►On Target

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Ready Yourself for a Share Market Upsurge

Investment markets have stabilized after sharp falls and a frightening period of violent fluctuations. Where to now, and what should we do?

Investors reacted with shock to the prospects of further financial crises and of disappointing growth in the world economy -- with the heightened risk of a "double-dip" recession in the US, the locomotive of global growth because of the sheer size of its economy.

This explains the fall in the values of equities, which face the risk of a greater slowdown in earnings growth. There is renewed fear that deflation, rather than inflation, will again become the bigger problem for policymakers.

The strengthening in the safest long-term government bonds supports this analysis, especially as that has occurred despite disappointment over the politicians' latest rounds of addressing official debt issues in America and Europe.

Perhaps this is because more investors realize that although excessively high state debt does suggest a major problem in future, in the short-term it's none at all for governments that can "print" their own money to service their loans.

It's understandable worry inflated to a level of hysteria. And conveniently distracts public attention from the far more serious matter of how ways can be found to re-charge economic growth.

Although gold prices have eased back somewhat, the yellow metal remains on a solid uptrend, without the trend-acceleration that would suggest a bubble.

Some believe the current stabilization in equity markets may constitute the formation of a bottom, from which share values generally will rise again.

Perhaps. But I am skeptical. It still looks too early to plunge in and buy heavily.

The major negative factors remain, and the news is likely to stay negative for some time…

► The US economy is burdened by the fading of fiscal stimulus, with the political odds weighed against renewed injections because of growing hostility to the greater borrowing that would be needed to finance it -- and the predominant belief that this policy has been a failure.

It is arguable whether or not that is true, as without such stimulus, growth and job creation would probably have been even worse.

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The perception has more to do with failure by the Obama administration, which was wildly over-optimistic about job creation, raising false hopes. And it wasted much of the stimulus on benefits for its political friends, such as the mega-banks and big business, rather than directing it to where it would be most effective – helping small business. Increasing the burden of taxation and regulation on that sector was foolish.

No wonder unemployment and under-employment remain stubbornly high, the voters growing increasingly angry, and stimulus is seen as part of the problem rather than part of a solution.

With consumer confidence at its lowest level for more than three decades, poor job creation, the housing market bogged down with falling prices and negative equity, a slowdown in corporate investment, a growing crisis in the finances of state and local government, and major businesses focused on cost-cutting and job creation in emerging economies rather than in America, it is hard to find grounds for immediate optimism about the US economy.

► Europe, the second most important area of the global economy, has managed to avoid some of the worst aspects of the American scene because of the stabilizing effects of state welfare – lower levels of unemployment, for example, except in pockets such as Spain.

However, it has different problems that relate largely to lack of centralized control over the single-currency union of the Eurozone.

The private-sector banking system is stuffed with debt, much of which is undoubtedly toxic, although the reality continues to be denied; there's a worsening crisis of confidence in the trustworthiness of the debt of many governments, none of which is able to "print" its way out of trouble, as the British have done; and an explosion of dodgy debt in the balance sheet of the European Central Bank, held as collateral for "temporary" loans.

The currency is too strong relative to those of major competitors; politicians in power are unable to achieve agreement on fundamental reforms to handle the problem of subsidization by taxpayers of the responsible North for the profligate "Club Med" in the South; and there are some serious country-specific problems such as the aftermaths of burst property bubbles in Spain and Ireland.

Recurrent and worsening crises will eventually force the Europeans to face up to their fundamental problems and make the hard decisions needed to resolve them. But we're still a long way from that happening.

Spreading wealth to the masses

► China, the nation that led the world out of the 2008 crisis, struggles to stabilize its overheated economy without producing too much of a slowdown.

It's trying to cap politically-sensitive inflation, which hit an annual rate of 6½ per cent last month; and manage the risks of toxic debt in its banking system stemming from profligate lending to local authorities and state enterprises controlled by greedy party apparatchiks.

It's also trying to prevent the emergence of another bubble in the property sector; contain the damaging consequences of huge and excessive foreign trade surpluses; and rebalance the economy away from export dependence and excessive

investment in infrastructure towards consumer demand, spreading among the masses much more of the wealth being created by the Chinese miracle.

China may yet come to the rescue of the global economy by easing up on policy constraints on growth. But it cannot do so on the scale of 2008 and 2009.

► Japan's economy may well get some short-term lift from rebuilding after the Fukushima disaster, but is likely to remain bogged down by its fundamental problems of a static and ageing population, sluggish domestic demand stemming from consumers' deep pessimism, and political drift.

