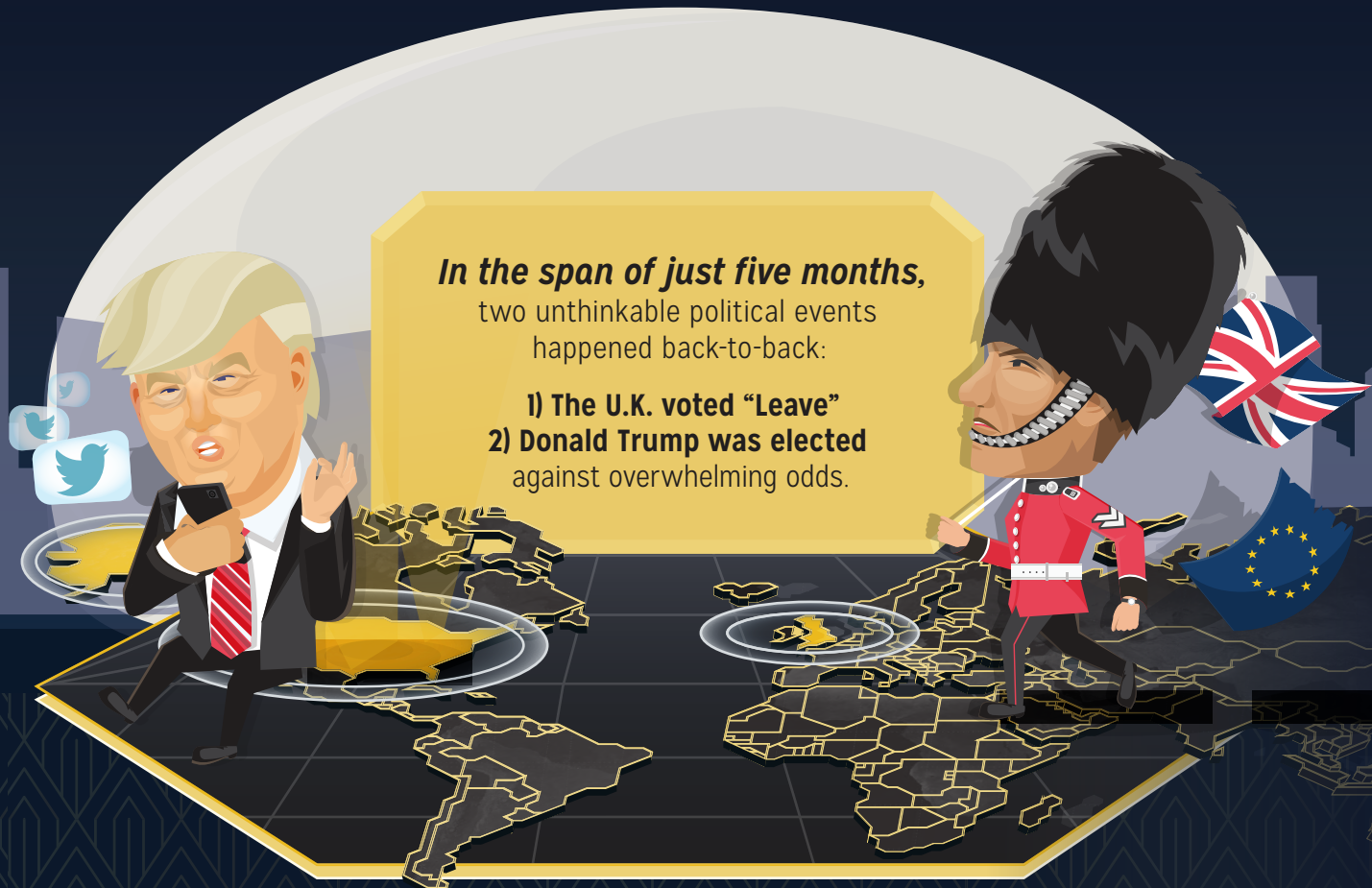


How Billionaire Investors

ARE HEDGING AGAINST
*Geopolitical
Black Swans*

Since 2016, the world has
become an even more
unpredictable place.





In the span of just five months,
two unthinkable political events
happened back-to-back:

- 1) The U.K. voted “Leave”**
- 2) Donald Trump was elected**
against overwhelming odds.

