HOW TO BACK THE WINNER*

*Avoid oil producers. Buy oil consumers. See page 24
The new Audi A6 ultra.

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The new Audi A6 ultra, with CO₂ from 114g/km.

And its CO₂ emission rating.

Combined 64.2 (4.4). CO₂ emissions: 114g/km. Standard EU Test figures for comparative purposes and may not reflect real driving results.
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IT’S NEVER JUST BUSINESS
Osborne’s vote-winner

If you want to win the heart of the average British voter, it helps if house prices are going up. It’s the one measure of economic prosperity that almost every homeowner genuinely cares about or understands.

Politicians realise this only too well – for example, the best line of attack the Tories could come up with in the recent Rochester by-election was to warn that a win for Ukip would hit house prices in the region. The Tories still didn’t win – but it might conceivably have reduced the Ukip majority.

In the old days, juicing prices ahead of an important vote used to be easy – the chancellor had control of interest rates and so could give them a little tweak before the election rolled around and hopefully get a boost from falling mortgage rates and rising prices. Nowadays, of course, the central bank has its nominally independent hand on the tiller. And in any case, interest rates have been at near-zero levels for years.

So it’s trickier – you have to get a bit more creative. But Chancellor George Osborne looks like he managed to pull it off in his latest Autumn Statement. The headline-grabber was the change in the way stamp duty is levied. Before now, stamp duty was a ‘slab’ system. If you paid £249,999 for a house, you’d pay a rate of 1% on the amount after the £240,000 band. If you paid £249,999, you’d pay £2,499.99 in stamp duty.

But if you paid £250,001, you’d pay £4,500 in stamp duty. Why? Because today’s £250,000 threshold is based on the £1.5 million average price of a house in London. The idea was to help buyers in the capital. But London is about 1% of the UK housing market. The only people who will pay more are the sorts of buyers who’ll be fretting about the introduction of Labour’s proposed “mansion tax”. On top of that, this move dispenses with a widely-hated tax that people have wanted politicians to reform for years.

So far, so good. But what’s really smart about it is that the average house buyer won’t really save anything like £4,500. Under the old system, no one in their right mind would ever pay £255,000 for a house, given that the stamp duty differential was so substantial – that £250,000 barrier was a massive sticking point for prices. However, under the new system, buyers will be a lot more willing to offer just that couple of thousand more for a £249,999 house they really want, particularly in any sort of competitive market. So the chances are, any tax savings will be split between buyers and sellers – and knowing the UK property market, it’s the sellers who will get the lions’ share. So Osborne’s done nothing to make houses more affordable. But he has pushed through a policy that promises to tax wealthy (quite possibly foreign) house buyers more heavily than the rest, and that also gives house prices (outside London at least) that little leg up for the feel-good factor. What politician on the make could ask for more?

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In this issue

8 Markets This reliable political indicator suggests that US stocks are set to do well.
12 Share in focus National Grid attracts a lot of cautious investors – should you buy?
15 Strategy Small stocks outperform in the long run – but there’s a catch.
16 Matthew Lynn We should resist using banking fines as an emergency stash.
18 Briefing How Scotland’s yes voters may have won after all.
30 Blogs A bluffer’s guide to financial jargon; simple rules for investing success.
38 Toys Looking for gift ideas? You’ve come to the right place.
43 MoneyWeek round-up Why it’s rational to own gold in your portfolio.
46 Last word Want to be successful? Be nice. But carry a big stick, says Bill Bonner.
Russia

Spats over the gas pipes

Russia said that it has abandoned plans for a new gas pipeline to Europe through Bulgaria, following opposition by the European Union. The $20bn South Stream pipeline, funded by Russia’s state gas giant Gazprom, was to run under the Black Sea to southern and central Europe. The pipeline was intended to bypass Ukraine by sending gas through Bulgaria, but the European Commission said the pipeline needs to conform to European competition rules and pressured Bulgaria not to back the project.

“We see that obstacles are being set up to prevent its fulfilment,” said Russian president Vladimir Putin at a joint press conference with the Turkish president, Recep Tayyip Erdogan. Instead, Putin said Russia will look to create a gas hub on the Turkish-Greek border to compensate for the loss of South Stream. “We will re-concentrate our energy resources on other regions of the world,” said Putin. “We will work with other markets and Europe will not receive this gas, at least not from Russia,” he added.

What the commentators said

The European Commission viewed the pipeline as a potential further tool for the Kremlin to exert economic control over southern and eastern Europe, said the FT. EU and US sanctions on Russia following the country’s intervention in Ukraine has led to a game of political brinkmanship.

UK

Osborne’s gift to homebuyers

George Osborne delivered relatively few surprises during the chancellor of the exchequer’s Autumn Statement on Wednesday. Some of the biggest measures, such as a £15bn road-building package and an extra £2bn for the NHS, had already been announced beforehand.

Tax changes include reforms to stamp duty charged on residential property purchases: it will move from a “slab” system, with the whole amount taxed at a single rate, to one where different parts of the price are taxed at a progressive rate. This will mean an effective tax cut for most homebuyers. The cost of this will be offset by a clampdown on tax avoidance by international firms, and limits on the amount of financial crisis losses that banks can offset against profits. On personal taxation, the personal allowance will only rise to £10,600, not £11,000 as rumoured.

The chancellor also announced that the Office for Budget Responsibility (OBR) has also raised growth projections for this year to 3%, compared to 2.7% in March. The OBR surprised many economists by predicting that the deficit is expected to be lower in this fiscal year than it was in the last fiscal year, although it will still be higher than forecast at the beginning of this year. As a result, the budget is still projected to be back in balance by the end of the next parliament in 2018-2019, contrary to expectations that Osborne might be forced to push this forecast back by a further year.

What the commentators said

Most media attention focused on the stamp duty changes, which “combine a reasonable-sized tax cut with a common sense modification”, said The Guardian. But not everybody agreed. “It’s potentially a double-edged sword, as it will benefit buy-to-let investors as much as the first-time buyers it is trying to help,” said Jamie Morrison of accountants HW Fisher & Company.

Meanwhile, the revised latest forecasts got an even more tepid reception. The numbers contain “some questionable assumptions regarding how ‘tax rich’ the economic recovery will be”, said Samuel Tombs of Capital Economics. And there “was little detail about how [Osborne is] going to generate the income required to achieve his targets”, added the Institute of Chartered Accountants in England Wales. “The hard truth is that the deficit cannot be tackled by further spending cuts alone.”

The bottom line

$2m The value (per bra) of the Victoria’s Secret Fantasy bras (pictured), worn by Brazilian models Alessandra Ambrosio and Adriana Lima at the lingerie firm’s annual fashion show. Each used more than 16,000 precious stones, strung together with 18-carat gold thread.

$100bn The amount of outflows this year from funds run by Pimco, the US investment firm. Investors were spooked when Pimco co-founder and star fund manager Bill Gross unexpectedly resigned in September.

£3.5m The estimated annual running cost of London’s proposed “garden bridge” across the Thames. The construction cost of the controversial scheme is estimated at £175m.

£860,000,000 The number of times people have listened to tracks by singer Ed Sheeran on Spotify, a music streaming service, making him this year’s most streamed global artist on the site.

£47bn What Britain spends each year on dealing with obesity through health care and social costs, equal to 3% of GDP.

£5.1m How much Paddington, the family adventure film about a bear, based on Michael Bond’s series of books, took on its opening weekend at the UK box office.

$4bn The forecast final bill for the new train station at the World Trade Center in New York, due to be completed next year. It’s almost twice the initial estimate.
between Russia and the West. Although Gazprom has not been targeted by the EU and US, the South Stream project “struggled to raise financing for the €14bn offshore section of the pipeline due to Western sanctions on Russia that have made European banks cautious about lending to a Gazprom-led consortium”.

That assessment was probably accurate, suggested Mikhail Krutikhin, a Russian energy analyst, quoted in The Guardian. By sending gas through Bulgaria, Russia’s plan was to punish Ukraine further by cutting it off from gas flows. “From the beginning this was a political project... it was never economical to spend so much on this pipeline.”

**What the commentators said**

Many critics welcomed the firm’s about-turn. “We are encouraged to see BG responding positively to shareholders’ concerns,” said Sacha Sadan, director of corporate governance at insurer Legal & General, which owns 2.7% of BG. Simon Walker, head of the Institute of Directors, who had previously branded the original pay award “excessive” and “inflammatory”, also sounded mollified. “While substantial, the total remuneration is reduced and now falls within proper limits for a company of BG’s size and international importance.”

“On the face of it, this looks like a victory for those who claim that the system works,” said James Moore in The Independent. “The shareholders spoke, the company listened, all those guidelines bearing the legend ‘comply or explain’ operated effectively. Huzzah!” But is that really true? “Mr Lund is apparently a talented executive, but he’s still being paid as if he’s the business equivalent of Lionel Messi... he’ll still get £4.7m up front, a £1.3m salary, a bonus, and a long-term incentive scheme worth up to six times his basic pay.” And his remuneration is still 30% above that of the bosses of BP and Royal Dutch Shell, BG’s two larger London-listed rivals, as The Guardian noted. Perhaps the shareholders could still do better.
A buy signal for US stocks

The third year of each US presidential term has consistently been bullish for the US stockmarket – especially the first seven months. Since 1932, the market has averaged an average of 17% between 1 October and 30 April, equal to a gain of 2.5% per month, says Jeremy Grantham of asset manager GMO. By comparison, the remaining five months of the year have averaged 0.75% each, while the average across the other three years of each four-year term is just 0.2%. Of course, averages can sometimes disguise extreme outcomes, but in this case, 17 of the 20 cycles so far have had positive returns, while the worst of the three down years was a modest loss of 6.4%. While this pattern could simply be a fluke, the odds are against it: as a result, being bullish on US equities “may seem like a no-brainer investment” for anybody “not intimidated by the obvious simplicity of the idea”, says Grantham.

So why does this market quirk exist? “The most likely explanation is that mid-term elections tend to increase gridlock in Washington,” says Ed Yardeni of Yardeni Research. “While the debt-ceiling political crises of August 2011 and late 2012 suggested that too much gridlock is bearish for stocks, it has been quite bullish historically.” It seems that America’s “system of checks and balances, designed to limit the folly of our foolhardy politicians”, ultimately produces outcomes that favour investors. Given that, it’s notable that the latest elections produced a gridlock-friendly outcome: Republicans in control of both houses of Congress, with a Democrat as president. This combination has historically been bullish, coinciding with the highest average return in election years, says The Economist’s Buttonwood columnist – almost 13 percentage points better than the worst combination of Republican president facing Democratic control of one or both houses. “These figures indicate… the market is right to be relaxed.”

That said, whether these patterns will work this time is an open question. Other events bode ill for markets, including the end of quantitative easing in the US, the threat of interest-rate hikes and geopolitical tensions. “Going into this work this time is an open question. Other events bode ill for markets, including the end of quantitative easing in the US, the threat of interest-rate hikes and geopolitical tensions. “Going into this work this time is an open question. Other events bode ill for markets, including the end of quantitative easing in the US, the threat of interest-rate hikes and geopolitical tensions. “Going into this cycle there appear to be more negatives than normal,” agrees Grantham, but many of the previous 20 occurrences may “have seemed that way… at the time”.

What will trigger the next big bust?

“The current credit cycle is the longest in history,” says Achilles Rivas of hedge-fund firm Dromeus Capital, writing in Investment & Pensions Europe. Despite that, credit markets are priced as if nothing can go wrong. US high-yield bonds offer near-record-low premiums to US Treasuries, lenders have relaxed credit standards and the usual flotilla of high-risk instruments, such as payment-in-kind bonds, have re-emerged. When the cycle turns and defaults start to rise, the fallout is likely to be severe, not just for low-quality bonds and loans, but also in other markets, such as equities and property. However, “exactly what could awaken the bear is uncertain”.

Indeed, calling the turn in the default cycle is extremely difficult, say Oleg Melentyev and Daniel Sorid of Deutsche Bank – even though “it’s arguably the most important call any credit investor can make”. Valuations, market fundamentals and economic indicators are not reliable; instead, a look back at past credit cycles suggests the key is to spot the “volatility shock”. A large stock of poor-quality debt can exist for a long time – as it does today – before a clearly identifiable trigger event causes investors to reassess their appetite for risk, “driving lenders away from extending credit to the weakest issuers and leading to an increase in defaults”. Predicting what will bring about this shift in investor psychology is obviously difficult. But a 20%-plus drop in oil leading to a rush of defaults among highly leveraged borrowers in the US energy sector is probably the most obvious candidate (see page 24).
Swiss reject gold standard

Swiss voters have overwhelmingly rejected an initiative that would have forced the Swiss National Bank (SNB) to purchase large quantities of gold over the next few years. In a referendum vote on 30 November, around 78% of participants voted against introducing a law that would compel the SNB to hold gold reserves equal to 20% of central-bank assets.

At present, the SNB holds gold equal to around 7% of its assets. The proposal, put forward by the right-wing nationalist Swiss People’s Party, would also have compelled the central bank to repatriate all gold held abroad, as well as banning it from ever selling any of its gold holdings.

The idea was opposed by policymakers and businesses, who feared that a yes vote would disrupt the SNB’s commitment to cap the Swiss franc’s exchange rate at 1.2 francs per euro. The SNB introduced this peg in September 2011 in order to protect the country’s exports against the impact of a strong currency. There were also concerns over the wider economic impact of the proposal. “Purchasing gold in such quantities would weaken the Swiss currency, which would diminish the value of savings and could have inflationary consequences, while the presence on the central bank’s balance sheet of such large inactive reserves would seriously impede control of inflation,” says Frances Coppola on forbes.com.

However, gold’s safe-haven status means that it’s likely to see a revival of interest from investors in the event of a renewed escalation of the eurozone, fresh geopolitical shocks, or any nervousness in equity and bond markets prompted by Fed tightening. MoneyWeek continues to recommend holding 5% to 10% of gold in your portfolio as an insurance against threats such as these, as well as a possible surge in inflation caused by loose monetary policies over the next few years. There are no shortage of reasons to be concerned about the prospects for the global economy and financial markets, and gold offers a hedge that other asset classes do not.

The chocolate meltdown

The cocoa price has fallen 14% over the past two months, following a spike in September caused by the Ebola outbreak in west Africa. The region grows around 70% of the world’s cocoa, and the spread of the disease had raised fears of supply shortages. But those worries now look unfounded. Fears over Ebola are receding. Demand is soft, especially in Europe. And harvests have been healthy: the International Cocoa Organisation says that the global surplus in 2013/2014 was 53,000 tonnes. Cocoa is still up 10% year-on-year, but the trend seems to be down, says J. Ganes Consulting, a soft commodities specialist. “High prices and shaky economics are not a winning combination for the cocoa market and this is taking the wind out of the bull sails.”

Longer term, however, it could be a different story. Cocoa in west Africa is grown by small farms, who are struggling to keep up with demand growth from the $110bn global confectionery industry, according to equity research firm Hardman & Co.

“This combination of fragile upstream production with rapidly growing demand for chocolate confectionery in countries such as India, China and Russia, has raised the spectre of future chronic supply shortfalls of cocoa beans.”

