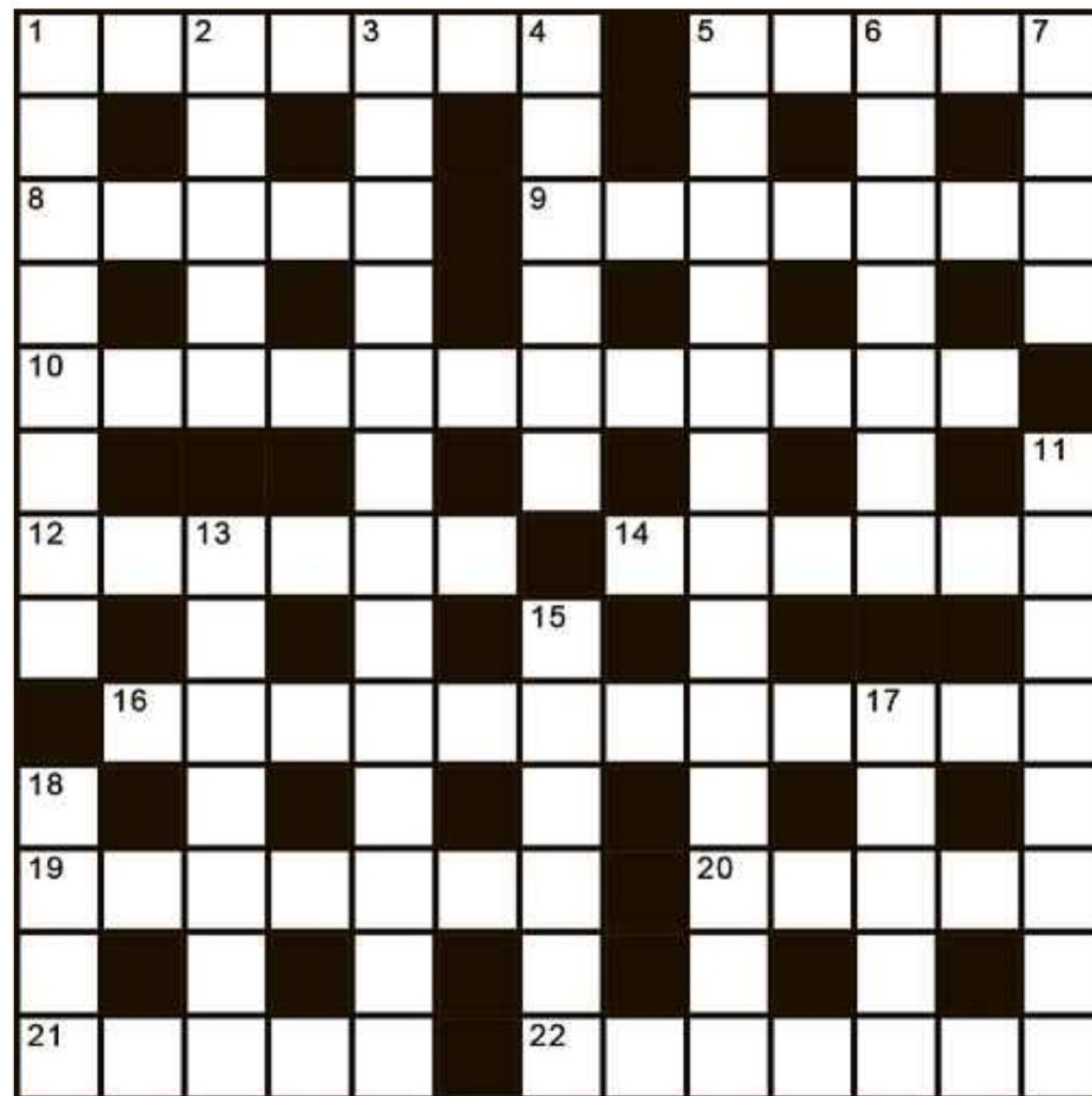
No good – away went dummy's Diamond (it had served its purpose), whereupon a low Club from declarer saw West's King pop up (as expected). Declarer won dummy's Ace and took the last trick with his promoted Queen. Ten tricks and game made via a textbook Positional Squeeze (ie, working on only one specific opponent).

Mildly disappointed to discover that the more mundane double Club finesse (Queen, King, Ace, low; then low, low, nine, low) would have worked, declarer consoled himself that virtue is its own reward.

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

Tim Moorey's Quick Crossword No. 975

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 9 Dec 2019. Answers to MoneyWeek's Quick Crossword No. 975, 31-32 Alfred Place, London, WC1E 7DP.



