

## The 5 Biggest Market Risks

# THAT *Billionaires* ARE Hedging Against

*Although billionaires have lots of zeros attached to their net worth figures, the fact is that most of these ultra-rich people actually have fairly illiquid fortunes.*



*A good example of this is Jeff Bezos.*

*That's because Bezos has \$124.3B in net worth...*

**amazon**

**\$118.3 billion\***

95%

Other assets

**\$6 billion**

5%

*...but about 95% of his wealth is tied up in Amazon - the company he founded in 1994.*

\*78.89 million shares @ \$1,500 per share

***This seems like an extreme example -***

*but it's not uncommon for the ultra-wealthy to accumulate their massive fortunes through business interests or owning large amounts of stock.*






***Imagine how Bezos' wealth swings with the economy and market.***

He can literally lose or gain billions of dollars in wealth on paper in a day.

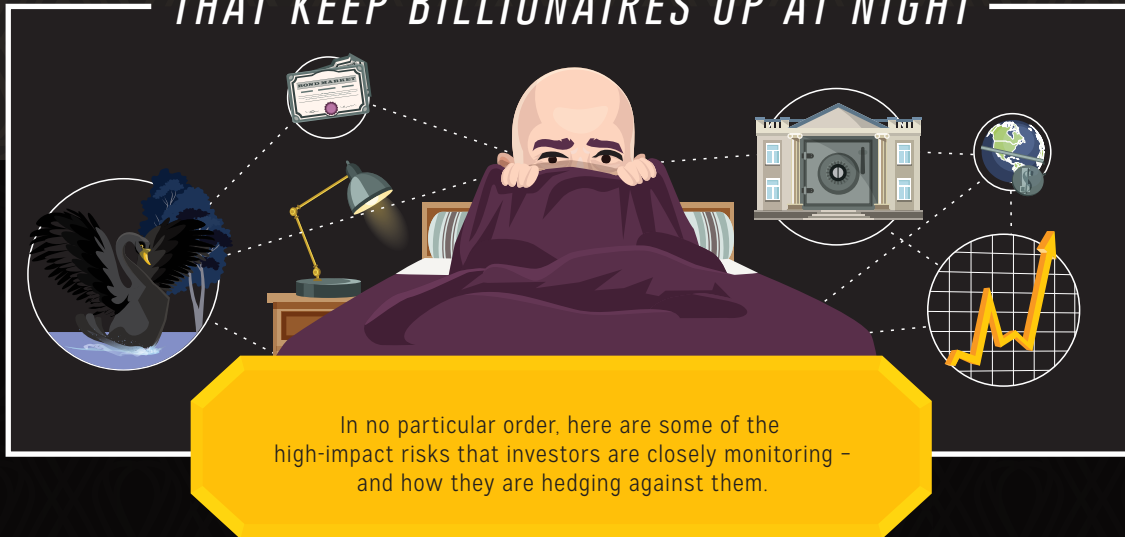
And if the market crashed, Jeff Bezos – and other billionaires – could end up losing vast amounts of wealth in a span of hours.



For this reason and others, billionaires are very concerned about the health of markets, and they will do anything in their power to hedge risks that could cause major swings or downturns.

