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Spring 2017 Investment Guide

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Investing's open secret

Which would you rather have: a million pounds, or a penny, in an account that doubled in value every day for a month? The impulsive answer is to take the million – the return on a mere penny, even at such an extravagant rate of interest, can hardly amount to much. Early on, this appears to be correct: by the end of the first week, the account has risen to just 64p. By the end of the second week, things are picking up for the penny account but at just over £80 it still has a long way to go to beat the million in two weeks. And yet it does. By the end of the 30-day period, the invested penny has grown to £5,368,709.

This popular thought experiment demonstrates the power of compound interest. Even the smallest investment, it shows, will appreciate if it is given time (or, in this case, a 73,000 per cent interest rate). The fact that interest is paid on the whole amount means the sum grows exponentially – the longer you leave it, the faster it grows. With another week at the same rate of interest, the penny deposit grows to more than £600 billion.

A more relevant, albeit less flashy, question would be: would you, at age 30, rather have a guarantee of £250,000 at age 65, or £2,500-a-year to put into an investment that grows at the average stock market rate? Again, the quarter-million looks, at 100 times the size of the investment account, like the big prize, but again, it is a sleeping hare. With 35 years at seven per cent, the smaller investment grows to almost £400,000.

It's this sort of calculation that people in their 20s and 30s need to be making now, when considering pensions and savings. Because while pay freezes, a pensions crisis, inflation and unaffordable housing dominate the financial outlook for younger people, they still have the greatest reserves of the most valuable thing you can invest: time.

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The gender pay gap is only half the story

Tens of thousands of hard-working women face decades of financial inequality from the pensions system, former Pensions Minister and campaigner Baroness Altmann tells Will Dunn

The word 'pensions' looks set to follow the word 'housing' and the phrase 'global financial' on the list of words that are seen, with depressing frequency, next to the word 'crisis'. A vast and growing gap exists between what was promised by company pension schemes in previous decades, and the ability of companies to make good on those promises now. In the UK alone, the shortfall runs to hundreds of billions of pounds. As in other crises of modern economies, it looks very much as if the tab will be picked up by those least equipped to pay it: the young, the poor, and those against whom the system is already prejudiced.

Ros Altmann is one of the people trying to make sure that doesn't happen. The Tory peer has impressive form in this area: as founder of the Pensions Theft Action Group she spent five years working, unpaid, to recoup the pensions of 165,000 people. In the process she defeated the government in both the High Court and the Appeal Court, leading to the establishment of the Pension Protection Fund.

Altmann remains deeply troubled, however, by the pensions system, which she says discriminates against women, low earners, and the young.

"Women tend to be the poor relation when it comes to pensions," she says, "in both the state and private provision. We have made great strides in improving state pensions for women, but there are still cracks in the National Insurance system, and women are much more likely to fall through them than men."

Altmann says there are many ways in which women can lose out on what may be a financial lifeline in the decades to come. "For example, women often take time out for caring responsibilities and then come back to the labour market, working part-time in a couple of jobs. If each of those jobs pays below the

SHUTTERSTOCK / IAN JOHNSTON

"Some women will not be credited at all"

National Insurance lower limit, they get no credit for the state pension whatsoever.

"If they're not working at all, they do get credited – if they're caring, for example. So, stay-at-home mums can do better in the state pension system than mums who happen to fall through this crack. The government estimates there's tens of thousands of women in that position."

But stay-at-home mums can still miss out on their pension entitlement, in an overlooked rule Altmann calls "absolutely ridiculous", because it requires women who are currently not entitled to Child Benefit to attempt to claim it or face losing their state pension in later life – when their circumstances may well have changed. "Since the government has means-tested child benefit, a lot of women are losing their state pension accrual, because they know that they're not entitled to Child Benefit, so they don't claim it. What they don't know is that unless you claim it – *even if you're not entitled to it* – it doesn't count towards your state pension. So these women, and it will be women, typically, who would automatically have been credited in the past, have now lost that. They don't know about it – why would you know? How would you know to claim something you're not entitled to? Why would you even think about it?"

Even worse, says Altmann, is the fact that even if you discover that you've missed out on years of pension accrual through this loophole, you'll only be able to claim for the last three months. "So you've lost that, forever. This is a new unfairness, and it does typically affect women."

Inequality pervades in private pensions, too, partly because of the gender pay gap and the fact that childcare is only recognised as work if it's for someone else's child. "The fact that women work for fewer years and have, on average, lower pay than men, will automatically mean that they will have less of an opportunity to accrue private pensions than the equivalent male. Because, obviously, your private savings depend on your income."

But Altmann points out that the rules of the private pensions system, too, are rigged against women. "The rules of the auto-enrolment system disadvantage women, because unless you're earning less than £10k a year, you're not auto-enrolled at all. So you don't get the benefit of the behavioural push that auto-enrolment is designed for. If you have a total income of nearly £20k but you earn just under £10k in two jobs – which is much, much more common for women than it is for men – you won't be auto-enrolled. You won't get the benefit

> **"More and more older women will be much poorer"**

of an employer contribution to your pension, and any of the other benefits such as salary sacrifice. So again, because it's income-based, and because women's lives are such that they are more likely to be affected by the rules of both the state and private pension systems that leave them out, there is still this big gender divide between men and women's pension prospects."

In the worst-case scenario, Altmann says a woman could work "multiple part-time jobs, each of which pays less than the National Insurance threshold. She may be earning £15-20k in total, and working many hours a week. And she will end up with no state pension and no private pension. Nothing."

The women who slip through these cracks in the pensions system face a grim future. Altmann points to the "increasing proportions of women on their own, a higher divorce rate, particularly among older people, and the typical extra reliance on a male partner by a female partner to deal with finance that is still too prevalent, and what you end up with – coupled with the longer life expectancy for women – is an expectation of rising pensioner poverty, particularly among women. You're going to have more and more older women being much poorer."

Part of the problem, says Altmann, is that people tend to think of their pension as part of a distant future.

"Too few people, men or women, actually plan how much they're going to have in later life. For women, I would say don't rely on a partner. Make sure you've got independent income, because you never know. An increasing proportion of women end up single. And if you do go through a divorce, make sure you don't ignore the pension income angle. All too often, a [female] partner just gives up pension rights. Possibly they think they'll just have the house instead, but that doesn't necessarily give you the later-life income you might need. When you're looking to change jobs, take a look at the pension angle. If you get an opportunity to increase pension contributions, take that seriously."

It's impossible to discuss the pensions system's unfairness to women without also mentioning its deep intergenerational inequality. The generation now retiring, or set to retire soon, will leave work with incomes guaranteed for the rest of their lives by 'final salary' or 'defined benefit' pensions. The generation that follows will spend their careers paying for these pensions, and enjoy no such safety net when they themselves leave work. "The costs of these pensions for the older generation, which employers have been forced to support, mean that employers have less money to spend on the pensions of younger staff," says Altmann, pointing out that "contributions into the pensions that have replaced the final salary-type schemes are far, far less generous."

This is true of state pensions as well: "the new state pension system that is building up for future generations will be less generous than the old system it's replacing. By the 2030s and 40s, when younger people today are reaching pension age, the amount the state will pay them each will be lower, on average, than it would have been under the old system. Which makes it even more vital that we have a successful private pension system on top."

Altmann describes the recent DWP greenpaper on pensions as "complacent", and recommends a much more frank approach to "looking at how we deal, properly, with the run-off of these [defined benefit] pension schemes, and the intergenerational impact they will have." Indicating that she remains, perhaps, more the campaigner than the Peer, she says women and young people should be angry about what's happening to their pensions, and active in defending them. "We need younger people to recognise what's going on, and to be more politically active about it," she says, because while many people may not need their pension for a few decades, they will face dire consequences if they don't protect them immediately. "The fallout," she says, "is happening now."

The cost of complacency

Investing in cyber security is crucial to any company's survival, writes Carolyn Harrison, marketing director at BeCyberSure

In the UK, Europe and beyond we are currently living through one of the most uncertain and transformative periods experienced in recent times and businesses are faced with increasingly challenging issues. The use of the internet and communication networks have revolutionised the way that we work, share information and exchange data across a range of organisations. In pursuit of the cyber security 'silver bullet' the one thing that has largely fallen by the wayside is the presence of an overall governance regime, which draws all security stakeholders in an organisation into the same Information Security (InfoSec) conversation.