The Russian rouble sank to levels not seen since 1998 this week, reaching a low against the US dollar of 52.5 roubles per dollar. The currency has lost around 42% of its value since the start of the year, battered by sanctions and capital flight caused by the ongoing conflict in Ukraine. However, oil cartel Opec’s decision not to try to stem falling oil prices by cutting supplies was the direct trigger for the latest fall. Russia is among the countries most exposed to declining oil prices: Anton Siluanov, the finance minister, warned in November that it could enter a recession next year if the price of oil fell to $60 a barrel.

As such, there are growing calls on the central bank to resume intervening in the foreign-exchange market to prop up the rouble. It’s been abstaining from doing this since early November, when it abandoned its “corridor” policy – which involved managing the exchange rate within a trading band – in favour of a freely floating currency. “First, it increases the foreign currency value of Russia’s foreign liabilities, worth about £127bn. Second, a continued fall in the exchange rate will encourage Russian citizens to convert roubles into dollars and euros, thus increasing the risk of bank runs.”

For now, policymakers seem to be turning a deaf ear to these pleas, which suggests they may consider a falling rouble useful for limiting the damage that lower oil prices will cause to public finances, says Neil Shearing of Capital Economics. Since oil revenues are priced in dollars, a weaker rouble helps offset the impact of lower oil prices in rouble terms. But Russia can’t allow the currency to slide in this disorderly manner indefinitely, says Ambrose Evans-Pritchard in The Daily Telegraph. “The risk of emergency exchange controls” is rising.
The assets to buy now

Asset allocation is at least as important as individual share selection. So where should you be putting your money? Here’s our monthly take on the major asset classes.

**Property** A boost to come?
Annual house-price growth slowed to 8.5% in November, according to figures from Nationwide – slowing down for the third month in a row. Meanwhile, mortgage approvals continued to fall. And “forward-looking indicators, such as new buyer enquiries, point to further softness in the near term”. The market has been hit by stricter lending criteria (the result of the Mortgage Market Review). Don’t be surprised if the chancellor’s budget changes to stamp duty (see page 3) give the market (outside London in any case) a convenient pre-election boost in the months to come. However, all told the US market and second-tier German cities remain better value.

**Bonds** Trouble ahead
In recent years, the price of both government bonds and corporate bonds has been driven higher and higher by a combination of quantitative easing (QE – printing money to buy bonds), low interest rates (which make any sort of yield attractive), and low inflation. As a result, yields for most types of bonds are near all-time lows (yields fall as prices rise). So we’d argue that most forms of debt are too expensive to justify the potential risks ahead. These include the potential return of inflation (assuming the economic recovery continues) and in time, possibly even rising US interest rates. Junk bonds (also known as high yield debt) in particular look vulnerable – as we note in our cover story on page 24, the oil-price plunge has rattled bonds from energy explorers, and there’s a risk that this could spread into other areas of the market if investors panic.

**Energy** Oil collapses
As discussed in the cover story, oil prices have continued to slide in the past month. Oil cartel Opec – at the behest of Saudi Arabia – refused to cut production at its last meeting, which suggests that prices may have some way further to fall. On balance, it’s largely good news for the global economy, giving consumers a bit more money in their pockets. As for US natural gas, prices have fallen to their lowest level in a month, to around $3.90 per million British thermal units. The price has been hit by “forecasts for unusually warm weather across the Us this month”, reports Timothy Puko in The Wall Street Journal. Around 50% of all American houses use natural gas for heating, which is why unseasonal fluctuations in the temperature can have such an impact on the short-term price. In the longer run, more and more households and industries are opting for this fossil fuel, which produces less pollution than coal or oil.

**Precious metals** Hang on
The Swiss referendum on whether or not to return to the gold standard was resoundingly defeated (see page 9), and yet after a brief crash, in which silver dropped as low as $14.20 per ounce, and gold slid to below $1,150 an ounce, both of the precious metals rebounded strongly – silver leapt back above the $16 mark and gold headed back above $1,200 by mid-week. Chinese demand for gold remains strong, notes Ned Naylor-Leyland of asset manager Quilter Cheviot, and we’d keep hanging on to gold as insurance (for more on why we see it as a sensible portfolio diversifier, see page 43). Silver tends to be more volatile than gold.

**Commodities** Buy miners
Along with oil, it’s been a tricky time for many industrial commodities. For example, the price of iron ore – a key steel-making ingredient – has fallen in half so far this year, hit by increased supply and weaker demand, particularly from China, which is trying to shift its economy to be more focused on consumer spending. That’s taken its toll on mining giants such as BHP Billiton and Rio Tinto, while Brazil’s Vale – the world’s largest iron-ore producer – has slashed its spending by 26% to the lowest level in six years.

Agricultural commodities have had a better time of it recently. Corn futures are up by 15% since September due to a “slow US harvest”, notes The Wall Street Journal, while soybeans are up 10% – that’s the biggest gain corn has seen during that time period for eight years. In the long run, food prices are more likely to rise than fall as the global population expands and the amount of arable land available shrinks. But it’s best to play this with fertiliser and farm-equipment stocks rather than bets on soft commodities themselves.

**Equities** America’s still expensive
The S&P 500 index in the US has once again hit record highs as investors remain confident in the US economy, yet unfazed by the potential interest-rates rises that such a recovery might bring. We’d steer clear of the American market – it is expensive in historic terms, trading on a cyclically adjusted price/earnings (Cape) ratio of more than 26. In developed markets we prefer prospects in Europe – which is far cheaper and looks set to benefit from eventual money printing by the European Central Bank – and Japan, which is already enjoying one of the biggest QE programmes the world has ever seen.

There are also a few emerging markets we like, although you have to be picky – we look at some of the markets that will benefit from falling oil prices in the cover story on page 24.
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shares in focus

Just how sheltered is this safe haven?

Utilities are popular with nervous investors, but price still matters, says Phil Oakley

Investing is about achieving a sensible trade off between risk and return. Many people don’t like taking big risks with their savings, and this often draws them to the perceived safety of certain utility shares. Electricity generators and suppliers, such as Centrica, are having a tough time just now as energy prices stay low. But are the grid networks that move water, electricity and gas across the country and into our homes a better bet? Although the amount of money they can ultimately make is capped by industry regulators, investing in these companies is often seen as a good way to protect your money from the ravages of inflation. That’s because customer bills tend to be linked to changes in the retail price index (RPI).

Playing games with the regulator

Every five years or so these companies engage in a bout of gamesmanship with their respective regulators. As their profits are largely determined by the size of their regulatory asset values (RAVs – the value of their pipes, reservoirs, electricity pylons and so on), they tend to ask the regulator for permission to expand the size of their networks as much as they can. They also want the biggest possible spending allowance for day-to-day running costs, such as wages and maintenance. Last of all, they want to earn as high a rate of interest on their RAVs as possible, so that they can pay both the interest on their borrowings and a rising dividend to their shareholders.

For years, the companies held the upper hand in these negotiations because they knew a lot more about their own businesses. But over time the regulators have made it much tougher for the companies to make excess profits. For example, some water firms, such as Severn Trent and United Utilities, have had to cut their dividends in recent years, and some City experts fear they may have to do so again in the future.

National Grid, on the other hand, has been a lot more dependable and has kept increasing its payouts. This makes it a standout investment for more risk-averse investors. So it’s not really surprising that the shares have performed very well in recent times. But it is possible to pay too much for any share – even a relatively ‘safe’ one. Are National Grid shares too pricey – and therefore too risky – today, or are they still a buy?

The outlook

Under normal circumstances, it’s difficult to think of a safer haven in the UK stockmarket than National Grid. The utility giant owns and looks after the essential wires and pipes that keep the lights on and allow us to heat our homes here in the UK and in northeast America. National Grid has a lot of good things going for it right now. It’s looked after its electricity and gas networks in the UK very well, and is making bumper profits from them. It also has the luxury – unlike the water companies – of not having to face up to a regulatory review of its customers’ bills for another seven years. Then there’s the fact that it has been able to borrow money very cheaply – more cheaply than the regulator had assumed – and so boost returns to shareholders.

But above all else, the company is an essential part of what it takes to keep the lights on and the gas flowing. On both sides of the Atlantic, a lot of the assets in place to do these jobs are old and worn out and need replacing. There is also a need for more of them to meet the expected demand for electricity and gas. This is good news for National Grid, as it should mean that its asset values should grow by around 5% a year for the next few years.

This favourable backdrop has seen National Grid promise to increase its dividend by the rate of RPI inflation for
the foreseeable future. With a prospective dividend yield of 4.6% compared to a rate of inflation at around 2.3%, the shares look a much better bet than owning the inflation-protected bonds of the UK government, for example. So what’s not to like?

The risks
Not too much, is the answer. But there are a few things you might want to consider before you plunge in. National Grid is going to have to borrow a lot of new money – around £2bn a year – for the next few years to finance its investment in its networks and to repay maturing loans. This should be no problem if interest rates stay low, but it could be more troublesome if they start rising, given the company’s £25bn debt pile.

Another issue is that inflation is falling across most of the world. Given that a large chunk of National Grid’s income is linked to inflation, a lower rate, or even falling prices (deflation), could see it having to break its promise of increasing dividends.

Last but not least is the rich valuation attached to the company’s shares. The current market value of all its assets (its enterprise value) is just shy of £57bn. The RAVs of its UK and US electricity and gas businesses are around £36bn. The £23bn or so attributable to the UK is probably worth quite a bit more than that, given how well it is doing, but the US business has been a consistent underperformer. Surplus property and other assets undoubtedly add more value – but I’m not sure you could get to the current market value. So while National Grid is a good company, a lot of the good news looks to be in the price.

Verdict: hold, but don’t buy at this price

Tips update: Thomas Cook (LSE: TCG)

If there’s one thing the stockmarket hates more than anything else, it’s the unexpected. So when travel operator Thomas Cook announced last week that its chief executive, Harriet Green, was stepping down with immediate effect, shocked investors decided to dump the shares. They fell by nearly 20% last Wednesday (see page 32 for more).

However, while Green’s departure was the headline-grabber, it’s just as likely that investors were spooked by the more downbeat outlook on current trading that was also announced by the company. Investors could be forgiven for wondering whether Green was jumping ship before things turned sour, as many other CEOs have done before her.

To tell the truth, I think investors have overreacted. There’s no doubt that Green has done a fabulous job in reviving Thomas Cook from near disaster just over two years ago. When she took over the reins, the company was in dire straits and the shares were just 14p each. A fresh strategy and the slashing of hundreds of millions in costs have restored the company to health.

But is her departure the disaster the share-price reaction implied? I think not. As a company, Thomas Cook is undoubtedly more than just Harriet Green. The new man in charge, Peter Frankhauser, is hardly a travel industry novice. He has a lot more industry experience than Green. The new captain, Harriet Green, was in charge of all aspects of the business and has an earnings before interest and tax (EBIT) yield of 15.8%. Despite the ups and downs that travel operators will undoubtedly experience, that looks too cheap to me. The shares still look worth buying.

Verdict: buy

Company in the news: Stagecoach (LSE: SGC)

Stagecoach stands out as the UK’s best bus and rail operator by some way. It has grown the profits of its bus business, while quietly building up its US division. Last week its partnership with Virgin Rail (80% owned by Stagecoach) was awarded the East Coast rail franchise for eight years from March 2015. This franchise has been run by the government for the last five years. The last operator, National Express, couldn’t pay the premiums it promised to the government, and almost went bust. National Express had agreed to pay £1.4bn over eight years. Stagecoach is promising £2.3bn (in today’s money). Is that too much? Probably not, as long as the economy remains healthy. It has to pay the government an average of £287m a year, compared with the £225m paid by the franchise last year. Stagecoach’s promise doesn’t look too reckless, given that it will grow the number of seats available by 20%, add lots of modern trains and deliver faster journey times.

The company now has a very strong position in UK rail, which could be a nice source of cash flow over the next few years. That said, the price-to-earnings ratio of nearly 16 already could be a nice source of cash flow over the next few years. If I was to own a UK transport stock, Stagecoach would be the one, but I wouldn’t buy right now.

Verdict: solid hold
We aim to find well-run companies with strong balance sheets and good cash returns, as well as the potential for long-term growth – and to buy such stocks at levels where these attractive characteristics are not fully priced in. The investing backdrop over the last five years has been favourable. Returns have been high, and volatility low. That’s due to plenty of liquidity from central banks, recovering company earnings, and the fact that valuations were rising from a very low base. But 2015 doesn’t look as though it will be quite as favourable.

The Federal Reserve in the US, the main source of liquidity in recent years, is now ending its quantitative-easing (QE) programme of bond purchases. Of course, the Bank of Japan is increasing the size of its balance sheet (via more QE) and Europe is under pressure to do likewise. But the combined impact is unlikely to offset the end of US QE. Meanwhile, corporate earnings are growing at a more normal pace after the initial sharp recovery, with the paying off of debt still squeezing demand. Lastly, while equities still look attractive compared to other assets, they are more expensive than the historic average, particularly in America. As a result, we believe nominal (ignoring inflation) returns in stockmarkets will be more muted in the next three years, which is why we think active stock picking is vital to drive some additional gains. So here are some of our highest-conviction holdings for the next year.

Accenture (NYSE: ACN) is a leader in the fields of technology consulting and application services, and is benefiting from the long-term growth in the importance of the digital realm to most industries. Its market share is growing and revenue growth is accelerating. As its clients expand further into digital business, they are increasingly paying Accenture for marketing expertise and its IT knowledge. The order book is strong as a result. Cash returns are high – above 30% – and stable. The strong, experienced management team has a good track record and its incentives are aligned with shareholders’ interests. It trades on a price-to-earnings ratio (p/e) of around 17.5 for 2015.

United Internet (Xetra: UTDI) is now the second-largest broadband operator in Germany, following its recent acquisition of Versatel. It is benefiting from strong growth in mobile and fixed-line access. With a sizeable customer base and subscription model, a high proportion of its revenues are high quality and recurring. Profit margins are 15% and rising due to growth in sales of more profitable applications, and some cost benefits from the acquisition. On a p/e of 19, the valuation is fair, but we believe the visible growth and strong free cash flow of the company suggests that in time it should have a share price in the 40s rather than the 30s.

Monsanto (NYSE: MON) is an agrochemical and biotechnology company. Its sales are driven by the need for gains in agricultural productivity to feed the growing population. Barriers to entry in the sector are high, which is reflected in a return on equity of more than 20%. Starting with cyclical lows in grain prices, the stock looks set to perform well into 2015 as these prices stabilise. The p/e is 20 for growth that is accelerating into the high teens.

In short, the investment environment is likely to become tougher than it has been for the last few years, but there are still gains to be made in equity markets globally.
Do small stocks deliver the goods?

by Cris Sholto Heaton

The idea that smaller stocks outperform larger ones over time is widely accepted by investors and academics. The historical evidence for it is solid: while there have been periods when small caps underperformed, over time the “size effect” has shown a respectable premium. For example, between 1995 and 2014, the MSCI World Small Cap index has returned around 9% per year, versus around 8% for the MSCI World index.

