►On Target

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The Threat of Summer Storms

It is easy to be pessimistic about international investing because of the outlook for the world economy.

Its principal locomotive, the US, hooked on huge overdoses of free money, government spending and dollar depreciation, struggles to transform a tepid recovery into something stronger and healthier.

While the upper tenth of the population enjoy most of the benefits of credit-fuelled growth, the rest are orphans of prosperity, as they have been for decades. 14 per cent of the population are living on food stamps. 24 million are without jobs or under-employed.

After a brief rally, the housing market has resumed its decline. Average values have fallen by a third since their 2006 peak. A quarter of home-owners with mortgages are "under water" – owing more on the loans than the value of their properties. Millions of homes have been seized from defaulting borrowers by lenders, or are threatened with foreclosure.

Things aren't much better elsewhere.

The Eurozone economy has been growing at half the rate of America's. Its unemployment is worse (nearly 10 per cent). It faces a huge problem dealing with the toxic debt of banks and governments. Political problems are mounting – northern hostility to subsidizing the lifestyle of profligate southerners, conflicts over immigration, and the rise of the radical Right.

Britain's economy, struggling to adjust to the aftermath of burst bubbles in two of its most important industries – finance and real estate – and the imbalance of a bloated public sector, isn't growing at all. And it's starting to face the crunch of austerity for years to come to reduce huge fiscal deficits and stabilize public debt.

Although China's economic growth is still extraordinary, its rulers are struggling to contain food price inflation and property speculation.

They have to undertake the massive restructuring required to reduce the economy's dependence on exports and over-investment in real estate, infrastructure and manufacturing capacity, in favour of consumption; to create the 10 million additional jobs required each year for school-leavers; and to find huge future supplies of energy and food resources.

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Japan, of course, has very different issues. Immediately, there is the need to rebuild after the devastation of the tsunami and the nuclear power crisis. Longer-term, there is the world's worst problem of ageing population, an astronomically high public debt, and the difficult relationship with China.

I cannot find much to be positive about on these fronts – except to say that if indeed the world economy is doomed to experience many years of sub-normal growth because of the overhang of bad debt, developing Asia is likely to be the best place to be.

Its fundamentals are so much sounder – far better governments, focused on economic growth instead of social engineering; stronger societies cleaving to traditional virtues of hard work, self-reliance and thrift; low taxes and moderate debt.

However, if the outlook for the world economy is clouded, that doesn't necessarily mean that prospects are poor for investors.

Central banks continue to "print" money on a massive scale. That is intended to stimulate and finance real economic activity, but it's very ineffective in doing so, so there is a huge leakage into speculation. Experts reckon that perhaps as much as $20 of the current price of around $100 for a barrel of crude oil can be attributed to such gambling.

If, unlike me, you are optimistic about economic growth, then you must assume that when it's clearly coming through, central banks will start raising interest rates.

Equities might not immediately react adversely – the markets may consider rising rates a signal of sustainable higher economic growth – but it's hard to believe that earnings wouldn't be hit by higher credit costs. After all, rock-bottom interest rates have been one of the main contributors to recent strong corporate earnings growth.

And if central bankers "snatch away the punch bowl" as the party gets lively, all that cheap money that speculators have been using to play the markets and add oomph to commodity prices will evaporate.

An outbreak of financial responsibility hits the markets

However, I am not an optimist about sustained strong global economic recovery. Ironically, that's why I remain positive about the outlook for investment markets.

But that is a longer-term view. Currently the markets are undergoing corrections that may persist through the northern summer and develop into major ones.

These seem to have been triggered by an outbreak of financial responsibility in policymaking:

► In the US QE 2 – the central bank's programme to buy up $600 billion of Treasury bonds with "printed" money – is coming to an end, while voter hostility to fast-growing public debt is forcing politicians to curb their inherent profligacy.

► In Europe austerity in government finances is the fashion du jour as the bond markets force policymakers to start to face up to the realities of toxic debt.

► In China the authorities are continuing to tighten up on credit, while in the emerging economies generally policymakers are squeezing money supply, raising interest rates and struggling to prevent appreciation of their currencies.

All this has been damaging confidence in the immediate outlook for so-called "on-risk" trading.

In equities, although corporate earnings are continuing to grow, quarter after quarter, those growth rates have already declined sharply with the fading of the highly-stimulatory one-off effects of easy money and inventory rebuilding.