To some extent, ISO27001, Cyber Essentials and other similar programmes, plus the news reports of hackers and cybercrime have exacerbated this because they tend to focus almost exclusively on the cyber element of data protection. Given that 95 per cent of all breaches (according to IBM) are as a result of a human, this in and of itself creates further vulnerability.

People as a problem

Criminals use whatever tools are available to them to gather intelligence for further exploitation, steal information or money or to create routes to more lucrative targets. Your technology, if you allow it, is merely one of those potential tools. Of course, vulnerabilities don't need to be digital. An open door or a weak procedure is as vulnerable as an unpatched operating system. Recent ICO statistics state that in most sectors human error is the biggest factor, with things like faxes and papers still being high sources of loss.

Legislators have given up the pretence that they can fight the cybercrime fight on their own and have begun to demand that companies take responsibility for their own data protection. Big fines and criminal sanctions against executives who fail to meet fairly low required standards are now in place. Such errors can be reduced with education and training which raises awareness.

Risk to reputation

A breach in cyber security leads to risks beyond that initial loss of data. The lasting damage to public perception is tantamount to anything which is stolen. Consider the case studies of Yahoo and Tesco Bank. Yahoo, which saw more than 1bn user accounts compromised in 2013, is no longer viewed as the figure it once was which has a direct bearing on the enthusiasm of investors. Tesco Bank suffered similar circumstances and took the drastic measure of halting all online transactions after thousands of customers saw money wiped from their savings accounts. The share dip was ancillary to a breakdown in customer trust.

Compliance

Laws are changing and punishments are getting more aggressive. The EU's new data law (GDPR) will take effect in May 2018 (before Brexit). GDPR allows for fines of up to 4 per cent of global turnover (or €20m) and criminal convictions for executives in badged positions. We believe that, regardless of the eventual outcome of leaving the EU, GDPR will be the law which will be the most important data protection legislation for any UK company. In addition to existing requirements, organisations will need to map and archive all data in their possession, and ensure consent for a lot of individuals' personal information that they hold. Well-constructed policies, proactive management, a good education and training programme and healthy security culture should be at the heart of any information security regime.

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Chris Evans MP, Chair of the All-Party Parliamentary Group for Alternative Investment Management, says a more open-minded approach to lending may deliver more affordable homes

Could hedge funds solve the housing crisis?

The housing crisis has had policymakers scratching their heads for years. How is it possible to build the sheer number of social houses that are required when there is so little financial support available? Hedge funds might represent an unlikely answer to this question.

At first glance, it may seem unusual to propose that hedge funds can help address the social housing crisis. After all, hedge funds are much maligned in the mainstream and particularly on the left. Yet this is exactly what some hedge funds are already doing.

In Luton, the local Labour-run council has forged a partnership with Cheyne Capital's Social Property Impact Fund, with investment from Big Society Capital, to address their housing shortage. As part of a deal they struck in 2015, Cheyne Capital agreed to fund an investment of £8.5m to build 80 new high-quality affordable homes.

Rents on these houses will be set lower than the local housing allowance level while the council will manage and maintain the buildings. Luton has experienced a severe housing shortage with many on the social housing waiting list. This unlikely partnership between a local authority and a hedge fund has provided a vital step towards resolving Luton's pressing housing problem.

I am not saying that hedge funds alone will solve our housing crisis. But the model they are pioneering in places like Luton could inspire other financiers and lead to a more diversified funding

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“Neither party seems to know what hedge funds are”

mix for these vital projects.

For far too long the alternative investment industry has been suffering from an image problem. As Chair of the All-Party Parliamentary Group for Alternative Investment Management, I have met with colleagues on both sides of the House of Commons and representatives from the industry. What was clear from these meetings is a negative perception of the industry among policymakers. Both parties seem to be unclear. Someone told me that when it comes to hedge funds, Labour doesn’t like them and the Conservatives do, but neither really seems to know what they are.

If we look past the headlines, it becomes clear the industry has huge potential to have a positive impact on the lives of ordinary people, the Luton project being a good example of this. There is an ever-increasing demand for affordable homes every year in the UK for our graduates, young families and key workers. The same Cheyne Social Property Impact Fund has also been working with the South Yorkshire Housing Association to provide key worker accommodation in Sheffield.

Whether they want to rent or buy, too many people across the UK are unable to afford their own home. Such is the housing market the third sector is currently delivering, on average, approximately 30,000 affordable homes per annum – far short of what is needed.

According to Shelter, the UK needs to build 250,000 new homes every year to keep up with demand but overall

"Major banks have been hamstrung by regulation"

we are not coming close to that level. It follows on the basic rule of supply and demand that as supply in housing is low, demand rises and prices go up. This is what is hitting so many people across the country so hard.

Notwithstanding the government's failure to amend planning regulation to properly aid housing delivery and to reform the land market, there is a need for alternative, innovative solutions to the housing crisis.

Ever since the global financial crash of 2008, the major banks have been hamstrung by regulation. Lending against real estate projects for banks is both time consuming and very often they now must jump through hoops of red tape before they can make a decision. For the developer trying to meet demand this can take too long.

When decisions are made, it is not uncommon for banks to take extended periods of time to decide on granting loans, often placing quite restrictive covenants on real estate borrowers, cutting off supply to this essential area. This position is almost impossible to sustain and is keeping the supply of housing low.

It is a simple fact that building high-quality housing is expensive. Considerable funding is required to develop land for large scale housing projects and funding has not been forthcoming in recent years. The harsh reality is that there is no magic money tree which developers or local authorities can use to get started. As traditional lenders have had difficulty delivering, clearly it is time to look to new and alternative investors and lenders including hedge funds.

Alternative finance providers such as investment funds are willing to take greater risks than banks and therefore accelerate delivery on more complicated housing developments. Impressively, financing in excess of £3bn has been provided at attractive rates to housing associations by UK annuity funds. Our pension funds, insurers and major businesses are looking for longer term stable investments.

The private sector has historically shown a poor track record in dealing with vulnerable groups and investment was typically short term. However, due to changes in both investor appetite and asset management expertise, the time has come for the private sector to be able to contribute to the sustainable development of social and affordable housing in the UK. They must be given their chance to put their funds to work in an inclusive way which provides value to society at large, including and especially the most vulnerable.

Alternative Capital and Impact Capital can address the shortcomings that are inherent in both the third sector and the private sector.

Impact capital is typically patient and balances financial and social outcomes. There are some alternative models to provide capital to improve affordable housing delivery, making the housing affordable, fewer tenants default on rent and end up evicted. There is generally less tenant turnover, which lowers the overall cost of managing the properties. This is a win-win situation for those most in need of these houses.

Substantial financing is out there waiting for housing programmes to access it. This approach relies on the credit quality of the housing association sector and the need of annuity investors for inflation linked cash flows.

This approach represents a genuine opportunity for the UK to take advantage of its enduring housing demand and strength in the alternative investment management sector. If people could bring themselves to look beyond their preconceived ideas, we might be able to both retire on good pensions, and have lived in affordable housing. This is why I call for people to stop and think before they're next tempted to bash hedge funds and other alternative investment managers.

Chris Evans has been the Member of Parliament for Islwyn since 2010. He is Chair of the All-Party Parliamentary Group for Alternative Investment Management.

Is buy-to-let on its way out?

The landlords' landscape might be changing but property can still be a valuable investment, explains Paul Mahoney, managing director at Nova Financial

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Buy-to-let has long provided bumper returns for investors, but a number of clouds on the horizon have prompted some concern as to the sector's future. When considering the tax changes and higher rental coverage rates for lending, there are certainly some areas where buy-to-let property investment is becoming less viable. London and the South-East represent standouts, given lower rental yields that average around 3.5 per cent that restrict the maximum borrowings in most cases to less than 60 per cent, so a lot more cash needs to be applied. Given that the average property price in the capital is now in excess of £500,000 the average cash investment is well over £200,000 including costs.

