►On Target

Martin Spring's private newsletter on global strategy

November 21, 2015   No.195

Why You Can Outperform the Experts

The most important decision you have to take about investment of your personal wealth is whether to manage it yourself, have others do it for you, or perhaps go for a combination of the two approaches.

Like just about everything else to do with investing, there's a risk/return trade-off. Doing it yourself is higher-risk, especially in the earlier years when you're building experience. But it should ultimately deliver bigger returns.

Every professional in the investment business will tell you that you must use a professional rather than doing it yourself, because of the expertise, access to information and facilities such as massive computer power, required. But then they would say that, wouldn't they?

It's true that you, as an individual investor, lack many of the advantages of a professional manager. But it's also true that you have some advantages of your own:

► As it's your money, you'll remain intensely focused. You can monitor your affairs much more closely, on a daily basis if needs be. No professional manager could afford the time to do that for you alone.

You don't have to match performance to benchmarks unless you wish to, so you can have longer-term time horizons and set different goals.

There is no public scrutiny of your holdings, so you don't have to worry about others taking your ideas, perhaps moving the market against you if you need time to accumulate a holding.

► As you'll only be dealing in tiny volumes compared to fund managers, you'll be able quickly to jump into or out of markets, and invest in companies whose stock is too narrowly traded to interest financial institutions.

They need shares with large market capitalizations to accommodate the big chunks of money they have to invest, warrant their expensive in-depth research, and allow them to buy and sell without unduly influencing the price.

Yet it's smaller companies with small market capitalizations that usually offer the better growth prospects. They're the ones it often pays you to research and invest in.

► Financial institutions are rarely interested in asset classes other than mainstream equities, yet it's in unfashionable investments that the best opportunities can often be found. Some examples I favoured in recent years at

In this issue: Self-managed investing ▫ US rate hike ▫ Avalanche of Chinese capital ▫ "Evil" fossil fuels ▫ Mideast war threat ▫ Bans on booze, drugs ▫

various times included UK residential property, European government bonds, the precious metals and Asian stocks.

“Contrarian” investing of this kind is one of the most successful strategies and it’s much easier for individuals than for financial institutions to pursue.

► You’ll make decisions without having to take into account company policy, peer group influences, or the views of sluggish, consensus-seeking committees, all of which militate against good performance.

You can reverse errors without professional consequences – you don’t get fired for making a mistake. Or for taking the risk of very unconventional decisions whose outcome is still unknown.

► Costs and taxes are within your control. You save on the usually substantial overt and hidden charges you pay for someone else to manage your money. Of course the price is many hours of your time. But for most of us who do it, that’s more a pleasure than a burden.

The Rate Hike: What to Expect

The endless, boring speculation about how many angels dance on the head of a pin is about to come to an end -- the modern version, that is, which relates to economic policy, not religious belief.

Next month is almost certainly the last chance for a whole year that the US Federal Reserve’s Open Market Committee has to start increasing official interest rates. The central bank tries to avoid making such significant policy decisions in a presidential election year, to avoid accusations of influencing the outcome of the election.

The futures markets have been signalling better than two-to-one odds that on December 16 the Fed will vote for the first rates increase for almost seven years.

Why will it probably do so, despite Chair Janet Yellen’s well-known liking for using easy-money policies to stimulate job creation and employee incomes?

► The latest employment figures – 271,000 extra jobs created in a month, an official unemployment rate that has at last fallen to 5 per cent, and average hourly earnings growth that hit an annualized 2.5 per cent (the highest rate in more than six years). suggest that the economy is now healthy enough to withstand higher interest rates.

► Monetary-policy doves like Yellen are under increasing pressure from the hawks to start reversing the extraordinary stimulus, widely-regarded as dangerous. In a strange upside-down logic, central bankers want interest rates restored to rates high enough to offer potential for cutting them in future to combat recession.

Investors should keep calm if the Fed does opt to start raising rates, bearing in mind these factors:

► A quarter of a percentage point increase, taking the Federal Funds’ rate to 0.5 per cent, is minimal, and hardly going to have any direct impact on the economy or leveraged companies. This key policy rate has averaged nearly 6 per cent since 1971, and at its peak hit 20 per cent.