Fund managers have grown more cautious about future earnings growth. That is reflected in rotation out of the high-growth cyclical stocks into the low-risk defensives.

Oil and gold head lower

Commodities have been weakening as investors anticipate that economic policies will remain restrictive, and perhaps become more so. Those will depress growth in the emerging economies whose demand for energy resources and industrial materials has such an important impact on prices at the margin.

Corrections that were first seen in metals such as copper have now spread to most other commodities. They could develop into major ones, perhaps taking oil as low as $80 a barrel and gold to below $1,400 an ounce.

As usually happens when equity and commodity markets soften, the dollar is now bouncing back relative to other currencies.

Any major shock such as a sovereign debt crisis in Europe, oil-supply-threatening instability in the Mideast, or another natural disaster like the Japanese tsunami, would give a significant boost to the greenback.

However, it will be important to remember as the markets struggle through the next few months that the longer-term prospects for many investments remain positive.

To revert to my basic thesis that disappointing economic growth will mean a favourable environment for investors…

I don't believe that the outbreak of financial responsibility can last for long.

In America, the politicians argue heatedly over spending cuts and tax increases that, even if implemented, would have minimal impact on the nation's exploding fiscal deficits. Tackling those requires fundamental reforms to the 80 per cent of federal spending that is classed as "non-discretionary."

But the moment any politician starts to address that problem seriously, there is fierce opposition from all the voters who would be adversely affected. It is the "live rail" of American political life. There must be responsibility – but not at my expense.

Next year is presidential election year, which will put a freeze on any policy actions that upset any substantial group of voters. In fact the opposite is likely.

If we get to the end of this year with the economy faltering, sustained high unemployment and a housing market in crisis with plunging values and soaring foreclosures, the authorities will switch into panic mode.

We'll get another big round of money creation (QE3), another round of fiscal stimulus voted by Congress, and possibly massive debt relief for home-owners "under water."

In Europe policymakers will continue to avoid the radical (and admittedly very difficult) fundamental solutions needed to address the issue of the humungous burden of bad debt that depresses economic growth and threatens to precipitate a banking crisis that, as one scary top official has warned, could be worse than the one triggered by the collapse of Lehman Brothers.

It's unlikely that the fundamental defects in the structure of the Eurozone will be resolved because of major differences over who is going to take how much pain, and failure to implement fiscal unification among 19 nations with greatly differing values and priorities.

As it becomes difficult to negotiate funding of the additional rescue packages needed to prevent the collapse of governments and banks, the system will come to depend increasingly on additional huge amounts of money creation by the European Central Bank.

In Britain, it is hard to see how austerity can be sustained for long in the face of intense hostility to the pain of cutbacks. We can't expect sustained "responsibility" for long from a coalition government largely run by lightweights and notable for U-turns, bungled reforms, obsession with issues of little importance (such as constitutional change), and general incompetence.

As in the US, management of the economy will increasingly fall even more into the hands of the central bank, with greater use of money printing and currency devaluation, to stave off the problems of painful and very unpopular radical restructuring.

What is all this going to mean for investors?

David Bianco of Bank of America suggests that in the US: "A summer that brings with it an end to QE, benign interest rates, a stable dollar and oil prices not setting new records could set the stage for a strong year-end rally."

Globally, lower prices in the coming weeks should offer opportunities to buy into investments that look good at least for the medium term, and perhaps longer, such as the precious metals, industrial and agricultural resources, Asian assets, and the shares of the best multinationals and businesses in promising sectors such as healthcare.

The Challenge of Cheap Gas

Natural gas obviously has a great future.

In markets where it competes, this energy resource has huge political advantages over coal and nuclear energy, and is far cheaper than oil.

It is in abundant supply since technological advance has made it commercially feasible to exploit shale deposits, and very large such deposits are geographically and politically close to where the gas is needed, in the US, China and Europe.

The problem is – it's very hard to find an attractive investment in natural gas.

Most of the handful of listed majors whose value is largely in gas – Southwestern Energy, Encana, Devon Energy and EOG Resources – look far too expensive. Most of the exchange traded funds that are a pure play on commodity prices are limited to what happens in the North American market, and their charts don't suggest a coming powerful uptrend.

Natural gas is cheap, due to a combination of a major new supply source (exploitation of shale deposits), weak demand because of sluggish economic recovery and political forced-feeding of renewables.

