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MoneyWeek

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6 MARCH 2020 | ISSUE 989 | £4.50

Coronavirus crisis

Will Covid-19 end the bull run?

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MoneyWeek

6 March 2020 | Issue 989

Britain's best-selling financial magazine

From the editor-in-chief...

Earlier this week we told you not to automatically buy on the dip. We'd hang on to some of that sense of caution. We don't yet know how serious Covid-19 will turn out to be. But we do know that the disruption it has already caused is going to take some time to play out. The obvious casualties of the nasty combination of supply and demand shocks are all around us – anything to do with travel or anyone working with a complicated supply chain, for example. Who wants to go on a cruise, take a tour of Italy or fly to France for a three-day property investment conference right now?

But second-round causalties are beginning to appear too. The Hollywood Reporter points out that the global film industry is, for example, facing a possible $5bn loss as film release dates are pushed back and venues shut. Cinemas have been closed in China for months, but the virus is now "heavily impacting" movie-going in Japan (the world's third-largest film market), South Korea and Italy. Ticket sales in China over the New Year period came in at $4.2m. Last year they were $1.76bn. In South Korea, box office takings were down 80% year-on-year last weekend. In Italy, that number is 76%.

Cinemas usually do well in bad times (inexpensive movie trips replace more expensive outings). Bad times in which they do appallingly badly are not in most people's models. Nor can they realistically be solved by sharp cuts in interest rates. If you didn't want to see the new *Mulan* movie badly enough to take the risk of sitting in a crowded cinema for going on three hours with rates at 1.75%, I'm pretty certain you also won't fancy it with them at 1.25%. It is also worth noting that the virus also creates new political risks that monetary policy can do little about: will power structures in Iran, China and even the US be the same post-virus as pre-virus? See page 10 for more on the US election.

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Mulan: *probably not worth risking coronavirus for*

> *"Coronavirus creates new political risks that monetary policy can do very little about"*

Still the obvious uselessness of monetary policy is unlikely to be a barrier to central banker grandstanding, or indeed political grandstanding. It is entirely possible, as John points out on page 4, that Covid-19 turns out to be the trigger for the introduction of helicopter money (new money printing for immediate spending) in the eurozone at least. Fans of this say it comes with no downsides. They reckon that governments will spend the lovely new money productively; that it will create wealth; and that it won't lead to inflation. Having never seen a fiscal or monetary policy that didn't come with a downside, we doubt all those things.

On the other hand...

On the plus side western economies are excellent at adapting to suit change (see Matthew Lynn's thoughts on retailers on page 18) and there is also much talk about how the crisis could change behaviour long term. Perhaps it would be a good idea if the US was finally jolted into creating a proper healthcare system. Perhaps we should travel less (although see page 28 if you must keep moving). Perhaps we all do far too much kissing anyway. And certainly an awful lot of people could do worse than to keep washing their hands properly long after Covid-19 is vaccined away. Finally, on the subject of travel, here's a thought: who needs to be physically available or even alive to appear present? See page 40 for how, if Whitney Houston can be replaced with a hologram, odds are you can be too.

Merryn Somerset Webb
editor@moneyweek.com

Scam of the week

©iStockphotos

An "army of more than 200 fake traders" based in Ukraine have persuaded thousands of people all over the world to trust them with their money, promising lucrative investment opportunities in the likes of cryptocurrencies and commodities, but delivering nothing, says Hilary Osborne in The Guardian. A whistleblower from inside the organisation leaked details of the operation to Swedish newspaper Dagens Nyheter. According to the whistleblower, the fraudulent investment operation – allegedly based out of an office in Ukrainian capital Kyiv – made £55m last year. Victims were sucked in by fake adverts online featuring pictures of celebrities, then persuaded to install software on their computers and phones that gave scammers access to their bank details. Scammers also faked documents showing huge returns to encourage people to invest more, and were rewarded with commissions proportionate to how much money they persuaded victims to hand over.

Cover illustration: Howard McWilliam. Photos: Getty Images; Samsung Galaxy

Good week for:

Greggs has posted a 27% rise in 2019 pre-tax profits, a boost largely attributed to the success of its vegan snacks, says Julia Kollewe in The Guardian. The vegan sausage roll was launched in January 2019, and has been a big seller since. This year the UK's biggest bakery chain launched a vegan steak bake and vegan doughnut in response to consumer demand.

©Getty Images

Barbara Corcoran (pictured), a judge on US reality TV show *Shark Tank*, had a lucky escape after she almost lost $400,000 in an email scam, says Jordan Valinsky on CNN. A China-based scammer used an email address that was very similar to Corcoran's assistant's to submit an invoice for $388,700 to Corcoran's bookkeeper, who wired the money over. Luckily for Corcoran, the bank froze the transfer before it could be finalised. "I really thought it was a goner," she said.

Bad week for:

The world's biggest brewer, **Anheuser-Busch InBev**, expects first quarter earnings to slide by 10% due to disruption caused by the coronavirus outbreak. This "led to a significant decline in demand in China", with revenues dropping by as much as $285m in the first two months of the year. Ironically, the brewer is behind the Corona beer brand, although the similarity to the name of the virus – despite some excitable news headlines claiming otherwise – had nothing to do with the slump.

Donald Trump's imposition of 25% tariffs on **French wines** has seen exports from Bordeaux to the US fall by 46% since October, which in turn is pressing wine makers to cut prices, reports The Times. That said, notes the paper, it could have a silver lining: falling prices might allow British drinkers to buy wines they haven't been able to afford "for many years".

Coronavirus: what happens next?

The immediate impact of the coronavirus outbreak is bad enough, writes John Stepek. But the real risk is that it could change our financial system forever

If we weren't already convinced that the coronavirus was a serious threat, we know it for sure now. The Federal Reserve on Tuesday announced an emergency interest-rate cut, slashing the key Fed Funds target range by 0.5 percentage points, to 1%-1.25%. The US central bank will be meeting officially in less than a fortnight, but it decided that it simply couldn't wait. That's the first time the Fed has done that since 2008. On every other occasion that we've seen an emergency cut (certainly in the last 20 years), we've either been in the midst, or on the verge of a major panic in markets. So it's not an encouraging precedent.

On the one hand, it's easy to see why the Fed felt nervous. In the last week of February, the S&P 500 fell by 11%, its worst showing since 2008. Meanwhile, the yield on US government bonds (Treasuries) plunged to record lows as investors sought out "safe havens" and bet on a decline in interest rates, which indicates that investors fear a recession is nigh. In some ways the Fed was merely playing "catch up" with markets. On the other hand, the move came as a shock to many – markets fell in the aftermath and, as Jeremy Warner put it in The Daily Telegraph, the instinctive question is: "Does the Fed know something the rest of us do not?" So the question is: is the Fed right to be this worried and what does it mean for investors?

History is of little use here

You might be tempted to look to history for a guide as to what happens now, but as Oliver Jones of Capital Economics points out, it's not terribly helpful. Bond yields rose (ie, bond prices fell) in the wake of the three previous global pandemics (Spanish flu in 1918, Asian flu in 1957 and Hong Kong flu in 1968). However, that was more to do with incipient inflation than the impact of the outbreaks.

Meanwhile, equities rose after 1918 and fell in the other two instances, but that was mostly about the starting valuations (markets were cheap following World War I and not so cheap on the other occasions). Today, equities are expensive in the US and less expensive everywhere else, while bonds are arguably expensive everywhere, but inflation is low and not showing much sign of perking up. So the financial backdrop is very different.

"Medical science is far better than in 1918, but the world is much more globalised"

Federal Reserve governor Jerome Powell

You can say the same for the "real world" backdrop. When Spanish flu went global in 1918, we didn't have antibiotics or the degree of medical specialisation we do now. Scientists couldn't even confirm what was behind the outbreak until many years after it happened. So medical science is far more advanced. As The Atlantic puts it, "we have options that were simply undreamed of a century ago".

On the other hand, the world is far more globalised, which means the economy is much more vulnerable to disruption in any given part of the supply chain, be it physical or financial. In short, looking at past pandemics is – to put it bluntly – a waste of time.

The good news

It's clear that the coronavirus has had a massive impact on the Chinese economy. At the weekend we learned that activity in both the services and manufacturing industries hit an all-time low in February and there have been similar figures for Hong Kong. That said, there are signs that China is getting back to work. Satellite imagery – more reliable than official Chinese statistics

What should you invest in now?

As Kate Burgess in the FT's Lombard says, "if ever there was a time to delve into gold it is now". Gold had a sharp fall at the end of last week, as investors sold out to cover losses elsewhere. But as Russell Napier says, even if a bout of deflation hurts the gold price in the near-term (which is not a given in any case), "given such high political uncertainty and the likelihood of 'helicopter money', coupled with financial repression, gold remains very much a buy".

You can invest in gold using an exchange-trade fund (ETF) such as **Wisdom Tree Physical Gold Securities (LSE: PHAU)**, or simply by buying from a bullion dealer. The more adventurous could opt for gold miners – these look relatively cheap compared with the gold price, but do bear in mind that they are equities, not gold substitutes. There are several active funds, or you can track the gold-mining sector passively using trackers from **VanEck Vectors** (you can track the big miners using the London-listed **GDX** ETF, or the smaller miners using **GDXJ**).

As for your wider portfolio, it's too early to tell how great the damage will be. If China is genuinely recovering and gets better quickly, we might bounce back sharply. If the virus takes hold across the world first, corporate earnings could be hit hard. That said, UK-listed shares in particular are not expensive and have already fallen hard. So review your portfolio for weak spots, but don't panic sell – and build a watch list of stocks you'd like to buy at lower prices, just in case you get the opportunity.

©Getty Images

"Global debt-to-GDP today stands at a near-record level of 242%"

– shows that pollution levels are rising, indicating that business is picking up again. The amount of nitrogen dioxide in China's atmosphere at the end of February was still down 20% on the same time last year, but up by around 50% on the middle of the month.

As for corporations themselves, according to The Transcript (which collates information from corporate earnings conversations), companies have also indicated that activity is improving. Warren East, chief executive of engineering giant Rolls-Royce, said that "operations in China are getting back to normal… our key suppliers… are all back at work". Apple CEO Tim Cook talked about factories reopening and Chinese internet group Baidu noted that "when you're going on the freeway now, you're actually seeing traffic jams versus, say, two, three weeks ago, where the roads were pretty empty".

If – and it is still an "if" – China is getting back to work, then the risk of an ongoing severe supply shock (where there aren't enough goods and services being produced to meet demand) is lessened somewhat. You can start to visualise the economic shock from coronavirus as being like a harder-hitting version of the Sars pandemic of 2003. It will hit certain sectors particularly violently and lead to a downturn in economic output for a period of time, particularly as it spreads from country to country. For example, here in the UK we're just at the beginning of a likely wave of conference cancellations and travel bans. But once it passes, it passes and normal service is resumed.

The bad news

The problem is that this shock comes at a time when the global economy is particularly vulnerable. As financial historian Russell Napier points out, while the overall hit to economic activity can't be quantified yet, "the shock is very deflationary". That's because global debt-to-GDP stands at a near-record level of 242%, compared with 211% in 2007. That means that if companies are starved of the cash flow they need, "debt defaults will quickly become an issue".

That's the big risk now. As Credit Suisse strategist Zoltan Pozsar points out, "the supply chain is a payment chain in reverse". To spell that out, just as you can't build a car without every link in the chain, every company in the supply chain is reliant on cash coming in from others. If one link in this chain breaks down, then there's the danger of a knock-on effect. I don't pay you, so you can't pay someone else, who then can't pay their own creditors and so on down the line. Before very long, the financial system (which is struggling with liquidity now as it is) could be overwhelmed as companies suddenly need to borrow much larger sums than normal to tide themselves over.

This is something central banks and governments can help with, but it might take time for them to act, during which time a panic is quite possible. As Napier points out, we've already suffered two deflationary shocks this century – the tech bust and the 2008 crash. During those, the S&P 500 fell by 49% and 57% respectively. So it's not something to be taken lightly.

So what's next?

Many commentators fret that the Fed and central banks generally are "out of ammo". This strikes us as mistaken, at least if all you care about is asset prices. Central banks – even those whose key interest rates are much closer to 0% than the Fed's (which is just about all of them, certainly in the developed world) – always have options. For example, at the start of the week the Bank of Japan spent ¥100bn (nearly $950m) on buying equities via exchange traded funds – a record for a single day. As that indicates, we're already in a world where the radical, in terms of monetary policy, is becoming commonplace.

And on the "fiscal stimulus" front, Hong Kong has announced that it will hand out money to citizens to prop up consumption, Italy has a bail-out plan for companies that lose more than 25% of revenues, and even Republicans in the US are talking about potentially funding coronavirus-related medical bills. So there's plenty of ammo in reserve – the only real barriers are political ones and those are not very high. Do you think that Donald Trump would have any objections to printing money to hand out to voters ahead of November? I didn't think so.

But it's not the US you have to watch, argues Napier. The Fed has more space to cut there (and the eventual impact on mortgage rates will boost Americans' spending power automatically). Instead, given that interest rates in the eurozone are already as low as they can go and the need to maintain the integrity of the currency is so much more politically important, this is likely to be where we'll see the shift to "helicopter money" (printing money to spend directly, rather than pumping it into markets) materialise first.

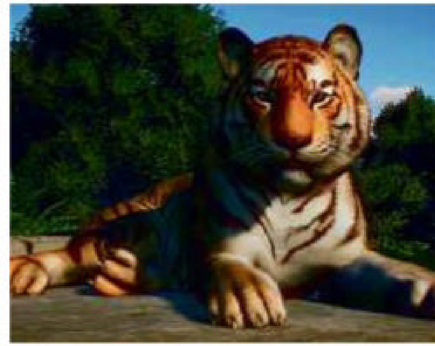
Banks are already being asked to be "forbearing" – basically give companies extra time to pay their debts. This makes sense if it avoids the failure of otherwise healthy companies due to short-term disruption. But as Napier puts it, "the ability of politicians to mandate who should and who should not pay interest expense to commercial banks is a policy that politicians may come to like just a bit too much". Hand in hand with this shift to money printing would go capital controls, to ensure that the money stays within the eurozone and that the integrity of the euro is protected. As a result, says Napier, the real danger is that coronavirus goes down in history "as the trigger that legitimised a much more aggressive move to financial repression". We look at how to protect yourself in the box opposite.

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

Three to buy

Tristel
Shares
This disinfection and cleaning products specialist will have a role to play in fighting the coronavirus. Business was booming even before the Covid-19 epidemic, with revenue advancing 22% in the second half of 2019 and pre-tax profit up 25%. A 60% rally over the past year has taken the shares up to 31.6 times forecast earnings, leaving "limited margin for error". Yet we remain confident about a business with a "consistent record of revenue, profit and dividend growth". Buy. *490p*

Frontier Developments
The Sunday Telegraph
This video-games developer has remained at the top of its game for more than three decades. The recent success of zoo simulator *Planet Zoo* shows that it still knows how to make a hit. The rise of game downloads has liberated the sector from the old "console cycle" and reduced costs as they no longer need as much physical stock. A plan to launch more games annually should see revenue rise further after 2022. "If the global economy grinds to a halt because of [the] coronavirus, we might as well sit at home in self-isolation playing video games." *1,150p*



Golden Prospect Precious Metals
The Mail on Sunday
With markets plunging and sovereign bond yields negative it is little surprise that gold is on the up. Betting on junior miners, however, is "fraught with danger". Investment trusts offer a way to spread the risk. Golden Prospect, which invests in small and mid-sized operators, has a "record of success" in a sector where picking winners can be tricky. The current 29% discount to net asset value is excessive. *29p*

Three to sell

Epwin
Investors Chronicle
Epwin makes and distributes building products such as PVC windows, doors and cladding. Conditions have been tough in its core repair, maintenance and improvement (RMI) market in recent years, with weak sterling inflating costs and weighing on margins. This is a cyclical business and hopes of a post-election spending boost had seen the shares rally prior to the recent market correction. Yet Epwin is a lower-quality and lower-growth outfit than peers such as Eurocell. "There could be an uphill struggle ahead." Sell. *110p*

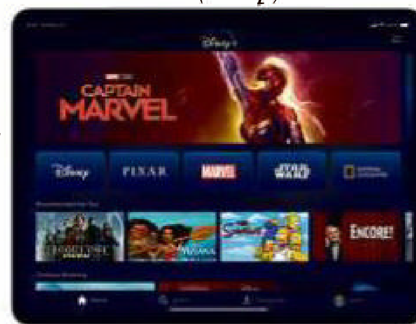
De La Rue
The Times
Banknote printer-to-product authentication specialist De La Rue has another turnaround plan; this one involves "accelerated cost-cutting". A global shift towards electronic payments is a challenge for a firm that generates two-thirds of revenue from banknotes. De La Rue is pinning its hopes on wider adoption of polymer notes to generate growth. Yet previous turnaround efforts have led to "boardroom turmoil" and profit warnings. Given all this uncertainty, investors should steer clear of the shares. *143p*

Apple
The Times
Bullish hopes for sales of the iPhone 11 were dealt a blow last month when Apple warned that Covid-19 would hit revenue this quarter. Disruption at Chinese factories has constrained supply and the temporary closure of all of its 42 stores in the country was bad news for sales in a region that accounts for 15% of overall revenue. Management has not yet provided revised sales estimates. "Wait until the coronavirus fog clears." *$288*

...and the rest

The Mail on Sunday
Construction group **Morgan Sindall** has eschewed big-ticket contracts to focus on smaller and more profitable projects. A recent Covid-19 induced sell-off is undeserved. Existing shareholders should hold and "new investors could also take a closer look". *1,754p*

Investors Chronicle
A coronavirus-related share-price pullback represents a buying opportunity at electronics group **Luceco**: a stronger balance sheet and an upcoming UK infrastructure spending boost mean there is upside potential *(125p)*. **Walt Disney** is still generating "big bucks" at the box office and its new streaming service shows it can adapt to changing consumer preferences. Buy *($141)*. **Civitas Social Housing Reit** offers inflation-linked income in environmental, social and governance packaging *(101p)*.



Shares
Buy into brownfield regeneration specialist **St. Modwen Properties** as it shifts away from struggling retail and towards the growing industrial and logistics sectors *(493p)*. PPI claims weighed on full-year performance at **Lloyds Banking Group**, but a stronger balance sheet and brighter economic outlook in the UK mean that we remain bullish *(53p)*. Jet2 owner **Dart Group** has been a big winner from the demise of Thomas Cook, but risk from the coronavirus means investors should steer clear of travel stocks for now *(1,320p)*.

The Times
Funds site **IntegraFin,** which helps financial advisers buy on behalf of clients, will benefit as an ageing population needs to save more for retirement – buy *(479p)*.

An American view

A pawnshop stock is a good hedge against an economic downturn, says Ben Walsh in Barron's. Enter FirstCash, "a large, professionally managed operation in an industry full of mom-and-pop dealers". It runs almost 2,700 shops across the US and Latin America; sales are expected to increase by 4% to $1.94bn in 2020, while earnings per share should climb by 7%. The group makes loans against the wholesale value of items, with interest rates of 12% a month typical. If the borrower defaults, the shop can sell the item for a large profit as it acquired it for less than the retail value. FirstCash reported a profit margin of 37% in 2019. John Hecht of Jefferies sees scope for a 20% rise from current levels.

IPO watch

Ninety One, the asset management arm of South African banking group Investec, is set for an initial public offering (IPO) in mid-March that will value it at between £1.75bn and £2.1bn. The division previously known as Investec Asset Management will list in both London and Johannesburg, where it plans to raise £181.9m and £226.1m respectively. The IPO will help the division to keep expanding internationally and "allow the firm to operate as an independent business", says the board. Management has not been deterred by the volatile market backdrop, noting that there has been healthy demand for the new shares. Ninety One has around £121bn of assets under management.

©Bank of England; Frontier Developments; Walt Disney

City talk

● Hospital operator NMC Health is "firmly in intensive care", says Ben Marlow in The Daily Telegraph. Recent problems have included the departure of the whole executive team, the suspension of the shares, and an investigation by the Financial Conduct Authority, the City regulator, into the company's "meltdown". And now lenders are threatening to insist on collecting outstanding debts within days if a murky dispute between three major shareholders reveals they collectively own less than 30% of the shares. Meanwhile, the staff "haven't been paid for February". "Euthanasia" beckons.

