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Start Your Own Business... and Succeed

For many of us, as happened to me, there comes a mid-life crisis around the age of 40 – a crisis in your career that brings with it a life-changing opportunity. It's the opportunity to strike out and start your own business.

In my case it was political differences with the owners after I launched a national newspaper in South Africa as its first chief editor. That motivated me to go off and establish what became a successful specialist publishing company built on my reputation as the country's first guru of personal finance.

Most new businesses fail. That's a regrettable fact. But those that survive are the principal source of dynamism in an economy. In the US, for example, between 1980 and 2005 all net new private-sector jobs were created by companies that were less than five years' old.

Starting out on your own brings financial risks you never face as an employee, the burden of working many more hours a week, the constant stress of decisionmaking, and the need to do things that make you very uncomfortable (firing a close relative, for example, as I had to do).

However, making a success of your own business brings huge rewards – and not only in the form of personal wealth.

It gives you a degree of control over your destiny far beyond what you can ever have as an employee, where you can often become the victim of policy changes, the incompetence of superiors, personal emnities or corporate takeovers. There are obviously risks in running your own business, but on balance they are very much less than those of being at the mercy of a boss, especially as you become older.

Your own business offers you the potential to score successes in competitive markets that give you a huge sense of achievement, such as the excitement in our little family business when we "struck oil," launching the first promotion for our newsletter *Personal Finance* and seeing the subscriptions come pouring in. It's like the adrenalin rush that comes with competing in top-class sport, or owning a fine race-horse (yes, Liz and I did that, too).

It brings with it a certain status in the community, respect in the industry in which you operate, and if you are good at what you do (and lucky), the chance to show the way in providing new or improved goods or services – and perhaps even to influence the way things are done in your country or your industry.

What are the keys to success in your own business?

“Entrepreneurs are made, not born” and being “fiercely competitive” is “a crucial ingredient,” says British venture capitalist and commentator Luke Johnson.

Character is the key, not qualifications or family connections. More important than ambition are “a capacity for hard work, the courage to execute, and the willingness to persevere.”

The weaknesses that bedevil would-be entrepreneurs are irrational fear of failure, procrastination about decisionmaking, and inability to prioritize, he says. “Overcome these common problems and one’s chances of making progress are much improved.”

New businesses nearly always fail because of defects in the entrepreneurs who start them. Typically they don’t plan soundly, are over-confident about early success, and fail to focus with sufficient intensity on the quality of the products or services they promise to deliver.

If they do start off well, they prematurely divert resources into personal rewards such as fancy cars or corporate extravagances such as posh offices, starving the business of the money it needs to cope with nasty surprises or to finance expansion without excessive debt.

Success in your own business requires three very different skills – production, marketing and finance. If you don’t have all three, as few do, then you have to access them through careful selection of partners or employees who are strong in the areas where you know you are weak. (Ruthless identification of your own deficiencies, while retaining enough self-confidence to address them, is a key to success).

Persistence is important. Even those new businesses that survive, generally take five to ten years to break through to relatively stable success.

Partnerships are important... but often fail

Luke Johnson recommends taking a partner when starting out in business, to “help spread the load” and “make the journey a more enjoyable one... sharing the highs and lows means the experience of creating a company is much more fulfilling.”

Of course, picking the right partner is hard. More than half of all business partnerships fail. A friend is generally a better choice than a sibling. Better still is to hunt around for someone who isn’t either, who comes well recommended as someone who could run the kind of business you have in mind.

Although the standard structuring of a partnership is 50/50, “inevitably one partner works harder and contributes more,” leading eventually to break-up. Johnson suggests an arrangement that gives one partner control, yet protects the position of the other, perhaps with rewards and influence split differently.

There should be a legal agreement governing how the partnership functions. And an exit mechanism -- Johnson says he likes “the technique known as a Mexican shoot-out, where each participant submits a confidential bid for the other side’s shareholding, and the highest offer wins.”

