►On Target

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Planning Your Portfolio

All successful investors use heuristics to shape their strategic decisions, but it's wrong to assume they are always correct.

Wikipedia defines heuristics as "experienced-based techniques for problem solving." However, it rightly warns that the solution they provide "is not guaranteed to be optimal," merely "good enough for a given set of goals."

In a new book,* William Bernstein examines some investment heuristics and exposes their flaws:

Buy low and sell high. Trouble is, even the most experienced investors find it psychologically difficult to buy when prices have plunged (Wall Street fell 90 per cent from 1929 to 1932), and especially if they're continuing to fall. If you plan to buy after the market has bottomed, how do you know when that has happened?

Another problem is that fund managers have much less cash to invest then, because many of their clients have fled the stock market for the relative safety of bank deposits. At the very point when future returns are going to be excellent.

Rebalance portfolio assets periodically. Trouble is, this can mean shifting capital into assets that are in a long-term downtrend. Bernstein gives as an example a portfolio split 50/50 between US and Japanese equities, with annual rebalancing. Over the period 1990 to 2009, you would have earned an average of 3.64 per cent. But if you had avoided all rebalancing – no buying of declining Japanese stocks – your return would have averaged 5.16 per cent.

Diversify. Trouble is, the fundamentals on which you base your asset purchases can change. For example, it used to make sense to buy commodities futures and hold them to maturity to harvest an automatic return called "roll yield." But as investors piled in, the roll yield disappeared.

Also, commonsense logic can be wrong. For example, emerging markets can seem appetizing because of high economic growth. But that doesn't mean the shares go up, as investors in China have discovered. Others find ways to reap the benefits.

Your portfolio will, from time to time, get hammered by negative returns. And some of them can be severe, such as the 90 per cent fall in US shares over the 1929-32 period, loss of half their value in the wake of the sub-prime crisis, or the 20 per cent drop on Wall Street on a single day in October 1987.

But those are "almost always short-term events" followed by recovery. The major risk is long-term failure to accumulate enough capital to finance your consumption needs after you retire, when it's too late to rectify shortage or replace losses.

The four dangers are:

► Severe, prolonged inflation of the sort that effectively wipes out fixed-income investments and can also drive down shares.

► Economic depressions that produce the opposite pattern, devastating equities while leaving intact the highest-quality fixed-income investments.

► The political risk of government confiscation and/or catastrophic taxation, "which is more common than we might like to admit, even in developed nations."

► Most fearsome of all, but fortunately the rarest – the financial devastation that is a consequence of war.

"You can't protect yourself completely against all these scourges," but you can "design your portfolio with these real-world possibilities in mind."

Short-term risk is the propensity of an investment to produce bad returns in bad times. Bernstein says it is best measured by standard deviation.

My problem with this is that measures of standard deviation don't reflect and warn you against the occasional catastrophic risk – a defect I wrote about in *On Target* issue dated June 29, 2013, on "black swan risks and your defences." Even Bernstein admits that the Wall Street collapse on October 19, 1987, was a minus 20 standard deviation – the odds against that happening were extreme, "about the same odds of your winning the next Olympic decathlon."

Here are some other interesting points from his book:

► The problem with types of shares that have the potential to deliver high returns during crises, especially inflationary ones, such as those of companies mining precious metals, is that over the long term they deliver the lowest returns of all among equity classes.

Nevertheless, because they aren't correlated with other shares, having some of them is "highly desirable" in a stock-market collapse. Over the period 1964 to 2012 the portfolio of US equities with the lowest short-term risk – least average standard deviation – would have been one containing 15 per cent precious metal companies and 85 per cent S&P 500 stocks.

Bernstein recommends some holding of precious metal and other resource stocks "as a bulwark against inflation, which financial history shows to be the most salient macroeconomic risk facing the investor in a fiat money world."

Use the book value to market price ratio

► What measures should you use to improve your performance? Bernstein says there are four methods of selection that have been shown to produce higher-than-average returns: those with the highest BTM (book-to-market ratio, the inverse of price divided by book value to price ratio), cash flow, dividends, and earnings-to-market (inverse of the familiar PE ratio).

"If you're designing a portfolio, then BTM is the most practical metric to focus on, since it has the lowest turnover and so is the easiest and cheapest to maintain over time."

► If you use PE as a measure, use historic earnings -- those reported for the latest 12 months. Analysts like to use forward earnings, the estimate for the current year. But "such estimates almost always tend to be overly optimistic" and make shares look cheaper than they really are.