● Matt Levatich's departure as boss of motorcycle firm Harley-Davidson makes sense given that Harley has lost half of its market value during his five-year tenure, says Lex in the Financial Times. The main problem is "changing millennial tastes", with younger consumers unwilling to fork out $20,000 for a motorcycle "when

you can Uber... or use public transport". And Harley's core demographic of "hog-riding baby-boomers" are "ageing fast and making fewer purchases". Harley has attempted to appeal to younger people by launching "lighter and more affordable models" and an electric bike. But "neither initiative has gained much traction".

● Nokia's newly appointed CEO Pekka Lundmark faces a "daunting task", says Stephen Wilmot in The Wall Street Journal. Nokia faces "intense competition" from a "resurgent Ericsson for the number-two spot in telecom equipment". And with network providers already starting to buy 5G paraphernalia, there are fears that having missed out on the smartphone revolution Nokia is in danger of "missing the 5G boat too". Nokia needs to wrest the "technological initiative back from Huawei" in this field. Lundmark says he isn't coming in with a "foregone conclusion" about what needs doing, but investors "will expect action".

©Getty Images; Gilead; Harley Davidson

Takeover balm for Gilead

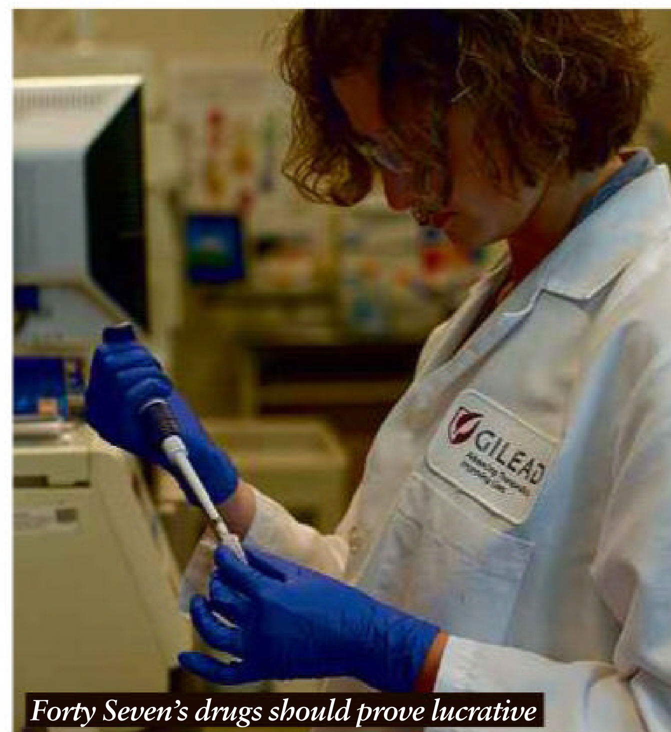
The biopharma giant is stocking up on potentially lucrative cancer drugs by snapping up smaller operators. Matthew Partridge reports

Biopharmaceutical giant Gilead Sciences has been facing "increasing unrest" from shareholders recently, says Josh Nathan-Kazis in Barron's. They have been asking what it plans to do with its "substantial" amount of cash. Now they have their answer. Gilead has decided to buy "small cancer-focused biotech" Forty Seven for $4.9bn. Gilead hopes that the deal, which has boosted Forty Seven's shares by 62%, will add "significant potential" to its clinical pipeline, particularly in the field of immuno-oncology, where the emphasis is on using the body's own immune system to fight cancer. One particularly promising drug by Forty Seven is magrolimab, designed to treat several cancers, including myelodysplastic syndrome (in which some blood cells in bone marrow do not mature properly and become unhealthy) and a form of leukaemia.

Gilead needed to do something, say Marthe Fourcade and Kristen Brown on Bloomberg. While Gilead's hepatitis C franchise may have turned the company into a "drug-industry giant", sales of the treatments have "slipped from their peak" and the firm "has struggled to find new streams of revenue". The deal with Forty Seven complements its 2017 acquisition of Kite Pharma, bringing on board "an experimental therapy that has potential to be the first in its class". If Gilead hadn't jumped on Forty Seven a competitor would probably have snapped it up; "other potential suitors" had been eyeing it up.

Why cancer drugs are all the rage

Whether the deal proves a success or not, Gilead "is not alone" in turning to mergers and acquisitions to bolster its portfolio of cancer drugs, say Ortenca Aliaj and Eric Platt in the Financial Times. For example, early last year Bristol-Myers Squibb purchased Celgene for $93bn, while Pfizer snapped up Array BioPharma for $11bn in June. Rivals Eli Lilly and GlaxoSmithKline have also "bet billions of dollars" on cancer treatments over the past 18 months. The takeover of Forty Seven also "shares many of the hallmarks of other big cancer deals, where a recently listed start-up is acquired after its treatments show good progress in clinical trials".



Forty Seven's drugs should prove lucrative

It's not surprising that many companies are starting to invest in oncology, says Joseph Walker in The Wall Street Journal. Cancer drugs can "command high prices and receive relatively fast regulatory approvals". US spending on cancer drugs has more than doubled to $56.7bn in 2018 from $27.3bn in 2013. Gilead has been working on an "experimental antiviral treatment which is being tested against... Covid-19", says Robert Cyran on Breakingviews. However, it "can be hard to profit from epidemics because they are often short lived and always politically fraught". As a result, it's "always nice to have other options", especially as Forty Seven's price is "reasonable enough for a deal of this kind".

Barclays fends off fraud charge

In a "fresh blow to the credibility of the Serious Fraud Office [SFO]", three senior Barclays bankers have been acquitted of fraud, says Kalyeena Makortoff in The Guardian. They were accused of channelling secret fees to Qatar in return for emergency funding in 2008. The case hinged on Barclays' decision to pay Qatar £322m in fees. The SFO claimed that the fees were directly linked to Qatar's decision to invest £4bn in the bank during the crisis. This supposedly gave Qatar more generous terms than other investors in the £11bn deal and also misled the wider market about Barclays' financial health. But the executives successfully argued that the fees were for advisory services.

The case was always going to be "hard" for the SFO to win, says Philip Augar in The Times. It "had to prove the advisory agreements were a sham without taking evidence from the Qataris, the party providing the services". But the defence team were able to use the trio's own notes to find cases where "the advice from Qatar sometimes led to business for Barclays".

While the executives may have been found not guilty, Barclays' "legal troubles" stemming from 2008 "are far from over", says Edward Robinson on Bloomberg. The spotlight now shifts to civil lawsuits and regulatory probes set aside while "criminal proceedings wound through the courts". Chief among them is a £1.6bn lawsuit from Amanda Staveley, CEO of PCP Capital Partners, for "allegedly cheating her out of profits she claims she should have earned by bringing investors into the bank's fundraising deal".

Brexit trade-deal tussle begins

Boris Johnson will walk away from talks if progress isn't made. Is progress likely? Emily Hohler reports

The UK and the EU are set for months of "tense" negotiations, having laid out "clashing" approaches to their post-Brexit relationship, says Max Colchester in The Wall Street Journal. Talks, which kicked off in Brussels on Monday, will cover issues from tariffs to fishing rights and security cooperation. Britain officially left the EU in January, but existing relations will be maintained until the end of the year. Both sides are taking "a tough line". The EU insists tariff-free trade is conditional on guarantees that Britain will abide by the bloc's basic regulatory standards. Boris Johnson says that although he has no desire to reduce standards he wants Britain to set its own rules and is "prepared to suck up the economic hit of tariffs". To try and "turn the screws", he says that Britain will walk away if there isn't a "broad outline" of a deal by June and has embarked on simultaneous trade talks with the US.

Johnson plays his hand – but who has the best cards?

© Jason Alden/EPA-EFE/Shutterstock

Frictions are emerging

The US may be the UK's largest trading partner after the EU, accounting for nearly 19% of all exports and 11% of imports in 2018, says the BBC, but it is dwarfed by the EU, which accounted for 45% of all exports and 53% of imports. According to our own government figures, a deal with the US would increase UK GDP by a maximum of 0.16% by 2035. The minimum boost would be 0.02%, according to the Department for International Trade. That is "around 450 times smaller than the potential loss from a no-deal Brexit", says The Independent.

The figures put things in perspective. Yet the government continues to "emit an overpowering fog of promises about non-European trade deals", says Tony Barber in the Financial Times. Like others in Asia, executives in Tokyo say they cannot craft a UK trade deal until the nature of London's relationship with the EU is clear, while a deal with China is unlikely to happen anytime soon given the lack of an obvious sector that would make a deal attractive to the Chinese. In any case, Washington wants the UK to join it in taking a tough line against China for security reasons (witness the recent row over Huawei). Other "frictions are emerging" with the US over London's plan for taxes on digital services, Washington's threat to impose tariffs on car imports and the UK's "quiet support for the Iranian nuclear deal". Aside from public concerns about the NHS and unhealthy US food products, a survey finds that 77% of supply-chain professionals are concerned that UK standards could be sacrificed in any deal, with 54% believing that it could "do more harm than good", says Callum Jones in The Times.

In terms of a deal with the EU, it is not clear whether the thornier issues can be hashed out in the timescale, says Colchester. Trust is in short supply, in part because Britain has yet to implement the divorce deal, which, among other things, requires the UK to carry out checks on goods between the mainland and Northern Ireland. One major potential sticking point aside from fisheries (the EU wants continued access to our richer fishing waters) is financial services, which accounted for 6.9% of GDP in 2018. Brussels says it will only grant continued access to the EU market if the UK stays "in lockstep" on regulations and knows that this issue of equivalence gives the bloc a "useful form of leverage" in wider trade talks, says Jim Brunsden in the FT. Britain is wary of the EU withdrawing access at short notice and Brussels has "repeatedly rebuffed" requests for assurances on how equivalence will be applied. The bigger picture, says George Parker, also in the FT, is that for all Johnson's bluster, Brussels is well aware that Britain has more to lose from a no-deal exit.

Emergency laws are planned to restrict movement

©Getty Images

Coronavirus battle plan takes shape

Boris Johnson has launched the government's battle plan for dealing with the coronavirus, repeating the mantra that we must all "wash our hands" as often as he once promised to "get Brexit done", says the FT. Although a worst-case scenario could see 80% of the UK population infected, with a 1% mortality rate (500,000 deaths), the "overarching message" was that it was too soon for the sort of drastic measures implemented in France, which has banned indoor gatherings of more than 5,000.

Officials are reluctant to do so partly because there is "not always" sound evidence that they work. Scientists believe, for example, that the virus is more likely to be passed on in smaller groups. Taking drastic action now also risks trying public tolerance by the time it becomes necessary, says Chris Smyth in The Times. Nonetheless, advice to work from home if possible is probably imminent (although unions warn that up to two million gig-workers without sick pay will not be able to isolate themselves) and the NHS is likely to start cancelling operations. Schools could be closed and pupils transferred. Ministers are planning emergency laws so that they can cancel events, restrict movement and allow border officials to quarantine people. The emergency services could be whittled down to their critical functions, with the armed forces drafted in to supplement depleted staff ranks, adds the FT.

The government needs a similarly robust plan to tackle the economic consequences, says The Times. Policymakers need to "try to ensure that businesses do not go bust". With interest rates already very low, the tools central banks have at their disposal are unlikely to "offer much respite". However, measures such as delaying tax payments and prompt payment of public-sector arrears could help. "The further challenge is for the government to work closely with other countries to coordinate its response."

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Surprise victory for Lazarus

Joe Biden is back in the running for US president. Matthew Partridge reports

In one of the "most stunning" reversals in recent political history, Joe Biden rose "like Lazarus" to win eight states on so-called "Super Tuesday", the date when the greatest number of US states hold primary elections, says David Smith in The Guardian. Biden is now the frontrunner for the Democratic nomination for the presidential election, to be held later this year. Biden's success followed a landslide victory in South Carolina on Saturday, which prompted rivals Pete Buttigieg and Amy Klobuchar to quit the race and endorse Biden, thus avoiding the "fatal error" of Republicans "who failed to unite against Donald Trump in 2016" – the contest for Democrats is now a two-horse race between the "moderate" Biden and the "leftwing populist" Bernie Sanders.

Biden has "finally found his voice"

A shoo-in for Biden?

That race is not over yet, says Edward Luce in the Financial Times. Sanders may no longer be the favourite, but "he is almost neck and neck with Biden in the delegate count". Next week's clutch of primaries include Washington state, which Sanders is on "course to win" and Michigan, where he has a strong chance. Sanders is not one for giving up easily, as his quick recovery from a heart attack last year proved. This could yet turn out to be a "grinding, Battle of the Somme-style primary", with a contested convention in July still possible.

Biden's victory should be assured, says Jim Newell on Slate. It's true that 60% of delegates are still to be decided, but the victories in South Carolina and on Super Tuesday show that centre-left voters have decided to fall behind Biden "with military-like precision". Biden took states such as Massachusetts, where he hadn't even bothered to campaign, and exit polls suggest that, were it not for "the millions of early ballots cast" when he was still trailing in the polls, Biden might have done even better. By contrast, Sanders did worse than he did four years ago, winning his home state of Vermont by a smaller margin than Biden's victory in Virginia.

The lost art of legislation

A Sanders victory would have been an "ideal" scenario for Trump, but he still stands to benefit if Sanders "loses without grace or shame and stays in the race through to June", says Tim Stanley in The Daily Telegraph. The former vice-president lacks "energy or charisma" and the withdrawal of the other candidates means that the spotlight "will fall 24/7 on Biden and his flaws". He could end up suffering the same fate as Walter Mondale, Michael Dukakis and John Kerry, other "establishment" Democrats who ended up winning the nomination, only to lose to the Republican candidate.

Still, Biden has "finally found his voice" and moderates on both sides should hope that he wins in November, says William Galston in The Wall Street Journal. He has a simple and straightforward message that is based on "practical, achievable steps to improve people's lives". He has been "mocked" for saying that "a measure of bipartisanship is still possible", but the fact remains that America "cannot possibly rebuild roads and bridges, or extend health insurance to all Americans" unless Congress "rediscovers the nearly lost art of legislation".

Betting on politics

This week has been a very profitable one for this column. Firstly, the Democratic Party confirmed that Pete Buttigieg won the Iowa caucus, so my suggestion to bet against Bernie Sanders in that contest has paid off. Next, Joe Biden won both South Carolina and Massachusetts (see left), both results I had tipped (along with Elizabeth Warren in the case of Massachusetts). Biden's resurgence is also good news for earlier tips I made last year on him to be the Democratic nominee, as well as the president.

Bernie Sanders could yet make a comeback, or something else could happen to derail Biden's path to the nomination, but things are looking better and better for the former vice-president. Let's turn our attention, then, to who his running mate will be. With £11,111 matched on Betfair,

Kamala Harris (pictured) is the favourite at 3.5 (28.5%), followed by Stacey Abrams at six (16.7%), Amy Klobuchar at seven (14.2%), Warren at nine (11.1%), Buttigieg at 12.5 (8%) and Cory Booker at 15 (6.7%).

The most logical pick would be Harris, given that she combines youth with experience, as well as sharing Biden's centrist outlook, so I'd take Ladbrokes' 5/2 (28.5%) on her. Since vice-presidential picks don't always follow strict logic, I'd also put money on Warren at 10/1 (9.1%), Buttigieg at 16/1 (5.9%) and Nevada senator Catherine Cortez Masto at 16/1 (5.9%) for combined odds of 49.4%. In that case, I'd split a £10 betting unit by putting £5.78 on Harris, £1.84 on Warren, £1.19 on Buttigieg and £1.19 on Masto.

Troubling riots shake India

Modi sat out the riots

At least 45 people were killed in Delhi last week in some of the worst Hindu-Muslim clashes in India in years, says The New York Times. The violence began when a gang of Hindus forcibly broke up Muslim protests over a new citizenship law, widely seen as discriminatory. The fighting escalated into widespread riots. Muslim residents accused police officers of "standing passively by" and allowing the fighting.

That is "troubling", says the FT. Many of the injured had gunshot wounds and the government has been accused of "standing by and allowing the rampaging to happen", or at worst of being "complicit". A charitable explanation for the inadequate police response is that the force was preoccupied with a visit by US president Donald Trump. However, India's police are "notorious for doing the bidding of their political masters", who in this case is Prime Minister Narendra Modi's "right-hand man", Amit Shah, who last year described Bangladeshi immigrants as "termites". He is still in his job.

Experts say the inaction was no "tactical aberration" or "absent-minded lapse", but a consequence of Modi's agenda of "Hindu primacy", say Joanna Slater and Niha Masih in The Washington Post. In various measures that will distract from India's "slowing economy". Modi has revoked Kashmir's autonomy, pledged to move ahead with the construction of a Hindu temple at the site of an "illegally razed mosque" and enacted a controversial law that excludes Muslim migrants from a fast track to citizenship. All this is leading to "complete polarisation" between India's Hindus and Muslims, with potentially "far-reaching" consequences.

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Scunthorpe

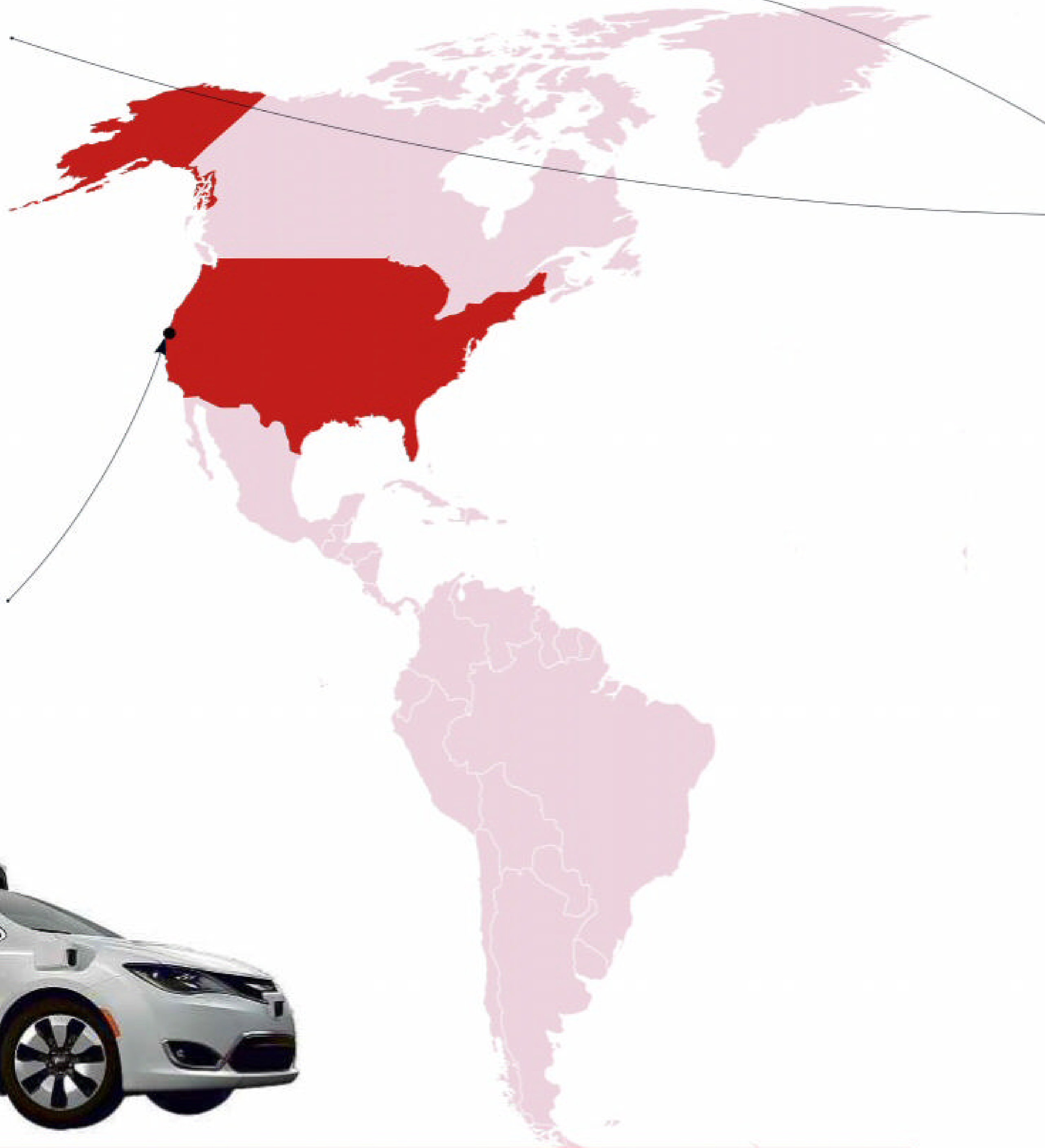
China rescues British Steel: Chinese firm Jingye Group has confirmed plans to invest £1.2bn in British Steel, a move that will save 3,200 jobs in Scunthorpe and Teesside, says the BBC. Jingye Group reportedly offered £50m to buy the company, and the deal is due to be completed next week. Around 400 jobs will still be axed. The deal was nearly derailed after French finance minister Bruno Le Maire told former chancellor Sajid Javid that France opposed the takeover. The French were in a position to object because the company has a "sizeable French operation that is considered a strategic national asset as it makes track for the country's vast rail network". The current deal does not include British Steel France, but Jingye's chief executive Li Huiming said the group remains "interested" in purchasing the plant. The £1.2bn will be invested in the site, improving its energy efficiency and environmental footprint, notes Edward Thicknesse in City AM. British Steel collapsed last May and has since been controlled by the government's UK Insolvency Service.

