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MoneyWeek

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BRITAIN'S BEST-SELLING FINANCIAL MAGAZINE

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MoneyWeek

28 July 2023 | Issue 1166

Britain's best-selling financial magazine

From the editor...

I had my first run-in with a compliance officer in 2014, when I was doing some part-time work for a marketing agency producing financial articles to entice investors onto the website of an investment bank. The bank's compliance department would vet the articles and suggest changes, the net impact of which was to water the pieces down so much that useful information remained only in homeopathic quantities.

Compliance's overriding concern, post-financial crisis, was to steer clear of risk and avoid exposing investors to even the tiniest whiff of anything that could be construed as overpromising or mis-selling. But, as is inevitable in big companies, the process became heavy-handed, protracted and overly cautious. By the time I left, there was a palpable sense of regulation and risk warnings throttling creativity, initiative and, ultimately, output: why bother exploring a new idea if compliance would hedge and clunkily rephrase it to death?

Delta Airlines' foray into America's culture wars proved disastrous

©Getty Images

"High time, you might think, for firms to recall that the business of business is business"

Computer says no

Since then, compliance officers have spread like Covid. Robert Colvile of The Sunday Times estimates that the number of financial regulators may have quadrupled in ten years; the average FTSE 350 report is now 64% longer than in 2018 owing to the extra reporting requirements. Now multiply the opportunity cost of actually producing goods and services being subordinated to endless box-ticking across the economy, and you can see why we are in an era of low productivity and stagnation.

High time, then, you might think, for companies to recall that the business of business is business. But instead they have become increasingly involved in social issues and politics, with NatWest in the spotlight this week for appearing to punish a political figure for holding a view the bank found distasteful (see page 10).

Getting involved in culture wars hasn't done much for US firms either. Look at Delta and its foray into the gun-control debate. It decided to stop offering discounted fares to members of the National Rifle Association, which triggered a backlash from the state of Georgia, costing the airline a $40m tax break. All this reflects the Social element of ESG, the overall trend towards Environmental and Social Governance. But whatever the intrinsic merits of ESG (see Stuart's essay in Issue 1151 for a detailed appraisal), a broader backlash is developing here, too – witness outflows from ESG funds last year and mounting criticism of the lack of uniform ESG-investment standards worldwide. Investors seem to be starting to suspect that "ESG is largely bollocks, a tick-box exercise [in] which increasingly only the environmental one matters", as a consultant for one of the Big Four accountants told The Sunday Times.

For now, tune out the sound and fury: opportunity lies in what a furore obscures, not in what it highlights. Warren Buffett, for instance, has taken advantage of the cheap valuations in the energy sector – caused by the fashion for ESG – to stock up on energy, the cheapest sector in the S&P 500, notes Bloomberg. Everyone else has been watching the expensive tech stocks spearheading the US market rally (see page 5). Similarly, it is time to load up on exciting growth opportunities in emerging markets (see pages 5 and 20) and less exciting, but unusually cheap, developed ones (see page 4).

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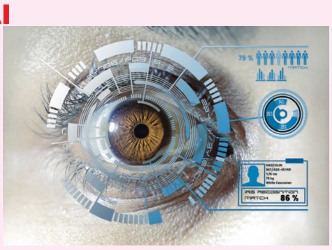
An eye for AI



Worldcoin – the eyeball-scanning cryptocurrency project co-founded by Sam Altman – launched worldwide on Monday, says Hannah Miller on Bloomberg. Everywhere, that is, except the US, where regulators are cracking down on digital assets. Worldcoin, like Altman, co-founder of artificial intelligence (AI) company OpenAI, "straddles the worlds of AI and crypto". Users are given a unique digital identity, called a World ID, after scanning their eyes with a device called an "orb". Only once they have gained "proof of personhood" can they acquire a coin. Digital verification is essential, say the founders, at a time when it is becoming harder to distinguish between human creations and those of AI. However, the project has been accused of exploitative practices in some countries, such as Indonesia, while some original backers, including Sam Bankman-Fried, disgraced former CEO of crypto exchange FTX, have been "swept up in crypto market gyrations".

Good week for:

Cinemas in Britain enjoyed their best weekend of sales last week since 2019, according to the UK Cinema Association. Films *Barbie*, starring Margot Robbie (pictured), and *Oppenheimer* were released on the same day, an event dubbed "*Barbenheimer*" by the press. Together they took £30m at the UK box office in their debut weekend. In the US and Canada, *Barbie* raked in $155m – a record for a film by a female director – and *Oppenheimer* $93.7m.

Adidas had received €508m in orders for four million pairs of Yeezy trainers by 2 June, towards the end of its online sale. The German sportswear brand had feared destroying the shoes would result in another €500m write-off after it ended its partnership with US rapper Kanye West, now known as Ye, following the latter's antisemitic remarks last year. Adidas says it will donate some of the proceeds to charities against racism.

©Getty Images

Bad week for:

Designer **Jasper Conran** has been left with a £825,000 tax bill. HMRC successfully argued at a tribunal that the proceeds from the sale of his partnership with high-street retailer Specsavers to one of his companies in 2008 for £8.25m had really been a dividend payment liable to £2m in tax (now plus interest) – roughly £600,000 more than Conran had paid in capital gains tax as part of the sale.

US model **Gigi Hadid and a friend** have been fined CI$1,000 (£920) for illegally importing a small amount of cannabis into the Cayman Islands. The drugs had been bought legally in New York with a medical licence and no conviction was recorded by the Caribbean court.

Cover illustration: Howard McWilliam. Photos: Alamy; Getty Images; Sotheby's

Bargain Britain: a stockpicker's dream

Alex Rankine
Markets editor

UK stocks are 20%-30% cheaper than their global rivals, "but they are not 20%-30% worse"

©Getty Images

"Three cheers for the UK!", says Rupert Thompson of Kingswood. British stocks have had their best week in half a year following news that inflation undershot expectations for the first time in months. Annual inflation fell to 7.9% in June, down sharply from 8.7% the previous month. That is still the highest of any major economy, but it was enough for markets to cut back expectations for peak UK interest rates from 6.5% to 5.75%. The FTSE 100 and FTSE 250 finished last week up by 3.1% and 3.4% respectively. "Given their current pitiful expectations," there is more scope for UK investors to "be pleasantly surprised."

Lagging global markets

British stocks have been having a dull 2023. The FTSE 100 has gained less than 2%, while the more domestically-focused FTSE 250 has gone nowhere. That compares poorly with Germany's Dax (up 15%), the US S&P 500 (19.5%) and Japan's Topix (22%).

Should inflation data continue to come in "tamer" than feared, then "a bit of catch-up may be in order" for UK shareholders who have so far "missed out on this year's stockmarket party", says Katie Martin in the Financial Times. "UK stocks are cheap as chips," trading on "a price/earnings ratio of 9.7" compared with "13 in the eurozone and... 24 in the US."

"Yes, there's a malaise hanging over the UK, but I think it's got to a stage now where the out-and-out value that exists here" is being ignored, Neil Birrell of Premier Miton tells the Financial Times. British equities are 20%-30% cheaper than their competitors abroad, "but they are not 20%-30% worse". The UK discount is partly due to London's weighting towards lowly-rated sectors such as banks and miners and a dearth of richly valued technology. But the discount also applies within sectors. For example, energy giants BP and Shell trade on 6.4 and 7.5 times forward earnings respectively, compared with a valuation of 11 for US peer Exxon, says Brian Swint in Barron's.

Investors seem to have forgotten that the FTSE 100 is stuffed with multinationals that collectively generate as much as "80% of their earnings outside the UK", as Charles Luke of Murray Income Trust points out. Buyers of London blue chips are thus "getting global income at a knockdown price". Yes, UK economic prospects are "dim", but "the outlook for stocks is brighter".

Not everyone is diving in. "UK equities are abysmally out of favour", says Nick Train of the UK-focused Finsbury Growth & Income Trust. Yet much as it is tempting to bet on a rally for "all sorts of commercial and emotional reasons... I am cautious [about doing] so".

As long-suffering Japan bulls could tell you, "one person's 'ostensibly low valuation' is another's moribund value trap... markets can stay frustratingly cheap for a very long time". Yet even in that gloomy scenario, the FTSE's value dislocation does make it something of a stockpicker's dream. "There is an increased... chance of identifying wonderful companies that are wrongly priced."

Corporate bonds head for a reckoning

Companies could be heading for "the first broad-based cycle of defaults" since the 2008 financial crisis, say Jeremy Hill and Lucca de Paoli on Bloomberg. A decade of ultra-low interest rates has encouraged corporations to load up on debt, much of it in the higher-risk, junk-bond market. In the US, the value of high-yield bonds and leveraged loans more than doubled to $3trn between 2008 and 2021. In Europe junk-bond sales jumped by more than 40% in 2021. Now, with interest rates rising, "the pile of troubled bonds and loans has already surged over 360% since 2021" in the Americas alone. The trouble is especially acute in areas such as commercial real estate, where the rise of remote work will hit demand for offices.

The likes of Thames Water are sound businesses that binged on debt during the easy-money era

©Alamy

Some of the "weak links" in corporate debt are "obvious disasters", says James Mackintosh in The Wall Street Journal. Think "second-tier electric-car start-ups" and other "also-rans" of the 2021 stockmarket mania. More worrying are the likes of the UK's troubled Thames Water: decent businesses struggling to service the "huge amounts of debt" they piled on "during the era of easy money".

Surprisingly, the riskiest bonds have outperformed investment-grade ones so far this year. That is because the US economy has proved more resilient than feared, but higher interest rates have yet to truly bite. Bond investors "are making a mistake".

"Most of the corporate bonds outstanding today won't start maturing until 2025," says Jon Sindreu in the same paper. When that refinancing wall arrives, junk bonds are heading for trouble – especially if interest rates remain high. The behaviour of corporate debt markets this year brings to mind an old joke: "An optimist jumps from the roof and shouts 'so far, so good!' when passing the first-floor window".

Chip boom has gone off the boil

The artificial-intelligence (AI) boom isn't enough to keep the semiconductor business aloft, says Dan Gallagher in The Wall Street Journal. Shares in chip designer Nvidia have surged by 220% this year. Its expertise lies behind the powerful computing and graphics processors required for AI chatbots. That has triggered a wider boom for semiconductor shares as technology giants scramble to produce the required tools and services. The PHLX Semiconductor index, which tracks the industry's leading lights, has gained 48% in 2023.

Yet it is becoming clear that Nvidia's "rising tide doesn't lift all boats". Soft global demand for consumer electronics saw global chip sales fall by 21% year on year in the first five months of 2023. That is a particular problem for the likes of Taiwanese giant TSMC, which manufactures chips for many of the major brands. TSMC reports that "AI accounts for just 6%" of its revenue at present, compared with 33% for smartphones.

The firm said last week that 2023 revenue is on course to fall by 10% on the year. Globally, semiconductor sales look set to drop to $532bn this year, down from $600bn last year, says Dan Robinson for The Register. That's a long way from the boom of 2021. Yet investors shouldn't "get into a doom spiral", says Richard Gordon of Gartner, a research group. This is a highly cyclical industry, so by next year the sector could be "back with a bang".

Vietnam has a bright future

"Vietnam's economic moment has arrived," says the Financial Times. The economy was Asia's fastest-growing last year and is "one of only a handful globally" to have managed "two consecutive years of growth" since Covid. Vietnam has benefited from global giants diversifying their supply chains away from China: Dell, Google, and Apple are among those to have set up new production lines in the country recently. Still, an "onward march to high-income status is not preordained". In the 1990s, regional neighbours Malaysia and Thailand were developing fast, but they ultimately "succumbed" to the "middle-income trap": where growth stalls before an economy converges with the rich world.

©Alamy

The economy was Asia's fastest-growing last year

Hitting headwinds

It hasn't all been plain sailing. The VN-index of local shares plunged by almost one-third in 2022, one of the worst market performances worldwide. The cause? The "usual suspects for meltdowns in emerging markets", says Craig Mellow in Barron's: "overleveraged real estate" and "political shifts". An anti-corruption crackdown led to the resignation of the country's president in January (Vietnam's president has less power than the Communist party leadership). Meanwhile, the "once-thriving real-estate sector is under stress", says Peter Janssen in the Asia Times. Last October authorities launched a clampdown that aimed to "curb land speculation and slow the rampant construction of luxury condominiums". With sales falling, dozens of property firms have missed bond payments.

Still, despite the wobble, "the basic Vietnam growth story is intact, but without some of the hyperbole," Alison Graham of Voltan Capital Management tells Mellow. Vietnam is still classified by index provider MSCI as a frontier market, like Burkina Faso, says Reuters.

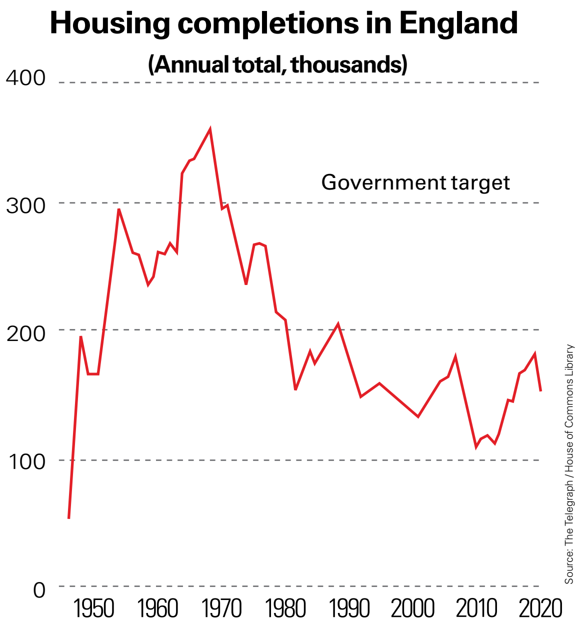
An upgrade to the main emerging-market index could prompt an estimated $5bn-$8bn in automatic inflows from tracker funds. Authorities had been aiming to achieve an upgrade by 2025, but that deadline might prove optimistic: strict laws capping foreign ownership (overseas investors can only hold a combined 30% of a bank's shares, for example) and other rules restricting trading remain hurdles to obtaining emerging-market status. The VN-index has outperformed regional rivals this year, gaining 19%. Sentiment brightened after the central bank began cutting interest rates in March, says Nguyen Kieu Giang on Bloomberg. With inflation now down to 2% officials have room for manoeuvre. Investors have also been tempted back by attractive valuations: as of June, Vietnamese shares were trading on ten times projected earnings, compared with 15.5 in Thailand and 13.3 in Indonesia. The VN-index is still about one-fifth short of its early 2022 peak. Investors can buy in via **VinaCapital's Vietnam Opportunity Fund (LSE: VOF).**

Viewpoint

"Oil has been priced in dollars for decades... But... Russia, which accounts for about 10% of oil production, [no longer trades in greenbacks as] an increasing amount of its oil has gone to India and China... Venezuela [has] started using the Chinese yuan or the euro for its oil trades following... US sanctions... No one alternative currency appears to be taking [the dollar's] place. Instead, prices are being denominated in several... currencies... Indian refiners have begun paying for Russian oil in [Emirati] dirhams... All that said, it's still difficult to move away from the dollar... 55% of the world's reserves [are] still in the greenback.. .it can be difficult for countries to trade in alternative currencies if they don't have robust two-way trade. Russia reportedly has built up a large surplus of rupees that it currently has no use for... reports of the dollar's demise are premature."

Avi Salzman, Barron's

■ Nimbyism nixes growth in construction



Source: The Telegraph / House of Commons Library

UK house prices have risen by nearly 70% over the past decade, outstripping nominal wage growth of 30%, says Kate Andrews in The Telegraph. In 1989, 51% of 25-34-year-olds owned their own home; by 2019 that figure had slumped to 28%. The UK's acute housing shortage is damaging economic growth. Some point out that demand is being fuelled by high net migration, but that overlooks the fact that England builds far fewer homes today than it did during the 1960s and 1970s. What has changed since then is rampant Nimbyism ("Not in my Back Yard" – opposition to local construction) that sees members of the existing homeowners' club exert political pressure to rig the market against those yet to join.

Ryanair is flying high

Europe's biggest airline is bracing for turbulence, but appears robust enough to ride out an economic downturn. Matthew Partridge reports

The travel industry has hitherto shrugged off a global economic downturn, says Hanna Ziady on CNN. It has recorded record bookings and profits amid pent-up post-Covid demand. However, that may be about to change.

Rynair has warned that elevated inflation and rising interest rates could undermine demand for air travel in the second half of 2023. As a result, shares in the "bellwether" airline, Europe's largest, slipped by 5% early this week. Other airlines, such as easyJet, also saw their shares dip.

Ryanair's CEO Michael O'Leary remains "cautiously optimistic" overall that full-year profit will be "modestly ahead" of last year, says Kate Duffy on Bloomberg. However, he admitted that the airline is preparing measures to deal with a downturn in demand caused in part by fears that the "rush to return to flying after lockdown" will start "running out of steam".

One of Ryanair's options is to "cut ticket prices to fill seats this winter". That "may need to happen anyway". As a result of aircraft purchases over the past few years, seat capacity is about a quarter higher than before the pandemic.

©Getty Images

CEO Michael O'Leary is aiming for 300 million passengers by 2034

Record quarter

Ryanair has"little visibility" about what will happen the coming winter, with the possibility that it might have to employ what it euphemistically calls "fare stimulation", says Philip Georgiadis in the Financial Times.

But both it and the rest of the airline industry aren't doing too badly at present. Ryanair delivered record quarterly profits after tax of €663m – an almost fourfold increase on the same period in 2022 – between April and June. That was due to robust demand and "passengers' willingness to pay higher air fares despite the weak European economy". These higher fares more than compensated for the mounting cost of fuel, staffing and air traffic control.

The fact that Ryanair can get away with "a mix of an inflation-busting 42% rise in average fares to €49 and a 4% rise in all the extra charges" shows just how dominant it now is, says Alistair Osborne in the Times. This is as a result of the farsighted decision to keep its staff on the books during Covid, as well as continuing to invest in new fleet, enabling it not only to increase its total capacity but gain market share from rivals who cut back. With O'Leary ordering 300 more Boeing aircraft earlier this year, his goal of reaching 300 million passengers by 2034 – up from 183.5 million this financial year – looks achievable.

Overall, despite worries about the impact of the cost-of-living pressures on demand, Ryanair "is in a much stronger position than it was a year or two ago, with passenger numbers and revenue recovering strongly post-Covid", says Mark Crouch, analyst at trading and investment platform eToro. While the airline's "growth arc may be flattening", there is likely to be continued expansion "across all major metrics" in the financial year ahead, particularly with respect to the number of passengers.

A happy ending for AMC?

Shares in US cinema chain AMC Entertainment Holdings, which became famous as a "meme stock" two years ago, soared by 42% on Monday after a court ruling "scuttled a stock conversion plan", say Jef Feeley and Mike Leonard on Bloomberg.

The embattled group is struggling to raise cash, and wanted to convert preferred shares (known as APEs) into common shares in a bid to raise new equity capital. The judge's veto of the plan has caught hedge funds on the hop.

They had been shorting the common stock as part of a bet that once the conversion starts, the price gap between the ordinary and the preferred stocks would narrow. Now they have had to unwind their positions, boosting the common stock.

The ruling might seem like a victory for "AMC's army of vocal retail investors", says Jill Goldsmith in Deadline : they won't be diluted by the offering. However, AMC's CEO Adam Aron argues that it "has serious implications for the circuit's financial stability".

He says it is now more likely that AMC will run out of money next year or in 2025, and it could also struggle to refinance debt. Aron warns that investors could be left with nothing, pointing to Cineworld, where shareholders "were wiped out in that chain's bankruptcy".

Aron "may struggle" to get shareholders behind any new plan, but ultimately some sort of deal is more likely than not, says Anita Ramaswamy on Breakingviews. Thanks to the success of "*Barbenheimer*" (*Barbie* and *Oppenheimer*), the view that the movie theatre business "would never return to pre-pandemic levels" now seems unduly pessimistic.