Japan is an ominous model, ignored by American policymakers, of failure produced by two decades of money creation, state borrowing and poorly-focused fiscal stimulus.

Overall, there are few signs of the positive factors in any of these four global giants that are needed to lift economic growth in the world as a whole, and many reasons to fear that things could get worse. Much worse.

However, that won't necessarily be bad for global investors.

When they press the panic buttons…

If there is another major crisis – perhaps deadlock in Europe as voters in the North torpedo plans to implement a fiscal union and prevent issuance of bonds for the Eurozone as a whole, underpinned by the power of the German economy – or even just a general worsening in the global economy, with employment and/or property crisis in the US, then it's very likely that that will panic policymakers.

► Central banks will go crazy with "printing" and otherwise unorthodox money-pumping policies;

► Despite growing public resistance to rising federal debt in America, and to "rescue" packages in Europe, governments will find ways to spend more to stimulate demand;

► In Asia, where sounder fundamentals allow policymakers more freedom of action, there could be a switch from fighting inflation to promoting domestic demand.

Of course, such changes could build up even greater problems for the future, such as the eventual threat of serious inflation facilitated by the money bubble. But the political imperative will be to do something… anything… immediately, to ward off disaster.

The equity markets will love such a panicky turnaround. The next couple of months at least … maybe longer… will be the time to use most of the cash that you should have realized and parked awaiting such an opportunity, to invest in shares.

Which ones?

For the longer-term I still favour the best-managed multinationals with reasonably consistent earnings growth over past years and good exposure to growth economies; companies with good records for paying well-covered dividends; Asian stocks, especially of Greater China, India, Indonesia and Thailand; precious metals; commodity producers; and attractive themes such as healthcare, energy and emerging-economy finance.

Worries About the Risks in ETFs

The development of exchange-traded securities such as ETFs (Exchange Traded Funds), ETNs (Exchange Traded Notes) and ETCs (Exchange Traded Commodities) has opened up a new world for individual investors.

They offer easy access to a wide range of assets at minimal transaction cost – or even no cost at all in a handful of cases.

You can value, buy and sell your holdings at current market prices, without suffering any delay waiting for end-of-day or end-of-week valuations as with the oldfashioned tracker funds.

You can take a position in whole markets such as all the shares in a broad-based index such as the S&P 500, reflecting the bulk of the American equity market, or a specific commodity such as gold or oil.

You can even buy units in a fund that is geared to produce a magnified return, such as double the move in the price of gold (although that also doubles the risk of a fall). Or one that shorts a market, giving you a profit when the market crashes.

You can focus your attention on timing your entry into and exit from a whole asset class, such as European shares or bonds, without the trouble of selecting specific securities. Getting your timing right is the most important source of investment return.

First launched in Canada 21 years ago, ETFs and their related offspring now encompass 2,700 funds with a combined market value of $1½ trillion, offering investment in a huge and fast-growing range of asset classes.

However, there is increasing worry that their growing popularity and diversity of structures is bringing greater and new kinds of risk.

Some analysts (and regulators) argue that the ETF revolution could be the “next sub-prime” – another sound idea that, when taken to extremes, creates huge risk in the financial system.

Even if a crisis is avoided, these funds foster negative behaviour such as herding (their easy availability encourages investors to follow trends, producing bubbles in markets), or short-termism (to focus on immediate profits rather than long-term gains).

Hector Santa, chief executive of the UK’s Financial Services Authority, is seeking to impose tougher rules across Europe governing the important and fast-growing “synthetic” ETFs. One investment firm, Evercore Pan-Asset, has announced that it will now exclude such securities from most of its portfolios.

Here are some of the risks identified by experts:

Liquidity: Where large amounts are invested in funds, there is the risk that if a panic triggers selling by many investors, buying is likely to dry up, sending values plunging and producing unnecessarily high losses.

The Economist gives this example: “During the market turmoil known as the ‘flash crash’ in May 2010, the Dow Jones Industrial Average briefly dropped 1,000

points as liquidity evaporated; 60-70 per cent of the trades that subsequently had to be cancelled were in ETFs."

That was an extraordinary, perhaps unique, situation. But an increasing number of exchange-traded funds are linked to narrowly-traded markets such as the bourses of emerging economies, or low-volume commodities.

