►On Target

Martin Spring's private newsletter on global strategy

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Britain Plunged into Political Crisis

The outcome of the UK election ought not to have come as a shock. What was easily the most sophisticated forecast, by YouGov, correctly predicted that Theresa May would lose her parliamentary majority rather than improve it, as almost everyone expected.

Based on 50,000 interviews, it used data such as personal voting history, age and social background to assess the likelihood that interviewees would actually vote, to weight the results. It predicted Theresa May would fail to achieve a majority by 16 seats. It turned out to be a shortfall of eight.

What explains this political disaster for the Conservatives, who entered the election with a massive margin of advantage over opposition parties?

I think it can be attributed to three factors:

► May called the election on the grounds that she needed a strong majority to negotiate a good Brexit (exit from the European Union) and secure a trouble-free passage through parliament of consequent necessary implementing legislation. (More important, perhaps, was the juicy prospect of inflicting a devastating defeat on the troubled Labour party and assuring her party and herself of five years in power to implement her own vision of social change).

This failed to understand that Brexit was not the uppermost consideration in voters' minds. The party that championed the idea of backing out of Brexit, the Liberal Democrats, did relatively poorly in the election. Brexit was not a significant point of difference between the Tories and Labour, as both parties favoured proceeding with it, negotiating the best possible terms.

Voters were more concerned about issues directly relevant to them such as the crisis in the National Health Service, inadequate public services crushed by the financial cuts imposed by austerity policy, the grave shortage of affordable housing, crowded trains, the cost of college education.

The Labour party correctly focused on these issues, offering a lavish menu of benefits (with little credible explanation of how to finance them). Voters were attracted. Particularly young ones promised the scrapping of university fees.

► May and her very tight group of advisers cobbled together a manifesto lacking any goodies for the voters, with some focus on responsible policies such as addressing the worsening problem of paying for elderly care. One of the solutions

In this issue: UK political crisis ▫ Macron ▫ Gold, silver ▫ Climate change ▫ Electric cars ▫ War in Korea? ▫ Italian banks ▫ High valuations would force those in need to face having to use the value of their homes above a threshold of £100,000 to pay for such care provided by local authorities. This was promptly dubbed "the dementia tax." There was such an uproar that May ditched the proposal after four days. She looked foolish… and weak.

Combined with some other proposals, such as means-testing people for entitlement to the winter fuel allowance paid to pensioners, the elderly took the view that their rights to benefits, paid for by taxes levied during their working lives, were going to be attacked.

The elderly are those who tend to vote, while young people are much less likely to bother. And they are much more likely to vote Conservative than young people, attracted to radical ideas. So the elderly were incentivised to stay at home, while the young were incentivised to leave bed and Facebook to get out to vote.

It was a disastrous example of the Tories' shooting themselves in the feet.

► The third problem was accidental. In the final weeks of the campaign there were terrorist incidents in Manchester and London with many deaths. Normally that would be expected to favour the Conservatives, long regarded by voters as sounder guardians of national security.

But in this case, the media was quick to focus on the savage cutbacks in the police as part of the Cameron governments' austerity economies. Cuts of 20,000 police during the past six years when May was in charge of anti-terrorism management, and with further cuts planned.

Her public image of strong and secure leadership was undermined just a few days before the election.

Where does this leave the government? In crisis, only able to rule with a parliamentary majority of just six through a deal with Northern Ireland's Democratic Unionist party, which has ten MPs.

The Conservative leadership faces huge difficulties. In normal circumstances, her reputation destroyed, May would be forced to resign immediately. She needs to be replaced by a heavyweight with strong character, likeable personality, who is widely respected... and preferably with experience to deal with the most difficult issues, which are the economic consequences of Brexit and the growing threat of Jihadist terrorism.

Who will be the next prime minister?

But it seems that no one suitable wants the job! Everyone knows that negotiating Brexit is going to be a nightmare, almost certainly ending in what will be generally perceived as greater or lesser failure.

The three best prospects are:

► Boris Johnson, the most charismatic of the Tory leaders and widely popular. He was a successful mayor of London, but had no government ministerial experience until appointed foreign minister less than a year ago. He was the leader of the successful Brexit referendum campaign, although I suspect that he was always less committed to the idea than he pretended.