These unexpected events
mark the beginning of a new
era of populism and turbulence -

and it's one that has some of the world's
most elite investors scrambling to protect
their wealth.



A NEW RISK CLIMATE

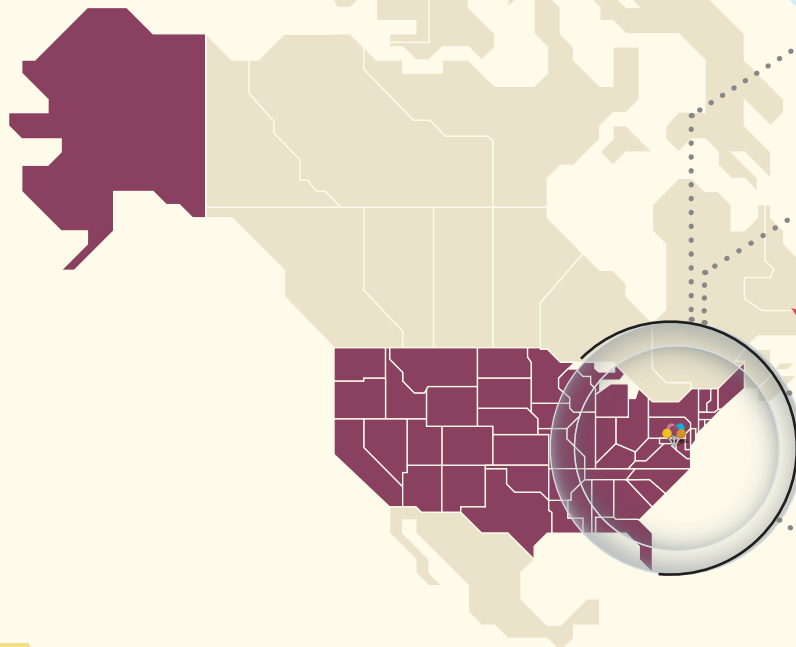
“ Emerging risks
appear more political

than economic, which makes them
especially challenging to price in.”

—RAY DALIO

Founder of the world's largest hedge fund, *Bridgewater Associates*

DOMESTIC POLITICAL RISKS



Unpredictability of the Trump administration

With many high-profile shake-ups and unprompted tweets on U.S. policy, the current executive branch could make a mistake that it cannot backpedal out of.



Government inaction

Failure to raise the debt ceiling could lead to a government shutdown.



Trade war with China

In August 2017, the first shots of a potential trade war were fired, when the U.S. government decided to bypass the WTO to investigate Chinese policies that might be harming American intellectual property rights.



NAFTA renegotiations

"The risk to 'tweaking' NAFTA is having it completely unravel."

- Michael Wilson, former U.S. ambassador

INTERNATIONAL POLITICAL RISKS



Economic nationalism abroad

Populist movements seem to be gaining traction in Italy, Netherlands, Austria, France, and Germany