As a result, allocating part of your portfolio to small caps is common advice for investors looking for higher returns. Yet the reality may be more complicated, according to a study by Rob Arnott and Feifei Li, both of investment manager Research Affiliates, and Geoffrey Warren of the Australian National University. In a 2013 research paper called Clairvoyant Discount Rates, they calculated average annualised rates of return for each US-listed stock between 1955 and 2011. Their results suggest that the size effect doesn’t work in the way that many investors think it does.

The importance of averages

Arnott, Li and Warren found that, over the period, the smallest 20% of stocks returned an average of 5.95% per year. That was less than the 8.11% per year returned by the largest 20% of stocks. Even more startlingly, it was less than the 6.3% per year achieved by investing in ten-year Treasury bonds. At first glance, these results aren’t consistent with the long history of research that show indices of small stocks beating large ones over long history of research that show indices of small stocks beating large ones over

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<th>Returns from UK smaller stocks (2009-2014)</th>
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<td>FTSE Small Cap</td>
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<tr>
<td>Annualised total return</td>
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The average return from the FTSE Small Cap stocks was 11.8% per year, versus 12.8% for the index. For the AIM stocks, the average was -3.3% per year, while the FTSE AIM All-Share index returned 3.2% per year. Strictly, we’re not comparing like-with-like, since the indices also include returns from stocks that have floated, delisted, or been promoted to the main market or the Mid Cap index during this period. But this gives some idea of the impact of this effect.

Make sure you own outliers

These figures suggest that investing in AIM stocks – typically the smallest, riskiest growth stocks – has a comparable risk and return profile to venture capital (VC). Investors who run VC portfolios tend to assume that more than half their deals will lose money, and that the vast majority of returns will come from about 10% of the portfolio. The results for AIM look similar. Returns from the FTSE Small Cap index are more balanced, but the big winners still make a key contribution.

This carries an important lesson for investors in small caps. You need to hold a large number of stocks to stand a good chance of benefiting from the small-cap premium – just holding a handful doesn’t offer compelling odds. This is especially true when investing in sectors such as IT, biotech and natural resources, which are typical of AIM companies.

It’s telling that small-cap growth managers usually run very diversified portfolios: they’re well aware that the rate of failures and nasty shocks among their holdings is relatively high. Investors who simply add a few hot growth prospects to their other holdings may do well, but they should be under no illusions about the role of luck. There’s a good chance that they could end up with lots of duds, no star performers and some very disappointing returns.
The banks are being punished – but that’s not the good news it might seem

You might think the British government was just about broke. The budget deficit is still among the largest in Europe. Tax revenues are spluttering even as the economy recovers. The pressure on spending grows all the time. Fortunately, however, Chancellor George Osborne managed to find a couple of billion stuffed behind the Treasury sofa just before the Autumn Statement to spend on the NHS.

Where did it come from? It turns out that half of it came from all the money the government has been collecting in fines from the banks. The misdemeanours of the City boys have turned into a lucrative source of extra funds for the state. This month, six banks were fined £2.6bn by American and British regulators for their role in rigging the foreign-exchange markets. That came after fines running into billions for the Libor-fixing scandal. In total, Britain’s four main banks set aside £21.5bn during 2013 to cover the costs of penalties, according to research by the London School of Economics. That was on top of £21bn they had set aside since the crash of 2008.

In America the fines are even bigger. Citigroup had to pay $7bn this year for its role in selling mortgage-backed securities. Bank of America forked out over $11bn for its role in mortgage foreclosures. These are genuinely extraordinary sums of money. Never mind a school or a hospital, they could pay for a small war. The New York state government, which collects much of the Wall Street money, is so overflowing with cash from bank fines that there has even been a debate about a tax refund.

A dangerous path

Ordinary taxpayers, who have no love for the financial sector, may cheer at the thought that the banks are finally paying their debts to society. But this is taking us down a dangerous path. Fines on the banking industry are a terrible way of financing public expenditure.

You may cheer, but it’s no way to raise money

True, there are some good reasons for imposing huge fines on the banks. Firstly, a lot of them behave very badly. The mega-banks have allowed an arrogant culture to develop, in which immediate profits are put before anything else. The result is that rules get broken. Regulators need to make sure that is punished – otherwise it will never stop. And there’s no question that the fines have to be big. There is no point in slapping a penalty of a few grand on the likes of Barclays or HSBC. That will just be treated as a cost of doing business. If it doesn’t run into billions it will not have any impact.

There is a problem, however. Bank fines risk becoming part of the government’s revenues – and that could be very dangerous. To start with, they will not be stable. It may not look like it at the moment, but just as even the wildest dog is capable of learning to behave eventually, so is the most ruthless bank. It will take time, because big organisations don’t change quickly. But gradually the banks will start to clean up their act, simply because they cannot afford not to. The billions raised by the fines will start to dry up. But what happens to spending then? Osborne won’t want to cut the funding he has promised to the NHS – not if he wants to get re-elected anyway. New York State won’t want to leave the bridges and highways it has started half-built. The revenues will have to be found from somewhere else – but government finances are already under huge pressure.

Regulating for revenue

That means that the fines on the financial sector may quickly become a turbo-charged version of the parking and speeding ticket. Councils started to issue tickets to control where motorists parked their cars, and that was perfectly reasonable. If someone parked on a double-yellow line it caused a queue of traffic and inconvenienced everyone. If the rules were not enforced, they didn’t work. The same was true of speeding tickets – it is dangerous to everyone if you drive too fast.

The trouble is that councils very quickly became dependent on the money raised from doing this. As we all know, parking wardens come in for criticism for the ridiculous harshness with which they enforced the rules. An inch over a white line, and you got a ticket. Speeding cameras were hidden behind signposts to catch unsuspecting motorists. It was no longer about enforcing the rules – instead, it was all about keeping the cash flowing into the councils.

Bank fines could quickly go the same way. Before long, regulators may well be issuing them because they have been set a target for the money they need to raise. No doubt they can always find some trader who has said something stupid, just as you can usually find some motorist who has slightly infringed the rules. But that will destroy the banking industry very quickly – the fines will put banks out of business. The problem is treating the revenue as current income, as councils did with motoring fines. Instead, governments should treat the bank fines as a one-off windfall. They should use them to pay off the national debt, or else to give us all a one-off tax break. Anything else risks making the state addicted to fining banks – and in the long-run that will be catastrophic.
Providence Bonds plc, the UK subsidiary of Providence Global Limited, is issuing a minibond that has a term of 4 years, an interest rate of 8.25% per annum and a target raise of £25m. Investors can invest from £1,000 upwards and are paid interest quarterly.

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The Smith Commission has recommended radical changes to the relationship between Scotland and the UK, but that may not be enough to save the Union. Simon Wilson reports

What’s the Smith Commission report?
Following the Scottish independence referendum in September, the government announced a commission, headed by Lord Smith of Kelvin, into the further devolution of powers to Scotland. The commission published its recommendations on 27 November, and these will be debated in parliament next year. A bill based on this is expected to be put before parliament after the general election in May.

What did the commission propose?
The biggest changes are fiscal. First, the Scottish parliament will have complete power to set income-tax rates and bands (although Scots will continue paying their dues to HMRC, and national insurance remains reserved to the UK level). Second, Holyrood will receive the first ten percentage points of VAT receipts (meaning that with VAT at the current 20% level, it will receive half of the total). However, in order to avoid the prospect of destabilising tax competition, corporation tax will remain a UK matter – much to the annoyance of the SNP. However, Scotland will at least get the right to set air passenger duty – or abolish it altogether, as the SNP has pledged to do. The new powers mean that the Scottish government will enjoy more fiscal autonomy than any other similar devolved region in Europe – a major stepping stone towards potential independence.

What else is on the agenda?
There are changes to benefits. The universal credit, the state pension and child benefit remain UK matters. But Scotland will get control of benefits for carers, disabled and sick people, and the power to vary the housing cost part of the universal credit – meaning it can scrap the so-called bedroom tax. The Scottish treasury will also get greater borrowing powers. And there are symbolic changes, such as recognising in law that the Scottish parliament will have complete power to set income-tax rates and bands, and giving Holyrood control over the Crown estates in Scotland and in Scottish waters. Overall, the presumption is for full devolution, except where this undermines the capacity of the British state to make arrangements for economic security.

Is this enough for the SNP?
No. It is by no means full autonomy: according to figures cited by The Sunday Times, the Smith plan means that Scotland will control about 37% of its tax and spend, rather than the 100% sought by the Yes campaign. Or, by The Economist’s sums, the government will collect 60% of its spending, up from 10% now. So the SNP say that even stronger fiscal powers will need to be on the table if it is to shore up a minority Labour government at Westminster after the May 2015 general election. It seems certain that the Smith framework will not put a stop to the debate about more powers in the future – up to and including full independence.

Why is that?
In part because the SNP is on a roll: its membership more than quadrupled in the wake of their referendum defeat-cum-victory. Polls suggest that they could soon become Scotland’s biggest party at Westminster. And they have a popular new leader, Nicola Sturgeon, who may well attract more women and traditional Labour voters to the independence cause. But even more fundamentally, the trends point towards further loosening of the ties that bind the UK together.

What are these trends?
First, there’s the increased likelihood of tensions between the UK and Scottish governments over economic and fiscal policies. Second, the devolution of income tax and part-devolution of social security will inevitably weaken the social union among all Britons, which is one of the core arguments against independence. And lastly, devolution of income will make the West Lothian question – the issue of MPs from Scotland, Wales and Northern Ireland voting on matters that only affect England – more potentially destabilising than before.

Why will the West Lothian question flare up?
If Scots control their own income tax, letting Scottish MPs vote on tax for the rest of the UK will become an ever more urgent grievance for English MPs. And yet the UK’s fiscal policies will continue to play a major role in the Scottish economy, fostering resentment at Holyrood. So there could hardly be a more difficult moment for the UK to be facing a knife-edge general election in which the Tories and Labour have divergent political interests. The Tories have made it clear they will campaign for English votes for English laws (EVEL), while Labour faces the prospect of not being able to pass its own UK budget through the House of Commons once tax powers are devolved.

Is low politics wrecking the UK?
Just as Labour’s embrace of “ill thought-out” devolution in the 1990s was a “political manoeuvre (now revealed as useless) to save its seats from the advance of the SNP,” so the Tories’ current support for full income-tax autonomy for Scotland is “merely a cunning plan to neutralise Labour’s numerical advantage in Scottish seats,” argues Dominic Lawson in The Sunday Times. But whichever side it comes from, this “toying” with UK sovereignty for political purposes is “contemptible” – and will ultimately pull the UK apart. “How incredible it is that the great ship of state that is our Union should have fought off the biggest challenge in its 300 years of existence, only for its supposedly victorious defenders to have immediately driven it onto the rocks.”
**Buffett’s blunder into IBM**

Warren Buffett admitted to making a “huge mistake” in buying Tesco shares, but it’s his 7% stake in IBM – also going badly – that interests me, says Terry Smith. When Berkshire started buying shares in IBM in 2011, we rejected it for our Fundsmith Equity fund. Why? Firstly because we disliked its plan to grow its profits of $11.52 per share to $20 by 2015 – a target it has now abandoned. As Buffett himself wrote in 1979, “the primary test of managerial economic performance is… not the achievement of consistent gains in earnings per share”.

Secondly, the sources of this growth, which included share buybacks, made us uneasy. It’s been said that Buffett may be cheering the fall in IBM’s share price because it’s better to buy shares back cheaply, but of course it depends on why the price is falling. If it’s because the firm’s prospects have deteriorated, “pressing on with share buybacks may just be a waste of money”. Given this is exactly what appears to have happened, I expect Berkshire investors are now clutching their heads.

**Terence Smith**

*The Daily Telegraph*

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**Hot air in the wind power industry**

After 30 years and billions of dollars of subsidies, the US wind industry is still demanding taxpayer support, says Tim Phillips. The production tax credit (PTC), which gives producers a 2.3% tax credit for each kWh of electricity produced over ten years, expired at the end of 2013, and lobbyists are asking legislators to renew it. Their arguments are “bluster”. The credit has “devolved into another example of corporate welfare”, costing taxpayers $7.3bn over the past seven years. It also encourages abuse. Instead of paying wind producers based on how much of their electricity is used, the PTC pays them based on how much electricity they generate. And provided the taxpayer is picking up the tab, major corporations can use the PTC to lower their tax rates by investing in wind energy. Wind power’s fluctuating growth bears this out. Each time the PTC expires, wind installations have plummeted. When it is renewed, construction restarts. It is time to let the wind industry compete in a fair market.

**Tim Phillips**

*The Wall Street Journal*

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**Europe’s puny stimulus won’t work**

“As a financial instrument, Jean-Claude Juncker’s €315bn new investment fund is very clever”, says Wolfgang Münchau, but “as an economic measure it will not work”. This is the plan: the European Commission sets €8bn of its budget aside as collateral for a guarantee of €16bn. The European Investment Bank (EIB) adds another €5bn, and uses that €21bn to raise €60bn in cash by issuing bonds. That €60bn is used to “co-finance €315bn in investments from the private sector”. At this stage, “the original €8bn will have been leveraged… by a total factor of almost 40”. That translates to roughly 0.8% of the EU’s GDP per year, but even if the headline number is achieved, it’s not clear that Juncker will have prompted new investments. For a small business loan, the difference in interest rates between an EIB-sponsored loan and a commercial one can be as little as 0.5%. The test of this programme is whether private-sector investment rises by an additional 1% per year. I “confidently predict this will not happen”.

**Wolfgang Münchau**

*Financial Times*

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**We work better when we work less**

Sleep is overrated, according to Harriet Green, the departing chief executive of Thomas Cook, who survives on under four hours a night. Except that it isn’t, says Gaby Hinsliff. A recent survey found that one in ten Britons would take a pay cut in order to work less, particularly those over 50 and in male-dominated professions. Long hours and insufficient sleep are associated with ill-health and poor concentration, and that means achieving less. Kellogg’s has for years given Friday afternoons off after finding that it boosted overall productivity. Google’s policy of allowing engineers the equivalent of a day off a week to play around with ideas gave birth to Gmail and Google Chrome. It doesn’t matter if nine out of ten projects are “dead ends” if the tenth is a “game changer”. Considering the need for “imaginative solutions” in public services, giving NHS consultants or chief constables a few hours free each week to think might pay dividends.

**Gaby Hinsliff**

*The Guardian*

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**Money talk**

“I don’t really understand why we are paid less than the male actors because we put in equal effort… We deserve better pay, equal to what actors get.”

Bollywood actress Aditi Rao Hydari (above), quoted on independent.co.uk

“I did not come here for money… I would like to have more matches and the only place where I would like to hold them is here, in Russia.”

Actor Mickey Rourke, 62, speaking before a boxing match in Moscow against 29-year-old Elliot Seymour, quoted on dailymail.co.uk

“I’ve done fine, but it’s dribs and drabs: two here, one there. I never got, like, a $30m check. I never had a movie make $300m that’s just starring me. So I don’t necessarily do it for the money – but I’ve never had so much money I don’t have to think about it.”