► Apart from the probability of no further increase for 12 months, the Fed governors' strong bias towards easy-money policies means it will only thereafter escalate interest rates at a snail's pace, and over a long period, towards historically more realistic levels such as 6 per cent.

► The US economy may look healthier, but it's far from being robust enough on a sustainable long-term basis to warrant significantly higher interest rates.

Job creation may have reached acceptable levels, but that's far from being true for personal incomes, which haven't shown any significant growth on average in real (inflation-adjusted) terms for a long time, and are becoming an increasingly sensitive political issue.

There is no sign of a reversal in the 15-year downtrend in money-supply velocity, the key indicator of dynamism – or lack of it – in economic growth. The Fed keeps inflating credit, but businesses and consumers show little enthusiasm for borrowing and spending the stuff.

► The global economy isn't looking healthier. There is no pick-up in inflation. On the contrary, the world continues to slide towards deflation. And international trade has stopped growing.

► The rate interest has been talked about for so long that it isn't going to come as a surprise to anyone. It's "in the price," so is not likely to have a major impact on investment markets.

► Any additional interest-rate increases will also be signalled well in advance, allowing investors lots of time to prepare for them.

What will be the most important consequence of a rate hike next month, if it happens?

It is likely to be a continuing strengthening of the dollar, which began to rise in trade-weighted terms from mid-2011 and has been soaring since mid-2014.

The main force driving it is the disparity between the policies of other major central banks which are accelerating their "printing" and related easy-money policies, and the US, which has stopped quantitative easing and wants to move towards costlier credit.

International investors like a strong dollar

The first rate hike will be a clear signal that the conflict between those opposing policy directions is intensifying. That can only boost the dollar as investors flock to the prospects of an attractive economy. Less disgraceful yields in US income-yielding assets. And, dare I say it, investor approval that the American central bank is the one seen to be moving away from extreme, unconvincing, and many would argue failed, money-bubble policies.

In many ways, the investment environment for the US stock market is not favourable. By standard measures such as cyclically-adjusted earnings yields, shares are extremely expensive. Earnings growth has disappeared. A stronger dollar is bad news for profits earned abroad in weaker currencies.

Foreign markets are not encouraging, with economies struggling or at least losing growth momentum, and suddenly facing unexpected political problems (Europe's migrant crisis, the widening threat of ISIS terrorism).

Nevertheless, Wall Street bounced back strongly from its August-September correction, rising close to what would be an upside breakout – an S&P Index level that can exceed and hold above a 2130 level – that would be a charting confirmation of a new phase in a bull market.

The market has since retreated. However, I see this is probably nothing more than a pause for breath. My expectation that it may equivocate over the coming weeks, an upside breakout, confirming a continuation of the bull market, is still probable early in the new year.

World Awaits an Avalanche of Chinese Capital

If the International Monetary Fund agrees to make China's renminbi one of the handful of major currencies in the basket used to value its Special Drawing Rights – the IMF managing director has said that is not "a matter of if, but when" – it's likely to have major consequences for investors, suggests the well-reputed Hong Kong fund manager Robert Lloyd George.

China would be required to respond by liberalizing its exchange controls over capital movements, allowing its citizens to invest freely outside their country.

"Even if – a conservative estimate – 20 per cent of the total savings in China were to be invested overseas, it will have the effect of a major wave of capital coming into global financial markets," Lloyd George says.

The prime beneficiary would be Hong Kong – which is an autonomous jurisdiction outside China's exchange controls – but also London, New York and other financial centres.

"Chinese capital will not only target property – it will be invested in companies, in technology, in Western consumer brands, and in good-quality dividend-paying shares in the US, Canada, UK, Australia and elsewhere."

Lloyd George reckons the liberalization of China's financial sector will be "the biggest thing happening in the global capital markets in the next decade." Comparisons may be drawn with Japanese capital in the 1980s, but the Chinese wave will be ten times greater and last much longer.

As yields on renminbi deposits are steadily reduced, "the thirst for yield will bring Chinese investors, as it once did Japanese investors… into Western equities."

This fund manager makes an important point on a more immediate topic about China's economy – the prominently-reported 20 per cent fall in imports over the past 12 months. This looks like very bad news.