Mountain View, California

Google taps outsiders for car cash: Waymo, once Google's self-driving car division and now, like the search giant, part of Alphabet, has raised $2.25bn from outside investors, say Richard Waters and Miles Kruppa in the Financial Times. The investment, the first from outside Alphabet, matches the sum SoftBank poured into Cruise, the General Motors driverless car unit. The "injection" of outside capital is the latest sign that Alphabet is set to give up control over its "moonshot" projects as it attempts to turn them into commercial ventures. Units such as Waymo were always ultimately supposed to become "completely independent, spun-out entities" said Waymo's chief executive John Krafcik. The investment has been led by private-equity firm Silver Lake and sovereign wealth funds including the Canada Pension Plan Investment Board. Taking funds from others makes sense, says Lex in the FT. Driverless cars "will not be commercially viable for years", with the technology, regulation and customer acceptance all proving problematic."It is smart not only to share the costs, but also to tap the expertise of other sophisticated investors."

Scarborough

Anglo American scoops up Sirius Minerals: Mining giant Anglo American has had its £405m offer to buy the cash-strapped Yorkshire-based fertiliser miner accepted. In an unruly meeting in London, shareholders, many of whom are small investors based in Yorkshire, accused the board of being "stupid" and called the takeover a "bloody disgrace", says Rob Davies in The Guardian. They had been asked to vote in favour of Anglo American's 5.5p per share offer. Yet some of them had originally paid up to 25p per share for their holdings owing to promises from CEO Chris Fraser, who had "painted a picture of an asset that would churn out billions of pounds in profit over more than 50 years". If they hadn't agreed to the sale, however, they would have been in danger of losing everything as the company had run out of cash and faced going into administration. In the end, 80% of shareholders by value and 62% of individual voting investors approved the takeover. Sirius said its £4bn polyhalite mine under the North York Moors had been saved, along with around a thousand jobs. The company ran into trouble following a failed £400m bond issue last September, leading to a sharp fall in the share price.



The way we live now: taking the treats out of corporate retreats

Gone are the days of "alcohol fuelled" corporate retreats dominated by debauchery, says Lizzie Cernik in the FT. As work places become more inclusive, incentive travel is following suit, shifting from hedonistic weekends to yoga retreats. Before the financial crisis in 2008, incentives had become a $75bn-a-year industry, but budget cuts after the crash put them in jeopardy. A decade on, a 2019 report by the industry association Society for Incentive Travel Excellence shows that average spend per trip in the UK now rivals pre-recession levels, at £2,026 per head. But the sector has had to "reinvent itself", with businesses switching to "mindful pursuits" as they strive to be seen as "purpose-driven" and look to avoid a "PR nightmare of drunken excess" ending up on social media. The switch also stems from younger workforces defining luxury experiences differently. Incentive trips offer a range of health and wellness activities and the "experiential economy" is booming as a result: "pop-up pet yoga, immersive cheese restaurants and adult-sized inflatable assault courses" are readily available. It seems the "familiar but old-fashioned and strictly timetabled staff trip with no choice of activities" is unlikely to exist for much longer.

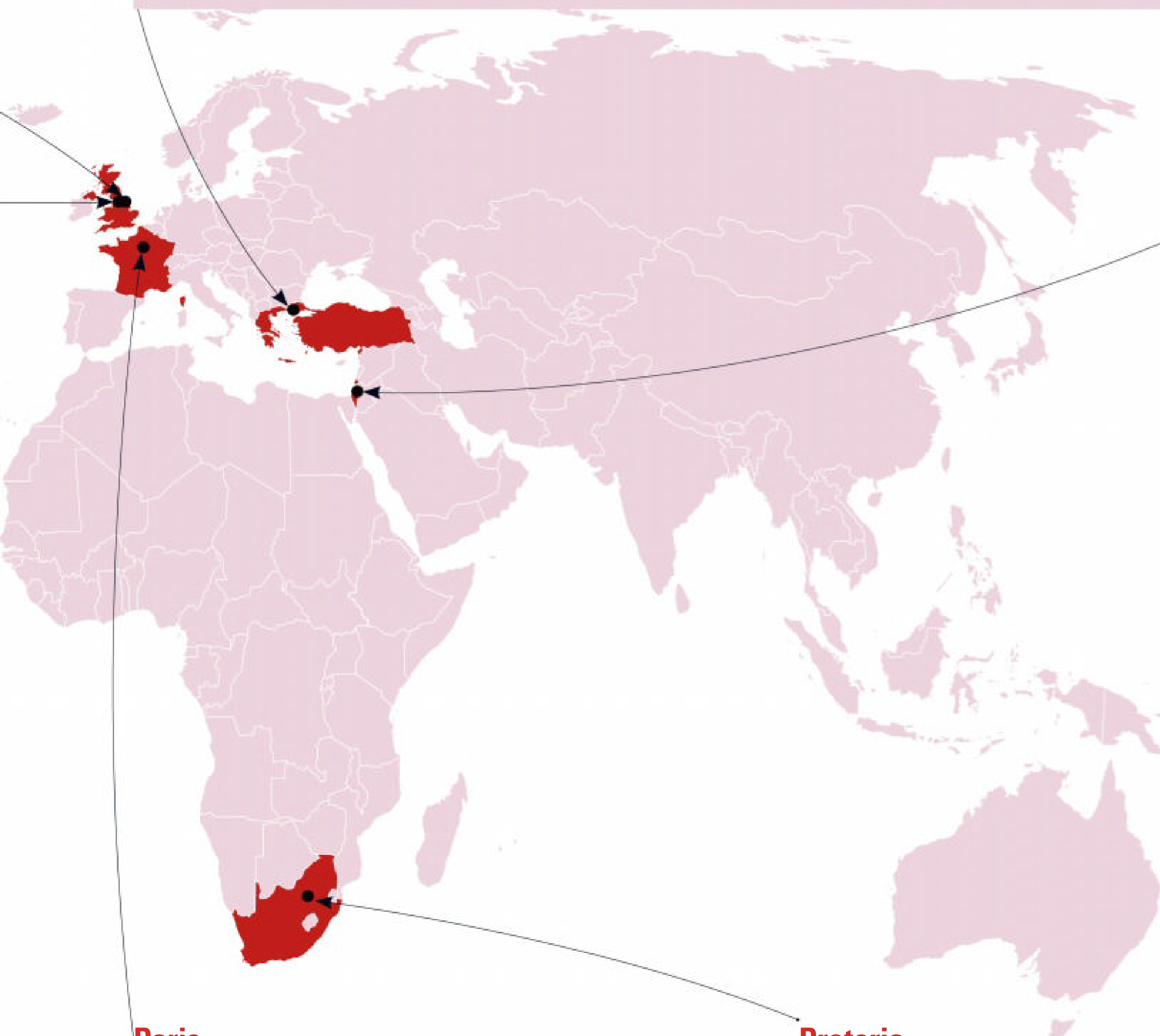
Staff trips: booze is out, mindfulness is in

©Getty Images; Waymo

Will Europe face a migration crisis to match 2015?

Greek/Turkish border

Migrants gather on EU border: Hundreds of Syrian refugees in Turkey have been congregating at the country's borders with Greece and Bulgaria after Ankara said it would no longer block their passage to Europe, say Bethan McKernan and Daniel Boffey in The Guardian. The migrants have clashed with Greek security forces attempting to keep them out. The EU warned Turkish president Recep Tayyip Erdogan that it expects Ankara to abide by a €6bn deal to stem migration to its member states, says Bloomberg. The agreement was made in 2016, when Turkey agreed to halt the flow of people to the EU in exchange for funds. There are currently around 3.6 million Syrian refugees in the country. This week's events are reminiscent of 2015 when over a million refugees came to the EU within a year. It's "too early to tell" if this mounting crisis will match that, says Andreas Kluth on Bloomberg, but Brussels' failure to reform its migration system is leaving it open to "blackmail" by "cynical autocrats" such as Erdogan. "A confederation that can't control its own borders and can't inspire cohesion among its members has no credibility and will eventually collapse."



Jerusalem

PM bounces back: Benjamin Netanyahu (pictured) has won Israel's third election in less than a year, a "stunning turnaround" for a prime minister less than a fortnight away from a "major criminal corruption trial", says Oliver Holmes in The Guardian. However, his Likud party is three seats shy of a majority, so he will still have to form a coalition. If Israel's voters do finally get a new government, ending the "budget paralysis" and getting the economy back on a growth track will be the priority, says Avi Waksman in Haaretz. Israel's GDP grew 3.5% in 2019, but it now faces a "bleaker" economic environment than expected, partly because of the coronavirus. This will reduce the appetite for reining in the deficit, which is likely to exceed 2.5% of GDP in 2020. A deficit above 2.5% has the effect of increasing public debt as a percentage of GDP, which has already reached 60%. The idea of the country's debt rising will not sit well with international credit-rating agencies".

Paris

Pension reform forced through: President Emmanuel Macron's government has survived two no-confidence votes in the lower house, the National Assembly, over its controversial plans to overhaul France's convoluted and expensive post-war pensions system. Opposition MPs accused Prime Minister Édouard Philippe of "dictatorial" behaviour over his decision last week to use article 49.3 of the constitution to force the reform bill through the Assembly without a vote. Opposition parties had tabled some 41,000 amendments to the bill, which afterwards moved on to the Senate. France has been crippled by months of strikes over plans to unify the country's 42 profession-specific retirement schemes and, among other measures, end the right of railway workers to retire in their 50s. Macron had also wanted to raise the retirement age from 62 to 64, but backed off amid the unrest.
His centrist En Marche party is expected to fare badly in this month's municipal elections. "The number of French people who actually understand the pension reform can probably be counted in fingers and toes," says the BBC's Hugh Schofield.

Pretoria

Economy in recession again: South Africa's economy shrank by 1.4% in the fourth quarter of 2019, marking its second recession in two years, says Joseph Cotterill in the Financial Times. The economy contracted by 0.8% the previous quarter. Two successive quarters of contraction mark a recession. It's a heavy blow to President Cyril Ramaphosa's (pictured) attempt to revive growth; he had pledged a "new dawn" for the corruption-battered economy he inherited two years ago. He has tried to overhaul South Africa's "mismanaged" state-owned companies, but faced fierce resistance in the ruling African National Congress. Ramaphosa is seeking to overhaul Eskom, the country's "broken state power monopoly", as its "persistent energy shortages have disrupted businesses and people's lives". Eskom experienced its worst power-generation crisis on record in December as several older plants broke down, leaving mines, factories and shopping centres without power for hours at a time. This week it also emerged that South Africa has been eclipsed by Nigeria as the continent's largest economy. Nigeria's GDP expanded by the most in four years in 2019 – 2.3% – as oil output increased and the central bank boosted credit, says Prinesha Naidoo on Bloomberg.

Does Britain need more runways?

MPs thought so and voted for one; the Supreme Court has now scotched the idea. But there are other ways to increase capacity that would cost less in environmental terms. Simon Wilson reports

What has happened?

Last week the Court of Appeal declared Heathrow's planned £14bn expansion illegal because the government decision to proceed with it did not properly take into account the UK's legally binding commitments on climate change. Heathrow wants a third runway to boost aircraft capacity by 56% and grow passenger numbers from 81 million last year to 130 million by 2050. But in a case brought by environmental groups, the judges ruled that the then transport secretary, Chris Grayling, acted unlawfully when he approved the expansion in June 2018 (a decision that was backed by MPs by 415 votes to 119). The approval was unlawful because Grayling, acting on what has turned out to be flawed legal advice, failed to take into account the UK's international obligations under the 2015 Paris agreement, and our own domestic law. It's a landmark ruling that raises questions about a range of other infrastructure projects.

The third runway was all set for landing – now it's back in a holding pattern

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So the third runway is dead?

Not quite. The court made no judgment on the pros and cons of Heathrow expanding, or even on its environmental impact. It simply found that the decision in favour had not taken all the required factors and most recent climate change commitments into account. The owners of Heathrow may yet win an appeal in the Supreme Court, or the government might agree to go back and rework its policy statement to comply with the ruling. Even so, the court's decision is a massive blow to Heathrow's expansion plans – not least because the government immediately said it would accept the ruling. Boris Johnson has long been an opponent of Heathrow's expansion, famously vowing as London mayor to "lie down in front of those bulldozers and stop the construction".

Is the case for expansion still solid?

The UK's big businesses certainly think so. In 2018, MPs overwhelmingly backed the argument that Heathrow was full – and that a new runway was needed to boost capacity by 50% and protect the UK's future as a globally trading nation (about 30% of all of the UK's non-EU exports by value pass through the airport). They accepted the argument that carbon emissions would not be cut by rejecting expansion, since the same planes would instead be flying into Charles de Gaulle, Schiphol or Frankfurt (to the detriment of the UK economy). Nothing has changed since then, reckons Adam Marshall of the British Chambers of Commerce: without expansion, UK firms "risk losing crucial regional connectivity and access to key markets across the world". Indeed, any global trade policy without Heathrow's expansion would be "a joke", argues Juliet Samuel in The Daily Telegraph. "In a cash-strapped country desperate to expand access to foreign markets, it is hard to imagine a more slam-dunk case for an infrastructure project."

Can we expand and meet carbon targets?

Amber Rudd, who as energy and climate secretary led the UK's delegation at the Paris talks, thinks we can and must do both. First, argues Rudd in The Times, we should massively ramp up taxes on aviation to account for the pollution it produces. Second, we should invest heavily in the development of low-carbon aviation technologies, including electric-, biofuel- and even hydrogen-powered flights. And third, we must "get serious" about negative emissions technology to take carbon out of the atmosphere. Net zero must not equal "hairshirtism", reckons Rudd. "Greening our economy is about doing things differently, not slowing us down."

> *"Aviation emissions have doubled since 1990 and are 7% of the UK's total"*

What's the case against expansion?

Ever since the project was first mooted under Harold Wilson in 1968, the UK has been dithering about expanding Heathrow for a very good reason: the case for it is weak. Heathrow is simply in the wrong place for extensive expansion, argues Alistair Osborne, also in The Times. It's too close to densely populated and already heavily polluted London, and encircled by one of the world's busiest road systems – making the project too complicated and too expensive. Indeed, the latest "bonkers incarnation" of the plan involves diverting all 12 lanes of the M25 into a tunnel under the new runway and building the two biggest car parks in the world. "Try to imagine the chaos." Meanwhile, the change in global sentiment on the question of climate change has transformed the Heathrow debate, says the Financial Times, a newspaper that used to support expansion and has now changed its mind. The idea that the aviation industry will be able to get to net zero via a magical mix of new fuels, technology, carbon pricing and offsetting is asking us all to take an awful lot on trust. Meanwhile, the industry's emissions have doubled since 1990 and now account for 7% of the UK's total.

Can we expand capacity elsewhere?

Yes, argues Alistair Osborne – and once you junk the "last-century fixation" with hub airports as national virility symbols, it will be much easier than most people realise. For the foreseeable future, up to 2040, say, it would be eminently possible to deliver enough extra capacity by working existing London region runways harder, at a "fraction of the financial or environmental cost". In concrete terms, that would mean a new national policy statement that lets Gatwick use its relief runway for takeoffs (a scheme it prices in the "hundreds of millions"). Stansted could be allowed to raise its annual passenger cap from 35 million to 43 million; Luton permitted its second terminal; and Heathrow allowed to up its flight cap a bit from 480,000 to 505,000 a year. All that would "spread the environmental burden, making capacity growth easier to offset locally towards net zero targets". It would leave Heathrow's boss John Holland-Kaye having to explain to investors why he has "already blown £450m on a third runway always doomed to fail. But that's his problem, not ours".

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The price of your principles

Sin stocks tend to beat the market – but that doesn't mean ethics must always lead to below-par returns

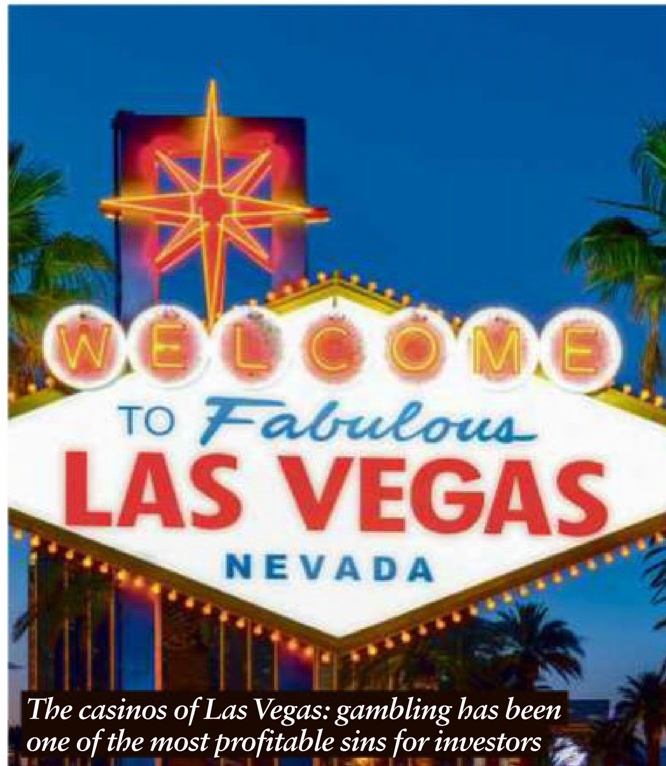
Cris Sholto Heaton
Investment columnist

Investing ethics are a very personal decision. I tend not to invest in tobacco: my view is that smoking is always harmful, and that tobacco firms' business is based on trying to make us forget that. Still, I write about tobacco in MoneyWeek when it's relevant, because tobacco users have a choice. But I won't generally write about private prisons, because prison users don't get a choice where they serve their sentence and the evidence suggests that giving for-profit companies too much control of the justice system creates all sorts of moral dilemmas and leads to worse outcomes. I have no problem with the idea of investing in countries such as Iran because I think engagement is a better way to bring change than sanctions. However, North Korea would be difficult, because the regime's control of the economy means that it would be the main beneficiary.

The wages of sin

Most MoneyWeek readers are going to disagree with me on at least one of these points. As that shows, the idea of ethical investing (or ESG – ethical, social and governance investing – as it's sometimes called more broadly) means something different to all of us. This makes it hard to measure how ethical decisions affect investment performance. But one way to think about this is to look at returns from sin stocks – a list that includes tobacco, alcohol and gambling, as well as niche categories such as sex and pornography (where there tend to be few listed companies), and sometimes weapons.

Studies show that sin stocks tend to beat the market over the long term, which implies that ruling them out might lead to lower returns.



The casinos of Las Vegas: gambling has been one of the most profitable sins for investors

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Yet that's not necessarily the case, according to analysis by Elroy Dimson, Paul Marsh and Mike Staunton in the *Credit Suisse Global Investment Returns Yearbook 2020*. Sin stocks are a small part of the global market: alcohol, tobacco and gambling each make up less than 1% of the FTSE All World index. You could leave them out of a diversified portfolio without much effect. Some of the sectors now under scrutiny are bigger – oil and gas accounts for 5% of the FTSE All World. But surprisingly, the Dimson, Marsh and Staunton data shows that excluding any single sector would have had only a small effect on long-term returns in the US from 1926 to 2019.