You have to face up to the fact that starting your own business will have an adverse impact on the quality of your family life. The lack of time for holidays and relaxation, tight budgeting in the early years, and a relentless mental focus on problem-solving and decisionmaking, can lead to broken marriages, alienated offspring, neglected friendships and health risks.

These cannot be avoided, but they can be ameliorated and should be planned for. If your domestic partner is also the partner in your business, and you can both manage divided authority in office and home, that's a big plus. If you cannot afford the time for proper annual vacations, plan to get away for long weekends every few months. Involve your children in the business through mealtime discussions so the business becomes part of their lives and of their future, rather than an enemy competing for attention.

Before making any decision to go it alone, ask yourself these questions:

► Do you really know, have some years of experience in, the kind of business you plan to start?

► Are you prepared to work longer hours than you've ever worked before, and probably without proper reward, for years to come?

► Have you worked out accurately how much capital you are going to need? (Bankers say that most businessmen are incurable optimists, and any figure they say they are going to need should be doubled).

► Have you made firm arrangements to secure that capital, either out of your own resources or from others?

► Are you certain how many days' credit you will get from your suppliers, and the average period you will have to wait before receiving payment from your customers?

► Do you have enough money to live on for a while if the business runs into trouble and can't generate any income for you? (I assumed no personal income for two years, though fortunately my need turned out to be very much less).

► If you plan to have a partner, are you absolutely confident about him or her, and have you clearly decided who will have responsibility for what in the running of the business? Select carefully and spell out powers, responsibilities and benefits in a written agreement.

► Have you investigated the pros and cons of operating through a collective vehicle such as a company or partnership, rather than as a sole proprietor?

► Have you got yourself an accountant and asked him or her to prepare financial projections and a management information system?

► Have you discussed your plans with your lawyer and your bank managers, as well as any close friends or relatives with business experience?

► Are established businesses of the kind you plan, doing well?

► If you're planning to buy a business from someone else, are you sure about the real reason he or she is selling, and have you had an expert appraisal of the true value of the business?

► Have you got your timing right in terms of demand for the products or services you plan to sell, availability of credit, and amount and quality of competition you can expect to face?

► Are you a planner by nature? If not, who's going to plan the business for you?

► Do you know about the laws and local regulations that you will have to comply with in establishing your business?

If your answer is No to a single one of these questions, you're not yet ready to launch. You have more preparation to do.

If you do decide to go ahead and launch your own business, once it has survived the first year or two, you may be tempted to relax your initial hard-driving attitude. But dangers from the start, and new ones, threaten its survival.

Here's a short list of what's gone wrong, or is going wrong...

► You've taken on too much debt. Companies usually go bust because they owe the bank too much. On the other hand if you have no borrowings, you can survive a lot of adversity.

► You chose the wrong business partner. If you do disagree, keep on communicating. If that doesn't work, dismantle the partnership (as my father did in 1943, moving to take 100 per cent ownership of his business).

► Undue dependence on one customer. Diversify if you can; try to be an irreplaceable supplier so you can't be dumped.

► Ill-health. Many small businesses sink because the founder gets sick or injured. So pursue a healthy lifestyle, insure, and try to plan for standby management should you be temporarily incapacitated.

► Technological foul-ups, typically involving an infotech project. We once had a major supplier walk away from a contract because they found our business model and self-developed program was too advanced for them!

► A price war. This tends to benefit customers but to break the competing company with the least cash. Position your business to sell on quality, service or other differentials.

► Locking into longer-term property leases. Too much office or factory or showroom space at too-high rentals can cripple you, and are a major reason for the collapse of many commercial service businesses.

► Forgetting your customers. Gaining new ones is a very expensive process. In most industries, the key to success is repeat business from existing customers. If you treat them badly, they will leave you – and tell others not to buy from you, either. It amazes me how often I am badly treated by firms in the business of providing "service."

► Failing to evolve. Don't grow complacent and allow newcomers to eat your lunch. Long-term winners are always improving, questioning, adapting, testing new approaches.

► Failing to invest in the future. If you strip cash out of the business, you starve it of the capital is needs to maintain, refresh and upgrade, and you'll eventually discover you own a wasting asset.