► David Davis, the minister in charge of the Brexit negotiations, grew up on a London council estate, gained an MBA at the age of 25, served as a reservist in

Britain's crack army unit the SAS, and became an MP 30 years ago. He has been minister for Europe, campaigner for civil liberties, and contender for leadership of the Conservative party (he was beaten by David Cameron). He supported the Brexit campaign.

► Michael Fallon has a background in managing key currently important areas where the above two are somewhat lacking – security, finance, trade and industry and internal affairs. He became defence minister in 2014, fought against Brexit, and was knighted in Cameron's resignation honours.

It is clear that Theresa May cannot stay on indefinitely. She lacks the credibility and authority to see through the Brexit negotiations, and take on the politically dangerous task of defeating the Labour leader Jeremy Corbyn in the next election. Corbyn's reputation has been much enhanced by his superb campaigning, which included refusing to indulge in unpleasant *ad hominem* attacks. He is serious about implementing his Marxist policies if he can win power in the next election, which can no longer be dismissed as an absurd idea.

The most obvious strategy now for Tory chiefs is to choose a strong leader with wide acceptance in the party who is willing to accept the poisoned chalice, get May to resign and hand over to an acting prime minister, then initiate the required election among 150,000-odd party members for party leadership.

He/she, the new prime minister, may opt to seek an early general election (October?) to restore the Conservatives' parliamentary majority, or delay that for a while.

Could May be kept in place to take the blame?

Alternatively, the party strategists may decide to stick with the severely weakened May until after the Brexit negotiations come to an end, one way or the other, in 21 months' time, and let the discredited lady take much of the blame.

There is also a risk that a prematurely early general election is forced on the government by legislation implementing Brexit being rejected by the House of Lords, an anachronistic, unelected upper house of parliament packed with anti-government and anti-Brexit peers. The government could "break" its blocking power by creating hundreds of its additional "friendly" lords, but would need the approval of the electorate to do so.

Dangerous times for the Tories, and for the stability of government in Britain.

However, I don't think that tiny working majority in parliament is as politically risky as it seems, at least for a while. You won't get any rebels in the governing party to take their rebellion as far as voting against their government, if that means bringing it down and precipitating an unplanned election.

There is, however, one risk all the commentators seem to have ignored.

The government's thin majority depends on Northern Ireland's Sinn Féin party's sticking to its longstanding policy of refusing to exercise its MPs' right to take their seats in parliament and vote. If it reversed that policy to counter the newfound Unionist influence in the UK's central government … and seize a juicy opportunity to stick it to the hated Brits… seven Sinn Féiners voting with all the opposition parties would leave the government one vote short of a majority.

An alternative coalition led by Labour with enough votes to govern would be almost impossible because I can't see the 12 centrist Libdem MPs voting to put a Marxist into Downing Street. There would be a constitutional crisis, forcing another immediate general election to resolve the deadlock.

British stability in the hands of a handful of rival Irish extremists? If you invented the idea, no one would publish the novel.

A Centrist Reformer Takes Power

The upsurge in populism in Europe is far from over, but the tide has turned and is retreating… at least for now.

In France, Marine Le Pen was soundly defeated in the presidential election and her party won only a tiny handful of seats in the parliamentary contest. In Italy, where the populist threat is even greater, the Five Star Movement failed to make it through to the final stage of regional elections in any major city. In Germany, voter support for the Alternative für Deutschland party has halved over the past year. In Britain, UKIP was crushed in last month's general election, which saw its share of the vote fall to 2 per cent. In Finland, the populist True Finns party actually made it into the ruling coalition – but doing so has cost it half its voter support.

Several conclusions can be drawn from these developments.

One is that extremist parties cannot win power except where the economy has collapsed and there is widespread social distress, particularly among the middle classes. Mere anger on issues that don't have a direct impact on family life is not enough to swing enough voters in favour of radical change.

The second is that a credible threat from populists unites all others, despite hostility to one another, against them – another factor that keeps them out of power, as we have just seen dramatically in France.

A third conclusion is that ruling elites can fend off populist threats if they are willing to re-shape policies to address issues they have been neglecting or refusing to tackle on grounds of political correctness. One example is how European governments have shifted towards tougher immigration policies, despite their dislike of them, in response to populist pressures.