"Alcohol, tobacco and gambling are all under 1% of the world index"

That said, the narrower the market, the bigger the effect could be. Tobacco is about 5% of the FTSE 100, while oil and gas is 13%. Leaving some of those out could have a much larger effect. So whether you are picking individual stocks or buying a tracker or an active fund with an ethical angle, the key is to make sure that the universe of stocks is wide enough that you won't miss the sector you want to exclude.

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

Market timing refers to any strategy that involves trying to predict future price movements and shifting between different investments to take advantage of them. To take a simple example, if you believe that shares are likely to fall and bonds to rise over the next month, you would buy bonds and sell shares. You would only intend to hold these positions for as long as you think bonds will keep beating shares: as soon as you think the trend will reverse, you would buy shares and sell bonds.

These predictions and trading decisions may be based on economic data: in the example above, you might believe that GDP growth will be much worse than expected and investors will dump shares because they fear a recession is coming. They could be derived from trends or patterns that you think you can see in price charts (known as technical indicators); you might think a bull market looks as though it is coming to a peak or that a bear market is near a bottom. Or they might be influenced by other major events, such as the threat of a war and the impact that you think it will have on markets.

All of these involve an attempt to predict not only what will happen and how it will affect asset prices, but when that will occur. If you get the timing wrong, you can easily lose money even if your prediction eventually turns out to be correct.

That's part of the reason why market timing is so difficult, together with higher costs. If a buy-and-hold investor buys a stock that they think is cheap and their analysis is correct, they should make a profit, even if it takes longer than expected, as their costs will be relatively low. But if a market timer regularly changes their positions based on what they think will happen, they will incur higher costs. Unless their predictions are very often correct, these costs will eat into their profits. Studies suggest that most market timers do worse than buy-and-hold investors.

Guru watch

Cliff Asness, co-founder, AQR Capital Management

"Never has a venial sin been punished this quickly and violently," says Cliff Asness of AQR, the quantitative-investing giant that manages around $185bn. Back in November, AQR began increasing its exposure to value stocks on the basis that they then looked exceptionally cheap compared to the wider market – despite the firm's long-standing principle that trying to time the market in this way amounts to an investing "sin" (because market timing is hard to get right and likely to backfire).

Thankfully, "we only sinned a little", by increasing exposure a small amount. That turned out to be very fortunate, because the timing of AQR's decision could not have been worse.

"In a decade quite bad for value investing, the start of 2020 is the absolute worst six-week period": between 1 January and 13 February, the Russell 1000 Value index underperformed the Russell 1000 Growth index by 6.4%. (The Russell 1000 tracks the 1,000 largest US stocks – it's similar to the S&P 500 but broader.) On a 30-year view, a span that includes events such as the 1998-2000 tech bubble and the 2008-2009 global financial crisis, value has only done worse 3% of the time. And among smaller companies, this has been the worst spell for value since at least 1963.

"I have been a pooh-pooher ... of some who compare this value pain to the tech bubble." Value is not quite as cheap relative to the rest of the market as it was back then. However, the comparison is getting stronger, in terms of both the scale ("no more slow steady losses for value, now it's very quick big ones") and "the widespread embracing by many of all the reasons ... why value is never going to work again". Value investors need to stick to their process, even though that's difficult when performance is as bad as this and others are finding reasons to throw in the towel. "We've seen this movie before a few times and we know how, but definitely not when, it ends."

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Retailing is not dead yet

Some shop owners have stopped complaining and started innovating. That may yet save our high street

Matthew Lynn
City columnist

It has been a long time since anyone could make any money from owning a shop. From Woolworths to Comet, a whole string of them have gone bust in the past decade. Customers have switched to buying everything online. Business rates have risen relentlessly higher, squeezing profits. Staff have become more and more expensive as the minimum wage keeps on going up. And property developers through the 1990s and 2000s built too many shopping centres and out-of-town retail parks.

But perhaps the real problem in retailing was not the competition or punishing taxes. It might be that there just hasn't been enough innovation – and that shop owners are themselves responsible for the decline of their industry. There are a few signs that a few retailers at least are starting to get that – and instead of just complaining are trying out new ways of selling things.

In the US, Amazon has just launched its first full-scale cashier-less grocery store. You don't even have to check out. You just walk in, pick up the stuff you need and go (it uses your phone to debit your account automatically). Whether this works out or not remains to be seen. But it is something new and different, and a lot more convenient if you are in a hurry.

Meanwhile, Amazon's technology rival, Apple, is pushing forward with a retail chain that already has more than 500 outlets worldwide. As anyone who has ever stepped into one will know, its stores are lavishly fitted out and expensive to run, and yet they hardly appear to be interested in selling you anything. They don't even feel like a shop – and yet they have one of the highest turnovers per square foot of any chain in the world. Again, it is a very different approach to retailing.

Ikea, too, has started developing plans for renting rather than buying furniture. It has partly done that to address climate change, but it may also be a better model for a world in which home ownership is in decline (and where many people prefer to "stream" products rather than own them). Others are trying out membership schemes, partly modelled on the success of Amazon Prime. Tesco has revamped its Clubcard as a membership scheme and Walmart is planning something similar in the US.

©Getty Images

Nothing much has changed on the high street – until now

Suits you, sir. Add to basket?

There are new technologies that are starting to emerge too. Virtual changing rooms that use artificial intelligence (AI) to let you see how clothes will look on you are moving into the mainstream. They will free-up floor space and may well encourage people to buy more things in new and different ways. Facial-recognition software is making cashier-less stores possible and making it easier to crack down on shoplifting, which reduces costs and will allow chains to reduce prices. As AI gets more mainstream and robotics improve there will no doubt be lots of new ways shops can be run.

Most of the retail formats we are familiar with on the high street were tired and stale. The department store was an Edwardian invention. Huge buildings with lots of different concessions might have been exciting in 1910, but it is a long time since they set any pulses racing. The supermarket was more or less perfected by the 1960s: they have got slightly bigger in the 50 years since then, but otherwise have hardly changed at all. Bookshops, clothes shops, toy shops and pharmacies – all look much the same as they did 100 years ago.

But with new ideas and new formats, there is nothing inevitable about retail's demise. Amazon is investing billions in retailing, but doing it in new ways. Apple is opening more and more stores, but bringing some flair and imagination to them. There is a vast space starting to emerge for retailing entrepreneurs who can work out how to integrate artificial intelligence and virtual reality into a physical format and offer something different. In truth, the real problem in the retail industry was that it had become too conservative and dull, with too many shops that all looked much the same and very few new ideas. Retailing may surprise us yet by staging a revival.

Who's getting what

● Plumbing tycoon **Charlie Mullins** is "flush with cash", says The Sunday Times. The founder and CEO (pictured) of the London-based plumbing firm Pimlico Plumbers "bagged" a £6.1m payday following a record year for the company. Pre-tax profits rose by 7.1% to £4.7m on sales of £44.8m. Mullins' pay breaks down as £3.7m in dividends in the year to May, plus £1.6m after the year-end, along with with a salary of £780,000. He founded Pimlico Plumbers in 1979.

©Getty Images

● Rio Tinto's boss **Jean-Sébastien Jacques**' total pay jumped by 27% last year to nearly £5.8m, according to the mining giant's latest annual report. Jacques was paid a fixed salary of almost £1.5m, along with a £1.7m bonus and a £2.6m award from a long-term incentive plan. That last bonus kicked in after Rio Tinto posted its biggest profit in eight years on the back of rising iron-ore prices, no fatalities and a new climate strategy, says the Financial Times. Underlying earnings at the group rose to $10.4bn last year, from $8.8bn in 2018.

● Sensyne Health's chief financial officer **Lorimer Headley** is leaving the technology business with immediate effect and just months after a shareholder backlash over pay, says The Daily Telegraph. The dispute centred on a £200,000 bonus that was handed to Headley following the company's stockmarket listing. Lord Drayson, the founder, was paid almost £1.3m last year, which also included a controversial £850,000 bonus for the float.

Nice work if you can get it

Stephen Schwarzman, co-founder of private-equity group Blackstone, and his two top executives collected a combined $802.6m in pay and dividends last year, says Anders Melin on Bloomberg. Schwarzman's haul was made up of $452m in dividends and around $53.5m in "carried interest" (a share of the profits), according to the firm's latest filing. His $18bn fortune also got a boost from his salary, share awards and paid expenses for personal security. Even so, his total pay actually fell by 10% from the year before on lower dividends. Blackstone's president and chief operating officer, Jonathan Gray, received a total of $181m. And Tony James, the company's vice-chairman, banked $112.3m, including dividends. The earnings figure available to be paid out as dividends at Blackstone rose by 6.6% in 2019 to $2.9bn. Schwarzman co-founded the private-equity giant in 1985 with Peter Peterson.

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Small cap trusts' big comeback

The bottom segment of the market came alive late last year. The rally looks set to continue

Max King
Investment columnist

For much of 2019, smaller companies continued to lag larger companies, as they had in 2018. Smaller companies are more geared to the domestic economy than their bigger counterparts and last year many investors were worrying about the outlook for the UK. What's more, the Woodford fiasco raised concerns about the liquidity of open-ended funds, causing many of them to reduce exposure to small caps.

But in the last quarter, and especially in December, the clouds lifted and share prices surged. Over the whole of 2019, the Numis Smaller Companies index (NSCI), comprising the bottom 10% of the UK market, returned 22.3%, 5% ahead of the FTSE 100. But if investment companies are excluded – a gauge known as the NSCI (XIC) – the gap increases to 7.9%. The Aim market returned 15%.

A shrinking market

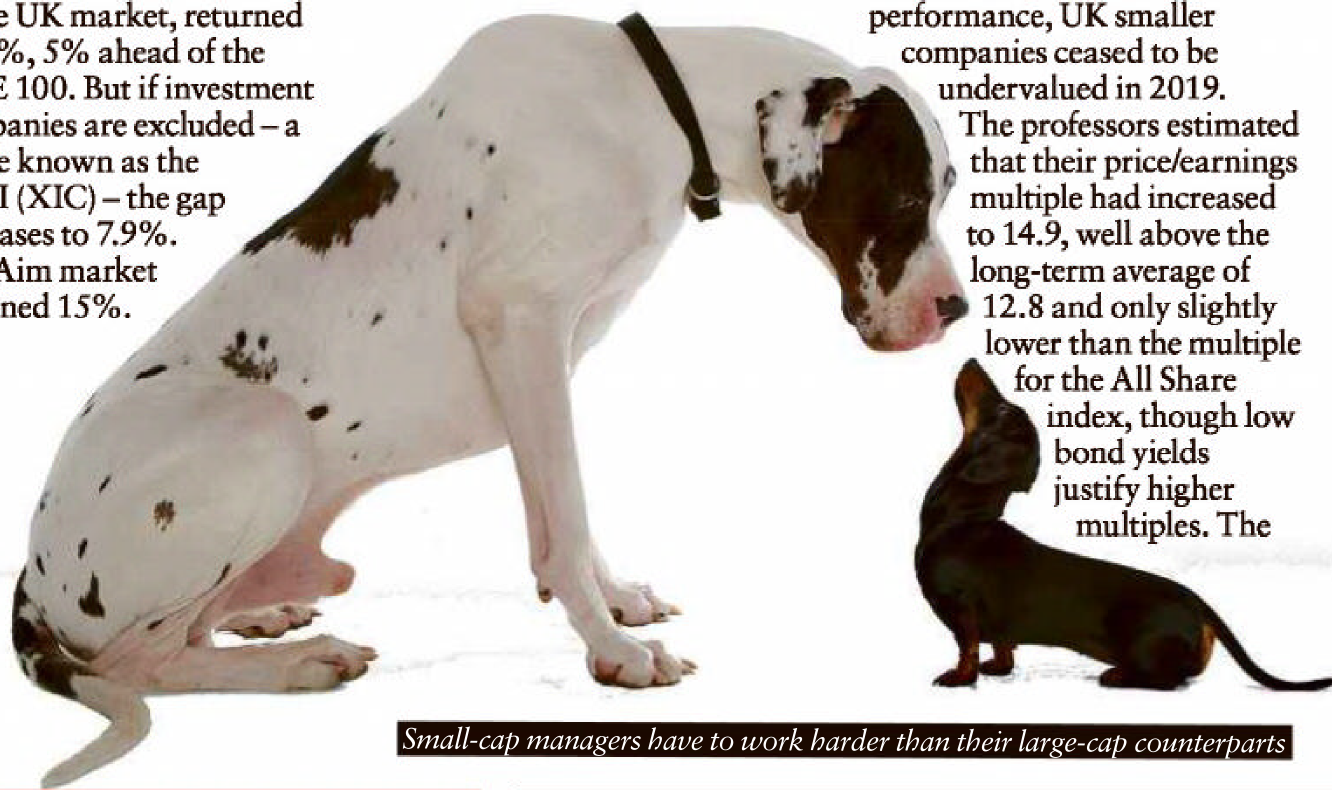
The NSCI comprises all 696 companies (of which 350 are investment companies) with a market value below £1.68bn and has a total value of £261bn. Including Aim, the number rises to 1,547 companies with a total value of £345bn compared with the £2,018bn value of the FTSE 100 index.

Over time, the number of companies has been shrinking, but the size of the companies has become larger. The 346 NSCI (XIC) companies have an average market value of £444m compared with 1,067 companies and an average £24m in 1987. In 1955 the respective figures were 2,517 and £0.4m.

The small-cap investment manager has more – and riskier – companies to research than the large-cap manager, each with far less coverage and less accessible management.

It wouldn't be worth bothering unless smaller companies outperformed larger companies over the long term. And they do. According to research by Professors Paul Marsh and Scott Evans of the London Business School, the long-term outperformance of the NSCI (XIC) is an annual 3.3% over the 65 years since 1955: 14.8% per annum versus 11.5% for the All-Share index. This outperformance is replicated in most countries. The global small-cap outperformance has averaged 4.2% since 2000.

Following such strong performance, UK smaller companies ceased to be undervalued in 2019. The professors estimated that their price/earnings multiple had increased to 14.9, well above the long-term average of 12.8 and only slightly lower than the multiple for the All Share index, though low bond yields justify higher multiples. The valuation of smaller companies relative to larger ones had not reached the extremes seen in 2007, but continued outperformance needed superior earnings growth.



Small-cap managers have to work harder than their large-cap counterparts

Discounts have fallen fast

Investors in small-cap investment trusts benefited in 2019 from falling discounts to net asset value. These averaged over 10% at the start of the year, but the mainstream trusts, such as Aberforth, BlackRock, Throgmorton, Henderson, Invesco Perpetual, JP Morgan and Standard Life were trading at, or very near to, premiums to asset value at year-end, as were the three mid-cap trusts.

Moreover, their net assets continued to outperform the NSCI (XIC), often by large margins; in Standard Life's case by 19% and JP Morgan's by 25%. Of the 16 trusts in the UK mid-caps and small-cap sectors, 11 returned over 40% and five over 50%.

The upshot? Liquidity worries are making it difficult for open-ended funds to own the smallest companies and Aim stocks, giving closed-end funds a competitive advantage. Throw in continued strength in the NSCI (XIC) and at the start of this year respectable, though lower, returns from the mainstream mid- and small-cap trusts looked likely. And now, after February's sharp setback, the sector again looks good value.

Activist watch

Activist hedge fund Elliott Management, owned by the billionaire Donald Trump supporter Paul Singer, has purchased a large stake in Twitter in a bid to oust its chief executive Jack Dorsey, says Sky News. Elliott, which reportedly holds more than 4% of Twitter's shares, has nominated four directors to the company's board even though there are only three seats to fill, thus covering any other vacancy that could arise. Dorsey was criticised by Trump after Twitter announced a ban on all political advertising ahead of the 2020 elections. Twitter has been "a potential target for activist investors for years", say Scott Deveau and Ed Hammond on Bloomberg. Since Dorsey returned as CEO in July 2015, the shares have fallen 6.2%.

Short positions... the chart-topping China fund

■ Jitters over the coronavirus spread throughout most of the world's markets last month, but one fund managed to make investors 18% in the first two months of this year with Chinese stocks, says Jonathan Jones in The Daily Telegraph. The Matthews Asia China Small Companies fund is in fact the year's best-performing fund so far. The average fund investing in China is up only 0.5%. Though the Matthews Asia fund was initially affected by the virus, it recovered strongly. The fund buys companies worth £8bn or less and mostly owns healthcare and technology stocks. Manager Tiffany Hsiao says it has done particularly well because it owns small, innovative companies that are "insulated" from wider economic shocks. The Matthews Asia fund also owns stocks that have benefited from the virus, such as medical waste recycling firms.

■ British hedge-fund billionaire Chris Hohn (pictured) has launched a campaign to "starve" hundreds of planned coal-fired power plants around the world of finance, says Matthew Green in Reuters. Hohn, a major donor to environmental groups, has written to the Bank of England, the European Central Bank and the chairmen of Barclays, HSBC and Standard Chartered. In his letter, Hohn said coal "is the single largest source of greenhouse-gas emissions globally" and warned that the financial system was doing too little about it. He wants the rules tightened to force banks to assign a higher risk rating to coal plants and reveal their overall exposure to coal. Hohn, the founder of the hedge fund TCI, has become one of the most prominent green campaigners in the past few years.

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Investing is the best way to give

Andy Kessler
The Wall Street Journal

I'm always "mystified" by how "fruitlessly" philanthropic foundations disperse their "capitalism-provided funds", says Andy Kessler. The Rockefeller Foundation's recent deal prompted a rethink. In 2019, Rockefeller teamed up with India's Tata Power, launching a $1bn deal to build 10,000 mini grids. With solar panels and battery backup, this can provide electricity 24 hours a day, seven days a week in remote areas at a competitive price. Yes, "price". Electricity isn't being given away. By providing smart meters, they create a market for electricity and now "all sorts of commerce is erupting". "That's productivity." The pair hope to make electricity available to 25 million people, with 75% of power going to small businesses. For the deal, 30% of the proposed funding is equity, split 80/20 between Tata and Rockefeller. The rest is debt. Not being a return-driven investor, Rockefeller is happy to break even. That allows Tata to seek a 14% return, which helps it get better debt financing – the road to scale. Of all the things you can do with your money, "investing is the only one that increases productivity, the scaffolding of capitalism and societal wealth… It almost feels like, dare I say it, capitalism".

A white-hot tech revolution

Jimmy McLoughlin
Wired

Certainty over Brexit has provided the tech sector with a golden opportunity to influence the next decade of policy-making, says Jimmy McLoughlin. A thriving tech sector is vital to the UK's success and fortunately Dominic Cummings, a tech and innovation "obsessive", is sitting at the government's "most powerful desk". The three major areas of focus are regulation, skills and capital. Devising a regulatory framework that balances the US's "laissez-faire approach" with the EU's "top down" one should be Cummings' priority. Creative regulation has already helped the UK become a "leader in fintech". In terms of talent, though, it will no longer be possible to have a Berlin hire at their desk in London within 24 hours, the Home Office is aiming for a process of ten to 15 days. Much needs to be done to boost homegrown talent as well, both in terms of showcasing digital careers to youngsters and training students. There are currently an estimated 600,000 digital vacancies in the UK. But the longest-term challenge relates to finance. Here, a simple "tweak" by the Treasury, allowing pension funds to invest in venture capital, would allow "everyone to have a stake in Britain's exciting technology revolution".

The mafia is collecting our rubbish

Alasdair Palmer
The Spectator

More than half of local councils have recorded a large increase in fly-tipping and sources are blaming organised crime, says Alasdair Palmer. While on the face of it this is an "astonishing claim", when I worked at the Home Office I was amazed to discover the existence of this criminal underworld and the government's "unintentional complicity" in it. Waste management – the original business of the Italian mafia – is just the start. A decade ago, it was revealed that a taxi company run by a violent gangster had been awarded a major contract by NHS Glasgow. Police subsequently discovered that up to 10% of Scotland's public-sector contracts were going to criminal organisations. The discovery had no effect on the UK government. Why? EU Directive 2004/18/EC, Article 45, which says that firms can only be excluded from the procurement process if one or more of the directors has been convicted of a serious offence. Post Brexit, it could be repealed, but in practical terms, much would still need to be done. The connivance of professionals (eg, accountants) make crime that much harder to expose. But the situation cannot stand. We are handing criminals a lot of gold. Sooner or later, we shall "have to play by their rules".