Last Saturday was "the company's second-biggest day for food and beverage sales in its 103-year history". Both sides have an incentive to find a compromise that ensures AMC is well-capitalised enough in the short run to keep the spoils from the recovery out of debt-holders' hands.

Tesla's price cuts squeeze margins

Tesla's shares, up by 137% this year, have slipped over the past few days. A "series of price cuts this year [have] weighed on its earnings", says Richard Waters in the Financial Times. The company's operating margin fell to 9.6% in the latest quarter, lower than this time last year, and could shrink even further. CEO Elon Musk says there could be further price reductions in 2023, especially if rising interest rates push up the cost of financing.

Musk argues that it makes sense for the company to focus on selling more vehicles, as the value of the cars is set to "soar" once "Tesla perfects its Full Self-Driving software", in which Tesla is investing more than $1bn over the next year.

It's not surprising that the news of Tesla's declining margins has been badly received by shareholders, says Emma Powell in The Times. Tesla used to be so highly valued because investors believed that "expanding production volumes would steadily beef up margins". Instead, while Tesla's sales have indeed grown, it has been forced to cut prices drastically – reducing, not increasing, margins.

With household spending under pressure, competition both from new rivals, such as the Warren Buffett-funded BYD, and "deep-pocketed traditional groups" like Toyota, is intensifying. Margins are set to slip further, blocking Tesla's "swelling market value".

Tesla's task is made even harder by the fact that electric vehicles still "face stiff challenges", says Jonathan Guilford on Breakingviews. While surveys suggest that a majority of consumers are now at least interested in an electric car, the charging infrastructure remains woefully undeveloped, especially in the US.

While Musk's decision to open up Tesla's supercharger network to rivals – and even possibly license its self-driving technology – is intended to speed up the adoption of electric cars, these risk undermining what have been "key differentiators for customers". Already, Tesla's market share is down to 59%, from 75% last year.

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

Five to buy

DX Group
The Mail on Sunday
This specialist parcels deliverer has had a bumpy ride. It was founded in the 1970s as a legal courier, and the rise of email nearly bankrupted it in 2017. Then a corporate-espionage quarrel with a competitor cast a cloud over the shares. The spy saga has distracted investors from an efficient business known for its high-quality service. Management has been overhauled and the new boss has experience turning around troubled companies. Recent trading has been encouraging and the shares appear "undervalued" given the scope for a recovery from here. *32p*

Heineken
Shares
This Amsterdam-listed brewing giant is a solid "international value stock". The group owns an array of craft beers in addition to flagship Heineken, "the world's most valuable beer brand". The group's cider labels are also enjoying robust growth. The business has demonstrated that it has the pricing power to ride out inflation and input costs now look poised to moderate. On a cyclically adjusted price/earnings (CAPE) basis, the shares are "the cheapest they have been in over a decade", so this is a great time to take a sip. *€96*

Kier Group
Interactive Investor
Shares in this construction and infrastructure services business are up by a fifth over the past month following "a string of serious contract wins". A large chunk of business comes from the public sector, which should prove more dependable in a downturn. Contracting is a "fundamentally low-margin business" and the balance sheet still looks shaky, but that is more than compensated for by a bargain basement forward price/earnings (p/e) ratio of 4.3. Provided the economy avoids a "serious recession", this under-the-radar firm could be due a rally. *90p*

Smart Metering Systems
The Sunday Times
SMS installs and manages smart metering systems in people's homes. It also works on other green-energy projects, such as "converting Travelodge's hotel estate to LED lighting". The business is largely inflation-proof thanks to index-linked meter-rental and data fees. While the market for smart meters will eventually mature, the baton will then pass to the battery division – intermittent "renewables mean that Britain's energy storage capacity will need to grow four times... by 2030". The shares aren't cheap, but reliable cash flows and a "solid dividend policy" mean there could still be upside in prospect. *677p*

Warpaint London
The Telegraph
This budget cosmetics specialist has "upgraded earnings expectations four times since last September". Business is benefiting because cash-strapped consumers are opting to trade down, while Warpaint's products offer the sort of modest, everyday indulgences that shoppers turn to in straitened times.

The shares have more than doubled in the last year so profit-taking could cut the price. But the group has no debt and is hardly pricy on 18.8 times forecast earnings. It "has the right ingredients to continue offering sparkle and shine". *270p*

One to sell

Ocado Group
Investors' Chronicle
Shares in this grocery-technology business have rallied since June on takeover rumours later denied by Amazon. Investors are clutching at straws. Ocado is managing to sell its customer fulfilment technology internationally, but growth targets appear overly optimistic and management has a history of overpromising and under-delivering. Given "higher net debt and weak margins", the shares are still a sell. *652p*

...and the rest

Investors' Chronicle
Aim-traded **Cohort** provides militaries with communications and sensor equipment. Just over half of revenue comes from the UK, where it is making "gains on the home front" after a 50% jump in revenue from the Ministry of Defence last year. Trading on 13.6 times earnings, the shares are a buy *(489p)*.

The Mail on Sunday
Foresight Sustainable Forestry owns thousands of acres of mature woodland and newly planted forests. The firm is exposed to growing demand for timber and its forestry assets are valuable because of the rise of climate-conscious investing. "Existing shareholders should stick with the stock." New investors may deem this price appealing *(100p)*.

Shares
"Coffeehouse colossus" **Starbucks** continues to gain share across many of its 80 markets. The opportunities are especially compelling in emerging nations, including India. On a forward price/earnings ratio of 24.7, the shares trade at a discount to their own history and could add a caffeine jolt to your portfolio, so buy *($102)*.

The Telegraph
Consumer gripes about rising car-insurance premiums are "music to the ears" of price-comparison platform **Moneysupermarket.com.** Energy-switching custom should also return from next year (activity has been temporarily halted by the price cap). Buy *(272p)*.

The Times
Shares in investment platform **Hargreaves Lansdown** are on a near-record low of 14 times forward earnings amid sluggish UK stockmarkets. Growth targets seem a stretch for what is already a mature business, but there is scope for a rally if equity markets pick up. Hold *(908p)*.

A German view

Water and waste management are two markets with excellent long-term growth prospects, says WirtschaftsWoche. That augurs well for France's Veolia, which leads the global market in both sectors; it derives 80% of its revenue from them. The group has built Africa's biggest water treatment plant in the Ivory Coast, which provides 2.4 million people with drinking water, while it has also secured a seven-year waste management contract with Australia's Gold Coast. Veolia's third division, energy services, is also growing thanks to the rising demand for renewable power. Veolia is on track to grow its bottom line from €1.1bn to almost €1.5bn this year. The stock yields 4.4%.

IPO watch

Could there soon be a bubble in bubble tea? At least six Chinese makers of the popular drink (sweet cold tea with translucent bubbles made from tapioca flour and sugar) are considering listing in Hong Kong or the US, says Bloomberg. The investment case is that "a wave of fresh Chinese consumer spending is on its way now that Covid restrictions have finally been lifted, though evidence of a rebound has so far been lacking". But they are going abroad because Chinese regulators take a dim view of companies "burning money in order to surge in scale", as one analyst put it. This applies to almost all the bubble-tea firms.

The backlash against the banks

NatWest has lost its spat with Nigel Farage – but there's a bigger scandal here. Emily Hohler reports

You can't barrage the Farage

©Shutterstock

NatWest chief executive Alison Rose stepped down this week after admitting inaccurately briefing a BBC journalist about the closure of Nigel Farage's bank account, say Kaye Wiggins and Jim Pickard in the Financial Times. Rose had been under "mounting pressure" since Farage produced evidence, from a dossier produced via a subject access request, that Coutts, owned by NatWest, had decided to close his account because of his political views and not "solely for commercial reasons".

The revelations have been a "PR catastrophe", but Coutts is "not alone in allowing doctrinaire wokism to trump sound commercial judgement", says The Times. Halifax suggested last year that customers objecting to its "inclusion" policy should consider closing their accounts. "Firms increasingly imagine that it is their task to promote particular values rather than the interests of their shareholders and customers." Yet a bank such as NatWest, which is 39% owned by the taxpayer, "would do better to focus on widening access to its banking services, including for the one-million-plus British adults who have no account at all", says the Financial Times.

To shut down a bank account because of political leanings is "discrimination masked as 'inclusivity', bigotry dressed up as tolerance", says The Spectator. The board of Coutts may well have been appalled by Ukip, but the party got more than 3.5 million votes in the 2015 general election and, if Farage is "beyond the pale, then so is a significant chunk of the British electorate". In a "free society, private companies ought to be able to serve who they like", but no one should be de-banked due to their opinions. Financial institutions have been repeatedly "used for political persecution", in democracies as well as totalitarian states. Justin Trudeau froze 76 bank accounts linked to truck drivers protesting against his lockdown measures in 2022. Canadians now ask how basic democratic protections were "so easily swept away".

The real scandal isn't Farage

When Farage says that "I won't be able to exist or function" without a bank account, it's more than "empty hyperbole", says Peter Oborne on Middle East Eye. "In the modern world, a bank account matters as much as electricity or running water. Without one you cannot travel overseas, you feel like a criminal and normal life becomes impossible." Yet this is exactly what has happened to far too many people.

"I have spoken at great length to dozens of people who have had their bank accounts removed without explanation." The difference is that they belonged to people who had less clout in the media, such as British Muslims – a group that has been "a testing ground for sinister authoritarianism" ever since Tony Blair took the UK into George Bush's war on terror. "I can't help comparing the alacrity with which the government has gone into battle on behalf of Farage to its total indifference to the fate of British Muslims and others over many years."

The truth is that "banks have been quietly closing accounts without giving their customers any reasonable explanation for decades", says Amy Taylor in The Guardian, and many innocent people have been severely affected by this. They can – and do – close accounts if they think you'll use the account unlawfully or fraudulently. "But banks thinking things is a very fuzzy concept." Customers have no right to know what evidence the bank has based this on or clear up misunderstandings. The consequences for people who are not millionaire politicians can be severe. "Some good may yet emerge from the Farage fiasco, with his very public debanking leading to deeper scrutiny of our banking sector's behaviour towards its customers."

Gove: A "dexterous fellow"

©Getty Images

The Tories' "shimmering vision" of new houses

Rishi Sunak and levelling-up secretary Michael Gove "insisted" on Monday that the government would meet its 2019 election pledge to build at least a million more homes by the next general election, says the Financial Times.

Gove unveiled plans to build in urban areas to avoid "concreting over the countryside", with measures making it easier to convert commercial buildings into houses and regenerate brownfield sites. He also announced £24m in funding and a "super-squad' of experts to speed up big developments, starting with Cambridge.

"Densifying" built-up areas is a good idea, says Simon Jenkins in The Guardian. "Just because party-donor developers prefer lucrative rural sites, this does not constitute a necessity" and "every tenet of ecological conservation" argues against building on the countryside.

However, the obsession with new building is misguided. New houses are expensive and have a "marginal" impact on overall supply. The easiest way to boost this is to encourage renting, thus using more efficiently the "millions of houses that lie under-occupied" (676,452 in England alone), unlet and unimproved, "all through the poor regulation of Britain's housing market".

Yet there was no mention of "higher but fairer" property taxes, nor an end to stamp duty ("a tax on downsizing"), nor on removing VAT on conversions and upgrades. As for turning Cambridge into a megacity, as levelling-up secretary, Gove should be helping Manchester, not Cambridge.

Gove is unlikely to deliver his "shimmering vision" for Cambridge since the "odds are against the Conservatives being in office for much longer", says Paul Goodman on Conservative Home.

Nevertheless, his line – "where Labour seeks to build in the green, the Conservatives would build on the brown" – is a good one for opposition, too. Gove is a "dexterous fellow".

Stalemate in Spain

A general election produced a win for no one. Matthew Partridge reports

A snap general election left Spain facing a period of political uncertainty when the poll resulted in no party with enough support to form a government, says Jason Horowitz in The New York Times. The centre-right People’s Party, led by Alberto Feijóo, came out ahead, but by a smaller margin than polls suggested, and the hard-right Vox party “saw support crater”, which leaves the PP without enough allies to form a government. Prime minister Pedro Sánchez’s Socialists came second, defying expectations of increasing his party’s seats and winning enough support with his allies to block the formation of a conservative government.

Feijóo: the political dance must go on

©Getty Images

The hard right checked

The result is a body blow for the “radical right” Vox, says The Guardian. The party had already formed coalitions with the PP at regional level, and was expected to get enough votes to become the “junior coalition partner” in an administration led by Feijóo. The parliamentary arithmetic makes that now a “non-starter”. The prospect of Vox winning power “in a country where Franco’s dictatorship is still within living memory”, seems to have motivated people to vote for the Socialists. This suggests that the creeping normalisation of the hard-right that has been going on in Europe seems to have been checked for now.

Still, though the Socialists have “performed better than expected” and denied the PP a clear path to government, they may find it hard to form a coalition themselves, says the Financial Times. Indeed, Sánchez would need the support not only of radical leftists but of regionalist parties, for example in Catalonia and the Basque country. This may be too high a price to pay as his “relative leniency” towards Catalan separatists and his occasional deals with Basque nationalists has already “galvanised” many right-leaning Spanish voters and intensified Spain’s “atmosphere of political polarisation”.

Back to the polls

Given the general unpopularity of the Catalan separatists, who are likely to demand a vote on independence as the price of any deal, and of the hard-right Vox, some pundits are already talking about “a grand coalition” between the two main parties, says Jim Lawley in The Spectator. Such a grouping would command 258 seats out of 350, and represent nearly two-thirds of those who voted. However, although the Socialists abstained after the 2016 election, allowing the PP to govern, a repeat is very unlikely as “relations between the two parties have since deteriorated drastically”.

Given the result, and the inability to compromise, it seems inevitable that Spain will end up being “recalled to the polls” in a few months’ time, says The Times. The PP would then “rejoin battle as the much-mauled underdog”, its reputation “undermined by what amounted to a defeat”, while Sánchez remains hindered by his past concessions to Catalan separatists. In such a case Spain would have to choose “between Socialists dependent on parties that want to break up Spain and a Popular Party stigmatised due to its reliance on Vox”. Spanish politics is starting to “resemble the Golden Age comedies of Lope de Vega, where winners are losers and losers are winners”.

Israel braces for new period of turmoil

Israel is braced for a “new period of political and economic tumult” following prime minister Benjamin Netanyahu’s legislation overhauling the judicial system, says Dov Lieber in The Wall Street Journal. The new law, which will “curb the power of the Supreme Court and give more power to lawmakers”, has already given rise to mass protests, strikes and market turmoil. The bill takes away the Supreme Court’s ability to nullify government decisions that it finds “unreasonable in the extreme”, a move that those on the right argue is necessary given that the court is dominated by liberal justices.

“No issue has produced such intense debate, anger and soul-searching since the founding of Israel in 1948,” says The Times. The outcome of the debate could even determine whether Israel will “remain a democracy in the Western sense or whether it will become, like many neighbours in the Middle East, a sham” with no check on the power of the executive. Israel has no written constitution nor second parliamentary chamber and so by default the Supreme Court has intervened on issues deemed to threaten the rights of citizens and democracy. Its interventions, especially those concerning the treatment of Israel’s Arab minority and Palestinians in the occupied territories, have infuriated right-wingers. The new law risks regional turmoil, as the right could now push for annexation of all Palestinian territory.

Netanyahu (pictured) insists the courts will remain independent, says the Financial Times. He has also ruled out moves to allow parliament to override Supreme Court decisions. But critics warn that the new law may be “only the start” of a process that will see Israel’s democracy “progressively hollowed out”.

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Betting on politics

After all the drama of the Spanish election (see left), voters seem to think that only the current PM, Pedro Sánchez, has a path to a viable coalition. With £150,052 matched on Betfair, Sanchez is at 1.12 (89.2%) to be confirmed as Spain’s leader, with Alberto Feijóo of the People’s Party out at 7.6 (13,2%).

Having already tipped Sanchez to win before the vote, I’m not going to recommend you put any more money on the outcome, especially as the market needs Spain’s Congress of Deputies to explicitly endorse a specific candidate to pay out (otherwise it is voided).

Turning to Australia, the decision by Victoria’s state government to resign as hosts of the 2026 Commonwealth Games has sparked controversy, making headlines around the world. The decision angered sports fans, who claimed the figures used to justify the cancellation exaggerated the projected costs, with Australia’s PM Anthony Albanese initially refusing to back Victoria’s premier, Daniel Andrews.

With £1,514 matched on Betfair, Andrews is at 2.5 (40%) to officially leave office this year, and at 1.41 (71.4%) to hang on in office (even as a caretaker) until 2024.

This isn’t the first time Andrews has been at the centre of controversy – his particularly hard-line lockdown policies in the pandemic also generated a lot of resentment. Still, he subsequently won re-election last year with an emphatic victory, actually increasing Labor’s number of seats by 1 to 56 (out of 88), which makes it very hard to remove him.

Polls suggest that more Australians support Andrews’ decision to cancel than oppose it, with the highest levels of support in Victoria. As a result, he is unlikely to be forced out of office, so I suggest that you take the bet on him staying in office this year.

London

Unilever lifts profits: Anglo-Dutch consumer goods giant Unilever grew underlying sales by a better-than-expected 9.1% year on year in the first half of 2023. It had raised the prices of products such as Marmite and Dove soap by 9.4% during that period against a backdrop of high consumer-goods inflation. Squeezed shoppers duly cut back and volumes fell by 0.2%. Unilever, however, says it believes inflation has now peaked. Pre-tax profits increased 20.7% to almost €5.3bn, aided by a slight rise in profit margins to 17.1%. Turnover climbed by 2.7% to €30.4bn. Unilever fended off criticism that it was profiteering from the cost-of-living crisis, and said it had shielded consumers from some rising costs.

To be fair to new boss Hein Schumacher (pictured), he has had to "hit the ground running", says Isabella Fish in The Times. He has "inherited a company that has failed to deliver sustainable sales growth despite powerful brands and enviable positions in emerging markets". Either he engineers a change of fortunes, or he looks to spin off or sell Unilever's underperforming food division. The group's "apparent prioritisation of sustainability over making sensible business decisions" has also come under fire from fund manager Terry Smith. But if Schumacher acts fast, Unilever could "close its valuation gap with its peers".

Mountain View

Going all out for AI: Google's parent, Alphabet, and Microsoft "are two very different businesses chasing the same Next Big Thing" – artificial intelligence (AI), says Dan Gallagher in The Wall Street Journal. "Fortunately, both are doing well enough to provide the sizeable funds needed for that effort." Both have reported relatively strong second-quarter results. Alphabet's core advertising business returned to growth after two consecutive quarters of decline and its $18.4bn net profit exceeded expectations. Microsoft's cloud unit also beat analysts' projections for the final quarter in its fiscal year, which ended on 30 June. "The duo's core businesses have nearly taken a back seat to the escalating hype over generative AI – the technology behind chatbots." But while Microsoft's shares, which have surged by 46% since the start of the year, fell back 3% after hours on slightly disappointing projected revenue for the third quarter, Alphabet's bounced by 6% against a "more moderate" year-to-date rise of 39%. Both have the deep pockets required to develop the AI technology (Microsoft produces $60bn in annual free cash flow, and Alphabet $71bn), both made around $28bn in capital expenditure over the past four quarters – "more than the annual revenue of three-quarters of the companies in the S&P 500" – and both have stated those numbers will only rise. "The race [to develop AI] is still just getting started."