On an energy-equivalent basis, gas ought to cost about 18 per cent as much as oil, yet it's actually trading in the US at only 4 per cent as much.

That makes gas very attractive, especially for power stations.

Trouble is, it's hard for producers to make a profit at low prices if your costs are significant, as they are in the major new sources of supply.

Shale involves a lot of drilling to locate and access viable deposits, and then expensive processes to free gas from its rocky grip and bring it to the surface. LNG, where gas is liquefied through freezing and then shipped in tankers, requires terminals costing several billion dollars apiece.

High valuations suggest investor optimism

In the US, the Energy Information Administration says its most likely forecast is for the annual average price of gas at the wellhead is to remain below $5 per unit for the next decade – not much above where it is now, at around $4.40 a unit.

But the high valuations of gas-heavy North American producers suggests investors believe prices are going to go much higher, perhaps towards the $8-9 a unit that some experts say is needed for shale to be a good investment.

Either supplies from the new high-cost sources, particularly shale, are going to be very much less than generally expected, or capital-raising producers project; or demand is going to be even stronger than generally expected; or there will be some combination of those two price-favouring factors.

There are several reasons why supply growth from shale could be retarded:

► Political opposition on environmental grounds could prevent deposits being tapped. Some of that is already occurring, as I reported recently. In France they plan to place a permanent ban on use of "fracking" (hydraulic fracturing).

The opposition is mainly based on the allegation that the practice will pollute underground pools (aquifers) that are the source of most of the drinking water supplies.

This is unrealistic as gas shale deposits are much deeper than the aquifers and separated from them by hard rock.

Where gas has leaked into drinking water it's happened because of defective piping, easily rectified.

But there are problems about supply of the large amounts of water required for drilling and rock-fracturing, and disposal of the huge volumes of contaminated water generated by the process.

Environmentalists, who in any case are growing hostile to natural gas because its cheapness seriously undermines the competitiveness of renewables such as wind and solar, are likely to intensify their opposition to shale developments and frighten politicians into refusing permission for exploitation of massive new resources.

► The economics of extracting gas from shale may be much less favourable than claimed by exploration and development companies, who reckon that shale plays are profitable at gas prices of four to five dollars. But their financial results suggest something different.

It could be that there's general under-estimation of the speed at which gas flow declines as wells age. Conventional natural gas wells typically have long lives, with flow volumes falling by 10 to 30 per cent in the first year.

Depletion is much faster with shale wells. Those more than a year old in the Barnett field, where the shale gas revolution began, are shrinking at an annual rate of 44 per cent. This means that many more new wells have to be drilled to maintain production, seriously undermining profitability.

Allen Brooks of energy investment bank PPHB says that the difficult choice facing the shale gas companies is whether to spend more on drilling to maintain and expand production volumes, "or cut back, secure higher prices, and stop destroying shareholders' capital."

► Shales are not only sources of gas, but also of oil. At current prices, gas is much less profitable than oil. So exploration and development of shale is shifting strongly to deposits rich in oil and gas liquids. In the US there are now more drilling rigs targeting crude oil prospects than for natural gas, for the first time in 16 years.

There has recently been a slowdown in gas production growth.

► When producers acquire rights to drill for gas, they have to start drilling to hold on to those rights. That means that drilling activity and production from the new wells is sustained by optimism about the need for more gas, prices and the validity of geological and technical assumptions.

Setback on any of those assumptions would depress drilling activity and supply from new wells.

Waiting for stronger prices to come through

Also, there could be strong growth in demand. The US, for instance, is planning to export liquefied natural gas, for which markets in Asia and Europe are buoyant.

Brooks says we shouldn't under-estimate the power of demand to boost gas prices. "If that demand comes at a time when the industry has cut back its drilling due to the poor economics of gas shale plays, we could see sharply higher gas prices in a fairly short time."

However, he still believes the odds favour "a long, slow road to higher natural gas prices."

There is no sign yet that markets are starting to move in anticipation of that. So it looks too early to invest.

Growing Doubts about Climate Change

The massive global political effort to “save the planet” is losing momentum in the face of rising opposition to its huge costs, challenges to the scientific basis of human-caused climate change, and concern over its impact on food production.

The UN has just warned that it’s going to cost as much as $15 trillion over the next two decades to develop enough renewable energy resources merely to stabilize global levels of greenhouse gas emissions.