Comedian Chris Rock, quoted in The New Yorker

“They asked me to go into the jungle to do I’m A Celebrity, but I said no because I need to get down to the gym… the money was so crazy.”

DJ Tim Westwood on why he turned down the chance to appear on the reality TV show, quoted in OK! magazine
politics & economics

“Ideologues playing politics” with schools

by Emily Hohler

Tristram Hunt, the shadow education secretary, proposes to make private schools work harder for their charitable status. They will be required to pass a new School Partnership Standard test to remain eligible for business rate relief (worth around £64,000 a year per school), offering services such as sponsoring academies, sharing teachers and staging joint sporting events. I’m not saying it’s the only answer, writes Hunt in The Daily Telegraph. But alongside our strategy for improving the quality of teachers and transforming our vocational education system, it “forms part of Labour’s broader ambition to end the scandal of 1.6 million children being taught in schools that require improvement”.

Think again, says Rachel Sylvester in The Times. Sharing karate classes isn’t going to make a difference, and “surreptitiously creating a few more grammar schools isn’t going to address the problem either”.

We need to focus our attention on the 90% of schools that are neither private nor grammar. The educational pessimists say that “parental poverty and lack of funds means state schools will never compete. This is rubbish.” Some of our best state schools, including Grinling Gibbons in Deptford and Havelock Academy in Grimsby, are in the most deprived areas. They succeed because they are ambitious for their pupils. “As Germany shows, creating an aspirational, flexible and rigorous state sector can make private schools redundant.” Their results are so good that less than 1% of children attend private schools.

When I attended my grammar school in the 1950s and 1960s, we “would have laughed at the idea that private schools were in any way superior”, says Ian Jack in The Guardian. Today, given the decline in state education, if Labour wanted more educational equality, it should promise to change the law so that private schools lose their charitable status altogether. Fee rises would push the middle classes into the state sector, which they would then support. Of course, it doesn’t dare. So instead we have “the pitiable sight of Labour making another of its small and puzzling sorties that neither damage the enemy nor inspire the friend”.

I’ve had it with “ideologues playing politics with a state education system of which they have zero experience”, says Allison Pearson in The Daily Telegraph. Labour took an education system that wasn’t broken and “fixed it” for ideological reasons. Abolishing grammar schools only entrenched class privilege. The richer went private or moved to a good catchment area. Today the UK is “tumbling” down the international league tables. And Tristram Hunt’s “big new idea” is to attack the same “evil schools” to which so many prominent Labourites send their own children in order to “gain the selective advantage their party denies to children from less well-off families”.

Can Cameron stop the immigrant influx?

David Cameron delivered his long-awaited speech on immigration last Friday, promising to clamp down on in-work benefits but not to tamper with the EU’s rules on freedom of movement. His speech came 24 hours after the latest official figures revealed net migration jumped by 43% to 260,000 this year as the country’s recovering economy attracted migrants from the European Union and elsewhere. The scale of the influx left the promise he made in 2010 to cut immigration to the tens of thousands “in tatters”, says The Times’ Richard Ford.

There were rumours of caps and quotas beforehand, but in the event Cameron’s proposals were measured, says Jonathan Freedland in The Guardian. The idea is to “reduce the supposedly seductive lure of our benefits system”. The tighter rules mean a four-year wait before claiming, and a ban on sending child benefit back home. However, they rest on a “series of false premises”. Firstly, most EU migrants come here to find work, not because they want to claim benefits. Secondly, most immigration is not from the EU. Cameron also correctly pointed out that even these changes won’t be easy; many will require treaty change. Other mechanisms could be used, but they are not straightforward and would require the unanimous backing of 27 European leaders.

Cameron’s proposals will not restore control of numbers, says Camilla Cavendish in The Sunday Times. It might seem ridiculous to describe the enterprising young Europeans flocking to “our flourishing economy” as an emergency, but “it is”. However “skilled and willing” immigrants are, the sheer numbers arriving every year are putting “unprecedented strain on the local fabric and infrastructure of a small country”.

“Poll after poll shows Britain remains tolerant, fair-minded and simultaneously adamant that it has had enough.” Instead of making sensible decisions about what skills we need, “we are fuelling resentment and compromising national security”. I do not believe that Britain will turn its back on the world, but if we “cannot regain more sovereignty within the EU, I increasingly wonder if we will have to leave”.

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**Why “smart beta” is taking off**

by Matthew Partridge

“Smart beta” funds are one of the fastest-growing parts of the investment industry. These funds aim to combine the benefits of both passive and active investing. Like passive funds, they set out to track an index as closely as possible, thereby bringing down costs. However, they also try to provide better returns than the market by using indices that put a greater emphasis on certain types of stocks that have tended to outperform others.

There are three main approaches to building a smart beta fund. The first type changes the way that broad stockmarket indices are constructed. Instead of weighting each share by its market capitalisation, they instead weight by fundamental metrics, such as dividends, or simply give each share an equal weight. This implicitly pushes the fund toward cheaper shares. The problem is that these portfolios have regularly to be rebalanced to take account of changing market values and fundamentals. This increased trading pushes up transaction costs, eating into returns.

An alternative to this re-weighting of all the stocks in an index is just to hold those that meet specific criteria, such as the highest-yielding stocks. This is similar to the way that many active fund managers invest, but proponents of smart beta say that eliminating human discretion ensures that the fund will stick to its strategy. One issue with this approach is that the resulting portfolio can be unbalanced: there is a tendency to end up with a large amount in certain sectors.

**If you want to learn more about smart beta, it may be useful to look at some smart beta exchange-traded funds (ETFs) and how their holdings and performance differ from the wider market. For example, the db x-trackers S&P 500 Equal Weight ETF (LSE: XEQD) weights each S&P 500 stock equally. The iShares UK Dividend ETF (LSE: IUKD) tracks the 50 firms with the highest yield in the FTSE 350. And First Trust United Kingdom AlphaDEX UCITS ETF (LSE: FKU) ranks UK shares on both growth and value criteria. It has outperformed the FTSE 100 since it listed in April 2013.**

**Ride the wave of Japanese printed money**

The Bank of Japan’s Halloween treat for investors this year was more Abenomics. The Bank is to expand its bond-buying programme from ¥60tn-¥70tn to ¥80tn, while also accelerating its exchange-traded-fund and property-security purchasing programme. What’s more, the Japanese government’s pension fund is to buy more Japanese stocks. This is a bullish development and means Japan is “one of the most interesting developed markets”, says Bestinvest’s Jason Hollands.

One way to exploit this trend may be through the Baillie Gifford Japan Trust, says Leonora Walters in Investors Chronicle. The Edinburgh-based trust, which aims for long-term capital growth, invests in small- to medium-sized Japanese firms expected to deliver above-average growth. It’s been run by Sarah Whitley since 1991, it has outperformed its benchmark Topix index over three, five and ten years, delivering a return of 164% over five and 104% over three years. Its performance over one year is less inspiring but, as Walters notes, the trust targets the longer term, so investors should not place too much weight on this.

Whitley typically has a portfolio of 40 to 70 investments and looks for firms with innovative business models or generating strong sales overseas, taking a three- to five-year view. Currently, 24% of the trust is invested in commerce and services firms, 22% in manufacturing and 14% in electronics. There can be no guarantee Japan’s monetary policies will continue to boost equities, notes Walters, but the fund has proved it can generate strong returns even when the wider market can’t. It has an ongoing charge of 0.89%.

**Contact:** 0800-917 2112.
The internet has changed the media landscape beyond recognition over the past 15 years. Many traditional publications have seen revenues plummet, forcing them to let go of staff. At the same time, it’s become harder for celebrities and businesses to manage their reputations in the online age. As a result, many journalists have decided to switch sides and move into public relations.

One successful “poacher turned gamekeeper” is Phil Hall, the former editor of the News of the World. After being let go from an executive position at Trinity Mirror, Hall decided to set up PHA Media in 2005. Initially, he ran his business from a back bedroom, with his severance money from Trinity just enough to support him for a year. However, he rapidly started to accumulate clients. Some, such as Sir Paul McCartney, were the result of past contacts. Others came as a result of Hall sitting down and cold-calling what he terms “long shots”.

Within a short period, he had added West Ham FC and several London-based casinos. Managing them successfully later enabled him to land Manchester City. This football expertise came in useful when he then worked on Qatar’s World Cup bid. Hall lists this as one of his “most memorable” experiences, since he was confident that we could deliver for our clients”. That belief has been rewarded when he then worked on Qatar’s World Cup bid. Hall lists this as one of his “most memorable” experiences, since he was confident that we could deliver for our clients. PHA Media

Phil Hall

them cross the line”. Other successes included a campaign against cuts to legal aid. As a result of PHA’s work, these proposals have been delayed until after the upcoming election.

Despite his early contract wins, Hall did not simply assume that his new venture would be a success. Indeed, he says he “constantly worried about things” and treated each day “as a new challenge”. At the same time, he was “always confident that we could deliver for our clients”. That belief has been rewarded with strong growth: from just two members of staff initially, the firm now employs 60 people. As staff levels have raised, PHA has moved from a small serviced office on a rolling one-month contract to progressively larger premises.

At one point, Hall took out a mortgage to buy a converted house in Marylebone, only to outgrow it within 18 months. The firm now occupies large offices in Wardour Street and has a turnover of £4.2m. Despite this rapid growth, Hall says he turned down repeated offers from banks to lend him large sums of money, noting that he preferred to “grow organically”.

Hall thinks that the secret to being successful in PR is having “a good journalistic backbone”. Instead of just “churning out press releases”, PHA focuses on “sending journalists a smaller number of stories that will be of interest to them”. He has also paid a lot of attention to “getting the staff right”, seeking those who have a “can-do attitude” and are “prepared to hit the ground running”. However, he also believes in fostering a “work-life balance”, making sure that relatively early starts are balanced by a working day that ends at 6pm, in contrast to the usual industry practice of late nights. More broadly, he thinks that entrepreneurs should “never close a door”. Indeed, he can point to several cases where clients have parted ways with PHA for various reasons, only to return later or recommend his services to others.

The MoneyWeek audit: Myleene Klass

Myleene Klass has attacked Labour leader Ed Miliband over his mansion tax plans for houses worth over £2m. She said it was impossible to find anything but a “garage” in London for £2m and that impoverished “grannies” who inherited their houses would be hardest hit.

An online petition is now calling for her to be dropped as the face of Littlewoods, claiming that the multi-millionaire cannot represent customers who have been hard hit by the slump. So far, it has gathered 8,000 signatures.

Klass attended the Royal Academy of Music. She sang backing vocals for Cliff Richard, before auditioning for TV show Popstars and finding fame in the band Hear/Say. They had four top ten hits, including two number ones, and their own TV show, before splitting up in 2003. Klass became a classical performer, releasing three albums with Universal Music and EMI. The first, Moving On, made number two in the UK Classical Chart. A spell on I’m A Celebrity…Get Me Out of Here! then led to presenting gigs on The One Show and Popstar To Operastar.

Klass has around £11m, helped by modelling contracts for Marks & Spencer, Pantene shampoo, Littlewoods and Mothercare (she declined a six-figure offer to pose for Playboy). Last year, to prevent her ex-husband Graham Quinn, a security guard, from pursuing her fortune, she handed over the cash from the sale of their £1.8m five-bedroom house. Although together for 11 years, they’d only been married six months.

Phil Hall

PHMA Media

Why is she in the news?

Singer and TV presenter Myleene Klass has attacked Labour leader Ed Miliband over his mansion tax plans for houses worth over £2m. She said it was impossible to find anything but a “garage” in London for £2m and that impoverished “grannies” who inherited their houses would be hardest hit.

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How much money has she made?

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Why did she start out?

Klass was born in Gorleston, Norfolk, in 1978. She comes from six generations of classical musicians and learned to play the violin at the age of six. After achieving an A in A-level music,
Everything about digital currency Bitcoin, from its futuristic name to its association with the “Silk Road” online black market, is like something out of a thriller. The value of a single bitcoin soared from just a few cents in 2011 to a peak of $1,242 near the end of last year. It’s slipped since, leading some critics to dismiss it as a modern-day tulip mania. But in Bitcoin: The Future of Money, regular MoneyWeek contributor Dominic Frisby argues that bitcoins and other ‘cryptocurrencies’ could revolutionise everything from the banking system to the modern state.

The book is aimed firmly at non-specialists. Frisby explains just what Bitcoin is, how it works, and a bit about its history. He meets the hobbyists, programmers and investors driving the project forward. He reveals his theories on the identity of “Satoshi Nakamoto”, the elusive and (so far) anonymous mastermind behind Bitcoin. And he looks at the long-term implications of digital currencies – how they could undermine government control in the developed world and help the emerging world create a more efficient banking system.

As you would expect from a professional comedian, Frisby is an engaging and witty writer. He clearly has a good understanding of the technology involved, but keeps the jargon to a minimum, even in the section dealing with the hunt for Satoshi. And while he’s extremely enthusiastic, almost evangelical, about the potential for digital currencies, his arguments come across as reasoned. Indeed, he deliberately avoids the hype that makes most technology writers sound like double-glazing salesmen.

Of course, his positivity about Bitcoin’s social and economic outcomes does not always convince. Other than an account of buying drugs with bitcoins, Frisby doesn’t really address concerns about enabling criminal behaviour. Those who believe we need a strong state to provide public goods, such as health and education, may not be thrilled by his prediction that Bitcoin will rewind the clock to the Victorian era. And a cynic could argue that if Bitcoin does threaten governments, they will find a way to ban or regulate it.

We’ll have to wait until the technology has matured to get a better idea of how Frisby’s forecasts will pan out. However, he is to be congratulated for producing an extremely readable guide to a field that might just have radical implications for our financial system.

Bitcoin: The Future of Money? by Dominic Frisby. Published by Unbound (£8.99, unbound.co.uk).

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**A witty guide to the world of Bitcoin**

by Matthew Partridge

The power of three

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**Boost FTSE 100**

3X Leverage Daily ETP

3UKL

**Boost FTSE 100**

3X Short Daily ETP

3UKS

> 46 equity, commodity & fixed income ETPs
> Cannot lose more than original investment
> Trades on LSE
> No margin calls
> No complex documentation
> Low cost, robust & transparent

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The battle for black gold

The oil price is falling dramatically – but there’s further to go.

John Stepek explains why and how you can profit

When we last wrote about oil, less than two months ago, the price was on the slide, and Saudi Arabia was making noises about being comfortable with oil at around $80 a barrel. We suggested that prices could go a lot lower, and since then, they have. Brent crude is now sitting at around $70 a barrel. And suddenly everyone’s talking about it. But the price could fall further still – we reckon it’ll be a good while before we see the $100 a barrel mark again. Here we’ll explain why – and how you can profit from it.