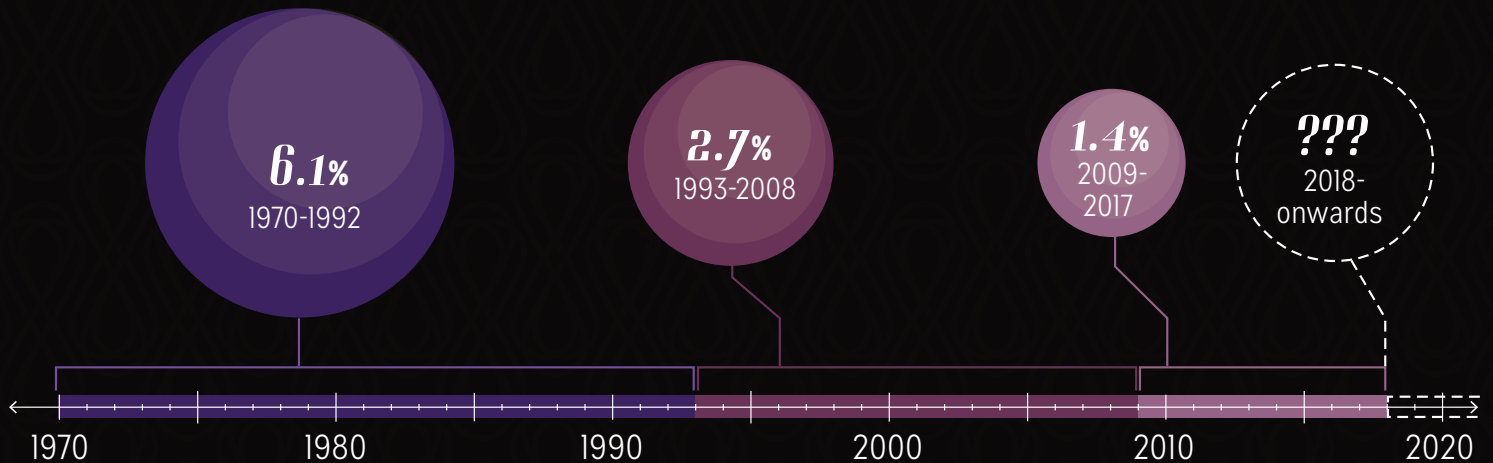
# 5 Risks

THAT KEEP BILLIONAIRES UP AT NIGHT



## 1 THE RETURN OF INFLATION

Inflation has trended down for decades:  
**Average inflation**



## Have central banks mastered monetary policy?

Or is there a chance that inflation could come back with a vengeance?

**Billionaire Carl Icahn is concerned about recent signs of incoming inflation:**

%

“I think the major thing you have to worry about and think about is creeping inflation.”

“If you have creeping inflation, I think you're going to have higher interest rates, which I think might be difficult to deal with for the market.”

**-CARL ICAHN**

CNBC, March 1, 2018

## HOW TO HEDGE?



Gold & Silver



Commodities



Stocks



Inflation-indexed bonds



Real Estate

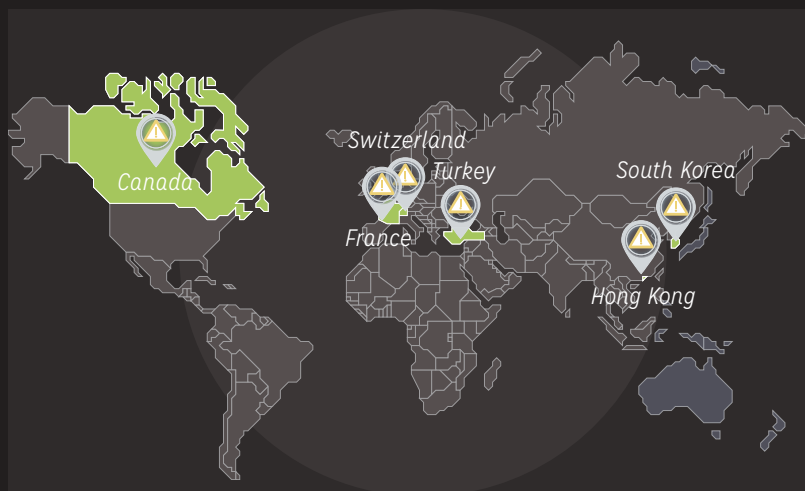
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## RECORD HIGH DEBT

Global debt continues to reach new highs:



