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Place a bet on the gambling sector

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Lock your savings away from HMRC

PLUS

The generosity of a sporting legend

BLOWING IT *P60*

MONEYWEEK

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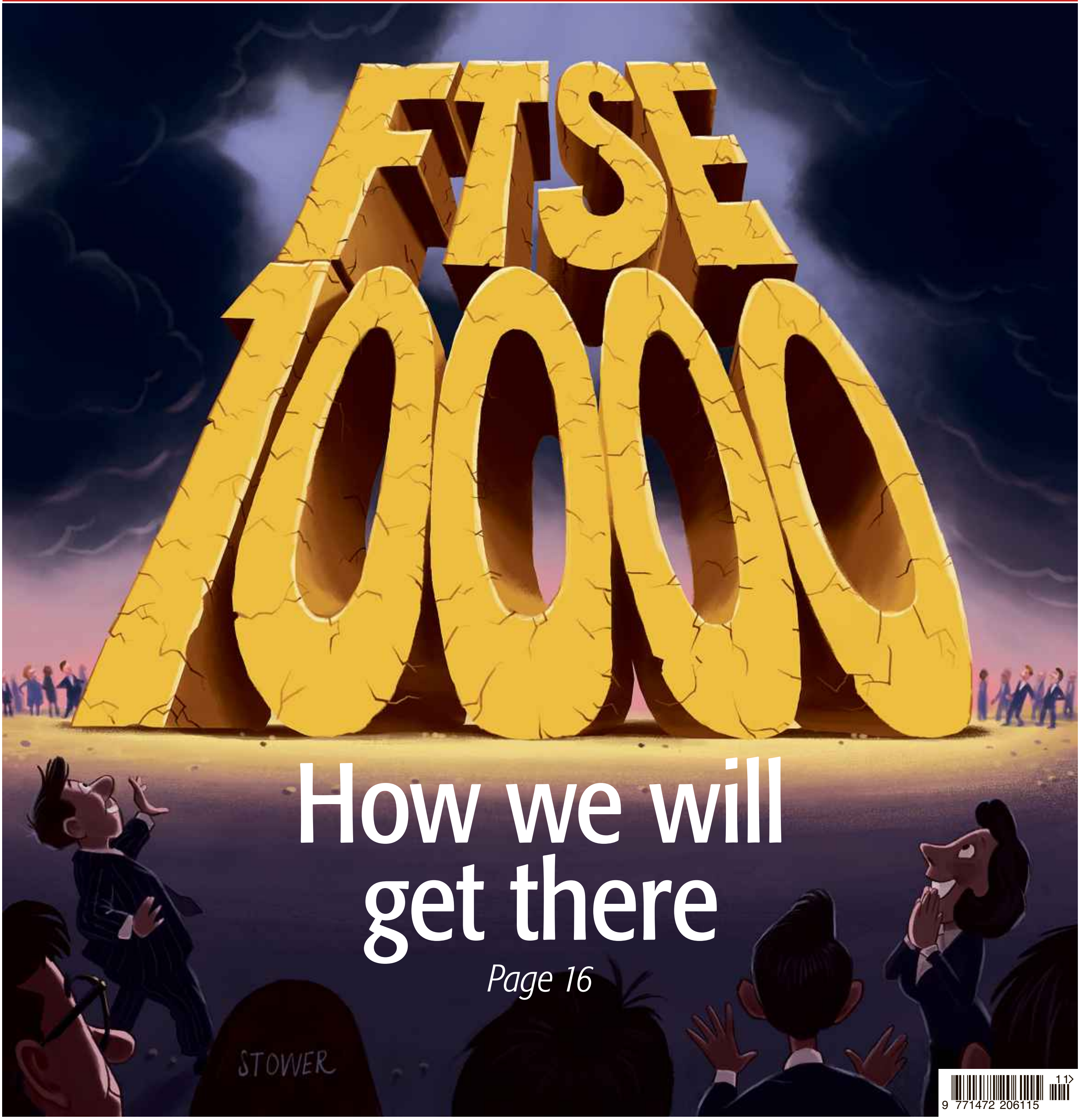

How we will get there

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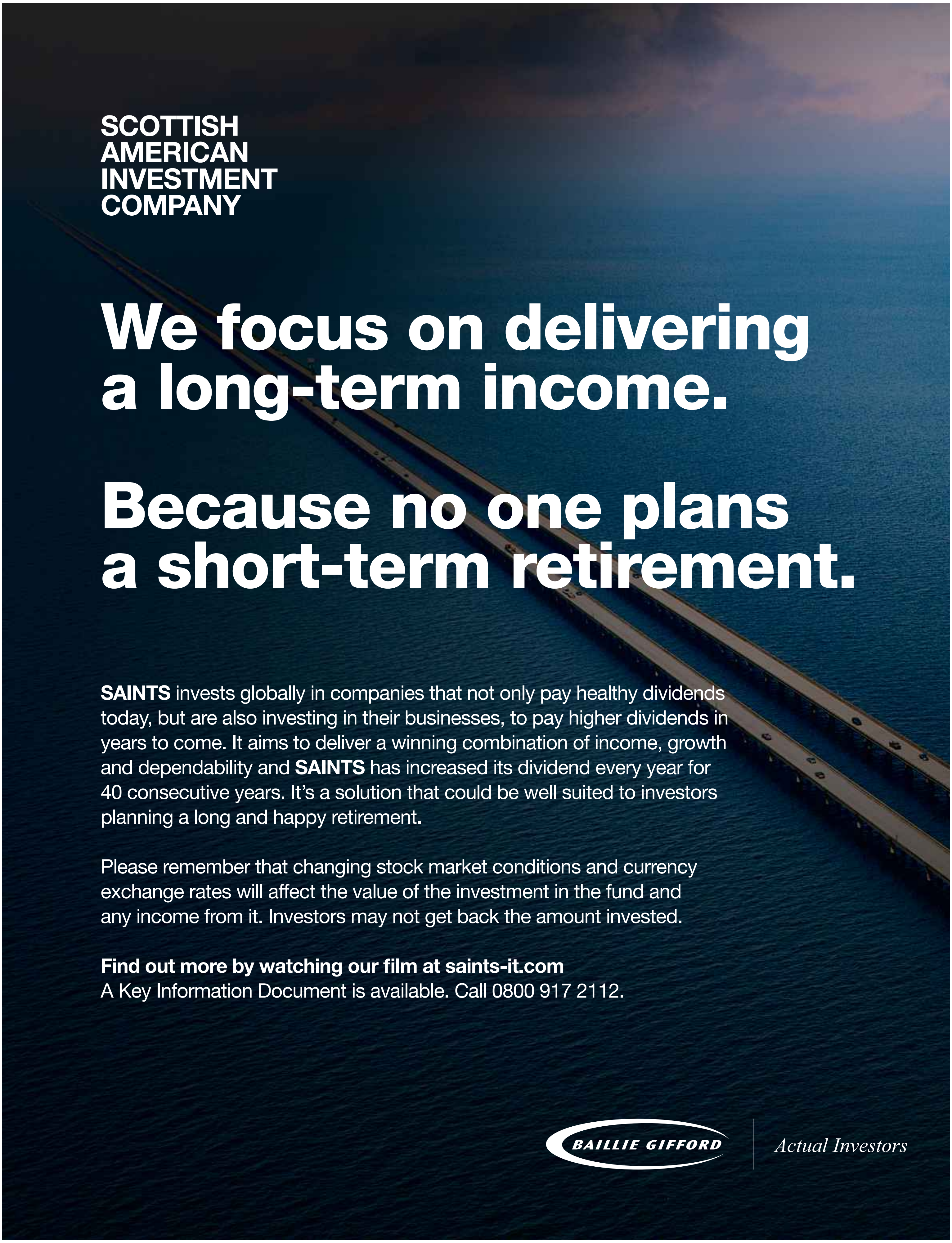
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BAILLIE GIFFORD
Actual Investors

From the editor-in-chief...

There once was an idea floating around that markets move with the moon. It sounds silly, but does stand up to some scrutiny. Research suggests the moon affects how we feel – more negative around a full moon; more positive around a new. We know that psychology plays a major part in market moves. So it makes sense that the two might be connected. Indeed, several studies show that markets do better around a new moon than a full – to the tune of 3%-5%. Fascinating, isn't it? And once you know about it, it can seem to explain everything. Forget money flows and valuations – it's all about the moon.

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Expect to see a lot more of these in the next year

"From France to Florida, birth rates fell sharply during the pandemic"

The problem, of course, is that lunar cycles aren't the only thing that – once you vanish down their rabbit hole – seem to explain everything. Demographics is the same. Once you've looked at how the numbers of people knocking about affect everything from GDP (more people = more growth!) to valuations (more people investing = higher markets), you wonder why you bother with anything else. This is why the drop in developed world birth rates in 2020 is causing such upset. Fertility rates have been falling anyway (the worldwide rate is down 50% in 50 years, from 5.1 babies per woman to 2.4). But everywhere from France to Florida, births in December and January were down 7%-20%. Places with the most extreme lockdowns saw the fewest births (eg, Italy). Perhaps March and April data will suggest things got a bit steamier over the summer. Perhaps not. We were never convinced that combining a virus spread by close indoor contact with a government policy that effectively locked those of childbearing age inside with their existing children for months on end would feel very, well, sexy – and there is often a baby bust after a nasty crisis (think the 1930s and post-oil crisis in 1973). This matters. Having more old people than young puts stress on pension and healthcare systems and could hit markets (as oldies remove cash and fewer young are putting it in). We may also see inflation as workers' bargaining power finally rises (see page 62).

But a few things to note. First the bust might be temporary. Births are still a function of weddings (in 2019, two-thirds of babies in Italy and half in the UK were born in wedlock). There have been very few weddings in the last year. There will be an awful lot in the next year. More weddings. More babies – hopefully mostly conceived during a newly legal holiday in the sun. Note, too, there is nothing like the end of a crisis (hello vaccine...) to make people feel like making babies. The UK's greatest baby boom ever was that of 1920, the year after the Spanish flu epidemic (even more lethal than the war had been). In all, 1.1 million babies were born – more than in 1947 (which fired the starting gun for the boomer generation) or any year since, despite the huge rise in the number of women. It must have been a hell of a year to be a pram salesman.

Second, even if the boom doesn't last (it didn't in the 1920s) and fertility rates continue to fall, it isn't necessarily bad. If the pandemic does what many think it will have done – accelerated trends that could turbo-charge productivity – we might soon find that exploiting cheap labour isn't the only way to grow GDP. Which would be nice. While we wait to see, those who want to be financially ready for the potential arrival of new family members and plan to invest accordingly (see our Isa section from page 38) might want to wait a few weeks: the next full moon is on 28 March.

Merryn Somerset Webb
editor@moneyweek.com

The man who created a market icon

The Sicilian sculptor best known for the 3.5-tonne bronze statue of a bull he "illegally deposited" outside the New York Stock Exchange has died aged 80, says Clay Risen in The New York Times. It took **Arturo Di Modica** two years and $325,000 of his own money to craft the "Charging Bull" (pictured), which he was inspired to make as a morale-boosting gift to the American people following the 1987 "Black Monday" stockmarket crash. He illegally placed the sculpture outside the New York Stock Exchange in 1989, after scouting the location for police officers for weeks. It was swiftly removed and taken to a warehouse, where he paid a $500 fine to get it back. The sculpture ended up on a traffic island in Bowling Green, not far from his intended location, after an outpouring of public support. He sold it to a British investor in 1990 for an undisclosed sum (his asking price was $5m) on condition it never be moved.

Cover illustration: Adam Stower. Photos: ©Getty Images; iStockphotos

Good week for:

Swimmers rejoice – the UK is embracing a "lido revival", says Helen Pidd in The Guardian. Albert Avenue pool in Hull is the latest venue to benefit – Hull City Council plans to invest £4.6m in upgrading and reopening the venue. It is one of a string of lidos set to reopen as outdoor swimming soars in popularity.

An executive who caught her "millionaire lover" in bed with another woman won a legal fight over their £2.5m Cotswolds home, says Jonathan Ames in The Times. **Sharon Blades**, 63, and her husband Chris Rowland, 65, were described as "very much in love" before Blades discovered the affair. The judge ruled she was entitled to an equal share of the property, leaving Rowland with legal fees of more than £200,000.

Bad week for:

French bank **BNP Paribas** is being sued for £3.4m in damages by a banker who claims her victory in a 2019 gender discrimination case against the bank has "tarnished her reputation", harming her career, says Jamie Fullerton in The Daily Telegraph. Stacey Macken originally sued BNP for £4m, claiming that over four years she was paid far less than male peers. An employment tribunal at the time ruled in her favour.

Lockdown has driven a boom in demand for "**the humble cactus**", but now retailers are warning of a "looming cactus crisis" due to Brexit, says Shanti Das in The Times. The British Cactus & Succulent Society warned that bureaucracy and border checks are making it difficult for garden centres to get their hands on the plant. Many European nurseries have stopped shipping to the UK, as costs for extra checks, certificates, delivery and administration add up to an extra £250.

©Getty Images

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Expect a supercycle in industrial metals

Alex Rankine
Markets editor

The copper market may be heading for a major supply squeeze

Everyone is talking about a commodities supercycle, says Ashutosh Pandey in Deutsche Welle. Google Trends reports that searches for the term have hit the highest level in over a decade. Copper prices have soared by 75% over the past year. The red metal, dubbed "Doctor Copper" because of its "uncanny ability to predict" economic growth, is leading the charge.

Iron ore prices are up by more than 80% over the past year; aluminium has gained a third. Brent crude oil has jumped by 30% in 2021. Corn (maize) futures are up by 47% over the past 12 months, says Steve Goldstein on MarketWatch. The United Nations reports that food prices have reached their highest level since 2014. We could be in the early stages of an "upward price cycle of commodities... outlasting the typical economic cycle". The last one ran from the late 1990s to 2008 and was driven by the growth of the Chinese middle class.

A return to normal?

Some analysts are sceptical that we are heading for a repeat. Commodity supercycles are rare, writes Joe Wallace in The Wall Street Journal. They are usually propelled by the rapid industrialisation and urbanisation of a big economy, as happened recently in China, or in post-war Europe and Japan. That creates huge surges in demand for "raw materials that existing supply struggles to meet", driving prices higher "for years, even decades". A strong global recovery this year will certainly bring a jump in demand for commodities, but that's not the start of a massive new trend. It is just things returning to normal after the pandemic.

Instead of the late 1990s, a more apt parallel is the period after the global financial crisis, says James O'Rourke of Capital Economics. Then, as now, a credit-fuelled boom in Chinese infrastructure spending powered metals higher, but it didn't last and prices fell back for most of the following decade. While industrial metals prices are likely to remain buoyant during the first half of this year, we think they will slide in the second half, says O'Rourke.

Where to look now

Talk of coming inflation and a commodity supercycle still looks "premature", says Jumana Saleheen in the Financial Times. We are arguably only just coming off the back of the last one and few analysts are bullish about the long-term outlook for oil. If anything sparks a new supercycle it will be the green-energy transition, which will require vast investments in new electricity generation and charging infrastructure. On current projections there will be a 20% supply gap in "copper and battery grade nickel" come 2030.

It is in the industrial-metals markets for the likes of "copper, nickel, lithium and cobalt" where the "secular bull market hypothesis is most credible" agrees Eoin Treacy of Fuller Treacy Money. The rise of the electric-vehicle and new battery technology will drive a huge surge in demand for these commodities, the likes of which only comes along "once in a couple of decades… I am very bullish on industrial commodities overall and copper in particular."

Consumers are a coiled spring

US households are back in the driving seat of the global economy

The total net worth of US households in the final quarter of last year was $122.9trn, says Justin Lahart in The Wall Street Journal. The figure had climbed from $111.4trn a year before. That's unusual for a recession: after 2008 US household wealth fell and "then took years to recover". The gains have been driven by rising stockmarkets and property prices, but Americans also have more cash on hand: $2.8trn, a 21% annual increase.

Households across 21 rich countries saved about $6trn during the first nine months of last year, says The Economist. That is roughly double what they would probably have put aside absent Covid-19, generating "excess savings" of $3trn. The rise in global savings does not follow the same pattern everywhere. In the UK and the eurozone it has been driven by lower expenditure owing to closed restaurants and more modest holidays. In Japan and the US, by contrast, it represents a rise in household income thanks to government stimulus cheques.

The US stimulus model has also particularly helped lower-income groups, who are more likely than the wealthy to spend rather than stash extra cash. The US consumer is back in the driving seat of the world economy.

In the UK, households have put aside £160bn in excess savings during the pandemic, or 12% of GDP, says Sanjay Raja in a Deutsche Bank note. Credit-card debt is also down by nearly 20% over the past year. These gains have been captured mostly by middle- and higher-income earners, with lower income groups reporting taking on more debt. Around 5%-10% of that savings pile is set to be spent over the coming quarters, delivering a "0.5% to 1% boost to GDP". The impetus from excess savings will be "the driving force behind" the UK recovery this year.

Bitcoin goes ballistic again

Bitcoin has broken through the $60,000 mark for the first time. The cryptocurrency reached $61,600 at the weekend before falling back sharply.

It was trading around $55,000 as of the middle of this week. Despite the pullback, bitcoin has gained more than 85% since the start of the year and its total market capitalisation recently surpassed the $1trn mark, making it bigger than social media giant Facebook.

The rally has been powered by growing acceptance from institutional investors and payment providers such as PayPal. Many asset managers are looking to diversify their portfolios for fear of "the existing financial system failing them", Sergey Nazarov of blockchain network Chainlink told Jack Denton in Barron's.

"If a small portion of them go on to place even 5% of their portfolio into Bitcoin, then $100,000 per Bitcoin is a very conservative estimate".

The next leg of the rally may see ordinary retail investors recapture centre stage from the professionals, says Brian Sozzi for Yahoo Finance. A survey by investment bank Mizuho Securities found that about $40bn from the latest round of US stimulus is heading for the markets.

Strikingly, 61% say they prefer Bitcoin as an investment to stocks. That implies about $25bn of new cash entering the market, or 2%-3% of Bitcoin's current market cap, say Mizuho's Dan Dolev and Ryan Coyne. Onwards and upwards?

The caffeinated US recovery

US president Joe Biden is delivering radical change to America, says Irwin Stelzer in The Sunday Times. Once taunted as "sleepy Joe", Biden has proved vigorous, pushing through a $1.9trn Covid-19 relief bill and preparing an even bigger infrastructure plan.

©Getty Images

So much for "sleepy Joe"

"Never has such a massive policy come at a time that is more inconsistent with economic reason", says Robert O'Quinn in National Review's Capital Matters. The US economy grew at an annualised rate of 4.1% in the final quarter of 2020. Even without the stimulus it was forecast to regain pre-pandemic levels by the third quarter of this year.

Why has Biden pushed ahead regardless? The bill is packed with Democratic Party spending priorities – handouts to states that largely don't need the money, payoffs to teachers' unions – rushed through under the cover of stimulus.

Stimulating the stockmarket

US households will soon receive a $1,400 per person cheque as part of the plan, notes Matthew Rocco in the Financial Times. A good chunk of that cash will end up in stocks. A Deutsche Bank survey has found that holders of online brokerage accounts plan to put an average of 37% of their cheques into the markets. The S&P 500 has gained 7% this year. Things are not so happy for the tech-heavy Nasdaq composite index, which remains 3% off its mid-February high as investors "rotate" away from tech stocks.

All that cash is juicing corporate earnings, says Julia Horowitz for CNN Business. S&P 500 earnings grew by 3.9% during the final quarter of last year, meaning that Wall Street's "earnings recession" is already over. And "analysts are projecting double-digit [annual] earnings growth for all four quarters of 2021". Such bullish forecasts are partly driven by exuberance, but with activity set to grow 6.5% this year there is no doubt about the strength of the underlying economy.

There could be even more fiscal largesse to come, reports Nick Allen in The Daily Telegraph. Biden will soon roll out plans for another $2trn-$4trn for "repairing roads, bridges and airports" and investing in green infrastructure. The US deficit already sits at $3.1trn, while the national debt totals $28trn. To help plug the gap the first big tax rise in almost 30 years is on its way. Corporate profits, capital gains and individuals earning over $400,000 a year are likely to see their taxes rise, according to Bloomberg. But Biden is thought to have rejected a "wealth tax" favoured by left-wing Democrats.

Whatever you think about all the spending, this "heavily caffeinated US recovery" is good news for the global economy, says Daniel Moss on Bloomberg. After so much "carping about missing American leadership" in the past few years, "Uncle Sam's foot" is now firmly back "on the gas pedal".

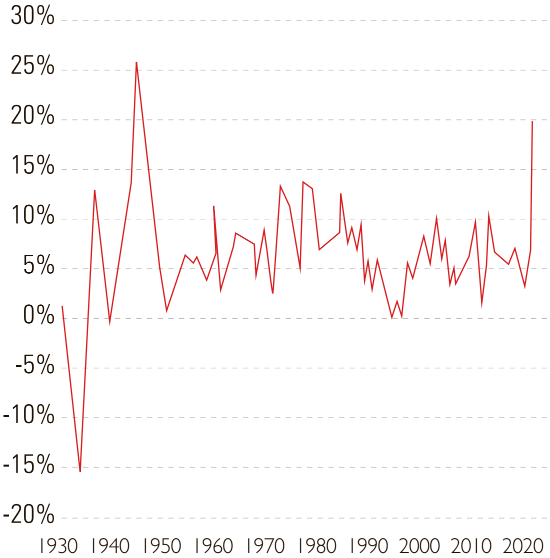
Viewpoint

"Stock punters [in India] are awed by... a budget deficit [of 9.5%] this year... The benchmark Sensex index is up 58% over the last 12 months... Bonds had the opposite 2020 experience, suffering about $14bn in foreign outflows... debt punters are not falling for India's optimistic macro narrative... they fear the underlying cracks in the [economy, especially]... festering bad-loan troubles at banks... Yields across the maturity spectrum are edging higher... [Prime Minister Narendra] Modi's leadership since 2014 gives debt-market sceptics ample ammunition. Soaring rhetoric about opening protected sectors of the economy to foreign competition, reforming land, tax and legal systems, levelling playing fields, and narrowing the rich-poor divide was not followed by strong action... Modi is finally confronting a gang of detractors who will not be intimidated: bond traders."

William Pesek, Nikkei Asia

Inflation is on its way

Annual change in US M2 money supply



Central banks have massively increased the money supply in response to Covid-19, says John Authers on Bloomberg. The growth in US "M2" money, which gauges the amount of cash and many types of bank deposits in the economy, "is without parallel outside times of war", as the chart (left) from Longview Economics shows. So why is inflation "supine"? Prices depend not only on how much money there is but also on how quickly that money is being spent (its "velocity"). Lockdowns mean that a lot of cash is lying dormant in savings accounts. Yet the recent rise in bond yields is a "clear signal" that the market expects things to change. The "vast new quantities of money in the system" will eventually pick up velocity, driving inflation higher.

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

Three to buy

Biffa
Shares
Waste-management group Biffa hit the ground running this year, making "bolt-on" acquisitions that have bolstered growth. The group has spent £198m on 45 purchases since 2014, "actively consolidating a fragmented market". It has increased efficiency on the routes on which it collects waste by 20% since 2002 while reducing carbon emissions by 65%. Shareholders have benefited from growing profits, which have increased 18% every

year for the past six years. Biffa also operates a leading plastic-recycling business. Consistent, sustainable growth and "strong green credentials" make the group an "attractive long-term investment". *270p*

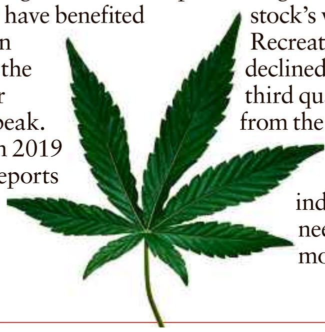
Sainsbury's
The Daily Telegraph
Sainsbury's has come a long way from its failed merger with Asda in 2019. The grocer is Britain's fourth-largest online food retailer and it has a solid online presence, so it is "well placed" to benefit from the boom in digital sales as more people do their food shops online. Cost-cutting should yield £600m over the next three years to reinvest in new products. The stock's potential does "not appear to be fully reflected in its current valuation". *231p*

Vistry
Investors' Chronicle
Housebuilder Vistry has forward-sold 65% of the units forecast for this year as demand for housing continues to boom ahead of the stamp-duty tax holiday deadline, which was extended in the Budget to the end of June. Vistry ended last year with net cash of £38m despite the pandemic, prompting management to reinstate the dividend. The shares are on a 7% discount to forecast net asset value. It's an attractive opportunity. *943p*

Three to sell

IWG
Investors' Chronicle
Flexible-workspace provider IWG swiftly reduced its offerings in response to reduced demand after the pandemic hit. But the outlook for rents across the office market remains poor as companies shift to hybrid or remote working. Flexible-workspace providers could become more appealing thanks to the former, but it remains to be seen whether IWG has the liquidity to take advantage of a longer-term opportunity. IWG's lease liabilities are an "eye-watering" £6.6bn. Throw in uncertain demand and the shares are too risky. *362p*

Sundial Growers
Barron's
Shares in cannabis grower Sundial Growers have benefited from a rebound in the industry. But the shares are still far below their $11 peak. They "tanked" in 2019 and 2020 amid reports of its cannabis being rejected by customers because of its poor quality. New management has "drastically improved" the balance sheet in the past few months, but the fundamentals – sales growth, profitability and positioning – don't support the stock's valuation. Recreational pot sales declined by 30% in the third quarter of 2020 from the second quarter despite growth in the broader industry. Sundial needs "top-line momentum". *$1.31*



Nissan Motor
InvestorPlace
Nissan Motor is "feeling the heat" amid a shortage of semiconductors; the car industry increasingly relies on chips. To mitigate the impact of the shortage the firm is halting production of the Note compact car in Japan. Revenue is unlikely to grow in the near term. Nissan posted a loss in its most recent quarter and the"overleveraged balance sheet" is another worry. Nor does it bode well that Nissan is lagging behind in electric vehicles. *$11.21*

...and the rest

Investors Chronicle
Infrastructure specialist **John Laing** agreed close to £700m in sales last year, will raise its dividend, and should return to full-year underlying growth in 2021. Buy *(316p)*. Orders at **Just Eat** jumped by 88% in the first two months of this year. Revenues grew by over half in 2020, but the group still did not manage to turn a profit and losses rose to €147m from €88m the previous year. Competition is getting fierce as rival Deliveroo prepares to float in London. Hold *(6,888p)*.

Shares
Diversified Gas & Oil is benefiting from the recent improvement in sentiment towards the oil sector. It reported record annual production earlier this month, up by 18% from the year before, which underpinned a 14% year-on-year increase in the dividend. Buy *(127p)*.

The Daily Telegraph
Fevertree's international expansion prospects make it an attractive option. The company stands to benefit from a "resurgent economy" and double-digit growth forecasts justify the valuation. Buy *(2,441p)*. **Legal & General's** pre-tax profits fell by 15% to £1.8bn in 2020. Earnings at the insurance division slid by 40% as a result of the unusually high proportion of deaths caused by the coronavirus, while the investment arm was affected by the housing-market "freeze". But these setbacks should be "one-offs" and the dividend yield of more than 6% looks very attractive. Hold *(287p)*.