Boston

Nothing to see here: "There was a time not long ago when nary a General Electric (GE) earnings day would pass without the company disclosing some kind of idiosyncratic headache," says Brooke Sutherland on Bloomberg. There would be a surprise writedown, or maybe some cash-flow complications at the industrial giant. Not this time. Even CEO Larry Culp remarked that "the absence of news is news". Second-quarter results were "significantly" better than expected and GE raised its full-year guidance on all key fronts, including for $4.6bn in free cash flow. It also raised the outlook for its Vernova renewable energy and gas power division and its aerospace unit. GE has already completed the spin-off of its healthcare business and remains on track to do the same to Vernova. Worries that GE would have to add to the $500m warranty provision it took in the third quarter of last year over wind-turbine issues didn't materialise, despite Germany's Siemens Energy reporting similar worsening issues in June. On the contrary, more standardised product offerings and conservative underwriting policies are paying off in the form of higher margins on newly booked equipment orders. All told, the management spent just 19 minutes walking investors through the various company updates before taking questions. "If that's not a sign of progress… I don't know what is."

The way we live now... signing away your digital soul

Salma Hayek: real or not?

©Netflix

"It's a bit like that *Black Mirror* episode with Salma Hayek," Jamie Yeo, a Singaporean actress and model, tells Nick Marsh on BBC News. She is referring to a new episode of the fictional dystopian drama series on Netflix in which Hayek signs away her image rights to a production company that produces a deepfake version of her. Spoiler alert: it doesn't end well. But Yeo, who has agreed a deal that allows fintech firm Hugosave to use a digitally manipulated likeness of her to sell their content, is more sanguine. "I do understand the concern, but this technology is here to stay," she says. "So even if you don't embrace it because you're scared, there will be other people who will embrace it." Some already have, says Marsh. Superstar footballer Lionel Messi has allowed PepsiCo to use a deepfake version of himself to sell Lay's crisps. Online users can create personalised video messages "from Messi" – in English, Spanish, Portuguese and Turkish. Pitfalls abound, of course. Laws around who owns the intellectual property are still sketchy and what happens if your digital self makes a joke in poor taste? It leads to a "crisis of trust", says Kirk Plangger of King's College London. Yet "deepfakes will just become part of normal practice in the advertising industry over the next few years", he says.

Brussels

Tough trade talks: The European Union-Celac summit in Brussels was the first time European, Latin American and Caribbean leaders have met in eight years and there was "much to discuss", from trade deals to climate change, says Bernd Riegert on Deutsche Welle. Eager to become less dependent on China, the EU is looking for sources of raw materials and energy as well as "target markets and partners in the fight against climate change". A free-trade agreement between the Mercosur trade bloc (Brazil, Argentina, Uruguay and Paraguay) and the EU was announced in 2019, but it has yet to be ratified partly owing to concerns over deforestation of the Amazon, which dramatically increased under Brazil's former president, Jair Bolsonaro. His successor, Luiz Inácio Lula da Silva, has also rejected requirements for Brasília to open up its manufacturing industry to foreign competition and he was "irked" by the EU's requirement of "binding commitments to protect the rainforest and labour rights", say Andy Bounds and Ian Johnson in the Financial Times. While welcoming the EU's commitment to provide €45bn in development aid by 2027, Lula pointed out that a 2009 pledge for rich countries to contribute €100bn a year to help poorer countries fight climate change had not been met.

President Lula was "irked" by the EU's demands

Beijing

Foreign minister sacked: Qin Gang has been removed as foreign minister and replaced by his immediate predecessor in the role, Wang Yi – director of the office of the Communist Party's Central Commission for Foreign Affairs and China's top diplomat. No reason was given and that is "not normal", says Katsuji Nakazawa on Nikkei Asia. At the end of 2022, Qin had been made foreign minister at the "young age" of 56, "leapfrogging multiple more senior rivals". Why is a mystery. Last March, he was even promoted to the vice premier-level post of state councillor. The following month he rebuked his Japanese counterpart for siding with the US and then disappeared for a month. Theories as to why include an extramarital affair and corruption, but strict background checks would have uncovered any improprieties and he wouldn't have been promoted in March. A clue lies in an article by the state-run Xinhua news agency, which made it clear president Xi Jinping had ordered the dismissal.

Qin's handling of relations with the US and his lack of experience with "such an important responsibility" are the probable causes. This summer saw an awkward spat over seating arrangements involving US secretary of state Antony Blinken, which ended with president Joe Biden calling Xi a "dictator". "China is frustrated that it cannot properly control and manage its relations with the US." Somebody must take the blame.

Paris

Thales takes on hackers: French defence group Thales is best known for its missiles and machine guns, says Lex in the Financial Times. But cybersecurity was part of its most profitable division last year. That's why Thales' decision to buy US data and application security company Imperva for €3.2bn makes sense. True, that price represents an enterprise value of 6.1 times 2024 sales for a business that private-equity firm Thoma Bravo paid a multiple of five times in 2018. But since then, Imperva has turned profitable, and besides, rivals trade on higher multiples. Revenues for Thales' cybersecurity and identity division are expected to reach €4.5bn by 2024, with €450m of that coming from Imperva, while profitability should rise from an estimated earnings before interest and taxes (ebit) margin of 14.5% to 16.5% in 2027. Thales is targeting €44m in cost savings by 2028. "These are all solid, commercial reasons to take an interest in Thales's shares, which have risen by just over half in two years largely due to the war in Ukraine." That Imperva's civilian customer base will complement Thales's unsung cyber-protection division that caters to military clients is another. Western governments and agencies are increasingly coming under digital attacks and demand for Thales's services will only grow.

Abu Dhabi

A merger of not-quite equals: "A merger of two companies can be a headache; a merger of two countries even more so," says Karen Kwok on Breakingviews. The state-owned Abu Dhabi National Oil Company (ADNOC), run by Sultan Ahmed Al Jaber (pictured), is in talks with OMV (32% owned by the Austrian state) to merge the two petrochemical businesses they each have a stake in, Borouge and Borealis, into a $30bn entity. After accounting for relative values and size of shareholdings, ADNOC would own 55% of the merged entity, and OMV 45%. If that sounds confusing, strategically, it makes more sense. The combined group would produce an estimated 8.8 million tonnes a year of polyolefin (used to make the plastics that surround power transmission cables connecting wind farms). That would make it one of the world's biggest producers. The real "head scratcher" is who will control it. OMV would have to inject $3bn to raise its stake above 50%. Ultimately, that Borouge gets cheap gas and oil from ADNOC to make its polyolefin may settle the matter in Abu Dhabi's favour.

Labour's plans for the economy

The local by-election results put Labour on a path to a victory in the next general election. What will they do once in power? Simon Wilson reports

Starmer: the future PM has "five missions"

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What's happened?

Last week's by-election results have confirmed the expectation that Labour will return to power next year after 14 years in opposition. The Conservatives tried to take comfort from narrowly clinging on in Uxbridge & South Ruislip, a win widely attributed to opposition in outer London to mayor Sadiq Khan's expansion of Ulez, a pollution-charging scheme. But Uxbridge is a solid Tory seat (created in 2010) where neither of the two forerunner constituencies ever voted Labour even in the Blair landslides. The swing to Labour in Selby & Ainsty was a sensational 23.7%, almost twice the 12% they'll need to win a majority. But that swing, in semi-rural North Yorkshire, reflected a low by-election turnout and a collapse in the Tory vote (from 33,995 to 12,295) rather than mass enthusiasm for Labour: its vote rose modestly from 13,858 to 16,456. So it's definitely not in the bag yet for Labour, although betting-exchange odds now imply a 65% chance of an overall Labour majority and an 85% chance it will be the biggest party. Since the Tories have no plausible coalition partner, that means it's overwhelmingly likely Keir Starmer will be our next PM. Investors' minds are turning to what that might mean for the economy.

What are Labour's plans?

In recent months Starmer and the shadow chancellor, Rachel Reeves, have been paring back Labour's spending commitments and saying as little as possible about tax. Their strategy is "safety-first" rather than promising radical change, with the aim of giving Tory strategists as little as possible to work with. Reeves has dubbed her approach "Securonomics" – defining Labour's key task as driving growth that will provide greater economic security in an uncertain world. Officially, one of Starmer's "five missions" is to get the UK's growth rate to the "highest sustained" level in the G7 in his first term – an ambitious if vaguely defined target. But for all their reluctance to be too specific too early, Labour has quietly set out a "surprisingly bold economic agenda" centred on a far more interventionist industrial policy, says the Financial Times. "It's going to be Bidenomics on steroids," one Labour adviser told the paper.

"It's going to be Bidenomics on steroids"

What does that mean in practice?

In her recent policy paper, "A New Business Model for Britain", Reeves cites Biden's Treasury secretary Janet Yellen, and her vision of "modern supply-side economics". This conception of "supply-side" reform refers to the need to mobilise all of a nation's resources – "the human potential found in every town and city" – to build a stronger economy. It is underpinned, says Reeves, by the concept of a "more active state", working in partnership with a "dynamic private sector". What that means in practice – as per Labour's announcements to date – is large subsidies for technology and green energy; a new state-run company called Great British Energy to invest in renewables and nuclear; an overhaul of planning rules; and giving workers more rights. Labour has dropped its nationalisation plans with the exception of the railway.

What about fiscal policy?

Reeves has set out fiscal rules that a Labour government will borrow only for investment, and cut debt as a share of GDP over the course of its five-year term. The party has so far refused to put numbers to spending pledges, even on the NHS, and talks up public-sector reforms rather than more funding. Last month Reeves watered down Labour's commitment to its "green prosperity plan" – a commitment to investing £28bn a year to accelerate the transition to net zero carbon emissions by 2050. Reeves said the £28bn figure would now be a target to work towards, rather than a figure allocated for the plan in the first year of government. The shadow chancellor blamed the ongoing economic "damage" done by the Conservatives. She said that "economic stability, financial stability, always has to come first" – and that "our fiscal rules are non-negotiable".

Will they inherit a mess?

The economic outlook inherited by Starmer and Reeves may surprise on the upside, says Iain Martin on Reaction. By the autumn of 2024, inflation should have returned to below 5%, or lower. Interest rates will be heading lower, too, and some moderate growth may well have returned. In these circumstances, a Starmer government will go for pro-growth policies on planning and building. Rather like Gordon Brown's surprise move to make the Bank of England independent, they won't spell it out in the manifesto. But within weeks of winning, expect Labour to "announce radical planning reform and an epic house-building programme, with some infrastructure on the side, to boost growth". Meanwhile, on tax, so far Labour has pledged only "modest if annoying raises". But in office, we can unfortunately expect the party to be "more punitive on investment taxes and the City without realising this is the exact opposite of what the country needs".

Will they succeed?

One might be tempted to argue (echoing New Labour's slogan in 1997) that "things can only get better", says Martin Wolf in the Financial Times. Alas, under Labour they could easily get worse. The party is focused on state investments in vital industries of the future. But once politicians "know" which industry of the future to promote, "we can be quite sure the world will end up with chronic oversupply and failed investments". And when we move to one of the UK's core economic problems – the fact that we save and invest too little – Labour has nothing to say. Between 2010 and 2022, the UK's gross investment rate was just 17.4% of GDP, the lowest in the G7. Even worse, the gross national savings rate was just 13.6% of GDP, far below any other G7 country. Thus, we have low investment and are unusually dependent on foreign capital to finance the investment we do have. "Labour deserves a chance. But it does not offer the answers we need. Maybe nobody can. If so, the future looks grim."

We're missing out on the shale boom

Britain has major reserves of oil and gas that are staying in the ground. That makes no sense

Matthew Lynn
City columnist

It may not attract many headlines, but the global shale oil and gas industry is steadily growing. It was already a huge business in the US and has made the country self-sufficient in energy again, as well as in Canada, where provinces such as Saskatchewan have built up vast new industries based on fracking for energy. Overall, the global industry is worth more than $60bn, creating lots of jobs and wealth in the process.

Other countries are starting to get in on the boom. Argentina has just completed a huge new pipeline that will deliver shale-oil gas to the ports where it can then be shipped around the world. South Africa has just started auctioning off ten new development blocks in the Karoo region. The province of New Brunswick in Canada is pushing through a major expansion of its shale gas industry. And China too has licensed new shale-oil fields for development. Countries have worked out that the world will still need shale oil and gas, alongside conventional fossil fuels, even as we gradually switch to renewable energy.

Sitting on our hands

There is one country that refuses to join the boom. Britain. The UK has major reserves of shale oil and gas. Surveys suggest we might have between 23 billion and 64 billion trillion cubic metres of recoverable reserves, and perhaps even twice as much. It is hard to say for certain until drilling begins, and it becomes clear how easy it is to extract. But as a general rule, most oil and gas fields turn out to be a lot more valuable once geologists get to work on them: even the North Sea, which has been generating oil for more than half a century, has lasted a lot longer than anyone expected when energy was first discovered there, and there is still plenty more left. Whichever number turns out to be correct, one point is clear. It is a lot, and enough to create a major industry in the UK, mostly concentrated in the north east, where the biggest reserves are.

Shale: a tried and tested solution to our energy and growth woes

©Getty Images

So far we have a dismal record of exploiting that. When Barack Obama was encouraging the development of the US industry, the British government handed out a round of licences to developers. A few companies, most notably Cuadrilla, started testing the ground. After protests from environmental activists and local residents the government imposed a moratorium on development. Under Liz Truss's brief and doomed dash for growth last year, that was briefly lifted, although not for long enough for any work to actually start. After Rishi Sunak took power, the ban was reimposed. The UK is resolutely staying out of the shale-oil industry.

It is not really clear why. There have been worries about earth tremors, and possible earthquakes, and health scares, but there has been drilling in parts of the US and Canada for more than a decade and so far there is no sign of anything to worry about. In fact, this is now a very well-tested and established technology. There is nothing very new about it anymore. So far all it seems to have done is generate lots of energy, jobs, and tax revenue. It is hard to see what is so terrible about that.

It is not a long-term solution, of course. If we are to meet our net-zero targets, then fossil fuels will eventually need to be phased out. That said, shale oil and gas is no worse for the environment than natural gas, and a lot better than coal. The only real difference that not producing it ourselves makes is that we import gas from abroad rather than producing it ourselves.

Go for growth

Over the last few weeks all the major political parties have started to talk about growth. They have noticed that the UK is an increasingly poor country, with huge debts, and little prospect of expanding again. It is, in fairness, good that this is finally being discussed: for too long we just took growth for granted. And yet if they are not willing to look again at shale oil as it booms around the world, they are not being remotely serious. Nothing else would be quite so easy to put in place or as guaranteed to work. Other countries are joining the shale boom – it is a tragedy that the UK refuses to join in.

City talk

● "Shareholders want [GSK] to become a bigger, better pharmaceuticals business," says Chris Hughes on Bloomberg. "Yet it has neither grown nor shrunk to greatness." Ten years ago, it was worth twice as much as AstraZeneca; now it's worth around half as much, even factoring in the Haleon consumer-health arm it spun off last year. The critical worry is whether its pipeline can counter a pending peak or decline in blockbusters, such as shingles vaccine Shingrix. "The productivity of GSK's research and development (R&D) engine has long been disappointing" and "it's now clear [it] erred strategically in steering away from oncology". CEO Emma Walmsley (pictured) is trying to fix both problems, but must resist the "quick and tempting fix" of making an acquisition to boost sales. "The core mission at GSK remains simple: generating blockbusters from its own R&D. Only then will it have licence to pay big prices for laboratories being run well by their existing owners."

● There's been a "handbrake turn" in the £465m takeover of car dealer Lookers, says Alistair Osborne in The Times. Cinch, the online car dealer that is Lookers' biggest investor, backed the bid, but now plans to vote against it. Since the deal requires 75% approval and Cinch owns 19.5%, it's set to fail. Fair enough – the offer, by Canada's Alpha Auto, was a steal: "the latest evidence of a short-termist UK stockmarket that doesn't know how to value smaller firms". Yet that doesn't explain why Cinch changed its mind. Maybe it's a negotiating tactic, or maybe Cinch's parent Constellation Automative has other plans. Constellation's CEO Avril Palmer-Baunack could have noted that Lookers' shareholders are sellers and plans to make her own bid after the shares slide. "That may not be in her plans, of course. But she holds the key to the next turn of the Lookers wheel."

● "The tech winter has continued to bite advertising groups well into the summer," says Sam Bradley in The Drum. S4 Capital, the digital agency founded by former WPP boss Martin Sorrell, has issued a fresh profit warning. Its shares tumbled last year after missed forecasts and delayed financial results; they dropped a further 20% this time. S4 is the second agency to slash forecasts. Last week, Interpublic halved its expected growth rate, blaming lower spending by tech clients.

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Retain room for doubt

It's easy to commit too strongly to an investment story. These are the three positions that worry me most.

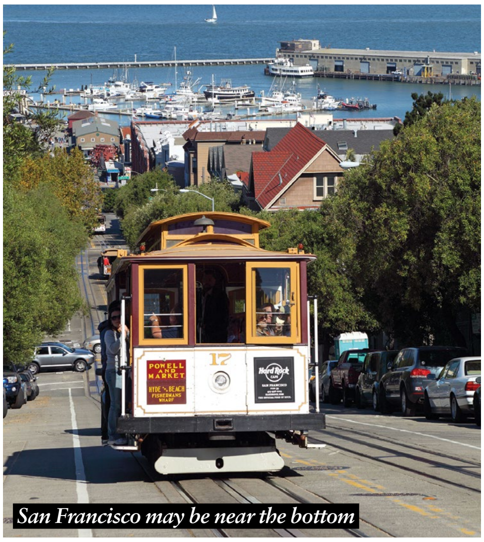
Cris Sholto Heaton
Investment columnist

One of the biggest risks as an investor is becoming so committed to a narrative that you struggle to change your mind when the facts suggest you may be wrong. There are three positions in my portfolio where this risk especially worries me.

One is oil. The oil majors look cheap to me with oil at $70-$80 per barrel, so long as they maintain discipline and remember to hand cash to shareholders instead of pumping it into new production. The risk is that new energy sources replace oil and gas much faster than I expect. We're not seeing that so far – and in the short term, the oil market seems to be tightening faster than expected – but it is something to watch given the amount being invested in renewables.

Another is emerging markets. This is a very heterogeneous asset class and lumping them all together really isn't the best way to think about them, but after a dreadful decade for many of them, it's not hard to find countries that seem to have reasonable valuations. The risk is that the kind of financial and geopolitical conditions we face this decade turn out to be far more of a headwind than the 2000s and early 2010s. This is a very tricky risk to analyse, and I'll return to it in a future article in MoneyWeek.

The third is commercial real estate in markets such as the UK and the US, where many real estate investment trusts (Reits) have seen their shares fall much faster than the reported value of their assets – especially when it comes to offices. There is absolutely no doubt in my mind that property valuations are unduly optimistic, but the bull case here is that Reit share prices are discounting more gloom than they need to – at least for Reits that don't carry too much leverage.



San Francisco may be near the bottom

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The underlying bet with offices is three-fold. First, the long-term impact of changes in how we work for demand for good-quality buildings will not be as bad as some think (low-quality buildings are in serious trouble). Second, if inflation remains high that will start to be reflected in rents and capital values (which requires demand to be fairly robust). Third, interest rates will only go massively higher if inflation remains stubborn (and that should be offset in higher rents).

Reit shares have ticked up lately on speculation that rates are peaking. In the UK, British Land is up by 15% in the past month, and Land Securities by 17%. In the US, Boston Properties (which despite its name operates in six major cities) is up 11%. Yet I would put more focus on fundamentals. Bottom-up, British Land and Land Securities are still reporting solid like-for-like rental increases. Top-down, San Francisco – by far the worst-hit US market – saw a 10% increase in demand for new office in the second quarter, according to Bloomberg, suggesting the bottom is near. So I reckon the extreme bearishness around the sector is overdone – but I am constantly looking for evidence that I'm wrong.

I wish I knew what an index fund was, but I'm too embarrassed to ask

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

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

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

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

The big advantage of passive investing is cost: a FTSE 100 index fund can have an annual charge of well under 0.1% a year. An actively managed fund could charge ten times as much, with no guarantee it will beat the index (most don't over time).