However, Lloyd George says: "The reality is… that China's imports by volume have continued to grow." It's only their value that has fallen dramatically – because of the prices of oil, copper, iron ore and other industrial metals have halved over the past year.

"China's exports, by contrast, grew a stronger-than-expected 20 per cent."

The immediate investment news from China is encouraging. Its equities are once again in a bull market, Chao Deng reported in the *WSJ*, after rising more than 20 per cent from their August 26 lows. That's after Chinese officials pumped money into state-backed funds that bought blue-chip stocks, cracked down on short sellers and suspended initial public offerings

David Fuller suggests in *FullerTreacyMoney* that while China's leader Xi Jinping is "tough and determined to manage the stock market rather than be managed by it," by contrast Wall Street is at the mercy of high frequency trading programs "which control most of the volume."

Another difference is that shares of Chinese companies are still largely closed to international investors. A shares – those listed on the China mainland bourses – can only be bought and held by Chinese citizens and a few "qualified" foreign funds. Others usually invest via Hong Kong in the 90 or so mainland companies ("China Enterprises") that have locally-listed "H Shares."

There are significant differences between how Chinese shares perform within China and in Hong Kong

Since their late-August lows, A shares rose 23 per cent (to November 17) and were up 47 per cent over 12 months. Presumably because international investors are more negative about the outlook for China than domestic investors, H shares recovered only 11 per cent from August lows, and were still down 3 per cent for the 12-month period.

For comparison, the S&P 500 index of American shares rose 10 per cent from late-August lows, and showed no rise at all for the 12-month period.

Investors' at War over 'Evil' Hydrocarbons

An increasingly important issue for investors is the battle for political dominance of the world energy market.

FTfm this month carried two articles on the same page with contrasting themes, one headlined "The wisdom of investing in evil hydrocarbons," the other, "Things can get even worse for renewable energy companies."

Both of the rival camps – fossil fuels and renewables (for the moment, nuclear isn't in serious contention) – are fighting to secure the support of governments. And of the investment mega-funds.

Commercial viability isn't, at least yet, an issue. Fossil fuels are easily the cheapest, the most abundant and the most convenient. Renewables are steadily falling in cost because of improving technology, but their industry depends on huge subsidies, and they lack the convenience of fossil fuels. They still account for only a tiny (almost invisible) fraction of global energy supplies.

Governments are under increasing pressure from the politically influential elites of believers in the theory of anthropogenic global warming, and from its vested interests of industry, academia and bureaucracy.

The carbonatics (as I call them) seem to be winning the political battle, to the extent that institutional investors are increasingly thinking about, or starting to, divest from fossil fuel companies on the grounds they have no long-term future,

that the value of their assets in the form of wealth in the grounds is doomed to disappear.

That's a ridiculous argument, but one with enough ideological appeal to constitute a headwind to recovery of fossil-fuel markets from their current unduly-depressed levels.

Fossil-fuel producers are themselves divided, with many of the most powerful supporting the lobbies campaigning for carbon reduction targets as those favour natural gas interests (low carbon fuels) by penalizing the "dirty" coal miners.

The negative focus of policymaking and policy-posturing on fossil fuels is likely to grow.

Renewables, however, are also facing mounting problems.

Financial constraints are forcing governments to cut back on subsidies and tax benefits. Last month I gave the spectacular example of how removing the tax advantage of electric cars in Denmark boosted the price of Tesla's popular S model from $98,000 to $270,000. After the UK government announced small changes in energy tax exemptions, the huge Drax group, whose policies include a weird switch from using coal to using wood chips to generate electricity, saw its shares plunge to a low, down 60 per cent over the year.

In the US, says John Dizard, the *FT* commentator, the renewable industry is "under threat" both from federal budget pressures and the way state legislators and regulators are beginning to chip away at "the biggest source of support" for the solar industry – "net metering," the schemes for paying owners of solar panels for feeding their power surpluses into the grid.

The big disadvantage of renewables, apart from their need for subsidies, is that their supply is so prone to fluctuating between zero and excess according to whether or not there are winds and sunshine. Every increase in renewables capacity requires matching expensive investment in back-up provided by reliable and controllable plants driven by… fossil fuels (usually natural gas).