The facts – the ones that really matter to investors – are pretty straightforward. Weakening demand for oil has played a bit of a role, but the main reason for the sliding oil price is that production in America has grown sharply while various bottlenecks in other parts of the world have been cleared. The latest development emerged from a meeting of oil cartel Opec last week. The group – which controls around 40% of global oil output – held production at its current target level of 30 million barrels per day. Some members were clearly unhappy about this – Iran and Venezuela, who each require a $100-plus oil price to balance their national budgets, were among the most vocal. But Saudi, the biggest producer, is unwilling to cut production and so sacrifice market share to its rivals, particularly when it is the best-placed Opec nation to withstand a period of cheaper oil.

Why did Saudi decide to do this? Some argue that Saudi wants to put the US shale oil producers out of business – to make the industry unprofitable. Others argue that Saudi is conspiring with the US to hurt Russia (which supports many of the regimes Saudi doesn’t like) and Iran (which is one of the regimes Saudi doesn’t like). Most likely, the Saudis are aiming to make the best of a bad situation – at the end of the day, history shows they have far less control over oil prices than is popularly believed. Keeping on pumping means the cash keeps rolling in – and there’s a chance they could kill two birds (the frackers and their political rivals) with one stone by helping prices to find their ‘natural’ balancing point. As Amrita Sen, oil analyst at Energy Aspects, put it in the Financial Times: “This is becoming a battle of the deepest pockets and survival of the fittest.”

The frackers will keep on drilling

However, if the Saudis hope that US shale producers are going to stop drilling anytime soon, they’ll have another think coming. As energy consultant Daniel Yergin puts it in The Wall Street Journal, at these levels, companies will be looking to cut or delay their investment plans. “But it will take time for these decisions to affect supply. US oil production will continue to rise in 2015.” According to a study by energy analysts IHS, about 80% of ‘tight-oil’ production will be economic at prices between $50 and $69 a barrel. According to the International Energy Agency, the average cost per barrel in North Dakota is just $42. In certain areas, it gets as low as below $30.

This is, of course, still bad news for shale producers and oil companies. They might be able to pump profitably, but they won’t be making as much money. And it’s bad news for oil services companies – Schlumberger, the world’s biggest oil services group, has this week taken an $800m write down on the value of the ships it uses to do offshore geological surveys, for example. Share prices in the sector have plunged accordingly. Are there any bargains?

The five stocks to buy now

As Sam Vecht of BlackRock tells Bloomberg, a “portfolio that works well with oil priced at $110 oil is not the same portfolio that works at $70.” By that, he means it’s time to get exposure to countries that are “net energy importers”, rather than large exporters, such as Russia. We mentioned India and Japan last time (see the updated tips on page 26). Another potentially good option is Turkey, which imports most of its energy. As Turkish finance minister Mehmet Simsek told Bloomberg: “It’s great, not good, absolutely great. There are very few countries that benefit significantly, and Turkey is one of them.”

Turkey has a hefty current account deficit (in other words, it relies on attracting foreign cash), but sliding oil prices could see that fall to below 4% of GDP next year from almost 10% of GDP in 2011. The country has also benefited from hostilities between Europe and Russia – Turkey doesn’t support the annexation of Crimea, but nor is it involved in sanctions. As a result, it has landed a 6% discount on natural gas prices from its neighbour. If you want to invest in Turkey, there’s an exchange-traded fund (ETF) that does the job – iShares MSCI Turkey (LSE: ITKY) for an annual total expense ratio (TER) of 0.74%.

China is also worth buying. We’ve liked China for a while now – it’s been one of the best-performing markets of this year – but the drop in oil prices gives another good reason to buy in. China is the world’s biggest oil importer. And while the slump isn’t as significant as it might be in some other nations (as the
The five stocks to buy now

available? We suspect there will be – but only eventually. The trouble is, the oil price could fall a lot further before it ‘stabilises’. As Yergin points out in The Wall Street Journal, American oil production has risen by 80% since 2008, to nine million barrels a day. This “increase alone is greater than the output of every Opec country except Saudi Arabia”. That’s an extraordinary addition to global supply. And it isn’t unprecedented. As Yergin notes, in the early 1980s, “a surge in oil from the North Sea, Alaska’s North Slope and Mexico”, combined with a “deep recession”, saw oil prices plunge to $10 a barrel.

Last week, one oil tycoon – Canadian Natural Resources boss Murray Edwards – declared that oil could fall as far as $30 a barrel. Now that sounds like the sort of epic bottom-of-the-market call that often signals a turn. However, he followed it up by arguing that prices would then stabilise around the $70 mark – a convenient sort of figure at which most alternative sources of oil would still turn a profit. So we wouldn’t take that as a contrarian buying indicator – it’s still too optimistic.

The point is that oil prices are likely to stay lower for longer than anyone might expect. That’s bad news for companies and countries that depend on oil – Russia is heading for recession, for example – but it’s great news for countries that aren’t addicted to oil. And it’s great news for companies who serve consumers who won’t have to spend as much money on petrol, for example. As Andrew Kenningham of Capital Economics puts it: “each $10 fall in the oil price represents a transfer of annual income of around $330bn, or 0.4% of world GDP, from oil producers to oil consumers”. We look at some of the best candidates – and update on the ones we tipped last time – in the box below.

FT reports, “the state-set pricing formula means consumers see little additional savings when the price drops below about $80 a barrel”), it’s still helpful at the margins. There are several ways to buy China – you can opt for one of several ETFs, such as the iShares China large cap UCITS ETF (LSE: FXC) (also on a TER of 0.74%). Or you can use an investment trust such as the JP Morgan Chinese investment trust (LSE: JMC). The TER is 1.24% and it currently trades on a discount of 6.9% (that’s a little more expensive than normal, but it reflects the solid performance of the market this year).

Another beneficiary overall could be Europe. Why? Because a drop in oil prices will lower the inflation rate. While central bankers tend to ignore energy price-driven inflation, the threat of the inflation rate turning negative – even on a simple ‘headline’ measure – in the eurozone, might be what it takes to get European Central Bank (ECB) boss Mario Draghi to embark on full-blown quantitative easing (QE), says Andrew Kenningham of Capital Economics. QE, as we’ve noted before, tends to drive share prices higher. One of our favourite eurozone trades has been Italy – the iShares FTSE MIB ETF (LSE: IMIB) is a straightforward way to play it. On that note, of course, there’s also the danger that falling oil prices will give central banks the excuse they need to ignore growing inflationary pressures – which is another reason to hang on to your gold.

We suggested some consumer stocks that might be beneficiaries in the last issue and we’ve updated on them on the following page. But if you’re in the market for a contrarian punt on lower oil prices, it might be worth looking at the supermarkets. They are engaged in their own price war just now, and their share prices have taken a hammering accordingly. But falling petrol prices mean more money to spend in the shops, and also mean a lower deliveries bill for logistics-intensive companies. Of the three big UK ones, we’d say Sainsbury’s (LSE: SBRY) is probably the grocer in the best condition.

Cheaper oil is good news for Western consumers
Continued from previous page

This all sounds pretty cheerful. We get cheaper energy, some of the world’s least-pleasant regimes lose their bargaining chips and much of their revenue – good news all round. But there are a couple of caveats – potentially quite big ones. Firstly, there’s the issue of political risk. There’s the question of whether or not a lower oil price could destabilise Russia, or encourage it to escalate its aggression in an effort to distract from problems with the economy. Meanwhile, the Arab Spring protests that started in late 2010 were avoided in certain countries partly by bribing the populace with oil revenues. Falling revenues could make popular unrest harder to avoid.

Secondly, there’s an outside chance that the sliding oil price could trigger the next major financial crisis. Why? Energy junk bonds (also known as “high yield”). Before we explain why, it’s worth remembering that in the past, big financial blow-ups have often begun in relatively obscure parts of the market. For example, in 1998, it was Russia’s default that went on to trigger the collapse of the Long-Term Capital Management (LTCM) hedge fund, which had to be bailed out in a hurry by Alan Greenspan’s Federal Reserve. And in 2007 the troubles of subprime mortgage lenders were still being seen as an easily containable problem. So while energy junk bonds might sound obscure, that doesn’t mean they couldn’t end up being a problem.

So why do they matter? Right now, energy junk bonds are one of the biggest sectors in the high-yield market. Oil companies have been cheerfully raising cheap money from investors willing and eager to invest in anything with a half-decent yield. They account for around 16% of the market, from just 4% about ten years ago. That’s a big chunk of the index. Unfortunately, as Deutsche Bank points out, if the oil price goes to $60 a barrel or lower, and stays there, most, if not all, of that debt could end up being “distressed” – ie, priced as if it’s going to default (see page 8). Already prices have fallen sharply – for a very visible example, a bond issued on London’s retail bond market (targeting private investors) by Aberdeen-based oil explorer EnQuest has seen its face value drop by around 30p in the last few months.

Not all of these bonds will end up in default, of course. But the number of companies going bust will be a lot higher than in the recent past. And what happens then? As Joshua Brown of the Reformed Broker blog notes, trader James Farro at Signalinea has a worrying but plausible theory. If rising defaults in this market trigger a general exit from junk bonds – which it might, given that larger numbers of investors have been buying junk bond indices and won’t discriminate when they sell – then it’ll get a lot more expensive for companies to raise money, because yields will spike.

The trouble is, a lot of money has been raised to pay for share buybacks. In fact, by some calculations, share buybacks are largely what has kept the market rising in recent years. So – quite apart from the panic caused by a spike in junk bond defaults – if buybacks are brought to a shrieking halt as a result of borrowing costs rising, we could see the stockmarket fall too.

Of course, if this all pans out, the chances are that the Federal Reserve will start printing money again to offset any domino effect – it’s become a trusted part of the central banking toolkit. But not before the market has taken a serious hit. And bear in mind that this market is a tougher one for the Fed to act on. It’s one thing to prop up banks and governments by printing money to buy government bonds – it’s quite another to prop up politically important oil producers by printing money to buy crude (yes, it seems far-fetched, but so did the idea of printing money a few years ago).

The scenario may or may not pan out. However, we’d be very wary of holding high-yield debt right now. After all, regardless of what happens, there are tough times ahead for one of the biggest sectors in that market, and it’s arguably overpriced in any case. And we’d certainly make sure to keep holding exposure to physical gold in your portfolio, just in case another financial crisis does erupt.

Oil tips update

Back in mid-October we tipped several ways to profit from the falling oil price. Since then, the short crude oil ETF, ETFS Daily Short WTI Crude Oil (LSE: SOIL), has returned around 20% in sterling terms. We suspect oil could yet go a fair bit lower, so it’s worth holding on to if you’ve held it so far. Just remember that this is a short-term trade, so keep an eye on its performance. The Aberdeen New India Investment Trust (LSE: NII) is up about 18%, and we’d hold on to that. We’d certainly make sure to keep watching exposure to physical gold in your portfolio, just in case another financial crisis does erupt.
Time just makes it tastier.

Scottish Mortgage Investment Trust believes in investment not speculation. We painstakingly identify those companies that we believe will deliver long-term growth and then we stick with them through thick and thin, providing our investment case remains valid. In fact we like to think of ourselves as ‘owners not renters’, which is why we don’t get side-tracked by short-term, share price movements.

We give ourselves time to add value by being patient investors in an impatient world. But don’t just take our word for it, over the last five years Scottish Mortgage has delivered a total return of 155.3%* compared to 63.2%† for the index. And Scottish Mortgage is low-cost with an ongoing charges figure of just 0.50%†.

Standardised past performance to 30 September each year*:

<table>
<thead>
<tr>
<th>Year</th>
<th>Scottish Mortgage</th>
<th>FTSE All-World Index</th>
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<tr>
<td>2009-2010</td>
<td>30.2%</td>
<td>10.6%</td>
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<tr>
<td>2010-2011</td>
<td>-1.0%</td>
<td>-4.8%</td>
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<td>14.2%</td>
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<tr>
<td>2013-2014</td>
<td>27.6%</td>
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Past performance is not a guide to future returns.

Scottish Mortgage Investment Trust is managed by Baillie Gifford and is available through our Share Plan and ISA.

Please remember that changing stock market conditions and currency exchange rates will affect the value of your investment in the fund and any income from it. You may not get back the amount invested.

For a free-thinking investment approach call 0800 917 2112 or visit www.scottishmortgageit.com

Baillie Gifford – long-term investment partners

*Source: Morningstar, share price, total return as at 30.09.14. †Ongoing charges as at 31.03.14. Your call may be recorded for training or monitoring purposes. Baillie Gifford Savings Management Limited (BGSM) is the manager of the Baillie Gifford Investment Trust Share Plan and the Investment Trust ISA. BGSM is an affiliate of Baillie Gifford & Co Limited, which is the manager and secretary of Scottish Mortgage Investment Trust PLC. Your personal data is held and used by BGSM in accordance with data protection legislation. We may use your information to send you information about Baillie Gifford products, funds or special offers and to contact you for business research purposes. We will only disclose your information to other companies within the Baillie Gifford group and to agents appointed by us for these purposes. You can withdraw your consent to receiving further marketing communications from us and to being contacted for business research purposes at any time. You also have the right to review and amend your data at any time.

MWK/SM/1214
From the late 19th century onwards, Temperance movements grew in popularity in the United States. They were primarily driven by a belief that easy availability of alcohol was responsible for poverty and crime (especially domestic violence). Their dreams became reality in January 1919 when the 18th Amendment was formally ratified. This banned the sale, production and importation of “intoxicating liquor”, defined as alcohol stronger than 0.5%. It would go into effect a year later.

From the start, enforcement proved futile. Organised crime and smugglers stepped in to supply a black market. The corruption that it spawned enabled many underworld figures, such as Al Capone in Chicago, to build vast fortunes. Policing was also hindered by loopholes, such as the fact that people were still allowed to make their own wine and hard cider at home. Whisky was also sold in limited quantities for “medicinal” purposes.

By the late 1920s it was clear that the policy was a disaster. Not only did crime increase, with the homicide rate sharply up, but enforcement also proved to be expensive. While some historians have pointed out that rates of liver damage declined, recent studies have suggested that this was due to other factors, such as previous anti-alcohol policies and income.

By the 1932 election, both parties were committed to ending the experiment. In March 1933, legislation raised the minimum alcohol content to legalise low-alcohol beer. The 21st Amendment later that year repealed prohibition completely.

The hottest toys this Christmas

Parents across Britain are once more scrambling to fulfil their children’s wish lists. Below are the top three best-selling toys at London toyshop Hamleys this season:

**Snow Glow Elsa**
£34.99
You’ll be hard pressed to find a Snow Glow Elsa in any shop. Demand has been so high that the doll, inspired by Disney’s hit film Frozen, has sold out everywhere. Five more factories in China have been pressed into service to meet demand, The Guardian reports.

**Lego Minecraft**
£89.99
Lego has caught Minecraft fever and brought out a set in the theme of the popular pixelated video game. Children can construct their own low-res worlds, where the iconic Lego figures have swapped their yellow heads for cubed Minecraft ones.

**Peppa Pig**
£6
With over 12,000 products to choose from, Peppa Pig is a marketing phenomenon. Sales of merchandise are set to top £640m this year. A beanie-toy of the cartoon pig dressed as a princess is a must-have for pre-schoolers this Christmas.