Counterparty risk: The early ETFs – and they remain by far the most important – are certificates backed by ownership of specific assets. For example, a fund reflecting an index of the 25 largest listed Chinese stocks owns those stocks in the same proportion as the index. Or a gold fund owns bullion held in the vaults of a custodian bank exactly equivalent to the market value of its units.

However, increasingly there are funds that are "synthetic" – they don't own the underlying assets, but contracts on derivatives that reflect the value of those assets.

If you own such funds you are really investing, not in the assets, but in a financial promise made by the bank that sells such contracts – the "counterparty."

There is nothing inherently wrong with using synthetic structures.

Julian Hince of one of the largest ETF companies, iShares, explains: "Sometimes geography, trading or ownership restrictions can stop you gaining direct exposure to a viable opportunity, and so you buy derivatives from an investment bank, and they provide the investment return."

Another reason such structures are gaining in popularity is that they are cheaper to administer. It can cost less to pay for a derivative whose value is linked to the price of gold, for example, than to pay for the storage and insurance of physical bullion.

Of course, such lower costs improve the profitability of those who supply ETFs, but they can also reduce the annual charges that investors pay and so improve their return.

Hugely profitable… for the banks

Deutsche Bank even offers an ETF tracking the Euro Stoxx index of the 50 biggest European listed companies that charges no fee. It meets its costs of running the fund out of the money it makes from "counterparty… activities such as securities lending."

According to a study last year, two-thirds of the ETFs in Europe and three-quarters of those in Asia have portfolios containing no more than a core of low-risk assets, with what the *FT* described as "an overlay of easily-traded over-the-counter swops and derivatives, all creating a stream of fees for the middleman."

According to one report, in Europe the synthetic ETFs are generating profit margins more than four times higher than the traditional mutual funds industry, "even though ETFs are sold as low-cost products."

Deutsche Bank, one of the largest ETF houses, estimates that providers' profit margins on the synthetics are about 0.71 per cent of assets, compared to margins of 0.48 per cent on physically-based funds.

However, regulators are concerned about "a lack of consistency among synthetic ETF providers in disclosing their derivatives transactions and details of the collateral that they receive as security from their banking counterparties."

The *FT* warned: "The mélange of substitute assets is supposed to be as safe as the real thing, but as the chaos after the post-Lehman Brothers collapse showed, in stressful times losses can come from unexpected places."

In sophisticated jurisdictions such as the US, Continental Europe and Britain, regulators only allow such synthetic products to be marketed if the suppliers meet strict conditions requiring provision of high-quality collateral, such as holdings of the shares of blue-chip companies.

However, there is increasing worry that such collateral may not be sufficient in event of another global financial crisis.

This is the "counterparty risk" inherent in a structure where the asset backing your exchange-traded security is not something as tangible as a share or a lump of gold, but a paper promise.

This risk is greater in the newer structures such as ETNs than it is in traditional ETFs.

Rhona O'Connell of ETF Securities says that where such products "are senior un-subordinated debt listed on an exchange," they carry "the issuer balance-sheet risk to the end-user." Where they are issued by a single bank, and there is no asset or physical banking behind them, such uncollateralized notes carry "issuer risk as well as counterparty risk."

Merely because the issuer is very large and reputable, that does not mean there is no risk at all. In the 2008 crisis some such issuers were suspended and, in the case of Lehman Brothers, investors lost their money.

Why they underperform the indexes

Tracking error: Sometimes the growth in the value of your ETF is not only less than the rise in value of the index to which it is linked – accounted for by the deduction of charges – but rather more so. They are usually the more exotic funds.

One explanation is that the ETF does not fully reflect all the constituents of the index. If the latter measures a market with, say, many hundreds of companies, it is not realistic for the fund to hold shares in every one of those firms.

Another is that you may be looking at the wrong index. For example, some funds don't track the spot prices of commodities but the prices of futures in those commodities, which can be affected by other considerations such as interest rates.

Some funds don't stick strictly to current market values, seeking to improve reductions by making judgment calls, for example about the weightings they give to individual index constituents.

If you are attracted to investing in the higher-risk exchange-traded products, it is important to investigate features such as underlying collateral, swop exposure, which banks are the counterparties, and index holdings.

Avoid the smaller funds, where there is a risk they could be delisted. Some ETFs are comparatively illiquid because there's a narrow market in the units.

Don't put all your eggs in one basket – don't use one supplier for all your ETFs, perhaps because its charges are the lowest. Using several reduces your marginal risk.

Take tax considerations into account. Some jurisdictions, such as the US, levy withholding tax on dividends paid by ETFs to foreign holders.