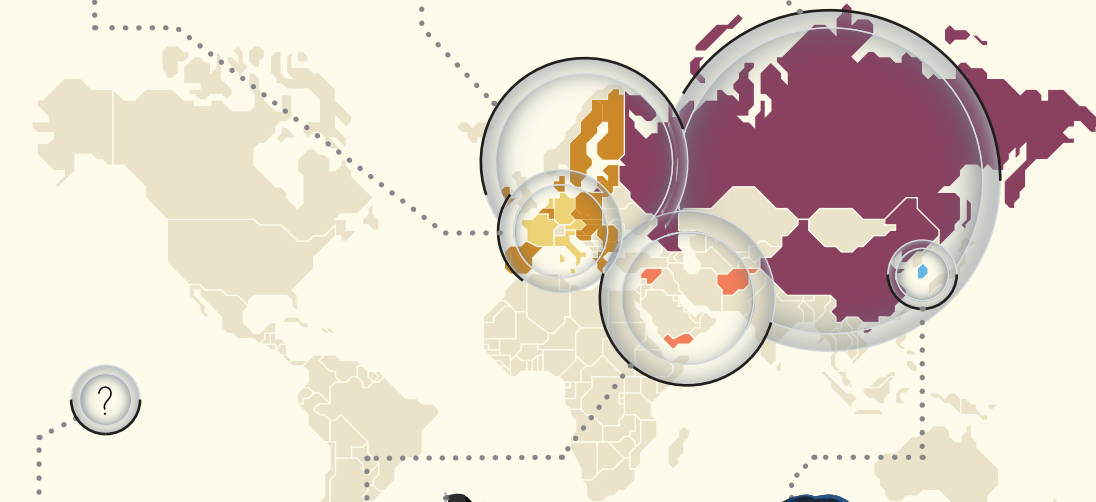
Further "exits" from European Union

Any future Brexit-like event would **test the E.U.'s solidarity**, as well as the resilience of markets



Russia and China seeking to assert authority in global affairs

With the U.S. looking inwards, these powers now have **room to maneuver**



Terrorism

Markets would be rattled from any major-scale attack



Escalation of Middle East conflicts

Afghanistan, Syria, and Yemen are just some countries with continued strife



North Korea's nuclear ambitions

North Korea continues to test its capabilities with **ICBMs and nuclear weapons**

“The world is approaching a major inflection point

and the intense amount of global angst we’re experiencing now stems from deep, structural forces that have been building over decades.”

—REVA GOUJON,
VP Global Analysis for Stratfor

“These forces have created the perfect storm of ‘-isms’:”



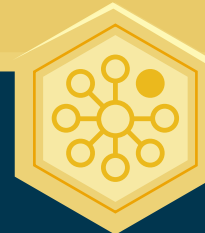
Nationalism



Nativism



Protectionism



Isolationism

WHAT CAN BLACK SWANS DO?

Geopolitical risk is particularly tricky for investors, because it can be unpredictable and difficult to quantify.

Political turmoil can also help trigger other economic and market events such as high oil prices, inflation, and market crashes.



Here is what happened to markets during other times of sudden political turmoil:



Energy crisis (1973)

In response to U.S. support of Israel during the **Yom Kippur War**, the Organization of Arab Petroleum Exporting Countries (OAPEC) initiated an oil embargo.



The price of oil quadrupled from \$3 to \$12.



It led to long gasoline lineups, rations, and even price controls.

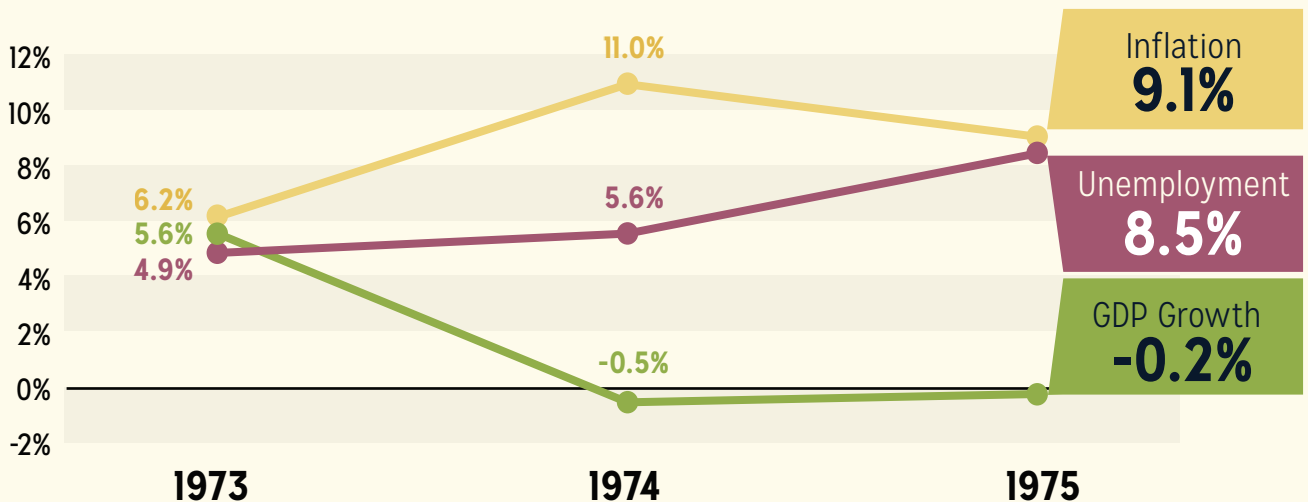


More importantly, it triggered the 1973-74 stock market crashes – one of the biggest in history.