The Times
Shopping-centre operator **Capital & Regional's** portfolio value fell by £200m in 2020 and rental income slid by £15m to £34m. But its rent-collection rate has been stronger than many, and the firm's "community-based centres anchored around a grocery tenant put it in a strong position". Hold *(888p)*.

A German view

Finland's Valmet, a supplier of equipment and automation systems for the pulp, paper and energy sectors, is among the few companies to post a healthy rise in profits last year, says WirtchaftsWoche. Net income rose by 14% as sales climbed by 5% to €3.7m. China's rapid recovery was key: it accounted for a quarter of the group's new orders. The company stands to benefit from several long-term trends, notably the rising demand for cartons and other packaging as online shopping grows; the spread of automation and digitalisation; and the drive to use wood more efficiently. The stock looks reasonably valued and yields almost 3%.

IPO watch

Sweden's vegan food and drink maker Oatly, backed by celebrity entrepreneurs Oprah Winfrey and Jay-Z, has filed for an initial public offering (IPO) in New York, say Judith Evans and Emiko Terazono in the Financial Times. The group, which produces milk, ice cream and yoghurt from oats, hopes to reach a valuation of up to $10bn. The IPO comes a year after a funding round led by Blackstone brought in celebrity investors and valued Oatly at $2bn. The company notched up sales of around $200m in 2019, double 2018's total. Proceeds from the IPO, which would tap into the "growing thirst for plant-based alternatives to animal products", will fund Oatly's expansion.

City talk

● Marks & Spencer is converting its flagship Marble Arch store into offices, says Nils Pratley in The Guardian. But this isn't the only "heresy" it is committing. It will now sell other firms' clothing brands, including in lingerie, "the one part of the non-food operation where market share has remained strong over the years".

While this move is online-only, the introduction of ten outside brands in one go is billed as the "first of many waves". It comes with some drawbacks, including "lower profit margins", especially since in some cases M&S will merely be providing a "souped-up delivery plus click-and-collect service". Still, M&S has little choice. The trend in the online clothing market is "firmly away from solo offers and towards platform-style structures".

● After rising to almost $500 in January, GameStop's shares then plunged by 90%, says James Clayton on the BBC. But while the spike "was widely thought to have been a one-off" caused by a "short squeeze" against hedge funds betting against the company, GameStop's shares have suddenly taken off again, surging more than sixfold at one point. While it is possible that hedge funds "did not learn their lesson" and ended up being squeezed again, many amateur investors evidently believe that GameStop "is a great long-term investment".

Meanwhile, many of the stimulus cheques soon set to arrive on people's doorsteps may be invested in "meme stocks", such as GameStop. Still, given the "meagre news" supporting this surge, investors should beware. Even the "Wolf of Wall Street", Jordan Belfort, warns that the "little guy" is "typically the one who ends up holding the bag" when such shares collapse.

AstraZeneca under attack

Several European countries have suspended their use of the company's vaccine – for no good scientific reason. Matthew Partridge reports

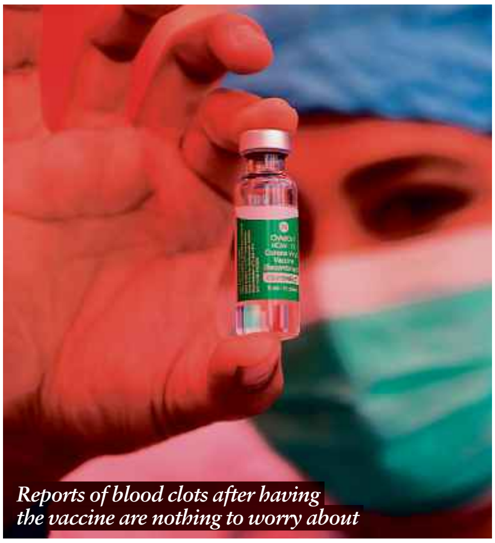
The AstraZeneca vaccine has suffered a setback in the past few days as France, Germany and Italy have joined a "growing list" of European countries, now more than a dozen in total, to halt its use "temporarily", says The Economist. A few countries in the rest of the world, including Indonesia, have followed suit. This "wave of suspensions" has been set in motion by data from a Norwegian medical regulator reporting four cases of blood clotting in adults given the vaccine. Similar scattered reports of blood clots "have come from Denmark, Italy and Austria".

Those countries suspending the vaccine are behaving irrationally, says David Spiegelhalter in The Guardian. While suspected reactions "should be investigated", moving too fast may lead to regulators "drawing causal links between events where none may exist".

Given that one in 5,000 people end up having a blood clot each year, it is "not at all surprising" that there have been 30 reports of blood clots so far from the five million people who have had AstraZeneca's vaccine, especially since most vaccinations have occurred among the elderly and infirm. This hardly means the vaccine caused the clots. If anything, all the data so far has demonstrated how "extraordinarily safe" both the AstraZeneca and the Pfizer vaccines are.

Lasting reputational damage

Experts agree that the decisions to suspend the vaccine look wrong, especially since the European Medicines Agency (EMA), the EU's main regulator, continues to defend it, says Paul Cullen in the Irish Times. However, even if these countries eventually change their minds, the damage to the reputation of the AstraZeneca vaccine will be "massive and possibly lasting". Despite its "impressively high effectiveness in real-world trials", disparaging comments by many European politicians, as well as a perception that it is less effective in older patients, mean that it is facing a high degree of "consumer resistance".



Reports of blood clots after having the vaccine are nothing to worry about

Concern over blood clots and lower effectiveness aren't the only problem that AstraZeneca is up against, say Suzi Ring and Michelle Fay Cortez on Bloomberg. There is also the ongoing controversy over "manufacturing issues", which means that the company will "only be able to deliver about 100 million doses to the EU in the first half of the year", about one-third of the number originally planned.

AstraZeneca's loss could be other companies' gain, says Aimee Donnellan on Breakingviews. The EU has set itself a target of vaccinating 70% of its population, around 350 million people, by the summer. But without AstraZeneca's vaccines, it will only have enough for 250 million people. So if Europe is to avoid having to impose more lockdowns in the winter, when infections start to pick up, Brussels will need to "speedily approve and distribute" other candidates, such as Johnson & Johnson's jab, which got the nod from the EMA last week.

Rupert Murdoch at 90: a new gamble?

Rupert Murdoch (pictured) has joined the "tiny ranks of nonagenarians running global empires", says Mark Sweeney in The Guardian. But he"shows no sign of slowing down".

As executive chairman of News Corp, home to papers including The Wall Street Journal and The Times, as well as co-chairman of Fox Corporation, broadcaster of Fox News and NFL games, Murdoch "remains firmly in control".

Still, with Fox having to grapple with much larger competitors, such as Disney and AT&T, many experts think that he might try to reverse the 2013 decision to split his empire in two and re-merge Fox and

News Corp. Something must be done, since investors seem to have lost confidence in both Fox and News Corp, says The Economist.

The former is trading at a 30% discount to rivals ViacomCBS and Discovery, while the latter is valued at "less than the sum of its eclectic parts". Fox has been hit by the rise of streaming, losing nearly 8% of its subscribers last year, while News Corp has suffered from the shift to online advertising.

Uniting News Corp with Fox may well be Murdoch's "one last big deal", says John McDuling in the Sydney Morning Herald. But Murdoch, a big horse-racing fan in his youth, would do better to think about a "punt on the betting industry itself".

His interest has been "piqued" by the current battle for Tabcorp, Australia's largest listed betting company. Under the stewardship of Murdoch's son Lachlan, Fox has already been investing heavily in the industry.

The world is coming back to life

The EU is a laggard, but Israel is partying, Britain is jabbed and the US is opening up, says Emily Hohler


©Shutterstock
Angela Merkel has led a distinctly un-German response

The European Union's drug regulator, the European Medicines Agency, said on Tuesday that it was "firmly convinced" that the benefits of AstraZeneca's Covid-19 vaccine outweigh the risks, after a string of EU countries temporarily halted use over blood-clot concerns. Have these countries "taken leave of their senses"? asks Philip Johnston in The Daily Telegraph. Not only is the risk from Covid-19 greater than the risk from thrombosis, the 37 cases of blood clotting after 17 million doses are "fewer than would normally be expected" (ie, without the vaccination). Either this is a case of "slavishly" following the precautionary principle ("if there is something science cannot be certain is safe, then don't do it") or it is, perhaps, political. More recipients of the Pfizer vaccine have reported clotting, yet it hasn't been banned.

Or could it have something to do with the "dire headlines that European leaders are attracting" for failing to procure enough vaccines, asks Allison Pearson in the same paper. Angela Merkel's Christian Democrats "slumped to their worst-ever defeat" in two states this week (see page 10). Germans don't appear to be very impressed by their government's "distinctly un-German" response to the pandemic. Britain's decision to "pursue a successful, independent vaccine strategy has acutely embarrassed the EU". That's what this "tantrum" is really about. And despite the EU's supply problems, governments are "still sitting on reserves", adds Tom Kington in The Times. Of the 62.2 million doses delivered, 48 million have been given.

The worst policy error of our lifetime

In Britain, where half of all adults are due to have been vaccinated by the end of the week, the weekly death toll is down 33% over seven days. Real-life data shows that the AstraZeneca vaccine prevents about 85% of hospital admissions after a single dose, even in the elderly. Israel, where more than half of its 9.3 million citizens have been vaccinated including the "vast majority" of the elderly, provides a glimpse of post-lockdown life, says Mehul Srivastava in the Financial Times. "Parties have spilled out on to the streets, children giggle in school playgrounds and beaches heave with families." Hospitals are emptying, new infections are down to 3% of those tested. If new "vaccine-defying variants can be kept at bay, Israel may be the first nation to tame the pandemic and open up its economy for good". Without "overtly" saying so, the government's policy has "largely been to keep an eye" on hospital admissions rather than new infections. If the young and unvaccinated catch it but stay out of hospitals, it's an acceptable outcome.

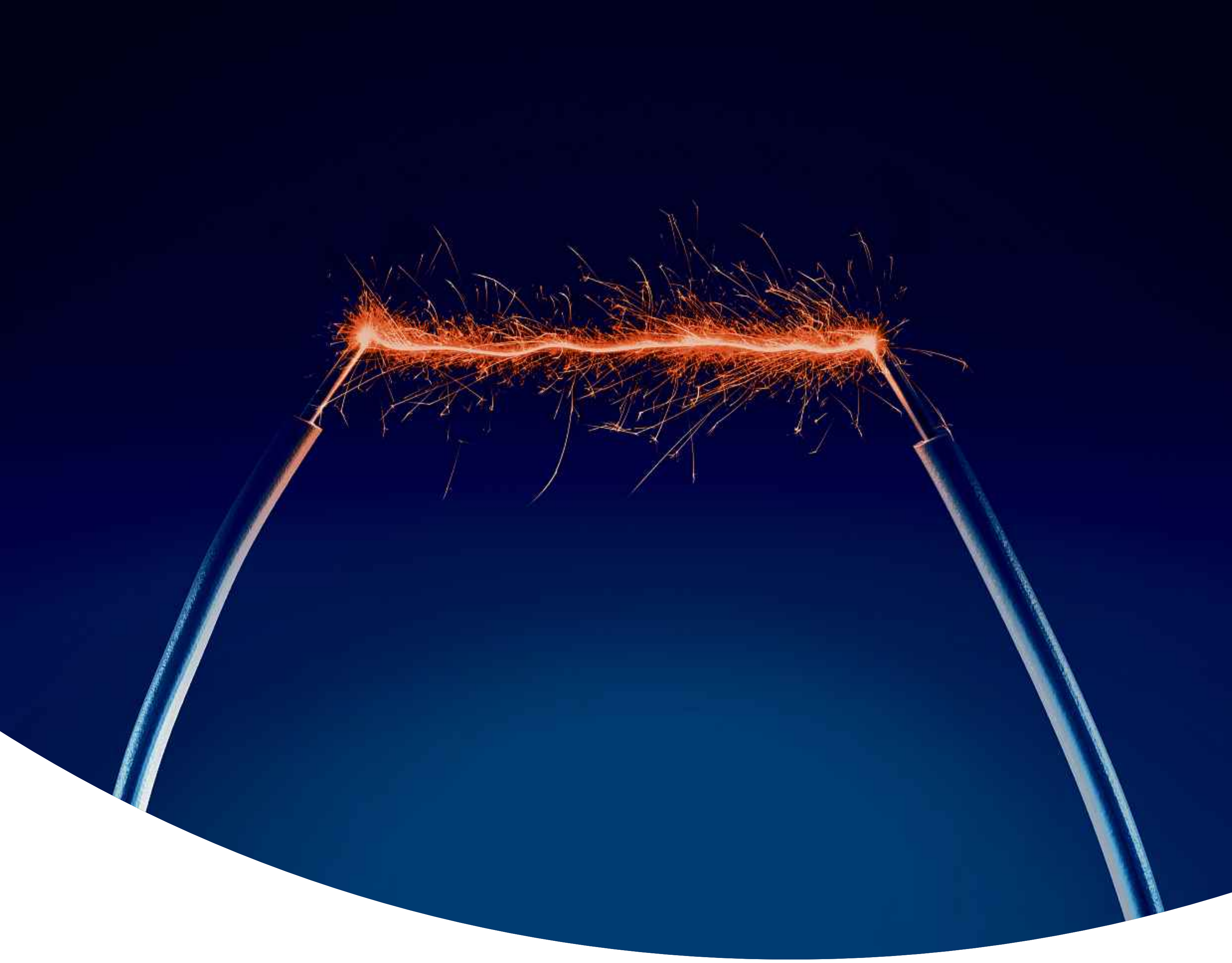
Meanwhile, in the US, where there are around 65,000 new cases a day and deaths are plateauing at around 2,000, President Biden is talking about Americans being allowed to "gather in small groups" to celebrate Independence Day on 4 July, says Jeffrey Tucker on the American Institute for Economic Research's website. "One wonders who is protecting him from the reality: most of the country is almost entirely back to normal." California and some northeast states aside, lockdowns have largely ended and states are busy lifting restrictions. Those that are still locked down are "rapidly losing residents and businesses". Globally, the price of these lockdowns has been extreme, and the repercussions will be felt for years, particularly in developing nations. At least a third of children have been unable to access remote learning; child poverty and malnutrition is soaring. To admit error at this point is "too intellectually and psychologically upsetting", but as the years "roll on, there will be a growing consensus" that lockdowns are "the worst policy error of our lifetimes and many generations".


Johnson plans to boost trade
©Getty Images

Global Britain lays out its stall

On Tuesday, Boris Johnson unveiled his ten-year plan to "boost international trade and deploy soft power", says William Booth in The Washington Post. The "sweeping" 100-page review, to the surprise of many, included a declaration that the UK would increase its arsenal of nuclear warheads, "not only to deter traditional threats but also to confront biological, chemical and perhaps even cyber assaults". Keir Starmer accused the PM of breaking a post-Cold War policy to reduce our nuclear stockpile. Tobias Ellwood, the defence committee chair, described talk of the UK being prepared to use nuclear weapons as "dangerous" and argued for greater emphasis on "boots on the ground", expanding British influence by helping with global aid and emergency response, says Gus Carter in The Spectator.

The UK's greatest global challenges were identified as Russia and China, says Annabelle Dickson in Politico. The former is described as an "active threat"; the latter a "systemic challenge". This is an acknowledgement that the UK still needs a "positive" economic relationship with Beijing. Johnson is under pressure from many Tory MPs to "toughen" the UK's position on China, particularly over its "clampdown" on Uyghur Muslims, democratic rights in Hong Kong and "state-backed cyberattacks on UK targets". In a leaked call with Foreign Office staff, foreign secretary Dominic Raab said that if Britain restricted trade to countries with European-level standards of human rights, it would miss out on trade deals with the "growth markets of the future". Raab says his remarks were reported out of context, but will nevertheless anger Tory China sceptics who came close to defeating the government over the genocide amendment to the Trade Bill, says Carter. The bill is due to return to the Commons next week. Expect more Tory frustration to follow.



The humbling of Angela Merkel

Recent elections were a disaster for Germany's ruling party, says Matthew Partridge


Laschet: is he still the heir-apparent?

German chancellor Angela Merkel's party suffered "historic defeats" in regional elections held last Sunday, says Alix Culbertson on Sky News. The Christian Democratic Union (CDU), part of the ruling coalition, lost out to the Greens in Baden-Württemberg and to the left-leaning Social Democrats (SPD) in neighbouring Rhineland-Palatinate. The results are seen as a bellwether for September's national elections. Indeed, some in the CDU worry that, if things don't improve, the SPD and the Greens could now gain enough support to leave the CDU (and its sister party the CSU) in opposition at national level come September.

Tiring of Merkel

The CDU was always expected to do badly in these two areas, but its share of the vote sank to "post-war lows" in both states, receiving less than a quarter of votes in Baden-Württemberg, says The Wall Street Journal. This extends the CDU's "multiyear downward trend" as voters grow "less enamoured with it each time they're asked to pass judgment". With the CDU mired in a scandal involving pandemic procurement in Berlin, and with continued Covid-19 restrictions creating "escalating political tensions", it looks like voters "are tiring of political stasis" as Angela Merkel's 16-year run as chancellor nears its end.

The CDU's "poor showing" is in part due to anger over the Covid-19 pandemic and a "growing scandal over lawmakers who accepted kickbacks for selling masks", says Melissa Eddy in The New York Times. The scale of these "disastrous" results could pose a challenge to Armin Laschet, who took over as leader of the Christian Democratic Union in January. Normally, his position as leader would make him entitled to become the CDU's candidate for chancellor. However, there is now speculation that the governor of Bavaria, Markus Söder, could instead be tapped.

Still an open race?

Indeed, if the CDU decides it can't risk going into September's national elections with Laschet, Söder, who leads the CDU's sister party, the CSU, is the "only obvious alternative", says Justin Huggler in The Daily Telegraph – Friedrich Merz, the "darling of German big business", had his hopes "dashed" when he was beaten to the party leadership by Laschet; Jens Spahn "self-destructed" with his "miserable performance as health minister". By contrast, Söder has seized the limelight by pressing for a "quicker vaccine roll-out" while carefully repairing relations with Merkel, fractured over immigration, at the same time.

Laschet may yet cling on as the centre-right's preferred candidate, however, as there are "doubts" about whether Söder "truly wants to run", says Oliver Moody in The Times. Laschet and his supports have tried to put a "brave face" on the results, arguing that by the time the election rolls around in September, the Covid-19 pandemic will be finished and the face mask debacle "will have been largely forgotten". Still, he will have to do something to overhaul his public image, as online surveys suggest that he "commands little trust from the wider electorate", with only 16% of CDU voters agreeing that he is the "best politician for the job".

Americans cheer free money – for now


Lawmakers have shifted left

US president Joe Biden last week signed into law a $1.9trn stimulus package, taking total spending to around $6trn more than the country spent fighting World War II, says The Observer. The main part of the stimulus gifts $1,400 to workers and their families, extends a wide range of welfare payments into the autumn, boosts parental tax credits, and maintains special unemployment reliefs and healthcare subsidies. Polls suggest this is popular with voters, with 70% in favour; even 41% of Republicans support it.

The package marks a leftward shift in US politics and a big change in thinking, says Paul Krugman in The New York Times. Indeed, the decision to devote a large part of the money to tax credits and benefits for most families is a "turn away from the conservative ideology that has dominated US politics for four decades". The stimulus package not only revives "the notion of government as the solution, not the problem", but also "ends the 'end of welfare as we know it'" (a phrase associated with Bill Clinton's welfare reforms of the 1990s).

The reform's popularity is no great surprise – "it's easy to get great poll numbers while you're putting taxpayers' money into people's bank accounts", says The Wall Street Journal. But those who think such support will last are in for a rude shock. The 2009 stimulus was "initially popular", with polls showing that as much as 59% of the public supported it at the time. Within a year, the figures had flipped, with nearly three-quarters believing that a large part of the money had been "wasted". The result was that the Democrats got a "shellacking" in the subsequent mid-term elections.

Betting on politics

Given that US president Joe Biden was sworn into office only two months ago, it seems premature to be discussing what is going to happen in the mid-term elections. Still, some markets are already starting to emerge. Ladbrokes, for example, is offering a market on the 2022 Texas gubernatorial election. Incumbent governor Greg Abbott is currently the favourite at 1/2 (66%), with former congressman Beto O'Rourke (pictured) at 7/2 (22.2%), former secretary of housing and urban development Julián Castro at 8/1 (11.1%), and actor Matthew McConaughey at 50/1 (1.9%).

Until recently Texas was regarded as a consistently Republican state – the last time it voted for a Democrat in a presidential election was back in 1976. However, over recent years the gap

between the two parties has been narrowing. Predictions that the state could turn blue last year proved to be wide of the market, but Trump beat Biden last year by less than 6% of the vote, the smallest gap between the two parties since 1996. O'Rouke came within a whisker of defeating senator Ted Cruz in 2018.

Still, I think it's going to be very hard for any Democrat to beat Abbott. He remains broadly popular, with more than half of Texans approving of the job he is doing. Indeed, even the power cuts that took place in much of Texas during the blizzard that struck the state earlier this year have only slightly damaged his popularity. Overall, it's hard to see Abbott losing. I'd take the 1/2 on his re-election.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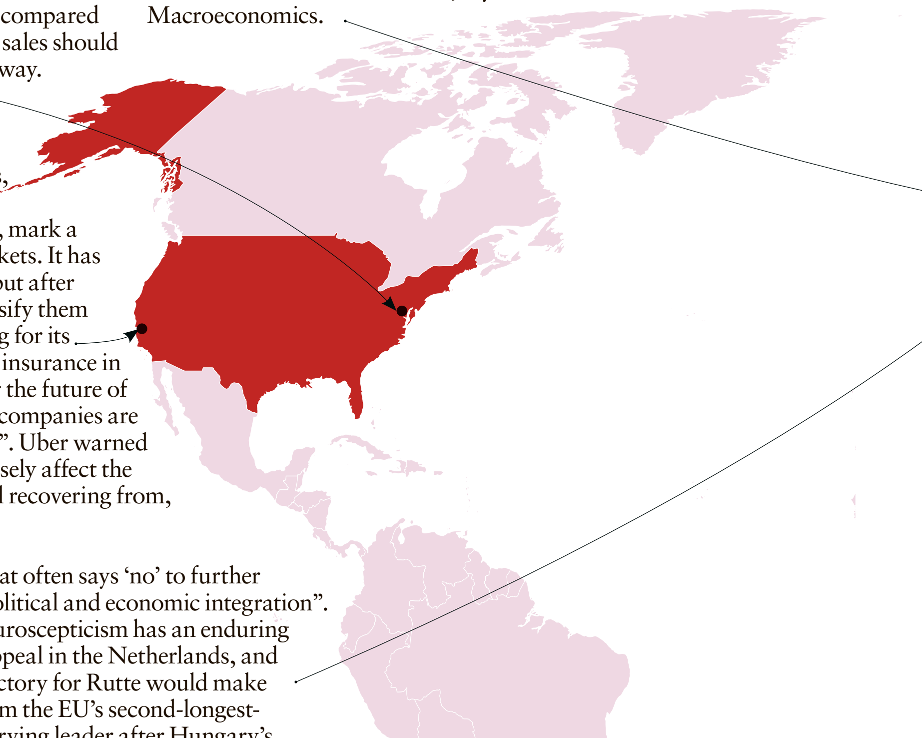
Biden's New Deal: After securing his $1.9trn stimulus package last week, "President Biden is promising $2trn in fresh spending on America's ailing infrastructure, with plans that will put his administration on a collision course with fiscally conservative Republicans", says Alistair Dawber in The Times. The new money would be used to improve the country's ageing roads, bridges and transport hubs, which Biden (pictured) promised to do as part of his "Build Back Better" campaign manifesto (see page 5). Despite concern over the national debt and inflation, "large infrastructure projects have a history of attracting bipartisan support, with members of Congress jockeying to secure spending in their own states and districts". Meanwhile, the US has been counting the cost of the "severe winter weather", says Capital Economics. Industrial production fell by 2.2% in February month-on-month, compared with January's 1.1% expansion. February's dip in retail sales should be reversed this month as stimulus cheques are on their way.

London

Recovery exceeds expectations: Britain's economy shrank by 2.9% month-on-month in January, much less than the forecast 4.9%, prompting bond prices to fall on the assumption the Bank of England (BoE) was "less likely to pump more stimulus into the economy", say William Schomberg and Andy Bruce for Reuters. While trade with the European Union has been "hammered" due to new post-Brexit rules, "the country is racing ahead with vaccinations" and output is now expected to shrink by just 2% in the first quarter of 2021, "half the hit forecast by the BoE only last month". That leaves the Bank "walking a tight rope", says Deutsche Bank's Sanjay Raja. It will have to "[talk] up the economic recovery while avoiding too strong a hawkish message to avoid any unwarranted tightening in financial conditions, especially with the economy still in lockdown". Even so, markets now expect the Bank Rate to rise to 0.25% in the first quarter of 2023, 18 months earlier than forecast last month, says Samuel Tombs of Pantheon Macroeconomics.



San Francisco

Uber's costly legal defeat: Uber agreed this week to grant UK drivers holiday pay and pension contributions, say Sam Schechner and Parmy Olson in The Wall Street Journal. The changes, announced on Wednesday, mark a "costly shift" for Uber in one of its largest overseas markets. It has hitherto treated its drivers as independent contractors, but after losing a final legal appeal last month it has had to reclassify them as workers. Britain is the first place where Uber is paying for its drivers' holidays and pensions; it already offers medical insurance in many markets. Analysts are unsure what this means for the future of the gig economy, says Millie Turner on City AM: other companies are now likely to have to "re-evaluate their business models". Uber warned in 2019 that the reclassification of drivers would "adversely affect the business". Combined with the pandemic, which it is still recovering from, this constitutes a "double blow" for the app.

Amsterdam

A boost for Eurosceptics? The Netherlands' centre-right prime minister Mark Rutte (pictured) was odds on for a fourth term as the majority of voters went to the polls on Wednesday. That's despite the collapse in January of his coalition government over a racial-profiling scandal in the tax office, says Anna Holligan on BBC News. The Netherlands is also the last country in Europe "to roll out its vaccination programme, and [it remains] under its strictest lockdown to date". Yet, Rutte is widely seen as "the antidote" to the country's problems. "People are rallying round his flag." Not everyone will be cheering in Brussels, says Mehreen Khan in the Financial Times. In the years following Britain's vote to leave the EU, "Rutte has emerged as the hard-nosed leader of an awkward squad of countries that often says 'no' to further political and economic integration". Euroscepticism has an enduring appeal in the Netherlands, and victory for Rutte would make him the EU's second-longest-serving leader after Hungary's nationalist Viktor Orbán; Germany's Angela Merkel leaves office later this year. The Dutch vote is also the first major ballot in the EU this year, when the bloc is still under lockdown restrictions, and a first test of voters' anger.