**Black Friday turns ugly**
Police struggled to keep the peace last Friday as scuffles broke out among bargain hunters fighting to get their hands on discounted electrical goods. Black Friday – the first Friday after Thanksgiving, when retailers sell goods at knockdown prices – was originally an American event. Now it is a major event in Britain too. Online retail giant Amazon recorded its busiest day, with five and a half million items passing through its checkout, up from four million last year. Many of the fought-over items have since turned up on auction website eBay, notes The Daily Telegraph, with hundreds of sellers struggling to shift their purchases.

**Good week for:**
Jeremy Paxman: The broadcaster and journalist has signed a three-book deal worth almost £1m, in which he will look back at his 42-year career at the BBC.

**Bad week for:**
Francesco Plateroti: The art collector is appealing for witnesses after leaving a Chinese scroll on a French train. The 13th-century The Banquet of Immortals on the Terrace of Jade is valued at £800,000.

**Soldiers:** The Ministry of Defence has blown £6m on electric earplugs that have been branded useless by soldiers, says The Sun. The devices were designed to lessen battlefield noise. Quinn, who studies engineering at Liverpool University, is a budding inventor and says he plans to sell the electronics to raise cash to start his own business. He will donate the proceeds from other items to charity.

**Windfall of the week**
A computer glitch at Amazon led to a student receiving 46 unwanted deliveries by mistake at his home in Kent. By way of compensation for the inconvenience, the online retailer said Robert Quinn, 22, could keep everything, says The Sun. The items were valued at over £3,600, and included a £889 Samsung 3D TV and a £338 Samsung Galaxy tablet.

On this day... 5 December 1933: prohibition ends in America

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Francesco Plateroti: The art collector is appealing for witnesses after leaving a Chinese scroll on a French train. The 13th-century The Banquet of Immortals on the Terrace of Jade is valued at £800,000.

**Soldiers:** The Ministry of Defence has blown £6m on electric earplugs that have been branded useless by soldiers, says The Sun. The devices were designed to lessen battlefield noise. Quinn, who studies engineering at Liverpool University, is a budding inventor and says he plans to sell the electronics to raise cash to start his own business. He will donate the proceeds from other items to charity.

**Windfall of the week**
A computer glitch at Amazon led to a student receiving 46 unwanted deliveries by mistake at his home in Kent. By way of compensation for the inconvenience, the online retailer said Robert Quinn, 22, could keep everything, says The Sun. The items were valued at over £3,600, and included a £889 Samsung 3D TV and a £338 Samsung Galaxy tablet.

**On this day... 5 December 1933: prohibition ends in America**

From the late 19th century onwards, Temperance movements grew in popularity in the United States. They were primarily driven by a belief that easy availability of alcohol was responsible for poverty and crime (especially domestic violence). Their dreams became reality in January 1919 when the 18th Amendment was formally ratified. This banned the sale, production and importation of “intoxicating liquor”, defined as alcohol stronger than 0.5%. It would go into effect a year later.

From the start, enforcement proved futile. Organised crime and smugglers stepped in to supply a black market. The corruption that it spawned enabled many underworld figures, such as Al Capone in Chicago, to build vast fortunes. Policing was also hindered by loopholes, such as the fact that people were still allowed to make their own wine and hard cider at home. Whisky was also sold in limited quantities for “medicinal” purposes.

By the late 1920s it was clear that the policy was a disaster. Not only did crime increase, with the homicide rate sharply up, but enforcement also proved to be expensive. While some historians have pointed out that rates of liver damage declined, recent studies have suggested that this was due to other factors, such as previous anti-alcohol policies and income.

By the 1932 election, both parties were committed to ending the experiment. In March 1933, legislation raised the minimum alcohol content to legalise low-alcohol beer. The 21st Amendment later that year repealed prohibition completely.
How to get your kids into public school

by Merryn Somerset Webb

Want to send your children to private school, but assume you can’t afford it? It’s a reasonable assumption. Look at the advertised fees and you will see that a reasonable day school costs close to £10,000 per child. Go boarding and it’ll be £30,000. Before extras. After tax. The result? Last week, Andrew Halls, head of Kings College School in Wimbledon (annual fees: £20,000), laid it out: “somewhere along the line, first the nurses stopped sending children to us; then the policemen, then the armed force, then even the local accountants and lawyers”.

He might be overegging the pudding here—the armed forces still benefit from amazingly good public subsidies when they send their children to boarding school; a good London lawyer shouldn’t have that much trouble coming up with £20,000 a year for five years; and I’m not convinced that nursing salaries were ever the core of private school revenues. But he still makes a useful point: schools have put their fees up at going on triple the rate of inflation for the last few decades and they now “charge too much”. (See page 20 for more on all this.)

Still, you might well be wrong in thinking you can’t afford private school: in fact, the poorer you are, the better your chances. That’s because today’s private schools need a rising number of applications from parents who can’t afford to pay for their services: giving out bursaries is a key part of the deal that allows them to keep their charitable status.

The Sunday Times offers a few examples: about 20% of the girls at schools run by the Girls’ Day School Trust (gdst.net) have bursaries; the City of London School for Girls also offers around 20% of students bursaries; and at Christ’s Hospital School in West Sussex, just 16% pay the full boarding fees – the rest get some kind of means-tested help. In all, more than 25% of private school children get help – and of those, says the Independent Schools Council, 40% get half their fees paid.

Want your child to be one? You can go to the Good Schools Guide Advice Service (gsgeexpertschoolsconsultants.co.uk) and find out which schools to approach (for a fee of about £120). But why not just call the school you like and ask? Nothing ventured, nothing gained. Otherwise, look to charitable organisations, says Charlotte Beugge in the The Sunday Times. The Ogden Trust offers 50% off fees for sixth-form students doing physics A-level and planning to do it at university too, while the Fashion and Textile Children’s Trust subsidises children whose parents work in fashion or textiles. Other possibilities are at www.hsmagazine.co.uk/fundraising/ grants/ and on scholarships and bursaries, see www.goodschoolsguide.co.uk.

The most popular brand videos of 2014

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<th>Rank</th>
<th>Brand</th>
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<tr>
<td>1</td>
<td>Activia</td>
<td>Colombian singer Shakira (pictured) belting out the theme song from this year’s World Cup.</td>
<td>5,851,633</td>
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<td>2</td>
<td>Samsung</td>
<td>Football stars Lionel Messi, Wayne Rooney and Cristiano Ronaldo saving the world from aliens.</td>
<td>4,301,989</td>
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<td>3</td>
<td>Nike</td>
<td>Animated football stars embark on an adventure to save football.</td>
<td>3,844,268</td>
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<td>4</td>
<td>Coca-Cola</td>
<td>A video homage to America... and Coke, obviously.</td>
<td>3,357,945</td>
</tr>
<tr>
<td>5</td>
<td>NBA</td>
<td>Celebrating all the action from America’s National Basketball Association.</td>
<td>3,110,160</td>
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the best blogs

Five simple things investors should do
awealthofcommonsense.com
If you read the financial press, it’s all too easy to get bogged down in issues that are only marginally important, says Ben Carlson. The average investor would be far better off focusing on the big picture and on these five simple rules.

1. Don’t just think about whether something is a good buy. Think about how it will affect your overall portfolio. How will it affect your exposure to risk, or to liquidity (how easily you can sell up if you have to)? And how will it impact on your portfolio’s diversity (the number of eggs you have in any one basket)?

2. Picking the right mix of assets is key to everything – from volatility and risk to profits. Get this right and it gives you a pretty good margin of safety in all the other areas. Stockpicking may be sexier; asset allocation is more important.

3. Figure out how you’ve done. This might seem obvious, but most investors don’t do it. It’s a good way to keep your ego in check and to make sure your hard work has been worth it. Do it annually.

4. When you buy, think about how long you intend to hold for and why. This will help take the emotion out of future decisions and help you manage risk.

5. Save more every year. Tweaking your portfolio might make you feel like you’re doing something, but the effect will usually be marginal at best. The easiest way to grow your wealth will always be to save more money.

Can money buy you happiness?
one.wsj.com
A healthy amount of savings can obviously enrich our lives, says Jonathan Clements. Yet many people who have plenty of money don’t seem especially happy. Why? It could be for all kinds of reasons – but one possibility is that they’re just not spending the money wisely.

Say you inherit some money, or you get a big raise. What would you do? Like many people, you might decide to buy a bigger house. But would that make you happy? Maybe not. The larger house may be located a little further out of town – and suddenly you’re looking at a longer commute. Commuting can be terrible for happiness. The big house will also involve more upkeep. Unless you’re a big fan of DIY and gardening, that will make you miserable. Or perhaps you think you’ll buy a boat. Most boat owners quickly end up regretting the decision – dreams of summer evenings on the water quickly give way to worries about high maintenance bills. Also, amassing money can in itself lead to misery. Once we have it, we might spend more time investing. But instead of a sense of security, we start to feel our finances are out of control. The answer, though, is relatively simple. Rather than worry too much about money, increase the time you spend with friends and family, and the time you devote to activities you’re passionate about. Possessions, in the end, are a burden that distracts from life’s pleasures.

Advice for the young: get into banking
stumblingandmumbling.typepad.com
The middle class is being squeezed, and many are falling into the proletariat, just as Marx predicted, says Chris Dillow. So what’s a young person to do? My advice is to get into banking. If you can’t be sure of getting a job in which you’ll be happy, you should at least go for the money. If you hold out for a job that aligns with your interests, you might grow old without getting one. And the older you get, the fewer options you have, especially if you’re poor. If you take a banking job now, at least you’ll be earning lots of money that will give you options later: retiring early, say, or downsizing to do something you like but doesn’t pay very well. Leaving Goldman Sachs to work for charity is feasible. Moving in the opposite direction is far harder.

You might say my advice will make the young miserable, and society poorly served. But even if my advice were ignored, socioeconomic trends are leading in this direction.

Financial jargon demystified

www.fool.com/investing
A guide for the perplexed, by Morgan Housel.

Bull markets: Businesses strive to do a bit better. Rising stock prices over time reflect their progress.

Bear markets: They overdo it sometimes. Let things rest and wait for the game to begin again.

Economists: A mechanic who says your air conditioner is fixed as long as you assume there’s cold air coming out of it.

Initial public offerings (IPOs): There’s a new film out. It looks great. But why go on opening night when the queues are long?

Wait a few weeks and you can still see it – and pick a better seat.

Long-term investing: The difference between grape juice and vintage wine.

Bubbles: The masses lose their minds every ten years. Afterwards, you fool yourself that you’ll never lose yours.

Hedge funds: Some really can consistently beat the market. How to tell? They’re the ones that won’t take your money.

©Corbis
2,000 children die every week from cancer in developing countries. This is Yamin. Just £1 a week could save her life.

Your donation can provide lifesaving chemotherapy treatment for a child with cancer. No child should suffer. To donate now visit www.worldchildcancer.org/donate
profile

This week: Harriet Green

The rebel in bower boots who became a cost-slashing superboss

It’s a case of “The Lady Vanishes”, says the Financial Times. Thomas Cook supremo, Harriet Green, had been set to deliver the travel group’s full-year results last week. Come Wednesday, she was nowhere in sight. Such was the shock value, just two years into a turnaround of a company she is credited from saving from “near death”, that the shares plunged by 20% (see page 13). The City was alive with gossip about the cause of her departure. It was presented by Thomas Cook as a mutual decision, but by the weekend it seemed all but certain she had been pushed (see box).

There was nothing to indicate that “St Harriets”, 52, had any intention of folding up her sunbed just yet, says The Times. Declaring last month that she still had “a ton to do”, she seemed to be basking in near-universal acclaim. In May, she was named Veuve Clicquot businesswoman of the year; more recently, a glossy profile entitled “Harriet Green: how to be a superboss” had extolled her achievements as the most alpha of alpha females.

The details were riveting, says the Daily Mail. Conducted in the gym of Brown’s, the Mayfair hotel where Green – who lives in Oxford – stays during the week, she oozed glamour, power and drive: combining a “little black number” and diamonds, with “red sweat bands on each wrist”. She spoke candidly about her husband (with typical decisiveness, she chose him “in seven seconds”); and of a punishing daily regime that starts at around 3am, sees her work-out at 5.30am, receive her hairdresser at 6.50am before heading to the office. Like Mrs Thatcher, she believes sleep is “overrated”.

Where did all that energy come from? asks The Observer. Cheltenham-born Green dates it to the loss of her father, who died from a brain tumour when she was 14. “That was a formative moment,” she says. “But the message I took from it was ‘sh*t happens, so you have to pack a lot in and make the most of every day.’” After a history degree at King’s College, London (she describes herself then as “rebellious in bovver boots and safety pins”), she took a graduate trainee job in a distribution business, which led to a globe-trotting management career. Green’s breakthrough came in 2006 when she joined electronics business Premier Farnell, with a mandate to overhaul it. “That increased her visibility in the City” and eventually led her to Thomas Cook. Famously, she emailed chairman Frank Meysman to tell him that if he wanted to solve his problems, “he should hire Harriet Green”.

What followed astonished even Meysman. Green drove a “savage cost-cutting plan” whose credibility and speed of execution boosted confidence in the firm. Shares rose more than tenfold. Her exit may seem ungratefully abrupt, but with a record like that, it won’t take her long to find a new job, says the Evening Standard. “Every faltering FTSE chief executive will be worried for their place at their mahogany desk now that Green is on the loose.”

Why was the turnaround queen shown the door?

Harriet Green has done a “terrific job” at Thomas Cook, says Alistair Osborne in The Times, “even if the 2,500 people who lost theirs might not see it that way”. She took a company “cook’d by former boss Manny Fontenla- Novoa”, refinanced it, cut costs and took the shares from 14p to a high of 190p. In a recent appraisal, her leadership was apparently endorsed by 93% of staff respondents. So why did she get the heave-ho?

It looks like “tensions at the top”, says the FT’s Roger Blitz: specifically her relationship with the chairman she had so impressed, Frank Meysman. Both forceful personalities, their relationship deteriorated as Green’s profile rose. Her glitzy lifestyle interview may have been the last straw. “It really p**sed off the blokes in the boardroom,” one City figure told the Evening Standard. It’s the usual double standards, says Janice Turner in The Times. Plenty of businessmen have “gargantuan egos” and a love of bling. “But in Britain we still can’t cope with tricky, powerful broads.” They need to be “steel-plated” to get to the top, but they must appear “collaborative, nurturing and nice”. Harriet Green, refreshingly, was unafraid to be herself. Green describes herself as a “lions”, says Simon Goodley in The Observer: part cuddly panda, part ferocious lion. It’s not hard to find Thomas Cook staff who felt they mainly dealt with the latter. Stories of public dressing-downs are legion (including one delivered, allegedly, while she was having a manicure). Her brother Jimmy, hired as a driver, is described as a particular butt. Ultimately, though, the “most plausible” reason for her departure was that, as a turnaround specialist, “she had run out tricks”. Restructuring the business is one thing, selling holidays another – and there was evidence of weakness in last week’s results. “Green was bound to leave,” agrees Chris Blackhurst in The Independent. She told the world she was a turnaround queen, “so why keep her any longer than necessary”? As soon as they could, they showed her the door.