Across clues are mildly cryptic whereas down clues are straight

ACROSS
1 Butcher girl, a spoilsport (7)
5 Slow vehicle moved aimlessly (5)
8 People working in Basra? (5)
9 Food supplier from new terrace (7)
10 Perfect vision for next year? (6-6)
12 Soccer team in one of the UAE capitals! (6)
14 Sounds like Lisa's partner is a whinger (6)
16 Put another way, I'm dot in place (7, 5)
19 Middle East rulers in trembling fits, it's said (7)
20 British-born writer due for a change in article (5)
21 Torment starts anxious new guy seemingly troubled? (5)
22 Rent again free (7)

DOWN
1 Capital of Sudan (8)
2 Time off (5)
3 Exactly what's needed (4, 3, 6)
4 Sailing vessels (6)
5 Inner layer of, eg, oyster shells (6-2-5)
6 Extremely strict morally (7)
7 Golden yellow marine fish (4)
11 Make-believe (8)
13 Type of lettuce (7)
15 Type of salad (6)
17 I in communications code (5)
18 Marco Polo crossed it (4)

Name ....

Address ....

Solutions to 973

Across **1** Bust **3** Infantry *infant + ry* **9** Shake-up *sheikh UP* **10** Hyena *yen in ha* **11** A better place **14** Cup **16** Midge *hidden* **17** Eye **18** Country house **21** Haifa *hidden* **22** Crew cut **23** Dressing **24** Head.

Down **1** Bismarck **2** Suave **4** Nap **5** Achilles' heel **6** Treacle **7** Yuan **8** Testimonials **12** Rider **13** Dejected **15** Promise **19** Uncle **20** Chad **22** Con.

The winner of MoneyWeek Quick Crossword No. 973 is: Keith Welton of Cattal, York

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

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

Sudoku 975

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

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

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

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The two ways to get rich

Hard work and robbery are the options. In recent years, the US has taken the wrong path

Bill Bonner
Columnist

People live better in Europe than they do in the US

We all know that, in comparison with the US, Europe is stodgy, lethargic, overtaxed and overregulated. Its workers take too many holidays and its businesses lack the dynamic spirit that makes American enterprises so successful. Heck, as George W. Bush reminded us, the French don't even have a word for "entrepreneur". Europe just can't keep up, right?

When you live in Europe, as we do for parts of the year, you begin to wonder. The Europeans seem to be doing fairly well. Trucks roll on the highways. Shops are full. Consumers consume. Diners dine. You see less poverty and degenerate misery in Europe than in the US. People live longer and often better. Over the last 20 years, the European economy in terms of GDP per capita has grown faster too. The US, we believe, topped out near the end of the last century. But why?

Thomas Philippon, an academic and author of *The Great Reversal: How America Gave Up on Free Markets*, has the answer. First, US markets have become less competitive: concentration is high in many industries, leaders are entrenched and their profit rates excessive. Second, this lack of competition has hurt US consumers and workers: it has led to higher prices, lower investment and lower productivity growth. Third, and contrary to common wisdom, the main explanation is political, not technological. Philippon blames the decrease in competition on increasing barriers to entry and weak antitrust enforcement, sustained by heavy lobbying.

> *"The United States has abandoned the core values that made it great"*

Philippon thereby explains how the US abandoned the core values that made it great. In short, it turned away from markets and towards politics. Markets are how people get wealthy. Politics is how their wealth is redistributed and squandered.

As German sociologist Franz Oppenheimer put it, there are two ways for man to satisfy his desires: "work and robbery, one's own labour and the forcible appropriation of the labour of others". Politics is the ultimate form of the latter. But why would politics be more pernicious in the US than in Europe? The simple answer is that Europe has less of it. Europeans speak different languages and have different cultures. They mistrust each other – and all mistrust the central government. While Americans lavish power and money on Washington's swamp critters, Europeans begrudge every penny they send to Brussels. Crony capitalists connive with the government in both Europe and the US, but only about half as much is spent lobbying Brussels as Washington. Political candidates in the US get 50 times as much as European politicians.

There are only two choices: politics or markets. In the last half of the 20th century, America gradually swung towards politics. Now it is paying the price.