So every expansion of renewables not only bloats subsidies, but also increases the need for heavier investment in conventional power stations -- not in those that would be most cost-effective, providing continuous stable supply, but those needed to generate intermittent supply as and when required.

Are fossil fuels a cheap investment opportunity?

An additional heavy cost is that long-distance transmission lines have to be built from where renewable power is generated to where it's needed – from the North Sea to southern Germany, for example.

The soaring costs of renewables are making it harder and harder for sympathetic policymakers to accommodate the carbonatics.

For investors, putting money into the renewable industry is clearly high-risk. But are fossil-fuel companies any better?

It could be that the "evil hydrocarbons" lunacy, by depressing demand for their shares and making them cheaper to buy, boosts their investors' return.

The *FM*'s Steve Johnson points out the magnificent profits that have been made from other politically unfashionable sectors. Since 2000, he reports, the tobacco industry has rewarded UK shareholders with a total return of 1,515 per cent, brewers by 678 per cent, distillers of alcoholic spirits by 593 per cent and weapons manufacturers by 399 per cent.

Renewable energy stocks returned just 118 per cent.

Mideast: Escalating Conflict Scenario

The well-known investment strategist Charles Gave argues that the strategic goal of Russia's Vladimir Putin is to see the Mideast's Sunni monarchies toppled, sending oil prices into orbit – perhaps quadrupling to $200 a barrel – and bringing about "a controlled market for Russia's only real source of income."

The neutralization of Turkey – the traditional enemy – has to be a central part of any grand plan that Putin has for the region. It is the key strategic power with the ability to influence events in the Sunni world. It has the Mideast's biggest Sunni army. "Even though the Arab states would be loath to see Turks back on their soil" – many parts of which they ruled before their defeat in the First World War – "Ankara could intervene."

The world's focus has been on developments within the Ukraine, but that has been a "side-show." The Western media and politicians have been obsessed with that, while missing "the real story." Moscow needed to project its power on Turkey's northern flank. "That meant control of the Black Sea – hence the 2013 annexation of Crimea, which delivered the key city of Sevastopol."

South of Turkey lies Syria, where Russia has its only naval base on the Mediterranean. It has now boosted its military presence – mainly aircraft – to underpin its ally, the Assad regime, infuriating Turkey.

This has only happened since "Washington played into the hands of Tehran and Moscow by doing a deal over the Iranian nuclear programme," which Gave describes as the "new Munich."

A consequence of this, is that Russia and Iran -- the powerful supporters not only of Syria but also Iraq – could now "clean up the Saudi/Sunni Frankenstein that is Isis. This could all be over in a matter of months, with the result that the US army and its drones look incompetent, or accomplices of the Saudis. American prestige in the region will take a huge hit."

Gave suggests that such a victory for the leading Shia power, Iran, with Shia-dominated Iraq and the Shia-linked Alawite government of Syria, could see the re-emergence of the Fatimid Caliphate, the only Shiite caliphate in history, which ruled part of the Mideast and much of North Africa between the 10th and 12th centuries.

There could be dramatic consequences for the rest of the world:

► The flood of refugees from the Mideast stems from Sunni populations in Syria and Iraq. "They will move first to Turkey, and then to Europe – large numbers heading towards Germany are only a foretaste of what could be to come."

► The Saudi oilfields, the world's most important, and the terminals exporting their production, are all in the east of the Arabian peninsula. Gave says this region "could well have a Shiiite majority and is more ethnically Persian than Arabic. The local population has been brutally treated by the Saudis for the last century;" they are ready recruits for "any effort by Iran and Russia… to destabilize this region."

► The leaders of the Mideast's Sunni-Shiite conflict, Iran and Saudi Arabia, are already at war, fighting each other through proxies – Gave suggests escalation of that conflict could have major consequences.

Serious disruption of its oilfields could mean that Saudi Arabia would "quickly run out of money." Starved of Saudi financial support, it is not clear that Egypt's military-backed regime could survive. Lebanon could be torn apart by a renewed civil war.

Globally, intensification of the regional conflict could have major economic and investment as well as political consequences, such as a soaring dollar, "an oil price super-spike," and a "profound deflationary shock" that would boost US bonds.

"Russia would be a big winner."