Due to the low yields available in these parts of the country, properties that are leveraged at 60 per cent, loan to value, are barely breaking even. Thus, landlords are exposed to interest rates and the potential negative cash flow situations. Add to this tax changes which will reduce the tax efficiency of an investment for anyone earning more than £50,000 per annum if the investment is in their name, and you have quite a few reasons to avoid investing now.

Within the context of the capital, then, investment appears laced with risk. Many of our clients, however, have been investing in other major UK cities like Birmingham, Manchester and Liverpool. The most interesting trend affecting the property market currently is 'North Shoring' which is the movement of employment from London to the North-West. Net migration is strongly positive from London to the Midlands and the North-West which is being driven by strong growth in employment. Manchester alone has benefitted from over 60,000 new jobs since 2011 and major companies such as Ernst & Young, PWC and Deutsche Bank, to name but a few, are contributing.

The question that emerges, then, is: can the North-West match London for stability and growth? If we look at the changes that have occurred in Liverpool over the past 12 months, there is certainly a case. Job growth year-on-year to June 2016 was 38.1 per cent and the economy grew by 15 per cent. Each of the North-West cities on average have outperformed London over the past year for capital growth and are providing roughly double the yields.

So, how do the tax and lending changes affect cities like Birmingham, Manchester and Liverpool? Given that yields generally range from 6-8 per cent or more, there is no issue with rental coverage at all, and although the tax changes may slightly impact upon some investors' cash flow, there is a stronger buffer given the difference between interest rates and the yield is greater.

The majority of our clients have been investing in the Liverpool and Manchester city centres renting to young professionals. With the ability to borrow up to a 75 per cent loan to value at interest rates of circa 2.5 per cent and generate yields of 7 per cent or more, the net return on investment is mostly 10 per cent or more excluding growth. A fairly average growth rate of 5 per cent per annum offers a 20 per cent return on your deposit as you've leveraged four times, so when you add that to cash flow that is 30 per cent per annum. This may seem too high to be true but it is due to the borrowings which accelerate returns on your cash deposit four times.

Buy-to-let isn't dead, but it's changing. A London location has become less of a necessity and the fault lines of the UK property market have been redrawn.

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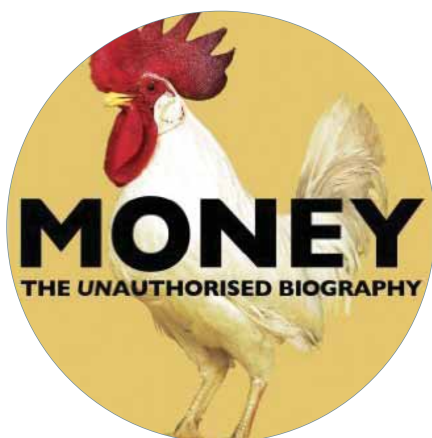
READING LIST

Six books that will help you understand finance, the markets and money



Money: the unauthorised biography

Felix Martin

2013, Bodley Head

Conventional wisdom would have you believe that people once used sugar in the West Indies, tobacco in Virginia and dried cod in Newfoundland, and that today's financial universe evolved from barter. Convention wisdom, according to Felix Martin, is wrong.

Money: the Unauthorised Biography details a panoramic history of money: what it is, where it comes from and how it works. Martin describes how the Western concept of money emerged from the ancient world and was shaped over the years by tensions between sovereigns and the establishment of middle classes. He suggests and that it is our failure to recognise this that led to the Great Recession.

The *New Statesman* said: "Exposes the deep flaws in the way we have traditionally thought about money." (*Alex Brummer, June 2013*).

Flash Boys

Michael Lewis

2014, W.W. Norton & Company

Flash Boys is an exposé of high frequency traders (HFTs) in the finance industry. Michael Lewis says the stock market is "rigged" by HFTs who front run orders placed by investors. Looking at how electronic trading replaced the trading floor of screaming brokers, slamming telephones and hysteria-inducing ticker tape, and how that change impacted the market. It starts out by describing the construction of Spread Networks' secret 827-mile cable running through the mountains and under rivers from Chicago to New Jersey that would reduce the journey time for data to 13 milliseconds.

The *New Statesman* said: "With a clarity that pops eyes and drops jaws, Lewis explains how a group of traders used technology to get vital milliseconds ahead of the market."
(*Mark Lawson, Books of the Year, 2012*).

What money can't buy: the moral limits of markets

Michael Sandel

2012, Allen Lane

Money meets morality in this thought-provoking read as Michael Sandel tackles some big questions. Should we financially reward children to read books or for getting good marks in school? Is it ethical to pay people to donate their organs? What about hiring mercenaries to fight our wars, outsourcing inmates to for-profit prisons or selling citizenship?

Over hundreds of years, market values have been applied to almost every aspect of human life: medicine, education, government, law and even family. Without realising it, Sandel argues, people have drifted from having a market economy to being a market society in which everything is for sale.

The *New Statesman* said: "In a culture mesmerised by the market, Sandel's is the indispensable voice of reason."
(*John Gray, May 2012*).

The Fear Index

Robert Harris

2011, Hutchinson

Physicist Alexander Hoffmann, an American expat living in Switzerland, has developed a revolutionary hedge fund that has the power to manipulate financial markets. Number 177 on the Sunday Times rich list, he has stacked up his cash by applying the science he learned when working on the Large Hadron Collider at Cern to the running of the eponymous Fear Index. Generating billions of dollars, the Fear Index is a super-computer that thrives on panic and feeds on terror. It trades instinctively around the world after analysing data including market behaviour and news stories. One night, while Hoffman lies asleep, an intruder breaches the security of his lakeside home and so begins a nightmare of paranoia and violence.

The *New Statesman* said: "Absurdly gripping."(*Alex Preston, October 2011*).

Capital

John Lanchester

2012, Faber and Faber

This polemical novel, set prior to and during the 2008 global financial crisis, focuses on a group of characters who all have a connection to Pepys Road, a street in the south London suburb of Clapham. The residents of Pepys Road – including a banker and his shopaholic wife, an elderly woman with a brain tumour, a Pakistani family who run a corner shop and a Premier League footballer– all receive anonymous postcards with a simple message: "We want you have." Through multiple lenses, John Lanchester explores issue of immigration, radical Islam, celebrity and property prices.

The *New Statesman* said: "John Lanchester's new novel has the daunting dimensions, totalising ambition and democratic cast list of a 19th-century novel in modern-daydress."
(*Leo Robson, March 2012*)

Other People's Money

Justin Cartwright

2011, Paragon

In a world reeling from the financial turmoil of 2008, Justin Cartwright puts a human face on the dishonesties of the bankers who endangered us. Tubal and Co. is a small, privately owned bank in England. As the company's long-time leader, Sir Harry Tubal, slips into senility, and his son Julian takes over the reins. The company's hedge fund now owns innumerable toxic assets, and Julian fears what will happen when their real value is revealed to the public. A story both cautionary and uncomfortably familiar, the book is not a polemic but a tale of morality and hubris.

The *New Statesman* said: "Justin Cartwright's last novel, Other People's Money, is the best seminar in print on the supranational grand larcency that damn near did for us all in 2008."
(*John Sutherland, September 2013*)

KTSDESIGN/SHUTTERSTOCK

The next golden generation

Investment in precious metals provides rare security in an uncertain global economy, writes **Daniel Clegg**, director of business development at The Royal Mint

Alan Greenspan views gold as the "ultimate insurance policy". The former Chairman of the Federal Reserve of the United States wrote in a recent report for the World Gold Council: "Significant increases in inflation will ultimately increase the price of gold. Investment in gold now is insurance. It's not for short-term gain, but for long-term protection." Other research from the World Gold Council, published in February 2017, found that in Germany, more people view gold bars as protecting wealth (65 per cent) than savings accounts (60 per cent) – a legacy from hyperinflation nearly a century ago.

Why is this? Distinct from paper currency or other assets, gold tends to resist depreciation from inflation. In the age of Netflix, DVD and Blu-ray, a VHS player's worth is mostly rooted in nostalgia. A valuable gold bracelet made in ancient times, meanwhile, is still a valuable gold bracelet thousands of years later.

