

FAME & FORTUNE

FRANKIE SHEAHAN TALKS TO ROSE COSTELLO

I'd tackle taxes to aid landlords

The former Ireland rugby star has seen his property investments suffer in the crunch but thinks now is a great time to buy

FRANKIE SHEAHAN, the long-serving Ireland and Munster hooker, is tackling a new opponent: the recession. Last year, Sheahan set up Front Row Entertainment, a sports management agency, after he had retired. It offers its clients a "one-stop shop for all sports, career and wealth management advice", from contract negotiations to help with sponsorship.

It also serves as a source of motivational speakers. His clients include Ruby Walsh, Mick O'Driscoll, Tomás O'Leary, David Wallace, Stephen Keogh, Denis Fogarty and Lifeimi Mafi.

"My turnover hasn't been slashed because I didn't have any — recession is all I know in business," he said. "It's going to be tough, but I'll make it work. That's the way I am."

Sheahan, 33, played rugby for 13 years, winning the Heineken Cup and playing in the World Cup, but retired after injuring a chest muscle. He had turned down a potential contract in France to set up in business. He is also a rugby commentator on RTE.

How much money do you normally have in your wallet?

I carry a money clip with about €150 in it.

How many debit or credit cards do you have and do you pay them off monthly?

Two credit cards and two Laser cards. They are paid off each month by direct debit.

How has the recession affected you?

It did not allow me the luxury to take some time off after retiring and before setting up my new company, Front Row, a sponsorship and guest-speaking business. It has made me work really hard and appreciate what is important in life, such as friends and family.

That said, some people say a recession is a great time to start a business as so many things are cheap.

What was your first job and how much were you paid?

When I was about 13, I worked for my father during the summer in the Maltings Bar, which he had at the time in Cork city

centre, collecting glasses for IRE1 (€1.27) an hour. In the day, I worked on building sites, doing things like filling up skips, and got IRE1.50 an hour. Construction work was tough and physically demanding, but great training for me. It stood me in good stead in later years. I think that money went on sports gear or into my post office account.

Have you ever been really hard up?

There were times when I wanted things I could not afford but, by and large, they were luxury items. I was very lucky that my parents never left me short.

Are you a saver or a spender?

Both. I like to save, invest and try to have my money working for me, but I am not afraid to splash out and spend either. I try to keep a balance. It is important to be careful with your money but, if you hoard it, then that is no good for the economy.

What is the most extravagant thing you have ever bought?

I bought my family home in Mount Oval Village in the well-known O'Flynn Construction development in 2007 for more than €1m. [The value is close to €700,000 now.] It is a fabulous house and we have great neighbours so myself, my wife Norma and our kids Frankie Og and Callie are very happy there. Some of the other rugby boys are also there, like Mick O'Driscoll, Denis Leamy and Jeremy Manning.

Are you better off than your parents?

No, I am not. My parents have worked hard all their lives so have done okay for themselves. I have years more of hard work to catch up with them.

What is the worst thing that has happened to you financially?

The recession hit and all my investments, mostly in property, melted like snow in a ditch!

What property do you own and would you consider buying more?

A few residential properties here. If you are buying for yourself as an owner-occupier,

it is an excellent time to buy. There are some superb bargains out there and, if people wait too long, they will not get the place they really want. I would love an opportunity to have a punt on something now so maybe my bank manager would be a better guy to ask.

Do you buy shares and what has been your worst investment?

I do — my brother Jonathan works with Davy Private Clients in Dublin, so he has his finger on the pulse with regard to the markets. I bought a good lash of Bank of Ireland shares at €13.30 against my brother's advice not too long ago and we all know what happened then! [The price was €1.53 last week.] I would buy them now again, however, as I think they will do well in time. The bank has turned a corner.

How will you fund your retirement?

It is funny because I have just retired from rugby. So how will I fund my second retirement? First, I will pray that the property prices come back so that my investments bounce back. Also, I will try to be very clever with investments from now on.

I think pensions are an excellent idea and, despite a lot of them taking big hits, there are good tax breaks there and they will be back.

What is your financial priority?

That my company Front Row exceeds its targets for the foreseeable future. Also to keep earning enough money to meet my mortgage repayments each month.

Do you manage your financial affairs personally?

My brother Joey has a financial services company in Cork and he keeps a close eye on all my activity, everything from life assurance to pensions, savings and mortgages at one stage.

If you could change one thing about the tax system what would it be?

Change the tax laws for landlords of residential properties. They are on their knees at present. Mortgage-interest relief has been reduced, maintenance and insurance charges have gone up, interest rates have gone up and are rising. There is now a property tax and water charges on the way.