The most dramatic development in European politics is undoubtedly the phenomenon of Emmanuel Macron. Here is a man with little political experience, not yet 40, who took on the conventional political heavyweights and beat them to the presidency of France; whose new political party, half of whose candidates had no political experience, has gained a majority in the National Assembly.

Macron, a centrist, takes on the formidable task of implementing reforms. Here are some of the policies he advocated when campaigning for the presidency:

► He wants to liberalize the schlerotic labour market, where rigid rules discouraging employers from hiring are a major cause of a 10 per cent unemployment rate; and make it easier for employers to negotiate conditions with their workers at company level about wages, overtime and working hours. 120,000 civil servant jobs will be cut, but there will be more jobs in the police and in teaching.

Qualified employees who refuse two “decent” job offers will lose access to unemployment benefits. Macron won’t raise the current national retirement age (62), but he wants to rationalize the complex web of retirement rules for various public- and private-sector employees.

► Tax reforms will include a cut in corporation tax, hopefully leading to creation of many jobs in the private sector. There will be a three-year suspension of residents’ tax for most households; the wealth tax on people with assets of more than €1.3 million will be converted into a narrower-based tax on real estate.

► Nuclear plants provide 76 per cent of France’s electricity. Macron wants to reduce that to 50 per cent over the next eight years.

► Schools are to be given more autonomy in terms of hiring; primary-school class sizes in low-achieving and poor areas are to be halved; use of mobile phones by students in elementary schools will be banned.

► Macron, who strongly favours greater European unification, wants the 19-nation Eurozone to have its own central budget with its own parliament (as different from the one for the 28-nation European Union) and finance minister. He wants higher tariffs to protect European industries against unfair competition (in particular China), a single border policing force, more integrated defence forces.

► He champions diversity, opposes moves to ban religious symbols (except in schools), and wants to give tax breaks to companies that hire young people from tough, predominantly immigrant, neighbourhoods. He backs Germany’s open-door policies towards immigration, and has promised to speed up the review process for asylum requests to a maximum of six months, including appeals.

However, there are understandable doubts about how much of this he will be able to achieve. Reforms promoted by previous presidents were blocked by organized opposition and virulent protests. Although Macron has done extraordinarily well, he was not supported by the half of voters who didn’t vote at all, and a third of those who did vote.

Macron is likely to face fierce opposition from the old guard politicians that he has displaced from power, as well as labour unions renowned for their capacity to torpedo changes they oppose with demonstrations, blockades and strikes,

In France, as elsewhere in Europe, the fight against the populist upsurge still has a long way to go.

Gold and Silver: Time to Buy

“For contrarian investors, the precious metals sector represents an attractive niche, offering an excellent risk/reward profile over coming years,” Ronald-Peter Stoeferle and Mark Valek argue in Incrementum’s latest always-impressive annual study.

Gold miners relative to the stockmarket as a whole are as out-of-favour as they were “when gold was trading at $300/oz and the great bull market had just begun.” (Which means they’re cheap).

Operating earnings are clearly in a positive trend. Companies in the HUI index have moved from negative cash flows four/five years ago to free cash flows totalling $4.8 billion – above the previous record high of 2011 when gold prices peaked.

However, Stoeferle and Valek warn that a number of factors have to be kept in mind…

► Gold mining companies have been able to reduce their production costs, aided by the fall in prices of energy… a significant share of cash costs. Many have slashed their exploration budgets. But mining depletes gold reserves – to replace them, there's likely to be a considerable acceleration in activity. "Expect to see takeovers of exploration and development companies in politically stable regions such as Australia and North America."

Many development projects begun in the pre-2011 boom have been de-risked by revising operating plans and redesigned at a smaller scale to bring down initial capital costs.

► Although debts have been reduced to some extent over the past few years, companies in the Amex Gold Bugs Index remain highly indebted, with a net $16 billion owed.

► The sector's enormous capital intensity at times results in many companies posting losses, even in years when gold is rallying. "To fund these losses or pay for large acquisitions, the companies tend to issue rather generous gobs of new shares." The resulting dilution of existing shareholders' investments was, in the past, a major reason for the sector's disappointing performance.

"In the short term, sentiment appears a tad over-optimistic to us." But the seasonal pattern in mining shares suggests that "a correction in the summer months may well provide a favourable entry point."