The way we live now: pay before you eat

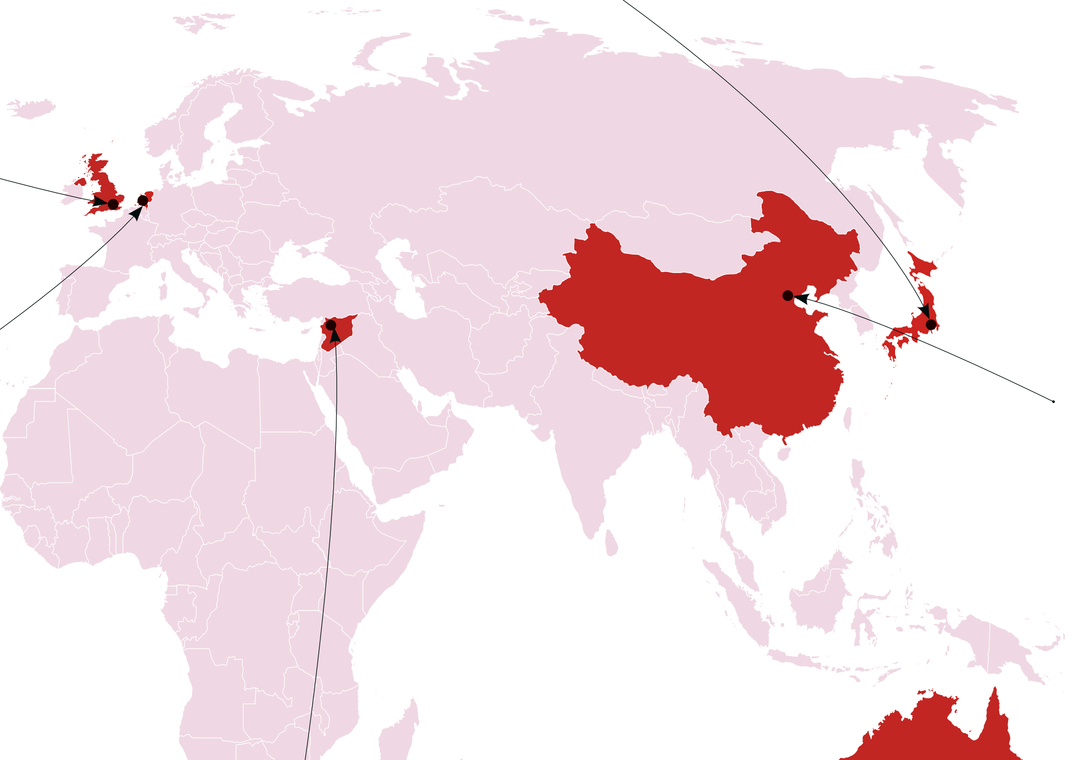
An expensive treat – especially if you don't turn up

No shows are a "nuisance" at the best of times, says Louise Eccles in The Sunday Times; celebrity chef Tom Kerridge has lambasted them as "disgraceful and "selfish". After a year of lockdown-induced lockdowns, however, they are unaffordable. Restaurants are therefore gearing up to reopen with a "pay-before-you-eat" policy. The "theatre-ticket approach" is to put a stop to the practice of customers who book several venues for the same time and choose their favourite at the last minute, "wasting businesses' time, money and food". Many people have already booked tables from 12 April, when outdoor dining is supposed to reopen, and from 17 May for indoor dining. One Birmingham restaurant began taking prepayments for bookings last week, asking customers to pay up to £70 for the ten-course tasting menu, plus an optional £55 fee for drinks pairing. East London's Angelina introduced the pay-before-you eat policy last July, asking customers for £34 for a four-course tasting menu, or £59 for a ten-course one. It has had only two no-shows since.

Tokyo

Wage increases at eight-year low: Japanese companies have announced their lowest wage increases in eight years, says Tetsushi Kajimoto on Reuters. Since 2013, big companies have offered pay rises of at least 2% in annual spring wage negotiations as part of "Abenomics", former prime minister Shinzo Abe's attempt to "reflate" the economy and banish deflation. Higher salaries have also been used to attract talent, given the country's chronic labour shortage from its rapidly ageing population. But this year wages will struggle to grow at all. The pandemic has dealt a huge blow to service-sector firms such as restaurants, transportation, hotels and tourism, forcing them to place job security over salary increases. Trade unions in several sectors have been loath to push for increases in remuneration this year. There was more bad news this week: Japanese exports declined in February. The 4.5% year-on-year drop was largely due to a decline in US-bound car shipments. It was the first decline in three months after a 6.4% rise in January.

Companies can't afford to help workers reflate the economy this year



Beijing

Tencent slides amid tech jitters: Shares in Tencent, Asia's largest conglomerate, slumped by 4% early this week after a similar decline late last week. That wiped out $62bn of its market capitalisation, which, according to analysts at Bernstein, is almost the value of its online finance business, says Zheping Huang on Bloomberg. China's top financial regulators have fined some of the country's largest tech giants, including Tencent, ¥500,000 ($77,000), for failing to seek prior approval for some acquisitions and investments they made. The worry is that the "token fine" is just the beginning of Chinese regulators' clampdown on the sector as they attempt to rein in the country's once "free-wheeling" tech industry. The crackdown began with Jack Ma's Ant Group, whose $35bn flotation was "torpedoed at the last minute". Premier Li Keqiang pledged at the National People's Congress earlier this month to "expand oversight of financial technology, stamp out monopolies, and prevent the 'unregulated' expansion of capital". Analysts expect Tencent's top managers' low public profiles to alleviate regulatory risk; Jack Ma was a vocal critic of the Chinese government's control on its economy.

Damascus

UK imposes sanctions on Syrian: Britain has imposed sanctions on six senior members of Bashar al-Assad's (pictured) government for their "role in the persecution and killing of civilians" during the Syrian conflict, says The Daily Telegraph. The sanctions mark ten years since government forces opened fire on peaceful pro-democracy protests in 2011. The subsequent decade of fighting, which has led to around 500,000 deaths and displaced more than 11 million people, eventually involved hundreds of rebel and jihadist groups and drew in outside powers including Russia and Iran who, together with Assad, have "all but crushed the insurgency", says Reuters' Suleiman Al-Khalidi. Now, amid "tightening US sanctions, neighbouring Lebanon's financial collapse" and a pandemic that has hit remittances from abroad, Assad faces the task of rebuilding a country. According to the World Bank, a cumulative total of $226bn in GDP was lost between 2011 and 2016 and the Syrian pound, which traded at 47 to the dollar pre-conflict, has plunged to 4,000. On Monday, Geir Pedersen, the UN's special envoy to Syria, said the "fragile ceasefire" presented a rare "window of opportunity" for peace.

Canberra

Facebook and News Corp agree three-year deal: The spat between News Corp and Facebook ended this week after the "Rupert Murdoch-controlled publisher" struck a three-year deal to provide news to the social network, say Hannah Murphy and Jamie Smyth in the Financial Times. The agreement will allow Facebook to access content from The Australian newspaper, the Sydney-based Daily Telegraph and Melbourne's Herald Sun as well as regional publications. The deal was struck after a "controversial law" designed to force technology platforms such as Facebook and Google to pay publishers for news content passed last month. Though the cost of the deal wasn't disclosed, it is estimated that Facebook and Google's agreements with Australian news publishers will pump over A$100m ($77m) a year into journalism. Before the deal was struck Facebook had came under fire for culling news in Australia from its platform for several days, cutting off updates from emergency services and health authorities. Facebook's executives said they felt compelled to take the "nuclear option" because News Corp was making "untenable demands". Google had already agreed a global content deal with News Corp and local deals with other newspapers before Facebook followed suit this week.

Test and trace: did it do any good?

Britain built a system for testing for Covid-19 and tracking down contacts from a standing start – at a cost projected at £37bn. Why so expensive? And did it work? Simon Wilson reports


Dido Harding: did she really do such a bad job?

©Getty Images

What has happened?

Last week the House of Commons public-accounts committee – the parliamentary body that acts as a public-spending watchdog – issued a damning report into the government's £37bn, NHS-branded "test and trace" (T&T) system. The report did accept that the programme, led by Dido Harding, has done an awful lot of testing and tracing. It found that between May 2020 and January 2021, the UK's daily Covid testing capacity increased from around 100,000 to more than 800,000 tests. During that time, T&T contacted more than 2.5 million people testing positive in England, and advised more than 4.5 million of their associated contacts to self-isolate. Yet despite all that, and "despite the unimaginable resources thrown at this project", T&T "cannot point to a measurable difference to the progress of the pandemic", the committee chairwoman, Meg Hillier, concluded. Moreover, "the promise on which this huge expense was justified – avoiding another lockdown – has been broken, twice", she said. "Taxpayers cannot be treated by the government like an ATM machine. We need to see a clear plan and costs better controlled."

What are the MPs' specific criticisms?

First, that T&T publishes a mass of performance data, but none that actually shows how effective it is at cutting transmission of the virus, or that measures its overall performance from "cough to contact". Thus, there is still "no clear evidence" to judge T&T's effectiveness, the report found – and "it is unclear whether its specific contribution to reducing infection levels, as opposed to the other measures introduced to tackle the pandemic, has justified its costs". Second, the scheme has consistently failed to match up supply and demand for the service, "resulting in either sub-standard performance or surplus capacity". Any system of this kind is likely to build in unused capacity. But even as the winter wave arrived in November and December, the percentage of total laboratory testing capacity remained under 65%. And even with its spare capacity, T&T has never once hit its target of turning around all tests (in face-to-face settings) within 24 hours.

> *"This is the most wasteful and inept public-spending programme of all time"*

But why was the system so expensive?

The MPs say the programme remains "overly reliant" on wildly expensive contractors (217 of them, running 400 contracts), consultants and temporary staff. By last month, T&T was still employing around 2,500 consultants, at an average daily rate of around £1,100 (and top earners getting £6,624 a day). The report also criticises T&T for sowing confusion over rapid-results testing (using lateral flow tests) and their use in different community settings, and accuses T&T of "ignoring" important stakeholders and not exploiting the existing networks of local authorities and NHS primary-care bodies. Overall, that's a pretty damning verdict. Indeed, according to Nick Macpherson, the former Treasury permanent secretary, it means T&T "wins the prize for the most wasteful and inept public-spending programme of all time. The extraordinary thing is that nobody in the government seems surprised or shocked. No matter: the Bank of England will just print more money."

And is that a fair assessment?

Alas, there is a lot of competition, says Andrew Rawnsley in The Observer. In recent decades, we have not lacked for "ignorant and/or vainglorious ministers squandering billions of pounds". Tory governments have given us the ERM debacle, the poll tax and the personal pensions scandal. The Blair government's ill-fated attempt to overhaul the NHS's IT systems, which kicked off in 2002 and was finally scrapped by the coalition in 2011, cost around £24bn in today's money, says Ben Chu in The Independent. The biggest fiasco ever was probably the gas-cooled nuclear-power stations built by Harold Wilson's Labour government in the 1960s, reckons economist John Kay – it cost the state £95bn in today's money just to build.

So where does test and trace rank?

Judgement is premature, since the widely publicised £37bn figure is the sum allocated over two years (£22bn this fiscal year; £15bn next); it's not the sum actually spent. As of last November, T&T had spent "only" £5.7bn. That suggests the final spend (even with new contracts in train for a further £12bn) will be less than £37bn, says Alex Thomas of the Institute for Government. The key failures of T&T are its over-reliance on consultants; the lack of transparency over how contracts are awarded; and the failure to incorporate local structures. But the truth, says Thomas, is that both government and independent research does suggest T&T has helped cut transmission. Moreover, around 85% of T&T's budget goes on the testing system, which had to be built from scratch, and has ultimately been far more impressive than the tracing element.

Not actually a fiasco then?

No one would argue that T&T has been an "unqualified success", says Robert Colville in The Times. But building Europe's biggest testing operation has been no mean feat, especially given the decision to build a centralised tracing system from scratch, bypassing local public-health teams. The real lesson from all this, though, is about databases. Throughout the pandemic, the British state's policy successes "have largely come where there are good databases, and its failures where there are not". The jabbers have moved "seamlessly down the age and risk cohorts, because GPs had the appropriate patient lists". The trackers and tracers, by contrast, had to "map out the nation's social network from a standing start", relying on individual contact lists (unexpectedly thin ones, averaging only 2.4 per person) from people testing positive. Database management, and combining different databases effectively, "has become the essential task of modern government – and its most important limitation".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That would have seemed crazy just months ago, but British blue-chips are about to get a big boost

Matthew Lynn
City columnist

The equity markets have dramatically changed the script from last year. The technology and growth stocks that were flying all through 2020 have stalled, while the "value" companies that no one was interested in are seeing a dramatic revival. Tesla dropped from $880 a share to below $650. Spotify dropped from $350 to $270. Overall, the tech-heavy Nasdaq index dropped by 10%, taking it into correction territory. And yet, at the same time, the wider market was hardly impacted. The more broadly based, industrial Dow index marched steadily on, hitting record highs. The two indices have not diverged so significantly since 1993. What analysts refer to as a "great rotation" is underway: investors are taking their money out of growth companies, and putting it into value on a scale not seen for many years.

The Zoom boom is over

It is not hard to understand why. After an epic run, many tech stocks had started to trade on crazy valuations. Covid-19 accelerated the digital economy, compressing ten years of advances into a few short months. But even so, it's not clear that Zoom is really worth five times what it was a year ago. At the same time, the rapid rollout of vaccination programmes in the UK and US means lockdowns should be lifted soon, and massive stimulus programmes, again led by the US, means economies should bounce back strongly. The result? Lots of companies in basic, traditional industries should witness a rapid recovery. Airlines, retailers, banks, property firms, manufacturers, and food and drink companies, should all be doing a lot better.

Miners are back in fashion

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Every major index has plenty of "value" companies on it, but one stands out: Britain's FTSE 100 (Germany's Dax comes a close second). Indeed, you have to look pretty hard to find anything that looks like a technology company in it at all: Rightmove, Just Eat and Ocado are the only three, and two of them are in food delivery, which is at the more basic end of the spectrum. Other than that, it's all banks, miners, oil companies, drugs conglomerates, and consumer-goods giants. In other words, the FTSE is primarily a "value" index, with a high dividend yield and plenty of cash flow, but not a lot in the way of excitement.

For the last 20 years that has condemned it to a terrible performance. It is still below the high it reached in 1999, while every other major rival is way above it. If it had simply kept up with the S&P 500 it would be over 15,000 by now. If it had kept up with the Dax it would be over 12,000. Sure, it has been weighed down by a host of factors. Brexit definitely didn't help, nor did the interminable arguments about how to get out of the EU that dominated the four years after we voted to leave. Neither did the financial crash of 2008, nor the sluggish growth that followed. Even so, the FTSE's underperformance was largely down to the dominant sectors in it being completely out of fashion. The FTSE has performed dismally for so long that most investors have simply given up on it.

A modest target

If the "great rotation" has legs, that will start to change, and potentially very quickly. Brexit has been resolved; the vaccine roll-out is going well; the chancellor and the Bank of England have pumped massive amounts of money into the economy to keep demand alive. Perhaps most importantly of all, the FTSE's dominant sectors are coming back into fashion. If miners are booming once more, then in Rio Tinto and BHP Billiton, the FTSE is home to some of the largest in the world. As energy revives, it has BP and Shell. As healthcare is in vogue, it has GlaxoSmithKline and AstraZeneca. In banking, it has HSBC and Barclays. None of these are especially exciting businesses. But they are solid, reliable, pay good dividends, and will benefit from a growing, consumer-led global economy. They are all "value" stocks, and cheap ones as well. How high could all this push the FTSE? To 10,000 by the end of the year? It is not as crazy as it would have seemed just a few months ago. If the "great rotation" keeps going, it is a modest target.

Who's getting what

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- Shares in South Korean online retailer Coupang surged on their first day of trading in New York on Thursday of last week, says Bloomberg. The company, dubbed "Korea's Amazon", is now valued at around $84bn, giving 42-year-old South Korean-American founder and chief executive **Bom Kim** (pictured) a $8.6bn stake. Coupang is South Korea's largest-ever listing and the biggest by an Asian company on a US exchange since Alibaba Group in September 2014.

- Swiss-based mining giant and commodities trader Glencore is to pay its incoming chief executive, **Gary Nagle**, a starting salary of $1.8m, plus $50,000 of assumed benefits, says the Financial Times. Nagle, who currently runs the group's coal business, could be awarded up to $10.4m a year with a target-related bonus, although the maximum he will be able to earn in any one year will be $6.4m due to 40% of his bonuses being held back for two years.

- **Rupert Soames**, CEO of outsourcing firm Serco, one of the companies behind the government's much-criticised test-and-trace scheme (see page 14), was paid £4.9m in total for last year, taking his total earnings since he joined in 2015 to £23.5m, says The Guardian. Chief financial officer, Angus Cockburn, received total pay of £2.4m for 2020. Although slightly lower than in 2019, their pay is "likely to inflame [public] anger with the company", which had already been criticised for reinstating its dividend after a seven-year gap, partly as a result of winning Covid-19 work.

Nice work if you can get it

Deutsche Bank increased bonuses for its investment bankers by 46% last year after a pandemic-driven trading boom propelled its fixed-income trading division and drove the lender to its first annual profit in six years, says Olaf Storbeck in the Financial Times. But not everybody is happy about the €1.9bn bonus pool, which is 16 times bigger than the Frankfurt-based bank's net profit in 2020. (Half of that is allocated to its investment bankers.) Union Investment, the third-largest asset manager in Germany, and one of the 15 biggest investors in Deutsche, is "highly critical" of the pay decision. That the bank has racked up a €14.6bn cumulative loss since 2015, is in the middle of a costly turnaround plan and has suspended dividend payments, is especially galling. Deutsche has promised to resume dividends next year, and hand back €5bn to investors from 2022.

Should you buy Deliveroo?

Takeaway delivery group Deliveroo could be the biggest UK IPO since Royal Mail. But should you invest?

John Stepek
Executive editor

Deliveroo: can it deliver to investors?

©Deliveroo

Food delivery group Deliveroo is set to list on the stock exchange in the next few weeks in what could be the biggest initial public offering (IPO) in London since the Royal Mail's stockmarket listing in 2013. The company aims to raise £1bn by selling a mixture of new shares, and shares owned by existing investors. And in this case, it's not just institutions who can get involved – some of the shares will be available to private investors too (as long as you're a Deliveroo customer – see box below). But should you take the opportunity?

Let's start with some general bad news. We tend to be wary of IPOs, and we're warier still when they come in clusters as they are now – the UK IPO market looks set to surpass its best quarter ever by value if Deliveroo gets added to the total before the end of March, reports Swetha Gopinath on Bloomberg. Big IPOs come near market tops, because that's when investors are at their most credulous and most willing to pay up for shares. That doesn't necessarily mean the companies are bad – but it does suggest the prices paid are too high. In 2019, US research group Verdad compiled a useful analysis of around 3,700 US IPOs since the late 1980s. After five years, the median company had lost 41% of its value. In other words, the odds of picking an IPO winner are poor.

Deliveroo: not especially appetising

So that's the "big picture" backdrop. What of Deliveroo's specific merits? Deliveroo's revenues were £1.2bn in 2020, deriving mainly from fees charged to restaurants and consumers. The company is still loss-making, though losses narrowed to £223.7m last year, compared to £317.3m in 2019. It also grew fast last year – the total value of transactions processed on its platform rose by 64% to £4.1bn. However, as Russ Mould of AJ Bell points out, 2020 was arguably the ideal backdrop for a big takeaway delivery company, with lockdown forcing consumers to order takeaways rather than eat out. These ultra-favourable conditions will change as lockdown ends. So can the pace of growth continue?

"Deliveroo's big issue is that anyone can deliver takeaway"

The biggest problem is Deliveroo's lack of a "moat" – that is, a durable competitive advantage. As Bill Blain puts it on CapX, the fact is that "anyone can deliver takeaway food". This is already a crowded sector (rivals include Uber Eats, DoorDash and Just Eat) and there are no real barriers to entry for others. "In a market with room for maybe two competitors, Deliveroo is at number three," reckons Blain. The risk is that this remains a low-margin business where the winner boils down to who can spend the most on building and maintaining a dominant network of delivery staff, restaurants and customers. Those who still fancy a punt can find out more below.

How can I invest in Deliveroo?

Deliveroo might not look like the most promising long-term bet (see above). And we note that rival DoorDash, which listed in the US in December, has fallen hard in the last month or so (although it's still well above its $102 IPO price). But all the same, you might be forgiven for fancying a short-term punt on the stock, in case it gets swept up in a wave of enthusiasm.

So if you want to invest, how do you go about it? Deliveroo plans to make £50m-worth of shares available to private investors. However, you have to have a Deliveroo account and to have ordered at least one takeaway to be eligible to apply. You will be invited to register your interest in taking part in the IPO. Potential investors will be able to apply to buy up to £1,000-worth of shares in multiples of £250 via Deliveroo's partner on the IPO, Primary Bid.

Of course, if the IPO is oversubscribed – which seems quite possible – then not everyone will get as many shares as they apply for. Deliveroo has said it will prioritise its most loyal customers first. So if you're not already a Deliveroo customer, there's no harm in applying, but be prepared to miss out. There is no date as yet for the listing, and the IPO share price won't be known until closer to the listing.

One other point to note: Deliveroo is following in the footsteps of other big tech IPOs by having two classes of share: one for investors, and one for founder and chief executive Will Shu. Shu gets 20 votes per share – everyone else gets one. We don't like this. Shareholders should have the power to hold managements accountable, even if they don't use that power often enough. However it seems to be the only way to attract big tech companies to go public, and defenders argue that it shows commitment from the founder, as opposed to an intention to cut and run. Also, at least Shu's shares turn into ordinary shares on the third anniversary of the IPO.

Guru watch

Ray Dalio, founder of Bridgewater Associates

"The economics of investing in bonds – and most financial assets – has become stupid," says Ray Dalio, founder and co-chief investment officer of hedge fund giant Bridgewater Associates. Anyone who invests in developed world government bonds right now is locking in a guaranteed loss after inflation, he writes in his latest post on social media website LinkedIn. "Rather than get paid less than inflation why not instead buy stuff – any stuff – that will equal inflation or better?"

When bond investors finally decide that enough is enough and sell out of bonds en masse, central banks will be forced to step in and buy them with printed money in order to stop interest rates from surging to ruinous levels. That will keep bond prices and yields steady, and indeed it was done in the US during the 1930 to 1945 period. However, it will also drive inflation higher, which is bad news for anyone holding cash. And note that this sort of financial repression also tends to involve capital controls and higher taxes. Indeed, says Dalio, "the chances of a sizable wealth tax bill passing over the next few years are significant".

Dalio also believes that China will increasingly compete with the US as a financial superpower. US dollar-denominated debt accounts for the majority share of global debt out there, but international investors are starting to increase their Chinese bond holdings. This will continue, reckons Dalio, as long as China continues to deepen its capital markets.

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Medics are in Big Pharma's pockets

Jawad Iqbal
The Times

How is it legal or ethically permissible for pharmaceutical companies to "pay doctors to promote their drugs"? asks Jawad Iqbal. If a doctor recommends a treatment, patients should be confident they don't have a "financial interest in doing so". Yet GlaxoSmithKline doubled its payments to doctors from £9.9m to £19.3m from 2017 to 2019 across the US and Europe. In Britain, payments rose from £520,000 to £1.6m. Similar payments are made by the likes of AstraZeneca and Pfizer. Firms say all they're doing is making doctors aware of their products. However, the dangers were made clear in last year's report by the Independent Medicines and Medical Devices Safety Review, which found that some doctors who recommended pelvic mesh – which resulted in "chronic, life-changing pain for many women" – received payments from manufacturers as "speakers or consultants". Payments may be legal, but "that doesn't make them right". Many countries including the US, France and Australia now track such payments. Just as MPs have to declare their interests in the parliamentary register, declaring payments should be mandatory and publicly available via the General Medical Council register. Doctors shouldn't be a "special case".

Kiwis put a lid on house prices

Ruchir Sharma
Financial Times

In 1989, New Zealand's central bank was the "first to commit to a specific target for consumer price inflation, then the biggest threat to the world economy", says Ruchir Sharma. Unions and businesses "howled", saying it would "kill growth and jobs", but it helped to lower the public's self-fulfilling expectation of price rises – inflation fell from 8% to 2% in two years and other countries followed suit. Now, with New Zealand house prices rising 19% in the year to January, Prime Minster Jacinda Ardern has "ordered the central bank to add stabilising house prices to its remit". Decades of loose central-bank policy have done less to generate growth in the real economy than in housing and stocks – gains which mainly benefit the rich. Property is "unaffordable" in the vast majority of cities. Research dating back 140 years in 17 major nations finds that, pre-1945, only 25% of recessions followed a bubble in housing or stocks. Since then, two-thirds have. Since the £220trn global housing market is more than twice the size of the global stockmarket and "complicated by debt", recessions that follow housing bubbles are "the worst". If Ardern's idea catches on, it could lead to "greater financial and social stability worldwide".

Britain must back its tech fledglings

Robin Pagnamenta
The Daily Telegraph

Wejo – a Manchester-based tech start-up – is exactly the kind of firm that the government should be encouraging to "supercharge Britain's tech sector", says Robin Pagnamenta. Reports that it is being advised by Citigroup on pursuing an initial public offering in the US via a special acquisition company (Spac) are therefore "troubling". Why does it matter where shareholders are, if the company itself remains in Britain? Because if the UK tech industry is to thrive long-term, it needs to "build an ecosystem that supports and nourishes" companies from formation through to maturity. The US holds a "magnetic appeal" to many hoping to land billion- rather than million-dollar flotations. Yet, if our successful firms are dominated by US shareholders, British investors won't get to share so fully in their growth. The process is also "self-reinforcing". Not only do national champions provide jobs and tax revenues for decades to come, they help budding entrepreneurs to cut their teeth before striking out on their own and help to develop valuable experience and encourage more risk-taking by UK investors. Hence the need for Rishi Sunak to go further than he did in his recent Budget to ensure that the likes of Wejo stay in Britain.

Post-Brexit City poised to thrive

Daniel Hodson
City AM

"In continuing to raise protectionist walls around its internal financial markets, the EU has gifted a massive opportunity to the City of London," says Daniel Hodson. "Developing a series of parallel markets in a diverse range of euro-denominated cash securities and derivatives" would allow it to take advantage of its "massive liquid and diverse markets and deep related skill sets". The City's multi-currency, multi-product clearing "stands in contrast" to the EU's "fractionalised and mainly euro-based clearing houses". There is "ever-increasing recognition of the legal and regulatory advantages" of our common-law system. There are plenty of examples of successful parallel markets being created in response to protective measures – the eurodollar market in the 1960s, for example. The European parallel markets are already established in the City and are likely to grow. More products will emerge as the City casts off its EU regulatory shackles, re-evaluates listing rules and is supported by an improved tax regime. It will "watch and gratefully accept a continual flow of cross-Channel business" as its EU-based competitors struggle with protectionism and red-tape. The EU-wide Financial Transactions Tax may be the "icing on the cake".