A closet tracker is an active fund that sticks close to its benchmark index to avoid underperforming the market too drastically (and thus losing clients). Investors in a closet tracker are being charged the higher fees of active management in exchange for passive performance or worse.

Guru watch

Jonathan Ruffer, founder, Ruffer

"Being right about the markets necessarily means being different from the markets," says Jonathan Ruffer, founder of the wealth-preservation-focused investment manager that runs the Ruffer Investment Company trust, among other funds. That almost inevitably means under-performing the wider market in the run-up to a correction or crisis. That's the situation the firm now finds itself in, with first-half returns being some of the worst it has delivered since it was founded in 1994.

"What's fascinating… is the nature of the underlying under-performance was different each time, and yet the investments causing the pain proved – each time – to be the key to the successful management of the crisis itself." This firm has had an extremely low allocation to equities, even as "a handful of technology names have driven the market higher". It has also been invested in the Japanese yen, which performed well during the global financial crisis.

"This time, as last, [being short] the yen has been the currency of choice for those wanting to pay as small a borrowing cost as possible… You don't have to be a genius to see that, in a crisis, everyone will de-risk", which means they will need to close yen shorts, says Ruffer. "We expect to see a strong upward move in the yen: in 2008, it went from 170 to 110 versus the dollar.

"[A crisis] would already have happened but for two unrelated phenomena that provided providential liquidity." One is the rebound in the tech giants that have driven the stockmarket. The other is the US Federal Reserve's decision to stop taking money out of the system in response to the crisis among regional banks.

This has kept markets afloat for now, but "the run of play" is in the other direction. "High interest rates mean there will be borrowers who worked out their cash flow on near-zero yields, and cannot afford the higher servicing charge. This is the latest burst of the financial Covid to come."

Jason's quest was the first gold rush

His adventure with the Argonauts helped engender the yellow metal's mystique and allure, says Dominic Frisby

We continue with my series about gold in prehistory with one of the earliest of the golden myths: Jason and the golden fleece. Pelias usurped his brother Aeson, the rightful king of Iolcos, to take the throne. He then had all Aeson's descendents killed. Aeson's son Jason, however, survived the massacre. When he was born, his mother had all her servants cry to fool Pelias into thinking he was still-born. She then smuggled Jason away to be reared by Chiron, "the wisest and justest of all the centaurs". So did Jason's education begin.

Meanwhile, an oracle warned Pelias "to fear the man with one sandal". No doubt feeling guilty about his ill-gotten kingship, he lived in dread of that prophecy. When Jason was fully grown, he set off to Iolcos to claim his throne. On his way, he chanced upon an old lady trying to cross a river and helped her across. In doing so he lost his sandal. Little did he know that the old lady was Hera, wife of Zeus, Queen of the Gods. She would become his ally.

In Iolcos, Jason was announced as a man in one sandal. He came before King Pelias, revealed who he was and claimed the kingdom. Pelias agreed to cede the kingdom, but only on one condition: that Jason brought him the fleece of the golden ram. He had set Jason an impossible task, which would take him beyond the known world (which at this stage was as far as the Black Sea), to the barbarian kingdom of Colchis. But Jason agreed.

The fleece was of a magical ram that had once belonged to Zeus. It hung from a tree in a sacred grove, guarded by bulls with hooves of brass and breath of fire, and a dragon that never slept, whose teeth became soldiers when planted in the ground. The fleece belonged to Aietes, King of Colchis, son of the sun god Helios. Another oracle had foretold that Aietes would lose his kingdom if he lost his fleece.

Legends and myths are born out of truths and here is a case in point. Sheepskins were used to pan gold from rivers, a practice thought to have begun to the east of the Black Sea in what today is Georgia (in Colchis, in other words). The fleeces were stretched over a wooden frame and then submerged in rivers, where the tight curls of the sheep's coat would catch nuggets and specks of gold carried down in the rushing water from deposits upstream. The fleeces were then hung in trees to dry, after which the gold was combed out. If you have a wet fleece full of alluvial gold hanging to dry in a tree, you are going to make sure it is well guarded.

Three impossible tasks

Jason had a ship, the Argo, built. He assembled a crew, the Argonauts, a band of heroes including Hercules and Peleus (father of Achilles). Once Jason arrived in Colchis, King Aietes set him three impossible tasks to complete before he could claim the fleece. He had to harness the fire-breathing oxen and plough a field with them. He had to sow a field with dragon's teeth and fight the phantom soldiers that appeared. And, finally, he had to overcome the dragon.

Jason was discouraged, but Hera, Jason's ally, leant on Aphrodite, goddess of love, to lend a hand. She sent her son, Eros, to shoot one of his arrows and it

"Sheepskins were used to pan for gold from rivers; the tight curls of the fleece would catch nuggets"

The fleece of the golden ram was the key to the kingdom

©Shutterstock

struck Aietes' daughter, Medea, who fell in love with Jason. Medea gave him an ointment to protect him from the oxen's fire. She showed him how to defeat the phantom soldiers with a rock that would confuse them into fighting each other. She gave him a potion to send the dragon to sleep, so that he could take the fleece.

With the fleece in hand, Jason and his Argonauts, fled Colchis. To help them, Medea murdered her brother and threw pieces of his body into the sea. Grief-stricken, Aietes stopped to collect the pieces, allowing Jason, Medea and the Argonauts to escape.

When they returned to Iolcos, Jason's father, Aeson, was too old to participate in the celebrations, but Medea used her witchcraft to rejuvenate him. Pelias's daughters asked her to do the same for the ageing Pelias. Medea advised them to chop him up and put him in a cauldron to boil, which they duly did. It was a trick, of course, and Pelias was no more. But Jason and Medea were exiled for the murder and they fled to the city of Corinth. There Jason betrayed Medea by marrying the king's daughter.

Medea confronted Jason, heartbroken, but Jason blamed Aphrodite for having made Medea fall in love with him. Medea would have her revenge, which has become the subject of many a drama since. She gave Jason's newly betrothed a dress that stuck to her body and burned her to death. The king died with his daughter as he tried to save her. Then Medea killed her own two sons fathered by Jason, and fled to Athens in a chariot of dragons sent by her grandfather, the sun-god Helios. Jason returned to Iolcus to claim his kingdom, but as a result of breaking his vow to love Medea forever, he lost the favour of Hera. He died lonely and unhappy, asleep on the rotting Argo.

It's a buccaneering adventure story with a typically tragic end. The formula of a hero, dark power and a female helper has become the backbone of numerous plots since. And the premise – a young man in search of his fortune, made of gold – applies to every youngster setting off on his or her life's adventure.

Dominic Frisby writes the newsletter The Flying Frisby. His show on gold at the Edinburgh Fringe will take place at Panmure House, in the room in which Adam Smith wrote The Wealth of Nations. tickets.edfringe.com/whats-on/dominic-frisby-gold

EU tackles substandard fish fingers

Nils Klawitter
Spiegel International

Slovakian prime minister Robert Fico spoke for 103 million people living in Central and Eastern Europe with his recent tirade against fish fingers, says Nils Klawitter. For years, EU citizens living there have been "forced to make do with second-rate versions of brand-name products" (more heavily breaded fish fingers, yoghurts with less fruit). This isn't just about "grocery racism"; it's also about the European Union's "commitment to unity". The EU executive body finally got involved once several leading Eastern European politicians started focusing on the issue, but it remains to be seen how willing the European Commission will be to act. "Questionable" industry studies maintain that companies alter recipes to suit regional tastes (Germans apparently need more "chocolatey" Nutella for their denser breads), but the bottom line is that selling inferior products boosts profits. In future, firms that cannot "adequately explain" this unfairness could face legal proceedings. Some firms are staving off a potential PR disaster by taking action. Leibniz, for instance, now uses butter instead of palm in all the biscuits it sells. As for the rest, it seems strange that they persist in putting the "reputation of their most important brand names at stake".

It's not all doom and gloom

Simon Kuper
Financial Times

The view that we are "heading for apocalypse" is becoming increasingly prevalent, says Simon Kuper. The only doubt is over "which of the four horsemen" – climate change, AI, a pandemic or nukes – will "get us first". However, the fact is there are some "cheering shifts" under way. Renewable energy is "advancing unexpectedly fast", with the International Energy Agency upgrading forecasts and now expecting renewables to account for "almost the entire global expansion in electricity" between 2022 and 2027. If this pace of growth continues as a result of technology being so much cheaper (making it in companies' and governments' self-interest to invest) it may just "save us". It is also our "only hope", since the past 30 years has taught us that neither states nor individuals are prepared to make sacrifices for the common good. Then there are the medical breakthroughs, from malaria and mRNA vaccines to new Alzheimer's drugs. And although AI might "end up destroying us", for now it's "turbocharging drug discovery" and relieving humans of "much mundane work". This, along with working from home, could help us to lead more enjoyable, fulfilled lives. "These optimistic scenarios are plausible. Our job is to make them happen."

Post Office bosses need locking up

Marina Hyde
The Guardian

The Post Office scandal, the "most widespread injustice in British legal history", may not be getting the coverage lavished on "more frivolous news", but with the official inquiry under way and "precisely no one" having yet been held accountable, it's not too late to get angry, says Marina Hyde. In this "Kafka-esque nightmare" dating back more than 20 years, innocent subpostmasters were "turned into criminals to cover up the fact that the Post Office's Horizon computer system didn't work". Many were imprisoned, at least 60 have died and it has been blamed for four suicides. Meanwhile, the Post Office, which has been "serially withholding" evidence, ran a bonus scheme to "reward executives for cooperating with the inquiry". Paula Vennells, CEO for much of the period, left her post "with a CBE and £5m". This, from an outfit that said it "needed up to £1bn from the taxpayer to fund the compensation and clean-up" to avoid bankruptcy. Compensation schemes for the victims are "a mess". A correspondent suggested to me that the "entire over-remunerated executive class" from that era should be "chucked straight into prison and have to argue their way out". It happened to subpostmasters, so why not them?

The danger in magical thinking

Brian Merchant
Los Angeles Times

The reason the battle between actors and writers and AMPTP, a trade association that represents major studios and tech behemoths such as Netflix and Amazon, is "shaping up" to be so "intractable and momentous" is not just because of AI or the economics of streaming residuals, but because studio executives have "embraced the powerful – and ultimately disastrous – magical thinking pumped out by Silicon Valley for the last ten years", says Brian Merchant. Just as it did when it was issuing from the tech sector during the 2010s, talk about the "brave, unpredictable new world for entertainment" from studio heads too often amounts to a "smokescreen that lets executives and investors line their pockets and risks leaving workers holding the bag". Big-name investors sank millions into Netflix's vision of on-demand streaming and other firms raced to adopt its business model. Crucially, however, "data about shows' performance and viewers' habits were kept proprietary" to avoid Wall Street having a "collective stroke". Now the boom times are over and bosses are trying to do what Silicon Valley did when its "other big swings" (eg, Uber) didn't work out: "squeeze labour". I hope those striking get a "Hollywood ending".

Money talks

"I hung out with this woman who was a star in the mergers and acquisitions area, and she was, in the best sense, a killer… [M&A] back in those days was like pure adrenaline. And to be a woman in that situation where you go to a meeting and [there] would be… ten guys who were all so aggressive to get ahead. [She] was the smartest in the room without question. I ran back to show-business and thought: 'Well, this is easy.'"
Actor Sigourney Weaver (pictured) on shadowing a woman who worked on Wall Street to prepare for her role in the 1988 film *Working Girl*, quoted in The Sunday Times

"In a hierarchy, every employee tends to rise to his level of incompetence."
Laurence Peter, quoted in Canada's Globe and Mail. The aphorism encapsulates his "Peter principle" of management

"In Europe there is a gradual understanding that the order of magnitude for everything is lacking a zero. You do not talk about hundreds of millions, but billions, when it comes to investing in batteries or semiconductors."
French financier Philippe Tibi fears Europe is falling behind in the global technological race, quoted in the Financial Times

"At school everyone judged their fathers by the car they drove. And woe betide the person who once turned up in a Rolls-Royce and next turned up in a Ford Granada."
Former pop star and vicar Richard Coles, quoted in The Sunday Times. Coles's father was a rich shoe manufacturer who went broke while Coles was a teenager at boarding school

"Getting married, because when I started earning my wife said: 'Let's buy a house.'"
Comedian Simon Day on the best financial decision he ever made, quoted in The Telegraph

Britain needs to play catch-up

The UK is now much more akin to Poland than it is to the US

sambowman.co

Since the 1970s, growth in advanced economies has slowed down, says Sam Bowman. The countries at this "frontier" have "maxxed out" on what further growth can be had from existing inputs and must now rely on innovation, which has itself stagnated. This is not as much of a problem for places such as Bangladesh, or indeed Poland, because they still have some way to go before they reach the frontier. What our governing elites don't realise is that Britain is in this latter camp.

Lagging the frontier

Consider some statistics. The US is 39% richer than the UK measured by GDP per capita, adjusted for purchasing power. GDP growth since 2010 has been 47% faster. The US is 38% more productive measured by output per hour worked (France and Germany are closer to the US than to the UK). Indeed, Americans could stop working each year in mid-September and they'd still be richer than Britons for the whole year. A car-wash manager at a chain of US petrol stations earns more per year than three median UK salaries.

Many input costs, from housing to energy, are higher in Britain than America too: a median square foot of housing costs about half that in the UK; industrial energy costs in the US even before the Ukraine war were about half of Britain's. If current trends continue, Poland will be richer than Britain in about 12 years' time.

In a way, this is an "optimistic" analysis: "the UK has a policy problem, not a fundamental scientific one". That means the route to improvement relies not so much on risky bets on artificial intelligence as on more mundane things such as infrastructure and getting the cost of energy and housing down. The trouble is, getting such things done requires a consensus among the elites, and Britain's elites don't even recognise the problem let alone agree on the solution. They are focused on things like net zero, inequality, obesity, delivering Brexit, cutting immigration, and other priorities that are "either unrelated to or diametrically opposed" to the "most important goal" of making the country richer.

The elite have no serious ideas on this because they are "not serious about anything other than managing public opinion". The elites must then be won over to this viewpoint, or other strategies pursued that don't rely on widespread support from the elite– pursuing uncontentious reforms that would incidentally make for a more growth-friendly environment, for example. The sooner we realise we're "a lot poorer than we ought to be, the sooner we can start to change that".

Generation Z's career calamity

businessinsider.com

"The bosses are excited about ChatGPT," says Ed Zitron. The artificial intelligence (AI) boom is a boon for firms that want to "automate away spreadsheet building, generic copywriting, and other monotonous tasks in the name of becoming more 'efficient'". Far less consideration is being given to the people this new tech will affect. The mundane tasks being replaced by AI are generally those handled by entry-level workers. Over the past several decades, many firms have "gutted training programmes, neglected mentorship, and taken no responsibility for fostering workers' development". "Earning your stripes" through such "grunt work" and learning the job through "osmosis" was the only thing left. Now, AI is stripping away even this. Little wonder surveys show Generation Z is particularly concerned about AI and its impact on their careers. Young workers are headed toward a "career calamity". They may be more comfortable using AI technology than their older coworkers, but their bosses' "obsession" with it threatens to undermine their careers. "Management spent decades disconnecting themselves from the younger workers who are the backbone of their businesses. And if these executives already won't train their junior employees, it's no surprise they're ready to get rid of them altogether."

Why we're still WFH

wsj.com

"An unexpected group of workers is leading the resistance to the five-day office week: top-tier executives," says Anne Marie Chaker. The corporate push to get workers back into the office is being resisted by influential senior employees who "strongly prefer the option of working from home at least part of the time", according to research from McKinsey. These executives may be small in number, but have "outsize stature", not least because they are top performers who competitors will poach with the promise of remote work.

Deb Andrychuk, for example, a director at Sony Interactive Entertainment, walked away from tens of thousands of dollars in long-term incentives on top of an annual salary of more than $200,000 at Lowe's, a DIY retailer. Being allowed to work from home was the "deal breaker". "I have two ageing dogs that have to be taken out," Andrychuk says,and she estimates she's now saving $3,000 a year on pricey coffees, lunches, and commuting costs. And it's "nice to throw in a load of laundry between meetings". "Life is so much better when you have flexibility," she says.

Senior executives are more than happy with the status quo

"Experts" in the mud over Covid

snowdon.substack.com

It is now two years since the government lifted all Covid restrictions, says Christoper Snowdon. Not everybody was thrilled at the prospect of "Freedom Day". A group of self-proclaimed experts wrote to The Lancet and British Medical Journal to condemn the move as "unethical and illogical" and an "abdication of the government's fundamental duty to protect public health". The Guardian's Polly Toynbee called it a "calamitous" decision. Keir Starmer thought it "reckless". Lib Dem leader Ed Davey called for mask-wearing to remain mandatory. The Tony Blair Institute predicted disaster; modellers said it was inevitable that infections would soar. The rest of Europe, bar Sweden, and much of the rest of the world, looked on in horror and kept themselves locked up.

The predicted disaster didn't happen, of course. But the "people who had been so hysterically and completely wrong dusted themselves down and prepared to do it all again when the Omicron variant emerged in the winter. None of them has ever apologised."

Incredible India: the new economic superpower

GDP could exceed Germany's by 2030, while recent progress in infrastructure and manufacturing – in addition to highly profitable listed firms – makes India a compelling growth story, says Alex Rankine

Earlier this month, India's Chandrayaan-3 lunar explorer blasted off from Sriharikota, in Andhra Pradesh. If the mission succeeds, India will become "only the fourth country to achieve a soft landing on the Moon", says Geeta Pandey on the BBC. The launch was greeted at the space centre by cries of "Bharat Mata ki jai [Victory for Mother India]".

The space launch is only the latest manifestation of India's growing global stature. Prime minister Narendra Modi is being fêted by Western leaders. Already the world's fifth-largest economy, India looks poised to surpass Germany and Japan by the end of the decade to take third place behind China and the US. The $3.5trn stockmarket has outgrown London and Paris to become the world's fourth-largest and will eclipse Japan's by 2030, say Morgan Stanley's analysts.

The International Monetary Fund (IMF) forecasts annual GDP growth of just over 6% between 2023 and 2028, the average pace of the past 30 years, says Martin Wolf in the Financial Times. On its current trajectory, GDP looks set to match America's by 2050. Even if growth disappoints, the sheer size of the population – already the world's largest at 1.43 billion and growing – makes it "quite reasonable to assume that India will become a great power".

The Licence Raj

It wouldn't be the first time that India has stood at the forefront of global affairs. "The Indian subcontinent had been the planet's largest economy for most of the last two millennia, says James Crabtree in his 2018 book *The Billionaire Raj*. "In the late 17th century... India's Mughal Empire presided over close to a quarter of global gross domestic product" (a share similar to America's today).

Colonial rule pushed India to the periphery. By the time of independence in 1947, India's share of world GDP had fallen to 4%. Then Jawaharlal Nehru, the country's first prime minister, looked to the Soviet Union as a model of industrialisation. The result was a dense thicket of tariffs and regulations. The "British Raj" was replaced by the "Licence Raj".

Heavy-handed bureaucracy choked off growth; success in business was defined not by innovation, but by one's connections to the state, which handed out all-important permits. In 1991 this "crony socialism" ran out of steam amid a financial crisis that saw Indian GDP plunge to just 1% as a share of global output.

While the crisis was "wrenching", it also opened the way to liberalisation. During the 1990s, the "dusty stockade of licences and tariffs" was scrapped and the economy was opened up to global trade. New fortunes were made in pharmaceuticals and car manufacturing. There was a huge IT outsourcing boom led by innovators such as Narayana Murthy, the founder of Infosys (and the father-in-law of Rishi Sunak).

In the early 2000s new magnates emerged in industry, infrastructure and telecoms. These sectors had "closer ties to the state"; the need for construction and labour permits has not gone away. Some fear that these billionaires have come to wield too much economic and political power, ushering in a "billionaire Raj" that looks suspiciously like the pre-1991 system. "A lot of the massive new projects of India, the new highways, the new airports are... completely authoritarian in the way that they are done," author Rana Dasgupta told an OECD panel in 2018.