► You can expect some lift from strategies based on small size, value, momentum and profitability.

However, the well-known characteristic of small-caps to outperform large-caps because of their higher risk and illiquidity is misleading because the figures ignore the disadvantage of price spreads, which can wipe out all the benefit of smaller size. And in practice maintaining a portfolio of such stocks over the long term requires a fair amount of trading.

He says that the "tilt factor" – the benefit from buying small-caps – is now tiny compared to the lift that can be provided by other strategies.

Bernstein suggests premiums of perhaps 0.7 per cent a year for small stocks, 1 per cent for value stocks, and thus 1.7 per cent for small value stocks.

Outperformers likely to continue outperforming

► The FT's James Mackintosh reported recently: "Momentum has been the most rewarding bet of the past 40 years. It beat the market and outperformed other popular investment strategies including buying small companies, value investing and picking stocks that are cheap on measures such as price-to-book or price-to-earnings…

"It even beat the market after adjusting for the extra volatility caused by buying into bubbles and losing big when the bubbles burst."

Bernstein reports that between January 1927 and March 2013 a portfolio of high-momentum stocks – those with high short-term returns – beat a comparable portfolio of low-momentum counters by an average of nearly 7 per cent a year.

► Growth companies in general "are lousy stocks." That's because everyone already knows they are great companies, so they bid up the price of their stocks. "There is good evidence that investors in general pay way too much for this earnings growth."

A classic 1993 study by Russell Fuller and colleagues showed that high PE growth stocks did not increase their earnings in subsequent years nearly enough to compensate for their high prices. "Growth stock investing is a losing proposition."

► If dividends are important to you, you are less at risk in a market catastrophe. Over the 1929-32 period American stocks lost on average 90 per cent of their value, but their dividend payments only fell by 50 per cent.

High-dividend stocks are also outperformers. A 2011 study by London Business School researchers of 19 nations over 113 years showed a consistently positive relationship, with those in the high-dividend category returning an average of 13.4 per cent a year, the lowest-yielders only 5.5 per cent.

► Winning strategies may not be repeatable, or disappoint, because too much copycat money flows into them. The famous John Templeton "made out… like a bandit" because he was the first to see the potential in neglected "penny" stocks.

► Because REITs – real estate investment trusts – have to distribute 90 per cent of their earnings as dividends, and can therefore only invest a small portion of their earnings in their operations, their dividends grow more slowly than those of other listed companies – "more slowly than inflation, in fact, by about 1 per cent per year."

► Political favouritism depresses long-term returns of some asset categories because it makes them more expensive to buy. Conservatives favour precious metals "in opposition to the spectre of paper fiat currencies that can easily be debased by evil governments," while liberals "tend to favour alternative energy stocks and avoid the manufacturers of tobacco, alcohol and firearms."

► "Except in extraordinary circumstances, I don't like corporate bonds." Besides their equity-like behaviour in a market panic, there is an inherent conflict of interest between bondholders, whose only concern is the safety of their interest and capital at maturity date, and shareholders, always tempted to raise debt to boost equity returns.

The problem with most bonds, especially the higher-risk "junk" variety, is that they lose so much value at exactly the point when you need the most cash out of them to buy equities and other assets that have become cheap.

► Avoid hedge funds. The market is overcrowded and they are "savaged by high fees." Over the past decade "you would have done just as well investing mainly in [Treasury] bills, spiced with a soupçon of stocks, and at much lower cost."

► Bernstein favours the Dimensional US Large Cap Value fund, which passively invests in companies with the highest BTM ratings. Over the 15-year period to November 2013, the fund delivered average annual earnings growth of 9.31 per cent, compared to 7.69 per cent for the S&P 500.

Bernstein reckons that investors shouldn't expect to achieve anything better over the long term than average growth, or something close to it, and even that will be difficult.

The real returns you can expect

Historically, in the US dividends have grown by 1.5 per cent a year in real terms. Combine that with a dividend yield of 2.1 per cent, and you get an expected future real return of 3.6 per cent a year.

However, equity markets are currently trading at relatively high valuations. If they return to historic averages, the total return will fall to 2 per cent. If they fall to well below those averages, then for some time returns could be even worse.

Bernstein gives these expected real annual returns of major asset classes over the next ten years:

Shares of developed economies other than the US: 5 per cent.
US small-value stocks and shares of emerging economies: 4 per cent.
US large-value and small-cap stocks, and shares of base metals and oil companies: 3 per cent.
US large-caps: 2 per cent.
REITs and precious metals stocks: 1 per cent.
US Treasury bills, notes and bonds.: a negative 1 per cent.