Money talks

"Candidly, I'd gone from Canada to Harvard, had a lot of student loans, and the most effective way to pay that off was to become a banker."
Former Bank of England governor Mark Carney (pictured) on why he went into finance, quoted in The Guardian

"Trollope captures a truth repeated across history: there is no resentment quite as inflammatory as that of a wealthy person spurned."
Sunday Times columnist Matthew Syed on novelist Anthony Trollope's insights

"I stopped reading reviews years ago. They are so reductive. I do what I do for myself. No one else put me through art college, no one else built my business."
Fashion designer Christopher Kane, quoted in The Observer

"Oh my god, ambition by far. Talent is very, very secondary. When I was a kid, whatever I decided to do, I was going to be a success. If I'd decided I wanted to be an athlete, a scientist, I'd have been successful. Whatever I wanted to do, I just did, by any means necessary."
Singer Jason Derulo on whether talent or ambition is more important to success, quoted in the FT

"All of our lower-class friends have holidays twice a year in Europe. All of our middle-class friends have houses there. We have a European royal family. There is nothing wrong with Europe. It's the EU that's the problem."
Artists Gilbert and George, quoted in The Times

"If you were richer, and you had a nice big, warm house, and plenty of room for your kids to run around, [it was] probably quite a lovely experience… if you had no room and you weren't working from home, and you couldn't afford to self-isolate… then it was a totally different [experience]."
BBC news presenter Emily Maitlis on lockdowns, in The Daily Telegraph

The economics of Megxit


The British public were not invited to the discussion

©Joe Pugliese/Harpo Productions/ITV

capx.co

Not everyone is interested in the "soapier side" of the doings of the royal family, but Meghan and Harry's interview with US chat-show host Oprah Winfrey, and the feud in the family revealed in it, has an economic angle, says Alys Denby. "Like a lot of family feuds, Meghan and Harry's falling out with the royals comes down to money – significant quantities of it belonging to the taxpayer."

The conflict and the magic

Republicans say the royals are a waste of public money, but this isn't quite true. Most of the funding the Queen gets for official purposes, the Sovereign Grant, comes from the profits from the land and properties that make up the Crown Estate – in 2020 this earned the Treasury £257.6m. The Prince of Wales receives an income from the Duchy of Cornwall agricultural estate, and he pays income tax at the top rate.

When they decided to stop working as royals, the Sussexes agreed they would no longer receive money from the Sovereign Grant. They said they were "looking forward to" financial independence. It appears, though, that they did not think financial independence should extend to paying for their own security. They were removed from the list of who qualifies for state-funded police protection and Prince Charles stepped in to pick up the estimated £4m bill. Conflict over this and over whether their son should qualify became a turning point in the quarrel between the couple and the royal family, according to the Sussexes' own account.

Harry, it seems, thought his security should follow him personally regardless of his role – the Palace begged to differ. Yet it's the Home Office that decides how to deploy police officers, not Prince Harry or his family. Nowhere in their interview do the Sussexes consider what the British public might think about their "progressive new role", or whether they would be happy to pick up the bill for their security.

Protection officers put their lives at risk not because of who the royals are, but for what they embody. "That's the conflict, and the magic, at the heart of our constitution. Part of what's so wonderful and enduring about the monarchy is the fact that it's a family. The human cycle of birth, death, grief and joy helps us relate to the state not just as an abstract concept, but as something to which all citizens have an emotional connection." But you can't choose your family. For Britain, it's the Windsors, scandals and all. Likewise, the royals can't separate themselves from the society they rule. "That's what Harry and Meghan tried to do, and that, I suspect, is why they lost their family."

Why bubbles are not all bad

bloomberg.com

Airlines have so reliably lost money for their shareholders that Warren Buffett has quipped that the best thing a far-sighted capitalist could have done would have been to shoot down the Wright brothers' maiden flight, says Peter Coy. If that had happened, though, society as a whole would have been denied a technology the modern world now relies upon. This is illustrative of a general point – that although bubbles may hurt individual investors when they burst, the results can nevertheless be good for the rest of us. Consider the electric-car boom. Some investors are warning that valuations in the sector, not least in the lead innovator Tesla, are "simply not sustainable over the long term". They're surely right that investors might save money by avoiding such investments. Yet the money now being raised in the markets is being put towards technological innovations that we may benefit from in the future. Whether a bubble ends well or badly for society as a whole depends on whether the technological advance that got the boom going continues to bear fruit for the largely short-term lenders who funded it. If not, they may pull out in a panic and cause a crisis. If it does, the credit boom ends, but not in a crisis. Whether the craze for electric cars turns out to be a good boom or a bad one remains to be seen.

How to avoid bad decisions

fs.blog

A big part of success is just avoiding failure, says Shane Parrish. Here are five reasons why we make bad decisions.

1. We're stupid. We like to think of ourselves as rational, but really we're prey to cognitive biases. Never make important decisions while you're tired, emotional, distracted, or in a rush; or while working in groups or with authority figures.

2. Identify the real problem. Our minds get busy with problems as they are presented; we'd do better to consider what the true problem really is.

3. Get better data. Don't rely on third-hand information, or indeed the news. Seek out information from someone as close to the source as possible because they've earned their knowledge and have an understanding you don't.


Don't rely on the news

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4. Don't stop learning. We all know people who make the same mistakes over and over again. Don't be that person. Reflect on your errors and how to stop repeating them.

5. Be virtuous. We're conditioned to do what is easy over what is right – it's easier to signal virtue than to be virtuous. At work, act as you would want an employee to act if you owned the company.

Trump's tarrifs did no good

cato.org/blog

US president Jo Biden's new commerce secretary has spoken highly of the tariffs that Donald Trump slapped on steel and aluminium imports, purportedly for national security reasons. Yet there is little evidence to support the idea that they have been effective, even by tariff supporters' own benchmarks, says Scott Lincicome.

Numerous studies have documented the tariffs' high economic costs for US consumers of steel, particularly manufacturing firms. In particular, the tariffs caused higher steel prices, which in turn hurt other US manufacturers in terms of higher input costs, lower exports and lost competitiveness at home and abroad. At the same time, the tariffs had minimal impact on US steelworkers' jobs and did nothing to address global steel overcapacity. As a result, sector stocks have tanked, companies have laid off workers and investments were curtailed. The tariffs were supposed to save the steel industry. In truth, they only made things worse. Hopefully Biden's administration will come to see this reality and act accordingly.

Top trusts in emerging markets

Investors need to tread very carefully in this risky sector. Here are the best ways to approach it

Max King
Investment columnist

The traditional argument for investing in emerging markets (EMs) was compelling. Their economies were growing fast from a low base. Growth was initially based on commodities and basic industries but, in time, countries would move up the value chain, as Asia had demonstrated.

Young populations meant plentiful cheap labour. The growth of the middle class opened opportunities for businesses that were mature in the developed world. Initially, investing was as easy as "BBC" – banks, brewers and cement – but new technology in areas such as mobile communications would enable countries to cut corners to achieve prosperity, saving on expensive infrastructure.

Crises have hit returns

Dan Rasmussen of Verdad Capital shows that it hasn't exactly gone according to plan. "Over the past 30 years," he says, "buy-and-hold investors in emerging markets [as measured by the MSCI Emerging Markets index] have endured high volatility for disappointing returns: $100 invested in the S&P 500 index in 1989 would be worth $1,900 today compared with $1,340 if invested in EMs where volatility has been 50% higher." The reason for this is EMs' frequent

The Philippines' index has never returned to its Nineties peak

©Getty Images

crises. "Since 1989, there have been more than twice as many EM crises with [declines of] over 50% than in developed markets. Even worse, EMs have been less likely to recover from crises."

The global economic realignment towards larger emerging markets "never translated into equity returns". Average annual economic growth in EMs in those 30 years, according to the International Monetary Fund, was 4.7%, compared with just 1.8% for developed economies.

"When crises occur in developed markets... investors never doubt that a government bond will safely store capital, that the political system is stable or that water will continue to run from the tap." But emerging economies might default, the political system can be uprooted and "the question is not when but whether the economy will truly recover". For example, the Philippines' index has never returned to its 1997 peak. The flight of not just foreign but also domestic capital to safe havens worsens crises.

Buy after heavy falls

Despite such examples, Rasmussen finds that EMs usually recover from seemingly hopeless crises making a strategy of investing in EMs that have fallen by more than 50% highly profitable on average. In two thirds of examples, the average return over two years was 89% but in one third, -31%. Such a strategy would recommend **BlackRock Latin America** (**LSE: BRLA**) and **BlackRock Frontiers** (**LSE: BRFI**), both down by over 50% a year ago but still 32% and 28% from their highs. The managers of both trusts are highly confident.

An alternative strategy would be to pick a trust whose great record of stockpicking insulates investors from lacklustre emerging markets indices. **The JPMorgan Emerging Markets Investment Trust** (**LSE: JMG**), with £1.6bn of assets, has outperformed the MSCI EM index by 37% over five years while the **Templeton Emerging Markets Investment Trust** (**LSE: TEM**), with £2.6bn of assets, has outperformed by 50%. JMG has outperformed in eight of the last ten years, so its shares trade at net asset value (NAV) while TEM's are on a discount to NAV of 5%-6%.

Both trusts are heavily invested in "new economy" sectors such as information technology, communication services and consumer stocks rather than commodities and industrials, "paying a premium for high-growth, high return-on-equity businesses", in the words of JMG's manager Austin Forey. "There are as many opportunities now as in the last ten years," he says. Andrew Ness, co-manager of TEM, says the outlook is "compelling, with corporate earnings set to rebound sharply".

Activist watch

Phoenix Asset Management Partners has launched an attack on funeral provider Dignity's executive chairman, says Graeme Evans in the Evening Standard. It has put forward its own chief investment officer, Gary Channon, to replace Clive Whiley. Dignity has been hit by an investigation into the sector by the Competition and Markets Authority (CMA) that began in 2018. The CMA concluded that funerals had become too pricey. Phoenix owns 29.9% of Dignity, whose shares have slumped by 80% since 2016. Despite the rise in demand brought on by Covid-19, Dignity's annual results next week are unlikely to impress. The average cost of funerals has slipped in the past year as services have been pared back thanks to social distancing.

Short positions... how to play the rotation towards value

■ **The shift from high-growth to value stocks shows "no signs of abating", says Jonathan Jones in The Telegraph. Growth funds have come under pressure as US technology stocks have fallen out of fashion. Look to London to play the rotation. Businesses that have struggled during the pandemic, such as pubs, retailers and leisure stocks, should perform well in the recovery. The £1.1bn Schroder Recovery fund is an attractive option. There has been a shift towards value in 12 months of the past five years, and the fund has beaten its average rival in each of those months. The same goes for the £53m Schroder Responsible Value UK Equity fund, which uses ethical screens to avoid companies involved in military services, pornography, tobacco, gambling and alcohol. The River & Mercantile UK Recovery and UK Equity High Alpha have returned a respective 160% and 132% over the past ten years compared with the FTSE All Share's 74% return.**

■ Investors with £43bn invested in income funds had a dismal 2020, says David Brenchley in The Times. Dividends from UK companies fell by 44%. In 2019, four of the world's ten top income-generating stocks were listed in the UK. But in 2020 several companies and funds were forced to cut or suspend payouts once Covid-19 arrived. The UBS UK Equity Income fund, which invests in oil giant BP and Barclays bank, saw its dividend income fall by 58.8% throughout the year. The LF ASI Income Focus Fund lost 56.7%. Some funds' dividends "held up better": LF Gresham House UK Multi Cap Income recorded a mere 13% fall in income. The disparity between best and worst performers was mostly due to each fund's exposure to bank and energy stocks. Dividends are expected to rebound this year.

Financing funerals

Farewells are expensive, so many people opt for package deals. But they can be opaque and pricey

Ruth Jackson-Kirby
Money columnist

Anyone who has ever organised a funeral can tell you it usually costs more than you would expect. The average funeral costs £9,263 according to SunLife, a life insurer, but the total outlay varies depending on your choices. Coffins don't usually come cheap, while fancy flowers and a burial plot can all rapidly increase the price.

To avoid spiralling costs and save relatives the hassle of deciding the details, more and more of us are opting for a pre-paid funeral plan. You design and buy your funeral in advance, locking in today's prices. But many people may not be getting the funeral they think they have paid for.

"This is a strange scenario: the purchaser is not around when the plan comes into effect, to assess whether it meets promised standards and complain if it doesn't," says Faith Glasgow in The Financial Times. People often don't discuss their funeral plans with family so, after their death, their relatives don't know what was agreed.

"We are currently dealing with a prepaid funeral where there is a lot of misunderstanding over what was included. The customers are under the impression the whole funeral was paid for, but we had agreed with the plan provider that the plan would cover only part of the costs," one funeral director told the Financial Times. That family is facing an additional bill of £700.

One problem is commission, with will writers and funeral directors being offered hefty payments by third-party funeral plan firms if they can sign people up. Commissions can sometimes make up 50% of the cost of a plan.

The Financial Conduct Authority (FCA), the City regulator, will be stepping in to authorise and regulate the pre-paid funeral plan industry from July 2022. It has now announced how it plans to make the sector more transparent and fairer. From next summer firms will have to be authorised by the FCA to sell funeral plans and that will mean meeting strict rules on how they market their products. They "will be banned from cold-calling and from using additional fees to drive profits and commission payments to intermediaries", says Kevin Peachey on the BBC.


Pre-paid plans are more complicated than they should be

©Alamy

Peace of mind

An added benefit of pre-paid funeral plans being regulated by the FCA is that from next July your money will be protected by the Financial Services Compensation Scheme (FSCS). So, if the company goes bust you can get your money back.

In the meantime, if you have a funeral plan, or are planning to get one, make sure someone you know understands how much you've paid and exactly what that covers.

That way they can ensure you get what you paid for after your death. Also check exactly how the cost of your plan breaks down. How much are you paying for your funeral? How much will go on fees and commission?

"Keep the paperwork with other important documents so it is easy for your family to find," says Peachey. And if you move house, tell your funeral-plan provider. "The cost may be different in the area you move to."

Pocket money... hot-tub insurers feel the heat

High street banks "are braced for a spike in so-called payment redirection fraud" thanks to a surge in property transactions caused by the stamp-duty holiday, says Howard Mustoe in The Daily Telegraph. Santander has reported a 47% increase in this type of fraud in 2020, with average losses of £35,000.

Scammers pretend to be solicitors or another service provider in order to trick you into changing the bank account you pay your money into. Or they may convince you that your account has been compromised and you need to move the money into a safe account. In any case you end up transferring your cash to the criminals. Double-check any payment details and contact your solicitor to confirm any changes before you move your money.

The state pension is on course to "receive its biggest increase in a decade next year," reports Jessica Beard in The Daily Telegraph. Average earnings growth is forecast to hit 4.6% this year. Thanks to the triple-lock rule this would propel the state pension up to £187.86 per week from April 2022.

The number of insurance claims involving hot tubs has almost tripled in the past year. Analysis of claims data from Aviva in 2020 found a 188% rise in accidental damage claims relating to hot tubs. "Claims it accepted included a grass strimmer bursting an inflatable tub, birds pecking holes in a spa cover and an engagement ring ripping a tub lining," reports The Guardian.

Time to switch broadband firm?

Virgin Media has come under fire for its slow internet speed at busy times and poor customer service in recent weeks. It has "the worst service in Britain", says James Coney in The Sunday Times. There is "something catastrophically inept about [its] customer service that issues drag on and on, going unresolved for weeks".

Ofcom records Virgin Media as being the worst communication provider when it comes to complaints about mobile and television service. It doesn't fare much better for its landline service, ranking second worst and third from the bottom for broadband.

Despite the terrible service Virgin Media – alongside other broadband providers including Sky and BT – has announced price rises in April. "Price hikes are coming at the end of this month," Martin Lewis, founder of MoneySavingExpert, told BBC Radio 5 Live. "If you've got one of these contracts it's time to start haggling."

If your provider is raising prices and that isn't mentioned in the small print of your deal you have 30 days to cancel your contract. If you are happy with your provider then shop around to see what you could be paying elsewhere and then give them a call to drive down your price. Anyone who isn't satisfied can take this opportunity to cancel their contract and move – although you won't be able to do this if your contract allows for price rises.

If you can't leave then complain about shoddy service. Start with your provider. If that doesn't get you anywhere then you can go to one of two ombudsman services.

For complaints relating to Virgin Media, Vodafone, Sky and TalkTalk you need to contact the Communication and Internet Services Adjudication Scheme. For other big providers, including BT, turn to Ombudsman Services.

Fundsmith

Emerging Equities Trust

The Fundsmith Emerging Equities Trust (FEET) research team searches the world to find companies that make their money from a large number of everyday, repeat, predictable transactions and will benefit from the rise of the consumer in developing economies.

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% Total Return

12 months ending February	2021	2020	2019	2018	2017
Fundsmith Emerging Equities Trust NAV	+31.9	-15.2	-1.2	+16.1	+11.9
AIC Global Emerging Markets Sector	+18.5	-8.2	-2.6	+12.5	+36.6

Source: Financial Express Analytics

www.feetplc.co.uk **Available through your stockbroker.**

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Sunak sticks with SEISS

The chancellor has extended the scheme to help the self-employed

David Prosser
Business columnist

There is good news and bad for self-employed workers whose businesses are still being damaged by the Covid-19 pandemic. On the positive front, Chancellor Rishi Sunak's Budget announced another round of the self-employment income support scheme (SEISS); it will also now potentially cover hundreds of thousands of people previously excluded. Less happily, many self-employed people will continue to miss out.

Roughly 200,000 newly self-employed will, for the first time, be able to claim help from the SEISS from April. These are people who became self-employed in the 2019-2020 tax year and therefore had not filed a tax return that could be used as a basis for making a claim. This group should all have filed returns for 2019-2020 by 31 January, so the chancellor is admitting them to the scheme.

Actors are among the freelancers who have struggled to benefit from SEISS

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Are you missing out?

However, this will still leave substantial numbers excluded. Around 1.2 million people who earn less than 50% of their income from self-employment are still not eligible to claim, even though Covid-19 may have severely dented this part of their earnings. A further 700,000 company directors continue to miss out, with self-employed workers set up in this way excluded from the SEISS.

The next round of the SEISS will open for applications in April and offer support for the months of February, March and April combined. Eligible self-employed workers will be able to claim up to £7,500; you will receive a maximum of 80% of your average trading profits over three months, with the calculation usually made according to your past four tax returns.

Importantly, you can only claim for support if your business continues to suffer from pandemic-related problems such as reduced demand from customers, reduced capacity owing to supply-chain or labour-force problems, or a simple inability to trade. If you had these problems a few months ago but they have been resolved since then, you cannot claim in the latest round.

The chancellor has also announced that there will be a fifth round of the SEISS, though it looks set to be less generous. You will still get three months' average profits, but the money is to cover five months of trading, from May to September. It will also be based on a turnover test, comparing your sales in 2020-2021 to 2019-2020, rather than focusing on profitability. More details will be published in the coming months. Another thing to bear in mind about payouts from the SEISS is that they are taxable. You will need to declare the money you have received on your annual tax return, so some of it will effectively be clawed back.

HM Revenue & Customs (HMRC) also reserves the right to demand repayment of SEISS cash if it decides you were not eligible for the scheme. To make a claim, you are supposed to have a "reasonable belief" that you have suffered a "significant reduction in profits" during the pandemic. These terms are not set in stone, but HMRC does publish some examples of what it has in mind on its websites; these are worth checking if you're in doubt in order to avoid a confrontation later on.

Small companies avoid big tax hike

While the chancellor's Budget promise to raise corporation tax to 25% in 2023 made all the headlines, many small businesses will be unaffected by this hike.

Chancellor Rishi Sunak promised that any business making a profit of less than £50,000 in the 2023-2024 tax year will continue to pay corporation tax at the current rate of 19%. The Treasury subsequently claimed this would mean 70% of actively-trading businesses would pay no more tax.

The Budget also introduced measures to avoid a cliff edge for businesses exceeding the £50,000 threshold. Their corporation tax rate will rise in steps, rather than in one go, only reaching the full 25% on profits above £250,000.

There is other good news for small businesses on corporation tax. Any firm making a trading loss in the 2020-2021 or 2021-2022 tax year will be able to carry this forward to set against taxable profits in any of the following three tax years. This could prove valuable as businesses start to recover from the Covid-19 pandemic.

In addition, small businesses benefit from the new "super deduction" for investment. For two years from 1 April 2021, this initiative gives a 130% tax relief when businesses make qualifying investments.

At the 19% rate of corporation tax, this effectively means that your tax bill shrinks by £247 for every £1,000 invested. There is no limit on the amount you may invest, while certain assets, such as green heating, get even more generous relief.

The IR35 reprieve is over – what freelancers should do now

● Freelancers and contractors got a last-minute reprieve from the IR35 reforms a year ago, when the government opted to delay introducing them on 5 April 2020 amid the Covid-19 chaos. But the reprieve was only temporary, and for many businesses, concern is now growing about the potential impact of the changes when they come into effect early next month.

The reforms make businesses that use freelancers and contractors responsible for determining their tax status – whether they really are self-employed contractors, or whether they are effectively employees that should be paid through the PAYE tax system.

Many freelancers and contractors have received lengthy questionnaires from clients in recent weeks, and fear they could face a loss of income or higher tax bills following the changes. Research published by the Association of Independent Professionals and the Self-Employed (IPSE) this week suggested as many as 50% of members would stop contracting in the UK from 5 April onwards, unless they can secure contracts unchanged from their current arrangements.

This will require clients to certify them as outside the scope of the IR35 rules, but the tests for determining this are subjective rather than definitive. Broadly, HM Revenue & Customs is focused on working relationships. Where contractors and freelancers retain control over how and when they work, where they can delegate the work, and where the client is not obliged to give them work, they are likely to escape IR35. But all clients have to make their own assessments of each freelancer and contractor they use. Those that have not heard from clients may now need to make inquiries or risk an unexpected tax surprise. In IPSE's research, one in four contractors said their clients were either uncertain or had made no indication of what they would do in response to the IR35 changes.

We see potential in the overlooked and underloved

FIDELITY SPECIAL VALUES PLC

This investment trust seeks out good-quality but unpopular companies, whose long-term growth potential has been overlooked by the market.

Portfolio manager Alex Wright's contrarian approach to the trust thrives on volatile and uncertain markets, when there's more chance of stocks being misjudged and undervalued. Investing mainly in the UK, and supported by Fidelity's extensive research team, Alex looks to invest in out-of-favour companies, having spotted a potential trigger for positive change that he believes has been missed by others.

It's a consistent and disciplined approach that has worked well; the trust has outperformed the FTSE All Share Index over the long term both since Alex took over in September 2012 and from launch 26 years ago.

Past performance is not a reliable indicator of future returns. The value of investments can go down as well as up and you may not get back the amount you invested. Overseas investments are subject to currency fluctuations. The shares in the investment trust are listed on the London Stock Exchange and their price is affected by supply and demand.

The investment trust can gain additional exposure to the market, known as gearing, potentially increasing volatility. The trust invests more heavily than others in smaller companies, which can carry a higher risk because their share prices may be more volatile than those of larger companies and the securities are often less liquid.

PAST PERFORMANCE

	Jan 16 – Jan 17	Jan 17 – Jan 18	Jan 18 – Jan 19	Jan 19 – Jan 20	Jan 20 – Jan 21
Net Asset Value	21.6%	16.5%	-6.5%	11.4%	-8.3%
Share Price	22.9%	17.3%	-3.1%	9.2%	-6.7%
FTSE All Share Total Return Index	20.1%	11.3%	-3.8%	10.7%	-7.5%

Past performance is not a reliable indicator of future returns.
Source: Morningstar as at 31.01.2021, bid-bid, net income reinvested.
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A one-way bet: gambling is going to grow and grow

The sector is undergoing both a regulatory and a technological revolution – and the companies that play their cards right stand to win big. Matthew Partridge explains how to find them

The desire to bet "has been part of human nature [since] time immemorial", says Russ Mould of AJ Bell. However, as many people have found out the hard way, one of the iron rules of betting is that while individual punters can do well, for the majority the long-term outcome is that the "house always wins". This is why the global gambling industry is worth $475bn and will reach $550bn by 2023, estimates Professor Leighton Vaughan Williams, director of the betting research unit and professor of economics and finance at Nottingham Business School.

The internet has supercharged the sector

One part of the industry expanding at a rapid pace is online gambling. Part of this is due to lockdowns, which have "increased engagement by existing online players" stuck at home, says Williams. However, he expects this part of the market to keep growing at breakneck speed even after restrictions are removed and things return to normal. While it still only accounts for $60bn in sales, around 15% of the overall sector, this figure should rise by 50% to $90bn over the next two years.

Lockdown restrictions aren't the only factor driving online growth, says Maksym Liashko of online betting firm Parimatch. He thinks that the convenience of smartphone betting has also caused the amount of money wagered online to grow, as it makes it much easier to bet at short notice, or even while the event itself is taking place. This is particularly important as a sporting spectacle such as a football match only lasts a relatively short amount of time.

While the binary nature of sporting contests, with a winner and a loser, means that "sports and betting have always gone together", the rise of high-profile international sporting events viewed by huge numbers of people has further fuelled the online boom. One example of this is football, with the Champions League and the Premiership followed by hundreds of millions of people across the globe. It is therefore no surprise that football teams have been major recipients of advertising from gambling companies, with ten out of 20 Premier League teams having some form of gambling advertising on their shirts, either on the front or on the sleeves.

Liashko thinks that the final element of the online gambling boom has been the large increase in marketing expenditure by gambling companies in recent years. Part of this has involved firms building up their brands in order to stand out from rivals in an intensely competitive environment. But it has also made people more aware of the opportunities available, helping grow the size of the overall market. He is confident that thanks to all these factors the rapid pace of growth in online betting will endure for the foreseeable future.

"Mobile phones make it easier to bet at short notice, or while an event is taking place"

Cracking America

Perhaps the most compelling opportunity for the online gambling industry is the US. In 1992 President George H. W. Bush signed the Professional and Amateur Sports Protection Act (PASPA), which effectively banned sports betting throughout the US (with the exception of Las Vegas). Fourteen years later his son George W. Bush would tighten the law further by signing the controversial Unlawful Internet Gambling Enforcement Act (UIGEA) of 2006. It did not target internet gambling *per se*, just illegal online gaming: it stopped US companies (including banks) accepting money produced by unauthorised gambling sites. However, since all online sites fell into that category, UIGEA effectively prevented offshore bookies accepting money from Americans.

Although there have been several attempts to repeal the bill it is still in force. The good news for the industry is that a 2018 lawsuit from New Jersey overturned the federal ban on sports betting (PAPSA) on constitutional grounds. This allowed it to find a way to escape the impact of the UIGEA, which provides exemptions by deferring to state law. In essence, if a state says a gambling outlet is legal, the UIGEA does not apply. So from 2018 states could say sports betting – online too – was legal.