"The Indian subcontinent has been the world's largest economy for most of the last 2,000 years"

Others argue that India needs the new tycoons if it is to fulfil its growth potential. Take Gautam Adani, the billionaire behind a "sprawling conglomerate" that runs everything from ports to energy, says Bhaskar Chakravorti in Foreign Policy. The Adani Group of companies has been "key to tackling India's infrastructure challenges", pouring billions into new energy projects as well as running India's largest airport operator and its biggest private port. "If Adani stalls, many argue, then so could India's progress."

That theory was tested in January this year when Hindenburg Research, a New York short-seller, published a blistering report accusing the Adani conglomerate of "brazen stock manipulation and accounting fraud". The furore wiped $150bn off the value of Adani's shares, taking their collective value from 6% of the Indian market down to 3%. The affair shook confidence in wider Indian corporate governance too, wiping 6% off the Nifty Fifty stock index between late January and mid-March.

But then the scandal ebbed. In May an interim official report said regulators had yet to find any evidence of share-price manipulation. Adani has sought to allay criticism by delaying new investments, paying down debts and bringing new investors on board.

Investors have shrugged off the issue: the Nifty and the BSE Sensex, another Mumbai-based stock benchmark, have both rallied by 16% since mid-March. Corporate governance problems are not unique to India, after all, as shareholders burned by Germany's Wirecard, a payments business that collapsed in 2020 amid criminal probes, could attest.

Paying for growth

While Indian growth has been overshadowed by China's in the last few decades, the two countries' stockmarkets tell a different story, say Niraj Bhagwat and Philip Brooks of asset manager Wellington Management. The MSCI India index has hugely outperformed MSCI China over the last 30 years in dollar terms. Over the past decade, the Chinese market has returned an annualised 5.69%, compared with 8.87% for India.

One explanation for India's stockmarket success is "survival of the fittest". While Beijing has provided "ample support" to help local industries thrive, in India success comes "despite the government", not because of it. The cost of capital in India is far higher than in China. While that hurts growth, it also weeds out weaker firms. In the rough and tumble of the Indian marketplace, only companies delivering top-shelf returns on capital survive.

India boasts "some of the highest-quality companies" in Asia, Adrian Lim and Pruksa Iamthongthong of Asia Dragon Trust tell Shares

The population is the largest in the world at 1.43 billion

magazine. Indian corporations boast "strong market positions… superior return metrics, solid balance sheets, consistent growth through cycles and some of the most capable management teams" in the region.

The result? Indian shares trade at a long-standing premium to other emerging markets. The MSCI India index is on a forward price/earnings (p/e) ratio of 21, far above the average of 12 across emerging markets.

The country also trades on a premium to most developed markets. For example, the "India-listed subsidiary of consumer-goods giant Nestlé" trades on a forward p/e of 68, say Hudson Lockett and Chloe Cornish in the Financial Times, more than three times the rating of its Swiss-listed parent.

Indian shares even command a 10% valuation premium to America's infamously pricey stockmarket, Lorenzo La Posta of Momentum Global Investment Management tells CNN's Anna Cooban. Yet he thinks that Indian shares are "expensive for a reason". In a dangerous world where growth is becoming scarce, India still represents a "massive opportunity".

A "flailing" state

There are reasons why Indian growth has disappointed before. The Indian state has often stood in the way of growth. While the upper echelons of Indian bureaucracy are quite impressive, the further down you go the more overwhelmed state services become, says Lant Pritchett of Harvard University. "In [the] police, tax collection, education, health, power, water supply... there is rampant absenteeism, indifference, incompetence, and corruption".

In the late 2000s Pritchett dubbed India a "flailing" state, one that tries "to do too much and ends up doing things badly", say Ajay Chhibber and Salman Anees Soz in their 2021 book *Unshackling India*. Delhi's bureaucrats have a "penchant for grand schemes and plans", but lack the means to execute them properly. Some joke that India's economy only "grows at night when the government sleeps".

The problem is not that the state is too big, but rather that it is overmighty in some areas and under-resourced in others. India has "too few teachers, doctors, judges, police personnel", while appearing "to have too many clerical and support staff". In most government offices you will find many employees "hanging about... waiting to carry the boss's bag to their car".

The statistics ministry is dysfunctional, adds Vrishti Beniwal on Bloomberg. Inflation, for example, is calculated with reference to a basket of goods that hasn't been updated in more than a decade, with the absurd result that "the statistics ministry still collects sales data for near-obsolete items such as audio cassettes".

Economic data is often revised and there has been debate over how reliable GDP statistics really are. As former chief statistician Pronab Sen puts it: "We have [programmes] for people below the poverty line, but we don't know the number of poor people". For investors trying to gauge the scale of the opportunity for Indian growth, the task is thus complicated by the fact that the country "has a serious data problem".

Key areas of the economy remain over-regulated, say Chhibber and Anees Soz. Restrictive labour laws prevent India from harnessing its "most plentiful" resource: its vast population. Other "haphazard laws and regulations" waste scarce land and capital. An inefficient banking system means that the spread between lending and deposit rates is "among the highest in the world", making loans painfully expensive for budding entrepreneurs.

Other Asian countries have developed by first building a manufacturing base to export to global markets. Low-end manufacturing generates plentiful jobs that can offer a route out of poverty

Continued on page 22

"The statistics ministry still collects sales data for near-obsolete items such as audio cassettes"

Continued from page 21

for subsistence farmers. Yet India risks "premature" deindustrialisation: manufacturing's share of GDP fell from 17% in 2010 to 13% in 2022 (compared with China's 28%).

Instead, India's growth has been "lopsided", concentrated in areas such as IT outsourcing or e-commerce, where building permits and labour laws cause fewer headaches. While that generates opportunities for educated English speakers with software know-how, it does little for those who have had fewer academic opportunities: "42% of the workforce still toils away on the farm", a fact that weighs heavily on national productivity.

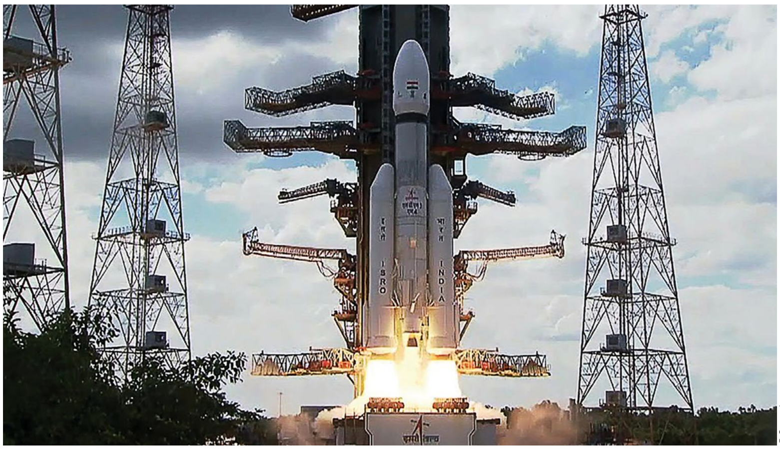
Becoming +1

Yet India's manufacturing sector is now catching a favourable geopolitical wind. Stung by the disruption of the pandemic, multinationals want to diversify their supply chains, an approach dubbed "China+1". If India can attract enough new factories, then it might finally be able to fit the missing piece into its development jigsaw.

Manufacturing costs in India are still higher than in China, yet that hasn't stopped Apple's suppliers Foxconn and Pegatron from setting up factories in southern India, says Una Galani on Breakingviews. JPMorgan predicts that "India will make one in four iPhones within two years". India used to be at the back of the queue as foreign direct investment flowed to East Asia. Now, suddenly, "executives who spoke to Breakingviews... worry about overheating".

The Indian stockmarket might also be overheating, warns Ashutosh Joshi on Bloomberg. Managers of several local small-cap funds are turning investors away amid unmanageably large inflows. Indian retail investors have been betting heavily on penny stocks. Small-cap funds recorded a record monthly net inflow of Rs54.7bn ($666m) in June, more than treble the amount mid-cap funds raked in.

The BSE Small Cap index has gained 30% since late March, compared with 16% for its large-cap counterpart as "a flood of liquidity" chases gains in ever more obscure corners of the market. While the current trading frenzy warrants caution, the Sensex's swift rebound from the Adani selloff earlier this year is a reminder that it hasn't paid to bet against India of late. Taking a longer view, the growth opportunity is



India is poised to become only the fourth country to achieve a soft landing on the moon

one of the world's most compelling. India is fixing some of its most long-standing problems. Infrastructure, for example, has been a major barrier to manufacturing investment, but it has noticeably improved recently, says The Economist.

The road network has lengthened by a quarter since Narendra Modi took office in 2014, and the number of airports has doubled. New Delhi has also proved ahead of the curve on digitalisation, backing "state-sponsored digital services, from e-banking to welfare payments, that reach hundreds of millions of people".

While growth rates can be difficult to predict, demography is a much surer bet. The median age in India is 28.2, compared with 39 in China. The workforce looks set to keep growing until the late 2040s, a long-lasting demographic dividend that should keep GDP ticking along.

Finally, the headroom for growth is immense. India's GDP per capita was still just $2,388 last year, according to World Bank data. That is only 19% of China's GDP per capita and 5% of the UK's. "Catch-up" growth is easier to achieve than growing a rich economy that is already at the frontier of innovation. India's bureaucracy may be clunky, but that also means there is lots of low-hanging fruit still to pick.

India is "about 18 to 20 years behind China in terms of manufacturing and urbanisation", Jane Andrews of BambuBlack Asset Management tells James Crux in Shares. Should it emulate its northern neighbour, the Indian growth story has barely begun.

"JPMorgan predicts that India will make one in four iPhones within two years"

What to buy now

The simplest way to buy into the Indian market is through a passive tracker such as the **iShares MSCI India UCITS ETF (LSE: IIND)**, an exchange-traded fund with an ongoing charge of 0.65%. While the MSCI India index is up by just over 5% year-to-date in dollar terms, for sterling investors a strengthening pound has wiped out most of those gains. Over the last five years the tracker has returned 43.5% in sterling.

While investors are often advised to opt for passive vehicles, the calculus is more complicated in emerging markets. There is a case that active managers can earn their fees in these less transparent environments by steering portfolios clear of local market landmines. Until recently some thought that India was an exception to the rule. Indian market regulators are well-regarded globally, which is one reason that the country's stocks trade at such rich valuations.

Yet the Adani imbroglio could prompt a rethink. As Una Galani says on Breakingviews, "India is an easy place to miscalculate", especially for foreigners who are lulled into a false sense of security by the widespread use of English. Questions about Adani's corporate governance have been around for some time, so "a good number of clients of top Indian... institutions had largely steered clear". Not so for index compiler MSCI, which had blithely given Adani's stocks a 5% weighting in its trackers (it has since slashed that figure).

One active fund is the **Abrdn New India Investment Trust (LSE: ANII)**. It is slightly down so far this year and has returned an underwhelming 17% over the past five years. It is a more defensive portfolio, which may prove useful amid signs of market overheating, but it has underperformed the MSCI India benchmark over the last decade as well and the 1.23% ongoing charge is somewhat rich. One positive is a sizeable 20.4% discount to net asset value (NAV).

The **JPMorgan Indian Investment Trust (LSE: JII)** has gained 18.27% over the last five years and has a more modest ongoing charge of 0.82%. It trades on a 17.3% discount to NAV, a decent price for "a diversified portfolio of blue chips", as Ian Cowie puts it in The Sunday Times.

The **India Capital Growth Fund (LSE: IGC)**, which focuses on mid-cap and small firms, has caught this year's small-cap boom and is up by 10% year-to-date. A 59.4% gain over the past five years is also impressive, but caution is warranted given signs of overheating in this part of the market. It trades on a 6.6% discount to NAV with a 1.59% ongoing charge.

Finally, the **Ashoka India Equity Investment Trust (LSE: AIE)** recently celebrated its fifth birthday and boasts the most impressive recent record of the bunch, having gained 109% in five years. The portfolio is tilted towards banks, IT plays and consumer stocks. Buoyed by its success, the trust trades at a slight premium to NAV. The ongoing charge is 0.34% and investors are also charged a performance fee of 30% for any returns that beat the MSCI India benchmark.

Balance income and capital gains

Dr Mike Tubbs singles out nine stocks poised to deliver strong earnings growth and solid dividends

Many investors need a regular and increasing income from their shares but also like the companies they invest in to show predictable growth, so that the share price rises and delivers a decent capital gain over the years. This means identifying companies with a long record of increasing dividends, along with steadily growing profits, earnings per share (EPS) and stock prices.

This clearly excludes companies with the highest dividend yields but only very low growth. With interest rates at their highest since 2008, investors are looking for stocks where the dividend yield and EPS annual growth rate are jointly well above the rate of interest that can be earned from easy-access savings accounts (currently just over 4%).

The Barclays Equity Gilt Study shows that between 1899 and 2019, equities beat cash for 76% of the five-year periods. We expect the type of company identified in this article to do better than that. Five years is a sensible choice, since it is the shortest time horizon over which it is wise to invest in shares.

For example, if a company's share price rose by 10% each year for five years it would be worth 60% more than at the start of the half-decade. So even if the dividend yield is only 2% each year, total returns would easily beat any savings account. If you had put £1,000 into a savings account paying 4%, you would receive income of £200 over the five years.

But £1,000 invested in the stock would deliver a total of £728, comprising a capital gain of £595 plus total dividends of £133 (the dividend rises from 2% of £1,100 at the end of the first year to 2% of £1,595 for the last). Both cash and shares are tax-free if they are in an Isa. If you are prepared to take the extra risk of shares over a cash deposit, then shares, in this example, give you more than three-and-a-half times the return from cash deposits.

Four key requirements

When searching for a company with both a good long-term share-price performance and consistent dividend yield, you need to focus on four key factors. These are, firstly, a record of profitable growth (revenue, profit and EPS growing predictably); and, secondly, a record of steadily increasing dividends with good dividend cover. That means the dividend is a modest proportion of net profit – less than 50% is best, so dividend cover is over two times.

Thirdly, the company needs net cash or modest debt to ensure it avoids getting into financial difficulties when interest rates rise; fourthly, it has a "moat" – an enduring competitive advantage that deters potential rivals from entering its market. Strong brands and patents are examples of moats.

We will give examples of companies satisfying these criteria from several different sectors such as biopharmaceuticals, defence and aerospace, engineering, food, beverages, distributors and business services. Most of the examples given below pay dividends giving yields of at least 2%.

But we also include two companies with records of profitable growth and rising dividends where the current yield is less than 2% but is likely to rise above 2% in a few years, given the company's dividend growth record.

"Merck's investment in research and development should help it replace drugs that are coming off patent"

© Lockheed Martin

Lockheed Martin is the world's largest defence contractor

Top picks in seven major sectors

The first example is **Merck (NYSE: MRK)**, with a forward dividend yield of 2.76%; the payout has risen every year for more than the last ten years. Merck has a record of growth with revenue up by 40% to $59.3bn since 2018, and EPS up by 145% to $5.73 over the same period. Net debt is a comfortable 42% of operating profit and dividend cover is more than two times.

Merck has a wide moat formed of patents and economies of scale, and boasts the successful cancer drug Keytruda, with 2022 sales of $21bn. Keytruda illustrates Merck's strong position in the emerging area of immuno-oncology. Merck is also strong in vaccines and active in diabetes and other diseases. Merck invests 22.9% of sales in research and development (R&D) to develop its pipeline of new drugs, and the productivity of its R&D has improved in recent years. This high investment in R&D should ensure it has new, patented drugs to replace existing ones as they come off patent. Merck's share price has jumped by 80% over the past five years.

In the defence and aerospace sector we pick **Lockheed Martin (NYSE: LMT)**, the world's largest defence contractor, which makes fighter aircraft (including the advanced F-35), Sikorsky helicopters, missiles and space systems. It has a wide moat based on intangible assets, decades-long product cycles, and the prohibitive cost to a client of switching to a competitor's products. The dividend yield is 2.63% and the shares are up by 41% over the past five years. Revenue has increased by 23% to $66bn since 2018, while operating profit is up by 15% to $8.4bn. The dividend has been raised every year for the past 20 years, and has doubled since 2015.

In the engineering sector our choice is **Spirax-Sarco (LSE: SPX)**, which has a long record of profitable growth, providing customers with industrial and commercial steam systems, control equipment, electric thermal products and pumps. It has a wide moat based on intangible assets, switching costs and close relationships with customers.

While the forward dividend yield is only 1.42%, the dividend has been steadily raised each year for at least ten years. It doubled from 76p in 2017 to 152p in 2022. If this pattern were repeated over the next six years, the yield on an investment made now would rise to 2.84%. Revenue has climbed by 41.5% to £1.6bn since 2018. Operating profit has jumped by 45% to £347m over the same period. The share price has gained 59% over the past half-decade.

McDonald's looks tasty

In the food sector there is **McDonald's (NYSE: MCD)**, which boasts a wide moat and a steadily rising dividend that currently gives a 2.07% yield. The shares are up by 89% over the past five years. Another example in food is **Archer-Daniels-Midland (NYSE: ADM)**, one of the world's major processors of oil seed, corn, wheat and other agricultural products.

It also transports, stores and sells crops worldwide and has an animal-ingredients business. ADM has a forward dividend yield of 2.26% and the shares are up by 74% over the past five years. Sales grew by 58% to $102bn between 2018 and 2022, with operating profit up by 109% to $4.2bn over the same period.

In the beverages sector our example is **Coca-Cola (NYSE: KO)**, which has a wide moat based on its famous brand and sheer scale; a forward dividend yield of 3%; and shares that have increased in value by 46% over the past five years.

The dividend has increased every year for more than 20 years. Revenue expanded by 35% to $43bn between 2018 and 2022, with operating profit up by 29% to $12bn over the same period.

"When diversifying, choose stocks in sectors likely to respond differently to economic turbulence"

We have two examples from the distribution sector. The first is **Diploma (LSE: DPLM)**, which supplies specialised technical products and services to a range of industries through its three divisions of controls, seals (for mobile machinery and fluid power) and life sciences.

Diploma's current yield is 1.85% but the dividend has more than doubled to 53p in five years, with the share price up by 135% over the same period. Revenue more than doubled (£485m to £1.01bn) from 2018 to 2022, while operating profit almost doubled to £144m in the same time span. Were the dividend to double over the next four years, too, the yield for an investor buying the shares now at 3,120p would rise from the current 1.85% to 3.7%.

The second example from distributors is **Bunzl (LSE: BNZL)**, which provides customers in 30 countries with thousands of items, including cleaning products, disposable cutlery and personal protective equipment (the majority for the food-service sector).

Bunzl's forward dividend yield is 2.25%, and the dividend has been raised every year for at least a decade. The dividend has almost doubled to 62.7p in the last ten years and the shares are up by 25% over the past five years. Sales have grown by 33% to £12bn since 2018, with operating profit increasing by 51% over the same period.

Relx (LSE: REL) is a promising stock from the business-services sector. It is a diversified data-analytics specialist, with clients in scientific, medical, and legal fields. Its forward dividend yield is 2.14% and the shares have climbed by 54% over the past five years. Relx has a comfortable operating profit margin (operating profits as a percentage of sales) of 27% and maintains steady growth of sales, profits and dividends. The dividend has been raised every year for at least ten years and has more than doubled since 2014.

The importance of diversification

I chose seven sectors because of the importance of diversifying investments to reduce the effect that a problem in one sector can have on overall returns. For example, I remember an acquaintance of mine praising his big investment in Lloyds Bank some years ago. It was giving him an excellent dividend income. The payout was 23p in 2007-2008, so with the share price at 270p in February 2008, the yield was a satisfying 8.6%.