Because currently “both developed and emerging foreign equities are selling at lower valuations by most parameters than their US cousins,” an American investor “should tilt his or her portfolio abroad.”

The best long-term strategy is to buy long-term, broad-based exposure to equities, with minimum costs. The simplest way, Bernstein suggests, is to invest in two Vanguard funds, Total Stock Market for the US portion and Total International Stock Index. They “expose you to virtually all the world’s publicly-traded stocks that have even a modest market cap.”

If you’re young, your portfolio should have a very high weighting in equities. As you age, slowly reduce your exposure to equities, shifting into cash and/or inflation-protected sovereign bonds.

Bernstein, who is a neurologist as well as investment adviser, suggests that the best investors are those who are most impervious to the emotions of others, least “emotionally intelligent and empathetic,” and therefore least likely to “follow the crowd.”

The late Benjamin Roth said the three requirements for successful investing were “patience to wait for the right moment, courage to buy or sell when that time arrives,” and having available liquid capital to deploy.

* *Rational Expectations: Asset Allocation for Investing Adults by William J Bernstein, self-published via Amazon.*

Looming Currency Risks

“The biggest threat to investors may come from the foreign exchange market rather than directly from the stretched prices of equity and bond markets,” writes Allianz’s chief economic adviser, Mohammed El-Erian.

There is increasing divergence between the major economies. While the US and the UK are registering solid growth and consistent job gains, the Eurozone is stalling while “the burst of Japanese growth is starting to feel like a memory.”

In the US and Europe, political factors hamper fiscal policy and required structural reforms. That leaves the heavy lifting to central banks. But their monetary policies are diverging, with tightening in the US and the UK, loosening in Europe.

Weaker currencies “implicit – and increasingly explicit – targets of monetary policy in the Eurozone and Japan.”

Interest rate differentials are growing. “As an example, the gap between market rates on US ten-year government bonds and those on their German peers widened to almost 145 basic points [1.45 per cent] at the end of last week, compared with 93bp a year ago.”

El-Erian says: “Further widening from here is more likely to be accompanied by pronounced currency moves, including a continued strengthening of the dollar versus the euro and, to a lesser extent, the yen.”

Shifts in exchange rates “can be surprisingly sharp once they start in earnest” because of the way “technical tipping points” trigger moves by market participants, and because “corporate hedging activity is often pro-cyclical… Companies are more likely to protect themselves against unfavourable currency moves only after these have started to hurt."

El-Erian warns that it is only a matter of time before instability in the currency markets infects the other financial markets… "A big challenge to the sustainability of investor gains."

The dollar recently broke out on the upside, strengthening against the euro, yen and pound in its first back-to-back monthly gains against all three currencies since 2008.

Europe: 'a Whiff of Sulphur'

Over-regulation is the enemy of economic growth, and in the European Union, where power rests with unelected Eurocrats, it is the most deadly enemy, Robin Mitchinson writes in his blog*.

When it comes to the ease of doing business, eight EU countries lag behind Kazakhstan.

The EU's "green" policies are reckoned to have cost Britain alone £90 billion, forcing the closure of an aluminium smelter, steel mills, chemical plants.

European bureaucrats have imposed bans or restrictions on thousands of consumer products, including bananas, clothes dryers, cosmetics, cucumbers, fruit jam, laptop computers, laundry detergents, light bulbs, olive oil, plastic bags, refrigerators, showerheads, television sets, tobacco, toilets, toys, urinals and wine cooling cabinets.

"Europhiles will tell you that tales of bent bananas being banned are apocrophyl. They are not. European Commission Regulation No 2257/94 says that all bananas bought and sold in the EU must be 'free from malformation or abnormal curvature,'" which is defined.

Last year the Eurocrats banned chocolate cigarettes because they "appeal to minors and consequently form a potential gateway to using tobacco products."

Years ago they banned beechwood butchers' blocks on the grounds of hygiene, and ordered them to be replaced by plastic. "What they didn't know, because they had not bothered to find out, is that plastic is unhygienic because it cuts quite easily and is difficult to clean, whereas beechwood is not only very tough, but contains an antiseptic enzyme."

As of this month, only vacuum cleaners that consume less than 1,600 watts may be sold in the EU, and from 2017 a maximum of only 900 watts will be allowed. Existing machines use an average of 1,800 watts. "The energy saving will be minimal because the new ones will have to be used longer to get the same result; added to which, the weaker machines are liable to pump minute particles back into the air – not good for asthma and allergy sufferers."