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Spending it

Where to stay

Two exclusive island villas in the Seychelles

North Island

What’s so special? Thanks to its exclusivity and great service, North, as it is known locally, has attracted visits from royalty (the Duke and Duchess of Cambridge have holidayed there), among other members of the rich and famous. “Designed to make the most of the stunning natural environment, North offers the ultimate in romance, superb beaches, watersports and immaculate service,” says Tim Ecott in The Daily Telegraph.

How they rate it The colonial-chic style of the bedrooms can “occasionally seem fussy in this utterly natural setting”, says Ecott, “but the linens are the highest quality and the villas are huge”. If you are on your honeymoon, ask for Villa 11, “designed specifically for romance”. All villas have their own plunge pools and face directly onto the beach.

The menu You can have your meals in the communal piazza, your villa, or even on the beach. Dishes are based on whatever fresh ingredients are available to the chef.

The cost Standard villas cost from £2,000 a night; Villa 11 from £3,215 a night (per person, full board and some activities included). See www.north-island.com; 00 248 4 293 100.

Enchanted Island

What’s so special? One of the latest openings in the Seychelles, Enchanted Island is a private island resort that is just five acres in size (roughly the size of two Trafalgar Squares). The island is a former leper colony that has been carefully converted into a luxury resort. The owners “took great pains to ensure no coral was harmed in the building... not a tree was uprooted; not a boulder rolled from its natural resting place”.

How they rate it Each of the ten villas has its “own infinity pool jutting out above the shore, and huge waterside terraces, with walkways leading down to the beach”, says Laura Fowler in Condé Nast Traveller. It’s all very private – indeed, the large bathtubs sit out in the open, “on a deck of their own... overlooking the sea”. There’s no need to worry about being spotted, “except by passing yachts”. There is a spa and “low-impact watersports, such as snorkelling and kayaking”.

The menu The Bounty Restaurant serves up contemporary international dishes – you can choose to eat in the restaurant, in your own villa, or on the beach.

The cost Prices start from £475 per night on a bed-and-breakfast basis, or £580 for full board. You can find out more by visiting www.jaresortshotels.com, or by calling 0800-0159 708.

Wine of the week: the world’s best Bordeaux blend

2010 Te Mata, Coleraine Merlot Cabernet Sauvignon, Hawke’s Bay, New Zealand (£49.95, Berry Bros & Rudd, 0800-280 2440; £48.97, vintagemarque.com).

I tasted the Te Mata range the other day with owner and force of nature Nick Buck. This is a very important estate in New Zealand. It champions the great red wine terroir of Hawke’s Bay. It has been making statesman-like wines for aeons, but have recently added detail, style and breeding to their rich and forceful offerings, making them more than MoneyWeek-worthy. This wine is the beating heart of Hawke’s Bay in vinous form. Glossy, ebullient, mouth-coating and lusty, it has incredible allure, and an added degree of finesse and complexity that really makes the palate concentrate. It’s not just one of New Zealand’s greatest Bordeaux blends (I happen to think it is the best), but one of the world’s elite versions.

Interestingly, in 2011, a much more difficult vintage, Coleraine isn’t sinewy and lean as you might expect, but aromatic and pretty – this shows that Te Mata is, admirably, working closely with the rhythms of the seasons and not trying to buck the trend. Watch out for Coleraine’s fascinating siblings, too, both from Berry Bros & Rudd – 2010 Bullnose Syrah (£33.00) and 2012 Elston Chardonnay (£28.95).

● Matthew Jukes is a winner of the International Wine & Spirit Competition’s Communicator of the Year (www.matthewjukes.com).
property on the market

This week: luxury properties – from a 16th-century hunting lodge in the French Riviera to a Mediterranean-...

El Fureidis, Montecito, California, US. A house built in 1906 in a Mediterranean style. It has a room modelled on the church of St John Lateran in Rome and a rooftop terrace overlooking the Pacific Ocean. 4 beds, 4 baths, 9,816 sq feet of living space, 10 acres. £22.35m Village Properties Realtors +1 805 252 2773.

Whiestaunton Manor, Whiestaunton, Somerset. A restored, Grade I-listed, 15th-century manor in an Area of Outstanding Natural Beauty. It has a great hall and stone fireplaces. 7 beds, 5 baths, 3 receps, 3-bed lodge, stables, orchard, walled swimming pool, lake, 83 acres. £7.25m Savills 01392-455745.

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Park Lodge, Knightsbridge, London. An unusual freehold property in Knightsbridge. A conventional exterior hides a luxurious contemporary house with indoor pool. The study has an “electronic privacy glass” wall so you can admire your car from your desk (see picture). 4 beds, 5 baths, dressing room, recep, media room, bar, steam room and spa, wine cellar, garage. £16.5m Strutt & Parker 020-7235 9959.
property on the market

an-style villa set in ten acres of land in California

Eaglehurst, Hampshire. A Grade II-listed house on the edge of the New Forest overlooking the Solent. The house has an open-plan reception room with a double-sided fireplace with two wood-burning stoves. Luttrell’s Tower, a Georgian folly owned by the Landmark Trust, is situated in the grounds. 11 beds, 7 baths, 5 receps, cellar, 1-bed annexe, 1-bed flat, 2-bed cottage, tennis court, private access to beach, 9.9 acres. £6.5m Strutt & Parker 01962-869999.

Hunting Lodge, La Colle sur Loup, Provence-Alpes-Côte d’Azur, France. This renovated 16th-century hunting lodge has stone floors, grand fireplaces and vaulted rooms. 6 beds, 5 baths, 3 receps, bar, semi-professional kitchen, 1-bed flat, separate 2-bed building, 1-bed cottage, swimming pool, lake, open-air theatre. £9.5m John Taylor +33 (0)4 93 32 83 40.

Fife Road, London SW14. A modern house with floor-to-ceiling windows and gardens backing directly onto Richmond Park. The interior has a circular stairwell with glass bricks. 4 beds, 4 baths, 3 receps, study, breakfast kitchen, cellar, garaging, gardens, 0.5 acres. £5.5m Savills 020-8018 7777.

Westbourne Terrace, London W2. This refurbished, Grade II-listed, 1840s house has wood block and stone floors, period fireplaces and a roof terrace. 7 beds, 6 baths, 3 receps, library, cinema room, breakfast kitchen, vaults, balconies, patio, parking. £10.95m Carter Jonas 020-7402 1552.

Brereton Hall, Brereton, Cheshire. An Elizabethan, Grade I-listed brick mansion with grand fireplaces, ornate carved stonework, wood-panelled rooms and extensive formal gardens and grounds. 12 beds, 10 baths, 4 receps, study, conservatory, separate suite of offices, pasture, 113 acres. £6.5m Jackson-Stops & Staff 01625-540340.
Christmas shopping

A selection of present ideas

Johnny Marr is the influential guitarist behind Manchester’s The Smiths, which ruled pop throughout the 1980s. The Fender Johnny Marr Jaguar guitar has a wealth of highly specialised features designed by Marr. Guitar World magazine rates it the best Jaguar model the company has ever produced. Price £1,623, find a dealer at www.fender.com.


This smartphone projector allows you to share your pictures and videos with friends by projecting them onto a wall. Compatible with any smartphone. Price £15.99, from www.presentsformen.co.uk, 0333-240 0707.

The Datejust Pearlmaster 34 watch is the latest version of Rolex’s ladies watch. It is set in 18ct “Everose” gold and has an 18ct white gold dial, set with 32 diamonds. Price £51,100. Find a retailer at www.rolex.com.

The Amazon Kindle Voyage is the “Rolls-Royce of readers”, says Stuff magazine. Price £229, available from Amazon.

A “My Dior” gold bracelet in 18ct gold and diamonds. Price £14,500, available from the dior.com online store, or call 020-7172 0172.

A selection of present ideas


This smartphone projector allows you to share your pictures and videos with friends by projecting them onto a wall. Compatible with any smartphone. Price £15.99, from www.presentsformen.co.uk, 0333-240 0707.

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A “My Dior” gold bracelet in 18ct gold and diamonds. Price £14,500, available from the dior.com online store, or call 020-7172 0172.

An all-black sports watch from Tag Heuer, the Carrera Calibre 36 Racing Chronograph Flyback is made from super-light titanium and scratch-resistant sapphire glass. Price £6,650 from www.thewatchgallery.com, 020-7952 2730.

Remote control drones are not only useful to the military – the nano versions are good for snooping on neighbours and harassing pets, says The Observer. The Parrot AR Drone 2.0 flies at a maximum 25mph and can be controlled via Wi-Fi from a smartphone. Video or photos can be streamed back. Power Edition model costs £319.95 from store.apple.com/uk, free delivery.

The GPO Attaché record player has a stylish, retro design, and has built-in stereo speakers, so you can play your vinyl wherever you are. Price £89.99, available from www.gporetro.com, 0845-521 8000.

The Master & Dynamic MH40 are the best headphones you can buy, says Jonathan Margolis in the FT’s How To Spend It. The sound is “bright, fresh and delicate… Impressive.” Price £319 from www.masterdynamic.com.

Indulge your guests with luxury Christmas crackers from Clarins. The gifts include a selection of Clarins beauty products. Price £39 for six, available from selfridges.com, 0800-123400.
Christmas shopping

Toys for children

Who you gonna call when the Ghost of Christmas Past turns up? The Lego Ghostbusters Ecto-1 vehicle comes complete with detection equipment, removeable roof, detailed interior and four minifigures. Price £49.99 from shop.lego.com, 00 800 5346 1111.

Get an introduction to the night skies with the Stargazer’s Stellarscope. Set the dials to the correct hour and date and a computer-generated disc within will show you which stars and constellations should be visible. Price £29.95, from www.handpickedcollection.com, or call 020-7741 0315.

The Elf Sleepsuit for 0 to 2 year olds, with integrated scratch mitts. Price £10-£11, from Next (www.next.co.uk, 0333-777 8000).

This Discovery Spaceship & Lift-off Rocket is perfect for an imaginative space adventure. Suitable for children aged 3 and above. Price £100, available from scinemuseumshop.co.uk, 01375-484567. Last orders for Christmas: 22 December for UK next working day delivery.

Xeno is a cheeky monster that interacts and plays with you. He will tell you if he’s hungry, ask to play a game, dances, and may burp and parp. Suitable for ages 5 and above. Price £64 from Asda (asda.com, 0800-952 3003).

The Sunset skateboard company was set up by enthusiasts to bring a “whole new level of cool” to your board. Available in various styles, with battery-free “Flare” LED wheels, from £79.99. From stockists around the UK; or www.sunsetskateboards.co.uk, 01273-587877.
You’re wrong about London, Dr Johnson

Samuel Johnson said that a man who is tired of London is tired of life. Well it may have been all right for him 250 years ago, said Bryony Gordon in The Daily Telegraph last week, but he “never had to spend 40 minutes wedged in a stranger’s armpit on the ‘tube’ – a daily occurrence for those of us who live in “that vast, vomitous mass” that is sneeringly referred to by the wealthy these days as “Sarf London”. “He never had his toes broken by a wheely suitcase, and was never sworn at by a cyclist who careered into him after running a red light.”

If Dr Johnson came to our capital now, says Gordon, he would be exhausted by it. “Can I let you in on a little secret? Nobody likes London, especially not the people who live in it.” Vince Cable may have described it as a “giant suction machine draining the life” out of the rest of the UK, but maybe that’s changing. Maybe we’ve hit a tipping point. The minority of Londoners who can afford not to use public transport may still like London, but the rest of us are trying, and often failing, “to make a living in a city that does its best to suck it out of us”.

It’s no surprise people in their 30s are now leaving like never before. (According to the Office for National Statistics, a record 58,220 people left between June 2012 and June 2013.) Many of those are moving to the country, others to smaller cities with greater charm, like Nottingham or Manchester. Many of my 22-year-old brother’s contemporaries from his London school, says Gordon, have decided to seek their fortunes elsewhere – “they see no future in the capital”. To them it is a city that has been “monopolised” by bankers, oligarchs and celebrities. Soon it will be “nothing but a playground for the wealthy that doubles up as a tourist attraction”. This makes Gordon feel nostalgic, but also “hardens my resolve to up-sticks as soon as we can and shove our one-and-a-bit bedroom flat on the market”.

What the heck is Black Friday?

There comes a moment in every man’s life when “he must admit that he no longer fully understands what is going on”, says Robert Crampton in The Times. One thing that triggered this moment for Crampton was Black Friday. “What the heck is Black Friday, I thought. I’ve never heard of it before… Oh OK, it’s about spending money on stuff you don’t need.” Then, hard on the heels of Black Friday, came Cyber Monday. “What the heck is Cyber Monday, I thought. I’ve never heard of it before… Oh OK, it’s about spending money on more stuff you don’t need. Eee dear, whatever next?”

Tabloid money: pouting sex bomb moppet should stop whining

- “Pouting sex bomb moppet Angelina Jolie (pictured) has been thinking of moving her family to the UK,” says Rod Liddle in The Sun. But she says she’d be put off by Labour’s plans for a mansion tax. This is their policy of taxing houses worth more than £2m “to pay for stuff like the NHS”. Angelina says she wants to come here “because it would be nice to have a foothold” in this country. Ah, wouldn’t it just, my minxy little love kitten. Do you know, an awful lot of people feel likewise. They’d quite like a “foothold” here, too – but can’t afford the astronomical cost of our housing.” The mansion tax might address that problem. “I wonder if it’s occurred to Angelina that she could sidestep the mansion tax and still have her bloody ‘foothold’ – by the cunning ruse of buying a house for less than two million pounds. Is she aware that some houses cost less than two million, do you reckon?”

- “I don’t mind if the NHS wants to spend £12bn on gastric operations to extend the lives of two million fat people,” says Carole Malone in the Sunday Mirror. “Not as long as it spends similar amounts on cancer patients who also want to live a bit longer but who are currently told their lives aren’t as important as a load of fatsos who’d rather die than cut down on crisps and pizzas.”

- For her latest birthday, Lacie Pope’s parents bought her outfits from Armani and Dior, a Swarovski crown and a child-sized, crystal-encrusted electric Audi car, says Jane Moore in The Sun. In all, they spent £2,000. But now Lacie has decided to donate it all to cancer charities. “I guess she realised it’s just too much for any child,” said her mum. Thank heavens common sense has prevailed. “But how telling that it came from a six-year-old rather than the supposedly sensible adults.”
Sudoku 720

Solutions to 718 Across 1 Divorce 5 File 8 Entry 9 Put back 10 April Fool’s day 11 Seater 13 Storey 17 Communicators 20 Long leg 21 Cream 22 Malt 23 Earmark. Down 1 Deejays 2 Voter 3 Royal we 4 Employ 5 Fatal 6 Leander 7 Okay 12 Armenia 14 Tramca 15 Yashmak 16 Single 17 Club 18 Until 19 Opera. SINGLE... FILE, SEATER, STOREY, CREAM and MALT.

The winner of MoneyWeek Quick Crossword No. 718 is: C. Allodi of High Barnet.

