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MoneyWeek

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Class acts going cheap

Europe's best bargains

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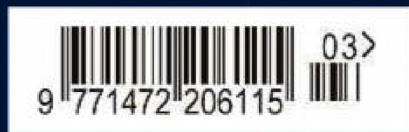

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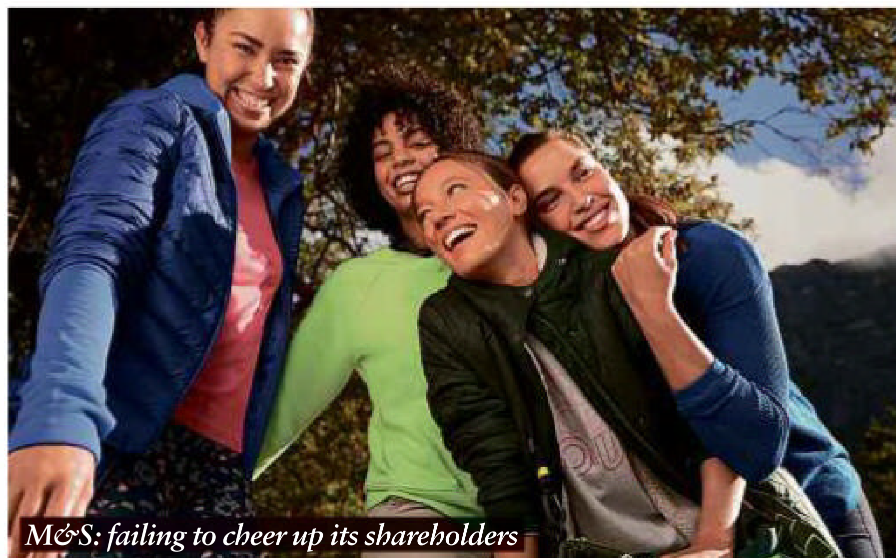
Britain's best-selling financial magazine

From the executive editor...

Buying individual shares is a hazardous business. That's why we have diversified portfolios and that's why the majority of investors hold the lion's share of their equities in funds of some sort, rather than holding individual companies. It's also why I try to avoid tipping individual stocks – however convinced you are of a stock's merits, you can never be sure that something won't go wrong.



M&S: failing to cheer up its shareholders

"M&S is a complacent business, relying on its undeserved reputation as a national treasure"

And so it has proved with my pre-Christmas share tip. In our 20 December issue, I suggested buying high-street stalwart Marks & Spencer (M&S), perhaps bolstered by the success of my 2018 tip, Next. I shouldn't have got cocky – last Thursday, M&S promptly issued a Christmas trading update that sent its share price down by more than 10%. The group managed to grow like-for-like sales, but a poor performance from its clothing business saw disappointed investors sell out.

I'll admit that I was in two minds about the original tip. I've slagged M&S off on several occasions over the years. My overall view – that it's a complacent business that has been riding on the back of its undeserved "national treasure" status for years, if not decades, hasn't changed dramatically. I even described it as being "not a terribly good company" and one "with a long history of disappointing". So I can't argue that this latest failure comes out of the blue. It's clear that both the wider market and I had grown far too optimistic on the pace of its latest turnaround. So what's the story now?

I can't say I'm pleased to have tipped a stock that has fallen by the best part of 15% in less than a month. That said, I'm going to give it the benefit of the doubt for now. Firstly, I think the fall mostly reflects the fact that investors had got their hopes up for a faster pace of change. Secondly, as I also pointed out in the original tip, if M&S's recovery really can't get any momentum behind it, then there's surely scope for an activist investor to start pressurising the board to split the group. With M&S's deal with online grocery specialist Ocado coming to fruition this year, the shedding or shrinking of the troubled clothing and homeware units might be the best turnaround plan of all.

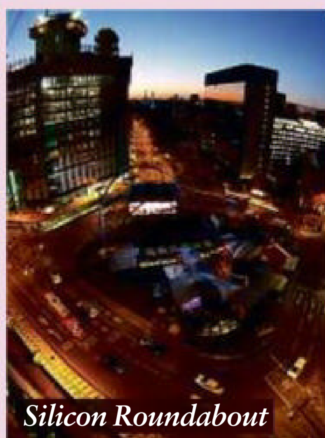
It's a useful reminder that buying shares in troubled companies in the hope that they can turn themselves around is always a tricky business. If you'd rather stick to companies with more solid foundations, then turn to our cover story on page 24, where Stephen Connolly picks ten of his favourite high-quality European stocks that could be well placed to catch up with their more highly-valued peers in the US this year.

Elsewhere in the magazine, Max looks at three of the biggest investment themes in the UK's commercial property market right now. Student housing, healthcare premises, and self-storage are all booming, and for good reason – but have valuations been driven too high? Turn to page 28 for his verdict.

And for the truly adventurous investor, turn to page 20, where David looks at a new exchange-traded fund (ETF) that enables investors to gain access to one of the most intriguing and controversial sectors around right now – the cannabis industry. That industry has already been through one boom and bust, but I'm quite sure that there will be plenty more ups and downs to come. Not unlike the rather less exotic M&S.

John Stepek
editor@moneyweek.com

Sector of the week



Silicon Roundabout

©Getty Images

The British digital start-up sector had an excellent 2019, receiving record sums from investors and cementing the UK's position as Europe's "most vibrant hub" for fast-growing tech businesses, says Simon Duke in The Times. The sector apparently remained unaffected by uncertainty over Brexit, raising a record £10.1bn, up £3.1bn from 2018. British firms secured more new capital than their French and German counterparts combined. They also accounted for a third of the venture capital invested in Europe. Firms in London alone are said to have raised £7.4bn last year, and the capital is the fourth-best-performing city in the world for technology start-up funding, behind only San Francisco, Beijing and New York. The UK as a whole lagged only the US and China in terms of the amount of venture capital funding. However, it saw growth, whereas its bigger rivals both saw declines, adds James Cook in The Daily Telegraph.

Cover illustration: Adam Stower. Photos: David Yellen; Getty Images

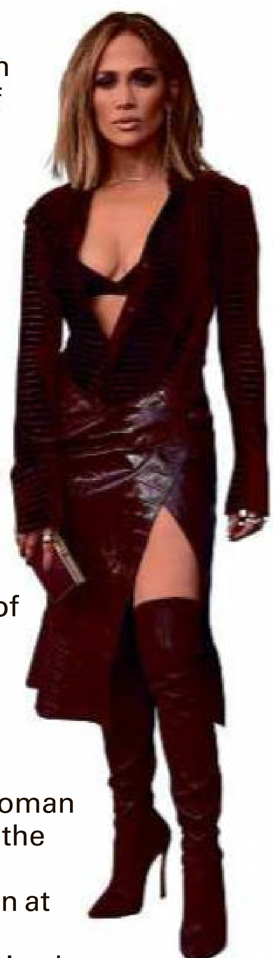
Good week for:

Greggs employees – all 25,000 of them – are being rewarded with a £7m special bonus following the bakery chain's hugely successful launch of the vegan sausage roll last year, says Sarah Butler in The Guardian. In "recognition of their crucial contribution to business success", employees will receive up to £300 each, with shop-floor staff and managers receiving the same amount.

Billie Eilish, 18, is the youngest person to have been chosen to perform the theme song to a James Bond film, says Jack Malvern in The Times. Eilish will be singing the opening theme to *No Time To Die*. The pop star stands to make a killing – Adele's *Skyfall* is one of the best-selling digital singles of all time, and Sam Smith's *Writing's on the Wall* (from *Spectre*) soared straight to number one in its first week of release.

Bad week for:

Lloyds Bank's 60,000 staff have been warned to expect their first bonus cut in four years, says Kalyeena Makortoff in The Guardian. A number of problems at the bank, notably a £1.8bn charge linked to a spike in payment protection insurance claims in October, resulted in a dent in full-year profits and a smaller bonus pool. The figure, which was £464.5m last year, is likely to shrink for the first time since 2016.



©Getty Images

Jennifer Lopez's production company faces a £30m lawsuit from the woman who inspired the character played by the actress (pictured) in *Hustlers*, the BBC reports. The film was inspired by Samantha Barbash, the alleged mastermind behind a ring of women who drugged and robbed rich men at strip clubs. Barbash has accused the film's makers, including Lopez's Nuyorican Productions and STX Films, of using her likeness and defaming her.

Be "cautiously bullish" for 2020

Alex Rankine
Markets editor

"The equity rally has resumed," says Rupert Thompson of wealth manager Kingswood. De-escalation in the Middle East and the prospect of a "phase one" US-China trade deal have helped lift the mood. Global equities are up by 12% over the last three months. December 2019's "Santa rally" was particularly strong, notes The Economist, with America's S&P 500 rising 2.9%. That index sets the mood for global markets. The FTSE All-World, a global stock gauge, had its best year since 2009 last year, returning 24% in dollar terms.

Why stocks are still appealing

When even the threat of war doesn't dim animal spirits you know the bulls are out in force, says Michael Mackenzie in the Financial Times. Late last year expectations coalesced around "a global economic rebound". A "flurry" of stock buying in the final quarter helped drive the MSCI All-World index to a record high. For all the risks, "owning stocks and other risky assets is still very appealing" given historically low bond yields.

Falling interest rates played a starring role in last year's gains, says The Economist. The Federal Reserve cut rates three times, a more rapid loosening than many had expected. The end of year trade truce between Washington and Beijing also calmed nerves. Yet global growth is sluggish and US stocks remain very expensive. The S&P 500 price/earnings multiple is 21.6, far above the long-run average of 16. Last year's "potent combination of monetary easing" and falling geopolitical risk "seems largely played out". That could limit further gains.

US workers are in a strong negotiating position

©Getty Images

Analysts have been out in force making rosy predictions for 2020, but investors should be wary of "falling foul of the optimistic outlook", says Sam Benstead in The Daily Telegraph. "When consensus emerges among experts about the direction of stockmarkets", it is sometimes "a signal that something unexpected [will] happen."

Watch out for wages

Last year's stock gains were driven by higher valuations rather than better corporate profits, says Thompson. Most analysts are predicting "zero earnings growth for the second quarter running" as the US fourth-quarter earnings season gets under way. That is a problem because, with valuations already so stretched, further stockmarket gains will depend on "a revival in earnings growth". Why was 2019 earnings growth so poor even as the economy expanded? Blame higher labour costs, says Michael Wilson of Morgan Stanley. US unemployment is at its lowest level since 1969, so workers are in a strong negotiating position.

The biggest "macro risk" for the bull market this year is a sudden jump in inflation, says Will Denyer for Gavekal Research. That could come either from a "profit-killing surge in labour costs" or a "steep rise in energy prices", perhaps caused by conflict with Iran. Yet Middle Eastern tensions have simmered down and American wage growth actually slowed towards the end of last year. The conclusion? Be bullish about stocks in 2020, "but cautiously so".

Will there be cheer for China?

"China is wading into troubled waters" in 2020, writes Plamen Tonchev for The Diplomat. The trade war put "enormous pressure" on the economy last year. Add in "toxic" indebtedness, and the double-digit growth rates of previous decades are "long gone".

China's CSI 300 stock index returned an impressive 36% last year, but the country's sluggish economy is a global concern. Export growth slowed to a three-year low last year, say Alice Woodhouse and Tom Mitchell in the Financial Times. Imports fell by 2.8%. Yet matters improved at the end of the year. Exports advanced 7.6% year on year in dollar terms in December.

Chinese growth fell to three-decade lows in 2019.

Chinese exports fell to a three-year low last year

Will the weakness continue? asks Keith Johnson in Foreign Policy. A big slowdown would be bad news for other emerging markets. If China wants to stoke growth it can always turn to stimulus, but that only risks making one of the Middle Kingdom's biggest problems, the debt load, even worse. Chinese debt accumulation picked up again in 2019 after slowing over the previous two years, says Silvia Amaro on CNBC. Overall debt is now nearly 310% of GDP.

The world's second-biggest economy "ended 2019 with record corporate bond defaults", writes William Pesek in Nikkei Asian Review. More than 150 companies reneged on payments totalling about $19bn. That is small in relation to the size of the economy, but there is a "chain-reaction risk" if investors panic and pull capital out of bonds.

For all the challenges, 2020 could prove a fruitful year, says David Mann of Standard Chartered in the Financial Times. Deleveraging played a bigger role than the trade war in crimping growth in 2019, but a recent move towards "releveraging", coupled with calmer trade relations, could help growth surprise on the upside.

©Getty Images

The currencies to bet on this year

Are the stars "aligned for the dollar to weaken" this year? Standard Chartered, quoted by Bloomberg News, thinks that "trade war de-escalation and improving global liquidity" should drive down the greenback. Yet Amundi Asset Management points out that US assets still have a "yield advantage" compared with those in other major developed economies, which should prevent a "major dollar sell-off". That yield difference may also cap any euro rally (eurozone interest rates are negative), says Romain Cabasson of AXA Investment Managers. AXA tips the Canadian dollar as a good "upside" bet for those who are feeling optimistic.

Another safe-haven currency, the Swiss franc, is riding high. It returned to 2017 highs earlier this month. The Swiss National Bank is under growing pressure from disgruntled savers to end its -0.75% negative interest rates, notes John Revill for Reuters. Yet that could trigger a swift appreciation, which would be bad for the country's exporters. A better safe-haven might be the Japanese yen, reckons Christian Nolting of Deutsche Bank Wealth Management. The currency is a good "portfolio diversifier" in a year that may see the return of market volatility. Finally, Barclays puts in a word for sterling. Despite its recent rally, the pound remains "undervalued". It currently trades at $1.30, but should rise to "around $1.35".

Commodities look cheap

Gold surged to a seven-year high earlier this month. Yet many industrial metals proved "laggards" in 2019, says Myra Saefong in Barron's. Copper gained just 3.5% in 2019. Aluminium and zinc prices declined. Weakness in global manufacturing means that industrial metals were "left out of the commodities rally".

Time to catch up?

"There are plenty of expensive assets in the world today," says Rana Foroohar in the Financial Times, but most industrial commodities have remained "reliably cheap". Indeed, they are "about as cheap relative to stocks as they have been in the past century".

There are good reasons for this. Better technology and efficiency mean that the real price of industrial commodities has been trending downwards for 200 years. The received wisdom is that the trend will only gather pace; we live in a deflationary world where populations are ageing and economies are more oriented towards services than smokestacks.

And yet there is a wildcard. From "deficit spending" to "the popping of a corporate debt bubble" there are reasons to think that the dollar is set to weaken. Commodities, which move inversely to the greenback, would then be in for a rally.

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Copper could lead the pack in 2020

Chinese industrial demand has been a key driver of base metal prices this millennium. Yet even if the Middle Kingdom continues to slow, "stronger growth in other emerging markets" should take up the slack, says Kieran Clancy in Capital Economics. The consultancy forecasts that "base metals will fare better than precious metals in 2020", thanks to a "modest" global economic recovery and "strained supply". Capital Economics thinks that "copper and nickel will lead the pack".

Copper is the key base metal to watch, agrees Yvonne Yue Li on Bloomberg. Its widespread use in wiring, construction and electronics makes "Dr. Copper" a good barometer of the global economy. Analysts are bullish. The trade war held back investment in new capacity last year. Social tensions in Chile, the world's-biggest producer, are another supply constraint. The result is that worldwide copper inventories have shrunk 37% since July.

Some industrial metals are already in bull territory, notes Saefong. Palladium, used in catalytic converters, has leapt more than 60% over the past year. Platinum, which has similar applications, is up 20%. Palladium has now gained 190% over the past three years and the momentum looks set to continue. The metal's supply deficit is likely to continue for several years, says Steven Dunn of Aberdeen Standard Investments. Stricter emissions standards are also boosting demand. "Strong fundamentals exist for palladium to continue to test new highs."

Viewpoint

"History shows that time in the market is an easier way to accumulate wealth than trying to time the market. That's certainly been this DIY investor's experience over the last quarter-century or so. There's no need to take my word for it, though. Tom Stevenson, a director of the fund management giant Fidelity International, calculates that £1,000 invested in the FTSE All-Share since the start of this century would have grown into £2,734 by the start of this month. But investors who missed the best 20 days during those 20 years – perhaps by holding cash rather than shares when prices rose the most – would have slashed their total return to just £977. That's not much more than a third of the money they could be sitting on had they just kept calm and stayed invested. Even missing the best ten days – one stellar day in the market every other year – would have cut their return to £1,479."

Ian Cowie, The Sunday Times

The world's most precious metal

The year's "hottest trade" to date "isn't high-flying tech stocks, but a little-known metal", says Pippa Stevens on CNBC. Rarer than gold, palladium and platinum, rhodium is the world's most precious metal. And this month it has proved particularly precious, soaring to a 12-year high of around $8,000 an ounce. So far this year it has gained over 30%, while in the past four years the price has jumped 12-fold. Like palladium, rhodium is mined as a byproduct of platinum and nickel, and is used mainly in catalytic converters. The market is very small, however, so any shifts in demand and supply can cause huge ups and downs in the price. The triggers for the latest surge were weak supply and strong demand from Asia.

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

Three to buy

Barkby Group
The Mail on Sunday
This Aim-listed conglomerate operates a diverse portfolio across pubs, property, and wholesale coffee. It also has interests in tech start-ups. The group's pubs, which offer food and accommodation, are situated in affluent parts of southern England, with management planning to double the portfolio over the coming years. The highly profitable commercial property business, which is the largest division, should also continue to serve up "substantial growth". This fingers-in-many-pies model can make Barkby difficult to understand, but the shares might prove an "exciting ride for the adventurous investor". *29p*

easyJet
The Daily Telegraph
Last year brought turbulence for this budget airline. However, it is making increasingly savvy use of data to boost revenue, predict aircraft maintenance needs and find new routes. A recent move to start offsetting aircraft carbon emissions will go down well with ever-more climate-aware consumers. Still, the ongoing risk of a no-deal Brexit at the end of 2020 could bring renewed share-price volatility. It's a "risky buy". *1,353p*

Ørsted
Investors Chronicle
Once known as Danish Oil and Natural Gas Energy, this Copenhagen-listed business has sold off fossil-fuel assets and bet on offshore wind. Its 25% market share makes it the world leader in the field, with its wind farms generating DKK8.6bn (£990m) in profits during the first nine months of last year. Wind is emerging as a key part of global decarbonisation efforts and Ørsted's first-mover advantage bodes well. *DKK670*

Three to sell

Learning Technologies
Shares
This Aim-listed online trainer helps companies to improve their workforces' skills. The shares have returned 80% since we recommended them in April last year, so this looks a good time to take profits. Others may prefer to wait for a trading update at the end of this month before selling. This is a good company, but the share-price surge has taken the 2020 price/earnings ratio up to more than 28. That makes the risk-reward balance unfavourable. *136p*

Judges Scientific
Money Observer
A sudden re-rating was a welcome Christmas present for holders of this portfolio of niche science-based businesses. The share-price surged 120% in the ten months to last November as the market came to appreciate the case for this "disciplined acquirer of small but established businesses". Its specialised work limits competition and ensures steady revenue. Yet the shares now trade on a heady multiple of 29 times profit, so take some profit off the table and redeploy the funds elsewhere. *5,380p*

YouGov
The Times
Although it's best known for its election polling, politics

accounts for less than 3% of this pollster's revenues. It does, however, play an important role in raising awareness of the brand. Founded 20 years ago, YouGov operates on multiple continents, with clients paying to glean information and insights from the firm's "panel" of eight million people. Its internet-based model is driving impressive growth, but the market has long since cottoned on to this story. The shares trade on a vertiginous 57 times forecast earnings and yield just 0.4%. Avoid. *655p*

...and the rest

The Daily Telegraph
Antibody specialist **Bioventix**, whose products are used in blood-testing, operates in a heavily regulated industry that keeps competitors out. That means predictable profits and "very high returns on capital" *(3,310p)*. Shares in warehouse developer **Segro** have risen 80% since 2017, but limited supply and strong demand thanks to the e-commerce boom should continue to drive returns. Buy *(870p)*.

Investors Chronicle
Hollywood Bowl, the UK's largest ten-pin bowling operator, is reaping big returns from expansion and refurbishment efforts and is now moving into minigolf – keep buying *(285p)*. An ongoing "dogfight" in the mortgage market has hit banks' profits, but **Secure Trust Bank** has minimal exposure to the sector and a 5.8% forward dividend yield *(1,600p)*.

Shares
Retailers' Christmas trading updates confirm the ongoing strength of the trend towards online shopping, which is now gathering pace in continental Europe as well. Warehouse investment fund **Tritax EuroBox** offers exposure and is forecast to pay a 4.5% dividend yield *(93p)*. Shares in catering hire and laundry firm **Johnson Service Group** have hit a ten-year high, but it is a "low-volatility growth stock" that is still worth buying *(212p)*.

The Times
Online grocery deliverer **Ocado** is an investing phenomenon: a loss-making business that pays no dividend, but is valued at £9.3bn. Yet its present retail partnerships represent a huge profit opportunity and earnings will start to come in this year, so investors should keep buying *(1,334p)*.