Due to their response in the four-year-long bear market, most gold producers now have more solid fundamentals.

Investors should focus on conservatively-managed companies. "From a valuation perspective, the growth rate of free cash flows, reserves per share, and earnings growth per share, strike us as the most important financial metrics… Try to avoid investing in companies with a habit of flooding the market with new share issues." As the mining business is subject to relatively wide fluctuations based on seasonal factors, mine sequencing and capex cycles, avoid assessing companies on the basis of short-term trends, such as quarterly results.

"We are currently focused on developers and emerging producers… Particularly promising investment opportunities should emerge in the stocks of silver mining companies."

Climate Change Propaganda

It's understandable that the carbonatics have gone berserk over the threat that Trump's decision to withdraw the US from the Paris agreement on climate change poses to the life support of their heavily-subsidized industry, but it is deeply offensive that establishment media never challenge any part of their propaganda.

One example is to say, as did one "expert" I saw on international television, that there are "millions" of jobs in renewables compared to just 77,000 in American coal mining. This is a convenient comparison, because Trump makes such a fuss about coal. But the carbonatics ignore the vastly greater number of jobs in the rest of the fossil fuels sector also favoured by Trump – oil and natural gas. Jobs that exist and multiply without the massive subsidies that the politicians force taxpayers and consumers to pay.

When president George W Bush refused to sign up to the Kyoto agreement in 2001, he said he believed the free market would be more effective at reducing carbon dioxide than government. He's been proved right. Thanks to the invention and development of fracking and consequent abundance of natural gas, the US's CO2 emissions have fallen by twice the rate that would have been required by the Kyoto Protocol.

My favourite climate-change expert, Denmark's professor Bjorn Lomborg, points out that the Paris agreement, even if fully implemented, will do little to address the global warming problem. The UN calculates that even if all countries meet their carbon-cut pledges for the 2016-30 period, carbon dioxide emissions will be reduced by 56 giga-tonnes. To keep global warming below the two degrees target requires cuts of 6,000 giga-tonnes – a hundred-fold more.

Lomborg has long argued that the economic losses of anti-carbon policies are so enormous that it would make sense not to incur them, using the extra wealth resulting to combat the consequences of global warming and boost investment in green energy.

Electric Cars' Lavish Subsidies

Electric cars are clearly going to become more important, and could eventually transform the automotive business. But it's much less clear how fast that is going to happen.

The three problems with EVs (electric vehicles) are range, recharging and cost.

Range discourages would-be buyers who don't want to worry about running out of fuel before reaching a charging station. This makes EVs best suited to those who want to use them for commuting or around town. They can be an excellent choice as second cars, which means they are often favoured by wealthier folk who can afford to run two or more vehicles.

Quantifying range is a dodgy business, and not only because reality often falls short of manufacturers' claims. It varies widely according to the way an owner drives, average speed of a journey, and terrain over which it's driven.

When EVs are low on fuel they lose power – the driver can be stuck at the bottom of a steep hill, whereas a conventional vehicle maintains full power till the fuel tank is empty.

EVs are more efficient in warm weather and climates than in cold ones. An American test on one model showed that reducing ambient temperature from 71°F (22°C) to 14°F (-30°C) almost halved its range.

The more powerful the battery pack, the greater the range. A test by the Environmental Protection Agency showed that a Nissan Leaf with a 24 kilowatthour pack had a standard range of just 75 miles (121 kms); a Chevy Bolt with a 60 KWH pack, 238 miles (384 kms).

Of course, the bigger the pack, the greater the cost, which can be as much as half the total cost of a vehicle.

Manufacturers are improving range. In Europe, Opel's new Ampera-e, for example, claims a range of 520 kms. But increasing range depends on development of batteries that can store more energy without becoming relatively more expensive. Fundamental physics set limits on the potential of any battery. The best batteries have only 5 per cent the energy density of petrol, and their efficiency degrades as they age. Aggressive developments such as the planned Tesla and Chinese mega-factories are not focused on improving the efficiency of batteries, but on reducing their cost through scale of operations.

Batteries wear out much faster than the most expensive components of a traditional car, so trade-in values are poorer.