How Boris plans to level up Britain

Editorial
The Economist

Boris Johnson has promised to more than double annual spending on research and development (R&D) to help post-Brexit Britain "build on its assets", says The Economist. Research by British scientists is the most cited in the world. Currently, the best universities attract the most funding, creating a virtuous cycle in which the "Golden Triangle" (Oxford, Cambridge and London) receives nearly 50% of the cash. To dovetail with the government's aim of "levelling up", this is likely to change, as is the type of funding, which traditionally goes into basic rather than applied research, on the basis that the private sector is better placed to turn academic ideas into marketable products. Our low overall R&D spend and "poor productivity" are good reasons for this to change. In terms of location, cities in the Midlands and the northwest would be good places for new research facilities since they not only have higher levels of private R&D than public R&D (suggesting there is scope to increase the latter), but also have cheaper property and "looser planning regimes". Such investment may not "supercharge Britain's ability to win Nobel prizes", but it might "fulfil other ambitions more relevant to voters".

Money talks

"When I was 14 I told my parents I didn't want pocket money, I wanted a job. The only one I could get was dish washing in a restaurant called Francois for £3.50 an hour, but when I got my first cheque I felt so proud. My hands were dry with calluses but I had money I'd worked for."
Actress Hannah John-Kamen (pictured), quoted in the Evening Standard

"I can't even say 'rich'. I don't feel that way. I don't behave that way. If I bought a Ferrari, I'd be worried about it getting scratched."
Former Goldman Sachs CEO Lloyd Blankfein insists he is "well-to-do", not rich, quoted in the Financial Times

"I developed an incredible understanding of how difficult it was for women in our business. She changed the pay scale for women in film."
Actor Kiefer Sutherland on his former fiancée, film star Julia Roberts, quoted in The Daily Telegraph

"It cost me £2 to turn my life around. At 18, desperation drove me to enrol on A-Level evening courses. They were only a quid for the unemployed. I couldn't stand the thought of a future watching *The Sullivans* on my parents' sofa. Finding a way out is my proudest achievement."
Comedy writer Simon Blackwell, 53, quoted in The Observer

"The blessing is being a man in this industry. The older I get the more interesting the roles become."
Actor Ioan Gruffudd, quoted in the Daily Mail

"There is a snobbism about Ryanair. Which magazine has rated us the worst airline on the planet for seven years in a row, and in that period we have grown from carrying ten million passengers to 150 million."
Ryanair boss Michael O'Leary, quoted in The Times

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The economics of Jane Austen

No wonder she's so excited

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capx.co

Jane Austen's novels are regularly adapted for the screen – a new version of *Emma* is in cinemas now – reflecting her standing as one of the English-speaking world's greatest writers, says Jethro Elsden. What is less "universally acknowledged" is that her books are also "chock full of interesting economic insights".

The rise of capitalism

Austen was writing at the start of the 19th century, during the first stirrings of the industrial revolution. These were times, as T. S. Eliot might have put it, of "tension between dying and birth". The old established order of the landed aristocracy was losing its standing and power; a new commercial middle class was gradually gaining in both. The tensions between the old order and the new are clear in Austen's novels.

The "bourgeois values" epitomised by the rising commercial families – and snootily looked down upon and feared by the families whose status and values, not to mention wealth, were under threat – underpin capitalism and made possible the huge increases in the wealth and living standards of the past 200 to 300 years. Characters such as Emma look down on commerce and trade, but the author herself is "clearly against the view that earning your fortune make you less valuable than the landed gentry who live off unearned income".

Many of the plots in Austen's novels turn on the intrigues in the marriage market, especially on the importance in such matches of the relative status and wealth of the two families. We might sometimes be drawn to judge harshly those who have saved insufficiently for their daughters' dowries, or whose precarious status puts their families' position at risk. We can judge more kindly when we remember that, in the society of the day, consumption of necessities, even for the relatively wealthy, ate up a greater proportion of earnings than today, leaving little room for savings. And in a society driven by status, conspicuous consumption and the need to signal your wealth in order to maintain your social standing would make spending on expensive luxuries such as parties and pianos and carriages carry more importance than we today perhaps appreciate.

No wonder Mrs Bennet is so ecstatic on hearing the news of Mr Darcy's arrival. Darcy, we are told, has a £10,000 income. As a share of national income, that would be equivalent to an annual income of something closer to £60m today. That income must have been derived from assets worth about £3bn in today's terms. Swoon.

Beware: article may contain insights

hitchensblog.mailonsunday.co.uk

My day is besieged with infuriating warnings, says Peter Hitchens. My coffee warns me the contents may be hot. As I go to get my train, I am warned to hold the handrail and "take care!". If it is raining, I am told it might be wet underfoot. What is to blame for all this nonsense? Political correctness gone mad? Brussels? The surprising answer is: Margaret Thatcher. Her government was responsible for overturning the system of legal aid, which the 1945 Labour government had introduced to make justice available to all. That, however, turned out to be too costly. By the middle of the 1980s, means-testing meant only half the population were still effectively covered, yet the system was still hugely expensive. So Thatcher stealthily introduced "no win, no fee". This led to the predictable rise of sordid "ambulance chasing" practices; legal sharks scoured the country for clients with a grievance. The train companies and others are not being ridiculously oversolicitious about our welfare; they are nervous about potential law suits. Nothing has been gained. Taxes were saved, but insurance premiums are up and the NHS struggles with the burden of law suits. This is life in modern Britain. It's only a matter of time before wine bottles come with stickers saying, "Warning: open other end".

How to avoid office drama

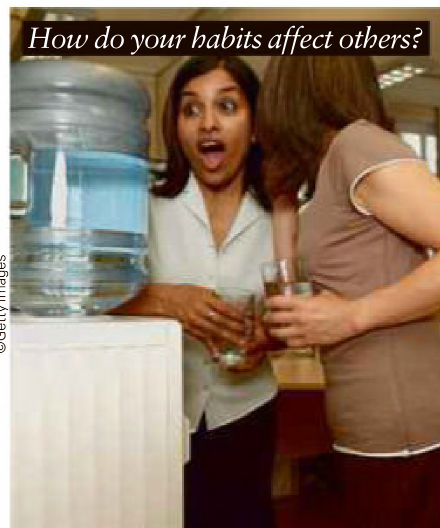
inc.com

Sometimes office conflicts defy resolution, says Marcel Schwantes. Seek freedom from them instead, says Dr Jennifer Goldman-Wetzler in a new book. This is how to achieve it.

1. Be aware of your habits. These keep you stuck in patterns that cause conflict. Awareness is the first step to change.

2. Map out the conflict. Write down who and what is involved in the situation and look for connections. You might spot levers for change.

3. Acknowledge your shadow values. Our ideals we're proud to hold openly, but there are darker parts of ourselves that are hard to admit to. Awareness


How do your habits affect others?

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of what these are can help break conflict patterns.

4. Reroute emotions. Don't take emotional criticism personally. Ask what is going on for them. This reroutes the emotion back where it belongs.

5. Prepare for consequences. Think about the potential consequences of your actions. How can you prevent them or mitigate their effects?

6. Take reality into account. Will your ideal scenario work, given the people and other constraints? If so, pursue it. If not, revise your ideal until it takes reality into account.

Robots can help create more jobs

voxeu.org

Rapid progress in advanced technologies has given rise to concern that robots will take all the jobs, say David Klenert and co-authors. Whether that will turn out to be true remains to be seen, but our analysis of new data from the International Federation of Robotics is instructive. The data tracks the use of industrial robots by country and industry. Our study shows that, from 1995 to 2015, one additional robot led to a rise in employment of around 1.3%. There was no negative impact on low-skilled jobs.

How so? Robots may "save on labour but induce demand effects", leading to overall jobs growth. Investment in robots and employment may move and grow together. And robots and automation technologies generally do not replace entire jobs, but only certain tasks, leading to a restructuring of jobs, enhancing productivity and, potentially, employment. These results may not hold true for other technologies, but an undue focus on robots may distract public attention from other, more important issues, such as the weakening of collective bargaining.

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Ditch higher-rate pension tax relief

People have come to think of it as a basic entitlement. But the system is absurdly generous, says Merryn Somerset Webb

On holiday last week I sat next to a firefighter on a ski lift. Really nice woman, but meeting her stirred unattractive feelings of resentment in me. She was younger than I am, but while I feel mid-career, she was already planning her public-sector, defined-benefit-pension-financed retirement. She's thinking of the lump sum. The regular inflation-adjusted income forever. The joy of knowing that it is just going to keep coming in every month while she thinks about what to do next.

Our conversations reminded me just how angry absolutely everyone everywhere is about pensions. In the UK, anyone with a defined-contribution (DC) pension is irritated by the hugely more generous tax treatment of defined-benefit (DB) pensions. Anyone with a DB is maddened by the inheritability of DC pensions.

Anyone with a DB is equally maddened by the idea that they might be asked to move to a DC (this is why staff at 74 UK universities are now on strike). Anyone running or acting as a trustee of a DB is horrified by the way super-low interest rates have created pension-fund deficits. Anyone running a company with a legacy DB scheme is stunned by the level of cash they have to shovel into those same deficits (there is even evidence that they pay lower wages as a result).

Everyone in higher tax bands is cross about the way the annual allowance and the lifetime allowance limit their tax-relief opportunities. And of course the younger you are, the crosser you are: before 2006 there were no limits on pension tax relief (bar an annual restriction to a percentage of your income). Today you can't save more than £40,000 a year or £1.055m over a lifetime and even those simple-sounding allowances can descend into administration hell in the blink of an eye. Pensions taper, I am thinking of you.

How much do you need in retirement?

But in all this sound and entitlement fury, I suspect we are forgetting the key point of pension tax relief. It isn't to get you that Lamborghini or to pay for whatever the annual equivalent of a Caribbean cruise is going to be in our new virus-ridden world. It's something much more boring.

It's to keep you out of the means-tested benefits system. To stop you being a burden on other taxpayers in your retirement. That's it. Anything you save above the level required for that is simply a drain on the public finances – and hence other taxpayers.

How much tax relief should you, then, get? I thought I'd work this out by looking at how much the UK benefits system reckons a retired person needs to live. The answer points to around £16,000 to £17,000 per year. If you are in your 70s, live on your own and have no assets or income of any kind whatsoever, that's what your total benefits package could come to (check out the calculator on the entitledto.co.uk website).

Most of this will come from the state pension (the full state pension is now nearly £9,000 per year) but, depending on your circumstances, could be topped up by other forms of state help such as housing benefit, council-tax credit and pensions credit.

> *"It is possible to save for retirement without a pension wrapper"*

©Getty Images

University staff aren't the only ones angry about pensions

If we assume that most people will now end up with a full state pension (35 years' work), that means that the state needs everyone to have a pension fund that will provide around £10,000 of income annually. Assume a 3% yield and that's only a £300,000 retirement pot – a level most people auto-enrolled into a pension scheme from the age of 22 should reach. Look at it like that and the current system with its lifetime allowance of over £1m seems ridiculously generous. And scrapping the higher-rate tax relief system – as it is rumoured the next Budget will address – isn't spiteful, self defeating, an act of fiscal hooliganism or part of a war on wealth.

It is just a way of preventing the better off effectively hypothecating their own tax revenues back to themselves. Think of it as less an unkindness than a rational response to a rising level of state-pension entitlement and a need to deploy tax revenue elsewhere – or, in my dream world, to find a way to cut taxes.

It isn't entirely straightforward. This kind of change is hard to implement in the public sector in particular. But unless we dump the relief system altogether (perhaps in favour of a much higher state pension), or shift to a pure Isa-style system for pensions, it is definitely coming.

We're not entitled to a yoga retreat

With this changing dynamic in mind it is time for the better off to recalibrate. Stop thinking of your tax relief topped-up pension fund as a God-given route to grey gold or your primary source of retirement income. Instead, think of it as an insurance policy – there to provide a base income and a back-up if all else goes wrong. The rest needs to come from savings made elsewhere, because contrary to popular belief, just as it is possible to give to charity without other taxpayers having to finance your Gift Aid, it is possible to save for retirement without a pension wrapper.

None of this works for my own finances, by the way. I am far, far from retirement. So I would much prefer a world in which I got unlimited tax relief on my pension contributions, retired in the next decade on the proceeds with a wave of thanks to lower-earning taxpayers and joined my nice firefighting friend on a long yoga retreat. But that wouldn't be right, would it?

A version of this article was first published in the Financial Times.

No, keep it. We need people to save more, not less

Scrapping higher-rate pension tax relief would amount to double taxation and discourage retirement saving, thereby depriving the economy of crucial long-term investment, says Max King

How the Conservative party has changed. When he was chancellor in the 1980s, Nigel Lawson took pride in abolishing at least one tax every year. Now, in the run-up to Rishi Sunak's first Budget, the press has been filled with presumably well-founded speculation about tax increases.

The prime target for the media pundits is the dwindling array of tax breaks available for pension-fund saving. In 2014, Lib Dem pensions minister Steve Webb persuaded a sceptical George Osborne to free pensions from the stringent restrictions they were subject to. Ever since, Conservative chancellors have been chipping away at tax reliefs on pensions as if to reverse the incentive to save that was then provided.

The lifetime allowance, first introduced in 2006, limited the value of an individual's pension fund. Above that limit, a penal rate of tax of 55% is applied either on drawdown, at the age of 75, or, for members of defined-benefit (DB) schemes, as the limit is exceeded.

The allowance was progressively reduced from £1.8m in 2011/2012 to £1m five years later. Though it has since been raised to £1.055m, there is no shortage of advocates for slashing it further, even though the current limit is causing significant problems for the NHS, whose senior doctors and surgeons are finding that their net pay from extra shifts is more than swallowed up by the pension tax.

The justification for this limit is to restrict the tax relief on pension contributions but, in reality, it is a tax on investment returns. Pay £30,000 a year into a pension fund for 35 years and you will not be liable for tax at 55% if your investment return is zero, but pay in just £10,000 a year with an investment return of 10% per annum and your tax liability will exceed £900,000. All the benefit you had from the exemption of your fund from income and capital-gains tax will be more than clawed back.

In 2011 the chancellor went further, limiting tax relief on contributions to £50,000 a year, reduced to £40,000 three years later. This might seem generous, and it is for those such as higher-grade civil servants whose pay rises steadily over a lifetime. Those with family commitments or erratic earnings often cannot afford to contribute every year, but do so from windfalls or when they can. They are penalised, as are high earners, whose limit is just £10,000 a year.

Tax deferral, not relief

The next target of the lobbyists for more taxation is the higher-rate tax relief on pension contributions, on the pretext that higher-rate taxpayers account for more than half the total cost of the tax break.

This ignores the reality that the tax relief is no more than tax deferral. Pensions are a system for converting capital, which is not taxed, into income, which is. Tax at both the standard and higher rate is payable on pension incomes, so stopping full tax relief on pension contributions would amount to double taxation, as would levying capital gains and income tax on pension-fund returns.

©Getty Images

Nigel Lawson abolished at least one tax every year

"Governments that raise taxes on the few soon raise them on the many"

How to spread the benefit

There are much better ways to spread the benefit of the tax relief more widely. Auto-enrolment in the expanding National Pension Scheme (NPS) will help, as would raising the threshold for higher-rate tax.

The value of the tax relief to standard-rate taxpayers has come down with the tax rate, but it doesn't have to be so limited; tax relief could be granted to standard-rate taxpayers at a rate of 25% or 30%. And if people are expected to become more reliant on the NPS and less on the state pension, shouldn't the rate of employee's national insurance be cut? It was just 6.5% when Lawson was chancellor, but is now 12%.

The objection is that the government can't cut taxes because it has to fund monstrously extravagant and pointless infrastructure projects such as HS2. People supposedly want higher taxes to pay for higher government spending, but I don't believe it, not even when the tax is targeted at the better-off. People realise that governments that start raising taxes on the few soon raise them on the many.

Pension funds are the primary source of long-term savings in an economy, vital to fund the long-term investment on which economic growth depends. Yet the government seems determined to continue chipping away at incentives to save for retirement. Having abolished higher-rate tax relief, will it go on to abolish the current entitlement to withdraw 25% of a pension entitlement tax-free? Will pension funds be sequestered to finance low- or zero-return infrastructure projects favoured by government? Will defined-contribution (DC) schemes suffer the same fate as DB ones? Pension savers need long-term certainty and the economy needs pension savings.

Should you go on holiday?

If the coronavirus breaks out at your destination, what are your options when it comes to compensation?

Ruth Jackson-Kirby
Money columnist

Picture your next holiday and you probably don't envision being trapped in your hotel receiving notes under the door from staff and being told you have to stay quarantined for two weeks. But that is exactly what has happened to around 700 guests at the H10 Costa Adeje Palace in Tenerife. After fellow guests were diagnosed with the coronavirus the hotel was put in quarantine. As the virus spreads across the world millions of travellers are wondering if it is safe to proceed with their trips.

If you have decided you don't want to go on your next holiday because you are worried about the virus, you may be able to get a refund, but this is far from guaranteed. Your first port of call should be the Foreign & Commonwealth Office's (FCO) website.

Start with the FCO

"If it has warned against 'all travel' to a destination, then airlines and package holiday providers must provide a full refund," says Marianna Hunt in The Daily Telegraph. So far, the FCO has only warned against all travel to parts of China. The FCO is also advising against all but essential travel to all of mainland China, parts of South Korea and parts of northern Italy. In this scenario airlines and holiday firms can decide for themselves whether or not to offer a refund.

When there is no FCO advice against travel, then your next option is to raise an official complaint with your holiday provider. "Package holiday firms may offer an alternative trip to a 'safe' location, but customers do not have to accept," says Hunt.

Around 700 people are trapped at their hotel in Tenerife

©STR/AP/Shutterstock

You should also contact your travel insurance provider to see if you are covered. Where there is FCO advice against all travel, most will pay out. When it is a case of "all but essential travel", you may also be covered.

"Package holiday firms may offer you an alternative trip to a safe location"

"If you are worried about trips to other areas where the virus has been reported, such as Tenerife… it might be possible to claim compensation even without an FCO warning," says Kenza Bryan in The Times.

"If your doctor tells you not to travel or if you have a note saying that your health would be at risk if you did so, insurers say they will consider your claim." Anyone booking their summer holidays should buy travel insurance at the same time as their holiday. If the FCO changes its advice for your destination before you buy an insurance policy, your insurer won't pay out.

The effect on work and schools

Will I get sick pay if I quarantine myself?
If you have travelled from an affected area and your employer or the government advises you to self-isolate, you are entitled to full pay. "Even if employers do not offer sick pay, workers are entitled to statutory sick pay for up to 28 weeks. It amounts to £94.25 per week and is paid from the fourth day of sickness," notes Anthony Cuthbertson in The Independent.

My child's school has closed and I have to stay home to care for them. Will I be paid?
"You have the right to reasonable time off to deal with... the care of your child," says David Byers in The Times. But this kind of absence is unpaid unless you ask to use your annual leave.

I have tickets for an event that has been cancelled. Can I get a refund?
"You are covered if you bought the ticket from a primary seller such as Ticketmaster or the venue itself," says Byers. You'll only get the value of the ticket back, not the fees. You can also ask your card provider. You can use Chargeback to reverse the amount you paid on your debit card. If you paid by credit card – and spent over £100 – you can get a refund from the card issuer.

Pocket money... beware the apps that monitor driving

A third of young drivers use an insurance app to monitor their driving in order to bring their car insurance premiums down. But glitches in the apps "may lead to you being charged the wrong premium by your insurer or even having your policy cancelled in error", says David Byers in The Sunday Times.

Insurance technology policies use an app on your smartphone or a device in your car to analyse your driving. "The idea is that the technology can help lower premiums for good drivers within an age group that traditionally faces the highest insurance bills."

The problem is that drivers are reporting that their data isn't being recorded correctly. Glitches have led to people being recorded as driving when in fact they were on their bike or on a train, resulting in them being marked as speeding.

A survey by analytics company GlobalData found that pay-per-mile policies "were likely to be a more reliable way for consumers to limit their driving costs".

