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Investing in Gold Can Cost Less Than Proposed Fund Would Ask

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Gold is supposed to be the ultimate hedge against troubled times, so perhaps it is a mark of troubled times that gold is to get a dedicated hedge fund. London's Hinde Capital hopes to raise as much as $500 million for its new fund, which will invest in aspects of the precious-metals market, from bullion to mining shares.

The timing looks spot on.

Although gold has recently hit record highs, rising from $250 an ounce to almost $800 during the past seven years, it still looks cheap against many of the measures gold bugs favor. The ratio of the Dow Jones Industrial Average to gold's price stands at 20 times, down from above 40 but still a long way off the bottom of two times seen in the 1930s and again in the early 1980s.

Meanwhile, fundamental factors point in gold's favor. Central-bank sales have slowed, demand is outstripping supply in the jewelry industry and, with rate cuts now firmly on the agenda around the world to tackle the credit crunch, there is a serious risk of inflation down the line.

While all of these are good reasons to invest in gold, it is doesn't explain why one would pay hedge-fund fees for the privilege. There are plenty of low-cost, long-only funds that specialize in mining shares. The difference is that Hinde will charge a 1.5% management fee and 20% performance fee for access to a fund that is likely to be 50% invested in bullion. Yet one can buy and store bullion for a fee of about 1% from a Swiss bank, and one can invest in spot gold via exchange-traded funds at virtually no cost. True, Hinde says it will hedge its exposure, using derivatives to avoid the inevitable troughs. But that hedging strategy will need to be pretty special to compensate for giving up 20% of the upside in the bullion price.

Alcatel-Lucent

The board of Alcatel-Lucent seems to think that getting rid of the company's chief financial officer along with 4,000 other employees will be enough to address the telecommunications-equipment maker's woes. Yet in light of a calamitous third quarter, which had been in the cards since Alcatel in September posted its third profit warning in a year, the group will need to do much more to bring hope to its shareholders, whose stock has tumbled almost 40% this year.

The three-part recovery plan announced by Alcatel Chief Executive Patricia Russo goes in right direction but falls way short of what is needed. The 4,000 job cuts will only go so far in fixing productivity; Alcatel would need to cut 16,000 more simply to fall in line with the productivity of larger competitor Ericsson.

Yet it is hard to see what Ms. Russo wants to do with the company besides waiting for better times that may never come. Alcatel has market and product problems. Sure, its big customers, the former state telecommunications monopolies, can't delay forever the network upgrades that have long looked in the pipeline. But product problems are harder to solve. Alcatel's money-spinning mobile technology, CDMA, is nearing the end of its life span, and the group is losing money on next-generation technology. Alcatel still appears to be trying to be all things to all customers, and it may need to focus on the areas it is best at, such as Internet protocol technology.

But this may be difficult, as the French-U.S. group is still handicapped by politicking and confusion. Before any serious turnaround plan can be devised, what Alcatel needs is an undisputed leader. Ms. Russo might appear to be the obvious candidate were she not encumbered by a 24-member board and a "nonexecutive" chairman, Serge Tchuruk, the former Alcatel chief executive, who reportedly insists on having a say in all major decisions. To get out of the doldrums, Alcatel needs a real boss more than a new finance chief.

U.K. supermarket probe

Hoping for an exposé of Tesco's dirty-tricks campaigns? No such luck. A lengthy probe into the dominance of the big U.K. supermarkets has confirmed two things that were clear already. First, the "big four" -- Tesco, Asda, J Sainsbury and Wm Morrison, which control three-quarters of the grocery market -- give shoppers a good deal. Second, their secret weapon is real estate, not size or thuggery.

Despite being concentrated, the U.K.'s supermarket sector is pretty competitive. Food prices have fallen 7% in real terms since 2000, even if rising commodity prices are now starting to take a toll. During that period, average profitability at the six biggest grocers has actually fallen slightly, to 4% from 4.5%. That is hardly the sign of a cartel glutting itself with excess profits.

Moreover, the regulator said the dominance of Tesco, with a 32% market share, isn't stifling the growth of its rivals, at least not currently. That is in part because there is little evidence that when one supermarket gets a good deal from suppliers, the others get a bad one. As for suppliers, the commission found that big retailers are forcing them to take on too much risk, but not that they are squashing them into oblivion.

The regulator is more critical of the way supermarkets amass land, not only to build stores but potentially to keep rivals out. It found that 10% of big stores in concentrated areas have a nearby site, owned by the same retailer, that may be stopping a competitor getting a foothold. It rightly suggests planning rules and land-sale practices should be reviewed, for example, making "choice" as well as "need" a factor in granting planning permission.

This, though, may be too little too late. Tesco's land grab took place in earnest in the 1990s, while rivals were actively selling sites. Undoing that -- say, by forcing land sales -- would be unjust and hard to implement. After all, the fair value of a site depends on how much profit the buyer can generate from it. That is why Tesco has been able to consistently outbid its less-efficient rivals. Hoarding land may not be in the public good, but a retrospective remedy looks like punishing success.

--Simon Nixon, Pierre Briancon and John Foley

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