If you are really conservative, stick with ETFs that avoid derivatives and own their underlying assets.

However, there is a compelling case for using ETFs to build an investment core in your portfolio.

Britain Licks Its Wounds After the Riots

Everyone has his own view about the causes of the widespread riots in the UK that have made it brutally apparent that something is seriously wrong with British society.

My friend Tim Price, director of investment at PFP Wealth Management, suggests that "perhaps some of the rioters… have started to twig that they face a lifetime of higher taxes (if they can get jobs at all) and diminished social services, courtesy of decades of swelling 'entitlement,' the accumulated benefits of the baby-boomers that preceded them, and the damage wrought by self-interested financiers playing at casino capitalism of no social merit whatsoever."

However, more interesting is an analysis by the well-known but not widely recognized commentator who writes under the pen-name of Theodore Dalrymple.

He says the riots "are the apotheosis of the welfare state and popular culture in their British form.

"A population thinks (because it has often been told so by intellectuals and the political class) that it is entitled to a high standard of consumption, irrespective of its personal efforts; and therefore it regards the fact that it does not receive that high standard, by comparison with the rest of society, as a sign of injustice.

"It believes itself deprived (because it has often been told so by intellectuals and the political class), even though each member of it received an education costing [the equivalent of] $80,000, toward which neither he nor – quite likely – any member of his family has made much of a contribution.

"Indeed, he may well have lived his entire life at others' expense, such that every mouthful of food he has ever eaten, every shirt he has ever worn, every television he has ever watched, has been provided by others.

"Even if he were to recognize this, he would not be grateful, for dependency does not promote gratitude. On the contrary, he would simply feel that the subventions were not sufficient to allow him to live as he would have liked.

"At the same time, his expensive education would have equipped him for nothing.

"His labour, even supposing that he were inclined to work, would not be worth its cost to any employer – partly because of the social charges necessary to keep others such as he in a state of permanent idleness, and partly because of his own characteristics.

"And so unskilled labour is performed in England by foreigners [who for years have taken all the additional jobs created in the country], while an indigenous class of permanently unemployed is subsidized…

"Finally, long experience of impunity has taught the rioters that they have nothing to fear from the law, which in England has become almost comically lax – except, that is, for the victims of crime."

The Elite Enjoy a Bonanza

Thanks to a combination of economic bounceback, recovering investor confidence, an avalanche of cheap credit and corporate cost-cutting, the rich are now richer than they've ever been.

The misery of these times is focused on those who lose or can't find jobs, smaller businesses that struggle to survive, and those who unwisely borrowed too much to finance personal spending or speculation.

According to the 2011 *World Wealth Report* by management consultants Capgemini and the Merrill Lynch division of Bank of America, the near-11 million HNWIs -- High Net Worth Individuals, 53 per cent of whom live in the US -- saw their financial wealth rise to $42.7 trillion in 2010, soaring past the previous high of $40.7 trillion in 2007, when the credit crisis erupted. "Financial wealth" includes real estate, but excludes primary residences.

For the group as a whole, 33 per cent of their wealth is in equities, 29 per cent in bonds and similar fixed-income securities, 19 per cent in real estate, 14 per cent in cash and deposits, and 5 per cent in alternative investments (including hedge funds, commodities, structured products and foreign currencies).

The average growth in their wealth last year, in dollar terms, was 9.7 per cent.

The report says that the main concern of HNWIs – who "have lived in recent years through both bull-market run-ups and staggering losses" -- is how economic developments are likely to impact on their personal goals. Other major concerns are possible tax increases, the inability of the next generation to manage their inheritances, ensuring that assets will last their lifetime, and that income will lag inflation.

The report also highlights the recovery in allocations to what it calls "investments of passion," such as works of art.

Although individual preferences play a large part in decisions to buy such investments, with their aesthetic value and lifestyle/status appeal, they are also considered as vehicles for preserving and appreciating capital over time, diversifying portfolios and capturing short-term speculative gains.

The largest single segment of such investments is luxury collectibles such as highly prized automobiles, boats and jets. Ferrari, for example, saw its sales in China jump nearly 50 per cent last year.

The next biggest category is works of art. In 2010 two world records were broken for items sold at auction, including a Picasso that went for $106½ million.

"Newly wealthy Chinese buyers are widely reported to be keen bidders and buyers at galleries and auction houses, especially to acquire the fast-diminishing supply of works from native artists," but also for European artworks.