©Alamy; iStockphotos

The Evening Standard's share tips for 2020

So far, most challenger banks have largely proved a challenge for investors' wallets, but **OneSavings Bank's** loan book is growing strongly and its specialist loans reap high profit margins. Bank on a re-rating *(417p)*. In a world where "a bonkers orange bloke is in charge of the world's biggest economy", it is a good time to get defensive, so buy precious metals miner **Fresnillo** *(652p)*. Australian gold mining stock **Perseus Mining** is an even more speculative way to play gold *(61p)*. **Ted Baker** had a dreadful 2019, but the "quirky fashion brand" is a fundamentally sound business *(411p)*. A favourable Ofcom ruling on the future of broadband clears up one source of uncertainty for **BT**, but the current bombed-out price does not reflect the improving outlook *(197p)*. Buy into **Arrow Global's** "butterfly-like" transformation from debt collector to fund manager *(274p)*. Boutique cinema chain **Everyman** is "hardly a cheap treat", but the consumer demand is there and the group is expanding. Several blockbusters over the coming months will provide an extra boost *(202p)*. Shares in British Gas-owner **Centrica** slumped 26% last year, but talk of higher energy prices is bullish for a business that still has operations in exploration and production *(88p)*. "The world will always need oil," so **BP** "seems like a solid punt" *(497p)*.

City talk

● Tesla's share price has risen above $500 for the first time, thanks to "higher delivery numbers... profitability and a rising industry-wide acceptance of the need for electric vehicles to meet emissions targets", says Peter Campbell in the Financial Times. With Tesla nearing a market value of $100bn (more than Ford and General Motors combined), Elon Musk is now within "touching distance" of a target that will net him shares worth $350m, "one of the largest bonuses in the corporate world". However, this is dwarfed by the value of Musk's 18.9% stake in Tesla, which has doubled in six months to $18.3bn.

● It's been six years since Facebook bought Oculus, the virtual-reality (VR) headset maker, for $2bn, says Dan Gallagher in The Wall Street Journal. This investment has been less lucrative than Instagram, which had the same price tag. The "high cost" of headsets and the fact that most "still need to be tethered to a PC or [video games] console" has sharply "limited" the appeal of VR. However, Oculus has started to

address some of these concerns with last year's release of the Quest headset (pictured), while games that can be used with VR are now being developed. This may finally get gamers to "plug into VR – and Oculus".

● JPMorgan appears to have "thrown down a challenge for other US banks" by announcing a 55% increase in trading income in the fourth quarter, says John Foley on Breakingviews. However, not only is trading income volatile, with JPMorgan's good performance following a fall last year, but the big picture has changed little. Since 2010, the joint quarterly trading revenue for JPMorgan, Citigroup, Goldman Sachs, Bank of America and Morgan Stanley has remained steady. Due to poor performances overseas, however, revenues have "shrunk dramatically" for the industry overall.

Boeing's bleak future

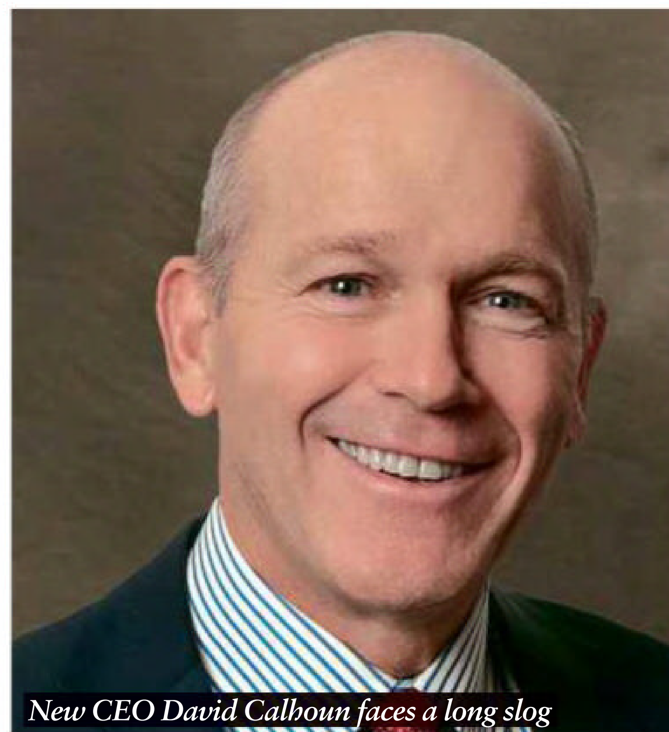
The aircraft maker's nosedive has accelerated this week owing to emails highlighting its toxic corporate culture. Matthew Partridge reports

Boeing's new CEO, David Calhoun, is taking over in the middle of a public-relations nightmare. The US aeroplane maker is struggling to recover from the fallout from two fatal crashes of 737 Max planes that has led to the model's "worldwide grounding", says The Guardian. The Max has cost the company $9bn so far, including the cost of compensating airlines for lost flights, and Boeing may now be forced to issue more debt. Calhoun's task has been complicated by the company's decision to release "more than 100 pages of damaging internal messages". These messages disclosed how far the company went "to avoid costly simulator training for the Max".

What the emails show

The released messages reveal "something more disturbing than one poorly designed plane", says David Gelles in The New York Times. They suggest that "the very culture at Boeing appears to be broken", with some senior employees "having little regard for regulators, customers and even co-workers" and more junior employees "questioning the competence of their own colleagues and the quality of the company's engineering". For example, one boasted about using "Jedi mind tricks" to bamboozle regulators, while another said that they would discourage their relatives from flying on the Max.

Calhoun may hope that the release of the emails and his acceptance of the need for simulator training can help Boeing begin to regain the trust of customers and regulators, says Alistair Osborne in The Times. But the new boss is "no break with the past". He's been on the board since 2009, most recently as chairman, which means that he's "embroiled in the Max affair". His background in private equity and at GE also means that he comes from a tradition of cost-cutting – exactly what got Boeing into this mess in the first place.



New CEO David Calhoun faces a long slog

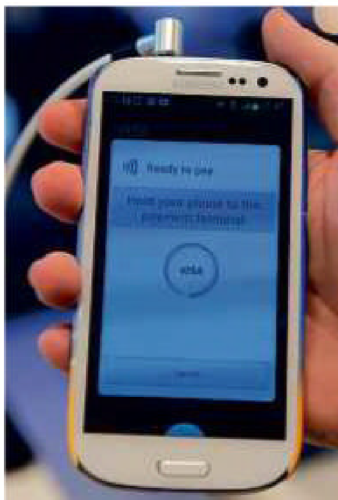
Without radical change, Boeing's future "looks bleak", says Robert Cyran on Breakingviews. It needs to ditch the current focus on "finance, penny-pinching and swaying regulators" and concentrate on "engendering trust and making great planes". This will entail a "multi-year overhaul".

Investors "tempted to pick up shares while they are down" should also be aware that "a better, more sustainable Boeing will not necessarily be a more profitable one", says Lex in the Financial Times. What's more, the revelations mean that the 737 Max's return to the skies "will almost certainly be postponed again", with the strong possibility of "punitive fines" from a Federal Aviation Administration determined to prove its independence by "further cracking down on Boeing". Throw in the large costs of additional simulator training, as well as compensation paid to the airlines and victims involved in the two crashes, and "more cash burn is inevitable".

Visa's pricy bet on the future of finance

Visa has bought fintech start-up Plaid for a "whopping" $5.3bn, says Rey Mashayekhi in Fortune Magazine. Plaid has become an "indispensable piece of the fintech ecosystem", helping connect one in four people with a US bank account to thousands of apps and services, including Venmo and Robinhood.

Visa hopes that Plaid's technology will help flesh out its "non-card and [real-time] payments" services and this acquisition follows on from last year's purchase of cross-border payments company Earthport.



Visa's bet on Plaid is definitely "expensive", but expensive "doesn't mean wrong", says Telis Demos in The Wall Street Journal. After all, while the use of credit and debit cards is growing, there is also a future "that doesn't look so card-centric", or in which "non-card payments grow even faster, especially globally".

In any case, buying Plaid can help Visa "push its existing payment tools to more customers, but also tap into growth of other networks and movements of money".

Visa may be right to be worried by the fact that direct transfers between bank accounts using fintech apps "can bypass the traditional payments infrastructure and might over time pose a threat to Visa", says Liam Proud on Breakingviews.

Still, its decision to pay billions for a firm that will only boost revenue by $100m a year suggests that "profiting from the fears of rich behemoths can be good business". The big winners from all of this are likely to be Plaid's rivals, such as PayPal's Tink, who can now expect to command a "high valuation" from other firms worried about the future of finance.

Northern Ireland gets a government

The province has been rudderless for three years, but a deal has revived Stormont. Emily Hohler reports

After an absence of three years, Stormont, Northern Ireland's parliament, is back, says Arthur Beesley in the Financial Times. Last week, the UK and Irish governments brokered a deal between the Democratic Unionist Party (DUP), which mostly represents unionist Protestants, and the Irish republican Sinn Fein. Since the collapse of the administration in 2017 following a scandal over a renewable energy scheme, the region has been run by civil servants who, with "no mandate to change policy", have been left to deal with a mounting health crisis, the impact of austerity and Brexit insecurity. The situation left the DUP, which propped up Theresa May's government, as the region's only political representatives of the province at Westminster (Sinn Fein do not take their Commons seats on principle). Brexit tensions deepened the "schism": the DUP supports Brexit; Sinn Fein opposes it.

It was December's general election that finally "focused" the parties' attention, says Katy Hayward in The Guardian. Both the DUP and Sinn Fein lost vote share, and feared "another hammering" in assembly elections, which the secretary of state for Northern Ireland, Julian Smith, had threatened to call if the parties failed to compromise. The loss of the DUP's influence in Westminster as a result of the "huge" Conservative majority also forced it to revert its focus to Stormont as a "place to wield political power".

At a meeting with the DUP's Arlene Foster, Sinn Fein's Michelle O'Neill and Ireland's Taoiseach Leo Varadkar on Monday at Stormont, Boris Johnson said the restoration of the administration was a "moment of hope". He insisted that extra checks would not be imposed on goods travelling from Great Britain to Northern Ireland if a "zero-tariff, zero-quota" trade deal with the EU is not agreed, unless they were destined for the Republic, say Ben Haugh and David Young in The Times. Nor would there be a "need for checks on goods going from Northern Ireland to Great Britain". The meeting was the latest in a series of spending announcements, including significant cash injections for health and infrastructure, before the impending general election in the Republic.

The prime minister presides over a "moment of hope" at Stormont

©Getty Images

Getting Stormont back up and running "may have been the easy part", says Aine Lagan in The Times. The "real challenge" is to ensure that this agreement is not merely a sticking plaster "over an existential crisis". Northern Ireland is 20 years behind the rest of the UK. Above all, both sides must learn to co-exist peacefully. Stormont needs to "live up to the spirit of the Good Friday Agreement" and "deliver a Northern Ireland where it doesn't matter what religion you follow, what kind of name you have… or how you choose to live your life".

PM says no to another referendum

Johnson has formally rejected Nicola Sturgeon's request for another Scottish independence referendum, arguing it would "continue the political stagnation" the country has seen "over the past decade". The SNP leader will have been expecting – and hoping – for such a refusal, says The Daily Telegraph. She can now spend the run-up to the 2021 Scottish parliament elections trying to "stoke resentment" against an English denial of the Scots' right to self-determination, distracting attention from her party's "woeful" record in office. However, if the SNP does win an outright majority in 2021 and is then able to force Westminster's hand, Brexit will have happened. The Scots would then have to choose between staying in the UK or becoming a small independent nation outside the EU, "with a border with England, no viable currency and stripped of the generous per capita subvention from the British taxpayer".

The queen heads a monarchy in rude health

©Getty Images

Is the monarchy in crisis?

The decision by the Duke and Duchess of Sussex to step back from royal duties isn't the crisis it has been made out to be, say Robert Morris and Bob Hazell in The Conversation. In a hereditary monarchy, younger sons are "ultimately dispensable". As an institution, the monarchy is in rude health, with opinion polls consistently showing 70%-80% in favour.

Not only that, with four generations of the monarchy simultaneously alive for the first time since Victoria, the "occupancy of the throne is set in stone" for up to 90 years, says Matthew Norman in The Independent. "No monarchy anywhere has been as secure as this one." The last time a prince fell for an American divorcee, it was a crisis and it did cause an abdication, but what happens to "H'n'M" is ultimately pretty irrelevant.

The ones most likely to suffer are Harry and Meghan, who may have succeeded in attracting more press attention, says Marina Hyde in The Guardian. Long-term, their move will be "most dangerous insofar as it feeds into" what might be termed the "Charles III problem". The UK is in a time of great "national flux" and the queen is 93. "Waiting in the wings is a rather unloved and not especially admirable man… The real looming crisis for the royal family is not the sixth in line to the throne but the first."

It is hard to think of anyone apart from the queen who could cope with the demands of monarchy, says Peter Hitchens on FirstThings.com. "Stripped of all ancient direct power", the monarch is now "remarkably like the king on a chessboard – almost incapable of offensive action, but preventing others from occupying a crucial square and those around it". The queen's reign, alas, must end. When it does, and to avoid tumbling accidentally into becoming a republic, Hitchens proposes that remaining royals are paid to "slip away" and an "elderly... self-effacing regent" chosen to "preside over ceremonies and hand out medals".

Betting on politics

In just over a fortnight, on 3 February, the 2020 presidential primary cycle kicks off with the Iowa caucus. With Donald Trump all but assured of the Republican nomination, all the attention is on who the Democrats will select to oppose him. With £4.3m already matched on Betfair, Joe Biden (pictured) is the favourite at three (33.3%), followed by Bernie Sanders at 3.5 (28.5%), Elizabeth Warren on 7.6 (13.2%) and Pete Buttigieg at 4.2 (23.8%).

For the Iowa caucus, Sanders is the firm favourite at 2.28 (43.8%), followed by Biden at 3.4 (28.9%), Buttigieg at 4.2 (23.8%) and Warren at 8.2 (12.2%). It's a similar story when it comes to the primary in New Hampshire, which takes place just eight days after Iowa. In this case, Sanders is an even stronger favourite at 1.89 (52.9%), while Biden is

much further behind at 4.3 (23.2%), Buttigieg at 6.2 (16.1%) and Warren at nine (11.1%).

My guess is that punters are overrating Sanders's chances of winning Iowa as he's behind Biden in the polls. It's true that his passionate supporter base means that Sanders could benefit from the unique nature of the caucus system, which involves voters hanging around while the contest is decided. However, it could just as easily work against him, since the votes of those candidate failing to get 15% in each district will be redistributed.

I'd therefore suggest betting against Sanders in Iowa at 2.38 on Smarkets (Betfair has wider spreads), which is the same as betting on him not to win at 1.72 (57.9%).

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Iran's crisis of legitimacy

The regime is botching its conflict with the US. Matthew Partridge reports

Iran's regime is struggling to contain the fallout from its belated admission that its military was responsible for shooting down a Ukrainian plane leaving Tehran, killing 176 people, says The Times. As news of the "terrible blunder" reached the Iranian people, protests erupted, with crowds chanting "death to the regime". As well as inciting widespread public anger, the crisis has reignited a power struggle between moderates and hardliners. President Hassan Rouhani has demanded a full investigation into what he calls an "unforgivable error". Experts think the crisis presents "one of the most dangerous challenges" to the regime since it took power in 1979.

Discontent threatens the regime in Tehran

US piles on more pressure

In contrast to his predecessor, who was criticised for staying on the sidelines during unrest in 2009, President Donald Trump has pledged his support for the "wonderful Iranian protesters" on social media, says Vivian Salama in The Wall Street Journal. He has also imposed additional sanctions. The hope is that this will lead to the regime being overthrown or empower moderates more open to reopening negotiations on a new nuclear deal. At the very least, the "intense pressure" on the regime from both the public and the imploding economy will leave Tehran with "few alternatives beyond a negotiated settlement with the US".

"Die-hard supporters of the regime" are claiming that the airline disaster is really America's fault for stoking conflict in the first place, says Con Coughlin in The Daily Telegraph. But it is "abundantly clear" to the Iranian protesters who have taken to the streets that it is their own government, not the Americans, "who are the villains". With the regime hardliners now "very much on the back foot", there is a "once-in-a-generation opportunity for Iran's moderates to seize the initiative", provided the rest of the world holds its nerve and keeps the pressure on Iran.

The disaster is likely to "create a crisis of legitimacy for the regime in the short run", says Reza Akbari in The Guardian. Still, it would be a "big misreading" of a "complex" situation to expect the Iranian public to "rise up and overthrow their masters". After all, just a week ago they appeared to be united in mourning the loss of Qasem Soleimani. "If US hawks view the trouble on the streets as a sign that their strategy is working and try to stoke it, they will in fact be weakening those Iranians who favour compromise and strengthening the hardliners who want to see more confrontation."

Europe takes a big gamble

This week France, Germany and the UK joined the fray by triggering the dispute-resolution mechanism in the deal that has restrained Iran's nuclear ambitions, say Michael Peel and Jim Brunsden in the FT. This is a "high-risk" move to persuade Iran to back down from its provocative breaches of the agreement while satisfying US demands for more pressure on the regime. But if Iran doesn't respond, Europe could be forced to abandon the deal and re-impose sanctions of its own. In short, Europe has decided it needs "to risk destroying the Iran nuclear deal in order to save it". That is "a big gamble".

Taiwan thumbs its nose at the mainland

Tsai Ing-wen: a rebuke to China

Taiwanese voters have delivered an "emphatic rebuke" to China by re-electing President Tsai Ing-wen, with 57% of the vote, say Chun Han Wong and William Kazer in The Wall Street Journal. The result is a "resounding endorsement" of her pitch to defend the island's democratic freedoms against encroachment from China, which claims Taiwan as its territory, with polls suggesting that her "decisive" win stemmed in large part from "widespread sympathies" for anti-Beijing protesters in Hong Kong. The Hong Kong protests have "energised" opposition to China's efforts to "cajole and coerce" the self-ruled island into accepting unification.

Don't expect China's attitude to soften as a result, say Samson Ellis and Peter Martin on Bloomberg. Instead of engaging in "soul searching", Beijing looks like it is viewing the result as a "minor setback". Experts warn that China is likely to step up efforts to use its clout as the world's second-biggest economy to lure Taipei's 15 remaining formal diplomatic partners away and offer further incentives to Taiwanese businesses. It could also flex its muscles with shows of military strength around the island.

Given this pressure, it's good that the current US administration is the "most pro-Taiwan in history", formally talking to the Taiwanese leader and approving the sale of fighter jets, says Marc Thiessen in The Washington Post. Increasing the US military presence in east Asia would also help deter China from trying to reunify with Taiwan at the point of a gun. A mooted new US-Taiwan free trade agreement would cement ties further and boost the economy.

Paris

Macron bows to protests: Weeks of unrelenting protests and strikes over proposed changes to the pension system have prompted French president Emmanuel Macron to give ground to trade unions, says Adam Nossiter in The New York Times. Macron agreed to scrap a proposal to raise the full-benefits retirement age from 62 to 64. Macron has not fully given up on pension reform; he insists the French need to work longer to strengthen one of the world's most generous retirement systems. This week's "constructive compromise" followed a crippling transport strike caused by the longest mass walkout by transport workers since 1968, says The Guardian. But the strikes are not over yet. The government is not budging on the centrepiece of its reforms: its plan is to turn the country's 42 existing pension regimes into a single, points-based system that will be "fairer and more transparent". It's natural that people are unhappy, says The Economist, but the current system is "unsustainable". "Ridiculously early retirement" will weaken the French economy and endanger its public finances.

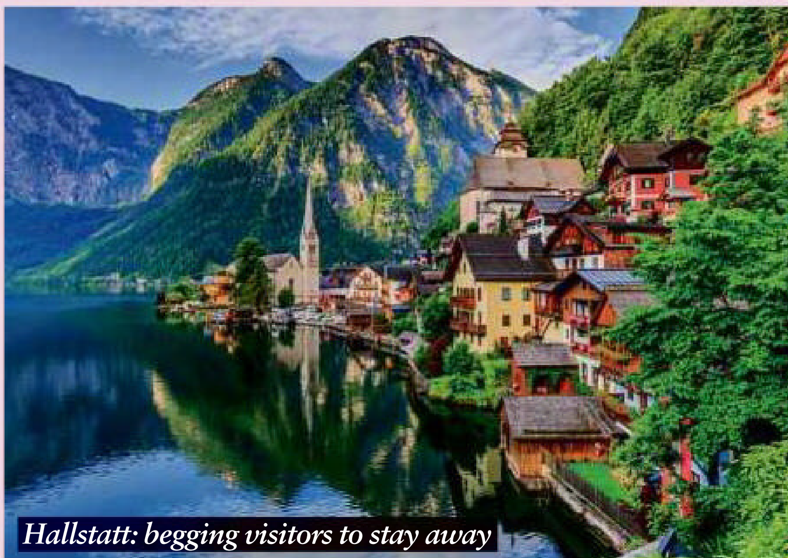
Exeter

Flybe bailed out: Willie Walsh, the chief executive of British Airways owner IAG (see page 33) branded a potential £100m government loan to Flybe "a blatant misuse of public funds". The government has stepped in to prop up the cash-strapped regional airline, also offering a possible deferral of Flybe's £106m air passenger duty (APD) bill and promising to review taxes on domestic flights before the March budget. APD currently adds £26 to the price of a return domestic flight. In return, Flybe's owners Connect Airways, a consortium led by Virgin Atlantic, have promised to invest further funds, thought to be around £20m. Walsh accused rival Virgin of "wanting the taxpayer to pick up the tab for their mismanagement of the airline". The government believes allowing Flybe to fail would take an unacceptable toll on regional economies dependent on "regional connectivity". But not everyone is convinced that makes sense. If there were "a proper market for its short-haul domestic flights, the airline's new backers would have been more forthcoming with additional funding", says Ben Marlow in The Daily Telegraph.