Recharging requires nationwide chains of plug-in centres similar to the ubiquitous petrol/diesel filling stations. In extensive countries like America there are often gaps that require drivers to plan long journeys carefully to avoid gaps where there are no stations, or force them to choose slow-charging facilities.

The process takes time, typically anything from half an hour to an hour or more. Some won't worry about relaxing over a cup of coffee while it happens, or use the time for a meal break on a long journey. Others would find such enforced delays irritating, so avoid them by sticking with conventional cars.

Commercial viability is still the major obstacle to wider-spread, greater use of EVs.

You can make the figures work for would-be buyers through subsidies. But those need to be very large. And as more EVs are sold, the greater becomes the burden on governments, taxpayers and other consumers.

There are some lessons to be drawn from Norway, the oil-rich nation which also has the highest per-capita ownership of electric cars in the world, thanks to aggressive subsidies.

When Tesla introduced its Model S luxury sedan there, its tax breaks of about $135,000 were actually greater than the local starting base price of about $112,000. A comparable petrol-driven car would have cost nearly $250,000 to buy.

Free almost everything... at the expense of other motorists

Electric cars in Norway are exempt from purchase and value-added taxes. They are exempt from motorway tolls, enjoy free charging, free use of ferries, and are able to use bus lanes to avoid congestion.

Roughly speaking, it costs motorists half as much to operate an electric car as a conventional petrol/diesel equivalent.

No wonder about 18 per cent of all new cars now being sold in the country are fully electric and about as many more are plug-in hybrids.

The costs are huge, not only for the central government, but also local authorities. Andreas Halse, environmental spokesman for the opposition Labour party, says the capital city Oslo loses about $35/40 million a year just from EV owners' exemption from road toll payments.

He questions whether it makes sense to spend half as much public money on electric cars, which represent about 5 per cent of daily commuting journeys in Oslo, as on public transport, which serves almost 50 per cent of commuters.

And remember the bias of advantage from subsidies is towards wealthier families, more likely to have two cars and/or to buy luxury models... in a Nordic country famous for its egalitarian principles.

No wonder the government is being forced to consider how to rein in its lavish EV-promoting policies. It's a problem that will increasingly face many governments as they have to choose between sticking with what's politically correct, and the lower taxes that voters prefer.

Tesla's sales in Denmark collapsed after the government eliminated subsidies for electric cars because of their huge cost to taxpayers and the extreme bias against conventional vehicles, which face an import tax of 180 per cent. In 2015 Tesla sold 2,738 units; last year the number fell by 94 per cent to 176.

North Korea: the 'Unthinkable' Option

Investors ought to be aware of the increasing risk of war in Korea, which would take the form of a massive aerial bombardment of the North by US forces to wipe out, not only its leadership, nuclear warheads and missile delivery capacity, but also much of its conventional military resources.

Almost all the experts will tell you that's rubbish, because quite apart from the North's possible use of atomic weapons, it has thousands of cannon and rocket launchers able to devastate Seoul, the South's capital with 20 million inhabitants, lying just 30 kilometres south of the border. A conservative estimate is that 120,000 of them would die within the first two hours of such a bombardment.

The US's new defence minister, General James Mattis, used his first public interviews last month to warn that any armed conflict with North Korea would be "catastrophic" for America's allies in the region (South Korea and Japan).

What was strange about this is that the US's strategy has long been to use non-military methods – pleading with China to use its immense influence over its communist neighbour, international sanctions, travel bans – to drive North Korea into agreeing to cease developing nuclear weaponry. Mattis' statement publicly undermines that strategy by telling Kim Jong Un's regime that the US is too scared of the risks to use its military power, so it's safe for the North to continue pressing ahead with its nuclear strategy.

The only logical conclusion is that the Americans want to mislead the North Koreans about what they plan to do. I suspect that will be a pre-emptive strike using their immense resources of unbelievably accurate and powerful non-nuclear bombs. They have already moved three aircraft carriers close to the North and have a strategic bomber force based on their Pacific island of Guam.

The aim would be, not only to decapitate the state, killing its leadership, but also to destroy in a matter of hours its military capacity to react effectively and pose any serious threat to South Korea or Japan. To counter Chinese fears, there would be no follow-through of an invasion. The North Koreans would be left to sort out the aftermath.