But then came the financial crisis and Lloyds paid no dividend at all from October 2008 to May 2015. The dividend for 2015-2016 was only 1.25p, rising to 2.4p in 2022-2023, with the current share price around 46p. It was therefore unwise to put a large investment into one company in the banking sector despite its apparent safety and attractive yield before 2008.

Contrast this with, for example, Coca-Cola, which increased its quarterly dividend from $0.17 in 2007 to $0.21 in 2009 and $0.46 in 2023. Merck's dividend, meanwhile, was unchanged from 2007 to 2009 and has since almost doubled.

The key point about diversification is to have companies in varying sectors that are likely to respond differently to problems in the economy. For example, banking is likely to behave very differently to pharmaceuticals if growth hits the buffers; the same applies to the drinks and engineering industries.

Use the examples given above to help you choose a set of companies in very different sectors that have records of growth and steadily increasing dividends to give you both a regular income and the expectation of useful capital gains over a five-year period.

Watching your weights

The strong performance of large-cap tech stocks means concentration risk is high

David C. Stevenson
Investment columnist

If you want to invest in surging US equities, you might want to consider an equal weighted tracker fund.

It's very hard for active fund managers to sustain a competitive edge when it comes to US equities. Our friends across the pond boast very liquid, very fast-moving markets that tend to incorporate the value of something very quickly.

I'm not saying it's an impossible task to out-think Mr Market, but it's tough, especially to do so consistently. This naturally leads you down the path to an index fund or exchange-traded fund (ETF), that tracks the S&P 500 or the Nasdaq Composite.

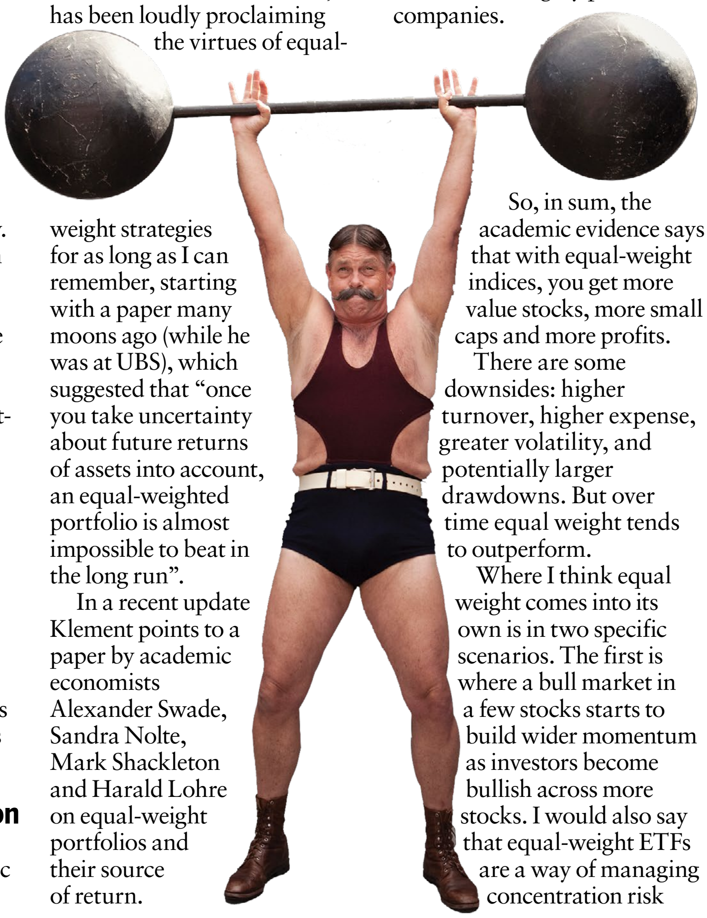
These indices are built around the principle of market-cap weighting, which can produce highly concentrated performance when a handful of very successful companies dominate that index's returns – as has happened in recent months with the tech revival. You may be fine with that outcome, but it is an obvious concentration risk, especially if one of these dominant stocks (eg, a high-flying stock such as Nvidia) suddenly gets derated.

The equal-weight solution

However, there is a solution and it's one that most academic economists think is infinitely superior. It's called equal weighting an index and the logic is relatively simple. For example, if we have 500 companies (worth a total of $500) then all we do is on a regular basis (probably every quarter) we reset all weights back to an equal weight of 0.2% (100 divided by 500 stocks). That's it.

Joachim Klement, a strategist at investment bank Liberum, has been loudly proclaiming the virtues of equal-weight strategies for as long as I can remember, starting with a paper many moons ago (while he was at UBS), which suggested that "once you take uncertainty about future returns of assets into account, an equal-weighted portfolio is almost impossible to beat in the long run".

In a recent update Klement points to a paper by academic economists Alexander Swade, Sandra Nolte, Mark Shackleton and Harald Lohre on equal-weight portfolios and their source of return. They found that the biggest contributor "to the difference in returns between equal-weighted and market cap-weighted S&P 500 comes from the small-cap bias. This bias is about three times as important as the value bias inherent in the equal-weighted index". Another finding is that equal-weighted portfolios benefit from a higher allocation to highly profitable companies.



So, in sum, the academic evidence says that with equal-weight indices, you get more value stocks, more small caps and more profits.

There are some downsides: higher turnover, higher expense, greater volatility, and potentially larger drawdowns. But over time equal weight tends to outperform.

Where I think equal weight comes into its own is in two specific scenarios. The first is where a bull market in a few stocks starts to build wider momentum as investors become bullish across more stocks. I would also say that equal-weight ETFs are a way of managing concentration risk over the long term in big mega-cap indices – and there's plenty of that around at the moment.

A small but growing field

The snag is there aren't many equal-weight indices and even fewer ETFs here in the UK. But there are a handful of US equity ETFs, mainly focusing on the S&P 500. There are three widely used funds: **Invesco S&P 500 Equal Weight (LSE: SPED)**, **iShares S&P 500 Equal Weight (LSE: ISPE)** and **Xtrackers S&P 500 Equal Weight (LSE: XDEW)**. The biggest by far is the Xtrackers one, which I own.

A few more are emerging, especially in the lopsided world of tech stocks. Invesco has just listed its **Nasdaq-100 Equal Weight ETF (LSE: IEWQ)**, which has a total expense ratio (TER) of 0.20%. This tracks the Nasdaq-100 Equal Weighted index of the 100 largest companies on the Nasdaq stockmarket, excluding financials. This means its top-ten holdings constitute 10% of its total weighting versus 60% in the parent index at present. The weight of the technology sector is also reduced to a little over 50% to 35% of the equal-weight benchmark.

My view is that if you think the tech rally is here to stay, this may be a good time to broaden your exposure to a wider range of stocks than the big names that have been leading the market higher. Equal-weighted ETFs offer an obvious way to achieve that at low cost.

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Activist watch

French luxury group Kering, which is majority owned by the Pinault family, is facing an attack from activist investors including Bluebell Capital, says Bloomberg. The firm has been "dusting off its defence strategies and preparing to beef up" efforts to engage shareholders in an attempt to appease activists. Shares in Kering have lagged other peers in the luxury-goods sector over the past 12 months, as sales at its flagship Gucci brand have disappointed. Bluebell "brought up the merits of a merger" with rival Richemont in a meeting with Kering,says Bloomberg – an idea that Richemont's bankers pitched two years ago. Bluebell wants Kering to consider other deals, as well as evaluate organisational changes and push forward changes at Gucci.

Short positions... Hipgnosis considers its options

■ **The Hipgnosis Songs investment trust is considering strategic options to narrow its discount to net asset value (NAV), says Investment Week. The income-focused trust, which owns a portfolio of music-royalty rights, is currently trading at a 48% discount to NAV. CEO Merck Mercuriadis has been meeting with key investors to discuss options – including a sale of some of its song catalogue – ahead of its five-year continuation vote, which is slated for September. Meanwhile, investors in the ThomasLloyd Energy Impact trust are also pushing for the trust to stage a continuation vote. Trading in the shares has been suspended since April after its auditor refused to sign off on its 2022 accounts due to "material uncertainty regarding the fair value of certain of its assets and liabilities". Now shareholders have requisitioned a general meeting to discuss the potential liquidation of the trust despite ongoing concerns about the value of its assets.**

■ A proposed merger between Abrdn New Dawn Investment Trust and Asia Dragon Trust "makes a lot of sense", says Citywire. The two trusts announced their intention to merge last week, the latest in the string of combinations in the investment-trust sector. Smaller trusts are struggling to attract the attention of wealth managers and institutional investors, who tend to pick a handful of trusts for their clients' portfolios and will, therefore, only buy trusts where they can invest large sums. Many smaller trusts don't have the liquidity required. Under the merger proposal, New Dawn will transfer its assets to Asia Dragon, creating a £700m fund that could be more appealing for larger investors. Economies of scale should also mean lower costs, with the ongoing charge falling from 0.85% to 0.75%.

A luxury stock in disguise

Investors wrongly consider Watches of Switzerland a high-street outlet

Matthew Partridge
Shares editor

Investors have a tendency to view stocks as typical of the sector that they operate in. Usually this makes sense, since some factors, such as the macroeconomic backdrop, affect all firms, no matter how well – or how badly – they are run.

However, when markets focus on the overall industry to the exclusion of everything else, they can overlook some excellent companies, especially if they have misunderstood the business. An interesting case in point is the retailer **Watches of Switzerland (LSE: WOSG)**, whose shares have languished recently.

WOSG's problem is that markets view it as just another mid-market retailer operating on the British high street. As a result, its shares have fallen by around 50% over the last 18 months. People expected its sales to stagnate as Britain's reopening boom gave way to the cost-of-living crisis.

However, this view misses the fact that its products – luxury watches and jewellery – mean that it in fact operates at the high end of the market, making it relatively immune to turbulent economic conditions.

Strong relationships

It has spent a great deal of time and effort cultivating strong relationships with some of the leading Swiss brands, putting it on a par with companies selling high-end goods, such as LVMH and Hermès, which continue to prosper. Even if the economic problems do spread into the luxury market, there are long waiting lists for several of the watches that WOSG sells, so it shouldn't suffer.

In addition to benefiting from the strong growth of the luxury market, WOSG has some interesting ideas about future expansion. Although originally focused on the UK, it has gradually expanded its presence in the US market, which now accounts for just under half of its sales.

There are long waiting lists for the group's watches

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The board hopes to grow this percentage, taking advantage of what it see as a lack of competition in America. At the same time, the group thinks that Europe is another market where it could expand its footprint in future.

Another compelling reason to be positive about Watches of Switzerland is its valuation. Despite strong double-digit growth, and a high return on capital employed (a key gauge of profitability) that has enabled it to more than quadruple its free cash flow over the past four years, it is only valued at 13.4 times 2024 earnings. This is barely more than slower-growing high-street chains such as Marks & Spencer. A more appropriate comparison would be with LVMH and Hermès, which trade on 2024 price/earnings (p/e) ratios of 24 and 51 respectively.

"The shares are barely pricier than those of slower-growing retailers"

There are also signs that WOSG's strong fundamentals and appetising valuation are finally being recognised by investors. While the stock is still just under a third off its 52-week highs, it has gone up by 8% over the last month and is now above its 50-day moving average. I would therefore go long at the current price of 706p at £3 per 1p. I would put a stop-loss at 400p, which would give you a total downside of £900.

Trading techniques...assessing auditors

Auditors have a dismal reputation. Their job of checking the books is deemed one of the most boring jobs in finance, and they don't do it especially well – witness the demise of Arthur Andersen. It was put out of business in 2002 owing to its perceived failure to stop the massive fraud at Enron.

Still, despite their failings, auditors can still provide some useful signals to investors, especially when they raise concerns. A 2001 study by the Kelley School of Business, looking at 123 auditors' resignations between 1994 and 1998 found that the decision of a company's auditors to quit (even when the reasons for the resignation were not disclosed) caused the shares to decline by an average of 3.4% in the day after the news. However, when this resignation was explicitly linked to disagreements over accounting, the typical decline increased to 9.7%.

But if you want a strategy that relies on a longer timeframe, you might want to consider shorting companies where the auditor has raised concerns. A 2013 study by the Nanyang Technological University, the University of Miami and the University of Warwick found that between 1993 and 2007, US firms whose future as a going concern had been queried by the auditor for the first time lagged the market by 14% over the subsequent year.

Similarly, a 2004 study by the Cranfield School of Management found that UK firms disclosing uncertainty on the part of the auditor about whether they were a going concern lagged the market by between 24% and 31% in the next 12 months, depending on the benchmark used.

How my tips have fared

Over the last fortnight six out of my eight long tips have risen, with only two falling. Builder DR Horton advanced from $118 to $128, discount chain B&M European Value Retail rose from 544p to 554p, Computacenter increased from 2,144p to 2,258p and brick manufacturer Ibstock climbed from 126p to 150p.

Estate agent Savills jumped from 835p to 964p and Mitie increased from 97p to 100p. However, Clarksons fell from from 2,965p to 2,861p, while Gamma Communications dipped from 1,136p to 1,132p. My long tips are now making a net profit of £1,237.

By contrast, three of my six short tips rose and three fell. Ticketing firm Live Nation went up from $92.42 to $96.11, payroll company Paycom increased from $336 to $351, and Sunrun appreciated from $17.50 to $21.15.

However, electric car-charging firm EVgo fell from $4.45 to $4.15, AST SpaceMobile declined from $4.40 to $3.90, and GameStop dipped from $23.21 to $22.76. My short tips are making a small net loss of £210.

The short and long tips are now making combined profits of £1,059. I have nine long tips (DR Horton, Gamma Communications, Savills, B&M, Ibstock, Computacenter, Clarkson, Mitie and Watches of Switzerland). I also have six short ones (EVgo, AST SpaceMobile, Live Nation, Paycom, GameStop and Sunrun).

I would recommend that you increase the stop-losses on DR Horton to $95 (from $90), Ibstock to 100p (96p), B&M to 305p (300p) and Mitie to 60p (58p). I would also cut the price at which you cover PayCom to $410 (from $420), GameStop to $25 ($28.60) and Sunrun to $26 ($27.50).

Get a free financial MOT

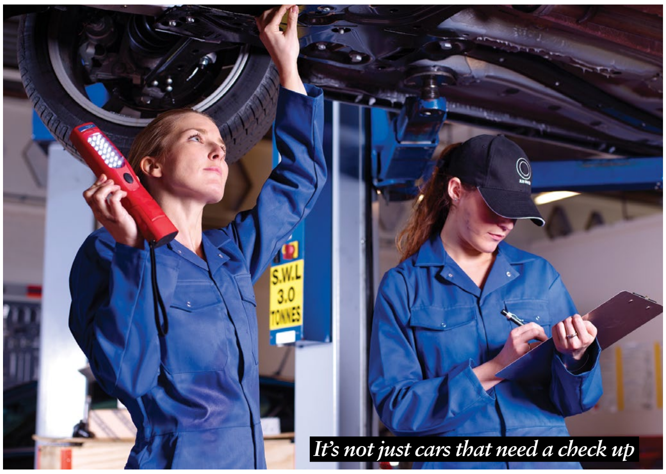
The government's new digital tool could help you plan for retirement

Ruth Emery
Money columnist

The government has expanded its "midlife MOT" scheme, which is intended to help older workers aged 45 to 65 get a handle on their finances and plan for a more comfortable retirement. Midlife MOTs were previously only available in person at a Jobcentre, but an online version has now been launched to offer people across the UK a free financial check-up.

While the scheme is aimed at people aged 45 to 65, in fact you can get one at any age. You may like to use it at any point before turning 45 if you have concerns regarding finding a job, or your health or finances. If you're thinking of retiring early, it could be useful to do an MOT before you're 45 to make sure you're on track and prepared for retirement.

However, you can and should also perform your own regular review by checking your finances and thinking ahead. Don't just do this as a one-off event: schedule a once-a-year check-up to keep your plans on track.



It's not just cars that need a check up

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Three tips for your MOT

First, look at your cash and how well you are using it. How much do you have? What interest rate is it earning? Is your "rainy-day fund" large enough? Aim to have savings worth three to six months of essential costs in an easy-access account in case of emergencies.

Second, think about your retirement targets. When do you want to retire? How much income do you think you'll need? How much will you need to save to achieve that? There are plenty of free online tools to help you work these things out.

Third, do you have a plan for what happens when you're gone? This is not the nicest topic to think about, but it is an essential part of financial planning. Drawing up a will means your assets will be distributed according to your wishes. Think about inheritance tax and how to reduce the amount that your heirs will lose to the state.

As well as the government's tools, several pension providers have launched their own MOT for customers, while some employers offer them to their staff. In particular, Aviva has a Mid Life MOT app that provides users with a free check-up on their work, wealth and wellbeing. It is open to everyone (you don't need to be an Aviva customer or employee), and designed for those aged 45 to 60.

If you live in Devon, Cornwall, the North East or East Anglia, and are working and in your 40s or 50s, you may also benefit from a midlife MOT as part of a pilot that the Department for Work and Pensions is running with private-sector suppliers.

Elsewhere, don't forget the Pension Wise service. This lets those aged 50 or over with a defined contribution pension, such as a personal pension or workplace scheme, have a free 60-minute appointment with a pensions specialist where you can discuss topics such as how to take money from your pension in retirement and get impartial guidance.

Reclaim tax on pension payouts

Pension savers reclaimed more than £56m on pension withdrawals that had been taxed too much in April, May and June this year – the highest three-month figure since records began. Those who were overtaxed when making a withdrawal from their pension reclaimed an average of £3,551 each.

The rise in the number of people paying too much tax comes down to the way HM Revenue & Customs (HMRC) looks at withdrawals. When you make your first withdrawal from a pension, it is taxed on a "month one" basis. This means that HMRC treats this initial withdrawal as if it is going to be repeated in each month over the year. As a result, just 1/12th of the personal allowance is applied to the payment, with the rest assessed against 1/12th of the current income-tax bands.

After you make regular withdrawals at lower levels, then the taxman will automatically adjust your tax code. As a result, you should quickly end up paying the right amount, meaning you don't need to do anything. However, a problem arises for those who are only making a single withdrawal, since that doesn't give HMRC the chance to correct its initial error through your tax code.

So if you make a one-off withdrawal, you have a couple of options. One is to wait until the end of the tax year when you file a self-assessment. To get your money back faster, you will need to fill out one of four different forms (P53Z, P50Z, P55 and P53), depending on how much you've taken and your other income.

Pocket money... HMRC makes taxpayers wait

● Waiting times for callers to HM Revenue & Customs (HMRC) have increased from five minutes on average to more than 20 minutes, says The Times. Some advisers have reported wait times of several hours, and even being cut off before being able to speak to a representative. Delays are even worse for those trying to get in touch with HMRC via post, with some taxpayers reporting response times of up to a year.

As response times have jumped, so have complaints, which are up by 40% in three years. HMRC received 91,000 complaints in the 2022-2023 tax year, up from 65,625 in the 2019-2020 tax year. Of these, 5,871 complaints were escalated for a "second-tier review", when a taxpayer was not happy with how their complaint was handled.

● American Express (Amex) is ending its policy of offering pro-rata refunds on credit-card fees when cards are cancelled mid-year, says travel website Head for Points. Amex has been unique among UK card issuers in allowing partial refunds on fee-paying cards such as the Amex Platinum (£575 per year) and British Airways Premium Plus (£240 per year).

This made it possible to take advantage of sign-up bonuses without paying a year of fees. Now refunds are being phased out, perhaps because too many people were taking advantage of this loophole. The terms changed for new cards at the beginning of June, while the terms for existing cards will change on 2 October. Personal charge cards – which Amex no longer issues but are held by a number of existing customers – are not affected.

● Savers need to pay close attention to whether their money is fully protected under the Financial Services Compensation Scheme (FSCS) when using online savings platforms, says the Times.

Some firms, such as Chip and Raisin, are not individually covered by the FSCS, but keep the money in high-street banks, which are covered. Investment platforms such as Hargreaves Lansdown have FSCS cover, but cash deposits are also placed with banks. Since the FSCS covers deposits up to £85,000 per individual per institution (not per account), users with large savings through multiple platforms should check that they are not indirectly placing over £85,000 with a single bank.