Lack of financial skills is typically the most dangerous weakness of independent businessmen.

Usually they have a background of either production or marketing skills, and under-estimate the importance of a simple but effective system of financial controls and forward planning.

They believe that all there is to business is making a product or providing a service, and selling it at the profit. They don't realize that often what appears to be profit, isn't. And that even a business making a good profit can go bankrupt.

The commonest and most dangerous mistake is shortage of capital in relation to volume of business done, also called over-trading. If a firm is receiving an inflow of cash only just sufficient to meet its cash needs for payment of wages, materials and other bills, then a small decline in sales, delay in payment by debtors, a sudden rise in costs, or insistence on early payment by creditors, can produce a financial crisis.

Those who are thinking of starting their own business, I advise -- plan to have at least twice as much working capital at the start than you think you will need (and I mean own capital, not bank loans).

Some advisers say more often the problem in the early life of a new business is not shortage of capital but inadequate financial management. Shortage of cash may well be the result of over-investment or disproportionate investment in stock. Liquidity problems may be caused by slow payment by debtors, or absence of efficient credit control.

Too few small businessmen understand the meaning and importance of comparatively simple metrics such as stock turn and quick asset ratios, and financial planning concepts such as fixed and variable costs. Yet these are easily learned.

Good cost accounting is key

Another major problem for many small businesses is that gross profit margins are not set at sufficiently high levels to both cover overheads and generate enough capital for ploughing back to finance inflation and expansion.

If you are planning to go into business and do not have financial skills, or a partner who has them, it is essential that you hire a good accountant to advise you, preferably one with a background of specialization in cost accounting.

He can prepare projections of cash flow, which is going to be much more important to you at the start of your business than profit-and-loss.

He can also set up a simple but effective system to provide you with the financial information you need to manage the company. This has to be fast, easy to digest, brief, relevant, matched against some kind of budget, and combined with a forward projection for the next two or three months.

Information needed to manage is quite different from the information needed to meet the legal and tax requirements for bookkeeping, though the raw data is largely the same.

To manage a company you don't need to worry about whether the books balance exactly, or whether the tea girl has accounted for the sugar she bought – but you must know from week to week what's happening to cash flow, cost-of-sales, and so on.

Ultimately, whether you fail, succeed or end up a multi-millionaire will depend more on your aptitude for business and relentless focus than on anything else. But you can improve your chances considerably by ensuring you have adequate capital, plan proper financial control, and choose the right partners and key employees.

It also helps to launch your own business in the "right" country!

Going Where the Growth Will Be

For the long term, equities look a much better choice than bonds, and among equities, those of companies in Asian and other growth economies would seem to offer the best prospects.

They are cheaper, they have better balance sheets and they offer faster growth, yet their shares have underperformed recently, says the investment bank CLSA Asia-Pacific. They have been trading at discounts to their ten- and 15-year averages for their price-to-earnings and price-to-book-value ratios.

Its head of economic research Eric Fishwick says that measuring Asian nations using 15 criteria for stress shows all of them to comfortably exceed a level suggesting significant risk. "Balance sheets are still very strong and no economies suffer overwhelming internal or external imbalances. In particular, foreign liabilities are small and forex reserves are substantial."

Even China "performs strongly," getting a stress-test pass rating for 12 of the 15 criteria. Its balance sheets "remain strong even when the understatement of leverage and monetary variables because of shadow banking are taken into account."

Fishwick says Asia "will be best placed to exploit the next cyclical upturn when it happens."

Its balance sheets justify regarding the region as a safe haven. "Panic sell-offs in crisis-resilient economies generate buying opportunities that investors who are able to take the long view can exploit."