Rents have gone down 30%-40% and a tenant has to give only about one month's notice to leave, which is ridiculous. A friend of mine had five different tenants in



Sheahan took a hit on his Bank of Ireland shares, but lucked out playing Caribbean stud poker during the World Cup

a 12-month period in one property because of this. If something is not done soon, people will end up throwing back the keys to the bank. It will only get worse when the European Central Bank puts up its rates.

Have you ever won or surprisingly come into a sum of money?

Not that I'm a big poker player but, in Melbourne in 2003, I had a touch of luck

while playing Caribbean stud in a casino during the rugby World Cup with my good mates Anthony Foley, Mick Galwey, Ronan Barry and Packie Derham. I will tell the full story when I write my book! I had been playing all week and just got lucky.

Do you donate to charity?

Yes, regularly, but the biggest thing I do is to give buckets of my time to a lot of

different charities such as the Mercy Hospital Foundation, Hope, and Cancer Research. My biggest problem is trying to keep them all happy — it breaks my heart when I cannot help at times.

What is the biggest lesson you have learnt about money?

Have respect for it and value it, because it does not come easy.

How to buck the gloomy trend in a volatile market

These are uncertain times, but experts tell **Ali Hussain** there are real opportunities for investors

STOCK markets were stabilised by last weekend's mammoth €750 billion bailout for the euro, but fears remain for the future of the single currency.

The rescue led to a 10% surge in the Euro Stoxx 50 index of the eurozone's leading shares on Monday, while bond markets and the European currency also rallied. By Friday, though, the euro was trading at \$1.24 -- an 18-month low.

Political uncertainty in Britain is another worry, amid fears that the new coalition government could be short-lived.

Gervais Williams, manager of the Gartmore Irish growth fund, which was up 96% in the year to the end of March, said: "This should be another good year for the markets, despite recent events, but we're going to get a lot of volatility. The euro could still break up."

Graham Secker of Morgan Stanley, the investment bank which warned of a correction just weeks before the FTSE 100 peaked at 5,825 on April 15, agrees. He said that the Footsie could fall to 4,600 in the next few weeks.

However, some of Britain's top fund managers are using the uncertainty as a buying opportunity. Thomas Becket, at PSigma Asset Management, said: "I will be using market weakness to buy firms that have been caught up in the volatility."

Richard Buxton, of Schroders, said the unstable result of the British general election could present opportunities to buy stocks in miners, banks and retailers.

Williams believes the credit crunch should allow capital-intensive Irish businesses, such as Greencore, Kerry Group and Smurfit Kappa, to improve their

profit margins. Competitors will find it difficult to borrow for capital expenditure, he said, restricting their output and therefore increasing profits for others in their industries.

We offer some advice on how best to cash in.

BUY GLOBAL FIRMS, SELL DOMESTIC ONES

About 70% of earnings from companies in the FTSE 100 are made overseas, so international events will have more bearing on markets than the hung parliament did. Irish blue chips are similarly insulated from events at home, with 84% of their earnings generated outside Ireland last year, according to Davy Stockbrokers.

Ted Scott, of F&C, the fund manager, said: "I don't believe things will get as bad as they did in 2008, when Lehman Brothers collapsed — Lehman was more widely held than Greek debt."

Advisers recommend buying blue-chip firms that will provide a cushion against further falls in markets while also benefiting from a decline in domestic currencies, making their overseas earnings worth more.

Kevin Gardiner, of Barclays Wealth, said: "We are advising clients to buy FTSE 100 firms."

Buxton is keen on Footsie-listed miners hit by the Australian government's plans to introduce a 40% tax on the sector in 2012, on the basis that markets have overreacted. He likes Rio Tinto, which fell 6% on the tax announcement, and Xstrata, down 8%.

He also favours Lloyds Banking Group, down 42% over 12 months, and Royal Bank of Scotland, down 18%, as well as Debenhams, down 31%, and



Investors will turn to the dollar, which is seen as safe

Home Retail Group, which owns Argos and Homebase, up 8%.

BUY THE DOLLAR

James Foster, of Artemis, the fund manager, says the dollar is likely to strengthen as investors move to its perceived safety.

Sterling is likely to hold its value against the euro as it is seen as relatively safe. He expects it to rise to about €1.20 this year, "especially if the European Central Bank starts buying Greek debt to prevent the country from defaulting".

Algy Smith-Maxwell, a multi-fund manager at Jupiter, said he aims to increase his exposure to dollar-denominated funds, such as Findlay Park American Smaller Companies. It is up 34% over 12 months.

SELL GILTS

The euro bailout boosted Irish bond prices by providing a safety net that makes it less risky to lend to the government. The yields on 10-year gilts fell to 4.7% on Monday — down from almost 6% at the end of the previous week.

Yields are rising on UK bonds, though, as the uncertainty

following the election spooked investors and prices fell.

Foster said he would be selling UK gilts in the short term because he expects six months of uncertainty. "The election results are almost as bad as it could get for gilts," he said.