The third most important kind of investments of passion are jewellery, gemstones and watches. HNWIs "see large diamonds as a safe and high-growth investment

alternative," with demand at the top of the market being strongest from Russia and the Mideast.

Also sought after are other collectibles such as wine, antiques, coins and memorabilia. "Rising gold prices helped to buoy demand for rare coins," while "sales of fine wine also surged in 2010."

Sports investments have also attracted the wealthy, who prize ownership of football, basketball and ice hockey teams.

Although HNWIs are motivated to buy investments of passion for reasons of personal passionate interest, many of them "are also solid financial investments… with a low correlation to global financial markets."

More Hot Air

As an example of how carbonatics distort facts to promote their cause, well-known sceptic Bjorn Lomborg says that the first line of the press release by the United Nations' International Panel on Climate Change about one of its new reports said: "Close to 80 per cent of the world's energy supply could be met by renewables by mid-century."

Only after the full report was released and the detail could be examined, did it become apparent that this "startling optimistic claim" was based on the most optimistic of 164 modelling scenarios that researchers investigated.

Furthermore, "the claim rested on the assumption of a large reduction in global energy use," but "given the number of people climbing out of poverty in China and India, that is a deeply implausible scenario.

Lomborg also deals with the familiar canard that scientific studies can be discredited because their research was subsidized by companies to promote their business.

He says: "The self-interest of energy companies, biofuel producers, insurance firms, lobbyists and others in supporting 'green' policies is a point that is often missed." One example is how at the time of its climate summit, Copenhagen was plastered with "slick ads urging the delegates to make a strong deal – paid for by Vestas, the world's largest windmill producers."

Climate-change crusaders "provide the moral cover that politicians can use to sell regulation, along with scary stories that the media can use to attract readers or viewers," while businesses "see opportunities for taxpayer-funded subsidies, and to pass on inevitable cost growth to consumers."

Another example of how even supposed experts indulge in mere propaganda is the suggestion by Britain's government scientific adviser, John Beddington, that weather-related disasters – which even the UK Meteorological Office says cannot be attributed to climate change – should be advanced as a reason for pushing through increasingly unpopular policies to cut carbon emissions. In other words scary nonsense is OK as a way to "improve" things.

In a related development, there is new scientific evidence that suggests the colder weather the world has been experiencing over the past decade could be due to higher levels of sulphurous gases created by… burning of fission fuels, such as coal!

If this turns out to be true, then governments, far from implementing policies to discourage burning of coal to generate power, and use of all fission fuels, should actually be doing the opposite, and encouraging it to combat global warming supposedly caused by human activity.

Stock-market Pointers from an Expert

After a major stock-market crash, "leadership usually shifts," says Jackson Wong of Stockcube Research.

He identifies these sectors as the leaders over the past year – luxury brands and entertainment, healthcare services, technology, consumerism and financials in emerging economies, precious and rare minerals miners, energy and energy infrastructure.

Here are some of the points he made in a recent presentation:

► Consumers in the emerging economies "will remain a powerful force for years to come," favouring food, beverages, household goods, property, travel, cars, luxury goods and entertainment. "Much of the population… remains unbanked, presenting huge potential."

However, he warns: "Leading emerging-related stocks have already priced in a lot of future earnings growth. Emerging markets are no longer cheap."

► US tech firms lead in many areas, such as cloud computing, and are benefiting from rising business spending on technology. Falling currencies and declining relative wages "have improved the fortunes of selected industrials."

► The peak in gold is still some way off, its rising price spurred by unchecked money printing by central banks, the start of a reversion to use of gold as a monetary reserve, and soaring purchases by private citizens, especially in China.

► After a 20-year bear market, "Japan may be a recovery candidate for the next bull cycle."

► However, he advises that investors should "wait for a meaningful consolidation" to buy into long-term themes.

Tailpieces

Investment outlook: The serially-pessimistic Andrew Smithers, a well-known British commentator, nevertheless says he expects stock markets to be underpinned for a while by corporate buying. US corporations have relatively high levels of cash, and over the past decade that has been a leading indicator of takeover activity.

However, Smithers remains gloomy for the longer-term…

"The conditions for the next financial crisis are already in place. Debt remains at pre-crisis levels and US equities and UK property are seriously overpriced. But the ability to reduce the impact of the next recession with large increases in government deficits and sharp falls in interest rates has vanished."

In the US the level of private-sector debt, relative to the size of the economy, is nearly twice the level it reached after the 1929 crash. Using two ways of valuing American shares that are "robust," the stock market is about 60 per cent overpriced.