It hasn't been a good season for skiers; some parts of the Alps have suffered the mildest winter on record. Snow has been patchy in many areas, spoiling expensive holidays.

Now insurance technology firm, Setoo, is offering a new form of ski insurance that pays out when you don't get snow for your ski trip, says Oliver Ralph in the Financial Times.

You purchase the insurance when you book, and then Setoo monitors the ski lifts at the resort. Three days before your trip begins Setoo contacts you with an update on conditions.

"If a certain proportion of lifts are closed – say, 70% – then the customer is offered the chance to cancel the trip and take a full refund. The trigger for the payout is set when the policy is bought."

Thousands of savers who took out a Lifteime Isa have paid hefty penalties for accessing the money early, notes Sam Meadows in The Daily Telegraph. The product is designed to help those aged 18-40 buy a house or save for retirement. Up to £4,000 a year is eligible for a 25% government bonus. But you pay a penalty of 6.3% of your savings if you have to access your money before you buy a house or turn 60. Investment platforms with 43,000 combined customers say £800,000 has been paid in penalties, an average of £575 per person.

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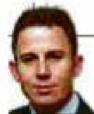
Another pensions scandal is brewing

Poor advice has prompted many savers to transfer out of final-salary schemes for no good reason



David Prosser
Business columnist

Get set for the final-salary pension scheme transfer mis-selling scandal. The Financial Conduct Authority (FCA), the City regulator, says that savers have transferred up to £20bn of savings out of defined-benefit (DB) occupational pension schemes into individual defined-contribution (DC) arrangements owing to poor advice. Lawyers acting for members of the British Steel pension scheme claim this case alone could account for £40bn of mis-selling.

Yet beyond the headlines there are still savers who believe that giving up guaranteed final-salary pensions in favour of an arrangement such as a self-invested personal pension (Sipp) is right for them.

Their advisers advocate transfers based on arguments such as the control over investments that a Sipp offers or the estate-planning opportunities available outside a final-salary plan.

The British Steel scheme alone could account for £40bn of mis-selling

©Getty Images

Beware these arguments

It would go too far to say that there is no-one for whom transferring out of a final-salary plan makes sense, but the number of people better off with a Sipp is small.

Paul Dyer, a former deputy chief risk officer at the FCA, has examined transfer advice, and the failings he says he has seen most often will sound very familiar to savers who have had ostensibly nuanced conversations with advisers weighing up the pros and cons of a transfer. They include focusing too narrowly on the fact that many occupational schemes are currently offering unusually high transfer values to leavers and assuming that the fact savers have assets other than their pension provides sufficient cushion if the Sipp disappoints.

Dyer also believes that much of what advisers tell clients about estate planning is vague and shallow. It's true that since the pension freedom reforms Sipps have made it easier to pass on pension cash; this is often cited as an advantage over final-salary schemes. But any proper transfer analysis should take into account scheme features such as death in service and dependants' pensions, which can also benefit heirs. And savers also have to realise that the longer they live, the fewer pension savings they'll have left to pass on in any case.

Another issue is that many of the supposed benefits of transferring out of a final-salary pension scheme won't be realised for years, especially for younger savers. In which case why make an irrevocable decision today?

The bottom line here is that the regulatory advice that leaving a final salary pension scheme does not make sense for most people is right on the money. Simplistic and generalised though it may sound, this should be the starting point for any discussion about a transfer. Savers who are told that they are the exception to the norm should demand a compelling and comprehensive explanation.

5 Reasons to Buy Physical Gold...

1 Gold is a safe haven asset - Gold is frequently used as a safe haven asset in times of economic turmoil or geopolitical uncertainty. For this reason, many advisors recommend allocating around 5% - 15% of their portfolios to gold.

2 Gold has a history of holding its value - Unlike paper currency, gold has maintained its value through the ages. It is an ideal way of preserving wealth from one generation to another. Plus, investment gold is not subject to VAT in the UK.

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

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

5 No counterparty risk - When you invest in physical gold you own it outright. You are not reliant on banks or financial institutions. In contrast, you are reliant on firms for gold futures, gold certificates, or ETFs - exposing you to counterparty risk.

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The juicy yields on offer in European fintech

With interest rates still at historic lows, income seekers should consider looking beyond traditional asset classes. Here are three ideas

David Stevenson
Investment columnist

When digital bank N26 announced last month it would leave the UK, there were fears that Brexit was going to trigger a fintech exodus. But it hasn't – in fact, the bigger story is that many successful British fintechs such as Monzo, Revolut and Starling have their sights set firmly on conquering the continent.

There is also no shortage of interesting, originally European online platforms still open for business to British investors and savers. Some such as Scalable Capital (originally German) and MoneyFarm (Italian) have been around for many years. But there are also less well known platforms worth exploring.

A one-stop shop for smaller banks

One is Raisin, which started out in Germany but launched here a few years ago. Raisin has come up with what is effectively a shop window for smaller banks who offer notice accounts and fixed-rate bonds for savers. It is an aggregator or online marketplace for savers who want internet-only access to better deposit rates.

The underlying providers tend to be smaller outfits that you won't find on the high street. They are, however, protected by the Financial Services Compensation Scheme (FSCS), whereby if the institution fails you get back up to £85,000.

In fixed-rate bonds, for instance, you'll come across the likes of Aldermore and ICICI Bank, while an outfit called Gatehouse Bank offers the best deal: 1.5% for a one-year bond.

When it comes to notice accounts the best deal I've seen was also from ICICI Bank which boasts a 1.6% rate for a 95-day notice account, well above the rate offered by market leaders such as Marcus (from Goldman Sachs), which offers a 1.3% rate.

Safety in numbers

Platforms such as Raisin in effect allow wealthier savers to spread out their cash between different providers while accessing them via one online account. One could have four different accounts with different providers and still get £340,000 of FSCS protection. The bad news, of course, is that these interest rates are puny.

Peer to peer (P2P) lending offers one alternative for investors, with mainstream providers such as Zopa, Ratesetter and Funding Circle offering returns in the 3% to 6% range. New regulations have had the effect of consolidating the market position of the major platforms. And one new rule has proved an inadvertent incentive to invest.

The Financial Conduct Authority (FCA), the City regulator, has suggested that investors should not have more than 10% of their investable wealth in P2P platforms. At first, this seemed onerous, especially as it requires the platforms to check with the investor.

But the 10% level could also tempt people into the sector. Many platforms tell me that investors now wonder whether they should have 10% exposure even if their current investment allocation is much lower. Yet for now even the established platforms struggle to provide income much above 5% per annum after costs and likely long-term defaults.

"French app Lydia lets you set up a digital wallet and send money overseas effortlessly"

Higher risk, higher reward

If you want to venture further up the risk scale, consider some European platforms open to British investors. Top of that list is probably Mintos, where income returns have historically been around 10%-11%. This Latvian-based platform doesn't issue loans itself.

It effectively lends your money to other specialist lenders around the world. To date investors from across Europe have put over €4.8bn to work on the platform with the biggest category being personal loans; car loans are also very popular.

Some of the intermediary platforms Mintos works with are based in the UK. They include lenders 1pm, Moneyboat, Cash4UNow and Peachy. If we take the first of these, 1pm, we can see from the site that it has lent out over €950m, is deemed by Mintos to have an A rating, and currently has a loan portfolio of €122m, with 10% "skin in the game", which implies that the lender will absorb the first 10% of losses. The average yield on loans is around 11%. 1pm is far from a complete unknown in the UK as it is listed on Aim, specialises in small business lending and has received backing from the UK government-owned British Business Bank.

Online versions of the Bank of Mum and Dad offer instant capital funding to poverty-stricken customers when they're not at home

©Kirsty Begg/Alamy

Returns to date from Mintos's lenders have been well above what you'd get in the UK. The average investment per person is around €4,000 and so far around 266,000 investors from across Europe have put money to work on the platform.

As for default risk, Mintos says that out of the €722m of loans outstanding, about €150m-worth is one day or more in arrears, with a large bulge around the 16 to 60 days bracket. So far, however, most arrears seem to have been recovered.

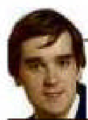
Mintos also offers a secondary market in loans which should enable you to sell out a position you are not happy with. Unlike most UK P2P sites, Mintos lets individual lenders pick their own loans manually or go for a fully diversified basket of loans.

A wallet worth opening

One last European fintech starting to make its presence felt in the UK is up-and-coming digital wallet app, Lydia. This French product allows you to set up an online wallet, fund it from your bank account or credit cards and then send money effortlessly to friends and family. It's very easy to use and works a treat for moving money to lots of different places without setting up a bank mandate to each and every recipient. The Stevenson family are big users, allowing the Bank of Mum and Dad to offer instant capital funding lines to its poverty-stricken customers.

Shake up Shake Shack

The premium-burger joint looks lacklustre and absurdly overpriced



Matthew Partridge
Senior writer

Investing in the restaurant sector can prove perilous. Not only is it prone to sudden shifts in fashion and taste, but the low barriers to entry (it isn't hard to set up a food outlet) also mean that there is always intense competition, pushing down margins.

While a few mega-chains such as McDonald's and Domino's Pizza have managed to strike it rich, stockmarket history is littered with restaurant companies that rocketed briefly before falling back to earth. One example is **Shake Shack (NYSE: SHAK).** Having risen from around $30 three years ago to a peak of over $100 last September, the company has now fallen back to just under $60 – and there could be more to come.

Shake Shack has clearly come a long way from its origins as a single hot-dog cart in New York in 2001. It has restaurants in 249 locations, including 12 in Britain. Between 2014 and 2019 sales rose fivefold, from $119m to $595m. Earnings per share went up tenfold in the same period. However, growth is now expected to slow down to under 20% a year between 2019 and 2021, still impressive but not quite the blistering pace that investors have been accustomed to.

The top end of the market is highly competitive

©Getty Images

Sales have slowed sharply

A particularly worrying sign is that same-store growth, one of the key measures of how a chain is doing (it strips out new openings) has fallen from 10% a few years ago to 2%. And in the last quarter same-store sales actually fell (though they are still growing on a year-on-year basis). Shake Shack's return on capital expenditure, a key measure of how efficiently it is using its money, isn't impressive either, running at a low 3%. This all suggests that it is finding it hard to compete in the crowded premium-burger chain market, especially since there are other brands out there such as Five Guys.

"I visited an outlet recently and didn't find the food very tasty or distinctive"

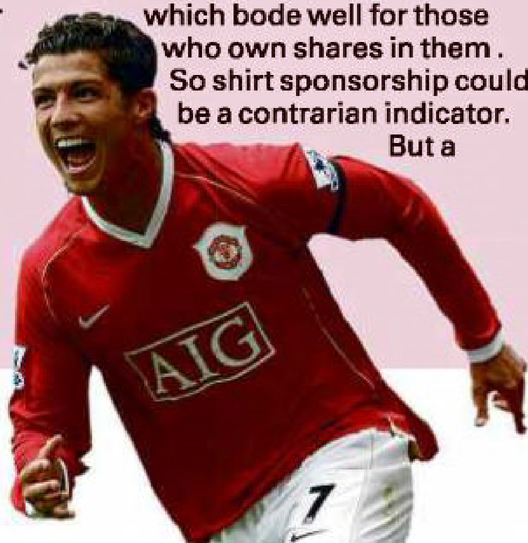
Despite all these problems, Shake Shack is valued at 97 times expected 2021 earnings, the sort of valuation typical for an internet start-up, not a restaurant chain. Given that both McDonald's and Starbucks trade at 21 times 2021 earnings, this suggests that Shake Shack will need to expand its earnings roughly fivefold to justify its price.

I visited a Shake Shack restaurant recently and didn't find the food particularly tasty or distinctive. It's also important to note that the fast-food industry may be hit by the long-term shift from eating out to takeaways (though Shake Shack does have a partnership with food-delivery platform Grubhub).With Shake Shack's stock now down by over 40% from its 52-week peak and well below both the 50 and 100-day moving averages, it looks as though it has plenty of negative momentum behind it. I suggest you short it at the current price of $56.66 at £60 per $1, covering your position if it rises above $73, giving you a potential downside of £981.

Trading techniques... short football sponsors?

Many football teams are sponsored by gambling companies, fuelling fears of problem gambling. However, some people argue that it's the companies' shareholders who should be worried: the firms involved in high-profile football-shirt sponsorship deals have a nasty habit of going bust. During the financial crisis, Newcastle and Manchester United's respective sponsors, Northern Rock and AIG, both collapsed. West Ham briefly had to play with blank shirts after the privately owned XL Leisure Group went bankrupt.

There's a certain logic to this argument. Shirt sponsorship isn't the most efficient way to target an audience (especially for firms that promote services most spectators are unlikely to use, such as foreign-exchange broking). As a result, these firms are either extremely optimistic about their prospects, or more concerned with prestige than the bottom line, neither of which bode well for those who own shares in them . So shirt sponsorship could be a contrarian indicator. But a thorough 2011 study scotches this idea. Oleksii Khvastunov of the Kyiv School of Economics examined shirt-sponsorship deals in the English Premier League and German Bundesliga between 1998 and 2011. He says that sponsorship had no connection to the stock price of the advertiser and couldn't even be used as a contrarian indicator. Financial companies actually increased their football sponsorship after the crash. Still, another study by Dong Lou of the London School of Economics in 2014 found that advertising spending tended temporarily to boost the share prices of the companies involved, only for their shares to lag the market subsequently.



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How my tips have fared

The past fortnight has not been kind to my long tips due to the coronavirus-related chaos in the markets. All eight declined. Drug company Bausch Health Companies has slipped from $27.74 to $24.09 and car manufacturer Volkswagen has declined from €172 to €153. Builder Taylor Wimpey has slipped from 232p to 208p. Recycling firm DS Smith has also retreated, from 358p to 322p. National Express fell from 442p to 415p and United Rentals fell from $153 to $132.

Builder Bellway fell to 3,784p, while storage firm Safestore dropped to 784p. Since this was below the stop-loss levels of 4,000p and 800p respectively, both positions have been automatically closed, taking profits of £1,782 on Bellway and £932 on Safestore. Even counting those two tips, the profit on the seven long tips has shrunk to just £1,638 – down from £4,819.

The silver lining from all the market chaos is that all four short tips have also fallen. Ride hailing service Uber has gone down from $39.66 to $33.38 and retailer Wayfair has declined from $82.60 to $62.88.

Aircraft manufacturer Boeing has fallen from $338.37 to $287.40, while tobacco company PMI (Philip Morris International) has slipped from $88.50 to $85.41. As a result, my four short tips are now making a total profit of £1,914.

The closure of the two oldest long positions, combined with the new Shake Shack short, has balanced the portfolio. We now have six long tips (Bausch Health Companies, Volkswagen, Taylor Wimpey, DS Smith, National Express and United Rentals) and five shorts (Uber, Wayfair, PMI, Boeing and Shake Shack), which sounds about right. Given that it's been nearly six months since we tipped Volkswagen, I'll be looking to close it down soon unless it sharply bounces back.

Where to find growth at a reasonable price

A professional investor tells us where he'd put his money. This week: Richard Penny of the TM CRUX UK Special Situations Fund selects three favourites

The distinction between a "growth" investor and a "value" investor has always been a subject of heated debate. In recent years, the growth style of investment has been winning this debate and as growth stocks have become more popular and the winning fund managers get more money to invest, the prices of growth businesses have reached eye-wateringly high levels. As a result buying these growth shares or the funds that invest in them may not seem appealing, however strong the long-term investment drivers behind them may be.

However, there is a third way. While growth in revenues or profits relates to what is going on in a business, value is about how much you pay for that growth. It is sometimes possible to buy companies growing or exposed to growth trends in overlooked parts of the stockmarket.

The uncertainty surrounding the UK's political and economic future recently led to the UK stockmarket trading at a big discount to its peers, with the biggest discounts to be found in the bottom 10% of businesses that make up the so-called "small companies" sector. We highlight three that offer exposure to growth where we believe valuations are not excessive.

Cashing in on university spin-offs

IP Group (LSE: IPO) commercialises university intellectual property (IP). It was once a stockmarket darling, but the last five years have seen a big fall in the share price from 250p to 75p. We have some sympathy with the notion that many of IP Group's companies were floated too early and that the shares had been a bit overhyped five years ago. IP Group has gone backwards while many investment plays in biotechnology, green energy and digital technologies have advanced strongly. Now, however, we see some good progress in IP Group's portfolio, notably at Oxford Nanopore Technologies (which specialises in gene sequencing) and Ceres Power (green power) The net asset value (NAV) in June 2019 was 110p. We think that the good news will start to drive the share price of the company higher as the discount to NAV narrows.

Inspired Energy is looking more exciting

Inspired Energy (Aim: INSE) has if anything been a rather unexciting business; it sells energy to small companies. Still, there has been a nice progression of revenues, profits and dividends over several years. We think the company's prospects look auspicious. It should thrive by selling energy-audit and clean-energy strategies to its captive client base. These green drivers should lead to a stockmarket reassessment and revaluation of the company's shares.

"MaxCyte's shares trade at a substantial discount to its US counterparts"

Money in modifying genes

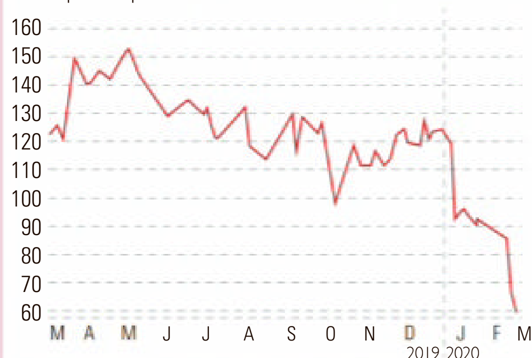
Twenty years ago the sequencing of the human genome was hailed as a great scientific breakthrough. There are now many new drugs being developed that involve gene editing.

MaxCyte (Aim: MXCT) makes scientific instruments for modifying genes and counts 20 of the world's biggest pharmaceutical companies as clients in this novel field. Growth has been robust and has accelerated in recent months. MaxCyte also has deals in place with 60 pharmaceutical drug programmes worth up to $650m. We believe that this figure will grow significantly and that the share price trades at a substantial discount to its US counterparts.

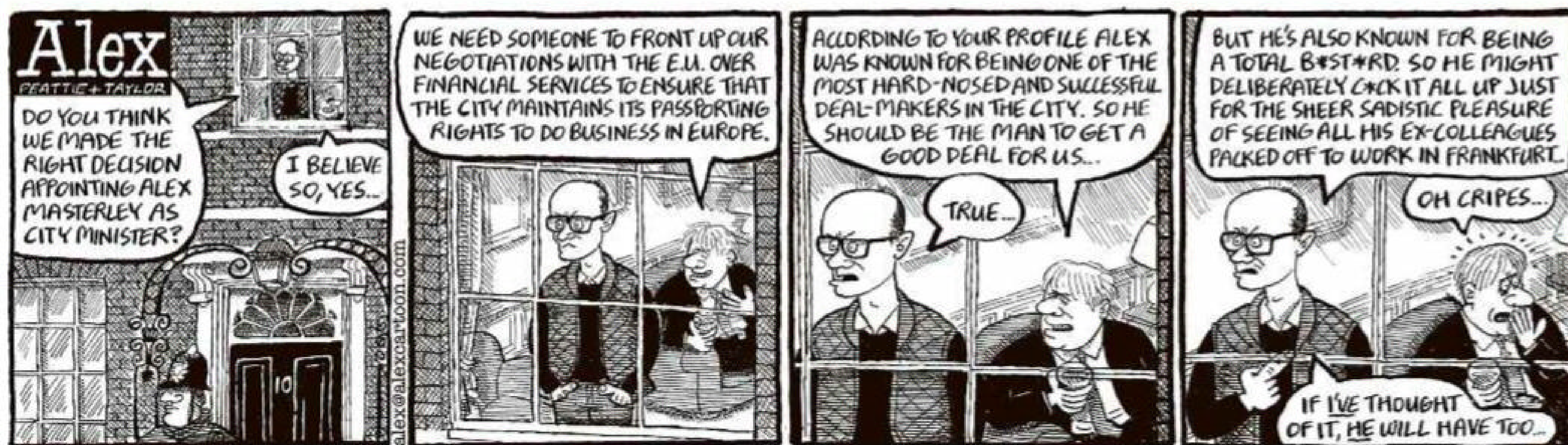
If only you'd invested in...