The EUs Ecodesign Directive was responsible for banning traditional light bulbs, forcing consumers to buy expensive fluorescent lamps that contain mercury. "That should do the environment little good when they are thrown into the garbage for landfill. Unsurprisingly, it was the big manufacturers who lobbied for the ban, immediately creating a huge new market for themselves."

Robin says that if Europe is to survive and prosper, “it must destroy the whole rotten, corrupt, job-killing incubus” of Eurocracy.

The Eurozone is “in an economic tailspin. There is massive unemployment, particularly among the under-25 age group, a sure recipe for civil unrest if uncorrected.

“The euro is a disaster that its backers refuse to recognize. It has enabled Germany to wax fat on cheap money at the expense of the other members. The only reasonably healthy European economies are those that are not in the Eurozone. The whole economic situation has a whiff of sulphur about it.”

* *whydonttheylistentous.blogspot.com.*

Ground Rules for Successful Investing

Money Management adviser Russell Taylor says the capital growth achieved by successful investors comes from the compounding of slow-growth dividend flows… “there are no magic formulae.”

Here are some ground rules to follow:

► Remember that “all tools used to manage risk and return are based on the discredited theory of EMH (Efficient Market Hypothesis) and designed to make the adviser rich.

“Instead, take a long-term investment approach based on future dividend flows and ignore momentum strategies, short-term price changes, all analytic predictions of future events (always wrong according to research, and often crooked), and siren calls for asset allocation strategies.

► “Do not pay performance fees to managers and do not buy alternative investments.

“Hedge funds, private equity and commodities are all good for professionals but not for amateurs, and never buy anything not clearly understandable and linked to the real world of making and selling things and services. It worked for Warren Buffett and it should work for you.

► “Benchmarking is the end of sensible investing; look instead for diversification between countries, identify their long-term hopes of GDP growth, check their corruption level that works to destroy economic growth.

“Use commonsense to add a risk premium to take account of corruption, poor governance and political uncertainty.” Investment perceptions of particular countries can change quickly.

► “One practical approach is to use passive portfolios of cheap index-tracking funds to cover preferred major asset classes.” That is cheap, transparent and suited to the long term.

► Because technology is now quickly destroying the profitability of long-established industries, it is important to avoid being in the losers.

Go for a portfolio of “long-established, generalist investment trusts, combined with low-cost ETFs to cover specific asset classes that are riding the winds of change.”

Making a Mess of Power Supply

Britain's National Grid has announced that emergency measures are going to be introduced to prevent the "lights going out" this winter.

Energy investment banker Allen Brooks says this is "an unintended consequence of the UK's green energy plan that has forced the closure of fossil fuel and nuclear plants," pushing the nation's surplus power availability "to a razor-thin margin that might disappear this winter" as a result of power-plant outages." It may also be caused by "lack of renewable energy at times when the wind doesn't blow and the sun doesn't shine."

Emergency measures include compensation for offices and factories that agree to shut down for up to four hours a day to provide capacity for households, and asking owners of old fossil-fuel generating plants that we shut down to reopen before the start of winter.

Those such as former US vice-president Al Gore who argue that renewables increasingly make "good economic sense" because they're heading towards commercial viability -- the cost of solar panels has halved over three years – ignore "the costs associated with the intermittency of the power output," Brooks says.

"Wind farms do not generate power when the wind isn't blowing, and solar power isn't produced during the night. Electricity demand also varies… in ways that the output from wind and solar may not match."

A recent cost-benefit analysis by Charles Frank of the Brookings Institute that takes into account all the costs of building and running power plants, including the costs of dealing with intermittency through providing standby power, shows that wind and solar are much more expensive using the standard measure of "levelized" cost.

"Solar power is the most expensive way to reduce carbon emissions. Wind turns out to be the next most expensive, with hydro-power providing a modest net benefit. The most cost-effective zero-emission technology is nuclear power."

Don't Discard "Expired" Medicines

Research in America has revealed that expiry dates on medications that infer you ought not to take them have almost nothing to do with safety – they are designed to increase sales, and to provide manufacturers with protection against legal claims.

Expired drugs may lose some of their potency, but most are effective for a long time. A study by the US Food & Drug Administration of a hundred drugs in the armed forces stockpile showed that about 90 per cent of them were safe and effective as long as 15 years past their expiration dates.