Bans on Booze and Drugs

By Robin Mitchinson*

'History repeats itself,' we are told, 'the first time as tragedy, the second time as farce'.

Not always. In the case of prohibition and criminalization of alcohol and drugs, the second time is also tragedy. Yet when considering the massive problem of drugs in the US and Europe, our leaders seem incapable of applying the lessons of the first to the debate on the second.

The notion that alcohol should be prohibited seems absurd today. But Prohibition in the US lasted for 13 years. It did untold damage to the fabric of society, the consequences of which remain with us today.

Peter McWilliams in *Ain't nobody's business if you do* sets out the damaging effects of this crackpot measure…

It created widespread disrespect for the law by making a crime out of something that was not a crime. Almost everyone broke the law, bringing the law itself into contempt.

It diminished respect for organized religion because religiosi were the driving force behind Prohibition, believing that alcohol was a source of society's ills and God would bless America if booze was banned.

Instead, Prohibition led to more drinking, not less. It created organized crime that is with us today. It caused political corruption on a massive scale, from which the polity of the US has never fully recovered.

Bootlegging the massive quantities of the alcohol demanded, created its own industry, requiring significant organizational and managerial skills. The gang boss became a figure of folklore. People like Lucky Luciano, the head of Cosa Nostra,

became almost Robin Hood-style folk heroes and created a front of respectability by investing massively in legitimate business, as do the drugs gangs today. They followed the simple business principle – where there is demand, there must be supply.

They also used their money to buy influence. Politicians and the police were routinely bribed and then blackmailed. If a person in a powerful position refused to be corrupted, he was either 'wiped out' or was opposed at the next election by a gang 'plant' with a bottomless campaign fund. They stuffed ballot-boxes and smeared the incumbent.

It had the effect of criminalizing just about everybody who drank alcohol. Vast amounts of police and courts' time was taken up with Prohibition cases. Even prosecuting a tiny minority of offenders overburdened the whole system of law enforcement.

Hundreds of thousands of people whose work was alcohol-related lost their jobs. Often they had no option but to stay in the business – that is, to become a criminal.

Because alcohol was no longer regulated, there were serious public health consequences. Over 10,000 people died from drinking 'moonshine' – wood alcohol – while many others went blind.

At the end of the day, not only was Prohibition an all-round disaster, but a complete failure; by the end of it, alcohol consumption was actually higher, mainly because of a switch to hard liquor, which was easier to conceal and transport.

The lesson that has not been learned is that governments have no business legislating for morality, and if they try they will fail.

The failed "war" on drugs

Now we have gone down the same path with the war on drugs. Except that Prohibition is a mere footnote in history compared with the calamity that this 'war on drugs' has created. It was initiated by President Nixon about 45 years ago. It is a war without end because it is unwinnable.

The Global Commission on Drug Policy declares: "The global war on drugs has failed, with devastating consequences for individuals and societies around the world… Fundamental reforms in national and global drug control policies are urgently needed."

The Mafia gangs of Prohibition have metamorphosed into major enterprises on an international scale. Their obscene profits are easily laundered into conventional investments. The world value of the drugs trade is estimated at around $300 billion a year.

The hard economic fact is that governments cannot eliminate a market by legislation when there is a constant demand. Prohibition and criminalization simply raises costs and thus price. The trade is driven underground into a black market that has baleful effects.

They cause violence because disputes have to be resolved with guns instead of courts. Corruption is inherent because the trade generates such vast amounts of money that bribery becomes a normal business practice.

There is little quality control – who would police it? So there is no inhibition on contaminated products that cause poisoning and accidental overdoses.

The absurdity of the whole 'war on drugs' concept is illustrated by the way cannabis is treated.

It was not included in Britain's Dangerous Drugs Act 1920. It slipped into the 1928 version without any scientific evidence, debate or discussion, apparently being conflated with cocaine leaves. Cannabis was pretty well unknown in the UK, but it was something used by fuzzywuzzies… so must be bad! Years passed before there was the slightest attempt at scientific justification for the ban.

It has probably about the same risk-level as tobacco. Walking through Kingston, Jamaica, one morning I lit up a cigarette and coughed. A loafer squatting on the sidewalk with an enormous spliff called out 'Yo stick to de weed. Dat bacca kill yo'. He had a point. Tobacco, long term, is likely to result in lung cancer; with ganga you just go bonkers. It is the most used recreational drug.