Knights Group (Aim: KGH) is a commercial law firm that operates around England and Wales outside London. It listed on Aim in June 2018. Since then it has embarked on a spree of acquisitions, snapping up eight provincial law firms. It has also been hiring, adding 43 fee earners in the six months to 31 October. Revenue and profits are both growing at a healthy clip. Sales rose by 34% in the first half of last year to £32m and Ebitda climbed by 23% to £7.3m. Shareholders have seen dividends rise by 83% and the share price is up by 65% in 12 months.

Be glad you didn't buy...



SIG (LSE: SHI) is a Sheffield-based supplier of insulation, cladding and other products to the construction industry, employing some 9,000 people in the UK and Europe. Weakness in the sector, especially in the UK, has taken its toll. The company has issued a series of profit warnings in the last few months. Last week it announced that it had parted company with both its CEO and chief financial officer and would be postponing its 2019 annual results. That news alone sent the shares down by 18% in a single day. In the last year the stock has slid by 46%.



"We've got to work like dogs"

Jack Welch saw earlier than most that Asian competitors were coming for corporate America's lunch. He revolutionised business management in response, and came to define an era. Jane Lewis reports

©Getty Images

If anyone embodied the "cult of the CEO" over the past century, it was Jack Welch, the head of General Electric from 1981 to 2001, "who took the company founded by Thomas Edison a century before and brutally transformed it into the biggest US company by market value", says the Financial Times. In his pomp, Welch, who has died aged 84, was hailed as a business superstar.

He was nicknamed "Neutron Jack" – originally coined by Newsweek for his prowess at slashing jobs, says The Guardian. In his first ten years at the helm, Welch cut GE's workforce by 170,000 – setting the trend for the "downsizing" that swept the business world on both sides of the Atlantic in the 1980s and 90s. Welch insisted the "pruning" was necessary. It was certainly good for shareholders. On Welch's watch, total returns, including reinvested dividends, were roughly 4,800%, says Breakingviews. Revenues went from $26.8bn in 1980 to $130bn the year before he left.

> *"His management style could be traced to his mother – you motivate people by alternately hugging and kicking them"*

Pugnacious from the start

Born in 1935, in Peabody, Massachusetts, Welch's chief influence was his mother Grace, whom he credits with instilling the confidence that "there was no limit to his potential", says the FT. Welch later wrote that many of his basic management beliefs could be traced back to her: notably, competing hard, facing reality and "motivating people by alternately hugging and kicking them".

Welch took a degree in engineering from the University of Massachusetts and joined GE's plastics division aged 25. He rose quickly through the ranks – becoming GE's youngest vice-president in 1972. Welch knew General Electric inside out, says The Guardian. And when he took the top job in 1981, he "set about transforming the sprawling, sleepy bureaucracy". He had two guiding principles – pursue a small number of objectives with single-minded passion and build a high-quality management team.

Welch was scathing about many of his European competitors. By contrast, "he had the utmost respect for Asian competitors" – and was impressed by the idea that the US's high standard of living was at risk from emerging nations, says the FT. "Who says we deserve what we've got?" he would say. "These people are after our lives. We've got to work like dogs." Yet his departure as CEO in 2001 "marked the high point of his – and arguably GE's – reputation". The conglomerate's sprawling lending operations, which had once driven growth, "became a crippling liability" during the financial crisis. GE tapped emergency state funds to stay afloat.

The end of the cult

The chief lesson of Welch's career, says Breakingviews, is that "defining an era isn't always a good thing". The flamboyant GE boss "helped forge the twin cults of the American CEO and shareholder value". Both have come back to bite. "Partly thanks to Welch, CEOs are paid as if they can foresee everything without help. Perhaps shareholders are learning that sustained performance takes more nuance – and a village."

After the financial crisis, Welch came to repudiate "the approach to capitalism with which he had become indelibly associated", says the FT. "On the face of it, shareholder value is the dumbest idea in the world… [it should be] a result, not a strategy. Your main constituencies are your employees, your customers and your products."

Great frauds in history… *Kautilya Pruthi's Ponzi scheme*

©PA Images

Kautilya Nandan Pruthi was born in India in 1970 and moved to the UK at the age of 15. In 2005 he set up a company, Business Consulting International, with his associates Kenneth Peacock and John Anderson. Taking advantage of Peacock's membership of Surrey County Cricket Club, the trio persuaded a large number of clients, including cricketer Darren Gough and actor Jerome Flynn, to hand over money, claiming they could make returns of up to 13% a month by lending at high rates to businesses unable to borrow from banks.

● What was the scam?

Instead of lending the money, Pruthi used the funds he received from investors to support an extravagant lifestyle – among his assets were 16 luxury sports cars, including two Ferraris, a Lamborghini and several Bentleys. He rented a mansion for £20,000 a month and bought a Cessna Citation private jet (which crashed in 2008). To repay investors, he used funds taken from new clients – in other words, he ran a classic Ponzi scheme – although many early investors chose to reinvest rather than withdraw their funds.

● What happened next?

In 2008 the then Financial Services Authority (FSA), the City regulator, decided to intervene, securing a court order to freeze assets. After fully investigating the scheme, the City of London police arrested Pruthi and his two associates. Despite this, many of Pruthi's investors refused to believe the scheme was a scam, and even attempted to sue the authorities. In 2012 Pruthi was convicted of fraud and sentenced to 14 years in prison; Peacock and Anderson were convicted of more minor offences and given 18 months.

● Lessons for investors

At the time that Business Consulting International's assets were frozen, it claimed to have £114.7m in assets. Unfortunately, even after seizing the firm's assets, the FSA was only able to recover a total of £800,000, which meant that most investors only received a fraction of the money that they had put in. Investors would have been better advised to follow the example of cricketer Kevin Pietersen, who turned down an opportunity to invest in the scheme because "it seemed too good to be true". A rule of thumb is that if this seems to be the case, it really is too good to be true. Another lesson to be learnt, noted by MoneyWeek at the time of Pruthi's sentencing, is to "never trust a man in a cravat".

MoneyWeek
WINE CLUB

J'adore ces vins

It is France all the way this month with this amazing collection of wines. I have chosen a few classics as well as some rather unexpected wines from the Yapp Brothers' cellar and I think this sextet will push you in some new and exciting directions. My chosen whites are all slender and elegant, while there is a light, medium and full-bodied red, so this collection offers something for everyone. I have known the Yapp portfolio for thirty years and my sustained relationship with them just goes to show how reliable and unique their wineries are. They also prove the point that you do not need to spend a fortune to drink wines of an extraordinary calibre.

Matthew

Matthew Jukes

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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 £155** - it's a chance for you to try them all, and is the most popular choice with *MoneyWeek* readers!

2018 Pouilly-Fumé, Les Loges, Domaine Dominique Guyot, Loire, France

It is a joy to taste a youthful, innocent Pouilly-Fumé with such immediacy and openness on the nose and palate. All too often the Sauvignon Blancs from the Loire can be brittle and edgy, craving time to soften their angular approach, but Les Loges is charming, gossamer smooth, and ever so sprightly on the finish. It is a textbook Sauvignon Blanc with uncommon allure and gloss and it will be sure to make you go weak at the knees.

CASE PRICE: £198

2018 Picpoul de Pinet, Cuvée Ludovic Gaujal, Domaine Gaujal, Languedoc, France

Picpoul is usually an inexpensive style of holiday wine, glugged on the Riviera by legions of sun seekers. It has recently become a favourite on the High Street, but these versions are invariably diluted, lacking in character, with little traction on the palate. Usually residing in a slender flute-shaped bottle, Gaujal looks more serious in its Bordeaux shaped glass and this attitude continues on the palate. Firm, commanding, and bone dry and with a hint of citrus, this is a wicked white wine for seafood and crustacea and I am shocked by its impressive bravado.

CASE PRICE: £135

2018 Jour de Fruit, Domaine de l'Ancienne Cure, Bergerac Sec, France

Because I love the sweet wines from this epic property I have never given the dry whites a look in - but this organically grown 70% Sauvignon Blanc 30% Semillon blend is a little rocket! Made along the same lines as a dry white Bordeaux, but with a nifty, vivacious framework, this is a cheeky, keen aperitif white with a rapier thrust of citrus fruit and a tart, palate-tingling finish. You ought to make space in your fridge door for this cheerleading white wine.

CASE PRICE: £147

2018 Gamay, Cave de Saint-Désirat, Vin de Pays des Collines Rhodaniennes, France

My first red is a light, fresh, strawberry-kissed wine with little tannin and a delicate lick of acidity on its finish. Southern French Gamay is the sort of red that you might find in a roadside auberge while touring on holiday. When served at "cellar temperature", the fruit notes are thrilling and fresh enough to drink with fish, charcuterie and lighter chicken dishes. Allow it to warm up and this is a house red for all dishes. I would venture that white wine lovers would adore this style of generous and refreshing red, too.

CASE PRICE: £112.80

2018 Menetou-Salon, Domaine Jean Teiller, Loire, France

This is another estate which I know very well indeed, but it's the whites that I normally go for, so this Pinot Noir was a revelation! On the nose, the fruit looks ripe and sonorous and the palate is sleek and buoyant, too. Strangely though, after a short period breathing, this wine opens up in the glass and the palate olympics really start. Packed with wild berry fruit notes and hints of forest spice, this is a remarkable Loire Pinot Noir and it is supreme value for money, too.

CASE PRICE: £189

2015 Rasteau, Ilex, Domaine Saint Gayan, Southern Rhône, France

The big red on this page is this classic, meaty, swarthy Rasteau. Made from a time-honoured recipe of Grenache, Syrah, Cinsault and Mourvèdre there is no mystery here at all. At five years old, this powerful fellow is into its stride and it looks stunning. The value here is amazing, given that there are so many Châteauneuf-du-Papes out there that easily cost a tenner more, yet they don't come close to the energy and authenticity of this wonderful wine.

CASE PRICE: £162

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Overlooked gems in the Aegean

Santorini is spectacular but overrun. There are quieter islands that are just as beautiful. Chris Carter reports

A favourite with arty Athenians

Astypalea is smaller than its siblings, Kos and Rhodes, in the Dodecanese archipelago, says Amanda Dardanis in The Sunday Times. Popular with "arty Athenians", who come for its "easy airs, untamed beaches and authentic charms", the island is a "classy choice for those seeking quiet repose". "You might not fall madly in love with it at first sight": with its pebble beaches and burnished hills, everything is "khaki, cinnamon or ochre-coloured". But the clifftop capital of Chora "spills downwards with sugar-cube houses, mini churches and blue-shuttered streets… At night, it sparkles like a Tiffany's window". Crowning the town is Castro, a ruined Venetian palace, and a legacy of Astypalea's Italian and Ottoman past. You can see it and enjoy the sunset from your open-air hot tub at Saluti da Stampalia (*from £127, salutidastampalia.com*), a recently opened "light-soaked villa".

©George Sfakianakis

Astypalea: "Easy airs, untamed beaches and authentic charms"

Milos's delightfully untrodden beaches

The southernmost of the "sun-baked Cyclades", Milos is a "volcanic oasis", home to "picturesque whitewashed villages and hidden cliff-ringed coves", says Michaela Trimble in The New York Times. It is formed around a central caldera, hence its "lunar-like rock formations". Despite its many beaches, Milos is "delightfully untrodden compared with its more famous neighbours, Santorini and Mykonos". It has an interesting history, too. The Minoans once exported the island's obsidian to Crete for weapons. More recently, it was in Milos, in 1820, that amateur archaeologist Olivier Voutier unearthed the "Venus de Milo". The statue now lives at the Louvre, "but Milos's mystique remains intact". Stay at Skinopi Lodge (*around £400, skinopi.com*). The minimalist, boutique hotel is set amid wild sage, lavender and thyme, and sits above a fishing village on a rocky ridge overlooking the sea.

One of the loveliest villages in the archipelago

> *"Folegandros has all the ingredients that make Santorini so popular, yet without the crowds"*

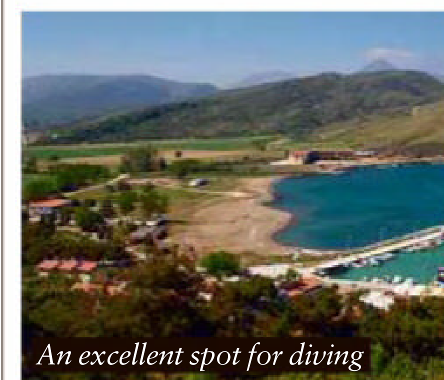
©iStockphotos

Folegandros: a quiet spot for enjoying sunsets

Santorini is famous for "epic sunsets illuminating its whitewashed houses, volcanic slopes and shimmering blue seas", says Oliver Smith in Lonely Planet magazine. Less pleasingly, it is also known for crowds. Nearby Folegandros has "all of the same ingredients", minus the hordes. It is a "hiccup of land at the southern edge of the Cyclades" archipelago, 40 minutes by fast boat from Santorini. Political dissidents were exiled there during Roman times. "You might well chance insulting a tyrant to savour the sunset from Hora – one of the loveliest villages in the archipelago." A footpath leads from its "higgledy-piggledy core" to Panagia, "a church standing sentinel over the island". From the hilltop you can catch "the last drops of the day's sunshine". The Ampelos Hotel (*£100, top-hotels-gr.com*) has "sparse, comfortable rooms" with views of the church.

Turkey's unspoilt sprinkling of islands

Compared with Greece, Turkey has "a mere sprinkling" of islands and hardly any in the Aegean Sea, says Terry Richardson in The Daily Telegraph. They "are truly off the beaten track". Gökçeada is Turkey's largest. The Greeks know it as Imbros and it gets several mentions in Homer's *Iliad*. "Its rolling, volcanic mountains are fragrant with thyme, dotted with attractive oak forest and there are numerous unspoilt sandy beaches lapped by pristine waters." Not many Greeks remain, but their "picturesque stone houses and churches survive". Flamingos pass through during the migration season and the "stiff Aegean breezes" make kite and windsurfing popular pastimes. Turkey's only underwater national park, off the north coast, is also excellent for diving. Imbros Organik Hotel *(from £40, gokceadaimbroshotel.com)* is set in "an isolated Greek village". It "is a real hideaway".

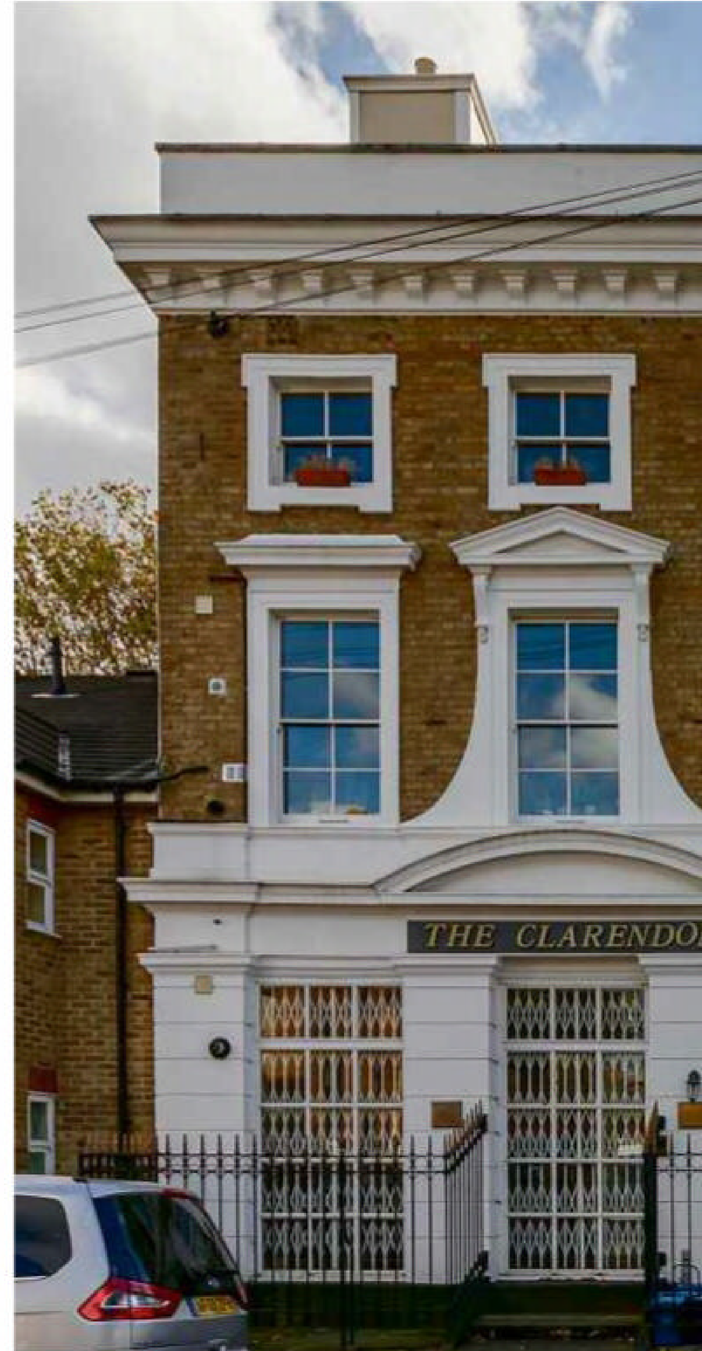


An excellent spot for diving

This week: properties for around £500,000 –– from a flat in a converted Victorian pub in Hackney, London, to a pe

Crossways, West Lavington, Midhurst, West Sussex. A semi-detached, period cottage in a village surrounded by open countryside. It retains its original floorboards and open fireplaces and has a country kitchen with an Aga and large gardens leading down to a chalk stream. 2 beds, bath, recep, study. £525,000 Jackson-Stops 01730-812357.

Balcorne Street, South Hackney, London E9. A two-bedroom flat in a converted Victorian pub within walking distance of the bars and restaurants of Victoria Park. It has a floor-to-ceiling window in the living room, a Shaker-style kitchen and a shared communal garden with a bike store. 2 beds, bath, recep, kitchen. £500,000 Savills 020-3222 5555.



Church Green, Bickleigh, Tiverton, Devon. A 17th-century, Grade II-listed, plastered cob and stone, thatched village cottage. It has beamed ceilings, exposed stonework, an inglenook fireplace with a wood-burning stove and a large kitchen with an Aga. The large garden includes a detached outbuilding that could be converted subject to planning permission. 3 beds, 2 baths, recep, office. £500,000 Strutt & Parker 01392-215631.

eriod cottage in an Area of Outstanding Natural Beauty in Kingsbridge, Devon

St Alkmond's Square, Shrewsbury, Shropshire. This restored, late 16th-century, Grade II-listed townhouse is laid out over four floors and is situated in a quiet part of Shrewsbury. It has exposed timbers, wood floors, period fireplaces, large sash windows, a dining room with views over the local church and the sale includes a parking permit for one year. 3 beds, 2 baths, 2 receps, home office, breakfast kitchen, courtyard garden. £495,000 Strutt & Parker 01743-284200.

Gull Cry Cottage, Beeson, Kingsbridge, Devon. A period cottage in a village in an Area of Outstanding Natural Beauty. It has beamed ceilings, an inglenook-fireplace with a wood burning stove, and a rear garden with views towards the sea. 3 beds, 2 baths, recep. £450,000 Marchand Petit 01548-857588.

Trevethow Riel, Gwel Nans Tregeworra, Truro, Cornwall. An end-of-terrace townhouse in a new development built in collaboration with the Duchy of Cornwall, overlooking Truro. The house is designed in a Georgian style to include high ceilings, wooden floors and double-glazed sash windows. It has zoned heating areas and contemporary bathrooms. 4 beds, 2 baths, 2 receps, breakfast kitchen, workshop, walled garden. £485,000 Savills 01872-243200.

Kings Staithe Square, King's Lynn, Norfolk. A converted, three-storey, 19th-century school overlooking the River Great Ouse, regenerated South Quay and the Custom House. It has sash windows, period fireplaces and a 20-ft kitchen lined with tongue and groove, with a beamed ceiling and an Aga. 3 beds, 2 baths, recep, garden room, study, courtyard gardens with two outhouses. £500,000 Fine & Country 01553-769 100.