Why would the Americans resort to such extreme action?

Firstly, because they are unlikely to accept even a small risk that a regime controlled by the "crazy fat kid," (as Senator John McCain has called Kim Jong Un), should be allowed to develop the capacity to kill millions of Americans.

The diplomatic route that is being pursued by Donald Trump, as it was by his presidential predecessors, is not going to work. China is never going to take actions tough enough to force Pyongyang to give a "victory" to the US-led coalition.

Secondly, because the consequences of another war in Korea, even if brief and limited, would not be catastrophic for Americans... only for Koreans, and perhaps Japanese.

Thirdly, US willingness to act so decisively would convey the strongest possible message to a potentially much more dangerous would-be nuclear power, Iran, to forget the whole idea and behave.

Fourthly, foreign adventures are a classical method for national leaders to divert attention from political difficulties at home. "Trump, facing ever-expanding scandals, continually-low polling numbers, and even potential impeachment proceedings, may decide that a pre-emptive strike on North Korea is worth the costs and consequences," Micah Zenko writes in *Foreign Policy*.

Much-respected analyst George Friedman of Geopolitical Futures concludes that the US continues to be "on the path to war."

The US is not likely to unleash an attack until it has a *casus belli*, or a challenge from North Korea that it can point to as a defensible cause for going to war.

That hasn't happened yet. But the situation could change very quickly if the US becomes convinced that the North has developed intercontinental ballistic missiles. Sudden falls in the South Korean and Japanese stock-markets would be an early warning of pending military conflict.

EU Bends the Rules for Italy

The deal has been done with European Union regulators to allow a government-backed and partly-financed rescue of one of Italy's biggest banks, the Monte dei Paschi di Siena, despite EU rules about not using taxpayers' money for such rescues.

A government fund will be used to buy dodgy property-backed loans as part of a restructuring that shields against loss people who were encouraged by government propaganda to invest in the bank's securities. (Mario Draghi, now head of the European Central Bank, was at that time head of the Italian central bank and of its financial regulation agency).

"The political need to avoid the mess of thousands of retail holders of subordinated debt and reverse convertibles was the reason rules were bent, reinterpreted and even changed" to avoid the Monte dei Paschi's being wound up, comments Eoin Treacy in *Fuller Treacy Money*.

It "highlights the fact that the Eurozone and its institutions will do whatever it takes to sustain the status quo," including "regulation and how it is interpreted for big countries versus small countries."

High Valuations the New Norm?

American shares are consistently trading at much higher valuations than they used to, and continue to defy the predictions of value-based investment enthusiasts that there's something of a bubble that needs to burst to bring valuations back down to realistic levels.

Price-to-earnings ratios on Wall Street have averaged more than 23 times since 1997, compared to about 14 in previous decades.

Jeremy Grantham of the GMO fund management group says main reasons for this have been "the increase in the earning power of US multinationals from globalization; the growing political influence of corporations; more onerous regulations, stifling the growth of start-ups and leading to monopolies; and above all, a secular and durable decline in interest rates."

Previously cast-iron rules about valuations must now be treated with suspicion.

Tailpieces

Health and safety: It's a policy that has been applied enthusiastically by British bureaucrats for years. To a degree of stupidity. My daughter doing a building management job was threatened with dismissal because she replaced a dead light bulb, rather than wait two weeks for an "authorized" worker to come to do it.

Yet we now hear, in the fallout from the Grenfell fire disaster, that it's been found there are perhaps as many as 600 housing tower blocks in the UK that are at risk from fires. What on earth have all those health and safety officials been doing over the years, or not doing, while they have persecuted citizens over trivial violations?

Attack warning: There is a growing risk of a regulatory backlash facing some of the world's biggest listed companies, says CLSA's Christopher Wood. This is because Jihadist propaganda is widely available on the Internet. "At a minimum, the relevant companies will be held responsible for policing what goes out on their platforms."

The risk is greatest for Facebook and Google, as these companies "are in many respects media companies posing as tech companies, without having the responsibilities traditionally faced by media companies."

Oil: Inventories in OECD countries only fell by 88 million barrels in the first four months of this year. "At that pace," says American investment banker Allen Brooks, "it will take OPEC and its partners until March 2018 to reduce global oil stocks by another 250 million barrels, or back to the average inventory level of the last five years – the organization's goal.