Over 694 days, the DJIA lost over 45% of its value.

“Stagflation” also famously occurred:





Iranian Revolution (1979)

Oil price
over 12 months



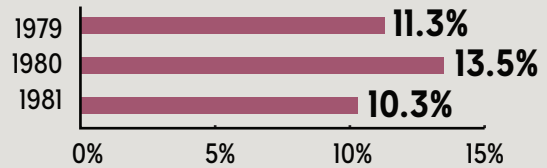
\$15.85



\$39.50

The highest real oil price in history until March 2008

Helped trigger three years of high inflation in U.S.



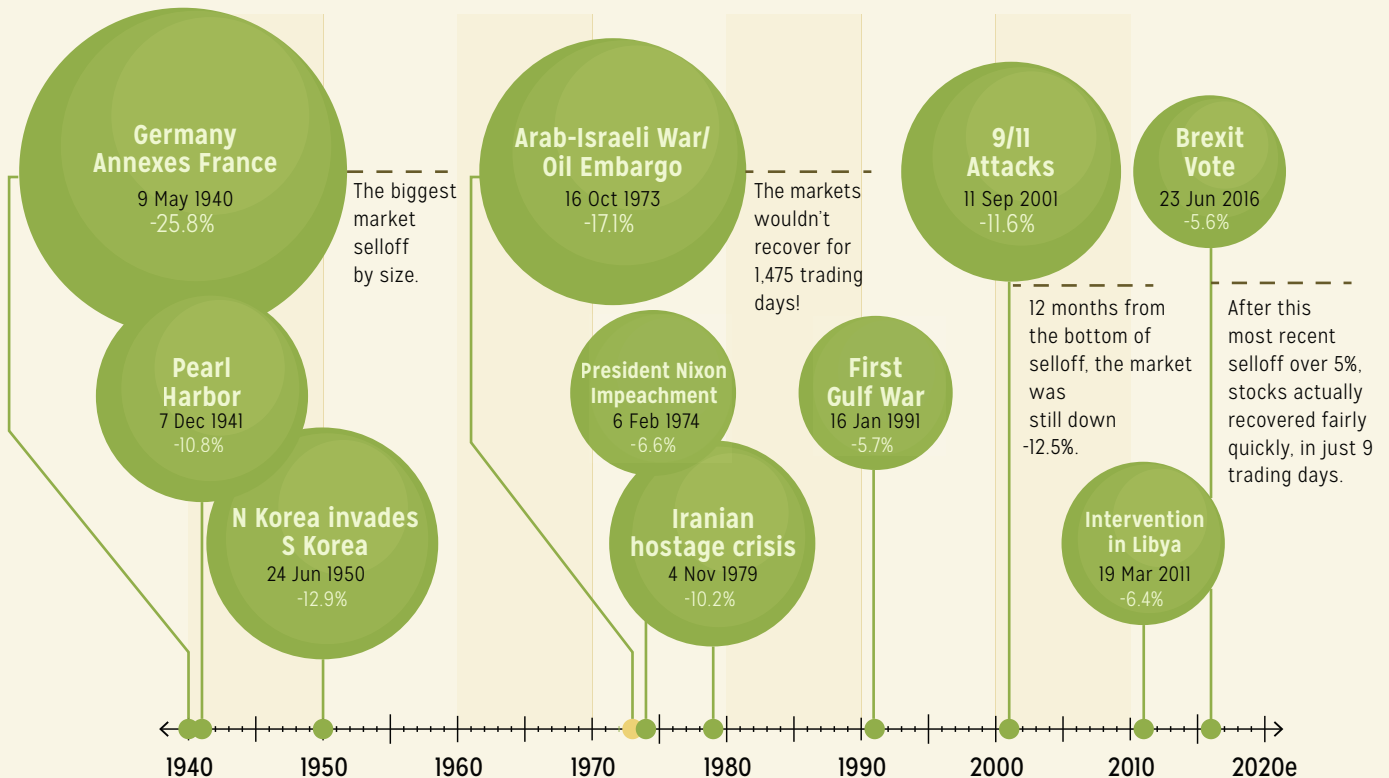
The Fed used contractionary monetary policy to rein in inflation.