The amount of available gold is constrained and cannot be expanded at will, unlike fiat currencies with their often expansionary (and ultimately inflationary) monetary policies which erode purchasing power – especially in periods of financial and economic crisis.

As well as inflation, precious metals act as protection against weakness of Sterling for UK investors, because they are denominated in US dollars. Since the start of 2016 the Sterling value of gold has risen by 37 per cent and silver by 48 per cent, more than offsetting the 18 per cent loss in value of Sterling against the US dollar after the EU referendum vote. And with the Brexit process just beginning there could be more where that came from.
The Economist recently warned that Sterling is "defying gravity" and may have further to fall even from its current historic lows.

Gold, as we can see then, is a resilient choice for UK investors. Additionally, unlike a stock, where the underlying company has the potential to go out of business, or a bond, where the issuer may default on a coupon or redemption payment, gold has no such counterparty risk. As Greenspan states: "No one refuses gold as a payment to discharge an obligation."

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For small savings or a more substantial long-term investment, academic studies show that buying gold or gold-backed financial products protects wealth and can increase risk-adjusted returns. Holding around 5 per cent of a balanced investment portfolio allocated to gold can potentially reduce its overall risk, helping to protect against market shocks. Indeed, to be a successful long-term investor, you must diversify. If 2008 taught the world anything it is that is not wise to put all of your eggs in one basket.

While it is of course reassuring to have a physical asset of enduring value, investors buy gold for many other sound financial reasons. At The Royal Mint we are dedicated to making it as easy and cost-effective as possible for UK investors to include precious metals as part of their portfolio; and we are armed with a wealth of experience. Our history of more than 1,100 years dealing with precious metals gives investors the trust that is critical when finding a company to supply and store their investments. We combine our experience with modern technology –new investors are flocking to our live trading site www.royalmintbullion.com with the size of new investments growing by 160 per cent year-on-year.

The pressure to save for our futures is underscored by a dizzying vagueness about what that future holds. House prices and care costs continue to soar, while pension packages are no longer what they used to be. But precious metal investment presents a chance to be more resilient against such uncertainty. Savers can buy gold and silver bars and coins from as little as £19, making regular purchases to add to a savings pot accessible and affordable. Products can be delivered or, for gold, stored in The Royal Mint's highly secure vault. Products stored in the vault can be sold back to The Royal Mint when savers wish to utilise their savings. Our coins are legal tender and, as such, are exempt from UK Capital Gains Tax.

The most cost-effective way to save is with Signature Gold. Savers can invest as much as they want from a minimum of £20 upwards. Because savers are buying part of a large gold bar prices are very competitive from just 0.5 per cent over the market price of gold. Signature Gold is stored in the vault and can be sold back to The Royal Mint when required. Signature Gold and certain gold bars (100g, 1kg) are eligible investments for Self-Invested Personal Pensions (SIPPs) and Small Self-Administered Schemes (SSASs). Through these wrappers, investors can tax efficiently allocate a portion of their pension portfolio to gold, accessing the diversification and insurance benefits.

As a further innovation in our quest to offer The Complete Bullion Solution, The Royal Mint has partnered with the Chicago Mercantile Exchange (CME Group) to launch Royal Mint Gold (RMG) in 2017. RMG is a groundbreaking new way to trade gold that again couples The Royal Mint's history and experience with cutting-edge technology. It is direct ownership of gold that can be easily traded like a share, with the ownership recorded using distributed ledger technology for efficiency, transparency and security. Because of its unique properties and structure RMG will have no management or storage charges.

This means that investors can have direct ownership of highly liquid gold investments in their portfolios without any annual charges eroding their hard-earned savings. RMG offers many advantages over gold Exchange Traded Funds (ETFs) including the lack of storage or management fees (v 0.40 per cent in GLD – the largest gold ETF), direct rather than indirect ownership of gold and the trust that is inspired by two organisations with 1,250 years of combined precious metal and trading experience.

If money makes the world go round, then you could argue that precious metals are what keep it spinning on its axis. While paper currency is a man-made invention, susceptible to the man-made market's ups and downs, gold represents nature's very own resilient and ready-to-use exchange. Can you really afford not to hold the recommended 5 per cent of your portfolio in gold?

Investments in the palm of your hand

A new, disruptive app is letting novice investors access the stock market. Freetrade co-founders Adam Dodds and Andre Mohamed tell Rohan Banerjee about a future without broker fees

The stock market, according to Adam Dodds, needn't be scary – "but people are always afraid of what they don't understand." The fresh-faced 30-year-old has a contagious buzz about him as he describes the app he hopes will "democratise" the UK's investment scene.

Alongside partners Davide Fioranelli and Andre Mohamed, Dodds co-founded Freetrade –a mobile-based stockbroker service offering zero-commission on global transactions. Set to be launched this year and available on iOS and Android, Freetrade has raised a total of £1.3m in in less than 10 months through crowd-funding platform Crowdcube.

So, what's the catch? "There's no catch," Dodds laughs, while gesturing towards a sofa sunk so low into the ground that it may as well not be there. We're at a tech exhibition event in Old Street, London, showcasing successful start-ups. There's a pop-up bar with a craft beer you won't have heard of and an even rarer coffee. We fall together before Dodds rebalances himself and explains how Freetrade took off.

The former KPMG accountant, who's dressed more like a student than a CEO, begins:"When I moved to London a few years ago I was shocked at how expensive and intimidating it was to become an investor. This is why Freetrade was created, to make investing in the stock market easy and affordable for everyone."

Dodds says many people in the UK, especially millennials, are put off stocks and shares. "Costly broker fees, typically around £12 per transaction, stop smaller investors, who usually need to see their investment grow considerably before it returns a profit." In addition to the fees, receiving the correct advice is difficult to come by because it tends to require an investor meeting with an independent financial adviser (IFA), which also incurs a charge and is time-consuming.

A report, *Bridging the Equity Divide*, published by Syndicate Room earlier this year, found that 46 per cent of Britons would love to invest in stocks and shares but don't know how. Dodds appends: "Even when an investor is knowledgeable, a lot of the traditional channels are out-dated and difficult to use." Other platforms such as Robinhood and Loyal3 both operate similar zero-

FREETRADE

commission models in the United States, but cross-pond emigrant Dodds was surprised that UK traders didn't have anything similar on offer.

Freetrade's zero-commission tagline, however, should be taken with a pinch of salt. Basic Freetrade accounts are totally free, but premium share-dealing accounts come with a flat rate of £1 commission per £1,000 invested. Another rung sees users charged for self-invested personal pensions (SIPPs) or stocks and shares Individual Savings Accounts (ISAs).

Still, Dodds maintains that there's nothing cheaper. "Basically, broker fees have stopped smaller investors from making money. The app will remove major barriers to stock market investing. There isn't anything else like it in the UK."

Blazer-but-no-tie sort of guy Mohamed grabs a coffee, joins us, and pitches in: "The investment market has been inaccessible, not only due to the outrageous commissions, but the process hasn't really been streamlined through an app. It's long, drawn out and you're signing stuff over with a pen. We don't have a minimum deposit and users can get started with a few taps of their phone."

If Freetrade's costs are so low, where do you make money? Mohamed counters: "You could say the same thing about Spotify. I'm not worried about our premium services not being good enough to cover the revenue. What we have at the moment is a hypothesis and we're right to find the right mix of premium services and product points. It's about customer acquisition and keeping eyeballs on the app. It's very sticky compared to something like Revolut." Revolut, for context, is a global money app that includes a debit card, currency exchange and peer-to-peer payments. Mohamed goes on: "They have half a million customers but people only use them when they go on holiday. We feel we are in a much better position compared to someone like Revolut when it comes to monetising people's interest. How we make money is similar to any broker – interests on cash balances. If you haven't invested fully on your account, there's revenue that'll be there for us."

Whereas other brokers charge a huge mark-up, Dodds says that Freetrade's effective use of fintech has "totally slashed overheads" and by "not employing hundreds of staff or using bricks and mortar" it retains wiggle room. Mohamed adds: "There are no maximum or minimum trades and there are even fractional trades on offer too. They are real shares and this is real ownership. It's the same as you would get from another broker but without the hassle or the expense. It's nothing like CFD [contracts for difference]."