Criminalization creates its own health risks.

It raises prices, which in turn encourages distribution of drugs with dangerous impurities, heroin users are encouraged to inject because this gives a bigger buzz. Users often share needles, which can transmit HIV, hepatitis C and other blood-borne diseases.

It leads to racial profiling that jails many more Blacks than Whites, although the pattern of usage is similar for the two groups. It leads to violence and corruption in entire countries from which drugs originate – Mexico and Colombia. The Taliban is reckoned to be heavily financed through the poppy trade.

Now, no less than the World Health Organization is calling for decriminalization.

Why decriminalization makes sense

The solution would seem to be regulation rather than prohibition. The US states that have decriminalized cannabis have collected a vast sum in taxes, eliminated pushers, and ceased jailing (mostly) Blacks for possession.

An extraordinary amount of crime is drugs-related. In the US, about a quarter of prisoners committed their crimes to get money to buy drugs. Drugs also feature significantly in violent crimes such as murder, rape. The amount of time and resources used by the police and courts is disproportionate -- most of the 'stop and search' operations are for suspected possession.

'Decriminalization' does not mean 'legalization'. It might consist of elements such as labels with dosage and medical warnings like prescription drugs; no advertising; age limitations as with tobacco and alcohol; restrictions on amount purchased at any one time; special user licences to purchase particular drugs.

Dealing would continue to be a serious offence and sales would be permitted only at licensed premises or on prescription in particular cases.

When arrested for another offence, such as drunken driving, which reveals drug-taking, the person detained would be subject to drugs testing, and if found positive, required to attend clinics and counselling.

Portugal has gone down a similar road since 2001. Then it had an epidemic of HIV from contaminated needles. Now the health hazards have been greatly reduced, as indeed, has drug consumption. Crime has dropped and there have been large benefits to the public purse as officials no longer having to spend so much time on law enforcement.

But such radical change is certain to cause an outcry from the 'if it's not compulsory it should be forbidden' tendency. Our politicians would have to exercise considerable leadership, stamina and moral courage.

So nothing will be done.

* *From his blog www.whydonttheylistentous*

Income Investing

The news that Italy has joined the "negative yield club" – successfully placing government bonds whose investors are willing to pay for owning them, rather than earn interest from them – highlights the seriously adverse climate for those, mainly retirees, who need to earn income from safe investments.

The extremely low or even negative interest rates are partly due to poor demand from businesses for loans to finance expansion because of sluggish economic growth, and partly due to explosive credit creation by central banks as they become increasingly desperate to combat the sluggishness.

One example of the dire consequences is that in Japan households' interest income fell more than four-fifths from 1991 to the latest fiscal year. In the US, too, families are being squeezed, with interest as a proportion of personal income sliding from 11.5 per cent eight years ago to 8.6 per cent in August.

Some analysts suggest that the failure of easy-money policies is going to destroy the reputation of central bankers and encourage governments to abandon their trust in them and resort to direct intervention in the markets instead.

In the US, the *FT*'s Henny Sender reports, the Federal Reserve "is losing credibility with the biggest beneficiaries of its own stimulus policy – financial players with access to cheap credit." The central bank could resume quantitative easing. That is now "one of the biggest risks to equities," say Bank of America Merrill Lynch analysts.

Asia Looks Better

Being sceptical about China in the short term does not warrant being skeptical about longer-term prospects for Asia as a whole, argues PFP Management's Tim Price.

The West is faced with "a number of significant and perhaps existential problems:

► Its welfare system is hopelessly bloated and unaffordable – and an 'entitled' generation is heavily resistant to even the mildest reform.

► Its governments are loaded with trillions of dollars' worth of unpayable debts.

► Its economic vigour is waning, its societies are ageing.

► Its banking system, seven years after the height of the global financial crisis, remains largely unreconstructed, and kept afloat primarily by emergency

monetary stimulus measures that show no sign of being withdrawn – or of working.

Asia, on the other hand, by and large has none of these problems.