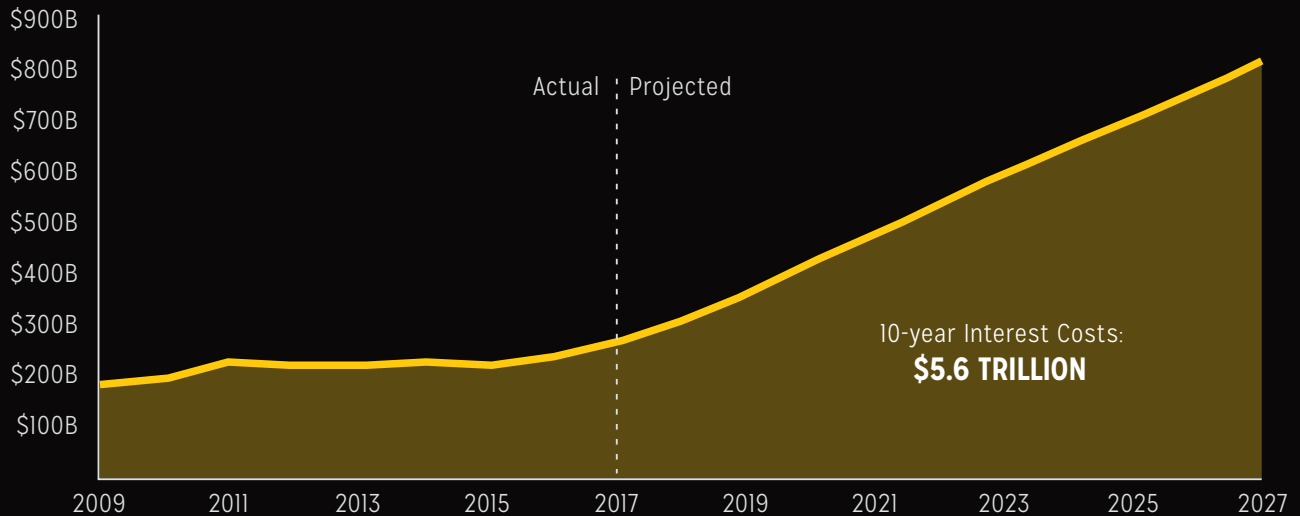
Source: Bloomberg



And several countries have hit all-time high private non-financial sector debt levels: Canada, France, Hong Kong, South Korea, Switzerland, and Turkey.

Meanwhile, for the U.S., which has over \$20 trillion in national debt – it is already estimated that it will cost \$5.6 trillion to service the debt over the next 10 years:

### Projected net interest costs



Source: Congressional Budget Office

*How will this look if interest rates rise more than expected?*



**“ [Our system] is leverage dependent**  
and – 1) debt levels, 2) the availability, and 3) cost of that leverage are critical variables upon which its success depends. When one or more of these factors deteriorates, the probability of the model’s success and stability go down.”