Guatemala City

New president's dilemma: Guatemala's new president, Alejandro Giammattei (pictured), takes office this week under pressure from the Trump administration on immigration and security, says Jeff Abbott for Reuters. Giammattei, 63, will have to decide quickly whether to renege on or expand an agreement with the US forged by outgoing president Jimmy Morales that makes Guatemala a "buffer zone" to reduce US asylum claims. Under the Asylum Cooperation Agreement (ACA) implemented in November, Honduran and El Salvadoran refugees seeking asylum at the US-Mexico border are sent to Guatemala to seek refuge there instead. As of last week, 128 asylum seekers had been sent to Guatemala, which is itself a major source of US-bound migrants. Only a handful applied for asylum, while others returned home. Giammattei inherits one of Latin America's poorest and most unequal nations, with poverty on the rise since 2000 despite solid economic growth. The US has threatened to put economic pressure on Guatemala if it fails to accept the ACA.

The way we live now: beating back the tourist hordes


Hallstatt: begging visitors to stay away

"With its stunning castle, picture-perfect waterfront on Lake Como and handsome palazzi, Corenno Plinio shows the very best of Italy," says Tom Kington in The Times. But the mayor, Stefano Cassinelli, has decided he will no longer let "busloads" of tourists in for free. Cassinelli is turning the town, which has a population of 16, into an "open-air museum" that visitors must pay €5 to enjoy. With "two busloads of English tourists" arriving twice a week, "it's right that they pay so we can offer better services", Cassinelli said. Corenno Plinio is not the only tourist attraction feeling overwhelmed by visitors. Venice and La Pelosa beach in Sardinia will both begin charging entry fees. And Alexander Scheutz, mayor of the "fairy-tale lakeside village" of Hallstatt, rumoured to have inspired the location for the Disney film *Frozen*, has "begged tourists to stay away", says Alice Hutton in The Times. Up to 10,000 people arrive every day, and over-tourism has made its 780 residents feel as though they live on "a movie set". "We want to reduce numbers by at least a third," says Scheutz.

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Dublin

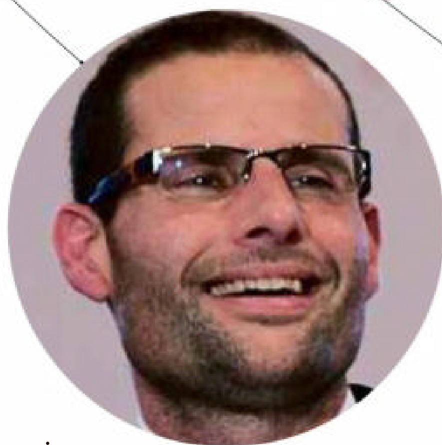
Varadkar calls snap election: Prime Minister Leo Varadkar dissolved the Irish parliament on Tuesday for a snap election that will be held on 8 February. His centre-right Fine Gael party currently leads a minority government propped up by the liberal party, Fianna Fáil. The vote will be the first to be held on a Saturday since 1918. Varadkar is hoping to strengthen his hand ahead of the next European Council meeting in March and, crucially, the negotiations for a free-trade agreement with Britain after Brexit. His health minister, Simon Harris, had also been facing a second no-confidence vote over his performance that had threatened to bring down the government, say Ben Haugh and Brian Mahon in the Irish edition of The Times. Poor standards of healthcare, particularly overcrowding, have plagued Varadkar's government. However, with Parliament dissolved, the no-confidence vote has been seen off for now. Health, housing, climate action and tax reform, as well as protecting "our jobs, our businesses, our rural communities and our economy", all depend on successful trade negotiations with Britain, Varadkar said. "And it has to be done by the end of the year."

Ireland's prime minister Leo Varadkar is hoping to strengthen his hand in trade talks

London

Don't expect a rate cut: Inflation fell to its lowest level in three years in December. The annual pace of consumer price inflation (CPI) slipped to 1.3% from 1.5% in November. Lower "core", or underlying inflation (ie, stripping out volatile items such as food and energy) was the key reason, but a "temporary drop" in airfares accounted for a third of the fall, says Ruth Gregory for Capital Economics. "Inflation is clearly extremely subdued, particularly on the high street." Along with the news that the economy contracted by 0.3% month-on-month in November, this has fuelled anticipation of an interest-rate cut by the Bank of England's Monetary Policy Committee. But "don't read November's GDP in isolation", says Pantheon Macroeconomics' Samuel Tombs. On a quarterly basis, GDP actually rose by 0.1%. Much of November's month-on-month fall was temporary, due in part to the "closures of car plants designed to limit the costs of a no-deal exit". With an orderly departure on the cards, any falls in demand should prove short lived. Expect "a big post-election rebound in business confidence, which should rule out a rate cut" from the Bank of England.

Valletta



Labour Party picks new PM: A 42-year-old lawyer and son of Malta's former president has been elected prime minister by members of the country's governing Labour Party. Robert Abela (pictured) replaces Joseph Muscat, who stepped down on Sunday "amid demands for accountability" over the murder of anti-corruption journalist Daphne Caruana Galizia in a car-bombing in 2017, says The New York Times. Galizia had exposed Malta's links to offshore tax havens using the leaked Panama Papers. Three men accused of setting off the car bomb are under arrest, but authorities have been investigating whether Muscat's closest aide, chief of staff Keith Schembri, passed confidential information about the investigation to his close friend, the billionaire hotelier Yorgen Fenech, who was charged with being an accomplice to the murder last November, says Margherita Stancati in The Wall Street Journal. Relatives of Galizia now want prosecutors to see whether Muscat interfered in the investigation to protect Schembri. The case is "testing the EU's ability to guarantee judicial independence" in even its smallest member state and has drawn "international scrutiny".

Muscat, Oman

Sultan faces towering in-tray: The threat of regional conflict has left Oman's new sultan, Haitham bin Tariq Al Said, facing challenges on all fronts, says Simeon Kerr in the Financial Times. The death of the Arab world's longest-serving ruler, Qaboos bin Said Al Said, leaves Sultan Haitham with a "peacemaking role that his cousin Qaboos personified during a 50-year reign". Qaboos sought to maintain relations with neighbouring states, Western powers and Iran. He also worked for many years to facilitate peace between Israel and Palestine. Sultan Haitham's task will be to preserve that legacy as regional tensions are "inflamed" by the threat of a US-Iran conflict following the assassination of Iranian commander Qasem Soleimani. Oman's oil-dependent economy is also imperilled by "ballooning debt and high unemployment". The 2014 collapse in oil prices led to a drop in government revenues and a rise in the annual overspend, which the government covered with additional borrowing. "As soon as international markets say 'no' it all goes wrong fast," as one analyst put it. Sultan Haitham also faces the task of diversifying Oman's economy away from oil.

The weirdos take back control

The prime minister's special adviser is planning big changes in the way the government machine works. What can we expect? Simon Wilson reports

Why are "weirdos" in the news?

Because the prime minister's senior strategist, Dominic Cummings, is trying to recruit more of them. In a typically rambling near-3,000-word post on his personal blog, Cummings launched an appeal for "super-talented weirdos" to come and work as special advisers and civil servants. The British state has had enough of "public-school bluffers" and "Oxbridge humanities graduates", he reckons. Instead, he argues, what's needed is a new cadre of "unusual mathematicians", physicists, computer and data scientists – as well as "misfits… artists" and "people who never went to university and fought their way out of an appalling hellhole" to make it.

What's his thinking?

Cummings is a longstanding and vehement critic of the civil service, which he sees as stuffed with incompetent generalists unable to think imaginatively about policy and poor at execution. He has a point. The British civil service was once the gold standard, but the abolition of basic numeracy and literacy tests for fast-streamed graduates, the abandonment of assessment boards and increasingly high staff turnover have all damaged the service, says Iain Mansfield of Policy Exchange.

What can Cummings do about it?

He believes that Brexit, plus a large stable Conservative majority, presents a historic opportunity to transform the UK by taking greater risks in policy-making and addressing "profound problems at the core of how the British state makes decisions". To do so, he argues that we must foster what he calls "true cognitive diversity" in Whitehall. It is not part of Cummings's role as the PM's adviser to recruit civil servants and Downing Street has distanced itself from Cummings's claim that he could "bin" anyone he appointed within weeks if they didn't "fit". But it is very much within Cummings's remit to appoint special advisers and to influence policy in recruitment more widely.

In what direction?

For the most part, this means recruiting more mathematicians, data scientists and physicists (a course first urged by the Fulton report way back in 1968) and it also involves attracting "true wild cards". Cummings admits this is something of an experiment. "By definition I don't really know what I'm looking for but I want people around No. 10 to be on the lookout for such people," he says. Alas, he is not clear on how the state is going to attract data whizzes and physics geeks who could be earning far more in business or the City.

Is there anything more concrete?

Not yet. What Cummings's plan boils down to seems to be the creation of a beefed-up, centralised, policy delivery unit within Downing Street stuffed with data whizzes with the authority to shape policy and monitor delivery across government. This kind of structure has been essayed before (from Edward Heath's Central Policy Review Staff to Tony Blair's Performance and Innovation Unit) and there's no reason why Cummings's plan can't succeed if he can find a way to attract and pay the people he says he wants. But the obvious risk, argues Gian Volpicelli in Wired, is that Cummings's elite team of misfits "ends up becoming an island of data-crunching futurism while the rest of Whitehall chugs along as usual".

Cummings: more weirdos wanted

©Getty Images

What will change?

Downing Street wants the UK legally out of the EU (at the end of this month) before they announce details of how they plan to transform Whitehall. But some big clues can be drawn from a Daily Telegraph article by Rachel Wolf, the political adviser who co-wrote the Conservatives' election manifesto and is close to both Boris Johnson and Dominic Cummings. Much of the speculation about the forthcoming reorganisation has focused on departmental rejigging (a new "Taskforce Europe" to replace the Brexit department, and so on). But according to Wolf, that kind of restructuring is "only a tiny fraction of the Government's plan" .

> *"Those who haven't grasped the PM is serious are woefully unprepared for what's coming"*

What's the bulk of it?

The new administration wants nothing less than to run "the most dynamic state in the world" – one that gathers the brightest minds to deliver in new agencies focused on innovation, solving the productivity puzzle and transforming swathes of the country. This won't be done by politicising the civil service. Allcomers including "socialists" will be welcome, says Wolf, "as long as they literally deliver trains on time. Or figure out nuclear fusion." What it will involve, though, is "seismic" systemic change. Those senior officials who haven't grasped that the PM and Cummings "mean business" on genuinely radical reform, says Wolf, are "woefully unprepared for what is coming".

Which is what?

The first goal is to recruit more scientists and mathematicians to the civil service fast stream (currently only 17% of recruits have science-related degrees). Also, to educate officials in data science, systems thinking and "super-forecasting", setting exams to test progress. Second, "the merry-go-round will slow". Keeping officials in place for longer will develop institutional memory and expertise and increase accountability, says Wolf. This will require a revamp of incentives, numbers and pay. Third, civil servants will be "reoriented to the public" and voters rather than their political masters. What this means in practice is unclear, but the aim is to make sure that civil servants are focused on helping the government meet its promises. Can Johnson and Cummings push all this through? According to Jill Rutter of the Institute of Government, that depends on whether Cummings and whatever team he assembles can translate ideas into action when "most of the levers will still be in departments". In other words: he needs the cooperation of both ministers and mandarins. And that will depend on finding sufficient numbers of "ministers and officials who are both able to understand his messages and act on them".

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When ETFs can't work miracles

Bond ETFs can be cheap and liquid, but tracking high-yield debt is more difficult than tracking stocks

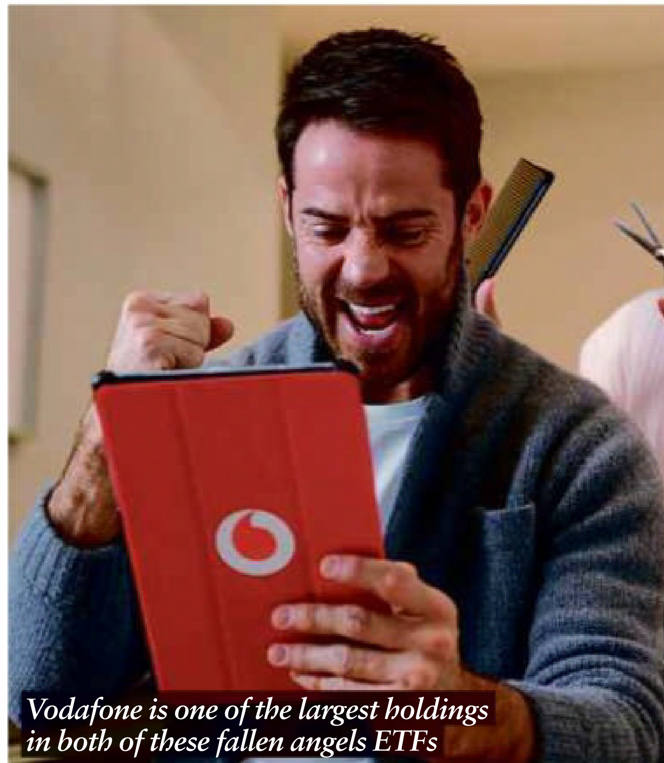
Cris Sholto Heaton
Investment columnist

After I wrote last week about the difficulty of finding attractive yields anywhere in the bond market, some readers wondered whether exchange traded funds (ETF) could be a good and cheap way to invest in higher-yielding areas. For example, as well as standard high-yield bond ETFs, there are at least two that specialise in "fallen angels" (bonds from companies than have been downgraded from investment grade to junk, which have in the past subsequently outperformed the market on average): **iShares Fallen Angels High Yield Corp Bond (LSE: WING)** and **VanEck Vectors Global Fallen Angel High Yield Bond (LSE: GFA)**. Both have a yield to maturity of around 4%, with ongoing charges of 0.5% and 0.4% respectively.

Funds like this could be interesting for adventurous investors. However, unlike mainstream stock ETFs that have been around for two decades, and established bond ETFs that hold very liquid debt, such as major government bonds, more esoteric bond ETFs are much newer and have not been tested through a full market cycle. There are reasons to be cautious about how they'll fare.

Know the risks before you invest

First, bond indices are usually weighted by market capitalisation, which means that they will have more in the borrowers that issue the most debt (who are often riskier). And the creditworthiness of an index (ie, the average credit rating of borrowers) or its sensitivity to interest rates may deteriorate over a market cycle, increasing its risks without investors realising. Second, tracking a bond index is more



Vodafone is one of the largest holdings in both of these fallen angels ETFs

difficult than tracking stocks. Trading costs for bonds are higher, meaning that rebalancing to reflect changes in the index is more costly. And bond indices often include a large number of securities (one borrower may have several similar bonds in issue), many of which do not trade very often. This means bond trackers often hold a sample of the securities in the index rather than all of them.

> *"These ETFs have not been tested through a full market cycle"*

Active managers won't always manage credit risks better. But investors expect ETFs to remain liquid and transparent even if the underlying assets are not. And in a severe bear market, that might lead to some shocks. Poor sampling choices could mean an ETF performs differently to its index. Or poor liquidity in the underlying bonds might make it harder to keep an ETF's share price in line with the value of its assets (which, briefly put, involves major investors trading the underlying assets directly with the ETF issuer). This won't necessarily be a problem – but we won't know until these new ETFs have been through a severe downturn. So if you're tempted to invest, tread cautiously for now.

I wish I knew what a tracker fund was, but I'm too embarrassed to ask

Tracker funds (also known as index funds or passive funds) aim to track the performance of a particular index, such as the FTSE 100 or S&P 500. The funds may hold all, or a representative sample, of the stocks in the underlying index (physical replication), or replicate the performance of the index via buying derivatives (synthetic replication).

The aim is to have as low a tracking difference (the gap between the performance of the index and the fund) as possible. Since the goal of a tracker is to match the index, significant outperformance is as concerning as significant underperformance (even if it might not feel like that to an investor), because it suggests problems with the way the fund is being run.

Tracker funds can be traditional open-ended funds (unit trusts or open-ended investment companies [Oeics]) or exchange-traded funds (ETFs) listed on a stock exchange. Investment trusts are almost never used as tracker funds because – unlike ETFs – they have no mechanism to keep the fund's share price in line with the value of its assets.

The first tracker open to ordinary investors was the Vanguard Index fund, which launched in the US in 1975. Rivals were sceptical as to whether it would ever succeed, arguing that people wouldn't be satisfied with merely matching the market, but the concept caught on.

The big advantage of passive investing is cost: a FTSE 100 tracker fund can have an annual charge of well under 0.1% a year. An actively managed fund could easily charge ten times as much, with no guarantee it will beat the index (most don't over time). A closet tracker is an active fund that sticks close to its benchmark index to avoid under-performing the market too drastically (and thus losing clients). Investors in a closet tracker are being charged the higher fees of active management in exchange for passive performance or worse.

Guru watch

Larry Fink, chief executive, BlackRock

Climate change is about to trigger "a fundamental reshaping of finance", says Larry Fink, the chief executive of the world's largest asset manager. Greatly increased risk of floods or drought poses a threat to "core assumptions" about the way that the modern markets work. "What will happen to the 30-year mortgage – a key building block of finance – if lenders can't estimate the impact of climate risk over such a long timeline, and if there is no viable market for flood or fire insurance in the impacted areas?"

But putting "sustainability at the centre of our investment approach" – as Fink says he now wants to do – may be harder than it sounds for a firm that holds two-thirds of its $7trn of assets in index-tracking funds, says Annie Massa on Bloomberg. BlackRock says that it will start ditching investments such as thermal coal producers from its active funds. However, with trackers, it's the index compilers such as MSCI who decide what goes into the funds, so changing the holdings will be trickier.

BlackRock will launch further sustainable ETFs and push index providers to create sustainable versions of key indices to provide an alternative. But its most powerful weapon would be its "enormous voting muscle", says Nils Pratley in The Guardian – that is, backing shareholder resolutions aimed at improving the behaviour of "foot-dragging management". Here, Fink's comments are vague, merely saying that the firm will be "increasingly disposed" to do so. That "does not sound like a battle cry".

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Take a punt against the Remainers

Prominent EU supporters' faulty reasoning is a liability for their businesses. Sell their shares short

Matthew Lynn
City columnist

Julian Dunkerton was one of the main backers of the Remain campaign, donating more than £1m to the People's Vote movement. Now Superdry, where he made his money, is in trouble – the retailer has issued a profits warning and its shares are in freefall. Perhaps he should have spent more time working on the chain of clothing stores he founded and thinking about how to cope in his brutally competitive industry.

Dunkerton is not the only prominent Remain business leader to stumble. Paul Polman of Unilever wrote to 100,000 staff and pensioners of the company before the referendum urging them to vote to stay in, and was constantly warning of the dangers of leaving. Last year he had to be shuffled quietly out of the company after a botched attempt to move its headquarters out of London and end its dual listing (officially he "retired", but his departure came suspiciously soon after the failed switch). Then there is John Lewis chairman Sir Charles Mayfield, who warned that leaving the EU would lead to higher prices and that a no-deal exit was "unthinkable". It might have been better if he had been paying more attention to all that was going wrong at his retail chain. Likewise, Ray Kelvin, the boss of Ted Baker, was telling us for ages that staying in the EU would provide "certainty for business"; he had to be forced out of the retailer as its shares slumped.

Dunkerton should have kept his eye on the ball

©Getty Images

Trapped in a bubble

Is this all just a coincidence? In part, of course it is. The vast majority of business leaders backed Remain. Some of them were always going to find themselves in trouble for the simple reason that business is always challenging, markets are always changing, and companies are always facing new competitors. Just because you backed Remain you are not exempt from any of that. No doubt some Leave supporters will be in trouble eventually as well – but there are far fewer of them so it will take longer. Yet this is not the whole story. There are two reasons why Remain supporters may be more likely to be in trouble.

First, they clearly have no idea how the economy actually works. They seem to imagine business depends on a few thousand officials in Brussels rather than tens of thousands of entrepreneurs and millions of consumers. It should have been obvious to anyone who took the trouble to think about it seriously that, while the EU might be justifiable as a political union, it didn't make much difference to the economy one way or another. All the Project Fear stories about trade and investment collapsing wildly overestimated the ability of the EU to influence anything. Business gets done between individuals and companies, and nothing about leaving was going to change any of that. If the CEOs who backed Remain couldn't grasp that, perhaps it's not surprising that they made poor decisions about lots of other issues too.

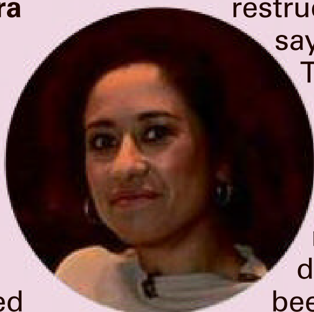
Second, they are trapped in a bubble. As we discovered at the general election in December, hardcore Remain had very little real support outside of London's metropolitan elite and a few university towns. The Liberal Democrats went down to a crushing defeat, with even their leader losing her seat, and all the Labour and Conservative rebels who left their parties over Europe failed to be re-elected as well. For all the noise in the media, Remain had very little actual support. Its supporters clearly couldn't read the mood in the rest of the country. Is it surprising they can't read the market either? A retailer or consumer-goods manufacturer who doesn't know what is happening outside the M25 is going to struggle very quickly.