What are fractional trades? Dodds beams: "Freetrade will be introducing fractional share-dealing to the UK market. So, if you have Apple trading at £100 per share, you'll be able to buy part of that and invest just £25." Fractional trading is available in the US through the likes of DriveWealth and Stash Invest, but Freetrade will be bringing this model to Europe for the first time.

Is this gambling? Dodds takes a deep breath. "I think there's risk attached to any kind of stock trading, but this isn't spread betting. We're about supporting investors in the long-term who would be excluded otherwise. Users have control and visibility. If you have extra cash and you have it in a bank account, not generating much interest, you could instead have it in an ETF [exchange-traded fund] and it'll earn money on its own."

Dodds makes it all sound so easy but he insists: "that's because it is." The Freetrade app, "which takes seconds to install", could be likened to "Uber and Airbnb". Independent advisers will also be able to provide advice directly through the app, opening up a whole new world to the novice investor. Climbing out of the sofa sinkhole with a smile, Dodds closes with this: "Freetrade is digital only and mobile first, built from the ground up using new technology. This means we have significantly lower staff requirements, so can actually afford to remove commissions from the equation. We've seen a similar model work with UK challenger banks like Monzo and Tandem. Now it's time for the brokers to get disrupted."

To find out more, visit: www.freetrade.io

Fintech: are we all about to be blockchained?

New digital technology is disrupting the financial sector. **Chris Day**, director at STOA, considers what this means for the future of banking

ZAPP2PHOTO/SHUTTERSTOCK

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In my last commentary, I surmised that capitalism may be in need of a reboot, becoming digital, democratised and disintermediated. This was in the context of the increasing need for corporate funding in a period of low interest rates and under-capitalised banks that appear to have stopped lending to anyone other than their large corporate clients.

So let's look at another trend that could accelerate this disintermediation but not only of the banks but perhaps a lot of other comfortable legacy businesses. Would you like the ability to pull all your credit cards into one 'controlling' card that allows you to manage which credit card you use for which purchase and when? This is already available. But there are FinTech companies that are looking to do a similar thing for bank accounts; you effectively get a bank account in every country with one FinTech account.

Interesting – where does that leave the traditional bank? If they do not embrace technology fast enough and this type of solution makes its way into the marketplace, then it could arguably commoditise the banks' product offering. Blockchain technology can lead down the same path but for a far wider range of industries.

It doesn't matter where you look, everyone appears to be working on a blockchain solution. For many commentators, it could be another black swan event (well, to be strict, it cannot be one as a black swan event has to be unpredictable). Even if blockchain is a grey swan then it needs some attention. First let's be over-simplistic to understand what it means. Think of Bob Cratchet in A Christmas Carol, labouring over the ledger of Marley & Scrooge. This is the book that contains all the information about Marley & Scrooge's business; if it isn't in the book,

“Get a bank account in every country”

it isn’t in the business. If it is in the book, there is no question that it is in the business. This is a simplistic way of thinking about blockchain. The difference in today’s technological world is the range and scale of information that can be stored and on what (it doesn’t have to be Marley & Scrooge’s lending book). The principle is the same; once it is in the blockchain (and confirmed by an independent party) it cannot be changed or removed so the blockchain becomes a definable record of everything to do with the subject – no matter what the subject is. It could be currency (that is how a bitcoin works), containers (I will return to this), property or land registry. The list can be endless. So why on earth is something that looks like a 21st century reinvention of an 18th century ledger so disruptive?

Let’s return to the container example because it is a ‘live’ project and there already exists a solution being used in the market (most discussion of blockchain is just that – discussion and hard work – it isn’t so easy to design and launch a market effective solution as the technological know-how is harder than it sounds). What we mean here is containers that are shipped on container ships and transported globally every minute of the day to all corners of the world. In July 2016, the law on the information and transport of containers changed. Without going into the intricacies of the change in law, it became a prime target of a technology solution. I have been working with a company that is, if not the first, then certainly one of not very many, that introduced such a blockchain solution.

So I have an interest in using it as an example. Without going into detail of what the solution actually does, it could be a disruptive technology and I will simply replay what IBM, who have been working in partnership with Maersk Line, estimate: “Shipping carriers could save about $38bn per year using digital technology.” Yes, the number is correct.

This is one industry, admittedly a large global one, but you begin to see why everyone is talking about blockchain. You don’t have to think very hard to see how this sort of approach can seriously disrupt any number of traditional knowledge and expertise businesses. But this is a FinTech article so extend that approach to financial products – foreign exchange for example: what if all money transfers were in effect just a change of record in two blockchains in two banks? Indeed, why does it need to be a bank? One ‘buys’ a currency and one ‘sells’ another currency. Can the geeks make this work? What else can they disrupt?

So FinTech isn’t just the application of a technology to improve and disintermediate existing financial business, products and participants. With businesses that lend themselves to blockchain solutions, there is a danger not only of these businesses finding they are built on sand but someone removes the beach.

Defeating the default: P2P's coming of age story

Peer-to-peer business lending could serve as saviour for SMEs, according to ArchOver CEO **Angus Dent**

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Peer-to-peer (P2P) finance made its first appearance in 2005 – a lot earlier than most people realise – and well before the 2008 financial crisis that engulfed banks around the world. However, it is true to say that the P2P sector, as it has now become, has only achieved real prominence over the last three or four years. There are a number of reasons for this, but two stand out. First, the banks turned their backs on small to medium-sized enterprises (SMEs), leaving many potentially good businesses to flounder for lack of finance. Second, interest rates around the world, including in the UK, fell dramatically, leaving people with cash facing poor returns from traditional safe havens, such as National Savings, bank and building society deposit accounts.

A few visionary entrepreneurs spotted that there was both a problem and a solution and used the internet to put those with money together with those who needed it. Simple, brilliant and efficient, the P2P industry was born.

Although tremendous progress has been made in a short period of time, the banks, for the time being at least, still dominate the world of business lending. Nevertheless, many people like the idea of supporting the country's SMEs by cutting out the middleman and they especially like returns of 6 per cent upwards on their money compared to 1-2 per cent on traditional savings.

The fact that there is an element of risk with P2P obviously has to be taken into account, but this has not deterred both private and institutional investors. In fact, there are currently more lenders than borrowers, which reflects the fact that many business owners have delayed their expansion plans in the face of uncertainty created by Brexit.

As with any developing industry, the individual operators within it have come up with different business models. To address the perceived problem of risk for P2P investors/lenders,

some platforms have created contingency funds in anticipation of any losses that may occur through loans going bad or loan repayments being delayed.

In ArchOver's case, we have tackled the problem in a different way. We are not interested in personal guarantees. We believe loans should be secured against the value of the business, not on the value of the business owner's house. We prefer to take an all-asset charge over the borrower's business, registered at Companies House. For our Secured & Insured lending model, we focus on the strength of a company's Accounts Receivable/Debtor book and the creditworthiness of their customers. We then use credit insurance – mostly provided by Coface, a world leader in this type of cover – to underpin the value of the security. The borrower pays the premium as one of the conditions of the loan.

We recognise that lenders make loans in order to receive interest and ultimately a return of their capital. The borrower must provide security both during the period of the loan as interest is paid each month and in the event of default. The more important of these is security during the term of the loan. Our credit analysis is designed to screen out these loans and our monthly monitoring identifies any difficulties.

Our lending models Secured & Insured and Secured & Assigned address security in different ways to suit the different needs of businesses. With either model lender security throughout is paramount. With Secured & Insured there is always credit insurance, usually provided by Coface.

The most common reason for borrowers not paying interest and not repaying capital is because their customers haven't paid them. Credit insurance provides this security to our lenders. And if a loan turns bad, Coface will recover the value of the loan from the debtors. Additionally, it means that the due diligence process for every loan involves two layers of robust scrutiny: one from ArchOver's expert in-house credit team; the second from Coface's own specialists. For the loan to be posted on the platform, both parties must approve the borrower, and insurance must be granted – there are no exceptions. The end result is that, in the two-and-a-half-years since ArchOver approved its first loan, no one has lost a penny and all payments of interest and repayments of capital have been made on time.