"Manufacturers put expiration dates on for marketing, rather than scientific, reasons," says Francis Flaherty, a former FDA pharmacist. "It's not profitable for them to have products on a shelf for ten years. They want turnover."

Joel Davis, a former FDA expiration-date compliance chief, says that with a handful of exceptions – notably nitroglycerin, insulin and some liquid antibiotics – most drugs are probably as durable as those tested for the military.

"Most drugs degrade very slowly. In all likelihood you can take a product you have at home and keep it for many years."

It seems that the pharmaceutical industry is making billions every year out of unknowing consumers who discard perfectly good drugs and replace them with new ones because they trust the industry's expiration-date labelling.

Tailpieces

Old-fashioned service: One of the fastest-growing banks in Britain is a Swedish invader that "turns many conventional ideas about modern banking on their head," writes Martin Arnold.

At the dozens of branches of Svenska Handelsbanken, each manager is given total autonomy to decide how to deal with clients. There are no call centres – customers know their managers, have their mobile numbers and can call whenever they have questions, even at weekends.

The bank doesn't spend money on advertising, relying on existing clients' word-of-mouth to expand its business. The terms of all products are tailored to suit the customer. There are no sales targets for staff and no bonuses, although staff do get a share of profits every year the bank's return-on-equity outperforms its rivals.

The bank is outstripping its bigger UK competitors in customer satisfaction and loyalty ratings, while growing its loan book, more than doubling its deposits, and opening more than 20 new branches every year.

SHB is one of Europe's most profitable and best capitalized banks.

Simplest approach to investing: The founder of Vanguard, the US group famous for promoting exchange-traded funds, Jack Bogle, says Warren Buffett has been its best salesman since the renowned investor revealed that in his will he has advised his wife what to do with the cash she inherited – keep 10 per cent in short-term US government bonds, all the rest in a very-low-cost S&P 500 index fund such as Vanguard's.

In the six months since his view was made public, more than $3 billion flowed into that fund.

Of the ten biggest ETF funds in the world, seven are Vanguard's.

Although Buffett is himself the world's most successful investor, he doesn't advise active investing for most people. "Ignore the chatter, keep your costs minimal, and invest in stocks as you would in a farm," he wrote.

Taxes a nightmare for Americans: According to a new index, the US tax burden on business is now one of the worst in the industrialized world. The International Tax Competitiveness Index, based on the extent to which a country adheres to more than 40 important principles such as neutrality in tax policy, ranks the US as 32nd out of 34 nations in the OECD group of advanced economies.

America has the second highest overall corporate tax rate in the world and, most unusually, taxes profits earned overseas as if they were earned domestically. It is far harsher on business than countries with expensive state welfare systems such as the Scandinavians, Germany, the UK.

The country that is classed as the leader in tax policy for business is Estonia.

Broken arrows? There is increasing disquiet in Japan over the failure of the "Abenomics" plan of Prime Minister Shinzo Abe (who himself incidentally is reported to know nothing about economics) to deliver its intended pick-up in sustainable growth.

One sign of this is mounting criticism of the raising of the sales tax rate, which was hiked from 5 to 8 per cent in April and is planned to rise further in 12 months' time to 10 per cent, designed to put the government finances on a sounder basis.

Economics adviser Etsuro Honda says Abenomics and sales-tax increase "are policies facing in opposite directions. If you step on the gas and hit the brakes at the same time, you know what will happen? Your car will go into a spin."

What works, and what doesn't: Tim Price of PFP Wealth Management says that the results of a study that analyzed various investment strategies in the US over more than half a century were unequivocal:

► Buying stocks with high price-to-sales ratios, high price/cashflow ratios, high price/book ratios, high price/earnings ratios – "growth" strategies, were all "disastrous" relative to how the S&P 500 index performed;

► By contrast, "value" strategies such as buying stocks with low price-to-sales ratios, low price/book ratios or low price/cashflow ratios were all outstandingly successful over the longer-term, with relatively simple high-yield and low price/earnings strategies also comfortably outperforming the market average.

Pensions trickery: A major problem in developed nations, especially the US, is the way public-sector employees find ways to pad their pensions, which in any case are already often so bloated that they are a major financing problem for taxpayers.

The latest scandal is (once again) in California, where the retirement fund Calpers, effectively under the control of labour unions, has found ways to circumvent restrictions on final working-year "pensions spiking" abuses by permitting as pensionable a hundred income boosters, such as extra pay for prison guards given the onerous job of "responding to questions from the public."