The bank has identified several dozen yield plays with offering rates of dividend payment more than twice as much as the interest yield on ten-year US Treasury bonds. Here are some examples of companies that have sustained/increased their dividends since 2008 and are expected to raise their dividends further:

Stock	Base	Sector	Ticker	DY	Growth*	PE
Chroma	Taiwan	Electronics	2360	7.8	32	10.8
VTech	Hong Kong	Electronics	303	9.1	7	10.5
Lonking	Hong Kong	Machinery	3339	7.1	27	5.1
China Steel Chem.	Taiwan	Chemicals	1723	7.2	25	12.4
KWG Property	Hong Kong	Real estate	1813	5.4	60	3.7
Shimao Property	Hong Kong	Real estate	813	7.6	11	5.3
MobileOne	Singapore	Telecoms	M1	7.7	11	13.0
ITM	Indonesia	Coal	ITMG	6.2	34	11.4
Powertech	Taiwan	Electronics	6239	6.7	23	7.5
Jiangsu Express.	Hong Kong	Infrastructure	177	7.6	1	9.6

* Forecast percentage dividend growth in 2012.

"For the first time in centuries, the world's major population centres are also its major growth engines," says *Fullermoney*'s Eoin Treacy.

"This is occurring not least because of improving standards of economic, fiscal, corporate and civil governance. This economic evolution has raised hundreds of millions out of poverty and into the middle classes.

"Progressing economies in the region tend to have low personal and government debt, current account surpluses, strong growth, central banks that demonstrate an anti-inflation bias, and a thriving consumer culture."

Asia is moving fast to challenge the West's leadership in technological advances. In China, for example, it's forecast that more patents will be filed this year than in America. In the 13 years to 2006 there was a 24 per cent increase in the science and engineering doctorates gained in the US – but in South Korea the growth was 189 per cent, and in China more than 1,000 per cent. It's reported that China "almost certainly now produced more highly educated scientists and engineers than the US."

Measured in purchasing power terms – considerably greater than when measured in exchange rate terms, because money buys much more in lower-cost economies – the combined consumer demand of China, India, Brazil and Russia has already reached 92 per cent of US demand, according to Deutsche Bank.

And of course it's growing much faster. In China alone, where wages have been rising at annual rates of between 15 and 17 per cent, private consumption demand has reached 38 per cent of America's.

By the year 2020 developing Asia's economy – a combination of the ten most important individual economies excluding Japan -- will be 20 per cent larger than the US, according to a new study by the Singapore bank DBS.

Last year, for the first time, Asia "generated more new demand than the US did – new dollars of consumption, investment and government spending that are the very measure of global growth."

Asia has recovered from the 2008 global financial crisis with little or no help from the US and other mature economies; its internal dynamics will allow it to endure the uncertainties of the next two or three years. "It's a new world out there, and Asia is at the centre of it," says DBS Group Research's David Carbon.

A doubling in size by the year 2020

Although the region's population will grow by nearly 300 million over the next nine years, population increase will account for only 10 per cent of economic growth, with 90 per cent coming from higher productivity.

That "mostly comes from having more capital equipment to work with (most of which is imported), higher education, better infrastructure (roads, ports, electricity and communication grids), better management systems, better incentive and reward systems (especially as regards China), an opening up to the global trade system, better leadership, governance, laws and so on."

Between now and 2020 the ten most important Asian economies excluding Japan will almost double in size, to annual output of $22.4 trillion in constant dollars.

Showing the way will be Singapore, whose income per head is now higher than in the US. This has been achieved through a deliberate policy of strengthening its currency. The authorities, DBS says, "push the currency north – not just to offset imported inflation, but to force businesses to raise productivity and keep the country moving up the technological and income ladder, too."

Here are some other interesting points from the study:

► Food -- Asia ex Japan now consumes about 45 per cent as much of it as the US, but by 2020 the proportion will be up to 80 per cent.

► Healthcare expenditure per person will more than double over the next nine years, with most of the growth in China and Indonesia.

► Housing loans will also more than double, to the equivalent of $3.8 trillion in 2010 dollars, with the fastest growth in Indonesia and the Philippines.

► Oil consumption in developing Asia reached 6.7 billion barrels last year and is about to exceed that of the US, although it's still only one-tenth of the American level on a per-capita basis. Demand should grow 40 per cent by the end of the decade.

In 2020 Asia excluding Japan will be generating nearly $1½ trillion of new demand every year, or three times as much as the US. It will, more than ever before, "be where the growth is," DBS says.