Secured & Assigned loans suit any business with contracted recurring revenue, from software to office cleaning. The loan is secured via assignment of contracts and an all assets charge on the contracted recurring revenues of established and profitable businesses with loyal clients, looking for a loan to help them expand. All money from contracts passes through a bank account controlled exclusively by ArchOver. In the event of default, the assignment places the contracts under ArchOver's control for continued supply and sale to repay lenders.

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You receive a higher rate of return
The rate you receive based on the security behind the loan is favourable, up to 8.5 per cent per annum.

You can rely on consistent returns
Unlike some other lending sites, the interest rate posted is the rate you receive. There is no cost to lend, and the rate is fixed for the loan term.

Your investment is always asset-backed
Lender security is our primary focus and our credit analysis is one of the most thorough in the sector. All loans are secured by an all-asset charge over the borrower's business, registered at Companies House. For additional security, all borrower revenues flow through controlled bank accounts owned by ArchOver.

You are in control
All loan and borrowing company details are available for you to view via your Investment Dashboard. The rate, loan term and loan security type are listed, and you always make the final decision on which companies you would like to invest in.

Your loan investments have been vetted and are being monitored
Every loan listed on the platform has been pre-screened and approved by our experienced in-house credit team. We monitor both the security provided and management accounts against monthly forecasts, and we have a zero-tolerance policy for late interest payments or reporting.

You are supporting growing UK businesses
To date, ArchOver has facilitated over £31m of lending, all to growing UK businesses with established customers and clients.

To lean more, visit: www.archover.com

Making sense of direct lending

Direct lending is a rapidly evolving asset class that can offer investors attractive returns, according to Stephen Findlay, founder and CEO at BondMason

Direct lending has been around for hundreds of years but has only recently become available to the mass market through peer-to-peer (P2P) lending which started in the UK in 2006. Since then, the popularity of this asset class has grown every year, with £3.2bn being lent via UK P2P platforms in 2016.

Many investors are attracted by the higher rates of interest relative to a bank account, or the reduced volatility compared to stocks and shares. It is common to be able to earn 4-7 per cent per annum from a well-diversified direct lending account with very little volatility. As the direct lending market continues to mature, it is evolving into a pension-grade asset class. This has resulted in allocations from a wide range of savers and investors – from private individuals depositing an average of £15,000 and large companies looking for a better return on their cash balances, right through to institutional investors.

Nothing good is ever easy

Direct lending is not easy and navigating the various lending opportunities can be time consuming and complicated. The nature of the underlying borrowers can take many forms: from buy-to-let landlords looking for a short-term bridge loan, through to an SME looking to acquire an asset, and even unsecured consumer lending for someone looking to consolidate their debt. And then there's the lending platforms themselves to consider – does the team invest in the loans alongside you, do they have the right credit experience, how do they originate the loans?

Golden rules for successful direct lending

Platform selection is one of the most important considerations. There are over 80 direct lending platforms in the UK at present. Since 2015, here at BondMason we have met with over 70, but less than 25 have made it onto our approved investment panel. We conduct detailed due diligence, and some of the most important characteristics we look for are an experienced credit team that can originate, arrange and manage loans sensibly.

Borrower selection, meanwhile, encompasses both the choice to invest in a particular loan as well as the broader consideration of which loan type: corporate, property or consumer. Once you've made your selection of which platforms to use, it is important to get a balance of different borrower types and identify any 'bad apples'. This won't always be possible – your capital is at risk and you may be subject to loan defaults and losses – but if you can seek to avoid as many bad loans as you can then you should end up with a healthy return at the end of the year.

Diversification across a minimum of 50 different loans is good, with 100 or more loans being ideal. This can be time consuming but is a key part of achieving successful returns in this asset class.

With direct lending your upside is capped – the best return you can hope for is simply having your loan and interest repaid in full and on time. Achieving a good return is about minimising your downside exposure – and careful diversification is one of the best ways of doing this.

Getting started

You can open your investment account at BondMason today and start targeting 7 per cent plus, or our free introductory guide to P2P lending is available for download on our website, as well as a 96-page Market Report with everything you need to consider when starting out with direct lending.

www.bondmason.com
Email: invest@bondmason.com

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How P2P gave power to the people

Commercial property lending used to be the preserve of institutions. Now, personal investors can enjoy these returns too, explains Michael Lynn, founder and CEO at Relendex

There was a time when all commercial property lending was almost exclusively in the hands of banks, large insurance companies and pension funds, and they made good secure returns quietly lending their investors' money to borrowers.

How times have changed. Since technology got more sophisticated and a lot cheaper, new lending business models emerged in the form of Peer to Peer (P2P) lenders. This new breed of 'marketplace lenders' is now a force to be reckoned with and in the UK alone the P2P market has grown massively since the first platform launched in 2005. In fact approximately£5bn has been lent since then.

The UK government sees P2P as an important alternative source of funding for SMEs and personal finance. Following the financial crisis of 2008, these new lenders have started to take real market shares away from the banks. The government sees marketplace lenders providing funding for housebuilders all over the country, helping to alleviate the housing crisis. In personal finance, people have reduced their cost of borrowing by moving away from credit card debt to P2P lending.

The government has given further legitimacy to the P2P sector through Financial Conduct Authority regulation. And Innovative Finance ISAs are now live and allow investment into P2P platform loans with tax-free income.

The Relendex proposition is a simple one. Since 2013, we have provided funding for commercial real estate through our P2P platform. We bring together many lenders; individuals, corporations and some small institutions. Using the latest technology with great functionality, we bring high-quality borrowers the funding they need at a fair price. Unlike the old days, most of the borrower rate is passed to lenders. Our lenders get the lion's share of the interest, usually between 7 and 10 per cent -a-year.

Loans to Value are sensible averaging less than 60 per cent and our underwriting processes are robust and run by a highly experienced team with decades of lending experience. We always ask for an independent professional valuation from a recognised firm. Loans are almost always secured by a First Charge mortgage over the property and we often take additional collateral.

So what do we finance?
Investment property, development and bridging. We lend against retail, residential, industrial and leisure assets.

Diversify risk
Your capital is at risk and loans are not deposits. We recommend that lenders diversify their risk by creating a portfolio of Loan Parts in different loans offered through the platform.

Reporting
State-of-the-art technology gives lenders all the reporting they need, with details of their portfolio, interest and purchases and sales of Loan Parts. A lender's up-to-date position is shown on the Lender Dashboard.

Secondary market
There is also an active secondary market in Loan Parts that allows lenders to sell their Loan Parts on a matched-bargain basis. So a lender can initially participate in an 18-month loan and decide after six months that they want to sell their Loan Part.You can either draw down the interest you earn on your loans or simply reinvest it in other loans and keep building your portfolio.

For more information please visit: www.relendex.com

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A new era for North American energy

Investing in infrastructure could hold the key to a thriving energy sector, writes Rob Thummel, managing director and portfolio manager at Tortoise

Many of us enjoy the freedom of being able to hop in our car and go anywhere or the comfort of returning to our warm home on a bitterly cold winter's day. These modern conveniences have become basic necessities that are provided by companies that are part of the energy sector. The energy sector not only serves basic needs but it is often the last puzzle piece connecting other sectors together like healthcare and technology.

In our view, here are some of the things to watch out for in the sector in 2017:

Return of US oil production growth
After falling in 2016, US crude oil production is expected to increase in 2017. US oil producers are adapting to the current low oil price environment. Using technology and innovation, several US oil producers are able to produce oil at a cheaper rate than many OPEC nations.

OPEC's production cut compliance and potential extension
Compliance with the OPEC agreement to cut production appears to be going very well with the committee reporting that more than 80 per cent of the original 1.2m barrels per day of supply reductions have already taken place as of February. The original OPEC agreement had a term of six months. OPEC member countries will be discussing an extension of the agreement in May this year. We believe that oil prices will likely remain range-bound between $50 and $60 per barrel in 2017, but we think this is a real sweet spot for US producers in the major shale basins that can earn adequate rates of return at these prices, but just as important, global consumer demand has remained high as well.

Gain market shares for natural gas and renewables
We don't think oil is the only way to make money in the energy sector. In fact, natural gas and renewables are gaining market share while coal is losing market share in the global energy pie.