Meanwhile, as US producers become increasingly comfortable dealing with relatively low price, their output is expected to grow by almost 5 per cent this year, and by nearly 8 per cent in 2018, "overwhelming projected demand growth and re-establishing the glut environment."

The herding instinct: In the business of managing other people's money, says the well-respected US fund manager Jeremy Grantham, the central truth "is that investment behaviour is driven by career risk."

The prime directive is first and last to keep your job. To do this, as Maynard Keynes knew, "you must never, ever, be wrong on your own.

"To prevent this calamity, professional investors pay ruthless attention to what other investors in general or doing. The great majority go with the flow, either completely or partially.

"This creates herding, or momentum," which drives prices far above or far below fair value.

Welfare: Evidence from the US state of Alabama is that welfare handouts seem to be much more a preference than a necessity.

After local governments there imposed requirements that to qualify for taxpayer-funded Food Stamp benefits, recipients without dependants would need to be either in jobs or in a work-training programme, most of them opted out. The cost of the subsidies fell by 85 per cent.

Another interesting fact about Food Stamps is that the top priority of recipients when spending them isn't food at all, according to a study released by the federal government, but fizzy drinks.

Safe spaces: You keep hearing this story, angrily denied (suppressed?) by politically correct officials – that Muslims in some European countries have been allowed to establish their own no-go zones where they apply their own harsh sharia laws.

Latest conclusive evidence that they are a fact is from Sweden, where a leaked report from the police has confirmed that there are at least 23 Muslim-controlled zones and some 60 "vulnerable areas" plagued with violence so bad that police and emergency services personnel refuse to enter.

Home prices in Asia: They're now so high in Hong Kong that to be affordable, new apartments are being built smaller and smaller, sometimes as little as 200 square feet (19 sq.m). The average home is now selling for $16,000 per square metre, or twice as much as in the nearby city of Shenzhen.

Singapore is much cheaper. CLSA reports that you can buy luxury properties there in prime areas for the same price as "shoebox" homes now sell for out in Hong Kong's New Territories.

Bonds: They're a graveyard for market forecasters, who nearly always get it wrong. Analysts asked to say what will be the yield on ten-year US treasuries at year's end now offer an amazing rank of predictions from 1.6 per cent to 3.6 per cent (it's now about 2.2).

Interesting to see that Argentina, a notorious defaulter on its sovereign securities – eight times over the past 200 years -- is coming to capital markets with a "century" bond – one whose capital will not be repaid (in US dollars) for a hundred years. It will pay interest at a rate of 8 per cent. Or says it will.

Leading in science: The largest cluster of inventors in the world live in… Japan. The World Intellectual Property Organization analyzed the addresses of 950,000 international patent applications between 2011 and 2015 and found the biggest cluster to be in the Tokyo-Yokohama region. Two other clusters in the top ten were also in Japan – Kobe-Kyoto and Nagoya.

China's Shenzhen-Hong Kong region housed the world's second biggest cluster, with California's Silicon Valley in third place, South Korea's Seoul in fourth.

He, she or it: Canada has passed a law making it an offence to use the wrong gender pronoun when expressing a person's identity. The senate has passed a bill putting gender into the nation's Human Rights Code and the hate crime category of its Criminal Code. Offenders getting it wrong can now be accused of hate crime, jailed, fined – and forced to take "anti-bias training."

Commodities: Statistics suggest that the mining sector is now "a very compelling starting-point, with global long-term demand for metals likely to remain robust," says RBC Capital Markets' Tyler Broda. His top pick is Rio Tinto as it rates "very highly on many company-specific metrics, including balance sheet, margins, long-life assets and growth."

Japanese shares: They seem to be very good value by international standards. CLSA strategist Nicholas Smith points out that whereas the US stock market is trading on a price to tangible book ratio of 8.7 times, the benchmark of Tokyo stocks prices them at only 1.5 times.

Emerging markets: Their equities have been the winners this year, driven by Chinese and Korean infotech giants such as Tencent, Alibaba, Baidu, Samsung, China Mobile.

Wise words: *Socialism only works in two places: Heaven, where they don't need it; and Hell, where they already have it.* Ronald Reagan.

Martin

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.