**–BILL GROSS**  
CNBC, Dec 7, 2017



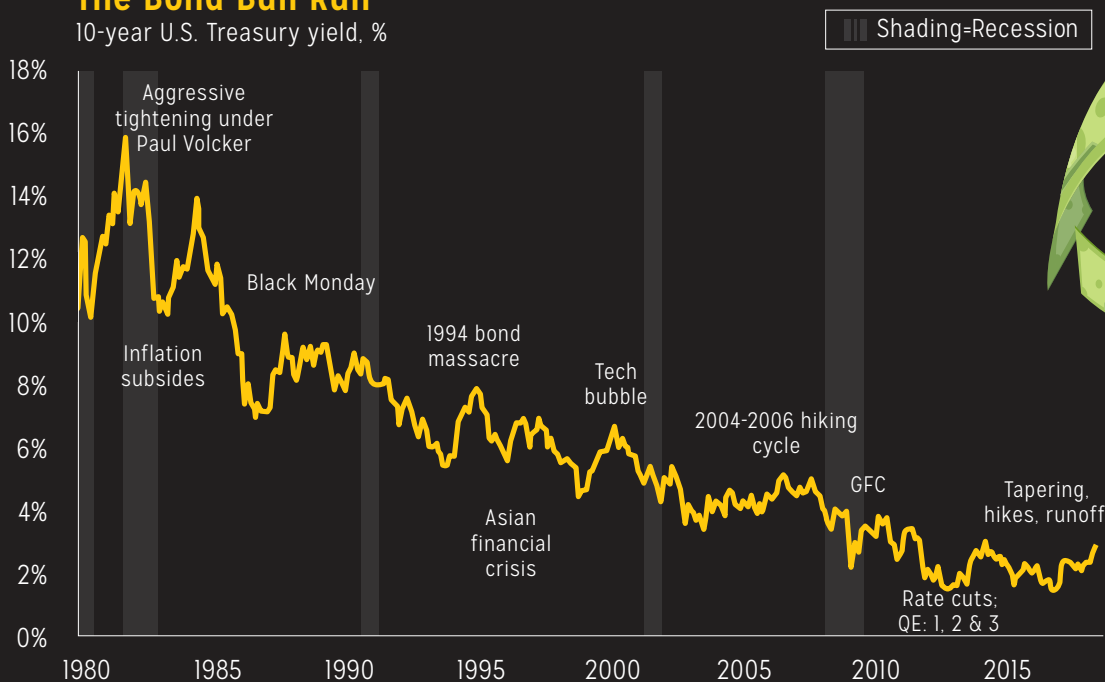
## HOW TO HEDGE?

# 3 BOND MARKET WORRIES

Linked to global debt is the bond market, which has had a 30-year bull run

## The Bond Bull Run

10-year U.S. Treasury yield, %



Source: Federal Reserve Board, Haver Analytics, Goldman Sachs Global



*But some billionaires are dropping bonds like hot potatoes.*

**WHY?**



### Corporate Bonds

84% of investors say that the **corporate bond** market is overvalued

Source: CFA Institute 2017



### Government Bonds

82% of investors say that the **government bond** market is overvalued

Source: CFA Institute 2017



*It's no surprise then, that hedge fund billionaire Paul Tudor Jones II has this to say about bonds:*

**“With rates so low, you can't trust asset prices today.**

And if you can't tell by now, I would steer very clear of bonds.”

**“Bonds are the most expensive they've ever been**

by virtually any metric. They're overvalued and over-owned.”