Avoid an inheritance bill

Your retirement savings can help with tax planning

David Prosser
Business columnist

Will the Conservatives abolish inheritance tax (IHT) if Rishi Sunak manages to win the next election? The idea of ditching the levy is now being discussed by senior government officials, with the prime minister keen to come up with an eye-catching manifesto pledge on tax. But don't hold your breath. The £7bn a year cost of getting rid of IHT will be hard to meet.

Still, the good news is that there are many ways for families to plan ahead to reduce, or even avoid, a potential IHT bill. And it makes sense to do so, as record numbers are being caught in the net. Sensible use of gifting allowances and good estate planning can make a big difference. And private pensions offer huge opportunities to tackle IHT issues.

That's because in most circumstances, money you hold in a private pension does not count towards the value of your estate for tax purposes. In other words, any pension assets you pass on to dependants won't be taken into account when your estate is assessed to see whether inheritance tax is due. In the past, that wasn't terribly helpful, since pension rights often disappeared on savers' deaths.

Today, however, it is possible to pass on a wide range of unused pension wealth. If you have money in a defined-contribution pension plan that you've yet to use to buy an annuity – either an individual plan or a workplace scheme – you'll almost certainly be able to pass it on, though you'll need to specify to your pension provider who should receive the money.

The government is considering ditching the tax if it is re-elected

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For those receiving these assets, there may be no tax at all to pay on the money. If you die before 75, your heirs can draw on the money as they wish, with no tax due. If you are 75 or over when you die, your beneficiaries will pay income tax on withdrawals at their marginal rate. Either way, the money is exempt from IHT.

Mind the annual limit

Given these advantages, pensions have become a great way to plan for IHT. To start with, it may make sense to move into your pension plans those savings and investments that do fall within the IHT net. You'll even get income-tax relief on these contributions.

The only caveat here is that you must stay within your annual allowance, which currently prevents you from paying more than £60,000 into private pensions without tax penalties.

In addition, once you reach the point where you need to draw on your savings for retirement income, think carefully about which funds to use first. If you have savings outside your pension plans – in an individual savings account (Isa), say – it may be sensible to use up this money before making withdrawals from your pension pot. That way you'll be running down an asset on which IHT could be chargeable before turning to one where IHT is not a consideration.

Finally, bear in mind that money inherited from pensions can also be bequeathed to subsequent generations. If your heirs don't use the pension assets you leave them, they can pass them on to their own dependants with no further tax issues to worry about. Pensions can be a great way to have money cascade down through generations of your family.

Who will pay your pension?

Thousands of members of the United Utilities pension scheme will see liability for paying their pensions move to Legal & General after the utility agreed a £1.8bn deal with the insurer to take on the arrangement. It's the latest such deal in the final-salary pensions industry, with £20bn of pension liabilities transferred in similar transactions already this year. Such deals make sense for both parties. Employers no longer have to worry about managing the risk and cost of a pension scheme where pensions have been guaranteed to staff. Insurers, which already specialise in running arrangements of this type, earn additional revenues from taking on the schemes.

But what do such arrangements mean for pension-scheme members themselves? Some are pleased with them, since it means they no longer have to be concerned about the solvency of a sponsoring employer. Others are anxious that insurers may make inappropriate investment decisions or levy high charges – and that benefits might be adversely affected. Some reassurance comes from the fact that regulators are scrutinising this trend closely. The Bank of England has already warned insurers to tread carefully when it comes to risk. Final-salary schemes also typically have independent trustees, who have a legal duty to protect members' interests. Still, pension-scheme members should ensure they keep up to date with what's happening in their plans.

News in brief... how to maximise annual contributions

- If you're a member of a pension scheme now run by the Pension Protection Fund (PPF), the lifeboat service set up to take on schemes of employers who have gone bust, check what annual pension increases you're entitled to. A quirk of the PPF rules means that as many as 260,000 savers are missing out on pension increases linked to inflation. That's because the PPF only guarantees to make inflation-linked increases on benefits accruing from pension contributions made after 1997. On money saved before then, your pension will rise by a maximum of 2.5% a year.

- Women in their 60s and 70s could be missing out on as much as £4,000 worth of state-pension benefits each year because of errors in government record-keeping. Women who took time out of work to look after children have long been credited with national-insurance contributions for years in which they claimed child benefit, enabling them to qualify for a full state pension. But ministers have discovered those credits weren't paid to thousands of women, meaning they don't have enough national-insurance payments to get the state pension in full. The government has promised to investigate the issue, with women entitled to claim retrospectively.

- Pension savers are stepping up contributions to private plans following the state's decision to abolish the lifetime allowance (LTA) on private pension funds, advisers report. For some, that may even mean bumping up against the annual allowance on contributions, which is still in place, albeit at £60,000 in the 2023-2024 tax year, up from £40,000 in recent years. If that's your situation, consider taking advantage of the carry-forward rules, which allow you to use unused annual allowance from the past three tax years in the current tax year.

A sustainable competitive advantage is the key to a company's success

Two professional investors tell us where they'd put their money. This week: Ben Goldsmith (top) and Luciano Suana of the Menhaden Resource Efficiency trust

Menhaden Resource Efficiency seeks to invest in businesses that either deliver or benefit from the more efficient use of resources. Our approach recognises companies working to reduce their environmental footprints. We overlay this thematic focus with strict criteria covering both quality and value. We like to own businesses with enduring assets (and franchises) generating cash flows that are predictable over the long term and not at risk of disruption.

These businesses must benefit from enduring competitive advantages and possess genuine pricing power, enabling them to outgrow inflation. Finally, we want to buy them at reasonable valuations. This approach has served us well. Our equities span three broad themes: technology/cloud; aviation; and infrastructure. These all offer secular growth and their industry structures provide the incumbents with formidable competitive positions.

Post-pandemic air travel takes off

Commercial aviation's recovery from Covid is nearly complete. Air travel remains a growth story. Three-quarters of the global population have never been on an aeroplane. Strict regulations and efficiencies from operating fewer aircraft models bolster growth in the sector and deter rivals. Fleet renewal requirements and the need to decarbonise remain unchanged.

We own positions in **Airbus** (**Paris: AIR**) and **Safran** (**Paris: SAF**) as the firms' aircraft and engines offer a step change in fuel efficiency. Both companies' decarbonisation targets have been recognised by the Science Based Target initiative. They are the dominant suppliers in the fastest-growing narrow-body aircraft segment. Airbus's production is sold out until 2029. Deliveries should increase from a target of 720 this year to more than 1,000 in the coming years and underpin significant earnings growth. Safran should continue to benefit from a growing installed base of engines and their recurring high-margin aftermarket sales.

Cloud computing, meanwhile, offers major cost and emission savings compared to traditional enterprise datacentres. These stem from economies of scale and higher utilisation rates. The demand for computing power and the value it provides is only increasing. We hold positions in each of the major providers: **Amazon** (**Nasdaq: AMZN**), **Microsoft** (**Nasdaq: MSFT**), and **Alphabet** (**Nasdaq: GOOGL**).

"The demand for processing power is on the rise, boosting cloud computing firms"

North American rail operators enjoy pricing power

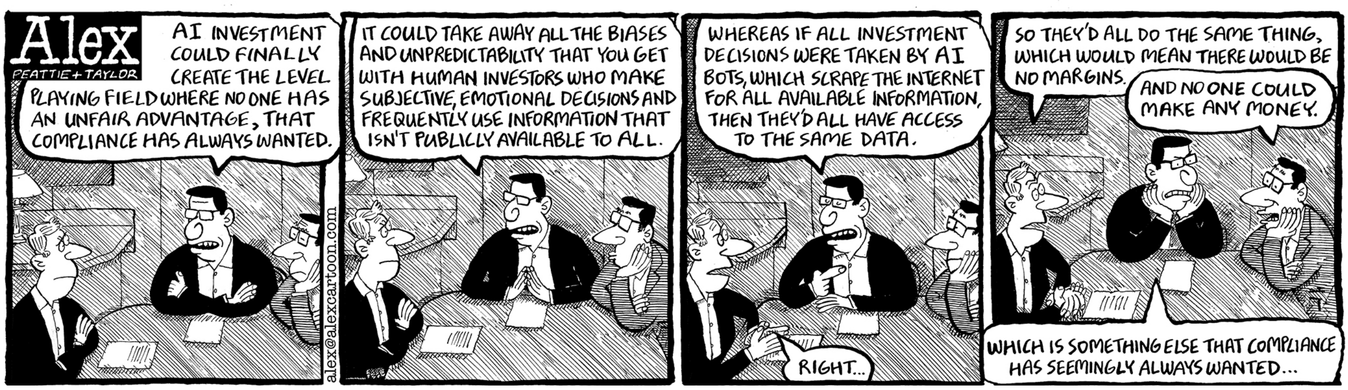
©Getty Images

Amazon's CEO Andy Jassy says cloud computing is still in an early innings: 90% of IT spend remains on-premises. These firms will be among the chief beneficiaries of growth in artificial intelligence (AI). We expect their cloud businesses to support their earnings growth rates for a long time.

Driven by duopolies

Economies of scale mean that transporting freight by rail is up to four times more fuel-efficient than by road. This provides North American rail operators with a significant cost advantage over trucks on longer-haul routes as no one is building railroads today. The industry operates in a series of duopolies and companies have pricing power. GDP growth should prove supportive of volumes.

We hold positions in **Canadian National Railway** (**Toronto: CNR**), Canadian Pacific, now renamed **Canadian Pacific Kansas City** (**Toronto: CP**) and **Union Pacific** (**NYSE: UNP**). Their long routes lessen competition from trucks. Their management teams consistently return cash to shareholders via dividends and buybacks. The Canadian duo should benefit from faster volume growth as Canadian ports gain market share from US ports. Canadian Pacific's volume growth should also benefit from new routes following the acquisition of Kansas City Southern. New leadership at Union Pacific should help it fulfil its potential and deliver genuine improvements in operations and profits.



The fall of an old-school City icon

Crispin Odey cultivated a reputation as one of the smartest guys in the financial industry and by 2008 his firm was managing $5.25bn in assets. Now, his empire is crumbling. Jane Lewis reports

Earlier this year, Crispin Odey joined colleagues at Grosvenor House in Mayfair for "the hedge-fund world's equivalent of the Oscars", says the Financial Times. Odey Asset Management won "firm of the year". Few of those celebrating the win at the black-tie gala would have guessed that, within months, the £3bn asset manager would all but cease to exist.

Felled by a sex scandal, the firm is set to break itself up and Odey faces a possible rash of legal action over allegations of sexual misconduct. At least two of the 13 women he is alleged to have assaulted are pursuing civil claims. Odey has denied any wrongdoing.

The Financial Conduct Authority is also investigating whether Odey is a "fit and proper" individual to work in financial services over allegations he breached integrity rules in dismissing the executive committee of his firm in 2021 for "an improper purpose".

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"Odey was the face of all that was unacceptable about the City"

"Crispin Odious"

As banks and other institutions rushed to cut ties, one stockbroker told clients that Crispin Odey has become "Crispin Odious", according to The Times. Renowned for making £220m in a day in 2016 by betting markets would fall sharply after a Leave vote, Odey was already, to many, the face of all that was unacceptable about the City.

An arch-Brexiteer, the Old Harrovian was accused by Remainers of gloating over the referendum result. "*Il mattino ha l'oro in bocca* – the morning has gold in its mouth," he told an interviewer on Brexit morning. Still more insidious, says Byline Times, were Odey's close links with Tory politicians. Cultivating friendships with Boris Johnson among others, he was one of the most influential hedge-fund donors in UK politics. Last September when the ex-chancellor Kwasi Kwarteng (a former protégé at Odey Asset Management) presented his ill-fated "mini-budget", it was reported that Kwarteng enjoyed a "budget day cocktail party" with financiers, including hedge-fund managers who stood to from the crash caused by his policies.

Odey was noticeably absent – true to form, he was away grouse shooting on the fateful day, says the Daily Mail – but still made millions from bets against UK gilts and the pound, claiming he'd seen it all coming "from miles away".

The only son of a Yorkshire family that made its fortune in the tanning industry, Odey read history and economics at Oxford and trained as a barrister, but switched to the City when his family ran into financial difficulties. In 1985 he began working at Barings International, where he "flourished", says the FT. But when Barings shifted its investment approach away from "individual star bankers", he decided to set up on his own. With backing from investors including the billionaire financier George Soros, he formed Odey Asset Management in 1991. The timing was propitious. "It was the dawn of an era in which soaring stockmarkets created vast fortunes for a growing number of hedge funds run by imperious managers." Odey played the part perfectly. Although the early years of his fund were "tumultuous", his "willingness to endure risk levels most financiers could not tolerate helped him recover" – a pattern repeated throughout his career. His reputation as one of the "smartest guys" in the City was sealed when he cleaned up during the financial crisis, having instructed staff to start shorting banks in January 2007. By the end of 2008, assets under management had grown to $5.25bn.

Devotee of the two-bottle lunch

Odey and his trademark braces epitomised the old-school culture of the City, says The Times, and he was "a devotee of that declining institution, the two-bottle lunch". After a short first marriage to Rupert Murdoch's oldest daughter, Prudence, he married Nichola Pease – a banker with dynastic ties to some of the City's largest financial institutions – in 1991. For a while, "they were improbably labelled the 'Posh and Becks' of the City".

Odey's marriage crumbled after his acquittal of indecent assault charges in 2021. Now he has been ousted from his firm, too. "I still think tomorrow they're gonna take it all away from me," he said with a laugh after betting on Brexit in 2016. Percipient to the last, you might say.

The worst trades in history... the Victorian bicycle boom

A primitive bicycle, powered by the rider walking, emerged as early as 1817, but it took another four decades for a pedal-powered version to emerge, and even then early bicycles were unstable, difficult to steer and expensive. In 1885, however, a new design appeared that made them much more stable and easier to steer, and they became a viable mode of transport. By the late 1880s a huge number of bicycle manufacturers started to emerge in Birmingham and Coventry as demand took off.

What was the trade?

In the 1890s cycle companies floated on the stockmarket, mainly on regional exchanges. The shares soared, fuelled by promises of large sales and the efforts of promoters, such as Ernest Terah Hooley, who paid magazines and newspapers to recommend the shares. Cycling shares more than doubled in the space of a few months in 1896; by the spring of 1897 the average cycling share was trading at three-and-a-half times its initial level.

What happened?

The boom collapsed almost as soon as it started as demand was simply not great enough to sustain the number of firms clamouring for a slice of the market. By the end of 1898, cycle shares had collapsed, falling by an average of 71% from their peak 18 months before. Terah Hooley was forced to file for bankruptcy.

Lessons for investors

Investors who held on to their shares lost millions. By 1910, 120 out of 141 companies had either gone bankrupt or endured reorganisations that saw shareholdings massively diluted. Estimating the impact of technological change is always hard, of course, but it's always useful to think about whether there is a viable market for the product before investing in a company, rather than letting yourself be impressed by the technology and getting carried away. It also pays to think about competition – only a few firms will end up being successful.

Scotland's magical bird isles

Matthew Partridge combines a stay at Marine North Berwick with a visit to see the puffins

Marine North Berwick is ideally situated for a round of golf

To a Londoner like myself there is something surreal about the small coastal town of North Berwick. Less than a 30-minute train ride from the centre of Edinburgh, it seems a world away from the bustle of Scotland's capital. It has retained its own distinctive character instead of being swallowed up by its larger neighbour or turned into a tourist trap. Having arrived just after the longest day last month, I was able to take an after-dinner walk along the beach and enjoy the sight of people playing midnight golf. The town is also home to the National Museum of Flight, which houses the only retired Concorde in Scotland.

An unmissable isle

As well as the beauty of the town itself, North Berwick is a gateway to the islands that can be seen from the town. The Scottish Seabird Centre, located in the harbour, runs regular daily boat trips, weather permitting. These range from an hour-long cruise to a trip ashore on Bass Rock, the site of the world's largest colony of northern gannets, and described by no less than David Attenborough as "one of the wildlife wonders of the world".

The four-hour trip to the Isle of May is an unmissable experience. When I last visited the island two years ago, I made the schoolboy error of waiting until mid-August, and while it was still charming enough, with cliffs and a 200-year-old lighthouse, the puffins and most of the other seabirds had departed at the end of the previous month. So, even though I was arriving much earlier this time, I was still worried about whether I would be able to spot one of Britain's most celebrated birds.

Suffice to say, my fears proved to be groundless. Although required to keep to the paths to avoid disturbing the breeding puffins, I ended up spoiled for choice when it came to close-up views of these birds, many with mouthfuls of fish for their young dangling from their beaks. As well as puffins, gulls, kittiwakes, razorbills and more, I spotted seals lounging on the rocks. It was not surprising that the other visitors and I, along with our guides, Amy and Stewart, left with smiles on our faces.

A beautiful boutique stay

Berwick's proximity to Edinburgh means that it is possible to include it as part of a day's outing. However, connoisseurs of boutique hotels will want to take the opportunity to enjoy the five-star Marine North Berwick, part of the Marine & Lawn hotel group. Located only a ten-minute walk from the train station, its proximity to the beach means that guests can wake up to sweeping views of the local golf courses, as well as of the Firth of Forth. The location is reflected in the design of the luxurious rooms, which mix tartan sheet covers and dark floral wallpaper, with even the bedside tables painted to evoke the fairway.

> *"Many of the puffins had fish dangling from their mouths"*

Marine North Berwick provides plenty of things to do, especially for avid golfers, with staff happy to arrange tee times for guests at a range of courses. This includes those of the North Berwick Golf Club, whose clubhouse is across the road. Not only is it the 13th oldest golf club in the world, but it is second only to St Andrews in terms of length of continuous operation. It has hosted the final qualifying for The Open several times. Guests whose golf is a little rusty, or a little less advanced (like yours truly) can also take advantage of the putting green on the hotel lawn.

Marine North Berwick also has an excellent spa. This combines a well-stocked gym, a swimming pool and a steam room. However, the undisputed highlight is the hot tub, which is cleverly designed so that half of it is in the open air. Indeed, there is nothing more relaxing than wallowing in the soothing heat of the bubbling water while feeling the sea breeze on your face.

As well as excellent accommodation, the hotel provides delicious food. While you can order snacks and favourites from the Bass Rock bar and eat them in the garden, the Lawn, the main restaurant, is worth visiting for dinner. It offers a range of top-quality cooking, with a special emphasis on food that comes from north of the border. For starters, I selected the delicious Loch Etive trout and crab fish cake, with bisque and fennel, while for my main course I enjoyed the dry aged sirloin from the Tweed Valley.

Matthew was a guest of Marine North Berwick. From £189 a night, including breakfast, marineandlawn.com

Bentley's fond farewell

The Flying Spur Speed Edition 12 is a fitting send-off for a mighty engine. Chris Carter reports

Yet another Bentley Flying Spur, says John Howell on PistonHeads. The previous two versions – the standard one and the S – were both hybrids, and the latest Speed Edition 12 is similar in bodywork, interior and spaciousness. "It does what a Bentley should do, which is to make you feel very special indeed." So far so Bentley. But it is what the Speed Edition 12 carries in its nose that makes this version so different – not a "teensy-weensy" V6 petrol engine, "supported by an umbilical cord of wires and magnets. No, it has the nobility of the W12". That means twice the cylinder count of the hybrid, more than twice its engine capacity, and 58% more power – 659hp in total, "so even if you factor in the hybrid's electrical side, this petrol-powered monolith... still outguns the future by 115hp". The Speed Edition 12 produces an "astonishing" 664lb ft of torque. The development of hybrids has been "spectacular, but it's still remarkable to see what the old guard can muster after all these years of evolution". Now, that evolution has come to an end.