Adrian Lowcock, of Bestinvest, suggested a strategic bond fund. He tips the Legal & General Dynamic bond fund, which is up 40% over 12 months.

BUY GREEN ENERGY, SELL NUCLEAR

The Liberal Democrats are opposed to new nuclear energy plants in Britain, so the coalition could mean a greater focus on renewable energy.

Andrew Mead, an analyst at Goldman Sachs, the investment bank, said Centrica, which owns British Gas, and EDF, the French energy giant, are potential losers.

Scottish and Southern Energy, owner of Airticity in Ireland, and Iberdrola Renovables, part of Spain's Iberdrola group, are likely to benefit, however. Both have significant investments in renewables.

Additional reporting: Niall Brady

Beware: data miners will butter you up with false correlations

GARY CONNOLLY COMMENT



"SELL in May and go away. Don't come back till St Leger's day."

So goes the old stock market adage that recommends you take the summer off and give your portfolio a rest until after the St Leger horse race in early September.

The rule is off to a good start with the World Index of shares down 4% so far this month.

Slicing and dicing stock market data to predict the future is big business. There are hundreds of websites hawking "proprietary trading tools" and plenty of charlatans offering access to "winning" trading systems.

Stock market trading rules are limitless — but, unfortunately, most are also useless. Despite claims that these strategies would have worked 95% of the time in the past, it seems investors are disappointed far more than 5% of the time. Why is this?

The stock market generates vast quantities of information. However, remember: it has only one past. Scouring a vast selection of data to explain a small piece of financial market history, can produce bizarre results.

Tortured data will inevitably throw up what are called false positives. These are relationships that appear to generate spectacular returns — by coincidence alone. This is known as data mining.

According to Ronald Kahn, a quantitative investor, it is surprisingly easy to search through historical data and find patterns that don't really exist. To understand why data mining is easy, it helps to understand the statistics of coincidence.

Kahn, who is the global head of scientifically driven equity research at BlackRock Institutional Trust

Company in San Francisco, provides a great real-life example.

In the 1980s, Evelyn Adams won the New Jersey state lottery twice in four months. Newspapers at the time put the odds of that happening at 17 trillion to 1. However, two Harvard statisticians estimated the odds at 30 to 1. How could there be such a gulf between the two estimates?

It turns out that the odds of Adams, or any other individual, winning the NJ lottery twice were in fact 17 trillion to 1. The odds of a lottery being won twice, though, were only 30 to 1. Coincidences appear improbable only when viewed from a narrow perspective. When viewed from the correct (broad) perspective, coincidences are no longer so improbable.

Investment research involves exactly the same statistics and the same issues of perspective. The narrow perspective substantially inflates our confidence in the results. When viewed from the proper perspective, confidence in the results lowers accordingly. Shown long-term evidence that stock market returns between May and September appear much lower than October to April, we would be impressed — maybe even convinced. If you were told that 1,000 other tests were run before the "sell in May" rule was found to work, would you be as impressed?

Data-mined numbers can be very enticing. Billions of euros flow into data-mined investing strategies every year. According to David Leinweber, the veteran quantitative money manager, they are one of the leading causes of "money evaporation" in quantitative strategies. Incensed by the "stupid tricks of data mining", as he calls them, Leinweber conducted a

satirical experiment on data mining in financial markets.

He wanted to be able to predict the US stock market, so set about conducting analysis on the S&P 500. Sifting through a large data series published by the United Nations, Leinweber found a strong correlation between the S&P and butter production in Bangladesh. In fact, butter production in Bangladesh explained 75% of the variation in the US stock market. By adding in cheese production in America and the sheep population, accuracy increased to 99%.

If this seems utterly ridiculous, it's because it is. Before the start of the data period, and after the end, these variables were about as useful in predicting the stock market as your intuition would suggest.

However, substitute interest rates, GDP and inflation as the variables and all of a sudden the story sounds much more plausible, though potentially no more useful than the butter in Bangladesh parable.

As humans, we are hard-wired to find patterns in data, resisting randomness where possible. Luckily, Leinweber offers some advice to mitigate the risks of being duped by the tricks of data mining.

He recommends dividing the data into thirds to see if the strategy did well only part of the time. Ask to see the results for stocks beginning with A through G, or T through Z, to see whether the claims hold up when some of the figures are held back.

A lot of strategies look great on back-testing but get found out at implementation, when consideration is given to trading costs, management fees and taxes. Ask for the results including these.

Leinweber offers the cliched advice that if something seems too good to be true, then it is. I'd offer some other cliched advice: don't put all your eggs in one basket.

Accepting an inevitable tendency to be persuaded by irresistible-looking returns, at least you won't blow up your portfolio if you allocate to investments in small doses.

■ Gary Connolly is principal of iCubed, an investment training, research and consulting firm. He can be contacted at gary@icubed.ie