What it does have, Price says, is better demographics, lower debt and higher savings. It also offers stock markets that are significantly cheaper than those of the West. “We specifically favour Japan among its developed economies, and Vietnam among the developing ones.”

Tailpieces

News from China: A few fascinating pointers from *FullerTreacyMoney*’s Eoin Treacy after a personal visit:

► China is starting to import cheap labour. Example: A Shanghai factory making paper products is hiring Vietnamese, Cambodian and Filipino workers.

► And businessmen are shifting production out of China to lower-cost countries. Faced with wage levels of around €400 a month, the owner of a Dongguan factory is moving to Indonesia, where wages are closer to €150 a month.

► There’s a new crop of small Chinese companies targeting young consumers. Example: “They bring out new lines on a daily basis from their factories – only in black and only one size. The cut is such that the clothing fits most body shapes.”

Business risks: The South African telecoms group MTN, the world leader in emerging markets in its field, has been fined $5.2 billion by the Nigerian government for its sluggish response to an ordered disconnection of unregistered sim cards. MTN is the largest mobile services provider in Nigeria, which accounts for a third of the company’s sales.

Why such a huge fine? One theory is that the government is desperate to raise cash. But it’s always dicey doing business in emerging economies infected with serious corruption.

Europe’s migration crisis: The European Union is running out of money to deal with it, including the huge costs of providing healthcare, education and housing for refugee immigrants over the coming years, says European Commission president Jean-Claude Juncker.

Governments must think of new ways to raise the necessary funds, especially as they have failed to deliver on the billions they’ve promised in aid. For example, EU nations pledged to provide North Africa with €2.3 billion in emergency aid, but so far have delivered only €86 million. Offers have been made to relocate just 700 refugees out of a targeted 160,000.

Critics say the notoriously wasteful Brussels bureaucracy should find the money to pay for the flood of migrants by making radical cuts in the grants and subsidies that make up most of the EU’s €150 billion annual budget before turning to taxpayers to provide more.

Corporate pessimism: American firms are less confident than they used to be about expanding their businesses. According to a study by the Credit Suisse Holt group, US companies that historically allocated 60 per cent of their cash flows to

capital investment in growth, either internally or through mergers and acquisitions, recently reduced that proportion to 53 per cent.

By contrast, they boosted their return to shareholders in dividends and buybacks from 26 per cent to 36 per cent.

Serving up fun for the elderly: Japan has the fastest ageing population in the world – about 10 million of them are aged over 80 – and that is offering business opportunities.

The number of centres providing daycare for the elderly has doubled since 2010 to 40,000. Such centres not only provide personal support services, but also entertainment. A new development is that entrepreneurs are opening centres fitted out as casinos. Customers can enjoy gambling in an authentic atmosphere, although they can't do so for money – that's illegal.

Japan's working-age population is falling by a million every year as the increase in number of retirees is not matched by new entrants to the labour force because of the long-term consequence of too few babies and absence of immigration, which is tightly-controlled.

Asset preferences: The family offices that manage investment portfolios for the wealthy currently allocate on average only 26 per cent to equities, according to research by the *FT*. However, an additional 22 per cent is invested in private equity holdings.

Other major allocations are 14 per cent in bonds, 13 per cent in real estate direct investment, and 9 per cent in hedge funds.

Gold: This year's was the strongest third quarter for jewellery demand since 2008. It grew 6 per cent year-on-year as lower prices during July and early August attracted consumers," says the World Gold Council. Demand for bars and coins rose 33 per cent to 296 tons.

Central banks continued to buy, adding 175 tons to their reserves.

Sluggish earnings: Although the collapse in oil and metals prices, savaging energy and mining companies, is one major reason for poor corporate earnings, there's clearly a much wider problem. The *FT* says: "The US technology sector, which currently is leading stock-market gains, has increased revenues by only 1.9 per cent over the past year."

Wise words: *Wall Street is the only place that people ride to in a Rolls Royce to get advice from those who take the subway.* Warren Buffett.

Know someone you'd like to receive ►On Target, click on Reply and send me his/her email address. Or email your request to me at: afrodyn@gmail.com.

►On Target is a free, private newsletter for Martin Spring's worldwide circle of friends and contacts. If you no longer wish to receive it, click on Reply, write "Unsubscribe," and Send.