This is the final year that Bentley will produce its "famed" W12 and it is seeing it off with just 120 Speed Edition 12s, says Charlie Martin for Autocar. They are based on the "blackline" specification, "which trades the polished-chrome finish around the car… for more subtle black paint". The engines are individually numbered and owners will also receive a 15%-scale model of the W12 block, cast from the same aluminium as the production cars' power plants, as a momento.

The Flying Spur Speed Edition 12 reaches 0-60 mph in just 3.7 seconds, says Sean Carson in Auto Express. But what is even more impressive is how effortlessly it gathers speed, "moving forward with a swell of acceleration rather than any great histrionics. It's all very Bentley, as are the saloon's ride and refinement". The British luxury car marque has "delivered a worthy celebration of its iconic engine" and "as send-offs go, the Flying Spur Edition 12 is one of the best".

Price: £231,200, bentleymotors.com

"As send-offs go, the Flying Spur Edition 12 is one of the best"

Wine of the week: a chenin to set pulses racing

2022 Reyneke Biodynamic Chenin Blanc, Stellenbosch, South Africa

£23.99, harrogatefinewine company.com, bedfordstreetwines.co.uk

Matthew Jukes
Wine columnist

I enjoyed the "Encounter South Africa" tasting earlier this month and found many new wines to raise the pulse and keep this country front of mind when restocking your cellar. I set myself the challenge of picking the finest estate on the day, and it must be said, with four near-perfect wines in the portfolio, that Reyneke romped home with this trophy! My headliner is undoubtedly one of the most scintillating and complex chenins I have tasted in years. It brings so many layers of fruit and fractals of excitement without loading any excess weight on the palate. If you, like me, find chubby chenin hard to swallow, then this wine will electrify your palate while satiating your fine-tuned neurones like no other.

2022 Reyneke Biodynamic Sauvignon Blanc (£24, thewine cellarlouth.co.uk) is even more taut and fresh-herb-soaked, and it reminds me of elite Pouilly-Fumé spiked with Cape flora hints. And 2020 Reyneke Organic Syrah (£23.99, harrogatefinewinecompany.com) is, curiously, built with similar tension and restraint as the two whites. This is a pure, clean, mineral-soaked, black-fruit-drenched wine, and it manages to retain a sleekness and freshening quality that makes it downright magical. Calm, smooth and teasingly bitter on the finish, this is about as classy as syrah gets, and I

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

This week: properties for around £2m – from a farmhouse on a rural estate in Dumfries and Galloway, Sco

Pennybridge Lane, Mayfield, East Sussex. An extended oast house in a semi-rural location set in landscaped gardens that include a home office. The house has vaulted ceilings and a large kitchen and family room. 4 beds, 2 baths, recep, garden room, summerhouse, stable block, swimming pool, paddock, 4.22 acres. £1.995m Savills 01892-507000.

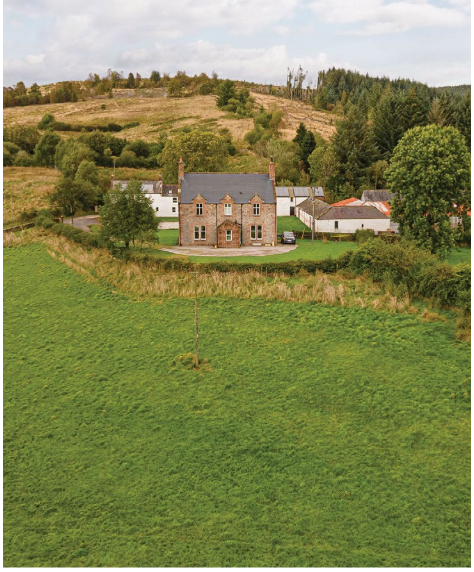
Compton Heights, Guildford, Surrey. This house was built in 1997 in an elevated position with views over the Surrey Hills. It has leaded-light windows, wood floors, a large dining kitchen and a triple-aspect sitting room. 5 beds, 3 baths, 2 receps, study, triple garage, landscaped gardens, 0.42 acres. £2m Knight Frank 01483-617920.

The Manor House, Bradninch, Exeter, Devon. A Grade I-listed house built in 1547 with 17th-century wings that were redesigned in the 18th-century. It has exposed stone walls, beamed ceilings, oak floors, leaded-light windows and grand fireplaces with ornate carved oak surrounds. 6 beds, 3 baths, kitchen, dining hall, drawing room, library, office, indoor swimming pool, 1-bed flat, lake, gardens, 7 acres. £2m Strutt & Parker 01392-215631.

otland, to an apartment in a mansion block in Chelsea, within walking distance of Knightsbridge

Basil Street, Chelsea, London SW3. A raised ground-floor apartment in Lincoln House, a striking Grade II-listed mansion block designed in 1903 by John Gill Knight and situated within walking distance of Knightsbridge, Sloane Street and Harrods. The two-bedroom flat has high ceilings with inset spotlights, a living room with a feature fireplace, and a contemporary fitted kitchen. It also has access to a bar in Lincoln House, and there is 24-hour porterage. £2m Dexters 020-7838 0108

Redhill House, Repton, Derby, Derbyshire. A Grade II-listed house dating from 1781 with a range of outbuildings in the gardens. It has beamed ceilings, open fireplaces and a country kitchen with an Aga. 7 beds, 4 baths, 3 receps, stables, manège, paddock, 4.71 acres. £1.95m Fisher German 01530-410840.



The Steading, Gubhill, Dumfries and Galloway, Scotland. A renovated Grade C-listed house on a small rural estate surrounded by spectacular countryside. It comes with a range of traditional outbuildings, including a four-bedroom cottage and two two-bedroom cottages. 6 beds, 2 beds, 3 receps, breakfast kitchen, barn, garage, piggery, stores, gardens, 2 mill-race ponds, 60 acres. £1.98m Finest Properties 01434-622234.

Wold Farm, Harrington Road, Old, Northamptonshire. A Grade II-listed Georgian former farmhouse in a courtyard setting on the edge of a village. The grounds include a three-bedroom cottage and a range of outbuildings. It has beamed ceilings, open fireplaces with wood-burning stoves and a breakfast kitchen leading onto the garden. 5 beds, 4 baths, 5 receps, stable block, workshop, 17 paddocks, barn, 11.57 acres. £1.95m+ Jackson-Stops 01604-632991.

Cressy Hall, Gosberton, Spalding, Lincolnshire. A Grade II-listed Georgian hall dating from 1794 with grounds that include the original dwelling, now a scheduled monument. The house has an entrance hall with a mahogany staircase, and it retains its Georgian fireplaces. 7 beds, 3 baths, 3 receps, breakfast kitchen, billiards room, study, cellar with studio, wine cellar, garage, formal gardens and grounds that include a barn and an outbuilding, 9 acres. £1.85m Savills 01780-484694.

The birth of the Birkin

The classic handbag grew up to be a valuable investment, says Chris Carter

"When I'm dead … [people] will possibly only talk about the bag," said Jane Birkin in an interview with CNN in 2020. That prediction hasn't turned out to be quite accurate now that Birkin has passed away, aged 76. Plenty of column inches have been taken up with recalling her and Serge Gainsberg's colourful exploits in the late 1960s and 1970s. But yes, people are indeed talking about the bag. And the story of how it came to be is no less colourful. According to Harper's Bazaar, Birkin was on a plane flying back to London in 1983 when her Hermès notebook fell out of her bag. Jean-Louis Dumas, who was the CEO of Hermès at the time, happened to be sitting nearby and he suggested to Birkin she needed a bag with pockets and they sketched a rough design on the back of a sickbag. A year later, the French fashion house had come up with just such a bag – "the Birkin was born".

Birkin: "there's no fun in a bag that's not kicked around"

©Shutterstock

The allure of exclusivity

Short of running into the head of Hermès, getting your hands on a new Birkin is "no easy feat", as Olivia Pennington of Sotheby's notes on the auction house's website. Customers must have a history of buying from the brand and not be too choosy. Boutiques are only offered a limited supply and what they get in terms of styles is often a surprise. "This exclusivity adds to the allure of the Hermès Birkin bag." But that is also what makes them investment pieces. The Birkin in 1984 cost $2,000, whereas today, a standard leather Birkin costs around $10,000, and one made from crocodile leather and encrusted in diamonds can set you back $200,000. One Diamond Hermès Himalayan Birkin (see right) sold for $450,000 in a private sale in 2021. Of all Hermès' bags, the Birkin is the most sought-after.

The bags come in four standard sizes – Birkin 25, Birkin 30, Birkin 35, and Birkin 40 (there is also a limited-edition Birkin 20) – and smaller bags tend to dominate the secondary market, said Max Brownawell in a Sotheby's article last November. That said, "bigger… models are poised to make a major comeback". Colour, size, material and the date stamp all determine a Birkin's value, and to a lesser extent, the hardware (buckles, locks and tassels, etc). All else being equal, a Birkin's condition also determines its value – the less worn the better, which is slightly ironic given the insouciance of the woman the bag was named after. A battered Birkin was pure Jane, notes Hilary Rose in The Times. "There's no fun in a bag if it's not kicked around so that it looks as if the cat's been sitting on it…" Birkin once said. "The cat may even be in it."

Auctions

Going… Tech giant Apple dabbled in designer clothing in the 1990s, says Lauren Haughey in the Daily Mail. One such item is a pair of trainers that were given away at a national sales conference mid-way through the decade. The vintage shoes were entirely white save for the "old school" rainbow-coloured Apple logo and a yellowing around the midsoles. A pair of these Omega x Apple "sneakers", presented as new and in the original box, with an extra pair of red laces, is going under the hammer with Sotheby's in New York, for an estimated for $50,000 before taxes. Previously, another pair of Apple trainers sold for $15,000 on eBay in 2017.

©Getty Images

Gone… Apple iPhones usually plummet in value the moment you take them out of the shop, says Shiona McCallum on BBC News. But not the original iPhone, introduced by then-CEO Steve Jobs in January 2007 (pictured). Last week, a 4GB model, unopened in its plastic-wrapped box, sold for $190,372.80, including buyer's premium, with US-based LCG Auctions – 318 times its original price. In 2007, the iPhone 4GB, with a two-megapixel camera, cost $599 in the US. Fewer 4GB models were made, making it the "Holy Grail" for iPhone collectors. The price fetched was almost twice the $100,000 upper pre-sale estimate.

The "zenith of the Hermès universe"

Hermès began life as a maker of harnesses for the horse-drawn carriages of the nobility, when Thierry Hermès opened a workshop in Paris in 1837. He counted the emperor, Napoleon III, among his clientele. His son, Charles-Émile, took over in 1880, moving the business to its present headquarters at 24 rue du Faubourg Saint-Honoré, and at around the turn of the century, Hermès created its first bag, the Haut à Courroies (HAC), designed to carry saddles. In the 1920s, Hermès began to offer women's handbags, and in 1935, the HAC was reimagined as Sac à Dépchêches. That bag became a favourite of Hollywood actress, and later princess of Monaco, Grace Kelly in the 1950s. In 1977, the bag was renamed in her honour. Together with the Birkin, the Kelly is today one of the most coveted of Hermès designs.

In 2008, Hermès released the Himalaya Birkin – "the zenith of the Hermès universe", according to Sotheby's. Six years later, a Kelly version followed.

Only a handful of Himalayas are made each year. A Hermès Himalaya Diamond Kelly 28 became the most valuable handbag ever sold at auction, when "the rarest handbag in the world" fetched HK$4m (£382,000), with Christie's in Hong Kong. Yet another Diamond Kelly 28 (pictured above), crafted from Niloticus Crocodile leather, went up for sale in the city last week, this time with Sotheby's in a sealed auction. The bag featured an 18-carat white gold lock and clasp and it was encrusted with a total of 229 diamonds, weighing 9.43 carats.

©Sotheby's

Bridge by Andrew Robson

East reddening

West leads the three of Diamonds versus your Six Clubs. Looking at your two (West's lead could not be top from two) in conjunction with East's bid, you as declarer know immediately that it is singleton. Plan the play.

Dealer South — Both vulnerable

North: ♠ 95 ♥ AQ9 ♦ J974 ♣ Q943

West: ♠ 10832 ♥ J7532 ♦ 3 ♣ 865

East: ♠ K76 ♥ 1084 ♦ AQ10865 ♣ 7

South: ♠ AQJ4 ♥ K6 ♦ K2 ♣ AKJ102

The bidding

South	West	North	East
1♣*	pass	3♣**	3♦
4NT***	pass	5♦§	pass
6♣	pass	pass	pass

* Hoping the bidding won't end right there.
** Two-and-a-half Clubs.
*** Roman Key Card Blackwood agreeing Clubs.
§ One or four of "five aces" (including the King of Trumps).

At the table, declarer (woodenly) played low on East's Ace, whereupon East was not hard-pressed to lead a second Diamond. West ruffed and that was one down, declarer cursing his luck.

Declarer should have (smoothly) dropped the King of Diamonds under East's Ace at trick one (key play). It's his only chance. Believing it is singleton (it is perfectly plausible that West had led the three from three-two doubleton), won't East be reluctant to continue Diamonds, promoting dummy's Knave?

East will probably switch at trick two to a black suit – say a passive Club. No good – for the defence that is. You draw Trumps, finishing in dummy, finesse the Knave of Spades, cash three rounds of Hearts shedding your low Diamond (East's face reddening), and repeat the Spade finesse. A Spade ruff with dummy's last Club and that's 12 tricks and slam made.

For Andrew's four daily BridgeCasts, go to andrewrobsonbridgecast.com

Sudoku 1166

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

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

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

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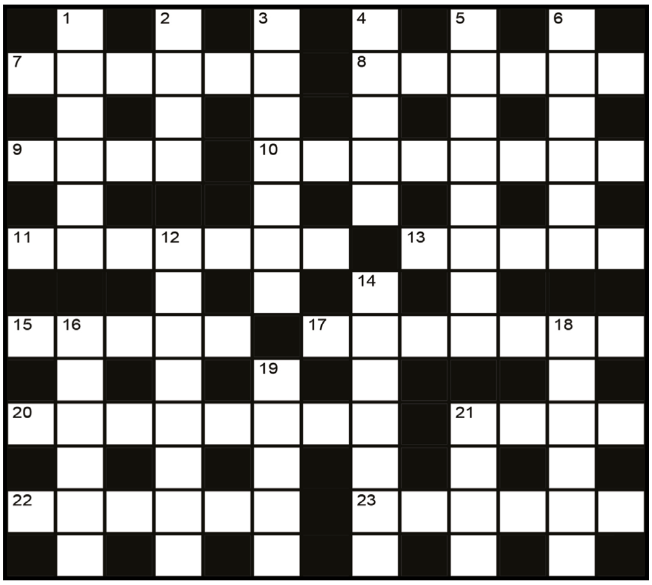
Tim Moorey's Quick Crossword No.1166

TAYLOR'S PORT

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 4 August 2023. By post: send to MoneyWeek's Quick Crossword No.1166, 121-141 Westbourne Terrace, Paddington, London W2 6JR. By email: scan or photograph completed solution and coupon and email to: crossword@moneyweek.com with MoneyWeek Crossword No.1166 in the subject field.



Across clues are mildly cryptic whereas down clues are straight

ACROSS
- **7** Staid boyfriend from the Home Counties? (6)
- **8** It's OK with old clothing on (6)
- **9** What's backed in Aberdeen academy? It shouldn't be! (4)
- **10** Ultimate net value destroyed (8)
- **11** Complaint found in spot check? (7)
- **13** Financier (name forgotten) is one with lots of dough (5)
- **15** Stand in comfort on the left (5)
- **17** What with franc disappearing is still real? (7)
- **20** LONDON and PARIS, say (8)
- **21** Pip, a strong tennis player (4)
- **22** Spoil the appearance of a mug? (6)
- **23** Taking day off, Reds planned for eliminator (on paper) (6)

DOWN
- **1** Refuse taken away (6)
- **2** Naked (4)
- **3** Football official (7)
- **4** A biblical tower (5)
- **5** Extend (8)
- **6** French household (6)
- **12** Irish dramatist (8)
- **14** Industrial Scottish town (7)
- **16** Staggered (6)
- **18** School exam (1,5)
- **19** Swiss city (5)
- **21** Unexpected obstacle (4)

Name ....

Address ....

....

email ....

Solutions to 1164

Across **1** Facile *i L inside face* **4** Salami *I'm alas reversal* **8** Abysmal *anagram of lamb say* **10** Sloop *reversal* **11** Ritz *homophone writ* **12** Clueless **14** Inconsiderate *n Con side in irate* **16** Pantheon *pan the on* **18** Gaga *gag + a* **21** Tried *anagram less a* **22** Spanish *a n in anagram of ships* **23** Scents *S + cents* **24** Career *double definition.*

Down **1** Flair **2** Cryptic **3** Limb **5** Answered **6** Abode **7** Impasse **9** Lollipops **13** On the dot **14** Impetus **15** Avarice **17** Noise **19** Abhor **20** Java.

The winner of MoneyWeek Quick Crossword No.1164 is: Andrew Champion of Horsham

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

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

Getting giddy on cryptos

Investors would be well advised not to drink the Kool-Aid

Cryptocurrencies may not be either

©Getty Images

Bill Bonner
Columnist

Cryptocurrencies started out as an attempt to create a new form of money that needed no banks or governments and promised to make financial transactions simpler, cheaper, and faster. But a couple of seasons in the crypto sun made investors and entrepreneurs giddy. It didn't take the hustlers long to figure out that if the reclusive Japanese guy who first created Bitcoin could create money, so could they.

The classic programme was to create millions of worthless "coins". You kept most of them and allowed a few out in public, where they were traded on exchanges. A coin might have a value, for example, of 1/100th of a penny. So, with just $1,000, you could launch ten million of them, each guaranteed to be worth something. You then began buying your own coin. At minimal cost, you bid up the coin to 1/10th of a penny. Then, other players woke up. The coin had already gone up by 1,000%; there was money to be made.

A new "coin" was much like a new, publicly traded tech stock. You might not have any idea what the company did, if anything. The actual value of its stock might be zero. Still, the price could shoot up. Maybe it was called "Texla", for example, and investors hit the wrong key. Maybe it spread a rumour – not officially! – that it had found a cure for ageing. Manipulating the value of a publicly traded stock is against the law. A crypto coin, on the other hand, was something new. Was it a "security", under SEC rules? Were buyers of Bitcoin the investors the SEC was meant to protect? Nobody knew.

With so little "float" on the market and such low prices, cryptos were easily coaxed upward. Then, as the price rose, all those millions of coins you held back suddenly appeared to be valuable. On paper. Sort of. As long as you didn't try to sell them. What fun that must have been! Trading your worthless cryptos for someone else's worthless cryptos, all of them going "to the moon" – and everybody getting rich! By 2021, cryptos were said to be worth almost $3trn. This was new "money" that, like the dollars created by the Fed, had not existed before. And everybody wanted some of it. FOMO (fear of missing out) had set in among investors.

> *"All those coins then appeared valuable. Sort of"*

At the height of the madness came word that Alex Mashinsky's firm, Celsius Network, had made a breakthrough. It was financing the crypto industry. And it would share its gains with "depositors" – paying as much as 17% "interest", or about 30 times more than traditional banks. There was little risk; Celsius had millions in assets (based mainly on its own crypto currency, CEL) and its loans were backed by good collateral.

This was a deal that was too good to pass up. It was also too good to be true. Mashinsky (pictured) was arrested and charged with fraud and market manipulation earlier this month. (He denies the charges.) You can't earn 17% "interest" in a world where the norm is 3% or 4%, even with good collateral.

Celsius has been accused by the SEC regulator of making "numerous false and misleading statements to induce investors to purchase CEL and invest in the Earn Interest Program. Among other false representations, defendants misrepresented Celsius's central business model and the risks to investors by claiming that Celsius did not make uncollateralised loans, the company did not engage in risky trading, and the interest paid to investors represented 80% of the company's revenue." When the lights dimmed in the casino, Mashinsky's "collateral" turned out to be nothing more than the worthless cryptos he started with.

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