Check out the fish and chip wrappings

Of course, we have no real way of knowing which businesses will find themselves in crisis over 2020. There are lots of potential candidates. But investors who want to get ahead of the curve might find it worth their while to go back to some of those letters to the FT with lists of prominent CEOs warning about the dangers of leaving – and shorting a few of the shares. It is a fair bet that some of them will be issuing a profits warning or two before the year is out.

Who's getting what

- Journalist **Samira Ahmed** (pictured) won her fight against the BBC over unfair pay. Ahmed was paid £440 an episode for presenting *Newswatch*; Jeremy Vine earned £3,000 an episode for *Points of View*, a similar programme. The ruling could open up the BBC to similar claims of unfair pay.



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- **Paula Nickolds** is in line to receive a £750,000 payoff three months after being appointed John Lewis's head of brand under chairman Charlie Mayfield's restructuring plans, says The Sunday Times. The figure is thought to equate to around a year's salary. The reason for her departure has not been disclosed.

- Boeing's board has approved a $1.4m salary and $26.5m long-term compensation package for **David Calhoun**, who became the aircraft-maker's new chief executive on Monday. Calhoun will seek to rescue the reputation of the business following two plane crashes that resulted in the grounding of 737 Max aircraft around the world at an estimated cost of $9bn.

- **Neil Woodford**, the one-time star fund manager, and his business partner **Craig Newman**, pocketed £13.8m in dividends last year, even as investors were deserting the company's funds owing to poor performance, says the FT. Together, he and Newman have been paid £112m since 2014. Around 300,000 investors, nursing heavy losses, remain trapped in the Woodford Equity Income fund since it was suspended last June. The fund is currently in the process of being wound up.

Nice work if you can get it

Some of the 73 members of the European Parliament that will be returning to Britain at the end of the month after Brexit will be in line for hefty severance payoffs. One month's salary of €8,933 before tax will be paid for every year served as an MEP up to a limit of 24 months. The rules mean Brexit Party leader Nigel Farage, who was first elected in 1999, would be entitled to €178,657. However, Farage "will not take a penny" of it, his spokesperson told The Guardian. Farage will also be eligible for a pension worth 70% of his MEP salary. In 2017, he told Sky News that he "probably" would take the money. For the 51 British MEPs who have served less than a year, they will get no severance pay. All of the 73 must vacate their Brussels accommodation by 7 February and hand back their iPads and free rail passes.

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Greying EU needs a strategy

Editorial
The Economist

Across Europe, people are living longer and having fewer children, says The Economist. Coping with this trend will be particularly hard because of the EU's "half-formed union where workers can move freely and many countries share a currency, but where there is no common fiscal policy or strategy to deal with ageing". In broad terms, northern and western countries are faring the best. Despite having fertility rates below the replacement rate, they have stronger economies and policies that attract immigrants and encourage work, such as cheap childcare and a higher retirement age. Southerners, meanwhile, "start in a poor position": productivity is low and, as the number of people in work falls, growth will weaken. Public debt is already high. Italy's, for instance, is over 130% of GDP. It also has a shrinking population and a high dependency ratio. By the age of 50, just over half of Italians are in work. Many mothers never go out to work. That leaves central and eastern Europe, where enthusiasm for free movement is "cooling" as countries lose workers (around 20% of Romanians now live elsewhere). The EU's "very survival" may depend on whether it can marshall a "decisive response" to these imbalances.

The grim reality of farming

John Lewis-Stempel
UnHerd

The suicide rate among farmers is "grotesque", says John Lewis-Stempel. In France, the rate is one a day. In the UK, which has far fewer farmers, it is one a week. Modern farming is a "bonfire of the economic sanities", with supermarkets continuously driving down prices and taking the "wolf's share" of the shelf price. This cheapening of food means pushing man and land ever harder. The costs are huge. A tractor costs more than £100,000. A single failing piece of kit can spell disaster. Late payments, global markets, city investors speculating in land and consumer food fads all have an impact. Farms survive because of subsidies, but the basis on which they are paid shifts so often that long-term planning is impossible. Moreover, as "state handouts", they strike "at the soul" of farmers, who take pride in hard work and the importance of what they do. The work – ten hours a day in a tractor cab – no longer even provides contact with humans or nature. The stress increases the risk of illness or accident (farming accounts for just 1% of the work force, but for 22% of all worker fatalities). Giving up is an option, but if it's a family farm, that involves guilt, grief and feelings of failure. No wonder the suicide rate is so high.

Chickens frustrate UK-US trade deal

Dominic Lawson
The Sunday Times

Downing Street's strategy to deal with the EU is reportedly to push for a quick trade deal with the US so as to put pressure on Brussels, says Dominic Lawson. However, the environment secretary, Theresa Villiers, has put paid to that plan by telling the BBC's *Countryfile* that Britain will not be importing chlorinated chicken or hormone-treated beef. If that is government policy, there will be no trade deal with the US. The Americans are clear that if we want "untrammelled access" to their markets, notably for services, which represent 80% of British output, we will need to satisfy its influential farming states. "It's not as if we have the slightest right to lecture America on food safety." Instances of food poisoning in Europe are much higher and the 2019 figures for global food quality and safety have America in fourth place and the UK in 18th. If you raise such figures with those determined to maintain trade barriers, they switch to animal-welfare arguments. Yet our own £3 broiler chickens are genetically designed to grow so fast they collapse under their own weight. Why can't British consumers simply be given the choice? Label the American chicken as such and let him or her decide.

Trump floods the swamp

Lydia DePillis
ProPublica

Far from "draining the swamp" or helping US businesses, Donald Trump's administration is making lobbyists rich and damaging small firms, says Lydia DePillis. When the administration introduced 25% tariffs on Chinese imports, it said that US firms that could prove they had no other source for their imports and whose business would be "gravely injured" could be spared by filing for an exemption. In practice, however, the large and immediate demand for exclusions ("adjudicating cases is expected to take 175,000 staff hours over the course of a year at a cost of $9.7m") has necessitated a major recruitment drive that has resulted in "low-level staffers with limited industry knowledge issuing seemingly arbitrary decisions" that can save or break a company's bottom line. Meanwhile, "constantly up-in-the-air trade agreements and the byzantine, opaque exclusion process" has provided a windfall for Washington's lobbyists, hired to handle exclusion requests. "Companies with enough resources and savvy can not only push their own cases", but also undermine those of competitors by filing objections to their requests. As one small-business owner put it, "You get all the justice you can afford."

Money talks

"They think there's a nobility in poverty. They feel guilty about their privilege and they think the way to overcome that is to obsess about how cool it is to be poor when the poor people want to progress."
Labour MP and leadership candidate Jess Phillips (pictured) on left-wing ideologues' failure to understand aspiration, quoted in The Times

"Their horizons were so narrow that unless I'd been a solicitor, in my father's eyes, or a doctor, in my mother's eyes, then it was meaningless. When they needed to move, they certainly asked [me] for money, so that meant something to them I suppose."
Thriller writer Lee Child on his parents ignoring his success, quoted in The Sunday Times

"I'll get really upset if I lose $20, but not if the market goes down five points and I'm down millions of dollars. I think: 'Yeah, that happens. No big deal.'"
Musician Moby, 54, quoted in The Sunday Telegraph

"Sometimes, moving to Florida is a very bad look. It says you don't have enough cash to live where you want. Forget the fancy status symbols: being rich enough to stay in New York and pay all the taxes is the new way to show off."
A socialite's comment on the New Yorkers who have moved to the income-tax-free state of Florida, quoted in the Financial Times

"The one thing if I'd been Gorbachev I would have done differently would have been to learn English. Because if he'd learned English he would have quintupled his lecture earnings."
Daily Mail editor Geordie Greig, quoted in the FT

"I'd want a boat. Not a big yacht — just a sailboat. And to know how to sail it, so sailing lessons too."
Actress Julia Stiles on what she'd do if money were no object, quoted in Metro

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Rate rise may slay house prices

Building more houses won't solve the price problem

©Getty Images

medium.com/@ian.mulheirn

The rise in house prices relative to incomes seen between 1985 and 2018 can be more than accounted for by the decline in the real risk-free interest rate over that period. That's the view of a new paper from the Bank of England and it confirms a view emerging from other studies, says Ian Mulheirn. This marks "an important break from the consensus" that booming prices were caused by lack of supply, a view shared by many pundits.

The new paper also casts doubt on the widely held view that, even if inadequate supply wasn't the cause of high prices, a strong supply response in the form of more building and laxer planning laws could offset the effect of falling interest rates and lead to lower prices. The Bank of England paper models this possibility and finds that the likely effect on prices if the supply response in the UK had actually been much higher would be small.

The Bank's silent U-turn

If the housing boom has been driven by low interest rates, this has broader implications. It means that "the socially and financially troubling side-effects of low interest rates on the housing market can no longer be passed off as failures of housing policy". As the authors of the paper make clear, even relatively small increases in gilt yields could imply large falls in house prices. The Bank should come clean about this.

Even if lenders could swallow a 30% drop in prices as interest rates get back on an upward path, "quite a lot of youngish homeowners might be more than a little peeved at finding themselves deep under water" as a result. And since lending at high loan-to-value rates has been gathering pace, there are "now an increasing number" of such buyers "in the firing line". If the view of Bank economists has changed, and it now believes house prices are highly sensitive even to small rises in rates, "shouldn't [it] make sure households get the message"?

Understandably, public debate on the issue tends to focus on "lamenting the plight of people struggling to get on the housing ladder". But just as worrying is the plight of those on the lower rungs "who have sunk (or will sink) large amounts of their savings into assets whose value could quickly evaporate". Rather than "executing a silent U-turn, the Bank should lay out the risks for households".

For the government, which wants to boost home ownership, "the dilemma posed by the new diagnosis is even more stark. Is it wise – or indeed ethical – to encourage families to take very large and… risky bets on the future path of interest rates that most don't understand?"

The right lost the election too

stumblingandmumbling.typepad.com

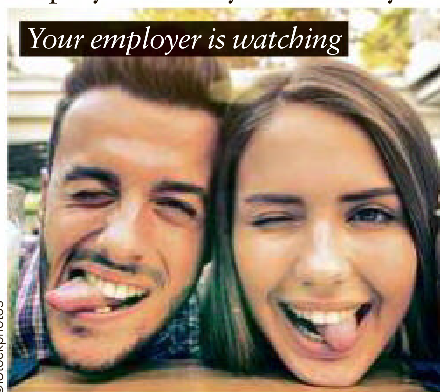
It wasn't just the Labour party that "took a beating" in the general election, says Chris Dillow. So too did right-libertarianism. The Tories won on policies that repudiated many of their professed beliefs: a higher minimum wage, increased public spending, manpower planning in the form of a points-based immigration policy, and a generally less liberal view on the rights of individuals. That puts the Tories more in step with public opinion. Most voters support higher income taxes for the rich, a wealth tax and nationalising the railways, for example. The important thing to understand about right-wing libertarianism is that it is a "very eccentric viewpoint". It only looks mainstream because it has a number of well-funded think tanks that push its agenda and its adherents are overrepresented in politics and the media. So why the sudden silence? Perhaps intelligent right-libs have realised that free markets are not the panacea they once believed and have shifted their priorities towards improving state capacity. Perhaps the ideas just lost their constituency – the businessmen who wanted tax cuts in the 1980s now want other things, such as better infrastructure. Whatever the reason, there is a lesson to be taken from it – "you cannot nowadays achieve much political change via think tanks alone".

Be careful what you tweet

inc.com

Most employers these days not only check the covering letter, CV and references of potential employees, but will also Google them to see what they have been putting up on social media, says Melanie Curtin. According to one study, more than half of employers surveyed said they had chosen not to hire someone based on what they found on social media. "Getting rid of that video of you doing body shots is probably a good idea."

You needn't scrap your social media accounts entirely. In fact, the opposite was also true: nearly half of the employers surveyed said they had found things on social media that caused them to hire the person – by confirming their background information and showing a professional image or creativity. And employers who look for you on social media and can't find you deem that suspicious.


Your employer is watching

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So, before handing in your CV, Google yourself. Review your profiles as if you were an employer. Consider making some of your accounts private. And post some meaningful content. "Be bold, creative, and discerning. Employers are paying attention."

Was Germany right to ditch nuclear?

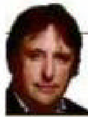
ftalphaville.ft.com

Germany's strong anti-nuclear movement has shaped German energy policy, says Claire Jones. In 2011, in the wake of the Fukushima disaster, Germany determined to shut down its nuclear power plants. Since then, ten of the country's 17 nuclear reactors have closed.

It is "far from clear" this was a good idea however. The move forced Germany to rely heavily instead on coal and lignite. The evidence of the social cost of this has been mounting – one paper put it at $12bn per year due to raised mortality from air pollution. But before dismissing Germany's move, it would be wise to consider how costly it might have proved to stick with nuclear, particularly in terms of the resulting suboptimal investment in renewables. Sven Giegold, a German Green, thinks Germany is now starting to reap gains from its substantial investment in cleaner forms of energy. Germany reduced its carbon emissions by 7% in 2019 and 46% of its power came from renewables. Perhaps in time we will see that "Berlin has carved a quicker, safer path towards zero emissions than, say, the much more nuclear-reliant French".

The potential in pot

The cannabis sector is out of favour, but a new ETF is an appealing recovery play



David Stevenson
Investment columnist

The exchange-traded fund (ETF) sector is highly competitive and issuers are working hard to come up with eye-catching and lucrative investment themes. London-based HANetf, for instance, is launching Europe's first ETF investing in the cannabis sector.

It's called the **Medical Cannabis and Wellness UCITS ETF (Frankfurt: CBDX).** The cost of the fund is 0.8%. Many other issuers have stayed away from this controversial area because they are worried about the legalities of investing in cannabis.

It might be legal to sell joints or medicate with cannabis in Canada and some states in the US, but if you invest in these businesses from the UK you are potentially opening yourself up to a Proceeds of Crime Act (POCA) violation in Britain.

All above board

HANetf has worked around this by insisting that all the stocks in its index are "strictly medical and legal", as HANetf puts it. This means there is no linkage to any business that might supply recreational drugs in North America.

Cannabis-derived medications in the UK are not illegal and the rules governing the use of cannabis for pain relief and other medical challenges may be liberalised in the not-too-distant future. Note too that the cannabis sector has fallen out of favour.

Medicinal cannabis is the most promising segment of the market

©Alamy

Analyst Matt Bottomley of Canadian broker Canaccord Genuity developed the Canaccord Genuity Cannabis index (CGCI), some members of which fell by more than 70% last year. Poor financial results at listed firms; the slow pace of pot shop licensing in some provinces; restrictions on advertising; and health concerns around vaping all suggested that the size of the market had been overestimated.

The US market, by contrast, seems to be making much more progress, but even here many cannabis operators saw their share price fall by 25%-50% or more. Still, the US market now looks in much better shape, especially as we head into the US presidential election. Many candidates are lining up to support greater liberalisation of the US regulations.

Over the last few years the US market has seen some big legislative advances, including passage of the Farm Bill in late 2018 (which helped growers) as well as the national SAFE Banking Act in 2019, which helped set the framework for the cannabis financial system.

US-listed firms also seem relatively healthy, with several pencilling in big profits in 2020. Next year we should also see more state-level legalisation initiatives, including one in New Jersey. State governments such as Colorado are making huge amounts of tax revenues from the cannabis trade.

A booming medical market

A broader point is that the furious pace of cannabis medical research shows no sign of letting up. GW Pharmaceuticals and Sanofi, for instance, each has more than 30 trials each in progress.

In Europe there are now 28 countries with some form of medical cannabis legislation, with the UK being the largest producer and exporter of medical-grade cannabis in the world.

It is this medical market, along with hemp and CBD products, that is the exclusive focus of this new ETF. It will invest across nine subsectors, none with any recreational exposure.

The index has also been constructed to focus only on businesses that have a market cap above $50m and that are on the US Drug Enforcement Administration's approved list. There is also a 10% cap on any one stock in the index.

Still, investors should bear in mind that many of the medicinal specialists have had a bad few years: the index the ETF is based on was down 22.6% in 2018 and a further 7.88% in 2019. But sentiment could turn sharply in 2020 – and if it does this fund will be sitting pretty.

Activist watch

Vehicle supplier Tenneco received a "sharply worded letter" from an activist investor urging it to sell part of or the whole of the company, says David Welch on Bloomberg. Dan Ninivaggi, who used to run Icahn Automotive Group for billionaire Carl Icahn, called for Tenneco to raise cash for debt payments by auctioning off its aftermarket-parts unit or by putting the entire company up for sale. Tenneco has a $5.6bn debt load. Ninivaggi also wants half of Tenneco's ten directors to be replaced at the company's next annual meeting. The stock has fallen by 22% this year. Ninivaggi, who wants a seat on the board for himself, said the company was one of the few "over its entire history" never to have created "a penny of shareholder value".

Short positions... Vanguard leads sector

■ **Index fund "behemoth" Vanguard saw its assets under management surge past the $6trn mark for the first time last year, says Chris Flood in the Financial Times, after the group raked in $268bn of new cash. Net inflows rose 16.5% in 2019 from $230bn the previous year. A fifth of Vanguard's 2019 inflows went into its equity funds; around 60% went towards long-term bond funds. CEO Tim Buckley said there was a huge opportunity for Vanguard to "lower costs for [investment] advice, which will allow investors to keep more of their returns". The group is investing over $1bn in new investment advice services and is also trying to improve the way it gauges client satisfaction. Vanguard held the title of the world's fastest-growing asset manager for the seventh consecutive year up to 2018, but its crown appears to have been snatched by "fierce rival" BlackRock, which saw inflows of just under $300bn in the first nine months of 2019.**

■ **The United Arab Emirates is to invest $22.8bn in Indonesia through a new sovereign wealth fund established by Indonesian president Joko Widodo (pictured) as he seeks to finance new infrastructure, says Rieka Rahadiana in Bloomberg. The money will go towards building Indonesia's new capital and the energy and telecommunications sectors. Japan's conglomerate SoftBank and the US International Development Finance Corp will also fund toll roads, ports, and petrochemical projects. Widodo is pursuing an ambitious infrastructure programme worth $400bn in the next five years to "modernise" the country of 260 million people.**

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Tax-efficient divorce

Many couples call it quits in January. If you are separating from your spouse, don't get caught out by HMRC

Ruth Jackson-Kirby
Money columnist

The first Monday of the year is known as "Divorce Day". Solicitors returning to their desks after the Christmas break find they have a deluge of enquiries from people wanting to end their marriage. The festive period, and all the family tension it can entail, often proves the final straw.

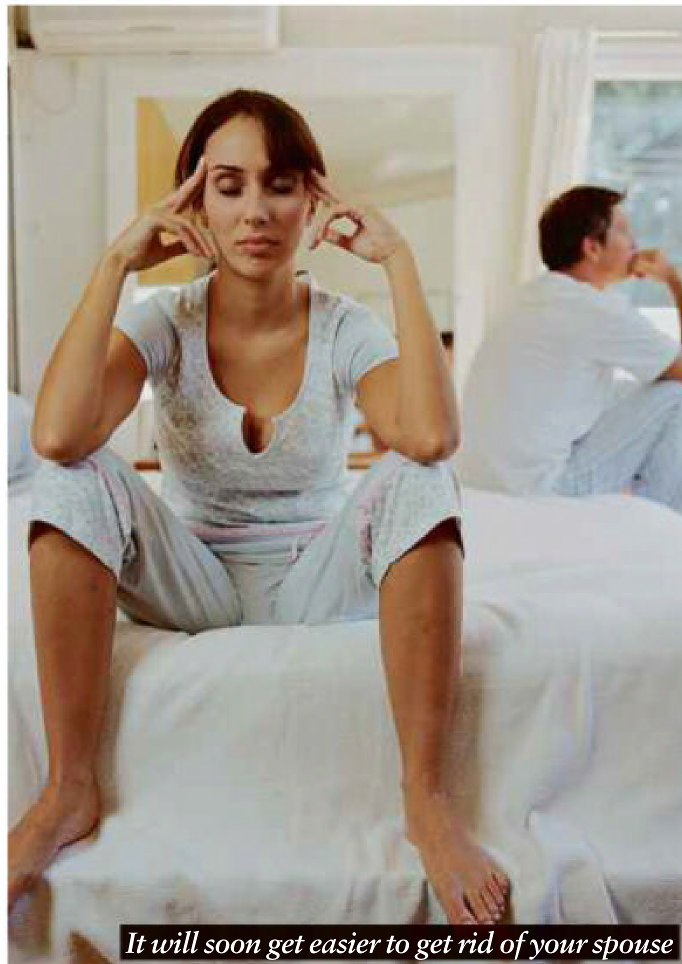
However, if you are planning to end your marriage, you may want to hang on until April, says David Byers in The Sunday Times. "Timing is everything… if you want to separate, when should you do so without incurring a whopping tax bill?"

You may have reached the end of your tether over Christmas, but launch divorce proceedings now and you could land yourself with an avoidable tax bill. The problem is capital gains tax (CGT): the tax you pay on investment profits when you sell assets.

HMRC allows married couples (and civil partners) to pass assets to each other without paying any CGT as long as they can prove they lived together at some stage during that tax year.

After your divorce you will have to pay CGT if you transfer assets to your ex-spouse. "If you start proceeding right now, you only have three months until the end of the tax year to take advantage of the exemption," says Byers. "Then you lapse into a second tax year," when, if you aren't still living together, you lose that CGT perk.