14 & 16 Coxwell Street, Cirencester, Gloucestershire. Number 14 is a Grade II-listed, 17th-century, Cotswold stone townhouse with a courtyard garden, situated in the centre of Cirencester. To the rear is number 16, a separate, two-bedroom cottage also with a small garden. Number 14 has beamed ceilings, wood floors, open fireplaces and shuttered windows with window seats. 3 beds, 2 baths, recep, breakfast kitchen, dining hall, study. £495,000 Butler Sherborn 01285-883740.

Three of the best smartwatches

The latest gadgets not only tell you the time, but also how your workout is going. Nicole Garcia Merida reports

Fossil's understated elegance

The **Fossil Gen 5** is a "good-looking watch… that doesn't immediately scream it's a piece of technology", says Samuel Gibbs in The Guardian – but it still "gets the job done and looks the part" too. You can choose from various straps and watch faces, and the performance is good, with no noticeable lag and an impressive battery life – a single charge should see you through the whole day. The notification handling is where the operational system really "shines" – notifications pop up and can be dismissed, or replied to with previously saved messages, a voice transcription tool, or a "surprisingly good" keyboard. The fitness tracking options are less impressive than with rival offerings, but the watch still has the basics – it can count steps and monitor your heart rate, for example.
From £279, fossil.com

A high-tech personal trainer

The **Garmin Vivoactive 4** "puts the tech smarts of the watches used by the ultra-marathon-running elite" into a more accessible piece of kit for everyday users, says Andrew Williams on TechRadar. It's a "great fitness tracker", which gives you access to "stacks of stats", including your heart rate, and comes with a music-streaming tool. It can track more than 20 exercises and acts like a coach as it puts you through a workout. The battery should last four to five days, longer if you're not using active tracking tools. This is a great watch for those who exercise regularly and focus on health rather than performance.
From £259.99, garmin.com

Samsung's great all-rounder

"If you have an Android phone and want the best compatible smartwatch going, the **Samsung Galaxy Watch Active 2** is it," says Henry Burrell in Trusted Reviews. It has a great design, a battery life of two full days from a single charge, "lightning-quick" performance, and solid fitness features, including a heart-rate sensor and GPS, which means it can track outdoor runs and cycle routes without requiring a phone, while providing data-rich feedback on your workouts. You can also choose which of your phone's apps send through notifications and view and reply to messages from the watch. It is "the best all-round wearable" Samsung has made. *From £269, samsung.com*

Wine of the week: a game-changing red from the Douro Valley

2017 Quinta Da Pedra Alta, Pedra A Pedra Tinto, Douro, Portugal
£15, or £81 for six bottles with free delivery, winebuyers.com

Matthew Jukes
Wine columnist

Matt Gant, the extraordinarily talented winemaker behind the First Drop wines from the Barossa Valley in South Australia, has weaved some magic with the wild, swarthy red grapes found in the Douro Valley in Portugal. He knew exactly how to give the grapes a polish and produce a wine gleaming and velvety smooth on the palate. Matt's desire to avoid over-extraction, which often results in coarse, harsh flavours, and which is so much a signature of old-fashioned Douro reds, makes this wine a game-changer.

Pedra A Pedra is, thankfully, not another in a long line of international, sweet-fruited, "vinonymous" reds. This sleek wine employs a variety of techniques depending on the fermentation vessel used. Foot treading is followed by gentle plunging in granite *lagar* fermenters, while open-topped stainless-steel tanks and picking bin ferments are simply plunged. Old French barriques and hogsheads bring subtle seasoning to the whole, and the wine is designed to sing of its unique ingredients – 50% touriga franca, 44% touriga nacional, 5% tinta barroca and 1% fernão pires. In short, Matt and his local counterpart, João Pires, have captured the essence of the Douro and given it a welcome makeover. At 13.5% alcohol and with stunning spice and luxurious fruit, this wine is unmissable and gives us a glimpse into the Douro's future. It is keenly priced, too.

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

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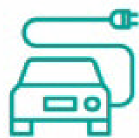

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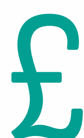
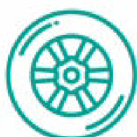
Which are the best **plug-in hybrid** cars?



How much does it **cost to run**?



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How the wealthy adjust to prison life

Prison consultants are on hand to help in the tricky transition period. Are they worth it?

Disgraced Hollywood producer Harvey Weinstein faces up to 25 years in prison following his conviction last week for rape. The 67-year-old will be held at Rikers Island, a notorious New York jail plagued by overcrowding and gang brutality, says Luke Mintz in The Daily Telegraph. And as one of the most widely known sex offenders in history, he may be placed in protective custody – a mixed blessing given that this will further restrict his freedom.

Little surprise, then, that Weinstein has turned to one of the growing number of "prison preppers" who help wealthy clients "survive life in the slammer", says Mintz. For a fee likely to run into thousands of dollars, Weinstein will be briefed on "how to deal with his fellow inmates and how to fill his long, empty days". Respecting prison etiquette – the first person in the cell gets the bottom bunk, for example – is vital, as is forging close relations with inmates. Sucking up to the guards, however, is unwise. Weinstein's wealth may be no bad thing: prisons always have "groupies" looking for handouts and people who need help with reading and writing.

Lori Loughlin (centre) with daughters Olivia Jade and Isabella Rose Giannulli: martial arts training is unlikely to be of much help

©Getty Images

"Such prison hand-holding comes with price tags ranging from a few hundred dollars to upwards of $100,000"

Cushioning the blow

Weinstein is far from the only one looking to "cushion the blow of prison life", as Ritu Prasad points out on the BBC. TV personality Martha Stewart, disgraced financier Bernie Madoff, NFL players Michael Vick and Plaxico Burress, and reality TV stars Teresa Giudice and Abby Lee Miller are "just a few" of the celebrities who have reportedly sought professional help. Prison consultants are not only useful for guiding new lags to the top bunk, but also advise on the entire process, from charging to sentencing to release, including "reviewing casework, petitioning for perks" and "taking midnight phone calls from frazzled families". Such "hand-holding" comes with price tags ranging from a few hundred dollars to upwards of $100,000.

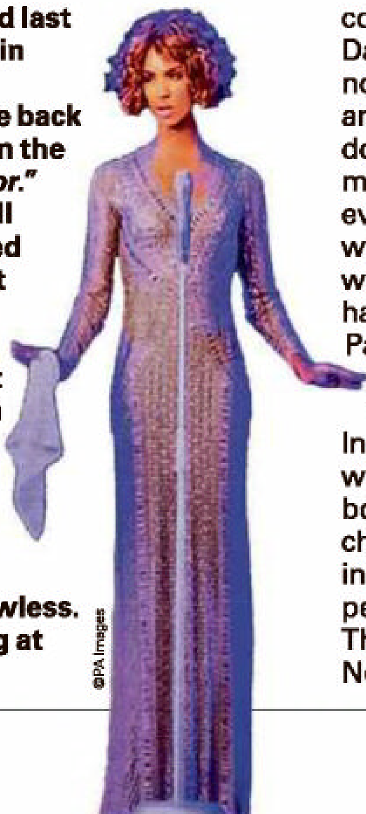
The general advice for rich convicts once they're inside is the same across the board, says Prasad: "keep your head down and get used to not getting your way". Hiring a consultant for such advice alone may be a waste of money, admits one consultant. But for the wealthy, with businesses to run and brands to maintain? "Our clients absolutely view it as an investment."

The old principle, *caveat emptor*, still applies. Actress Lori Loughlin is due to stand trial in October. She and her husband, Mossimo Giannulli, are accused of paying large sums to a top university to guarantee their daughters' admissions. (They deny the charges.) Loughlin has reportedly hired a consultant to teach her prison slang and martial arts to prepare for a possible spell inside, says Kelly McLaughlin on Business Insider. Other advisers think that is "ridiculous". If convicted, Loughlin is likely to be sent only to a minimum security prison camp, where you can expect about as much violence "as there is in your local doughnut shop". It would be better if she were taught basic prison etiquette, the importance of routine and to "focus on the positives". If she struggles with that, she might compare her possible fate with the rather grimmer one faced by Weinstein.

Quintus Slide

Tabloid money… what to wear to a pandemic

● Singer Whitney Houston (pictured), who died in 2012, hit the stage in Sheffield last week for the opening leg of her tour in Britain, says Konnie Huq in The Sun. "When I say 'return', she hasn't come back from the afterlife but is performing in the form of a hologram. How *Black Mirror*." It's supposedly the next big thing. All manner of stars are being resurrected holographically to entertain us. "But why stop at Elvis or Marilyn?" According to the show's organisers, a lot of living artists "get tired of the road". This way, they can keep on touring while still "having a life". Lucky them. Not only can they perform simultaneously in venues around the globe, multiplying revenue streams, but they will also always be pitch-perfect and look flawless. Better still, they can even be relaxing at home all along. Rock'n'roll."



©PA Images

● The nation is in a panic over the coronavirus, says Jan Moir in the Daily Mail. "I welcome the social non-touching, the ban on kissing and hand-shaking – I bet millions do." But meanwhile, "financial markets are jittery and there are even reports that the coronavirus will cause a shortage of – shriek – wedding dresses". Gwyneth Paltrow has come to the rescue. "En route to Paris. Paranoid? Prudent? Panicked? Placid? Pandemic? Propaganda?" the Goop founder wrote under an Instagram picture showing her wearing a "£54 Airinum mask" on board a flight. "Trust Gwynnie to choose something so elegant, even in these times of floods and pestilence. I checked online. The masks are completely sold out. Now it really is time to panic."

● "Ask any publican what their biggest fear is and they'll tell you the same thing – an increase in beer tax, " says pub landlady Candice Brown in The Sun. "It might sound dramatic, but just 1p extra duty on a pint has the power to make or break the industry." After all, one pound in every three already goes to the taxman. "It's only the end of February and my little village pub will have paid more tax on pints than a German beer house will pay in a whole year. And if pubs put up prices, "it will be stinging your pockets". Pubs closing and bar staff losing their jobs affects the community. So, my message to Chancellor Rishi Sunak, ahead of the Budget on 11 March, is that "there's more to beer duty than the humble pint".

Bridge by Andrew Robson

Looking to clubs

Declarer won West's seven of Hearts lead and counted eight top tricks. With a three-three Spade split against odds – particularly in the light of East advertising seven Hearts, declarer naturally looked to Clubs to provide the extra trick.

Dealer East | Neither-side vulnerable

North
♠ 986
♥ 83
♦ J94
♣ A7643

West
♠ J53
♥ 7
♦ 108753
♣ KQ102

East
♠ KQ10
♥ J1096542
♦ 62
♣ 9

South
♠ A742
♥ AKQ
♦ AKQ
♣ J85

The bidding

South	West	North	East
			3♥*
3NT	pass	pass	pass

* Weak hand with seven decent (ish) Hearts.

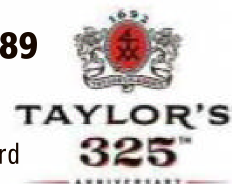
On a three-two Club split, declarer could duck two rounds then lead to dummy's Ace, felling the last outstanding Club, and so enjoy two length winners. However, he considered starting with the Knave of Clubs, a seemingly antithetical play. For if East, the opponent with the likely shortage, held a singleton ten or nine, that card would be pinned and finesse positions on his partner would develop using the lower spot cards.

The Knave of Clubs at trick two (key play) saw West cover with the Queen, dummy duck, and East duly follow with the nine. Declarer won West's diamond exit and led the eight of clubs, ducking in dummy when West covered with the ten (West ducking would have saved an overtrick). East discarded, so after winning West's diamond return, declarer could lead his five of Clubs and take the marked finesse of dummy's seven. The Ace of Clubs felled West's King and the six of clubs became declarer's tenth trick, when added to his other top cards.

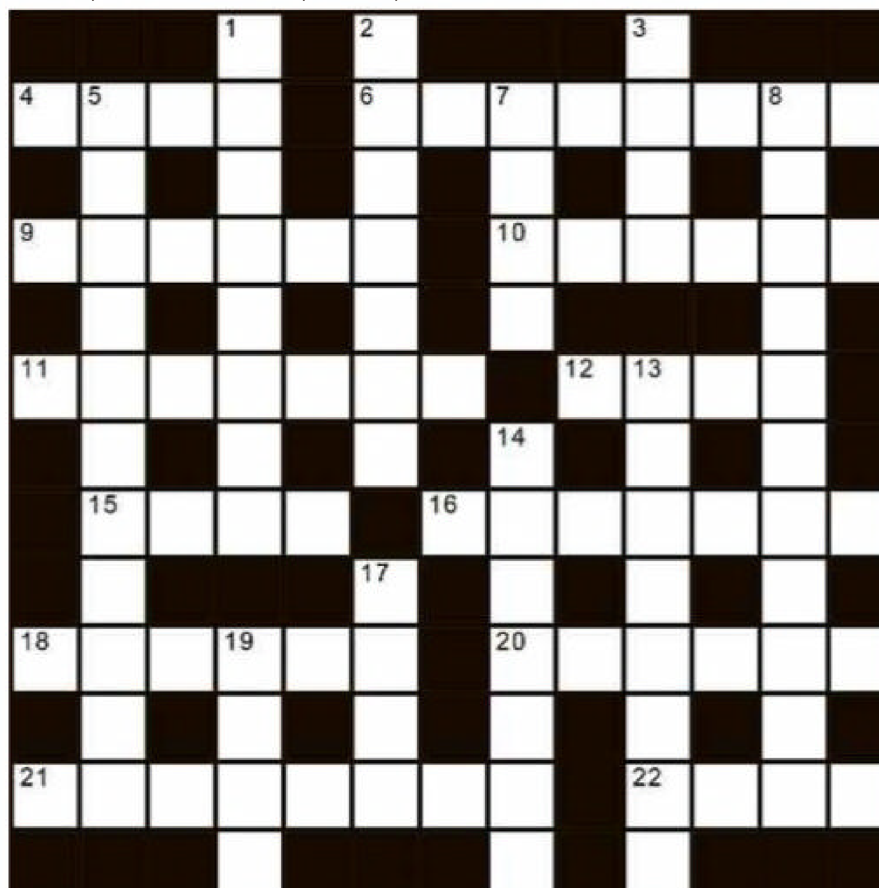
On the assumption West held more Clubs than his pre-empting partner, beginning Clubs with the Knave could never cost, and would gain when East held a bare nine or ten.

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

Tim Moorey's Quick Crossword No. 989



A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 16 March 2020. Answers to MoneyWeek's Quick Crossword No. 989, 31-32 Alfred Place, London, WC1E 7DP.



Across clues are straight, whereas Down clues are mildly cryptic

ACROSS
- **4** Great dog (4)
- **6** Jersey with a collar (4-4)
- **9** Supporter of Chinese Communist leader (6)
- **10** Tar (6)
- **11** Casual tops (1-6)
- **12** European capital (4)
- **15** Instruction to a dog (4)
- **16** Formal evening neckwear (3, 4)
- **18** Pressure (6)
- **20** Deposits as a wager (6)
- **21** What cooks may do with eggs (8)
- **22** Lolly (4)

DOWN
- **1** Act that would make the king late (8)
- **2** On a horse, say in part of New York area (7)
- **3** Opponent in Byzantium (or Constantinople) (4)
- **5** Could be back number ordered in each state (11)
- **7** It could be one damned thing after another! (4)
- **8** Privates hit rocks (5, 6)
- **13** Transport access (8)
- **14** Material – but it can be bettered! (7)
- **17** Ignore rolls served up (4)
- **19** First mate? (4)

Name ....

Address ....

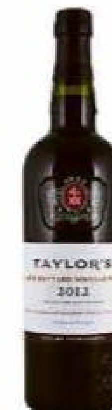
....

Solutions to 987

Across 6 Rose *two defs* **7** Trade gap *GAP stores* **9** Apple-pie order *anag incl aiol* **10** Cracker *deceptive def* **12** Tops *two defs* **14** Esau *hidden* **15** Angered *anag* **18** Mediterranean *anag* **20** Tenement *men inside tenet* **21** Reel *real homophone.* **Down 1** Copper **2** Meal **3** Stapler **4** Fearsome **5** Sayers **8** A few **11** Clarinet **13** Untruth **14** Eleven **16** Eraser **17** Fete **19** Norm.

The winner of MoneyWeek Quick Crossword No. 987 is: Miss India Larkins-Cross of London.

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



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

Sudoku 989

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

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

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

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How did this SOB get so rich?

A financialised world needs information. Mike Bloomberg earned his wealth providing it

Bill Bonner
Columnist

Poor Mike Bloomberg. He is excruciatingly dull. And even with $60bn, he can't get much respect. The Democratic candidates for US president are lining up to take a whack at him. His crime? He's a rich SOB. The Democrats were okay with Hillary Clinton's net worth ($45m). And okay with Barack Obama's $40m pile. Even Bernie Sanders' $2.5m is not bad for a socialist. They all got their money fair and square, by leveraging "public service" careers with books, speeches and "access". Bloomberg? He did the unpardonable. He earned his money honestly…

Excruciatingly dull, fantastically rich

In our office sits one of Bloomberg's ubiquitous terminals. Want to know the discount rate on 2027 Argentine bonds? Want to compare the return from Korean coal with Chilean wine? Want to check out the trading history of Australian dollar futures? It's all there, and much, much more. But why are so many people so interested in such stuff? Who is paying $25,000 a year to rent a Bloomberg terminal?

In an honest world, most people would have better things to do. Stocks? Bonds? Bloomberg terminals? They were for the pros. Thirty years ago, the financial industry accounted for only 10% of total US corporate profits. Normal people put their money into savings accounts. And borrowers and entrepreneurs and corporations were willing to pay for access to them. A properly functioning financial system paid the savers interest. Then, along came the central banks with their ersatz savings. Suddenly, people no longer needed to save.

> *"Bloomberg did the unpardonable. He earned his money honestly"*

The Fed would lend out money no one ever earned, let alone saved. The interest you could earn from savings went down, too . By the 21st century, Wall Street was making 40% of all US corporate profits – and Bloomberg was in high clover.

As recently as 2006, Bloomberg's fortune was "only" about $5bn. Then, after the financial crisis, central banks pumped trillions more into the financial markets. Stocks rose more than three times. Bonds soared, too. Financial assets had averaged about two times GDP throughout the 1950s, 1960s, 1970s, and 1980s. Suddenly, with the Fed dealing the cards, it shot up to more than five times GDP. Who wouldn't want a piece of that action? How to get in on it? Lease a Bloomberg terminal. Now, you can research and invest along with the pros!

The markets are now flooded with the Fed's phoney liquidity, but parched for real savings, real capital investment, and real productivity growth. The result? Bloomberg got ever richer. But the economy weakened. And the 90% of the population that wasn't already rich in 1990 got relatively poorer. If they wanted to buy a share of the S&P 500, it would have taken 15 hours of work when Bloomberg started his business. Now, it will take more than 100 hours.

The bottom line

£30.9m The record sum the National Grid paid to wind farms to switch off in January after the failure of a subsea cable to carry the electricity they generate. The biggest recipient was Scottish Power, which received £13m. Scottish Power co-owns the cable with National Grid.

HK$10,000 The amount (£990) that Hong Kong is handing out to each of its roughly seven million adult permanent residents. The territory's financial secretary, Paul Chan, announced the payment last week to boost local consumption.

£18,900 The price fetched by Megan, a two-and-a-half-year-old border collie, at an auction in North Yorkshire, making her the world's most expensive sheepdog. Megan will go to the US to herd cattle at a ranch in Oklahoma. Working dogs usually cost around £2,000. The dog's owners treated their prize asset to a Marks & Spencer's chicken.

$5,900 The average second-hand value of vehicles that stopped for pedestrian crossings in a US study of 461 cars in Portland, Oregon, and Las Vegas, Nevada. The average value of cars that ignored pedestrians was $8,000. The more expensive the car, the less likely they were to stop for pedestrians.

£283.10 What it costs to become a Premier League child mascot this season, up from £191.50 in 2014-2015. West Ham United is the most expensive at £700.

$2.5m How much each of the six main cast members of *Friends*, including Jennifer Aniston (pictured), are expected to be paid for appearing in a new, one-off episode of the wildly popular 1990s sitcom, according to Variety magazine. The episode will appear on the new HBO Max streaming service, which paid $425m for the rights to the show's back catalogue.

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