Even if financing spending on such a scale were feasible, it would not make sense to do so, given the much more important priorities facing the human race such as healthcare, food production and job creation, and the much cheaper alternatives such as low-carbon gas and no-carbon nuclear energy.

One measure of the extent to which taxpayers’ money is being lavished on greenery, despite the crisis in government finance that is forcing cutbacks in many essential services, is that a typical wind turbine in Scotland only generating $240,000 worth of electricity a year in addition earns the company that owns it subsidies of $370,000 a year.

What’s more, wind power is proving to be significantly more inefficient in the UK than a key assumption on which expansion was based, according to an expert study. Proponents claimed that wind would generate power for 30 per cent of the time. But wind farms only achieved 27 per cent of rated capacity in 2009 and only 21 per cent last year.

Due to variations in availability and predictability of wind and sunlight, huge capacity has to be retained in conventional power stations to meet demand around the clock.

There needs to be a backup supply available, usually provided by gas-fuelled stations, to generate power when winds fall off. According to American sources, to replace one gigawatt of coal-fuelled capacity requires three to five gigawatts of wind capacity, plus a gigawatt of natural gas capacity, and extra transmission lines – making such power seven to ten times costlier than coal power.

The British government plans to generate 30 per cent of the nation’s electricity from renewable sources in nine years’ time, using offshore wind farms. But the cost is expected to be the equivalent of $160 billion. Given the scale of the UK’s fiscal problems, that doesn’t look affordable – or realistic.

The fastest and cheapest way to cut carbon emissions is to burn natural gas, which produces half as much carbon as other major fossil fuels, argues commentator Charles Clover.

Britain, for example, has managed to generate only a “pathetic” 6½ per cent of its electricity from renewable resources “despite spending £5 billion on wind farm subsidies and stifling all local opposition to wind turbines… Switching to gas would cost about 10 per cent of the amount we would spend on offshore wind.”

One of the arguments advanced for promoting renewables is that this creates “green jobs.” Recent studies are making it clear that this is quite untrue.

In Spain it has cost the equivalent of $792,000 for each "green job" created and destroyed 2.2 jobs for each one generated in the renewables sector, according to a study by the Rey Juan Carlos university.

In Italy researchers at the Bruno Leoni Institute have shown that if capital invested in the green sector were invested in other industries it would have created nearly seven times as many jobs.

In Germany, says the think-tank RWI, although subsidies have created 280,000 "green jobs", after counting the negative impact of regulation and higher energy prices, the net increase in employment was negligible.

Utilities are forced to buy solar power at a cost equivalent to 59 US cents per kilowatt hour compared to a cost of three to ten cents a unit for conventional fossil-fuel and nuclear energy.

In the US it's reported that it is costing taxpayers an average of $240,000 to create each "green" job, with much of the benefit going to foreign countries. A recent study showed that of 982 wind turbines bought with government grants, 695 were purchased from overseas suppliers.

The state of Massachusetts found that soon after it gave $58 million in aid to a solar energy company, hundreds of jobs were relocated to China.

Another consequence of wasting billions on promotion of renewables is that it has boosted the proportion of world grain harvests diverted into production of liquid fuels from 1 per cent of their total in 2000 to 6 per cent last year.

UN Food & Agriculture Organization expert Olivier Dubois says it's hard to quantify the impact diversion of foodstuffs into biofuels is having on recent sharp rises in prices of grains, but it's certainly playing a role – "is it 20 or 30 or 40 per cent?"

The threat of global freezing

Controversy is also mounting over the dubious claim that human activity is a major cause of climate change.

For example, some experts argue that sunspot activity, now at its lowest level of the past century, and continuing to slacken, threatens the world with unduly cold weather for years to come and perhaps the onset of another Little Ice Age as in the 17th century.

When solar activity is sluggish it disrupts the jet stream in the stratosphere, for example allowing Arctic winds from Siberia to dominate Europe's weather.

Sunspot activity has been extremely high for many decades. If the collapse in such solar flaring, which has astonished climatologists, signals a new era of relatively low temperatures, that torpedoes the consensus view that global warming has been caused by the build-up of carbon emissions generated by human activity.

Andrew Turnbull, who was for years the top civil servant in Britain's environment ministry, says that government policy on climate change is built on six "shaky foundations":

► The scientific evidence on which it is based "is nowhere as conclusive as it is presented." For example, many scientists challenge the dominant role assigned to

man-made carbon dioxide, “arguing that other variables such as the sun, cosmic rays, oceans and clouds have been underplayed.”