**-PAUL TUDOR JONES II**

CNBC, March 1, 2018



*Even the Oracle of Omaha is staying clear of bonds:*

**“If you had to choose between buying long-term bonds or equities, I would choose equities in a minute.”**

**-WARREN BUFFETT**

CNBC, Feb 26, 2018



## **HOW TO HEDGE?**



Limit exposure to bond sector,  
especially junk bonds

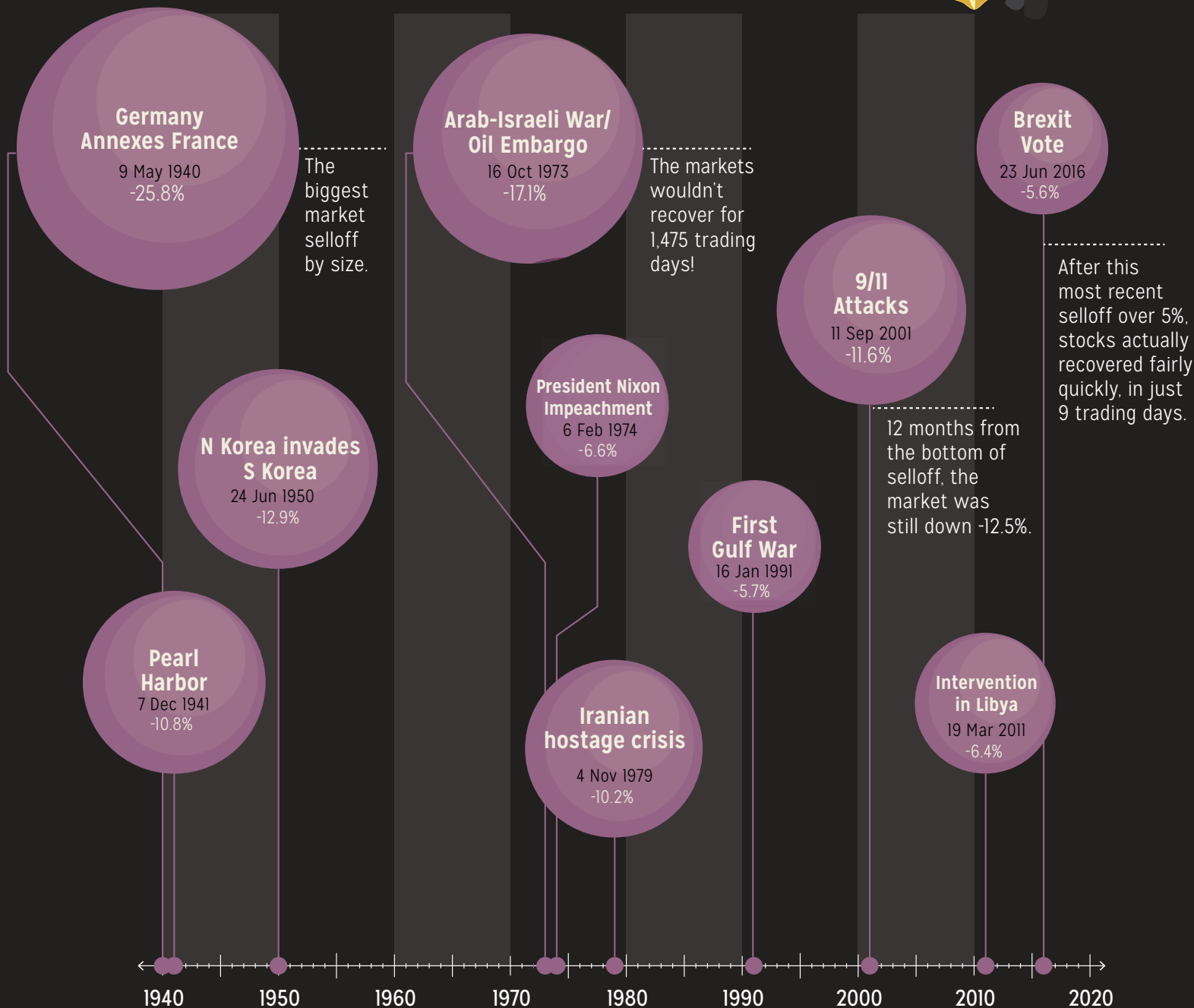
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# GEOPOLITICAL BLACK SWANS

Unexpected world events can also trigger big losses in markets, as well.