Explosive Potential in the Loss of Trust

"Angry middle classes and the poor" are going to "engineer a social or political revolution against the wealthy," predicts Kishore Mahbubani, dean of the school of public policy at the National University of Singapore.

The rich either forgot or ignored "the implicit bargain" or "social contract" that they were allowed to get richer providing everyone benefited. Leading the way were the bankers who developed "financial weapons of mass destruction" of no economic value, yet "almost destroyed the world."

Yet, after being rescued by taxpayer money, then repaying nominal debt to governments – "but not the debt for the social and economic destruction they caused" – the bankers reverted to paying themselves fat bonuses.

Mahbubani says: "Bankers and governments have lost the trust of the man on the street. Demonstrations on Wall Street and in cities around the world provide early tremors of powerful earthquakes to come."

In the US, for example, it is only a matter of time before a charismatic activist emerges "to give political potency to the more reasonable demands of the Tea Party."

He does not say so, but the inference is that the hard Right is more likely to emerge as a force that challenges the discredited ruling elites than the usual suspects on the Left who have already had their chance to reshape their societies, with disappointing results.

One reason for the breakdown in public trust is that few people believe official inflation figures any more. They just don't ring true when we see the prices we're asked to pay at the supermarket, or the escalation in our bills for education, medical care, local taxes, or whatever.

One reason is that the bureaucrats deliberately ignore many costs such as those for food and energy, on the grounds that they are "temporary." Oh yeah…

A subtle yet more important reason is that the statisticians adjust the raw data to incorporate the extra value you get when buying new products. You may have to pay more, but think of how much better off you are, dummy…

In America, ShadowStats keeps a track of the difference between official inflation, and what's really happened to prices without "calculation modifications." The difference is amazing. Since the early 1980s inflation in the US has averaged 3.87 per cent a year officially – but without all those modifications, it has averaged 11.45 per cent.

No wonder ordinary folk are angry, and getting more so.

Shale Gas Developers Squeezed by Low Price

According to the latest US Geological Survey the huge Marcellus shale field, using the most conservative assumptions, contains 43 trillion cu.ft. of gas and 1.55 billion barrels of gas liquids (oil).

According to my calculation, the gas resource is five times greater in volume terms. But if you take into account the far higher price for liquids – on an energy-equivalent basis, they're currently more than 20 times more valuable – this giant shale deposit has much greater value as a source of oil.

However, shale gas developers in the US are being squeezed between their need to exploit deposits that they have bought, to meet commitments to do so, both legal and commercial, and their resources to do so.

The problem is price. There is a surplus of natural gas in North America because of the big increase in supply from shale deposits, so gas is selling for less than $4 a unit, including prices on futures market for gas to be produced for several years to come. The breakeven price – using so-called "full-cycle analysis that takes all costs into account" -- for many shale deposits, is more than $6.

To cover the gap so they can maintain "involuntary" drilling, developers need to continue attracting capital. Both they and their backers are gambling that supply will shrink and demand expand, so gas prices will rise to $6 or higher.

Recent large takeovers of shale-asset oriented companies suggest that cash-rich backers are willing to take that gamble. Capex at Petrohawk (acquired by BHP Billiton) have been running at more than three times its operating cash flow; at Brigham (bought by Statoil), about twice cash flow.

But investors generally are becoming less confident that the necessary rise in gas prices will happen quickly enough. Exploration and production companies are only going to be able to raise about $8 billion this year, compared to $21 billion last year.

How the Debt Burden Will Be Cut

The fundamental cause of the global economic and financial crisis is too much debt, argues investment commentator Tim Price of PFP Wealth Management.

It has been amassed largely by politicians promising more than they could ever deliver, but facilitated by the banks, with their malinvestment excesses.

The supply of credit at least doubled during the 1970s, then again during the 1980s, again during the 1990s, and again during the Noughties.

According to a new study prepared for central bankers, combined government, corporate and household debt in the 18 advanced economies has reached 314 per cent of annual output, having risen from 167 per cent in 1980, and in many cases debt levels are already so high as to be a negative influence on growth.