Another reason to delay your split is that it could be about to get a lot cheaper to divorce. A bill is currently making its way through parliament that will create "no-fault" divorces. At present you can only divorce immediately for three reasons: "unreasonable behaviour", adultery, or if you have been separated for two years.



It will soon get easier to get rid of your spouse

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The cost of divorce has been on the rise over the past few years, climbing from £1,280 in 2014 to £2,679 in 2018. The hope is that the simplified rules will save divorcing couples time and money on legal fees, says Marianna Hunt in The Daily Telegraph.

> ***"Simplified divorce rules should save couples time and money"***

The housing market is also forecast to improve in 2020 following years of stagnation, which could help divorcing couples who are struggling to sell the marital home.

From April you will have nine months to sell a property you are no longer living in without incurring CGT. So separating couples may choose to delay separating until there is more movement in the housing market.

Savers to gain £260m a year

Plans to ban banks from "quietly cutting interest rates on cash savings accounts" could mean savers "pocket an extra £260m a year", says Kalyeena Makortoff in The Guardian.

The Financial Conduct Authority (FCA) will still allow banks and building societies to offer introductory savings rates but after 12 months the interest will fall to a rate set by the FCA for all easy-access savings accounts, rather than to a level determined by the bank.

"It will mean banks can't hide behind a vast array of different interest rates," Laura Suter, a personal finance analyst from AJ Bell, told The Guardian. But it does not mean savers will be able to stop having to shop around. The proposed rate is just going to level the playing field, not get you a good rate of return.

Many accounts pay as little as 0.1% interest after introductory offers have ended, yet 65% of easy-access savings account have been open for five years or more. The Post Office, Halifax, HSBC and Lloyds all have accounts paying 0.1% interest.

So, if your money has been in the same savings account for some time you should definitely move it. Cynergy Bank is offering an interest rate of 1.36% on its instant access account.

Pocket money... don't rack up mobile charges while you fly

■ Got a job as an exam invigilator? Lucky you: your car insurance premiums are cheaper than most other professions, according to Sam Barker in The Daily Telegraph. "Drivers can pay up to eight times more for insurance depending on their job – even when their profession is not considered risky," says Barker.

Footballers are the most expensive drivers to insure, with average car cover costing £1,978 per year. That is 684% more than the £469 general average car insurance premium. General sportspeople have the next most expensive car insurance bills, followed by fast-food delivery drivers, scrap dealers and apprentices.

At the other end of the scale, exam invigilators have the cheapest premiums at an average £252 a year. Other people enjoying low premiums are newspaper delivery drivers, school cleaners and anyone who has retired (even retired footballers).

■ Make sure you put your phone in flight mode on planes to avoid an expensive bill, says Anna Tims in The Guardian. The paper highlights a person whose phone was in their hand baggage, unused, during a flight to Barbados, but it was not in flight mode. "She discovered she had racked up charges of £1,095." The problem is that phones are connecting automatically to satellite roaming networks and then updating emails and texts, incurring roaming fees. "While EU rules cap roaming fees outside Europe at €50, the legislation does not apply to satellite networks on planes and boats, which charge premium rates for data, wanted or not, unless customers actively switch off data roaming."

So, make sure you go into your phone settings, switch off data roaming before travelling and switch flight-safe mode on when you are on a plane.

■ A new financial adviser is offering a fixed-fee service instead of charging a percentage, reports Ali Hussain in The Sunday Times. Bancroft Wealth, based in south Wales plans to charge a set fee of £500 a year on portfolios worth up to £5m. So on a £1m portfolio "an investor would save more than £320,000 in fees and lost growth over 20 years, compared with the typical 0.6% charged by advice firms each year." Percentage fees are the most common charging structure, with only 7% of firms offering a flat fee. The average flat fee is around £1,000 a year, according to Lang Cat, but this can rise to as much as £7,200.

The catch? You can't have a face-to-face meeting with your adviser. They are only available online or over the phone.

How to chase late payers

What should you do if your customers don't pay on time?

David Prosser
Business columnist

Don't put off chasing overdue invoices

Small and medium-sized enterprises (SMEs) are chasing £50bn in late payments. Businesses typically waste 90 minutes every day trying to get overdue invoices paid. The average amount owed per invoice is £8,500.

Despite a series of government initiatives to tackle the problem, SMEs continue to complain that customers – particularly larger companies – do not pay their bills on time. More than 1,000 firms are going bust every year with cash-flow problems caused by bills not being settled on schedule.

Fight on two fronts

If your firm has a late payments problem, fight on two fronts: focus on persuading customers who are already late to pay up and avoid future problems.

Don't put off chasing late payments. Start doing so the day after a payment is due because the longer you leave it, the further down the queue your invoice may drop. And don't let the problem escalate: refuse to continue supplying goods or services while payments are outstanding. In addition, make it clear that you will exercise your statutory right to claim interest on late payments at 8% over the Bank of England base rate as well as seek compensation for debt-recovery costs. Don't be afraid to seek help. The Small Business Commissioner offers free support to businesses with fewer than 50 employees when they are chasing payments from larger organisations, which it defines as those with more than 50 employees. This can be a useful mediation service, particularly for businesses worried about upsetting clients. You can also appoint a debt-recovery agency to act for you. If you incur costs doing so, you're entitled to pass these on to your debtor.

As for preventing customers' accounts from reaching this point, there are several steps you can take. Get to know new customers before taking their business. Running credit checks online on new customers could save you time and money.

When you do start working for a new client, be clear about your payment terms. Are they on every invoice you send and are they consistent? Have you explained them to new customers? Give customers a choice of how to pay, but avoid cheques since these add delay to the payments process. You may also choose to be flexible in other ways, offering discounts for prompt payment, for example, or offering to split large payments into smaller instalments. But agree any such deals upfront.

Finally, if late payments are causing your business significant cash-flow problems, talk to your bank at an early stage about any help it can offer. Invoice finance can also be a useful way to unlock the value of unpaid invoices and improve your business's cash flow.

Are you paying enough VAT?

If you're not on top of your value-added tax (VAT) accounting, you should make it a new year's resolution to do better – and do so quickly. HM Revenue & Customs is cracking down on small businesses that don't get it right.

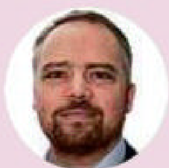
Any business with annual sales of more than £85,000 must be registered for VAT, charging its customers the tax and passing the proceeds on to HMRC.

But data from the tax-investigation firm PFP suggests small businesses had to find an extra £1.7bn last year following HMRC's investigations into the amount of VAT they paid in the 2017-2018 financial year.

The tax authority has pledged to continue with its more aggressive stance towards VAT collection. Various estimates have suggested that the VAT gap – the difference between what businesses should be paying and what is actually being collected – has risen to a record high.

That has prompted HMRC to appoint specialist teams to look at industries associated with poor VAT management. These include trades where customers typically pay in cash, such as fast-food outlets.

Online retailers, including small businesses selling on marketplaces such as Amazon and eBay, are also a target. In practice, however, any business could come under scrutiny from HMRC, so make sure you're paying the right amount.



Five questions for... Frederic de Ryckman de Betz, CEO and founder of Attic Self Storage

● What does your company do?
We're a self-storage business. We aim to provide an outstanding customer experience and complete flexibility within a safe, secure and welcoming environment.

● What's been your greatest achievement?
Getting this far. Looking back to 2008 when it all started, I think we've done well to avoid failure. We now have strong foundations for growth, solid funding, supportive partners and a great team. It's my team I'm most proud of. We have empowered great people to do great work by using their initiative. The best thing about being an entrepreneur is seeing your ideas come to life and watching your team grow.

● What has been your biggest challenge?
People are our biggest asset and greatest challenge. Get that right and the rest follows. You have to have a plan and strategy for how you want to grow your team, based on where the business is headed. Then you have to find the right people, persuade them to join, share the vision, inspire them and work with them to deliver it. It's not easy. Culture is crucial and people sometimes let you down.

● What are your plans for hitting your targets?
Our key plans include enhancing our external communication and driving customer acquisition targets; delivering superior benefits and improving customers' experience; focusing on digital opportunities; remaining an active supporter of local communities and the causes that matter to our customers; and identifying ways of improving all areas of the business.

● What's the one piece of advice you'd give to fellow entrepreneurs?
Above all, always try to surround yourself with good people and build trust. In order to do that you have to empower your team and allow them to make mistakes. You have to be willing to take a step back if you want to grow and that means investing in people so that you can leverage yourself.

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Class acts going cheap: buy into Europe's best bargains

Value investing appears to be making a comeback, while shares on this side of the Atlantic are more appealing on metrics such as price/earnings ratios and dividend yields. Stephen Connolly picks his top ten

A hallmark of the past decade has been the chronic underperformance of value investing, the approach that focuses on stocks that are cheap in terms of price/earnings (p/e), price-to-book (p/b) ratios or dividend yields. It has lagged its rival strategy, growth investing, which involves seeking out high-flying companies that concentrate on getting bigger and rarely pay much of an income; they also tend to be expensive.

The gulf in performance between the two styles can't last forever, but identifying a turning point is notoriously difficult. There are, however, early signs that attitudes are shifting. Things began to change last September when some investors started betting on economic recovery by ditching "growth" and buying unloved, and relatively cheap, businesses whose fortunes are often tied to economic cycles to capture an upswing.

The shift makes sense: central banks are cutting borrowing costs; credit is expanding; the China-US trade war has thawed; and governments are under pressure to help recovery via fiscal stimulus – opening up state coffers and spending their way out of trouble.

Whether the uptick in the global economy proves sustainable remains to be seen; but in any case, the past few months are a reminder for investors to focus on balance and diversification.

The UK and Europe both underperformed the US last year and offer cheap opportunities, while some other markets look overvalued compared with their likely future earnings growth. We look below at a diverse range of pan-European companies we think could reward patient investors. It is important to focus on catalysts that can unlock value, so growth prospects, corporate turnarounds, fresh management and new markets are key themes throughout.

Carnival Corporation

Leisure and travel (LSE: CCL)

Cruise operators can be vulnerable to what economists call "external shocks". Last year Carnival, the world's biggest player, suffered several. It had to dampen investors' expectations as tensions in the Gulf, a rising oil price and an American ban on trips to Cuba, a popular cruising destination, took their toll. Nevertheless, the last announcement of the year saw improved performance and is a reminder that setbacks can represent an opportunity for long-term investors focused on fundamental positives for the industry.

In 2018 there were 28 million cruise passengers but this still constituted a fraction of the multi-trillion dollar travel market. There are many more passengers to attract as people increasingly want to travel, so the future is promising. While one in two cruise-goers are American, only 3% of the country's population have so far taken a cruise. Market share in Europe is also relatively low while the Far East also offers solid demand.

At the same time, the demographics bode well. Older travellers are a mainstay but millennials, the cohort born between 1981 and 1996, have an increasing appetite for travel experiences such as cruises. Cruise activity programmes and itineraries are well-placed to deliver this, and operators now recognise this group as their most important opportunity. Since the financial crisis, Carnival – which operates ten brands, including Princess, Cunard and P&O, and carries about half the global industry's passengers – has delivered annual compound profit and dividend growth of 7.5% and 12% respectively. The shares, however, have gained just 6% a year and are undervalued, failing to reflect favourable long-term dynamics.

"Kidney problems are spreading and five million people will require dialysis by 2025"

Fresenius Medical Care

Healthcare (Frankfurt: FME)

Based in Germany, Fresenius is a globally-diversified business focused on helping people with chronic kidney failure: treatment through dialysis is crucial for cleaning the blood. The group has over 4,000 clinics looking after more than 340,000 patients. The fact that it employs around 120,000 staff gives an idea of the scale of the operation. It continuously seeks to make its products more technologically sophisticated in order to maintain its strong market position and profit growth.

There is ample scope for further growth. The number of patients requiring dialysis is set to hit almost five million by 2025. The group is therefore expected to continue expanding both sales and profits steadily, yet it still trades on a p/e multiple of just under ten. This high-quality and innovative company offers investors global exposure to a growing medical need for a bargain price. That's a formula for a healthy long-term return.

Groupe Bruxelles Lambert

Investment companies (Brussels: GBLB)

This €20bn holding company offers investors the chance to gain access to a portfolio of leading European names – a bit like buying into an investment trust. While some of its investments, such as sportswear group Adidas, might be considered growth stocks, the list also includes industrials and energy firms, as well as fashion, beverage and food groups. Perhaps the company's most important attribute is that the shares trade at a 25% discount to net asset value (NAV).

The holding company has existed for decades and focuses on long-term value-enhancement. It aims to balance capital growth with dividend income and is currently yielding around 4%. Income seekers should note that the dividend has grown at 5% a year for the last 15 years.

Groupe Bruxelles Lambert has a conservative approach but it has consistently outpaced its benchmark and therefore offers a cheap means of gaining exposure to a range of pan-European enterprises that are delivering better-than-average returns.

Legal & General Group

Insurance (LSE: LGEN)

A low p/e multiple and a high yield can suggest "value", but they can also be warnings that investors have given up and no longer believe the expected profits will be

Only 3% of Americans have been on a cruise, so Carnival has ample scope for growth

made or that the high dividend will in fact be paid. On the face of it, insurance and fund management group Legal & General falls into this category. It is an £18bn business on a p/e of under ten, yielding over 6%.

And yet not only is it profitable but both earnings and dividends are expected to keep growing over the coming years. Clearly, a business involved in finance and investment will be affected by Brexit uncertainty and general economic jitters; nevertheless, there seems to be good progress in its pensions business as well as in asset management. CEO Nigel Wilson talks of "immense" opportunities ahead. The company seems to manage its balance sheet well. Legal & General is growing but this isn't reflected in the share price. It is a classic example of value and offers an excellent yield for income seekers.

National Express

Transport (LSE: NEX)

Travellers and commuters are switching to National Express. High rail fares, messy and protracted engineering works, and strike action are boosting the nationwide coach carrier with its cut-price offering. Records are being broken, with £577m of sales and 21 million passengers in 2018, and there was no let-up in the trend in 2019. Growth should endure over the next few years as the group grows its geographic coverage and adds more trips.

But Britain accounts for only a quarter of its sales. The rest are made abroad, mainly in the US, followed by Spain. Next time you're watching television and see one of those yellow school buses, it could well be National Express.

It's now number two in America with a transit and corporate-employee shuttle business serving the likes of Google, Nike, Boeing and Microsoft that has been growing by 50% a year. There is multi-billion dollar sales potential on offer here compared with today's $600m, with university and hospital contracts being chased too. Successful pursuit of viable opportunities, savvy contract negotiation and keen pricing helped group profits rise 14% in the first half of 2019, and the dividend was hiked by 10%. Recent trading has been better than expected, and forecasts suggest another year of double-digit growth.

Strict financial discipline is a hallmark of a management team that knows its industry and can extend the current performance. Longer-term, environmental policies increasingly favouring mass transport over cars in ever-growing urban areas are positive. The stock's discount to the market looks unwarranted.

Reckitt Benckiser

Consumer goods (LSE: RB)

From Dettol to Cillit Bang and Nurofen to Lemsip, consumer goods giant Reckitt Benckiser (RB) has everything to keep homes sparkling, and coughs and splutters at bay. If only it were as effective at smartening up its own financial results and restoring some zing to its sickly share price.

Despite its strong international brands, RB has repeatedly missed investor expectations over the past three years, leaving its shares down 10% while rivals such as Procter & Gamble and Unilever have soared by 40% and more.

This is a comedown for a business that not so long ago was a highly-regarded manager of brands and products with a strong focus on shareholder returns. Turning things round is down to new CEO Laxman Narasimhan, a former McKinsey and PepsiCo executive who has spent months learning the business and is due to announce his plan in February with the annual results.

Key is restoring growth to the health division, which should offer better prospects than household products but is underperforming badly. This means investing and innovating. That will hold back profits near term

Continued on page 26

"British travellers and commuters tired of train trouble are switching to National Express"

Continued from page 25

but if it pays off, the shares should catch up with rivals. Success here could pave the way for a disposal of the household division to focus further on health. Change will take time but, for those with patience, analysts at Barclays see a potential 50%-60% gain for the shares, which yield nearly 3%, over the next three years.

Roche

Pharmaceuticals (Zurich: ROG)

Although not cheap on a p/e basis, Swiss pharmaceutical giant Roche does offer value for long-term investors. The group is popular because it delivers dependable results and has a stand-out record of increasing its dividends and generating cash that supports further research and development and thus the product pipeline.

Indeed, Roche is considered to have one of the strongest new development pipelines in the sector. It has secured many regulatory approvals for new treatments, augmenting its track record for offering life-changing therapies.

It derives much of its revenue from oncology (dealing with cancer and tumours). This is a strong sales generator but less of a growth area as products lose patent protection. On the other hand, there are expected to be gains in ophthalmology (eyes), neurosciences (nervous system, centring around multiple sclerosis and Alzheimer's disease) and in-vitro diagnostics (blood or tissue-sample testing).

Neuroscience could be the path to some significant breakthroughs and new blockbuster drugs. Roche is a quality business with long-term research fitting well with the investment timescales of committed and patient investors.

Royal Dutch Shell

Oil and gas (LSE: RDSB)

Shell is undeniably focused on its shareholders. As Bloomberg put it last June, Shell "plans to shower its investors in money" after it announced it would return $125bn between 2021 and 2025, easily more than twice the level a decade ago.

This is big money given Shell itself is valued at £182bn. It anticipates significant cashflows from new projects as it operates in a more dynamic market increasingly influenced by the drive to reduce greenhouse gas emissions. Alongside conventional oil, gas and shale, lower-carbon electricity and power generation are key to sustaining Shell as a dominant player and generating the cashflows to maintain shareholder support.

Admittedly, total returns from Shell have at best been average over the last five or ten years. But the shares have hardly moved in ten years and now the stock is going to be paying out more than double what it did a decade ago.

Analysts see the shares gaining 15%-20% this year before the investor payouts are ramped up. There are question marks about the longer-term sustainability of Shell's payout plans as well as heightened public scrutiny of the industry. However, the current yield of 6.2% and the p/e ratio of 13 alone make it of interest to investors seeking value and solid returns.

Tate & Lyle

Food producer (LSE: TATE)

Tate & Lyle's sugar has been a household staple for years. Except, mirroring these health-conscious times, it went sugar-free nearly a decade ago. Nowadays this £3.5bn group helps manufacturers reduce their sugar content and makes artificial sweeteners, including Splenda.

Roche could be on the brink of significant breakthroughs

It's in the former activity that the money lies. Sweeteners are a decent business but growth will stem largely from manufacturers using its food and beverage solutions to cut calories as well as add protein and fibre across their products. Dairy Milk chocolate bars, for example, are being reformulated with a significantly lower sugar content thanks to Tate & Lyle.

On the face of it, this is exciting stuff – which manufacturers aren't looking to achieve this as consumers turn ever more ingredient-aware? It's a big theme and the group is in a good position. But it hasn't converted this into consistent profit growth; the share price today is lower than it was three years ago.

Behind the scenes, there's an efficiency programme led by CEO Nick Hampton. And the profits of the food and beverages solutions division recently jumped by 11%. One bank reckons this business will generate half the group's profits by 2022, a 25% increase that would be good for the share price. The group also has scope to use its cash to buy its own shares and so boost returns. It's cheap on a price/earnings ratio of 13 while the 4% yield is icing on the cake.

WPP Group

Media (LSE: WPP)

Global advertising conglomerate WPP is being re-fashioned to face rapid change. Technology giants such as Google and Facebook are offering direct online marketing and extensive consumer data, thereby disrupting and even eclipsing traditional advertising agencies.

Getting there will take time. We are one year into a three-year plan led by new boss Mark Read, who took over in 2018 after the sudden exit of Martin Sorrell, the group's creator. Management is cautious and analysts are taking little on trust.

Recent results, however, were better than expected, giving investors some confidence that the strategy of re-focusing on core activities and streamlining operations is gaining traction. The shares jumped 6% on the news. At the current 1,000p they're above their 800p lows but still well below early 2017 levels of almost 2,000p.

Of course while encouraging, one set of numbers hardly amounts to trend. This big task will have ups and downs. But with businesses being consolidated and others sold, debt falling and the expected drop-off in client sales slowing, management is standing by its guidance for future profitability.

If all goes well, investors could enjoy both rising profits boosting the share price and, in tandem, the shares being rerated upwards to trade on a higher multiple of those advancing earnings to reflect improving quality and dependability. Meanwhile, the big, market-beating 6% dividend yield gives considerable support.

Advertising giant WPP's big, market-beating 6% yield offers considerable support"

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Beds, meds and sheds: a tale of three markets

Student housing, care-home and self-storage owners are solid long-term growth stories in the commercial property sector. But is now the time to buy? Max King finds out

Britain's commercial property sector has traditionally been divided into three subsectors: industrial, offices and retail. In the 1980s and 1990s, retail outperformed while industrial properties struggled as consumer spending rose inexorably but the country deindustrialised. In the last ten years retail has lagged as household spending migrated online; industrial property, however, has outperformed thanks to the growth in logistics warehouses, notably to service online shoppers. But in recent years some of the best growth has come from three smaller subsectors: student housing, healthcare and self-storage – or beds, meds and sheds. Investors can gain access to each of these subsectors through real-estate investment trusts. Are they still worth a look?

The university boom

Student numbers reached 2.3 million in 2018; 75% are undergraduates and 80% are British. Despite the introduction of full tuition fees in 2012, more than half of school leavers go on to higher education. The annual number of applicants through the Universities and Colleges Admissions Service (UCAS) has doubled to 533,0000 in 25 years. Students used to live in college-owned halls of residence or in the private rental market. But demand outstripped both the willingness of the former to provide the necessary capital and the capacity of the latter.