Legalising sports betting

The legalisation of sports betting provides a "huge opportunity" for the industry, says AJ Bell's Mould. Even though the Supreme Court's decision striking down PASPA is less than three years old there has already been a rush towards legalisation. Indeed, "over 20 states have already legalised bets, with most of them allowing online gambling in some form".

What's more, "five more have legislation already pending and more than a dozen others could launch new laws for approval in 2021 and 2022". While California "is not expected to permit wagering until 2023 or beyond", Mould is confident that "the direction of travel is clear" unless "a major sporting scandal" prompts a "major rethink".

Of course, removing all restrictions doesn't mean that there's going to be a free-for-all with any operator allowed to pitch up. Indeed, Robin Wood, chief financial officer and deputy CEO of FTSE 100 gambling group Entain, admits that virtually all states that have legalised online gambling so far – whether sports betting or another kind – have erected large barriers to entry. The most notable of these is the requirement to have either an existing physical presence in the state, in the form of a licence to run a casino, or at least have a joint venture with such an operation, as Entain currently has with MGM.

Legal restrictions aside, any company attempting to crack the American market will also have to spend a lot of money to reach the "critical mass" that will allow it to take advantage of economies of scale. As a result, while there may be "a lot of niche operators" taking an interest at present, Wood thinks that within five to ten years many of those will have decided to drop out, while mergers will further reduce the numbers.

As a result, the market will end up "very consolidated". In addition to the casino chains, the companies that have been running "fantasy sports"

Individual punters can do well, but the house always wins

(competitions where people win cash prizes for selecting the players who will do best over the course of a season) currently have a head start, although he thinks that it will not be insurmountable.

Still, although the US market may prove a huge challenge, the rewards for those companies that manage to find their feet in it will be immense. Indeed, he predicts "decades of growth", with states such as Texas, Florida, and eventually even California, opening up their markets. With the US already generating "almost as much money for Entain as the rest of the world put together", he reckons total online gambling revenue in the US could reach $20bn by 2025, a forecast shared by many of his competitors, such as Flutter.

Gambling goes global

Of course, the US isn't the only market that is rapidly expanding. While Liashko thinks that it isn't worth firms such as Parimatch trying to challenge the major American players, smaller companies can still grab a piece of the action in the rest of the world. Indeed, many places are deciding that the increasing popularity of offshore gambling companies means that they may have no choice but to legalise the activity formally, as many are now doing, most notably Germany, which is in the process of bringing in a law.

Even fully legal gambling in China is "only a matter of time", says Liashko. The rise of the middle class in emerging markets, as a result of decades of strong economic growth, is already starting to provide a boost to the industry's bottom line and shift the balance of power eastwards. For example, Professor Vaughan Williams notes that the Asia-Pacific region is "already a fast-growing market for gambling in the world", and this is "expected to continue".

Overall, Entain's Rob Wood argues that policymakers across the world are now realising that bans can be counterproductive, while liberalisation can allow countries to get ahead of rogue firms and create a framework in which "consumers are protected, tax revenue is generated and more money can remain in the local economy".

Allowing legal online gambling can also help undermine the huge number of black-market bookmakers, a problem in all countries, including the US, as "all the evidence shows that consumers will switch to proper operators once gambling is legalised".

Perhaps the only significant fly in the ointment is the UK, one of the earliest markets to liberalise. There has been increasing pressure to tighten up regulation. Last year the Gambling Commission brought in rules to make online casino games "less harmful", including increasing the amount of time between slot-machine game cycles and removing "displays of net financial position and elapsed time during gaming sessions", says Richard Williams, gambling and regulatory partner at Keystone Law. It is working on another review, which may recommend new rules such as "more restrictions on gambling advertising" and even "possible mandatory deposit or loss limits".

Still, it's important not to overstate the impact of such rules, says Williams. Any further restrictions "are likely to focus mainly on casino (particularly slot-

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"Policymakers across the world are realising that gambling bans can be counterproductive"

Continued from page 31

machine) games", with "less risky" forms of gambling such as sports betting or lotteries less heavily affected. Indeed, rules governing some forms of gambling may be relaxed: "the restrictions imposed on physical casinos are seen as unfair when similar restrictions do not apply online".

Casinos will remain popular

Most gambling revenue still comes from physical premises, such as casinos or bookmakers. Such establishments "have taken an obvious hit, especially during lockdowns", says Professor Vaughan Williams. However, "as vaccines are rolled out and start to take an effect" they can "expect to recover and grow".

Russ Mould agrees that physical casinos have a relatively rosy future, especially high-profile resorts such as Las Vegas, which still has a brand name powerful enough "to entice the hardened gambler as well as the casual one". Americans will now want to "let their hair down, stay in a smart hotel, see a show, have a drink, and place a bet".

For his part, Wood thinks that the gambling industry will end up with a hybrid, rather than an online-only, model. He notes that most US casinos are using loyalty programmes to link their online offerings with their bricks-and-mortar operations. For instance, MGM (Entain's partner in a joint venture) has a rewards scheme that allows people who bet via its website to enjoy discounted stays in its hotels. Entain even sees the humble bookie's shop as part of an "omnichannel offering" whereby people "meet their friends and place bets in the physical shop, but later cash their winnings out online".

The sector's high-tech future

In order to integrate the real and virtual worlds firms will need to become far more "adept about leveraging the available technology", says Wood. Given the current pace of innovation it may not be long before we can apply augmented and virtual reality to betting. Crucially, from a regulatory and reputational point of view, Wood thinks that better systems could help the industry detect problem gambling earlier (although a 2019 NHS study suggests that only 0.4% of the population meet the criteria for problem gamblers). Jason Trost, founder and CEO of betting-exchange Smarkets, agrees that the pace of technological innovation around gambling is unlikely to slow. He thinks that all parts of the industry can learn a lot from the financial sector, especially the way it handles large flows of money and matches buyers and sellers. After all, bookmakers "perform a very similar role to market makers", so it is not impossible that financial institutions may try to enter the industry, either directly, or by buying one of more of the big players.

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American gamblers will be eager to play after lockdown

"A 2019 NHS study suggests that 0.4% of the population are problem gamblers"

While Smarkets, and some of the leading operators, have invested large sums of money in keeping their systems in-house and at the cutting-edge of technology, other operators "have been run less well". Some have neglected technology or made the mistake (in his view) of outsourcing too much of their operations to third-party developers. While this outsourcing has produced decidedly mixed results, it has led to the development of a subsector specialising in creating and maintaining systems software for the larger operators. It has also led to a huge demand for reliable systems.

The stocks to bet on now

Perhaps the most well-known British gambling company is **Entain (LSE: ENT)**, part of the FTSE 100 index. Entain owns Bwin, Coral, Ladbrokes, PartyPoker, and Sportingbet. It also runs an online-betting venture in the US with MGM Resorts, which attempted to buy it earlier this year.

While Coral and Ladbrokes have physical betting shops, Entain makes most of its money online. Over the last three years revenue has grown by just under 10% a year. Despite the group's impressive record and prospects the stock still trades on a reasonable 17 times 2022 earnings, with a solid dividend yield of 2.4%.

Entain's big rival is **Flutter Entertainment (LSE: FLTR)**, also part of the blue-chip index. Formed from the merger of bookmakers Paddy Power and betting exchange Betfair in 2015, Flutter has further grown by buying several companies in North America, notably US fantasy sports operator FanDuel and Canadian gaming group The Stars Group (although there is some speculation that Flutter may spin out FanDuel as a separate company).

While it trades on a relatively pricey 2022 price/earnings (p/e) ratio of 36.5, this is more than justified by the fact that revenue has more than doubled over the last three years and is set to keep growing at a double-digit percentage rate over the next few years.

Another notable British company is Gibraltar-based **888.com (LSE: 888)**. This mid-cap company owns several online-gambling brands spanning casinos, poker and sports betting in a wide range of markets. At present it operates in several US states, including Nevada and New Jersey, while it is in talks with other operators to expand further in the US.

The group boasts a long record of consistent growth, with sales expanding by around 15% a year over the past two decades. It earns a high return on capital (a key gauge of profitability) of approximately 30%. It trades at 20 times 2022 earnings and offers a dividend yield of 1.8%.

One way to play the post-Covid-19 recovery in US casinos is **Las Vegas Sands (NYSE: LVS)**. Las Vegas Sands manages several casinos around the world, including The Venetian in Las Vegas. It also operates casinos in Singapore and other parts of Asia, and is planning one in Japan. While last year's lockdowns and social distancing saw sales fall by more than 75%, both revenues and profits should largely have returned to normal by next year. The stock is on a 2022 p/e of 21 and yields 2%.

Rank (LSE: RNK) should also benefit from the end of lockdowns and social distancing. Rank not only operates the Grosvenor Casinos chain of casinos, which consists of 56 outlets in the UK, but also Mecca Bingo, which runs 96 bingo clubs. It has also been attempting to boost its online presence through Rank Interactive.

While revenues plunged by 70% in 2020, the group's management is confident that it will quickly return to normal once restrictions are lifted. Thanks to a share placing in November 2020 it has plenty of cash on hand to cushion its balance sheet if customers take longer than anticipated to return. Both Grosvenor and Mecca have greatly expanded their digital offerings over the past year. Rank currently trades at 20.5 times 2022 earnings.

Three winners of the long-term biotech boom

A professional investor tells us where he'd put his money. This week: Marek Poszepcynski, investment manager, International Biotechnology Trust

The biotechnology sector has been instrumental in bringing Covid-19 under control. It was not the traditional large pharmaceutical vaccine specialists that led the way, but the innovative biotech firms such as BioNTech and Moderna. These companies have turned a much-discussed idea – vaccines based on RNA, a new approach – into a product and have manufactured millions of doses. That has led to valuations of some of the innovative small-cap companies accelerating to eye-wateringly high levels.

It is easy to get caught up in the hype of investing in stocks with rapidly rising share prices. However, we rely on fundamental analysis in making our investment decisions and look out for companies that boast a compelling roster of innovative products. We also ensure that these companies have experienced managers to help the business deliver long-term growth. We also seek out stocks that are fairly valued and we do not chase overhyped small-cap biotechs. In our opinion, these three stocks have good pipelines, strong management teams and fair valuations.

Orphan diseases: a high-growth niche

The experienced management team at **Horizon Therapeutics (Nasdaq: HZNP)** has turned the company into a high-growth "orphan disease" specialist. Orphan diseases affect a small number of patients, but still command good pricing power and favourable patent protections.

One of the company's current drugs is Tepezza, used to treat a rare condition called thyroid eye disease. The launch of this drug has been very successful, with peak sales estimated to exceed $3bn. In February 2021, in order to maintain its pipeline of new drugs, the company bought another orphan-disease company called Viela Bio.

Tackling multiple maladies

Alnylam Pharmaceuticals (Nasdaq: ALNY) has developed an RNA-platform technology that can regulate the production of various protein cells to help treat a number of different diseases. There are currently four drugs approved, which help to treat diseases caused by genetic mutations, in addition to a broad, growing, and therapeutically diversified pipeline of projects with the potential for high sales.

The company is adapting this technology to treat a range of other diseases. Some of these conditions are also caused by genetic abnormalities, while more common ailments such as hepatitis B and hypertension will also be tackled.

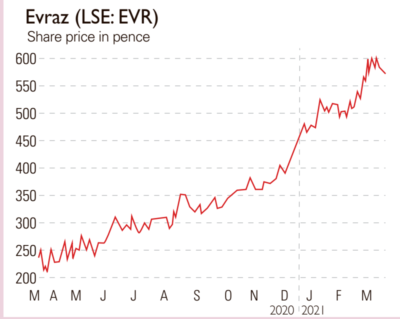
Shifting from HIV to cancer

Gilead Sciences (Nasdaq: GILD) is a mature biotech that built its business on HIV treatments. In March 2020 it acquired Pharmasset, which had a pipeline drug to treat and cure hepatitis-C infections. The hepatitis-C franchise became hugely successful, generating peak sales of $10bn. But its growth rate dwindled soon after, as patients left treatment once they were cured.

"One of Horizon's drugs targets a rare condition called thyroid eye disease"

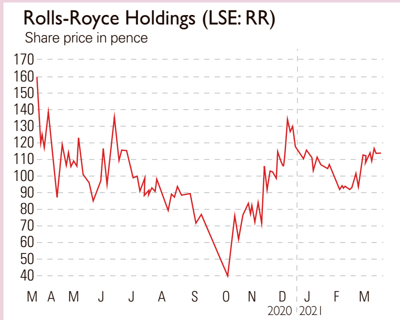
Since then, a new management team has refocused the company on oncology by acquiring Immunomedics for $21bn. The jury is still out as to whether this acquisition will be considered a success; it depends on the data from a large breast-cancer study expected to be made public later in 2021. Gilead Sciences has not taken part in the recent market rally as it is considered defensive, so it is trading on a relatively low-price earnings (p/e) multiple.

If only you'd invested in...



Evraz (LSE: EVR) is a miner and steelmaker based in Russia that boasts "solid fundamentals", says Simon Mugo on AskTraders. Its profits for 2020 surged to $848m, up from $326m the year before, and it started 2021 "in high gear", signing a two-year contract with pipe-producer TMK to supply rolled pipe billets. Shares in the company have been in a "sustained rally" from March 2020 despite the market turbulence last year. Steel demand is expected to surge as global economies begin to recover. The stock has gained 133% over the past 12 months.

Be glad you didn't buy...



Aerospace and defence group **Rolls-Royce Holdings (LSE: RR)** posted a "mammoth" £4bn loss for 2020 as the pandemic grounded planes and decimated demand for its engines, says Ben Chapman in The Independent. The group may not bounce back rapidly: the outlook remains uncertain for the aviation industry as countries continue to grapple with the coronavirus. The company has also secured £7.3bn of funding from shareholders and emergency loans from the Bank of England. The shares have slipped by 38.2% in the past year.

The mogul shaking up the music business

Merck Mercuriadis has been spending millions snapping up the rights to hit songs and turning them into an income stream for investors. Can the good times last? Jane Lewis reports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Few have shaken-up the music industry quite as effectively as Merck Mercuriadis, says The Guardian. In less than three years, the 57-year-old Canadian behind the Hipgnosis Songs Fund has become "the most disruptive force" in the business. London-listed Hipgnosis has been at the vanguard of the music rights gold rush – raising money from investors to acquire the intellectual property to popular songs. After a barnstorming year of acquisitions in 2020, Mercuriadis's portfolio of "evergreen" hits now stands at around 61,000 – encompassing artists from Bon Jovi to Barry Manilow. Investors have bought into the idea, says The Times, and a "flood of capital is heading for song funds". In December, Hipgnosis – which has a market cap of around £1.26bn – announced plans to raise a further £1bn to spend on its Songs Fund.

Predictable income in a changing world

A classic song, says Mecuriadis, is a source of predictable income in an unpredictable world – a "more reliable" asset class than oil or gold because demand is unaffected by economic and political upheavals. And in the streaming economy, it keeps on giving – particularly when the value is maximised via "synching" arrangements with films and TV shows and so on.

In a fast-growing market, what sets the former Elton John manager apart from a growing army of competitors is his "*bona fides*" as a veteran A&R man, says The Guardian. He's also a music nut. His father was a former professional footballer from Greece who moved to Northern Quebec to work in the iron-ore industry – later relocating to Nova Scotia, where the family opened a diner. Mercuriadis, born in 1963, spent his formative years helping out there while the jukebox played.

He landed his first job in the marketing department of Virgin Records in Toronto at 19 after pestering the label with letters, says the Evening Standard. Quickly emerging as an energetic executive with an "encyclopedic knowledge of music", Mercuriadis honed a reputation that has stuck as "a champion of the artist". In 1986, he moved to London to work for Sanctuary, the label founded by Iron Maiden's managers, and stayed for the next 21 years, before moving to New York in 2000 where he helped relaunch the Rough Trade label. He teamed up with a musician – the disco pioneer and producer Nile Rodgers – to launch Hipgnosis in 2018.

A paradigm shift

Unlike the stereotypical music mogul, Mercuriadis has spartan tastes, says The Guardian. "The only material thing I really care about is vinyl…and Arsenal football club," says the buff, teetotal vegan. He may look like a bouncer, but, according to Mark Ronson, Mercuriadis is "the smartest guy in the room". He's certainly prepared to take on all comers when it comes to arguing the merits of a model that many believe could end in tears, says Music Business Worldwide. Hipgnosis's rapid growth has drawn considerable "behind-the-curtain industry sniping".

"I think we will see 40-times multiples in this business before the next five years are over"

There's good reason to be sceptical about Hipgnosis's seductive tune, says The Times. The Song Fund's "annuity-type returns" look fabulously appealing, but songs "are extremely difficult to value" and Hipgnosis' valuations could prove "ludicrously optimistic". Mercuriadis is defiant. "I think we will see 40-times multiples in this business before the next five years are over," he told Music Business. "The paradigm is already shifting"; that "scares some people."

Great frauds in history… *Wang Fengyou's ant-breeding scam*

Wang Fengyou was born into poverty in China, but developed an entrepreneurial streak selling potatoes before turning to running a bottling plant, a slaughter-house and a taxi business. In 1999 he founded Yilishen Tianxi Group, which manufactured traditional Chinese remedies, including an aphrodisiac, made from ants. These products were heavily advertised on Chinese television with endorsements from Chinese comedian Zhao Benshan, and Bao Xishun, China's tallest man. The apparent success of the company won him a stream of awards, including a "model entrepreneur" award from the government, and he was photographed with many prominent officials, including the now disgraced Bo Xilai.

What was the scam?

From 2001 Wang offered "investors", mainly peasants who had received compensation for losing their land to development, the chance to earn large returns from ant farming. Investors got three boxes of "special" ants from his company for ¥10,000 ($1,600) and, for feeding them until they died, the firm would buy them back for a return of around 32.5% over 14 months. In reality, the firm was never legitimately profitable – it was a Ponzi scheme, with new investors' money going to pay those who had invested previously. Large amounts were spent on gifts to officials.

What happened next?

In 2004 the US Food and Drug Administration banned Yilishen's products from America on the basis that they contained active ingredients found in Viagra. This forced the company to abandon plans to float on the Hong Kong stock exchange and sales fell. In response, Wang stepped up recruitment for his scheme, but by 2007 investors' money had run out, leading to protests involving 200,000 people. The authorities stepped in and arrested Wang. He was made to confess to organising counter-protests and sentenced to death; many of his managers were given prison sentences.

Lessons for investors

Estimates of the numbers of those conned vary, but the scheme may have collected as much as $1.2bn. Despite official promises of compensation, investors got little or no money back and the police harassed and arrested those who complained. Endorsements from local politicians are never a guarantee of a scheme's trustworthiness, especially in emerging markets where transparency and the rule of law may be limited.

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Tuck your savings away tax-free

Interest rates have never been lower and we all get a Personal Savings Allowance. But you should nonetheless seriously consider a cash Isa this year. There will be more scope for your money to grow

Ruth Jackson-Kirby
Money columnist

An extraordinary year is culminating in an unusual individual savings account (Isa) season. Months of lockdown mean many of us have saved more than we would normally manage. Unfortunately interest rates are at record lows, so cash Isas don't appear especially appealing. But don't let low rates put you off protecting your money from the taxman. In future you'll be glad you did.

Savings held within a cash Isa can grow without the taxman taking a cut as no income tax or capital gains tax is due. You can place up to £20,000 into an Isa this tax year. You have to use that or lose it by midnight on 5 April 2021.

This is the big difference between an Isa and an ordinary savings account. With the latter, the interest you earn on your money is subject to income tax at your nominal rate. So, if you are a basic-rate taxpayer, for every £1 of interest you earn, the taxman takes 20p, rising to 40p and 45p if you are a higher-rate or additional-rate taxpayer respectively.

Since 2016 we have had a Personal Savings Allowance (PSA). This allows basic-rate taxpayers to earn up to £1,000 interest on their savings before income tax is deducted. For higher-rate taxpayers the allowance falls to £500 and additional-rate taxpayers do not get a PSA.

As £1,000 a year tax-free interest sounds attractive, fewer people have opted for Isas in recent years. But you could be storing up expensive problems for the future if you rely on the PSA to protect your savings from the taxman. Rising interest or a pay rise could suddenly land you with a tax bill.

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Beware rising interest rates

At present you would need to have over £100,000 earning interest at 1% to accrue more than £1,000 interest in a year. But not so long ago it was possible to earn up to 7% interest on savings accounts. Then you would only need £14,000 to exceed the PSA.

So if interest rates rise you could find yourself paying tax on your savings unless they are in an Isa. Moreover, if you received a pay rise or bonus that pushed you up into the higher rate tax bracket your PSA would be halved, meaning you may suddenly face a tax bill on your savings interest.

With a cash Isa you never need worry about a sudden tax bill. Your money is shielded from tax regardless of how much you save, whatever happens to your income or if interest rates rise. Make the most of the Isa allowance and you could build a substantial nest egg. For example, if you had saved the full amount into a cash Isa since they were launched in 1999 you would have around £185,690 safely shielded from the taxman now, assuming 2% annual growth.

The options for your cash Isa this year aren't very tempting. Consider sticking to shorter-term accounts so you can move your money when interest rates improve. According to the financial comparison site Moneyfacts.co.uk, the best long-term fixed rate is 1.25% on Shawbrook Bank's Fixed Rate Cash Isa Bond Issue 3.

But you would be locking your money away for seven years, and could be kicking yourself in a couple of years if interest rates rise and there are better accounts you can't move your money to.

Instead, opt for a short-term fix so your money will be free again in a few years, when interest rates may have improved.

The best two-year bond is the State Bank of India Cash Isa Fixed Deposit, which pays 0.65%. Alternatively, Gatehouse Bank's 3-year Fixed Term Green Cash ISA is paying a so-called expected rate of 0.8%. It is a Sharia bank so it doesn't pay set interest; instead you get a share of the profit the bank makes on investing your money. Meanwhile, Close Brothers is paying 0.75% on its three-year and 0.62% on its two-year bonds respectively.

The best instant-access deals

If you think interest rates might improve in 12 months, then the best one-year bond available is Synergy Bank's Loyalty Fixed Rate Cash Isa paying 0.55%, but it hardly seems worth it when you can get an expected rate of 0.6% from Al Rayan's instant-access Isa.

If you prefer to be able to manage your account face-to-face at a bank or building society there are still some competitive branch-based accounts to choose from.

Customers of the West Brom and the Tipton & Coseley building societies can both enjoy the best rates on two-year cash Isas: 0.6%. The Yorkshire Building Society is paying 0.55% on a two-year Isa and has 178 outlets nationwide. Virgin Money is offering an instant-access Cash Isa paying 0.5%; this account is also available through the bank's outlets.

Meanwhile, bear in mind that building societies tend to offer better rates than the big high street banks. If you don't have a local branch of one of those mentioned above, then go and see what your local building society has to offer.

Shelter investments from the taxman

Assets held in an Isa are free of capital gains and income tax, and you can invest £20,000 per tax year

Chris Carter
Wealth editor

With the blistering market recovery that followed the initial Covid-19 panic, we might expect stocks and shares individual savings accounts (Isas) to be more popular than ever. After all, any capital gains you make are sheltered from the taxman, along with income from shares and bonds. But if so, it will mark a turnaround. The number of stocks and shares Isas, or investment Isas, actually fell to 22.6 million in 2018-2019 (the tax year for which we have the most recent data) from 27.8 million in 2017-2018, according to HMRC.

The popularity of cash Isas, meanwhile, has nearly always outstripped that of their investment counterparts. In 2018-2019 there were almost twice as many cash Isas as stocks and shares Isas. No wonder. With cash Isas, all you have to do is find a provider, settle on a dismal rate of interest, and park your cash. Stocks and shares Isas require a little more work. But when you consider that even the most generous cash Isas (see page 4) will lose you money after inflation, it is surprising that stocks and shares Isas haven't been more popular – especially considering that stocks have outperformed cash both over the long term and in recent years.

If you had used your stocks and shares Isa to buy a simple FTSE 100 tracker fund at the stockmarket's nadir on 23 March 2020, two weeks before the Isa deadline last year, you would be sitting on gains of around 30%, excluding fees and dividends. This tax year has been extreme in terms of stockmarket movements. But even in 2018-2019, the last full tax year before the crash, the FTSE 100 rose by 3.7% while the annual rate of consumer-price inflation climbed by 2.3%, while the best instant-access cash Isas paid around 1.4%. So, why don't more people embrace stocks and shares Isas if they deliver considerably better returns?

Well, for starters, you don't know that the stockmarket is going to go up. It could go down. The recent stockmarket ructions offer us a timely reminder of that. Those who can only put aside a little bit of money after day-to-day living costs might well decide they would rather stick with the safety of a cash Isa. It's no surprise, then, that the popularity of stocks and shares Isas increases with age and wealth. Enthusiasts will tend to be more comfortable with investing and they are also probably MoneyWeek readers.

Of course, there's nothing to stop you having both a stocks and shares Isa and a cash Isa. Just remember you can only pay new money (ie, money that's not already in an Isa) into one of each type of Isa, whether it be cash, stocks and shares, innovative finance, etc, in any given tax year, up to a maximum of £20,000 for everything. And if you do make a loss, paper or otherwise, on your stocks and shares Isa, you cannot top it back up again with new money if you have used up your £20,000 allowance.

Look beyond equities

The other thing to note is that, despite the name, you can also put government and corporate bonds into your stocks and shares Isa, making your returns in theory a little more stable – although, again, the recent sell-off in the bond market is a reminder that anything can happen, so it pays to always keep a balanced portfolio of various assets. Investment trusts, exchange-traded funds (ETFs), open-ended investment companies (Oeics) and real estate investment trusts (Reits) can all go in your stocks and shares Isa as well.

If you want to move money from, say, a cash Isa into your stocks and shares Isa, you can. But be sure to get your Isa provider to help you with this so that the money doesn't lose its tax-free status and come out of your £20,000 allowance. If you already have shares that you would like to move into your stocks and shares Isa to take advantage of the tax-free status, you can also do that, but, again, be sure to do so through your provider. They will undertake a procedure called "Bed and Isa", in which your shares will be sold and bought back inside the stocks and shares Isa quickly to minimise price movements. If you are in danger of breaching your capital gains tax allowance of £12,300 for 2020-2021, consider spreading the sales of your investments between different tax years.

Finally, when choosing a provider for your stocks and shares Isa, look out for trading fees and platform charges. Flat fees tend to suit larger amounts – over £25,000, say, while a percentage-based fee of the value of your funds better suits more modest savings. Halifax-owned IWeb, for example, charges a one-off £100 account opening fee, and no annual administration charges. After that, trades are charged at £5 a go. Vanguard charges an annual 0.15% fee, but trading in its 70-odd Vanguard funds is free at certain points in the day. For a comprehensive list of providers and charges, see *moneyweek.com/isas*.