Government debt ratios are highest in Japan (213 per cent of GDP), Greece (132 per cent) and Italy (129 per cent). Among corporations the burden is greatest in Sweden (196 per cent), Spain (193 per cent) and Belgium (185 per cent). Household debt is at worst levels in Denmark (152 per cent), the Netherlands (130 per cent) and Australia (113 per cent).

However, debt levels are far lower in Asia's growth economies, especially Indonesia, the Philippines and India.

Tim Price says the 40-year "party of debt-fuelled growth" has now come to an end and we face "the hangover of deleveraging."

A thorough report on the subject by management consultants McKinsey has identified, on the basis of historical experience, four ways this debt reduction can occur:

► Austerity, with credit growth lagging behind growth of the economy for many years;

► Massive defaults (the value of debt instruments such as bonds is wiped out);

► High inflation (which destroys the real value of debt instruments); or

► Very rapid economic growth triggered by war, a "peace dividend" following war, or an oil boom.

What's going to happen in our case?

Tim Price says some countries, such as Britain, have opted for austerity. Others, such as Greece, seem to be heading towards default. A major war "looks unrealistic, but US militarism cannot be entirely discounted."

High inflation "continues to look like the most politically expedient 'solution' for most of the indebted world."

Banks: US Politicians Dodge the Issue

Efforts by the American political establishment to curb financial speculation so taxpayers aren't asked again to rescue dodgy banks, while refraining from forcing the same offenders to confine themselves to providing traditional (boring, low-profit) saving and lending services, are running into the kind of problems to be expected when bureaucrats are set to "regulate" the behaviour of those who are expert at financial wizardry.

Draft regulations to implement limits on risk-taking by financial firms backed by taxpayers run to 298 pages, and instead of providing simple, clear rules, ask

1,347 questions, ranging from how "trading accounts" should be defined to what exactly is a "loan."

What's more, the politicians have made it clear that the regulations must not inhibit the kinds of speculative activity they favour, such as allowing the mega-banks to take bets on the debt of the Treasury and mortgage giants Fannie Mae and Freddie Mac.

Instead of imposing tough, simple and straightforward rules, removing taxpayer-funded safety nets, and forcing banks to boost their capital reserves adequate to the risks they wish to take, the political class has opted for the easy way out of a bureaucratic nightmare that will only create the illusion of safety.

More than three years after the eruption of bad-debt crisis, the six largest American financial institutions are now significantly larger than they were before it.

Jon Huntsman, a Republican presidential challenger, argues: "Major banks' too-big-to-fail status gives them a comparative advantage in borrowing over their competitors thanks to the federal bailout backstop. This funding subsidy amounts to roughly 50 basis points, or one-half of a percentage point, in today's market."

Their position of privilege should be eliminated. "We need banks that are small and simple enough to fail, not financial public utilities."

Give Everyone a Voucher to Spend!

Unconventional monetary policy, such as artificially low interest rates and QE (quantitative easing, or money "printing"), are ineffective, argues Sushil Wadhwani, a former member of the British central bank's policymaking committee.

In the US, he says: "Lower government bond yields will not benefit households much, as more than one in five homeowners have negative equity (and so cannot renegotiate their mortgages).

"Likewise, many small and medium-sized enterprises won't benefit, as they cannot borrow, regardless of the rates being charged on new loans."

In the UK, the Bank of England's new round of money printing is assumed to raise share prices by 20 per cent, "thereby boosting gross domestic product." However, its researchers have failed to find any evidence that its previous money printing generated any increase in equities – in fact share prices actually fell.

Wadhwani argues that the sensible way to boost economic activity is to print money to finance consumption, for example by sending every adult a voucher that can be spent.

There is also a major downside to artificially reducing bond yields – it boosts the deficits of retirement funds by raising their liabilities – they have to assume it will take more money to buy the same pensions.

According to *The Economist*, experts reckon the first round of QE increased the British private-sector pensions deficit by the equivalent of about $115 billion. By law companies have to finance that over ten years – "money that could have gone into building factories and employing new workers."