Unite Group (LSE: UTG) was founded in 1991, initially to provide purpose-built student accommodation in the Bristol area. It now provides 75,000 beds across the country. Unite forms partnerships with universities to ensure high occupation: 92% of beds are reserved for 2019/2020 and 60% are guaranteed by universities. Occupancy of 98%-99% has consistently been achieved and rental growth is in the range of 3%-4% per annum. At mid-year the group's assets stood at £3.2bn, of which £1bn was financed by borrowings, although the £1.4bn recent acquisition of Liberty Living will have increased gearing to around 35%.

The shares, at 1,240p, trade at a 47% premium to net asset value (NAV), are valued at over 30 times earnings and yield just 2.6% but Unite says that the acquisition is "materially accretive to earnings", while it is "confident of 3%-3.5% medium-term rental growth". But even if the 12% growth in interim earnings and 8% growth in the dividend continues, it will take several years for the shares to look good value, despite the low-risk business model.

A turnaround story

Empiric Student Property (LSE: ESP) with 8,882 beds and £1bn of assets, seems much better value at 98p. It is on a 10% discount to NAV and yields 5%, but it is recovering from operational problems in 2017 that prompted a dividend cut. It focuses on smaller, higher-quality and more expensive buildings to appeal to graduates (46% of tenants) and overseas students (67%). **GCP Student Living (LSE: DIGS)**, with £960m of assets, is of a similar size, but has less debt and an unblemished record. It trades on a 14% premium to NAV and yields 3.2%. It has 4,116 beds in 11 locations, but just 23% of its tenants are from the UK. As with Empiric, this may be an advantage as growth in international student numbers looks assured.

"Despite the advent of full tuition fees in 2012, more than half of school leavers go on to higher education"

Unite provides 75,000 beds for students across the country

The rise of the health centre

The merger of **Primary Health Properties (LSE: PHP)** with MedicX leaves just two companies specialising in health centres: PHP, with £2.3bn of assets and **Assura (LSE: AGR)**, with £2bn. Both trade on large premiums to NAV (38% and 50% respectively). But the attraction is dividend yields of 3.7% and 3.5% that are not only very safe, but also all but guaranteed to be at least inflation-indexed.

Both groups own purpose-built health centres, at least 90% of whose income comes directly or indirectly from the NHS on long-term leases, with the rest coming from pharmacies. Following the acquisition of MedicX, PHP now owns 488 of these, which are 99.5% occupied, while Assura has 560.

These health centres have replaced many of the old, small GP surgeries, but house many more doctors together with modern equipment, clinics,

©Alamy

diagnostic testing, pharmacies and even day-surgery centres. Rental agreements provide for modest annual increases, but there is the potential for more if a property is modified or extended. Expansion comes from buying recently built premises or through funding a developer and then buying on completion, thereby avoiding risks connected with construction.

With only 20% of the PHP portfolio having a lease expiry of less than ten years, there is little opportunity or wish to trade the assets; the value of the shares lies in the rental stream. This makes them comparable to infrastructure funds, except that ownership of the assets is permanent. Strong performance in 2019 means that the shares of both are no longer great value, but they represent sound investments for those seeking secure, growing income.

The "meds" theme also covers two smaller companies that own residential care homes, **Impact Healthcare** (**LSE: IHR**) and **Target Healthcare** (**LSE: THRL**). Target, with £600m of property assets and £100m of net debt, operates 69 purpose-built care homes. Impact, with £311m of property assets and some £10m of net cash, owns 84 care homes and two healthcare facilities leased to the NHS. In both cases, the care homes are leased to high-quality operators for the long term, with built-in rental increases. Both shares seem attractive, with Target trading on a 7% premium to NAV and yielding 5.8%, while Impact trades on a 2% premium and yields 5.7%.

"The NHS and local authorities have not been prepared to increase payments to care-home operators"

Note, however, that the number of care beds in the UK has fallen some 20% since its peak of around 550,000 in 1997. The NHS and local authorities have not been prepared to increase payments to operators by enough to cover escalating costs. In 2011 Southern Cross got into trouble amid an 8% drop in occupancy, the result of fewer referrals due to public-spending cuts. It could not pay its escalating rent bill and became insolvent. Well-run care homes are the most cost-effective way of caring for the elderly, but governments have repeatedly pursued the false economy of squeezing the private operators, who account for nearly all capacity. If this keeps happening, Target and Impact could find their rental income under pressure from struggling operators.

Businesses need more storage space

The self-storage market conjures up images of warehouses crammed with personal possessions. That, however, probably only accounts for a small part of the UK's 20 million square feet of lettable area, with rates varying from £16 per square foot (sq ft) in Scotland to £28 in London. Personal storage is an important part of the market, but the business market is key. For small businesses, storing goods, records and stock at a self-storage unit or lock-up garage is likely to prove much cheaper than doing so at an office or in a shop, particularly with the increasing number of online entrepreneurs operating from home.

Hence the success of the two listed specialists, **Safestore** (**LSE: SAFE**) and **Big Yellow** (**LSE: BYG**), trading at premiums of 52% and 75% to NAV and yielding 2.2% and 2.8% respectively. Safestore, with 149 stores (including 22 in the Paris region) has 6.5 million sq ft of lettable area valued at £1.4bn and Big Yellow, with 75 stores, has 4.6 million sq ft valued at £1.5bn.

Big Yellow's recent interim results revealed revenue and profit growth of 3.4% and 6% respectively, thanks to a small increase in like-for-like occupancy and a 1.9% increase in rent per sq ft. Lettable area increased only 0.7%, although there are 13 development sites, of which six have planning permission. Big Yellow also owns 20% of Armadillo, with 25 stores, which it presumably hopes to buy the rest of. That would give it 6.6 million sq ft in all.

Safestore's recent final results showed a 5.6% increase in revenue and a rise in earnings per share of 6.3%, thanks to increases of 3.5% in average occupancy and a 1% in average rates. It plans four new stores in 2019/2020, but insists that its "top priority remains the growth opportunity of the 1.5 million sq ft of currently unlet space". Big Yellow's occupancy of 83.4% is higher, despite its larger stores, giving less unlet potential and its net rent per sq ft of £27.73 is 6% higher than Safestore's, despite the latter's focus on London and the southeast (70 stores). Both shares trade on 27 to 28 times underlying earnings, so they look expensive despite the solid record and prospects.

ASR strategist Zahra Ward-Murphy acknowledges that "the beds, meds and sheds theme is not new and these sectors have been outperforming for some time. Nonetheless, we like these sectors because they are underpinned by secular demand drivers and therefore should prove relatively resilient to any further slowdown in growth". Business risks look low and dividend yields are reasonable in relation to low interest rates and bond yields, while dividends should climb steadily.

However, with the exception of the recovery story of Empiric and the historically risky care-home owners, valuations are high and vulnerable to market setbacks, so investors should wait for the next general sell-off before eyeing them up.

India's small and mid-caps are set for big gains

A professional investor tells us where he'd put his money. This week: David Cornell of the India Capital Growth Fund highlights three favourites

History tells us that markets swing from colossal optimism to great pessimism. There is no better current example of this than India. Economically speaking Modi has gone from hero to zero and several mega-cap Indian stocks have been battered to multi-year lows. Our strategy of investing in small and mid-cap stocks found us caught in the centre of the crisis, which we have weathered thanks partly to our closed-end structure shielding investors from the worst price fluctuations.

It is too early to sound the economic "all-clear", but the market has found its feet since the government's decision to slash corporate tax rates. Other recent measures to restore growth and optimism include a sale of public-sector assets, aggressive interest-rate cuts and measures to tackle corruption. We believe the nation's small- to mid-cap stocks will have the most to gain from these structural changes; we single out three favourites below. Note, however, that buying stocks in India can be a very bureaucratic process; sticking with a fund is easier.

> *"The drinks market is no longer dominated by 'men of a certain age'"*

India imbibes

Investors would be wise to recognise a shift in drinking habits across India. Traditionally, "men of a certain age" have underpinned a market dominated by whisky and beer as consumption was considered taboo for broader sections of society. However, a major shift is under way as society becomes more accepting, increasing the size of the pie as well expanding the product range. We manage our exposure to this theme through **Radico Khaitan (Mumbai: RDCK)**, the third-largest spirits company in India. Profits have grown at a compound annual rate of around 20% over the last five years. Consumers' tastes are evolving towards their products, especially vodka, which enjoys a 50% market share. Looking ahead, we expect revenue growth of 12% and earnings growth of 20% with years to go before the market matures.

Fast-growing profits in hair oil

We've recently bought into **Bajaj Consumer Care** (BCC) (**Mumbai: BAJAJCON**), the leading manufacturer of almond oil, routinely used as a hair tonic by the male population. This specialist market segment enjoys consistent volume growth of 18% and BCC owns Almond Drops, the leading brand. The investment case is based on demand growth for hair oil remaining steady combined with "premiumisation" as wealthier consumers shift from unbranded to branded products. A modest re-rating of the valuation to 18 times forward earnings combined with conservative growth assumptions implies share-price upside of 20%.

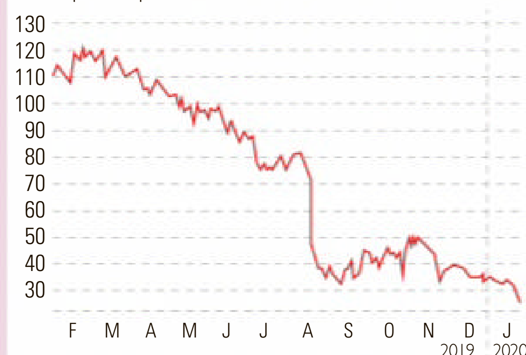
A solid lender to small companies

Beyond the consumer sphere, we have **City Union Bank (Mumbai: CUBK)**, a high-quality private-sector bank with a strong lending business meeting small and medium-sized companies' requirements for working capital. Thanks to a strong, independent board of directors and a well-respected management team, City Union Bank has weathered India's banking crisis comfortably. The bank is winning market share and expanding loans at a rate of 17%-18%, focusing on quality and keeping in line with deposit growth. On a price-to-book ratio of 2.3 the stock is not cheap, but consistent growth and excellent management make up for it.

If only you'd invested in...

Liontrust Asset Management (LSE: LIO) is a fund-management company founded in 1995. It operates a range of funds investing in equities, fixed income and multi-asset portfolios. Assets under management have ballooned in the last year, reaching £19bn at the end of 2019, up from £11.2bn the previous year. Liontrust's recent acquisition of Neptune Fund Management added 19 funds with £2.7bn of assets under management. First half pre-tax profit rose by 19% to £9.3m and investors have enjoyed a rise in the share price of 92% in the last year.

Be glad you didn't buy...



Intu Properties (LSE: INTU) owns and manages commercial property – primarily shopping centres – in the UK and Spain. The share price has been in decline for some time and the past few months have seen another lurch downwards as Intu fought hard to maintain tenants at current rents. The company is attempting to fix its balance sheet by reducing its debt through disposals. Last year, it sold assets worth £479m. But investors remain unconvinced. In the last 12 months the share price has fallen by 74%; it has slid by 91% since January 2017.

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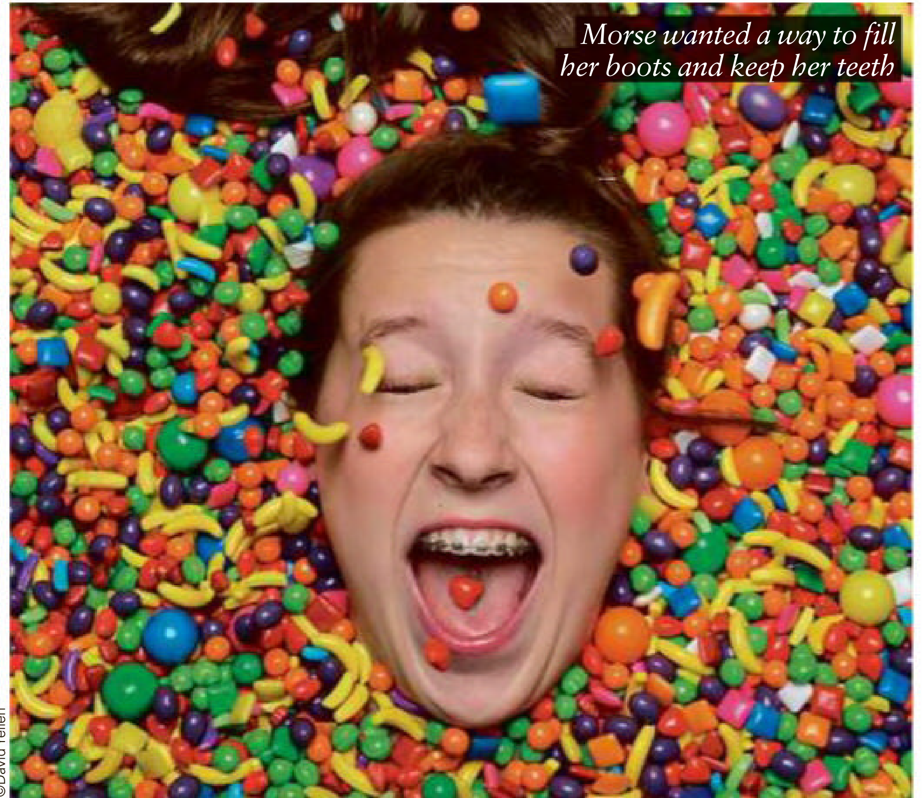
The teenager who made a million

Inside the plain-looking headquarters of multimillion-dollar confectionery company Zollipops there is a corner office decorated with "sparkling pink dance trophies, paintings of smiling suns and construction-paper family trees", says Lakshmi Varanasi in Entrepreneur. The artwork, and the office, belongs to the company's founder and CEO, 14-year-old Alina Morse. Zollipops, which sells sugar-free lollies and other sweets, was born out of Morse's desire for treats that wouldn't "rot her teeth", as her father had warned her after she had been offered one on their way out of a bank.

After two years of online research and home testing, Morse used $3,750 (saved from birthday and holiday presents over the years) to start her company, with a matching investment from her father, says Julia Curley on Today.com. After travelling to various manufacturing plants to get her product made and packaged, she pitched it to Whole Foods. The chain became her first stockist, and she sold 70,000 Zollipops in the first year of business.

Zollipops are sweetened with a combination of natural sweeteners such as xylitol and erythritol, which studies have found to reduce plaque and oral bacteria. Today, the Zollipop is the third best-selling lollipop on Amazon, surpassing classic American brands such as Dum Dums and Tootsie Pops, says Jon Miltimore on Fee.org. They are sold in around 25,000 major retailers in the US, including Whole Foods, Walgreens, Walmart and Kroger. Annual sales were $6m in 2018.


Morse wanted a way to fill her boots and keep her teeth

©David Yellen

Morse's entrepreneurial spirit was encouraged by her parents. Her father gave her the top-selling book *Rich Dad, Poor Dad*, which taught her she could "create a company, but with a mission". While overseeing her company and manufacturing what she calls the world's first healthy sweets, Morse still tries to live a balanced life. Between pitching Zollipops to national retailers and approving packaging, she goes to school and dance class, and still finds time to see her friends.

Bootstrapping your way to success

Kristian Tapaninaho wanted to achieve the perfect homemade pizza. But there was one thing stopping him from creating the "perfect pepperoni", says Peter Evans in The Times – his oven wasn't hot enough. He began looking into pizza ovens, but the cheapest one cost more than £2,000 and was too big to fit inside his house. And so Ooni, the multi-million-dollar company that sells portable pizza ovens, was born. His invention reaches 500°C and costs from £199.

Tapaninaho (pictured) runs the business alongside his wife, Darina Garland, both 38, from their headquarters near Edinburgh. They employ 51 people and made sales of £10m in 2018. Ooni is "unusual" in that it has achieved its success through bootstrapping – it grew quickly and successfully with very little external funding. The couple raised a small amount from family and friends and have run three crowdfunding campaigns on Kickstarter, but they "made a conscious decision to grow the business within its own means and have so far resisted the temptation to take venture capital, despite several offers". In an age of "unicorns and multimillion-pound funding rounds", and record levels of investment seeking the next big thing, bootstrapping can seem "old-fashioned", but it paid off for Ooni. "It can feel like it's more about how much money you've raised than how successful you are," says Tapaninaho.

Bootstrapping ensures that founders remain in control and reap the rewards, even if they don't make as many headlines. It works, too – what started as a "passion project" was named the fastest-growing private business in Scotland, says John-Paul Clark in the Daily Record.

Its sales have grown by an average of 148% every year. Three-quarters of Ooni's customers are men. "It's something to do with mastering fire in the great outdoors," says Garland.

The Amazon for services

Kai Feller, 28, set up his business because he was fed up with wasting hours online looking for service providers, "going through endless pages of options of different people or services and having no idea which was any good", says Lucy Tobin in the Evening Standard. The ordinary person might have reacted by "getting out a duster" instead of searching online for a cleaner, but Feller, then 22, "decided to build a website to get around the problem". Bark.com, the site Feller co-founded with serial tech entrepreneur Andrew Michael (on the right in the picture), was his "light-bulb moment". It now has five million users booking services from professional gardeners to accountants. Turnover doubled from £10m in 2018 to £20m in 2019.

Feller had previously co-founded a booking app called Socialite, through which he met Michael. The duo launched the site in 2015 from a shed on the side of Michael's apartment. At first traders subscribed to Bark for £50 per month for any number of business leads, but this wasn't scalable, as some would get a "few bites" while others would get hundreds. They made the switch to "Bark credits" – they cost around £1 and professionals need to use one to respond to a business enquiry – which "paid off massively".

"The site was so popular and scaled so quickly that the basic prototype we initially launched was live for years before we took it to the next level," says Feller. The pair run Bark from a Paddington office and are known for throwing lavish parties. The "work hard, play hard" environment delivers results – Bark has launched in the US, Canada, South Africa and Ireland. Next year they are planning to launch in Australia, New Zealand, Europe and "potentially Asia too". The aim is to become "the Amazon of services".

©Alamy

The colourful scamp who saved BA

Willie Walsh is standing down after 15 years in the cockpit at Britain's flagship airline. Few will miss his combative approach, but the industry is losing one of its most colourful characters. Jane Lewis reports

"With his cherubic face and five quid haircut", there's "something scampish" about Dublin-born Willie Walsh, 58, who this week announced his retirement from British Airways after 15 years in the cockpit. But talk to anyone who's worked with him and they paint a different picture. "Combative" is one word which crops up often. "Obstinate" is another.

Indeed, "there will be few tears shed at his departure", says the FT. Although respected, Walsh's "ruthless approach to cutting costs" (which earned him the nickname "Slasher" at Aer Lingus where he ditched the airline's art collection along with 2,000 jobs), coupled with his "pugnacious management style", won him few fans at the companies he oversaw. A renowned scourge of unions, "he showed little compunction in resorting to the courts to drive through the changes he deemed necessary to the long-term interests of the airlines he ran".

"Walsh upped the ante in his bet with Sir Richard Branson – suggesting the stake should instead be 'a knee in the groin'"

The union man who switched sides

Still, Walsh delivered results. And how, says the Evening Standard. When the "ever-energetic" Irishman replaced Rod Eddington as the head of BA in 2005, the airline was in a jam – beset by a tricky global economy and "low-cost market entrants" who were eating the British flag-carrier's lunch. Yet he went on to transform the airline's fortunes by orchestrating "one of the landmark deals in the history of European commercial aviation", says The Observer. Bringing together BA and Iberia to create the International Airline Group (they were later joined by Aer Lingus) was an inspired move. So too was Walsh's drive to establish the dominant position at London's Heathrow airport. He restored BA to profitability – last year it generated €2.3bn out of IAG's total €3.23bn profits. And shareholders have trebled their money since he took the controls.

Walsh is one of the longest-serving CEOs in the FTSE 100, says the Daily Mail. The second child of a Dublin glazier, he started out as a pilot with Aer Lingus, rising quickly to become a 737 captain. After forging a reputation as "a formidable negotiator for the pilots' union", the airline's management "swiftly realised this bug-eyed streetfighter might be rather more useful to have on their side". They were right. Walsh rose quickly to take the boss's chair and returned Aer Lingus, then teetering on the brink of collapse following the 9/11 attacks, to health.

The stuff of legends

Aviation is full of characters, says The Observer, but Walsh's retirement means "the industry is losing one of its most colourful". His protracted rivalry with Sir Richard Branson was the stuff of legends. When Branson bet Walsh £1m that the Virgin Atlantic brand would survive a tie-up with Delta, Walsh upped the ante – suggesting the stake should instead be "a knee in the groin". Detractors claim the service at BA, which once claimed to be the world's favourite airline, has suffered under his watch. More worryingly, several high-profile glitches – including a severe systems failure in 2017 – have raised questions about under-investment.

Still, it's hard to imagine that this "pint-sized human jet engine" will be short of future job offers, says the Evening Standard. And even harder to imagine that he'll eventually shut up. The week of Walsh's departure announcement found him in typically combative form – denouncing the government rescue of rival Flybe as a "misuse of public funds". (See page 10.)

Great frauds in history... *Sergey Mavrodi's Ponzi scheme*

©Getty Images

Sergey Mavrodi was born in Moscow in 1955 and went on to study at the Moscow Institute of Electronics and Mathematics before launching his own business. He was briefly jailed for black-market activity in 1983. In 1989, he took advantage of the end of communism to launch MMM. Initially, this was a business importing computers; it transformed into a financial investment scheme in 1994.