► There have been failings in the governance of science. For example, senior figures in the scientific establishment have sought to close down debate and say the scientific evidence is settled.

► Policymaking takes no account of what other nations are doing. (Turnbull doesn’t spell it out, but he clearly means it makes no sense to burden developed countries with huge bills to reduce production of greenhouse gases while the developers continue to expand such output on a massive scale).

► The priorities being used make no sense. For example, the focus on wind power when other technologies are much more effective in abating production of carbon dioxide.

► Current policies are “hugely unfair.” For example, owners of large properties or land holdings can install solar panels or wind turbines earning the equivalent of 48-64 cents per kilowatt-hour to generate electricity retailing at about 17 cents.

► Policies are failing to adapt to change, “notably the impact of shale gas, which can make a huge contribution to carbon reduction with little extra cost.”

Politicians should stop reacting to “alarmist propaganda” and adopt policies that give “more attention to the national interest.”

Japan? It’s Time to Buy!

There are two reasons to be bullish about Japanese equities, argues CLSA Asia-Pacific’s strategist Christopher Wood:

► Japanese corporations have proved they can live with a stronger yen. It’s no longer sensible to assume that the yen must weaken significantly to sustain and stimulate earnings.

► There are clear indications that a new property upturn has begun.

Although the economy is burdened by the destruction caused by the tsunami, after a few months reconstruction is going to boost growth.

Much is made of Japan’s public debt, expected to top 200 per cent of annual economic activity by the end of this year. But this is misleading. Things are very much better than they seem.

Martin Wolf, the *FT*’s analyst, points out: “The Japanese private sector runs a financial surplus large enough to cover the government’s deficit and export substantial capital abroad.

“Japan as a whole is the world’s largest creditor, with net external assets equal to 60 per cent of GDP. In short, the assets of Japan’s private sector vastly exceed the liabilities of its public sector.

“The government’s debt is a way for Japanese to owe money to themselves… The idea that the government confronts an imminent fiscal crisis strikes me as quite bizarre.”

Puffing on the Profits

Artemis fund manager James Foster made some fascinating points about what's behind the power of tobacco stocks in an interview with *FT* writer Matthew Vincent, and explains the extraordinary phenomenon of a business like Imperial Tobacco, which managed to double its profits despite a halving in sales driven by government policies hostile to smoking:

► High taxes mean that the public aren't sensitive to the way companies raise prices to improve their margins. When the price of a pack of cigarettes leaps, no-one notices that part of the increase has nothing to do with a rise in tax.s

► Policy measures provide huge benefits for existing producers. For example, a ban on advertising has prevented the launch of any new tobacco brands in the UK.

"Because regulation and legislation have put up almost insuperable barriers to entry, the franchises of existing tobacco brands are exceptionally valuable," Foster says.

► Because they fear litigation, tobacco companies pass as on to shareholders much of their revenues and deliberately keep their balance sheets weak – "but their cash flows are exceptionally strong."

Because many investors are scared of such litigation, or object to tobacco on ethical grounds, the shares are relatively cheap and offer high yields.

Income fund managers love them. One of their well-known fans, Neil Woodford of Invesco Perpetual, says total shareholder returns from the tobacco sector have been more than 9,000 per cent over the past 25 years.

Tailpieces

A Greek bargain? Fund manager Angus Murray of Castlestone Management says he recently bought some Greek government bonds for his personal portfolio.

"Greece is not going to go bust, and it will not restructure its debt," he argues.

Should a crisis erupt, China, with its $3 trillion foreign reserves, would come to the aid of Athens, as it could easily buy up "without blinking" all the government's debt.

"The last thing China wants is complete disorder in the euro, as Europe is its largest trading partner," he reasons.

Investing in yuan: It's becoming easier to invest in the Chinese currency. My Singapore bank has just offered me the opportunity to invest in an offshore yuan account paying interest at 0.9 per cent on a "minimum fresh funds deposit" of CNH 250,000 (that's about $38,500) for a fixed period of one month, or 1.2 per cent for 12 months. Higher rates for larger amounts, of course.

Equity values: At current levels the benchmark S&P 500 index is trading around 14.2 times expected 2011 earnings, which is at or near what has been the long-term average, says InvestR Centre. But that assumes continuation of a high level of earnings growth relative to economic growth, which makes stocks appear "overvalued in the short term."