This is widely cited as a trigger to the early 1980s recession.

S&P 500 (1939-2017)

Selected Geopolitical Selloffs



HOW BILLIONAIRES ARE HEDGING THEIR BETS

With political risk high, and outcomes being extremely uncertain – the world’s smartest investors are not leaving much to chance.

They are upping their portfolio allocations to assets that can preserve wealth, even in times of political crisis.



Here's how some are approaching it:

RAY DALIO



“When it comes to assessing political matters we are very humble.”

“We can also say that if...things go badly, it would seem that gold (more than other safe haven assets like the dollar, yen, and treasuries) would benefit.”

—RAY DALIO
August 2017



Dalio's advice

We aim to **stay liquid, stay diversified, and not be overly exposed** to any particular economic outcomes.

He also recommends a 5%-10% position in gold.

WARREN BUFFETT

“No one can tell you when these traumas will occur – not me, not Charlie, not economists, not the media.”

–WARREN BUFFETT
February 2017



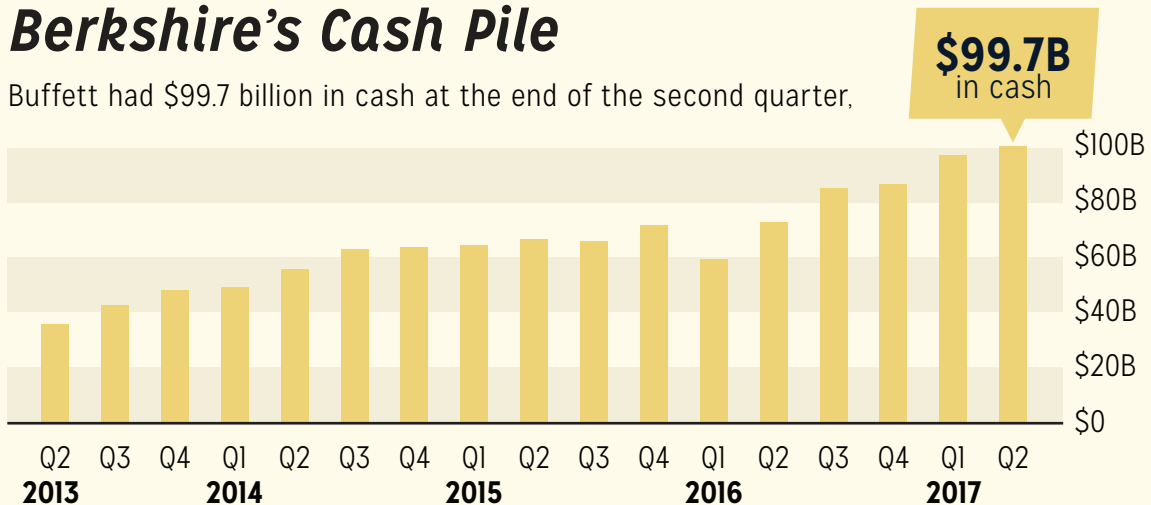
Buffett's advice



Cash is king. Berkshire Hathaway now has \$99.7 billion in undeployed cash, the most in the company's history.

Berkshire's Cash Pile

Buffett had \$99.7 billion in cash at the end of the second quarter,



Source: Bloomberg, company filings



ACTIONS FROM OTHER BILLIONAIRES



BILL ACKMAN



DAVID EINHORN



HOWARD MARKS



Action

Took a position in
“out of the money”
call options on the VIX.

*“This will protect against stock
market risk.”*

- **Bill Ackman**



Action

Keeping gold as a
top position.

*“The (Trump) administration
comes with a high degree
of uncertainty...”*

- **David Einhorn**



Action

The famous value investor warned
his clients to move into **lower-risk**
investments to protect against
future losses.

*“The uncertainties are unusual
in terms of number, scale and
insolubility in areas including
secular economic growth; the
impact of central banks; interest
rates and inflation; political
dysfunction; geopolitical trouble
spots; and the long-term impact
of technology.”*

- **Howard Marks**



The world's most elite investors are concerned about the current risk landscape -
and they're buying gold, stocking up on cash,
and making other hedges to protect their wealth.

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