What was the scam?

Mavrodi sold shares in MMM, promising investors up to 3,000%-a-year returns for investing in newly privatised companies. In reality the fund was a Ponzi scheme, where money from new arrivals paid earlier investors. MMM's TV adverts, which portrayed a simple Russian man who becomes rich via Mavrodi's scheme, acquired cult status, and the fact that some people were indeed making huge fortunes from privatisation led to some five to ten million Russians buying in to the fraud.

What happened next?

The Russian authorities quickly became aware of Mavrodi's scam, but were helpless to stop it because running a Ponzi scheme was not illegal at that time in Russia. As a result of the sky-high interest rates that the fund was paying, however, MMM quickly ran out of money and Mavrodi was briefly jailed for income-tax evasion. He then turned the tables on the authorities by successfully running for parliament (he claimed this was the only way investors were going to be able to get their money back), giving him immunity from further prosecution. Mavrodi was stripped of his parliamentary immunity in 1996, but he went into hiding and was not arrested until 2003.

What were the losses?

Some estimates put gross investor losses as high as $1.5bn, though this includes the fictitious balances of those who reinvested their "returns" and doesn't take into account the winnings of those who withdrew their money before MMM collapsed. Still, there is no doubt a lot of people were left out of pocket. This didn't stop Mavrodi launching a similar scheme in 2011, this time targeted at investors in Asia and Africa. Despite the fact that he was open about the fact there were no underlying investments, his scheme again attracted a large number of investors and was only halted by his death in 2018.

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Welcome 2020 with these classy wines

To ease ourselves into 2020, I have selected six wines from the amazing team at Swig; each wine has been chosen for its ability to soothe the palate and calm the senses. All three whites are unoaked, sleek and perfumed while the trio of reds includes brightly fruited, medium-weight, refreshing styles to lift your mood and set the scene for the coming year. Swig always trim their prices considerably for this wine club, and I know that readers greatly appreciate this generosity of spirit. You can save nearly £38 on the mixed case, giving you two bottles of each wine below. Then I suggest you give Swig a ring and spend this windfall on a few more of their incredible and unique finds.

Happy New Year!

Matthew

Matthew Jukes

- **All wines come personally recommended**
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Prices shown below are per case of 12 bottles. Wines are also available in a mixed case, giving you two bottles of each for **just £150** — it's a chance for you to try them all, and is the most popular choice with *MoneyWeek* readers!

~~£14.95~~ £11.95

2018 Camaleo, Alvarinho, Minho, Portugal

As the years pass, I fall deeper in love with the Alvarinho grape at the same time as tiring of the overly perfumed, inexpensive Spanish versions, where this grape is called Albariño. Camaleo is a pure style which flows across the palate calming every single taste bud with its floral tones. With more depth of fruit than a traditional Vinho Verde, this is a thrilling wine with an awful lot of class. See if you can spot the Chameleon on the label change colour when the wine is the right temperature to drink. I missed this – perhaps I was too thirsty!

CASE PRICE: £143 — saving £36.40

~~£11.95~~ £9.95

2018 Laurence de Veyrac, Viognier, Sélection Parcellaire, Pays d'Oc, France

I cannot believe the value here; this is a highly complex wine with a modest and engaging approach on the palate. The Viognier perfume is bright and accurate, yet not too tropical or imposing, making it a joy. Gentle fennel and wildflower notes mingle with crystalline honey touches and unripe peach skin. This beguiling white is akin to a summer stroll through the Languedoc countryside. Simply gorgeous with fresh fish and seafood dishes, particularly if you're using aromatic veg, garlic, scented herbs or saffron in your recipe.

CASE PRICE: £119 — saving £24.40

~~£19.95~~ £16.50

2018 Bourgogne Pinot Noir, Les Brûlis, Domaine de Mauperthuis, France

I tasted two red wines from this estate and I liked both of them. Les Brûlis got the nod because it was so attacking and energetic on the nose and palate (if you're keen to taste the other one, it's the 2017 Grande Réserve). This young, sonorous red has true fruits-of-the-forest notes on both the nose and palate. Even though it is a slim, slinky-hipped red it still packs a punch of flavour that many red Burgundies can only dream of. I'm often disappointed by fighting-priced Pinot Noir, but this wine is a splendid discovery.

CASE PRICE: £198 — saving £41.40

~~£16.00~~ £13.50

2018 Winter, Riesling Trocken, Rheinhessen, Germany

"Trocken" means "dry" and this is a precise and invigorating Riesling. Unlike so many trockens out there that seem to load fruit juice notes into the mid-palate, this wine has crunchy acidity that underpins the lime juice theme, meaning it's dry and raspy on the finish. Winter is designed for ultra-modern cuisine – sushi and sashimi, Thai fresh spring rolls, Pad Thai with loads of lime juice squeezed on top, coconut milk themed curries and spicy squid and prawn dishes. This is a vital wine in your fridge!

CASE PRICE: £162 — saving £30

~~£17.00~~ £13.50

2017 Chianti Rufina, Cedro, Fattoria Lavacchio, Tuscany, Italy

I attended a wedding at this property last year and it is a truly beautiful set up. The wines are what I affectionately call "gluggers" - not too heavy or chewy. Youthful, buoyant and refreshing, this fresh Sangiovese is red fruit themed with crisp acidity on its finish. There is a light dusting of tannin here, but it is largely overtaken by the ebullient fruit. It's a good all-day red, as I found out while standing under their magnificent cedar tree, which features on the label!

CASE PRICE: £162 — saving £42

~~£13.95~~ £11.50

2016 Mas Brunet, Cuvée du Mazet, Languedoc, France

I am a huge fan of this estate and its utterly delicious wines. Situated around 40 minutes north of Montpellier, Mas Brunet makes Côtes-du-Rhône-shaped wines but with more lift and vivacity than you might have thought possible from this style. With a mere 13% alcohol on board, and made from Carignan, Cinsault, Grenache, Mourvèdre and Syrah, Cuvée du Mazet is a polished, spicy, medium-weight red with a faint whiff of woodsmoke in among the heady red and black fruit flavours. It is the definitive red wine for all palates and occasions.

CASE PRICE: £138 — saving £29.40

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Where to go in 2020

Broaden your horizons in the new year with a visit to these travel destinations. Chris Carter reports

An ancient castle in Umbria

Castello di Reschio in Umbria, central Italy, is more than a thousand years old, says Annabelle Thorpe in The Times. It is sure to enchant guests when it opens its doors as a hotel for the first time in June. "The converted tenth-century castle is part of a sprawling 1,500-hectare estate and will have 36 rooms, mixing traditional – terracotta floors, marble bathrooms, ancient beams – with contemporary styling." Il Torrino, located in the watchtower, is one of two restaurants. Activities at Castello di Reschio include tennis, cookery lessons and horse riding. *Rooms from £676 a night, slh.com*

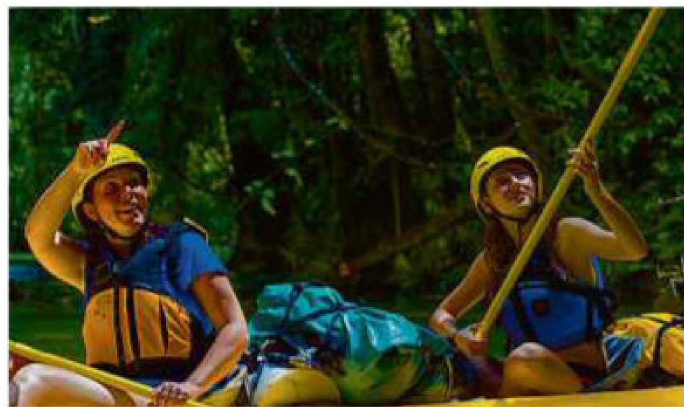
Castello di Reschio in Umbria is sure to enchant guests

Skiing in Copenhagen city centre

Where else can you go skiing in a city centre? asks Rachel Dixon in The Guardian. CopenHill is a huge new urban ski slope, built "atop a renewable waste-to-energy power plant". It even has running and hiking trails, and the world's highest outdoor climbing wall. The Danish capital's green credentials go further than the power plant. Copenhagen has pledged to go carbon-neutral by 2025, and it is well on the way to achieving that goal. More than two-thirds of its hotels hold an eco-certificate. One of the newest is the industrial-chic Hotel Ottilia (from £120 B&B, brochner-hotels.com), converted from two former brewery buildings in the emerging Carlsberg City district. It serves an organic breakfast, hosts a "wine hour" in the late afternoon (you get a free glass) and the rooftop restaurant has views over the city.

Exploring the rainforests of Belize

With its pristine coral reefs, jungle rainforests and remote Mayan villages, Belize is an "ideal getaway" if you enjoy a more active holiday, says Wanderlust. The "Epic Belize" trip from tour operator Island Expeditions "showcases the best of this compact Central American gem". The adventure begins in Bocawina National Park at a remote rainforest eco-lodge in the southern Maya Mountains. Then travel south for a traditional meal in the Maya village of Santa Teresa and afterwards kayak the rapids and canyons of the Moho River. Then head to Dangriga for a boat ride to Glover's Reef Marine Reserve. "You'll spend four nights at this Unesco World Heritage site, sea kayaking and snorkelling the azure blue waters." *$2,999 for nine nights, February to April, islandexpeditions.com*



An undiscovered gem

While Georgia has grown in popularity, its southern neighbour "has remained relatively off the radar", says the Financial Times. That said, bookings to Armenia with

tour operator Wild Frontiers (wildfrontierstravel.com) are up 100% compared with a year ago and a host of airlines are due to start flying to the capital, Yerevan.

The west Asian country's medieval monasteries and churches, "many of them set among dramatic mountains", are the main draw. Geghard monastery (pictured), for example, was cut into the rock of the Upper Azat valley and was completed in the 13th century. It is now a Unesco World Heritage site, together with the monasteries at Haghpat and Sanahin. "Yerevan and the wine-lands are also fascinating." Both country and capital are an "unexpected delight that you need to discover before the secret gets out", Justin Wateridge of Steppes Travel (steppestravel.com) tells the paper.

Mozambique is now more enchanting than ever

"With dozens of white-sand islets ringed by vibrant marine life, Mozambique is Africa's under-the-radar answer to the Maldives," says Bloomberg Pursuits. It's "more enchanting than ever". That's partly down to its "most impressive newcomer", Kisawa Sanctuary ($5,500 a night, kisawasanctuary.com). Each of the resort's dozen rooms sit on a full acre of sand on Benguerra Island. The structure was apparently partly 3D-printed, combining sand and seawater to make mortar. The resort's non-profit arm, the Bazaruto Center for Scientific Studies, will use the technology to help propagate local coral reefs. May to September is the time to go for "great" beach weather and "prime wildlife viewing" if tacking on a visit to Gorongosa National Park. When the resort opens this summer, "it will immediately become one of the most coveted spots, not only in Africa but anywhere on earth".

This week: houses for around £800,000 – from a Victorian cottage in an Area of Outstanding Natural Beauty in

Noyadd Trefawr Ponthirwaun, Cardigan, Ceredigion. This Grade II-listed, 16th-century house is set in 10.76 acres of grounds that include a lake and a cottage in need of renovation. It has open fireplaces with wood-burning stoves and a kitchen with a Redfayre cooking range. 9 beds, 6 baths, 6 receps. £800,000 West Wales Finest 01239-615915.

Orchard Cottage, The Village, Temple Guiting, Gloucestershire. A Victorian cottage in a village in an Area of Outstanding Natural Beauty. It retains its original exposed timbers and has a contemporary kitchen with a range cooker and an attic bedroom with a vaulted ceiling. 3 beds, 2 baths, recep, front and rear gardens. £725,000 Savills 01451-832832.

Achamore House, Isle of Gigha, Scotland. A Grade B-listed, Arts and Crafts mansion overlooking Achamore Gardens, which are managed by the Gigha Trust, who also maintain the rhododendron collection at Achamore House. It has a 16th-century Gothic fireplace and herringbone parquet floors, and a panelled drawing room. 13 beds, 8 baths, 3 receps, billiard room, wooded area, 2 acres. £750,000+ Savills 0141-222 5875.

Temple Guiting, Gloucestershire, to a mews house in a cobbled close in Clapham Common, London

Heath Farmhouse, Homersfield, Harleston, Norfolk. A Grade II-listed, Elizabethan farmhouse in the Waveney Valley. The interiors include many original features, including herringbone brick flooring, exposed wall and ceiling timbers, three original staircases, two Tudor fireplaces and a large brick oven, and many 17th-century doors. 7 beds, 2 baths, 3 receps, breakfast kitchen, game larder, study, studio, outbuilding, vegetable garden, 0.7 acres. £825,000 Durrants 01379-852217.

Craven Mews, London SW11. A mews house in a cobbled close, near to both Clapham Common and Clapham Junction station. It has a contemporary interior with an open-plan, ground-floor reception and kitchen area and two upstairs bedrooms, one with a built-in wardrobe. £800,000 Savills 020-3428 2222.

Treverven, Llangarron, Ross-on-Wye. This restored, Grade II-listed farmhouse is surrounded by open countryside and comes with a derelict cottage and a substantial workshop in the grounds. It has flagstone floors with underfloor heating, beamed ceilings, open fireplaces with wood-burning stoves, a turned Elm staircase and a bespoke, fitted kitchen. 6 beds, 4 baths, 2 receps, cellar, stable, gardens, paddock, 1 acre. £799,950 Richard Butler 01989-567979.

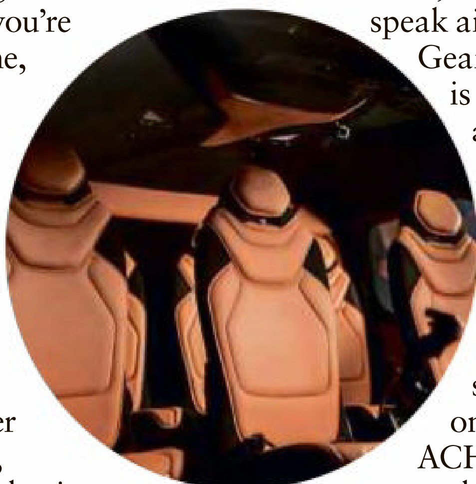
The Manor House, Folkingham, Lincolnshire. This restored, Grade II-listed manor house has landscaped gardens that include a tennis court. It has beamed and vaulted ceilings, exposed brickwork, and a large country-style kitchen with an Aga. 6 beds, 3 baths, 2 receps, library, conservatory, 3 stables, summer house, greenhouse, walled gardens and grounds, 1 acre. £850,000 Strutt & Parker 01858-438723.

Lower House, Adforton, Leintwardine, Ludlow, Shropshire. A 17th-century house in large gardens close to the village of Leintwardine. The house is currently run as a four-star B&B, with one cottage used as part of the business and two let on a short-term basis. The house has beamed ceilings, open fireplaces with wood-burning stoves and a breakfast kitchen with an Aga. 6 beds, 6 baths, 3 receps, study, orchard, 1.2 acres. £800,000 Strutt & Parker 01584-873711.

A luxury chopper for Bond villains

If you've a few million to spare, the man at Aston Martin wants to talk to you, says Chris Carter

"When they make the film about your life – the one where you win the billion-dollar lottery after finding the winning ticket in the gutter – how will you arrive in the opening credits?" asks James Gilboy in The Drive. If you're thinking of a limited-edition Porsche, you're not thinking big enough. Those who find themselves in such a situation can now be catered for by French aircraft maker Airbus and luxury British car brand Aston Martin, who have teamed up for 12 months "to build branded VIP helicopters for ballers and Bond villains". That means the standard Airbus ACH130 helicopter is getting a luxury Aston makeover, including an exterior Aston-branded paint job and a luxury leather interior with suede trim. "If you spend so much time in luxury helicopters that they all become a blur, embossed Aston Martin wings on this chopper's headrests and a plaque on the instrument panel serve to remind you that you're in the nicer-er version."



The Airbus engine delivers 952shp (or "specific horsepower", a measure that offsets power with how much the engine weighs) and can cruise at 134 knots, which is 154mph "if you don't speak aircraft", says Ollie Kew for Top Gear magazine. But the "tech spec" is irrelevant. For this chopper, it's all about style. "A British Racing Green helicopter with a tan leather interior? There must be few more tasteful ways to arrive at your plastic surgeon's dog walker's accountant's summer retreat."

What can you expect to pay for such exclusivity? Prices are strictly on application, but a standard Airbus ACH130 helicopter will set you back around £2.4m, says Luke Wilkinson for Auto Express. Aston Martin's chief creative officer, Marek Reichman, doesn't think the final price tag, whatever it is, will deter the helicopter's target market. In other words, if you have to ask, you probably can't afford it. Deliveries are to start in the first quarter of this year.

"The price tag? If you have to ask, you probably can't afford it"

Wine of the week: a superb red from Georgia

NV Vachnadziani, Saperavi, Kakheti, Georgia
£9.59, Fintry Wines, 01206-366599, fintrywines.co.uk

Matthew Jukes
Wine columnist

This is a world first for me. Not only is this my first Georgian wine write-up in 700 columns in this esteemed publication, but it is also the first Georgian wine I have ever recommended in my 33 years in the wine trade. And what a way to kick off my appreciation of the intriguing vinous creations from this so-called "cradle of wine".

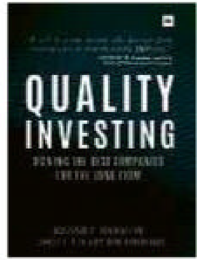
Indigenous rkatsiteli grapes' seeds have been found in 8,000-year-old clay vessels in Georgia, so this country has had some practice at the wine game. Vachnadziani was established in 1953 and it is one of the oldest commercial wineries in Georgia. Considerable investment has been ploughed into this estate, after years of neglect under Soviet rule, to bring it up to pace with today's fast-paced wine world. With more than 1,000 hectares of vineyards planted and a large array of indigenous varieties in the portfolio, too, Vachnadziani has set itself up to champion ancient Georgia and embrace modernity.

Saperavi is a "teinturier" grape – one of only a handful of red grapes whose flesh is pink, not clear. Accordingly, this is a particularly fruit-packed wine. This superb red is unoaked, nicely weighted at only 13% alcohol and it is bright, clean and juicy. There is a decent twist of spice bringing detail to the plummy core. It is the warmest and most convivial welcome I can imagine for those of you new to Georgian wines.

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

Book of the week

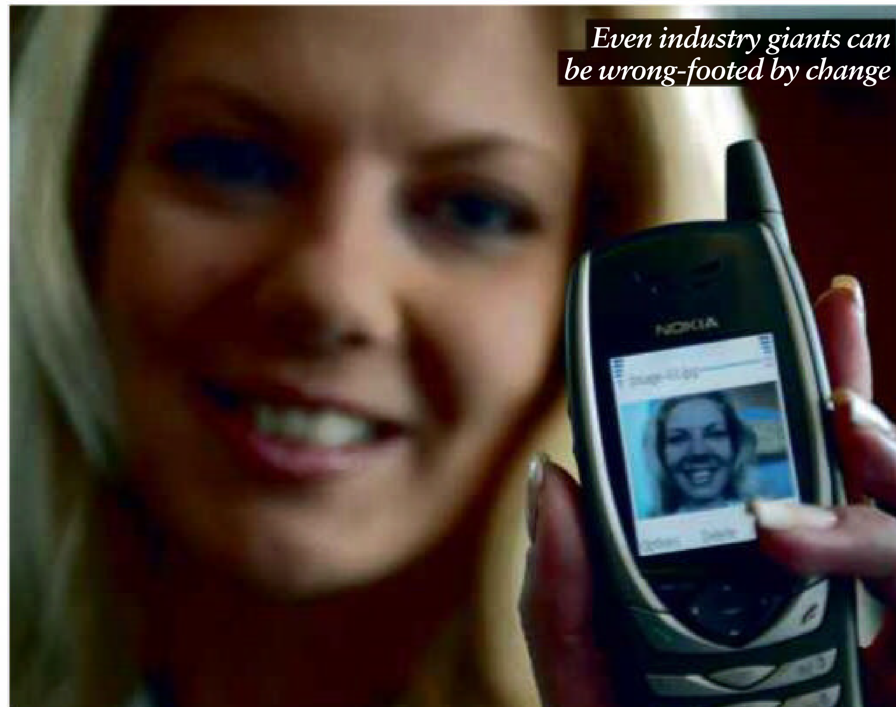
Quality Investing
Owning the Best Companies for the Long Term
By Lawrence A. Cunningham, Torkell T. Eide and Patrick Hargreaves
Harriman House, £35



Until recently, growth investing was simple: just find the companies with the fastest sales growth and the hottest products. However, as the FAANGs (Facebook, Apple, Amazon, Netflix and Google) start to wobble and a whole host of high-profile technology initial public offerings fail to ignite, this may no longer be the guaranteed path to success that it once was. Fund managers Torkell T. Eide and Patrick Hargreaves think that, instead of just focusing on sales or revenue growth, you'd be better off focusing also on quality. In this book (written with Lawrence A. Cunningham) they explain how to find such companies.

The book is divided into four parts. The first details what distinguishes quality firms from their peers – they identify such features as high return on capital, which allows firms to balance the needs of shareholders and the business. A strong management team and a competitive advantage can also help companies stay one step ahead of the field.

In the second section, the authors take a more detailed look, offering several real-life case studies, at the tactics companies can use to make above-average profits.