As for pensioners… Because low bond yields mean that retirement capital buys lower annuities, "Britons retiring today will end up with a pension income 30 per cent lower than those retiring three years ago."

Tax Cuts Benefit Everyone

One of the most important mistakes made by analysts – particularly politically-motivated ones – when predicting the consequences of policy changes, is to use a "static" approach; that is, to ignore the dynamic effects as individual and corporate behaviour reacts to such changes.

Typically, for example, those on the Left denounce tax cuts for wealthier people on the grounds that they cut revenue, leaving less for necessary public spending.

A new analysis by Martin Feldstein, a Harvard professor and former Reagan adviser, shows that actual experience after the 1986 tax reforms, which cut the top marginal income tax rate from 50 to 28 per cent, was "an enormous rise in the taxes paid, particularly by those who experienced the greatest reductions in marginal tax rates."

There were three favourable effects:

► The greater reward allowed taxpayers for extra effort and risk-taking produced increases in earnings, entrepreneurial activity, expansion of small businesses;

► Lower marginal tax rates encouraged individuals to shift some of their compensation from untaxed fringe benefits and other perks to taxable earnings;

► Reduced spending on tax-deductible forms of compensation.

Feldstein estimates that a 10 per cent in all rates of income tax, combined with a limit on deductibles, would boost US federal revenues by $40 billion a year, which would accumulate to more than $500 billion over the next decade.

Tailpieces

What to do now. Among the range of assets in which you could invest, there is currently "no obvious winner," *The Economist* concludes.

Good growth in the world economy would obviously be the best outcome, "and would favour equities – but at the moment looks difficult to pull off.

"An unavoidably hazardous attempt to go down the inflation route would be good for commodities and property, but disastrous for government bonds. Those bonds would do best if the developed world slumps into recession after all."

Stick to gold and Asia: Here is the amazing asset allocation recommended by Hong Kong-based investment bank strategist Christopher Wood for long-term institutional investors such as pension funds that are dollar-based and prevented from hedging:

Physical gold bullion 30 per cent; unhedged gold mining stocks 15 per cent; Asia ex Japan equities 30 per cent; Asia ex Japan physical property 10 per cent; Tokyo physical property 10 per cent; Japanese equities 5 per cent.

Better than bonds: If you need income, it would be better to have "the bonds of strong companies than those of weak governments," advises David Fuller of *Fullermoney*. If you must have government bonds, it would be preferable to go for those of strong economies. But "if it was me, and if yield was the priority, I would prefer high-yielding equities to bonds."

Umbrella funds disappoint: Few funds of hedge funds deliver value and investors would do just as well making a random selection of the underlying funds, according to an analysis of the period 1994 and 2009 by Chicago-based researchers. Fewer than 6 per cent of such umbrella funds provided market-beating returns, as "fund picking and strategy timing skills are on average close to non-existent," they report.

Guard against...: To protect themselves against extreme risks, investors should consider stocking up with guns, ammunition, canned food and bottled water, suggests consultancy Towers Watson. The risks include failure of infrastructure, because of the latter's reliance on computer networks and power grids, and on shortages of essential resources.

UK dottiness diary: Although people are often required to obtain a criminal records clearance in the most absurd circumstances – and millions of Brits have to do so every year – no such safeguard is imposed on religious schools, such as Islamic madrassas, even though a BBC investigation into them exposed widespread sexual and physical abuse of young children.

The ultimate defence: One lesson to be drawn from the collapse of the Gadhafi regime in Libya is that it's a high-risk strategy for nations to give up their nuclear weapons, or to refrain from developing them. There is no way that Europe would have involved itself in overthrowing Gadhafi had he not abandoned his programme for nuclear armament in 2003 in return for an end to international sanctions.

North Korea has commented publicly that "nuclear dismantlement" was a key element in a policy designed to coax Libya with promises of improved relations and guaranteed security to disarm itself – "then swallowed it up by force."

Wise words: *Democracy must be something more than two wolves and a sheep voting on what to have for dinner*. James Bovard.

Martin

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