## S&P 500 (1939-2017) Selected Geopolitical Selloffs

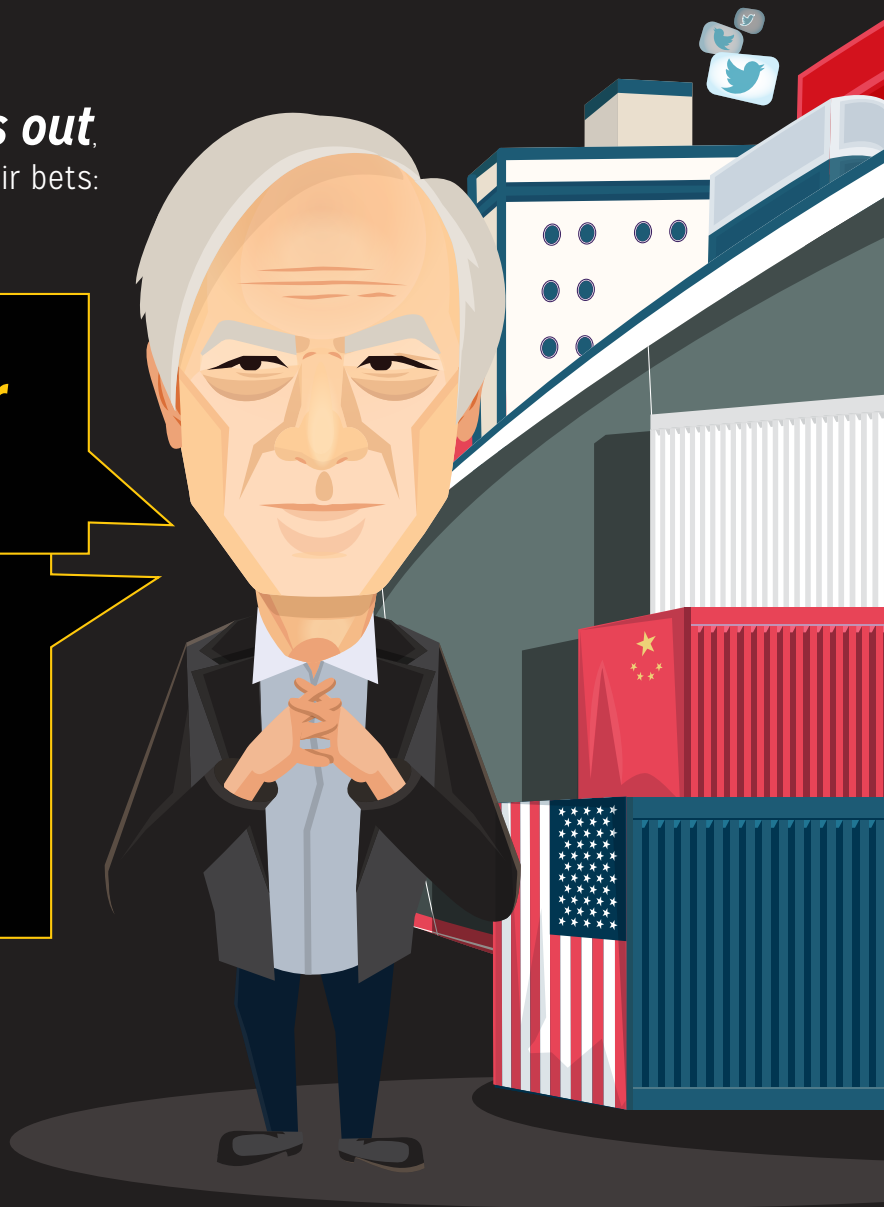


**And in the case that a trade war or conflict breaks out,** billionaires are already actively hedging their bets:

**“A US-China trade war would be a tragedy.”**

**“A trade war has the risk of tit-for-tat escalations** that could have very harmful trade and capital flow implications for both countries and for the world.”

**-RAY DALIO**



## **HOW TO HEDGE?**



Cash



Gold



Limit exposure  
to particular industries



Diversification



# OVERZEALOUS CENTRAL BANKS

Many world-class investors are also concerned about the unintended after effects of massive central bank programs in recent years.



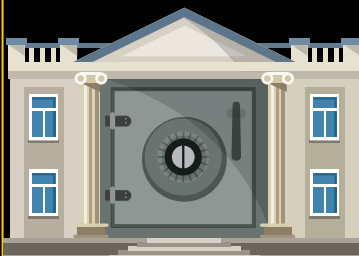
Total QE by the Fed since 2008

**\$3.5 Tr**



Total QE by central banks since 2008

**\$13 Tr**



2X government debt



2017  
**\$63 Tr**



**With most central bank policy tools** already “used up”, there is a very tiny margin for error.

**Famous investor Bill Gross describes the potential downside of this lack of maneuverability:**

**“Should a crisis arise because of policy mistakes,**

geopolitical crises, or other currently unforeseen risks, the ability to protect principal will be impaired relative to history.”