While research and development continues in the renewables sector, we believe that natural gas is the bridge fuel that effectively reduces emissions like carbon dioxide. Natural gas is clean, cheap, and abundant in supply.

Acceleration of energy infrastructure
A new administration trumpets in change. In our view, the Donald Trump administration will be supportive of the energy sector and specifically the energy infrastructure sector. We expect a reduced regulatory permitting process for pipeline infrastructure, and support for the revival of the Keystone XL pipeline project which was evidenced with Trump's executive order.

In addition, the return of growth in US oil production will likely accelerate the pace at which US energy infrastructure development occurs.

Exports of oil and gas from the US
The global energy landscape is changing and we believe that the US will become a significant supplier of low-cost oil and gas to the rest of the world. Just a few years ago, the US was building facilities to import more oil and natural gas. It was unimaginable that the US would be an exporter of such commodities. Today, according to the EIA, the US is exporting approximately 1m barrels per day of oil and there are facilities in place to export over 1bcf/d of natural gas.

We think this is just beginning and the export theme is expected to accelerate and could be a surprise. Additional energy infrastructure will need to be constructed to support increased exports of US-produced oil and natural gas.

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Contemporary art: an investment in modern culture

The social media boom has elevated artists to pop icon status. A portfolio which makes the most of this is well worth having, writes Maddox Gallery curator **James Nicholls**

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We are living in extraordinary times and the contemporary art market is an exhilarating place to be. In the age of technology, creativity and presentation have evolved dramatically. Now through social media platforms many of today's contemporary artists have the chance to be tomorrow's superstars.

An example is Illma Gore's controversial naked Donald Trump artwork: *Make America Great Again*. After it was famously censored in the United States and the artist received death threats, it made headlines around the globe. It remains one of 2016's most talked about pieces of contemporary art, with thousands flocking to see the original still on display at Maddox Gallery, Mayfair.

A key for a return on investment in the art market is purchasing works of emerging artists at the right time. Investing in artwork has rarely been so affordable and open to so many people. It can provide potentially excellent returns if the right artist is backed in the right way.

When people invest in art, usually they are not investing their money into something that loses value. It's not like buying a car, which depreciates almost as soon as it's driven off the forecourt. Of course, the vintage car segment is an entirely different matter. A piece of art will usually retain its value and has the potential to appreciate over time.

Investors have a secret weapon in the gallery itself, as it represents emerging artists, champions them in the market, pairs them with the right investors, and act as a launch pad for future careers. Reputation, expertise and trust are core elements in providing a service to clients investing in art. The combination of art market expertise, with financial and investment skills gives the ability to help both new and more experienced collectors acquire and build portfolios of art. It is also necessary to know when

Left and below: paintings by Bradley Theodore. Above: Ilma Gore's infamously unflattering nude portrait of Donald Trump

market conditions are right to sell works on behalf of the clients for commercial advantage.

Bradley Theodore – an artist fast becoming an icon

This extraordinarily talented emerging artist, currently living in New York, is achieving a highly successful international impact.

His much anticipated second London exhibition in April, titled *SECOND COMING,* is also his second London solo exhibition at Maddox Gallery, Mayfair. The street artist-turned-art-star deals in a colour-soaked exploration of the human condition with a verve that has set the art world on fire. His 2016 sellout show at Maddox Gallery was a major success. In his new show, Theodore is presenting a vibrant and evocative new series of works featuring groundbreaking virtual reality creations, previously unseen sculptures and large-scale paintings alongside his famed pop pieces.

In a style developed on the streets of his native New York, Theodore's work focuses heavily on the motif of the human skull, and he applies beguilingly vivid, Dia de Los Muertos-style masks to some of the most recognisable people in the world, from Her Majesty The Queen Elizabeth II to contemporary icons from the worlds of fashion and celebrity culture such as Karl Lagerfeld, Anna Wintour, David Bowie, Keith Richards, Mick Jagger and Kate Moss. In these renditions he produces works that invite the viewer to reflect upon fleeting fame and mortality in a way that is strangely enriching in mood, rather than morbid.

"I grew up in a very psychotic neighbourhood," comments Theodore. "I was around death all the time – being involved in skateboarding and the alternative, street-kid world, it wasn't something you were afraid of, it was something you embraced. When I see death, I see life, and I feel that death, as a symbol, is just black. I paint on black because it feels like going into the abyss and bringing out life, colour and emotion."

Pop culture icons provide not only the material for Theodore's vibrant portraits, but much of his fanbase, too. His celebrity fans include Anna Wintour, Karl Lagerfeld, Gigi Hadid, Terry Richardson and Kendall Jenner. *Vogue*'s influential Suzy Menkes calls him "Banksy meets Basquiat" and *GQ* has featured the stylish Theodore as one of their Best Dressed. His painting of fashion icon Diana Vreeland, famously stolen from the lobby of a Manhattan hotel last year, will also be part of the London exhibition.

While his most recognisable work is in painting, Theodore also works in more futuristic media. Currently virtual reality artist in residence for Google, Theodore's upcoming London exhibition promises to go beyond the realms of his signature skull motif canvases to incorporate elements of VR in today's digital age, with the lower level of Maddox Gallery being dedicated to a new series of Theodore's latest virtual reality incarnations as well as his coveted pop works on paper.

For more information, visit Maddox Gallery at 9 Maddox St, London W1S 2QE, www.maddoxgallery.co.uk or call 0203 781 7581

Allowing savers to invest with more confidence

Scalable Capital's framework of six investment principles helps savers to achieve better investment success

Scalable Capital is an online wealth manager on a mission to change investing for the better. It combines a data-driven investment process, low fees and exemplary client service. It has a framework of six key investment principles which provides a guide for investors looking for more stable portfolio risk and performance.

Stock prices cannot be predicted
The traditional methods of market timing and stock picking often lead to long-term underperformance. Future prices simply cannot be predicted based on historical data; their correlation forms no identifiable pattern. This conclusion throws traditional methods of investment management into disarray.

Risks can be forecasted meaningfully
Price movements are unpredictable but the same is not true of risk (market volatility); that is why Scalable Capital bases its investment decisions on the risk currently present in the market. One week of high volatility is likely to be followed by another – a Nobel prize-winning insight known as volatility clustering. This phenomenon enables Scalable Capital to anticipate periods of high market risk, allowing it to maintain steady risk levels for its clients' portfolios.

In the long run, higher risk means higher returns – but that isn't true in the short run
Those investors willing to take more risk are typically compensated with higher returns, and this is certainly the case in the long run. However, the risk of each asset class, e.g. European equities or US government bonds, fluctuates over time. This means that a portfolio's risk can change significantly unless its allocation is adjusted to reflect these new levels of risk. And to make things worse, periods of above average risk typically coincide with lower or even negative returns.

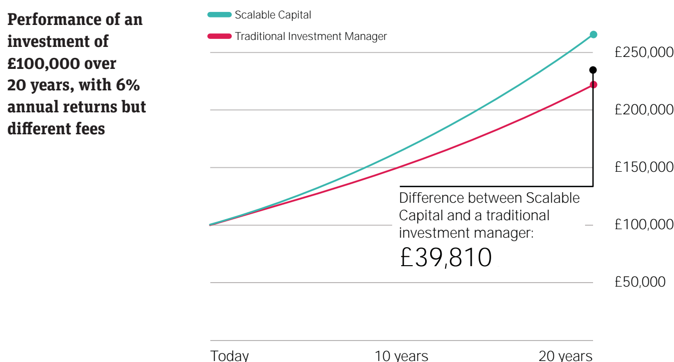
Risk management leads to better risk-adjusted returns
Scalable Capital helps investors avoid exposure to periods of excessive risk in an asset class by monitoring and dynamically adjusting their portfolios. This leads to better returns for every unit of risk an investor is exposed to while making sure risk remains constant.

Diversification is the only free lunch in investing
All securities react differently to market events, so building a portfolio that contains a diverse range of assets is a great way to improve returns for a given level of risk. Scalable Capital builds portfolios using Exchange Traded Funds (ETFs) which offer low-cost exposure to all of the major asset classes, across all regions.