Equities can be extremely volatile, but have performed strongly over the long term

The FTSE 100's increase since 23 March 2020

30%


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Use the big tax breaks on pensions

Rules governing our retirement funds are more generous than Isa regulations


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Sipps offer access to a wide array of conventional and esoteric investments


David Prosser
Business columnist

For many people, tax breaks on pension savings are more than twice as generous as those on individual savings accounts (Isas). For one thing, you may be able to put double the Isa amount into your pension each tax year. Moreover, with a pension you get tax relief both when you are saving and when you cash the money in. Pensions also carry inheritance-tax advantages.

On the downside, pensions are less flexible than Isas. Any money invested in a pension is locked away until you turn 55. This will rise to 57 from 2028, and remain ten years below the state pension from that point on. Pensions also have a tricky overall limit on how much can be invested in the wrapper. The lifetime allowance is just above £1.07m and under current plans will stay there until at least 2026. That sounds like a lot, but is by no means an impossible target for a diligent saver achieving a decent rate of investment return over the course of a career. So just be aware of this limit as if you breach it – the tax penalties can be significant.

If you have access to a pension scheme at work, you should almost always join it, since you will then benefit from employer pension contributions. Beyond a workplace scheme, self-invested personal pensions (Sipps) give you access to a very wide range of investments and allow you to keep full control of your savings. They offer the same tax advantages as other defined contribution pensions (as opposed to "defined benefit" schemes, which are very attractive but mostly only available to public sector workers these days).

You get income-tax relief on the money you pay in. It costs a basic-rate taxpayer £800 to contribute £1,000 to a Sipp, while higher-rate and additional-rate taxpayers pay only £600 and £550 respectively. In addition, the income and profits your Sipp investments accrue are tax-free. And you can also take up to 25% of the savings tax-free when you retire. The pension rules allow most people to contribute up to 100% of their annual earnings before tax into a private pension, up to a cap of £40,000 each tax year. The exceptions are that very high earners – those making more than £240,000 a year – get a lower allowance; those with no earnings at all can still invest up to £3,600 a year and qualify for basic-rate tax relief.

The big draw of Sipps, for many, is the choice on offer. Permissible investments include almost all open-ended funds and investment trusts, exchange-traded funds, individual equities, gilts, corporate bonds and cash. You can even use Sipps to invest in commercial property. At retirement you can use your Sipp fund to buy an annuity, which will pay you a guaranteed amount of pension income for the rest of your life. But many Sipp savers opt instead for an income-drawdown plan: they take income directly from their pension fund, which is left invested to continue growing.

Competition between Sipp providers is fierce, but you need to take several factors into account to choose a plan. Firstly, how do you intend to invest your contributions? Almost all Sipp providers offer access to the most conventional investment options – including funds and shares – but if you intend to make more esoteric choices, such as commercial property, you need a provider that offers this option.

Next, study fees and charges. Providers tend to charge for the Sipp itself in one of two ways: a flat cash fee or a percentage of your savings. Flat fees can prove good value on larger pension funds, but percentage charges will be smaller if your savings are more modest. You will also need to compare Sipp providers' charges for the investments you make. There may be annual charges for holding funds or shares, as well as dealing charges when you buy or sell. The best deal for you will depend on the type of the investments you make (we have looked at some of the best providers, on the right).

You are allowed to transfer investments into a Sipp from another pension, or out of a Sipp into a different plan, though there may be charges for doing so. This can be useful later in life if you are considering an income-drawdown arrangement. The best Sipp for your drawdown needs may differ from the one you use as you build up your pension.

Finally, consider the resources that Sipp providers offer. Most Sipps are managed online, but check what kind of support you will have access to as you make investment choices. Many Sipp platforms now offer excellent research facilities, which may be crucial given that you will be making your own investment decisions.

Our pick of the best

Research by the price-comparison service Money to the Masses suggests that two Sipp providers are likely to work out cheapest. AJ Bell's annual charge for Sipps worth up to £250,000 is just 0.25% and its fund and share-dealing charges are competitive too. Vanguard has an annual charge of only 0.15% a year, capped at £375, though its investment options are quite limited compared to most other Sipp providers; it also makes no charge for income drawdown.

Other good options include Interactive Investor's Sipp, particularly if you have savings worth more than £50,000 and you only intend to make a handful of changes to your investments from time to time. AllianceTrust and Savings charges flat fees, with an annual charge of £252.

Another option is a managed Sipp from a "robo adviser". These services do not offer full-scale advice. They ask you to complete an online survey covering your circumstances, objectives and attitude to risk, and then suggest investments that might suit you. This can help if you do not want to take active control of your saving. The cheapest robo-advice option, says Money to the Masses, is evestor. Managing a £250,000 Sipp on its platform costs £1,225 a year. Nutmeg runs it close with an annual cost of £1,500, while Moneyfarm is also competitive.


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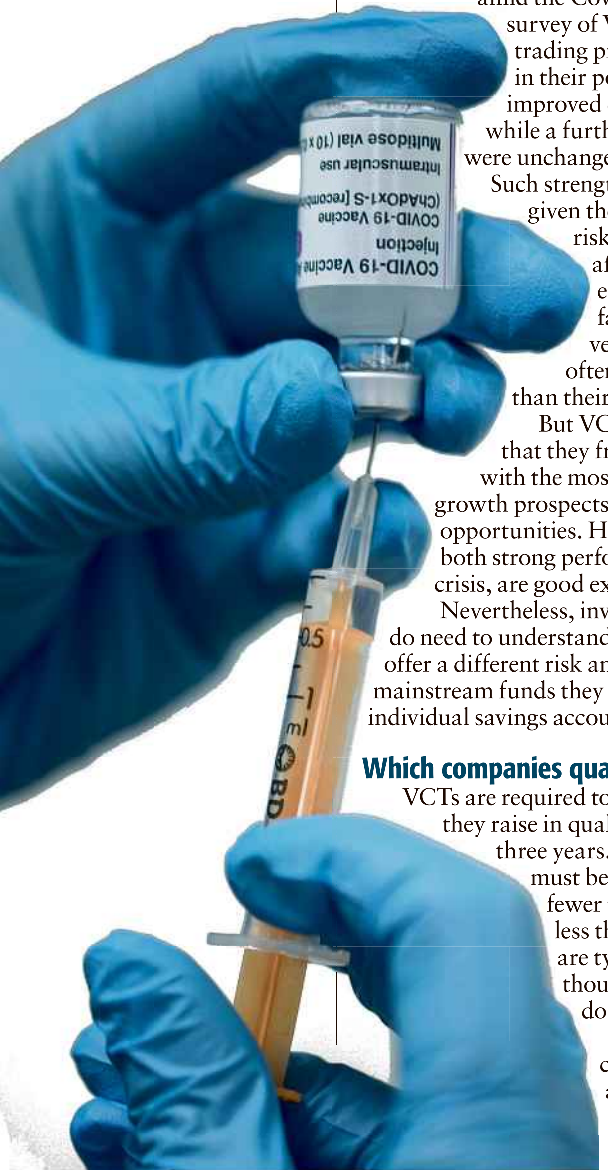
Finding future winners with VCTs

Backing fledgling companies is very risky but potentially highly rewarding – and it is tax-efficient too

David Prosser
Business columnist



Venture-capital trusts (VCTs) investing in fledgling companies proved resilient during 2020, with the average fund delivering a return of 4%, according to the Association of Investment Companies (AIC), compared with a 10% loss from the UK stockmarket amid the Covid-19 crisis. In an AIC survey of VCT managers, 40% said trading prospects for the businesses in their portfolios had actually improved during the pandemic, while a further 27% said conditions were unchanged.

Such strength might come as a surprise given the reputation of VCTs as risky investments. These funds, after all, invest in small, early-stage companies where failure rates are often higher; very small companies are also often more vulnerable to crises than their larger counterparts.

But VCT managers point out that they frequently focus on sectors with the most attractive long-term growth prospects rather than more cyclical opportunities. Healthcare and technology, both strong performers during the Covid-19 crisis, are good examples.

Nevertheless, investors tempted by VCTs do need to understand that these collective funds offer a different risk and return profile to the more mainstream funds they may be used to holding in individual savings accounts (Isas).

Which companies qualify?

VCTs are required to invest 80% of the money they raise in qualifying companies within three years. Usually these companies must be worth less than £15m, have fewer than 250 employees and be less than seven years old; they are typically privately-owned, though some firms listed on Aim do qualify.

The nature of these companies means there is a greater risk of them simply going bust, with investors losing everything. But VCT managers point out that investors are getting access to a portfolio of businesses, which provides diversification to mitigate risk. They also argue that the risk of big losers is counterbalanced by the potential for some businesses to deliver outsized returns.

Importantly, VCT investors also get attractive tax reliefs to compensate them for the extra risk they are being asked to take. As long as you buy new VCT shares – rather than trading on the secondary market – you qualify for 30% upfront income-tax relief, so a £10,000 investment costs you only £7,000. In addition, all subsequent dividends and capital gains are tax-free. Income, in particular, has become an important attraction for many VCT investors.

Moreover, the annual investment allowance is generous. You may put up to £200,000 into VCTs each tax year, which compares favourably to the usual £40,000 and £20,000 pension and Isa investment allowances respectively. Indeed, one reason for the increasing popularity of VCTs in recent years has been demand from investors who have used up their tax-efficient investment allowances elsewhere.

It would be wrong to overlook the elevated risk of the sector, and setbacks certainly do happen. But the average VCT has delivered a return of 130% over the past decade, according to the AIC – that is before taking into account the effect of tax relief – and currently offers a yield of more than 7%.

A long-term investment

Still, VCTs must be regarded as long-term investments. This is because if you sell your VCT shares within five years of issue, you will have to repay your upfront tax relief. Even more importantly, it takes time for managers to invest the money they raise and then for the companies they buy to come good, and there may be significant volatility along the way. Sell your VCT shares too early and you risk missing out on this potential or even facing a loss.

Since only new VCT shares qualify for the upfront tax relief, managers look to raise new money each year – either for completely new funds, or as a top-up to an existing fund. The "VCT season" typically lasts from around Christmas to the final day of the tax year on 5 April, but the most popular funds may meet their fund-raising targets ahead of schedule and then close to new investors.

Nevertheless, don't rush to a decision and consider taking professional independent financial advice – both on whether VCTs are right for you and which fund to put your money into. Advisers including BestInvest, MJ Hudson Allenbridge and Wealth Club specialise in this market. Their websites are a good place to start as you survey what is on offer. They may also be able to help with EIS resources (see below).

EIS: an alternative to VCTs

The Enterprise Investment Scheme (EIS) offers an opportunity to invest in similar companies to VCTs but in a different way. Companies raising money often apply for EIS status to increase their appeal to investors who might consider putting money directly into them, rather than through a fund, though there are also several professional managers that offer EIS funds.

The maximum EIS investment each year is £1m, with investors getting 30% upfront income-tax relief, as with VCTs, as well as tax-free capital gains. EIS dividends are taxable, but one additional advantage is that any losses from the scheme can be offset against your tax bill, a perk not available with VCTs. Nor do EIS investments count towards your estate for inheritance-tax purposes.

For investors happy to accept even more risk, the seed EIS (SEIS) is another option. This offers the same tax breaks as the EIS, but with 50% upfront tax relief and only a £100,000 annual investment allowance. SEISs invest in tiny firms less than two years old and worth less than £200,000.

Both EIS and SEIS shares must be held for at least three years unless you are willing to give up your initial tax relief.

Profit from lending platforms

Peer-to-peer loans offer investors access to unusual assets such as African renewable energy projects. But they are very risky

Ben Judge
Digital editor

In the aftermath of the 2008 financial crisis, people didn't trust banks. They were only lending to the safest of customers, while plummeting interest rates left savers without a decent return. Then new technology appeared, which "democratised" finance: so-called peer-to-peer, or P2P, platforms.

The likes of Zopa and Ratesetter sprung up to connect people who needed to borrow money, but had been shunned by banks, with others with spare cash who wanted to earn a decent rate of interest in return for taking more risk.

The idea caught on, and the sector flourished. It was particularly popular with property investors, while small business lending and film finance were other thriving subsectors. In 2016, the Innovative Finance Isa (IFIsa) was introduced to shelter any returns from tax.

IFIsas have hardly set the world alight, however. The time it took for providers to be authorised by both HMRC and the Financial Conduct Authority (FCA), the City regulator, meant that there were very few IFIsas available for the first few years. And even after most providers had got their act together and come up with a product, take-up was low.

In 2018-2019, the number of adult Isas of all types totalled 11.2 million, up from 10.1 million in 2017-2018, with £67.5bn invested. Of those, just 38,000 were IFIsas. And that compares with 49,000 the previous year. The amount of money invested rose, however – but only from £277,000 to £328,000. Compare that to Junior Isas, with 954,000 accounts in 2018-2019, up from 907,000 in 2017-2018, with £974m invested.

Exclusive investments

This is not surprising: IFIsas are a niche and inherently risky product, so investors' access to them has been restricted. In December 2019, the FCA introduced new rules that prevented new investors from putting more than 10% of their assets into the sector without independent advice and IFIsas are now only available to "sophisticated" investors, high net-worth investors and institutional investors.

The sector itself has been shrinking in recent years. There have been casualties, notably property crowdfunder Lendy, one of the more high-profile institutions, which went bust in 2019. Other collapses include FundingSecure, which went under in the same year; MoneyThing Capital, which folded in December 2020; and The House Crowd, which offered property-bridging loans and entered administration in February 2021. It's hard to see things getting much better. Many of the bigger, more established providers are in temporary retreat from the market. Platforms including Zopa, Funding Circle, Octopus Choice and Lending Crowd are not offering IFIsas this year.

As we've always said, P2P lending can be lucrative, but only if the conditions are right. It's all very well when the economy is booming, businesses are thriving and house prices are steadily rising. But now, with so many businesses shut and on life support, it's unclear how many of them will be able to repay any loans they have taken out. So, if you do decide to put some of your money into an IFIsa, make sure you can afford to lose it. Remember that none of these institutions are covered by the Financial Services Compensation Scheme (FSCS), which guarantees bank deposits up to £85,000.

If the platform goes under it could take you a very long time to get your money back – if you get any of it back at all. Some lenders do operate their own contingency funds that aim to pay out if borrowers start defaulting on their loans, but they can only deal with a fairly low level of defaults. And not all platforms offer this service, so it's best not to rely on them bailing you out should things go badly.

How many firms hit by lockdown can repay their loans?

Liquidity is another key problem. If you are investing in stocks and shares, while you do take on some risk and you may not get back what you paid for them, you can sell them relatively quickly and easily. Another point to remember with IFIsas is that secondary markets can be very limited – if they exist at all – and you may not be able to get your money out until your investment matures. Make sure any money you invest won't be needed in a hurry.

Diversifying your holdings is a struggle

One final problem of IFIsas is diversification. Because each platform tends to specialise in a particular niche – small businesses, consumers or property developers, for example – and you can only contribute to a single IFIsa in any one tax year, it is almost impossible to spread your money across the sectors available. That could expose you to a much higher risk than you are comfortable with.

All that said, there are still some very attractive rates out there if you can stomach the risk and meet the criteria to invest. Ablrate offers expected returns of between 10% and 15% lending to small businesses. Lending Crowd says you can get up to 14.25%, also lending to British companies.

Rebuilding Society, meanwhile, claims an average return of 17.4%. Those are impressive figures. But don't forget that you would be lending to companies that may not survive as we emerge from lockdown and government stimulus is withdrawn.

It's not all small business and property loans (although these fields do make up the vast bulk of IFIsa lending). For those particularly concerned about impact investing or the environmental, social and governance (ESG) aspects of where you put your money (see page 10), there are several "ethical" IFIsas available. Energise Africa, for example, offers up to 7% from renewable energy projects in Africa and India. And Triodos Bank is offering up to 7% by investing in small community projects, including renewable energy, community businesses and charities.

What you could earn lending to small British businesses

15%

What to watch out for with ESG funds

Interest in environmental, social and governance-focused funds is booming. How can you cut through the hype?

Chris Carter
Wealth editor

"Ethical investing" as a term was never going to cut it. Any trend worth its salt in 2021 needs an acronym – just think of all the wasted Twitter characters! But that is what environmental, social and governance (ESG) is. It is ethical investing 2.0, rebooted for the 21st century. And like virtue signallers on Twitter, boasting of how virtuous they are, investors, fund managers and even chief executives are falling over each other to brag about their ESG credentials. By the end of 2020, total assets in ESG funds had grown to almost $1.7trn, up 50% over the year. That is serious money. Larry Fink, CEO of the world's biggest asset manager, BlackRock, described the flow of money as a "tectonic shift".

Patrick Pouyanné, boss of French oil giant Total, warned "there is a bubble" developing in the renewable energy sector – a favourite hunting ground of ESG investors. Valuations that are often up to 25 times earnings are "just crazy today", he tells the Financial Times. But still, why miss out on a party? Total, he says, should not be seen "an oil and gas company, but as an energy company". He's not alone among his peers. In January, Shell bought Ubitricity, a leading electric-car charging network, because it doesn't get much greener than electric cars, right? Well, not when you consider that – quite aside from the environmental damage caused by mining – the cobalt used in the batteries of electric cars is still often mined by small-scale miners in the Democratic Republic of Congo, using child labour.

Make smoke, go broke

You would think tobacco giants would be the last companies to plead their ethical credentials. Maybe they are. But only because pretty much every other industry has done so already. Last month, Philip Morris International, maker of Marlborough cigarettes, joined the chorus in making "a play for ethical investors", as Carol Ryan puts it in The Wall Street Journal. At a shareholder event, the company set a new target to make more than 50% of group revenues from smokeless products, such as its IQOS heated-tobacco sticks by 2025, up from 24% today. At a time when the "pool of investors willing to buy their shares is shrinking… the gush of money flowing into ethical funds is now too big to ignore", says Ryan. Whether it be from tobacco or burning fossil fuels, if you make smoke, you go broke.

All of this raises the question: "what is an ethical company?" The answer, then, is rarely clear-cut and it is, of course, subjective. Then there is "greenwashing". The active funds industry, which has suffered from the proliferation of passive "tracker" funds, has seized on ESG's popularity in its fightback. Last year in Europe, 253 active funds "repurposed" themselves as ESG funds, according to data from researcher Morningstar. The vast majority of these (nearly 90%) also rebranded their funds, adding terms such as "ESG" or "socially responsible" to the fund title. "I'm sorry, but that's not a change of strategy or a Damascene conversion – that's a marketing decision," as my colleague John Stepek put it in a recent Money Morning (MoneyWeek's free daily email newsletter).

The number of active funds that rebranded as ESG last year
253

Unsurprisingly, companies such as MSCI and Sustainalytics, which rate other companies on their ESG credentials, are having a field day. Around $200m of MSCI's revenues are now "tied to ESG and climate," and are growing "in the 30 percentages in this area", MSCI's Baer Pettit tells Barron's. "It's growing dramatically, faster than even the second-major closest category, the index business."

However, as Joachim Klement explains in his Klement on Investing newsletter, "these rating agencies rely on demand from their investor clients to decide which companies to rate. And since there is typically higher demand for large cap companies to be covered, the rating agencies have to cut off their coverage somewhere around a market cap of $300m to $500m." As a result, "many smaller companies don't even appear on the radar screen of ESG investors." So, says Klement, "if you look at the ESG ratings of companies, there is a significant large cap bias". In other words, if you want to find ethical yet smaller companies that may well have great prospects as growth stocks, you may have to do your own research (or find a more niche fund that can – perhaps one that isn't necessarily an explicit ESG fund).

Note also that there are many different types of ESG funds – some will avoid certain sectors, whereas others will aim to "engage" with the best in their sector. After all, if we want our resources to be mined more responsibly, there's not much point in shunning the entire sector. Finally, if you're looking for funds to pop in your individual savings account (Isa), remember that one reason ESG funds have done well is because the most reviled sectors – notably oil – have done badly under today's low interest rate, low inflation environment. There are signs that is changing. So don't be surprised if the "vice" stocks start to make a comeback.

Beware "greenwash"

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Five ISA fund picks for 2021

Every year, I like to highlight a few funds that I intend to hold in my ISA. If you are currently thinking about your ISA for the 2020/21 tax year, I hope you find these ideas helpful.

Tom Stevenson, *Investment Director, Fidelity Personal Investing*

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While there will undoubtedly be some challenges in 2021, I feel there is also a positive outlook in the markets at the moment and, potentially, quite a lot of pent-up consumer demand after a long year of restrictions and lockdowns.

For my picks, I've focused on three themes that I find particularly interesting. First, there is sustainability, which I expect to continue driving performance as it is during the pandemic. Next, I believe there will be a desire for income in an environment where interest rates stay low and central banks provide monetary stimulus. Finally, I expect 2020's underperformers to benefit from their attractive valuations and for the out-of-favour value style to gain ground on growth stocks. Here are my five picks for 2021:

1. Brown Advisory US Sustainable Growth Fund

This fund invests in companies with a sustainable business advantage. The managers hold a relatively concentrated portfolio of 30 to 40 stocks and have a strong valuation discipline that prevents them paying over the odds. This is an important consideration in the US market as it continues to hit new highs.

2. Stewart Investors Asia Pacific Leaders Sustainability Fund

Market strategists expect non-US markets, in particular those in Asia and Emerging Markets, to outperform in the year ahead, so I have chosen this fund as my second sustainability-focused pick. It focuses on companies that contribute to, and benefit from, economically and environmentally sustainable development. It looks for 'socially useful' businesses and manages risk by restricting its search to mainly large and mid-sized companies.

3. FP Foresight UK Infrastructure Income Fund

For my third pick, I've combined a focus on sustainability with the delivery of an income. This fund targets a 5% annual income by investing in other investment companies that own real assets in the renewable energy and infrastructure sectors. This is an attractive alternative asset class which should benefit from income investors diversifying their holdings away from shares and bonds. The fund might also provide some protection against inflation, if that starts to return in 2021.

4. Fidelity Special Situations Fund

For my fourth pick, I'm staying close to home, as the UK has notably underperformed since the 2016 referendum and I think this should be the year we start to get some clarity about Britain's post-Brexit future. I've chosen Alex Wright's fund as it should benefit if 'value' stocks continue to gain in popularity. He has managed it for six years and follows the same contrarian approach as its first manager, Anthony Bolton. Alex focuses on finding unloved companies entering a period of positive change.

5. Fidelity UK Select Fund

My final pick is the flip side of my UK recommendation. I am uncertain about whether the apparent shift to a value style will continue, so I've also chosen a fund that focuses on quality and growth. Its manager, Aruna Karunathilake, wants to own good businesses for the long term and performs best when strong brands and robust balance sheets are in vogue.

To find out more about all of these funds, and to watch my video just visit **fidelity.co.uk/Tom**

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Important information – investors should note that the views expressed may no longer be current and may have already been acted upon. The funds do not offer any guarantee or protection with respect to return, capital preservation, stable net asset value or volatility. All these funds invest in overseas markets to a varying degree, so the value of investments could be affected by changes in currency exchange rates depending on the exposure each fund has to those markets. The Stewart Investors Asia Pacific Leaders Sustainability Fund invests in emerging markets which can be more volatile than more developed markets. The Brown Advisory US Sustainable Growth Fund, the Stewart Investors Asia Pacific Leaders Sustainability Fund and Fidelity UK Select Fund invest in a relatively small number of companies and so may carry more risk than funds that are more diversified.

The FP Foresight UK Infrastructure Income Fund, Fidelity Special Situations Fund and Fidelity UK Select Fund use financial derivative instruments for investment purposes, which may expose the funds to a higher degree of risk and can cause investments to experience larger than average price fluctuations. The Stewart Investors Asia Pacific Leaders Sustainability Fund may also use derivatives to reduce risk or to manage the fund more efficiently. The FP Foresight UK Infrastructure Income Fund, Fidelity Special Situations Fund and Fidelity UK Select Fund use currency hedging. Currency hedging is used to substantially reduce the risk of losses from unfavourable exchange rate movements on holdings in currencies that differ from the dealing currency. Hedging also has the effect of limiting the potential for currency gains to be made. The FP Foresight UK Infrastructure Income Fund investment policy means it invests mainly in units in collective investment schemes. The Brown Advisory US Sustainable Growth Fund, Fidelity Special Situations Fund and Fidelity UK Select Fund have, or are likely to have, high volatility owing to its portfolio composition or the portfolio management techniques.

Is your portfolio 2021-ready?

After a tumultuous year, many investors will be relieved their portfolios are still showing gains. How can you make sure your portfolios are fit for the year ahead as well as the year just gone?

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

2020 was an unusual year. After some hair-raising moments, stock markets proved resilient overall, but investors' experience will very much depend on where they have been invested. Even those who have navigated the extreme conditions of the last 12 months successfully may find themselves with portfolios that look a little off kilter. Spring may feel like some way off, but it is worth dusting down your portfolio in readiness for the tax year ahead.

As we see it, there are five crucial elements that could help you build a resilient portfolio not just in the short term, but for the longer term.

Positioned for tomorrow's world

The pandemic has changed the world. It seems clear that the world that emerges will not be the world we left behind. With this in mind, we believe it is more important than ever to invest with an eye to the future. Managers across BlackRock's investment trust range believe the pandemic may accelerate a 'corporate Darwinism' where the strong get stronger and the weak get weaker. It is important to be on the right side of this trend and the flexibility of the investment trust structure makes it easier to adapt.

The BlackRock Investment Institute has identified three key themes for 2021: 'the new nominal' – where vaccine rollout leads to an acceleration of economic recovery at the same time as monetary policy remains supportive. 'Globalisation rewired' – supply chains are being reimagined and Asia is growing as a force in the global economy. Finally, 'turbocharged transformations' – this is where key trends such as ecommerce and sustainability have been accelerated by the pandemic. Our managers bring these trends into their investment thinking.

Diversified

Most investors recognise the need to keep a balance of asset classes, sectors and regions. The pandemic has demonstrated that events can emerge from nowhere and wreak havoc on the best-laid investment plans, so it is crucial to have a balance.

This may be particularly important today. 2020 was a year in which specific areas performed very well – the 'Covid' winners such as technology, pharmaceuticals or ecommerce – and some very badly. The weaker performers included travel, leisure and high street retail. However, the circumstances of the pandemic have been unique and those companies in tough sectors that have

survived the pandemic could emerge strongly when life returns to normal. As such, portfolios need to be balanced across both types of companies. This is where active management, such as that employed across the BlackRock investment trust range, can really come into its own.

Inflation-proof

Low interest rates are likely to persist and global governments will probably keep on spending in the near term to shore up their economies until the pandemic ebbs. That means investors need to be sure their portfolio protects against any surge in inflation.

To date, rising prices haven't been a problem, but economic recovery brings greater potential for inflation. Central bankers have said they will 'look through' higher inflation and keep rates low. For investors, it means holding sufficient weightings in 'growth' assets such as the stock market to keep pace. It also means bonds are going to remain a difficult area. Equally, exposure to specific areas, such as mining and commodities, have helped protect portfolios against inflation historically.

Managing environmental, social and governance (ESG) risks

In this year's CEO letter, BlackRock CEO Larry Fink said: "The past year saw major net zero commitments by China, the EU, Japan, and South Korea, and last week the US rejoined the Paris Agreement. More and more financial regulators are making climate risk disclosure mandatory, central banks are stress testing for climate risk, and policymakers around the world are collaborating to achieve common climate goals. 127 governments – responsible for more than 60% of the world's emissions[1] – and over 1,100[2] companies are considering or already implementing net zero commitments... These changes will have dramatic impacts for investors."