**-BILL GROSS**

## **HOW TO HEDGE?**



Gold & hard assets

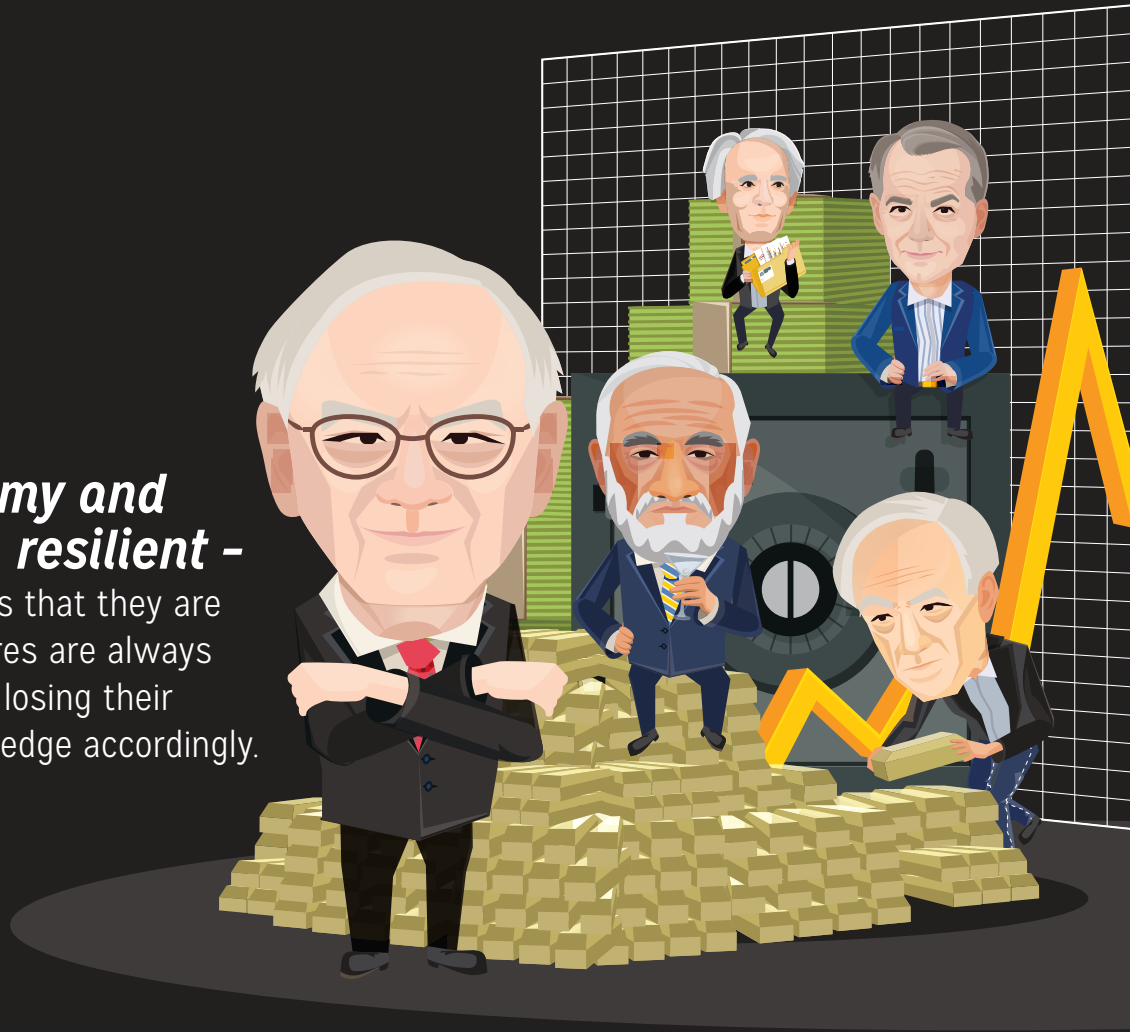


Keep some assets  
“outside” of system



Cryptocurrency may eventually be another way to get money “outside” of the central banking system.

***For now, the economy and markets have been resilient –*** but there are increasing signs that they are becoming unsettled. Billionaires are always going to be concerned about losing their wealth and will continue to hedge accordingly.



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