Low fees are imperative to generate long-term returns
A fraction of a per cent here and there may not seem much, but actually paying just that little bit extra can really impact your long-term returns. Scalable Capital invests using passive ETFs which track an index and therefore don't require the expensive research teams used by active managers. Clients know exactly what they are paying for and their long-term returns reap the benefits.

Small differences in fees really add up in the long-term

Performance of an investment of £100,000 over 20 years, with 6% annual returns but different fees



Scalable Capital Cost: 1% p.a. (0.75% p.a. fixed fee + 0.25% p.a. ETF average cost).
Total Expense Ratio for a selection of major UK wealth managers: 1.85% p.a., composed of the average charge paid to the wealth manager (1.37% p.a.), the average cost of managed funds invested into (0.58% p.a.) and the average cost of ETFs/ITs invested into (0.39% p.a.) under the assumption of a 50:50 split between ETFs and managed Funds (so average fund charge of 0.48% p.a.).
Source: Numis Securities pricing model Feb-2015, own calculation for averages.

Left to right: Scalable Capital co-founders Adam French, Dr Ella Rabener and Simon Miller

Adam French, co-founder and CEO at Scalable Capital, discusses a new framework for investment success

What exactly does Scalable Capital do?
We offer online investment management. We use Exchange Traded Funds to build globally diversified portfolios for our clients. ETFs are low-cost funds that replicate indices (such as the FTSE 100) but trade on an exchange which makes them transparent and highly liquid.

How do you know how much risk an investor can tolerate?
We have 23 different risk categories. When clients first open an account we ask them to complete a questionnaire to determine theirs.

Does the investor know how much risk they are really taking?
Most investment managers use vague terms for their risk categories, such as 'conservative', or 'balanced'. But an investor doesn't know how much potential loss is actually associated with a 'balanced' portfolio. Using 'Value-at-Risk' (VaR) we quantify the concrete downside risk for each of our 23 risk categories. This means that if you choose the risk category with a VaR of 10 per cent, there is a 95 per cent probability that your portfolio will not lose more than 10 per cent over the next year.

Markets can be volatile. How do you ensure that a client's downside risk doesn't suddenly increase?
We use the latest capital markets research and sophisticated financial econometrics to calculate the downside risk of every portfolio, every day. If the risk in a client's portfolio differs from that client's individual risk category, we make adjustments. We do this continuously to make sure that the risk is controlled regardless of market conditions.

More traditional investment managers, meanwhile, rebalance portfolios typically every quarter, back to the initial static weights which were defined when the account was opened.

How much does it cost to open an account with Scalable Capital?
Our annual fee is 0.75 per cent of the value of the portfolio. This fee covers custody, trading and account management. On average, the ETFs in our client portfolios cost an extra 0.25 per cent annually and this is charged directly out of the ETFs' performance.

When is the best time to open an investment portfolio?
I encourage savers to begin immediately and not be put off by the complexity of the markets as starting early gives investors the benefit of compound returns.

How can you find out more?
Our fully-managed service means that potential investors can get in touch with the client services team at any time. In-person seminars and online webinars also help investors to find out more about our service and gain investment insights.
For more information, please visit: www.scalable.capital

IN ASSOCIATION WITH

With investment comes risk; you may get back less than you invest. Please note our risk warning on our website.

Why be a shareholder?

Stocks and shares can lead to consumer benefits, influence on a company's decision-making process and more. Here are some of the main reasons why people choose to invest

How many shares a shareholder has determines their decision-making power, their profit entitlement and the extent of their personal liability for debts. If a company performs well, shareholders stand to reap the benefits of increased stock valuation; but if the company performs badly, then those shares will decline in value.

While plunging into the stock market may represent a risk for this very reason, it's important to understand why so many investors choose to take it.

For the perks

We've all heard of loyalty schemes incentivising continued custom, but that's just scratching the surface. If 10 coffees in Café Nero guarantee you an 11th for free at consumer level, think what a more long-term shareholder investment could return.

Supermarket giant Marks & Spencer, for example, operates a rewards system that lets you use some or all of your dividend payment to buy a shareholder gift card – which carries a 10 per cent discount. Just one share is enough to be eligible and people who want to take part in the Equiniti Payment Plus scheme can choose whether they want all or part of their dividend to be paid on to the card – but will receive 10 per cent more than they pay in, to spend either in-store or online. One share in M&S costs just £4.37.

Publisher Bloomsbury, responsible for the *Harry Potter* series, offers all of their shareholders a staggering 35 per cent discount on print products. A single share in Bloomsbury sells at £1.74, so even buying one book would almost definitely make it worth holding a stake.

To make a difference

Unwittingly, many people may be financing the arms trade, environmental destruction or a breach of human rights through their bank accounts, life insurance, pension schemes or savings plans. Ethical investment is when investors and savers actively avoid companies whose actions do not match their own moral codes.

Investing ethically and supporting a cause can bring about real change. Shareholder rights can be used to vote at annual general meetings (AGMs),

Bloomsbury, which published the *Harry Potter* series, offers shareholders a 35 per cent discount on all print purchases

giving the investor a chance to instruct or enhance policy and strategy. Sainsbury's, named Organic Supermarket of the Year from 2002 to 2004 by the UK Soil Association, is an example of a company embracing the use of organic and fair trade products.

To pursue passion projects

Plenty of shareholders have a vested personal interest in what they're investing in. With this in mind, the part-ownership and ownership of sports clubs has sometimes seen maximising profit as secondary to success on the field. Those two things are often admittedly linked but in the context of Liverpool's £19.8m loss in the year to May 2016, we can note a prioritisation of the latter.

The loss, largely down to poor player recruitment and compensating sacked manager Brendan Rodgers, did not stop the club's board from sanctioning an extension to Anfield's Main Stand and the appointment of the high-profile Jurgen Klopp as Rodgers' successor. Shareholders of sports teams again have the opportunity to influence the decision-making process and strategy.

"Shareholders have the chance to influence strategy"

ANTON_IVANOV/SHUTTERSTOCK

To make money

Shares as an appreciating asset are the most common motivation for becoming an investor. While choosing what to invest in may have to satisfy multiple criteria, more often than not this explains as why you would bother in the first place – to make money.

The main benefit of investing rather than saving is that over time stocks and shares have the potential to deliver a higher return. Even though their performance may fluctuate, studies have shown that if you're able to leave your money invested, it stands to return a better rate of interest than a savings account. This can be observed in the Barclays Capital Equity Gilt Study 2013. This compares the performance of different asset classes since 1899 and it found that if you had invested over any five-year period since then, the performance of the UK stock market would have beaten cash 74 per cent of the time.

Depending on the stage at which you invest in a company can determine how cheaply you can buy a share, the price of which will corelate to company performance. Venture capitalism, that is to say capital invested in a project with a substantial element of risk attached to it, typically a new or expanding business, could go either way. In 2013, Aileen Lee coined the term "unicorn" in a *Techcrunch* article to describe a start-up company projected to be worth $1bn or more. Facebook received such a valuation and succeeded, but blood testing start-up Theranos has spent the last few months defending itself after a *Wall Street Journal* report questioned the accuracy of its blood tests. A surefire way to put off investors is for the product to fail to deliver its proposed purpose.

The greater the commitment of investment, the greater influence the investor can yield. Investors who step up in turbulent times often receive favour as a result. Corporate governance disputes tend not to occur in such situations: management effectively answers to the shareholders who provided much-needed capital—at least for a while.

The majority of shareholders and most corporations, however, don't actually fit this bill. The typical funding role in a publicly traded company is filled less by shareholders than by the stock market as a whole.

The market provides liquidity. Having shares that can easily be bought and sold as transparent assets, therefore, reassures lenders and potential partners. It facilitates mergers. It allows early investors and employees to sell company shares and exercise options. It gives investors who come forward when cash is sorely needed a way to realise gains on their investments later, greasing the wheels of capitalism.

All share prices quoted were correct at the time of writing.

The Future of Investing. Today.

Invest with Europe's fastest growing online wealth manager.

Improving returns through low costs and risk management.

More time, less stress, zero hassle for you.

www.scalable.capital

With investment comes risk. The value of your investment can go down as well as up and you may get back less than you invest. Neither past performance nor performance projections are indicative for actual future performance. Please note our risk warning on our website.