Investors cannot afford to ignore climate change in their portfolios. At the same time, the pandemic has highlighted other non-financial risks, such as labour practices. This is likely to become a more important determinant of an investor's returns in future. The growing focus on the ESG sector will also bring opportunities for companies that can address these global challenges.

Harnesses the power of dividends

2020 has been a tough year for income-seekers, with over 40% of UK companies cutting their payouts[3]. However, dividends remain a crucial element in long-term returns, particularly in today's world when the income from shares still compares favourably to that available from government bonds and cash.

It is vitally important to diversify your income across different markets and sectors. Some of the most interesting income opportunities are to be found in overlooked areas of global stock markets such as frontier markets, smaller companies or non-technology US companies. These are well-represented in the investment trust range offered by BlackRock.

Investors always need to tread a fine line between a portfolio that manages risk and one that is positioned for opportunities. Meeting these five basic goals should ensure your portfolio is fit for whatever 2021 brings.

For more information on BlackRock's range of investment trusts, please visit blackrock.com/its

1 Climate Action Tracker, December 2020
2 UN News, November 2020
3 Link Group, January 2021

Risk Warnings

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How small caps can cut your tax bill

If you invest in shares listed on Aim, London's junior market, you can avoid inheritance tax. But it is only for the brave

Matthew Partridge
Senior writer

With the government seeking to squeeze money out of us over the next few years, individual savings accounts (Isas) look especially appealing. Not only do you not have to pay any tax on any capital gains, dividends or interest, but there are also no taxes on withdrawals, unlike with pensions. Raj Mody, global head of pensions at accountancy giant PwC, estimates that if the recently announced freeze to the pension lifetime allowance (LTA) stays in place "someone aged 50 now could be £85,000 worse off in tax by the time they reach retirement". This is why we recommend Isas for investors of all ages, including those over 65.

However, Isas aren't normally exempt from all taxes. Unless you pass an Isa on to your spouse when you die, "those who inherit the pot could lose 40% of those funds to inheritance tax [IHT]", says Alex Davies, CEO and founder of Wealth Club. What's more, even passing it on to your spouse won't eliminate the tax bill, as it is thereby deferred rather than cancelled. Your heirs will still have to pay IHT of up to 40% when your spouse dies.

Still, there are ways to trim your IHT bill. One is to invest in shares listed on Aim, known as the London Stock Exchange's (LSE) junior market. Aim was set up in 1995 with less stringent listing requirements than the main market. The idea was to make it easier for smaller companies, which might normally find it too expensive to list on the LSE, to raise capital.

In order to encourage investors to buy shares in these fledgling companies, the government has allowed many Aim shares to qualify for business property relief (BPR). This means that for tax purposes they are treated like unlisted shares and are exempt from IHT. This is despite the fact that they were much more liquid, since they can be bought and sold like ordinary shares.

The bad news was that until 2013 the government qualified this benefit by banning people from putting them in their Isas. As a result, investors were forced to choose between the IHT benefits of Aim shares or the capital gains and income tax exemption of Isa investments. However, in 2013 the government finally allowed Aim shares to be included in Isas (as well as making them exempt from stamp duty). This means that you can combine both sets of tax benefits by including Aim stocks in your Isa.

Watch out for the small print

Sadly, it's not as straightforward as simply buying any Aim shares. There are two rules that you have to follow. Firstly, you need to have held your Aim shares for at least two years before they become exempt from IHT. This is to encourage long-term investment. However, this doesn't mean that you have to hold the exact same share for two years in a row. You can sell a share held for less than two years and reinvest the money in another within three years of the sale; the total time holding shares must add up to two years. You could hold one share for one year, sell it and keep the proceeds in your Isa in cash for another year, and then hold another Aim share for just a year, and you would still qualify.

Another major problem is that not all Aim shares are covered by the IHT exemption. According to a 2014 study by Fundamental AssetManagement, around a third are excluded. While there is no publicly available list, the rule of thumb is that eligible companies have to be involved in a "proper business" (so no investment trusts or property companies) and can't be listed on another exchange.

No guarantee of success

Perhaps the most important thing to remember is that just because Aim shares are tax-free when held in an Isa, this doesn't mean they are risk-free. In fact, smaller companies tend to be more volatile and less liquid, with wider bid/ask spreads (the difference between the buying and selling price of a share). The more lenient listing standards means that there have been several high-profile collapses, such as African Minerals and Patisserie Holdings.

Still, there have also been some success stories, such as Asos, Domino's Pizza and Numis. Aim is in fact much more diverse than the main market, covering a wider array of sectors, and is less dependent on energy, finance and banking.

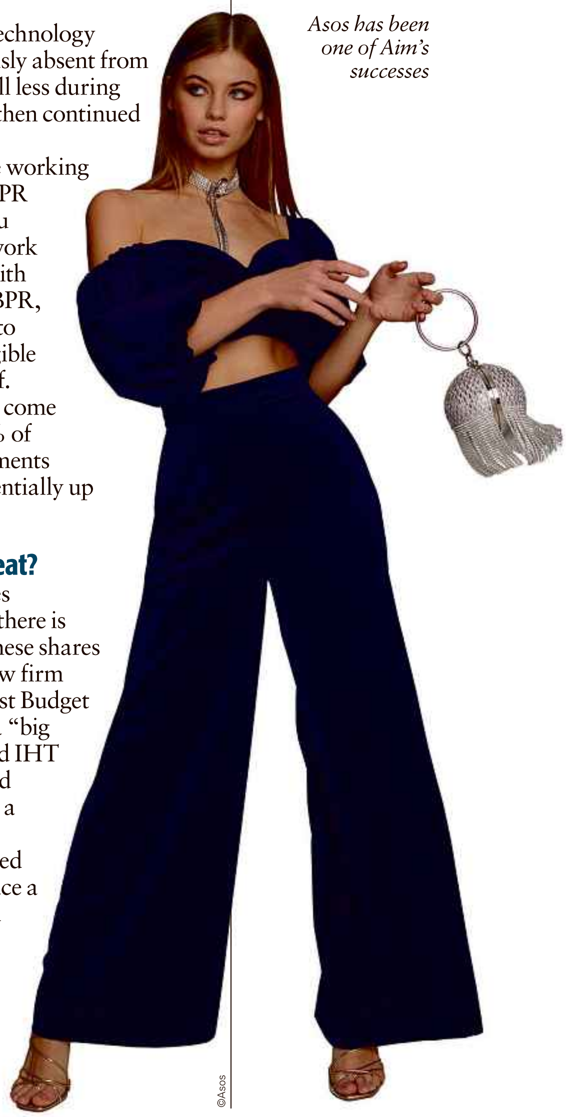
It contains several interesting technology companies, which are conspicuously absent from the main exchange. Aim shares fell less during the market collapse last year and then continued to outperform the FTSE.

If you don't want to spend time working out which shares are eligible for BPR while trying to avoid the duds, you can hire a professional to do the work for you. While funds and trusts with Aim shares are not exempt from BPR, many investment managers offer to pick a portfolio of Aim shares eligible for the Isa wrapper on your behalf. Unfortunately this service doesn't come cheap, with annual fees of 1%-2% of assets and hefty minimum investments (usually at least £10,000, but potentially up to £50,000) common.

Are these benefits under threat?

Finally, note that while Aim shares could help you cut your IHT bill, there is no guarantee the tax benefits of these shares will endure. Camilla Bishop, of law firm DMH Stallard, notes that the latest Budget didn't change the IHT rules. But a "big overhaul" for capital gains tax and IHT is "yet to come". One reform could be to limit BPR to those who own a controlling stake in a company.

If IHT exemptions were removed on Aim shares, investors would face a double whammy. Not only would they miss out on any future tax benefits, but they would also face a big loss on their investment from falling share prices. This is because the overall valuations of Aim stocks depend at least partly on their tax benefits.



Asos has been one of Aim's successes

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Our top-six picks for your Isa

MoneyWeek's favourite investment trusts are top-notch long-term choices for your portfolio

Merryn Somerset Webb
Editor-in-chief

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Buzz Bingo has been a casualty of Covid-19

Since 2012 we have been suggesting a small group of investment trusts for those of you who want to hold a diversified portfolio of funds run by active managers. I promised when we first wrote about it that I would update you on it occasionally (with the help of a panel made up of investment trust experts Sandy Cross, Alan Brierley and Simon Elliott) and change it even more occasionally.

I have mostly stuck to my guns on that. There are six trusts in the portfolio at present: **Scottish Mortgage Investment Trust (LSE: SMT)**, **Mid Wynd International Investment Trust (LSE: MWY)**, **Caledonia Investments (LSE: CLDN)**, **Personal Assets Trust (LSE: PNL)**, **RIT Capital Partners(LSE: RCP)** and **Law Debenture Corporation (LSE: LWDB)**. So how are they doing? As a group, pretty well.

Over the last year (to 1 March) the six have risen by an average of 29.5%. The standout (as usual) has been Scottish Mortgage. It has returned a whopping 103% in the last 12 months. Myd Wynd, our new addition, is up by 25%, Law Debenture 32.4%, Personal Assets 8.5% and RIT Capital 12.5%. The only negative performance came from Caledonia, which has slipped by 4%. Who'd have thought there was a global pandemic underway?

The last change we made in the portfolio was in 2020 (1 May). We dumped value-orientated Temple Bar when its longstanding manager left and we had no idea what might happen next. Mid Wynd has gained 24% since. However, so far the switch has been pointless: Temple Bar is also up by 24% since 1 May. Overall, since the switch the portfolio is up by just over 40% (against a 30% rise in the FTSE All World index) and would have been even without the agonising about its construction. This is why I hate making changes to the portfolio.

In November we also wondered whether we should let Law Debenture, our worst performer at the time, go. We decided not to. We like the managers, we like the UK focus and we like the value tilt of the portfolio. This is a bet that has paid off. Phew. Scottish Mortgage and Mid Wynd both stay too. They are performing well and offer a good growth element to the portfolio (in different ways; their top stocks are very different). There has been quite a lot of volatility in Scottish Mortgage's share price and an increasing number of voices are prepared to dismiss it on the basis that it is little more than a quasi-tech play for gamblers. However for most of the panel the trust is, as Simon puts it "a compelling investment for those prepared to take a long-term view". You might worry about the valuations of some of its holdings but the managers have a stunning record of stockpicking and performance. Personal Assets is also staying. It just keeps doing what it promises to (protecting the real value of capital) and that works for us.

Our portfolio's 12-month gain

29.5%

A safe harbour

So what are we worried about this time? RIT has been causing some mutterings. It has performed well for us recently but only after a fairly drab run. The concern, says Max King, who writes about investment trusts for MoneyWeek and has been invited to chuck opinions into the mix, is that without Lord Rothchild's "magic touch" (he stepped down as chairman in 2019), RIT might eventually turn into a high-cost, multi-asset fund with nothing to distinguish it from all too many others.

Alan begs to differ. Look back at how RIT has performed since its inception in 1988, he says. The trust has participated in 73% of market upside but only 38% of market declines. That translates into "meaningful outperformance... achieved with lower volatility." Its "six-cylinder approach" (which involves everything from active currency management to private equity and outsourcing to "exceptional equity managers") works.

It is a "safe harbour" at a point in the cycle when there is very likely to be some brutal market action ahead. I think it stays – particularly given that it is currently trading on what seems to us to be an entirely undeserved 9% discount to its net asset value (NAV). Caledonia is also causing me mild concern. Alan prefers Pantheon for private-equity exposure; it's in his own Investec Flexible Model Portfolio. The portfolio, he says, is high-quality with a focus on "defensive sectors such as education, healthcare and technology, which offer growth through innovation or favourable demographic trends [and] are not dependent on GDP growth."

It is an excellent suggestion. But I'm going to ignore it (for now). Caledonia has definitely been a drag on our performance, but I'd be almost more nervous if all the portfolio constituents rose as one (that's not how diversification is supposed to work). And Caledonia does at least offer some value: it trades on a discount to NAV of around 20%. I'd also note that the quoted-equity portfolio (36% of the total) has been doing perfectly well (up by 28.5% on a total-return basis in the nine months to the end of December), as has the fund portfolio (26% of the total). The problem then, such as it is, is the private-equity portfolio, which contains a good few lockdown-affected consumer-focused businesses (3% of Caledonia's total portfolio is in pub chain Liberation Group and another 1% in Buzz Bingo, for example) and which produced returns of a mere 0.5% from March to December.

The private investments are revalued for NAV purposes twice a year, with the next one due in March when, as Sandy points out, there is obvious potential for uplift to valuations and hence to the trust's NAV. A bias to taking no action has generally served our portfolio pretty well. I think we will stick with it (again).

Tax-free saving for your children

Help your offspring acquire good financial habits with a junior Isa. You can tuck away up to £9,000 a year on their behalf and choose between cash and investment options, as with adult Isas

Ruth Jackson-Kirby
Money columnist

Interest rates may be low on traditional savings accounts, but banks are still keen to attract young customers. The best-buy junior individual savings accounts (Jisas) are offering almost the same rates as they were a year ago, whereas adult Isa rates have plummeted. So this could be a good time to set aside some cash for your kids.

Jisas work much like adult ones. Money deposited into a Jisa can grow free from income tax, capital gains tax (CGT) and dividend tax. You can choose between a cash Jisa or an investment Jisa. However, there are two key differences with Jisas compared with their adult counterparts. Firstly, the annual allowance is much lower. You can deposit a maximum of £9,000 into a Jisa every tax year. Secondly, the money is locked away until the child turns 18.

The fact that the cash can't be accessed for up to 18 years means it has ample time to grow. If you started now and invested £9,000 a year – assuming 2.95% annual growth – by the time the child reached adulthood they could have an account worth £216,000, according to Savings Champion. Even with soaring house prices and university fees, that should go a long way towards helping them financially.

The obvious question with a Jisa is why you would bother shielding your child's money from the taxman. Your child may not yet have a job but anything they do earn is subject to tax at the same rates as an adult. HMRC simply doesn't differentiate between adults and children. Admittedly, unless your offspring is a child star or you are secretly sending them down the mines, it is unlikely that they are going to exceed their personal allowance. But tucking their money away from the taxman isn't about their tax bill today – it is a long-term strategy.

If you accumulated a £200,000 savings pot for your child and it wasn't held in a Jisa, then once they hit adulthood and start earning an income, they could soon find themselves having to hand a chunk of their savings interest over to the taxman. It would also take them ten years – at current allowance levels – to move all that money into Isas. Money held in a Jisa is automatically moved into an adult Isa when the child turns 18, so it is protected from tax for life, unless it is withdrawn.

Don't let them waste the money

One concern for many parents with Jisas is ownership of the money. Once it has been deposited into the account it belongs to the child. This means that when they turn 18 it is theirs to use as they wish.

This can be a worry, as many 18-year-olds are not the most responsible adults and they could be tempted to blow the money on festivals, cars or an extravagant holiday with their friends. Hopefully, however, you will have spent their childhood teaching them about the importance of savings and they will use their money wisely. Your child can have either a cash Jisa or an investment Jisa – or both. If you have both, however, you can't exceed the £9,000 annual allowance across both accounts. If you are setting up an Isa for a small child, then an investment Jisa could be more rewarding than a cash Jisa. The stockmarket has outperformed cash over the long term.

The best-buy cash Jisa this year pays 2.95%. Over 18 years an initial deposit of £9,000 would grow by £6,296 – without any further deposits. By contrast, the FTSE 250, the index tracking medium-sized companies, has returned an annual average of around 5.7% over the past five years. If it achieved that growth over 18 years then that same £9,000 would have increased by £25,000 (before fees). As their 18th birthday approaches, consider opening a cash Jisa and gradually moving the money into it if they are going to want to withdraw it. Their savings will then be protected from a last-minute stockmarket shock.

All the major investment platforms offer investment Jisa accounts. When looking for the best one for your child you need to weigh up the fees and the number of investments you can choose from. You also need to decide if you want a Jisa where you choose your own investments or one where they are chosen for you.

Where to look now

One of the cheapest investment Jisa options is Vanguard. Its ready-made portfolio has a platform charge of 0.15% with an additional 0.22% fund management charge. Alternatively, you can choose your own investments, but Vanguard has a relatively limited selection of 73 funds.

Charles Stanley Direct offers more than 1,500 funds to choose from with a 0.35% platform charge. Top of the cash Jisa table is Coventry Building Society with a rate of 2.95%. The account can be managed in branch, by post or over the phone and it accepts transfers from other Jisas or Child Trust Funds.

The next best rate is 2.5% from the Bath, Darlington and Dudley building societies. But all these accounts can only be managed in branch or by post. If you want a cash Jisa you can manage online the best rate is 2.25% from Tesco Bank. Rates on cash Jisas can change towards the end of the tax year so always double-check the best deals before opening an account.

©Getty Images

Lisas are worth a look

Lifetime Isas are designed for both retirement savers and young homebuyers

David Prosser
Business columnist

Lifetime individual savings accounts (Lisas) are seen as a halfway house between conventional Isas and private pension plans. They offer some of the upfront tax advantages of pensions but with some of the flexibility that is a feature of other types of Isa.

The government's hope when Lisas were first launched four years ago was that they would prove useful both to people saving for a first home and to those thinking about retirement. In practice, many advisers feel the plans have fallen between these two stools. Nevertheless, you shouldn't overlook them entirely.

Lisas are only available to savers aged between 18 and 39. You can pay in up to £4,000 a year, with each pound contributed coming off your normal £20,000 Isa allowance. But unlike other Isas, the government tops up your contribution with a 25% bonus – up to £1,000 a year if you invest the maximum amount. Savings and investments inside Lisas then grow tax-free.

Your Lisa money can be used in one of two ways. First, at any age, you can put it towards the purchase of your first home – provided that its purchase price does not exceed £450,000 and you have never owned a residential property before. Alternatively, you can cash in your Lisa and use the money for any other purpose you see fit. Bear in mind, however, that if you choose this option, you will have to wait until your 60th birthday.

The usual Isa options apply

Clearly, how you manage Lisa investments will make all the difference to what they are eventually worth. Several cash Isa providers offer savings account options for Lisa investors. The best buys currently include Lisas from Moneybox and The Nottingham, which pay interest rates of 0.85% and 0.8% a year respectively. These are variable rates, so you will need to keep an eye on them.

The other option is a stocks and shares account. Stockbrokers including AJ Bell and Hargreaves Lansdown offer Lisas that provide access to a very wide range of investments, including most collective funds available in the UK, as well as individual shares and bonds. Another option is Nutmeg, the online investment service, which will invest your Lisa contributions in a portfolio designed according to what you tell it about your investment aims, circumstances and attitude to risk.

The most important factor in whether you go for the cash or stocks and shares route will be the objective you have for your Lisa. In the past, stocks and shares investments have tended to deliver better returns than cash in the bank, but only over the longer term.

In the short term, investment markets can be volatile, and the value of your Lisa could even fall. If you expect to cash in your Lisa in a few years' time – less than five to ten, say – this may be too big a risk to take.

Read the small print

As Lisas are a little more complicated than other types of Isa, it is important you understand the small print. One issue worth keeping in mind is that once you reach your 40th birthday, you are only allowed to continue contributing to your Lisa until the age of 50, even if you do not intend to cash it in until you turn 60.

Also remember that, before that age, withdrawals from Lisas, unlike Isas, are only supposed to be for a first-time house purchase. There is a little more freedom than with pensions in that you can take money out of a Lisa earlier if you really need to. If you do, however, you will forfeit the government's top-up contribution. What's more, from 6 April onwards, there will be an additional penalty of 6.25% to pay on such withdrawals. This penalty has been waived during the current tax year to help people who need to draw on their savings amid the Covid-19 crisis.

How do Lisas compare with private pensions?

The word "lifetime" is a signal of the government's intent with Lisas. While they can prove useful to first-time buyers, ministers really saw them as a vehicle for long-term savings. That puts Lisas in direct competition with private pension plans.

At first sight, there is not much of a contest. Certainly, if you have the option of joining a pension scheme at work, it will almost always make sense to do so, since you will then benefit from a top-up contribution from your employer. But even if you do not have access to a workplace pension, a private pension plan will often be a better option than a Lisa.

One reason for this is that the £4,000 annual contribution cap on Lisas is pretty modest. In a private pension, you can usually pay in up to 100% of your earnings each year, up to a maximum of £40,000.

In addition, while the 25% Lisa government bonus is equivalent to the upfront tax relief basic-rate taxpayers get on pension contributions, higher and additional-rate taxpayers get much more generous rates of relief on the latter.

Bear in mind too that private pensions can currently be accessed at age 55 – rising to 57 by 2028 – whereas Lisas are off-limits until you turn 60.

Another downside is that Lisas are taken into account if you need to apply for state benefits or if you go bust, which could see you forced to raid your savings. Pensions are not affected in the same way.

Still, Lisas do have one advantage, in that withdrawals from your account are completely free of tax. In a pension, on the other hand, you can only access 25% of your savings on a tax-free basis.

It is also worth pointing out that this is not a binary choice. If you have the cash, there is nothing to stop you paying into both a private pension and a Lisa each year in order to get the benefits of both.

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An idyllic Greek island refuge

Greece is preparing to welcome back tourists. Make a dash for Corfu, says Chris Carter

Greece and Cyprus last week offered British holidaymakers a glint of sunlight at the end of what has been a long and wintery lockdown tunnel. Both countries said they would open up to tourists as soon as possible, which looks to be from mid-May. It's a tempting proposition.

Last October, as the days were growing shorter, I took advantage of the travel corridor between Britain and Greece to escape what had been confinement in London for a few sunny days in "Prospero's Cell", to borrow the title from Lawrence Durrell's 1945 memoir/guide book to Corfu. Durrell writes that he was motivated by "piety and overwhelming nostalgia… to set down what I knew about the island which had for several years been my home, and which in those dark winters of 1941-1942 seemed a place I would never see again in this life". His was an idealised portrait of island life in happier times and a refuge for anyone seeking to escape the troubles of the present. The book – and the island – serve the same purpose today.

Explore the ancient ruins

The freedom to get out and explore is well rewarded in Corfu. There are the ancient Greek ruins and Byzantine castles, such as the imposing Angelokastro, that you would expect of a Greek island. There is also the grand Achilleion, a palace built for the Empress of Austria in the 19th century, with its colonnades and magnificent views out over the blue Ionian Sea. The French and the British have come and gone over the island's history, but, with the heel of Italy just across the strait, it is the Venetians who most left their mark on the island. These merchant adventurers governed Corfu for 400 years to the end of the 18th century and you can still see their influence in the architecture as you wander the narrow streets of old Corfu Town. You can even taste it. *Pastitsada*, a rich stew of meat and spices on a bed of pasta, is the island's signature dish.

Seek out the quieter beaches

I was lucky enough to try it while staying at Villa 1870. This elegant 19th-century villa,

with its terracotta hues and neatly trimmed gardens, was refurbished and opened last year by Dimitris and Nancy Kyriakis, a convivial Greek couple who were themselves drawn to the island by its

©Villa 1870

Stay at the elegant, 19th-century Villa 1870

abundant natural beauty. The villa has six bedrooms – my own came with its own enormous black-marble bathroom. There is the option of calling on the in-house chef, who works out of his own kitchen in the converted stables on site, to whip up a batch of *pastitsada*, or there is another kitchen in the main building for guests. (Pester Nancy for a slice of her delicious chocolate cake.) There is also a mini-van on hand, chauffeured by Akis, Corfu's very own oracle of local knowledge.

> *"The owners were drawn to the island by its abundant natural beauty"*

Eating in the shade, up on the sun-soaked terrace overlooking the sea, and toasting the setting sun from up on the balcony, which runs the width of the back of the villa, are glorious pastimes. For those nervous of sharing hotel facilities with other guests, Villa 1870 is a great halfway house. You can self-cater if you prefer, or be catered for in style when that gets to be a bit much – at which point, you can take yourself off to the pool, below the terrace, for some welcome respite and stunning views.

Explore further from the decks of the Cleopatra, the one-time racing yacht that can be hired with its skipper for excursions in and around the coves and bays of the island, as well as to seek out quieter, less-visited beaches (email cleopatrasailing@gmail.com for information). The waters around Corfu were wonderfully warm when I jumped in from the deck.

Durrell called the island by its Greek name, Corcyra, "the ante-room to Aegean Greece", for a reason – it is the first of all of the other great islands of myth and legend, curving away to the south and east around the Peloponnese peninsula. It must surely be one of the most spectacular. "If I wrote a book about Corcyra," wrote Durrell, "it would not be a history but a poem."

Chris was a guest of Villa 1870. Nightly rates start from €800, including use of chauffeur-driven mini-van for up to eight hours a day, airport transfers, private chef and waiter. See villa1870corfu.com for more.

Enjoy far-reaching views from the villa's pool

This week: properties for around £2m – from a renovated traditional mews house in Bayswater, London, to a Grad

Coupland Castle, Wooler, Northumberland. A Grade I-listed, 16th-century castle set in 25 acres of grounds. It has period fireplaces, a library in the Georgian portion of the castle and a crenellated tower with a spiral stone staircase. 11 beds, 5 baths, 4 receps, 3-bed lodge, 3-bed cottage. £1.9m+ Strutt & Parker 01670-516123.

Wilby Hall, Wilby, Norwich. A Grade II-listed, 16th-century country house with a range of traditional outbuildings. It retains its original doors, oak panelling, beamed ceilings and gun-barrel-turned balusters. 7 beds, 2 dressing rooms, 4 baths, 3 receps, library, 1-bed cottage, swimming pool, gardens, 11.46 acres. £2m Savills 01603-229229.

The Gart, Callander, Perthshire, Scotland. An 1830s Scots baronial house with river frontage in an elevated position above the River Teith, overlooking Ben Ledi. The interior has been renovated by the art and design duo Stuart and Nikki McAlpine Miller and their artwork and furniture are included in the sale. 13 beds, 6 baths, 5 receps, gym, summer house, gardens, woodland, 12 acres. £2.1m+ Savills 0131-247 3738.

de I-listed Elizabethan manor in South Molton, on the southern edge of Exmoor National Park

The Oast House, Frensham, Farnham, Surrey. A renovated 1830s former hop-drying store on the edge of a village in an Area of Outstanding Natural Beauty. The house has flagstone floors, leaded-light windows, beamed ceilings, open fireplaces with wood-burning stoves, an oak-panelled entrance hall, a roundel dining room and a covered balcony. 5 beds, 3 baths, 3 receps, dining kitchen, bar, study, 1-bed annexe, gardens, 0.6 acres. £2m Hamptons International 01252-216574.

Court Lodge, Hooe, Battle, East Sussex. A Grade II-listed, 17th-century house with a barn and cottage in the gardens. It has inglenook fireplaces, oak-panelled walls, exposed wall and ceiling timbers and leaded-light windows. 8 beds, 4 baths, 3 receps, 3.2 acres. £2m Batcheller Monkhouse 01424-775577.