The firm suggests investors should currently prefer “defensive growth stocks” with “global consumer franchises,” such as Coca Cola, Kraft, Johnson & Johnson, Kellogg, McDonalds, Wal-Mart, Proctor & Gamble and Colgate.

“These great companies” have maintained good earnings growth with little or no interruption over the years.

Boom in luxuries: The rich are getting richer and spending a lot more on their baubles. In China sales of luxury goods, up 25 per cent this year, are expected to surpass Japan’s for the first time, while in the US Hermes reports it’s enjoying 35 per cent growth.

GTI fund manager Iain Little says Swiss watchmaker Swatch is trading near all-time highs despite the franc’s being at its strongest since the world war. Its margins “are now at record highs, and forecast to go higher,” yet the share trades on an historic multiple of only about 13.5 times.

Commodities warning: Although there are excellent long-term investment opportunities in resources, there are short-term risks such as “the high chance of an improvement in weather next year” following “exceptionally bad” conditions last year, “and by the possibility that China may stumble,” says GMO fund manager Jeremy Grantham.

Although “prices of all important commodities except oil declined for 100 years until 2002,” since then their entire decline “was erased by a bigger price surge than occurred during World War Two.”

Frontier markets: HSBC Global Asset Management has launched the first fund investing in equities of the so-called Civets economies – Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa.

Its manager, Douglas Helfer, says their shares have outperformed those of the four-nation Brics group in recent years and offer a broader universe. Currently South Africa, Turkey and Indonesia offer the best opportunities and will dominate the portfolio initially.

Political craziness: In a panic over nuclear power after Fukushima, the German government ordered the shutdown of the country’s seven oldest nuclear plants. For a nation obsessed with carbon mania, it had an ironic consequence. The shutdown immediately boosted emission of greenhouse gases by up to 10 per cent as Germany substituted imported electricity from nations such as the Czech Republic, much of it generated by coal-burning plants.

Retirement funding: Brits are going to have to make a massive change in their savings – or lack-of-savings – habit, if the Chartered Insurance Institute is right about the nation’s facing a shortfall of $14 trillion in savings needed to provide for retirement.

Many retirees have little savings and go into retirement still carrying significant personal debt. Yet on average their incomes on retirement fall to 30 per cent of what they earned when working, and face huge costs if they have to go into care homes. On average those now charge the equivalent of $3,500 a month.

The future looks even worse as people live longer, have less generous pension schemes, and get less of a return on invested capital.

Chinese turn to gold: According to a survey of investors by China Reality Research, gold accounted for 28 per cent of their new investment last year, or double the proportion in 2009. This year sales at bank branches and gold shops are expected to increase 30 per cent in volume terms.

Money madness: One indication of the frightening scale on which central banks are, largely unsuccessfully, trying to stimulate economic growth with a tsunami of cheap money, is the degree to which interest rates are negative in real terms – that is, after adjusting for inflation.

In the UK, says *Money Week's* Merryn Somerset Webb, it's normal for the central bank to fix its short-term interest rate at two to three percentage points above inflation. "So it should now be more like 7 per cent" – now it's only 0.5 per cent.

Silver: Investment in it soared 40 per cent last year to 279 million ounces, an all-time high, accounting for more than a quarter of global demand for the metal, according to the Silver Institute.

Mine production provided 736 million of world supplies of 1,057 million oz, but didn't show much growth. Additional supplies came mainly from sales of silver borrowed by hedgers, government stockpiles and recycling of scrap.

Two nations: In Britain those with government jobs not only enjoy much greater security than those working in the private sector, they are also much better paid.

According to a new study by the think-tank Policy Exchange, the typical state employee earns up to 35 per cent more than his counterpart in the private sector for doing similar work. With the benefit of more generous pensions taken into account, he or she has a margin of advantage of 43 per cent.

UK dottiness diary: A stationmaster with 27 years of award-winning service for managing a railway station rated as the country's best small station has been fired for "gross misconduct" in breach of health-and-safety rules, losing his pension, after he removed from the track a discarded supermarket trolley which he feared if left could derail a train.

A pensioner and her daughter were arrested and held in custody for seven hours by police, who also seized their house keys, bank statements and cheque books, for feeding pigeons, after neighbours complained they were attracting hundreds of birds to their garden.

Wise words: *A liberal is someone who feels a great debt to his fellow men, which debt he proposes to pay off with your money.* Gordon Liddy.

Martin

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