Even industry giants can be wrong-footed by change

©Getty Images

> *"Even if you remain unconvinced by the arguments, taking on board the lessons will make you a better investor"*

Quality investing is not without its risks, so the third section addresses what can go wrong. As the authors demonstrate, even the best companies aren't immune to changes in the wider market or shifting consumer tastes. Disruptive technological change can also destroy business models and even entire industries, as companies such as Nokia have found to their cost.

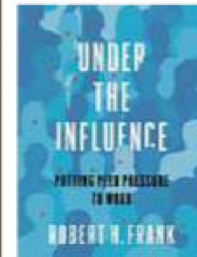
Having looked at the theory of quality investing, the authors switch their focus towards the practicalities in the final part of the book and look at how you should use quality stocks to build a portfolio that can grow wealth over time.

Much of what is in the book fits in with MoneyWeek's general message – namely, the importance of buying good firms with a competitive advantage or an "economic moat" (a barrier to competition) at a reasonable price. Still, even regular MoneyWeek readers will find new ideas and techniques in this book. The second chapter is particularly useful as the patterns it outlines will make it much easier for you to spot firms that might be worth investing in. The fourth chapter gives some useful suggestions about when to buy and sell, and how to avoid some common psychological traps.

The book is well worth reading. Even if you remain unconvinced by the authors' specific arguments, taking on board some of their lessons and tips should still help make you a better investor.

Reviewed by Matthew Partridge

Under the influence
Putting Peer Pressure to Work
By Robert H. Frank
Princeton University Press, £22
Out on 28 January



Robert H. Frank of Cornell University is the latest in a long line of thinkers to question the assumptions of mainstream economics. Standard economics assumes that people behave rationally. In fact, our choices are heavily influenced by what other people are doing. Frank argues that the fact of peer pressure undermines many of the assumptions of classical economics and provides a strong justification for targeted government intervention.

The classic example is smoking. Most people knew smoking was bad for them by the early 1960s, and most smokers want to quit, but it took a long time to get smoking rates down because people were influenced by their friends or just went along with it in order to be social. It took a long time and a lot of illness and deaths to begin to reverse this. Peer pressure can work for the good too, of course – social pressure has led to concerted government action to clean up the environment .

Does this mean that the targeted interventions Frank endorses will do any good? Not necessarily: politicians are not immune from groupthink themselves. It would also have been interesting to hear more about how social contagion affects financial markets. Still, this is a fascinating look at the way other people unconsciously determine our everyday behaviour and is a useful addition to the many works on how human psychology affects economic decision making.

Book in the news... the dramatic rise and fall of Big Tobacco

The Cigarette
A Political History
By Sarah Milov
Harvard University Press, £28.95

Few industries have come to be more reviled than tobacco and that's little wonder given its products' role in causing a wide range of diseases and premature deaths. Still, tobacco played a major role in shaping American society and the economy, especially in the south, "from the colonial era onwards", as Brooke Masters points out in the Financial Times. *The Cigarette: A Political History* looks at the industry's dramatic rapid rise in the first half of the 20th century through to its fall from the 1950s onward as the image of cigarettes changed from being "a cool, luxurious reward" to a "filthy habit that sapped productivity and damaged lives".

This isn't the first book to document the harm wrought by "Big Tobacco", but the author of this one has provided the "premier account" of the way the cigarette industry "evolved and adapted and neutralised lawmakers and regulators", says Scott Stern in The New Republic. Reading the story of how tobacco companies attempted to downplay the links between smoking and cancer makes it easier to appreciate how many industries employ similar tactics today. Oil and gas companies, for example, have copied tobacco's strategy of using "shoddy science, constant PR and the deliberate dissemination of doubt" to delay action on global warming.

The story of tobacco's rise is a little more complicated than one of virtuous government regulation tackling the misdeeds of private business though, says Barton Swaim in The Wall Street Journal. Indeed, the irony is that it was government intervention that "first enabled the cigarette to prevail in American society", with the industry enjoying generous levels of state support. It was only later on that the government turned against its creation, with a mixture of taxes, regulations and class-action lawsuits. Still, whatever your political views, this book is "an impressive work of scholarship evincing years of spadework in primary and secondary sources" and, the odd bit of academic jargon aside, Milov tells the story well.

Megxit means having cake and eating it

Prince Harry and wife Meghan are quitting their royal duties. Will the taxpayer remain on the hook?

They say that January is a bad time to go freelance, but no one seems to have told Prince Harry and his wife, Meghan. After "months of reports" about their "unhappiness with life in the public eye", the couple have announced their "effective resignation from public duties", reports Robert Wright in the Financial Times. They have promised to continue to "fully support" the monarchy, but will step back from their duties and seek to become "financially independent". They are likely to spend more time in North America, possibly Canada.

And what do you do?

©Getty Images

> *"The couple may become globe-trotting ambassadors for charity, but this might be difficult if royal relations are severed"*

Good for them, says Gaby Hinsliff in The Guardian. It's no surprise that Prince Harry is tired with "struggling to conform to a role about which he has been ambivalent since childhood", or that Meghan is unhappy with the pressure "to become an old-fashioned wife with no opinions of her own". Still, their desire to become financially independent of the taxpayer "raises practical questions that are harder to dismiss". One of the most obvious is how exactly are they planning to make the kind of money to which they are accustomed "without dragging the head of state through some dubious commercial mud"?

The perils of going it alone

Someone who could tell them a thing or two about the perils of "going it alone" is Harry's aunt by marriage, the Countess of Wessex. She set up in business following criticism about not having a job, only to be forced to resign from her PR firm when she was taped "gossiping indiscreetly about Prince Charles and Tony Blair". Prince Andrew and his associations with a string of dubious characters provide another cautionary tale. Meghan and Harry may want to turn their back on commerce in favour of becoming "globe-trotting ambassadors with a social conscience" backed by a charitable foundation. But this might be difficult, since "foundations drink money" and it's not easy finding billionaires with "spotless ethical records" willing to donate for "strictly altruistic" reasons, rather than "in the hopes of cashing in on the royal connection".

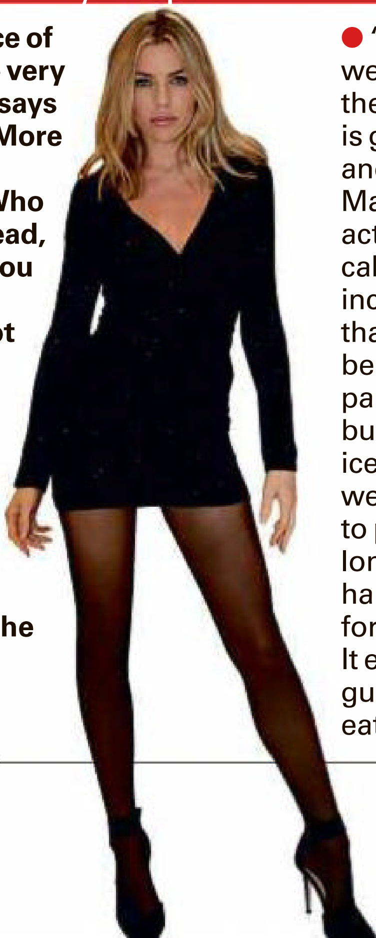
Still, whatever happens, the couple are unlikely to end up short of ready cash, says Terri-Ann Williams for Mail Online. Prince Harry has a net worth of around £30m, having inherited more than £20m from his mother and around £7m from his great-grandmother, the Queen Mother. His wife's fortune is estimated at £4m thanks to a television career that saw her earn around £40,000 an episode on *Suits*, and £150,000 per film appearance.

And if they get into real difficulties, Harry only has to look to Dad for support, says Sally Holmes for Marie Claire. At the moment the Sussex's direct support from taxpayers covers just 5% of their operating costs. The rest of the money comes from the Duchy of Cornwall, run by Prince Charles. This private estate, which was established in 1337 and "covers 53,000 hectares of land in 23 counties", along with a financial investment portfolio, is considered the private property of Prince Charles. This means that Harry and Meghan could still receive an income from it even if they retire from royal duties. Now that's what I call having your cake and eating it.

Quintus Slide

Tabloid money… an apple a day keeps snake oil away

• "If you are willing to take the chance of injecting poison into your face, at the very least you want a predictable result," says Karren Brady in The Sun on Sunday. More often than not, however, the results don't turn out quite as you hoped. "Who wants eyebrows at the top of their head, lips that come into the room before you do, or a forehead that doesn't move? Not me, that's for sure." That said, not only is the "gorgeous" model Abbey Clancy (pictured) apparently having hyaluronic acid fillers and vitamin and micro-Botox injections in her face, she is doing it with 20 needles at once. It's called the "aquagold facial", because each needle is covered in 24-carat gold. "Some might say this is a slippery slope to the stronger stuff but Abbey looks amazing. So it has to be worth a try, don't you think?"



• "Gwyneth Paltrow, goddess of wellbeing, eliminator of life's toxins, the way and the light to a better you, is galloping towards us on her kale-and-crystal unicorn," says Lucy Mangan in The Mail on Sunday. The actress has a new series on Netflix, called *The Goop Lab*. It is the latest incarnation of her lifestyle brand that brought you £179 meditation bells, £30 detox bath salts and loo paper for £632. Yet hers is a serious business and it is just the tip of the iceberg. "Beneath her lies an entire wellness industry that is dedicated to preying on our insecurities, our longing for shortcuts to health and happiness, our ceaseless searching for new ways to fix old miseries." It exploits our vulnerabilities and gullibility. "Mostly, we should just eat an extra apple."

• "I know the Kardashian/Jenner daughters are like pneumatic cartoons, but the latest burbling nonsense from Kylie Jenner crossed a line," says Lorraine Kelly in The Sun. The reality television star posted a message on Instagram about her "heartbreak" over the numbers of animals dying in the wildfires in Australia. "This was closely followed by an image of her perfectly pedicured feet wearing a gruesome pair of pink designer slippers made from real mink fur." Cue the "backlash over her hypocrisy". That prompted Jenner to donate around £700,000 to the relief efforts. That sum will, of course, be welcome, but "you can't help thinking the gesture was more about… salvaging her image than a truly altruistic act of compassion".

©Shutterstock

Bridge by Andrew Robson

Enlist your opponents' help

West kicked off with a spade and declarer was faced with two losers in each minor (unless an opponent held a doubleton Ace of Diamonds and he could guess to lead a low Diamond through that opponent and duck on the way back). What to do?

The answer was to enlist the opponents' help. If *they* lead a Diamond, your chances of avoiding a second loser are vastly improved.

Dealer South — East-West vulnerable

North: ♠ K62 ♥ K9762 ♦ Q95 ♣ 93

West: ♠ Q975 ♥ J8 ♦ J84 ♣ AQ87

East: ♠ J1043 ♥ Q ♦ A102 ♣ K10642

South: ♠ A8 ♥ A10543 ♦ K763 ♣ J5

The bidding

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

* What is known in the trade as a "two-way shot". Four Hearts may make; or it may pre-empt the opponents out of a making contract (or push them overboard).

Winning the Ace of Spades, declarer drew trumps with the Ace-King, crossed to the King of Spades, ruffed a third Spade (to eliminate the suit) and then cut loose with a Club.

Dummy's nine of Clubs lost to East's ten and a second Club was won by West. Needing to broach Diamonds, West did the best he could, exiting with the eight. But declarer's spots were just too good. He covered with dummy's nine, took East's ten with his King, then led the seven. West covered with the Knave, dummy's Queen being taken by East's Ace. But declarer's precious six was the third-round master and the game was his.

Note, if West had exited with the Knave of Diamonds rather than the eight, declarer could have succeeded by covering with dummy's Queen. East would have to win the Ace, but would then be endplayed to lead away from his ten. And note if South's lowly six of Diamonds was swapped with an opposing lower Diamond, he'd be scuppered – provided West exits with the eight.

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

Sudoku 982

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

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

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

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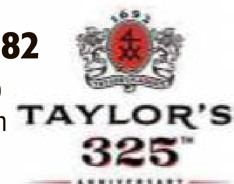
Tim Moorey's Quick Crossword No. 982



A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 27 Jan 2020. Answers to MoneyWeek's Quick Crossword No. 982, 31-32 Alfred Place, London, WC1E 7DP.

Across clues are mildly cryptic whereas down clues are straight

ACROSS

1 Most here are not working! (4, 4)
5 Girl left behind in America (4)
9 Part of a flight from Budapest airport (5)
10 Exceptional lager? Sounds like it (7)
11 All is revealed when butchers display higher prices? (3, 4, 2, 2)
13 Aim for a top part in church (6)
14 Secure shelter (6)
17 A little power racing with a Mercedes triggers this? (5, 6)
20 Magazine for London football team? (7)
21 Article bores the Queen? Heavens above! (5)
22 Cut down Northern moor (4)
23 Keep some jam (8)

DOWN

1 Ill-considered (4)
2 New type of business (5-2)
3 Canny bargaining (5-7)
4 Middle East capital and port (6)
6 Book containing maps (5)
7 Moral standards (8)
8 Notwithstanding (12)
12 Debauched Shakespearean character (8)
15 Garrulous nonsense (7)
16 Brief visitor (6)
18 Artist's equipment (5)
19 French cheese (4)

Name

Address

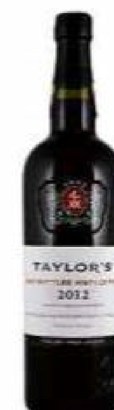
Solutions to 979/980

Across 1 Angel cakes **8** War-drum *ward rum* **9** Danes *anagram* **10** Gnat *tang rev* **11** Take five *two definitions* **13** Eta *hidden* **14** Ozone *O zone* **15** Sip *skip less K* **16** Infernos *Infer nos* **18** Clot *L in cot* **20** Naomi *reversal* **21** Islands **22** Strategist *anagram.* **Down 2** Nirvana **3** Ebro **4** Campanologist **5** Kedgeree **6** Sinai **7** Osteopaths **8** Wagnerians **12** Courtier **15** Splints **17** Flops **19** Flog.

The winner of MoneyWeek Quick Crossword No. 979/980 is Jonathan Davies of Swansea

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

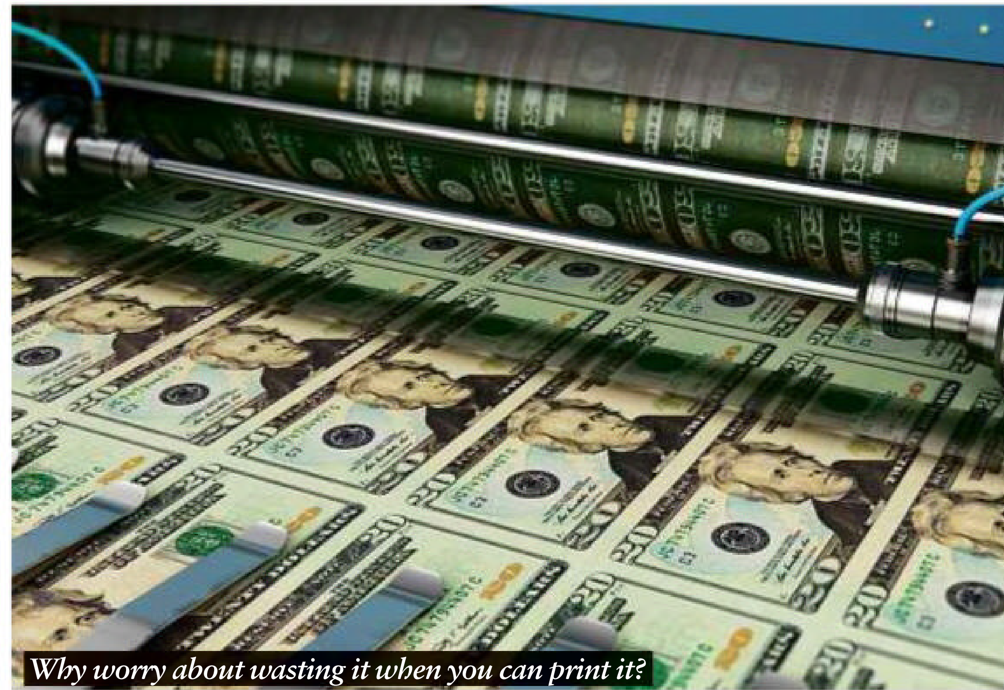
Taylor's, a family firm for 325 years, is dedicated to the production of the highest quality ports. Late Bottled Vintage is matured in wood for four to six years. The ageing process produces a high-quality, immediately drinkable wine with a long, elegant finish; ruby red in colour, with a hint of morello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



The last days of the US empire

America is constantly at war and debasing its money. The rot has well and truly set in

Bill Bonner
Columnist


Why worry about wasting it when you can print it?

©iStockphotos

The US empire had probably reached its sell-by date by January 2000. Bad money, bad policies and the Deep State had already sent the empire into a decline. Then, two disastrous decisions sealed the deal. The first was George W. Bush's misbegotten War on Terror. Now in its 19th year, the bill has reached $6trn so far, with still no plausible victory in sight. As many as one million people have died and the chaos continues. Pointless wars damage the aggressors as well as the victims, wasting resources and corroding trust and prosperity.

The second was the most bone-headed, society-destroying mistake of the 21st century. We're talking about the money. In the panic of the crisis of 2008, for example, Ben Bernanke, the Federal Reserve, Congress, leading economists, Republicans, Democrats – and almost everyone else – lost their mind, and cranked up the presses. Bernanke stood before Congress and said: "If we don't do this, we may not have an economy on Monday". And nobody laughed.

"When the money goes, everything goes. You can quote us on that"

With Bernanke's urging and guidance, the feds had the "courage to act"... like morons. They went to the pumps, adding trillions of new money into the economy over the following ten years.

And while, today, America's money world seems in decent shape on the outside, on the inside it is rotting. Stocks are at all-time highs, but only because of front-running by speculators and buybacks by corporate insiders. Real, pre-tax earnings growth is falling. Unemployment is near all-time lows, but only because people are forced to take low-paying "gigs" in the service economy. Real, "bread-winner" jobs continue to disappear.

GDP growth is still positive, but only because the Fed lends money below the rate of consumer price inflation. Worldwide, central banks lowered rates some 90 times last year. And now – using its Repo Madness programme – the Fed is pumping even faster than it did during the crisis of 2008.

Meanwhile, the US government is headed for the biggest default in world history. For 20 years it has added debt twice as fast as GDP. How long can you keep that up? That's what we're going to find out. Because, now, with 11,000 baby-boomers retiring every day – and the armed wing of the Deep State insisting on more and more money – there's no way to stop it.

Traditionally, you could count on conservatives to say "no". They opposed budget-busting foreign wars and domestic boondoggles alike. But in a world of free money, conservatism no longer makes sense. Why worry about wasting money when you can print more? Why worry about balancing the budget when deficits can be financed for practically nothing, apparently forever? When the money goes, everything goes. You can quote us on that.

The bottom line

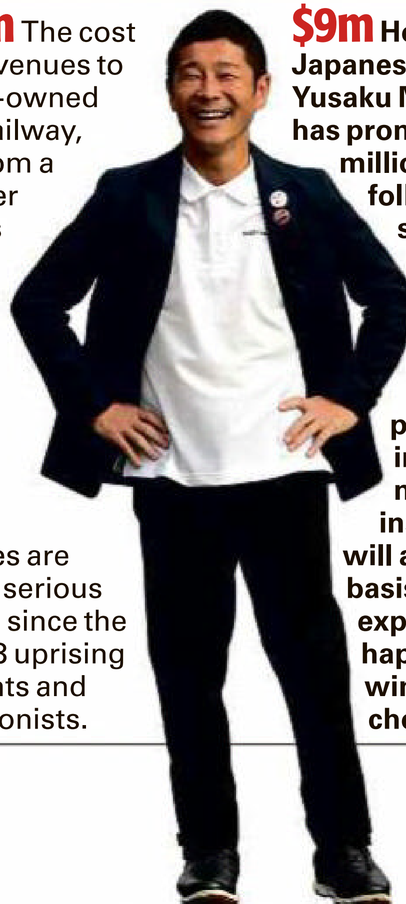
193m How much in yen (£1.4m) Kiyoshi Kimura, a sushi restaurateur in Japan known as the "Tuna King", paid for a whole bluefin tuna at the annual New Year auction at Tokyo's main fish market. The 276kg fish was caught off the Aomori region in northern Japan.

£25 The fee set last week by the governing body of the Labour Party for people to become registered supporters. The fee entitles you to a vote on who will become the next leader of the opposition. The result will be declared on 4 April.

£1,715.52 How much the average office worker spends a year on "extras", such as office drinks and nights out (£292.32), sweets and treats (£115.44) and leaving cards and presents (£97.32), according to a survey of around 2,000 people for Nationwide.

A$4.4bn The cost of the damage (£2.3bn) caused by the Black Saturday bushfires in the Australian state of Victoria in 2009. That figure will probably be exceeded by the current bushfires ravaging much of southeast Australia, says Moody's Analytics.

€700m The cost in lost revenues to the state-owned French railway, SNCF, from a strike over pensions that is now the longest-running in the firm's 82-year history. The stoppages are the most serious in France since the May 1968 uprising of students and trade unionists.



©Getty Images

$9m How much Japanese billionaire Yusaku Maezawa (left) has promised his 6.8 million Twitter followers in the spirit of a Japanese New Year's tradition. The one million yen prizes, split into 12 monthly instalments, will also form the basis of an experiment into happiness. The winners will be chosen in a draw.

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