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Why you should continue to hold gold

The Swiss referendum on gold (see page 9) was seen by some as the last stand of the gold bugs, writes John Stepek. Fans of gold are often seen as irrational. That’s because they often become very emotionally attached to gold, a mistake with any investment. Of course, gold arouses equally strong reactions in some of those who don’t own it. They see its value as rooted in a psychological flaw in the rest of humanity. In short, “gold is worth something because all of these other idiots think it’s worth something”.

I don’t have a lot of time for either extreme. There are sensible, rational reasons to own gold as part of your portfolio. Gold is an asset class all to itself. It behaves differently to stocks, bonds, property, cash and other commodities. That’s because gold is about the only asset in the world that has value independent of a counterparty. Companies and governments go bust. Property is easy to confiscate. As for cash, history is full of examples of currencies that have gone down the pan. A lump of gold has no counterparty. It’s a lump of metal that most people throughout human history recognise as having value.

So when concerns about creditworthiness in the system hit breaking point – which happens more often than theory would predict – gold comes into its own. That’s what makes it a key part of a diversified portfolio. And there’s a good reason why it’s gold that fulfils this function. It’s not just because humans like shiny things. Remember your periodic table from chemistry? Very few of those elements work as a long-term store of value. Gold works because it’ll stay put (it’s not a gas or a liquid under normal conditions). It’s not going to give you radiation poisoning. And it’s very unreactive – so it won’t rust or rot.

In short, if you need a reliable store of value, then gold works better than just about any other raw material.

So I think it’s sensible for anyone to hold a small portion of their portfolio in gold – between 5% and 10%, say. That’s pretty much regardless of what else is going on.

Don’t go mad, but make it 5% to 10% of your pile

Why Britain needs direct democracy

The Right Side

The gold referendum shows that Swiss democracy is probably the best democracy in the world, says Bengt Saelensminde. This past Sunday voters in Switzerland were given the chance to get Swiss central banking back on track. They might have voted against it, but it’s a warning shot to the establishment of central banks, commercial banks, and politicians that now dominates markets. The people ultimately have their say – and as leaders trash paper currencies left right and centre, the popular voice finds a way of expressing itself. I guess a move towards direct democracy would be too much to ask for Britain – but if Cameron really wants to cut Ukip down to size, this is going to be a way of expressing itself. I guess a move towards direct democracy would be too much to ask for Britain – but if Cameron really wants to cut Ukip down to size, the offer of a bit more direct democracy would be just the ticket.

For more from Bengt, sign up for his The Right Side email, free at www.the-right-side.co.uk.

Short-sellers raise the alarm

Penny Sleuth

Short-sellers – who profit from falling share prices – can serve an important purpose, says David Thornton. Companies with a viable business model can withstand the spotlight. But if there are serious issues that the market has missed, then the shorts do us all a service. Think of them as setting off an alarm. Without the alarm, the company’s share price might end up too high. This would unjustly allow it to raise more capital and give issue stock to do deals. The market’s job is to allocate capital efficiently – we don’t want this precious resource channelled into weak companies. Unwarranted scare stories might have a temporary impact, but they fade when management sets the market straight. If a company cannot do this, something is awry.

For more from David, sign up to his Penny Sleuth email, free at www.pennysleuth.co.uk.

Expect a surge in precious metals

The Price Report

Investors have lost confidence in gold miners, but the fundamental reasons for owning gold are stronger than ever, says Tim Price. We think the ultimate outcome of this debt-fuelled crisis will be an inflationary mess. Why? Because heavily indebted governments simply cannot allow deflation to become entrenched, so any sustained spread of deflation will be met with ever more aggressive bursts of money printing. At some point, confidence in currencies that are being consistently devalued is likely to break. At that point, and probably well beforehand, the likes of gold and silver (and even the shares of precious metals miners) can be expected to surge. The upside could be dramatic – so we don’t want to be left without gold exposure.

Tim writes The Price Report with Simon Akroyd (see moneyweek.com/TPR for details).

For more from John, sign up for our free daily email Money Morning at moneyweek.com/money-morning.

www.the-right-side.co.uk.

to his Penny Sleuth email, free at

www.pennysleuth.co.uk.
## the share tipsters at a glance

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

### Buy

<table>
<thead>
<tr>
<th>Company</th>
<th>Reason</th>
<th>Price tipped</th>
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<tbody>
<tr>
<td><strong>Aga Rangemaster (AGA)</strong> &lt;br&gt;Household goods</td>
<td>The fall in Aga's share price is a buying opportunity. A mixed performance in Europe led to downgrades, but forecasts now look conservative and positive Christmas trading could lead to a re-rating. Shares</td>
<td>131p &lt;br&gt;191p/120p*</td>
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<td><strong>Ashcourt Rowan (ARP)</strong> &lt;br&gt;Aim</td>
<td>The financial services firm has reinvented itself as an investment manager and financial planner. The benefits are already showing. Losses are down and cash profits more than doubled to £1.3m. <em>Investors Chronicle</em></td>
<td>182p &lt;br&gt;194p/174p</td>
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<td><strong>Dairy Crest (DCG)</strong> &lt;br&gt;Food producers</td>
<td>Selling its dairy business to Müller leaves Dairy Crest leaner and better positioned. It now has a stronger balance sheet, can pay better dividends and its investment in infant formula has promise. <em>Investors Chronicle</em></td>
<td>505p &lt;br&gt;660p/367p</td>
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<td><strong>Electra Priv. Equity (ELTA)</strong> &lt;br&gt;Equity investments</td>
<td>A review at the private-equity outfit, following the intervention of activist investor Edward Bramson, is due to report soon and could mean a maiden dividend payment. Shares trade at a discount to net assets. <em>The Times</em></td>
<td>2,670p &lt;br&gt;2,785p/2,315p</td>
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<td><strong>Enterprise Inns (ETI)</strong> &lt;br&gt;Pubs</td>
<td>The drop in its restructuring programme and could turn part of its estate into a real-estate investment trust. Shares</td>
<td>105p &lt;br&gt;171p/100p</td>
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<td><strong>FirstGroup (FGP)</strong> &lt;br&gt;Travel &amp; leisure</td>
<td>Concerns that FirstGroup will miss out on major rail contracts are priced into the shares. Although the shares have slipped recently, the firm still has great potential elsewhere in the UK and US bus markets. Shares</td>
<td>111p &lt;br&gt;146p/100p</td>
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<td><strong>French Connection (FCCN)</strong> &lt;br&gt;General retailers</td>
<td>Although like-for-like sales fell 6%, shares rose 20% on news that the gross margin at its UK and European retail side improved by 240 basis points. The spring 2015 order book is also healthy. <em>Investors Chronicle</em></td>
<td>67p &lt;br&gt;94p/34p</td>
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<td><strong>Fusionex (FXI)</strong> &lt;br&gt;Aim</td>
<td>The Malaysian tech firm has delivered since it floated in 2012. Its 'big data' analytics product, Giant, is picking up customers and sales growth is strong. A price-to-earnings (p/e) ratio of 29 isn't cheap, but it's worth it. Shares</td>
<td>300p &lt;br&gt;770p/245p</td>
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<td><strong>Greencore (GNC)</strong> &lt;br&gt;Food producers</td>
<td>Greencore provides sandwiches to supermarket chains. While many other suppliers are struggling, it saw like-for-like sales recently jump 15.3%. Its US operation should also deliver growth. Buy on a p/e of 12. <em>The Times</em></td>
<td>272p &lt;br&gt;304p/182p</td>
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<td><strong>Hargreaves Services (HSP)</strong> &lt;br&gt;Aim</td>
<td>The outlook is poor for coal mining, but Hargreaves has grown profits from £2m to £52m since 2005 and 60% of operating profits come from energy trading, which is less exposed to coal prices. Shares</td>
<td>629p &lt;br&gt;907p/523p</td>
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<td><strong>Indep. News &amp; Media (INM)</strong> &lt;br&gt;Media</td>
<td>Buy into the recovery of the Irish newspaper publisher. Digital ad sales are making up for the decline on the newspaper side. The shares look cheap on a p/e of seven. <em>Investors Chronicle</em></td>
<td>14c &lt;br&gt;19c/9c</td>
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<td><strong>Punch Taverns (PUB)</strong> &lt;br&gt;Pubs</td>
<td>Despite concerns over the end of the tenanted pubs beer tie-in, Punch could still perform well. It has completed its restructuring programme and could turn part of its estate into a real-estate investment trust. Shares</td>
<td>124p &lt;br&gt;340p/118p</td>
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<td><strong>RPC (RPC)</strong> &lt;br&gt;General industrials</td>
<td>The plastic packaging specialist has made its biggest acquisition to date by buying Icelandic firm Promens for €386m. The deal will be funded via a rights issue, but will enable it to cut plastics costs. <em>The Daily Telegraph</em></td>
<td>588p &lt;br&gt;673p/488p</td>
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<td><strong>Shire Pharma (SHP)</strong> &lt;br&gt;Biotech &amp; pharma</td>
<td>Shares in the specialist pharma firm fell 30% after AbbVie's takeover bid failed, but Shire is worth backing on its own. It has a decent pipeline and should deliver strong earnings growth to 2018. <em>Investors Chronicle</em></td>
<td>4,515p &lt;br&gt;5,470p/2,620p</td>
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**I wish I knew what volatility was, but I'm too embarrassed to ask**

Good investing is as much about controlling risk as it is about getting the highest returns. One way City investors measure an investment’s level of risk is to calculate its volatility. This measures how much the annual returns from an investment bounce around their long-term average (using a statistical measure called standard deviation). In short, volatility shows how much a roller-coaster ride an investment will give you – the wilder the annual ups and downs, the more volatile or risky an investment is. Shares and gold have historically been very volatile, whereas cash and bonds have been less so. Volatility matters because it can protect you from choosing investments that aren’t suitable for your risk tolerance. For example, those close to retirement tend not to own many shares, as they don’t have a sufficient time horizon to recover from a crash. A younger person does have the time, so tends to hold more shares. Also, when investors get worried that shares might be too expensive, they sometimes shift into less volatile assets. More volatility doesn’t always mean higher returns – in recent years, some investors have made more money from owning less volatile assets, such as bonds, than owning shares.
I wish I knew what the yield on cost was, but I’m too embarrassed to ask

The dividend yield of a share is fairly easy to understand. It is the current dividend per share divided by the current share price. So a company with a current dividend per share of 4p, and a share price of 100p, has a dividend yield of 4%. If the company paying the dividend is successful, then its profits and dividends will grow over time. If the dividend grows by 5% per year for ten years, then it will have risen to 6.5p by the end of year ten. As a result, if you bought the shares at 100p ten years ago, then your ‘yield on cost’ would now be 6.5% (6.5/100) – in other words, it tells you the dividend return as a percentage of the price that you paid for the shares. This measure is worth bearing in mind if you are investing for income. You might be able to buy a company bond that is paying an interest rate of 5% today, or you might be able to buy its shares with a dividend yield of 3.5%, which is expected to grow at 10% per year. The income from the bond is higher at first, but it will stay the same for the life of the bond. If you buy the share instead, you’ll have a lower yield at first, but after four years of 10% dividend growth the share will be paying a higher income on cost than the bond (though this ignores the risk of disappointments).
last word

Does it pay to be a Jesus?

It does, but bring a sword

In 1962, Robert Axelrod was still a student. But he had access to the University of Michigan’s only computer – a primitive, clunky machine. Students were just beginning to figure out what to do with computers. Axelrod’s idea was to program it to play a game. The game was meant to resolve “the prisoner’s dilemma”. You and a friend get busted for drugs. If you both keep your mouths shut, you will probably both walk away. But if one rats on the other, the first will go free and the other will do time.

The game was meant to resolve “the prisoner’s dilemma”. You and a friend get busted for drugs. If you both keep your mouths shut, you will probably both walk away. But if one rats on the other, the first will go free and the other will do time. If you both turn on each other, both of you will do time – but probably not as much, since you have both cooperated with the prosecution.

You are in separate cells, being sweated out of ten, it answered nastiness with nastiness of its own. But one time a nasty move, it retaliated like a sinner, for-Tat. It always opened like a saint, undeserved generosity.

A whole subculture of logicians arose to answer this question. The geeks were pulled into action. Axelrod developed algorithms to model the choices by computer. One was always nasty (which he called Lucifer). One was always nice (Jesus). Others were more complicated. The game was played over and over, allowing the programs to modify their behaviour depending on the reception they received. The most successful was a program called GTFT, Generous Tit-for-Tat. It always opened like a saint, with a generous move. If it was met with a nasty move, it retaliated like a sinner, with nastiness of its own. But one time out of ten, it answered nastiness with undeserved generosity.

GTFT is a stick-figure version of how you succeed in modern civilisation.

You are nice. You expect others to be nice. And you retaliate when they’re not. It works, more or less well, on a personal level. And it works in an economy. We have seen why command economies do not work; they are not very nice. Instead of the “Do Unto Others” of a market economy, everyone is forced to take what he is given. There is no room for tit or tat; central planners tell everyone what to do.

But they never have enough information or bandwidth. They don’t know what producers can produce nor what consumers want. They try to compensate for ignorance of the specifics by putting people into categories: proletariat, bourgeoisie, rich, poor, young, old – whatever seems convenient. And they simplify both quantity and quality with heavy-handed statistics that are largely meaningless. Thus in one famous example from the Soviet Union, central planners gave the nail producers their quotas in terms of weight. Their work assignment had nothing to do with what customers wanted; they were required to produce a pre-determined number of pounds of nails. They met their quotas by producing huge 10lb spikes. The planners switched to a quota based on the number of nails produced. Manufacturers produced millions of tiny pins.

Once you ignore the civilised market system – in which people come to terms with one another voluntarily, tit-for-tat – you are headed for trouble. The Soviet Union provided us with a case study over a 70-year period, involving 300 million unwilling participants. The results were conclusive: command economies cannot compete with market economies, for reasons explained by Friedrich Hayek 80 years ago in The Fatal Conceit.

Hayek was talking about economics. My colleague Porter Stansberry’s insight was that the same principle applies to individuals. All transactions – in business, career, love, and daily commerce – are based on mutual advantage. You can’t expect to get without giving. Yes, you can bully, threaten, deceive. You may get what you want… for a while. But it is the win-win deal that keeps friends and customers happy. It’s the generous tit-for-tat that works.

That’s not the end. As the computer models kept playing, GTFT evolved. The less it retaliated, the better it worked. The more trust in a society, the more efficient its tit-for-tat games become. When you can trust your counterparties to do the right thing, you don’t need to pay for security, verification, audits, courts, surveillance, and other costs of protection and enforcement. But the more you let down your defences, the more you lay yourself open to nasty surprises. As the computer models happily played Jesus, a rogue program – resembling Lucifer, attacked. The whole system broke down. Lesson? Be generous. Be nice. But keep some gold, just in case.

To read Bill’s daily thoughts, sign up to the Daily Reckoning free email at www.morefrombill.co.uk.

“...The more trust, the more efficient tit-for-tat games become. Lesson? Be generous. Be nice. But keep some gold, just in case”
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Yours sincerely,

Rob Halliday-Stein
Founder & Managing Director

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