Although US companies do have a lot of cash, their balance sheets are not "in great shape," as is frequently claimed, as they also have a lot of debt.

America's burden: The US is well on the way to becoming an entitlement state like those of Europe, where the cost of lavish benefits exceeds the willingness of taxpayers to finance them. Such entitlements are not only boosting annual deficits and public debt to ominous levels, but also starting to crowd out other kinds of spending that are essential, such as defence.

"The American entitlement state was born with the New Deal, got fat with the Great Society of the 1960s, and hit another growth spurt in the first two years of the Obama era," comments *The Wall Street Journal*.

"The big three entitlements – Social Security, Medicaid and Medicare, plus other retirement and disability expenses – accounted for 4.9 per cent of GDP by 1970, eclipsed defence spending in 1976, and stood at 9.8 per cent as of last year. Under current projections, entitlements will eat up 10.8 per cent of GDP by 2020."

Gambling bonanza: China's rich and politically well-connected (who are often the same), seem to be finding it easier to evade exchange controls and get their money out to the autonomous regions (Hong Kong and Macau) and foreign countries.

One indication of their growing wealth is the phenomenal boom in Macau's casinos, whose revenue is now running about 50 per cent higher than last year, and is five times greater than turnover of the Las Vegas gambling halls.

Macau is the only place in China where casino gambling is legal.

Its six casino operators are SJM Holdings (the biggest), Wynn Macau, Galaxy Entertainment, Melco International, Las Vegas Sands and MGM Resorts.

Commodities: It's quite possible for the mature economies to experience deflation – not inflation – in an environment of rising commodity prices.

Such rises, if their impact is not mitigated by higher wages or expanding credit – neither of which seems to be happening – "act like a direct tax on consumption," says Mark Lapolla of Knight Strategic Research.

If global economic growth turns out to be relatively sluggish in future, that isn't necessarily bearish for commodity prices. In the past there have been upward waves in prices of natural resources coinciding with equity bear markets, according to research by Chris Watling of Longview Economics.

Misdirected stimulus: Ron Paul, the chairman of the US House of Representatives budget committee, says the $5.3 trillion injected into the US economy over the past three years didn't deliver much because it was wrongly focused.

"It didn't go to consumers, it went to buying bad assets… to bailing out banks… to bailing out big companies." Consumers didn't benefit. They lost their jobs, their houses and their mortgages.

Hedge funds: The rush by North American pension schemes into hedge funds over the past decade has delivered poor returns, according to an *FT* analysis. For example, over the 2000-2008 period Canadian plans achieved an average of just

0.6 per cent a year from their hedge fund investments, compared to an average stock-market return of 2.9 per cent.

Emerging markets: Historical evidence doesn't support investors' wide-spread belief that high rates of economic growth deliver equivalent share profits, argues Nomura's chief Asia strategist, Sean Darby. Where growth is driven by high savings rates and rising labour productivity, those don't necessarily flow into profits and dividends.

Justice in Europe: Bearing in mind how the legal system in Europe is increasingly being used to usurp the powers of parliaments and governments, I am amazed to discover that half the 47 judges of the European Court of Human Rights had no judicial experience before being appointed. Obviously what counted was having the right political connections rather than the right expertise.

Abundant energy: An increasing number of experts are arguing that the revolution in extraction technology has more than doubled the world's recoverable reserves of oil and natural gas.

Income from Canada: Two investment trusts continue to escape Canada's withholding tax because they earn their income outside the country and their distributions aren't classified as dividends. They pay income monthly at annual rates of between 8½ and 9 per cent and are listed in Toronto. They are Eagle Energy Trust (EGL.UN) and Parallel Energy Trust (PLT.UN).

Rough justice: In Augusta, Georgia, a shoplifter was admitted to hospital after stabbing one of four marines who were collecting toys for a children's charity, as they blocked his attempt to flee.

It was reported that the marine's injury "did not appear to be severe." However police said that the shoplifter was taken to hospital with "two broken arms, a broken ankle, a broken leg, several missing teeth, possible broken ribs, multiple contusions, assorted lacerations, a broken nose and a broken jaw… injuries he sustained when he slipped and fell off the curb after stabbing the marine."

Democracy: *FT* commentator James Mackintosh writes: "Libertarians talk of politics as a science derived from two words, 'poli,' meaning many, and 'tics,' the bloodsucking insects."

Wise words: *If you think healthcare is expensive now, wait until you see what it costs when it's free!* P J O'Rourke.

Martin

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