The bottom line

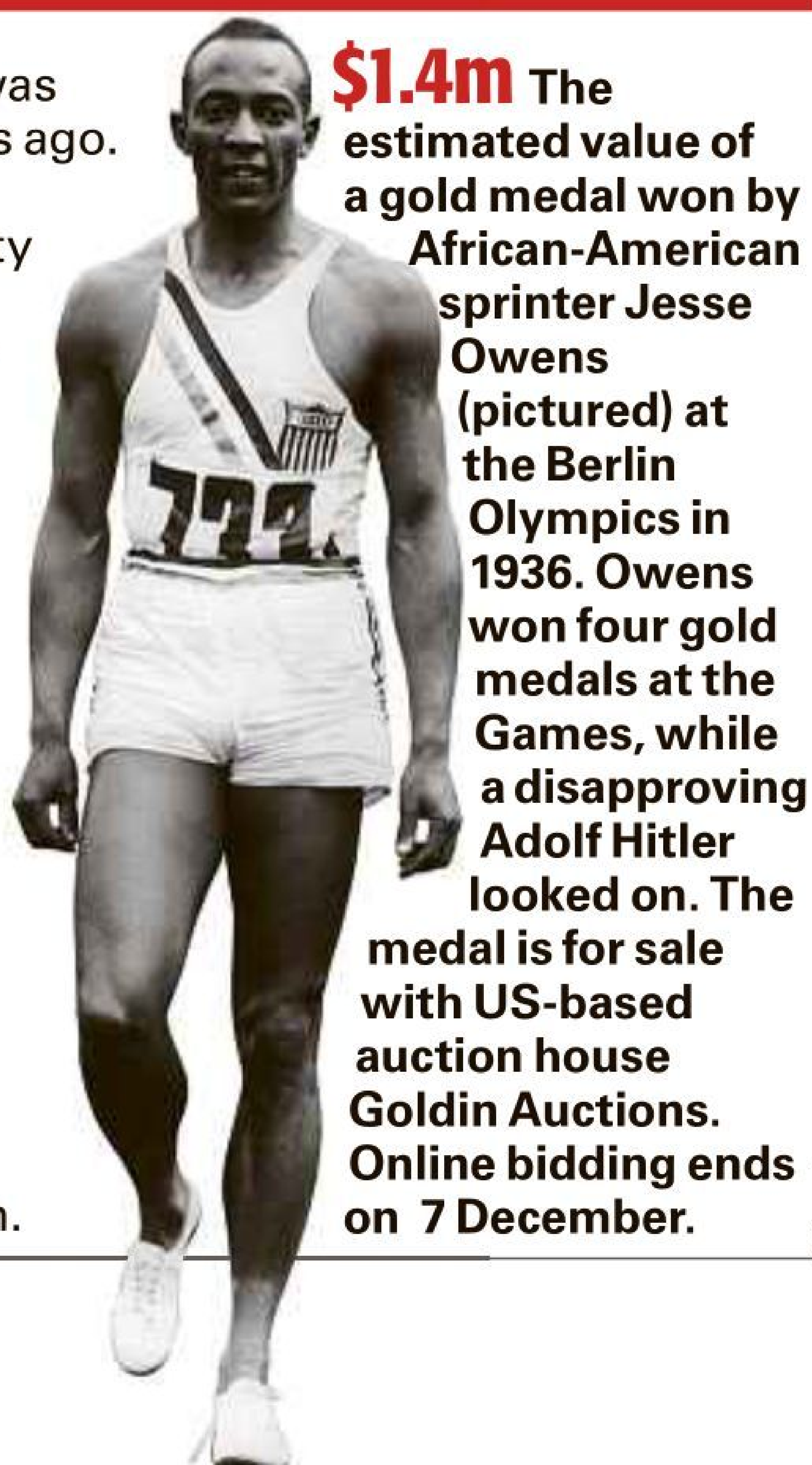
1m The approximate number of 50p coins that were minted to mark Britain's departure from the European Union on 31 October before an extension to the deadline was granted by the EU. The coins are now being melted down, with the cost borne by the taxpayer.

£5,000 The face value of a unique, new five-kilo coin celebrating artists who have worked on British coinage. It is the largest coin ever made by the Royal Mint, which has already sold it to a collector for an undisclosed amount. Four smaller two-kilo coins cost £119,950 each.

$34m The estimated spending by Democratic Party presidential candidate Michael Bloomberg on a week's worth of advertisements in more than two dozen American states. It would be the most expensive one-week advertising blitz since Barack Obama's campaign spent $30m in 2012.

£3m The cost of building a working replica of a V4 Prairie steam locomotive to replace one that plied the London and North Eastern Railway (LNER) before it was scrapped 60 years ago. It will be built in Darlington, County Durham, and it is expected to enter service in 2027.

10m The number of bottles of spiced and flavoured rum bought in Britain in the year to June, representing an 80% increase on five years ago, according to a report from the Wine and Spirit Trade Association.



$1.4m **The estimated value of a gold medal won by African-American sprinter Jesse Owens (pictured) at the Berlin Olympics in 1936. Owens won four gold medals at the Games, while a disapproving Adolf Hitler looked on. The medal is for sale with US-based auction house Goldin Auctions. Online bidding ends on 7 December.**

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MoneyWeek is published by MoneyWeek Ltd. MoneyWeek Ltd is a subsidiary of Dennis Publishing Ltd, 31-32 Alfred Place, London, WC1E 7DP. Phone: 020-3890 3890.

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© MoneyWeek 2019
ISSN: 1472-2062
• ABC, Jan–Jun 2018: 43,933

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