Share profit outlooks: Bulls such as Richard Turnill see little reason for currently-high valuations and profit margins to revert to levels as low as those seen in the past. He expects US equities to deliver an average of about 4 per cent a year, after inflation, but including dividends, over the next decade.

Bears, on the other hand, say valuations such as the Shiller PE – the price-adjusted price/earnings ratio – have reached levels seen just prior to the 1929 crash and the collapse of the dotcom bubble. That's a clear signal of something nasty ahead.

American justice: If you give bureaucrats undue powers, for whatever good reasons, there will always be some who exploit them outrageously.

The latest example comes from Philadelphia, where they have seized the home of the Sourovelis family as punishment for their 22-year-old son's selling $40 worth of illegal drugs. The son admitted guilt and was sent to a programme for first-time offenders. Yet, the police then seized the house, evicted the family, and plan to sell the property.

Under US laws, incredibly, police can seize private property and sell it, whether or not the targeted owner is convicted of a crime.

Hard-working Chinese: A complication in the developing alliance between China and Russia is the well-known Chinese preference for using their own labour when developing business with foreign countries, rather than employing locals, upsetting both the government and work-force.

The Haihua wood processing plant in the Russian Far East, for example, employs 105 Chinese, only 20 Russians. According to a report, the Chinese managers "claim that villagers are too lazy and too often drunk; Chinese staff stay in dormitories and work seven days a week, dawn to dusk."

Terrorism: "We don't much appreciate the vulnerability and fragility of the modern state," says British commentator Robin Mitchinson.

"A single mortar bomb discharged from the back of a van into an operational area of Heathrow [London's main airport] could bring it to a standstill for days… IED [informal explosive devices] spaced along a motorway could cause extensive traffic chaos. A 400 lb bomb carried in a cargo container under the Channel Tunnel would bring the roof down."

Forecasts: "Big investors typically spend a lot of time trying to predict economic developments, [but] history suggests their efforts are wasted," says the *FT*'s James Mackintosh.

"Both official and consensus forecasts for the US – the most closely-watched economy – have over-estimated growth every year, bar one, of the past seven."

E-commerce: A spectacular long-term prediction from Asian investment bankers CLSA is that the proportion of retail sales in China transacted by e-commerce over the internet will rise over the next ten years from 8 per cent to 40 per cent. Of that, the proportion of e-commerce done over mobile phones will go from 16 to 66 per cent.

No gains from growth: There's been an "inverse relationship" between economic growth and equity price performance, says David Goldman, a strategist with Reorient in Hong Kong. "Among the best performers during the past six months have been countries with low growth, big deficits and high short-term interest rates."

Climate change: "Global cooling… will precede the inevitable onset of the next ice age," Nicholas Wade writes in his new book *A Troublesome Inheritance*. He suggests that "more authoritarian societies like those of East Asia could be better positioned to endure [the] harsh stresses" produced by major climate change.

Deflation: "The scaremongering over falling prices appears somewhat baffling," says the well-known gold analyst Ronald-Peter Stoefele.

"After all, the majority of consumers are happy with falling prices. This has been evident for years with respect to technology, such as smart phones or television sets, or the likes of long-distance travel."

What you need to save: According to recent research, in the UK the minimum amount people need as annual income of £15,000 (about $25,000) for a comfortable retirement. At current rates, to generate a pension at that level requires investing capital of around £260,000 (say $440,000)

Personal wealth: Generally speaking, the richer you are, the happier you're likely to be, according to new research by Brookings Institution Justin Wolfers. People in wealthier countries are happier than those in poorer ones, while those rising up the income scale are happier than those who earn less, particularly if they have more than $500,000 a year to enjoy.

Heading for extinction: Because South Korea has one of the world's lowest birth rates, with a fertility rate of only 1.3 children per woman, the nation's parliamentary research service says that if things remain unchanged the population will shrink from 50 million now to 5 million by 2172, and become extinct before 2750.

Aid to agriculture: Japanese farmers are among the most protected in the world, with half their incomes from subsidies and price supports, compared to one-fifth in the European Union and one-tenth in the US.

What Germans do worst: *The Spectator* reports that they're no longer very good at making reliable car engines. "According to a survey by Warranty Direct last year, Audi came bottom, BMW seventh from bottom and Volkswagen ninth from bottom out of 36 manufacturers for engine failures."

Wise words: *Honesty is a very expensive thing – don't expect it from cheap people.* Warren Buffett.

Martin

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