The Manor House, Shipston-on-Stour, Warwickshire. A renovated, Grade II-listed 18th-century manor with later additions in the centre of the town. The house retains its Georgian shutters, cornicing, sash windows and period fireplaces. The kitchen and dining room have French doors leading onto the garden. 6 beds, 3 baths, 2 receps, orangery, study, wine cellar, games room, bothy, walled garden. £1.8m Jackson-Stops 01386-840224.

Lancaster Mews, Bayswater, London W2. A renovated traditional mews house in a popular location close to Paddington Station and Lancaster Gate underground. It has high ceilings, front and rear windows, a motorised roof light and a Juliet balcony. The contemporary interiors include heated bathroom mirrors and a wood-burning stove. 3 beds, 3 baths, recep, kitchen/family room, home office. £2.175m Knight Frank 020-7871 5060.

Whitechapel Manor, Whitechapel, South Molton, Devon. A Grade I-listed Elizabethan manor on the southern edge of Exmoor National Park. It has a remarkably well-preserved interior with fine oak panelling and joinery, fireplaces with carved surrounds and plaster-moulded ceilings. 11 beds, 11 baths, 6 receps, wine cellar, 3-bed cottage, formal walled and terraced gardens, kitchen garden, woodland, paddocks, 13.7 acres. £2m Knight Frank 01392-423111.

Alpine's agile and athletic sports car

It's not cheap, but the A110 Légende GT provides great entertainment. Nicole Garcia Merida reports

Alpine has been busy, says Richard Lane on AutoCar. The arrival of its new A110 Légende GT might seem like a small event compared with its joining Formula 1 and committing to becoming an electric-only brand. Yet, at £59,410, the limited-edition A110 Légende GT, of which only 400 will be made, is the most expensive Alpine to date – and "that makes it worth discussing". Billed as the A110 you'd choose for touring duties, the Légende GT features a 1.8-litre turbo engine that delivers 249bhp and a top speed of 155mph.

This latest iteration of the A110 has been enhanced throughout, says Sean Carson on AutoExpress. The upholstery feels more luxurious, the trim has been tweaked, and it looks more elegant overall. Parking sensors, a reversing camera and a seven-inch touchscreen with satnav have been fitted too. "Glossy carbon-fibre trim" denotes Légende GT status. It feels the "most upmarket and expensive Alpine yet", but remains "a thoroughbred sports car, and a brilliant one at that". The ride quality is "better than you might have imagined from a low-slung mid-engined two seater", effortlessly gliding over bumps in the road "that would send a juddering thunk" through other cars. It sprints from 0-62mph in 4.5 seconds, with "characterful boosty hisses" from the turbo. It's "not the most tuneful engine, and it's quite loud", which can be wearing on a longer journey, but despite its flaws, "the A110 is a sports car through and through".

Where the car really shines is in the way it handles, says What Car magazine. "It's full of sensation and allows you to place the nose with millimetre precision… it feels balanced and athletic like a ballet dancer, and makes the Jaguar F-type and Toyota Supra seem heavyweights by comparison". It's certainly not cheap, but "it's one of the most entertaining and rewarding cars you can buy, regardless of price". It's a "genius little sports car", agrees Ollie Kew in Top Gear, and one you could live with every day. But if you want one of the 400 available, "you'll have to be as swift and agile as the car itself to secure it".

"It remains a thoroughbred sports car and a brilliant one at that"

Price: £59,140. Engine: 1.8-litre, four-cylinder turbo. Power: 249bhp. Torque: 236lb ft. 0-62mph: 4.5sec. Top speed: 155mph.

Wine of the week: a true Super-Tuscan blend at a fraction of the usual price

2019 Bolgheri Rosso, Grattamacco, Tuscany, Italy
£26.95, bbr.com; £24.50, decvin.com

Matthew Jukes
Wine columnist

The great red wines of Bolgheri, situated around the village of Castagneto Carducci on the Livorno coast, qualify as rare but wholly indulgent guilty pleasures. Absurdly expensive, ridiculously hedonistic and uncommonly luxurious, iconic labels Ornellaia and Sassicaia bounce around the £200-mark and noted vintages sky-rocket from there. There are two properties in this region that allow you to side-step the fiscal stress afforded by the aforementioned superstars – Tenuta Sette Cieli (from swig.co.uk), which is standing on the brink of stardom, as its name suggests, and my featured Grattamacco.

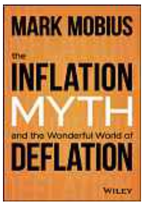
Sette Cieli's wines are high-altitude, chiselled, age-worthy and mesmerising, made with uncompromising standards, and I am a huge fan. They are also stunning value, in particular Indaco. Grattamacco's releases come from the more fertile soils, halfway down the hill from Sette Cieli, closer to the Med, and this setting brings with it plushness, opulence and early-drinking joy. Made from 50% cabernet sauvignon, 20% cabernet franc, 20% merlot and 10% sangiovese, this is a true Super-Tuscan blend and it is baffling just how approachable and delicious the wine is already. It bursts with heady, black fruit and discreet herb and spice notes. The oak, alcohol and tannin all sit in the background giving you a truly classy Bolgheri experience at around a tenth of the ticket price of the big guns.

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

Book of the week

The Inflation Myth and the Wonderful World of Deflation

Mark Mobius
Wiley, £18.99



One of the most talked about of economic statistics is the rate of inflation, which measures the speed at which prices are rising. A lot of people are currently concerned that the latest US fiscal stimulus package will be bad for markets because it will increase the rate of inflation, leading the US Federal Reserve to raise interest rates. In *The Inflation Myth and the Wonderful World of Deflation*, noted investor Mark Mobius argues that we should stop obsessing over inflation rates because it is so hard to measure them accurately. Indeed, he thinks that the main measure of inflation is so flawed that true prices might actually be falling.

His argument is that the typical person spends their money on a different range of goods and service than in the past. Indeed, many types of goods, such as smartphones, didn't exist at all 15 years ago. These shifts in consumption patterns make it very difficult accurately to compare current prices with those in the past. What's more, even when comparable goods do exist, their quality has improved out of all recognition – the amount of computing power you can buy for the same price has increased at a very fast rate, for example, something the official statistics don't take into account. Finally, he claims that government agencies are under pressure to "adjust" their statistics for political reasons.

Biden: has he just written a prescription for inflation?

©Getty Images

> *"We should stop obsessing over inflation rates because it is so hard to measure them accurately"*

Most economists will agree that measuring inflation isn't straightforward, but many of the problems he cites have been known about for some time and statisticians and economists have made great efforts to correct them. Indeed, there have been complaints that these adjustments have gone too far, leading official figures to understate inflation. What's more, while Mobius can point to lots of examples of official agencies, in countries such as China and Venezuela, deliberately manipulating measured inflation downwards, he is unable to explain why any government would deliberately want to overstate the rate of inflation.

Mobius spends a lot of time talking about the problems of measuring inflation, but provides little evidence to support his argument that we are currently in a period of deflation, something he only discusses at the end of the book. Indeed, the only thing he is able to come up with is that wages have been rising faster than prices over time. However, this seems to confuse the idea of inflation with that of rising living standards, which are two separate things.

There is definitely room for a book looking at the problems with compiling economic statistics. It would also be interesting to examine why the loose monetary policies of the last decade haven't led to the uptick in inflation that many have predicted. Sadly, this book doesn't really tackle the first topic and all but ignores the second.

Reviewed by Matthew Partridge

The Hunt for Gaddafi's Billions

Available on BBC iPlayer

Just months before the uprising that would ultimately remove him from power and result in his death, the Libyan despot Muammar Gaddafi sent pallets of $12.5bn in cash to South Africa for safekeeping. Today the money, rumoured by some to be in the possession of former South African president Jacob Zuma, is the centre of a global treasure hunt. Various figures, including intelligence agents, mercenaries and even senior figures in South Africa's ANC, are trying to get their hands on the cash, attracted by a share of the 10% finders' fee offered by Libya's transitional government.

The documentary follows the two teams trying to locate the cash, but the underlying theme of the film isn't the money, which is but a fragment of Gaddafi's $150bn fortune, but the chaos engulfing modern Libya and the relationship between Gaddafi and South Africa's elite, a legacy of the sad fact that Gaddafi was one of the few leaders who supported the ANC in its struggle against apartheid. Post-apartheid, Gaddafi continued to meddle to ensure the rise of Zuma, who repaid him by providing diplomatic support during the uprising against him.

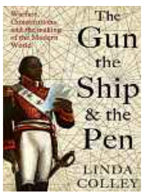
Things have taken a turn for the better in Libya – there are hopes elections could take place at the end of this year – but the situation remains fragile. After watching this film, you will better understand why many Libyans remain sceptical about hopes for a lasting peace.

©BBC

Book in the news... a fascinating and enlightening intellectual journey

The Gun, the Ship & the Pen
Warfare, Constitutions and the Making of the Modern World

Linda Colley
Profile Books, £25



Brexit and the rise of Scottish nationalism have put constitutional issues "high on the political agenda" in the UK, says John Lloyd in the Financial Times. Linda Colley's *The Gun, the Ship and the Pen* is, then, particularly timely. Beginning with the political changes that took place in the middle of the 18th century, Colley looks at the "shaping of the modern world" as told through "the documents that seek to encapsulate a common purpose and define, or redefine, power and the rights and responsibilities of states and citizens".

Sometimes the range of the book "seems rather random", says Lincoln Allison in Times Higher Education. She begins her account with Corsica, for example, before moving thousands of miles to look at the political impact of the Seven Years' War in Europe, with the result that Corsica ends up "forgotten". And many historians will not only be "sceptical" about her belief in the power of constitutions, especially those of totalitarian countries such as Stalin's Russia, but also disapproving of some of her forays into counterfactual history, such as her claim that a Franco-Spanish alliance in the 18th century would have forced America to remain a British colony. Still, the book "reads well" and is an ideal compliment to some of the more "rigorous, detailed" histories that are available.

Rarely is a history book so "satisfyingly broad" in outlook while "avoiding abstraction and generalisation", says David Aaronovitch in The Times. It is a "rich, enjoyable, enlightening and imaginative" work that "takes you on intellectual journeys you wouldn't think to take on your own". By the time the book ends, you can see that constitutions, viewed by many as "paper, dust and pedantry", are "rarely boring", "often eloquent", yet are "no guarantee in themselves of the rule of law or the absence of the abuse of power".

The generosity of a true sporting legend

The ultimate prize in racing may have eluded Stirling Moss, but he won far more important victories in life

An American football coach once said that "winning isn't everything, it's the only thing". But when it comes to true sporting legends, personality matters as well. Stirling Moss, who died last year, may be remembered today as "the greatest Formula One driver never to win the world championship", but his generosity towards his friends shows why he is nevertheless generally considered a true "legend", says Emily Kent Smith in The Sunday Times. Moss left the bulk of his estate to his wife and children, but his 16-page will handed his many friends a "modest share of his £22m legacy" too.


Stirling Moss: a true sporting hero and a generous friend

©Getty Images

> *"Moss left £10,000 to his niece, along with the suggestion that she put it towards buying another horse, a gift that brought tears to her eyes"*

Some of the legacies were straightforward sums of cash, such as the £20,000 he bequeathed his god-daughter, says William Cole in the Daily Mail. Others were more imaginative and came with some nice suggestions, such as the £10,000 awarded his niece, along with the suggestion that she "put it towards buying another horse", a gift that reportedly "brought tears to her eyes". Moss gifted £1,000 to his former agent and her husband with the instruction to "enjoy at Joe's Stone Crab" – a seafood restaurant in Miami Beach, Florida. He also left some of his most "treasured possessions" to friends, including a "hand-carved Maserati Birdcage sculpture" by artist Dennis Hoyt and a painting by Marcel Lebrun.

Synonymous with speed

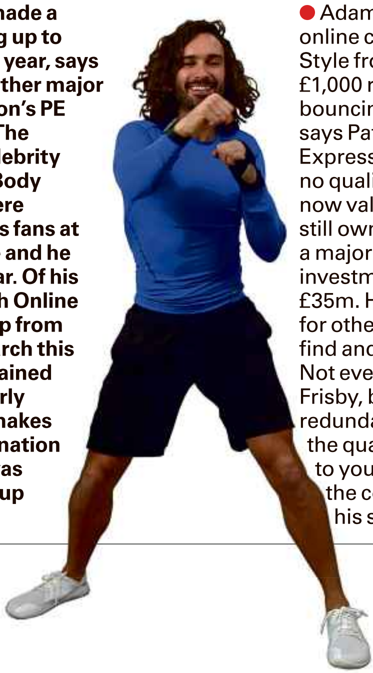
Modern Formula One stars may earn more money that Moss ever did, but they only appear in the news when they buy a new private jet, says Tom Cary in The Daily Telegraph. Moss, by contrast, was "worshipped" by his fans. His last-gasp 1955 victory in the British Grand Prix at Aintree sent more than 100,000 spectators "absolutely potty". His dedication to sportsmanship too was unquestioned – he once insisted, for example, that rival driver Mike Hawthorn be reinstated at the Portuguese Grand Prix in 1958, which resulted in Moss losing that year's championship to Hawthorn by one point.

And although he failed to win the ultimate crown, Moss notched up plenty of victories, winning more than 200 out of his 496 races, says Cary. He was, for example, one of the few non-Italians to win (with co-driver Denis Jenkinson) the open-road 992-mile Mille Miglia, completing the course in just over ten hours, at an average speed of 99mph. By the time he retired in 1962 his name had become "synonymous with speed": it became common for policemen to ask speeding motorists – apocryphally including Moss himself – the rhetorical question, "Who do you think you are, Stirling Moss?".

Moss's legend endures, says Mark Reynolds in the Daily Express. In 1962 a crash at Goodwood put him in a coma for a month and paralysed the left side of his body for half a year. Moss being Moss, he returned to the racetrack immediately after recovering to test his reflexes. Despite being only "a few tenths of a second slower than normal", Moss felt he had lost his touch so quit full-time racing. The car in which he raced that day recently sold at auction for £380,000 – let's hope it found an owner worthy of its illustrious heritage.

Quintus Slide

Tabloid money... the healthy finances of the nation's PE teacher



● **Domino's Pizza, it turns out, made a fortune during lockdown, selling up to 14 pizzas a second over the past year, says Jane Atkinson in The Sun. The other major lockdown winner was "the nation's PE teacher", Joe Wicks (pictured). The workout sessions, which the celebrity fitness trainer and self-styled "Body Coach" streamed live online, were watched by over a million fitness fans at the peak of enforced quarantine and he banked a massive £1.6m last year. Of his two companies, The Body Coach Online Nutrition Limited saw cash fly up from £2.3m to £3.6m to the end of March this year; Joe Wicks Limited saw retained earnings rise by £300,000 to nearly £3.5m over the same period. It makes you realise that, "while half the nation was getting fat, the other half was getting fit. Sadly, I am in the group who opted for extra toppings".**

● Adam Frisby, now 33, set up online clothing company In The Style from his bedroom with a £1,000 redundancy cheque after bouncing between low-paid jobs, says Patrick O'Flynn in the Daily Express. Despite leaving school with no qualifications, his company is now valued at £105m. Given that he still owns a third of it after giving up a majority stake in return for new investment, that makes him worth £35m. His success is an inspiration for other young people struggling to find and keep a job in the pandemic. Not everyone can be an Adam Frisby, but "amid a new round of redundancies and concerns about the quality of employment available to young people in many areas of the country, the coming to light of his story is timely indeed".

● "The Duke and Duchess of Sussex's complaints about their current predicament... come down to money and status," says Dominic Lawson in the Daily Mail. They believe they have been short-changed on both counts. There is an echo here of the way in which demands for money poisoned the relationship between the Duke of Windsor (as Edward VIII became after his abdication) and his brother, King George VI. Edward received an allowance of £25,000 (£1.75m in today's money) and a lump sum of £300,000 (£21m) in exchange for Sandringham and Balmoral. But still Edward pestered his brother, now the King, for money, until George stopped taking his calls. Unlike Prince Harry, at least the Duke didn't do his "moaning" in public.

©Getty Images

Bridge by Andrew Robson

Missed chances

This week's deal is a very pushy slam that could have been defeated – see if you can spot how.

Dealer North East-West vulnerable

North: ♠ A72 ♥ K ♦ Q42 ♣ AQ10983

West: ♠ 6 ♥ 763 ♦ K9873 ♣ KJ64

East: ♠ J853 ♥ AJ104 ♦ J106 ♣ 52

South: ♠ KQ1094 ♥ Q9852 ♦ A5 ♣ 7

The bidding

South	West	North	East
		1♣	pass
1♠	pass	3♣*	pass
3♥	pass	4♠**	pass
4NT***	pass	5♥***	Dbl§
6♠	pass	pass	pass

* Marginal to jump – but North likes his partial Spade fit.
** Three Spades sounds like preference.
*** Asking for Aces; answer two.
§ For the lead (dubious given that South has bid the suit).

West led the seven of Hearts to East's Ace, and East returned the Knave of Diamonds. Placing the King with West, declarer rose with the Ace and took the Club finesse, a necessary risk. Dummy's Queen held, so he cashed the Ace, and disposed of his Diamond loser.

Declarer tried a third club to the next trick, in the hope of a 3-3. No good – East discarded a Diamond. Declarer's only real hope now was a complete cross-ruff. He cashed the Queen of Hearts (side-suit top tricks must always be taken early when cross-ruffing – leave them until too late and they will be ruffed by the opponents) and ruffed a Heart. He ruffed a Diamond and ruffed a fourth Heart (pleasingly West had no higher trump so he could score dummy's seven). He ruffed another Diamond (with the ten), ruffed his last Heart (with the Ace) and scored the last two tricks with his King-Queen of trumps. Twelve tricks and slam made.

East was blinded by his trump holding, expecting it to score a trick. Had he switched to a trump at trick two, declarer would have lost his eighth trump trick. Perhaps more culpable was East's failure to discard a Heart (rather than a Diamond) on the third Club. He would then be able to overruff dummy on the fourth Heart.

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

Sudoku 1043

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

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.

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

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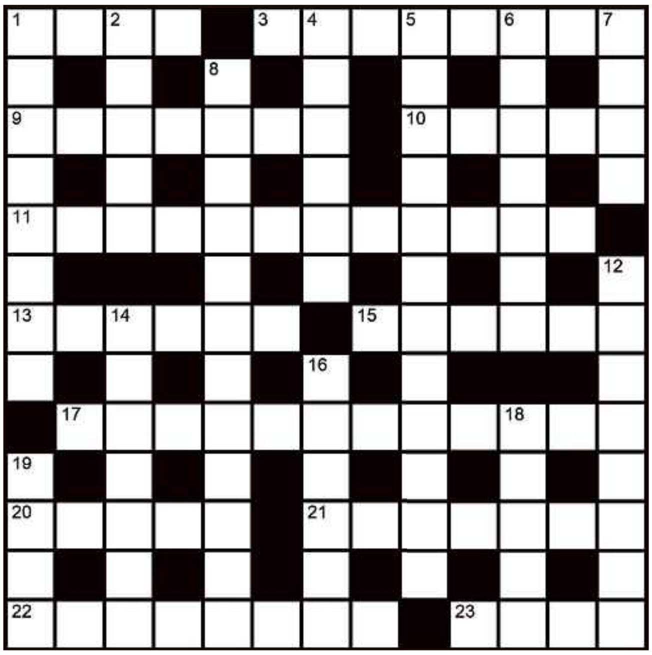
For details, call 0303-123 9999, or visit RNIB.org.uk.

Tim Moorey's Quick Crossword No. 1043

A bottle of Taylor's Late Bottled Vintage will be given to the sender of the first correct solution opened on 29 March 2021. Answers to MoneyWeek's Quick Crossword No. 1043, 31-32 Alfred Place, London, WC1E 7DP.



Across clues are mildly cryptic whereas down clues are straight

ACROSS

1 Some fantastic sparkler (4)
3 Small book helps string players (8)
9 Journey allowed for multiple delivery (7)
10 Senor's foreign language (5)
11 If great error develops one should stay cool (12)
13 Get out of jail with a key (6)
15 Board member's residence? (6)
17 District supports American sportsmen (7-5)
20 I leave part of central Italy in shadow (5)
21 Raids at home on Greek island reported (7)
22 Scores disappeared during matches (8)
23 Driver's aids found in river (4)

DOWN

1 Qualified US lawyer (8)
2 Felon (5)
4 Church choir's song (6)
5 California city (5, 7)
6 Fix, eg, a problem (4, 3)
7 Egyptian port (4)
8 Of the greatest significance (3-9)
12 Keeps on (8)
14 Fruit pudding (7)
16 Caribbean state (6)
18 Battered old car (5)
19 Family member (4)

Name ....

Address ....

Solutions to 1041

Across 7 Cape Canaveral **8** Isle **9** Dietrich **10** Tell me another **14** Good Samaritan **17** Battling **19** Laos **21** Airport lounge.

Down 1 Caps *JFK & LBJ in capitals* **2** Rebelled *belle in red* **3** Paddle *cryptic definition* **4** Cavern *cave + RN* **5** Bear *two definitions* **6** Marchesa *marches + a* **11** Egomania *anagram* **12** Arm *cryptic definition* **13** Trial run *cryptic definition* **15** Aviary *I in a vary* **16** Angola *reversal* **18** Tops *cryptic definition* **20** Olga *Volga less V.*

The winner of MoneyWeek Quick Crossword No. 1041 is: Peter Clements of Saddleworth

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.

The cat is out of the bag

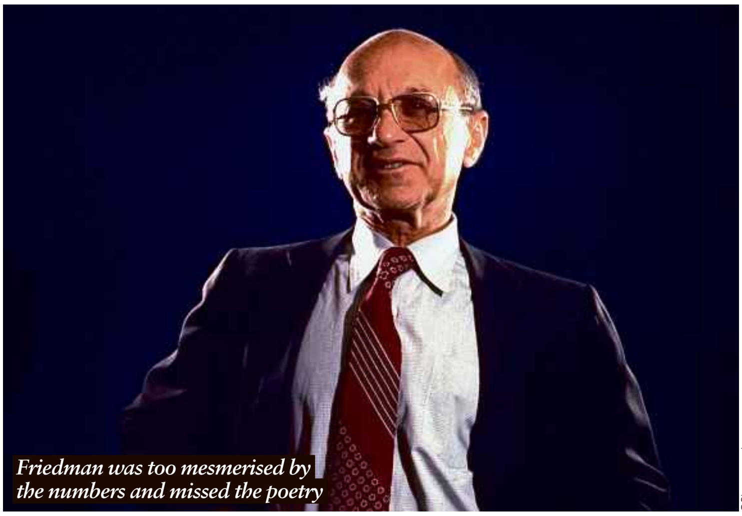
Even the mainstream seers are now predicting the return of inflation

Bill Bonner
Columnist

Jerome Powell, chief of the Federal Reserve, has let the cat out of the bag. US stocks tumbled when he predicted in an interview an increase in consumer prices this summer. The ten-year US government bond yield jumped on the news. So is inflation on the way?

"Inflation is always and everywhere a monetary phenomenon," said Milton Friedman. But he was wrong. Too literal. Too numerical. The world is an infinitely complex place. But we can't produce infinitely complex models. So models are always simplified. That's why the modellers are almost always wrong, whether they're modelling inflation or the climate or Covid-19. The Fed's 2,000 economists prepare models to predict GDP growth, for example. Inevitably, the models constantly need to be revised so that the line on the chart reflects reality.

When Friedman modelled inflation, in order to reduce it to a "monetary phenomenon", he had to ignore the mystery and poetry, the moral side of things, the surprises, the politics, panics, and madness – and all the other things that go into making a genuine inflationary episode. That is, he had to drain his model of all that didn't fit into it. And what was he left with? Numbers. Numbers that did his bidding. Numbers that didn't complain when he crunched them.



Friedman was too mesmerised by the numbers and missed the poetry

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In the stripped-down version, Germany's hyperinflation was caused by numbers. In 1918, Germany had about 32 billion marks in circulation. By 1923, it had 500 quintillion of them. But Germany had also just lost a devastating war. It had lost its industrial heartland. Its unemployed war veterans were battling it out in the streets – the brown-shirts against the black shirts. And it had been forced to deliver almost all its real money – gold – in reparations to Britain and France. Those things were not numbers. And not strictly monetary. But they mattered, too.

"In 1918, Germany had 32 billion marks in circulation. In 1923, it was 500 quintillion"

In today's America, the fact that the Fed can print money at will might seem relevant. But there are other matters too. In a recent book, *The Great Demographic Reversal*, Charles Goodhart and Manoj Pradhan argue that much of the credit for keeping consumer prices relatively low over the past 30 years must go not to the clever folks at the Fed, but to the Chinese.

Since 1979, China added hundreds of millions of low-wage workers to the world's labour pool. These – along with efficient infrastructure, technical expertise and a free-wheeling business climate – brought fierce price competition to global markets. Now, the sweet spot for prices is turning sour. Wages are rising. And the Chinese are getting older, inevitably switching from producing goods to consuming them. This "reversal", say the authors, will raise prices in the West, forcing up real interest rates – and bringing a crisis that the feds won't be able to manage or control.

The bottom line

$69.3m How much *Everydays: The First 5000 Days*, a digital art work known as a non-fungible token (NFT), by artist Mike Winkelmann, known as Beeple, sold for with Christie's last week, a record for an NFT. The piece had been "minted" on 16 February 2021.

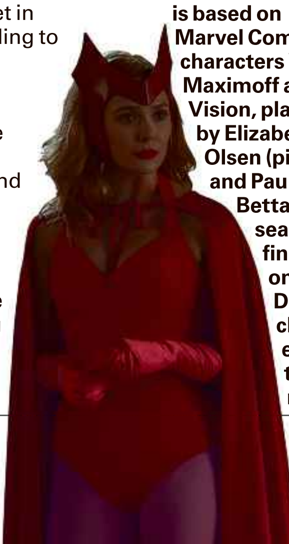
$25 How much people were asked to donate to the US Republican Party by the party's campaign arm in the House of Representatives in order to receive a free copy of *The Cat in the Hat* after the 1957 children's book became the subject of a row over racism.

£2.5m How much the Royal Family spends on energy bills every year at ten residences, according to price comparison site Uswitch. Buckingham Palace is the most costly at an annual £1.1m, followed by Windsor Castle (£393,523) and Kensington Palace (£260,448).

€1 The price of an abandoned house in Laurenzana in southern Italy. Unlike with previous, similar schemes in Italy aimed at repopulating abandoned areas, no deposit is required for renovation work, but many of the properties for sale lack running water and electricity, says The Sun.

£800m The value of the global market in foie gras, according to The Times. The government is planning to ban the import of the pâté made with enlarged duck and geese livers, of which 18,000 tonnes are produced mostly in France by force-feeding the birds in a process known as *gavage*.

$25m **The reported cost per episode of making the nine-episode series *WandaVision*, which is based on Marvel Comics characters Wanda Maximoff and Vision, played by Elizabeth Olsen (pictured) and Paul Bettany. The season finale aired on the Disney+ channel earlier this month.**



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